Monetary Policy Impact To FDI In Brazil, China And Russia

Rachmad Santoso[1],Budi Sasongko[2],Danyswara Mardyasta[3], Adriana Morozov[4]
[1,2,3] STIE Jaya Negara Tamansiswa Malang, Indonesia
[4]Plekhanov Russian University of Economics, Russia

Abstract

The purpose of this study is to look at how monetary policy has an effect on foreign direct investment in Brazil, China, and Russia. Using the Panel Least Square (PLS) approach, this study examines how inflation and the currency rate affect foreign direct investment (FDI) in Brazil, China, and Russia. The result of this study is inflation suppressed the entry of foreign direct investment in Brazil, China, and Russia. However, an increase in the domestic exchange rate triggered an increase in foreign direct investment in Brazil, China, and Russia. This shows that controlling inflation and exchange rates on monetary policy in the three countries has had an impact on foreign direct investment (FDI) in Brazil, China, and Russia.

Keywords: Inflation, Exchange Rate, Foreign Investment, Monetary Policy
JEL Classification : C10, J24,J64

Received: July 1,2022 Accepted: October 1,2022
DOI : 10.54204/TMJI/Vol712022003

Background

Three countries that are currently challenging developed countries are Russia, China and Brazil. These three countries are very important in global economic importance for many countries (Wang, He, & Song, 2021). The issue of FDI is one of the most important modern topics of thought and attracts the attention of most countries in the world, which see this type of investment as a means of development and development and a necessity for pursuing progress and the global economy (Khan, Chenggang, Hussain, & Kui, 2021).

The opening of markets and the removal of different obstacles to competition across nations in order to entice and benefit from their advantages are characteristics of globalization (Bakri, 2019; Widarni & Bawono, 2023). As long as foreign investment flows with attractive opportunities and a favorable climate, and in the face of many alternatives for foreign investors, the host country seeks to provide economic, social, political, legal and regulatory conditions to influence the investment decisions of foreign companies through economic policy (Tien, Diem, Vu, Vang, Hung, Anh, & Van Dat, 2021).

One of the key components of economic policy is fiscal policy, which is crucial in luring foreign direct investment through a variety of channels given the significant contribution this sort of investment makes to increasing the host nation's productive capacity, by making use of the latter of the high-level technologies used in production methods, creation of jobs, increase in exports, etc. And with an inherent interest in foreign direct investment (Kamal, Usman, Jahanger, & Balsalobre-Lorente, 2021). There is no doubt that economic policy includes many policies, and among them we find financial policy which occupies an important place among other policies in modern financial and economic thought, to achieve various goals aimed at the national economy, depending on the strategy of fiscal policy and various tools , which can adapt it to all economic and social aspects of society, thereby expanding or reducing the role of fiscal policy depending

on the degree of state intervention in economic activity (Blanchard, Leandro, & Zettelmeyer, 2021).

Expression of fiscal policy is one of the most important economic policies that depend on attracting foreign direct investment, and this is because of its great influence on investment, which is the subject of competition between developing and developed countries because it is very important in the economic development of the host country rely on the development of economic strategies and policies. To improve the risk climate that may affect its activities. This is because it is considered as an important thing that investors consider to avoid investing (Fan & Hao, 2020).

Monetary policy is a policy that generally regulates inflation and exchange rates. Inflation and exchange rates have never been separated from the global economy (Palley, 2020). The regulation of inflation and exchange rates lies in monetary policy (Chugunov, Pasichnyi, Koroviy, Kaneva, & Nikitishin, 2021). Then to what extent monetary policy can influence foreign direct investment, we examine in this research. The purpose of this study is to look at how monetary policy has an effect on foreign direct investment in Brazil, China, and Russia.

Research Method

Using the Panel Least Square (PLS) approach, this study examines how inflation and the currency rate affect foreign direct investment (FDI) in Brazil, China, and Russia. Using the following equation:

$FDI_t^{b,c,r} = \beta_0 + \beta_1 Inf_t^{b,c,r} + \beta_2 EX_t^{b,c,r} + e$

Where :

FDI = Foreign Direct Investment
Inf = Inflation
EX = Exchange rate
b = Brazil
c = China
r = Russia
β_0 = constant
β_1, β_2 = coefficient
t = time series
e = error term

Results and Discussion

We present variable descriptive statistics in table 1, table 2, and table 3.

Table 1. Descriptive Statistics in Brazil

	FDI Brazil	INF Brazil	EX Brazil
Mean	42800000	9.11412	9143.11
Median	46200000	5.91121	8431.67
Maximum	10100000	57.34110	12211.32
Minimum	9300000	3.49123	6943.51
Std. Deviation	332000	1.19231	2011.38
Observations	20	20	20

Table 2. Descriptive Statistics in China

	FDI China	INF China	EX China
Mean	161000000	3.122111	39.21121
Median	148000000	2.773112	29.71121
Maximum	323000000	8.141121	45.13112
Minimum	71100000	0.511211	28.17121
Std. Deviation	8110000	1.252348	3.71121
Observations	20	20	20

Table 3. Descriptive Statistics in Ru

	FDI Russia	INF Russia	EX Russia
Mean	2111211	2.123112	35.311391
Median	1212311	2.031121	33.712112
Maximum	4433321	3.721211	43.112112
Minimum	1132211	0.811211	29.321112
Std. Deviation	1.22211	1.123112	3.113111
Observations	20	20	20

based on descriptive statistics' findings, it is possible to compare the economic conditions of the three countries. Next, we present the results of the PLS SEM estimation to provide a comparison of the three countries' economies. The estimation results are presented in table 4.

Table 4. The PLS SEM Estimation

Dependent Variable : FDI		
Variable	PLS	Prob.
C	4872111	0.0000
INF	-7.03	0.0019
ER	43211211	0.0000
R-sq.	0.872311	

Table 4 displays the panel data estimate outcomes illustrate that inflation and exchange rates in the three countries have an impact on foreign direct investment with a degree of confidence of 87% as shown by the R square value of 0.872311. The presentation of the results of the descriptive statistical analysis and PLS SEM gives confidence that inflation has a negative and significant effect on FDI in the three countries. That is, the higher the inflation rate will result in a decrease in FDI in Brazil, China and Russia. Depreciation of domestic currency exchange rates in Brazil, China and Russia has a positive and significant influence on FDI.

Conclusion

Inflation suppressed the entry of foreign direct investment in Brazil, China and Russia. However, an increase in the domestic exchange rate triggered an increase in foreign direct investment in Brazil, China and Russia. This shows that controlling inflation and exchange rates on monetary policy in the three countries has had an impact on foreign direct investment (FDI) in Brazil, China and Russia.

References

Bakri, M. (2019). From traditional to digital environment: An analysis of the evolution of business models and new marketing strategies. Management Studies and Economic Systems, 4(3), 225-240.

Blanchard, O., Leandro, A., & Zettelmeyer, J. (2021). Redesigning EU fiscal rules: From rules to standards. Economic Policy, 36(106), 195-236.

Chugunov, I., Pasichnyi, M., Koroviy, V., Kaneva, T., & Nikitishin, A. (2021). Fiscal and monetary policy of economic development. European Journal of Sustainable Development, 10(1), 1-10.

Fan, W., & Hao, Y. (2020). An empirical research on the relationship amongst renewable energy consumption, economic growth and foreign direct investment in China. Renewable energy, 146(1), 598-609.

Kamal, M., Usman, M., Jahanger, A., & Balsalobre-Lorente, D. (2021). Revisiting the role of fiscal policy, financial development, and foreign direct investment in reducing environmental pollution during globalization mode: evidence from linear and nonlinear panel data approaches. Energies, 14(21), 1-10

Khan, A., Chenggang, Y., Hussain, J., & Kui, Z. (2021). Impact of technological innovation, financial development and foreign direct investment on renewable energy, non-renewable energy and the environment in belt & Road Initiative countries. Renewable Energy, 171(1), 479-491.

Palley, T. (2020). What's wrong with Modern Money Theory: macro and political economic restraints on deficit-financed fiscal policy. Review of Keynesian Economics, 8(4), 472-493.

Tien, N. H., Diem, P. T., Vu, N. T., Vang, V. T., Hung, N. T., Anh, V. T., & Van Dat, N. (2021). Comparative analysis of business environment in binh duong, dong nai and ba ria vung tau of vietnam using EFE matrix. International Journal of Research and Growth Evaluation, 2(4),1-10.

Wang, S., He, Y., & Song, M. (2021). Global value chains, technological progress, and environmental pollution: Inequality towards developing countries. Journal of Environmental Management, 277(1), 1-10.

Widarni, E. L., & Bawono, S. (2023). Investigating the Role of Education in Stability of Work Participation in Economic Shocks from the Asian Financial Crisis to the Covid 19 Pandemic in Indonesia. International Journal of Professional Business Review, 8(1), 1-10.