Research on the Relationship between Direct Investment and International Trade

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Abstract: International trade and international direct investment are two most important international economic activities. Revealing the relationship between the two countries is conducive to formulating international trade policy and international direct investment policy. This paper reviews the development history of international trade theory and international direct investment theory, and the current research situation of the relationship between international trade and international direct investment. Scholars at home and abroad have not distinguished between international trade incentives and international direct investment in existing studies.

1. Introduction

International trade and international direct investment are two basic forms of international division of labor, and are the two most important international economic relations. The traditional research puts the international trade theory and the international direct investment theory into different analysis frameworks respectively, which makes the theoretical research of international trade and international direct investment isolated for a long time. With the development of economic globalization, people have a deeper understanding of international trade and international direct investment. There are three theoretical models, Mundell's mutual substitution model, Markuson and Svensson's complementarity model, Bhagwati's model, which is the mutual substitution model of international trade and international direct investment. Dinopou-los's compensation investment model reveals the trade-off between investment and investment processes and complementary mechanisms. Based on the relevant economic theory, this paper discusses the relationship between international trade and international direct investment and the development trend of cross and fusion of the two.

2. The Complementary Relationship between International Trade and International Investment

The complementary and creative effect of international direct investment on international trade mainly refers to the fact that international direct investment can create new trade opportunities between the home country and the host country, so that trade can be carried out on a larger scale. Multinationals' overseas subsidiaries often create alternative products (intermediate products, technologies) and services as well as substituting trade. These products and services may come from other branches of the parent company or from third-country enterprises, thereby expanding trade between the home country and the host country. In addition, the cost advantages and efficiency of OFDI can expand trade between the investor and the host country through the repatriation of the product to the investor. The impact of international direct investment on international trade is different in different industrial sectors. In general, FDI in manufacturing industry has greater trade creation effect than trade substitution effect. Today's FDI is no longer a simple flow of capital. It is a general movement that includes capital, technology, management, and human capital. Many of the reasons for investment are not caused by barriers to trade, so investment and trade are Will appear as a complementary rather than an alternative. Under such conditions, capital flows will lead to further international division of labor and specialized production, thus expanding the scale of trade. According to Kojima's theory of marginal industry expansion, foreign

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direct investment should be carried out in turn from the industries where the investment countries are already at or about to be disadvantaged, that is, marginal industries. These marginal industries are industries in which the host country has a comparative advantage or a potential comparative advantage. Starting from the marginal industry investment, can make the country's rich capital, technology, management skills and cheap labor resources of the host country to combine to play the industry's comparative advantage in the host country. In this way, international direct investment is not a simple alternative to international trade, but there is a certain degree of complementary relationship, in many cases, the international direct investment can also create and expand foreign trade. Kojima's theory of international direct investment unifies the theory of international trade and international direct investment under the principle of comparative advantage. Through the empirical study of Japan, he believes that the Japanese model of foreign direct investment and foreign trade relations is not an alternative but Complementary relationship between Japan's foreign direct investment can expand foreign trade. Because the Japanese model of foreign direct investment is in the position of being or in the inferior position of the marginal industry progressive, and cheap labor in the host country after the combination of the cost of production of products reduced by the Japanese import of these products is beneficial to Japan . With the expansion of foreign direct investment in Japan, on the one hand, it can promote the export of machinery and equipment from the investment countries, and on the other hand, it will encourage the investment countries to increase their imports, thus creating and expanding the foreign trade of the investment countries.

3. The Substitution of International Trade and International Direct

International trade and international direct investment is the substitution of the relationship between trade barriers will have the flow of capital, and capital flow barriers will produce trade. From a static point of view, a commodity can trade or investment into a country's market, the choice of investment will be an alternative to trade, especially in the two production function is the same or similar substitution effect is more obvious. As a result of the internationalization of companies, international direct investment does have an alternative relationship with international trade, and the internationalization of multinational corporations in many manufacturing industries is shown as follows. Trajectories: export - licensing trade - other contractual arrangements - foreign subsidiaries - the establishment of international production and management system, such a direct investment in international trade must have an alternative to the previous role. This substitution mainly includes the following cases: the output of the overseas subsidiary replaces the parent company's export; the production of the subsidiary replaces the exportation of the home country's competitors; the production of the subsidiary replaces the local market or other companies in the third market ; The production of the subsidiary replaces the export of the other suppliers of the country to the host country.

The substitution of international direct investment for international trade is actually substituting the international flow of the factors of production (mainly capital) to replace the international flow of goods, so as to bypass the tariff barriers. From a holistic point of view, the movement of capital elements did not increase the total output of the world's commodities, but the geographical shift in the production and sale of commodities. From the theoretical analysis, if there is trade barriers and free flow of international capital of these two conditions, then the international capital flows can eventually replace the international trade. In other words, in the presence of international trade barriers, if the direct investment firms along the specific path of the implementation of cross-border direct investment, then the transnational direct investment will be able to relatively best efficiency or minimum production factors conversion costs, To achieve a complete replacement for the trade in goods, which is the 1950s Mundell established trade and investment alternative model revealed the basic principles. However, in the real international economic relations, trade barriers through GATT and the coordination of the WTO has been weakened, GATT under the auspices of the eight rounds of trade negotiations, the most important outcome is to cut tariff barriers in the WTO But also to implement the necessary management of foreign investment, and some countries even set up investment barriers, leading to international capital can not be unlimited free flow. For these reasons, the substitution of international trade and international direct investment can not be a complete substitute.

4. Contemporary International Trade and the Development Trend of International Direct Investment

Trade between developed countries in the world trade in absolute dominance, and trade between developing countries is also expanding is the post-war changes in international trade, the main indication of geographical direction. There are many reasons for the change of the international trade flow. However, the rise of transnational corporations and foreign direct investment mainly concentrated in the developed industrial countries and regions is an important reason for the change of geographical orientation of trade. A noTable feature of post-war direct investment is between developed countries (US, Japan and Europe). In addition, post-war FDI inflows to developing countries are gradually increasing, and the mutual investment capacity among developing countries is also increasing. The similarity between the geographical flow of international investment and the geographical flow of international trade can reflect the creative effect of international direct investment on international trade to a certain extent.

Before World War II, the manufactured goods of the developed countries were exchanged with the primary products of the backward regions and countries. After the war, the manufactured goods in the international trade became the main commodities of international trade. In industrial products, the traditional industrial trade decreased gradually, high-tech industrial trade increased rapidly, such as computers and other electronic products trade is increasingly important. The main reason for this change is the flow of capital across borders and it is the process of industrialization in developing countries, while accelerating, while promoting the rapid development of intra-industry trade. After the war, more international capital flowed into the manufacturing sector and the newly industrialized sectors. In particular, most of the foreign capital inflows to the developing countries was devoted to the processing industry, which effectively promoted the export of industrial products from these countries. At the same time, foreign direct investment in developed countries from the primary products industry and manufacturing industry to a large number of commercial, financial and insurance services sector. In recent years, international trade in services has been growing at a rapid pace, and the expansion of international trade in services is closely related to the rapid growth of international direct investment. Because multinational companies tend to trade goods, services and foreign direct investment in one, on a global scale activities, through contracting and transfer of technology to promote the international mobility of labor, led to financial services, legal services, insurance services, transportation services, Technical services, advisory services and other international trade in services development, greatly promoted the diversification of the service trade market and the internationalization of trade in services.

After the first seven rounds of the GATT negotiations, the import tariffs on merchandise trade between the members were drastically reduced, and the degree of trade liberalization was greatly enhanced. But on the issue of international direct investment, some host countries often restrict the import caused by international direct investment by enacting relevant laws and regulations. With regard to this new problem of distorting trade liberalization, the Uruguay Round under the GATT / Uruguay Round for the first time included the issue of investment on the negotiating agenda and reached agreement that the main purpose of the negotiations was to further promote trade and investment liberalization, Expansion of international trade and transnational direct investment. Among the agreements contained in the final document of the Uruguay Round negotiations are the Agreement on Trade-Related Investment Measures (TRIMS), the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (the Agreement on Trade-Related Aspects of Intellectual Property Rights) TRIPS). The Agreement on Trade-related Investment Measures, for the first time, applies international trade norms to the field of international investment and prohibits the use of certain restrictive investment measures, particularly those that violate the principle of national treatment and balance trade requirements. The General Agreement on Trade in Services integrates investment and trade issues within the framework of an agreement in which a subsidiary of a foreign corporation provides trade in services in the form of a commercial presence. The TRIPS Agreement aims to address the protection of intellectual property rights of foreign companies and individuals by providing adequate and effective protection of intellectual property rights so that the right holder can benefit from the creation of inventions equivalent to investment encourage. In short, the GATT and the WTO to trade-related issues of international direct investment into its practice within the framework, to a certain extent, reflects the international trade and international investment and the integration of cross-development trend, in addition, From a national perspective, an increasing number of countries around the world are developing a policy framework for the common prosperity and prosperity of both direct investment and trade. Governments are well aware that once a suiTable policy framework is developed, other factors will determine the flow of FDI and international trade.

5. Conclusion

In recent years, with the rapid development of global economic integration, especially between the motives of FDI, industry differences, host country policies, export commodity structure and industrial structure, technological innovation and other dynamic factors, trade and investment The relationship is also a new change, the alternative is no longer a necessary relationship between the two. In fact, the mutual promotion and mutual complementarities between international trade and international direct investment are becoming more and more obvious. The newest development of theoretical research shows that if the new influential factors are taken into account in the original theoretical framework, the new relationship between trade and investment can be re-interpreted effectively within a dynamic integration framework.

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