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FDI as an alternative source of external finance:

- where the investor assumes more risks – only true if it is equity investment and if there are no policies strings attached with respect to the outcome/return of the investment (ex., investment made on the condition that protection is given to domestic markets);
- hence, the first question to look at is whether FDI is in form of debt or equity;
- if it is equity, look at conditions and the actual impact in the increase of scarce inputs;
- if it is debt, compare with other forms of debt financing.

Transnational corporations and FDI:

- Transnational corporations operate through various ways, not only FDI;
- Trade is a very common one: selling of brand name products, provision of quality inputs and equipment as well as services (technology, maintenance, etc);
- Provision of finance (export/import credits, etc);
- FDI
- "New" forms of investment: turn-key contracts, joint ventures, subcontracting, licensing, franchising, management contracts, educational/training contracts, etc;

Government and TNCs:

- bargaining is a central component of the dynamics of the relationship between governments and TNC;
- governments have a strong bargaining role to play with respect to sectoral allocation, trade orientation, linkages to the domestic economy and firms, technology transfer, terms of resource repatriation and re-investment, etc;
- government and TNCs generate not only economic rents and bargaining over it, but also political rents and bargaining over it. TNCs, in particular in smaller economies, may have a large political influence not only directly on government and government officials, but also on local firms and economic interests. Governments in countries with large domestic markets have more bargaining power; whereas FDI (EO) is less influenced by government since there are many other players in the game;

Incentives:

- most investment incentive packages have little impact on FDI and corporate behaviour. This is because:
    - there are many factors affecting incentives facing TNCs: host country's incentives, competitor countries' incentives and home countries' incentives;
    - corporate behaviour, strategy and decisions are influenced by other factors besides incentives put in place by governments (for example, the competitive conditions in particular markets and industries);
- as a result, incentives tend to be more costly than beneficial for the economy, although there is a chance that they will increase the profitability of FDI and, on the margin, affect corporate decision;
- it is important to understand the dynamics between different incentive packages and corporate strategies to understand:
    - what can be done regarding the mobilisation and influence over FDI.
    - Whether the different packages nullify each other.

The analysis of benefits and costs of TNCs:

- the use of SCBA:
    - Benefits: most important are the resources (scarce) actually added to the economy; then the impact upon domestic competition; then externalities (training, spillovers if quantifiable, etc); and finally employment, taxation, etc., which result from the employment of the scarce resources;
    - Costs: resources (example, if TNC borrows domestically for investment), externalities (example, pollution, putting firms out of business, etc)
    - BoP impact: all FDI will result in some form of net outflow of resources, unless:
        - $fdi \geq r_{fdi}$ where fdi is the arte of growth of FDI, and rfdi is the return on FDI;
        - trade: the TNC is highly efficient at doing what it does (substituting imports or exporting);
        - government policies shape the repatriation and reinvestment decisions of the TNC.
    - Need for a counterfactual: could the project be done in a better way?