International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. VIII, Issue 5, May 2020

http://ijecm.co.uk/

LIBERALIZATION OF TRADE IN SERVICES AND ATTRACTIVENESS OF FOREIGN DIRECT INVESTMENT: A THEORETICAL AND EMPIRICAL REVIEW

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Abstract

This paper reviews the theoretical and empirical literature of the relationship between the liberalization of trade in services and the attractiveness of foreign direct investment (FDI) in an analytical framework. Indeed, we are trying to discuss the different forms of ties that link the liberalization of trade in services and foreign direct investment. Theorists have focused more on trade in goods at the expense of trade in services, so they have agreed on the existence of different forms of relationships between international trade and foreign direct investment. This paper aimed to highlight the trade of services, by analyzing in a theoretical framework, its link with the attractiveness of FDI. This analysis allowed us to conclude that trade in services has its own specificities, since, unlike trade in goods, a limited number of services can be traded across borders, thus, much of the services require physical contact between consumers and producers so that the transaction can take place. Similarly, its relationship with the attractiveness of FDI, trade in services and the latter, can be linked in different forms. Indeed, this relationship could *be a complementarity relationship, as it could be a substitution relationship, and in the end this relationship could also be a mixed relationship, taking into account both the complementarity and the substitution relationships.*

Keywords: Relationship, liberalization, international trade in services, determinants, attractiveness, foreign direct investment

INTRODUCTION

Today, international trade is undergoing continuous change, where trade in services is developing rapidly compared to trade in goods, thus its contribution to GDP and its capacity to create jobs has greatly increased. . On the other hand, fierce competition between the countries of the globe has intensified sharply in recent decades, with the aim of attracting more foreign direct investment, which is considered to be a vital engine of economic growth. This constitutes our main motivation for drawing up a theoretical and empirical review of the trade in services in relation to direct foreign investment, trying to highlight the main theoretical and empirical works having approached this subject, while pointing out that works of this nature are quite rare. To this end, our paper could constitute an important contribution to scientific debates around this theme.

To answer the aforementioned objective, we will successively approach the theoretical foundations of trade in services and foreign direct investment, then an empirical review will be drawn up for the taravals having approached these two aspects, while explaining the different natures of relations existing between trade in services and attractiveness of FDI.

LITERATURE REVIEW

The concept of international trade in services has an increasingly broad scope in relation to trade in goods, even going beyond its conventional meaning, which designates the sale of a product manufactured in one country to a consumer of another country, to include the services of, transport, tourism, finance, infrastructure, telecommunications, health, education, as well as, temporary movements of, doctors, teachers, technicians, and construction workers, and so on. In other words, international trade in services includes all international transactions, including foreign investment and the international movement of people, as consumers or as providers of services. International trade in services has really taken off with the rapid advancement of information and communication technologies, where these have given rise to new aspects of international trade, such as e-trade. In this context, several studies defend the idea that the performance of trade in services has a positive impact on the performance of the entire economy. For Aadita and Stern (2008), international trade and investment in the service sector are increasingly important in world trade. In this sense, the performance of the service sector plays a vital role in the growth of the economies of all countries, as well as in the reduction of poverty. But the main question around which this paper turns, is the relationship between the trade of services and direct investment, in other words, the liberalization of trade in services, does it impact the entry of FDI.

Admittedly, the works on the liberalization of the international trade in goods are abundant, however, little or even rare, are the works which approached the question of the liberalization of the trade in services, in particular for the case of our sample. Based on this observation, we will devote this paper to the theoretical foundations of international trade in services and FDI, while trying to explore the various theories and research work relating to this endeavor.

The main theories of international trade in services

In a context of globalization, marked by very rapid progress in information and communication technologies, the world has since witnessed an accelerated movement of opening up of national economies to the outside, and a real liberalization of international trade, with the main objective of integration into the world economy. This era marked the start of a dramatic development in international trade, and an unprecedented movement of capital was recorded worldwide. Thus, it was from the 1980s onwards that researchers from around the world became more interested in international trade in services, where much of their work addressed the liberalization of trade in services.

The theory of comparative advantage is it applicable to trade in services?

Hindley and Smith (1984), wondered about the applicability of the theory of comparative advantage, to trade in services, they wondered if the theory of comparative advantage, developed over two centuries to clarify thinking about trade in goods, does it apply to trade in services. For Shelp (1986), his position was very clear. A chapter entitled "Economic Theory: A History of Negligence", when he considers that the question of the applicability of the theory of comparative advantage to international trade in services constitutes in itself a striking example of failure of economic theorists to attack services. The author was wondering about the existence or not of a discussion around trade in services in economic literature on comparative advantage, as well as the possibility of recalling an illustrative service example of comparative advantage. However, this argument of Ronald based on the differences between goods and services is rejected by Hindly and Smith, who considered that the fact that services are different from goods does not in itself allow us to suppose that the theory of comparative advantage does not apply to services. Deardorff (1985), for his part, tried in his work to verify the validity of the aforementioned theory of international trade in services. He concludes by saying that it is probably impossible to provide a conclusive answer to the question of whether trade in services enjoys a comparative advantage and that it is therefore not obvious that the latter is necessarily the criterion most useful for explaining international trade in services. In addition, the difficulty in assessing trade in services is the lack of consensus on what services are made of. Deardorff can only argue this fact by highlighting the inability of these economists to distinguish between goods and services. Without explicitly considering the models of all the possible characteristics that distinguish goods and services, as well as all their possible combinations, the proponents of the idea that the theory of comparative advantages applied to both goods and services cannot claim to have proven their thesis conclusively. To this end, due to the multitude of characteristics that could be advanced to distinguish at least certain goods and services, the question of the applicability of the theory of comparative advantages to international trade in services becomes increasingly complicated.

Theory of differentiation of service

Hill (1977) posed the question on the manner and the common point between the different services which differentiates them and allows them to be easily identified and classified, therefore, as a service delivery. In this context, he cited a series of examples of different types of services, such as the transport of goods by a transport company, the repair of a vehicle, the restoration of a house, the services rendered by a hairdresser to its customers, as well as the dental care provided by a dentist, etc., and wondered about the factor common to all these examples, which makes it possible to identify them as services. Services are considered both as intermediate inputs and as final consumption products. Consumption of services necessarily implies a change in the situation of a person or a good, which can only be with the agreement of the person concerned or the economic unit to which the good belongs, thus, the change results from the activity of another economic unit. It is these two criteria which made it possible to Identify the services, where these can be defined as a change in the state of a person or of a good belonging to a given economic unit, resulting from the activity of another economic unit, with the agreement, of course, prior to the first. After having evoked the main characteristics of services, which allow them to easily identify and classify, as a supply of services, we distinguish in the following three points, between services affecting goods and goods affecting people, and we finish by talking about the classification of services.

- ***Services affecting goods***

It should be remembered at first that there is an obvious distinction between services affecting people and services affecting goods. Indeed, a service affecting a person is often embodied by a change in the physical or mental state of a person resulting from the activity of the production unit on the other hand, a service affecting a good is a change in the condition of a property Hill (1977). As such, the transportation of goods, mailings, repairs, cleaning and maintenance are concrete examples of services affecting the goods. The transformation of goods must be physical in nature, so that the production of services affects goods is a process of physical transformation, which is not inherently different from that used to produce goods. The producer of a service works directly on the good or goods belonging to the consumer of the service. This means that the consumption of the service must take place at the same time as its production. Consumption of the service is the change that the producer makes to the state of the consumer's good, so that the production and consumption of the service obviously cannot be separated. On the other hand, the process of producing a service often involves a transaction between the producer and the consumer, to the extent that the consumer's goods are somehow altered in order for the service to be produced. As a result, the production of a service cannot generally be distinguished from that of a good by means of the technology used, but by the fact that the production unit operates directly on goods which already belong to the consumer of the service. We can conclude that the characteristics of the services have been a source of great confusion due to the tendency to consider services as particular types of products, which cannot be stored and which must be consumed as they are produced, and are therefore considered highly perishable goods.

- ***Services Affecting People***

Services affecting people are services which consist in making changes in the physical or mental state of the consumer which are the direct consequence of the activity of the producer. A good illustrative example, we evoke services such as passenger transport, hairdressing and various forms of medical treatment involving changes in the physical condition of the consumer, while services such as education and communication involve changes in mental state. Services affecting goods can also apply to people. Thus, services can result from the process of physical transformation such that the transportation of passengers is an easily reversible temporary physical transformation, while the surgery is irreversible, permanent and usual. The service offred is undoubtedly a change in the minds of the audience or the spectators, but it may be up to the psychologist to describe the nature of the change. In practice, the measurement of these services must be approximated by the number of spectators or people in the audience and, of course, in the market situation, payment is perceived in the form of admission charges Hill

(1977). It is assumed that these types of services consist of modifications which are only transitory, but one wonders if even these disappear at the instant of their performance. Many of these services can be provided collectively.

In economics, at least since Adam Smith, we have a habit of making a simple dichotomy between goods and services. However, if such a dichotomy were to be operated, one wonders if the border should be placed between goods and services or, alternatively, between goods and services affecting goods on the one hand, and services affecting people, on the other hand as already pointed out above. The production of services affecting goods has so much in common with the production of goods. The distinction between them often appears confused and paradoxical, while there is a clear line of demarcation between these two types of production and the production of services affecting people Hill (1977). This distinction corresponds to that between tangible and intangible services in the accounting material system products.

Which specificity of trade in services?

Services are not storable, but they constitute a flow. On the basis of this definition, and in order to identify the characteristics of the services, it is necessary to focus on transactions between producers and consumers, where their exchange often requires the proximity of the supplier and the consumer, which implies that the supplier must move to the buyer or consumer of his service, or vice versa (Hill 1977). As a result, proximity is considered to be one of the main criteria for the exchange of services, where the factor of distance weighs heavily on certain forms of service provision, particularly those which require direct contact between the service provider and the consumer of the latter. This is called the proximity burden, as argued by Elisabeth and Francois (2010). It was from the beginning of the 1980s, the era marked by major technological changes, that this local burden was gradually reduced.

In conclusion, proximity requirements also generate a potential complementarity in the modes of protection of exchanges and FDI. Indeed, cross-border trade restrictions can limit incentives for FDI, while restrictions on the activities of foreign firms can limit cross-border trade in goods Hindley (1988). It should be borne in mind that, in many cases, the burden of proximity is complete, since sales can only be made on the spot, the possibilities for cross-border trade being limited or even non-existent. A circulation of suppliers or consumers is therefore necessary.

Importance of international trade in services in the economy

Francois and Hoekman (2010), contend that the importance of services in a global way, results from its increasing share in global production and employment, which increases with growth and development. We are witnessing today that modern economies are increasingly dominated by services. In fact, in the past four decades, services have grown from around half of GDP to almost three quarters in most countries. This expansion in the intensity of services in economies is due to a number of factors, including factors of final demand and fundamental structural changes in production linked to development. By accelerating this process, recent advances in information and communication technologies are increasingly driving the dynamics of cross-border trade in services. The competitiveness of manufacturing companies in open economies depends in part on access to services for producers at a competitive price and of high quality, notably telecommunications, transport, distribution, financial services, etc. In particular, the feasibility of the processes related to outsourcing and offshoring depends mainly on the accessibility of said services as well as their prices. Theoretical analysis thus highlighted the role of competition in producer services as a driver of economic growth, and the importance of a variety of support services in the specialization, creation and dissemination of knowledge. It must be realized that the liberalization of services and the subsequent fragmentation of production could lead to a finer international division of labor in which countries could trade actively.

In addition, economies of scale, imperfect competition and product differentiation all have implications for growth and gains from trade. Markusen (1989) has emphasized the role of increased specialization in producer services as a source of gains from trade in services, which implies more of the benefits flowing from the proliferation of types of services and larger markets. The literature also highlights the productivity links between the organization of production (tasks) within companies and the role of services making it possible to relocate Debaere, Görg & Raff (2009). In addition, Services play a coordinating role and allow a further subdivision of tasks and a global reorganization of production, generating economies of scale. In the literature, emphasis is placed on the role of producer services in the organization of production, as well as on support for the division of labor in the manufacturing industry which provides an additional vector of growth effects Guerrieri & Meliciani (2005).

Services trade policies and economic performance

Policies of trade in services are important for many aspects of economic performance. Indeed, it has been shown that trade in services policy is important for product differentiation and diversification. The opening up of the services market was also seen as a focal point of industrial modernization strategies in developing countries. According to Hoekman and Shepherd (2017), services play an essential role in economic growth and development. Trade in services is an essential means by which countries can exploit their comparative advantage.

Sectors such as tourism and business process outsourcing can generate jobs and substantial foreign exchange earnings. More generally, however, it is important to recognize that service activities affect economic development through various indirect channels. The opening of trade and investment in services to foreign competition is a source of new knowledge and new products that can have a major impact on the productivity, and therefore the competitiveness, of many businesses in the economy. Services account for a substantial part of the total production costs of many companies in many sectors. Reducing these costs and increasing the quality of available services is therefore a mechanism for increasing performance across the economy. That said, the economic literature clearly shows that liberalization of services is not a panacea. The quality of existing economic governance, implementing institutions and regulatory regimes will determine the benefits that a country can derive from opening up service markets to foreign competition. This strengthens the arguments for a concerted and constant focus on improving economic governance as a necessary condition for sustained growth.

Historical process of liberalization of trade in services

Trade in services is seen as an essential means by which countries can exploit their comparative advantage. The opening of trade and investment in services to foreign competition is considered to be a source of new knowledge and new products which can have a major impact on productivity in general and therefore the competitiveness of many companies. In addition, liberalization of trade in services is very sensitive to the complex nature of the regulations that affect it, however, it is also found that many regulations are not border measures that affect market access, but are rather measures integrated into national regulatory frameworks. These regulations may be reasonable and perfectly justifiable due to compliance with certain quality standards, however, they may constitute a real barrier to trade in services, which restricts the room for maneuver in this case and imposes more innovative and alternative approaches to overcome these constraining obstacles to liberalization. For this, better quality of economic governance and national regulations could influence the benefits that a country can derive from the opening of service markets to foreign competition.

According to Hoekman (2006), a great deal of research has been undertaken since the mid-1980s, focusing more on trade in services, drawing mainly on regional trade agreements such as that of the EU and of course the WTO agreement, with particular attention given to the effects of liberalization in the service sector. These researches agreed that the liberalization of services constitutes for this purpose, a major potential source, of social assistance, of the performance of the service sectors itself, as well as, of service policies, which constitutes in turn, a determining factor in trade volumes, their distributional effects and economic growth.

Van Der Marel (2012) asserts that in comparison to trade in goods, services are highly regulated, and depend more on institutions and their national policies. For this, further liberalization of the barriers behind the border requires specialized knowledge of the functioning of a given service market, and of its barriers put into effect. As a result, countries that can translate this knowledge into sound policies are better able to specialize in trade in services than trade in goods. A key difference between trade in goods and services in terms of growth impact and employment impact is that imports of services often entail foreign direct investment, to the extent that services must be, either produced locally for technological reasons or because there are incentives to stay close to the customer. As long as the increased participation of foreign factors is associated with increased competition, activity will be more extensive and therefore more likely to generate growth enhancing effects.

In this sense, the literature suggests that services play a critical role in the economic transformation of countries. It is found that sectors such as tourism are considered an important activity that can generate jobs and substantial foreign exchange earnings.

The Uruguay Round and liberalization of trade in services

As a result of this meeting, a decision was made to launch a new round of trade negotiations, which will focus on trade in services. This idea was supported by the United States, which insisted on the inclusion of trade in services in the talks of participants, on the other hand, strongly opposed by Third World countries, which clearly expressed their skepticism and reluctance to with regard to the opportunities that the liberalization of trade in services could offer, in particular because of the trade balances in deficit services displayed by the majority of these countries. Many developing countries therefore fear that they will not be competitive in a sector dominated by developed countries. Likewise, many advanced countries are also less motivated to liberalize trade in services, for a variety of reasons, including the fear that discussing a new topic will make repairing a world trade system more difficult. Except Despite the above, an opening of the markets could raise the levels of competition between the industrialized countries, which would obviously imply a downward adjustment of the prices of the various services. Notwithstanding this favorable aspect of competition for developing countries, it is confused by another perspective which presents itself by the possibility of relatively abdicating the room for maneuver they hold in certain service sectors considered as engines of the economy, such as banking, insurance, telecommunications, etc., which are often monopolized by the state. In this sense, Nyahoho (1990), argued that the comparative advantage of many services is only acquired over time, hence the importance of trade policy for the protection of infant industries. , as evidenced by some industrialized countries. In this context, the Group of Ten, led by Brazil and India, perceives the position of the industrialized countries as a situation of giving everything and receiving nothing. Their proposal is to identify services outside the GATT and independently of the negotiations on goods in order to avoid being forced to resort to arbitration between goods and services. It was from this moment that the world saw the birth of a real debate on the liberalization of trade in services.

Modes of trade in services and liberalization

Starting from the definition which stipulates that services cannot be stored, their exchange therefore requires proximity between the supplier and the consumer. Therefore, the importance of proximity constraint to make service transactions feasible means that trade would often involve a combination of cross-border transactions and the local presence of suppliers. In general, the provision of services would generally involve a link in production, in the sense that complementary inputs, including other services, may be necessary to enable an efficient exchange of services. Asymmetric information and the resulting need for regulation also implies that regulatory regimes relating to the temporary movement of people and the longer-term establishment of service providers (FDI) are important determinants of the feasibility of trade in goods and services.

Liberalization: Services vs goods

Hoekman (2006) contend that international transactions in services are generally more complex to analyze because of the need to take into account the different modes of supply, the costs of their availability and the relationship between different modes that they are complementary or substitutable. The configuration of the exchanges will depend in part on the feasibility, particularly in terms of the cost of using alternative modes. For example, technological or political changes may result in the shift from trade in finished goods containing inputs from non-traded services to trade in intermediate goods.

In the same framework of analysis, many services are differentiated products, adapted to the specific needs of individual buyers and provided using technologies characterized by fixed costs and increasing returns to scale and range. This holds true for many products, thisis why many models that integrate trade in services to some extent, simply involve re-labeling varieties of intermediate inputs as services. Indeed, Markusen (1989), Burgess (1989) and Ethier and Horn (1991), for example, model producer services as intermediate inputs constituting an activity with increasing returns. But many of the service-specific characteristics such as, limited trading capacity, multiple modes of supply, network externalities, information asymmetry, fixed costs and regulation, are generally not considered explicitly. To this end, compared to an economy which negotiates finished goods with service and labor inputs, national, not traded, it is possible that an economy which directly negotiates service inputs "factor services" can generate greater gains and total factor productivity.

As a conclusion to this part dedicated to the theoretical foundations of international trade in services, we can deduce the absence of theoretical foundations on which the rules governing trade in services are based. This situation can only constitute a potentially significant obstacle for studies and research relating to the subject of international trade in services. This absence of the conceptual framework also reflects the historical treatment of services that have been both marginalized and ignored by economists throughout history. This does not prevent the international community from continuing its efforts to promote the literature on trade in services.

After highlighting trade in services, and its main theoretical foundations, we devote the next point to the theoretical foundations of foreign direct investment, paying more attention to its determining factors.

The determining factors of attractiveness of foreign direct investments: Theoretical foundations

The importance of intervention policies in the investment field is clearly expressed by UNCTAD (2006), in its report, which indicated that between 1998 and 2005, on average 76 countries changed their policies each year in the measure that national regulatory provisions are more favorable to foreign direct investment (FDI), while being consistent with general WTO principles. This fact can only confirm that public policies have become increasingly liberal, offering more incentives, are part of targeted promotion strategies, mainly towards the industrial and service sectors, and participate more in agreements. investment and trade.

In this section, we will focus on the determining factors of foreign direct investment (FDI) according to the main approaches.

The classic approach

Capital and labor constitute the main factors of production of the classical approach, in which, their quantitative improvement is considered to be of great necessity. In the same framework, the classical theories, insisted on the vital role of the growth of the markets, in the improvement of the productivity of the economy in general, as well as, on the primordial role of the demand and multiplier effects of the increased investment.

It is in this logic that the classical theory of international trade appeared, with David Ricardo, based essentially on the hypothesis of the immobility of the factors of production between countries Deardorff (2011).This hypothesis was justified in the existence of obstacles between the nations of a cultural, psychological and political nature. For Ricardo, the specialization of countries based on the comparative advantage of the latter constitutes the main foundation of international trade. To this end, according to the theory of comparative advantage, in a context of free trade, countries succeed in increasing their national wealth, by specializing in production where they have a comparative advantage over its competitors.

The neoclassical approach

FDI in this approach was of particular importance, mainly due to technical changes and the reallocation of resources, which are placed at the center of the concerns of the research initiated by the supporters of this approach, who considered that the transfer of new technologies is mainly ensured through foreign direct investments, which are more and more removable between countries according to factor endowments. It is in this logic of analysis that the neoclassical theory insisted in its explanation of the phenomenon of FDI on the importance of the differences between countries in terms of factor endowments and rate of profit.

The theory of factor endowments of Heckscher and Ohlin rested essentially on the role of international differences in factor endowments and emphasized the relative abundance of countries in factors of production Deardorff (2011). These two economists contradicted the thesis of Ricardo, based on the plurality of production techniques and on the complementarity between capital and labor, and rested in their approach, on the assumption of the single function of production in all countries and the abundance of complementary factors. In addition, international trade induces a reallocation of factors according to the comparative advantages in the different countries participating in the exchange, this thesis constituted the basic model of these two economists mentioned above. This finding could lead to the exchange of factors of production between countries. To this end, international trade could modify the scarcity of factors and lead to the same result of leveling the costs of the factors of production which can occur in the event that the factors are internationally mobile.

The growth approach

Thanks to the vital role of foreign direct investment and its increasingly important role in particular in promoting economic growth, as well as its effects on the economy of host countries, the theories of growth to be explained became interested more to this investment category. Indeed, FDI has positive effects on host countries, in that it allows the transfer of new technologies and improves the stock of knowledge and skills. Several factors such as international trade, human capital, as well as others, could explain economic growth through foreign direct investment. In addition, these are one of the most important channels for the transfer of technology and knowledge.

Cogneau, Dumont and Mouhoud (2000) concluded empirically that through FDI, trade liberalization has a positive and significant effect on productivity gains and on production growth, provided that a labor force qualified work is available.

In addition, FDI is an essential factor which enables the acquisition of new production and management methods, and consequently the improvement of quality and productivity in general. Indeed, the entry of intense FDI in technology, could contribute to the growth of macroeconomic aggregates and social welfare in the host countries, and stimulate economic growth through the improvement of innovation activity, productivity, management and organization.

In conclusion, several factors are determining factors in the attractiveness of foreign direct investment. The quality of the host country's workforce was highlighted as an important factor in this. Thus, other factors of no less importance, namely, market size, infrastructure, income level, political and macroeconomic stability can be cited. Indeed, human capital has positive effects on the attractiveness of FDI, insofar as more qualified human capital could attract more foreign companies and encourage them to set up on its territory, and consequently stimulate economic growth Blömstrom, Kokko and Mucchielli (2003).

Which implementation strategies of FDI?

The study of the literature review on the strategic behavior of implantation of foreign investments, four fundamental strategies stood out, to have: vertical strategy, horizontal strategy, implementation strategy and finally a transversal strategy which combine in an alternative and simultaneous way between the vertical strategy and the Horizontal strategy, these strategies known by the complex or global strategy Yeaple (2003).

The horizontal strategy

Also known market strategy. It is a strategy which aims, as an objective, to access and establish itself in markets protected by barriers to entry. According to Michalet (1999), this strategy aims to produce bridging workshops to produce on the one hand for the local implantation market a range of goods which partially or fully reproduce that of the parent company, and on the other hand, it concerns countries that have a similar level of development in size, either have access to factors of production at costs at the same price. This strategy allows the firm to exploit its specific assets on a global scale, while avoiding additional expenses. In this context, multinational firms prefer to set up several production sites by taking advantage of the low set-up costs and the high demand in the host market. In other words, this strategy aims to produce for the local establishment market, especially in countries with an equivalent level of development. In addition, economies of scale and protective policies are the factors that drive horizontal foreign direct investment that develop, in this case, between like countries. The models for this type of investment are based essentially on the principle of the trade-off between the costs and the benefits of investing abroad.

The vertical strategy

It is said that the firm adopts a strategy of vertical investment or also of delocalization, when it fragments its production chain geographically Markusen (1995), in other words, it is an investment strategy which consists in fragmenting the different stages of production design and marketing of its products by setting up in different countries. This strategy is mainly characterized by a specialization of these segments and by the exchange of intermediate and semi-finished products between the parent company and its subsidiaries. Conversely to the horizontal strategy, this strategy particularly concerns North-South investment flows. To this end, countries lagging behind in development do not invest in developed countries (in particular the Triad countries). The cost of transport and telecommunications, participation in regional integration, the cost of labor, and secondly, customs tariffs, are the most significant factors for this strategy, which aims to take advantage factor cost differences between countries.

The access strategy based on access to natural resources

This strategy based on access to natural resources, which was the first factor that attracted FDI. The literature shows that many industries have settled near raw material reserves or energy sources such as iron or coal. Access to natural resources has been the primary reason for attracting foreign direct investment since the 16th century. This aspect of FDI is the simplest to understand and the most obvious to explain. Its main determinant is in fact the existence of natural resources in the host country. In fact, some countries with abundant natural resources were unable to exploit their resources, or to market them without the intervention of foreign investment, as is the case for a large number of countries with petroleum and mineral resources. . To this end, the intervention of FDI became essential, in order to exploit its natural resources, in order to transform and export them to the country of origin or to the rest of the world. However, other variables, such as the risk of instability, could have a decisive and direct impact on such an investment, and consequently on the potential gain from the exploitation of natural resources, which may not be able to cover this risk which discourages FDI.

The complex or global strategy

This strategy is not obvious, since the firm is sometimes faced with complex integration strategies, combining between the two strategies it horizontal and vertical at the same time. Thus, among the conditions which favor the adoption of this strategy, and that, in the case where the transport costs are neither low nor high, the two strategies, horizontal and vertical are not favored unless there is a complementarity between these two strategies. In another different case where transport costs are low, vertical integration is favored since this makes the use of inexpensive labor accessible. On the contrary, high transport costs encourage horizontal FDI as long as it makes trade more expensive Yeaple (2003).

Michalet (1999), for his part, considered that the main reason favoring the adoption of such a siting strategy is the geographic diversification of production in order to minimize the risks. Thus, the importance of oligopolistic competition and the desire to hold large market shares are also valid reasons for the adoption of this strategy. In the same vein, this author listed the main localization criteria favorable for this global strategy, namely, easy access to raw materials; the presence of protectionist barriers to trade in the host country; the presence of a skilled and inexpensive workforce; reducing transportation costs and ultimately expanding the regional market.

Literature review on the determinants of FDI attractiveness

Theoretical work on the literature on FDI attractiveness factors emphasizes the importance of this in host countries. These works studying the determinants of direct investment are multiple, so the approaches used are numerous and diverse, except that, according to Chakrabarti and Fombonne (2001), they are characterized by the lack of consensus. We are interested in this point, to make a review of the literature on the determining factors of attractiveness of FDI in a particular way. Admittedly, not all FDI is motivated by the same attractiveness factors, which implies that the investment decision of each firm is dependent on several factors, and therefore, the literature includes several theories, each retains one or more determining factors for the explanation of the firm's investment choice. For an easily understandable analysis of the determining factors of the attractiveness of FDI, we adopt an approach which allows to distinguish between microeconomic determining factors and macroeconomic determining factors.

The microeconomic approach

This approach allows us to better understand the phenomenon of foreign direct investment, focusing mainly on the behavior of multinational firms. This microeconomic approach to FDI emphasizes market imperfections and the motivation of multinationals to increase their market share and their advantages in terms of cost of ownership, economies of scale, advanced technology, more in terms of management, etc., We evoke in this context, the theory of industrial organization, which consisted in explaining to us the phenomenon of internationalization of firms in a specific case of oligopoly, characterized by a market with limited number of dominant companies that impose different barriers to the entry of new competitors. This is a situation of an imperfect market.

- ***The theory of specific advantage based on market imperfections***

Many economists, especially American economists, such as Hymer (1960), Vernon (1966), Kindleberger (1969), Dunnig (1977), have sought for more than a decade to analyze the reasons why international companies invest abroad. Dunning (1959) and Kindleberger (1969) were the first ministers to analyze and publish their theory. Hymer (1960), one of the students of Kindleberger, later published one of the first theses on the same subject, incorporating for the first time the conditions of imperfect competition as main elements to justify the internalization movements of multinational enterprises, assuming that FDI cannot exist in a context of perfect competition for goods and factors. In the same vein, Mucchielli (1998) considered that the possession of specific advantages, resulting from the imperfections of the different markets, is an essential condition for integration into foreign markets insofar as, *"… a multinational must have specific advantages that can be transferred internationally to remain competitive on a product that it manufactures abroad*''. Dunning (1977) considered that if there was a specific advantage, as overcome by these last two authors, was a necessary condition for FDI, it was also valid for export and not only for internationalization. Thus, this advantage must be transferable abroad and capable of developing there. This obviously implies that market imperfections and specific advantages can no longer alone explain FDI.

- ***Theory of Macdougall***

This economist focused in his thesis on the role of differences in the rate of return on existing capital between countries, as a determining factor in firms' investment decisions. Indeed, FDI flows would often go from countries where the capital factor is abundant to those where this factor is rare. We are therefore talking about migration from countries where yields are low to countries where yields are high. This state of affairs is truly illustrated between developed and developing countries. MacDougall (1960) designed a model according to which FDI was motivated by an increase in profitability in foreign markets benefiting from growth, lower wage costs and risks of exchange.

Despite the important contribution of this economist to debates on the subject of FDI, their model had several limitations. Indeed, this theory has not provided an answer to the phenomenon of investment flows from developing countries to developed countries. Other limitations lie in the fact that this model focuses on the differences between countries in terms of rate of return on capital, as a determining factor retained by portfolio theory, to explain investment flows.

- ***The product life cycle theory of Vernon***

Conversely to the theory defeated by Hymer (1960), Vernon (1966) developed a famous theory known as "the theory of the life cycle of a product" or quite simply, "Vernon's teahouse", more dynamic compared to that of Hymer supra. This theory was based on the evolution of the product market according to different stages. To this end, Vernon is considered to be one of the first economists to tackle the subjects of international trade and direct investment at the same time, thus, he is also considered to be a specialist in industrial economics.

To better understand Vernon's thesis, we discuss the four constituent stages of his theory, initiated within the framework of his study dedicated to the strategies of American firms, throughout the economic life of a product. These four steps are considered fundamental for the insertion of a product in international trade, and can be summarized as follows:

- The birth phase, which begins with a technological innovation that gives the firm a comparative advantage compared to other countries;
- The standardization phase, where demand for the product is high and the selling price tends to decrease but is still fairly high;
- The phase of maturity, during which the demand for the product is saturated, and the firm tends to lower its selling prices due to increased competition.
- Finally, the decline phase, which is characterized by the cessation of the production operation in the country of origin, due to the drop in demand, thus, domestic demand is satisfied by means of re-export from foreign companies to initially innovative countries.

- ***Theory of Duning "OLI" based on the organization of the firm***

Dunning (1973), attempted for the first time in 1973, to give an economic explanation for the flows of foreign direct investment. It would be particularly necessary to choose the location of multinational firms, and therefore the question of the determinants of the geographic distribution of FDI, while asking for three important explanatory factors: cost factors, factors linked to the business climate or to the investment environment and market factors.

To better understand the Dunning paradigm, we cite the table 1 showing the significance of the OLI advantages of this paradigm.

Table 1. Significance of Eclectic paradigm (O.L.I) advantages

Specific advantage "0"	*Advantage in localization "L"*	*Advantage of internationalization "I"*
-Technological property -Economic size of scale -Differentiation of the product -Specific allocations (Men, capitals, organization) -Access to markets (factors and products) -Previous multipleization	-Differentiation of prices inputs -Quality of inputs - Cost of transport and Communication -Physical distance (Language, culture) -Spatial distribution of inputs and markets -Possibility of agreement	Cost reduction exchange Reduction of theft of property Uncertainty reduction Supply control (quantity and quality) Clearance control Internalization of Externalities Non-existence of markets in term

Source: Dunning (1988)

The macroeconomic approach

Continuing our research to better understand the phenomenon of foreign direct investment, this time we focus our research, on the macro economy, to explain the determinants of foreign direct investment. Three theories are described in this context, namely the theory based on dynamic comparatives, then the theory of internationalization and finally we conclude with the theory of the pull factor.

- ***The theory of international trade based on dynamic comparative advantage***

This approach brought a new interpretation to the neoclassical model, considering that FDI is one of the means of penetrating foreign markets, as much as export. In addition, this approach is more realistic, insofar as it tried to abandon the hypothesis of factor immobility and to add the knowledge factor to the traditional factors of capital and labor. Thus, this knowledge or technological factor can take the form of creating a new product, a specific marketing qualification, a workforce, etc. This dynamic and innovative approach contains a production factor, whose mobility is relatively imperfect due to its specificity to the company. Within this same framework, we can conclude that the main contribution of this approach is that the imperfect mobility of factors of production or the imperfect transfer of monopoly advantages can influence the decision to exploit foreign markets through FDI. This imperfection noted at the level of the mobility of knowledge factors has been studied in the theory of the life cycle of the product which constitutes an empirical application of the imperfection.

- ***The theory of internationalization***

In the same perspective of trying to understand and explain the phenomenon of FDI, the theory of internalization, was developed by Buckley and Casson (1982), in order to explain the multinationalization of firms. Their thesis on internationalization was based mainly on the fact that the advantage of a firm does not consist in the possession of a specific advantage, but rather, in the ability to internationalize this advantage without yielding to it another firm. In addition, the theoretical framework of these two aforementioned auterus suggests that the effective management of activities abroad requires minimizing transaction costs. In the same vein, Fina and Rugman (1996) defines internalization as the process that creates a market inside the firm, insofar as this internal market of the firm is a substitute for the failing normal market and allows to solving the problems of resource distribution, the formation of prices for intermediate goods, the increase in transaction costs. Thus, the existence of barriers to trade and market imperfections are the main causes for the internationalization of multinational firms. In conclusion, we can say that the fact that the theory of internationalization has focused on the inefficiency of the external market as the only determining factor in explaining foreign investment, constitutes in itself a limit for this theory.

- ***Pull factor approach or pull factors***

The literature on FDI identifies a number of intrinsic factors that make a country a preferred destination for FDI or not (pull-factor theory). Mayer and Mucchielli (1999) conducted a microeconomic study, to study the choice of location abroad of multinational firms. As a result, they found four main factors that explain this choice of location. The first of these factors was market demand for the goods that the company can hope to exploit for each location. The second is the cost of factors of production. The third factor is represented by the number of local and foreign companies already established on site. In the end, as a last factor, it is embodied by a synthesis of the various attraction policies carried out by the local authorities of the host country, we mention in particular, job creation subsidies, temporary tax exemptions, the low tax rate on profits, etc. We conclude by saying that, companies seek to locate themselves, in the country where demand is high and where production costs are low. In addition, the performance of a favorable and stable macroeconomic framework is a necessary condition for attracting FDI flows. Thus, Conconi, Sapir & Zanardi (2016) introduced the concept of uncertainty and the acquisition of knowledge on the foreign market, to show that knowledge of the structure of host countries and the composition of their market is a determining factor for that the probability of interpretation in their market will be high. Hermes & Lensink (2003), for their part, have shown that good development of the financial system also plays an important role in stimulating FDI flows. While Borensztein et al. (1998) suggested that human capital is a significant factor for

FDI. Finally, we end with Krugman (1991) who showed in his publication famous “Geography and Trade” that geographic location is a determining factor in attracting FDI flows, while emphasizing the positive role of transport costs and the size of the country on FDI flows.

EMPIRICAL REVIEW

The links between international trade in general and foreign direct investment are at the heart of the globalization process. Many works have been developed to explore the nature of these links, which are increasingly complicated, but but positive. International trade in services and investment are inextricably linked through the international production networks of multinational enterprises, which fragment their production processes into different components established in different places, as well as trade in their inputs and products, in more or less complex areas of the UNCTAD global value chains (2013). Thus, the literature and current debates on trade in services in relation to FDI, focus more on policies directly affecting this trade, in particular the aspect of commercial presence, embodied by the mode (3) of l 'GATS.

Fontagné (1999), the relationship between trade and investment has attracted economic and political attention for many years. In this context, a working group was created within the WTO to deal with the issue of the relationship between trade and investment. In this context, a working group was created within the WTO to deal with the issue of the relationship between trade and investment. We can say that there is a modest empirical literature, which could allow us to draw up an overview of the various works that have addressed the question of the link between international trade in services and foreign direct investment.

In the following table, we summarize the main empirical work carried out in relation to this question.

Table 2. Review of the main empirical works on the link between trade and FDI

Study	Context	Period	Relationship between trade and FDI
Srun (2018)	Cambodian economy	2000-2013	Complementarity effect.
Shah & Khan (2016)	(06) emerging countries: Brasil, China, India, Mexico, Russia, Turkey	1996-2014	Complementarity effect
Kottaridi & Filippaios (2015)	Central and Eastern European countries,	1992-2006	Complementarity relationship

Table 2…

Madariaga (2010)	France	2002-2008	Complementarity relationship
Norbäck & Urban (2009)	Suède	1980-2005	Complementarity relationship
Gonzalez (2008)	Latin America: The case of Mexico, Argentina and Brazil	1980-2004	Complementarity and substitutability, depending on the nature of the investments and the characteristics of each country in the sample.
Ainzenman & Noy (2005)	81 countries	1982-1998	Stronger complementarity in developing countries compared to industrialized countries.
Head & Ries (2001)	Sample of 900 Japanese companies	1966-1990	Complementarity relationship
Liu, Wang & Wei (2001)	China and 19 countries	1984-1998	Complementarity relationship
Lionel Fontagné (1999)	14 Country de l'OCDE	1984-1993	Complementary relationship, dynamically dependent on conditions.
Henry, (1994)	Three OECD areas	1980-1990	Complementarity relationship
Lipsey & Weiss (1981)	USA and sample of 13 countries	1970	Complementarity effect

Table 3. Review of the main empirical works on the link between trade in services and FDI

Study	**Context**	**Period**	**Relationship between trade and FDI**
Dash & Parida (2013)	India	1991-2011	Complementary relationship
Cheong Tang & Wong (2011)	Cambodia	1994-2004	Complementarity link
Jansen & Piermartini (2004)	-United States and 146 of its partners -United Kingdom and 11 of its partners	2000-2001	-Substitution relationship (for mode 3), and Bidirectional relationship (for mode 4)

RESULTS

It is obvious that the relationship between trade and investment oscillates between, complementary and substitution, and sometimes two-way, and this depends mainly on the context of study and the economic conditions. The information drawn from the theoretical and empirical review informs us about the fact that trade in its broad sense is often linked by links of complementarities with foreign investment, on the other hand, trade in services, is linked to foreign direct investment by links of complementarity sometimes and of substitution other times, which depends mainly on the modes of exchange of services used. Indeed, for mode 3, where a service supplier of a WTO Member, thanks to a commercial presence in the territory of any other Member, could provide services, the substitution link takes shape, thus, for mode 4, where a service supplier of a WTO Member, thanks to the presence of natural persons of a Member in the territory of any other Member, which is mainly embodied by the presence of natural persons, we speaks in this case of a link of complementarity Jansen and Piermartini (2004).

CONCLUSION

The objective of this paper was to examine in a theoretical framework the link between the liberalization of trade in services and the attractiveness of foreign direct investment. Although the multiple approaches presented in the theoretical and empirical literature do not agree on a clear idea concerning this causal relationship between the liberalization of trade in services and the attractiveness of foreign direct investment, we can be optimistic about the conclusions of this research, which allowed us to have a clear picture of the subject, as follows:

• For trade in general, the majority of ermpirical works reviewed, in one way or another, have agreed on the existence of a complementary link with the attractiveness of investment foreign direct, except that this complementarity could become a substitution, but everything depends on certain conditions such as the nature of the investment and the characteristics of the economy studied Gonzalez (2008).

• For trade in services, its link with foreign direct investment, could be both a link of complementarity, as it could be a link of substitution, which depends mainly on the mode of exchange of trade in services. Indeed, considering that trade in services takes place mainly via four distinct modes, as stipulated in the GATS (General Agreement on Trade in Services), the link between trade in services and foreign direct investment is therefore dependent of these aforementioned modes.

To this end, an empirical study on the link of each of the four modes of trade in services with foreign direct investment is highly recommended, and could further clarify the relationship between these two main aspects of the economy.

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