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RESEARCH ARTICLE

THE IMPACT OF TRADEOPENNESS ONFDI INFLOWS TO SOUTHERN AND EASTERN MEDITERRANEAN COUNTRIES

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Abstract

This article aims to assesseconometrically the impact of trade openness on the attractiveness of Southern and Eastern Mediterranean Countries (SEMCs) to FDI by using a Granger causality analysis for the period 1985-2016. The results showed a disparity, depending on the country being analyzed. Overall, they have proved insignificant to the extent that trade openness, despite its importance, seems insufficient, without being accompanied by other measures, to attract FDI to these countries.

Introduction:-

The international economy involvement in an increasing period of liberalization that has intensified with the creation of World Trade Organization and the growing number of regional integration agreements has been the subject of several publications.This issue has been given renewed attention with, in parallel with this increasedopenness,an explosion in capital flows and the rallying of an ever-increasing number of emerging and developing countries to liberalization strategies with the main objective of improvingthe perception of their locations in terms of FDI attractiveness (Regnault (2004). Indeed,developing countries, like many international organizations and a large majority of economists, consider FDI as one of the miracle solutions to catch up with developed countriesand achieve their economic growth objectives. So, can trade openness help to expand their FDI inflow?

Recent theoretical literature has tried to answer this question. It shows that there is a relationbetween trade openness and FDI. It reveals, however, the existence of two conflicting approaches in the nature of the relationship. It is both a protectionistand a free trade context. For the protectionist context,based on the existence of trade barriers such as customs tariffs, the theory has shown that, when the size of these markets is large enough to removethe obstacles, the multinational firm will have incentives to serve the foreign market by local establishmentthrough relay subsidiaries, instead of exporting. Thus, according to this "tariff jumping" hypothesis, eliminating these tariffs or reducing them facilitates trade and encouragesmultinationalstoexportratherthan undertake the same production activities in different countries (horizontal FDI). According to this theory, due to trade openness, a reduction, or at least a less important change in FDI relative to trade flows is expected. Does trade openness reduce FDI?

However, FDI flowshave recently made an unprecedented jump and have evolved faster than trade exchange. So, can trade openness determine the increase in FDI?

It is, therefore, in a free trade context that liberal theory advocates, in addition to the capitalliberalization, the liberalization of trade in goods and services in order to attract FDI. Indeed, according to Menegaldo (2005), by specialization and productivity benefits, a country can develop its comparative advantages and thus attract FDI in the sectors where it has these advantages.

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The extremely rapid FDI development since the mid-1990s has significantly re- opened the debate on the potential benefits and risks of openness for developing countries (Veld and Al (2004)). At this level, we can raise the question, in particular, about the internationalization of the Southern and Eastern Mediterranean Countries (SEMCs), placed, notably, within the framework of the WTO and the Euro-Mediterranean Partnership.These countries have remained throughout the nineties, out ofthis increased tide of internationalization through its two components, international trade and FDI. The recent years, however, have shown theSEMCs willingness to integrate in the international economy by entering a period of increased internationalization in terms of both their capital account andtheir commercial one. This was demonstrated by the accession to the WTO and the signing of the Euro-Mediterranean Free Trade Agreement.The growing openness to international trade aims at attracting more FDI.

The objective of this article will therefore be to test, in one way, the impact of trade openness on the attractiveness of FDI. To do this, we begin by presenting the literature review on causality analyses of the FDI-International Trade relationship. In the second part, we will test the impact of trade openness on the attractiveness of FDI of a group of five SEMC countries through a Granger causality analysis. These are Egypt, Morocco, Tunisia, Turkey and Jordan.

The choice of the sample can be justified by three factors. First, data is available over more or less long periods. Second, it is justified by the increasing involvement of these countries in the liberalization of their economies and their increasing integration into the international economy since the late 1970s. Moreover, these countries received a significant share of FDI captured by the entire region of about 70%.

Literature Review:-

The study of the causal relationship between FDI and international trade seems to be recent.Indeed, the first studies date back to the mid-1990s (Ajili .W (2004)). Among the first studies in this field, we find that relating to Rubio.B and Munoz.M (1999).Infact, Rubio.B and Munoz.M (1999) looked at the relationship between outward FDI and Spain's exports using quarterly data for the period 1977-1992.

The empirical methodology adopted is that of Granger causality in aframework of co-integration.In the first step, the analysis uses a bivariate autoregressive process that links outward FDI with exports.However, to avoid the possibility of misleading results, the relationship is tested, in a second step, at a multi-variate level where two additional variables are integrated into the modelIt's the global income and the relative export price.As soon as co integration between FDI and export exists, an error correction mechanism under three alternative specifications is implemented.This allowed the authors to distinguish between short-run and long-run Granger causality. In order to avoid possible misleading results due to the omission of some relevant variables, the authors used both bi-variate and multi-variate autoregressive processes. This explains the addition of the two variables for global income and export price in addition to outward FDI and exports (each variable is transformed in the logarithm analysis).

Hence, the first step in their empirical analysis is to test the order of time series integration through the Dukey - Fuller test. The results of this test showed that the null hypothesis of the unit root was not rejected in all cases.The second step is to test the presence of co-integration between exports and outward FDI. Thus, the authors estimate the long - term causal relationship for bi - variate and multivariate models using the Phillips and Hansen (1990) method which is robust to the presence of correlation between series. In this way, the use of certain co-integration tests such as Durbin-Watson, Duckey-Fuller augmented and Phillips-Ouliaris allowed the authors to reject the null hypothesis of non-co-integration at 1% level for allcases. Therefore, they suggest that Granger causality tests should be performed with all variables transformed into the first difference and integrating an error correction mechanism (ECM) into the equations to be estimated.

The results of the estimation showed a total absence, in the short-term, of any causal relation between the two variables in either direction. However, they have shown that a long-run Granger causality relationship exists. It is in all cases,between outward FDI and exports but in a single directionfrom outward FDI to exports with a positive sign.This indicates the existence of a complementary relationship between outward FDI and exports. This result appears to be consistent with macroeconomic studies and even with microeconomic ones using data from individual firms and industry.

Indeed, in the report of the WTO Working Group on the relationship between FDI and trade in 1996, a relationship of complementarity is found between outward FDI and exports from the country of origin of this FDI, both for macroeconomic and microeconomic studies.

Strivastava.S and Sen.R (2004) attempted to examine the causal relations between FDI flow into India and its exports at an aggregate level and over the period of post-liberalization of the Indian economy.To do this, the authors estimated a bi-variate vector autoregressive (VAR) model.According to the authors, this technique is introduced in econometric modeling by Sim (1980) in order to analyze the dynamic impact of "Random" disturbances on the system of variables. Overall, the results of the study showed, for the short term, a strong unidirectional causal relationship ranging from inward FDI to service exports.

Menegaldo.F (2005) proposed a Granger causality analysis of the relationship between foreign trade and FDI received by SEMCs.He concluded at this level that there are three types of relationships, depending on the country studied. Thus, a first group composed of Egypt and Morocco has no causal relationship between the two variables.A second group composed solely of Turkey has a one-way causal relationship of foreign trade toward FDI.A last group is defined by a two-way relationship between trade and FDI. In the case of Jordan, exports act positively on FDI, which leads to an increase in imports.This indicates the strong specialization of the Kingdom in the import-export activities.Tunisia also displays a two-way relationship.Rather, imports have had a positive impact on FDI, while FDI has a positive effect on exports.This is explained, according to Menegaldo, by the fact that foreign investors seek to penetrate the Tunisian market before considering a FDI.Then, once the environment is known, they use Tunisia as an export platform.

Jayachandran.Gand Serlan. A (2017) focused on the Granger causality analysis of the relationship between trade, FDI and economic growth for the case of India over the period 1970 – 2007.After testing the stationary and the non - co - integration of time series, the results of the Granger causality test showed, first of all, the total absence of any reciprocal causal relationship between the three variables in India.However, a unidirectional causal relationship of exports to the growth ratewas found, from FDI to growth and from inward FDI to exports.

In the same context of analysis, Iqbal.M (2020) tried to study the relationship between FDI, trade (export and import) and economic growth for Pakistan using quarterly data covering the period 1988-2005.

At this level, the results showed essentially the existence of a unidirectional causal relationship ranging from economic growth to FDI, from external trade (export and import) to economic growth and from imports to inward FDI.The results emphasize, like many others, the importance of economic growth and the countries' openness during the study period of FDI attractiveness

Econometric specification

Data

The objective of this article is to study the effect of trade openness on FDI received by a group of SEMC countries (Egypt, Jordan, Morocco, Tunisia and Turkey) using Granger causality.The analysis period covers 32 years from 1985 to 2016. In order to have consistent and comparable data, only one database was used for the five countries in our sample, which is UNCTAD.

Selecting an analytical method

Because foreign trade can be stimulated by high FDI attractiveness, the relations observed between FDI and trade may generally suffer from causality problems. One of the most important problems is the omission of significant FDI explanatory variables.Indeed, it is shown that such omission can lead to misleading estimates because of the correlation between trade and other exogenous variables which, in turn, can affect FDI (Chandran, O, and Serlan.A. 2010)).

From a methodological point of view, we noticed that most of the previous empirical studies used cross-sections or panel data.However, this application is not always adequate (Iqbal. S.M (2010)) because it does not allow us to isolate the impact of liberalization on FDI or vice versa for specific case for each country.Indeed, according to Rubio and Rivero (1994), mixing countries in cross-section or panel samples is not always the right strategy to follow when considering the possible differences in the impact of trade on FDI (or the opposite) for countries in the same region.Thus, according to the same authors, the comparison of the results obtained by using time series for each country is therefore more useful than considering a sample taking all the countries together.

According to Ajili (2001), the method that seems to best take into account the complexity of the relationship between FDI and trade openness is the Granger causality analysis.The main advantage of this method is to protect

against a possible risk of misleading relationships among macroeconomic variables studied and whose theoretical link is so far unclear.

For our study, we will use, as in Derouen and Biglaiser (2006), a Granger causality analysis of time series since we want to capture the particular relation between trade openness and FDI for each of the five countries in the sample.

Methodology For Estimation:-

The regression equation for each country is as follows:

$$FDI_t = \alpha_0 + \alpha_1 OPN_t + \alpha_2 GDP_t + \alpha_3 INFLA_t + \varepsilon_t \qquad (1)$$

FDI_t represents the dependent variable

OPN_t represents the trade openness, the explanatory variable, which is measured by an overall openness rate $\frac{E+I}{GDP} \times 100$

ε_t is an error term.

E represent the export.

I represent the Import.

According to Granger (1969), a variable $X_t$causes another variable Y_t, if $Y_t$can be better predicted using the past values of X_t.In other words, past values of X_t improve the ability of the model to explain $Y_t : X_t \rightarrow Y_t$.In order to evaluate the null hypothesis whereby trade openness does not cause FDI, we will use a Wald test.Thus, if the trade openness does not cause FDI in the Granger sense, the lagged variable OPN (coefficients α1) will not be different from zero.

Variables and expected signs

As in the Markussen model (1997, 2002), factor cost of factors of production is an important determinant of FDI.In addition, the empirical work carried out on African countries, particularly those in North Africa, insist, according to Basu and Strinivasan (2002), on the decisive aspect for foreign investors of economic stability measured by the inflationrate. The absence of statistical data on certain variables, especially over sufficiently long periods, may also limit our choice. Thus, the explanatory variables of our model will be represented by:

Trade openness:

As in Wilhems (1998), we use the trade- to- GDP-ratio. In addition to the importance of trade in an economy, this ratio more indirectly measures trade restrictions.Literature review has shown that this opening ratio could be an attractive element for foreign investment, especially for countries with an export-oriented strategy. We expect, therefore, a positive sign between trade openness and FDI inflows for our entire sample or at least for Egypt, Jordan, Morocco and Tunisia.

Per capita gross domestic product (GDP / capita):

GDP per capita captures the purchasing power of the population as well as the level of labor compensation. Its sign will be negative if FDI would be attracted by abundant and cheap labor force (vertical FDI).On the contrary, the sign will be positive assuming that FDI would target the local market. In the literature, this variable has proved very important in determining the entry of FDI in logic of international division of the production process of multinational firms. For our sample, we expect, overall, a negative sign, given the importance of the labor cost advantages presented as determining factor of the attractiveness policy for the majority of the countries in our sample.

The inflation rate:

The inflation rate is used to capture a country's economic stability. The empirical literature has shown that a high inflation rate will have a negative effect on the attractiveness of FDI.

Estimation procedure

As in Srivastava. S and See. R (2004), we estimate a Vector Autoregressive (VAR) model. This technique was introduced in econometric modeling by Sim (1980).It is known for its simplicity and efficiency when the number of variables used in the model is reduced. Inaddition, when the purpose of the analysis is Granger causality, one of the most commonly used techniques for making this kind of estimation is the VAR technique (Jayachandran.G and Serlan A 2010).

Stationarity Analysis of Time Series: A Unit-Root Test

Before analyzing the existence of unit root and given the high sensitivity in a VAR analysis, from Granger causality tests to lag order in an autoregressive process, we start by determining the order of lags of our model. To do this, the method used is that of the minimum criteria of AKaike (AIC) and Shwartz (SC).In case of contradiction between the two criteria, the result of shwartz criterion will be used. Thus, according to shwartz's criterion, we retain an order of delays equal to one.

In order to linearize the time series and make them stationary, the variables are expressed in logarithms.

For our study, if the series are not stationary at level, they are stationary at first difference. So all the series are I (1).

Table 1:- Unit Root- Test Results.

Countries	Variables	ADF Test	ADF probability	Order of integration	Decision of stationarity
Egypt	LNOPNLNFDI	-7.321117	0.0000	I (1)	yes
	LNINFLA	-5.654431	0.0002	I (1)	yes
	LNGDP	-7.661221	0.0000	I (1)	yes
		-2.95321	0.0065	I (1)	yes
Jordan	LNOPN	-5.660432	0.0002	I (1)	yes
	LNFDI	-5.70613	0.0002	I (1)	yes
	LNINFLA	-9.94381	0.0000	I (1)	yes
	LNGDP	-5.65321	0.0002	I (1)	yes
Morocco	LNOPN	-7.47654	0.0000	I (1)	yes
	LNFDI	-10.66543	0.0001	I (1)	yes
	LNINFLA	-10.00891	0.0000	I (1)	yes
	LNGDP	-10.99321	0.0000	I (1)	yes
Tunisia	LNOPN	-6.66571	0.0000	I (1)	yes
	LNFDI	-5.88723	0.0000	I (1)	yes
	LNINFLA	-9.77634	0.0000	I (1)	yes
	LNGDP	-4.76641	0.0005	I (1)	yes
Turkey	LNOPN	-5.57563	0.0002	I (1)	yes
	LNFDI	-8.66438	0.0000	I (1)	yes
	LNINFLA	-8.65432	0.0000	I (1)	yes
	LNGDP	-9.96612	0.0000	I (1)	yes

Source: Based on the results obtained withEviews 5.0 software

As forthe diagnostic tests concerning the autocorrelation and especially the normality of the errors, they are satisfactory. For autocorrelation tests, we note that they often showed a non-auto correlation of errors.

Overall, the results obtained by Eviews 5.0 show that the probabilities relating to these tests are greater than 0.05.

For the residues normality tests, we notice that the Jarque-Berra statistic is lower, for the five countries, than that read in the table of Khietwo (5.99). Besides, the probability of the JarqueBerra statistic provided by Eviews is greater than the tabulated value (0.05).We conclude, therefore, that the residues of this model are normal.

A co-integration analysis

The co-integration analysis, which is the second step in a causality analysis, identifies the relationship between two or more variables while eliminating the risk of spurious regression. Since all variables are I (1), the co-integration test for a long-run relationship is performed using Johansen co-integration test. This test is based on two test statistics: the trace test and the maximum eigenvalue test. However, the two tests can give different numbers of co integratingrelation. In this case, we must base the choice, according to Johansen and Juseluis (1990), of the estimated co integration vector or the number of co integrating relations on the interpretability of the co integrating relations. Similarly, Perron and Campbell (1992), pp24-25 indicate "... at finite distance, the determination of the co integration number is only approximate, but this approximation is of no consequence in practice". We will take into account these remarks in our choice of the number of co integrations, in case of contradiction. The results for these two tests are summarized in Table 2.

Table 2:- Search for co-integration relations using the Johansen test.

Countries	Eigen value	Trace statistics	Critical value5%	The maximumeigenvaluestatistics	Critical value5%
Egypt	0.667432	66.86331	47.66742	41.66423	27.44732
Jordan	0.656532	57.654321	47.67732	24.88561	27.66423
Morocco	0.611211	43.66452	47.88231	23.24113	27.64231
Tunisia	0.695811	45.55821	47.66532	31.53546	27.588421
Turkey	0.55632	42.53177	47.64371	26.663422	27.55412

Source: estimation based on Eviews 5.0 software

The results of trace and maximum eigenvalue tests on the number of co integration relations lead us to accept the hypothesis of a single co integration relation only for two countries, Egypt and Tunisia. Hence the existence of long-run relations, for Egypt and Tunisia, between, on the one hand, the FDI received by the two countries and the three explanatory variables, on the other hand:

- **Egypt :**

LNFDI = -4.00921LNOPN + 6.45321LNGDP + 2.35621LNINFLA
(1.00024) (0.66523) (0.39912)

- **Tunisia :**

LNFDI = 16.3273 LNOPN - 9.1465 LNGDP - 6.44378 LNINFLA
(5.66532) (3.17653) (1.00656)

Co integration relations have shown for the Egyptian case a long-term negative impact of trade openness on FDIinflow. A result that can reflect the fact that the FDI received by this country is driven by market-seeking (horizontal strategy).Thus, according to Helpman (1984), multinationals, with the aim of overcoming tariff and non-tariff barriers, will establish themselves in the large-scale investment market through FDI, which will replace exports. At this level, Egypt presents itself as an important site for investors. Especially in the real estate and tourism sectors representing services that require a local presence of the foreign investor in addition to the energy and mining sectors (cement).The GDP per capita variable is preceded by a positive sign showing, according to the open variable, that FDI is attracted by market-seeking. A result that has been widely demonstrated by the empirical literature, whenever, thedemand for host countries is high. As for inflation, it surprised us by its positive impact on the attractiveness of FDI.This effect can be explained by the presence of a large amount of FDI largely related to hydrocarbons, which is undermining economic stability.

For Tunisia, we note that long-term trade openness has a positive impact on the attractiveness of FDI.This result is consistent with our basic assumptions from the Markusen model (1997 and 2002).It stipulates that a vertical FDI will prevail when the investing countries and the host countries are asymmetrical in the size or prices of the factorsandwhen the hostcountry presents significant location cost benefits.That's why the GDP / Capita variable reflecting the level of remuneration has the expected negativesign.It is infact a vertical or relocation strategy also called rationalization of cost minimization, which is based on unequal development and which is applied unilaterally (not crossed) North- South. This inequality of development gives rise to FDI that is motivated by differentiation in factor endowments. Thus, the choice of this strategy depends, in addition to the firm's production function; onthe factorial endowments of the host country. Tunisia is a prime example of this case. Indeed, since 1972, Tunisia,

aware of the narrowness of its market, has not ceased to play on this factor and to pursue a policy of attractiveness to FDI based on low labor costs. Moreover, a significant portion of FDI is attracted bythe low value-added textile sector, which is intensive in unskilled and low-cost labor.

Causality analysis:

Results interpretation:

After having tested the stationary of the series as well as the existence of co integration relations, it remains finally to explore the short-term or Granger causal relations.The causality analysis must be based on the results of the estimation of a VAR modelfor countries for which we have not detected a co-integrationrelationship, as it is in Granger's original work. These are Jordan, Morocco and Turkey. For Egypt and Tunisia, a VEC (Vector Error Correction) is rather estimated in order to test the short-term causal relationship in the Granger sense. The results of the causality analysis (Wald test) based on a VEC for Egypt and Tunisia and a VAR applied to the first-differences of the other countries are presented in the following table.

Table 3:- Results of Granger causality tests: Dependent variable: LNFDI.

Countries	Direction of causality	Magnitude VAR or VEC	χ^2	P-Value	Decision on the existence of causality
Egypt	DLNOPN ⇨ DLNFDI	0,932121	0,66231	0,41125	No
	DLNGDP ⇨ DLNFDI	2 ,77431	2,93213	0,1001*	Yes
	DLNINFLA ⇨ DLNFDI	0,44231	0,73312	0,3532	No
Jordan	DLNOPN ⇨ DLNFDI	1,88521	0,55412	0,31641	No
	DLNGDP ⇨ DLNFDI	-2,66184	4,611201	0,0565**	Yes
	DLNINFLA ⇨ DLNFDI	-0,150635	2,896868	0,10041*	Yes
Morocco	DLNOPN ⇨ DLNFDI	-2,673211	2,89039	0,11131*	Yes
	DLNGDP ⇨ DLNFDI	-1,547111	0,319335	0,5720	No
	DLNINFLA ⇨ DLNFDI	-0,343355	3,197854	0,0737**	Yes
Tunisia	DLNOPN ⇨ DLNFDI	-0,480425	0,859206	0,30543	No
	DLNGDP ⇨ DLNFDI	1,710127	4,11261	0,05031**	Yes
	DLNINFLA ⇨ DLNFDI	-0,540671	4,53261	0,04361**	Yes
Turkey	DLNOPN ⇨ DLNFDI	-2,184910	4,911342	0,05125**	Yes
	DLNGDP ⇨ DLNFDI	0,501693	5,629131	0,011642***	Yes
	DLNINFLA ⇨ DLNFDI	0,695951	3,45101	0,10016*	Yes

Source: estimation based onEviews 5.0 software

(***) Significant coefficient at 1% level

(**) Significant coefficient at 5% level

(*) Significant coefficient at 10% level

For Egypt, the short-run causality results have shown a total absence of causal relationship, in the short term, between trade openness and FDI.Thus, the impact of trade openness on FDI received by this country is only observed after a certain time. Similarly, the economic stability measured by the inflation rate does not represent a significant causal relationship with the FDI.Onthe other hand, only one variable is significant at 10% level and which has a positive sign. This is the GDP per capita variable showing that, as in the long run, FDI is attracted by market-seeking motives rather than low labor costs. For Tunisia, in the short term and for Granger causality results, the trade openness variable is not significant.Inthe case of Tunisia, like Egypt, trade openness therefore has a significant but still positive effect only in the long run.The GDP per capita variable reflecting the wage level of the labor force is significant at 5% level and has the expected sign. The economic stability variable measured by the inflation rate is also significant and has the expected negative sign.

For the other three countries that do not have any relationship between FDI and the three explanatory variables, in particular, the long-term trade openness, we note that the Granger causality tests carried out on a VAR revealed, another time, a disparity in magnitude and according to the country studied.

For Jordan, although the trade openness variable has a positive coefficient, it has no significant effect on the attractiveness of FDI (openness does not cause FDI inflows to Jordan).A result that can not reflect the real strategy

of openness that the country started for decades. Indeed, Jordanis considered a very open country, with a liberalization movement initiated earlier than elsewhere. However, this result may still confirm that economic openness alone cannot be sufficient to attract FDI to this country. Indeed, the lack of economic performance combined with a difficult geopolitical environment has held back FDI inflows to Jordan for a long period.

For the other two explanatory variables, we note that the inflation variable cannot cause FDI inflows to Jordan as alreadyexpected. As for the variable GDP per capita, reflecting the level of labor compensation, we note that it is significant at 5% level with a negative sign showing that multinationals are attracted by Jordan's low labor costs. Indeed, the Hashemite Kingdom is one of the Arab countries that stand out for a relatively well-trained and low-cost workforce.

In the short term, Morocco has a significant relationship at the level of only 10% of the trade openness variable on FDI.However, the correlation shows a negative sign confirming a negative Granger causality of the trade openness on FDI inflows to Morocco. This may reflect the fact that FDI would be attractedby market-seeking motives. One result, although shown by Bouoiyour in 2003, does not fit Markusen (1997 and 2000)assumptionsas the Moroccan domestic market is considered relatively limited to constitute a real motive for multinationals with a horizontal strategy.

Turkey, the only European country in the sample, showed, however, a negative causal relation, at a 5% level between trade openness and FDI inflow. A result that has been anticipated. Indeed, according to Markusen (1997), when the investing and host countries are relatively symmetrical in both incomes and factor prices, Horizontal FDI would prevail among developed countries and between these countries and the most advanced and largest developing countries.

Turkey is one of the European countries that has consistently transitioned economically to high-income developed countries. For FDI received by the country, the Turkish domestic market attracts the interest of multinationals with horizontal strategies by presenting 13 million consumers with European purchasing power for a population of more than 70 million inhabitants. Currently, Turkey is attracting the interest of multinationals, especially European ones, operating in the real estate sector which began to explode in 2008.Indeed, with construction, this sector ranked first in FDI attractiveness with a total of 4.14 billion euros.The GDP per capita variable is preceded by a positive sign reflecting the importance of the Turkish market, where a significant number of its consumers have European purchasing power, which is significant at 1% level.The inflation variable is significant and has the negative expected sign.

It appears from the above that the multilateral trade openness has shown a weak significant behavior for the SEMCs, at least for our group of countries. A result that surprised us, despite the increased openness strategy that led this group of countries, including one of its main objectives was the attractiveness of large FDI flows. However, the result may reflect the inadequacy of the openness policy, on its own, to attract FDI to this group of countries. It is, in this context that the World Bank recommended, as early as 2004, to seek to conduct, in addition to trade openness, other more attractive accompanyingpolicies. Indeed, although trade openness policies may have contributed to the growth and restoration of these countries' creditworthiness, they are still insufficient on their own, to constitute real motives for multinationals. Today in this era of enormous competition from sites for the attractiveness of FDI, the SEMC, if they want to stay in the race, guided, especially, by Asian countries, they must cease to play the role of unskilled labor providers. Theymust develop know-how capable of making available a qualified workforce in a productive and efficient environment.

Conclusion:-

The results of the effect of trade openness on FDI, at least for our sample, showed different behaviors specific to each country. Indeed, the openness variable was found to be insignificant or sparsely significant. Overall, we can say that trade openness of the SEMCs does not seemto be really very decisive for FDI inflows in this group of countries.This seems to reject the doctrine of the WTO which advocates for unlimited multilateral opening of all the signatory countries of the different WTO agreements.This confirms, on the one hand, the importance of other factors determining FDI growth in the region, in addition to openness and macroeconomic stabilization.Infact, successful macroeconomic reforms successfully carried out in some SEMC countries seem to be insufficient, on their own, to attract FDI.At this level, Porter (2004) refers to the importance of microeconomic reforms that represent the real wealth on which the improvement of competitiveness and the success of free trade agreements would depend. On

the other hand, these results may reflect the inadequacies of the attractiveness policies pursued by the SEMCs.At this level, they must improve their competitiveness by improving the productivity of their enterprises by moving from the factor economy to the efficiency economy in the Porter sense.

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