IDS Rising Powers in International Development programme
Rising Powers in International Capital Movement: Resource Training Pack

Summary
The general goal of the course is to provide the learner with knowledge of the principal aspects of the emerging economies' participation in the international private capital movement and how to apply this knowledge to the country or world region the learner is interested in.

The importance of the course's subject is stipulated by the big scale of the international capital movement (up to US$10tn of outward investment in some years) and fast growing participation of rising powers in the world capital inflows and outflows in the last and current decades (e.g. China and Russia are in the list of the top five FDI recipients and donors in 2012–13).

At the same time, rising powers' profiles in the international private capital movement are different (some countries export more capital than import it, many keep capital controls, etc). This requires country profile analysis.

Course learning outcomes
By the end of the course the learner should be able to:

- Analyse statistics of inflows and outflows of capital and characteristics of rising powers' participation in this process.
- Compare profiles of rising powers' participation in the international private capital movement.
- Evaluate links between rising powers' profiles and national economic profiles.
- Analyse the national investment climate and national transnational corporations (TNCs).
- Understand the principal channels of impact of these flows on emerging economies.

Teaching and learning activities
The course is based on the comparative economic system approach and consists of lectures and seminars of various types. Lectures focus on the aspects of the international private capital movement that are vital to all developing economies, especially the leading ones. Seminars concentrate on the application of the principal points of previous lectures to the students' own countries. Students are grouped into country (world region) teams or into one team in the case of students studying only one country. Teaching and learning activities include lectures, group work with statistics, individual and team presentations, and workshops with case studies.

Modes of assessment, both formative and summative
Modes of assessment are both formative (e.g. grades for presentations) and summative (e.g. grade for the final analytical paper).

Student evaluation of the course
In their final questionnaire poll students evaluate the course and make recommendations on its contents and methodology.

Course structure

Topics		**Lectures** (contact hours)	**Seminars** (contact hours)
1.	Principal aspects of international private capital movement: emerging economies viewpoint	2.5	5.0
2.	Investment climate and ratings of rising powers	2.5	2.5
3.	Rising powers investment abroad	2.5	2.5
4.	Impact of international capital movement on rising powers' economies	2.5	2.5
5.	National and international regulation of capital inflow and outflow: rising powers policy	2.5	–
Total:		12.5	12.5

COURSE TOPICS AND READING

Day/session 1

Lecture (2.5 hours): Principal aspects of international private capital movement: emerging economies viewpoint

- Definitions of capital flows and their types
- Rationale for cross-border capital flows, determinants and predicted benefits of flows
- Push and pull drivers
- Scale, structure, geography of international capital movement and its statistics
- Political, social and historical background of international investment
- Principal actors of international capital movement
- Major specificities of emerging economies' participation in the process
- Theory of international capital movement applied to emerging economies
- Emerging economies' profiles in international private capital movement: statistical and macroeconomic analysis
- Links between these profiles and national economy profiles
- Sources of statistics and their characteristics
- National balances of payments as leading sources.

Learning objectives
Students will learn:

- Leading motives of international investment
- Principal actors of international flows
- Statistics of international investment.

Materials required
Statistical handouts.

Required reading

1. Krugman, P.; Obstfeld, M. and Melitz, M. (2012) 'National Income Accounting and the Balance of Payments', Chapter 13 in *International Economics: Theory and Policy*, Addison-Wesley
2. Obstfeld, M. and Taylor, A.M. (2005) *Global Capital Markets: Integration, Crisis, and Growth*, Cambridge: Cambridge University Press
3. UNCTAD (2014) *World Investment Report 2014: Investing in the SDGs: An Action Plan*, New York/Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf
4. UNCTAD (2013) *World Investment Report 2013: Global Value Chains: Investment and Trade for Development*, New York/Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/publicationslibrary/wir2013_en.pdf
5. UNCTAD (2012) *World Investment Report 2012: Towards a New Generation of Investment Policies*, New York/Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf

Optional reading

1. IMF (latest available ed.) *Balance of Payments Statistics Yearbook*, Statistics Department, International Monetary Fund
2. Central Bank of Brazil (2015) *Foreign Sector Data Released: Balance of Payments*, www.bcb.gov.br/textonoticia.asp?codigo=3903&IDPAI=NEWS

3. Central Bank of Russia (2012) Macroeconomic Statistics, External Sector Statistics, Balance of Payments, in Analytical Presentation, www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/bal_of_paym_an_new_12_e.htm&pid=svs&sid=itm_3971
4. Reserve Bank of India (2012) *Balance of Payments*, http://rbi.org.in/scripts/SDDS_ViewDetails.aspx?SDDSID=199
5. National Bureau of Statistics of China (n/d) *China Statistical Yearbook: Balance of Payments*, http //stats.gov.ch/tjsj/ndsj/2012/indexeh.htm
6. Statistics South Africa (n/d) *Balance of Payments*, www.resbank.co.za/Research/Statistics/Pages/Statistics-Home.aspx
7. UNCTAD (2013) *The Rise of BRICS FDI and Africa*, Global Investment Trends Monitor, 25 March, http://unctad.org/en/PublicationsLibrary/webdiaeia2013d6_en.pdf

Group work with statistics (2.5 hours): National and international statistics of international private capital movement

In teams or individually, students study sources of information and methods of interpreting statistics, including:

1. Scope of a country's (or world region's) participation in international private capital flows
2. Structure and geography of this participation
3. International investment position of a country.

Group work objectives

Students will learn:

- Sources of national and international statistics on international investment
- Structure of this investment.

Materials required

Internet access.

Required reading

1. Krugman, P.; Obstfeld, M. and Melitz, M. (2012) 'Developing Countries: Growth, Crisis, and Reform', Chapter 22 in *International Economics: Theory and Policy*, Addison-Wesley
2. UNCTAD (latest available ed.) *World Investment Report,* New York/Geneva: United Nations Conference on Trade and Development

Optional reading

1. Central Bank of Brazil (2015) *Foreign Sector Data Released: Balance of Payments*, www.bcb.gov.br/textonoticia.asp?codigo=3903&IDPAI=NEWS
2. Central Bank of Russia (2012) Macroeconomic Statistics, External Sector Statistics, Balance of Payments, in Analytical Presentation, www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/bal_of_paym_an_new_12_e.htm&pid=svs&sid=itm_3971
3. Reserve Bank of India (2012) *Balance of Payments*, http://rbi.org.in/scripts/SDDS_ViewDetails.aspx?SDDSID=199
4. National Bureau of Statistics of China (n/d) *China Statistical Yearbook: Balance of Payments*, http //stats.gov.ch/tjsj/ndsj/2012/indexeh.htm
5. Statistics South Africa (n/d) *Balance of Payments*, www.resbank.co.za/Research/Statistics/Pages/Statistics-Home.aspx

Day/session 2

Team and individual presentations (2.5 hours): Country (regional) profile in international private capital movement
Students make team or individual presentations of country (or world region) profiles in international investing, including:

1. Macroeconomic analysis of profiles
2. Links between country profiles and national economy models.

Learning objectives
Students will learn:

- Macroeconomic analysis of a country (region) profile in international investment
- Links between this profile and a national economy profile.

Materials required
Presentation slides.

Required reading

1. Krugman, P.; Obstfeld, M. and Melitz, M. (2012) 'Developing Countries: Growth, Crisis, and Reform', Chapter 22 in *International Economics: Theory and Policy*, Addison-Wesley
2. Trading Economics (2015) www.tradingeconomics.com
3. Schwab, K. and Sala-i-Martín, X. (2013) *The Global Competitiveness Report 2013–2014*, Country/Economy Profiles, Geneva: World Economic Forum, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf
4. Sauvant, K.P.; Mallampally, P. and McAllister, G. (eds) (2013) *Inward and Outward FDI Country Profiles*, New York: Vale Columbia Center on Sustainable International Investment, http://ccsi.columbia.edu/files/2013/10/Profiles_eBook_Second_Edition_-_Oct_2013.pdf

Optional reading

1. Central Bank of Brazil (2015) *Foreign Sector Data Released: Balance of Payments*, www.bcb.gov.br/textonoticia.asp?codigo=3903&IDPAI=NEWS
2. Central Bank of Russia (2012) Macroeconomic Statistics, External Sector Statistics, Balance of Payments, in Analytical Presentation, www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/bal_of_paym_an_new_12_e.htm&pid=svs&sid=itm_3971
3. Reserve Bank of India (2012) *Balance of Payments*, http://rbi.org.in/scripts/SDDS_ViewDetails.aspx?SDDSID=199
4. UNCTAD (2013) *Investment Country Profiles: India*, Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/webdiaeia2013d4_en.pdf
5. National Bureau of Statistics of China (n/d) *China Statistical Yearbook: Balance of Payments*, http //stats.gov.ch/tjsj/ndsj/2012/indexeh.htm
6. Statistics South Africa (n/d) *Balance of Payments*, www.resbank.co.za/Research/Statistics/Pages/Statistics-Home.aspx
7. UNCTAD (2012) *Investment Country Profiles: South Africa*, Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/webdiaeia2012d4_en.pdf

Lecture (2.5 hours): Investment climate and ratings of rising powers

- Emerging economies as objects (recipients) of private capital inflows
- Investment climate: scope of definitions
- Difference between investment climates for creditors and investors
- International rating agencies and their ratings
- Difference between financial and investment ratings
- Leading indicators of national investment climate
- Major sources of information on national investment climate
- The importance of international comparisons
- National economic profiles and national economic perspectives as basic grounds for foreign investment.

Learning objectives
Students will learn:

- Indicators of country (or world region) investment climate
- Reasons for differences in country investment climates.

Materials required
Statistical handouts.

Required reading

1. UNCTAD (2013) *World Investment Prospects Survey 2013–2015*, New York/Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/webdiaeia2013d9_en.pdf

Optional reading

1. List of Countries by Credit Rating, http://en.wikipedia.org/wiki/List_of_countries_by_credit_rating
2. Trading Economics (2015) www.tradingeconomics.com
3. Schwab, K. and Sala-i-Martín, X. (2013) *The Global Competitiveness Report 2013–2014*, Country/Economy Profiles, Geneva: World Economic Forum, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf
4. World Bank (2013) *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*, International Bank for Reconstruction and Development/World Bank, http://doingbusiness.org/reports/global-reports/doing-business-2014
5. International Monetary Fund (latest available issue) *World Economic Outlook*
6. *The Economist* (2014) *Business Environment Rankings,* Economist Intelligence Unit, www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=BER_final_2014.pdf&mode=wp&campaignid=bizenviro2014
7. ATKearney (2014) *Foreign Direct Investment Confidence Index*, www.atkearney.com/research-studies/foreign-direct-investment-confidence-index

Day/session 3

Team and individual presentations (2.5 hours): Country (regional) investment climate analysis

Students' presentations (team or individual) of a country (or world region) investment climate include analysis of:

1. Data from rating agencies and international organisations
2. Countries' comparisons of investment climate
3. Perspectives of a country (or world region) investment climate.

Learning objectives

Students will learn:

- How to interpret investment climate statistics
- How to propose possible changes to the investment climate of a country.

Materials required

Presentation slides.

Required reading

1. Credit Ratings, http://en.wikipedia.org/wiki/Credit_rating
2. List of Countries by Credit Rating, http://en.wikipedia.org/wiki/List_of_countries_by_credit_rating
3. Schwab, K. and Sala-i-Martín, X. (2013) *The Global Competitiveness Report 2013–2014*, Country/Economy Profiles, Geneva: World Economic Forum, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf
4. World Bank (2013) *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*, International Bank for Reconstruction and Development/World Bank, http://doingbusiness.org/reports/global-reports/doing-business-2014
5. *The Economist* (2014) *Business Environment Rankings,* Economist Intelligence Unit, www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=BER_final_2014.pdf&mode=wp&campaignid=bizenviro2014
6. ATKearney (2014) *Foreign Direct Investment Confidence Index*, www.atkearney.com/research-studies/foreign-direct-investment-confidence-index
7. Trading Economics, www.tradingeconomics.com/country-list/foreign-direct-investment

Optional reading

1. International Monetary Fund (latest available issue) *World Economic Outlook*
2. Trading Economics, www.tradingeconomics.com

Lecture (2.5 hours): Rising powers investment abroad

- Emerging economies as a source (donors) of private capital outflow
- Traditional and non-traditional drivers of capital outflow from rising powers
- Emerging economies' TNCs as important actors of world FDI activity
- Specificities of TNCs from rising powers
- Loans and portfolio investment from these countries
- Their sovereign funds activity
- Capital flight definitions and motives
- Offshore jurisdictions and international financial centres as channels for capital flight
- Reasons for active participation of rising powers in capital flight
- Capital round-tripping: reasons, scope, elements of mechanism.

Learning objectives
Students will learn:

- Drivers of investment from emerging economies
- Rising strength of emerging economies' TNCs
- Capital flight from rising powers
- Role of offshore jurisdictions and international financial centres in capital flight.

Materials required
Handouts.

Required reading

1. UNCTAD (latest available ed) *World Investment Report,* New York/Geneva: United Nations Conference on Trade and Development
2. Global Financial Integrity (2013) *Illicit Financial Flows from Developing Countries: 2002–2011*, http://iff.gfintegrity.org/iff2013/Illicit_Financial_Flows_from_Developing_Countries_2002-2011-HighRes.pdf

Optional reading

1. Sauvant, K.P.; Maschek, W.A. and McAllister, G. (eds) (2010) *Foreign Direct Investments from Emerging Markets: The Challenges Ahead*, New York: Palgrave Macmillan
2. Sauvant, K.P.; Sachs, L.E. and Schmit Jongbloed, W.P.F. (eds) (2012) *Sovereign Investment: Concerns and Policy Reactions*, New York: Oxford University Press
3. Central Bank of Brazil (2013) Brazilian Capital Abroad, www4.bcb.gov.br/rex/CBE/Ingl/CBE2013Results.asp
4. Central Bank of Brazil (2012) Brazilian Assets Abroad, www4.bcb.gov.br/rex/CBE/Ingl/ResultadoCBE2012i.asp
5. Brazil FDI, www.studymode.com/essays/Brazil-Fdi-39144808.html
6. Central Bank of Russia (2014) *Russian Federation: Outward Foreign Direct Investment Positions by Geographical Allocation*, www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/dir-inv_out_country_e.htm&pid=svs&sid=ITM_586
7. Ernst&Young (2012) *Capital Outflow from Russia: from Myths to Realities*, RFPI/Ernst & Young, www.ey.com/Publication/vwLUAssets/Capital-outflow-2012-ENG/$FILE/Capital-outflow-2012-ENG.pdf

8. Reserve Bank of India (2010) *Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2009-10*, www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=11359
9. Care Ratings (2014) *Outward FDI Investment by India,* www.careratings.com/upload/NewsFiles/SplAnalysis/Outward%20FDI%20Investment%20by%20India.pdf
10. Bank for International Settlements (2012) 'H R Khan: Outward Indian FDI – Recent Trends & Emerging Issues', www.bis.org/review/r120306a.pdf
11. Nunnenkamp, P.; Andrés, M.S.; Vadlamannati, K.C. and Waldkirch, A. (2012) *What Drives India's Outward FDI?*, Kiel Working Paper 1800, www.ifw-members.ifw-kiel.de/publications/what-drives-india2019s-outward-fdi/KWP_1800.pdf
12. Voss, H. (2011) *The Determinants of Chinese Outward Direct Investment*, Cheltenham: Edward Elgar, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-ISBDdetail.pl?biblionumber=215052#sthash.qOzH7j8o.dpuf
13. Bernasconi-Osterwalder, N.; Johnson, L. and Zhang, J. (2012) *Chinese Outward Investment: An Emerging Policy Framework*, Winnipeg: International Institute for Sustainable Development/Institute for International Economic Research, http://ccsi.columbia.edu/files/2014/01/Chinese_Outward_Investment_-_An_Emerging_Policy_Framework.pdf
14. Dong, B. and Guo, G. (2013) 'A Model of China's Export Strengthening Outward FDI', *China Economic Review: An International Journal* 27.1: 208–26, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=229730#sthash.sTk5pCxP.dpuf
15. Amighini, A.; Rabellotti, R. and Sanfilippo, M. (2013) 'Do Chinese State-owned and Private Enterprises Differ in their Internationalization Strategies?', *China Economic Review: An International Journal* 27.1: 312–25, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=229737#sthash.PMeUYsLn.dpuf

Day/session 4

Workshop with case studies (2.5 hours): TNCs of rising powers
Case studies of the FDI of some TNCs from emerging economies are made by students themselves at home, presented at the workshop and are focused on:

- Competitive advantages of emerging economies' TNCs
- Their geography and fields of operation abroad
- Achievements and failures of national TNCs abroad.

Learning objectives
Students will learn:

- Drivers of TNCs from rising powers
- Specificity of their operations abroad
- Strengths and weaknesses of rising powers' TNCs.

Materials required
Presentation slides.

Required reading

1. Krugman, P.; Obstfeld, M. and Melitz, M. (2012) 'Firms in the Global Economy', Chapter 8 in *International Economics: Theory and Policy*, Addison-Wesley
2. UNCTAD (2012) *World Investment Report 2012: Towards a New Generation of Investment Policies*, New York/Geneva: United Nations Conference on Trade and Development, pp.23–28, http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf

Optional reading

1. Sauvant, K.P.; Govitrikar, V.P. and Davies, K. (eds) (2011) *MNEs from Emerging Markets: New Players in the World FDI Market*, New York, Vale Columbia Center on Sustainable International Investment, http://ccsi.columbia.edu/files/2014/01/EMGP_-_eBook_PDF_2_11.pdf
2. Amal, M. (2011) 'Foreign Direct Investment from Emerging Economies: Determinants and Strategies', in P. Pachura (ed), *The Economic Geography of Globalization*
3. Ramsey, J.R.; Barakat, L.L. and Cretoiu, S.L. (2012) 'Internationalization and its Possible Impact on Subjective and Objective: Evidence from Brazilian TNCs', *Transnational Corporations* 21.2, New York/Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/diaeia2013d1_en.pdf
4. Vale Columbia Center on Sustainable International Investment (2013) 'Global Expansion of Russian Multinationals after the Crisis: Results of 2011', *Columbia FDI Perspectives*, VCC, www.ciaonet.org/wps/vcc/0027980/index.html
5. Reserve Bank of India (2012) *Outward FDI of India,* https://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=674
6. Sauvant, K.P.; Pradham, J.P.; Chatterjee, A. and Harley, B. (eds) (2011) *The Rise of Indian Multinationals*, New York: Palgrave Macmillan
7. Pearce, R. (2011) China and the Multinationals: International Business and the Entry of China into the Global Economy, Cheltenham: Edward Elgar, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-ISBDdetail.pl?biblionumber=217136#sthash.mr03wsqV.dpuf

8. De Beule, F. and Van Den Bulcke, D. (2012) ‘Locational Determinants of Outward Foreign Direct Investment: an Analysis of Chinese and Indian Greenfield Investments’, *Transnational Corporations* 21.1, http://unctad.org/en/PublicationChapters/diaeia20122a1_en.pdf
9. Amighini, A. and Franco, C. (2013) ‘A Sector Perspective on Chinese Outward FDI: The Automotive Case’, *China Economic Review: An International Journal* 27.1:
10. 148–61, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=229726#sthash.aND8IYoo.dpuf

Lecture (2.5 hours): Impact of international capital movement on rising powers’ economies

- Impact of international capital movement on large, medium and small economies
- Impact of capital inflow and outflow on emerging economies’ capital accumulation (savings and investment): positive and negative aspects
- Rising powers’ industries and industrial structure under the influence of foreign capital activity: progress versus conservation
- Dissemination of business and technological knowledge via FDI
- Impact on local competition and international competitiveness of a country (world region)
- External trade as a channel of the impact of international capital movement on national economy
- National finance sphere: balance of payments under influence of capital inflows and outflows, impact on national currency, external debt, sudden stops of capital inflow
- What does international capital movement mean for development?

Learning objectives
Students will learn:

- Multiple effects of participation in international capital movement on a country’s economy
- Positive and negative impacts of capital inflow and outflow on national economy.

Materials required
Statistical handouts.

Required reading

1. Krugman, P.; Obstfeld, M. and Melitz, M. (2012) ‘Developing Countries: Growth, Crisis, and Reform’, Chapter 22 in *International Economics: Theory and Policy*, Addison-Wesley
2. UNCTAD (2014) *World Investment Report 2014: Investing in the SDGs: An Action Plan*, New York/Geneva: United Nations Conference on Trade and Development, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf
3. UNCTAD (2012) *World Investment Report 2012: Towards a New Generation of Investment Policies*, New York/Geneva: United Nations Conference on Trade and Development, pp. 29–36, http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf
4. UNCTAD (2011) *World Investment Report 2011: Non-equity Modes of International Production and Development*, New York/Geneva: United Nations Conference on Trade and Development, pp. 105–10, http://unctad.org/en/PublicationsLibrary/wir2011_en.pdf

Optional reading

1. Narula, R. and Driffield, N. (2012) 'Does FDI Cause Development?: The Ambiguity of the Evidence and Why it Matters', *The European Journal of Development Research* 24.1: 1–7, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=217214
2. D'Silva, N. and Hedge, D.S. (2013) 'Empirical Studies on Technology Spillovers in Emerging Economies: A Critical Review', *The Asian Economic Review: The Journal of the Indian Institute of Economics* 55.3: 487–512, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=229901#sthash.6g5DuDGb.dpuf
3. Naceur, S.B.; Kamar, B. and Bakardzhieva, D. (2012) 'Disaggregated Capital Flows and Developing Countries' Competitiveness', *World Development* 40.2: 223–37, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=216206#sthash.d3HoiPeA.dpuf
4. Hecock, R.D. and Jepsen, E.M. (2013) 'Should Countries Engage in a Race to the Bottom?: The Effect of Social Spending on FDI', *World Development* 44: 156–64, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=226179
5. Chandrasekhar, C.P. (2013) 'Fragile Foundation: Foreign Capital and Growth after Liberalisation', *Social Scientist* 41.1–2: 17–33, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=225808
6. Srivastava, A. (2012) 'Foreign Direct Investment and Stock Market Development: Evidence from India', *The Asian Economic Review: The Journal of the Indian Institute of Economics* 54.3: 529–36, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=225797
7. Bansal, A.; Prusty, R.; Tanna, J.J. and Denis, L. (2012) *Foreign Investment and Indian Economy*, Delhi: Manglam
8. Tang, S.; Selvanathan, S. and Selvanathan, E. (2012) *China's Economic Miracle: Does FDI Matter?*, Cheltenham: Edward Elgar, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=217730
9. Hale, G. and Long, C. (2012) *Foreign Direct Investment in China: Winners and Losers*, Singapore: World Scientific, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-search.pl?idx=kw&q=foreign investment&offset=80&sort_by=pubdate_dsc#sthash.dkkiT6qO.dpuf
10. Mijiyawa, A.G. (2013) 'Myopic Reliance on Natural Resources: How African Countries Can Diversify Inward FDI', Columbia FDI Perspectives 97, Vale Columbia Center on Sustainable International Investment, http://ccsi.columbia.edu/files/2014/01/FDI_97.pdf

Day/session 5

Team and individual presentations (2.5 hours): National economy under the influence of international capital movement
Student presentations of the impact of international capital movement on a country (or world region) economy, including:

1. Capital accumulation process, industrial structure change, international competitiveness, finance situation
2. Positive and negative aspects of these impacts.

Learning objectives
Students will learn:

- Channels of influence of the international capital movement on a national economy
- Positive and negative aspects of this influence.

Materials required
Presentation slides.

Required reading

1. Krugman, P.; Obstfeld, M. and Melitz, M. (2012) 'Developing Economies: Growth, Crisis, and Reform', Chapter 12 in *International Economics: Theory and Policy*, Addison-Wesley
2. UNCTAD (2014) *World Investment Report 2014: Investing in the SDGs: An Action Plan*, New York/Geneva: United Nations Conference on Trade and Development, pp. 135–65, http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf
3. UNCTAD (2013) *World Investment Report 2013: Global Value Chains: Investment and Trade for Development*, New York/Geneva: United Nations Conference on Trade and Development, pp. 121–203, http://unctad.org/en/publicationslibrary/wir2013_en.pdf
4. Sauvant, K.P. and Chen, V.Z. (2013) 'Advancing Domestic Development Through Overseas Investment', *East Asia Forum Quarterly*, July–September, http://ccsi.columbia.edu/vcc/files/2013/12/Sauvant_Chen_Advancing.pdf

Optional reading

1. McKinsey Global Institute (2014) *Connecting Brazil to the World: Path to Inclusive Growth*, www.mckinsey.com/insights/south_america/brazils_path_to_inclusive_growth
2. Reserve Bank of India (2014) *Annual Census on Foreign Liabilities and Assets of Indian Companies 2012–13*, www.rbi.org.in/scripts/PublicationsView.aspx?id=15722
3. Biswas, S. and Dasgupta, B. (2013) 'Foreign Direct Investment and Economic Growth in India during the Post Reform Period', *The Asian Economic Review: The Journal of the Indian Institute of Economics* 55.2: 257–74, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=229484
4. Sethi, N. (2013) 'Effects of Private Foreign Capital Inflows on Economic Growth in India: An Empirical Analysis', *The Asian Economic Review: The Journal of the Indian Institute of Economics* 53: 249–68, http://bldscat.ids.ac.uk/cgi-bin/koha/opac-detail.pl?biblionumber=216142#sthash.FpAmjOgP.dpuf
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Lecture (2.5 hours): National and international regulation of capital inflow and outflow: rising powers policy

- Definition of capital controls, roots of its existence in emerging economies
- Other motives to control capital inflows and outflows
- Regimes for foreign capital in the rising powers: regulation of entry, functioning, foreign operations, taxation
- Closed and limited industries and spheres
- Special economic zones
- Limitations on speculative capital inflows
- Regimes for national capital outflow: exit regulations, currency limitations, taxation and monitoring
- Investment and tax international agreements and their role in capital outflows and inflows
- Current international regulation of private capital movement
- International organisations and anti-offshore campaign
- Perspectives for international regulation.

Learning objectives

Students will learn:

- The basics of national regimes for capital inflow and outflow
- Principles of international capital movement taxation.

Materials required

Statistical handouts.

Required reading

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Optional reading

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10. Xavier, K. (2013) *Lessons from South Africa’s BIT Review*, Columbia FDI Perspectives 109, Vale Columbia Center on Sustainable International Investment
11. Sovereign Group, South Africa, www.bing.com/search?q=south+africa+investment+abroad&qs=n&form=QBRE&pq=south+africa+investment+abroad&sc=0-17&sp=-1&sk=&cvid=fc31aab3e6994177b582daca04e66fc9

GUIDELINES FOR TEACHERS

Preface

The course is created for non-economists and economists from emerging economies who are interested in international investment. The title of the course stresses its two aspects – a focus on the BRICS countries and inward as well as outward investment from these economies.

Ten sessions will not give an audience an understanding of all the details of international capital movement, but will teach students how the rising powers are participating in international investment and how to use national and international sources of information for analysis of capital flows to and from their own countries (world regions).

The typical audience of the course is international. Students are recommended to group into country (world region) teams. In the case of only one country, students are recommended to pay more attention to debates inside the group.

It is recommended that the classroom has access to the internet. Working with statistics (especially during the first two seminars) will require some internet access.

The course consists of five topics with various lectures and seminars.

Topic 1. Principal aspects of international private capital movement: emerging economies viewpoint

Lecture

Begin by showing slides containing statistics of three or four types of international capital flows – foreign direct investment (FDI), portfolio investment (including financial derivatives), other investment (principally loans) as well as their geography. IMF statistics of the scale and structure of these flows are as follows (access to IMF Balance of Payments Yearbook is by subscription):

Table 1. World scale and structure of annual capital flows, US$bn

	Outward flows			**Inward flows**		
	2002	**2007**	**2010**	**2002**	**2007**	**2010**
Total	-1,838	-10,294	-3,723	2,312	11,232	4,555
FDI	-662	-2,507	-1,414	745	2,336	1,402
Portfolio (incl. financial derivatives)	-539	-2,075	-115	864	3,064	1,327
Other investment	-637	-5,712	-2,194	703	5,832	1,826

Source: International Monetary Fund (2012) Balance of Payments Statistics Yearbook.

Table 2. Geography of the accumulated capital flows, 2000–11, US$bn

	Outward	**Inward**
WORLD	-47,184	54,709
International organisations	-841	803
Developed countries	-40,172	45,051
Developing countries	-6,171	8,855
BRICS total	2,425	4,080
Brazil	-233	685
Russia	-818	600
India	-110	538
China (excl. Hong Kong, Macao, Taiwan)	-1,209	2,101
South Africa	-55	156
Other emerging economies total	-3,746	4,755
Poland	-76	327
Ukraine	-123	169
Turkey	-61	378
Saudi Arabia	-240	171
Indonesia	-74	83
Thailand	-55	72
Malaysia (2000–09)	-144	42
Nigeria	-95	20
Mexico	-122	398
Argentina	-97	71
Venezuela	-226	51

Source: International Monetary Fund (2013) Balance of Payments Statistics Yearbook.

It is then worth outlining that developed economies are dominating the international capital movement, especially in portfolio and other investment, but that the weight of the developing countries is increasing, particularly in FDI (54 per cent of world inward FDI and 32 per cent of outward FDI in 2013). International statistics of the geography of capital flows to and from emerging economies are absent but national statistics of their FDI show that the leading guest and host countries are offshores and offshore conduit countries (Netherlands, UK, etc).

International economics after J.S.Mill stands that the principal motive for international capital movement is the difference of profit level in various countries allowing for risks. The neoclassical Heckscher-Ohlin model argues that major prerequisites for this movement are national differences in the availability of economic resources. FDI models add to those drivers the other drivers, grouping them into push and pull drivers. However the modern practice of rising powers demonstrates the occurrence of their own specific drivers (especially the pursuit of jurisdictions more reliable than the country of capital origin).

The next important point of the lecture is the description of national profiles in international capital movement. The national profile comprises of a set of indicators calculated on the basis of three to five of the latest available consecutive years and taken from national balances of payments and international statistics. The shortest set of indicators is the following:

- Ratio of national GDP and capital inflows and outflows
- Balance of capital inflows and outflows
- Structure of these capital flows or accumulated stock (by type, industry and geography).

The lecture then demonstrates the possible links between national profile in international capital movement and national economic profile. National economic profile will be analysed during the following sessions (investment climate, impact of international capital movement on national economies) – the principal point to stress is that the national profile in international capital movement is shaped by the national economic profile.

Finally, the lecturer gives recommendations on sources of statistics for the forthcoming two seminars.

Group work with statistics
Working online, students collect data on inflows and outflows of capital and the international investment position of their own country. The lecturer should assist students with collecting and grouping statistics. Students' insufficient knowledge of balance of payments structure is likely to cause the most issues.

Team and individual presentations
Students make team presentations on their own countries' profiles in international capital movement. If you are focusing on only one country, it is best to make one or two presentations on the country profile and one or two presentations on the links between the profile and the national economic model.

Topic 2. Investment climate and ratings of rising powers

Lecture
Begin by discussing two key points. Firstly, the importance of the investment climate for international investors, as it predicts local risks. Secondly, the investment climate of a country is different for different types of international investors: the first type of investor is creditors associated with other investments (loans) and partially portfolio investment (bonds); the second type is entrepreneurs associated with FDI and portfolio investment (stocks). For both types of investor the principal interest is ratio of risk and profit; however, the first type of investor focuses on risk and the second on profit.

International rating agencies (Fitch, S&P, Moody's, etc) are working with the first type of international investor *par excellence* calculating financial risks for creditors. The second type of investor is served by agencies investigating country business environments (BERI, PRS Group, EIU, ATKearney, etc) to calculate investment risks with attempts to allow for profit.

The best source of information to analyse national investment climates is the *Global Competitiveness Report* issued annually by the World Economic Forum. Together with the annual *Doing Business Report* by the World Bank, this information can be helpful for the analysis of national investment climate details. Moreover, all of these data will create a descriptive model (profile) of the national economy. As a result, students will see that the investment climate is just a particular case (aspect) of the national economic profile.

International comparisons of national economic profiles on the basis of countries at the same development level (based on GNI PPP per head data from the World Bank Indicators) will help the lecturer to demonstrate specificities of various national economies as well as strengths and weaknesses of national investment climates, e.g. investment climate of Russia vs Malaysia or Poland, or China vs Brazil or South Africa. It is recommended that this is demonstrated through Table 3, which is based on the *Global Competitiveness Report* indicators:

Table 3. Some investment climate indicators

	Russia	**Malaysia**	**Poland**
Global Competitiveness Index (out of max 7)	4.2	5.0	4.5
Institutions	3.3	4.8	4.5
Infrastructure	4.6	5.2	4.0
Macroeconomic environment	5.9	5.4	4.9
Health and primary education	5.7	6.1	6.0
Higher education and training	4.7	4.7	4.9
Goods market efficiency	3.8	5.2	4.3
Labour market efficiency	4.3	4.8	4.2
Financial market development	3.4	5.4	4.5
Technological readiness	4.0	4.2	4.5
Market size	5.8	4.9	5.1
Business sophistication	3.6	5.0	4.1
Innovation	3.1	4.4	3.2

Source: World Economic Forum. *Global Competitiveness Report 2013–2014*.

One can conclude from the table that Russia's investment climate has some comparatively strong points (macroeconomic environment, market size) and some weak points (institutions, goods market efficiency, financial market development, business sophistication).

For each country the *Global Competitiveness Report* contains about 100 detailed sub-indicators in the margins of the above indicators. They can give clues as to the figures in the table. For instance, Russia's institutions sub-indicators demonstrate weak property rights and others associated with those sub-indicators, as well as indicators of big and inefficient bureaucracy.

It is important to come to the conclusion that investment climate indicators are elements of the broader notion of a national economic profile, as illustrated in Table 3.

With the addition of economic forecasts, it will help at the end of the lecture to give some explanations of the basic reasons for differences in the national investment climates of various countries.

Team and individual presentations
It is recommended that students begin their presentations with financial and investment ratings of their own countries in comparison with two or three other countries at the same level of development.

The second step is a slide in the form of the above table, with possible additions of indicators from the *Doing Business Report* or other sources.

The third step is to interpret the strengths and weaknesses of the national investment climate by analysing sub-indicators on the basis of international comparisons.

The last step is to analyse the possibilities of improving the weaknesses through reforms, and to assess the economic forecast of the country in question (e.g. from the *World Economic Outlook*). This will lead to ideas about perspectives of the national investment climate.

In the case of studying only one country, the last two steps can have separate presentations.

Topic 3. Rising powers investment abroad

Lecture
It is recommended at the beginning of the lecture to remind students of statistics indicating the growing participation of emerging economies in world capital outflow, especially outward FDI.

It is suggested that the drivers of rising powers' outward investment are divided into traditional and non-traditional drivers. Traditional drivers are described in neoclassical international economics – pursuit of profit, market share and differentiation of assets, excess of financial resources, and maturity of national companies. Insofar as emerging economies are increasing their level of development they activate their capital outflow on the basis of traditional drivers.

On the other hand, some specific, non-traditional drivers are typical of emerging economies' capital outflow – outward orientation of their sovereign funds, their state-owned TNCs' dependence on the foreign policy aims of their countries, and last but not least, the very high level of capital flight.

Capital flight has a number of definitions including the narrow one (illegal outflow) and the broad one (all capital outflow against national interests). If one was to use the World Bank formula of capital flight based on the broad definition, then about 80 per cent of capital outflow from Russia in 2000–11 was in the margins of capital flight. Indirect measurement of capital flight is based on the capital geographical orientation to offshore jurisdictions and offshore connected financial centres (UK, Netherlands). At the start of this decade, more than 70 per cent of outward FDI from the BRICS countries was of this offshore-oriented kind.

At the same time, a very substantial part of capital inflow, including outward FDI, is going to emerging economies from the same offshore and offshore conduit countries. This is the reason for the existence of the term 'capital round-tripping'. The comparatively large scale of such round-tripping lays the ground for the hypothesis that the change of national jurisdiction gives capital returning to its own country an additional proof against local weak property rights and bureaucracy. This driver is also combined with another – pursuit of tax reduction.

At the end of the lecture, it is recommended that the lecturer concludes that all of the drivers are present in various combinations in the foreign activity of TNCs from rising powers.

Statistics will help to describe the scope, geography and industrial profiles of this activity, e.g. of Russian TNCs:

Table 4. Scope and geography of Russia's accumulated FDI abroad in 2012, US$bn

Total	**362**
CIS	16
EU-27	232
Cyprus	123
Netherlands	57
Luxembourg	12
UK	11
Other Europe	35
Switzerland	13
Jersey	7
Gibraltar	6
Other regions	79
BVI	46
US	10
Bahamas	5

Source: www.cbr.ru.

Table 5. Foreign assets and industrial profiles of five leading Russian TNCs in 2011, US$bn

Vympelcom (telecommunications)	29.8
LUCOIL (oil and gas)	29.2
Gazprom (oil and gas)	15.8
Evraz (steel)	8.3
Severstal (steel)	7.6

Source: www.vcc.columbia.edu/files/vale/documents/EMGP, Russia Report.

Workshop with case studies

For their case studies students are advised to choose their national TNC according to the availability of data. This the crucial point when making case studies of TNCs.

The first step is to analyse the TNC websites. The second step is to analyse articles and notes on the chosen TNC. As a result of this work, some conclusions about the chosen TNC's competitive advantages should be made.

The next steps are to figure out the chosen TNC's outward investment drivers, specificities of its operations abroad, and its strengths and weaknesses in terms of its achievements and failures. In the case of studying one country, students are recommended to make two or three presentations for various national TNCs.

Topic 4. Impact of international capital movement on rising powers' economies

Lecture

This is the most controversial topic of the course as the international private capital movement has many channels of direct and indirect impact on national economies. The best methodology is to study it channel by channel. But at the start of the session, the lecturer is recommended to outline that large-size economies depend less on capital inflows and outflows than small and medium-size ones.

Traditionally the study begins with capital accumulation. Where the ultimate economic goal of rising powers is to reach the level of development of developed countries, then the crucial point is the rate of economic growth that is determined by investment (capital formation) first of all. In turn, investment is based on savings, which are the starting point of the capital accumulation process. The example of Russia provides an illustration of the impact of inflow and outflow on national capital accumulation:

Table 6. Impact of international capital movement on Russian economy in 2012

GDP	US$2,015bn
Saving as a percentage of GDP	30%
Investment (gross capital formation) as a percentage of GDP	26%
Capital inflow	US$73bn
Capital outflow	US$127bn
Net capital outflows as a percentage of GDP	3%

Sources: http://data.worldbank.org/indicators; http://www.cbr.ru/Eng/statistics/?PrtId=svs.

One can conclude that although Russia has high savings for high investment the latter are 4 per cent less than savings. The difference is partially explained by great net capital outflow (3 per cent of GDP). Finally, gross capital formation in Russia is less than the level necessary for high growth (in China gross capital formation equals 40 per cent of GDP, in India it is 35 per cent) although capital inflows add substantial asset to savings (12 per cent). This situation is typical for some other oil and gas exporting countries (see Table 2).

The other channel of impact is the industrial structure of capital inflows. For instance, FDI inflow to Russia broken down by industry is as follows (US$bn):

Table 7. FDI flow to Russia in 2013, by industry (US$bn)

Total	**79.3**
Including agriculture, forestry and fishing	0.7
Mining and quarrying	8.2
Manufacturing	25.1
Coke and refined petroleum products	20.1
Chemicals and chemical products	1.5
Machinery and equipment	0.5
Other transportation equipment	0.9
Computer, electronic and optical products	0.8
Undistributed	1.3
Electricity, gas, water supply	1.7
Construction	2.9
Wholesale and retail trade, repair of motor vehicles	19.7
Financial and insurance activities	14.7
Real estate activities	1.7
Undistributed	4.6

Source: www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/inv_in-rus_e.htm&pid=svs&sid=ITM_48993&pid=svs&sid=ITM_55841.

Table 7 does not allow one to make conclusions about the progressive impact of inward FDI on the country's industrial structure. It is rather a conservative impact.

On the other hand, the dissemination of business and technological knowledge via FDI was substantial in many Russian non-high-tech industries. It is difficult to quantify this dissemination but facts prove that it increased the mix and quality of many locally produced products.

Due to the substantial size of the Russian market, foreign firms have not occupied any industries, but have crowded out national producers from some sub-industries (activities) such as beverages, automotive industry, household equipment, and some services.

The other important channel for the influence of international capital movement on the national economy is foreign trade. China is the best example: firms with foreign capital input provide more than half of Chinese merchandise exports, and the role of Chinese TNCs in the country's imports of raw materials and technology is great. However, Russia provides another example: much lower input of foreign companies in Russian exports and their concentration on imports of consumer goods for further distribution via their own wholesale and retail nets in Russia.

The financial sphere is traditionally a very substantial channel for the impact of international capital movement on the national economy. This channel has many sides. The first is the impact on balance of payments. In Russia, balance of payments components are as follows (US$bn):

Table 8. Russia's balance of payments by components in 2013, US$bn

Current account	32.8
Capital account	-0.4
Financial account	-42.5
Net errors and omissions	-11.9
Change in reserves ('+' means decrease)	+22.1

Source:
www.cbr.ru/Eng/statistics/print.aspx?file=credit_statistics/bal_of_paym_an_new_13_e.htm&pid=svs&sid=itm_3971.

The substantial positive balance of the current account (though less than in previous years) could not compensate for the negative balance of the next three components which cover capital inflows and outflows (the net errors and omissions component covers illegal capital movement). As a result, official reserves decreased.

The next side is impact on national currency. The situation with the Russian balance of payments in 2013 led to constant rouble depreciation that year – from 30.03 roubles per US$1 in January 2013 to 32.73 in December 2013.

A very important side of the financial channel is external debt. It is generated by portfolio (bonds) and other investment inflows. In Russia the large amount of other investment inflows is due to the weakness of the national banking system and capital round-tripping (outflow in the shape of FDI, inflow in the shape of other investment). The country's external debt increased from US$213bn in 2004 to US$723bn in mid-2014, exceeding indicative thresholds recommended by the IMF.

The danger of a sudden halt in capital inflow is the side which draws the attention of a growing number of economists. In a world where many small and medium-size economies highly depend on foreign capital inflow, such halts are dangerous for them (such as it was in Central and Eastern Europe during the last crisis). But for rising powers with their lower dependence on foreign capital (due to the large size of national markets) this danger is less evident.

Team and individual presentations
It would be reasonable to inform the students beforehand that the conclusions of their presentations could be debatable due to the debates among economists researching the subject. The other recommendation is to follow the logic of the lecture in their presentations. Students must understand that they have to read a lot for their presentations.

Topic 5. National and international regulation of capital inflow and outflow: rising powers policy

Lecture

It is recommended that the lecturer starts with a definition of capital controls, which can be as follows: measures taken by a government, central bank or other regulatory body to limit the flow of capital in and out of the national economy, which includes currency exchange limitations, taxes and tariffs, volume restrictions and outright legislation. Capital controls were used by developed counties during some crises decades in the past century and nowadays are practised only by emerging economies (but most of them).

One of the reasons for the existence of capital controls in rising powers is a low level of economic development leading to the unsufficient support of their currencies by their national wealth. The other reason is their existing or potential instability, limiting the trust of other economies in their currency. For instance, in Russia with its few limitations on international capital movement, the principal point of capital control is a requirement for merchandise and service exporters to remit all their proceeds back to Russia (without mandatory change for roubles), which originated from the need to support the rouble by substantial currency reserves.

At the same time, it is necessary to stress that even in developed countries limitations on participation in international capital movement exist, especially in capital inflows (closed industries and spheres for foreign capital activity, political restrictions on investment from some countries, etc). In emerging economies these limitations are often combined with incentives for foreign investors to participate in some locations, industries and activities (the best example is free economic zones in China) as a part of their national industrial policy.

All of these measures including capital controls and other limitations and incentives shape systems called national regimes (for foreign capital, for national capital outflow). The lecturer is recommended to illustrate these regimes using India's and China's examples (the reading list provides this information).

In the final part of the lecture it would be reasonable to concentrate on tax aspects of capital movement regulations. It is recommended to start with analysis of national taxation of foreign investment and then to switch to tax and investment agreements between nations. Providing some security and equality for foreign investment, they are creating the world web of international taxation of foreign investment.

At the end of the session, it is worth describing the attempts by international organisations to regulate the international private capital movement. Having failed to finalise the Code of Conduct for TNCs in the previous decades, the international community led by OECD and FATF has been more successful in this decade in regulating the activity of offshores (tax havens and international financial centres), at least in terms of transparency of assets and operations.