

Econ 340
Lecture 11
Multinationals and International Capital Movements

Outline: Multinationals and International Capital Movements

- Terminology
 - FDI, DFI, MNEs, MNCs
 - Real Versus Financial Capital
- History
- Purposes Served by FDI
 - Local Market versus Export
 - Reasons for FDI
- Who Gains and Who Loses?
 - Effects that are Similar to Trade
 - Effects that are Similar to Migration
 - Other Effects

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Terminology

- International Capital Movement (or "Capital Flow")
 - = Acquisition of assets in another country
 - Takes two forms
 - Real
 - Physical assets, land
 - Ownership of companies (stocks: 10% or more) } FDI
 - Financial
 - Bonds, loans, bank deposits, currency
 - Stocks if less than 10% ownership

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Terminology

- FDI = Foreign Direct Investment
 - = DFI = Direct Foreign Investment
 - = Acquisition of real assets abroad
 - Results in a firm owning assets in more than one country:
- MNC = Multinational Corporation
 - = MNE = Multinational Enterprise
 - = TNC = Transnational Corporation
 - = Firm that operates (and usually owns assets in) more than one country

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Terminology

- FDI does not necessarily involve a net capital flow
 - Reason: acquisition of assets abroad can also be financed locally
- Thus
 - Net capital flows...
 - Are due to unequal savings and investment
 - FDI and MNCs...
 - Are due to business opportunities

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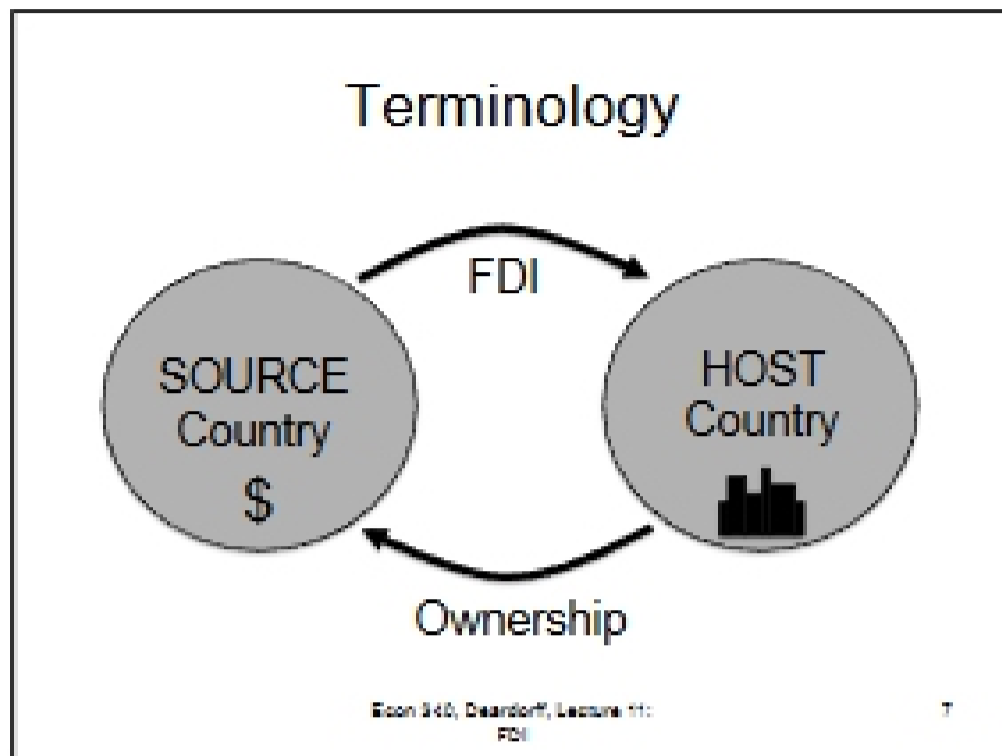
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Terminology

- When FDI happens from Country A into Country B,
 - (That is, when a firm based in Country A acquires assets, perhaps a subsidiary, in Country B)
 - “Source Country” = Country A
 - “Host Country” = Country B

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- ### History
- FDI was very important in US industrialization
 - E.g., British firms built the railroads in the 19th century
 - Not just in U.S. Also in South America
 - In 20th century, until the 1980s, FDI was small, and resisted by both source and host countries
 - Governments restricted capital movements and exchange of currencies
 - Developing countries equated FDI with colonialism and imperialism
 - Countries blamed MNCs for interfering in domestic political and military matters
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