

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Pranav Ladia
pranavlada@gmail.com

ABSTRACT

This paper investigates the trade liberalisation - FDI nexus for a panel of developing and emerging economies that initiated reforms relating to trade liberalisation at different periods of time. The study compares FDI inflows in the pre - reform, hyper - reform, and post - reform periods using a dataset of thirteen countries - countries such as Sri Lanka and Kenya which liberalised early, the mid - phase liberalisers such as India and Brazil, and Ethiopia and Sudan who opened up their borders much later. The results indicate a significant increase in FDI inflows after trade reforms in most countries, which shows that liberalisation usually increases investor confidence and access to international markets. However, some countries, such as Indonesia, Kenya, and Brazil, record temporary decline in FDI shortly after the reforms, showing that the effectiveness of liberalisation is dependent on economic and political stability, complimented by proper sequencing of the reforms. The research conducted also shows that timing of liberalisation is important: the early liberalisers, while showing a less steep uptrend, were able to register more consistent and sustained growth in FDI, whereas countries which liberalised later experienced sharper surges in FDI, oftentimes with a delayed response. Overall, the analysis suggests that while trade liberalisation is an important driver of FDI, its impact is neither uniform nor immediate and is determined by political, economic, and regional contexts.

INTRODUCTION

In an increasingly globalised world, the movement of capital between borders has become an index of development in countries. Trade liberalisation - the process of reducing or removing government-imposed barriers to international trade, such as tariffs, quotas, and other regulations - is considered to be a key measure of integrating new and developing economies in the global market. Liberalising trade barriers increases competitiveness between domestic and international suppliers, which helps to increase productivity and signals a country's willingness to establish global market reforms. Such reforms help promote Foreign Direct Investments (FDI) in the country. FDI is an investment made by an individual or company in one country into business interests located in another country, where the investor gains a significant degree of influence or a controlling ownership stake in the foreign entity. FDI plays a crucial

March 2026
Vol 5. No 1.

role in a country's economic development by serving as a major source of non - debt finance and bringing in essential resources beyond just capital. In 2023, developing economies received about US\$435 billion in FDI flows, and these flows accounted for roughly half of the external financing flows received by developing economies.

However, the relation between trade and FDI is not constant. While many emerging economies have undertaken measures to open up their borders with the expected result of increase in FDI inflows and stock, the actual results vary significantly. Some nations, such as Vietnam (+24900% 1986 - 1987) and India (+270% 1991 - 1992), have experienced substantial surges in FDI following trade reforms, whereas others have seen quieter responses, such as Brazil (+176% 1991 - 1994), Sudan (+46% 2000 - 2001) and Kenya (+38% 1986 - 1989). This discrepancy raises an essential question: does trade liberalisation always attract FDI, or can it sometimes deter it?

To see figures of FDI Inflows of Each Country, refer Appendix 1

The relationship between trade and FDI is not linear. On one side, liberalisation can assist Foreign Direct Investment by lessening government restrictions, which makes a country more viable to invest into and operate within for foreign companies. This leads to an uptrend in capital and technology inflow, job creation and economic growth, as countries from around the world can set up businesses, import goods and merge into global value chains. On the other side, excessive complacency or premature liberalisation can lead to exposition of domestic industries to international MNCs, deterrence of investors seeking monopolistic advantages, and may create instability in financial markets.

The results of this paper show that normally, trade liberalisation is followed by a major increase in FDI inflows, although the timing and enormity of this effect vary between countries. Sri Lanka, Thailand, Mexico and Indonesia liberalised fairly early, and experienced moderate increases in FDI within three to six years. India, Pakistan and Brazil liberalised during the hyper - reform era, and they experienced sharper and yet sustained growth. Ethiopia and Sudan liberalised very late, and exhibited largely delayed increases, which demonstrates improved credibility and institutions strengthening over time. The analysis also shows temporary post reform declines in Indonesia, Brazil and Kenya, largely due to macroeconomic instability, fiscal adjustments or structural constraints can weaken the short term FDI response. All in all, the analysis supports the outlook that while trade liberalisation tends to create higher FDI inflows, the strength of the liberalisation - FDI relationship depends on timing, institutional quality, and country - specific economic conditions.

This paper aims to study the discrepancies in the impact of liberalisation on FDI in different countries and the evolution in their relationship over time. By this, the study aims to contribute to a more nuanced understanding of how the openness of economic and trade barriers can be designed to maximise the benefits of doing so, while preventing potential risks.

LITERATURE REVIEW

The empirical relationship between trade and FDI is theoretically ambiguous, according to a recurring theme in the literature on FDI and trade. Depending on the underlying economic mechanism, trade may either complement or replace FDI. The argument is framed by Blonigen's (2005) review, which highlights that trade flows can indicate either intermediate - input linkages that support affiliate production (implying complementarity) or finished - goods competition with possible affiliates (implying substitution). The paper argues that this ambiguity encourages careful analysis of the trade-FDI relationship at both the firm and product levels. It also explains the inconsistency in empirical results from various studies. (Blonigen, 2005)

Early in the new millennium, theoretical developments made firm heterogeneity a key organising principle that influenced businesses' decisions to export or form affiliates overseas. Helpman, Melitz, and Yeaple (2004) demonstrate how productivity disparities among businesses impact their decision to invest overseas or export to foreign markets. More productive businesses are better equipped to weigh the cost advantages of centralised production at home against the benefits of producing close to customers (FDI). In order to link trade policy changes to potential reallocation among firms and modes of market access, their paper posits that heterogeneous - firm models are essential for explaining variation in the margin through which firms serve foreign markets (export vs. FDI). (Helpman, Melitz and Yeaple, 2004)

Building on the need to treat trade and investment together, Kim, Liao and Miyano note in their working paper that global value chains (GVCs) have created a tight interdependence between trade and FDI: a firm's decision to engage in one activity (exports) is often contingent upon its activity in the other (e.g. FDI). They develop a research agenda that brings political economy and firm level explanations together to explore how FDI not only reacts to trade liberalisation but also reconfigures host countries' trade profiles and political coalitions which might in turn influence policy in the future. This paper thus frames the trade - FDI question as mutually interacting and dynamic, as opposed to the separable policy problem it is conventionally treated as. (Kim, Liao and Miyano, 2024)

Goldberg and Ruta lay out their argument in their introduction by revisiting the wider development impact of trade policy and pointing to dynamic channels that link trade liberalisation, firm behaviour, and investment. They argue that the traditional static view of tariff cuts and market access may understate the way in which liberalisation alters firm level incentives, reallocation, and knowledge and technology diffusion - precisely the mechanisms by which FDI can influence trade policy and vice versa. Their framing suggests a broader agenda to consider general - equilibrium and longer - run effects for evaluating whether liberalisation attracts or deters FDI in an emerging economy. (Goldberg and Ruta, 2025)

To summarise the introductions of these four projects, they present three complementary take aways for our question about trade liberalisation and FDI in emerging economies. First, empirical ambiguity is to be expected and needs to be disentangled at disaggregated levels, as trade flows can indicate either

substitution or complementarity with FDI (Blonigen, 2005). Second, firmness heterogeneity is relevant and productivity and firm-level cost can shape upon whether firm respond to liberalisation by exporting more or investing abroad (Helpman et al., 2004). Third, the emergence of GVCs and dynamic general - equilibrium channels mean trade liberalisation can alter the incentives for investment through changes to market access, input linkages, and political economy (Kim et al., 2024; Goldberg & Ruta, 2025). Taken together, these frames provide a rationale that (a) considers trade and FDI jointly, (b) uses firm or product level data as available, and (c) considers both short - run reallocating and longer - run dynamic channels when thinking whether liberalisation attracts or deters FDI.

DATA AND METHODOLOGY

1. Overview of the Study

The primary aim of this study is to examine the impact of trade liberalisation on Foreign Direct Investment in emerging economies. The analysis seeks to assess whether liberalisation reforms have had an observable impact on the amount, volatility and direction of FDI. More specifically, the data has been designed to capture variation in liberalisation incidents, both in a temporal sense and in a cross - country sense. By assessing the flow of FDI in each country pre - and post - liberalisation, the analysis will establish the direction and strength of the liberalisation - FDI relationship. This paper uses the data of FDI inflows only and not outflows or stock, since that proved to be the most representational data to show the relation between FDI and trade liberalisation. The approach is designed to provide longitudinal and cross - sectional comparisons of the influence of trade reforms on investment patterns across countries that are on similar developmental paths with different liberalisation timelines. The countries selected, which are India, Pakistan, Vietnam, Mexico, Indonesia, Ethiopia, Kenya, Sri Lanka, Thailand, Brazil, Sudan, Argentina, and Chad, provide a comprehensive scope of regions (Asia, Latin America, and Africa) and range of experience with reforms. For example, Mexico and Brazil both engaged in liberalisation early and comprehensively in the 1980s -1990s while other countries such as Ethiopia and Sudan only experienced significant liberalisation in the 2000s or later. This temporal divergence allows the paper to test the hypothesis that trade liberalisation is an important driver of FDI inflows, but that it occurs with different lags and intensities depending on the structural and institutional context.

2. Description of the Dataset

The dataset used in this study is a manually curated compilation derived from multiple secondary sources, including UNCTAD's Reports and World Bank's World Development Data. The data of each country has been compared across a consistent time period - typically two years before liberalisation (-2), one year before (-1), the liberalisation year (0), and up to two or more subsequent intervals (e.g., +1, +2, +3, +6, +9 years). In some cases, particularly where reforms spanned multiple years, the analysis uses an average or midpoint year to represent the core liberalisation episode. This means the year where the most important reforms took place which were instrumental to liberalisation.

3. Data Sources

1. Quantitative data (FDI inflows) was primarily taken from the UNCTAD database and cross - verified with World Bank and IMF statistics.
2. Qualitative data (policy milestones and liberalisation notes) was compiled from country - specific policy reports and academic case studies.
3. Temporal alignment was performed by standardising all data relative to the baseline year. This allows FDI changes to be evaluated in comparable time intervals across countries, despite different calendar years.

Where data inconsistencies existed (e.g., negative FDI flows in some early years), they were retained intentionally to show historical reality, particularly during periods of disinvestment or balance - of - payments stress (such as Sri Lanka's negative inflow in 1977 or Argentina's volatile capital movements). The dataset thus combines both cross-sectional (cross - countries) and time-series (intra - country) perspectives.

4. Expected Outcomes

Positive Post - Liberalisation Surge:

Most countries show a distinct upward shift in FDI inflows two to three years after liberalisation.

Lagged Effect for Late Reformers:

Countries like Ethiopia and Sudan have delayed but strong FDI responses, which are consistent with the hypothesis that it is institutional readiness that moderates the speed of impact.

Regional Divergence:

While Latin American economies show an earlier and much steeper gain in FDI, the African economies reveal slower but steadier increases - a reflection of differing levels of market maturity and reform credibility.

5. Significance of taking FDI as a % of GDP

The geographical and topological differences between countries is enormous. So, it is not appropriate to compare raw FDI figures of 2 very different countries. For example: FDI inflows in Brazil during the year of liberalisation was USD\$2800 million and the same in Vietnam was USD\$186 million. The Graphical representation of such data would not prove conducive for the purposes of this paper.

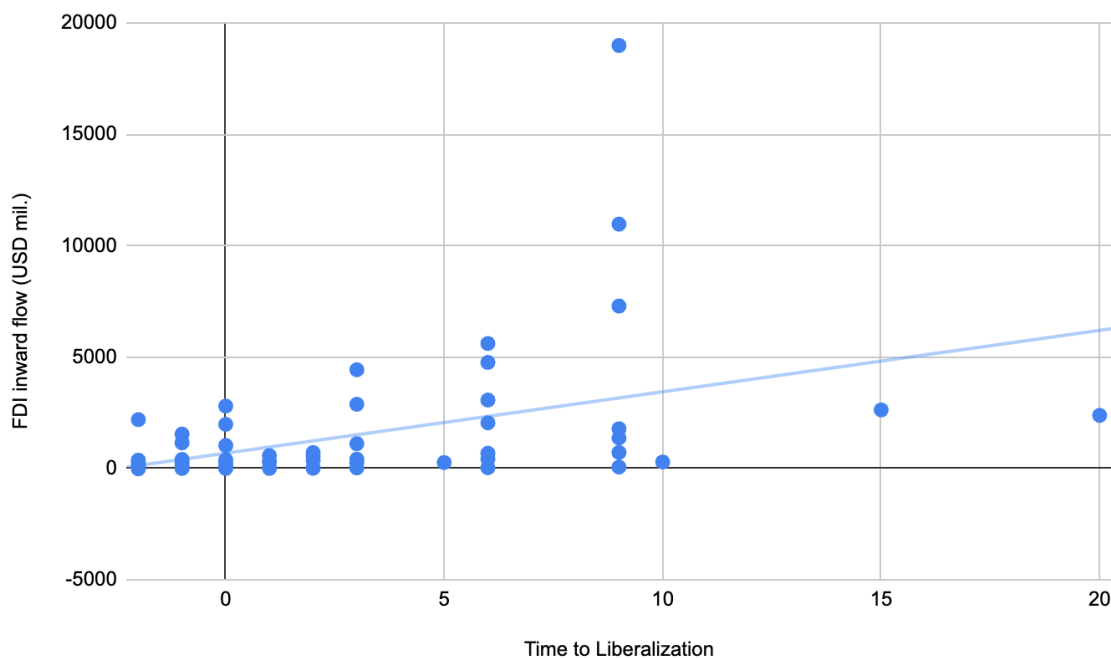
To see FDI Inflows of all 13 countries as a percentage of their GDP, refer Appendix 2.

RESULTS

1. Average Baseline

The results of individual economies have been displayed above, both in terms of inflows and also how much FDI was contributing to the nations' GDP. However, it is also important what the trend line shows for all the countries taken together. The results of the countries are in different time periods and yet the results are fairly consistent.

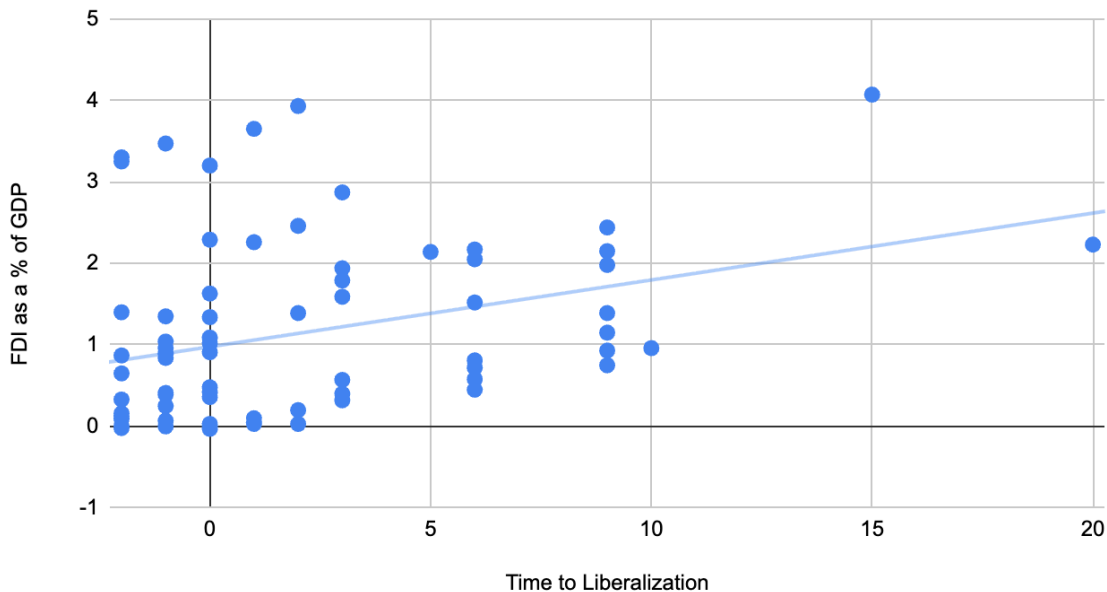
Graph 1: Impact of Liberalisation on FDI in all 13 countries



Graph 1 shows the data of all the countries taken together and how the results are in a very overall sense. We can see a clear uptrend in the data points. Despite the heavy discrepancy between the data points themselves due to differing amounts of inflows, the uptrend is maintained. On average, every year, there is an increase of USD\$273 million in FDI inflows in all the countries combined.

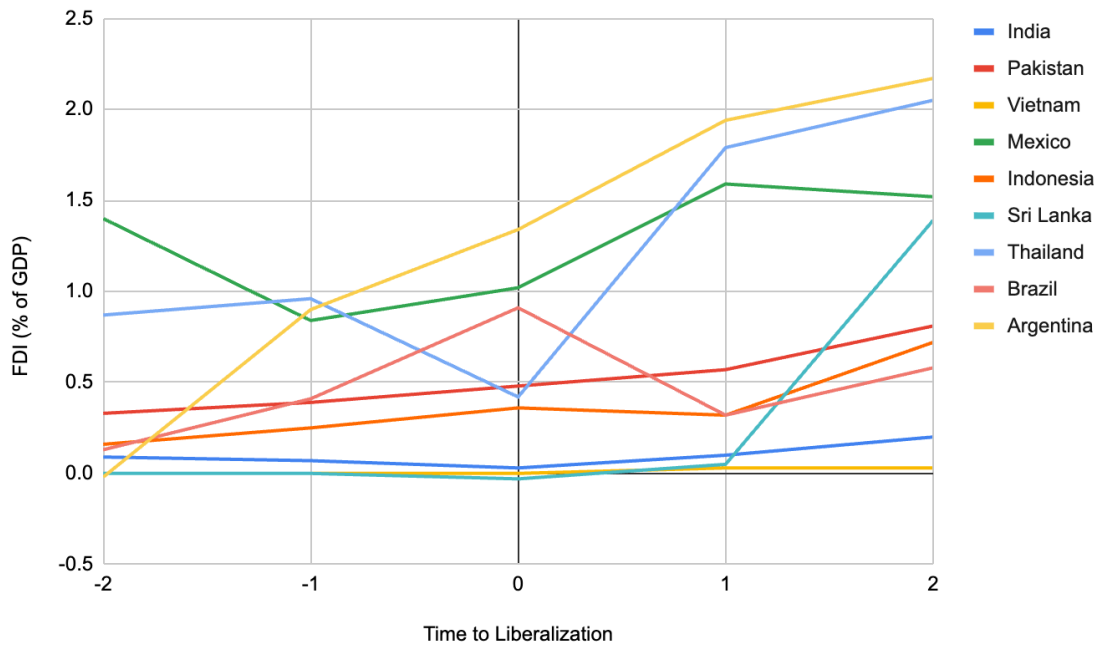
Graph 2: Impact of Liberalisation on FDI as a % of GDP of Countries

Impact of Trade Liberalization on FDI (% of GDP) (Developing Countries)



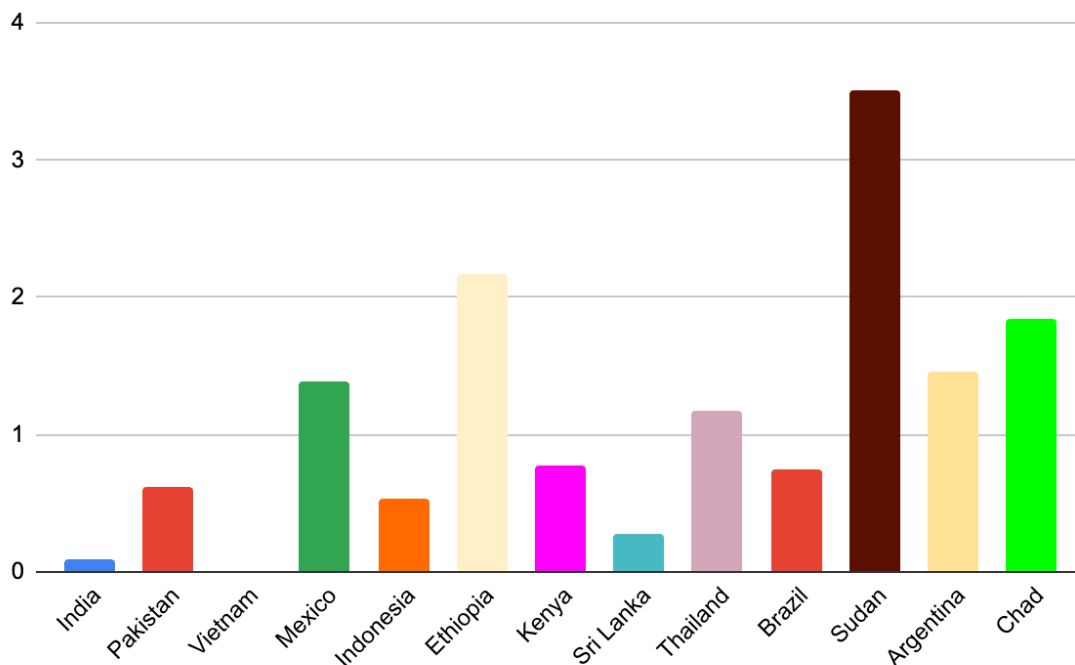
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 3: Impact of Liberalisation on FDI as a % of GDP of Individual Countries



Graph 3 shows the same thing as Graph 2, but shows all the countries differently. The results can be seen very clearly as to which countries were impacted more by liberalisation and which were less affected by the same.

Graph 4: Average of FDI as % of GDP During the Years of Liberalisation



Graph 4 shows the average of percentage of GDP of countries over their years of trade liberalisation. It is an average of all the data points to show the ratio of FDI and GDP of the countries.

2. Individual Country Comparison

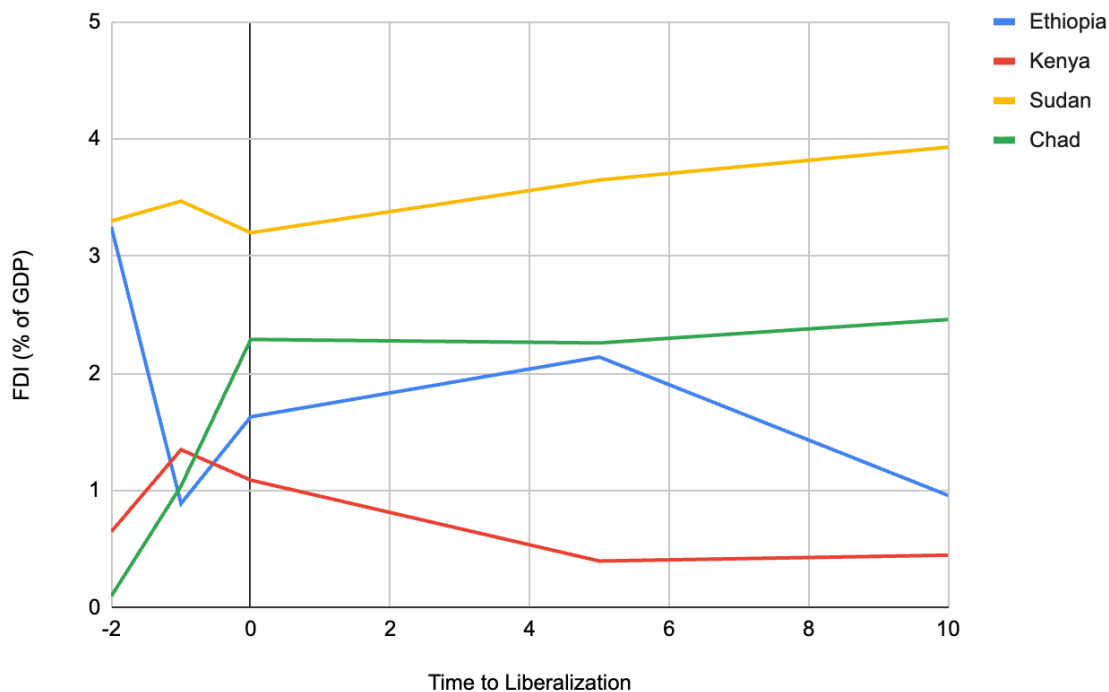
Here, the result which each country has shown has been shown individually. This is to show what impact was faced by countries and help better analyse how different countries reacted to liberalisation. Results of FDI inflows during particular times periods before and after liberalisation have been complimented with FDI inflows as a percentage of the Gross Domestic Product (GDP) of the country during the same time period.

For a detailed comparison between the countries with Graphs, kindly see Appendix '3'.

3. African Countries: A Paradox

One thing I found in my research was that the African countries we had taken for the paper were not so responsive after their respective trade borders opened up. There was not nearly as sharp an uptrend with them than in the other developing countries taken in Asia or the Americas. In fact, some countries even showed a downtrend.

Graph 5: Impact of Liberalisation on FDI in African Countries



Graph 5 shows the impact of trade liberalisation on FDI as a percentage of GDP in African countries. It can be seen clearly that in Ethiopia and Kenya, there is actually a downtrend in the ratio of FDI and GDP. Sudan does show an uptrend, but it is negligible. Chad shows a steep uptrend the year it got liberalised and then it flatlines.

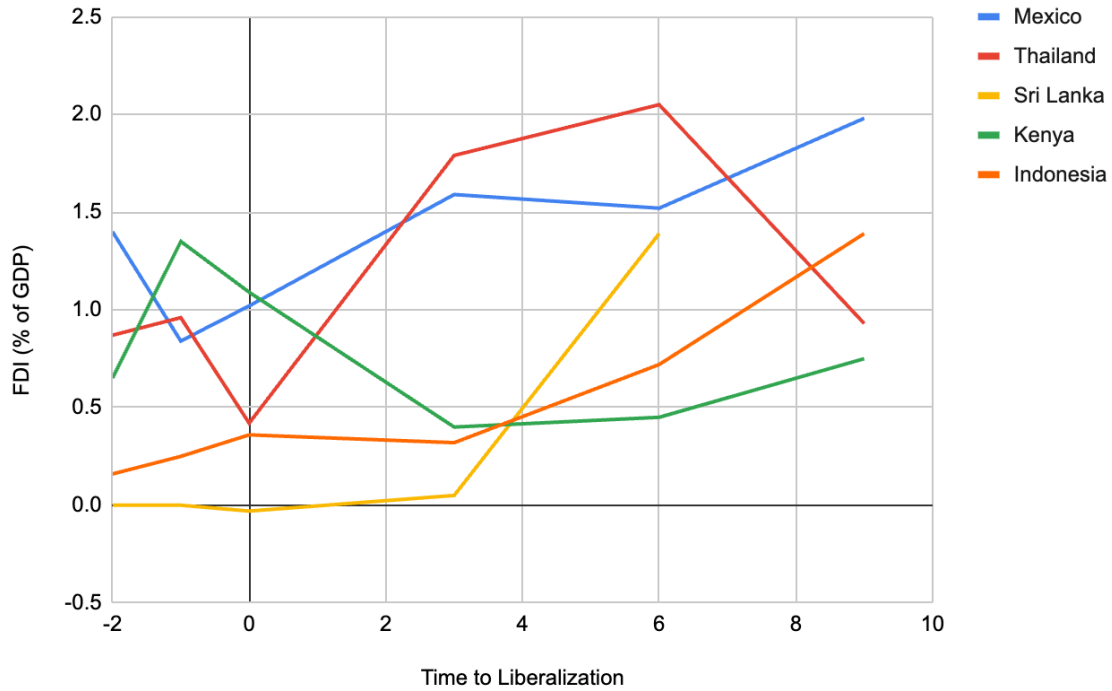
This shows that while generally liberalisation does lead to an uptrend in FDI, it is not fixed by any chance. African countries, perhaps because of skepticism in investors, did not see a major change in its numbers, showing the non - uniformity of the results.

4. How has the Time Period affected the Impact of Trade Liberalisation?

Temporal differences have made a major difference in how much lag or intensity countries face post liberalisation. Countries like Sri Lanka and Thailand got liberalised fairly early, while Ethiopia and Sudan were late with their reforms.

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

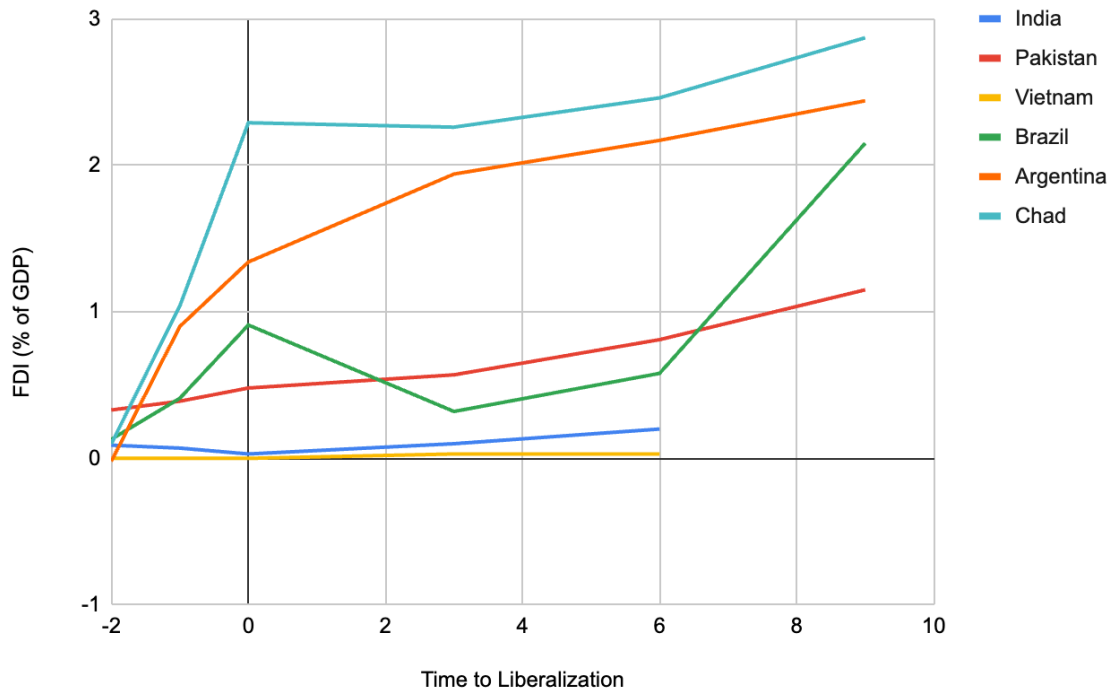
Graph 6: Impact of Liberalisation on FDI in Early Liberalisers



Graph 6 shows the countries which got liberalised in or before 1985, in the pre - globalisation era.

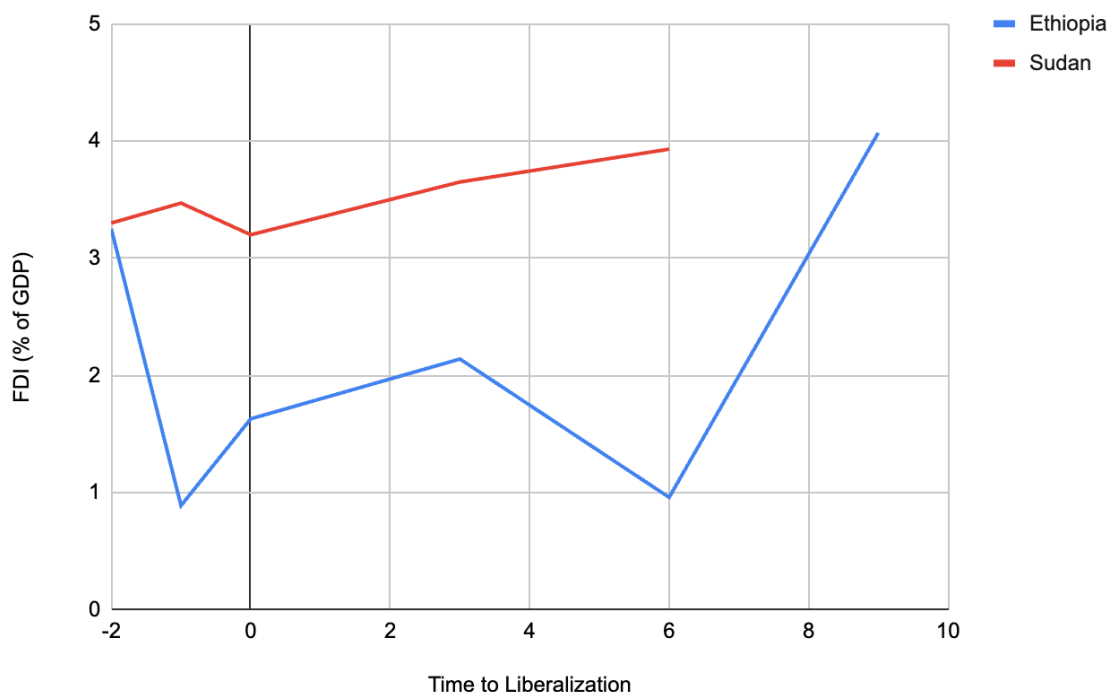
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 7: Impact of Liberalisation on FDI in Mid - Phase Liberalisers



Graph 7 shows the countries which got liberalised after 1985 but before 1995, in the hyper - reform era.

Graph 8: Impact of Liberalisation on FDI in Late Liberalisers



Graph 8 shows the countries which got liberalised in the 2000's, in the post - globalisation era.

The pre - globalisation Graph (- 1995) shows low and volatile FDI inflows across countries, with only early liberalisers like Mexico and Thailand showing moderate rises. The hyper - reform Graph (1985 - 1995) shows a sharp rise in inflows, particularly for India, Brazil, and Argentina. The post-globalisation Graph (2000 -) shows slower but more stable FDI growth, with late liberalisers like Ethiopia catching up gradually.

DISCUSSION

The findings presented in the results raise three important considerations that must be addressed to properly interpret the relationship between trade liberalisation and FDI inflows:

1. Countries are liberalised at different periods of time - ranging from the late 70s to the 2000s - A central complication in dealing with a dataset of such variety is the temporal differences. Countries like Sri Lanka, Indonesia and Kenya liberalised their borders in the late 70s and early 80s. This was the pre - globalisation era, when the fewer countries were open and global competition for FDI was low. Countries like India, Pakistan and Vietnam were liberalised during the late 1980s and 1990s. This era was marked by hyper - reform, when investor confidence was high and there was a surge in the countries getting

March 2026

Vol 4. No 1.

liberalised. Meanwhile, Ethiopia and Sudan liberalised in the 2000s, in the post - globalisation era, where investors demanded stronger institutions and global competition for FDI was very high. Therefore, differences in post - liberalisation FDI outcomes cannot be interpreted solely as a function of policy changes within each country. They are also shaped by the global investment environment prevailing at the time of reform. Countries liberalising earlier benefited from first - mover advantages but suffered from over caution on the part of investors, while late liberalisers entered an already crowded and more demanding global marketplace. This temporal variation is crucial for interpreting why some countries experienced immediate FDI surges after liberalisation, while others saw only gradual or delayed responses.

2. The cross country nature of the dataset - A second issue arises from the cross - country nature of the dataset. Each country has a unique economic structure, political history, institutional capacity, and starting point. For example, Mexico liberalised into a context of manufacturing potential and close geographic proximity to the United States; India liberalised with a large domestic market and a heavy state - controlled industrial base; Ethiopia liberalised from a low - income, agrarian starting point with limited infrastructure and state - centric institutions. Due to these differences, cross - country comparisons of FDI responses must be made with caution. The purpose of this paper is therefore not to rank countries, but to identify patterns: early liberalisers benefit from early integration; mid - phase liberalisers benefit from the globalisation boom; late liberalisers face greater institutional hurdles. Recognising structural differences across countries helps avoid misleading conclusions and strengthens the validity of the comparative analysis.

3. The pressing question whether it is Trade Liberalisation driving FDI or does FDI pressure actually lead to Liberalisation? - Causality is the third and most important issue. The data initially suggests that FDI tends to rise following trade liberalisation. But this correlation by itself does not show that the rise was brought about by liberalisation. In certain instances, governments may have liberalised to draw in or keep investment due to growing pressure from multinational corporations, regional production networks, or domestic economic constraints. This section aims to show that the data is consistent with trade liberalisation driving FDI and not the other way around.

To do this, Graphs of each country have been plotted showing FDI in the future relative to the year of trade liberalisation. If a country was liberalised in year 't', then FDI inflow figures of 't+1' year have been taken. Similarly, for the year after liberalisation, i.e., year 't+1', FDI inflows of year 't+2' have been shown, and so on. This is because FDI in the future can never affect trade in the present. So, a positive relation between trade and FDI of 1 year later would suggest that trade driving FDI.

To see the Graphs of each country plotted, kindly see Appendix '4'.

Most of the Graphs show a positive relationship between trade liberalisation and FDI 1 year later. However, the Graphs of Vietnam, Kenya and Brazil show a negative relationship between them. Each of them has a different explanation for why this happened.

March 2026

Vol 4. No 1.

(i) Vietnam

During Vietnam's trade liberalisation years, the economy, at first remained in a stage of structural adjustment, meaning that while markets were opening, the domestic economy was not yet fully investment - ready. Liberalisation led to high import penetration, which, in the short run forced out both domestic producers and potential foreign entrants who faced weak local supply chains and limited absorptive capacity. These pressures were increased manifold by periods of macroeconomic instability and high inflation, particularly in the late 1980s and early 1990s, which reduced investor confidence and put a limit on long - term planning. At the same time, infrastructure restraints and shortages of capital limited productivity and slowed the transition towards export - oriented industrialisation. Due to this, in spite of significant legal and policy reforms aimed at improving openness, Vietnam's overall investment market remained uncertain in the immediate post - liberalisation period, delaying the full benefits of trade openness.

(ii) Indonesia

In Indonesia, the time period of trade liberalisation was highlighted by significant structural vulnerabilities, the most important of which was the drastic fall in the prices of oil, which suddenly led to a major fall in revenue for the government, and weakened the country's ability to adjust to the changes after trade liberalisation. And since Indonesia was heavily reliant on revenue from its oil reserves, macro economic volatility was highly amplified as global price variations translated directly into fiscal and balance - of - payments pressures. Financial systems were exposed to heavy risk taking, because financial deregulation progressed faster than the development of effective regulatory and supervisory institutions. Among all of this, political uncertainty heightened risk among investors, reducing confidence in the stability of economic reforms. These challenges were exponentially increased by a weak and fragile banking system, which increased risk and limited the economy's ability to absorb sudden external shocks during and after liberalisation.

(iii) Brazil

In Brazil, the process of trade liberalisation unfolded against a backdrop of severe macroeconomic instability, with hyperinflation persisting until the implementation of the Real Plan in 1994, reducing price stability and long - term economic planning. Large financial deficits and a series of failed or short - lived stabilisation programmes lessened policy credibility, making both domestic and foreign investors sceptical of the government's ability to sustain reforms. Persistent exchange - rate instability further increased the risk of long - term investment, particularly in tradable and capital - intensive sectors. At the same time, rapid import liberalisation exposed domestic markets to foreign competition before many local firms were sufficiently competitive, leading to closure of firms and adjustment costs. These economic challenges were amplified by political transitions following the end of military rule, which, while democratically significant, initially increased policy uncertainty and complicated the coordination of coherent economic reform.

This then suggests that the results are consistent with trade liberalisation driving FDI, barring macro - economic or political conditions of the country which affect the results.

CONCLUSION

This paper set out to examine how trade liberalisation influences Foreign Direct Investment (FDI) flows across a diverse set of developing and emerging economies, every one of which liberalised at different points in time and under varying political and macro - economic conditions. Three main patterns can be seen in the results. Firstly, trade liberalisation generally occurs before an uptrend in foreign direct investment, specially in countries like India, Vietnam, Thailand, and Mexico that have undergone significant institutional reforms or macroeconomic stabilisation. Such results supplement the literature's emphasis on the complementary relationship between trade and FDI. Secondly, the time period of liberalisation is essential. While late liberalisers like Ethiopia and Sudan saw delayed but eventually increases in FDI as reforms increased and adapted, early liberalisers like Sri Lanka and Mexico followed long growth arcs. Thirdly, the paper points out certain exceptions where FDI initially declined in the years immediately following liberalisation, such as Indonesia, Brazil, and Kenya. These variations show that openness by itself does not ensure investment; instead, sectoral competition, weak institutions, or macroeconomic instability can momentarily reduce investment incentives. Consistent with Blonigen's (2005) argument, the findings reinforce the idea that the relationship between trade and FDI is theoretically ambiguous and empirically inconsistent, shaped by whether trade reflects intermediate - input linkages (complementarity) or finished - goods competition (substitution).

Overall, this paper concludes that while trade liberalisation is necessary for attracting foreign investment, it alone is not a sufficient condition. Its impact depends on the credibility, consistency, and broader institutional environment in which reforms are implemented. Cross - country comparisons reveal that while liberalisation generates momentum for investment, the effect is neither immediate nor uniform across countries or time periods.

REFERENCES

African Development Bank Group. (n.d.-a). *Kenya country profile*.
<https://www.afdb.org/en/countries/east-africa/kenya>

African Development Bank Group. (n.d.-b). *Sudan country profile*.
<https://www.afdb.org/en/countries/east-africa/sudan>

African Development Bank Group. (n.d.-c). *Chad country profile*.
<https://www.afdb.org/en/countries/central-africa/chad>

March 2026

Vol 4, No 1.

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Asian Development Bank. (n.d.-a). *Viet Nam: Country overview*.
<https://www.adb.org/countries/viet-nam/main>

Asian Development Bank. (n.d.-b). *Indonesia: Country overview*.
<https://www.adb.org/countries/indonesia/main>

Asian Development Bank. (n.d.-c). *Thailand: Country overview*.
<https://www.adb.org/countries/thailand/main>

Blonigen, B. A. (2005). A review of the empirical literature on FDI determinants. *Atlantic Economic Journal*, 33(4), 383–403.

Collier, P., & Gunning, J. W. (1999). Trade shocks in developing countries. *Journal of African Economies*, 8(3), 323–351.

Government of India, Ministry of Finance. (n.d.). *Department of Economic Affairs*. <https://dea.gov.in>

Government of Pakistan, Ministry of Finance. (2019). *Pakistan economic survey 2018–19*.
http://www.finance.gov.pk/survey_1819.html

International Monetary Fund. (n.d.). *IMF publications and country reports*.
<https://www.imf.org/en/Publications>

Journal of Economic Structures. (2014). Trade openness and foreign direct investment: Evidence from developing countries. *Journal of Economic Structures*, 3(6).

<https://journalofeconomicstructures.springeropen.com/articles/10.1186/s40008-014-0006-z>

Macrotrends LLC. (n.d.). *Economic and financial data*. <https://www.macrotrends.net/>

Ministry of Justice (Vietnam). (n.d.). *Legal and policy framework*. <https://moj.gov.vn/Pages/en.aspx>

OECD. (n.d.-a). *Mexico economic surveys*. <https://www.oecd.org/mexico/>

OECD. (n.d.-b). *Brazil economic surveys*. <https://www.oecd.org/brazil/>

Reserve Bank of India. (n.d.). *Handbook of statistics on the Indian economy*.
<https://rbi.org.in/Scripts/Statistics.aspx>

State of Vietnam, Consulate General of Vietnam in New York. (n.d.). *Brief history of Vietnam*.
<https://www.vietnamconsulate-ny.org/about/2/brief-history-of-vietnam.html>

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

UNCTAD. (n.d.). *FDI flows and stocks database*.

<https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock>

World Bank. (n.d.). *World development indicators*. <https://data.worldbank.org>

World Trade Organization. (n.d.). Trade policy reviews and accession documents. <https://www.wto.org>

World Trade Organization. (n.d.). *Ethiopia accession documentation*.

https://www.wto.org/english/thewto_e/acc_e/a1_ethiopia_e.htm

Table 2: Mean of FDI Inflows as Percentage of GDP

APPENDIX 1

Table 1 shows the FDI inflow figures in USD Millions of all 13 countries.

Country	Year	FDI Inflows (USD Millions)
India	-2	252
	-1	237
	0	75
	1	277
	2	550
Pakistan	-2	106
	-1	129
	0	186
	3	258
	6	421
	9	716
Vietnam	-2	0.69

March 2026

Vol 4, No 1.

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

	-1	-0.08
	0	0.04
	1	10
	2	7.68
Mexico	-2	2190
	-1	1540
	0	1980
	3	2880
	6	4760
	9	10970
Indonesia	-2	133
	-1	225
	0	292
	3	258
	6	682
	9	1780
Ethiopia	-2	261
	-1	70
	0	135
	5	265
	10	288
	15	2627
	20	2381
Kenya	-2	34
	-1	84
	0	79

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

	3	24
	6	33
	9	62
Sri Lanka	-2	0.14
	-1	0.001
	0	-1.2
	1	1.5
	2	47
Thailand	-2	350
	-1	401
	0	163
	3	1110
	6	2049
	9	1369
Brazil	-2	345
	-1	1170
	0	2800
	3	1110
	6	3070
	9	18990
Sudan	-2	371
	-1	371
	0	392
	1	574
	2	713
Argentina	-2	-19

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

	-1	1150
	0	1030
	3	4431
	6	5609
	9	7290
Chad	-2	256
	-1	271
	0	298
	1	331
	2	370

APPENDIX 2

Table 2 shows the FDI Inflows of all 13 countries as a percentage of their GDP, and their mean values before and after liberalisation. It also shows the average change in post and pre liberalisation FDI Inflows as a percentage of GDP data.

Country	Year	FDI Inflows as Percentage of GDP	Mean of FDI Inflows as Percentage of GDP	Change in post and pre liberalisation data
India	-2	0.09	0.08	0.03
	-1	0.07		
	0	0.03	0.11	
	1	0.1		
	2	0.2		
Pakistan	-2	0.33	0.36	0.3925
	-1	0.39		

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

	0	0.48	0.7525	
	3	0.57		
	6	0.81		
	9	1.15		
Vietnam	-2	0	0	0.02
	-1	0		
	0	0	0.02	
	1	0.03		
	2	0.03		
Mexico	-2	1.4	1.12	0.4075
	-1	0.84		
	0	1.02	1.5275	
	3	1.59		
	6	1.52		
	9	1.98		
Indonesia	-2	0.16	0.205	0.4925
	-1	0.25		
	0	0.36	0.6975	
	3	0.32		
	6	0.72		
	9	1.39		
Ethiopia	-2	3.25	2.07	0.136
	-1	0.89		
	0	1.63	2.206	
	5	2.14		
	10	0.96		

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

	15	4.07		
	20	2.23		
Kenya	-2	0.65	1	-0.3275
	-1	1.35		
	0	1.09	0.6725	
	3	0.4		
	6	0.45		
	9	0.75		
Sri Lanka	-2	0	0	0.47
	-1	0		
	0	-0.03	0.47	
	1	0.05		
	2	1.39		
Thailand	-2	0.87	0.915	0.3825
	-1	0.96		
	0	0.42	1.2975	
	3	1.79		
	6	2.05		
	9	0.93		
Brazil	-2	0.13	0.27	0.72
	-1	0.41		
	0	0.91	0.99	
	3	0.32		
	6	0.58		
	9	2.15		
Sudan	-2	3.3		0.208333333333333

3.385

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

	-1	3.47		
	0	3.2		
	1	3.65	3.59333333333333	
	2	3.93		
Argentina	-2	-0.02	0.44	1.5325
	-1	0.9		
	0	1.34	1.9725	
	3	1.94		
	6	2.17		
	9	2.44		
Chad	-2	0.1	0.57	1.76666666666667
	-1	1.04		
	0	2.29	2.33666666666667	
	1	2.26		
	2	2.46		
Mean of Change in FDI Inflows of All Countries				0.479307692307692
Median of Change in FDI Inflows of All Countries				0.3925

APPENDIX 3

Table 3 shows the year of liberalisation for each country (the year which is taken as year '0' throughout the paper) and the major event which happened in that year in the country to make it qualify as year '0'.

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Table 3: Years of Liberalisation and their Major Events

Countries	Year of Liberalisation (Year '0')	Details
India	1991	India rolled out major economic reforms to tackle a serious balance - of - payments crisis. The government lowered import tariffs and licensing, devalued the rupee, and eased industrial regulations under the New Industrial Policy.
Pakistan	1988	Reducing tariffs, eliminating import licensing, devaluing the currency, and deregulating the financial and industrial sectors were among the main initiatives.
Vietnam	1986	Vietnam transitioned from central planning to a socialist - oriented market economy with the implementation of its Đổi Mới (Renovation) reforms.
Mexico	1985	Mexico started significant liberalisation in 1985, joined the GATT in 1986, and within a few years, average tariffs dropped from over 100% to less than 20%.
Indonesia	1983	With tariff reform and structural adjustment, Indonesia started its liberalisation process in the middle of the 1980s. The government reduced import tariffs, simplified customs procedures, and introduced export incentives.

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Ethiopia	2000	Simplifying tariffs, privatising a few state - owned businesses, and developing investment incentives to draw in foreign capital were important actions taken by Ethiopia.
Kenya	1980	To increase competitiveness, important measures included currency devaluation, import licensing elimination, and tariff reductions.
Sri Lanka	1977	To draw in foreign investors, the new administration of Sri Lanka lowered tariffs, unified exchange rates, eliminated import restrictions, and established export processing zones (EPZs).
Thailand	1985	The government encouraged export - oriented manufacturing, loosened restrictions on foreign ownership, and streamlined investment approvals through the Board of Investment (BOI).
Brazil	1988	In order to open trade and privatise ineffective state companies, the government started the Collor reforms, lowered import tariffs, and eliminated numerous non - tariff barriers.
Sudan	2000	Unification of exchange rates, simplification of tariffs, and relaxation of restrictions on foreign investment in infrastructure and oil were important measures taken.

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Argentina	1989	President Carlos Menem's Convertibility Plan and associated reforms marked the beginning of liberalisation. The government removed the majority of import licenses, lowered tariffs, and privatised large state-owned businesses.
Chad	1994	Through the CFA franc adjustment, the government lowered import duties, streamlined customs processes, and implemented a more flexible exchange rate.

APPENDIX 4

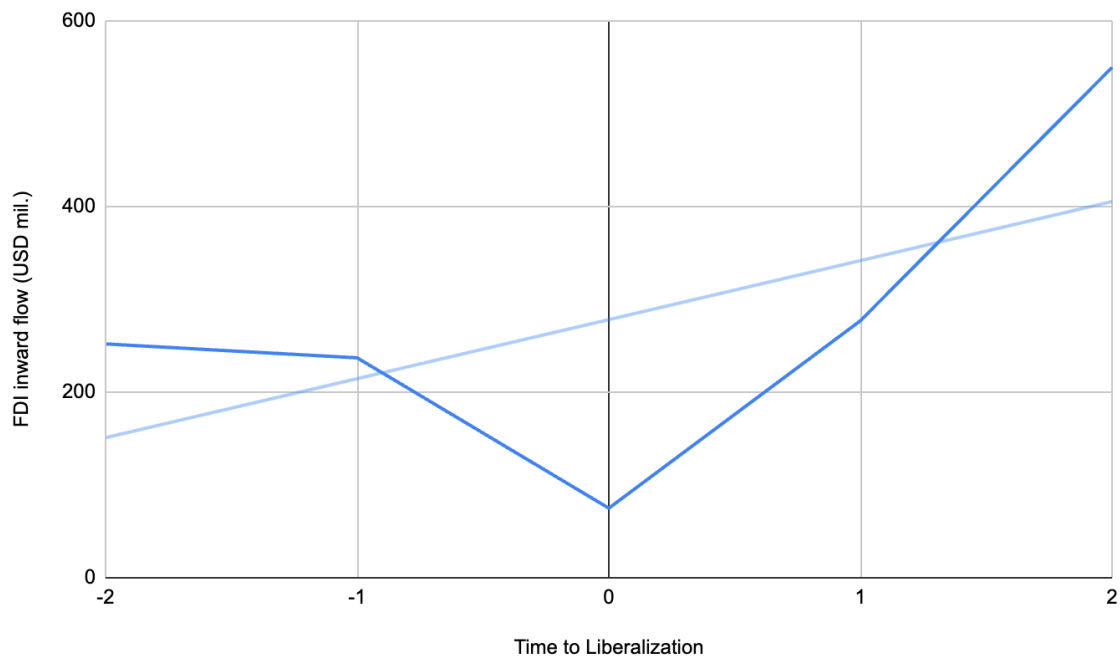
2. Individual Country Comparison

i) India:

In 1991, India was a lower - middle - income country undergoing significant economic change. The population was about 846 million, making it the second most populous nation after China. It had a GDP of USD\$270 billion and a per capita income of USD\$310. In that year, India rolled out major economic reforms to tackle a serious balance - of - payments crisis. The government lowered import tariffs and licensing, devalued the rupee, and eased industrial regulations under the New Industrial Policy. Foreign companies were allowed to hold up to 51% equity in many sectors, and the Foreign Investment Promotion Board (FIPB) was set up to streamline FDI approvals. Fiscal tightening, financial deregulation, and gradual privatisation of public enterprises followed. Together, these steps marked India's shift from a closed, state - controlled system to a market-oriented and globally integrated economy. It joined the World Trade Organization in 1995.

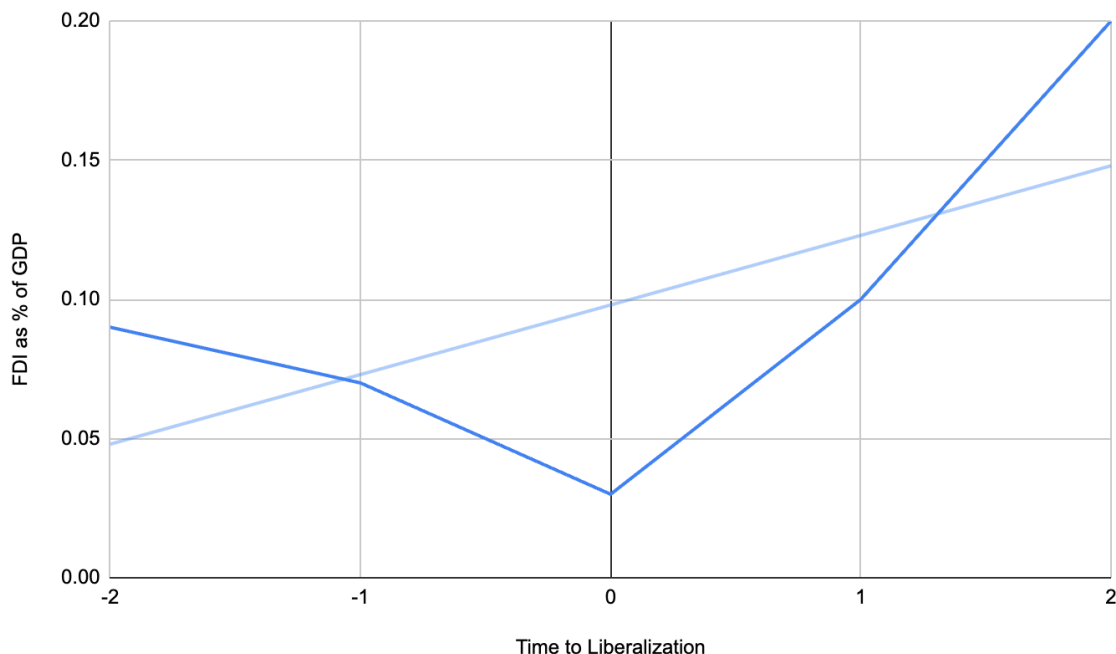
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 9:



Average Slope = Change in FDI/Time period = 74.5

Graph 10:



Average Slope = 0.0275

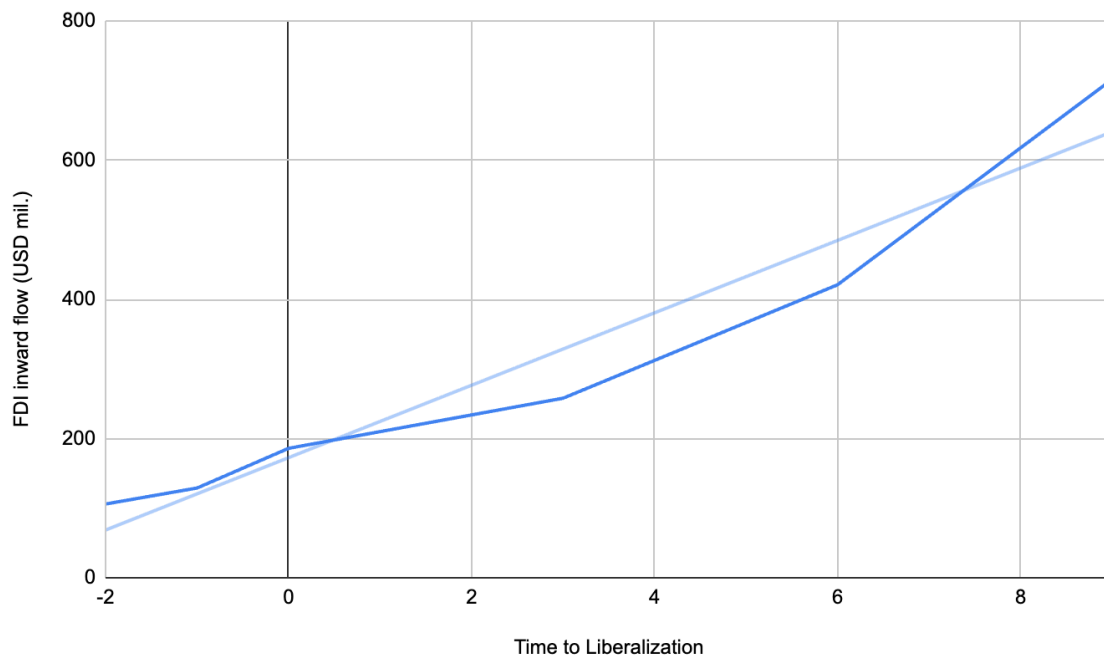
These Graphs indicate that FDI inflows increased by USD\$74.5 million per year with a 0.0275% increase in FDI relative to the nation's GDP.

ii) Pakistan:

In 1988, Pakistan had a population of about 104 million and a GDP of roughly US\$39 billion, with per capita income near US\$370. Trade liberalisation in Pakistan started as a result of World Bank and IMF structural adjustment programs. Reducing tariffs, eliminating import licensing, devaluing the currency, and deregulating the financial and industrial sectors were among the main initiatives. Laws governing foreign investment were loosened, allowing for more profit repatriation and fewer ownership restrictions. To increase competitiveness, export incentives were increased and public companies were progressively privatised. The goal of these late 1980s and early 1990s reforms was to move Pakistan's economy toward greater openness and market - drivenness. In 1995, it became a member of the World Trade Organization.

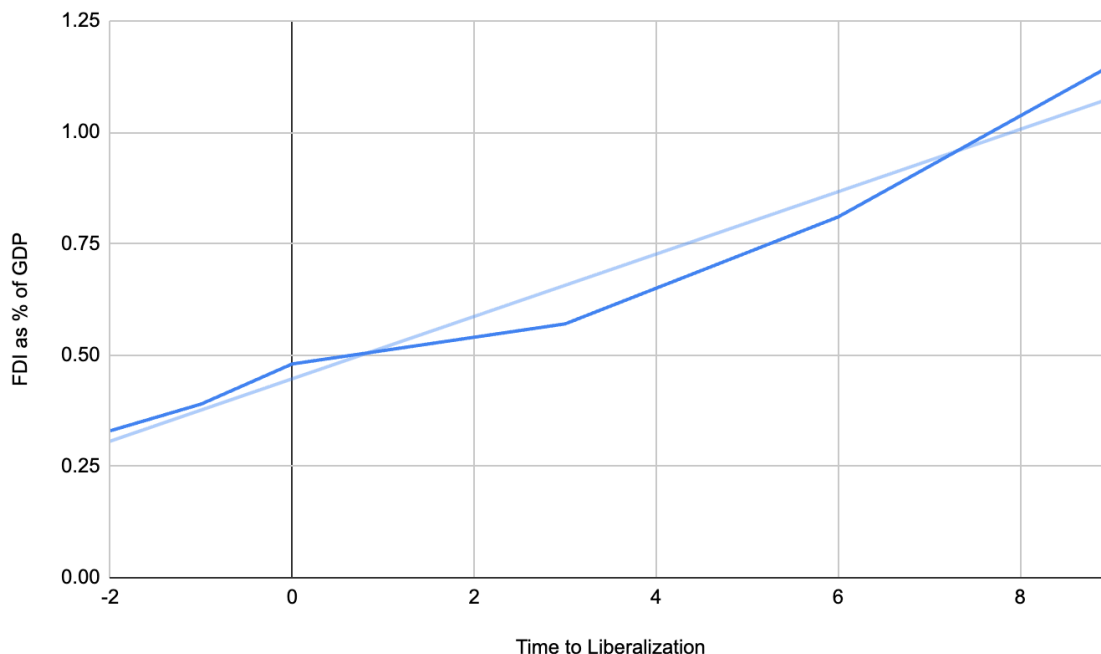
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 11:



Average Slope = 55.45

Graph 12:



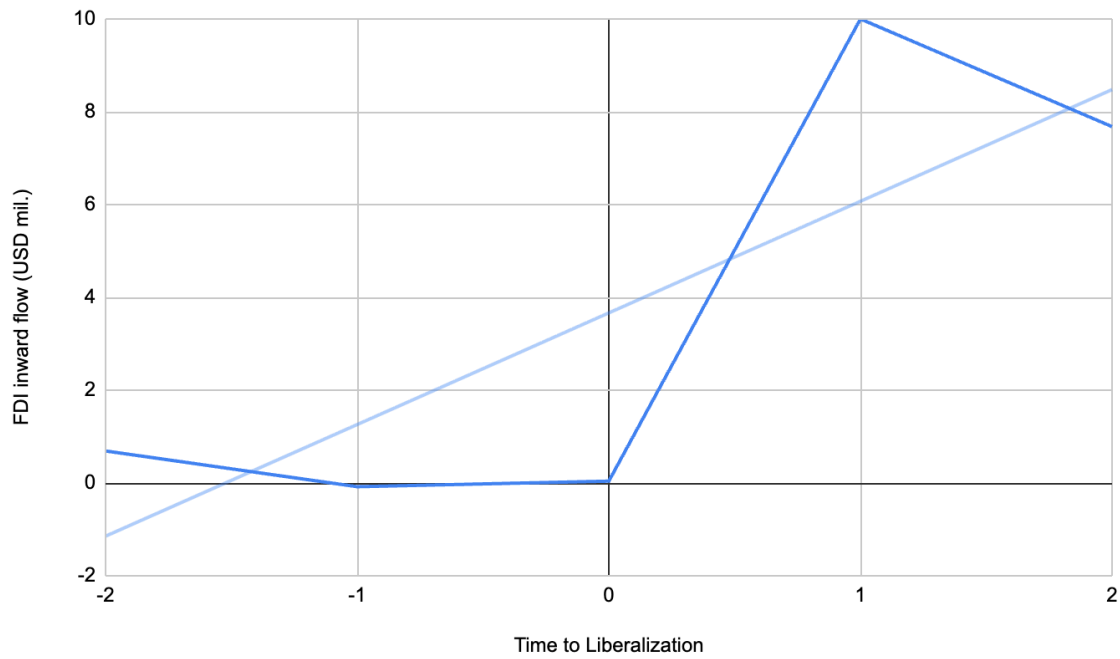
These Graphs indicate that FDI inflows increased by US\$55.45 million per year with a 0.0745% increase in FDI relative to the nation's GDP.

iii) Vietnam:

With a population of roughly 61 million and a GDP of about US\$26 billion, Vietnam's per capita income was about US\$420 in 1986. Vietnam transitioned from central planning to a socialist - oriented market economy in 1986 with the implementation of its *Đổi Mới* (Renovation) reforms. Through the 1987 Law on Foreign Investment, the government liberalised trade, permitted private enterprise, decreased collective farming, and welcomed foreign investment. In the 1990s, rapid FDI inflows and export - led growth were made possible by the gradual deregulation of prices and currency reform that followed. In 2007, it became a member of the World Trade Organization.

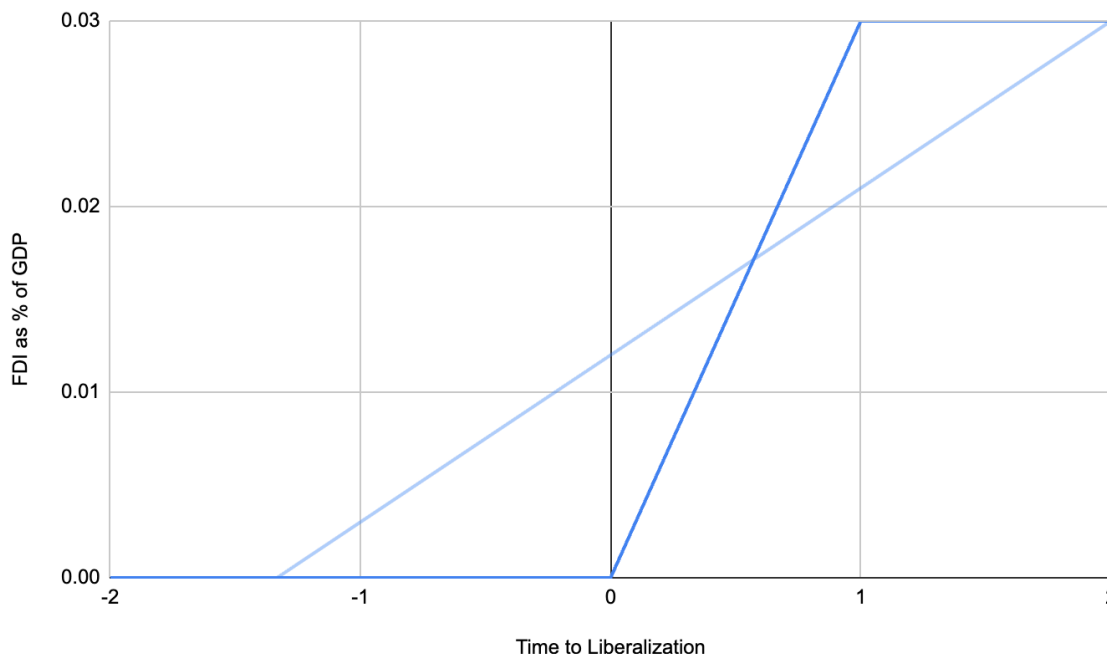
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 13:



Average Slope = 1.7475

Graph 14:



Average Slope = 0.0075

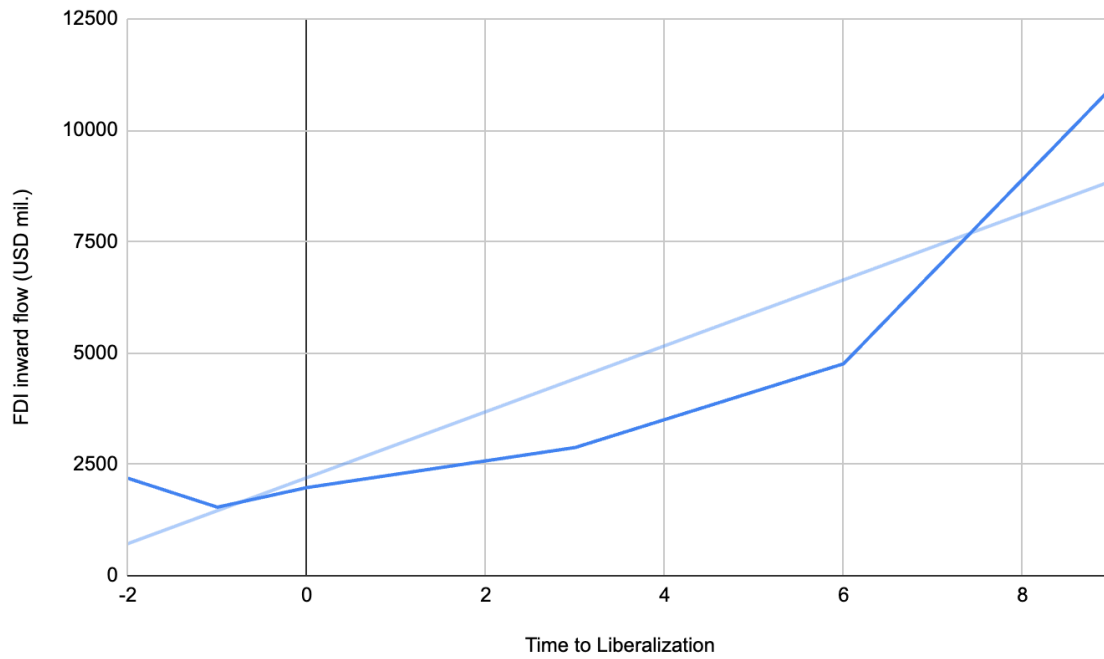
These Graphs indicate that FDI inflows increased by USD\$1.7475 million per year with a 0.0075% increase in FDI relative to the nation's GDP.

iv) Mexico:

With a population of about 78 million and a GDP of about US\$205 billion, Mexico's per capita income was almost US\$2,600 in 1985. Mexico started significant liberalisation in 1985, joined the GATT in 1986, and within a few years, average tariffs dropped from over 100% to less than 20%. The Privatisation Program decreased state ownership, relaxed regulations governing foreign investment, and essentially eliminated import licensing. Subsequently, the 1994 implementation of the NAFTA agreement strengthened openness and solidified Mexico's shift to an export-oriented, competitive economy. In 1995, it became a member of the World Trade Organization.

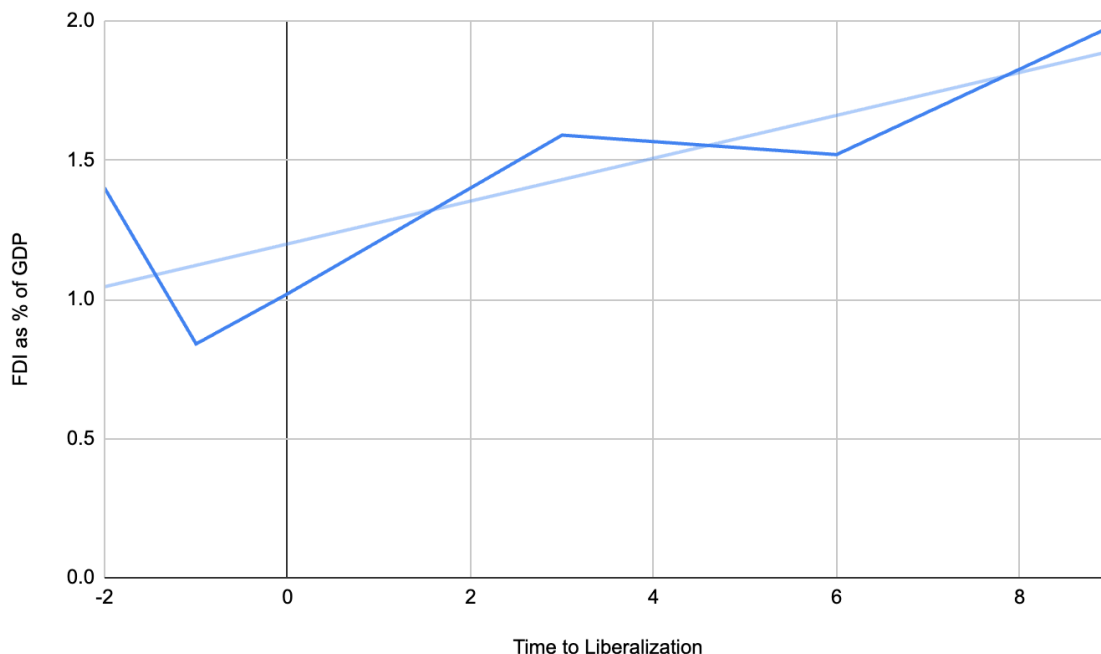
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 15:



Average Slope = 798.18

Graph 16:



Average Slope = 0.0527

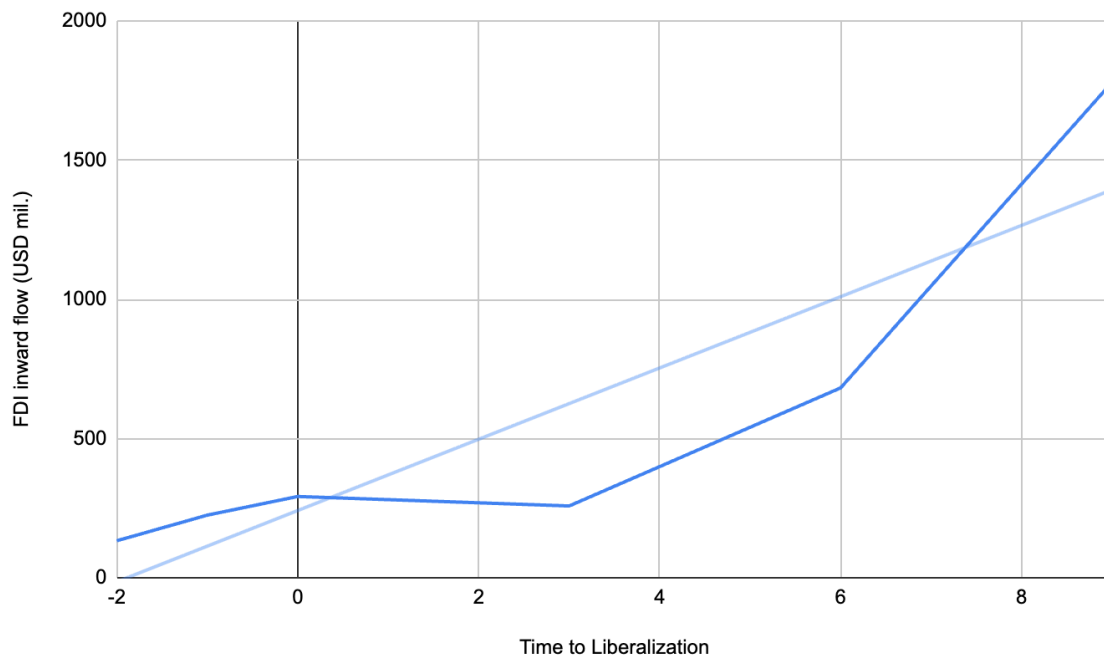
These Graphs indicate that FDI inflows increased by USD\$798.18 million per year with a 0.0527% increase in FDI relative to the nation's GDP.

v) Indonesia:

With a population of approximately 156 million and a GDP of about US\$92 billion, Indonesia's per capita income was about US\$590 in 1983. With tariff reform and structural adjustment, Indonesia started its liberalisation process in the middle of the 1980s. The government reduced import tariffs, simplified customs procedures, and introduced export incentives. The 1986 Investment Law relaxed investment regulations, promoting foreign involvement in finance and manufacturing. The subsequent financial deregulation, exchange rate flexibility, and privatisation of state - owned businesses signalled a gradual transition to a more open and market - driven economy. In 1995, it became a member of the World Trade Organization.

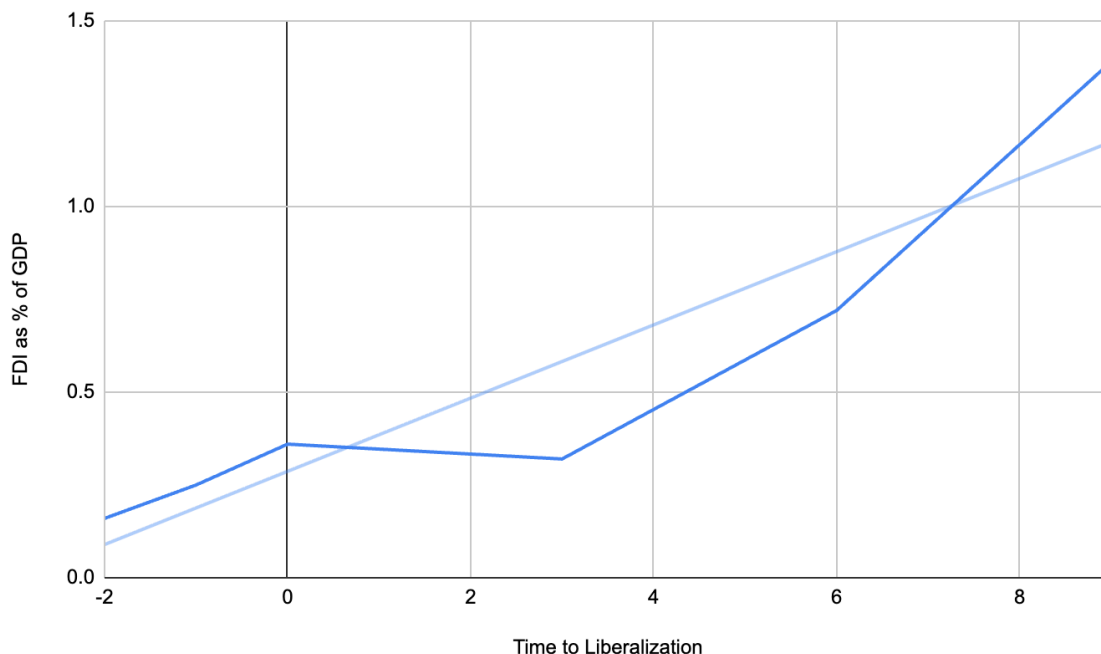
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 17:



Average Slope = 149.727

Graph 18:



Average Slope = 0.0509

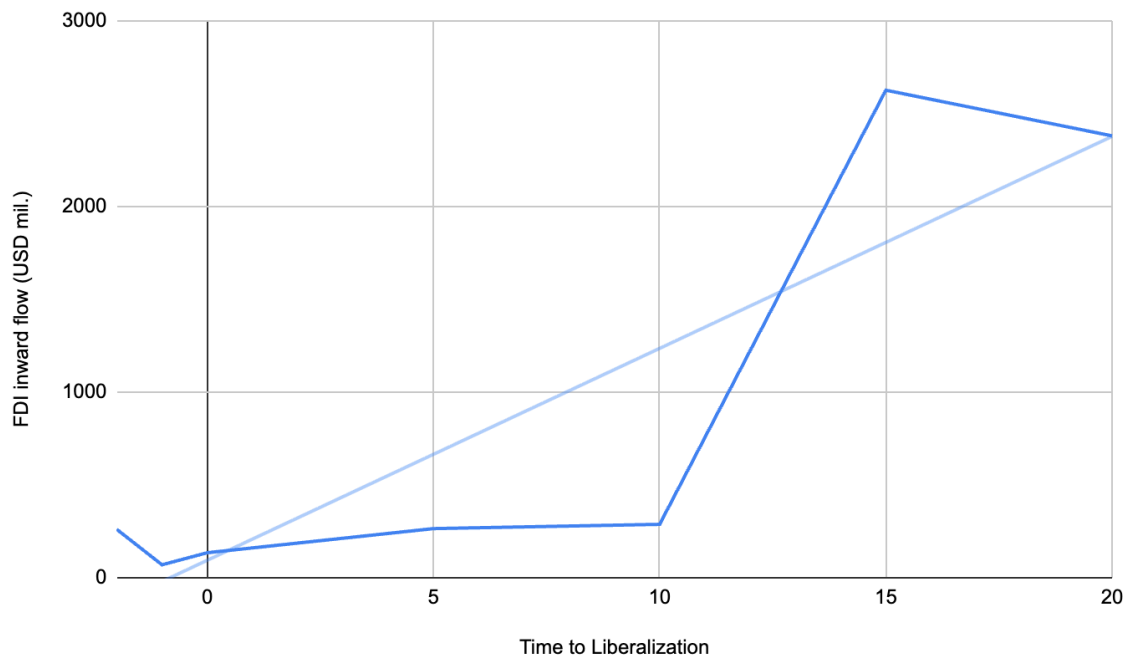
These Graphs indicate that FDI inflows increased by USD\$149.727 million per year with a 0.0509% increase in FDI relative to the nation's GDP.

vi) Ethiopia:

With a population of about 65 million and a GDP of about US\$8.2 billion in 2000, Ethiopia's per capita income was roughly US\$125. Under the direction of the World Bank and IMF, Ethiopia began a process of gradual liberalisation in 2000. Simplifying tariffs, privatising a few state - owned businesses, and developing investment incentives to draw in foreign capital were important actions. Market - oriented frameworks replaced state planning, export promotion zones were created, and trade and banking restrictions were loosened. In 2003, it applied to become a member of the World Trade Organization.

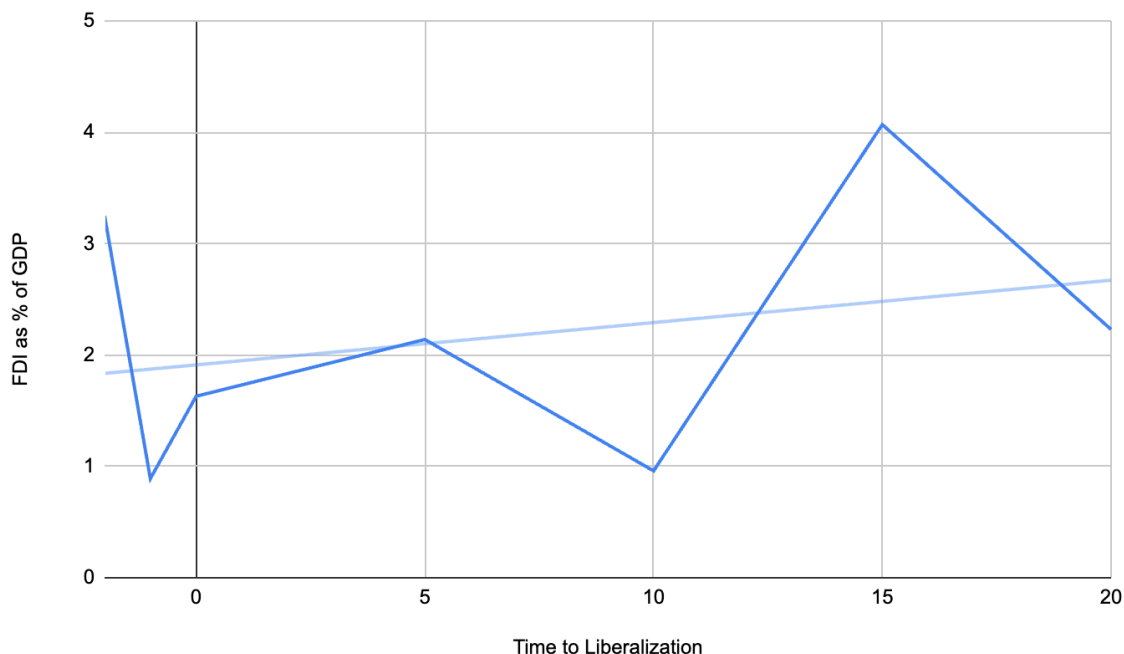
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 19:



Average Slope = 96.363

Graph 20:



Average Slope = -0.0445

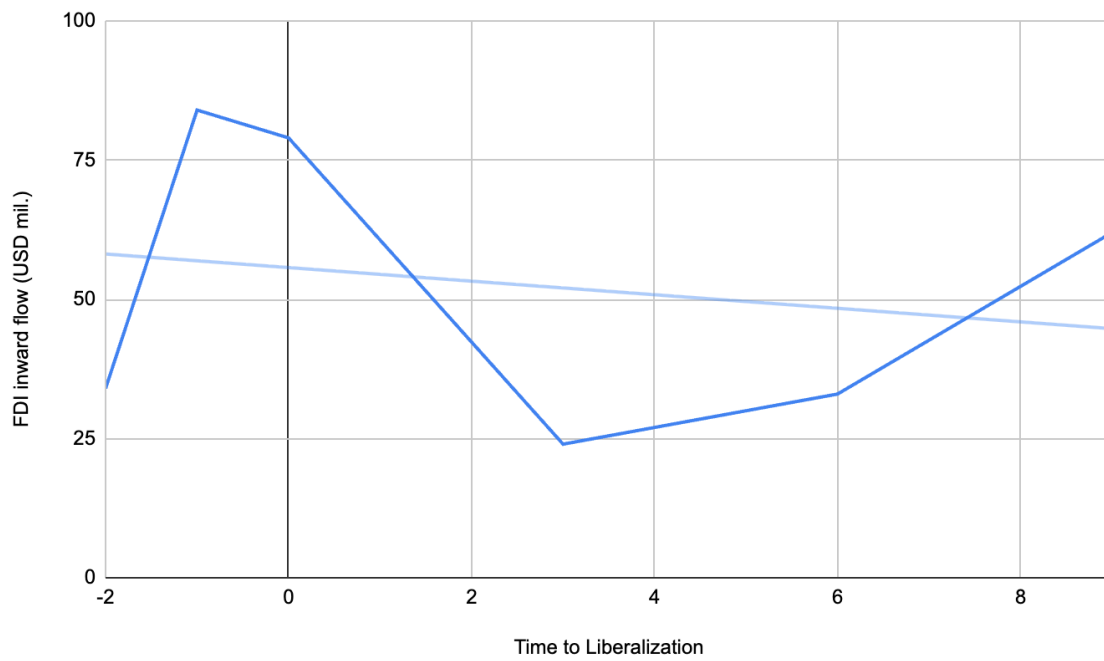
These Graphs indicate that FDI inflows increased by USD\$96.363 million per year with a -0.0445% decrease in FDI relative to the nation's GDP.

vii) Kenya:

With a population of roughly 16.5 million and a GDP of about US\$7.2 billion in 1980, Kenya's per capita income was close to US\$440. Under IMF and World Bank-backed structural adjustment programs, Kenya was gradually liberalised. To increase competitiveness, important measures included currency devaluation, import licensing elimination, and tariff reductions. The government started promoting private sector investment and privatising state - owned companies. Kenya's shift to a more open, market-oriented economy was characterised by financial reforms, trade deregulation, and export promotion policies in the late 1980s and early 1990s. In 1995, it became a member of the World Trade Organization.

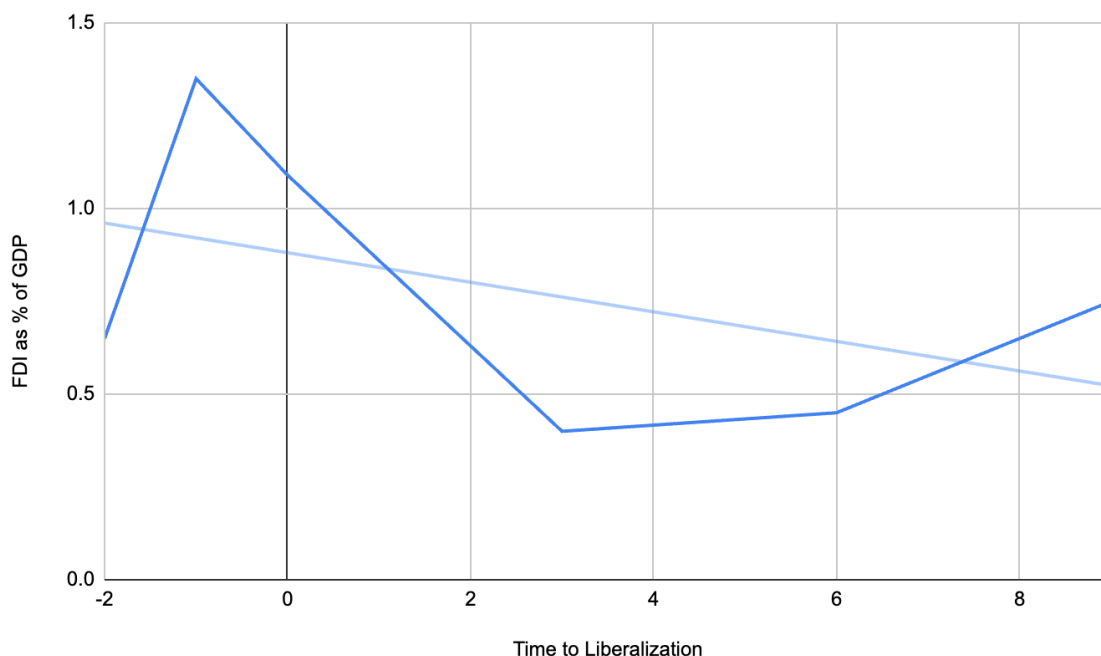
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 21:



Average Slope = 2.545

Graph 22:



Average Slope = 0.0090

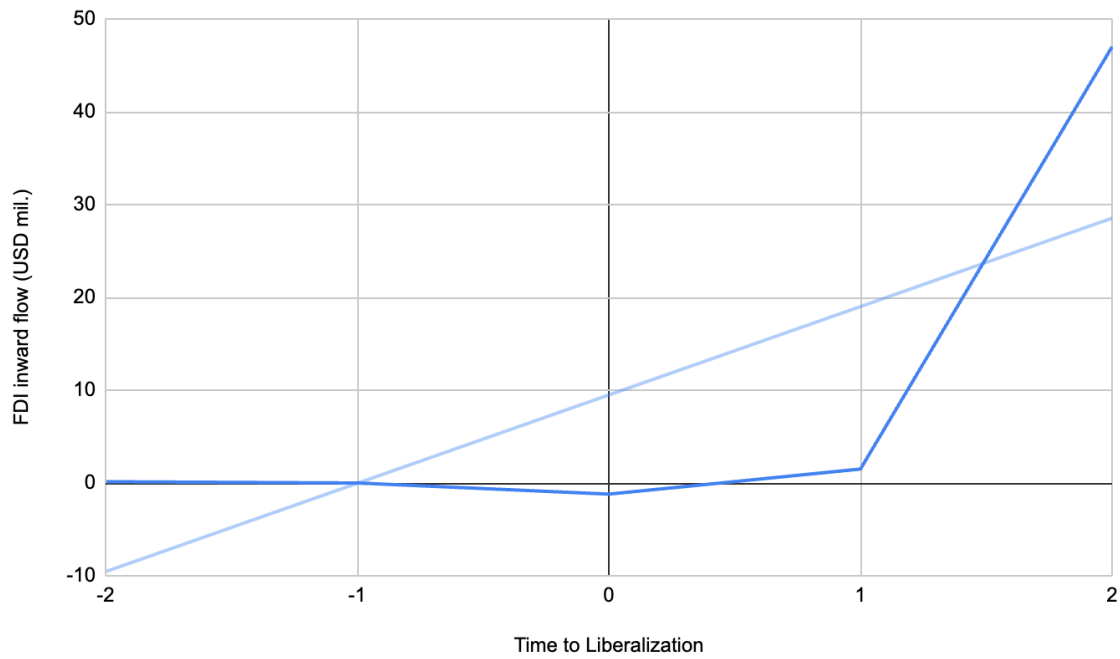
These Graphs indicate that FDI inflows increased by USD\$2.545 million per year with a 0.0090% increase in FDI relative to the nation's GDP.

viii) Sri Lanka:

With a population of about 14.2 million and a GDP of about US\$3.1 billion, Sri Lanka had a per capita income of about USD\$220 in 1977. One of the first liberalisation initiatives in South Asia was Sri Lanka's 1977 reforms. To draw in foreign investors, the new administration lowered tariffs, unified exchange rates, eliminated import restrictions, and established export processing zones (EPZs). Restrictions on foreign ownership were eased, public spending was redirected toward infrastructure, and state price controls were relaxed. In 1995, it became a member of the World Trade Organization.

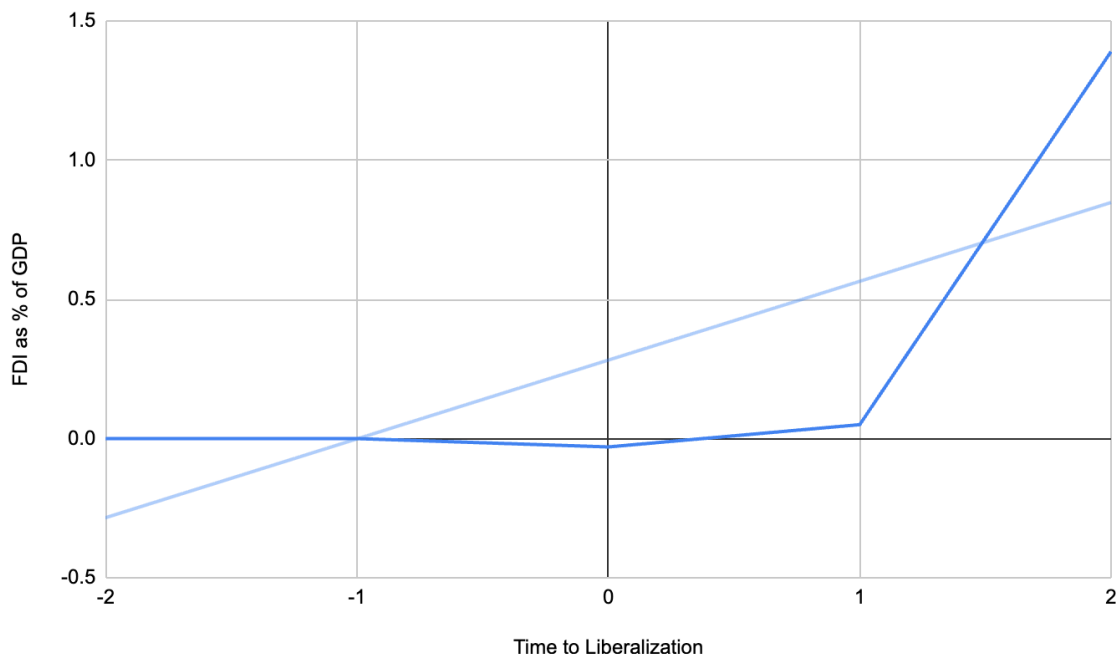
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 23:



Average Slope = 11.715

Graph 24:



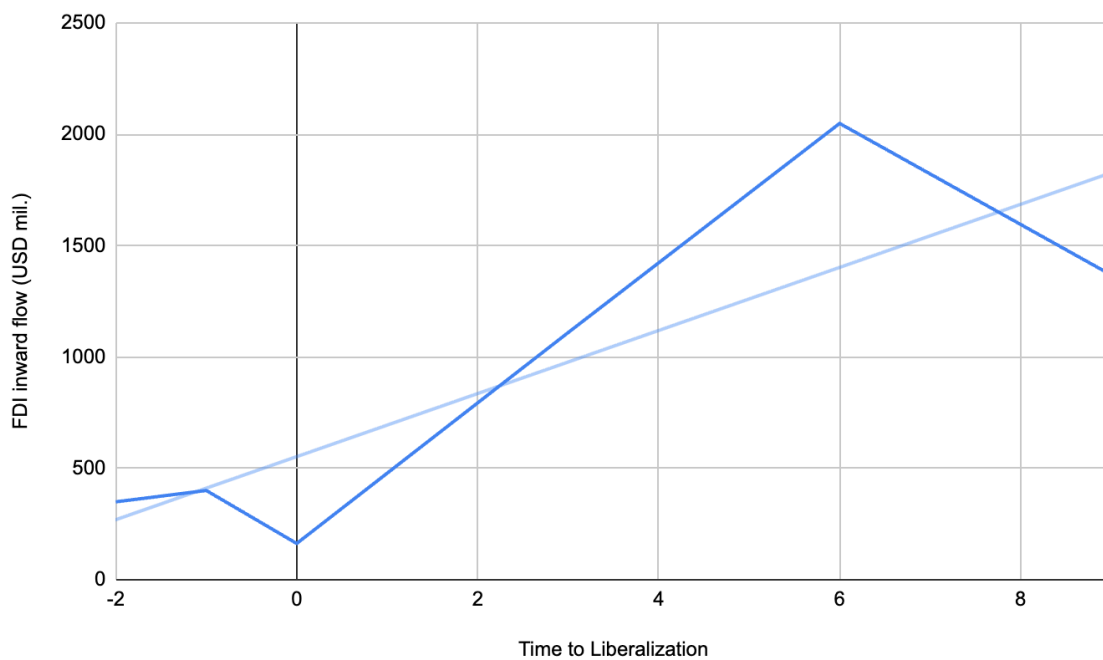
Average Slope = 0.3475

These Graphs indicate that FDI inflows increased by USD\$11.715 million per year with a 0.3475% increase in FDI relative to the nation's GDP.

ix) Thailand:

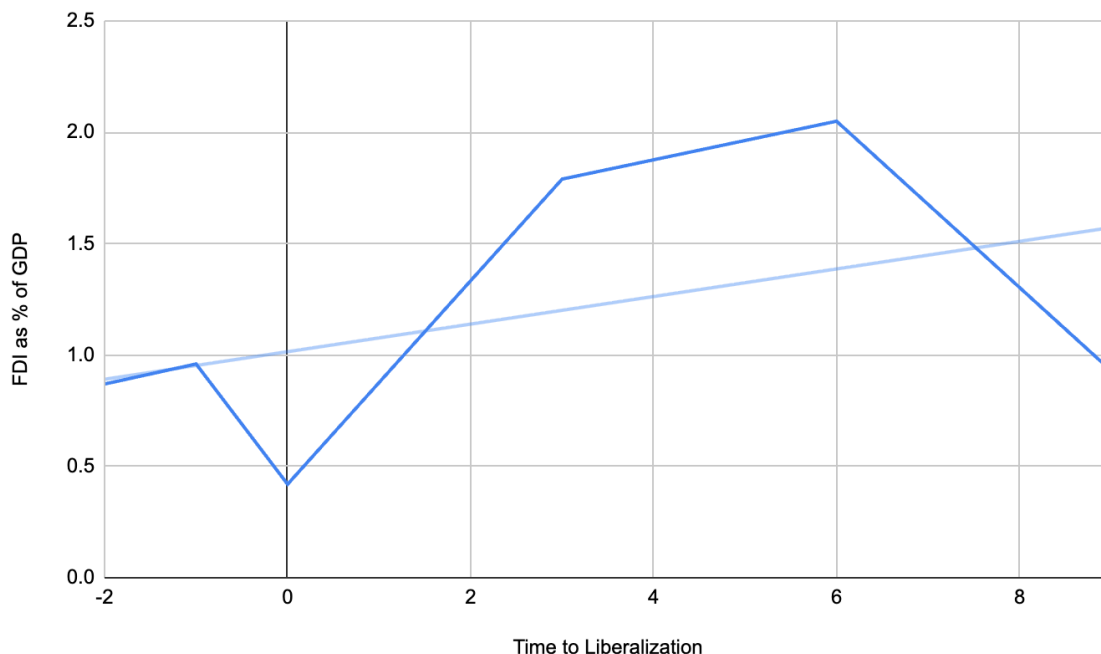
With a population of about 52 million and a GDP of about US\$61 billion in 1985, Thailand's per capita income was almost USD\$1,170. Financial deregulation, export promotion, and gradual tariff reductions were all part of Thailand's liberalisation. The government encouraged export - oriented manufacturing, loosened restrictions on foreign ownership, and streamlined investment approvals through the Board of Investment (BOI). Late 1980s reforms enhanced infrastructure and opened capital markets, drawing significant FDI inflows. By the early 1990s, these policies had made Thailand one of Asia's most industrialising nations. It joined the World Trade Organisation in 1995.

Graph 25:



Average Slope = 92.636

Graph 26:



Average Slope = 0.00545

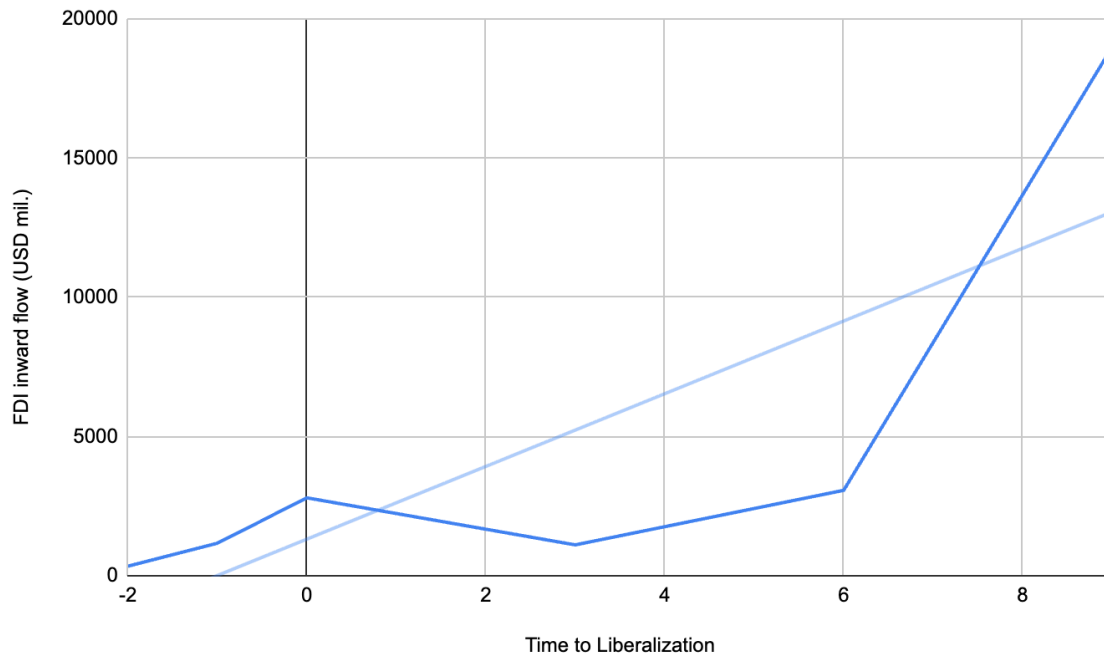
These Graphs indicate that FDI inflows increased by USD\$92.636 million per year with a 0.00545% increase in FDI relative to the nation's GDP.

x) Brazil:

With a population of about 142 million and a GDP of about US\$420 billion in 1988, Brazil's per capita income was close to USD\$2,950. Beginning slowly in the late 1980s, Brazil's liberalisation picked up speed in the early 1990s. In order to open trade and privatise ineffective state companies, the government started the Collor reforms (1990–1992), lowered import tariffs, and eliminated numerous non - tariff barriers. New investment incentives were introduced, the exchange rate was made more flexible, and restrictions on foreign ownership were loosened. The foundation for Brazil's shift to a more open and competitive economy and a notable increase in foreign direct investment inflows during the 1990s was established by these policies. In 1995, it became a member of the World Trade Organization.

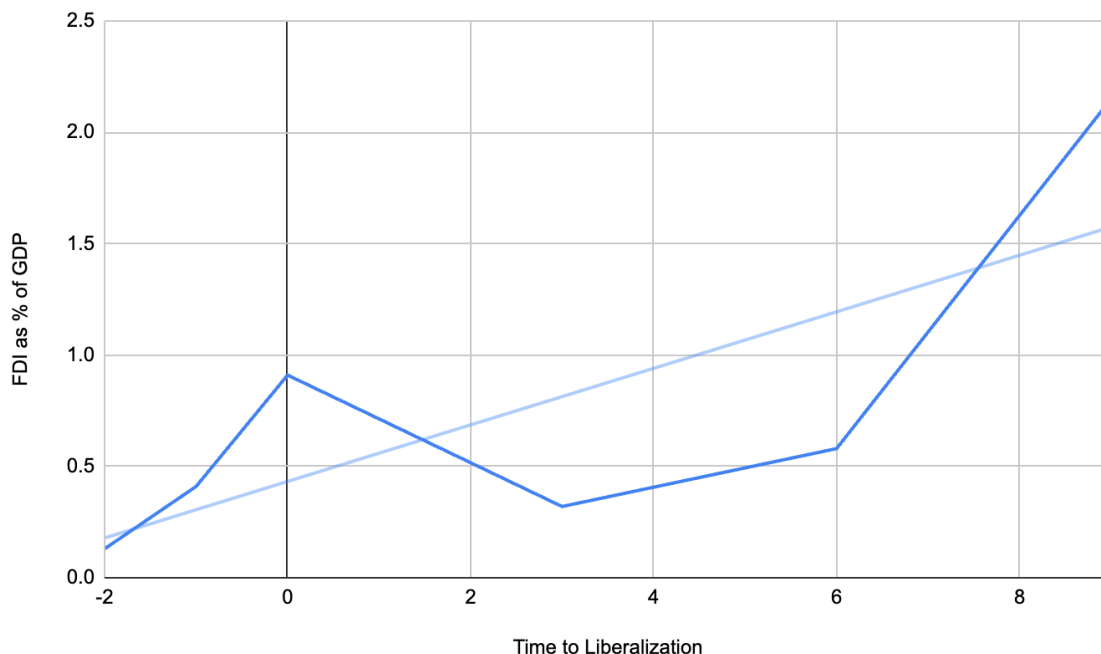
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 27:



Average Slope = 1695

Graph 28:



Average Slope = 0.1836

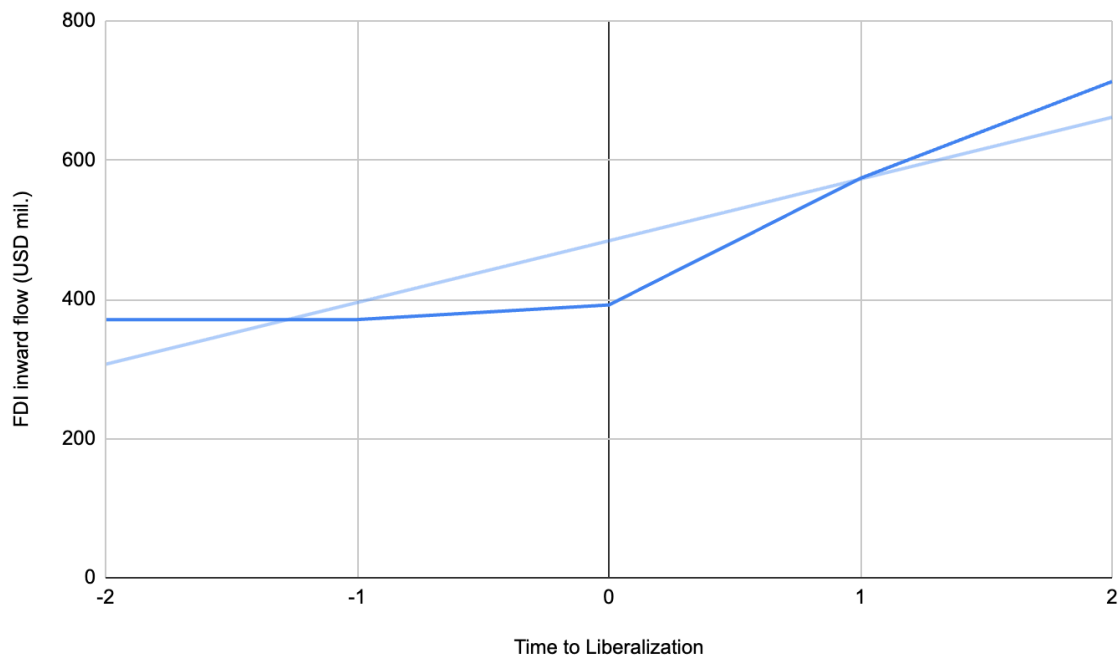
These Graphs indicate that FDI inflows increased by USD\$1695 million per year with a 0.1836% increase in FDI relative to the nation's GDP.

xi) Sudan:

With a population of around 30 million and a GDP of about US\$13.5 billion in 2000, Sudan's per capita income was close to USD\$450. Sudan initiated partial liberalisation and structural reforms around 2000 under IMF guidance. Unification of exchange rates, simplification of tariffs, and relaxation of restrictions on foreign investment in infrastructure and oil were important measures. The government lowered state control over trade, promoted joint ventures with foreign companies, and allowed private involvement in a few sectors. Sudan made its first step toward economic openness and integration with international investment flows with these changes. In 2024, it became a member of the World Trade Organization.

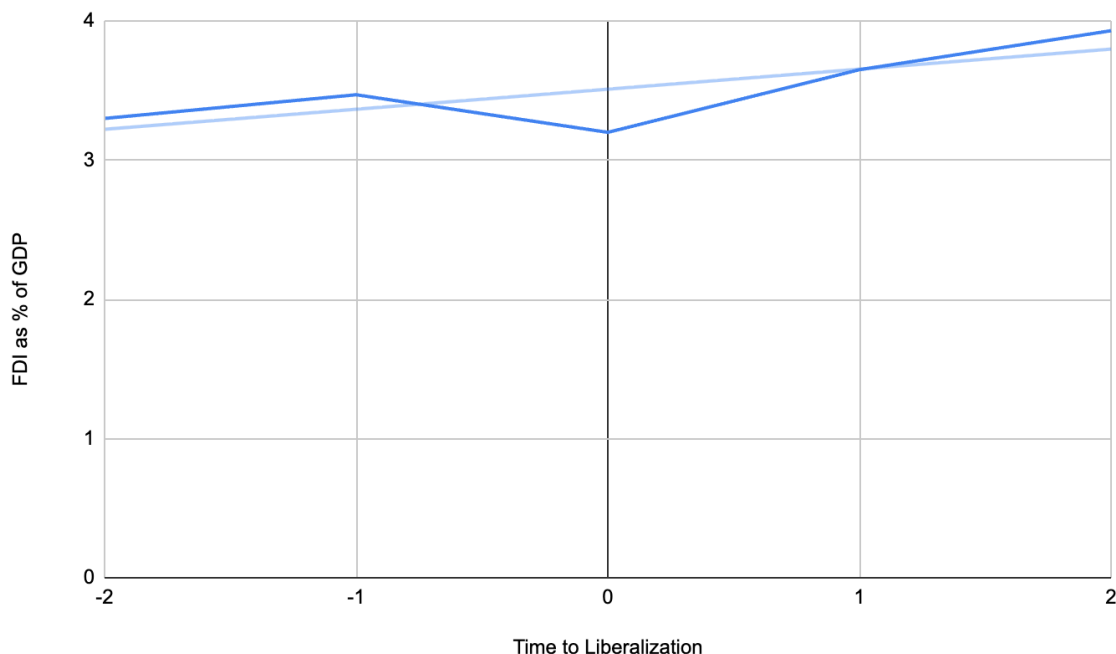
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 29:



Average Slope = 85.5

Graph 30:



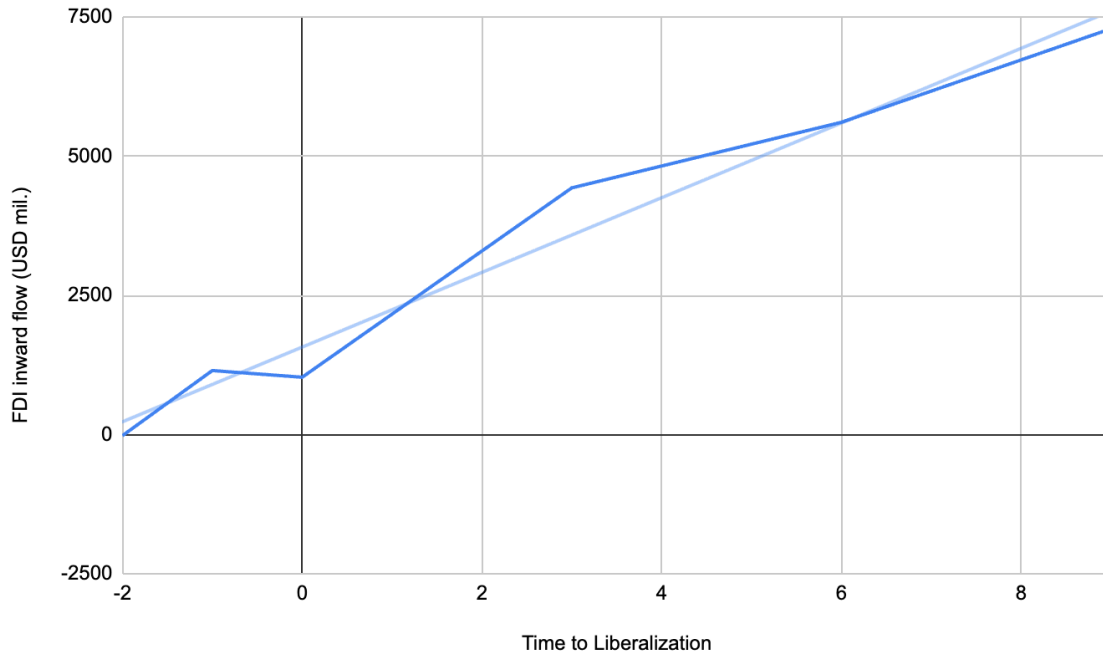
These Graphs indicate that FDI inflows increased by USD\$85.5 million per year with a 0.1575% increase in FDI relative to the nation's GDP.

xii) Argentina:

With a population of about 32 million and a GDP of about US\$141 billion in 1989, Argentina's per capita income was close to US\$4,400. President Carlos Menem's Convertibility Plan (1991) and associated reforms marked the beginning of liberalisation. The government removed the majority of import licenses, lowered tariffs, and privatised large state-owned businesses. Foreign ownership restrictions were loosened, and capital markets were liberalised. Large FDI inflows were drawn in the early 1990s as a result of macroeconomic stabilisation anchored by a fixed peso - dollar exchange rate, which also reduced inflation and restored Argentina's credibility. In 1995, it became a member of the World Trade Organization.

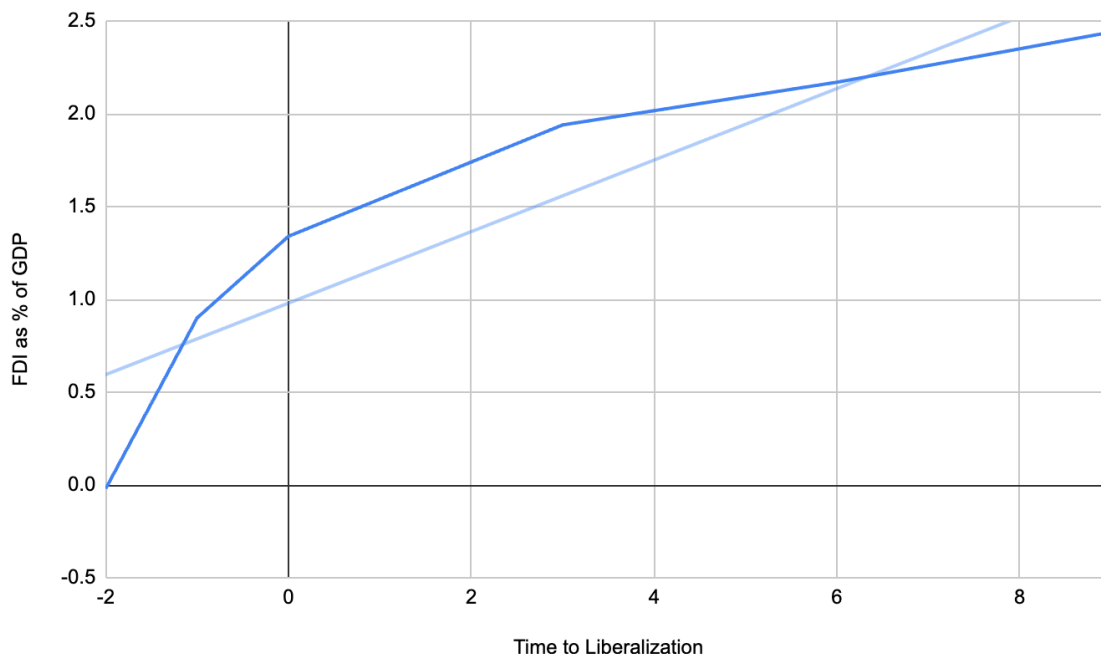
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 31:



Average Slope = 664.45

Graph 32:



Average Slope = 0.2236

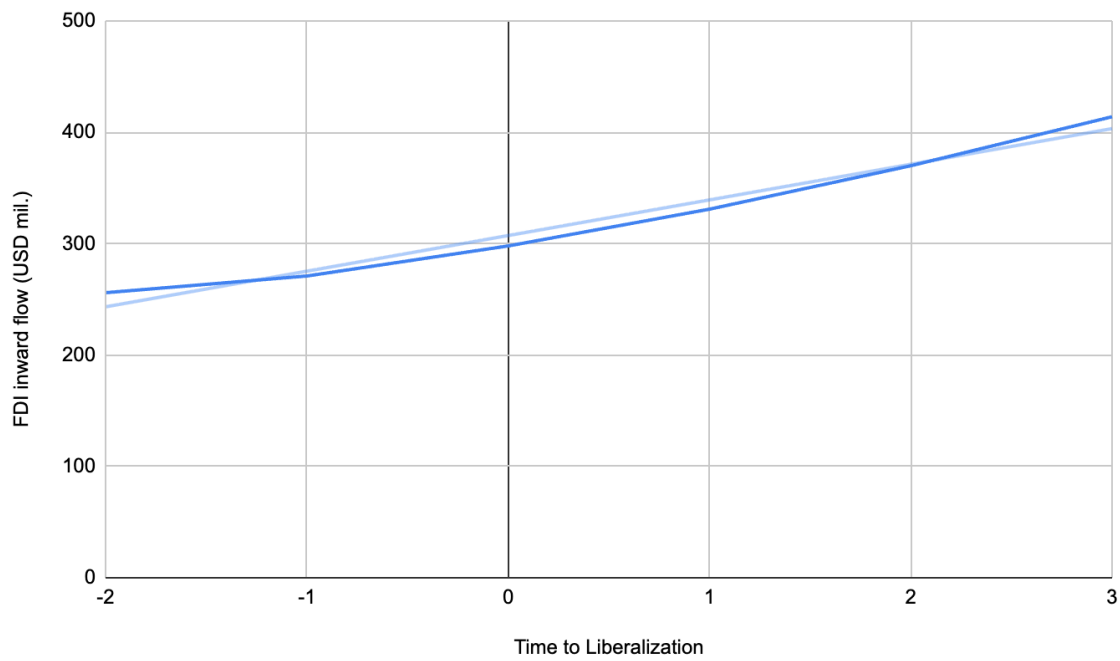
These Graphs indicate that FDI inflows increased by USD\$664.45 million per year with a 0.2236% increase in FDI relative to the nation's GDP.

xiii) Chad:

With a population of roughly 6.8 million and a GDP of about US\$2.2 billion in 1994, Chad's per capita income was close to US\$320. Trade liberalisation in Chad was a component of the Central African Economic and Monetary Community's (CEMAC) regional reforms. Through the CFA franc adjustment, the government lowered import duties, streamlined customs processes, and implemented a more flexible exchange rate. State monopolies in utilities and trade were the focus of early privatisation initiatives, and investment laws were changed to promote foreign involvement. In a post - devaluation environment, these small reforms sought to increase competitiveness and draw foreign direct investment. In 1996, it became a member of the World Trade Organization.

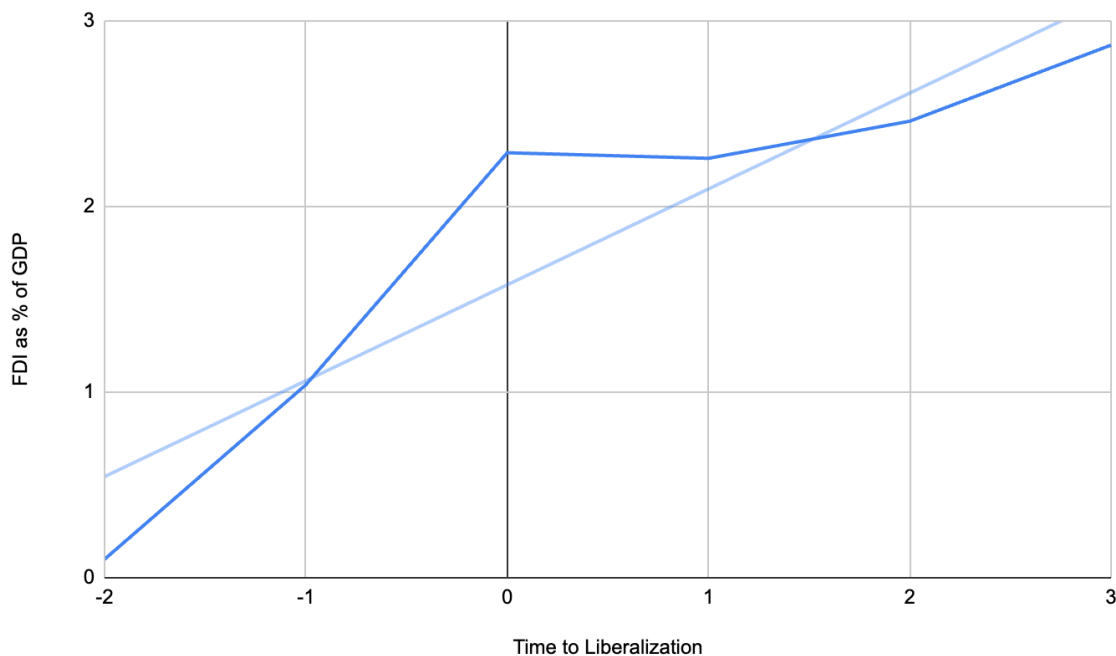
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 33:



Average Slope = 31.6

Graph 34:

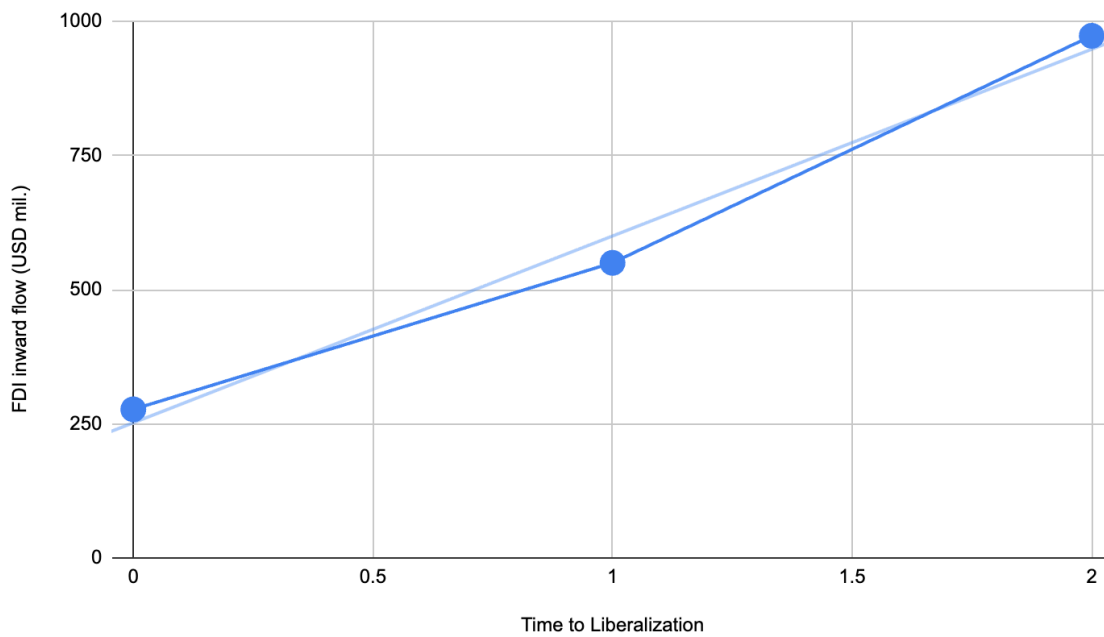


These Graphs indicate that FDI inflows increased by USD\$31.6 million per year with a 0.554% increase in FDI relative to the nation's GDP.

Appendix 5

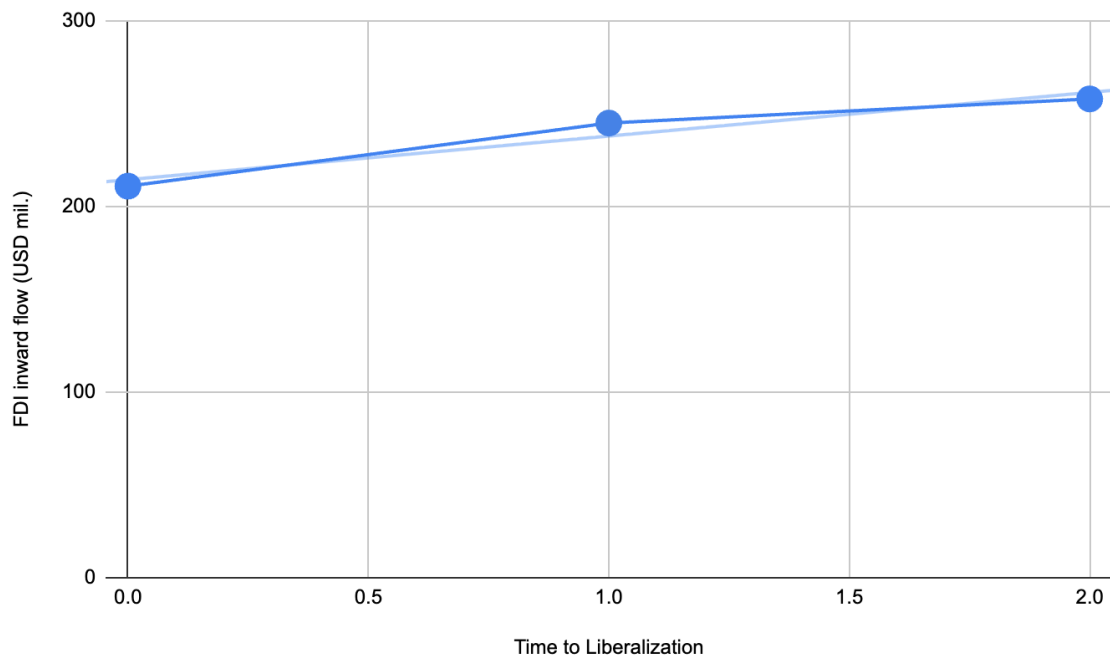
(i) India

Graph 35:



ii) Pakistan

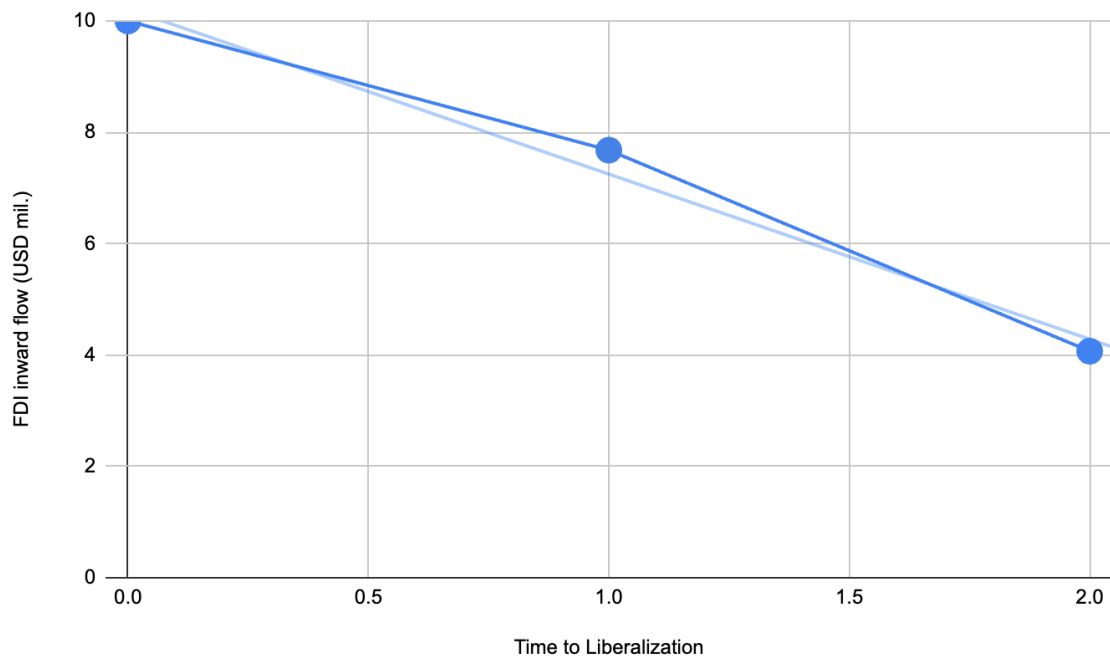
Graph 36:



iii) Vietnam

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

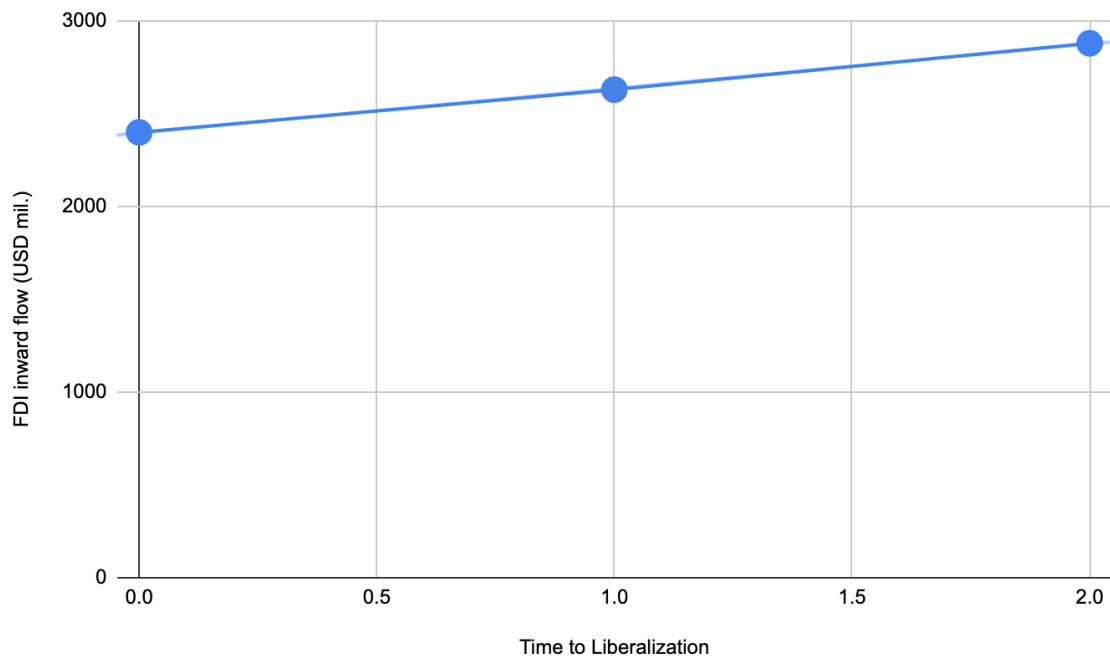
Graph 37:



iv) Mexico

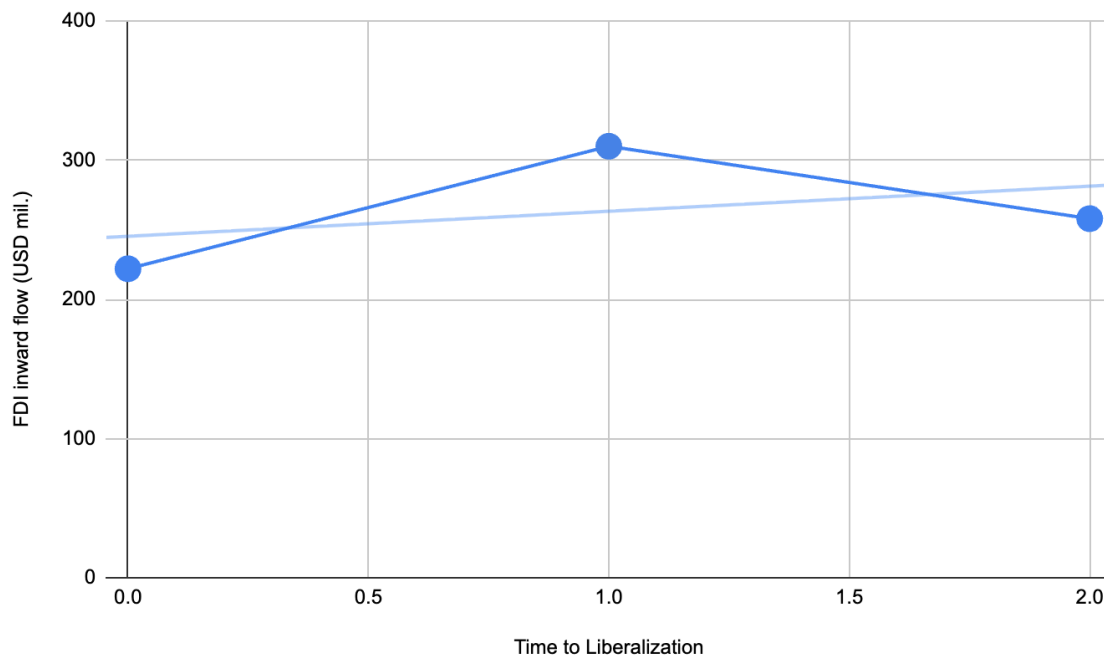
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 38:



v) Indonesia

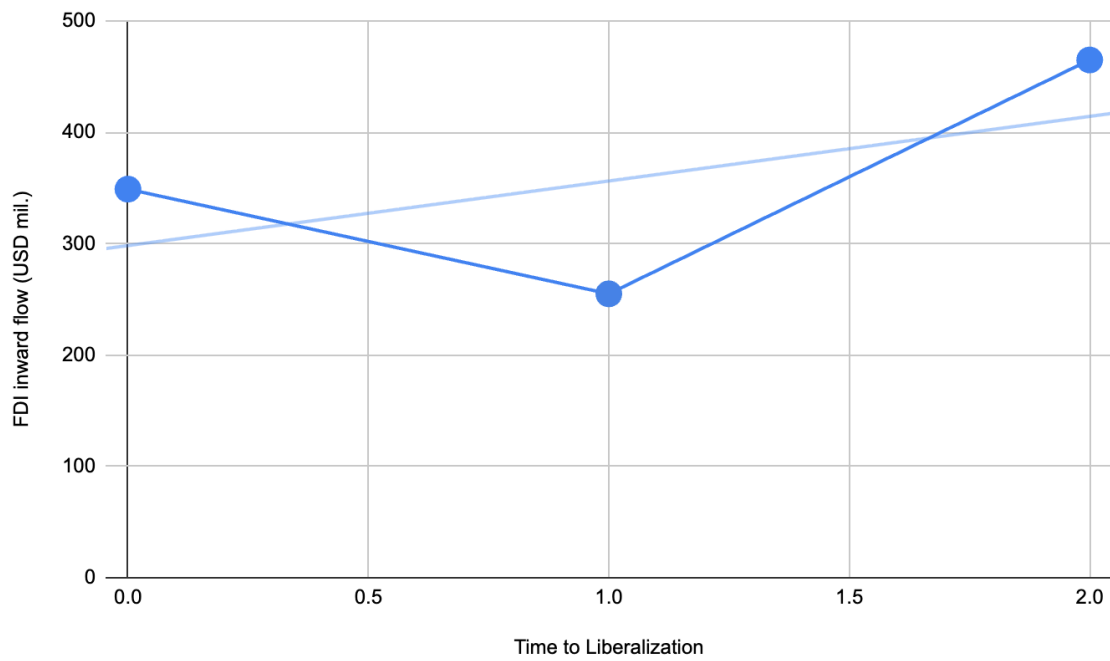
Graph 39:



vi) Ethiopia

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

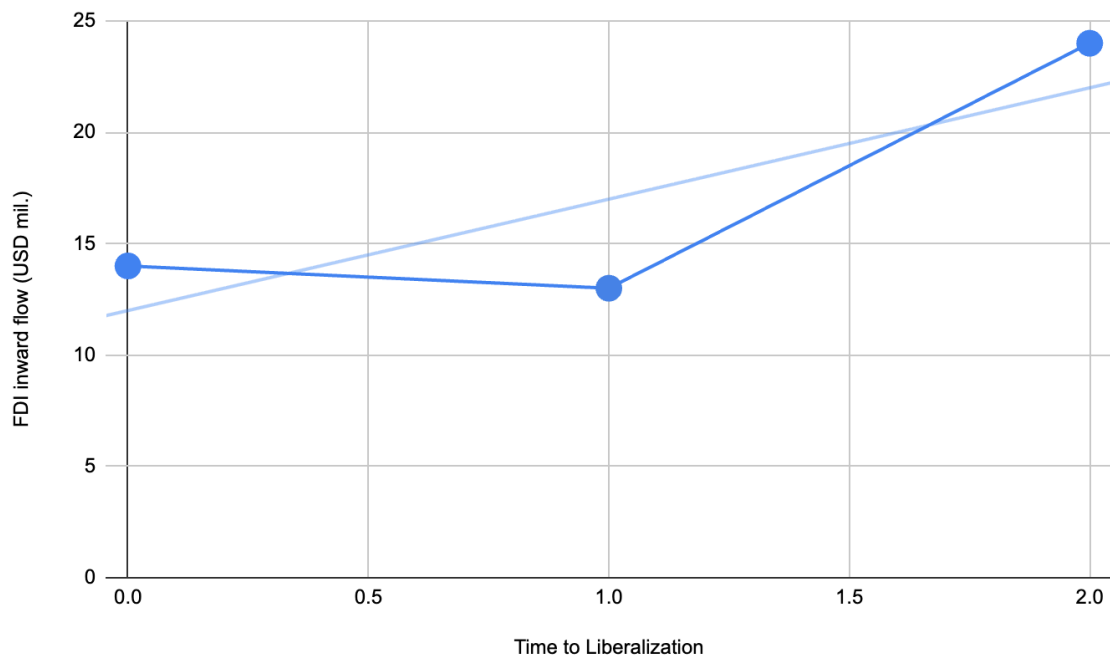
Graph 40:



vii) Kenya

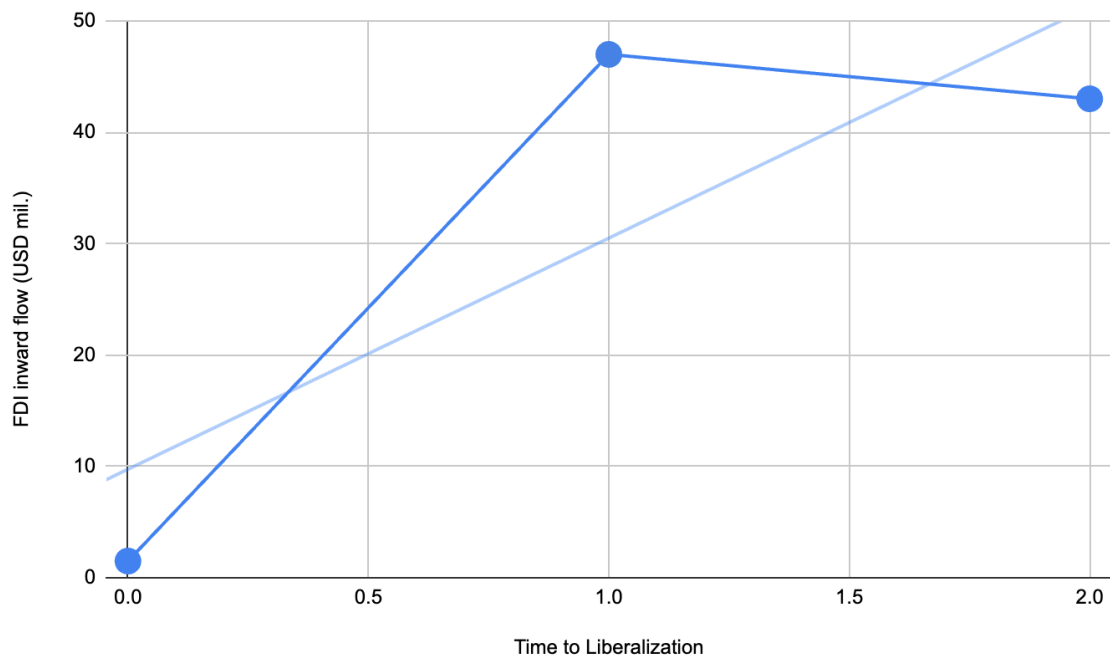
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 41:



viii) Sri Lanka

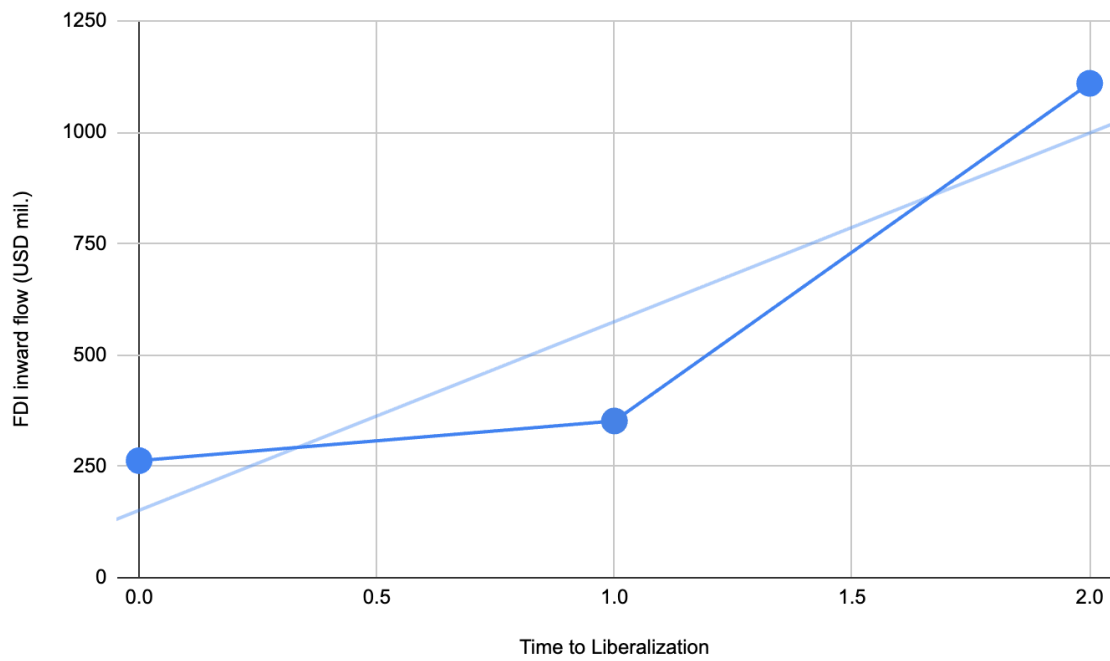
Graph 42:



ix) Thailand

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

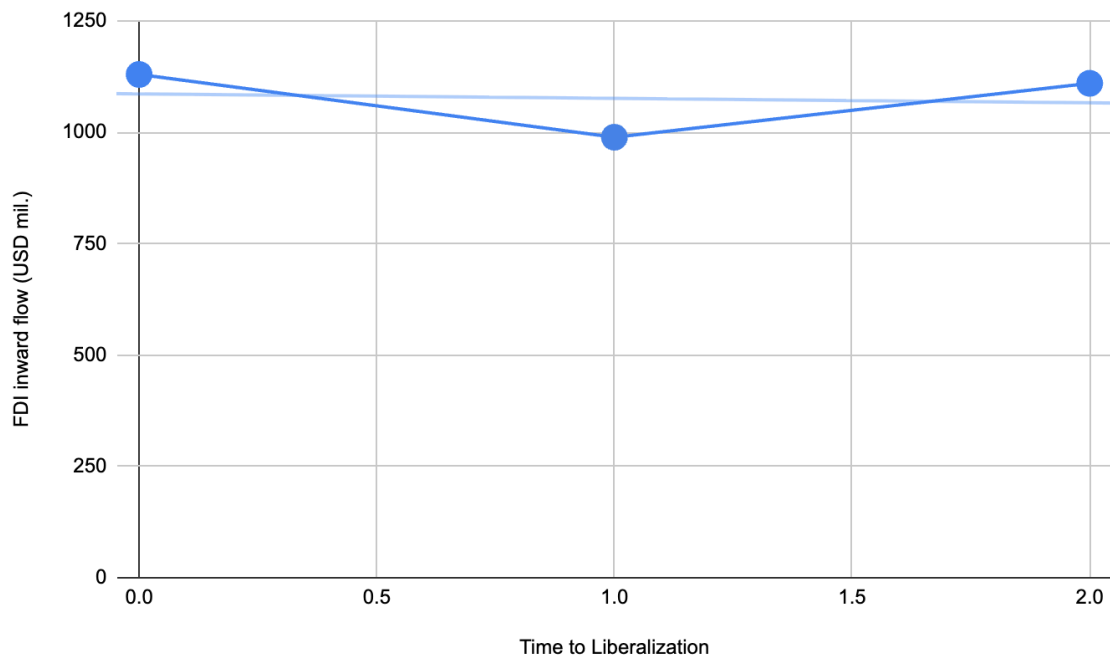
Graph 43:



x) Brazil

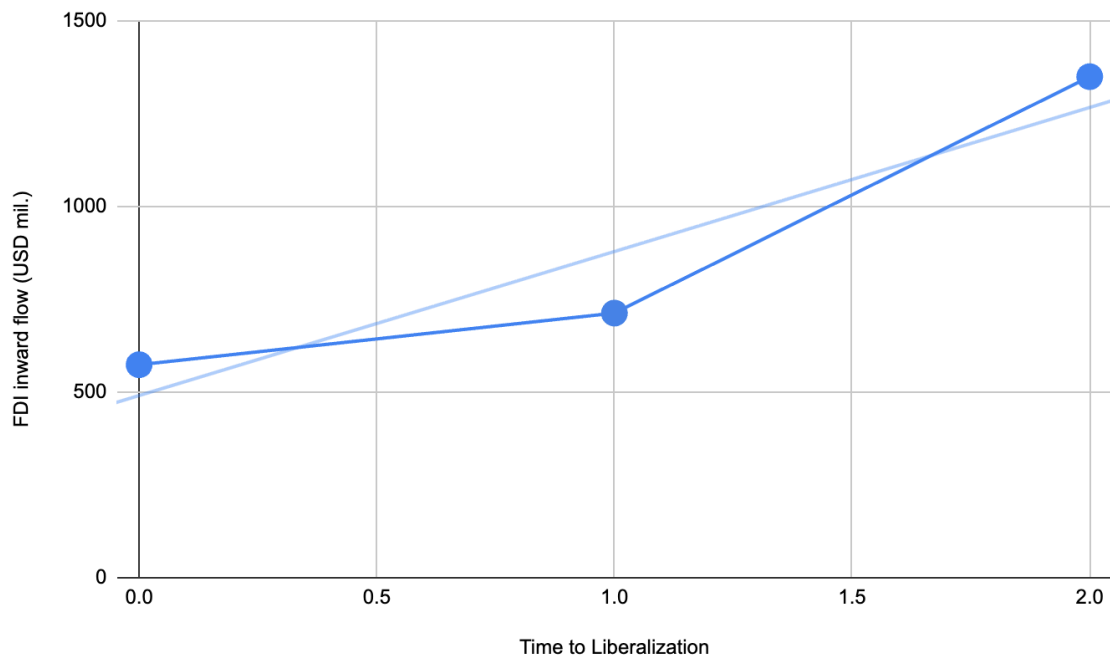
What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 44:



xi) Sudan

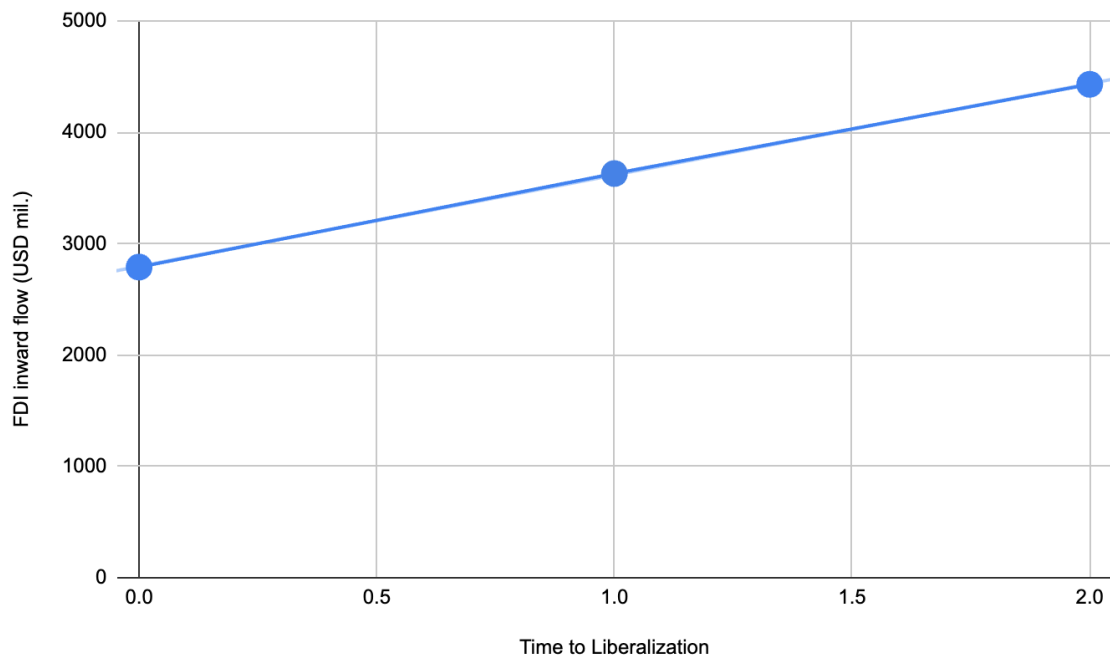
Graph 45:



xii) Argentina

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 46:



xiii) Chad

What is the Impact of Trade Liberalisation on Attraction (or Deterrence) of Foreign Direct Investments in Emerging Economies?

Graph 47:

