The BIG ideas!

Foreign Direct Investment

I.b Syllabus 4.5: Development: Foreign Direct Investment (FDI)

Syllabus 174 + 175

- **454: Summary Notes**

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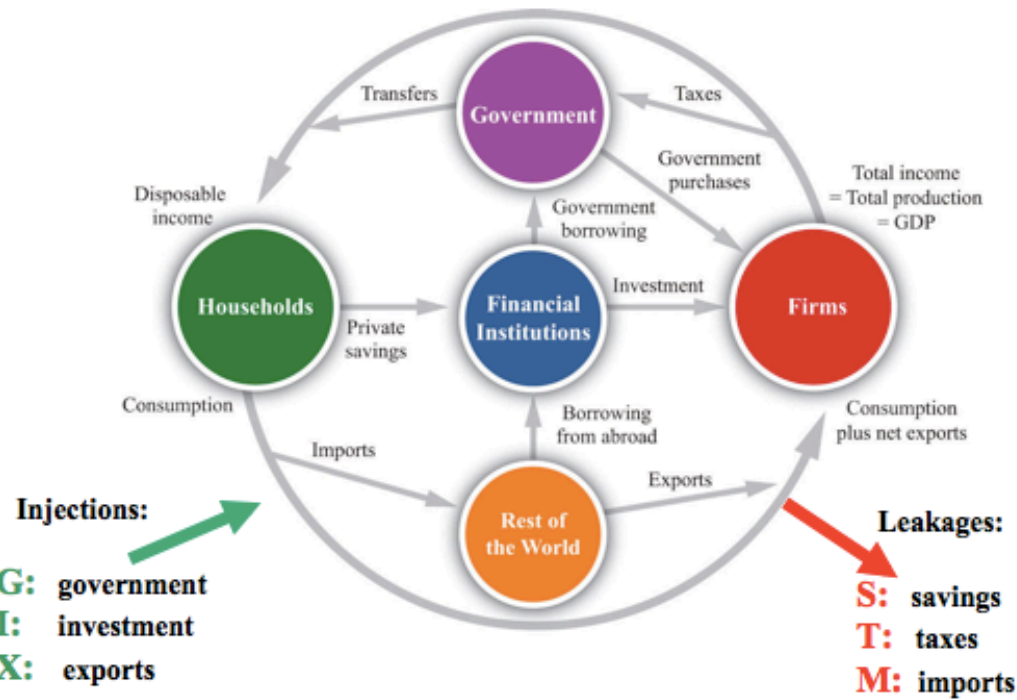Syllabus reference: items 129 +132

FDI-WHAT IS IT?

Inflows of:

- **Capital / Money**
- **Expertize (skilled labour)**
- **Foreign firm employs domestic FOP e.g. labour, capital and land**
- **Rising incomes/GDP**
- **Increased governement tax revenue with the possibility of higher spending on development projects e.g. education + healthcare**

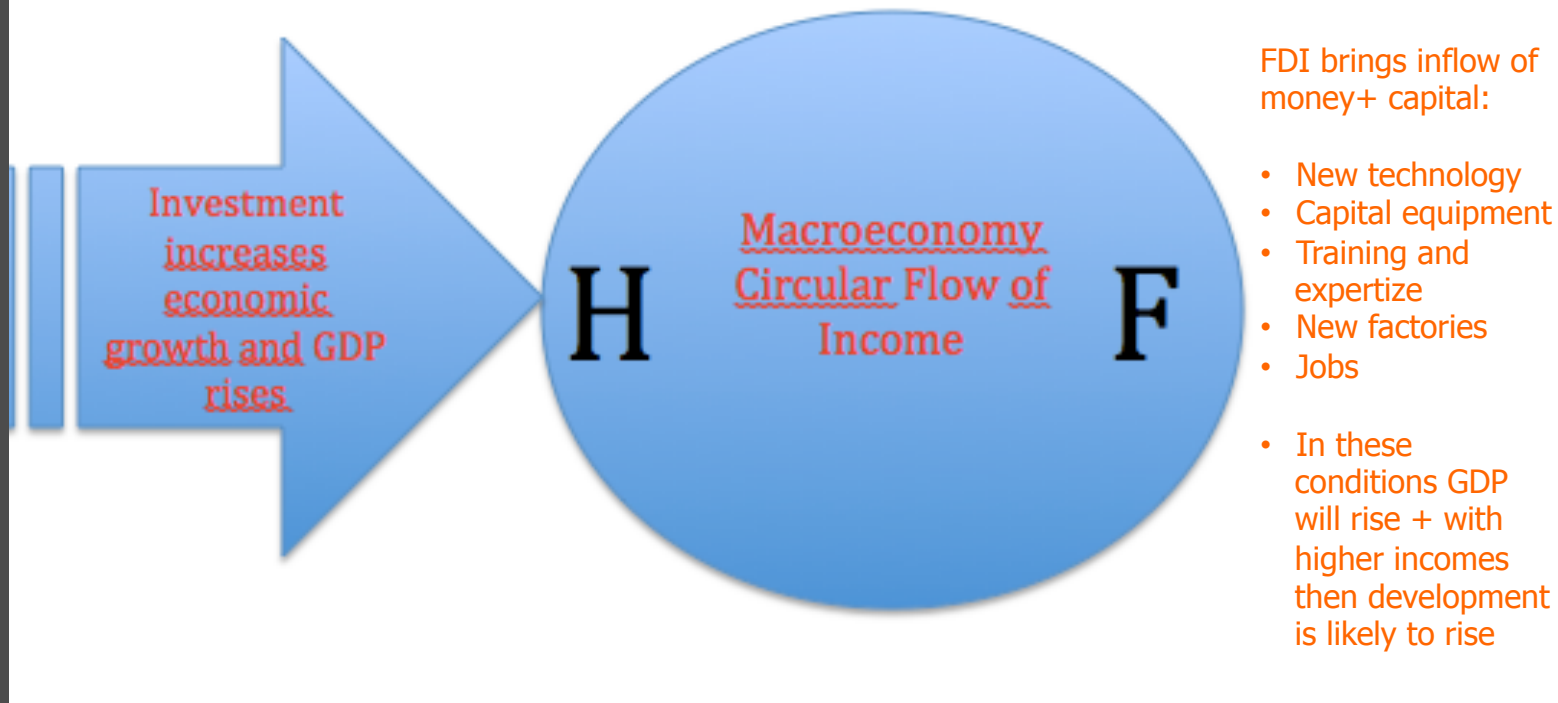# FDI

SYLLABUS REFERENCE 2.1: Measuring National Income

Real + Nominal National Income /GDP [1]

Fdi increases Growth and therefore opportunities for Development

Macroeconomic Circular Flow of Income

Investment increases economic growth and GDP rises

H Macroeconomy Circular Flow of Income **F**

FDI brings inflow of money+ capital:

- New technology
- Capital equipment
- Training and expertize
- New factories
- Jobs

- In these conditions GDP will rise + with higher incomes then development is likely to rise

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Syllabus reference: items 129 +132

EVALUATE

➕   ➖

1. Money/capital inflows
2. Foreign trade income if output is exported
3. Jobs
4. Improved possibility of development –transfer payments
5. Improved education + training
6. Improvements in infrastructure e.g. road, rail, telecommunications/ technology

1. FDI can create dependency
2. Foreign trade is risky if world market declines e.g. Oil
3. Increases opportunity for corruption
4. Improved possibility of development only IF government redistributes income

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Ib questions....

FDI

⦿ <u>**HL2 2014 November**</u> **Q 3(d)**

⦿ Using information from the text/data and your knowledge of economics, discuss the possible effects of Chinese involvement in Ethiopia on economic growth and development in the Ethiopian economy. (8 Marks)

⦿ <u>**HL2 2013 May**</u> **Q 4(d)**

⦿ Using information from the text/data and your knowledge of economics, discuss the possible effects on the economic development of Cambodia of investment from China and the United States (US).

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- Reading:
- See Blink: FDI 4.5
- AAA
- submariner

- End