

International Capital Mobility: A Study of BRICS Countries

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ABSTRACT

This study re-examines the degree of international capital mobility in the BRICS countries (Brazil, Russia, India, China, and South Africa) during the period 1994–2018 using a panel data framework. The analysis is based on the Feldstein–Horioka (1980) hypothesis, which posits that the correlation between domestic saving and domestic investment serves as an indicator of the extent of international capital mobility. A high saving–investment correlation suggests low capital mobility, whereas a weak correlation indicates greater integration with international capital markets. Utilizing Dynamic Ordinary Least Squares (DOLS) for panel we estimate the saving-retention coefficient (β). The long-run saving-retention coefficient is estimated at $\beta \approx 0.838$ rejecting both complete capital autarky ($\beta = 1$) and perfect capital mobility ($\beta = 0$). The study concludes low capital mobility in BRICS countries indicating macroeconomic policy constraint, such as preservation of monetary sovereignty, exchange rate stabilization.

Keywords: International Capital Mobility, Feldstein–Horioka Hypothesis, BRICS, Panel Data Analysis, Domestic Saving,

Domestic Investment, Financial Integration, Capital Account Liberalization.

INTRODUCTION

The increasing integration of domestic financial systems with global financial markets has become a defining feature of contemporary international macroeconomics. Conventional neoclassical theories of international trade and finance suggest that, under conditions of perfect international capital mobility, domestic investment should have little or no dependence on domestic saving. Financial capital is expected to move across national boundaries toward countries offering the highest risk-adjusted returns, irrespective of the geographical location in which savings are generated. Consequently, investment in individual economies should be financed through access to an internationally integrated pool of financial resources rather than being primarily dependent on domestically generated savings.

However, in their seminal paper, Feldstein and Horioka (1980) presented empirical evidence that directly challenged this foundational assumption. By estimating a simple cross-sectional regression between domestic saving rates and domestic investment rates across OECD countries, they uncovered a strikingly high positive

correlation—a parameter termed the saving–retention coefficient (β). Instead of finding a coefficient near zero (as predicted under unconstrained capital mobility), their baseline estimates produced a coefficient close to unity ($\beta \approx 0.85\text{--}0.90$). This strong empirical link between a nation's domestic saving rate and its domestic investment rate—in an era presumed to have substantial financial openness—became known as the Feldstein–Horioka (F-H) puzzle.

Among emerging market economies, the BRICS countries—Brazil, Russia, India, China, and South Africa—occupy a central position in the global economy. Together, these countries account for a substantial share of the world's population, economic output, international trade, foreign exchange reserves, and investment flows. Over the last three decades, BRICS economies have experienced rapid industrialization, trade liberalization, financial market development, and increasing integration with international capital markets. Their growing economic significance has made them major destinations for foreign direct investment and important contributors to global economic growth.

The period 1994–2018 represents an especially appropriate timeframe for analyzing international capital mobility in BRICS countries. During these twenty-five years, the BRICS economies experienced profound economic transformation characterized by financial liberalization, rapid economic growth, increased trade integration, and substantial inflows of foreign capital. This period also encompasses several major global events that influenced international capital movements, including the Mexican Financial Crisis (1994), the Asian Financial Crisis (1997–1998), the Russian Financial Crisis (1998), the Dot-com Bubble (2000), the Global Financial Crisis (2008–2009), the European Sovereign Debt Crisis (2010–2012), and fluctuations in global commodity markets. These episodes provide valuable insights into the resilience of capital mobility under varying international financial conditions.

The relationship between domestic saving and domestic investment continues to serve as one of the most widely accepted indicators of international capital mobility. Under conditions of perfect capital mobility, domestic investment can be financed through both domestic and foreign savings, resulting in a relatively weak relationship between national saving and investment rates. Conversely, when international capital mobility is limited, domestic investment depends primarily on domestic savings, leading to a stronger correlation between the two variables. Therefore, estimating the saving–investment relationship remains an effective empirical approach for evaluating the degree of financial integration within an economy.

The findings of this study are expected to contribute to the growing literature on international financial integration by providing updated evidence on the degree of capital mobility in the BRICS economies. From a policy perspective, the results will assist policymakers in evaluating the effectiveness of financial liberalization measures, designing appropriate capital account policies, promoting investment financing, and maintaining macroeconomic stability in an increasingly interconnected global economy.

Theoretical Literature:

The neoclassical growth model developed by Robert Solow (1956) argues that capital flows from capital-abundant countries, where the marginal productivity of capital is relatively low, to capital-scarce countries, where returns on investment are comparatively higher. Such movements improve the efficiency of global resource allocation and contribute to income convergence across countries. This study investigated the degree of international capital mobility in the BRICS countries during the period 1994–2018 by estimating the Feldstein–Horioka saving–investment relationship using panel data techniques.

The most influential theoretical framework for examining international capital mobility

is the Feldstein–Horioka (1980) hypothesis, proposed by Martin Feldstein and Charles Horioka. Their empirical investigation estimated the relationship between domestic saving and domestic investment among OECD countries using the following regression model:

$$\frac{I}{Y} = \alpha + \beta \frac{S}{Y} \quad (1)$$

Where $\frac{I}{Y}$ is the ratio of gross domestic investment(I) to gross domestic product (Y) is regressed upon the ratio $\frac{S}{Y}$ is ratio of gross domestic savings(S) to gross domestic product (Y). Feldstein- Horioka coined the term “saving retention coefficient,” denoted by β , which is the regression coefficient in equation (1)

SAVINGS-RETENTION SPECTRUM (β)

Perfect Capital Mobility ($\beta = 0$) ◀────────────────▶ Zero Capital Mobility / Autarky ($\beta = 1$)
 [Global pool finances investment] [Domestic saving binds investment]

The Intertemporal approach developed by Maurice Obstfeld and Kenneth Rogoff (1995) explains international capital mobility through the behavior of the current account. According to this theory, countries borrow internationally when domestic investment exceeds domestic saving and lend abroad when domestic saving exceeds domestic investment.

Ronald McKinnon and Edward Shaw (1973) argued that financial liberalization enhances capital mobility by removing restrictions on interest rates, credit allocation, and international capital flows. Liberalized financial markets improve resource allocation, increase domestic savings, encourage investment, and facilitate integration with global financial markets. Developing economies implementing financial sector reforms are therefore expected to experience greater international capital mobility.

Modern Portfolio Theory developed by Harry Markowitz (1952) suggests that investors diversify their portfolios internationally to reduce risk while maximizing expected returns.

Objective of the Study: To re-evaluate the theoretical framework underlying the Feldstein–Horioka saving-retention coefficient (β) in BRICS countries.

MATERIAL AND METHODS

The study adopts a long-run and short-run analytical framework to assess the extent of

international capital mobility across different time horizons. The analysis covers the period 1994–2018, comprising a balanced panel of five BRICS economies over 25 years, subject to the availability and consistency of data. The study is based primarily on secondary annual macroeconomic data. In accordance with the Feldstein–Horioka framework, domestic saving and investment are measured as percentages of GDP rather than in absolute monetary terms.

Research Technique:

Since the study employs annual panel data and investigates the long-run relationship between domestic saving and investment, the empirical analysis is conducted in several stages. Initially, the stationarity characteristics of the variables are examined using appropriate panel unit-root tests to determine their order of integration.

After confirming that the variables are integrated of the same order, panel cointegration tests, particularly the Pedroni and Kao cointegration tests, are applied to establish whether a stable long-run equilibrium relationship exists between domestic saving and investment. Once the presence of cointegration is confirmed, the Dynamic Ordinary Least Squares (DOLS) technique is employed to estimate the long-run saving–investment relationship and obtain the saving-retention coefficient.

RESULT AND DISCUSSION

Here are the graphical representation of saving and investment rate of individual countries of BRICS countries.

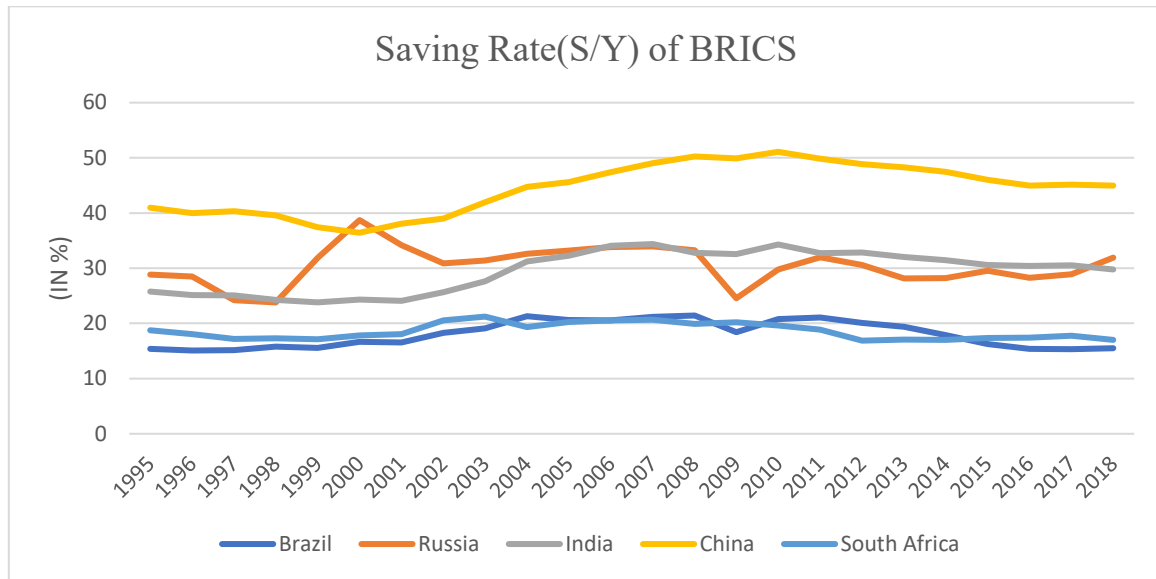


Figure 1.1 Saving Rate of BRICS:

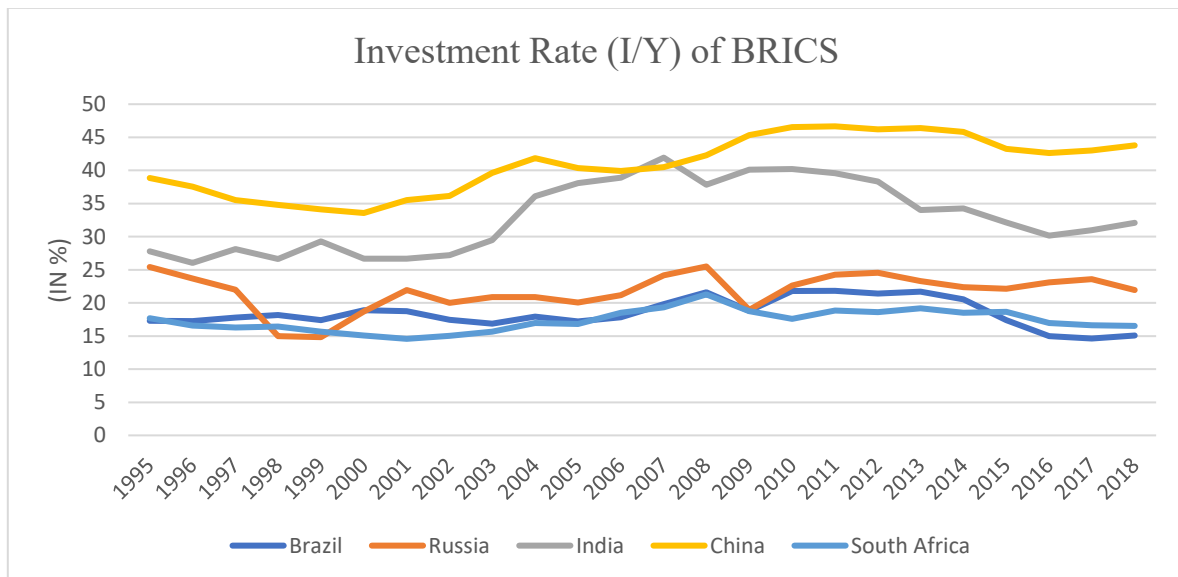


Figure: 1.2 Investment Rate of BRICS:

Correlation Analysis: Correlation helps to provide a primary idea about the relation between the variables. A high correlation between variables may indicate that one variable may affect another. The correlation

coefficient value between -1.0 and 0.0 or 0.0 and $+1.0$ indicates a negative or positive linear relationship but not an exact straight line.

Table 1.1 Correlation Coefficient between Saving Rate and Investment Rate:

Correlation Coefficient	Brazil (1983-2018)	Russia (1994-2018)	India (1983-2018)	China (1983-2018)	South Africa (1983-2018)	BRICS (1994-2018)
	0.7919	0.0722	0.9254	0.8644	0.7641	0.8813

In the present study, the correlation results given in table 1.1 suggest a positive and high correlation between domestic savings and investment in BRICS and its member countries, except for Russia. The correlation coefficient between domestic savings and investment is estimated at 0.7919 in Brazil, 0.0810 in Russia, 0.9254 in India, 0.8644 in China, 0.7641 in South Africa, and 0.8813 in BRICS. Therefore, we may conclude a very high correlation between domestic savings and domestic investment (as a proportion of GDP) in India; it is negligible in Russia and high in other countries.

International Capital Mobility in Panel BRICS: Before going for regression analysis, the study needs to investigate the stationarity of the variables.

Panel Unit Root Test: The panel unit root test results for all variables are given in table 1.2 and 1.3. The unit root test results based on LLC and IPS tests indicate that gross domestic savings and investment rates are nonstationary at the level; they become stationary after the first difference. Since both tests suggest that all three variables are integrated of the first order, it is essential to determine cointegration.

Table 1.2 Unit Root Test of S/Y for Panel BRICS:

Method	At Level		At First Difference		Order of Integration
	Intercept	Intercept and Trend	Intercept	Intercept and Trend	
H ₀ : Unit root (assumes common unit root process) Levin, Lin & Chu t*	-1.238	0.715	-3.695***	-3.674***	I(1)
H ₀ : Unit root (assumes individual unit root process) Im, Pesaran and Shin W-stat	-0.939	1.325	-3.469***	-2.718***	

Table 1.3 Unit Root Test of I/Y for Panel BRICS:

Method	At Level		At First Difference		Order of Integration
	Intercept	Intercept and Trend	Intercept	Intercept and Trend	
H ₀ : Unit root (assumes common unit root process) Levin, Lin & Chu t*	-0.598	-0.632	-3.534***	-3.019***	I(1)
H ₀ : Unit root (assumes individual unit root process) Im, Pesaran and Shin W-stat	-0.714	-0.142	-3.739***	-2.369***	

Panel Cointegration Test: Using the Kao and Pedroni residual cointegration tests, we test if the variables have a long-run relationship. The Pedroni test employs four-panel statistics and three-group panel statistics. Here, the null hypothesis of “no cointegration” among the variables is being tested against the alternative hypothesis of “cointegration”. The p-values reported in table 1.4 suggest that the null hypothesis of no cointegration between domestic savings and investment is rejected from 10 out of 11

statistics at 5%. The majority of the outcomes are indicative of cointegration among the variables. Since Kao residual test rejects the null hypothesis of no cointegration at 5 percent significance level, it is consistent with the Pedroni cointegration test results. The Kao test in Table 1.5 below reveals a cointegration and long-run relationship between all the variables in the model. The null hypothesis of no cointegration is rejected at the 5 percent significance level.

Table 1.4 Result of Pedroni Residual Co-integration Test between Saving and Investment Rate for panel BRICS:

Null Hypothesis: No Cointegration between I/Y and S/Y			
Common AR Coefficients (Within Dimension)	Prob v-Statistics	Statistic	2.961(0.001)
		Weighted Statistic	2.736(0.003)
	Panel rho-Statistic	Statistic	-2.513(0.006)
		Weighted Statistic	-2.196(0.014)
	Panel PP- Statistic	Statistic	-2.213(0.013)
		Weighted Statistic	-1.951(0.025)
Individual AR Coefficients (Between Dimension)	Panel ADF-Statistic	Statistic	-2.591(0.005)
		Weighted Statistic	-2.074(0.019)
	Group rho- Statistic	Statistic	-0.438(0.331)
	Group PP- Statistic	Statistic	-1.767(0.039)
	Group ADF-Statistic	Statistic	-2.361(0.009)

P Values are shown in ().

Table 1.5 Result of Kao Residual Cointegration Test between Saving and Investment Rate:

Null Hypothesis: No Cointegration between I/Y and S/Y.
Newey-West automatic bandwidth selection and Bartlett kernel

	T Statistic	HAC Variance	Residual Variance
Augmented Dickey-Fuller	-2.687***	1.986	2.880

*** shows a significance level at 1 percent.

Lag length is selected equal to 1.

Long Run International Capital Mobility in Panel BRICS:

Dynamic OLS regression: To ensure the robustness of our results, we also utilize the Stock and Watson (1993) Dynamic Ordinary Least Squares (DOLS), which is an alternative to the maximum-likelihood estimator of Johansen (1988, 1995), primarily because it is known to have superior performance in small samples like the present study. Moreover, Stock and Watson (1993) show that the DOLS estimator is at least asymptotically equivalent to the maximum likelihood estimator of Johansen (1988) in the case

where the variables are $I(1)$ (see also Park and Phillips, 1988; Phillips, 1991; Watson, 1994; Caporale and Pittis, 1999). Moreover, the DOLS approach provides unbiased and asymptotically efficient estimates, even in the presence of endogenous regressors. It includes the leads of the first differences of the $I(1)$ variables as regressors. It also corrects for serially correlated errors by having the lags of the first differences of the $I(1)$ variables. Thus, the estimation of the long-run relation for equation (2) is based on the following regression:

$$\left(\frac{I}{Y}\right)_{i,t} = \gamma_i + \eta_i \left(\frac{S}{Y}\right)_{i,t} + \sum_{j=-q}^q c_{ij} \Delta \left(\frac{S}{Y}\right)_{i,t+j} + \varepsilon_{it} \quad \dots\dots\dots(2)$$

Table 1.6 Dynamic OLS result for panel BRICS: Dependent Variable: I/Y

Variable	Coefficient Value	R Square	Adjusted R Square	J-B Statistic (P value)
S/Y	0.838***	0.957	0.947	0.738(0.691)

*** shows a significance level at 1 percent.

For the given sample period (1994-2018), the dynamic OLS regression result provides an estimated value of β at the 0.838 level (see table 1.6). It shows that domestic savings have a significant and large effect on domestic investment in BRICS, and there is

very little evidence of global capital mobility in the long run. Our F-H test result for BRICS is consistent with the findings of Vamvakidis and Wacziarg (1998) for 20 OECD countries, Isaksson (2002) for 90 developing countries and 35 African countries, Chakrabarti (2006)

for 20 OECD and 106 non - OECD countries, Mosakari et al. (2017), and Bicimveren and Tanriseven(2018) but contrary to findings of Mamingi (1997) for 58 developing countries, Wet and Eyden (2005), Payne and

Kumazawa (2005) for 29 African countries, Murthy (2009) for 14 Latin American economies and five Caribbean countries and Gokmenoglu and Hassan(2017).

**Table 1.7 Short Run International Capital Mobility in Panel BRICS:
OLS result for panel BRICS: Dependent Variable: $\Delta(I/Y)$**

Variable	Coefficient Value	R Square	Adjusted R Square	J-B Statistic (P value)
$\Delta(S/Y)$	0.507***	0.270	0.264	35.78(0.000)

*** shows a significance level at 1 percent.

OLS results presented in table 1.7 indicate that there is evidence of moderate short-run capital mobility in panel BRICS.

CONCLUSION

This study investigated the degree of international capital mobility in the BRICS countries during the period 1994–2018 by estimating the Feldstein–Horioka saving–investment relationship using panel data techniques. The long-run saving-retention coefficient of 0.838 indicates a strong positive relationship between domestic saving and domestic investment. Approximately 83.8% of domestic saving is retained and invested within the domestic economy, suggesting that domestic investment continues to depend heavily on domestic saving. This finding implies that international capital mobility in the BRICS countries is limited in the long run, supporting the Feldstein–Horioka hypothesis. Although financial globalization has increased cross-border capital flows, domestic financial resources remain the principal source of investment financing. Institutional factors, capital account regulations, financial market imperfections, macroeconomic policies, and country-specific risks continue to constrain complete international capital mobility.

In contrast, the short-run saving-retention coefficient of 0.507 indicates a relatively weaker relationship between domestic saving and investment. This suggests that, in the short run, nearly half of domestic investment can be financed independently of contemporaneous domestic saving through international capital flows, foreign direct investment, portfolio investment, external borrowing, or temporary adjustments in

financial markets. Therefore, the BRICS countries exhibit moderate international capital mobility in the short run, reflecting greater responsiveness to international financial conditions.

From a policy perspective, the findings highlight the importance of strengthening domestic financial institutions while simultaneously pursuing carefully managed integration with international financial markets. Enhancing the depth and efficiency of capital markets, improving institutional quality, strengthening investor confidence, and promoting sound financial governance can facilitate more effective allocation of both domestic and international financial resources. At the same time, policies aimed at sustaining adequate domestic saving remain important because domestic savings continue to constitute a major foundation for financing long-term investment. Thus, a balanced approach combining domestic financial development, prudent financial openness, and macroeconomic stability would be particularly relevant for supporting sustainable investment and economic growth in the BRICS economies.

Declaration by Authors

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Conflict of Interest: No conflicts of interest declared.

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