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CAUSAL LINKS BETWEEN TRADE OPENNESS AND FOREIGN DIRECT INVESTMENT

A Panel Data Analysis in Emerging Markets

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1. Background of the Study

FDI is an essential part of national economic development. Many countries, including emerging economies, have identified various benefits of FDI in their countries. It is considered in many economies to be an important engine of economic development because it enhances the technological progress of the country, improves human capital, creates jobs in various sectors, etc.

Many countries recognize that FDI is the most important component of financing flowing to the host country. As a result, countries are taking special actions to make FDI more attractive. All of these advantages contribute to a higher standard of living. Since the 1980s, many economies, including developing and emerging economies, have become constantly subjected to FDI and continue to prioritize attracting FDI. Many governments have implemented various economic and trade reforms since the 1990s in order to rebuild their economies and attract foreign investment. According to WDI, the global inflow of FDI in 2020 was approximately USD 1 trillion as a result of the improving FDI process. The majority of emerging markets have opened their economies and implemented various policies to attract foreign investment.

Trade openness, macroeconomic stability, human capital, market size, infrastructure, natural resources, governance variables, etc. all influence FDI. Trade openness is a key deterministic function of FDI. Trade openness is especially beneficial for learning about the country's exports and imports. Therefore, it is essential to identify the “relationship between trade openness and FDI." Both trade and FDI are viewed as global economic system drivers. They facilitate the global exchange of goods, services, and capital. In this regard, many countries highlight trade openness as a major driver of FDI. Therefore, many countries participate in international trade and open their economies to the global trade system. In general, no country can achieve developmental targets unless it establishes an open trading system. Many countries are liberalizing their economies in order to benefit from international investment. Many recent analyses have used a variety of econometric models to explore the relationship between these two aspects.

Most FDI theories have explained how trade openness affects FDI, including Ricardo's comparative advantage theory, Mundell's model, PLC theory, OLI theory, Dunning's eclectic paradigm, etc. In this research, we identify FDI and open trade relations in EMEs. A number of factors motivated this study. The global economy is paying more attention to FDI and trade in Asian EMEs. In this regard, studying the "causal links between trade openness and FDI in Asian EMEs" is highly motivating.

This study will help to get a comprehensive picture of how "FDI and trade openness" are behaving at the territorial level. We also present a special analysis of "trade openness and FDI in Romania and Sri Lanka." Both countries are considered emerging markets. Despite their geographical location, both countries have seen an increase in FDI inflows and have implemented various trade policies and reforms to attract FDI. We investigate how trade openness in both countries influences FDI and the direction of the causality.

Marketing is a broad topic. It covers many areas, including FDI and trade openness. To understand how trade openness and FDI factors relate to marketing in this thesis, we identify the influence of marketing on trade openness and FDI. We first identify the influence of marketing on FDI and then identify the marketing influence on trade openness. Marketing is a critical component in attracting FDI to any country or region. Throughout this decade, many governments have prioritized attracting more FDI through various marketing strategies. Many researchers explain that taking a marketing approach is very important in attracting FDI to an entrepreneurial economy. The growing importance of FDI in the global economy reflects countries' efforts to attract foreign capital and attempts to force governments to adopt marketing strategies. To attract more FDI, each country has implemented various marketing strategies, such as the introduction of investment promotion through the formation of IPAs. As a result, it is preferable to have a clear understanding of how marketing approaches are used to attract foreign investment.

Marketing also encompasses a broad variety of topics, and identifying the business and trade sectors is impossible without recognizing marketing. Understanding how marketing affects export and import trade allows us to determine how marketing affects trade openness. The international trade sector enables countries to increase their marketplaces and acquire goods and services that would otherwise be unavailable in their homelands. Therefore, many countries use various marketing approaches to implement, improve, and develop new business activities in order to expand trade and profit from them. International trade is a set of rules, regulations, and agreements that regulate international trade and business. These activities may differ from one country to another, from one region to another. International trade has made the domestic market more competitive. This eventually leads to more competitive prices and a lower-cost product for the consumer. Countries that engage in international trade following the implementation of open economic policies.

“FDI and trade openness” are development tools in all sectors, including tourism. One channel through which countries can promote tourism is through FDI and trade-related marketing approaches. In the thesis, we also analyze econometrically how FDI and trade openness impact the tourism market in Asian EMEs and the marketing activities in the tourism sector through FDI and trade openness in Sri Lanka. International investors can help a nation generate more foreign visitors by working to improve tourist destinations and continuing to develop and establish transportation and lodging infrastructure facilities like roads, airports, hotels, etc. In addition, trade policies also have an impact on the tourism industry. International trade is associated with the services sector, including international tourism. It minimizes the cost of transactions, promotes travel, and attracts the attention of consumers from other countries, thereby increasing international tourism demand.

This thesis focuses on three aspects of FDI. The first study searches for "the relationship between trade openness and FDI in emerging Asian economies." The second aspect investigated "the causal relationships between trade openness and FDI inflows in Romania and Sri Lanka." To achieve this goal, both countries examined the results separately and finally compared the results to gain a clear view of the relationship between the two emerging economies. Third, we looked at "how marketing activities affect direct investment and trade openness in Asian EMEs."

2. Research Questions

The study's motivation raised research concerns in the fields of foreign direct investment, trade openness, and the influence of marketing activities on FDI and trade openness in emerging market economies, as discussed above. In line with the background, we seek to answer the following question:

I. Does trade openness affect FDI flows in Asian EMEs? What is the direction of the causal relationship between trade openness and FDI flows in Asian EMEs?
II. Does trade openness have an impact on FDI flows in Romania and Sri Lanka? What is the direction of the causal relationship between trade openness and FDI flows in Romania and Sri Lanka?
III. What is the influence of marketing activities on FDI and trade openness in Asian EMEs with respect to the tourism market, and identify the marketing activities on the tourism sector via FDI and trade openness in Sri Lanka?

3. Research Objectives

Relying on the considerations, the key objectives of the research can be described as follows.

I. Examine the causal links between trade openness and FDI inflows into Asian EMEs.

II. Examine the causal link between trade openness and FDI inflows, with a focus on Romania and Sri Lanka as emerging markets.

III. Examine the influence of marketing activities on FDI and trade openness in Asian EMEs with respect to the tourism market, identify the marketing activities on the tourism sector via FDI, and trade openness in Sri Lanka.

4. Structure of the thesis

The thesis consists of an introduction and seven chapters, with the list of sources used as follows:

- **Chapter 1:** Overview of Foreign Direct Investment and Trade Openness in Emerging Market Economies
- **Chapter 2:** Theoretical and Empirical Framework of Foreign Direct Investment and Trade Openness
- **Chapter 3:** The Causal Links between Trade Openness and Foreign Direct Investment in Asian Emerging Markets: A Panel Data Granger Causality Analysis
- **Chapter 4:** The Causal Links between Trade Openness and Foreign Direct Investment in Romania and Sri Lanka
- **Chapter 5:** Influence of Marketing on Foreign Direct Investment and Trade Openness
- **Chapter 6:** Influence of Marketing Activities of Direct Investment and Trade Openness in Emerging Market Economies
- **Chapter 7:** General Conclusion

5. Findings of the Study

5.1. Overview of Foreign Direct Investment and Trade Openness in Emerging Market Economies

This chapter includes two sections. The first section provides an overview of FDI, including subtopics such as "term FDI, types of FDI, advantages, and disadvantages of FDI, global FDI trends, and emerging market FDI trends." The second section provides an overview of trade openness. It delves into subtopics such as trade openness, international trade trends, and trade openness in EMEs.

In the first section, we briefly explain the general overview of FDI and trade openness. Then we identify how FDI and trade openness behave in emerging market economies. Many researchers define FDI in different ways. The common definition of FDI is global awareness in which a resident of one nation accumulates long-term stock or shares in a company based in another nation. Then we explain the types of FDI. It will provide the basic foundation of the study to get a clear idea about FDI. Numerous researchers explain various types of FDI. In the study, we categorized FDI into three types. It was categorized based on its "direction, market entry/target, and motivations."

There are several advantages to FDI. Most policymakers, researchers, and economists believe that FDI can gradually influence high economic growth and that it benefits the host nation in a variety of ways. In the study based on several sources, we identified the advantages as follows, economic boosts, human capital development, providing modern technology, improving and expanding export sector activities, exchange rate stability, improved capital availability, improved living standards, and the creation of a competitive market. And also, FDI brings some disadvantages to the country, as follows, a hindrance to domestic investment, the risk of political change, higher cost of products, economic non-viability, and a lack of positive response.

Growing international relationships through FDI is a critical component of the globalization process. All countries, developed, developing, and emerging, have implemented several economic reforms, introduced new policies, and expanded marketing activities in recent years to rearrange their economies to encourage and attract more FDI. When we examine FDI at the global, regional, and national levels, we find that FDI has a fluctuation pattern caused by changes in the economic, political, and social determinants of FDI. Many factors influence FDI, including economic factors (trade openness, GDP, infrastructure facilities, exchange rate, inflation, education, etc.) and institutional factors (political stability, corruption, government stability, rule of law, etc.). In addition, the international political situation, the global financial emergency, and social and cultural factors also influence FDI. Because of all these factors, FDI has a fluctuating and dynamic trend.

From 1996 to 2000, global FDI had an increasing pattern. Many researchers indicate that it is because many countries opened their economies after 1990. Following global trends, emerging and developing countries also indicate an increasing pattern of FDI. It is because many emerging and developing countries have adopted open-door policies and revised trade policies. The study showed that Asian EMEs have a relatively larger share of the overall economy than other EMEs. As most foreign investors know, Asia is an important geographic region with natural resources and a large amount of labor and is the best place for international trading activities, such as international investment activities, where Asian EMEs are an attractive place for foreign investors. "Asia is the leading receiver of FDI in the world, accounting for nearly 30% of global FDI inflows. In the Asia-Pacific region, Singapore, China, the Republic of Korea, Malaysia, and Vietnam are considered the leading FDI countries in the world, and India is considered the main recipient of FDI in South Asia.

In the second section, we briefly examine the concept of trade openness, trends in international trade, and trade openness in emerging market economies. Many scientists believe that for nations to gain access to globalization, international trade is critical. As a result, many countries involved in international trade have decided to open their economies. It is generally accepted that when economies are open, they develop faster than closed economies. No country can achieve high development goals unless it is linked to the global trade system. There are numerous definitions of trade openness in the previous studies. "The ratio of the sum of total exported goods and services and total imported goods and services to GDP is commonly used to measure trade openness." Trade openness is used as a major aspect of GDP growth as well as FDI. In this regard, trade openness and FDI are linked together. World trade has a fluctuating pattern. It affected national and international economic, financial, health, and energy crises. It has a growing pattern with numerous trade policies, agreements, and the influence of marketing activities. And also, world trade has shown a decline as the influence of the Asian economic emergency (1997–1998), the global economic emergency (2008), and the COVID-19 pandemic has decreased.

Emerging and developing economies pay more attention to getting benefits from international trade. In general, EMEs are experiencing rapid growth because of falling wages, abundant land, and supportive governments that provide manufacturers with a low-cost source of production. Most Asian countries have opened their economies, expanding trade sector activities. Asian EMEs also change their trade policies to get benefits. They have signed a number of trade agreements to expand their trade sector activities. In the section, we identified the top ten countries with the highest trade openness index in the world and Asia. Among the emerging and developing economies, Singapore, Vietnam, and Malaysia remain high trade openness index countries.

This chapter provides the basic foundation for the study. FDI in Asian emerging economies is rising and trade openness is also expanding with the influence of several domestic and international processes and the influence of marketing.

5.2. Theoretical and Empirical Framework of Foreign Direct Investment and Trade Openness

As a consequence of the increasing great significance of FDI, numerous theories centered on identifying the variables that impact FDI have been created. FDI theories are presented in several studies. According to some researchers, there is no specific FDI theory. Agarwal (1980) established the most common classification of FDI as "perfect competition market based on FDI theories" and "imperfect competition market based on FDI theories." This classification is employed by many researchers, such as (Denisia, 2010; Haibouda et al., 2021; Moosa, 2015). In the study, we followed the theories that essentially recognized the key determinants of FDI.

Under the FDI theories of perfect competition market, we have discussed three theories, namely "differential rates of return theory, portfolio diversification theory, market size, and output theory." The theories of FDI based on imperfect markets outlined in the perfect competitive market theory do not make any specific assumptions about market imperfections or market failures. Many FDI concepts are predicated on market imperfections. Emerging paradigms discussed in depth in imperfect markets include "institutional organization theory," "internalization theory," "location theory," "product cycle theory," and "oligopolistic theory." Many FDI determinants are thought to be based on location theory and hypothesis, as well as OLI's eclectic theory or conceptual hypothesis. They are regarded as two of the most important theories concerning imperfect markets.

The next section consists of a systematic literature review of various points of view held by different scholars on the determinants of FDI with respect to trade openness and other potential factors of FDI such as "market size, infrastructure, government indicators, inflation rate, exchange rate, and human capital," etc. Many studies, including cross-country and single-country analyses, have examined the factors affecting FDI. We conducted studies in the thesis that looked at the factors of FDI from 2000 to the end of 2021. According to the summary of the studies, the impact of trade openness on FDI is mixed but heavily skewed towards a significantly positive effect, but in some cases, it is negative or even insignificant. It indicated that when countries open the trade sector to the global economy, it could increase the FDI inflows into the countries. Many countries have implemented open-door trade policies, reduced trade barriers, and other measures to attract more FDI.

Examining the previous research assistance in identifying FDI determinants and how they relate to FDI, the study found that control variables are useful to employ with the principal variable in the regression model. This chapter also focused on identifying literature gaps.

5.3. The Causal Links between Trade Openness and Foreign Direct Investment in Asian Emerging Markets: A Panel Data Granger Causality Analysis

We examined the "causal link between trade openness and FDI in Asian EMEs" from 1996 to 2019. The model is also expanded by including various types of control variables. The control variables are as follows: market size, infrastructure, macro-economic stability, and "ASIA" and "GLOBAL" variables represent economic and financial emergency time dummy variables. In the "Asian financial crisis of 1998 and the global financial crisis of 2008."

The proportion of a traded sector of the country's total output is commonly defined as trade openness. In the globalized era, international trade activities have a direct and indirect impact on many economic sectors around the world. Exports and imports are the two main activities of international trade. Governments strive to open their trade sectors to the rest of the world in order to achieve higher economic development by implementing a variety of open-door policies, trade integration, and trade-promoting activities. In theory, trade openness can either positively, negatively, or insignificantly affect FDI inflows; it depends on investment orientation. Earlier research also indicates that trade openness has a mixed impact on FDI in different regions and economies. But several researchers identified trade openness or trade liberalization as having led to increased FDI inflows. Therefore, it is necessary to investigate the causal link between these two variables in Asian EMEs.

In the analysis, we employ various econometric tests, such as multicollinearity tests, that are used to avoid a linear relationship between explanatory variables and to select the appropriate explanatory variable in the regression model. We used cross-sectional dependency testing to select the appropriate stationarity test and then used first-generation (LLC and IPS) and second-generation stationarity tests (Pesaran CADF), lag selection tests, Pedroni (based on Engle-Granger), and Kao cointegration tests to see if a long-term relationship has been overcome, Finally, we employed the PMG-ARDL test to find the impact of the main and control variables on the short-and long-term inflows of FDI. To verify the direction of the association between the principal determinant factor and FDI inflow, we employed the causality test (Dumitrescu-Hurlin).

As the first hypothesis explains, as per the results of the PMG-ARDL model, an increase in trade openness attracts more FDI into Asian emerging economies in the long-run. The estimated coefficient of 0.0047 means that when trade openness (TOP) in Asian emerging economies rises by 1%, FDI inflows rise by about 0.47%. Asian emerging economies show that when trade activities are more open, it helps to attract foreign investors into the region. Among the sample countries from the 1990s period, some countries implemented export expansion marketing strategies, and many countries introduced trade organizations and export diversification marketing activities, using investment promotion agencies and trade promotion organizations. Both IPAs and Trade Promotion Organizations (TPOs) are the main government marketing approaches that implement marketing activities. Trade and regional integration, and trade agreements, which these marketing strategies basically attract foreign investors.

However, when compared to the other determinant factors considered in the analysis, the effects of trade openness on FDI in Asian EMEs are very low throughout the period. In the short term, however, the hypothesis is rejected because trade openness is insignificant. The coefficient of 0.0049 means that when trade openness (TOP) in Asian emerging economies rises by 1%, FDI inflows rise by about 0.49%. The finding implied the expected positive relationship, as mentioned in the majority of the literature review, but trade openness did not contribute to the variation in FDI inflows in Asian EMEs. In general, many countries have implemented trade-related marketing activities aimed at attracting long-term FDI inflows rather than short-term FDI inflows, particularly long-term trade policies, and the process is time-consuming.

As the second hypothesis explains, trade openness generates FDI inflows into Asian emerging markets. According to the Dumitrescu-Hurlin Granger causality test, Asian emerging economies have a unidirectional causal relationship between two variables. Trade openness leads to FDI.

The first objective was successful in meeting both hypotheses. Furthermore, we used potential variables as control variables in this study. Marketing activities have an impact on all of these variables, including market size, macroeconomic stability, infrastructure, and regional and global crises. GDP growth, which is influenced by financial market activities as well as marketing decisions such as "product, pricing, promotion, sales, revenue generation," etc., has a significant impact on total output and the resource allocation process. Marketing had an impact on GDP at the macro level. As for "market-seeking FDI," the larger the market, the greater the foreign investment attraction. The results indicated that the Asian emerging economies are attracting more FDI due to their market size. The long-term coefficient of GDP is estimated at 0.1399. FDI inflows increased by around 14%, as it increased market size by 1%. The findings imply that market-oriented policies implemented in Asian EMEs are effective in attracting foreign investment into the region. Infrastructure, as measured by mobile subscriptions, also increased FDI inflows.

Many countries ramp up marketing efforts for telecommunications infrastructure. Telecommunications infrastructure development is critical for attracting FDI. It fosters global integration within the region. promotion of the investment climate, image building, and connecting foreign investors to the national economic system. Considering that best describes a wide range of activities, it is impossible for these FDI determinants to act in isolation. According to the Dunnings FDI theory, efficiency-seeking FDI decisions are primarily concerned with better infrastructure facilities in the investment destination. High-speed telecommunications infrastructure reduces the cost of information transfer and is profitable for investors. Furthermore, the results showed that "inflation" and the "Asian financial crisis" led to a decrease in FDI inflows into Asian emerging economies throughout the period.

According to the study's findings, trade openness in Asian EMEs is significant enough to explain FDI inflows. It is in favor of promoting sound open trade policies in terms of improving each country's investment climate and encouraging more FDI in the short and long term. With due consideration, countries can implement and improve trade openness by utilizing more marketing strategies and marketing activities. Asian emerging countries should encourage the flow of foreign investors, especially by promoting the export of goods and services. The majority of resource-seeking FDI consists of motives for export sector investments. These countries can improve the quality of EPZs and expand their marketing activities, such as building a country's image through an export climate, so that investors can get more profits. Specifically, lowering trade barriers; establishing simple ways for document processing systems to invest in the host country; remotely controlling trade activities; etc. Furthermore, Asian EMEs can expand the activities of trade promotion organizations.

Furthermore, this study demonstrated that trade openness alone is insufficient to attract FDI without other determinants. Therefore, each country should also focus on implementing market-oriented FDI policies, improving infrastructure, keeping a stable macro-economic situation, and getting ready for any regional or global crisis they may face.

Leading to a shortage of data, some Asian emerging markets were excluded from the survey. This time frame was chosen because some of the other determinants were unavailable in most countries prior to 1996. This could be a study limitation. The study recommends that future research extends the period after the COVID-19 pandemic and includes potential variables that influence FDI inflows. And also, future researchers can investigate how trade openness in specific sectors, such as manufacturing, services, and agriculture, affects FDI inflows into Asian emerging economies.

5.4. The Causal Links between Trade Openness and Foreign Direct Investment in Romania and Sri Lanka

The second research goal of chapter four is to separately study "the causal relationships between open trade and FDI flows in Romania and Sri Lanka." And then we compare the results in the study to get a better understanding of how trade openness affects FDI flows in each nation. Both countries are included in the Emerging Markets Index. The “ARDL test” and the “Pairwise Granger causality test” were used to obtain the research’s main objectives. The explained variable in the multiple regression analysis was per capita FDI. Trade openness was used as the primary explanatory variable, along with market size, macroeconomic stability (as measured by the exchange rate and inflation), and human capital (proxied by labor force education). Over time, per capita, FDI inflows into Romania had a statistically significant impact in both periods. However, trade openness negatively influences per capita FDI inflows.

It indicates that the openness of the economy of Romania might be inefficient in attracting FDI compared to competing countries. Trade openness can have a variety of effects on FDI. "It has the potential to have both a positive and negative impact on FDI." Furthermore, trade openness has been shown to have a negligible impact on FDI. According to the "Pairwise Granger causality test," there is "a unidirectional causality."

Furthermore, in Romania, education was found to be a statistically significant independent variable. The GDP, exchange rate, and inflation are not significant. These variables were found to have no effect on Romanian long-term FDI. Log GDP has a mixed relationship in the short run. LGDP has a positive and statistically significant impact on FDI flow lag (0). However, contrary to the main theory, the impact of the LGDP downturn on FDI flows during lag (1) is negative and statistically significant. This can occur when the political regime changes in a short period. With lag (I), the exchange rate increased FDI. The currency depreciation implies that foreign capital is in domestic assets, and thus FDI is increasing. Given the possible instability, inflation positively influences FDI.

As the first hypothesis explains, trade openness has a positive sign but is statistically insignificant, rejecting the first hypothesis. This indicates that trade openness may be unproductive in terms of FDI in Sri Lanka. However, in the short-run, greater trade openness encourages foreign investors. To check the second hypothesis, the result of Granger's causality was employed. Accepting the second hypothesis, the results demonstrate that Sri Lanka has a "unidirectional relationship" in which the direction of causality runs from trade openness to FDI.

Furthermore, statistical findings in Sri Lanka showed the following: "GDP, inflation, and education" influence FDI in both periods, while exchange rate variables are negligible. As compared with the results in both emerging economies, as the results of the ARDL bound test indicated, trade openness negatively impacted FDI inflows in Romania. This indicates that trade openness may be unproductive in terms of FDI, particularly in comparison to global competitors. In Romania, imports outnumber exports, and other determinants of FDI are considered rather than the trade sector. However, Romanian FDI inflows are on an increasing trend. In SEE, the Romanian economy is a high-growth country. They have implemented many policies to attract FDI. As an example, in 2005, Romania introduced a new tax system. In 2007, Romania became a member of the European Union (Nistor, 2014). However, FDI is determined not only by the variables of trade openness. These results from Romania prove that FDI is also affected by other potential determinants of FDI, especially market size, which is proxied by GDP. An educated labor force also impacts attracting more FDI into the country.

FDI inflows are growing in Sri Lanka. It is very important for the economy. The Sri Lankan economy has relied heavily on FDI in recent decades. However, Sri Lanka does not maintain an export and import balance. For many decades, Sri Lanka has been facing a trade deficit. Sri Lankan governments do not prioritize trade openness as a long-term predictor of FDI. They implemented some trade-oriented policies for the short-run period, and, according to the changes in governments, the policy frameworks changed. This also impacts the low level of attraction of FDI into the country.

Sri Lanka, like Romania, has demonstrated that "market size" is a critical determinant. In the analysis, neither nation prioritizes trade openness as a possible predictor of FDI. However, both countries have paid more attention to market size-related FDI attraction. Furthermore, the results indicated that the nature of FDI varies by country, as an educated labor force encourages FDI inflows. It implied that well-educated workers could adjust to learning new technologies easily and draw more capital inflows to Romania. However, in the case of Sri Lanka, more foreign investors are interested in unskilled labor. “When the education level of the labor force increases,” it means they have some conditions regarding their salaries, incentives, etc. If the unskilled labor force is cheap, then foreign investors prefer to invest in that type of investment climate. They profit from the cheap labor force.

According to both nations' data analysis, it is preferable to encourage significant trade openness, keep improving the investment environment, and increase trade levels. Moreover, the study recommends encouraging innovative thinking and improving infrastructure to boost FDI.

The study's primary limitation is that it leaves out crucial variables that explain the variation of FDI inflows. We omitted some of the most important economic variables, such as taxation, wage rates, natural resource availability, and institutional variables. The parameters to be estimated grow as the observations decrease and the regressors with lagged values grow, resulting in an error message indicating an insufficient number of observations or a near-singular matrix, as well as data unavailability in some of both countries. The reason this period was selected is that, for the years before 1996, some of the variables used in the model were not available. Future studies should also employ more variables that impact FDI to provide a more conclusive result.

5.5 Influence of Marketing on Foreign Direct Investment and Trade Openness

This chapter examines the influence of marketing on FDI and trade openness. To understand how FDI is related to marketing, we briefly identified the influence of marketing on FDI using subtopics such as investor behavior, marketing variables to attract FDI, and investment promotion with "investment promotion agencies (IPAs)." To understand how trade openness is related to marketing, the study briefly examined the link between marketing and trade openness through the subtopics of trade promotion and trade promotion organizations (TPOs). This chapter links FDI and trade openness with marketing.

A marketing approach is a way of attracting FDI to any country. In this decade, many governments have paid more attention to attracting more FDI using various marketing approaches. The management of a national-wide planned marketing approach is necessary to achieve economic progress at high rates. From a marketing perspective, foreign investors travel to a host country not because the authorities perceive a good investment environment but because of the real benefits of that investment environment.

The government must understand the business requirements for FDI and destination policies to meet them. The increasing relevance of FDI in the national and global economic systems reflects countries' efforts to attract foreign investment and force governments to adopt marketing approaches. To attract more FDI, each country or region has implemented a variety of marketing approaches, such as understanding the behavior of investors, identifying the marketing variables to attract foreign investors, introducing investment promotion, and carrying out investment promotion through establishing IPAs.

5.5.1 Influence of Marketing on FDI

The behaviour of investors is characterized by two aspects, such as "investors as consumers" and the "decision-making process of investors." Consumer themes and consumer behaviour are widely discussed in marketing. To attract international capital to a country or region, management must prioritize investments as investors as well as consumers and decision-makers. This is critical in marketing.

- **Behaviour of Investors**
  - Investors as consumers

Foreign investors seek to expand their products or services globally, much as traditional consumers seek products or services that meet their needs. They identify and match numerous potential investment positions using a set of requirements to decide which position is best adapted to accomplish their goals. This is why governments and policymakers must start to think about foreign investors as consumers. In fact, understanding how consumers behave in their purchasing decisions can help businesses improve their marketing strategies. For this purpose, to attract more foreign investors to the country through effective marketing strategies, the government must start thinking of investors as consumers.

  - **Decision-making process of investors**

Identifying how countries should provide a good investment climate is important for foreign investors in the "decision-making process." Investor decisions vary depending on their motivations and the situation of their investment plans. This can be known by examining what drives investors to capitalize in another region or country. This motivation is identified as "market-seeking FDI, resource-seeking FDI, strategic asset-seeking FDI, and efficiency-seeking FDI." These four motivations of the decision-making process of FDI are explained by Dunning's eclectic theory. However, one investor may have more than one motive for investment, and the motives for investment are integrated and interconnected with each other.

The decision-making process follows five stages such as problem identification, information search, alternative evaluation, making a choice (location for investment), and post-investment behaviour. The first stage in making a decision is to recognize the difficulties that they face when investing in another country. The second step in making a decision is to do an information search. It implies that, in making an optimal choice, investors should look into all possible investment opportunities. This is to reduce investment decision errors. The third step in making a decision is the evaluation of alternatives. As we identify the possible investment locations, we have to evaluate the alternatives to make the best investment decision. The fourth stage in making a decision is making a conclusive choice. On the one hand, invest in the location by selecting the best investment location among the alternatives.

The final stage is post-investment behaviour. In general, foreign investors follow these marketing processes when they select investment destinations.

- **Marketing Variables for Foreign Direct Investment Attraction**

Many researchers employ the product, pricing, distribution, and promotion strategies as marketing variables. As explained by Cuong in that study, theoretically, the marketing variables are discussed separately. However, there is no possibility to discuss the marketing variables separately in a practical sense. In line with many researchers' efforts to attract FDI, marketing variables are significant. There is another marketing variable. Following the discussion about marketing variables for FDI attraction, five marketing variables were used in the Cuong study that was conducted in Vietnam. The marketing variables of FDI attraction are namely product, positioning, target audience, scope distribution, and scope communication. In general, these marketing variables are subject to the internal and external marketing environment.

- **Product**

A product is something that satisfies a customer's needs. According to modern marketing theory, consumers buy a product not only because of the quality perceived by the producers but also because of the perceived benefits of the product. When we discuss outcomes as a marketing variable for attracting FDI, we are referring to either outcome as a political benefit or outcomes for the investment climate.

To attract FDI, policy experts and government entities should focus more on creating a high-quality investment climate.

- **Positioning**

Positioning is a basic marketing variable that attracts FDI. Positioning is about the perception we want customers to have of the product. To achieve an effective position, the government must objectively understand the strengths and weaknesses of its visa compared to neighbouring states and define a realistic direction in which countries can travel to significantly boost their investment environment in the minds of investors.

– **Target Audience**

They can be classified according to the type of company (multinational corporation or non-multinational corporation) or their marketing strategy (such as national or international market-oriented). This target audience-marketing variable can be used by any investment firm to categorize the type of investment company. This helps to attract FDI.

– **Scope Distribution**

The process and location where customers can buy the product are called the "scope of distribution" in marketing. With regard to the importation of FDI, the distribution space must be recognized. They can identify where and how investors can register and withdraw their investments. Foreign investors can register their investment companies in a variety of ways, including at the national, state-wide, and business levels. It is determined by the amount of investment and the industrial sector.

– **Scope Communication**

After categorizing the investment companies, the government should implement some investor attraction programs as a marketing variable to attract FDI. This is also a part of creating a good investment climate. In this regard, many countries establish investment promotion agencies to attract more FDI.

Finally, we can identify these five marketing variables that help to attract FDI. All these variables are useful in creating, improving, and developing the investment climate in the country. All these variables explain the same conditions that Dunning described in the motives of the FDI theory of OLI. In addition, all these marketing variables are practically employed in investment promotion agencies in each country. To understand how making variables for FDI attraction work, it is best to identify the background of investment promotion.

- **Concept of Investment Promotion: A Marketing Approach to Attract Foreign Direct Investment**

Countries, particularly emerging economies, are actively involved in marketing through investment promotion activities to take advantage of FDI. "Investment promotion is regarded as one of the most important marketing approaches used for attracting FDI in recent decades." This is why many countries prefer to introduce investment promotion as a marketing approach to attract FDI. Investment promotion is the tool of marketing strategies used by the public sector to encourage foreign investors' arrival in the country. "It is considered a government communication strategy with foreign investors about the background of the country's investment climate, with the goal of convincing and assisting such investors to invest or reinvest in the country." Furthermore, investment promotion is explained as a series of actions aimed at attracting, developing, and retaining new domestic and foreign investments. It improves the investment climate and sales potential for private investors. This also includes developing a reputation as an attractive investment destination.

Investment promotion is a government activity, with many government-funded "Investment Promotion Agencies (IPAs)" both nationally and provincially. It helps to attract a large amount of FDI and quality FDI. It also lowers the risk of an investor entering an unknown market. The creation of IPA has grown into a general and widespread marketing method in the planned promotion of FDI across countries around the world. Many countries create IPAs to attract FDI. As a marketing approach to attract FDI, IPAs cover many sectors in the country, such as tourism and leisure, transportation, agriculture, information technology, food processing, etc. Many academics employ various classifications to explain the fundamental functions of investment promotion. The common classification is "image-building group, investment generation group, investment facilitation group, and policy advocacy group."

Image building: Building a positive image can attract more FDI, which is the main tool to attract FDI in investment promotion. Many countries, in line with this role, strive to attract FDI through various marketing activities.

The creation of images is intended to attract investors and learn more about the business potential of the location. For this purpose, IPAs actively work on sector targeting such as tourism and leisure, food processing, communication, transportation, manufacturing, etc. to attract FDI for sectoral development. For this purpose, IPAs carry out many activities. Generally, we can identify the following:

- Marketing campaigns and marketing plans
- Brochures
- Media promotion
- Common communications and public affairs events
- Website

Investment Generation: Investment generation is defined as direct contact with investors to generate investment. It also assists to provide business chances in the host economy. There are common activities that are conducted by IPAs as below:

- Meetings with international investors
- Public awareness campaigns
- Pointed interaction and public affairs

Investment Service: Investment service is categorized as an investment facilitation core function. The Investor service assists potential investors during the establishment stage of their transactions. In this function, we can identify the actions as bellows:

- Expediting the processing of applications and permits
- Coverage counseling services
- Increasing the speed with which applications and permits are processed

Aftercare: The purpose of aftercare is to preserve existing companies and encourage reinvestment by helping investors overcome the challenges they face after initial incorporation. As for aftercare activities, we can identify them as follows:

- Follow-up and monitoring of the progress of previously completed investment projects
- Creating, maintaining, and expanding a local supply network
- Investment retention and expansion

Policy Advocacy: Policy advocacy is identifying deficiencies in the investment climate and recommending solutions to the government. IPA attempts to modify and change some set of laws, rules, and policies affecting to the Investment climate.

5.5.2 Influence of Marketing on Trade Openness

We can identify how marketing influences trade openness by understanding how marketing influences trade in both exports and imports. Countries can use trade to increase their market size and widen access to diverse products that are not available in their home countries. In this regard, many countries employ various marketing approaches to implement, improve, and grow new trade sector activities in order to expand trade and get benefits from trade. International trade is a set of rules, regulations, and agreements that regulate international trade and affairs. These activities may differ from one country to another, from one region to another. To earn high export earnings, governments introduce and implement export-oriented policies, export diversification, export sector promotion activities, Export Processing Zones (EPZs), and the establishment of "export promotion agencies," etc. Moreover, countries impose marketing barriers on the import sector, such as higher taxes, import restrictions, import quotas, exchange controls, licenses, etc.

Trade promotion is the marketing activity that is conducted by the government to expand trade activities. Many countries promote trade by using trade promotion organizations (TPOs). Many countries have many trade promotion organizations, such as export promotion organizations. By promoting and advertising their products and services, TPOs can also help a country to increase its global reputation, credibility, and image. Many governments encourage export markets through marketing-related development tools, the opening of international markets, and business management initiatives.

As mentioned in the chapter on FDI and trade openness, both aspects are influenced by various marketing strategies, activities, and functions that are mainly conducted by the government sector.

5.5. Influence of Marketing Activities of Direct Investment and Trade Openness in Emerging Market Economies

This chapter contains two parts. In the first subheading, we examine the FDI and trade openness in the tourism market in Asian EMEs by employing the PMG-ARDL model and panel Granger causality analysis. In this section, we employ econometric techniques to examine how FDI and trade openness affect the tourism market in Asian EMEs, including the following subtopics: introduction, literature reviews, methodology, results and discussion, conclusions, policy recommendations, and limitations.

In the next part, we study the marketing activities in the tourism sector via FDI and trade openness in Sri Lanka. In this second section, we identify the marketing activities in the tourism sector via FDI and trade openness in Sri Lanka because the data was unavailable for other Asian EMEs in the selected sample. This section has employed descriptive analysis in line with some secondary sources of government reports in Sri Lanka.

5.6.1 FDI and Trade Openness in the Tourism Market in Asian Emerging Market Economies

Global tourism has developed fast and reached its highest levels at the end of 2019. It helps various destinations sustain economic development. The study included nine emerging Asian countries, and the time span was 23 years (1996–2019). The explanatory variable of the model was "the arrival of international tourists," and our main independent variables were "trade openness and FDI." The other independent variables were: “GDP growth rate, inflation, mobile telephone subscriptions, and the global financial crisis of 2008.” According to the PMG-ARDL estimation results, inward FDI, trade openness, GDP growth rate, inflation, and mobile telephone subscription variables had long-run significance in explaining tourism, whereas the global financial crisis dummy variable did not explain tourism arrivals. An increase in the GDP growth coefficient (GDP) attracted more international tourists (LTOU) to Asian EMEs, whereas an increase in inflation (INF) reduced tourism arrivals in short-term. Furthermore, the findings suggested that other variables were not significant at any level of significance.

We can conclude that FDI inflows and trade openness are essential elements as development tools in the tourism sector. The study found that there is a "unidirectional relationship between FDI inflows and tourism arrivals," with the causality flowing from tourism to FDI. Furthermore, the results of the causality test implied that there were bidirectional connections between tourism and trade openness in Asian emerging markets. Finally, based on the results, we draw some policy implications. The study suggests that Asian emerging countries should promote international tourism by attracting more FDI related to the tourism sector and expanding trade openness. Examples include improving the investment climate through flexible trade and FDI policies and providing a better environment to increase tourism-related FDI incentives such as grants or low-interest loans, tariff releases, tax breaks, tax holidays, public funding systems, and guaranteed investments. Furthermore, we suggest that to attract more tourists, it is better to expand investment promotion, the reduction of investment restrictions, the protection of markets and intellectual property rights, the availability of a relatively flexible workforce, etc.

The study suggests that Asian emerging countries should promote international tourism by attracting more FDI related to the tourism sector and expanding trade openness. Examples include improving the investment climate through flexible trade and FDI policies and providing a better environment to increase tourism-related FDI incentives such as grants or low-interest loans, tariff releases, tax breaks, tax holidays, public funding system, and guaranteed investments. Furthermore, the establishment of investment promotion, the reduction of investment restrictions, the protection of markets and intellectual property rights, the availability of a relatively flexible workforce, etc.

The major limitation is that it excludes some parameters. Since the tourism data of many countries is only available from 1996, we used only 23 periods of data for this study. With a few observations and many regressors with lagged value increases, the number of parameters to be estimated decreased, which led to error messages of an insufficient number of observations or near singular matrix, and some countries have a data shortage. It is one of the reasons why we excluded some of the most crucial factors, such as carbon dioxide emissions, the exchange rate, etc. Due to a lack of data, some emerging Asian countries were also omitted from the analysis. We also left China out because of the bias in the data. Furthermore, our analysis does not include the pandemic period, which is 2020–2021. In the sample countries, Pakistan was excluded because of data unavailability. In the study, we included variables related to economic and social factors. In the future, we propose including governance variables such as "corruption control, regulatory quality, political stability, the absence of violence or terrorism," etc. An increase in the quality of governance responsible for making a country an attractive tourist destination is a necessity.

5.6.2 Marketing Activities on the Tourism Sector via FDI and Trade Openness in Sri Lanka

Tourism has become a crucial industry in many emerging and developing countries, such as Sri Lanka. "Many countries have looked to tourism as a source of income." It helps to expand and earn from many related sectors through export markets, business growth, and economic diversification in order to enhance the effectiveness of the service sector. It directly helps to attract foreign currencies, promote international connections, increase business opportunities, and alleviate poverty. As a result, many people are searching for international investors to get the essential revenue to finance the tourism sector's growth and advancement. "FDI plays a major role in tourism, and it is often considered as one of the most effective drivers to support the critical elements of industrial requirements." When foreign investors invest in tourism-related sectors, it will help to attract more international foreigners to host countries. Trade openness also has an important impact on the tourism sector. Effective promotion by relevant governments is important in opening up trade in tourist destinations and attracting investors to this sector with high competition in investment projects.

The infrastructure facilities of a country directly influence tourism development. Therefore, infrastructure facilities such as roads, hotels, restaurants, parks, telecommunication services, electricity, and water are required to attract more international tourists. Infrastructure is mostly developed by FDI projects. FDI and trade openness are considered development tools in all sectors, and the tourism sector is no exception. In particular, FDI enhances the competitiveness of the local economic system through the sharing of services, skills, and technologies, expanding infrastructure facilities, and contributing to economic development (Subbarao, 2008). It can promote tourism. FDI positively affects tourism demand. Nemours studies indicated that FDI led to the growth of a country's tourism sector.

According to Tang et al. (2007), foreign investors can help a country generate more revenue by improving tourist destinations and developing and maintaining transportation, accommodation, and other infrastructures, such as airports and hotels. In addition, trade policies and trade agreements also have a great influence on the tourism market. According to Chaisumpunsakul and Pholphirul (2018), international trade is associated with the service sector, including international tourism, and it helps to diminish the cost of transactions, promote other sectors that are related to tourism, and attract the attention of consumers in other nations, which in turn promotes international tourism demand. In this regard, we examine the FDI and trade policies, actions, and activities that are very important to attracting tourism to Sri Lanka by improving tourist attractions. Sri Lankan governments take many actions to promote FDI and trade, such as making some important policies, establishing private and public organizations or institutes, starting some public relations with foreign investors, etc.

A variety of elements decide the sustainability and attractiveness of a host nation's investment environment. A nation's power to invite and keep FDI is determined by its strategic location, the FDI and trade liberalization policy framework, the establishment of government or private organizations and institutes, regional integration, acts and regulatory framework, infrastructure development, an educated and adaptive workforce, and investment incentives. These main determinants attract foreign investors and expand the trade sector more broadly in tourism.

6. Conclusion

FDI and trade openness have increased significantly in recent decades. Among the various types of economies, emerging economies have attracted a significant amount of FDI in recent times, and trade sector activities in emerging markets are expanding rapidly. Trade openness, macroeconomic stability, human capital, market size, infrastructure, natural resources, governance variables, etc. all influence FDI. Among the determinants of FDI, trade openness is a key deterministic function of FDI. FDI and trade are regarded as the major factors of high economic progress in many economies with national and regional bases. Most FDI theories explain how trade openness affects FDI.

Marketing is an essential part of attracting FDI to any country or region. In this decade, many governments have paid more attention to attracting more FDI using various marketing approaches. Countries can use trade to increase their market size and widen access to diverse products that are not available in their home countries. In this regard, many countries employ various marketing approaches to implement, improve, and grow new trade sector activities in order to expand trade and get benefits from trade.

This thesis focuses on three aspects of FDI. The first study searches for "the relationship between trade openness and FDI in emerging Asian economies." Few studies in recent decades have used sophisticated econometric techniques to find the link between "trade openness and FDI in Asian EMEs."

The second objective investigated "the causal relationships between trade openness and FDI inflows in Romania and Sri Lanka." To achieve this goal, both countries examined the results separately and finally compared the results to gain a clear view of the relationship in the two emerging economies. Third, we looked at "how marketing activities affect direct investment and trade openness in Asian EMEs."

To draw FDI, regional and international authorities should employ the following marketing elements as a general policy implication:

- Governments and policymakers should focus more on implementing various marketing strategies, such as improving investment promotion and trade promotion activities.
- As we can see from the overall analysis, FDI and trade openness are both variables associated with various types of marketing strategies and marketing activities carried out on a domestic and regional level. FDI attraction is affected by trade openness and "market size, macroeconomic stability, infrastructure, education, and global and regional economic conditions," which are both directly and indirectly linked to marketing approaches. As a result, the government should pay equal attention to all of these influential determinants of FDI and develop the marketing strategies required to improve the trend of these variables. For example, market size can be improved to attract more FDI by introducing new business activities and diversifying. The government can implement marketing functions such as "Product, Price, Promotion, and Place" to increase the use of telecommunication infrastructure. Governments and policymakers should increase regional integration, agreements related to the trade sector, and FDI incentives such as grants or low-interest loans, tariff releases, tax breaks, tax holidays, public funding systems, and guaranteed investments to attract more FDI into the region.
- Understanding what investors require and want is critical to attracting more FDI. As a result, the government and policymakers should consider investors to be consumers. From the standpoint of modern marketing, it facilitates gaining a clear understanding of investor behavior patterns and preferences. After identifying investor behavior, it is very simple to promote the investment climate.
- Identifying how countries should provide a good investment climate is also important in the decision-making process for foreign investors. Investor decisions vary depending on their motivations and the context of their investment actions. This can be determined by investigating what motivates investors to invest in another region

or country. As a result, governments and policymakers must pay closer attention to the decision-making processes of investors.

- Another influential aspect of attracting FDI is the marketing variables of FDI attraction. "Product, positioning, target audience, scope distribution, and scope communication" are the marketing variables of FDI attraction. Internal and external marketing environments influence these marketing variables. This study also suggests that governments and decision-makers pay attention to these FDI attraction variables. All these marketing variables explain the FDI determining factors. As a consequence, we can draw the conclusion that all of the macroeconomic variables are related to marketing, along with the key independent variable, trade openness.

Author's publications on the topic of the thesis

The main provisions of the thesis are reflected in the following author's publications:

1. Rathnayaka Mudiyanselage, M. M., Epuran, G., & Tescașiu, B. (2021). Causal Links between Trade Openness and Foreign Direct Investment in Romania. Journal of Risk and Financial Management, 14(3), 90. https://doi.org/10.3390/jrfm14030090
2. Mayoshi, R. M. M. (2021). The Impact of Economic Growth, Foreign Direct Investment, Urbanization and Trade Openness on CO2 Emissions in Sri Lanka. Wayamba Journal of Management, 12(1), 244. https://doi.org/10.4038/wjm.v12i1.7523
3. Rathnayaka Mudiyanselage, M. M., Epuran, G., & Tescașiu, B. (2022). The Causal Links between Trade Openness and FDI Inflows in Sri Lanka. Bulletin of the Transilvania University of Brasov. Series V: Economic Sciences 2022, 15(64), No. 2/2022.
4. Rathnayaka Mudiyanselage, M. M., Epuran, G., & Tescașiu, B. (2022). FDI and Trade Openness in the Tourism Market in Asian Emerging Market Economies. International Journal of Scientific Research and Management, 10(6).
5. M.M.R, Mudiyanselage, Domestic Demand, Export and Economic Growth in Sri Lanka (March 21, 2021). Proceedings of the 7th International Research Conference on Humanities & Social Sciences (IRCHSS) 2021, Available at SSRN: https://ssrn.com/abstract=3809054 or http://dx.doi.org/10.2139/ssrn.3809054
6. R.M.M., Mayoshi, Determinants of International Tourism Demand in Sri Lanka (November 11, 2021). Available at SSRN: https://ssrn.com/abstract=4116150 or http://dx.doi.org/10.2139/ssrn.4116150

7. Rathnayaka Mudiyanselage, M. M., Epuran, The Impact of Trade Openness on FDI Inflows in Asian Emerging Economies. Conference "International Conference on Business Excellence", 24-26th of March 2022, Bucharest, Romania.
8. Rathnayaka Mudiyanselage, M. M., Epuran, G., & Tescașiu, B., The Causal Links between Trade Openness and Foreign Direct Investment Inflows in Sri Lanka Granger Causality Analysis. Conference "Inclusive and sustainable economic growth. Challenges, measures and solutions" (ISEG 2022), 27th of May 2022, Brașov, România.
9. Rathnayaka Mudiyanselage, M. M., Epuran, G.,"The Determinants of FDI Inflows in Romania" 8th International Conference on Management Studies (ICMS-2022), 22nd of June 2022, Istanbul, Turkey.