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THE ROLE OF FOREIGN DIRECT INVESTMENT AND FOREIGN PORTFOLIO INVESTMENT ON THE FINANCIAL CONVERGENCE OF BRICS

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This study investigates the role of Foreign Direct Investment and Foreign Portfolio Investment flows on the degree of financial convergence of BRICS countries (Brazil, Russia, India, China, and South Africa) towards developed countries and global equity markets, at both national and sectoral levels. Beta convergence, sigma convergence, dynamic conditional correlation, and wavelet coherence approaches are employed using weekly stock indices returns to measure the level of co-integration of BRICS towards EU, U.S., and global equity markets. Empirical results show that correlations between BRICS and EU, U.S., and global equity markets vary over time, investment horizons, and economic sectors. The Foreign Direct Investment and the Foreign Portfolio Investment are found to have significant short-run Granger causality on the level of financial integration of Brazil, Russia, and India when no causal relationships are found for China, and South Africa.