Webnote 454

Foreign Direct Investment and Economic Development

Foreign direct investment - long-term investment by multinational corporations in foreign countries

2 typical ways of this happening

1. MNC's build new plants or expand existing facilities – greenfield investment
2. MNC's merge or acquire existing firms in foreign countries

Statistics - 82000 multinational corporations operating world-wide
Examples (figures in millions of dollars and no. of employees)

Corporation	Home Country	Industry	Foreign Assets	Total Assets	Foreign employment	Total employment
General electric	US	Electrical and electronic	420300	795337	168112	327000
Vodafone	UK	Telecommunications	230600	254948	62008	72375
Toyota	Japan	Motor Vehicles	153406	284722	121775	316121

In 2008 FDI to developing countries = 28.7%
United States is the largest recipient of FDI (15.3% of all FDI)

Why are MNC's attracted to developing countries?

- Rich natural resources (oil, gas) in developing countries (e.g Ghana, Nigeria)
- Growing markets (China, Brazil, India) allow access to a large number of potential customers
- Lower costs of labour (lower costs of production = higher profits)
- Relaxed government regulations allows for cheaper start-up costs and lower costs of production
- Many countries offer tax concessions – more than 20 countries in 2004 lowered there corporate taxes in a bid to attract more FDI

Advantages of FDI	Disadvantages of FDI
Reduces the savings gap (poverty cycle) therefore FDI provides funds for investment	MNC's can become extremely powerful and influential in world trade negotiations (WTO)
Provide employment, education and training to local residents	Don't always provide training and often impose strict working conditions on employees
Provide access to R&D, technology and marketing expertise	MNC's often transfer goods internally (between countries) to minimize tax liability
Increase rates of employment which can have a multiplier effect stimulating growth	MNC's often set-up for the short-term and once the natural resource is depleted they leave
Host government may gain tax revenue from the MNC which can be used to spend on infrastructure	Often exploit workers and pay them low wages. Sweat shops … Cambodia
Provide an injection of capital which increases AD	MNC's often locate in countries with weak environmental protection legislation
MNC's often contribute to building and improving the infrastructure of the host country	Often capital intensive production is preferred to labour intensive production, which minimizes the need for domestic employees
MNC's provide choice and lower prices for consumers. Often providing essential goods not domestically available	MNC's send profits home, therefore profit earned in the developing country is spent elsewhere
MNC's can lead to more efficient allocation of worlds resources	