

73. Foreign Direct Investment – reasons for & advantages

I. Definition. Foreign Direct Investment can be defined as the purchase of _____ overseas. There are two main forms: either by taking over a foreign firm or by _____ in property or other fixed assets, perhaps to build a hotel or a _____. **Missing words include: investing, factory, assets**

Examples include:

- Spanish bank Sabadell buys the British bank TSB
- American pharmacist Walgreen buying a 45 per cent stake in Boots the Chemist
- American firm Global Infrastructure Partners buying London Gatwick Airport
- Canadian Insurance firm buying Brit Insurance

2. Reasons for high levels of FDI in Britain – read the extract and answer the questions that follow

By any standards, the UK's performance in the global battle for foreign direct investment (FDI) is outstanding. With just one per cent of the world's population, Britain gets nearly 8 per cent of the world's cross-border direct investment. Only the US, with four times the UK's population, does better.

One key reason is Britain's membership of the European Union. Many of the companies that locate here from North America and Asia do so because they gain easy access to EU markets. However commentator Andrew Fraser says the principal drivers influencing inward investment last year were the UK's reputation for innovation and its technological and financial expertise.

Others point to the generally business-friendly tax system, culture and regulatory system. (The UK comes out best in the EU "tax misery" index produced by Ernst & Young), the liberalised telecommunications market, the availability of relatively cheap skilled labour and the English language, which Britain fortunately shares with the US, also help to make the UK an attractive destination for capital. *Source: 'European Connection lifts trade', by Kevin Brown, Financial Times*

Why is the UK so successful at obtaining FDI? The text identifies at least five reasons – see if you can find them all and explain briefly why they play a role in attracting foreign investors.

2.1 _____

2.2 _____

2.3 _____

2.4 _____

2.5 _____

3. Advantages of FDI to the UK – complete the following list of advantages and draw a diagram to illustrate the changes to real output.

- Increased _____: FDI brings with it jobs and can secure opportunities for workers in various industries that would otherwise not have been able to compete on the international market.
- Increased tax revenue: These new firms will generate profits and have to pay _____ tax

on these, giving the government additional funds to spend.

- New management techniques and innovation: With additional competition firms will adopt new techniques which will mean they should be able to lower unit labour costs and become more _____ on the global market.

- For consumers, increased competition should mean lower _____, increased choice and higher _____. This will all mean that consumers should see an increase in consumer _____.