Sandra Stojadinovic Jovanovic[1]

FOREIGN DIRECT INVESTMENT OUTFLOWS: NEW FORM OF EXPORT

Global economy is characterized by large foreign direct investment flows and by fast increase of international trade flows. These forces are the main drives of the global growth. Foreign direct investments are usually analyzed from the financial aspect, as one form of investment flow. However, from the aspect of international trade, foreign direct investment flows represent one specific form of trade flows. The paper researches the connection between foreign direct investment outflows and trade and reveals that foreign direct investment outflows represent the specific form of export. Furthermore, the paper reveals the impacts of this connection on the international trade.

Keywords: *foreign direct investments, international trade, export.*

Сандра Стоядіновіч Йовановіч

ПРЯМІ ІНОЗЕМНІ ІНВЕСТИЦІЇ ЯК НОВА ФОРМА ЕКСПОРТУ

У статті показано, що глобальна економіка характеризується значним об'ємом прямих іноземних інвестицій і швидким зростанням міжнародної торгівлі. Ці явища - основні чинники глобального зростання економіки. Прямі іноземні інвестиції зазвичай аналізують з фінансової точки зору, як один з різновидів інвестування. Але в аспекті міжнародної торгівлі іноземні інвестиції є різновидом торговельних потоків. Досліджено зв'язок між потоками прямих іноземних інвестицій і торгівлею, показано, що ПІІ є різновидом експорту, розглянуто вплив цього зв'язку на міжнародну торгівлю.

Ключові слова: *прямі іноземні інвестиції; міжнародна торгівля; експорт.*

Сандра Стоядинович Йованович

ПРЯМЫЕ ИНОСТРАННЫЕ ИНВЕСТИЦИИ КАК НОВАЯ ФОРМА ЭКСПОРТА

В статье показано, что глобальная экономика характеризуется значительным объемом прямых иностранных инвестиций и быстрым ростом международной торговли. Эти явления - основные факторы глобального роста экономики. Прямые иностранные инвестиции обычно анализируют с финансовой точки зрения, как одну из разновидностей инвестирования. Но в аспекте международной торговли иностранные инвестиции являются разновидностью торговых потоков. Исследована связь между потоками прямых иностранных инвестиций и торговлей, показано, что ПИИ являются разновидностью экспорта, рассмотрено влияние этой связи на международную торговлю.

Ключевые слова: *прямые иностранные инвестиции; международная торговля; экспорт.*

Introduction. The world economy was characterized by the large flows of foreign direct investments (FDI) in the second half of the 20th century. These flows became especially high in the 1990s and in the first decade of the 21st century, reaching the peak of 1,971 bln. USD in 2007 [12, p. 2]. After the large decline in 2008-2009, global foreign direct investment flows had moderate growth of 5% and achieved 1,244 bln. USD in 2010. Although the economic crisis affected the world economy, world foreign direct investment flows rose by 17% in 2011, to 1,504 bln. USD, surpassing their

[1] Assistant Professor, Faculty of Economics, University of Kragujevac, Serbia

pre-crisis average of 1,472 bln. USD for the period 2005-2007 [10, p. 1]. Despite the impact of the economic crisis and the turbulences and fragility of the world economy, UNCTAD estimates that foreign direct investment flows will also rise in 2012 to around 1.6 trln. USD [10, p. 5]. Therefore, recovery, further rise of foreign direct investments and follow-up of their overwhelming impact on the world economy can be expected. FDI will continue to drive global growth and trade.

Besides foreign direct investment flows, the world economy is also characterized by the fast increase of international trade flows, especially in the second half of the 20th century. International trade has become the most important economic activity in the world economy [3, p. 182]. With a much higher growth rate, international merchandise trade grew much faster than the world production [17, p. 1]. Since the 1950s to the early 21st century, the value of international merchandise trade has increased over 125 times, from 58 bln. USD in 1948 to 7,294 bln. USD in 2003 [15, p. 30]. In 2008 the volume of the world merchandise export achieved 15.7 trln. USD [18, p. 10]. In 2009 the international merchandise trade recorded its greatest downturn since the Second World War declining by 22% during the previous 2008 to 12.2 trln. USD. The 2009 decline was roughly offset by the sharp rebound of international trade by 22% in 2010, rising from 12.2 to 14.8 trln. USD [19, p. 11; 20, p. 22]. The world merchandise trade rebounded faster than the world GDP in 2010, and as a result the ratio of the world trade to GDP rose sharply after falling even more sharply in 2009. At 124 in 2010, it remained below its 2008 peak of 132, but the 2010 value was still high by historical standards [21, p. 24]. Again the international trade has become the force driving the world economy growth.

The two crucial forces driving global growth are foreign direct investments and international trade. However, FDI flows and trade flows are usually the subject of separate analyses. But, as the paper will show, these flows are closely connected and interwoven. Therefore, they have significant implications on the analysis of the international trade and foreign trade of an individual country.

Relationship between Foreign Direct Investment Outflows and Export. The largest source of foreign direct investments and also the largest recipient of thenin the world economy is the group of developed countries. This group of countries accounted for more than 71% of world foreign direct investment outflows and more than 48% of world foreign direct investment inflows in 2010 (Table 1). Although their shares decreased notably, they are still the most important countries of world FDI.

Regarding international trade and foreign trade of an individual country, foreign direct investment outflows represent a specific form of export. For home countries, outflows of FDI, that is undertaking direct investments abroad, means leaving traditional export to other markets through organizing production in a home country and undertaking classic cross-border sale on foreign markets in favor of other, specific form of export. This other form of export happens through the affiliates established as a result of foreign direct investment outflows in foreign countries which undertake production and selling on these and other foreign markets (local markets of host countries and other, third markets). In this way, through affiliates which are the results of foreign direct investment outflows, home country accomplishes specific form of export - indirect export. Therefore, outflows of foreign direct investments can be considered as the specific form of export from the aspect of foreign trade of an individual home country. This kind of export that happens through international production, and sales of foreign affiliates started to represent a very important and dominant form of export after 1990s [6, p. 99].

The countries that are the largest sources of world foreign direct investments (developed countries) had much larger share in world foreign direct investment outflows (71%) than in world merchandise export (55%) in 2010 (Table 1). Calculations for the previous period show the similar relations in previous years: in 1993 these shares were 87% and 69.8% [4, p. 545], in 2003—93% and 64.5% [6, p. 24], and in 2005 83% and 60.1% [7, p. 3] respectively. This trend of larger shares in world foreign direct investment outflows than in world merchandise export reveals the continuous importance of non-classic specific form of export (export through foreign direct investment outflows) for developed countries. It also reveals that export through outflows of foreign direct investments from these countries is the main form of export for them.

Table 1. **FDI flows and merchandise trade flows of developed countries, 2010 (bln. USD)**

	Developed countries (1)	World (2)	Share in the world (1/2)
Merchandise exports	8,168.0	14,851.0	55%
FDI outflows	935.2	1,323.3	71%
Merchandise imports	8,895.4	15,077.0	59%
FDI inflows	601.9	1,243.7	48%

Source: Author's calculations based on the selected data from [12, p. 187; 20, pp. 22-23 and 21, pp. 24-25].

The situation is different with import, where this group of countries had smaller share in the world foreign direct investment inflows (48%) than in the world merchandise import (59%) in 2010. As in the case of export, calculations for the previous period show similar relations in the previous years: in 1993 these shares were 62% and 68.3% [4, p. 545], in 2003 — 65.5% and 69% [6, p. 24], and in 2005 — 59.2% and 65.7% [7, p. 3] respectively. But, in this case the trend shows that this group of countries uses more traditional forms of merchandise import.

Former analysis allows us conclude that a dominant form of export for developcountries is not classic, traditional export which takes place across national borders, but a specific form of export (indirect export) which takes place through affiliates established abroad as a result of FDI which conduct production (international production) and sales at different markets — at a host country market, home country market and other countries market. These observations are very important because of their impact on our understanding and analysis of international trade flows.

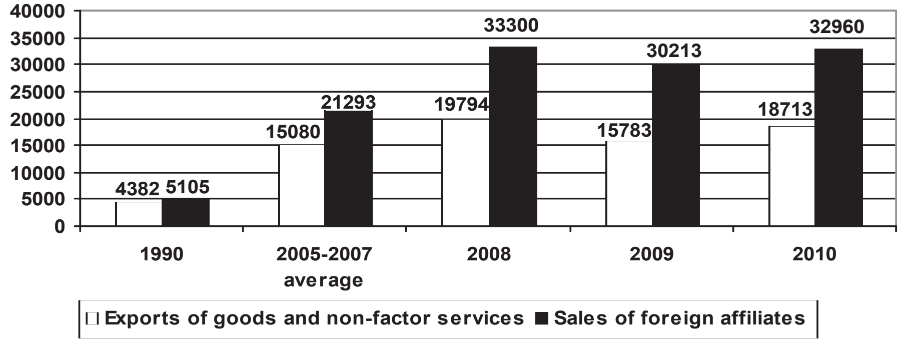
Impacts on International Trade Analysis. The implications of the former specified research results are very significant. The continuous trend of exports which are higher through affiliates established abroad as a result of foreign direct investment outflows than through classic, traditional export has a great impact both on international trade analysis and foreign trade analysis of individual countries.

First, there are impacts on the existing comprehension and analysis of the international trade. The existing, classic system of international merchandise trade statistics is based on the UN methodology of international trade statistics featured in UN's *International Merchandise Trade Statistics: Concepts and Definitions* (IMTS), which represents the basic international publication made of recommendations that should be applied in international merchandise trade statistics. The original version was issued in 1970, and at the present time a revised version IMTS, Rev. 2 [8] is in force. Existing system of international merchandise trade statistics includes only classic trade transactions being performed across national borders between residents and non-residents. These transactions are recorded in national balance of payments accounts. Consequently, the existing system of international trade statistics and also the existing system of international trade analysis based on it comprise only classic, cross-border traditional form of export. This means that indirect export performed through the affiliates established through foreign direct investments is not encompassed in the existing classic trade statistics and analysis. Our analysis of international trade lacks one important trade flow - indirect export through foreign affiliates. Therefore our insight in international trade flows is not complete and it is not in line with contemporary changes in forms and ways of selling goods at international markets.

The new, specific form of export, indirect export, through foreign affiliates became particularly important after the 1990s (Figure 1). Up to the 1990s the sales of foreign affiliates and the world export were almost equal. But after the 1990s the sales of foreign affiliates accomplished faster growth and higher value (almost double in some years) than the world export. It can be observed that after 1990 firms started to export more through foreign affiliates which are the result of foreign direct investments, than through traditional, cross-border exportation. Thus, exporting through foreign affiliates and foreign direct investments has become more important than traditional exporting. The outstanding sales of foreign affiliates after the 1990s that are not covered and not included in our analysis of international trade flows show that the existing, traditional, classic coverage and analysis of international trade are inadequate and incomplete.

Second, there are impacts on the existing analysis of the foreign trade of individual countries. Because of the fact that official foreign trade statistics capture only the traditional, direct, cross-border export and do not capture indirect export, the existing coverage and analysis of foreign trade of an individual country are also inadequate and incomplete. Furthermore, the shift of production abroad to a foreign affiliate (international production) results usually in the reduction of exports from a home country to a host country of FDI. In this context, the tendency of decreasing the values of classic, direct export registered in balance of payments of countries that are home countries and large sources of foreign direct investments can be observed. Also, closely connected to the previous statement is the impression that national competitiveness of those countries is being reduced.

Figure 1. **Exports and foreign affiliate sales, 1990-2010 (bln. USD)**



Source: Author's graphical presentation of the selected indicators, data obtained from [12, p. 24].

The tendency towards decreasing balance of payments values of exports of some developed countries, especially those with large outflows of FDI and great number of foreign affiliates, is noticeable. By performing one part of production and sale from affiliates established by foreign direct investments abroad instead of "at home" and by realizing indirect export, a home country will have smaller value of classic, direct export registered by official foreign trade statistics in trade balance. The Outstanding is the example of the United States. The United States is the world's biggest trader in merchandise, but it has a long-term, large and increasing trade deficit. Its merchandise trade deficit was 476.5 bln. USD in 2000 [14, p. 21], totaled 579.3 bln. USD in 2003 [15, p. 19] and in 2005 achieved the record level of 828 bln. USD [16, p. 17]. In 2010 the US merchandise trade deficit amounted to 691 bln. USD [20, p. 16]. Large annual trade deficits give impression that the United States imports more than it manages to export every year.

However, we have to bear in mind the United States has the largest FDI outflows that reached 328.9 bln. USD in 2010 and averaged over 307 bln. USD for 2006-2010 [12, p. 187]. The result of these huge FDI outflows is a great number of foreign affiliates established by the US companies which exceeded 20,000. In 2010 the number of foreign affiliates of the US companies reached 27,251 [9]. At the same time, the sales of these US-owned affiliates exceeded 3 trln. USD. Only in 2009 the sales by foreign affiliates of the US companies amounted 4,857 bln. USD (of which sales of goods were 3,445 bln. USD) [1, p. 46]. Compared with the value of the US merchandise export, that was 1,056 bln. USD in 2009 [19, p. 13], it can be noted that the US foreign affiliate sales are more than 3 times larger than the US exports. This means that U.S. companies perform a larger share of exports through the above explained specific form of export (indirect export through foreign affiliates of their companies that are the result of foreign direct investment outflows) than through classic, direct export. Similarly, in 2001, the US foreign affiliate sales topped nearly 3 trln. USD which was also roughly 3 times larger than the US exports of goods and services. According to [5], because foreign affiliate sales are not included in the US exports, a great deal of global commerce is missing from the reported trade figures. Therefore, without inclusion of this new, specific, indirect form of export in official statistical export figures and analysis we will not have a complete image of the export and trade flows of the country.

The issue of national competitiveness is related to the former topic. Regarding increasing US trade deficit and decreasing value of traditional, direct, cross-border export registered in trade balances and presented in official national foreign trade figures, it seems that the country export competitiveness is being reduced. Smaller exports of the country indicate a declining competitiveness of its companies that are not able to compete with others at international markets. However, the former analysis shows that registered data on export available in official foreign trade statistics represent only one form of exportation. As we can see, the US companies export more through foreign direct investment outflows and affiliates abroad, that is through indirect export, than through traditional, direct export. Therefore, we can conclude that from this aspect competitiveness of the US is not being reduced but is being realized in other ways. This is compatible with the top ranking of the US in the lists of competitiveness of the World Economic Forum [13, p. 362]. Therefore, this is one more field which requests taking into account the other form of export — indirect export through foreign affiliates, in our analysis and assessment of national export competitiveness.

Conclusion. The paper leads us to the following conclusions:

- investment (FDI) flows are closely connected and interwoven with trade flows;
- outflows of FDI represent a specific form of export for home countries;
- increasingly more companies export goods through outflows of FDI then through classic export of goods at international markets;
- the analysis of trade flows must include investment flows as a new form of selling goods and services at the international market.

These conclusions should be taken into account in all the analyses of international trade and foreign trade of individual countries. The conclusions require changes in our comprehension of the international trade. They require changes in existing statistics system, coverage and analysis of the international trade.

The need for further improvements in the area of the methodology of international merchandise trade statistics in a view of new developments in international merchandise trade is recognized. New developments include growing foreign direct investment flows and expansion of foreign affiliates followed by new ways of selling goods at international markets. As a result, there are new trade flows and new export forms in the world economy. They have to be captured in international merchandise trade statistics and included in international trade analysis.

The paper identified several fields which must take into account the new, specific form of export — export through outflows of foreign direct investments and foreign affiliates, not only in our analysis of international trade and foreign trade of individual countries but also in the assessment of national export competitiveness.

References:

Barefoot, K. B., Mataloni Jr., R. J. (2011). Operations of U.S. Multinational Companies in the United States and Abroad, Survey of Current Business, BEA, U.S., November 2011, Internet, http://www.bea.gov/scb/pdf/2011/11%20November/1111_mnc.pdf, [Accessed 31/01/2012].

Bjelic, P. (2008). Fondations of the new concept of international trade, in: Transitional Challenges of EU Integration and Globalization, International Conference of the School of Economics and Business (ICES 2008), Sarajevo, Bosnia and Herzegovina, October 7-10, 2008, Book of Extended Abstracts pp. 30-32 and CD ROM with full papers pp. 1-9.

Bjelic, P., Stojadinovic Jovanovic, S. (2009). New Concept of International Trade Statistics, in: Irena Kikerkova and Daniela Mamutcevska (eds.), Regional Cooperation and Economic Integration - Challenges and Opportunities, 3rd International Conference of the Faculty of Economics Ss.Cyril and Methodius University, Skopje and Customs Administration of the Republic of Macedonia, Skopje, Republic of Macedonia, October 15-17th, 2009, pp. 181-192.

Kozomara, J. (1996). The role of foreign direct investments in international trade, in: Finance, Poslovni sistem Grmec AD - Privredni pregled, Belgrade, May-June 1996. (in Serbian)

Quinlan, J. (2004). Forget About the U.S. Trade Deficit?, in: The Globalist, http://www.theglobalist.com/StoryId.aspx?StoryId=4018, July 2004 [Accessed 31/01/2012].

Stojadinovic Jovanovic, S. (2008). International trade and transnational companies - substitute or complement, in: International problems, Institute of International Politics and Economics, Belgrade, No. 1/2008, pp. 93-115. (in Serbian)

Stojadinovic Jovanovic, S. (2008). Impact of foreign direct investments on trade flows, in: Transitional Challenges of EU Integration and Globalization, International Conference of the School of Economics and Business (ICES 2008), Sarajevo, Bosnia and Herzegovina, October 7-10, 2008, Book of Extended Abstracts pp. 233-234 and CD ROM with full papers pp. 1-8.

UN (1998). International Merchandise Trade Statistics: Concepts and Definitions, Department of Economic and Social Affairs, Statistics Division, Studies in Methods, ST/ESA/STAT/SER. M/52/Rev. 2, United Nations, New York.

UNCTAD database, Internet, http://www.unctad.org/sections/dite_dir/docs/WIR11_web%20tab %2034.pdf, [Accessed 31/01/2012].

UNCTAD (2011). Global Investment Trends Monitor, UN, No. 8, 24 January 2012.

UNCTAD (2011). Trade and Development Report 2011, New York and Geneva.

UNCTAD (2011). World Investment Report 2011, UN, New York and Geneva.

World Economic Forum (2011). Global Competitiveness Report 2011-2012, Geneva.

WTO (2001). International Trade Statistics 2001, Geneva.

WTO (2004). International Trade Statistics 2004, Geneva.

WTO (2006). International Trade Statistics 2006, Geneva.

WTO (2007). International Trade Statistics 2007, Geneva.

WTO (2009). International Trade Statistics 2009, Geneva.

WTO (2010). International Trade Statistics 2010, Geneva.

WTO (2011). International Trade Statistics 2011, Geneva.

WTO (2011). World Trade Report 2011, Geneva.

Стаття надійшла до редакції 23.01.12