

flows. The nature of the industry sector for an investment project will also affect balance of payments flows. For example, a mining sector project in a developing country will have large import flows at the beginning of the project, but positive net export flows much later. However, a relatively labour-intensive, export-oriented project could generate much faster positive balance of payments flows much earlier than a mining project.

Government policies can also have important effects on the balance of payments impact of direct investment projects. Government policies which aim to maximize balance of payments flows may encourage non-competitive production due to price distortions created by government policy. The benefits of a government policy designed to allow for market forces to set prices through low tariffs and open investment policies would be to align investment more closely along a country's natural comparative advantages. Balance of payments data, especially for developing countries, probably tend to underestimate the positive indirect effects of direct investment on an economy's competitiveness over the long run.

3.2.2 Home Country Impacts

The literature on the analysis of direct investment effects on the home country's balance of payments, growth and employment have generally been between industrialized nations and developing countries.

The following effects have been identified when examining the impact of outward direct investment on a home country's balance of payments:

- the initial capital transfer to finance an investment (assuming no financing abroad or reinvestment of earnings) will have a negative impact on the capital account. However, a movement of capital equipment or material in lieu of a transfer of funds would provide an immediate positive contribution to the current account.
- foreign plant production will generate a demand for parent or home country goods or services making a positive balance of payments effect.
- a fully established subsidiary will generate a steady stream of funds to the parent in the form of profits repatriated, dividends, etc.
- a fully productive subsidiary servicing the foreign market will displace exports from the home country, negatively affecting the balance of payments.
- an export-oriented subsidiary competing in the home country's market would increase the home country's import level, negatively affecting the balance of payments.