What is Foreign Direct Investment?

Worksheet

FDI is direct ownership of productive assets (factories, land, subsidiaries) in foreign markets. It enables economies of scale, tariff avoidance, local market access and technology transfer - but carries currency, political and regulatory risks.

Questions

1. FDI gives investors what FDI key advantage?
A) Passive income only
B) Management control
C) Zero risk
D) Tax evasion

2. Which is an FDI example?
A) Buying stock in foreign company
B) Building factory abroad
C) Buying foreign bonds
D) Currency trading

3. $1B invested at 15% annual return for 4 years. Future value?
A) $1.15B
B) $1.75B
C) $1.75B
D) $2.01B

4. Why do firms prefer greenfield in politically stable countries?
A) Lower tariffs
B) Longer management control, custom operations
C) Cheaper labor
D) No competitors

5. Apple invests $2B in a facility in Vietnam. Expected 18% annual ROI over 5 years. Future value?

6. Tesla builds a $5B factory in Germany with 12% expected return over 7 years.

7. A Chinese tech firm invests $500M in a US semiconductor plant. Return of 20% expected for 10 years.

8. Define: What is Foreign Direct Investment (FDI)?

9. Define: FDI vs portfolio investment?

10. Define: Greenfield vs M&A FDI?

Answer Key

1. B) Management control - FDI is active management - investor controls operations, strategy, and staffing. Portfolio investors cannot.

2. B) Building factory abroad - FDI is direct ownership of productive assets. Stock/bonds are portfolio investment (passive).

3. D) $2.01B - FV = 1B (1.15)^4 = 1B 1.749 = $1.749B $1.75B (compound growth).

4. B) Longer management control, custom operations - Greenfield FDI requires 15-20 years to recover costs; stable countries protect that long-term investment.

5. FV = 2,000M (1 + 0.18)^5 = 2,000M 2.288 = $4,576M Apple's investment more than doubles in 5 years at 18% ROI.

6. FV = 5,000M (1.12)^7 = 5,000M 2.476 = $12,380M FDI creates long-term value; tax incentives and tariff savings justify the upfront cost.

7. FV = 500M (1.20)^10 = 500M 6.192 = $3,096M High-return sectors like semiconductors justify large FDI despite regulatory risk.

8. Direct ownership investment in productive assets (factories, subsidiaries) in foreign countries, giving management control.

9. FDI = long-term control of operations; portfolio = passive stock/bond ownership without management control.

10. Greenfield = build new facility from scratch; M&A = acquire existing company (faster market entry).