



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8302: FOREIGN DIRECT INVESTMENT

Date: Tuesday, 6th August 2024

Time: 3 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **QUESTION ONE** and **ANY OTHER THREE** questions.

Question 1 (Compulsory) (30 Marks)

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

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

- i. As a developing country, China had lagged behind developed countries in terms of developing new products. For instance, when the mobile communication market emerged, equipment and mobile phones were all either imported or produced by Foreign Investment Enterprises (FIEs) in China. A few years later domestic brand products make up more than 60 per cent of the total market share. Explain how China leveraged FDI to achieve this feat **(4 Marks)**
- ii. China's rapid rise as a trading power has been considered a global economic miracle, and FDI has played a crucial role in developing China's foreign trade. Explain how FDI has contributed to this **(4 Marks)**
- iii. China FDI policies are very targeted; FIEs are entitled to markedly different treatments depending on the region and industry. Explain **(4 Marks)**
- iv. Explain any four elements that Kenya's FDI policies have borrowed from China **(4 Marks)**

- b) CleanTech became the largest FDI recipient sector in the world in the year 2022, leading the world's FDI for the first time ever, heralding a significant macro-economic shift.

Required:

- i. Explain four possible reasons for this macro-economic shift in favour of Clean Tech FDI
(4 Marks)
- ii. The statistics indicated that FDI towards software and ICT slipped back for the first time. Explain two possible reasons for this
(4 Marks)
- iii. The statistics indicated that Egypt FDI attractiveness continued to rise in prominence as South Africa FDI inflows remained flat. Explain any six possible reasons why South Africa's attractiveness has declined
(6 Marks)

Question 2 (20 Marks)

- a. *Nike* distinguishes between design, product development and marketing, on the one hand, and shoe and clothing manufacturing, on the other. The latter is not integrated in *Nike* but is contracted out to independent plants in developing economies such as China, Indonesia, Thailand and Vietnam. Discuss the benefits and disadvantages of contract manufacturing as a business strategy
(6 Marks)
- b. Despite the growth in services FDI, the services sector is less trans-nationalized than the manufacturing sector. However, ICT has transformed a considerable portion of services tradability in a number of ways. Explain
(6 Marks)
- c. Explain any four country- specific factors that a multinational corporation would typically consider when estimating the cash flows that will be provided by a foreign target to the parent
(8 Marks)

Question 3 (20 Marks)

- a) Domestic and global business strategies have much in common. However, global strategy differs from domestic strategy in several respects. Identify and explain any four key differences
(8 Marks)
- b) Multinational corporations have been accused of using tax havens to engage in profit shifting and tax evasion. Explain three ways on how they execute this scheme
(6 Marks)
- c) The most severe country risk is a host government takeover. Identify any six strategies that can be used to reduce exposure to host government takeover
(6 Marks)

Question 4 (20 Marks)

- a) In six points discuss the environmental consequences of FDI on the host economy **(6 Marks)**
- b) Multinational entry may provide both positive and negative technological externalities to local competitors through a number of mechanisms. Discuss **(6 Marks)**
- c) Empirical evidence has shown that the characteristics of FDI projects affect productivity spillover. Explain **(6 Marks)**
- d) Explain the concept of captive offshoring **(2 Marks)**

Question 5 (20 Marks)

- a) Explain the following FDI theories
 - i. Product cycle theory **(2 Marks)**
 - ii. Eclectic theory **(2 Marks)**
 - iii. Customs union theory **(2Marks)**
- b) It is not possible to record all international transactions accurately. Therefore, there is an additional element in the BOP account known as errors and omissions which acts as a “balancing item”. Explain four possible causes of this **(6 Marks)**
- c) Explain the key role played by each of the following organizations in enhancing multinational business
 - i. World Trade organization **(2 Marks)**
 - ii. International Finance Corporation **(2 Marks)**
 - iii. International Monetary Fund **(2 Marks)**
 - iv. Multilateral Investment Guarantee Agency **(2 Marks)**