

14.7 Foreign direct investment and economic development

Introduction: In this activity you'll explore the definitions of FDI and you'll explore some of the trends in cross-border investment, including who the biggest companies are that do it, which countries receive it and what impact it may have on the level of development of recipient nations.

Learning objectives: By the end of this activity, students will be able to...

- Describe the nature of FDI and multinational (or transnational) corporations (MNCs or TNCs)
- Explain the reasons why MNCs expand into economically less developed countries.
- Describe the characteristics of economically less developed countries that attract FDI, including low cost factor inputs, a regulatory framework that favors profit repatriation and favorable tax rules.
- Evaluate the impact of FDI for economically less developed countries

Part 1: What is FDI and who receives it? To better understand this question you'll do some reading from the United Nations Conference on Trade and Development (UNCTAD).

1. Read and paraphrase the [definition of FDI](#)

2. Read and paraphrase the definition of a [transnational corporation \(TNC\)](#) from the same site.

3. The first thing to highlight is the fact that FDI is by no means a phenomenon unique to less developed countries. For a clearer understanding, [read pages 10 and 11 of the 2015 World Investment Report](#) from the UNCTAD. Answer the following questions after reading.

- a. What factors explain the 16 percent drop in global FDI flows in 2014?

b. What was the total dollar amount of FDI inflows in 2014?

c. What percentage of total FDI flows in 2014 were into developing economies? (calculator needed)

d. Which country received the most FDI inflows?

e. From what region does more FDI originate than any other?

f. What percentage of total global FDI in 2012 was in services? What percentage was in the primary sector? What accounts for the relatively large percentage of total investment in services?

g. What is "[greenfield investment](#)"? Why do you think developing countries attract most of the greenfield investment (as opposed to developed countries)?

h. How many people are employed by multinational enterprises (MNEs) abroad?

i. What percentage of total FDI inflows went to Africa? (calculator needed)

j. How did lower commodity prices in 2014 affect FDI flows to South America? Explain this relationship.

k. Summarize the long-run trends in FDI flows to the following types of country:

i. the “least developed countries”

ii. “landlocked developing countries”

iii. “small island developing states”

- I. Why is FDI particularly important to the types of countries referenced in the previous question?

Part 2: Who does the investment? To answer this question you'll study some data and information from the Guardian and *Topforeignstocks.com*.

First, examine the data for [the top 100 non-financial transnational corporations](#). Note that you can organize the data based on any of the variables (ranking, country, industry, etc...)

1. What are the three most represented industries in the list of the 100 largest TNCs?

2. How many Swiss firms are in the top 100?

3. What does the share of a company's total assets invested abroad tell you about the company's business strategy?

4. How many of the top 100 largest TNCs are from a developing country? Which developing countries are represented on the list? Why do you think so few of the world's large TNC are based in developing countries?

Next, read [this article](#) from *the Guardian*.

1. Based on the charts included in this article, how is Africa fairing in the competition to attract FDI?

2. How many of the top 20 countries for FDI inflows are developing countries? How many of them are in Africa?

3. How does the current amount of FDI flowing into developing countries compare with the target level of annual investment needed for developing countries to meet their sustainability needs between 2015 and 2030?

4. How can the gap between the actual level of FDI and the target level of investment to achieve the Sustainable Development Goals be filled? What role could aid play in helping fill this gap?

5. Why do you think FDI fall short at fulfilling the investment needs in areas such as climate change mitigation, water and sanitation, health and education?

6. To what extent can the private sector provide the necessary elements for sustainable development of the poorest countries?

