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THE IMPACT OF FOREIGN DIRECT INVESTMENT ON TRADE FLOWS OF OECD + ARMENIA AND IRAN

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ABSTRACT

The present survey studies the interactive relationship between trade and foreign direct investment. This is one of the most important issues in recent literature of international trade. Ever-increasing development of international economic organizations and regional economic unions, financial markets' integration, creating monetary unions, liberalization and easier exchange of products and services, capital transfer and integration of large manufacturing companies that are aspects of globalization of economy affect developed international trade and foreign direct investment. Importance of these two macro-economic variables has persuaded policy-makers to identify the relationship among variables holistically and recognize effective factors on them in their countries. This survey studies the mutual relationship between trade and foreign direct investment. In this paper, by using the gravity theory, suitable tool to analyze relations between foreign direct investment and trade variables is provided. Helpman and Krugman's (1985) study indicated gravity model could be used in trade models with distinct goods so that production distinction could be created through country of origin, economic scale, and difference in inventory of production factors or technology. The Result based on the research sample of OECD countries, Iran and Armenia by using Baltagi and Nosa methods shows a positive and significant impact of trade flows on attracting foreign direct investment.

JLE Classification: F02, F11.

Keywords: *Foreign Direct Investment, Trade Flows, Iran, Armenia, OECD.*

INTRODUCTION

New variables have been proposed as economic growth engine during the time and by appearance of the global economy which has been led to generalization of advanced economic-commercial theories for the global economy's growth. Global status of capital and investment has a considerable role and importance in growth and development of models. Developing countries have to appeal methods of attracting foreign capitals and evaluate strategies of effective factors on attraction manner of such foreign financial resources due to limitation of their internal financial resources from one side and nonexistence of equilibrium because of applying these limited resources and injecting them into their country's economy from the other side. Changes of the economy's movement towards replacement of capital mobility instead of service and products mobility is the policy of successful countries in east of Asia to increase utilization of the global capital (Baharumshad, 2006). These countries apply foreign direct investment and its comparative advantages as a tool for economic growth of their country in order to prevent

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increased poverty, inflation, unemployment and their foreign debts that are due to insufficiency of internal resources. Foreign direct investment as the most effective method of supplying no borrowed financial resources causes to transfer the modern technology and replace it with traditional methods of production. It increases employment that is one of the problems in these countries with surplus labor force and would be led to increased gross domestic product and income per capita of the society. Superiority of foreign direct investment (FDI) in terms of supplying two elements of capital and technology, changes in the global economy and the created relations among multinational companies and governments of these countries is an objective advantage of foreign investment which actualizes developing countries' need and encourages them to attract and develop foreign investment (Li, 2005). This is while experience shows that borrowing from internal private resources to reinforce the economy has adverse impacts.

LITERATURE AND RESEARCH HISTORY

Different types of foreign direct investment

1. **Foreign independent investment**

The investor supplies his required capital formally in this type of investment. Ownership of a company in foreign independent investment is totally foreign.

2. **Joint venture (mixed companies)**

Expenses and benefits of investment are divided proportionally among internal and external investors in this type of investment. Major benefits of this type of investment for developing countries are:

A. the possibility to merge internal and external investment in the socio-economic system of the host country and providing the ground for production and employment and representing proficiency of the investor company for the internal investor in industrial and modern activities
B. utilization of efficient management and experiences of other countries in management field by internal investors
C. the possibility of re-investment from the company's obtained profit in the host country
D. participation of the foreign investor in the company's profit and loss (Verhoeven, 1997).

Foreign joint venture has two types:

1- Contractual joint venture: this type of investment is common in countries where their rules do not recognize private ownership. Foreign investment in these countries is conducted based on a contract between the accepter and the investor. These contracts have a limited time period and the investment period is terminated by termination of the contract term.
2- Stock joint venture: this type of investment is conducted among internal and external shareholders through dividing stock ownership and capital. Dominant rules and relations among them follow business rules of the host country (Grossman & Hart, 1986).

Effective factors on attracting foreign direct investment

A. Effective economic policy-making factors on foreign direct investment

Role of foreign direct investment in economic development has always been discussed at various times. Effective factors on attracting foreign direct investment have been investigated in many studies that the most typical of them include domestic market size, economic growth, technical capability, infrastructures, policies of the government, institutions and so on. Foreign direct investment plays a pivotal role in economic enhancement of growth and development, improving technological level of a country and job creation (Dinda, 2010).

When economic policy-makings in the host country have economic stability to create an open environment investment risk level would be decreased and thus foreign direct investment in that country is increased. Effective economic policies on foreign direct investment could be summarized in the following cases:

1- monetary policy

These policies determine effective factors on inflation rate in the country.

2- Financial policy

These policies show budget deficit status of the government and tax revenues.

3- Foreign-exchange policy

Sum of foreign-exchange policies shows status of foreign-exchange system. If foreign-exchange rate is fixed, more trust is created in the economic environment of the country and hence decision-making for foreign investors would be easier.

4- Trade policy

It shows degree of foreign trade's freedom. Whatever customs exemption is more for intermediate and capital institutions required by investors, foreign direct investment in the country would be higher.

5- Policies governing regulations

They include formal and accessible information, determining the government and society's orientation towards foreign capitals and limitations of capital transfer (Obiora, 2006)

B. Effective economic structure factors on foreign direct investment

Whatever economic structure and substructures of a country are stronger, foreign investors have more intention for foreign direct investment in that country. The most major factors of economic structure that affect attracting foreign direct investment directly are:

1) balance of trade's stability
2) market extensiveness (size)
3) foreign debt
4) financing structure
5) infrastructural facilities
6) skillful labor force and human resources development
7) extensive information network (Vacaflores, 2005)

C. Effective incentive and supportive factors on foreign direct investment

Some countries grant privileges in order to attract foreign investors. It is assumed that investors do investment with more intention whatever privileges are higher. In this regard, the following could be referred:

1) tax exemption about productions of foreign investor companies
2) granting insurance coverage to investors

3) granting customs exemptions about importation of inputs required by foreign investor companies
4) giving subsidies to train local labor force
5) establishment of free zones for investment
6) granting infrastructural facilities and cheaper public services like water and electricity
7) ensuring return of base and inferior of capital and avoiding confiscation and nationalize them (Gao, 2005)

D. Effective geographical and political factors on foreign direct investment

By geographical factors, we mean geographical and geopolitical situation of the country. Some geopolitical factors include weather, population, location status and manner of relation with international waters. Foreign investors would have more intention for foreign direct investment if the above factors have a better status.

By political factors, we mean cases such as social stability, political stability, political structure of the society, type of government, power of the government and manner of political decision-makings in the country. It is obvious that a country must have political stability primarily so that it could attract foreign direct investments.

The authors report that in highly distorted economies, aid is dissipated in unproductive government expenditures. This interpretation suggests that aid acts as an income transfer which may or may not lead to growth and that the outcome depends on whether aid is used to finance capital investment or consumption expenditures (Bhandari et al., 2007).

Related Studies

Baltabaev (2014) in his work with subject "FDI and Total Factor Productivity Growth: New Macro Evidence", showed that increased FDI stock leads to higher productivity growth. He also found a significant positive effect on the interaction between FDI stock and distance to the technological frontier, suggesting that the ability of technologically backward countries in absorbing technologies developed at the frontiers increases as more FDI stock is accumulated.

Adhikari (2013) in his work with subject "Foreign Direct Investment in Nepal Current status, prospects and challenges", found that shows Nepal's FDI potential is heavily under-exploited, despite the fact that the country offers a huge potential not only for market seeking investors but also resource seeking ones. A country of nearly 28 million people, where the richest 20 percent of the population has a combined income of US$ 7.26 billion, cannot be considered a small market by any standards. Besides, due to favorable market access opportunities it has received, particularly in the European and Indian markets, market-seeking investors should find it worthwhile to invest in Nepal. Resource-seeking investors can invest in Nepal to tap the immense hydropower potentials. Besides, those foreign investors, who are now mature enough and can take long-term risk, could make investment in other infrastructure projects such as road, rail and airport construction.

Estrin and Uvalic (2013) in his work with subject "FDI into transition economies: are the Balkans different?" that found to be so; even when size of their economy, distance, institutional quality and prospects of EU membership are taken into account, Western Balkans countries receive less FDI. These issues are of high policy relevance for the Balkan economies and ought to contribute to the current debate on the new growth model.

Xing and Pradhananga (2013) in his work with subject "How Important are Exports and Foreign Direct Investment for Economic Growth in the People's Republic of China?", showed that in

2001 exports and FDI accounted for 18.2% of GDP growth and by 2004 the share had risen to 49%. During 2005–07, the contribution of exports and FDI to growth remained 38%–40%. Their estimates also show that the impressive recovery of the PRC economy in the post-crisis period owed at least 53% of its growth to exports and FDI. Based on these results, they conclude that the PRC economy remains highly dependent on external demand in the form of exports and FDI, and rebalancing the economy toward domestic demand has not yet been achieved.

Bose (2012) in his work with subject " Advantages and Disadvantages of FDI in China and India", showed as far as the case of China is concern positives areas are the immense size and growth of the Chinese economy and very bright prospects, resource availability and low cost of labour force, immense development in relevant infrastructure, openness to international trade and easy access to international markets, development and alteration of the regulatory framework, investment protection and promotion. There are also few drawbacks as well like the regulator burden, hindrances in free flow of information, lack of English literacy and so on.

Chauffour and Hoekman (2012) in his work with subject "Harnessing Existing Trade and Investment Opportunities", showed that investment has been deterred by relatively high trade and investment barriers – while governments did pursue trade reforms, these lagged behind the depth and speed of opening of markets observed in other regions of the world. Real trade costs, including the impacts of poor trade facilitation and logistics services, remain higher than elsewhere. Intra-regional trade agreements among Arab countries and with the EU did not address some of the basic drivers of high trade costs and the constraints that impeded investors from establishing or expanding production facilities.

Giucci and Radeke (2012) in his work with subject "FDI Attraction to Moldova: Facts, Potential and recommendations", found that firstly, there is a need to improve legislation. Since this general issue has been widely discussed and covered for Moldova, they focus in this paper on selected urgent legislative issues. One of such issues is the ban of land purchasing for foreign investors. While there are many workarounds for insiders and established investors, this ban is deterring new potential investors and increases the cost, and the risk, of doing business for existing ones. Indeed, given the many ways of circumventing the ban, aligning legislation with reality would be quick win and low cost recommendation for improving the FDI climate. More complex, nevertheless important, is the issue of labour laws. Despite high headline spending on education investors have difficulties to find and retain skilled workers. A major problem is a lack of options to tie workers to the company and, thus, provide the incentives for employers to invest in training and education. Consequently, know-how transfer, a crucial aspect of FDI, is severely inhibited. Furthermore, curricula and methods of further education are partly outdated. Secondly, the problematic relationship between government and business is a major barrier for FDI. The risk of investing in Moldova is particularly high due to the frequent arbitrary implementation of legislation by state bodies. Furthermore, often and sudden changes in legislation, which are not consulted with stakeholders, increase the cost and risk of running a business. Thirdly, the current "personalized approach" of attracting investment, where high level policy makers would champion investors, is not without problems (ibid.). While policy makers have a role to play in facilitating FDI, an "institutional approach" centered on a well-resourced MIEPO would reduce the risk for potential investors.

Kosztowniak (2012) in his work with subject "Foreign Direct Investment as a Factor of Economic Growth in Poland, Empirical Analysis for the Period 1995-2012", showed that according to a

model estimated with the use of the CLS method, FDI was not a significant factor determining GDP growth. The really significant factors were gross domestic expenditure on fixed capital and expenditure on R & D. The augmented version of the Cobb-Douglas function model for the years 1995-2012 estimated by means of the CLS method demonstrates that the only significant factor was government spending at 5% significance level. The remaining variables were insignificant.

MODEL

As data and statistics related to foreign direct investment is not accessible for many countries in paired state and mutual form relations between trade and foreign direct investment in this state are studied for four selected groups of countries and in the framework of panel data. These groups include the OECD countries, Iran and Armenia. The template form is provided as follows:

$$FDI_{it} = f(GDP_{it}, Exch_{it}, SFDI_{it}, Free_{it}, Trade(f(FDI, Open, ...)), u_t) \quad (1)$$

$$trade = f(GDP_{it}, Exch_{it}, Open_{it}, FDI(f(trade, SFDI_{it}, Interest_{it}, ...)), e_t) \quad (2)$$

So that the e_t and u_t are error components model and t index represents the time and i is a symbol of the Union.
Each of the models also consider the convergence of economic variables which will be examined.

ESTIMATION

Estimating foreign direct investment and trade model in OECD countries, Iran and Armenia

Stationary of all applied variables in estimations should be tested before model estimation, because non-stationary of variables would create spurious regression problem for time-series data and panel data. Dickey-Fuller Test and Augmented Dickey-Fuller Test (ADF) could not be used to test stationary of variables about panel data; but, what is common about time-series data, rather than collective stationary of variables should be tested. Obtained results of studying variables' stationary related to member countries of the European Union using Levin, Lin and Chu test (LLC) indicate stationary of all model variables. Hypothesis H_0 in this test illustrates non-stationary of variables and hypothesis H_1 illustrates stationary of variables.
Results show stationary of all research variables. Model estimation is represented below.
Effective factors on foreign direct investment are estimated in this section using Baltagi method in OECD countries, Iran and Armenia.

Table 1: Foreign direct investment model using Baltagi method in OECD countries and Iran and Armenia

EC2SLS random-effects IV regression Group variable: year			Number of obs =4064 Number of groups =8			
R-sq : within =0.3118 between = 0.7505 overall = 0.3128			obs per group : min =463 avg =508.0 max =562			
Corr (u_i , x) = 0 (assumed)			wald chi2 (14) =1576.99 prob>chi2 =0.0000			
fdiinij	coef.	std. Err.	z	p>|z|	[95% conf . Interval]	
tradij	1.54e-06	3.99e-08	38.67	0.000	1.47e-06	1.62e-06

distij	-1.094359	.1503496	-7.28	0.000	.7996795	1.389039
gdpi	5.83e-09	1.59e-09	3.66	0.000	2.71e-09	8.95e-09
gdpj	1.16e-09	2.01e-10	5.75	0.000	-1.55e-09	-7.63e-10
popi	-.4897768	.2270969	-2.16	0.031	-.9348785	-.044675
xrat	-163.3652	43.01641	-3.80	0.000	-247.6758	-79.05459
labor forcei	.0003079	.0004968	0.62	0.535	-.0006658	.0012817
empi	-.0000214	.0001599	-0.13	0.894	-.0003348	.000292
openki	51.46579	23.13691	2.22	0.026	6.11828	96.81329
intresti	386.002	211.6401	1.82	0.068	-28.80502	800.809
hincome	-1.40e-12	4.42e-13	-3.17	0.002	-2.27e-12	-5.33e-13
hinterestr~e	3.91972	2.980186	1.32	0.188	-1.921336	9.760776
htech	7. 51e-07	2.88e-07	2.61	0.009	1.87e-07	1.32e-06
freeiinter~i	-3765.5	1876.781	-2.01	0.045	-7443.924	-87.07623
_cons	17022.61	12946.3	1.31	0.189	-8351.678	42396.9
sigma_u	0					
sigma_e	45739.808					
rho	0	(fraction of variance due to u_i)				

Impact of distance, foreign exchange rate and income convergence is positive and significant on trade in the OECD bloc with Iran and Armenia using Baltagi method.
FDI model is estimated below using Nosa method in OECD countries:

Table 2: foreign direct investment model using Nosa method in OECD countries, Iran and Armenia

. xtivreg fdiinij distij gdpj popi xrat labor forcei empi openki intresti hinc > Ome hinter estrate htech freeiinternationallyi (tradij = fdiinij gdpi gdpj PO >pi xrat laborforcei empi intresti hincome hinterestrate htech). Nosa						
G2SLS random-effects IV regression Group variable: year			Number of obs = 2521 Number of groups = 8			
R-sq : within = 0.4405 Between = 0.7945 Overall = 0.4416			obs per group: min = 274 Avg = 315.1 Max = 358			
Corr (u_i , x) = 0 (assumed)			wald chi2 (13) = 1903.33 prob > chi2 = 0.0000			
fdiinij	coef.	std. Err.	z	p>|z|	[95% conf . Interval]	
tradij	1.25e-06	3.00e-08	41.69	0.000	1.19e-06	1.31e-06
distij	.7620218	.1339912	5.69	0.000	.4994039	1.02464
gdpj	-1.35e-09	1.76e-10	-7.65	0.000	-1.69e-09	-1.00e-09
popi	-.0369593	.1861159	-0.20	0.843	-.4017398	.3278213
xrat	153.6261	52.36493	2.93	0.003	50.99269	256.2595
labor forcei	-.0003038	.0003993	-0.76	0.447	-.0010864	.0004789
empi	-.0004174	.0001628	-2.56	0.010	-.0007364	-.0000984
openki	-174.9394	47.21799	3.70-	0.000	-267.485	-82.39384
intresti	-90.46981	244.819	-0.37	0.712	-570.3062	389.3666
hincome	-1.67e-13	1.31e-13	-1.28	0.202	-4.23e-13	8.95e-14
hinterestr~e	4.418757	2.054884	2.15	0.032	.3912582	8.446256
htech	1.80e-07	1.31e-07	1.37	0.170	-7.68e-08	4.36e-07

freeiinter~i	9768.142	2429.22	4.02	0.000	5006.957	14529.33
_cons	-53992.16	13971.94	-3.86	0.000	-81376.67	-26607.66
sigma_u	0					
sigma_e	30332.467					
rho	0	(fraction of variance due to u_i)				
Instrumented:		tradii				
Instruments:		distij gdpj popi xrat laborforcei empi openki intresti hincome hinterestrate htech freeiinternationallyi fdiinij gdpi				

Estimation using Nosa method with a little difference in signs reveals variables of unemployment, degree of convergence and foreign exchange rate having a negative and significant impact and other variables having a positive impact on attracting foreign direct investment. Model of effective factors on trade is estimated in the following using Baltagi method.

Table 3: trade model using Baltagi method in OECD countries and Iran and Armenia

EC2SLS random - effects IV regression Group variable: year			Number of obs = 4064 Number of groups =8			
R-sq : within =0.3060 between = 0.9169 overall = 0.3081			obs per group: min = 463 avg = 508.0 max = 562			
Corr (u_i , x) = 0 (assumed)			wald chi2 (14) = 1802.71 prob>chi2 = 0.0000			
tradij	coef.	std. Err.	z	p>|z|	[95% conf . Interval]	
fdiinij	2400732	62078.62	38.67	0.000	2279060	2522404
distij	-114964.3	182892	-0.63	0.530	-243497.5	473426
gdpi	.0002663	.0019731	0.13	0.893	-.0041335	.0036009
gdpj	.0010033	.0002489	4.03	0.000	-.0014909	-.0005151
popi	650627	283235.7	2.30	0.022	95495.32	1205759
xrat	3.19e+08	5.41e+07	5.88	0.000	2.12e+08	4.25e+08
labor forcei	-2113.649	622.6184	-3.39	0.001	-3333.958	-893.3394
empi	448.5647	199.8346	2.24	0.025	56.89598	840.2334
openki	2.09e+07	2.88e+07	0.72	0.469	-3.56e+07	7.73e+07
intresti	-8.29e+08	2.65e+08	-3.13	0.002	-1.35e+09	-3.10e+08
hincome	-4.22e-08	5.49e-07	-0.08	0.939	-1.12e-06	1.03e-06
hinterestr~e	8262562	3721288	2.22	0.026	968970.8	1.56e+07
htech	.1032953	.3578852	0.29	0.773	-.5981468	.8047373
freeiinter~i	-1.25e+09	2.34e+09	-0.53	0.594	-5.83e+09	3.33e+09
_cons	4.25e+09	1.61e+10	0.26	0.792	-2.74e+10	3.59e+10
sigma_u	0					
sigma_e	5.725e+10					
rho	0	(fraction of variance due to u_i)				

Analysis of results about foreign direct investment and trade in OECD countries by considering economic convergence variables like income convergence, interest rate convergence and technology convergence are estimated and studied. Thus, the proposed equation for FDI is as below.

$LFDI_{it} = c_0 + c_1 LTrade_{it} + c_2 LFree_{it} + c_3 LSFDI_{it} + c_4 LGDP_{it} + c_5 Lh_{income} + c_6 Lh_{interest} + c_7 Lh_{tech} + c_8 LExch_{it} + c_9 LInterest_{it} + DUM$

Table 4: trade model using Nosa method in OECD countries and Iran and Armenia

. xtivreg tradij distij gdpi gdpj popi xrat laborforcei empi openki intresti > hỉncome hỉnterestate htech freeiinternationallyi (fdinij= tradij distij qd > pi gdpj popi xrat laborforcei empi openki intresti hincome hinterestrate htec h freei internationallyi. nosa						
G2SLS random-effects IV regression Group variable: year			Number of obs = 2521 Number of groups = 8			
R-sq: within = 0.4554 between = 0.8848 overall = 0.4566			obs per group: min = 274 avg = 315.1 max = 358			
Corr (u_i , x) =0 (assumed)			wald chi2 (14) =2105.78 prob > chi2 = 0.0000			
tradij	coef.	std. Err.	z	p>|z|	[95% conf. Interval]	
fdiinij	1953911	46877.6	41.68	0.000	1862032	2045789
distij	-209976.7	165072.4	-1.27	0.203	-533512.7	113559.3
gdpi	-.0011161	.00117601	-0.63	0.526	-.0045658	.0023336
gdpj	-.0004551	.0002144	-2.12	0.034	-.0008753	-.0000349
popi	566184.4	233398.4	2.43	0.015	108732	1023637
xrat	9.65e+07	7.89e+07	1.22	0.221	-5.81e+07	2.51e+08
laborforcei	-789.6584	504.8253	-1.56	0.118	-1779.098	199.7811
empi	71.77234	203.4382	0.35	0.724	-326.9591	470.5038
openki	3.79e+08	6.19e+07	6.12	0.000	2.58e+08	5.01e+08
intresti	6.19e+08	3.10e+08	2.00	0.046	1.18e+07	1.23e+09
hincome	3.81e-07	4.43e-07	0.86	0.390	-4.87e-07	1.25e-06
hinterestr~e	919726.1	2570485	0.36	0.720	-4118332	5957784
htech	-.3336366	2702129.	-1.23	0.217	-.8632441	.1959709
freeiinter~i	-1.99e+10	3.20e+09	-6.23	0.000	-2.62e+10	-1.36e+10
_cons	1.02e+11	1.83e+10	5.57	0.000	6.61e+10	1.38e+11
sigma_u	0	(fraction of variance due to u_i)				
sigma_e	3.818e+10					
rho	0					
Instrumented:		Fdiinij				
Instruments:		distij gdpi gdpj popi xrat laborforcei empi openki intresti hincome hinteentrate htech freeinternationallyi tradij				

Instrumental variables including exogenous variables that are inserted directly in the model to estimate the above equation such as accumulation of foreign direct investment, gross domestic product (GDP), long-term banking interest rate, economic degree of freedom, real foreign exchange rate, income per capita convergence (h_{income}), interest rate convergence ($h_{interest}$) and technology convergence (h_{tech}). Also it includes exogenous variables that are just used for model estimation but are not estimated directly like openness of economy and trade and foreign direct investment variables with a time lag ($Trade_{i(t-1)}$, $FDI_{i(t-1)}$). Studying rank condition indicates

foreign direct investment equation is over-identified and it is possible to estimate this equation using simultaneous equations method. Obtained results show stationary of all variables.

Results of estimating foreign direct investment model in OECD countries (table 4), show gross domestic product (GDP_{it}) has a positive impact on foreign direct investment. In other words, foreign investors would be more motivated to invest in the host country by increased internal demand for products and services and market extension. Coefficient of this variable in all groups is significant at significance level 5%.

Long-term banking interest rate ($interest_{it}$) has a positive impact on attracting foreign direct investment. Results of estimating foreign direct investment model reveal changes of foreign exchange rate in OECD countries having a significant impact on FDI attraction.

The estimated coefficient for trade has had a positive impact on FDI attraction in all groups. Thus the question about relationship between trade and foreign direct investment that is the primary objective of this survey is responded too. These results illustrate that economic integration in the above blocs does not decrease members' inward FDI; rather formation of such economic blocs causes more attraction of foreign investment due to the complementary relation between trade and FDI.

High economic degree of freedom in the OECD countries, Iran and Armenia has increased foreign direct investment. Income per capita convergence variable in OECD countries has a negative coefficient on FDI attraction and shows whatever convergence is increased and this variable becomes smaller numerically and FDI attraction will be enhanced in these blocs. Interest rate convergence in all blocs has a negative impact on foreign direct investment and shows convergence or similarity of long-term interest rate in countries decreasing foreign investors' motivation.

RESULTS

Mutual relationship between foreign trade and foreign direct investment in the selected blocs has been studied in this survey and it is concluded that these two important economic variables have a direct and complementary relation with each other in most cases. Economic integration has increased foreign trade among members by removing trade restrictions. Foreign trade is a factor for inward foreign direct investment in business partner countries and increased activity of multinational companies in other countries. It is possible to transfer capital from countries with higher frequency of capital to countries that are faced with lack of capital through foreign trade. Therefore, volume of capital transfer especially physical capitals depends on volume of foreign trade. Where there is capital accumulation in one country and comparative advantages such as access to natural resources and raw materials, cheap and frequent labor force or geographical factors in another country creating convergence between these two requires FDI attraction and concluding contracts which provide the ground for growth, technology enhancement, improvement of productions' quality, increased job opportunities and increased export.

Purpose of foreign investors is to develop manufacturing capacities to eliminate needs of the domestic market or develop export markets through FDI. Foreign direct investment has important overflow impacts for the whole economy through transferring technical knowledge and technology. Using foreign investment would increase labor force productivity and other production factors. So, production efficiency in the host country is enhanced gradually and

influences other economic sectors. As a result, it satisfies purpose of investors who look for market and those who intend to develop export markets.

Enhancement of production and production efficiency increases competitive power of internal countries at the global level and foreign direct investment which has been enhanced as a result of increased international trade would enhance foreign trade. Foreign direct investment and trade are complements of each other in this state. Even if foreign direct investment is conducted to occupy internal markets, i.e. when investment replaces trade, it could be led to trade prosperity because setting up industrial installations requires importation of foreign machineries and using foreign technical counseling services and semi-built imports, spare parts and employing foreign specialists become necessary at the operation phase. Thus attracting foreign direct investment as a tool that could help create comparative advantages in a special sector by transferring production technology, management and technical skills and improve export competitiveness in that sector must be considered by policy-makers more than ever.

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