

**Book review by Klaus Meyer**

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**Du Pont, Michael: "Foreign Direct Investment in Transitional Economies. A Case Study of China and Poland", *Macmillan Press Ltd, 2000.***

Poland and China have been the star performers among the transition economies with the highest macroeconomic growth in their respective parts of the world. In both countries, foreign direct investment (FDI) is attributed an important role, yet not as much as in Hungary or Estonia where privatization has been achieved to a large extent by selling state firms to foreign investors.

The countries pursued very different paths of transition, albeit one could argue that in both cases enterprise sector reform was relatively gradual compared to shock-privatization in Czech Republic, for example. Yet the different paths of transition and consequently different policies towards FDI raise interesting research questions for a comparative study. Few studies have yet systematically compared aspects of FDI across Asian and European transition economies, making the current work much welcome.

Michael Du Pont provides a comparative perspective on FDI with very rich data on both countries, their policy context, their macroeconomies, and their FDI trends. The core of his study is an empirical study (chapters 7 and 8) based on interviews with 100 executives in each of the two countries focusing on investment motivations, investment climate, and on performance in terms of profitability, technology transfer, export propensity and employment.

The study starts out with a survey of the FDI literature (chapter 2), followed by three chapters providing the background for the empirical study. They cover transition policy and experience (chapter 3), the policy framework towards FDI (chapter 4), and the available statistical evidence on FDI (chapter 5). These chapters contain a wealth of statistical data of descriptive nature – in total there are 99 tables in this book, plus 25 pages of statistical appendices. This part of the study has apparently been completed in 1995, and not been updated. Thus, it is not integrated in the contemporary academic discourse on the issues, and the statistical materials are, unfortunately, already historical. Change has been so fast in the region that diligent researchers, like Du Pont, have been overtaken by events.

The presentation of the material in chapters 3 to 5 follows a format of presenting in each chapter the two country separately, with a few comparative comments added at the end (p. 147-149). This format makes it difficult for the reader to follow the comparative dimension which could have been the key strength of this book. In fact none of the statistical or survey data are presented with both countries in the same table.

The author has invested considerable efforts in the empirical survey by interviewing in person in total 200 managers using an open-ended questionnaire as guide. The study covers five industries: motor vehicles, food processing, agro-business, cement, and paper. Creating matching samples is an obvious challenge if analysing two countries with such widely different economic structures and, in China, difficult access to firms. However, I kept wondering why the selection criteria included that "a major Western firm had to be involved". Since the majority of FDI in China is from neighbouring countries, Hong Kong, Taiwan, Korea and Japan, a focus on 'Western' firms – presumably Europe and North America – creates an obvious selection bias. This affects for instance the propensity to engage in labour-cost and export-oriented projects. However, in the results section the author also discusses investors from neighbouring countries, such that this might after all be only a 'typo', a rather irritating one though.

The results in chapters 7 and 8 provide information on the structure of the five industries, determinants of FDI, and performance. This information is mainly descriptive including data on the survey firms in tabular form, combined with data from other sources. There is no primary qualitative information provided as one would expect of studies using an open-ended questionnaire format, nor are there case studies or examples reported. The form of presentation is as before separate discussion of each country, rounded up with a few comparative comments.

The patterns reported are largely in line with what has been reported elsewhere. Yet, there are a few 'nuggets' in between that may stimulate further research: in Poland FDI had a very major role in the industries surveyed, whereas in China FDI was still – relative to size and market share of local firms – low (p. 183). In Poland, the market size "was almost equally important as the supply and cost of equal labour", while in China FDI is overwhelmingly determined by the market attraction (p.217). In Poland, most businesses were profitable, while those in China were not (p.239). In Poland, "over two thirds of the firms surveyed transferred advanced technology", whereas in China "most technology transfers were second-hand; firms from NIEs in particular transfer older technologies" (p.240). In Poland, most of the firms were involved in exports, most of which "were aimed at Russia and the former Soviet independent states" (sic!), while most investors in China, especially those from developed countries, aim at the local market (p. 241).

The result on market-orientation conflicts with my own survey research conducted at about the same time (Meyer 1998) which found most investors in Poland and neighbouring countries to be market-seeking. However, both studies have surveyed a selected range of industries, which is useful for comparative purposes. Yet, it permits only limited inferences about the overall patterns across all industries.

The author does not aspire to explain any of the patterns he observes; he does not ask research questions concerning causality, "why do we see what we see?" The link with the earlier theory chapter is weak, and the survey results are not discussed in light of the theoretical or empirical literature. Thus the main contribution of this study is the data it provides (albeit already dated) and the overview of various aspects of FDI in the two countries. It is thus a good starting point for anyone wishing to engage in deeper comparative studies.

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Reference:

Meyer, K.E. (1998): *Direct Investment in Economies in Transition*, Cheltenham: Elgar.