3.3 Expanding the Trade and Investment Linkages

The above analysis is based on a traditional view of examining a country's external position based on the macroeconomic evidence of balance of payments flows and current and capital account balances. The explosive growth of the world stocks of direct investment abroad through the eighties from US $517 billion to US $1.6 trillion in 1990 has also advanced the view that the world has become more intricately linked through direct investment over this period.

3.3.1 FDI-Related Trade

Generally speaking, foreign-owned firms are responsible for a greater share of their host country's exports and imports than of its sales or investments. FDI-related trade can be defined as cross-border transactions between foreign-owned firms and their home countries. FDI-related trade then differs from intra-firm trade in that it includes all trade between the foreign-owned firm and the home country, not just trade between the foreign-owned firm and the parent firm. The extent to which a country's trade is FDI-related will depend on the size and propensity to trade of its own multinational enterprises abroad and of the MNEs for which the country serves as a host.

Table 1 shows a comparison of FDI-related trade for the U.S. and Japan.

Table 1

FDI-RELATED TRADE
(Percent of Total Merchandise Exports or Imports)

	U.S. (1986)	Japan (1983)
Exports:		
To Affiliates Abroad	32	38
By Foreign-Owned Firms	23	3
Total FDI-Related Exports	**55**	**41**
Imports:		
From Affiliates Abroad	18	40
To Foreign-Owned Firms	34	17
Total FDI-Related Imports	**52**	**57**

Source: Julius (1990)