

studies, covering a number of sectors, confirm a positive relationship between FDI inflows in the host country and the total volume of a host country's exports²⁰.

Moreover, there is some evidence to suggest that in general, foreign-owned firms have a higher propensity to export than locally-owned firms. Foreign firms often have a better knowledge of the international market and can more quickly respond to changing international demands²¹. The size and efficiency of their distribution network may also give foreign firms an advantage²². Several studies also show that foreign affiliates can have a positive spill-over impact on the export propensity of local firms²³. Export performance may also be encouraged through FDI policy. Investment policies, such as those seeking to impose a mandatory requirement to export a certain portion of the local production²⁴ and/or FDI policy biased towards export-oriented sectors, are designed with export promotion in mind²⁵.

The evidence on the relationship between FDI and imports is mixed. Some studies indicate that the inflow of FDI reduces host country's imports²⁶. Other studies find that inward FDI raises host country's import levels²⁷. Affiliates normally have a high propensity to import intermediate inputs from the home country, particularly when such inputs are either not available in the host country or the quality of the local supplies is not assured²⁸.

²⁰World Bank (1997); Hill (1990); Lipsey (1991).

²¹Chen (1994).

²² The role played by intra-corporate or intra-firm trade is significant in North America.

²³Hill (1990); Aitken, Hansen & Harrison (1994).

²⁴The WTO TRIMS (Trade Related Investment Measures) are inconsistent with these types of restrictions. See the Chapter on TRIMS (the Illustrative List in the Annex) in *The Results of the Uruguay Round of Multilateral Trade Negotiations Legal Texts* (1994).

²⁵For instance, the deliberate policies of host governments to set up export promotion zones (e.g., the Free Economic Zones in East Asia) to stimulate export, employment, and technology transfer have encouraged foreign firms to establish affiliate operations in these zones. Graham & Krugman (1993); Graham & Anzai (1994); Naujoks & Schmidt (1995).

²⁶WTO (1996).

²⁷Graham & Krugman (1993); Graham & Anzai (1994); Naujoks & Schmidt (1995).

²⁸OECD (1993).