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

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Abstract

This article sets out to make an assessment of the relationship between Foreign Direct Investment (FDI) and economic growth in transition countries through a review of the empirical record to date. The first part reviews the phases of transition in combination with policy efforts to attract FDI. In the second part, different growth studies across levels of analysis are juxtaposed to better understand the overall growth impact of FDI in transition countries. Since foreign firms have a large direct effect on performance at the leve ... o the economi ... concept of 'trickle d ... ty are hypo ... ysing effects on loc ... t and indirect ... es. The review s ... ng demonst... age of tax

holidays, subsidies and acquisition discounts, it is not certain that positive direct effects equate with economic growth in these countries.

Notes

[1]The 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'.

[2]See 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).

[3]However, the 'servisation' of the world economy breaks with the old stages approach to economic development (Chenery & Taylor 1968, pp. 391 – 416). For example, developing countries relying more heavily on 'servisation' in relation to tourism rather than traditional industrialisation are also bound to attract relatively more FDI in service industries.

[4]Poland, Hungary and Czechoslovakia signed the Europe Agreement in 1991, followed by Bulgaria and Romania in 1993, and the Baltic countries and Slovenia in 1994.

[5]Owing to the depressed value of firm-specific assets in this process, foreign investors may obtain a cheap ticket to the local market, immediate production volume, participation in well-established networks (including supplier and distribution networks), and avoid cumbersome license application processes. In some cases there are also real strategic asset seeking aspects associated with such privatisation acquisitions by foreign i... er & Estrin 2001).

[6]Even th ... hed by EBRD ... ight indus

[7]Note th ... ises to foreign i ... a development perspective (Easterly 2001).

[8]However, 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.

[9]Some 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.

[10]For Estonia see Varblane and Ziacik (1999), Hannula and Tamm (2003), Jones and Mygind (2002) and Sinani and Meyer (2004). For the Czech Republic see Zemplinerova & 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.

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