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The Impact of Foreign Direct Investment on the Host Economy of FDI: The Case of China – a Review of Research

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Introduction

In macroeconomic terms, foreign direct investment (FDI) is defined as a form of international capital flow, as one of the external sources of financing for the restructuring or development processes of an economy with an external source of capital supply. The quantitative and qualitative effects of capital flows in the form of FDI are the subject of theoretical analyses and empirical research. They are considered from the perspective of the country from which FDI capital flows out, from the perspective of the country to which FDI capital flows in, and from the perspective of the world economy as a whole. The article reviews the issue from the perspective of the country receiving foreign direct investment. FDI inflows can have both positive and negative effects on a country's economy. The nature and strength of these effects depend on a number of factors. Whether the positive effects outweigh the negative ones depends, among other things, on the size of the FDI inflow, on whether the FDI investor entering the market of a given country takes over an existing enterprise (brownfield FDI) or creates it from scratch (greenfield FDI), i.e. on the form of entry of foreign direct investors into the economy of the host country, on the strategy of the investor (e.g. substitution of domestic production by foreign components or possible cooperation with local enterprises), on the policy of the state towards FDI (e.g. whether it has an

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appropriate policy towards foreign direct investors, which allows it to take advantage of the opportunities offered by FDI in the host country). The absorptive capacity of the FDI host country and its institutions in terms of participation in the process of diffusion of knowledge, innovations, new management methods etc often accompany the presence of FDIs and are treated as positive externalities associated with foreign direct investment inflows.

A separate issue is the methodology for studying the cumulative effect of FDI inflows in the economy of the FDI host country. The methodology used by researchers includes methods of both a quantitative nature (they appear in the form of econometric models) and a qualitative nature (they are carried out with the use of a descriptive method). The first approach is based on econometric analysis that relates changes in FDI inflows over time to various measures of the level of economic development, such as the level of GDP per capita, the level of school enrolment or changes in real income. However, this methodology has a number of limitations. The fundamental difficulty in applying it in practice stems from the coupled interdependence of FDI and national income growth – high GDP dynamics attract FDI inflows, while FDI contributes directly and indirectly to GDP growth. It also stems from the different characteristics and levels of development of the economies receiving FDI, from the shortcomings of the statistical bases on which the calculations are made, and from the difficulties associated with separating the impact of FDI on macroeconomic variables from the impact of domestic investment on them. Quantitative analysis is also used to capture the relationship between, inter alia, foreign trade and FDI inflows to the FDI host country. In addition to the quantitative, econometric approach to studying the impact of FDI on the economy of the FDI host country, an approach based on a descriptive analysis of the impact of FDI on the economy of the FDI host country is also used, which can be carried out by characterising individual effects separately. Qualitative effects (although more difficult to quantify) are no less important than quantitative effects.

The aim of this article is to review the research on the impact of FDI on the economy of FDI host country and to identify the main areas of research. The example of China as an FDI host country is of interest because of the importance of FDI in the development of its economy in the period from the implementation of the reform and opening-up policy to the present day. Selected academic publications in the period from 2000 to 2023 on the impact of FDI on the economy of the host country of this investment were analysed. Their review and analysis also allowed for the identification of the main areas of research. Differences in measurement methods, models, the size of the research samples, the time span of the research, the types of countries covered and the resulting generalisations are the main limitations. Nevertheless, this review is valuable, especially for researchers to deepen research on selected areas of the impact of FDI on the economy of the FDI host country. The conclusions may also help host country authorities to define FDI policies in order to harness the positive or reduce the negative impact of FDI on the host country. The article consists of three parts: Part one explains the nature of foreign direct investment with reference to various definitions. Part two deals with the impact of FDI on the economy of the FDI host country with reference to selected areas of impact. Part three discusses the impact of FDI on the Chinese economy.

The nature of foreign direct investment: conceptualisation of the term

Various explanations of the nature of FDI are presented in the literature. A selection is highlighted below:

- The Organisation for Economic Cooperation and Development (OECD), 2008: Foreign direct investment is a category of international investment made by a resident of one country (called a "direct inwestor" or "parent company") with the intention of exercising long-term control over an enterprise in another country (called a "direct investment enterprise"[2] or "affiliate")[3]. In financial terms, FDI is a form of international capital flow, an external source of financing for the economy and an investment of capital. According to the methodology used by the OECD, UNCTAD and other organisations, FDI includes three main elements (1) equity, i.e. the actual contribution of the owner or co-owners to the establishment of an economic entity in a country other than the investor's country of residence, or the purchase of shares in an existing foreign enterprise; it may be in cash or in kind, and may be subsequently increased; (2) reinvested earnings, i.e. the part of the profit remaining in the country of origin, i.e. the part of the profit that remains in the direct investment enterprise and is not used for dividends or remitted to the foreign investor; (3) claims and liabilities related to short-term and long-term debts arising within a multinational enterprise (intracompany loans and debits), i.e. loan transactions between the parent enterprise and its foreign subsidiaries[4].
- The French National Institute for Statistics and Economic Research (Institut National de la Statistique et des Études Économiques, INSEE), 2016: Foreign

[2] An entity in which a direct investor holds 10% or more of the shares or has the right to cast 10% or more of the votes at the general meeting of shareholders.

[3] OECD, *OECD Benchmark Definition of Foreign Direct Investment*, Fourth Edition, OECD Publishing, Paris 2008, pp. 48–49.

[4] Ibid, p. 34

direct investment is investment aimed at acquiring a lasting interest in enterprises established in another country. They are investments that have a significant impact on the management of the enterprise (the investor acquires at least 10% of the capital of the enterprise). They include not only the initial transaction but also all subsequent capital transactions between enterprises[5].

- The European Union (EU), 2019: Foreign direct investment is "an investment of any kind by a foreign investor to establish or maintain lasting and direct links between the foreign investor and the entrepreneur to whom or the undertaking to which the capital is made available in order to carry on an economic activity in a Member State, including investments which enable effective participation in the management or control of a company carrying out an economic activity" (Article 2, para. 1). A foreign direct investor is "a natural person of a third country or an undertaking of a third country, intending to make or having made a foreign direct investment" (Article 2, para. 2)[6].
- The National Bank of Poland (NBP), 2021: "Direct investment is a transaction by entities resident in one country (direct investors) in entities resident in another country (direct investment entities) with the aim of establishing a lasting relationship and ensuring that the direct investor has a lasting influence over the entity in which it invests. This lasting influence can be established if the direct investor holds, directly or indirectly, at least 10% of the voting rights in the constituent body of the direct investment entity. Direct investment includes, in addition to investment in shares and other forms of equity, debt instruments arising from transactions between companies in a group of equity-related entities, and claims on non-residents held abroad and liabilities on non-residents held domestically. Direct investment does not include debt resulting from transactions between enterprises engaged in financial intermediation"[7].
- Ernst & Young (EY) – an international consulting and auditing firm based in London, 2015: "Foreign direct investment is one of the most important categories of investment between different economies (alongside, for example, portfolio investment). In FDI, the investing entity (also known as the direct

5 INSEE, *Investissements directs étrangers,* [online] 13.10.2016, https://www.insee.fr/fr/metadonnees/definition/c1263 [access: 16.08.2023].

6 EUR-Lex, *Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union*, Official Journal of the European Union 79 I/1, [online] 21.03.2019, https://eur-lex.europa.eu/eli/reg/2019/452/oj [access: 20.08.2023].

7 NBP, *Międzynarodowa pozycja inwestycyjna Polski w 2020 r.*, [online] Warszawa 2021, pp. 81–82, https://www.nbp.pl/statystyka/dwn/iip2020.pdf [access: 30.08.2023].

investor) seeks to establish a long-term, strategic relationship with a foreign entity (direct investment enterprise, DIE) by acquiring at least 10% of the total value of its capital. Direct investment includes both investments in which the investing entity acquires more than 10% of the capital of the direct investment enterprise (establishment of a direct investment relationship) and all financial transactions (regardless of value) that increase or decrease the direct investor's capital commitment after the establishment of the direct investment relationship"[8].

According to Karaszewski (2001)[9], FDIs are capital investments made outside the investor's country for the purpose of starting a business from scratch or acquiring ownership rights in an existing business to a degree that allows for direct participation in management. The investor may be an individual, a state-owned or private enterprise, a group of such enterprises or a group of individuals. A similar explanation of the essence of FDI is given by Budnikowski (2006)[10], who defines FDI as the start of an independent economic activity from scratch outside the country from which the financial, intellectual or material resources originate, or as the takeover of the management of an already existing enterprise located outside the country. The common element in the definitions of FDI presented is that its realisation involves a long-term investment of capital abroad, from which the direct investor expects to obtain greater benefits than he could obtain by any other means of investment. It should be added that a transaction by a foreign entity in a host economy is considered as FDI if it is an investment in the equity capital of an enterprise. The volume of direct investment abroad by a given entity is increased not only by the transfer of capital, but also by the reinvestment of profits in the foreign enterprise rather than their repatriation to the investor's home country. Unlike foreign portfolio investment, FDI is not a homogeneous asset, but a mobile production package abroad in which capital is not the dominant component but only a co-mingled one. FDI involves not only the transfer of capital, but also the movement of knowledge, labour, technology, skills, management and marketing methods[11].

8 Ernst&Young, *Polskie bezpośrednie inwestycje zagraniczne i potencjał ich finansowania przez instrumenty TFI BGK*, Warszawa 2015, p. 5

9 W. Karaszewski, *Przedsiębiorstwa z udziałem kapitału zagranicznego w Polsce w latach 1990–1999,* Toruń: Wydawnictwo Uniwersytetu Mikołaja Kopernika, 2001, p. 18.

10 A. Budnikowski, *Międzynarodowe stosunki gospodarcze,* Warszawa: Polskie Wydawnictwo Ekonomiczne, 2006, pp. 143–144.

11 J.H. Dunning, *Explaining changing patterns of international production: in defense of the eclectic theory,* "Oxford Bulletin of Economics and Statistics" 1979, Vol. 41(4), p. 272.

The impact of foreign direct investment on the FDI host economy – selected areas of impact

As indicated in the Introduction, the type and strength of the effects of foreign direct investment on the economy of the host country of this investment is influenced by many factors, as well as the research methodology adopted. Many theoretical and empirical studies on the importance of FDI for economic growth use the size of FDI inflows as one of the explanatory variables for GDP change trends. However, econometric analyses produce different results for different countries. Some of them confirm the positive impact of FDI on the economic growth in the FDI host country. Examples are provided by the results of studies by authors such as Reisen and Soto (2000)[12], Adegbite and Ayadi (2010)[13], Wong and Tang (2011)[14], Acet, Ashurov and Khatır (2020)[15], and Rao, Sethi, Dash and Bhujabal (2023)[16]. Other studies show negative or inconclusive effects of FDI inflows on the economic growth of the host country. Examples include the findings of authors such as Borensztein, De Gregorio and Lee (1998)[17], Alfaro, Chanda, Kalemli-Ozcan and Sayek (2004)[18], Akinlo (2004)[19], Ayanwale (2007)[20], Angelopoulou and Liargovas (2014)[21], Iamsiraroj and Ulubaşoğlu

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12 H. Reisen, M. Soto, *Which types of capital inflows foster developing country growth?,* "International Finance" 2001, Vol. 4(1), pp. 1–14.

13 E.O. Adegbite, F.S. Ayadi, *The role of foreign direct investment in economic development: A study of Nigeria,* "World Journal of Entrepreneurship, Management and Sustainable Development" 2010, Vol. 6(1–2), pp. 133–115.

14 K.N. Wong, T.C. Tang, *Foreign direct investment and employment in manufacturing and services sectors: Fresh empirical evidence from Singapore*, "Journal of Economic Studies" 2011, Vol. 38(3), pp. 313–330.

15 H. Acet, E.H. Ashurov, A. Khatır, *The relationship between foreign direct investments and economic growth: the case of CentralAsian countries,* "The Journal of Selcuk University Social Sciences Institute" 2020, No. 43, pp. 391–402.

16 D.T. Rao, N. Sethi, D.P. Dash, P. Bhujabal, *Foreign aid, FDI and economic growth in South-East Asia and South Asia,* "Global Business Review" 2023, Vol. 24(1), pp. 31–47.

17 E. Borensztein, J. De Gregorio, J.W. Lee, *How does foreign direct investment affect economic growth?,* "Journal of International Economics" 1998, Vol. 45(1), pp. 115–135.

18 L. Alfaro, A. Chanda, S. Kalemli-Ozcan, S. Sayek, *FDI and economic growth: the role of local financial markets,* "Journal of International Economics" 2004, Vol. 64(1), pp. 89–112.

19 A.E. Akinlo, *Foreign direct investment and growth in Nigeria: An empirical investigation*, "Journal of Policy Modeling" 2004, Vol. 26(5), pp. 627–639.

20 A.B. Ayanwale, *FDI and economic growth: Evidence from Nigeria,* AERC Research Paper 165, Nairobi: The African Economic Research Consortium, 2007.

21 A. Angelopoulou, P. Liargovas, *Foreign direct investment and growth: EU, EMU, and Transition Economies,* "Journal of Economic Integration" 2014, Vol. 29(3), pp. 470–495.

(2015)[22], Makiela and Ouattara (2018)[23], Joo, Shawl and Makina (2022)[24], and Bénétrix, Pallan and Panizza (2023)[25]. It should be added that the impact of FDIs on economic growth is highly dependent on a number of different factors, such as the conditions of the host country and its absorptive capacity, the quality of human capital, the degree of openness to trade etc.

In this section, research findings relating to the impact of foreign direct investment on the economy of the FDI host country in selected areas are highlighted.

In the area of resources as noted by Sahoo and Sethi (2017)[26], the inflow of foreign capital in the form of FDIs to the country receiving these investments bridges the resource gap between the desired level of investment and the amount of domestic savings. It helps to overcome the problems faced by most underdeveloped and developing economies (lack of capital). It increases physical and financial capital, product innovation, market information, technical know-how, advanced production techniques and foreign exchange. FDI inflows can help replenish domestic resources in the form of capital transfers, technology and management skills (technological, managerial and marketing) and access to markets. In terms of efficiency, FDI inflows can be associated with a more efficient allocation of resources through increased competition. FDI can positively improve the quality of local resources and stimulate the creation of supporting and related sectors (positive impact). On the other hand, improvements in the quality of local resources may be limited by pushing domestic production into low value-added areas, while creating imports of high-tech products. There is also the possibility of reducing the links of domestic firms with foreign suppliers and customers (negative effects).

In the area of employment, the inflow of FDI into the FDI host country affects employment, wages and labour productivity. The impact of FDIs on local wages of low- and high-skilled workers are studied by Girma, Thompson and Wright (2002)[27],

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22 S. Iamsiraroj, M.A. Ulubaşoğlu, *Foreign direct investment and economic growth: A real relationship or wishful thinking?,* "Economic Modelling" 2015, Vol. 51, pp. 200–213.

23 K. Makiela, B. Ouattara, *Foreign direct investment and economic growth: Exploring the transmission channels,* "Economic Modelling" 2018, Vol. 72, pp. 296–305.

24 B.A. Joo, S. Shawl, D. Makina, *The interaction between FDI, host country characteristics and economic growth? A new panel evidence from BRICS*, "Journal of Economics and Development" 2022, Vol. 24(3), pp. 247–261.

25 A. Bénétrix, H. Pallan, U. Panizza, *The elusive link between FDI and economic growth*, World Bank Group, Policy Research Working Paper 10422, April 2023, pp. 1–50.

26 K. Sahoo, N. Sethi, *Impact of foreign capital on economic development in India: An econometric investigation*, "Global Business Review" 2017, Vol. 18(3), pp. 766–780.

27 S. Girma, S. Thompson, W. Wright, *Why are productivity and wages higher in foreign firms?,* "The Economic and Social Review" 2002, Vol. 33(1), pp. 93–100.

Pandya (2010)[28], Hanousek, Kočenda and Maurel (2011)[29], Onaran (2012)[30], Lee and Wie (2015)[31], Bogliaccini and Egan (2017)[32], and Girma, Görg and Kersting (2019)[33]. Other studies analyse only the impact of FDIs on low- and high-skilled employment in economies receiving foreign direct investment. Examples include studies by authors such as Bailey and Driffield (2007)[34], Blanton and Blanton (2012)[35], Raouf and Hafid (2014)[36], and Yunus, Said and Azman-Saini (2015)[37]. There are also publications that focus on analysing whether FDI inflows have an overall positive or negative impact on local employment. Most studies confirm the positive impact of FDI (especially greenfield FDI) on employment. This is shown in studies conducted by Radosevic, Varblane and Mickiewicz (2003)[38], Waldkirch (2009)[39], Villa (2010)[40], Bandick and Karpaty (2011)[41],

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28 S.S. Pandya, *Labor markets and the demand for foreign direct investment,* "International Organization" 2010, Vol. 64(3), pp. 389–409.

29 J. Hanousek, E. Kočenda, M. Maurel, *Direct and indirect effects of FDI in emerging European markets: a survey and meta-analysis,* "Economic Systems" 2011, Vol. 35(3), pp. 301–322.

30 Ö. Onaran, *The effect of foreign affiliate employment on wages, employment, and the wage share in Austria,* "Review of Political Economy" 2012, Vol. 24(2), pp. 251–271.

31 J.W. Lee, D. Wie, *Technological change, skill demand, and wage inequality: evidence from Indonesia,* "World Development" 2015, Vol. 67, pp. 238–250.

32 J.A. Bogliaccini, P.J.W. Egan, *Foreign direct investment and inequality in developing countries: does sector matter?,* "Economics & Politics" 2017, Vol. 29(3), pp. 209–236.

33 S. Girma, H. Görg, E. Kersting, *Which boats are lifted by a foreign tide? Direct and indirect wage effects of foreign ownership,* "Journal of International Business Studies" 2019, Vol. 50(6), pp. 923–947.

34 D. Bailey, N. Driffield, I*ndustrial policy, FDI and employment: still 'missing a strategy*, "Journal of Industry, Competition and Trade" 2007, Vol. 7(3–4), pp. 189–211.

35 R.G. Blanton, S.L. Blanton, *Rights, institutions, and foreign direct investment: an empirical assessment,* "Economics. Foreign Policy Analysis" 2012, Vol. 8(4), pp. 431–451.

36 R. Raouf, H. Hafid, *Relocation and inequalities between skilled and unskilled in Northern Countries: simulation using a CGE model,* "International Journal of Economics and Financial Issues" 2014, Vol. 4(4), pp. 758–772.

37 N.M. Yunus, R. Said, W.N.W. Azman-Saini, *Spillover effects of FDI and trade on demand for skilled labour in Malaysian manufacturing industries,* "Asian Academy of Management Journal" 2015, Vol. 20(2), pp. 1–27.

38 S. Radosevic, U. Varblane, T. Mickiewicz, *Foreign direct investment and its effect on employment in Central Europe,* "Transnational Corporations" 2003, Vol. 12(1), pp. 53–90.

39 A. Waldkirch, *Comparative advantage FDI? A host country perspective,* "Review of World Economics"2011, Vol. 147(3), pp. 485–505.

40 S. Villa, *Exploring the linkages between investment and employment in Moldova: a time series analysis*, Employment Working Paper No. 52, International Labor Organization, 22.08.2010.

41 R. Bandick, P. Karpaty, *Employment effects of foreign acquisition,* "International Review of Economics and Finance" 2011, Vol. 20(2), pp. 211–224.

Inekwe (2013)[42], Jula and Jula (2017)[43], Saucedo, Ozuna and Zamora (2020)[44], and Kharel (2020)[45]. On the other hand, negative employment effects are presented by Girma (2005)[46] in a study on the employment effects of brownfield FDIs in British industry, and by Jenkins (2006)[47] for the Vietnamese market, among others. When acquiring a local firm, a foreign direct investor may decide to restructure it, which often involves a reduction in employment (negative effect). The negative impact of FDI on employment is discussed by Umit and Alkan (2016)[48] for Turkey and Uddin and Chowdhury (2020)[49] for Bangladesh.

In the fiscal area, the positive impact of FDI on increasing government revenues can be direct (through productivity, technology transfer, job creation) or indirect (consumption, trade, employment). When FDI-related enterprises increase their productivity, there is usually an associated increase in profits. An increase in the profits of these enterprises broadens the corporate tax base and thus increases tax revenues. FDI that increases labour supply and wages also contributes to increased government revenue from personal income taxes. Furthermore, according to studies by authors such as Danielova and Sarkar (2011)[50], Gajigo, Mutambatsere and Mdiaye (2012)[51],

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42 J.N. Inekwe, FDI, *employment and economic growth in Nigeria*, "African Development Review" 2013, Vol. 25(4), pp. 421–433.

43 D. Jula, N.M. Jula, *Foreign direct investments and employment. Structural analysis*, "Romanian Journal of Economic Forecasting" 2017, Vol. 20(2), pp. 29–44.

44 E. Saucedo, T. Ozuna, H. Zamora, *The effect of FDI on low and high-skilled employment and wages in Mexico: a study for the manufacture and service sectors*, "Journal for Labour Market Research" [online] 2020, Vol. 54(9), https://doi.org/10.1186/s12651-020-00273-x [access: 12.09.2023].

45 K.R. Kharel, *Foreign direct investment in Nepal: A study on its impact on employement,* "Interdiciplinary Journal of Management and Social Sciences", 2020, Vol. 1(1), pp.54-66.

46 S. Girma, *Safeguarding jobs? Acquisition FDI and employment dynamics in the UK manufacturing*, "Review of World Economics" 2005, Vol. 141(1), pp. 165–178.

47 R. Jenkins, *FDI and employment in Vietnam,* "Transnational Corporationa" 2006, Vol. 15(1), pp. 115–142.

48 A.O. Umit, I. Alkan, *The effects of foreign direct investment and economic growth on employment and female employment: A time series analysis with structural breaks for Turkey,* "International Journal of Business and Economic Sciences Applied Research" 2016, Vol. 9(3), pp. 43–49.

49 K.M.K. Uddin, M.A. Chowdhury, *Impact of FDI on employment level in Bangladesh: A VECM approach,* "International Journal of Applied Economics, Finance and Accounting" 2020, Vol. 8(1), pp. 30–37.

50 A. Danielova, S. Sarkar, *The effect of leverage on the tax-cut versus investment-subsidy argument*, "Review of Financial Economics" 2011, Vol. 20(4), pp. 123–129.

51 O. Gajigo, E. Mutambatsere, G. Mdiaye, *Gold mining in Africa: Maximizing economic returns for countries,* Working Paper Series No. 147, African Development Bank Group, March 2012.

Nguyen, Nguyen and Goenka (2014)[52], and Osano and Koine (2016)[53], technology diffusion and knowledge transfer resulting from FDI can increase productivity in the FDI host country and thus generate revenue. For example, firms associated with FDIs can benefit from dividends and the public administration can increase its tax revenue through income taxes. Indirectly, FDI can increase consumption through supply and demand. First, if FDI contributes to the production of goods and services offered on the domestic market, it can increase VAT revenues. On the other hand, increased demand for goods and services due to an increase in employment can increase VAT receipts. This in turn leads to an increase in tax revenue. Under certain conditions, however, these benefits may not materialise. FDIs can damage tax revenues in several ways. Indeed, companies related to FDIs may pursue tax optimisation policies through the transfer of pricing practices. The transfer of pricing policies on goods and services is usually applied to transactions between related parties operating, for example, in a group of companies. These prices can have a decisive impact on the final profit or loss picture of the different parts of the group and on income tax liabilities, especially when the group members are companies from countries with different tax systems. The ransfer of pricing practices tends to reduce the income of multinational enterprises. This reduces the tax potential of these activities and lowers corporate tax. These effects are highlighted in studies by Gropp and Kostial (2000)[54], and Fuest and Riedel (2009) [55]. In addition, as noted by Zee, Stotsky and Ley (2002) [56], and Fuest and Riedel (2009)[57], competition between states to attract FDIs leads them to implement tax incentive policies in the form of tax exemptions as well as tax rate reductions, which may offset the expected positive effects. Tax incentives reduce the tax base. They also distort the allocation of resources to activities that benefit from tax incentives, to the detriment of others. The revenue effects of FDIs can be significantly reduced if

52 H.T.T. Nguyen, M.H. Nguyen, A. Goenka, *How does FDI affect corporate tax revenue of the host country?.* Document de Recherche EPEE 13-03, Evry: Centre d'Études des Politiques Économiques de l'Université d'Évry (EPEE), 2014.

53 H.M. Osano, P.W. Koine, *Role of foreign direct investment on technology transfer and economic growth in Kenya: a case of the energy sector*, "Journal of Innovation and Entrepreneurship" 2016, Vol. 5(31), pp. 1–25.

54 R. Gropp, K. Kostial, *The disappearing tax base: Is foreign direct investment eroding corporate income taxes?,* IMF Working Paper WP/00/173, International Monetary Fund, October 2000.

55 C. Fuest, N. Riedel, *Tax evasion, tax avoidance and tax expenditures in developing countries: A review of the literature*, Report Prepared for the UK Department for International Development (DFID), 2009, pp. 1–69.

56 H.H. Zee, J.G. Stotsky, E. Ley, *Tax incentives for business investment: A primer for policy makers in developing countries,* "World Development" 2002, Vol. 30(9), pp. 1497–1516.

57 C. Fuest, N. Riedel, *Tax evasion, tax avoidance and tax expenditures…,* op. cit.

FDIs are accompanied by significant tax reductions and the use of tax exemptions. The practice of bribery (corruption) between tax administrations and foreign companies in certain industries can also lead to lower tax revenues, as shown in studies by Bornhorst, Gupta and Thornton (2009)[58], Ehrhart (2011)[59], and Camara (2019)[60]. In addition, FDI can create overly competitive conditions that crowd out domestic and local firms (also reducing tax revenues). In view of the above, the impact of FDI on the increase in tax revenues cannot be clearly assessed. Thus, the effect will be positive if the advantages outweigh the disadvantages, neutral if the advantages and disadvantages balance out , and negative if the disadvantages outweigh the advantages.

Regarding the relationship between FDI inflows into the FDI host country and foreign trade, from the theoretical point of view, the relationship between FDI and trade can be substitutive (horizontal FDI)[61] or complementary (vertical FDI)[62]. In the former, the inflow of FDI leads to a total or partial substitution of existing imports when the objective of FDI is to avoid customs barriers or reduce transport costs. Cost considerations motivate this type of foreign direct investment[63] (they are market-seeking oriented). It reduces the volume of trade. In the latter, FDIs aim to rationalise the production process by taking advantage of lower labour costs. Market considerations motivate this type of foreign direct investment[64] (they are oriented towards the search for efficiency). It increases the volume of trade. Many empirical studies focus on the substitutive or complementary relationship between FDI and foreign trade. For example, Chang and Gayle (2009)[65] examined the sales of US firms to 56 countries between 1999 and 2004. They found a substitutive relationship between trade and FDI, suggesting that multinationals prefer FDI to exports.

58 F. Bornhorst, S. Gupta, J. Thornton, *Natural resource endowments and the domestic revenue effort,* “European Journal of Political Economy” 2009, Vol. 25(4), pp. 439–446.

59 H. Ehrhart, *Assessing the relationship between democracy and domestic taxes in developing countries,* HAL open science, [online] 2011, https://halshs.archives-ouvertes.fr/halshs-00553607/document [access: 24.09.2023].

60 A. Camara, *The effect of foreign direct investment on tax revenue in developing countries*, HAL open science, [online] 2019, https://uca.hal.science/hal-03188025v2/document [access: 26.09.2023].

61 J.R. Markusen, *Multinationals, multi-plant economies, and the gains from trade,* “Journal of International Economics” 1984, Vol. 16(3-4), pp. 205–226.

62 E. Helpman, *A simple theory of international trade with multinational corporations*, “Journal of Political Economy” 1984, Vol. 92(3), pp. 451–471.

63 M. Fonseca, A. Mendonça, J. Passos, *Outward FDI and sustainable trade balance path: Evidence from Portuguese economy*, Working Paper CEsA No. 138, Lisbon: CSG/Research in Social Sciences and Management, 2016, pp. 1–16.

64 Ibid.

65 Y.M. Chang, P.G. Gayle, *Exports versus FDI: Do firms use FDI as a mechanism to smooth demand volatility?,* “Review of World Economics” 2009, Vol. 145(3), pp. 447–467.

They also showed that this relationship is influenced by various factors such as market demand, transport costs and start-up costs. In addition, Bhasin and Paul (2016)[66], who examined the relationship between foreign trade and FDIs for 10 Southeast Asian countries from 1991 to 2012, confirmed the substitutive relationship between trade and FDIs for selected countries in the region. Daniels and Von der Ruhr (2014)[67], investigating the relationship between US foreign trade and FDI between 1985 and 2010 in 53 countries, also found a substitution relationship between FDI and trade. There are also empirical studies showing a complementary relationship between FDIs and foreign trade. Xiong and Sun (2021)[68] found that such a relationship exists, using a gravity model to analyse FDI and trade data for more than 140 countries. Guo (2023)[69], who examined Chinese FDI in the EU and China-EU bilateral trade from 2005 to 2020, found a complementary relationship between China's FDI and trade with the European Union. Sethi, Das, Sahoo, Mohanty and Bhujabal (2020) [70] found a negative and significant effect of FDIs on real exports in the long run, but a positive effect in the short run. Other researchers, including Fontagné and Pajot (1997)[71], Egger, Pfaffermayr and Wolfmayr-Schnitzer (2001)[72], and Jayachandran and Seilan (2010)[73], show positive and often causal relationships between FDI inflows and foreign trade. In general, FDI inflows can improve the current account balance through import substitution and export creation (positive effect). In this case, capital inflows in the form of FDI affect the capital account balance by offsetting the negative current account

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66 N. Bhasin, J. Paul, *Exports and outward FDI: Are they complements or substitutes? Evidence from Asia,* "Multinational Business Review" 2016, Vol. 24(1), pp. 62–78.

67 J.P. Daniels, M. Von der Ruhr, *Transportation costs and US manufacturing FDI,* "Review of International Economics" 2014, Vol. 22(2), pp. 299–309.

68 T. Xiong, H. Sun, *Structure and dynamics of global capital and international trade: Analysis of the relationship between exports and foreign direct investment (FDI) from 2001 to 2006,* "International Journal of Finance & Economics" 2021, Vol. 26(1), pp. 542–559.

69 Y. Guo, *FDI and international trade between the EU and China*, "Research on Enterprise in Modern Economy" 2023, Vol. 1(36), pp. 17–32.

70 N. Sethi, A. Das, M. Sahoo, S. Mohanty, P. Bhujabal, *Foreign direct investment, financial development and economic prosperity in major South Asian economies* "South Asian Journal of Business Studies" 2020, Vol. 11, pp. 1–22.

71 L. Fontagné, M. Pajot, *How foreign direct investment affects international trade and competitiveness: An empirical assessment,* Centre d'Études Prospectives et d'Informations Internationales (CEPII) 1997, No. 7, pp. 1–45.

72 P. Egger, M. Pfaffermayr, Y. Wolfmayr-Schnitzer, *The international fragmentation of Austrian manufacturing: The effects of outsourcing on productivity and wages*, "The North American Journal of Economics and Finance" 2001, Vol. 12(3), pp. 257–272.

73 G. Jayachandran, A. Seilan, *A causal relationship between trade, foreign direct investment and economic growth for India,* "International Research Journal of Finance and Economics" 2010, Vol. 42, pp. 74–88.

balance. On the other hand, if FDI increases or decreases exports, the current account may deteriorate (negative effect).

In the area of entrepreneurship, the inflow of foreign direct investment can be associated with the stimulation of entrepreneurship in the FDI host country, the introduction of new forms of management, new styles of working and the intensification of competition (positive effects). FDIs can positively influence local producers by buying services, parts and components from them, thus forcing them to improve quality, adopt a new, more efficient way of doing business, produce modern products or improve existing ones. This increases the technological potential of these units and indirectly increases their competitiveness (positive effects). The prerequisite is, however, that they adapt to the technological, quality and cost requirements of the direct investor. On the other hand, there may be barriers to the introduction of foreign entrepreneurial patterns and working styles due to their incompatibility with the local business culture. In addition, FDI may take measures to eliminate local competition, drive local firms out of the market in an effort to increase market power, and even gain a monopoly position in the FDI host country (negative effects). These aspects are highlighted in the studies of, among others, De Backer and Sleuwaegen (2003)[74], Ayyagari and Kosová (2010)[75], Ashraf and Herzer (2014)[76], Munemo (2015)[77], Danakol, Estrin, Reynolds and Weitzel (2016)[78], Apostolov (2017)[79], and Amoroso and Müller (2018)[80].

There is a growing interest in studying the impact of FDI on the environment, including CO_2 emissions in the host country. The results of these studies are not conclusive. Some suggest that FDI is associated with increased CO_2 emissions and has negative environmental impacts in host countries, especially in low-income economies with low environmental standards. This is shown in their research: Malik, Latif, Khan, Butt,

74 K. De Backer, K. Sleuwaegen, *Does foreign direct investment crowd out domestic entrepreneurship?,* "Review of Industrial Organization" 2003, Vol. 22(1), pp. 67–84.

75 M. Ayyagari, A. Kosová, *Does FDI facilitate domestic entry? Evidence from the Czech Republic*, "Review of International Economics" 2010, Vol. 18(1), pp. 14–29.

76 A. Ashraf, D. Herzer, *The effect of greenfield investment and M&As on domestic investment in developing countries*, "Applied Economic Letters" 2014, Vol. 21(14), pp. 997–1000.

77 J. Munemo, *Foreign direct investment, business start-up regulations and entrepreneurship in Africa*, "Economics Bulletin" 2015, Vol. 35(1), s. 1-13.

78 S.H. Danakol, S. Estrin, P. Reynolds, U. Weitzel, *Foreign Direct Investment via M&A and domestic entrepreneurship: blessing or curse?*, "Small Business Economics" 2016, Vol. 48(3), pp. 599–612.

79 M. Apostolov, *The impact of FDI on the performance and entrepreneurship of domestic firms,* "Journal of International Entrepreneurship" 2017, Vol. 15(4), pp. 319–415.

80 S. Amoroso, B. Müller, *The short-run effects of knowledge intensive greenfield FDI on new domestic entry*, "The Journal of Technology Transfer" 2018, Vol. 43(3), 'pp. 815–836.

Hussain and Nadeem (2020)[81], Aller, Ductor and Grechyna (2021)[82], and Chandrika, Mahesh and Tripathy (2022)[83]. Other research suggests that FDI brings capital investment and technological development to the host country, thereby improving environmental quality. Pazienza (2019)[84] argues that with FDI comes the transfer of technological innovations, which allows for a cleaner production model. Zubair, Samad and Dankumo (2020)[85] found that the inflow of FDIs reduced CO_2 emissions in Nigeria. Saqib, Ozturk, Usman, Sharif and Razzaq (2023)[86] found a negative correlation between FDIs and ecological footprint. It should be added that the relationship between FDI and the environment is a complex one where several effects are combined.

Foreign direct investment and the Chinese economy

For historical and ideological reasons, foreign direct investment in China was severely restricted until 1978, when Deng Xiaoping ordered the launch of major economic reforms. These aimed to establish an open market economy by, among other things, increasing FDI inflows and intensifying international trade. Drawing on the experience of other developing countries in attracting and using FDIs, the Chinese leadership recognised that FDI would be an effective way to obtain advanced technology and equipment from abroad quickly and at minimal cost. FDIs would also be a way to make better use of China's resources in the absence of domestic capital, and to gain valuable experience in modern economic management skills. Allowing for foreign direct investment into the

81 M.Y. Malik, K. Latif, Z. Khan, H.D. Butt, M. Hussain, M.A. Nadeem, *Symmetric and asymmetric impact of oil price, FDI and economic growth on carbon emission in Pakistan: Evidence from ARDL and non-linear ARDL approach*, "Science of The Total Environment" [online] 2020, Vol. 726, 138421, https://doi.org/10.1016/j.scitotenv.2020.138421 [access: 26.10.2023].

82 C. Aller, L. Ductor, D. Grechyna, *Robust determinants of CO_2 emissions,* "Energy Economics" [online] 2021, Vol. 96, 105154, https://doi.org/10.1016/j.eneco.2021.105154 [access: 4.11.2023].

83 R. Chandrika, R. Mahesh, N. Tripathy, *Is India a pollution haven? Evidence from cross-border mergers and acquisitions,* "Journal of Cleaner Production" [online] 2022, Vol. 376,134355, https://doi.org/10.1016/j.jclepro.2022.134355 [access: 8.11.2023].

84 P. Pazienza, *The impact of FDI in the OECD manufacturing sector on CO_2* emission: Evidence and policy issues, "Environmental Impact Assessment Review" 2019, Vol. 77, pp. 60–68.

85 A.O. Zubair, A.-R.A. Samad, A.M. Dankumo, *Does gross domestic income, trade integration, FDI inflows, GDP, and capital reduces CO_2 emissions? An empirical evidence from Nigeria*, "Current Research in Environmental Sustainability" [online] 2020, Vol. 2, 100009, https://doi.org/10.1016/j.crsust.2020.100009 [access: 20.10.2023].

86 N. Saqib, I. Ozturk, M. Usman, A. Sharif, A. Razzaq, *Pollution haven or halo? How European countries leverage FDI, energy, and human capital to alleviate their ecological footprint*, "Gondwana Research" 2023, Vol. 116, pp. 136–148.

domestic economy solved the problem of capital shortage in the early stages of reform and opening up. China's accession to the World Trade Organisation (WTO) in 2001[87] was significant for foreign investors, as was the process of improving the institutional and legal environment. China has maintained its openness to foreign direct investment, especially that which contributes to the country's development goals. China's dynamic economic growth (in recent years mainly affected by the pandemic and the zero Covid-19 policy), coupled with rising but still low labour costs (relevant for export-oriented FDIs), a market of 1.4 billion potential consumers, an approximately 400 million strong and growing middle class (relevant for market-oriented FDIs) and, in recent years, a vibrant innovation ecosystem, make China an attractive and important market for foreign investors, especially established ones, despite many challenges. According to the UNCTAD data published in the "World Investment Report 2022: International tax reforms and sustainable investment", the cumulative value of FDI flowing into China increased almost 11-fold since 2000, from USD 193 billion to over USD 2 trillion (2021)[88]. China has become the largest recipient of FDI among developing countries and the second largest recipient of FDI in the world after the US.

Graham and Wada (2001)[89], Clegg, Wang and Cross (2004)[90], Cheung and Lin (2004)[91], Renwald (2006)[92], Liu, Luo, Qiu and Zhang (2014)[93], Chen (2018)[94], and Shi, Lim and Meng (2019)[95] are selected researchers who hshow that the large volume

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87 WTO, *WTO Ministerial Conference approves China's accession,* [online] 10.11.2001, https://www.wto.org/english/news_e/pres01_e/pr252_e.htm [access: 28.09.2023].

88 UNCTAD, *World Investment Report 2022. International tax reforms and sustainable investment*, Geneva: United Nations Publications, 2022, p. 215.

89 E.M. Graham, E. Wada, *Foreign direct investment in China: effects on growth and economic performance,* Peterson Institute for International Economics, Working Paper Series WP01-3, [online] 2001, pp. 1–30, https://www.piie.com/sites/default/files/publications/wp/01-3.pdf [access: 4.10.2023].

90 J. Clegg, Ch. Wang, A.R. Cross, *FDI, regional differences and economic growth: Panel data evidence from China* [in:] P. Buckley, *The Challenge of International Business,* London: Palgrave Macmillan, 2004, pp. 220–241.

91 K.Y. Cheung, P. Lin, *Spillover Effects of FDI on Innovation in China*: *Evidence from the provincial data*, "China Economic Review" 2004, Vol. 15, pp. 25–44.

92 Z. Renwald, *Foreign investment law in the People's Republic of China: what to expect from enterprise establishment to dispute resolution*, "Indiana International & Comparative Law Review" 2006, Vol. 16(2), p. 453.

93 X. Liu, Y. Luo, Z. Qiu, R. Zhang, *FDI and economic development: evidence from China's regional growth,* "Emerging Markets Finance and Trade" 2014, Vol. 50(6), pp. 87–106.

94 Ch. Chen, *The liberalisation of FDI policies and the impact of FDI on China's economic development* [in:] R. Garnaut, L. Song, C. Fang (eds.), *China's 40 years of reform and development*, Canberra: Australian National University Press, 2018, pp. 595–617.

95 Y.L. Shi, E.J. Lim, Q. Meng, *Ethnic Diversity and Economic Performance in China: The Role of Education, FDI, and Trade,* "Emerging Markets Finance and Trade" 2019, Vol. 55(2), pp. 337–350.

of FDI inflows has contributed over the years to the development of China's economy in terms of capital accumulation, export expansion and technology transfer, job creation, and has had a significant impact on China's economic growth and structural change.

This section of the article highlights selected areas of impact of FDIs on China's economy.

The impact of FDIs on China's economic growth has been widely studied. For example: Chen, Chang and Zhang (1995)[96] found that FDIs were positively related to economic growth and growth in total fixed investment in China. Dees (1998)[97] found evidence that FDIs in China influence growth through the diffusion of knowledge and ideas. A study by Tang, Selvanathan and Selvanathan (2008)[98] found that FDIs flowing into China not only helped to overcome the capital shortage, but also stimulated economic growth by complementing domestic investment.

Whalley and Xin (2010)[99] found that FDIs may have contributed more than 40 per cent of China's economic growth between 2003 and 2004, and that without FDI inflows, China's overall GDP growth rate could have been about 3.4 percentage points lower. Chen (2011)[100] found that FDIs contribute to China's economic growth both directly, through increased investment, and indirectly, through positive knowledge spillovers. From 1986 to 2005, 1.4 percentage points of China's average real GDP growth rate of 11.77% came from the direct and indirect contribution of FDIs, accounting for 12.43% of the total growth rate over the period. In his later research, Chen (2017)[101] found that FDIs contributed to China's economic growth directly through capital accumulation and technological advancement, and indirectly through knowledge diffusion in the local economy. This study also confirms that the contribution of FDIs is influenced by local economic and technological conditions. FDIs have a stronger impact on economic growth through capital accumulation, technological progress, and knowledge spillovers in developed coastal provinces than in less developed inland provinces. Other researchers have come to similar conclusions.

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96 Ch. Chen, L. Chang, Y. Zhang, *The role of foreign direct investment in China's post-1978 economic development*, "World Development" 1995, Vol. 23(4), pp. 691–703.

97 S. Dees, *Foreign direct investment in China: Determinants and effects,* "Economics of Planning" 1998, Vol. 31(2), pp. 175–194.

98 S. Tang, E.A. Selvanathan, S. Selvanathan, *Foreign direct investment, domestic investment and economic growth in China: A time series analysis,* "World Economy" 2008, Vol. 31(10), pp. 1292–1309.

99 J. Whalley, X. Xin, *China's FDI and non-FDI economies and the sustainability of future high Chinese growth*, "China Economic Review" 2010, Vol. 21(1), pp. 123–135.

100 Ch. Chen, *Foreign Direct Investment in China: Location determinants, inwestor differences and economic impacts*, Cheltenham: Edward Elgar, 2011.

101 Ch. Chen, *Foreign Direct Investment and the Chinese Economy: A critical assessment*, Cheltenham: Edward Elgar, 2017.

For example: Buckley, Clegg, Wang and Cross (2002)[102] found that the growth-enhancing effects of FDIs are more pronounced in more developed (coastal) provinces than in less developed (inland) provinces, and that the full benefits of FDIs are realised when competition in local markets is stronger. Research by Yao and Weia (2007)[103] also found that FDIs have a significant impact on China's economic growth, but the positive impact is greater in the eastern regions than in the central and western regions. This also raises the issue of income inequality. Over the past decades, China has made remarkable progress in raising per capita income and improving the living standards of its people. The Human Development Index (HDI) has risen steadily over the years, from 0.484 in 1990 to 0.691 in 2010 and 0.768 in 2021 (79th out of 191 countries surveyed)[104]. Nevertheless, income inequality exists and is increasing in China. Some empirical studies suggest that FDIs have exacerbated income inequality between inland and coastal provinces in China[105]. Jalil (2012)[106] notes that income inequality increases as economic openness (measured by FDIs and trade openness) increases, and then begins to decline as openness reaches a critical point. Chen's study (2016)[107] found that FDIs directly contributed to reducing urban-rural income inequality by creating jobs for rural unskilled workers, knowledge spillovers through labour flows, and economic development of the local economy, resulting in higher rural household incomes. Shi, Zhu, Tang and Boamah (2022) draw similar conclusions. Overall, the empirical evidence suggests that while FDIs in China have contributed to the widening of the income gap between coastal and inland provinces, they have also had an impact on the reduction of urban-rural income inequality. The uneven regional distribution of FDIs, which are concentrated in the eastern region, has contributed significantly to the economic growth of the coastal provinces. However, the research shows that this has had a negative impact on inland provinces, including in terms of economic growth or urbanisation rates[108].

[102] P. Buckley, J. Clegg, C. Wang, A. Cross, *FDI, regional differences and economic growth: Panel data evidence from China,* "Transnational Corporations" 2002, Vol. 2(1), pp 1-28.

[103] S. Yao, K. Wei, *Economic growth in the presence of FDI: The perspective of newly industrializing economies,* "Journal of Comparative Economics" 2007, Vol. 35(1), pp. 211–234.

[104] UNDP, *Human Development Report 2021/22. Uncertain times, unsettled lives. Shaping our future in a transforming world,* New York 2022, p. 278.

[105] X. Zhang, K. Zhang, *How does globalization affect regional inequality within a developing country? Evidence from China*, "Journal of Development Studies" 2003, Vol. 39(4), pp. 47–67; X. Fu, *Limited linkages from growth engines and regional disparities in China,* "Journal of Comparative Economics" 2004, Vol. 32(1), pp. 148–164.

[106] A. Jalil, *Modelling income inequality and openness in the framework of Kuznets curve: New evidence from China*, "Economic Modelling" 2012, Vol. 29(2), pp. 309–315.

[107] Ch. Chen, *The impact of foreign direct investment on urban-rural income inequality: Evidence from China*, "China Agricultural Economic Review" 2016, Vol. 8(3), pp. 480–497.

[108] X. Fu, *Limited linkages from growth engines…,* op. cit.; Ch. Chen, *Do inland provinces benefit from coastal foreign direct investment in China?*, "China & World Economy" 2015, Vol. 23(3), pp. 22–41.

Tuan, Ng and Zhao (2009)[109] found that while FDI has an impact on total factor productivity (TFP) growth, key factors related to technology and knowledge, including R&D and human capital, also play an important role. According to Owen and Yu (2008)[110], FDIs flowing into labour-intensive sectors in China have contributed to an increase in job supply and wage levels, but an increase in wage inequality has also been observed.

Research provides evidence that FDIs generate positive productivity spillovers to domestic firms in China. For example: Chen (2011)[111] found that FDIs have a significant positive effect on the productivity of Chinese domestic firms in the same industry in the manufacturing sector. Zhao and Zhang (2010) or Xu and Sheng (2012) present similar findings. The results suggest that FDIs have played an important role in the export expansion of Chinese firms. Zhang and Felmingham (2001) show that there are positive and often causal relationships between FDI inflows and trade. However, the impact of FDIs on the export decisions and performance of Chinese firms varies across regions and firm types. Sun (2009)[112] found that FDIs have stronger spillover effects on domestic exports in the coastal region than in the hinterland. A study by Chen (2011)[113] shows that FDIs had a positive impact on exports of domestic firms in the same industry through demonstration effects, which were mainly generated by export-oriented foreign direct investors. Chen, Sheng and Findlay (2013)[114] found that FDIs have a positive impact on Chinese firms' export decisions, export-to-sales ratio and export value. They observed these effects in non-state-owned domestic enterprises. An interesting area of research is the impact of FDI knowledge transfer on domestic firms in China. Previous research assumed that domestic firms in the host market were massive recipients of FDI knowledge transfer and did generally not distinguish between the impact of FDI knowledge transfer on different types of domestic firms (Chang and Xu, 2008[115]; Xiao and Park, 2018[116];

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109 C. Tuan, L. Ng, B. Zhao, *China's post-economic reform growth: The role of FDI and productivity progress,* "Journal of Asian Economics" 2009, Vol. 20(3), pp. 280–293.

110 A.L. Owen, B.Y. Yu, *Regional differences in wage inequality across industries in China,* "Applied Economics Letters" 2008, Vol. 15(2), s. 113-116.

111 Ch. Chen, *Foreign Direct Investment in China…,* op. cit.

112 S. Sun, *How does FDI affect domestic firms'exports? Industrial evidence,* "World Economy" 2009, Vol. 32(8), pp. 1203–1222.

113 Ch. Chen, *Foreign Direct Investment in China…,* op. cit.

114 Ch. Chen, Y. Sheng, Ch. Findlay, *Export spillovers of FDI on domestic firms,* "Review of International Economics" 2013, Vol. 21(5), pp. 841–856.

115 S.J. Chang, D. Xu, *Spillovers and competition among foreign and local firms in China,* "Strategic Management Journal" 2008, Vol. 29(5), pp. 495-518.

116 S.S. Xiao, B.I. Park, *Bring institutions into FDI spillover research: Exploring the impact of ownership restructuring and institutional development in emerging economies*, "International Business Review", 2018, Vol. 27(1), pp. 289-308

and Jin, Garcia and Salomon, 2019[117]). Wang, Zheng, Zhang, Behl, Arya and Rafsanjani (2023)[118] examined how knowledge flows from foreign direct investment affect the performance of domestic new ventures. Data were collected on 103 Chinese start-ups and FDI inflows to China in 2017. The results show that the negative competitive effect caused by foreign firms outweighed the knowledge spillover effect of FDI. The study highlights the importance of including the heterogeneity of domestic firms in the study of FDI knowledge spillovers.

The above review of research on selected areas of the impact of FDIs on the Chinese economy is not exhaustive. In general, FDIs have influenced China's economic development both directly, through increased investment, and indirectly, inter alia, through increased productivity and knowledge spillovers. This is due to the benefits that domestic firms have derived from the influx of FDIs, such as the ability to derive technological know-how and demonstration effects on innovation activities. It is important to highlight the persistent problem of uneven distribution of positive effects associated with the impact of FDIs on the Chinese economy. Coastal provinces with a concentration of FDI are the main beneficiaries. The Chinese government is aware of this. It is taking measures to promote contacts, information exchange, production and technology cooperation, joint R&D activities, industrial linkages and competition between foreign and domestic enterprises in general, and between enterprises in coastal provinces and those in the hinterland in particular, in order to accelerate the spread of the positive effects of FDIs throughout the Chinese economy.

Summary

In the literature, FDI (especially greenfield FDI) is seen as a favourable and relatively safe form of international capital flows and financing for restructuring and development processes. In the presence of favourable systemic and structural factors, FDI can be an important factor in accelerating economic growth and development. What is important is that FDI leads to an intensification of the linkages of the host country's FDI economy with the world economy and thus to its integration into the international division of labour. China is a case in point.

[117] B. Jin, F. Garcia, R. Salomon, *Inward foreign direct investment and local firm innovation: The moderating role of technological capabilities*, "Journal of International Business Studies" 2019, Vol. 50(5), pp. 847-855.

[118] H. Wang, L.J. Zheng, J.Z. Zhang, A. Behl, V. Arya, M.K. Rafsanjani, *The dark side of foreign firm presence: How does the knowledge spillover from foreign direct investment influence the new venture performance,* "Journal of Innovation & Knowledge" [online] 2023, Vol. 8(3), 100399, https://doi.org/10.1016/j.jik.2023.100399 [access: 13.11.2023].

Research on the impact of foreign direct investment on the economy of FDIs host country covers various areas. The research topics include the effects of FDIs on resources (to what extent FDIs complement domestic financial resources), on the labour market (whether FDIs contribute to employment growth), on the fiscal sphere (whether FDIs contribute to increased budget revenues), on foreign trade (whether the FDIs contribute to an increase in trade in terms of relevance to the current account and balance of payments), on technology (whether the FDIs contribute to a reduction in the technological gap (if any) between the country of origin of the direct investor and the host country of the FDI through the accompanying transfer of, inter alia, organisational and managerial knowledge and skills), on the environment (whether the FDIs have an impact on the environment, including CO_2 emissions, and to what extent), on regional development (whether FDIs contribute to the reduction of regional inequalities (if any) or, on the contrary, if they increase regional inequalities). Research is becoming more in-depth in specific areas. Researchers are using a variety of methods, both quantitative and qualitative.

Foreign direct investment not only brings benefits to the host country, such as increase in capital accumulation, production efficiency, innovation (in products, production process, management methods, organisational structure), increase in employment, labour productivity, stimulation of consumption through import substitution and creation of exports – impact on the improvement of the current account balance, increase in budget revenues from direct and indirect taxes, improving the quality of local resources, creating supporting and related sectors, stimulating local investment through links in the production chain when FDI purchases locally produced inputs or when they supply inputs to local enterprises, developing entrepreneurship (local partners, subcontractors, co-operators), industries, sectors and ultimately the whole economy. FDI may also be associated with possible negative effects for the FDI host country, such as displacement of local enterprises from the market, which are unable to cope with the intense competition generated by enterprises with greater competitive capacity (potential and ability to use it), pushing domestic production into areas of low added value, while generating imports of technologically advanced products, or in the case of brownfield FDI – technology absorption, redundancies as a result of employment rationalisation and transfer of modern technologies, the creation of barriers that prevent the diffusion of knowledge and innovation into the host country's economy, increasing imports or limiting exports, affecting the current account balance, limited participation in the generation of budget revenues due to the implementation of tax optimisation policies (use of transfer pricing practices or use of tax credits and exemptions), deepening regional inequalities (concentration of FDI in selected regions). These effects have also occurred in China to varying degrees, but the important role of FDI in the development of the Chinese economy should be emphasised.

An important challenge for Chinese policymakers is to reduce the existing uneven regional distribution of FDI. The main beneficiaries of the positive effects associated with FDIs are the coastal provinces in the eastern part of the country, where FDIs are concentrated. China is open to foreign direct investment, especially the one that contributes to the achievement of the country's development goals, of which further improvement of the level of innovation and competitiveness of the economy is central.

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The Impact of Foreign Direct Investment on the Host Economy of FDI: The Case of China – a Review of Research

Abstract

The aim of this article is to review the research on the impact of FDI on the economy of FDI host country and to identify the main areas of research. The example of China as an FDI host country is of interest because of the importance of FDI in the development of its economy in the period from the implementation of the reform and opening-up policy to the present day. China has become the largest recipient of FDI among developing countries and the second largest recipient of FDI in the world after the US. Selected academic publications in the period from 2000 to 2023 on the impact of FDI on the economy of the host country of this investment were analysed. Their review and analysis also allowed for the identification of the main areas of research. Differences in measurement methods, models, the size of the research samples, the time span of the research, the types of countries covered and the resulting generalisations are the main limitations. Nevertheless, this review is valuable, especially for researchers to deepen research on selected areas of the impact of foreign direct investment on the economy of the FDI host country. The conclusions may also help host country authorities to define FDI policies in order to harness the positive or reduce the negative impact of FDI on the host country.

Keywords: foreign direct investment, FDI, capital flows, economy, FDI host economy, China

Oddziaływanie zagranicznych inwestycji bezpośrednich na gospodarkę państwa przyjmującego ZIB na przykładzie Chin – przegląd badań

Streszczenie

Celem artykułu jest przegląd badań na temat oddziaływania zagranicznych inwestycji bezpośrednich na gospodarkę państwa przyjmującego ZIB wraz z identyfikacją głównych obszarów badań. Przykład Chin jako państwa przyjmującego ZIB jest interesujący ze względu na znaczenie zagranicznych inwestycji bezpośrednich w rozwoju gospodarki tego państwa od czasu wdrożenia polityki reform i otwarcia do dziś. Chiny stały się największym odbiorcą ZIB wśród państw rozwijających się i drugim największym odbiorcą ZIB na świecie po USA. Analizie poddano wyselekcjonowane publikacje naukowe z lat 2000-2023 dotyczące wpływu ZIB na gospodarkę państwa przyjmującego te inwestycje. Ich przegląd i analiza pozwoliły również na identyfikację głównych obszarów badań. Różnice w metodach pomiaru, modelach, wielkości prób badawczych, zakresu czasowego badań, typach państw objętych badaniami i wynikające z nich uogólnienia to główne ograniczenia. Niemniej, przegląd ten ma wartość, głównie dla badaczy problematyki dla pogłębiania badań nad wybranymi obszarami oddziaływania zagranicznych inwestycji bezpośrednich na gospodarkę kraju przyjmującego ZIB. Wnioski mogą także pomóc władzom krajów przyjmujących w określeniu polityki ZIB, która pozwoli wykorzystać pozytywne lub zmniejszyć negatywne skutki ZIB dla kraju przyjmującego.

Słowa kluczowe: zagraniczne inwestycje bezpośrednie, ZIB, przepływ kapitału, gospodarka, państwo przyjmujące ZIB, Chiny

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