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Foreign Direct Investment and economic transition: Panacea or pain killer?

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hypothesised to trickle down to the host country both as spillovers, or catalysing effects

on local firms, and through the expected increase in income that such direct and indirect effects in combination will generate through labour income and taxes. The review shows that such trickle down effects are quite fragile in terms of being demonstrated to exist in transition countries. Combined with widespread usage of tax holidays, subsidies and acquisition discounts, it is not certain that positive direct effects equate with economic growth in these countries.

Notes

¹The experiences of the CIS countries are considered to be in a category of their own. This will become more clear in the section below, 'Explaining FDI inflows'.

²See for example Campos and Kinoshita ([2003](#)), Altomonte and Guagliano ([2003](#)), Carstensen and Toubal ([2004](#)), Disdier and Mayer ([2004](#)), Frenkel et al. ([2004](#)), Walkenhorst ([2004](#)) and Janicki and Wunnava ([2004](#)).

³However, the 'servisation' of the world economy breaks with the old stages approach to economic development (Chenery & Taylor [1968](#), pp. 391 – 416). For example,

⁴Poland, 1, followed by Bulgaria, 1994.

⁵Owing to the fact that the network may be partially owned by the firm and avoid strategic decisions by foreign investors (Estrin & Estrin, 2001).

⁶Even though the EBRD, p... igh



industry.

⁷Note that in low income countries the privatisation of state-owned enterprises to foreign investors is often viewed as a negative or surrendering policy from a development perspective (Easterly [2001](#)).

⁸However, reinvested earnings are not taxed in Estonia. Estonia also has a major advantage over the other Baltic States in terms of her cultural affinities with Finland.

⁹Some companies in labour-intensive industries will disinvest and move their production to third countries and some efficiency seeking FDI may favour EU or third countries over the transition countries, which may also mean de-facto disinvestment.

¹⁰For Estonia see Varblane and Ziacik ([1999](#)), Hannula and Tamm ([2003](#)), Jones and Mygind ([2002](#)) and Sinani and Meyer ([2004](#)). For the Czech Republic see Zemplerova & Benacek ([1997](#)) and Djankov and Hoekman ([2000](#)). For Hungary see Bosco ([2001](#)) and Sgard ([2001](#)). For Poland see Zukowska-Gagelmann ([2000](#)) and Jensen ([2004](#)). For Romania see Hunya ([2002b](#)). For Slovenia see Rojec ([1998](#)). In addition there also exist a number of edited books on this topic that are not mentioned in the survey here for sake of brevity.

¹¹For a central theoretical exposure in relation to FDI see Narula and Dunning ([2000](#)).

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