

OSARUMWENSE OSABUOHEN-IRABOR

Department of International Economics, School of Economics, Ural Federal University, Russian Federation

IGOR MIKHAILOVICH DRAPKIN

Department of International Economics, School of Economics, Ural Federal University, Russian Federation

OUTWARD FDI AND INTERNATIONAL TRADE: THE STUDY OF CAUSAL EFFECTS**Abstract:**

Numerous studies have examined whether the interrelationship between outward foreign direct investment (OFDI) and international trade are complementary or substitutive. However, one major concern of policymakers is the possibility of OFDI precipitating de-industrialization and jobs losses of domestic economy. This study critically addresses these views by examining the interaction between OFDI and disaggregate international trade based on world bank country income classification which includes, the low income, lower-middle income, upper-middle income, and High income for a panel of 179 countries for the period of 2003 - 2019. Based on dynamic panel data model for system-GMM, empirical findings show that OFDI has negative and significant effects on exports and imports of low-income countries, an indication of a substitutional relationship. Regarding the effects of exports on OFDI, and with exception of low-income countries, we found a positive and significant relationship for in all income cluster, an indication of a complementarity relationship. This shows that home country's export is an important facilitator of OFDI. Overall, our empirical results support complementary effects on the dynamic interplay between OFDI and disaggregate international trade, suggesting a greater competitiveness in foreign markets as well as an increase in commercial integration.

Keywords:

Outward FDI, Trade, Export, Import, Income economies, Dynamic panel data

JEL Classification: F10, F21, F43