



Strathmore
UNIVERSITY

**UNIVERSITY EXAMINATIONS
STRATHMORE BUSINESS SCHOOL
MSC DEVELOPMENT FINANCE
MDF 8302: FOREIGN DIRECT INVESTMENT**

Monday, 24th March 2025

Time: 3Hours

Instructions

Answer Question **ONE** and any other **THREE** questions

QUESTION ONE

You are required to answer questions based on the following two case studies:

- a) *Enright, M.J. (2005). Foreign direct investment in China. Asia Case Research Centre. The University of Hong Kong*

Since 1993 China has been the biggest recipient of foreign direct investment (FDI) among the developing countries. In fact, by the end of 2003, China had accumulated more than \$500 billion in FDI.

Required:

- i. Explain the three major entry modes that have been used by foreigners to invest in China
(3 Marks)
 - ii. Explain four reasons for China's predominantly export-oriented FDI policies **(4 Marks)**
 - iii. Discuss the impact of foreign direct investment on China **(9 Marks)**
- b) *Hurt, S. & Narapareddy, V. (2014). Sonata Software Ltd., India: Building Global Competitive Advantage through an International Joint Venture. The Case Research Journal. Pp. 1 -16*
- i. In September 2006, Sonata entered into a joint venture (JV) with TUI AG by acquiring 50.1 percent of TUI AG's IT subsidiary. Sonata had previously entered into

- unsuccessful JVs. Explain what was unique about the *Sonata - TUI AG joint venture* that made it successful **(4 Marks)**
- ii. Explain the human resource management tactics employed by the joint venture to ensure success of their international business strategy **(4 Marks)**
- iii. By 2007, India held a dominant position in the global IT and ITES (information technology enabled services) industry. Explain three factors that contributed to this dominance **(6 Marks)**
- iv.

QUESTION TWO

- a. Explain three applications of the Hostede Index of cultural distance **(6 Marks)**
- b. Identify four channels through which FDI can be a vehicle of technology transfer and diffusion in developing countries **(4 Marks)**
- c. The following transactions relate to country X in a given fiscal year

	Item	Xshs “ Billions”
1.	Merchandise exports	178.00
2.	Merchandise imports	208.00
3.	Export of services	145.00
4.	Import of services	178.00
5.	X government donor aid to other countries	16.00
6.	Gifts received from foreign residents	21.00
7.	Grants from aid agencies	34.00
8.	Eurobond floated in a foreign country	50.00
9.	Dividends paid to foreign investors	15.00
10.	ABC Ltd, a foreign firm acquired 11% stake in a local company	60.00
11.	Jumbo Ltd a local firm acquired 9% equity in a foreign firm	53.00
12.	Change in foreign reserves	-18.30

Required: Prepare balance of payment statement for Country X **(10 Marks)**

QUESTION THREE

- a. Give the distinction between Vertical Disintegration and Corporate Function Unbundling in the context of outsourcing **(6 Marks)**
- b. Explain the four stages followed in building a global marketing strategy **(8 Marks)**

- c. Using an example explain how multinational corporations can use transfer pricing for tax avoidance
(6 Marks)

QUESTION FOUR

- a. ABC Ltd a Kenyan firm currently has no existing business in South Africa but is considering establishing a subsidiary there. The following information has been gathered to assess this project:

1. The initial investment required is R50 million in South African Rands for plant and equipment. Given the existing spot rate of Ksh 5 per South African Rand, the initial investment in Kenya shillings is Ksh 250 million.
2. The project will be terminated at the end of Year 3, when the subsidiary will be sold
3. The price, demand, and variable cost of the product in South Africa are as follows:

Year	Price	Demand	Variable cost
1	R 500	40 000 units	R 30
2	R 511	50 000 units	R 35
3	R 530	60 000 units	R 40

4. The fixed costs, such as overhead expenses, are estimated to be R 6 million per year
5. The exchange rate of the South African rand is expected to be R1 = Ksh 5.20 at the end of year 1, R1=Ksh 5.40 at the end of Year 2, and R1=Ksh 5.60 at the end of Year 3.
6. South African government will impose an income tax of 30 percent on income. The Kenyan government will allow a tax credit on the remitted earnings and will not impose any additional taxes
7. All cash flows received by the subsidiary are to be sent to the parent at the end of each year
8. The plant and equipment are depreciated over 10 years using the straight line depreciation method. This means that the annual depreciation will be R5million.
9. In 3 years, the subsidiary is to be sold. ABC Ltd expects to receive R 32 million from the sale. This amount will not be subject to any taxes
10. ABC Ltd requires a 20 percent rate of return on this project.

Required: Determine the net present value of this project and advice if ABC should undertake this investment
(12 Marks)

- b. Explain four strategies that can be used to reduce exposure to host government takeovers

(8 Marks)

QUESTION FIVE

- a. Explain meaning of the following terms
- i. Captive offshoring (2Marks)
 - ii. Trade misinvoicing (2 Marks)
 - iii. Contract manufacturing (2 Marks)
 - iv. Dynamic hedging (2Marks)
 - v. Leading and lagging (2 Marks)
- b. Explain five barriers to foreign direct investment (10 Marks)