Module document: FDI from the BRICS

Background and justification for the module
Study into the role of investment flows in international development gained popularity in the mid-1970s, when the G77 addressed the negative effects associated with the activity of international corporations in developing countries in Africa, Latin America, and Southeast Asia. The emergence of a new form of ‘South-South’ cooperation has contributed to the expansion of business from emerging economies into the markets of developing countries. This phenomenon has stimulated a new wave of research that has revealed the impact of investments from the BRICS (Brazil, Russia, India, China and South Africa) on the socioeconomic performance of developing countries.

A wide range of research papers in the field of development assistance have stated that it is not only the ODA but also private capital from industrial countries that makes a major contribution to the development of capital-scarce developing countries, and helps to smooth spending throughout the business cycle in the recipient countries. However, the volatility of private capital associated with the procyclicality of investments from industrial countries poses a challenge for developing countries in terms of sustainability of financial resources. Moreover, different types of capital flows are subject to different degrees of volatility, and additionally, different forms of flows have different implications for development. Foreign direct investment has become the most important source of external private finance, and has proved to be more stable than other financial flows. However, during the past seven years the FDI global market has decreased by half, totalling US$1tn in comparison to US$1.9tn, and developing countries need different types of FDI to support balanced socioeconomic development.

The shift in the economic landscape towards new global growth poles and the increasing role of the BRICS as emerging economies in South-South Cooperation, provide extra ground for predictability of private capital flows to be a driver for the socioeconomic development of the poorest countries. What is more, the South-South Cooperation framework assumes a two-way relationship between equal partners and extends the frames beyond ODA, which makes private capital one of the main priorities for cooperation.

Purpose of the module
The main purpose of the module is to generate an understanding among the students about the main features associated with the investment activity from emerging economies such as Brazil, China, India, Russia and South Africa (BRICS) in developing countries. The purpose requires the study of both supply and demand aspects of FDI from BRICS into the markets of developing countries, as well as the consequences. The module is based on theoretical and practical elements. From a theoretical perspective it deals with issues such as the main stimulus for BRICS investment in developing countries, the types of resources needed by developing countries, factors affecting the investment climate in developing countries, and a hypothesis of its effects on business activity and economic development in the poorest countries. From a practical angle the module deals with problems such as managing risks in the markets of developing countries, private capital volatility, investment climate influence, as
well as the competition among the businesses from BRICS countries and investors from industrial countries.

The module aims to translate research on the role of investors from the BRICS into new knowledge for students on Master's Degree programmes. The module is devoted to students with a strong educational background in economics/finance/business/management, who possess an intermediate knowledge of economic theory and of international economics/development economics. Moreover, the module contains a wide range of case studies reflecting issues of BRICS business performance in developing countries in Africa, South and Central America, and Southeast Asia.

**Learning outcomes**

The module provides the opportunity to create coherence between the existing teaching courses on the role of FDI in development and the research initiatives of the World Bank,¹ DFID,² and research projects implemented by academic institutions in Russia, Canada³ and the UK⁴ that were devoted to development issues and the role of the BRICS in development. It will strengthen the link between new forms of development cooperation study and those research projects that were primarily focused on development assistance issues. Moreover, the project will contribute to a teaching portfolio for universities from BRICS and other developing countries.

By the end of the module, a successful student should be able to:

- Evaluate theory and evidence of the relationships between investment flows from BRICS, socioeconomic development of the poorest countries and the investment climate
- Identify the factors of the investment climate relevant for developing economies in Africa, Latin America and Southeast Asia
- Assess the impact of the volatility of private capital flows on the economies of developing countries
- Understand the private capital needs of the poorest nations and the stimulus for BRICS businesses to expand their activity into developing countries
- Critique and distinguish peculiarities in the modes of engagement of business from BRICS countries, as well as the models of competition among BRICS.

**Module structure**

The module includes eight lectures, with a duration of 16 academic hours. The set of lectures is accompanied by eight seminars, which are intended to develop students' practical skills in analysing particular case studies on modes of BRICS investment engagement in developing countries in Africa, Latin America and Southeast Asia, as well as in assessing the mechanisms used by BRICS to manage the risks associated with the investment environment in developing countries.

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¹ Russia Cares: the First Session of World Bank - DFID Program Advisory Council 'Russia as a Donor Initiative (RDI)', World Bank, 14 May 2009, go.worldbank.org/O3TNN7YRR0.
² The 'Sharing Responsibility for Development: Learning from Experience to Achieve Results' project was implemented by the Higher School of Economics in partnership with the GB aid agency Oxfam in Russia under the financial support of the UK Department for International Development.
³ The G8, G20 and BRICS compliance with the development commitment project was implemented by the Higher School of Economics in cooperation with the University of Toronto.
Session 1. What types of resources are required by developing countries?
(1st lecture with PPT1)

The session is focused on the analysis of the types of external resources that come and concentrate in developing countries, such as FDI and portfolio investments, ODA and other development finance. The session provides an argument for why the governments of developing countries are looking for private capital. What is more, the session studies the role of private capital in socioeconomic development in improving the investment climate of the poorest countries, in comparison with the role of traditional development assistance and innovative sources of development finance. The session discovers what the added value of private capital in international development is.

Another issue that is to be raised in this session is how bilateral and multilateral ODA and private capital from BRICS differ from the investments from other donors. A special emphasis is made on the activity of BRICS as bilateral donors and their cooperation with multilateral institutions, including main MDBs, operating in different regions of the developing world.

Last but not least, the session deals with the question of what developing countries do to attract private and public resources from developed countries. It focuses on the main approaches of developing countries with respect to private and public stakeholders, and how communication channels with the private sector differ from the methods of engagement with sovereign donors. What is more, it discusses what types of FDI are most important for developing countries; why recipients prefer to attract them to develop particular sectors; and what added value BRICS countries could potentially provide to meet the demand of developing countries.

Learning outcomes

- Compare different types of resources for developing countries from private and public sources
- Identify ways that business impacts on poverty reduction
- Critique the role and effects of business on socioeconomic development
- Understand the tendencies and effects of BRICS countries’ private and public resources in developing countries.

Seminar 1

At the seminar students are asked to analyse the ODA, FDI and other development resources’ concentrations in different developing countries with particular emphasis on the private and public resources that have come from BRICS economies. Students are asked to compare BRICS resources with resources from traditional donors in absolute and relative terms, as well as to make qualitative analyses of the effects of BRICS business on the socioeconomic development of developing countries.

Literature and sources

Required reading


Additional reading


Questions for self-assessment

1. What is the added value of private resources in development cooperation?
2. What types of private and public resources are mainly preferred by developing countries and why?
3. What types of public and private resources are mainly adequate for particular sectors and why?
4. What is the proportion of private and public resources from BRICS and traditional donors from OECD countries?
5. Which developing countries prefer to cooperate with government and business from the BRICS and why?
6. What are the social, economic and cultural effects associated with the activity of BRICS business in developing countries?
Session 2. Why does international business go into developing countries? (2nd lecture with PPT2)

This session discusses the key reasons for international business investment activity in developing countries. It focuses on the resources, costs, finance and marketing opportunities that determine the efficiency of doing business and that allow international businesses to increase their revenue and extract profit in developing countries. The need for efficiency is one of the main determinants in expanding business investment activity abroad, including to the markets of developing countries.

Today, the international community is faced with the following phenomenon. On the one hand, most of FDI goes to China, India, Indonesia and other emerging economies. On the other hand, these emerging economies are increasing their investment presence in developing countries. This part of the session looks at the BRICS as a new type of investor in the international investment architecture and answers the question of why these emerging economies are investing in developing countries.

What is more, the session assumes a retrospective analysis of international business attitudes towards the poorest countries and the changing paradigm of investment activity to this group of countries. The session explores the regulation of governments and the international community with respect to international business operating in developing countries. As a part of the session the main strategies of BRICS international business are explored.

Learning outcomes

- Reveal the key economic incentives for business to work in developing countries, such as resources and market seeking
- Understand the link between business incentives and desired development outcomes, as well as the role of development policy and practice in achieving this
- Evaluate the potential of private sector strategies (especially of BRICS) for poverty reduction
- Analyse BRICS business as a new type of investor
- Critique international and national regulations with respect to business in developing countries.

Seminar 2

Students are asked to make several presentations on business strategies in developing countries, where they should reflect on the key reasons for business engagement in the economies of developing countries. Students will be encouraged to make relevant presentations of case studies on what motivates business from the BRICS to work in developing countries and how it changes the modern FDI architecture.

Literature and sources

Required reading

2. World Bank (1997) Private Capital Flows to Developing Countries: the Road to Financial Integration, Oxford University Press

Additional reading

Questions for self-assessment
1. What motivates international business and business from BRICS countries to work in developing countries?
2. What resource and market opportunities do developing countries provide to international business?
3. Describe the evolution of international business and its perception of markets in developing economies.
4. What is the role of BRICS business in the changing FDI architecture?
5. What are the modern regulations of the governmental bodies and international community with respect to international business in developing countries?
Session 3. Theoretical and practical approaches to defining the effects of BRICS business on the factors of the investment climate in developing countries
(3rd lecture with PPT3)

Today, a wide range of research into theoretical and practical needs is devoted to the factors effecting investments in national economies. One of the approaches to identifying these factors is a market-oriented approach, which is based on the opportunities provided by the national economy to investors to exert his/her competitive advantages. Another approach is based on the economic advantages that characterise particular countries, such as human capital, the quality of infrastructure and the availability of natural resources. However, international experience demonstrates that the capacity of the economy is not the only factor that contributes to the intensity of investors’ activity. Factors also include the protection of intellectual property, market flexibility, the level of corruption, political decisions affecting the activity of investors, and the opportunity for non-residents to start a business.

However, vulnerable economic conditions and market failures change the situation for developing countries. The set of investment climate factors varies from country to country and depends on the local conditions. That is why the next question of this session is how investment climate factors are determined by country and by sector. What is more, it studies investment climate factors in terms of different equilibriums of business supply and demand, provided by donors and national governments of developing countries. The role of BRICS as donors is emphasised in this regard.

To understand the role of investment climate factors in the real economy sector of developing countries, it is crucial to analyse the influence of these factors on socioeconomic development and on the ability to attract FDI. Measurement of the investment climate in developing countries is one of the main challenges for national governments, business and international donors. Investment climate constraints such as the reliability of the power supply or the time it takes to register a business are relatively easy to identify and measure. However, other issues such as dealing with corruption, competitive pressures and policy issues are harder to quantify. Omitting important dimensions because the measurements have not been perfected would give a distorted assessment and distorted information for key stakeholders. This challenge provokes the need to find appropriate qualitative and quantitative measurement instruments for each of the factors. The results of such an empirical examination are important for most stakeholders in the field to identify areas that need to be strengthened in order to increase the level of investment, which in turn will foster economic growth and reduce poverty.

Learning outcomes

- Understand the role of investment climate factors in socioeconomic development and on the ability to attract FDI
- Critique the role of BRICS countries as emerging donors in improving investment climate factors
- Appraise existing evaluation methods for investment climate factors, including the rationale for undertaking evaluation, the diversity of evaluation methodologies and limitations of evaluation.

Seminar 3

Students will be asked to make several groups of up to five students to identify investment climate factors for particular regions of developing countries and to make an assessment (quantitative or qualitative) of the influence of investment climate factors on the

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5 Desai, Foley and Hines (2003).
socioeconomic development and ability of the countries to attract private resources from business from BRICS countries.

**Literature and sources**

**Required reading**


**Additional reading**

Questions for self-assessment

1. What are the key approaches to identify investment climate factors?
2. How are investment climate factors determined by country and by sector?
3. Why is there a need to measure the impact of investment climate factors on business activity and economic development?
4. How effective are existing methodologies in measuring the impact of investment climate factors on socioeconomic development and the ability to attract FDI?
5. Does business from the BRICS change the business environment attractiveness in developing countries?
Session 4. Managing the risks within the markets of developing countries
(4th lecture with PPT4)

The session focuses on the main investment risks existing in developing countries and the main mechanisms to counter these risks. The work of stakeholders on investment climate improvement is one of these mechanisms, which helps to overcome risks associated with the business environment. On the one hand, the session looks at the role of governments and donors in reducing the risks for investors. On the other hand, it discusses the engagement of international business in improving the business climate in the countries that it operates, with the help of instruments such as CSR and PPP. There is a focus on PPP as a new mechanism in mobilising resources for development needs and investment climate improvement.

There is a special emphasis on the methods employed by BRICS business to overcome investment-associated risks in developing countries, and on how these methods create an added value that helps them to compete with other investors.

Learning outcomes

- Analyse the risks associated with business activity in the markets of developing countries
- To understand the concept of partnership between business and government and the factors that influence them to act in the interests of the poorest nations
- To critique the impact of social enterprise on the socioeconomic development of the poorest countries
- To contribute to an understanding of how PPP and CSR can reduce the risks associated with markets in developing countries, using the example of the BRICS.

Seminar 4

The students are asked to make several groups of up to five students, to analyse the risks associated with the markets of developing countries, in particular the sectors and regions from the perspective of businesses that represent the mining sector and service sectors. Another part of the task deals with the strategies employed by the business to overcome these risks. Students are asked to make group presentations and discussions after 20 minutes of group deliberations.

Literature and sources

Required reading


Additional reading


**Questions for self-assessment**

1. What are the main risks associated with the markets of developing countries, and what are the main mechanisms to counter these risks?
2. How could the government and private sector complement each other to reduce the risks in the markets of developing countries?
3. How can CSR and PPP programmes contribute to investment climate improvement?
4. What is the role of PPP as a source of innovative development finance?
5. What methods do BRICS businesses employ in the markets of developing countries?
Sessions 5/6/7. The analysis of BRICS business by regional engagement

This section begins a set of sessions on regional experience of international business activity in different developing regions, namely Africa, Latin America and Southeast Asia.

From a theoretical point of view the sessions specially investigate the factors that determine international business modes of engagement for development in Africa, Latin America and Southeast Asia, such as capital market imperfections, special ownership advantages, institutional factors, and other factors that explain the behaviour of the multinational firm. From a practical perspective the sessions identify particular sector-specific factors that make businesses invest in these countries.

The sessions concentrate on the issue of to what extent the BRICS (as a group) differ in their approach to investment compared with investors from industrial countries such as Japan, US, and also the EU. It describes how the ‘South-South Cooperation’ framework is applicable with respect to BRICS business in developing countries. Does business imply the same two-way relationship of equals, rather than the power imbalance implied by the donor-recipient relationship?

The sessions also compare the volumes of FDI among investors, regions, sectors and markets of engagement and concentration. What is more, FDI from the BRICS and OECD countries are compared with other resources such as ODA and trade flows, provided by both types of investors in developing countries from Africa, Latin America and Southeast Asia. The analysis allows students to critique if these resources help to increase the influence of business from BRICS and OECD countries in developing countries.

Investments from BRICS and other emerging economies are quite diversified between different sectors, especially services that could constitute a significant source of economic growth in developing countries from Asia, Latin America and Southeast Asia. This makes the governments of developing countries make a choice on the type of business they would find appropriate to contribute to the socioeconomic development of the poorest nations. Thus, the set of sessions presents a strong basis for explaining the determinants of BRICS business modes of engagement and market accession, and mechanisms to overcome capital market imperfections. The sessions identify particular sector-specific and region-specific factors that make businesses invest in developing countries and distinguish these factors among the BRICS countries. The sessions make conclusions on the relevance of the ‘South-South Cooperation’ framework with respect to the business from emerging economies in developing countries.

What is more, the sessions identify the BRICS business influence on the socioeconomic development of the poorest nations in Africa, Latin America and Southeast Asia.
Session 5. Analysis of BRICS business in Africa (5th lecture with PPT5)

Learning outcomes

- Understand the main tendencies and shifts in the foreign public and private resources architecture in Africa
- Identify the main sectors of international business engagement in Africa
- Compare the market integration and competitiveness strategies of business from BRICS and OECD countries
- Critique investment and business management approaches exercised by different businesses from BRICS countries.

Seminar 5

Students are asked to arrange themselves into up to five groups representing business from Brazil, Russia, India, China and South Africa. The students will be asked to analyse cases of BRICS business engagement in the economies of African countries. In particular, students will have to compare BRICS business with the business from OECD countries, as well as the competition strategies employed by business from particular BRICS countries with business from other BRICS countries.

Literature and sources

Required reading


Additional reading

Questions for self-assessment

1. What are the main sectors of international business involvement in Africa?
2. What is the current architecture of private and public resources from OECD and BRICS countries? What are the main determinants in architectural shifts?
3. What is the difference in methods of doing business between OECD and BRICS business in African countries?
4. Do business competitiveness and strategies differ among the BRICS businesses in African countries?
5. What are the main strengths and weaknesses of the investment climate in African countries?
6. What are the strategies used by the governments of African countries to attract business from BRICS countries?
Session 6. Analysis of BRICS business in Latin America (6th lecture with PPT6)

**Learning outcomes**

- Identify the main sectors and regions of international business engagement in Latin America
- Understand the main tendencies and shifts in the foreign public and private resources architecture in Latin American countries
- Assess investment and business management approaches exercised by different businesses from BRICS countries in Latin America
- Compare the market integration and competitiveness strategies of business from BRICS and OECD countries in Latin American countries.

**Seminar 6**

Students are asked to arrange themselves into five groups representing business from Brazil, Russia, India, China and South Africa. The students will be asked to analyse cases of BRICS business engagement in the economies of Latin American countries. In particular, students will have to compare BRICS business with the business from OECD countries, as well as the competition strategies employed by business from particular BRICS countries with business from other BRICS countries.

**Literature and sources**

**Required reading**


**Additional reading**

Questions for Self-assessment

1. What are the main strengths and weaknesses of the investment climates of economies in Latin America?
2. What are the main sectors and regions associated with BRICS and OECD business involvement in Latin American countries?
3. What are the strategies used by the governments of Latin American countries to attract international business as well as business from BRICS countries?
4. How has the system of private and public finance generated from OECD and BRICS countries evolved over time? What is the current situation?
5. What is the role of Brazilian business in Latin American countries? What strengths and weaknesses does it have with respect to other international businesses in the region?
6. What is the difference in methods of doing business between OECD and BRICS business in Latin American countries?
7. What are the main differences in business investment and competitiveness strategies among the BRICS businesses in Latin America?
Session 7. Analysis of BRICS business in Southeast Asia (7th lecture with PPT7)

Learning outcomes

- Understand the main tendencies and shifts in the foreign public and private resources architecture in Southeast Asia
- Identify the main sectors of international business engagement in Southeast Asia
- Compare the market integration and competitiveness strategies of business from BRICS and OECD countries in Southeast Asia
- Critique investment and business management approaches exercised by different businesses from BRICS countries in Southeast Asia.

Seminar 7
Students are asked to arrange themselves into five groups representing business from Brazil, Russia, India, China and South Africa. The students will be asked to analyse cases of BRICS business engagement in the economies of countries in Southeast Asia. In particular, students will have to compare BRICS business with the business from OECD countries, as well as the competition strategies employed by business from particular BRICS countries with business from other BRICS countries.

Literature and sources

Required reading


Additional reading


Questions for self-assessment

1. What are the main sectors of international business involvement in Southeast Asia?
2. What is the current architecture of private and public resources from OECD and BRICS countries? What are the main determinants of architectural shifts?
3. What is the difference in methods of doing business between OECD and BRICS business in Southeast Asia?
4. Do business competitiveness and strategies differ among the BRICS businesses in Southeast Asia?
5. What are the main strengths and weaknesses of the investment climate in Southeast Asia?
6. What are the strategies used by the governments of Southeast Asian countries to attract business from BRICS countries?
Session 8. The volatility of private capital flows in developing countries and the potential role of the BRICS Development Bank to counter procyclicality of investments (8th lecture with PPT8)

The idea of establishing a BRICS Development Bank is very new and deserves a special analysis of the potential role of the institution in leveraging the drawbacks associated not only with lack of resources, but also with the instability of the private capital flows in developing countries.

At present several options are available to developing countries to counter the procyclical pattern that characterises private capital flows. They are: designing mechanisms to encourage more stable private flows (counter-cyclical guarantees) or that distribute the risk facing developing countries better throughout the business cycle; introducing prudential capital accounts regulations and adopting counter-cyclical prudential regulations for the domestic financial system. Not all of the above mentioned mechanisms are effectively used in developing countries. Moreover, many of them do not have institutions that could support the development and effective use of these mechanisms (e.g. in the development of a domestic bonds market), as well as to exercise prudential regulations on the capital account and counter-cyclical prudent regulations. The BRICS Development Bank as a new MDB could fill this gap.

**Learning outputs**

- Explain the reasons for the volatility of private capital flows in developing countries
- Understand the role of mechanisms to counter the procyclical pattern that characterises private capital flows
- Critique the role of the BRICS Development Bank in international development assistance within the ‘South-South Cooperation’ framework, as well as its role in counter-cyclical prudent regulations.

**Seminar 8**

Students are asked to prepare two presentations. The first presentation is devoted to the reasons for the volatility of private capital flows in the markets of developing countries and the mechanisms to counter it. The second presentation is devoted to the BRICS Development Bank and its role in financing ‘South-South Cooperation’, as well as in dealing with the issue of private capital volatility.

**Literature and sources**

Required reading

Additional reading


Questions for self-assessment

1. What are the main factors of the volatility of private capital flows in developing countries?
2. What are the key mechanisms for countering the procyclical pattern that characterises private capital flows?
3. What are the main reasons for establishing the BRICS Development Bank? What is its added value in financing ‘South-South Cooperation’?
4. How can it prevent the volatility of private capital flows and exercise counter-cyclical prudential regulations?
5. Can the BRICS Development Bank be effective in microfinance arrangements?