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FDI: SOURCE OF FINANCING OR SOURCE OF TRADE FOR CEE

SDI – izvor finansiranja ili izvor trgovine za CIE

Abstract

The paper is devoted to the study of relationship between foreign direct investments and trade of transition economies of Central and East European region. The increasing internationalization and globalization of production make the question of the relationship between foreign direct investments and trade more important, especially with the upsurge of transition economies' foreign direct investments. Foreign direct investments are usually analyzed separately, as a form of investment, financial flows. There is enormous literature researching the inflows of foreign direct investments into countries of Central and East European region and recent literature about foreign direct investment outflows from these countries. With the increase of region's foreign direct investments, the question of their impact and relation with trade stands out and the paper will focus on the relationship between investment and trade flows of this group of countries revealing their connection and intertwining and the necessity of different international trade analysis of these countries.

Key words: *foreign direct investments, trade, transition economies, Central and East Europe, export, import*

Sažetak

Rad se bavi odnosom stranih direktnih investicija i spoljne trgovine tranzicionih zemalja regiona Centralne i Istočne Evrope. Rastuća internacionalizacija i globalizacija proizvodnje povećavaju značaj razmatranja odnosa između stranih direktnih investicija i trgovine, naročito sa porastom stranih direktnih investicija tranzicionih zemalja. Strane direktne investicije se obično analiziraju zasebno, kao oblik investicionih, finansijskih tokova. Značajan deo literature se bavi prilivima stranih direktnih investicija u zemlje regiona Centralne i Istočne Evrope, dok se novija literatura bavi odlivima stranih direktnih investicija iz ovih zemalja. Sa porastom stranih direktnih investicija ovog regiona, ističe se pitanje njihovog uticaja i odnosa sa spoljnom trgovinom tako da će se rad fokusirati na vezu između investicionih i trgovinskih tokova ove grupe zemalja otkrivajući njihovu povezanost i isprepletanost i potrebu drugačije međunarodne trgovinske analize ovih zemalja.

Ključne reči: *strane direktne investicije, trgovina, zemlje u tranziciji, Centralna i Istočna Evropa, izvoz, uvoz*

Introduction

The region of Central and Eastern Europe (CEE) covers a large geographic area. Although there are many differences between the countries of the region, the paper will analyze the region as a whole. The common characteristics of these countries, that they were all behind the Iron Curtain before its fall, make us define a region as an entity – Eastern Europe – whose development has been very different from the other part of the Europe, Western Europe. This group of transition countries is also known as Eastern Europe, which is an overarching term for different sub-regions: Central Europe, the Baltics, Southeastern Europe and Eastern Europe. The paper deals with the foreign direct investment and trade flows of these transition economies of CEE region.

Among other aspects and impacts of foreign direct investments (FDI), their relationship with trade is very important in the trade analysis and the paper deals with it on the case of CEE economies. Foreign direct investments are usually analyzed separately, as a form of investment, financial flows. There is enormous literature researching the inflows of FDI into transition economies describing the value and sectoral structure of these flows, policy issues, effects on economic growth and other aspects of FDI related to economies. Literature on FDI from transition economies is relatively undeveloped as these countries had virtually no outward FDI before 1995. Both the literature and the outflows of FDI from these countries have been developing more slowly than inflows and national authorities did not begin to provide detailed data on outward FDI until mid 1990s [10]. However, all these literature and studies primarily research the FDI as investment, financial flow and different aspects of its impacts. The field of relationship between FDI and trade of transition economies stays relatively open and insufficiently researched. Therefore the subject of the paper is to research this relationship and to show that understanding of their interconnection is important for the further trade analysis of these countries.

The paper approaches the FDI-trade relationship on one different way. Considering the participations of the selected group of countries in world FDI and world trade, and proceeding from the assumption that FDI flows generate trade flows, it reveals that, in the circumstances of increasing FDI, it is necessary to approach on different way to the analysis of trade flows of these as well as other countries. The paper is based on a hypothesis that trade flows, as well, are realized through investment flows in such a way that a specific, indirect type of export, i.e. import, is realized via FDI outflows, i.e. inflows. Furthermore if in addition to classic, direct, cross-border forms of trade of CEE countries there are some other forms of trade, comprehensive trade analysis of these countries must include both. Therefore the aim of the paper is to indicate the new type of trade flows of CEE region and the necessity of consideration of both types of trade flows – classic, direct and specific, indirect – in trade analysis of CEE countries.

In the following section of the paper the literature review is given. The third part of the paper will give the short snapshot of FDI and trade of countries of the CEE region. Special attention and central part of the paper is devoted to the analysis of connection and intertwining of trade and investment flows of the CEE region, examining both relations between FDI outflows and export and FDI inflows and imports, and showing the need for changes in the trade analysis. The two parallel, comparative analyses between FDI outflows and export, on one side, and FDI inflows and imports, on the other side, applied in the paper, will lead to consequential findings about current and possible future trade performance of these countries.

Literature review

The literature about FDI and also about FDI and trade is broad and extensive. There is a lot of literature about FDIs and motives and determinants of FDIs. A systematic review of the literature on FDI determinants is given by *Blonigen* [2], indicating the factors affecting FDI decisions and locations worldwide. The recent studies of the FDI determinants accentuate the role of non-traditional home-country and host-country characteristics, such as corruption [9, p. 648] or status as a tax haven and offshore location, explaining the importance of the costs of moving money across borders [8] tending to affect FDI flows.

The literature about FDI and trade is also broad and brings the different, sometimes opposite, results about the FDI-trade relation. Researching the relationship between FDI and trade, the traditional theory of multinational corporation (MNC) finds substitution, while a significant number of empirical studies find complementary relation. Presenting models which show that factor mobility leads to an increase of world trade, *Markusen* [32] concluded that "trade in goods and factors as substitutes is in fact a rather special result which is a general characteristic only of factor proportions models". *Lipsey* and *Weiss* [27] find that foreign production and exports are not substitutes and that the higher a firm's output in a foreign location is, the larger its exports from the country to that location are. Analyzing whether factor mobility and commodity trade are substitutes or complements, *Wong* [46] brings out the necessary and sufficient condition for substitutability and complementarity. Using the proximity-concentration hypothesis, *Brainard* [11] shows when the complementarity between trade and affiliate sales arises and when it moves in opposite directions. According to *Clausing* [12] multinational activity and trade are complementary activities, particularly multinational activity and intra-firm trade. Examining the topic of foreign (affiliate) production and exports substitutes or complements, *Blonigen* [1] finds evidence for both. Investigating the effect of FDI on exports, *Head* and *Ries* [15] find complementarity for the whole sample of firms. However, for some firms that don't ship intermediates to production abroad, they find substitution. *Swenson* [39] asserts that the mismatch between theoretical premise of substitute relationship between FDI and trade and empirical findings of complementary relationship is a byproduct of data aggregation.

The links between trade and FDI in transition countries have been examined by Broadman [3, p. 339], stating that "increasing complementarity between FDI and trade has been the result of growing fragmentation of production combined with the creation of distribution networks spanning across countries". According to UNCTAD [42], "the issue is no longer whether trade leads to FDI or FDI to trade, whether FDI substitutes trade or trade substitutes FDI, or whether they complement each other. Rather it is: how do firms access resources…" The specificity of the paper is that focusing on the relationship between FDI flows and trade flows on the case of CEE region and showing that FDI outflows through affiliates abroad may be identified with export, while FDI inflows through affiliates of foreign companies may be identified as imports (i.e. the source of import substitution), it indicates the necessity of changes in trade analysis of the region's countries.

Methods and materials

The nature of research subject determined the application of appropriate methods and materials. For the purpose of exploring the existing trade flows and their statistical registration analytical method is applied. Insight into official trade statistics data and relevant international publication (UN methodology of international trade statistics) leads to identification of shortcomings of existing international trade coverage and trade analysis which include only classic, direct, trade transactions being performed across national borders. As the paper starts from the hypothesis that trade flows are also realized through investment flows, the aim of the paper is to indicate the necessity of consideration of both types of trade flows (direct and indirect) in CEE trade analysis. Therefore, in key part of the paper, the flows, motion and intertwining of FDI and trade are examined by using the comparative analysis and also the inductive and deductive method of reasoning. In order to accomplish this research applied methods also include the analysis of statistical data, professional literature and international organizations' publications. Research and data analysis are carried out on the basis of relevant materials and data come from different sources: UN methodology of international trade statistics, UNCTAD data and WTO data as well as from professional studies and findings from relevant domestic and foreign publications. Selected data are systematized in the tables and figures enabling the interpretation of findings.

Snapshot of CEE's FDI and trade

Compared to the other two forms of international capital movements, loans and portfolio investments, FDIs represent the most important form of international capital movements for transition economies [38]. Unlike portfolio investments that are volatile and concentrated in a handful of countries, the main source of private inflows for transition economies are FDIs [14, p. 125]. Their significance became evident in the second half of the 80s when, after the debt crisis, the private sector reduced loans to countries in transition and intensified private capital in the form of direct investments. Since the 80s, and especially the 90s of the 20th century the increasing FDI flows and their growing significance for transition economies have been an important trait of global world economy.

Following the changes of global FDI flows, FDI flows of transition economies also went through changes, i.e. rises and falls. Global financial crisis also influenced these flows. However, the fall of FDI of CEE region did not occur immediately in 2008, after the beginning of crisis in the second half of 2007, as it was the case with the total global FDIs (considering the fact that this fall was foreseen by the fall of developed countries' FDI), but later on, as the crisis was growing and spreading onto less developed countries, in 2009, when FDIs of these countries got reduced by more than a half. The recovery started in 2010 and has lasted since (Table 1). FDI inflows into this region reached their maximal value of 164 billion USD in 2008, while FDI outflows also accomplished their maximum of 74 billion USD in pre-crisis period, in 2008, and after post-crisis recovery in 2011, of 79 billion USD. In 2009, FDI inflows experienced two times bigger fall (52%) than FDI outflows (25%). FDI volumes in 2011, surpassing the pre-crisis average in 2001-2007, suggest the recovery and further increase of the region's FDIs.

Trade flows of CEE region as well, as a part of changes in world trade flows, experience their own changes. Trends in trade of the region are similar to world trade trends in a way that until 2008 their motion followed the motion of global trade flows, so that the region's trade reached its maximal value in 2008, after which a considerable fall took place in 2009, together

Table 1a: CEE: FDI inflows (millions of dollars)

Countries	FDI inflows					
	2001	2007	2008	2009	2010	2011
1. Central European Countries	**17241**	**43051**	**34249**	**17248**	**18158**	**28384**
Czech Republic	5639	10444	6451	2927	6141	5405
Hungary	3936	3951	6325	2048	2274	4698
Poland	5713	23561	14839	12932	8858	15139
Slovakia	1584	3581	4687	-6	526	2143
Slovenia	369	1514	1947	-653	359	999
2. Southeastern European Countries	**3318**	**24930**	**22512**	**11674**	**5576**	**8513**
Albania	207	659	974	996	1051	1031
Bosnia and Herzegovina	130	1819	1002	251	230	435
Croatia	1561	4997	6180	3355	394	1494
Serbia	165	3439	2955	1959	1329	2709
Montenegro	-	934	960	1527	760	558
FYR Macedonia	442	693	586	201	211	422
Bulgaria	813	12389	9855	3385	1601	1864
3. The Baltic Countries	**1151**	**7053**	**4955**	**1999**	**2672**	**3036**
Estonia	542	2716	1729	1839	1540	257
Latvia	163	2322	1261	94	379	1562
Lithuania	446	2015	1965	66	753	1217
4. Eastern European Countries	**4660**	**77231**	**102716**	**48189**	**54323**	**67015**
Romania	1157	9921	13909	4844	2940	2670
Belarus	96	1805	2181	1884	1403	3986
Moldova	146	541	711	145	197	274
Russian Federation	2469	55073	75002	36500	43288	52878
Ukraine	792	9891	10913	4816	6495	7207
CEE (total)	**26370**	**152265**	**164432**	**79110**	**80723**	**106948**
World (total)	**817574**	**1975537**	**1790706**	**1 197 824**	**1 309 001**	**1 524 422**
Share of CEE in the world (%)	**3.2**	**7.7**	**9.2**	**6.6**	**6.2**	**7.0**

Note: For 2001, data are given together for Serbia and Montenegro.
Source: Authors' calculation of shares based on UNCTAD [43, p. 367, 371, 372, 375] & UNCTAD [45, p. 169-172].

Table 1b: CEE: FDI outflows (millions of dollars)

Countries	FDI outflows					
	2001	2007	2008	2009	2010	2011
1. Central European Countries	**622**	**13048**	**12941**	**8796**	**8076**	**12144**
Czech Republic	165	1620	4323	949	1167	1152
Hungary	368	3621	2234	1984	1307	4530
Poland	-90	5405	4414	4699	5487	5860
Slovakia	35	600	530	904	327	490
Slovenia	144	1802	1440	260	-212	112
2. Southeastern European Countries	**165**	**1733**	**2661**	**1290**	**347**	**485**
Albania	-	24	81	36	6	42
Bosnia and Herzegovina	-	28	17	6	42	20
Croatia	155	296	1421	1234	-150	44
Serbia	-	947	283	52	189	170
Montenegro	-	157	108	46	29	17
FYR Macedonia	-	-1	-14	11	2	2
Bulgaria	10	282	765	-95	229	190
3. The Baltic Countries	**219**	**2713**	**1691**	**1704**	**233**	**- 1200**
Estonia	200	1747	1112	1549	133	- 1458
Latvia	12	369	243	-62	21	93
Lithuania	7	597	336	217	79	165
4. Eastern European Countries	**2 539**	**46 900**	**56 925**	**43 848**		**67 585**
Romania	-17	279	274	-88	-20	32
Belarus	-	15	31	102	50	57
Moldova	-	17	16	7	4	21
Russian Federation	2533	45916	55 594	43665	52523	67 283
Ukraine	23	673	1010	162	736	192
CEE (total)	**3545**	**64394**	**74218**	**55638**	**53293**	**79014**
World (total)	**721501**	**2198025**	**1969336**	**1175108**	**1451365**	**1694396**
Share of CEE in the world (%)	**0.5**	**2.9**	**3.8**	**4.7**	**3.7**	**4.7**

Note: For 2001, data are given together for Serbia and Montenegro.
Source: Authors' calculation of shares based on UNCTAD [43, p. 367, 371, 372, 375] & UNCTAD [45, pp. 169-172].

with the global economic crisis (Table 2). Following the global trend on the world level, merchandise trade of this group of countries experienced recovery in 2010 and expansion in 2011 to the level which considerably surpassed the maximal value from 2008.

Trade flows of CEE region do not have a significant share in total world trade flows, bearing in mind that accomplished joint share of countries from this region in world export is on the level of 4.6-7.8%, and in the world import on the level of 4.3-7.6% (Table 2). For countries from this region, trade flows are not just a significant element of economic growth, but they also reflect a significant degree of these countries' dependence on foreign market, considering the values of import of a majority of the region countries which significantly exceed the values of realized export. A majority of the region countries are characterized by higher individual values of import compared with export and considerable values of merchandise trade deficits. All Southeastern Europe and Baltic countries experience considerable trade deficits, and deficits are also realized by Central European and Eastern European Countries (with the exception of the Czech Republic, Hungary and Russia, as well as Slovakia in some years).

A general image of the trade, both on the global, world level and on the national, individual country level, is provided by official statistic data on registered trade. However, official statistics trade figures comprise only the classic, traditional cross-border trade. The existing statistical registration of merchandise trade flows is based on the UN methodology of international trade statistics and includes only classic trade transactions being performed across national borders and recorded in national balance of payments accounts [40], [41]. UN methodology recommendations from 2010 [41] recognizes changes in the way international merchandise trade is conducted, but dynamics of adoption of these recommendations depends on national statistical authorities and they haven't still been largely embedded in the national statistics. In this way the existing coverage and registration of trade flows comprises only traditional, classic, direct, cross-border forms of trade and our analysis of the world trade and the foreign trade of individual countries is based only on these data. However, the trade flows that are realized through FDI flows, that will be the subject of the following part of the paper, are not encompassed in the registered trade flows and make our trade analysis limited.

The analysis of FDI flows and international trade flows of these and other countries is usually performed separately. However, our research is going to show in the following section that these flows, both on the global level and on CEE region level, should not be observed and analyzed only separately, but also together, as a whole, with comparative making of a parallel between their motion and their intertwining. As the analysis in the paper will show these flows are closely connected and intertwined and therefore have to be taken into consideration in the trade analysis of these countries.

Relationship between FDI and trade of CEE region: Research results

The relationship between FDI and trade is greatly influenced by the motivations and characteristics of FDIs. According to UNCTAD [44], the impact of FDI on the country's trade, either home or host country, will be different, and it will depend on FDI motives. Efficiency-seeking, market-seeking, resource-seeking or strategic asset-seeking FDI makes the impacts in different ways. In case of efficiency-seeking FDI, whose output is intended for export, the impact on host-country trade should be an export growth. But, if intermediate goods are imported from the other countries, this kind of FDI is likely to increase

Table 2a: CEE: merchandise trade (export) (millions of dollars)

	Export					
Countries	2001	2007	2008	2009	2010	2011
1. Central European Countries	**121620**	**446663**	**531031**	**414726**	**482053**	**575939**
Czech Republic	33324	122498	146799	112956	132982	162260
Hungary	30436	95400	108504	83008	95483	112217
Poland	35998	140147	170458	136503	159724	187405
Slovakia	12595	58516	71142	56082	64664	79308
Slovenia	9267	30102	34128	26177	29200	34749
2. Southeastern European Countries	**14184**	**48961**	**58430**	**43178**	**52368**	**66191**
Albania	307	1078	1355	1091	1545	1948
Bosnia and Herzegovina	1032	4152	5021	3954	4803	5850
Croatia	4666	12364	14112	10474	11807	13375
Serbia	1903	8825	10972	8345	9795	11775
Montenegro	-	626	617	288	437	632
FYR Macedonia	1158	3398	3991	2708	3351	4455
Bulgaria	5118	18518	22362	16318	20630	28156
3. The Baltic Countries	**10599**	**36462**	**46248**	**33204**	**41873**	**57934**
Estonia	4015	11010	12458	9048	11593	16734
Latvia	2001	8308	10144	7702	9532	13124
Lithuania	4583	17144	23646	16454	20748	28076
4. Eastern European Countries	**137562**	**469804**	**622257**	**406324**	**528432**	**695671**
Romania	11394	40488	49535	40567	49499	62687
Belarus	7451	24275	32571	21304	25284	40294
Moldova	568	1342	1591	1283	1541	2217
Russian Federation	101884	354403	471606	303388	400630	522013
Ukraine	16265	49296	66954	39782	51478	68460
CEE (total)	**283965**	**1001890**	**1257966**	**897432**	**1104726**	**1395735**
World (total)	**6191000**	**14012000**	**16140000**	**12542000**	**15274000**	**18255000**
Share of CEE in the world (%)	**4,6**	7,1	**7,8**	**7,1**	**7,2**	**7,6**

Note: For 2001, data are given together for Serbia and Montenegro.
Source: Authors' calculation of shares based on WTO [47, pp. 211-212].

Table 2b: CEE: merchandise trade (import)
(millions of dollars)

	Import					
Countries	2001	2007	2008	2009	2010	2011
1. Central European Countries	**145018**	**471619**	**570728**	**414425**	**488002**	**574613**
Czech Republic	36297	118169	142038	105048	126652	151559
Hungary	33617	95565	108940	77761	88178	102589
Poland	50184	165710	208804	149459	178049	207672
Slovakia	14760	60616	73912	55650	65029	77305
Slovenia	10160	31559	37034	26507	30094	35488
2. Southeastern European Countries	**27638**	**97020**	**120021**	**81498**	**83586**	**101341**
Albania	1327	4188	5251	4550	4406	5395
Bosnia and Herzegovina	3354	9720	12189	8773	9223	11050
Croatia	9147	25839	30728	21203	20054	22708
Serbia	4837	19164	24331	16047	16734	20139
Montenegro	-	2867	3731	2313	2182	2544
FYR Macedonia	1694	5281	6883	5073	5474	7007
Bulgaria	7279	29961	36908	23539	25513	32498
3. The Baltic Countries	**15089**	**55411**	**63268**	**38255**	**130946**	**65297**
Estonia	5230	15677	16026	10140	12266	17583
Latvia	3506	15322	16143	9811	11691	16204
Lithuania	6353	24412	31099	18304	23403	31510
4. Eastern European Countries	**94285**	**386801**	**505729**	**323461**	**410412**	**533665**
Romania	15568	70314	84053	54324	62128	76302
Belarus	8286	28693	39381	28569	34884	45747
Moldova	892	3690	4899	3278	3855	5191
Russian Federation	53764	223486	291861	191803	248634	323831
Ukraine	15775	60618	85535	45487	60911	82594
CEE (total)	**282030**	**1010851**	**1259746**	**857639**	**1112946**	**1274916**
World (total)	**6483000**	**14311000**	**16541000**	**12736000**	**15464000**	**18438000**
Share of CEE in the world (%)	**4.3**	**7.1**	**7.6**	**6.7**	**7.2**	**6.9**

Note: For 2001, data are given together for Serbia and Montenegro.
Source: Authors' calculation of shares based on WTO [47, pp. 215-216].

both exports and imports. Market-seeking FDI primarily oriented to the host-country market will impact mostly imports inasmuch as foreign affiliates would be focused on purchasing intermediate products abroad and selling output on domestic market. However, if local production of affiliate replaces imports, this kind of FDI can reduce a host country's imports. The kind of FDI that is directed to the seeking of resources almost always increases a host country's exports. In case of asset-seeking FDI, its impact will usually be increase in import if FDI seeks a distribution network or the brand name production known to the host country's consumers.

Obviously the impact of FDI on host-country trade and its trade balance depends on many factors. Among them, the importance of one factor stands out – the reason of affiliate establishment (to serve only local market or to serve other country markets using host country as an export platform). If affiliate is established in order to serve the local market, it is not likely to be a large exporter. However, if it is established as export platform, it will be, by itself, a great exporter. In this case, impacts on the country's trade balance will depend on import intensity of production and export operations of affiliate.

Accordingly, there are many impacts of FDIs on trade flows and trade balances of individual countries and their net effect depends on many factors. In addition to this relation between FDI and trade, depending on different FDI motives and resulting in different impacts on trade and trade balance of the country, it is also important to observe the investment flow itself, in terms of its nature, either inflow or outflow, and its identification with the trade flow meaning that for the country it also represents the kind of flow through which the selling and buying are realized, and this flow is in our focus.

Although the countries of CEE region are both home countries and host countries of FDIs, they more frequently play the role of host countries of FDI inflows, and less of home countries of FDI outflows. FDI inflows in the region surpassed FDI outflows from it considerably, more than double until 2008 (Table 1), which shows the predominant role of the region as recipient of FDI inflows. In global FDI flows, unlike leading highly developed countries which are both the major source and recipients of FDI, transition economies have much smaller share (less than 10% in FDI inflows and less than 5% in FDI outflows).

In 2001 CEE economies accounted for 0.5% of world FDI outflows and 3.2% of world FDI inflows, while in 2008 these shares were 3.8% of world FDI outflows and 9.2% of inflows (Table 3). With these more than two times higher shares in world FDI inflows than in world FDI outflows, transition economies primary appear as receiving countries of FDI inflows, that is host countries of FDIs. Although, in recent years, there was an increase of FDI from these countries so the difference between inflows and outflows is much smaller.

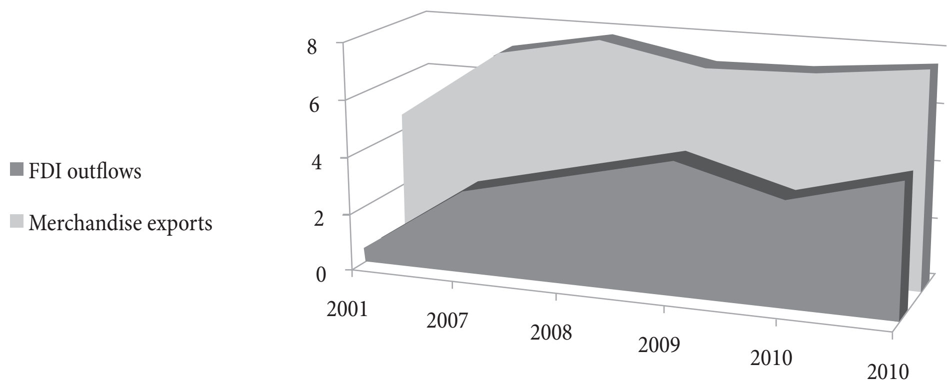
FDI outflows and export

Observation of relation of FDI flows and international trade flows suggests that FDI outflows may be considered as accomplishment of specific form of export [36], while FDI inflows in host country may be considered as a kind of import i.e. source of import substitution.

Regarding relationship between FDI outflows and export, it can be observed that FDI outflow in foreign country means establishment of affiliate and organization of production in it with the aim of selling on local market and other markets outside the host country. Instead of organizing production in the home country and performing traditional (direct) export to foreign country, indirect export is performed through outflow of FDIs and affiliate in foreign country. That's why FDI outflow from home country can be considered as specific (indirect) form of export. This exact tendency – to realize its export via FDI outflows more increasingly – is a trait of developed countries. As the countries with the largest FDI outflows, they carry out their export much more through FDI outflows than through traditional (direct) export, while regarding import they mainly rely on classic import forms [37, p. 496]. The countries in transition and CEE region are characterized by the opposite tendency.

Comparative analysis of trade and investment flows of transition economies of CEE (Figure 1) shows that this group of countries accomplished smaller share in world FDI outflows (3.8%) than their share in world merchandise export (7.8%) in 2008 (Table 3), which signifies that these countries in export rely more on traditional forms of merchandise export. In the previous period, according to 2007 data, these countries in export also relied more on traditional forms of merchandise export, while in recent period, according to 2011 data, the relation was 4.7% versus 7.6% with also a larger use of traditional forms of merchandise export. It can be concluded that this group of countries in export relied more on traditional forms of merchandise export, but with increasing importance of FDI outflows as form of export.

Figure 1: CEE: FDI outflows and merchandise exports (share in world, %)



Source: Authors' graphic presentation of the data from Table 3.

Although CEE economies primary appear as receiving countries of FDI inflows, in recent years, there was an increase of FDI from these countries. In 2011 the difference between inflows and outflows was much smaller than double, it was 1.3 times, while in 2008 this difference was 2.2 times and in 2001 even 7.4 times, reflecting the rise of FDI outflows from these economies. It can also be observed that the share of these economies in world FDI outflows increased from 0.5% in 2001 to 4.7% in 2011 which represents an increase that's more than nine times higher, while their share in world merchandise export increased only for 1.6 times in the same period. With further increase of FDI outflows from CEE economies, it can be predicted that FDI outflows will represent increasingly more significant form of export for these countries.

As FDI from CEE economies began to increase, the literature examining the outward FDIs from CEE and later showing the growing FDIs from these economies started appearing. *Kalotay* [29] discussed that outward FDI of the region has not yet become a prominent factor and that, regarding the theory of investment development path, the region is in stage 2, with inflows still growing faster than outflows, finding the primary reason for this in the latecomer status of the region's transnational corporations and the transition shock. Later, *Zemplinerová* [48, p. 27] finds that outward FDI flows out of the Check Republic accelerated in 2009 and 2010, *Radlo* [34, p. 67] reports the increase of Polish OFDI in recent years, *Ferencikova* and *Ferencikova* [13] report that investments going abroad from Slovakia in recent years have been consistently rising, and *Radlo* and *Sass* [35] report that after several years of FDI inflows to CEE countries in recent decades, OFDI from these economies has appeared and grown dramatically, especially in all four Visegrád countries. Driving forces and motives for FDIs from transition economies are different. Much of FDIs from transition economies were market-seeking, aiming to serve customers on foreign markets through affiliates, while they later focused on using their acquired firm-specific competitive advantage abroad and on seeking new locations and resources abroad such as lower wages. Another factor also influenced FDIs from these economies and that is facilitation of illicit movements of money such as money laundering [33, p.118]. Among others, an important motive for outward

Table 3: CEE: FDI and trade (millions of dollars and %)

	CEE (1) (millions of dollars)					
	2001	2007	2008	2009	2010	2011
Merchandise exports	283 965	1 001 890	1 257 966	897 432	1 104 726	1 395 735
FDI outflows	3 545	64 394	73 218	55 638	53 293	79 014
Merchandise imports	282 030	1 010 851	1 259 746	857 639	1 112 946	1 274 916
FDI inflows	26 370	152 265	164 432	79 110	80 723	106 948
	World (2) (millions of dollars)					
	2001	2007	2008	2009	2010	2011
Merchandise exports	6 191 000	14 012 000	16 140 000	12 542 000	15 274 000	18 255 000
FDI outflows	721 501	2 198 025	1 969 336	1 175 108	1 451 365	1 694 396
Merchandise imports	6 483 000	14 311 000	16 541 000	12 736 000	15 464 000	18 438 000
FDI inflows	817 574	1 975 537	1 790 706	1 197 824	1 309 001	1 524 422
	Share in the world (1/2) (%)					
	2001	2007	2008	2009	2010	2011
Merchandise exports	4.6	7.1	7.8	7.1	7.2	7.6
FDI outflows	0.5	2.9	3.8	4.7	3.7	4.7
Merchandise imports	4.3	7.1	7.6	6.7	7.2	6.9
FDI inflows	3.2	7.7	9.2	6.6	6.2	7.0

Source: Authors' calculation based on Table 1 and Table 2.

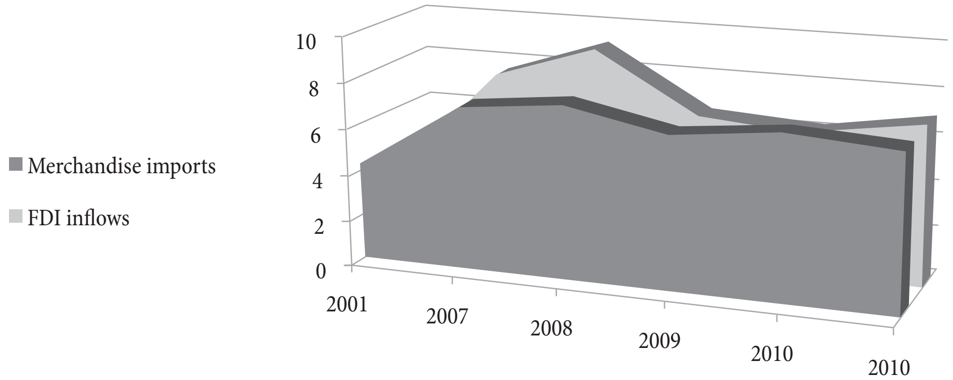
FDI from transition economies is also expanding foreign sales and reducing non-labor costs in foreign countries [26]. So in analyzing FDI outflows from these economies we must bear in mind all these factors. It should be also kept in mind that one part of outward FDIs from these countries are so called "indirect" FDIs made by the affiliates of foreign, transnational corporations headquartered in other countries [10]. That's why, in this analysis of outward investments from CEE region, we have to bear in mind that a part of these flows is not from domestic firms of CEE economies, which makes this analysis obscure.

FDI inflows and import

The liberalization of investment flows to CEE twenty years ago, the progress in transition and the increase of FDI inflows to CEE attracted the attention of the researchers and resulted in numerous papers. Zemplinerová [48] compared foreign investment enterprises with domestic enterprises, analyzing the share in total manufacturing output, allocation pattern, specialization and concentration. Hunya discussed the FDI situation in South East European countries and made recommendations for these countries based on Central European countries experience [16], and also examined the competitiveness impacts of FDI [17], the question of restructuring through FDI [18], FDI impacts on growth and restructuring in Central European transition countries [19], manufacturing FDI in new EU member states [20] and FDI of Baltic states [21] and also different aspects of FDI database in Central, East and Southeast Europe [22], [23], [24], [25]. *Kalotay* and *Hunya* [28] analyzed the close relation between privatization and FDI, while *Kalotay* [29], [30] applied the flying geese paradigm to emerging European FDI patterns, showing that the special attention should be given to the potential of CEE countries, and also examined the contribution of FDI to structural changes in different groups of transition countries [31]. *Brada*, *Kutan*, & *Yigit* [5], [6] examined the effect of transition and political instability on FDI flows to the transition economies finding that conflict and instability had reduced FDI inflows below what one could be expected for comparable West European countries and concluding that the economic costs of instability in the Balkans had been quite high. *Brada* and *Tomšik* [4], [7] showed that investment inflows in transition economics had caused large distortions in their current account deficits. They showed that imputation of reinvested earnings from FDI as a debit in the balance of payments exaggerates the current account deficit and that this phenomenon is of major importance for transition economies as they had received large inflows of FDI in the late 1990s. Modeling the FDI financial life cycle, they also showed that these countries as host countries were more vulnerable to financial crisis. Besides these different aspects of FDI impacts, with the increase of FDI inflows in the region, the question of their impact and relation with trade stands out.

Regarding relationship between FDI inflows and import, it can be observed that FDI inflow in host country includes the establishment of affiliate and organization of production in it on local territory. By buying products from this (foreign) affiliate which is the result of FDI inflow, instead of traditional (direct) importing from its home

Figure 2: CEE: FDI inflows and merchandise imports (share in world, %)



Source: Authors' graphic presentation of the data from Table 3.

country, specific (indirect) form of import is accomplished. That's why FDI inflow in host country may be seen as a source of import substitution and identified with import.

Comparative analysis of trade and investment flows of CEE region (Figure 2) shows that this group of countries achieved much higher share in world FDI inflows (9.2%) than their share in world merchandise import (7.6%) in 2008 (Table 3). This means that this group of countries in import rely more on FDI inflows (buying products from affiliate which is the result of FDI inflow), than on classic import which takes place across the national borders and which is registered in trade balances of countries and official trade statistic figures of national economy which are included in the values of official world import figures. This trend is not a new feature of these countries' foreign trade flows, and it can be observed in other years. In previous period (2007 data), these countries also relied more on FDI inflows than on classic import as well as in recent period (2011 data).

Smaller shares of FDI inflows in 2009 and 2010 may be explained with crisis effect. Together with the financial crisis in 2008, which influenced the FDIs of these countries somewhat later, in 2009 and 2010, and with the decrease of FDIs inflow, their share and their prevailing role decreased compared with the classic import share. Following the recovery in 2011, FDI inflows again become the prevailing form of import for this group of countries. With further increase of FDI inflow into these countries, their predominant role as a form of import of these countries can be foreseen.

In line with everything aforementioned, it is observed that for CEE economies inflows of FDI, i.e. buying from affiliates established by foreign companies on their territory, are a significant source of import substitution, as well as that countries use these inflows increasingly more in order to realize their import – by buying from the affiliate which is the result of FDI inflow onto their territory. Regarding export, it can be observed that in the previous period these countries performed their export more via traditional form of classic, cross-border export than through FDI outflows, but this relation has become more balanced lately. With further increase of FDI outflows from these countries, it can be expected that FDI outflows will, also, represent the prevailing form of export for them. However, here we must bear in mind different motives as well as forms of FDI (as already mentioned 'indirect' FDI) from these countries.

Conclusions

Preliminary findings can be summarized as follows:

- the paper shows that, in order to perform a complete analysis of trade flows of countries from CEE region, the analysis of international flows of direct investments and trade should not be done separately, but jointly, with respect for their connection. The paper has shown that there is a close mutual intertwinement of these flows, especially FDI inflows and import, when it comes to CEE countries, which inevitably has a great influence and has to be taken into account and reflect on the analysis of foreign trade of these countries and their trade balances; it has also shown that the significance of connection of these countries' FDI outflows and their export will grow in time.
- the CEE region, as a prevailing recipient of FDI inflows, imports more through FDI inflows than through traditional form of international, cross-border import.

  Comparative analysis of investment and trade flows of CEE countries shows that these countries realize one new international trade flow – import flow – via flows of direct investments from abroad – via FDI inflows. The analysis has shown that these countries perform more considerable import via FDI inflows, more precisely by buying from affiliate established as a result of that FDI inflow onto the these countries' market, than by means of classic import. Therefore, they use indirect import forms, by means of FDI, more than direct import forms which are realized in classic manner, by exchange across national borders, and which are registered by official trade statistic figures available to us.

  Because of this import realized through FDI inflows, officially reported trade figures of these countries are not complete.

- with upsurge of FDI from these countries, there is an obvious sign that FDI outflows will represent increasingly more significant form of export for this group of countries. Further, there are specificities of FDIs from these economies (such as "indirect" FDIs) that make this analysis difficult and obscure;
- because of the fact that increasingly more trade flows are realized through FDI flows and significant part of trade is missing from the reported trade figures, official trade statistics show only one side of the state of trade of these countries;
- these findings necessarily change our comprehension of investment and trade flows of these countries and inevitably affect our analysis of their trade and investment. Complete analysis of trade flows of these countries must include both: traditional cross-border forms of international trade and FDI as a new, specific form of international trade.
- such conclusions inevitably influence our trade analysis of CEE countries, as well as the analysis of their trade balances. The findings show that the real import of these countries is larger than the one presented by official statistics which comprise figures which indicate the value of only classic, cross-border import of the countries.

As shown in the paper, most of these countries are characterized by import values which exceed the export values considerably and significant deficits in their foreign trade. The existing image and analysis of trade of these countries must be completed with new trade flows, i.e. import flow which these countries realize by means of FDI inflows. That means that in addition to the existing, registered import flows, the analysis of import of CEE countries should also include the fact that FDI inflow led to substitution of one part of the import, which indicates that the import, without this FDI inflow, would be even larger, as well as that by means of this FDI inflow one part of import is realized, indirectly. That is why the establishing of the real value of these countries' import should also include this new, indirect import flow. In that way the existing, already unfavorable image of foreign trade of the majority of these countries, increased by indirect import, would become even more unfavorable, and deficits even larger. On the other hand, the increase of FDI outflow from these countries and increased realization of their export should also be taken in consideration in trade analysis of these countries. This will inevitably lead to a different investment and trade image of these countries. However, that is the only way that we can get the real idea about the value of these countries' trade and the result (surplus or deficit) of that trade.

Therefore the paper opens the door for further researches and proposals for the new coverage of trade flows of these countries and new analysis based on it.

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