

Benefits and Disadvantages of Foreign Direct Investment by multi-national Corporations

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Foreign Direct Investment (FDI)

In recent years, trade patterns have drastically changed to adapt to the fast population growth and technological revolution. Evidently, there is rapid growth and changes in the global investment patterns and business transactions between different nations around the world. The most common form of investment used by the developed countries is the foreign direct investment (FDI). Investors from these countries purchase and establish income-generating assets in developing nations and control all investment operations. Scholars define foreign direct investment as the investment from one nation to another that entails the acquiring of tangible assets and establishing business operations. This means that FDI may take many forms, such as constructing a facility, investing in a joint venture, or direct acquisition of a foreign firm. Many people confuse FDI with portfolio foreign investment. Portfolio foreign investment is the process by which a nation purchases another country's securities. The main difference between the two is that FDI has the element of control while portfolio foreign investment lacks this control element. FDI exists in three types, namely horizontal, vertical, and conglomerate. The diversity in the types of FDI is determined by the similarities and differences evident in the business between the different countries (Alfaro and Johnson 2012, p. 299).

Multi-National Corporations (MNC)

In most cases, FDI is started and run by multinational corporations (MNCs). A multinational corporation is a company that owns and operates business assets in more than one country. Such a company has functioning offices and plants in some nations and a centralized head office that manages all the other branches around the world. MNCs mostly target developing countries as their ideal places of operations and expansion. Nearly all the famous MNCs are owned by investors from America, Western Europe, or Japan. Some examples of these MNCs include Toyota, Coca-Cola, BMW, Nike, and Toshiba.

Advantages of FDI to developing countries

The rapid growth in the number of FDI in developing countries has led to significant impacts on the locals of these countries. FDI is associated with crucial developments that boost the country's

economy and support the construction of new infrastructure like roads. Furthermore, foreign direct investments help local families by providing them with employment and other critical social amenities. The local citizens of developing countries also benefit from the transfer of soft skills as foreign investments offer training and job creation to access more technology and development resources. In many instances, FDI benefits the local population of foreign countries, but recent studies show that the locals also face some drawbacks as a result of the international investors. Some of these adverse effects include environmental pollution by international industries, exploitation of young workers, and political influence. The FDI also tends to play an essential role in altering the political configurations of these developing countries (Hilson 2012, p.132).

Economic development stimulation is one of the significant benefits that developing countries enjoy due to the foreign direct investment by multinational corporations. To start with, the MNC stimulates the developing country's economic development by enhancing a healthy and conducive environment for other local and foreign investors to exploit. The fact that FDI requires multinational funding and expertise means that the host country will benefit from the private investment in infrastructure, energy, and water. FDI creates a competitive advantage among businesses in the nation, reducing the effect of politics and corruption in developing countries (Moran 2014 n.p.). Lastly, the competitive advantage results in a massive rise in the country's economy. Another advantage of FDI in boosting the economies of these countries is that it offsets the volatility created by "hot money." This is the creation of an asset bubble by money lenders and currency traders as they invest millions of dollars and then sell all their investments within a short period. FDI also creates a diverse market for the products produced locally and those imported. As a result, the rate of business transactions within these countries increases, and consequently, their economies are also positively impacted (Hilson 2012, p.132).

The host country also receives a boost through the taxes it collects from the FDI. The vast amounts of cash operations of the FDI attract vast tax accumulation, and the developing countries can use this money to develop other critical aspects of their economy. For example, Toyota has established many motor dealing plants in several African nations. Uganda, an East African country, is a perfect example of a developing nation that collects vast amounts of tax from the Toyota MNC. However, some of the developing countries reduce the tax rate of FDI to attract more MNCs to invest in them (Alfaro and Johnson 2012 p. 304).

The local populations also enjoy some benefits from the foreign direct investment. Families in developing countries have evidently benefited from the activities of various MNCs in their countries. First, foreign direct investment has raised the living standards of these families. One of the significant problems facing families in developing nations is unemployment. According to statistics, almost 70% of the African population is unemployed. The FDI employs the locals to work in their plants as managers, supervisors, advisors, and manual workers. As a result, families can meet their basic needs of food, shelter, clothing, education, and health. The MNC also provides some social amenities such as hospitals and water plants to the families. An excellent example is the Coca-Cola Company, which runs programs to donate water to drought-stricken areas in the Central African Republic. The

company, in collaboration with other companies, also supports various health programs in the country (Idemudia 2011, p.17). The multinational corporations have also supported the education sector of these developing countries, which in return reflects the success of the local families in the future. They facilitate the education of young children and teenagers through different actions, such as sponsoring bright students to further their studies abroad, constructing relevant resources such as libraries, and educating the locals on the importance of education. For example, Toshiba and Microsoft have donated computers to some of the schools in India to ensure that the students are computer literate (Moran 2014 n.p.).

Most third-world countries lack enough expertise in many sectors that involve the use of modern advanced technology and machinery. For example, many African countries do not have enough trained personnel to run computerized healthcare machinery. Multi-national corporations play a significant role in equipping the locals with some of these skills. The FDI conducts job and workshop training to equip the citizens of developing countries with relevant skills and experiences. They provide the required equipment and financial resources necessary to train the locals with the needed skills. The FDI conducts the learning process in two phases. First, they can select a few individuals and thoroughly teach them all the operational procedures of a plant until they are confident that the individual can work independently. Second, they can perform general training for the community and equip them with new skills. For instance, Toshiba can decide to offer computer classes to some public schools in the country. Kenya is an excellent example of a country that has benefited from the provision of skills by the MNC. The Toyota Company equipped some Kenyans with motor assembling skills, and evidently, Kenyans have developed their assembling plants such as the Thika Motor Dealers (E Ite 2004 p.7).

Disadvantages of FDI to the developing countries

Despite the numerous benefits of foreign investments to developing countries, several cons come along with them as well. Every MNC affects these nations differently and to varying degrees. To start with, multinational corporations sometimes take advantage of the lower standards of the host country. They do this through some aspects, such as workforce and resource exploitation. For instance, an American multinational corporation can invest in a company in Brazil due to the country's lower workforce and resource costs. The company can then bring home new products at lower prices and spark stiff competition among local businesses. The FDI can also exploit the resources in developing countries without paying back enough revenue in exchange. This is clear in the mining industries, where foreign investors have been known to utilize mineral resources in third-world countries. For instance, The United States has been accused on many occasions of exploiting petroleum and other oil products without benefiting the host country. Another aspect by which the FDI takes advantage of the host country is by introducing new products at low prices. This affects the country's local industries since most of the citizens will opt to buy cheap products. For instance, Kenyans choose to import cars from Japan through the Toyota Company rather than purchase locally assembled vehicles since they are a bit more expensive (Moran 2014 n.p.).

Environmental damage is another significant disadvantage faced by developing countries as a result of the FDI. Developing countries, especially in Africa, are known for their good climate and natural and environmental conditions that support wildlife and other aspects of biodiversity. The invasion of the MNCs in these countries demands the construction of surface facilities such as access roads and industries. Vast areas of vegetation are cleared to pave the way for these constructions, resulting in a significant loss of biodiversity. A chain of negative environmental impacts, such as soil erosion and water pollution, follows as a result of these foreign investments. Some industries (especially manufacturing industries) set up in third-world countries produce harmful carbon dioxide gas that contributes to the global warming effect. A recent UN report warns that climatic changes witnessed in the developing nations would hit them the hardest if adequate measures are not put in place to regulate the environmental impacts of the multi-national industries (E Ite 2004 p.4).

The high rates of unemployment in developing countries tend to lure the FDI to exploit the young workers. Foreign direct investors know that some of the developing countries have a very large population that is living below the living standards and tend to use these facts to exploit them, especially the youth. There are different forms of exploitation that the citizens of the host country face, such as low salaries and wages. The FDI fails to meet the wage standards since many young men and women do not have other job choices to consider. The companies also do not meet the health requirements of their working environments. Workers are exploited by working in hazardous environments that sometimes affect their health conditions. The young workers are not provided with the necessary equipment, such as gloves, gas masks, and aprons. The workers also have to work long hours to make enough cash to meet their financial needs. For example, Apple's companies in China have been known to provide poor working conditions to the Chinese youths (Idemudia 2011 p.17).

Political change is also one of the disadvantages brought about by foreign direct investment. The multi-national corporations play a significant role in the political influence of the developing countries. Several cases have been heard throughout Africa about how the MNCs fund famous politicians in their campaigns. The multi-national corporations tend to financially support the politicians with manifestos that will favor them and increase their profits. For instance, MNC can endorse a presidential candidate whose manifesto is to reduce the taxes charged to foreign investors to reduce their expenses (E Ite 2004 p.2). Also, international investors indirectly advocate for leaders who promise to give government tenders to their organizations. In fact, many investors in developing countries are worried about modern-day Economic colonialism, where many government tenders are being given to the FDI rather than the local businesses (Idemudia 2011 p.17).

In conclusion, foreign direct investment by multinational corporations can be very advantageous to developing countries. It can enable them to jump to new levels of success by boosting their economy through the various methods discussed in this paper. Foreign companies can be extremely rewarding and can significantly benefit third-world countries through the creation of employment, enhancing social amenities, and raising the living standards of local families. However, foreign direct investments bring about several risks, and it is fundamentally essential for any country to evaluate the challenges it will face as a result of the MNC (Hilson 2012, p.135). Disadvantages such as

hindrance to domestic investment, political changes, negative influence exchange rates, and economic non-viability are likely to be experienced. Also, it is crucial for developing countries to form a parliamentary committee that will be accustomed to working with multinational corporations to benefit the nation. We are living in an increasingly globalized economy, and multinational corporations will continue to undertake direct foreign investment in developing countries. The best thing to do is to weigh the advantages and disadvantages to know the cause to take.

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