Strathmore
UNIVERSITY

STRATHMORE BUSINESS SCHOOL

MASTER OF SCIENCE IN DEVELOPMENT FINANCE

END OF SEMESTER EXAMINATION
MDF 8302: FOREIGN DIRECT INVESTMENT

Date: Tuesday, 1st August 2023 **Time: 3** Hours

Instructions

Answer Questions ONE compulsory (*Use the case to answer Q1 part a)* and any other **TWO** questions.

Question 1 (30 Marks)

a) You are required to answer questions based on the following case study:

Werker, E. (2014). Foreign direct investment in South Africa. Harvard Business School

i. In 1948, the Afrikaner National Party gained the popular vote and began implementing the policies of apartheid or "apartness" in Afrikaans. Explain how apartheid affected business environment for the local firms in South Africa **(6 Marks)**

ii. South Africa has the highest FDI stock in Africa. Based on the facts drawn from the case, explain factors that have contributed to this. **(10 Marks)**

iii. "If a foreign entity comes and acquires a South African firm, is that FDI you are interested in?" mused a National Treasury official.

Required: Provide your best opinion to this question **(4 Marks)**

iv. In 2005, South African firms had around US$3 billion, or R19 billion (see Exhibit 7) in the rest of Africa, representing over 800 companies. South African analysts wondered whether this outward FDI was good for the country.

Required: Offer your opinion on this matter **(4 Marks)**

b) Multinational entry may provide positive technological externalities to local competitors through a number of mechanisms. Explain **(6 Marks)**

Question 2 (20 Marks)

a) Foreign direct investment has the potential of both positive and negative impact on the host economy. Recommend five policy measures that Kenya could institute in order to capture the beneficial effects of FDI **(10 Marks)**

b) Kenya's economic development strategy, vision 2030 points out that one of the country's key constraints towards achieving the dream of becoming a newly industrialized middle-income economy is the low savings to GDP ratio. Recommend how this constraint can be addressed **(10 Marks)**

Question 3 (20 Marks)

a. Domestic and global strategies have much in common. They are both based on core competences, generic strategies and the way in which value-adding activities are organized. However, global strategy differs from domestic strategy in several aspects. Explain **(8 Marks)**

b. There are a number of ways in which geographically dispersed marketing activities can be coordinated to gain competitive advantage. Explain **(8 Marks)**

c. Suggest any two strategies that a multinational corporation might use to manage the challenge of "blocked funds" **(4 Marks)**

Question 4 (20 Marks)

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

1. The initial investment required is 50 million in Egyptian Pounds [EGP] for plant and equipment. Given the existing spot rate of Ksh 5 per EGP, 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	EGP 500	40 000 units	EGP 30
2	EGP 511	50 000 units	EGP 35
3	EGP 530	60 000 units	EGP 40

4. The fixed costs, such as overhead expenses, are estimated to be EGP 6 million per year
5. The exchange rate of the South African rand is expected to be 1EGP = Ksh 5.20 at the end of year 1, 1 EGP=Ksh 5.40 at the end of Year 2, and 1EGP=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 EGP 5million.
9. In 3 years, the subsidiary is to be sold. ABC Ltd expects to receive EGP 32 million from the sale. This amount will not be subject to any taxes.
10. Jambo Ltd requires a 20 percent rate of return on this project.

Required: Using the present value method advice if Jambo Ltd should undertake this investment **(12 Marks)**

b. Explain four strategies that can be used to reduce exposure to host government takeovers. **(8 Marks)**

Question 5 (20 Marks)

a. Identify any four alternative transfer pricing methods used by multinational corporations **(4 Marks)**

b. Offshore investing is not something that you hear about on the evening news. However, it is a multi-billion-dollar industry that has forced most of the world financial institutions to locate offices to off shore jurisdiction such as Isle of Man, Switzerland and the Channel Islands.

Required: Explain any five strategies that one should employ to offer bullet proof to the offshore business **(10 Marks)**

c. Offshoring is associated with loss of jobs to the countries that offshore services or production to other countries. Explain any three benefits realized by the economies that offshore to other countries **(6 Marks)**