

Chad

Briefly use the Chad oil field project to illustrate the benefits and costs to Chad from FDI and in particular consider how the government of Chad might use the expected \$2bn revenues from royalties, dividends and taxes stemming from the multinational development of a petroleum industry in the south of the country.

Possible benefits

- Very low GDP, poor access to infrastructure and widespread illiteracy coupled with the influx of 200,000 refugees from neighbouring Darfur means Chad desperately needs to develop. Currently GDP/capita is ~US\$300¹.
- Development of infrastructure such as roads, communication networks, electricity.
- Improvement in skills level of workforce if domestic workers are used to build new roads and in the construction of 1000km pipeline. Transfer of skills and technology can create local multiplier effects. Evidence suggests this is happening.

Possible costs

- FDI is by companies who aim to maximise profits so may pollute the environment. Evidence contradicts this as two national parks have been created.
- Increased tax funds can be wasted by bureaucracy, military spending or on the ruling elite. However, "*...the World Bank and ... Government in Chad seemed determined not to let this happen....*"
- Jobs created may be few due to capital intensive production or low skilled and subject to exploitation through poor conditions or low pay. In 8 years 80% of the workers will be from the domestic economy so skills must be transferred, and 90% of workers involved in the road building were from the local area.
- Abuse of transfer pricing to gain political power and ability to continue exploiting workers.

Balanced conclusion

- If well policed the FDI can be very successful, so far the costs seem to have been minimised and the World Bank has made agreements for this to continue such as 80% of the workers being from the Chadian economy within 8 years.

¹ 2003 figures from the World Bank (www.worldbank.org)
Main text based on "Do Multinationals have a Positive Role in Economic Development?" by Johnathan Andrews from Economics Today, March 2002.