

Michael Du Pont

FOREIGN DIRECT INVESTMENT IN TRANSITIONAL ECONOMIES

**A Case Study of
China and Poland**



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Also by Michael Du Pont

NEW INVESTMENT OPPORTUNITIES IN CHINA FOR DAIRY AND AGRICULTURAL PRODUCTS (*published by the Australian Dairy Research and Development Corporation*)

COMPARISON BETWEEN CHINA AND POLAND: A CASE STUDY OF APPLE AND ORANGE (*published in China, in Chinese*)

NEW WAVES OF FOREIGN DIRECT INVESTMENT IN EMERGING MARKETS: PATTERNS AND CHANGES (*published in China, in Chinese*)

To my parents Sophie and Steven, my niece
Elizabeth, and in memory of dear aunt Aniela

Preface

Profound changes are taking place in the nature of international business, both in terms of the drivers of trans-border transactions and the strategic orientation of the firms that engage in these transactions. While the dynamic forces of globalisation and regionalisation, acting in a dialectical manner, form the umbrella under which international business activities take place, it has been the impact of technological change that has enabled firms to act both globally and locally. Companies are searching for partners all over the globe, even to the point of collaborating with current or former competitors. New MNCs from newly-industrialised countries (NIEs) have recently emerged with new forms of investment and motivation, demonstrating that FDI can no longer be analysed in the classical manner as a flow of extra capital into a country where all else is held constant, with the static effects evaluated according to the tenets of orthodox marginal productivity analysis. Nor is it any longer a simple hierarchical process from capital-rich to capital-poor countries. There is growing concern that traditional theories of investment have largely been ineffective in explaining recent trends of flows of FDI, especially in the context of recent changes in the transitional once-socialist economies. There has especially been a need to identify the causes of recent changes in inflow of FDI to post-communist countries.

This book presents a detailed investigation into the recent changes in the patterns and determinants in inflows of FDI to transitional economies in the light of FDI experiences in the economies of China and Poland. China and Poland provide ideal subjects for a case study since both attracted quite sizeable amounts of FDI, once their reform programmes had been introduced, despite both countries adopting quite different approaches on the road of transition to a market economy. It is found that patterns and determinants of FDI in a given country depend crucially on the degree of industrial advancement and the stage of entrepreneurial development of the country, changes in the process of internalisation of production, geography of the country and the nature and timing of policy shifts. There is a significant diversification of FDI in terms of the total number of source countries. In both countries there are differences between developed- and developing-country firms in terms of the size, strategy and form of their investments. The most common form of investment

in both countries initially was joint ventures with increasing shareholding by foreign partners, but recently the wholly foreign-owned enterprises are becoming the main driving force of investment. Foreign firms indicate a much higher intensity for exports than local firms. As for the economic effects, FDI in China has so far been heavily concentrated in product lines characterised by high import intensity, limited backward linkages and limited diffusion of technology. In Poland, FDI has been concentrated in mixed product lines characterised by some import intensity and by export orientation, stronger backward linkages and increasing diffusion of technology. These characteristics need not, however, be treated as intrinsic features of FDI in these countries. Rather, they are mostly a reflection of the early stage of FDI participation and the nature of the prevailing investment climate. Moreover, despite the shallowness of new product lines, their development impact in terms of employment generation and knowledge spillover effects appears to be considerable.

MICHAEL DU PONT

Abbreviations and Acronyms

BOC	Bank of China
CCP	Chinese Communist Party
CEE	Central and Eastern Europe
CEFTA	Central European Free Trade Association
CEPR	Centre for Economic Policy Research
CMEA	Council for Mutual Economic Assistance
CPC	Communist Party Committee
CPPCC	Chinese People's Party's Central Committee
DC	developed countries
EBRD	European Bank for Reconstruction and Development
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
EPZ	Export Processing Zone
FDI	foreign direct investment
FSS	Former Soviet States
FTC	foreign trade corporation
GDP	gross domestic product
GSP	generalised system of preferences
ILO	International Labour Organisation
JV	joint venture
IMF	International Monetary Fund
LDC	less-developed countries
MFERT	Ministry of Foreign Economic Relations and Trade
MFN	most favoured nation
MNC	multinational corporations
NIEs	newly-industrialised economies
OECD	Organisation for Economic Cooperation and Development
PAIZ	Polish Agency for Foreign Investment
PRC	People's Republic of China
PBOC	People's Bank of China
PBC	People's Bank of China: the central bank of China
RCA	revealed comparative advantage
RMB	Renminbi (Chinese currency)
SAEC	State Administration of Exchange Control
SAFE	State Administration of Foreign Exchange

SEZ	Special Economic Zones
TVE	township and village enterprise
WFOS	wholly foreign-owned subsidiaries
WTO	World Trade Organisation
UN	United Nations

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