

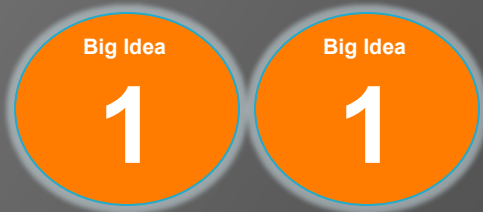
The BIG ideas!

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:

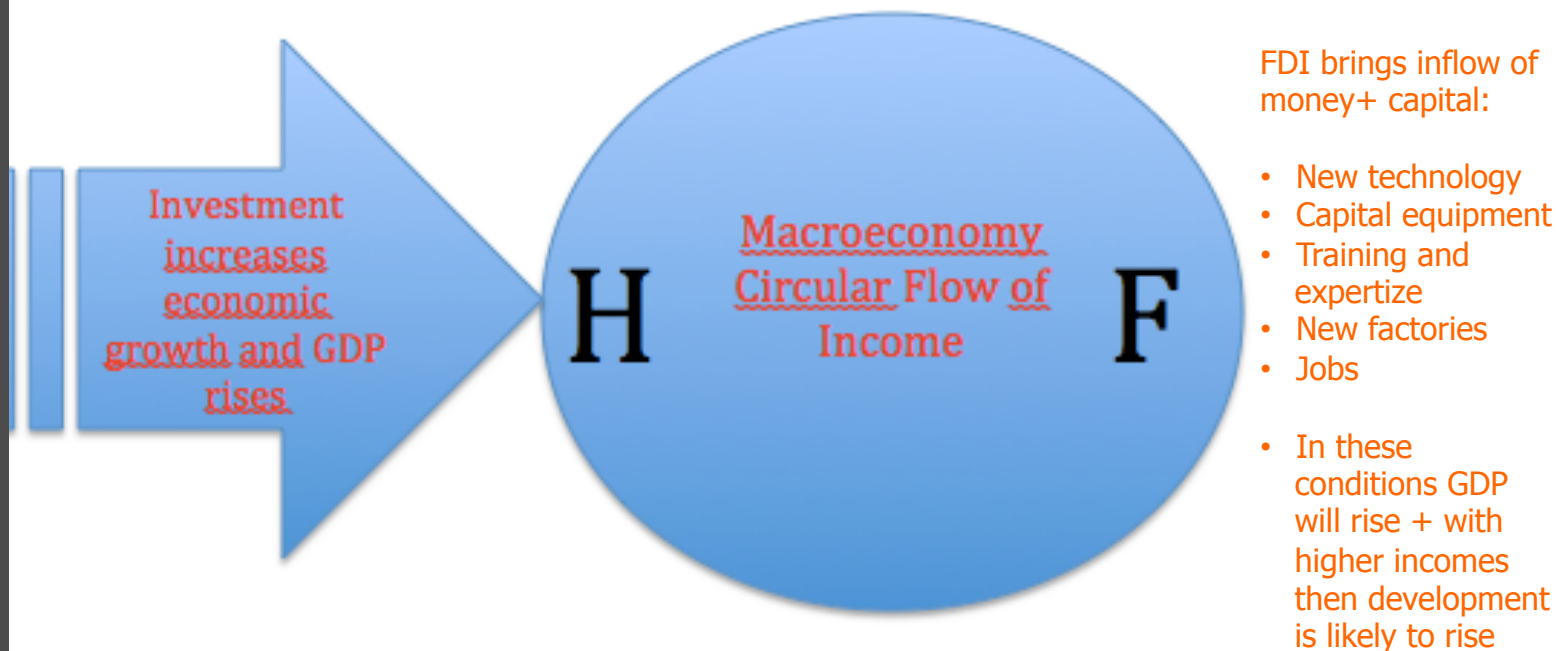
- **Capital / Money**
- **Expertize (skilled labour)**
- **Foreign firm employs domestic FOP e.g. labour, capital and land**
 - **Rising incomes/GDP**
- **Increased government tax revenue with the possibility of higher spending on development projects e.g. education + healthcare**

Big Idea

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Fdi increases Growth and therefore opportunities for Development

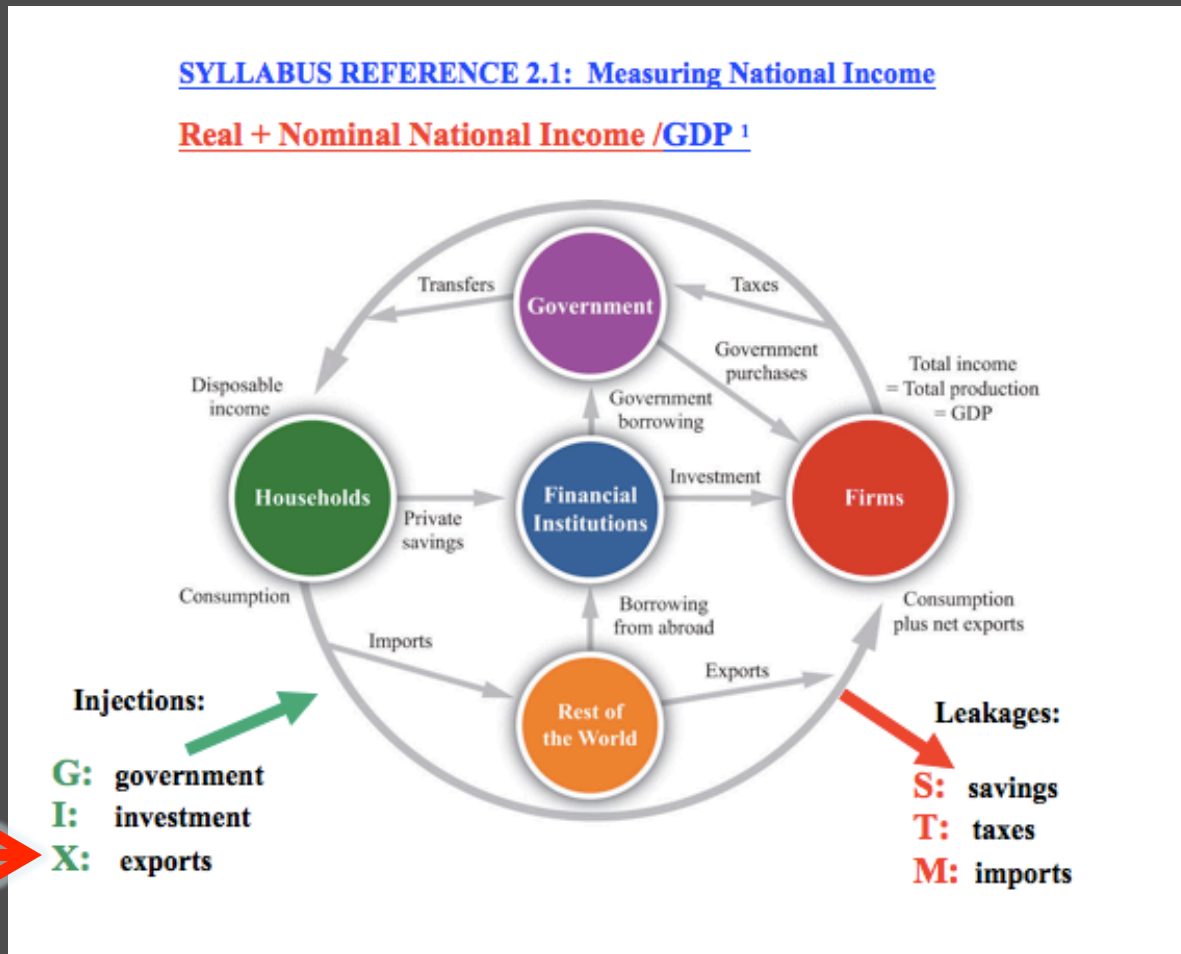
Macroeconomic Circular Flow of Income



FDI

SYLLABUS REFERENCE 2.1: Measuring National Income

Real + Nominal National Income /GDP ¹



FDI is a market based solution to poverty reduction that has advantages and disadvantages

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Syllabus reference: items 129 +132

Evaluation of fdi



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

- ◉ HL2 2014 November 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)
- ◉ HL2 2013 May 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
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- ⦿ End