Date: 02.13.02

International Movements of Capital

I. Terminology

A. FDI=Foreign Direct Investment: acquisition of real assets abroad
MNC=Multi-National Corporations= MNE (E for enterprises)=TNC=Transnational Corporations.

II. Purposes served by FDI

A. Options:
FDI: a company can build a factory abroad
Licensing: a company can license a foreign company to produce and sell its product in the foreign market
Trade: a company could export goods to foreign consumers instead of actually having them produced in the foreign country.

B. Two main kinds of FDI
1. Purpose to serve local market
2. Purpose is for export.

Reasons for FDI to serve local market
1. Tariff jumping
   -Even though costs may be high
2. Transport Costs
3. Services
4. Controlling Technology

Reasons for FDI when purpose is to export
1. Lower cost, especially for labor
2. Access to resources
3. Avoid regulations
   -Often environmental or labor standards. However, most studies say that not much of this goes on. Regulations make up such a small part of the total costs for an MNC that it does not usually choose production location based on regulations.
4. Minimize transport costs

III. Who Gains and Loses?

A and B. Effects that are similar to Trade and Migration
There are winners and losers in both countries, but winners gain more than losers lose. Thus, welfare is increased.

C. Other Effects
FDI may be viewed differently than trade inside the destination country. With FDI there are actual foreign companies inside of a nation (e.g. McDonald's in Venezuela). People may dislike this for cultural reasons. We may postulate that people are less sensitive to buying goods produced abroad than they are to seeing foreign companies located in their neighborhood.