

Patterns of inward FDI in economies in transition, 1991 - 2006

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**Foreign direct investment in transition economies:
strengthening the gains through diversification**

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Strengthening integration of the economies in transition into the world economy through
economic diversification, Geneva, 2-4 April 2008



Outline

- Motivation
- Methodology
- Results
- Conclusions

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Motivation: understanding FDI in Economies in Transition (EinT)

- Explaining the patterns of inward FDI to EinT (Kalotay)
 - new EU members,
 - SEE,
 - Russia and other CIS)
- Analysing determinants of FDI and their possible impact on the integration of the host into world economy (Estrin and Meyer)
 - at a general level
 - EinT, including CEE

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How it is done in the papers?

- Trends in FDI inflows
- Role of FDI in GFCF
- Cross-border M&As
- Mini-case study on the automotive industry
 - Survey of the literature on FDI (at macro and micro levels)
 - Empirical model of determinants of FDI in EinT
 - Review of the impact of FDI (in general and on EinT)



What do they find?

- Summary of the patterns
 - Determinants of FDI (source and host GDP, distance, ULC, institutional development)
 - Impact of FDI in the Balkans and the CIS (company performance with foreign ownership and other ownership forms)
 - Impact on acquired firms
 - Spillovers to local firms
- Policy conclusions (more Q than A)



Some comments on the results:

- Are the results sensitive to data?
- Can we transfer conclusions on determinants and effects of FDI from empirical models on the sample of one sub-region into another?
- Are determinants of FDI the same across the different sub-groups?
- Do reforms matter and if so how they affect FDI for the period under investigation?
- What about greenfield investments and their role for diversification?



Final comments:

- I like the papers: they are both interesting despite the differences in the approaches and methodology;
- They are questioning the effects of FDI on host performance
- I would like to have seen a full anatomy of
 - FDI effects on economic diversification;
 - possible links with diversification of output and exports, analysis at sector level,
 - more countries in the empirics,
 - more econometric techniques to account for the heterogeneity of these countries and the endogeneity of the factors
- Further research is required but data is the first step



What is data showing?

Foreign Investment Composition in the Russian Federation by sector, per cent, 2003 - 2007

	2003	2004	2005	2006	2007
Mining	19.3	24.5	11.2	16.6	18.7
Manufacturing	22.0	25.3	33.5	27.5	30.2
Construction	0.3	0.6	0.4	1.3	1.6
Wholesale and Retail Sales	35.5	32.2	38.2	23.7	26.4
Transport and Communication	3.8	5.0	7.2	9.6	7.3
Finance	2.6	2.5	3.4	8.5	4.1
Real Estate	15.4	6.3	4.9	10.9	9.3

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