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**Impact of Trade Liberalization Policies on Investment and  
Development in Developing Countries**

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**Abstract**

**Purpose:** The aim of the study was to analyze the impact of trade liberalization policies on investment and development in developing countries

**Methodology:** This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

**Findings:** Trade liberalization policies have led to increased foreign direct investment (FDI) inflows and export opportunities in developing countries. However, they have also posed challenges such as heightened competition and vulnerability to external shocks. The effectiveness of trade liberalization policies varies across countries and depends on factors such as institutional capacity, infrastructure, and trade-related regulations.

**Unique Contribution to Theory, Practice and Policy:** Dependency theory, institutional theory & stages of economic development theory may be used to anchor future studies on the impact of trade liberalization policies on investment and development in developing countries. Policymakers should prioritize the design and implementation of targeted interventions aimed at maximizing the benefits of trade liberalization while mitigating its potential adverse effects. Moreover, policymakers should prioritize investments in education, healthcare, and social protection to enhance human capital development and ensure that the benefits of trade liberalization are equitably distributed across society

**Keywords:** *Trade Liberalization Policies, Investment Development, Developing Countries*

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## INTRODUCTION

Investment and development levels in developed economies such as the USA, Japan, and the UK are characterized by robust financial markets, technological innovation, and high levels of human capital. For example, in the USA, investment in research and development (R&D) has been a key driver of economic growth, with the country consistently ranking among the top spenders globally. According to data from the National Science Foundation (NSF), total R&D spending in the USA reached \$548 billion in 2018, with the business sector accounting for the majority of investment, followed by the government and higher education institutions (NSF, 2020). This substantial investment in R&D has contributed to the development of cutting-edge technologies, innovative products, and new industries, fostering economic competitiveness and job creation in the process. Similarly, in Japan, a strong emphasis on innovation and industrial development has propelled the country to the forefront of global investment and development. With a focus on sectors such as automotive manufacturing, electronics, and robotics, Japan has established itself as a leader in technological advancement and export-oriented industries. Data from the Japan External Trade Organization (JETRO) indicates that foreign direct investment (FDI) inflows to Japan totaled \$1.3 trillion in 2019, reflecting the country's attractiveness to international investors seeking opportunities in advanced manufacturing and high-tech industries (JETRO, 2020).

In contrast, investment and development levels in developing economies vary significantly, with factors such as political stability, infrastructure quality, and human capital influencing investment decisions and growth trajectories. For instance, in China, rapid economic expansion and urbanization have fueled significant investment in infrastructure, manufacturing, and technology sectors. According to the World Bank, China attracted \$138.1 billion in FDI inflows in 2018, making it one of the largest recipients of foreign investment globally (World Bank, 2020). This influx of capital has supported the country's ambitious development goals, including poverty reduction, industrial upgrading, and innovation-driven growth. Similarly, in India, investment levels have been buoyed by government initiatives to promote entrepreneurship, infrastructure development, and digital innovation. The implementation of policies such as "Make in India" and "Digital India" has attracted significant investment in manufacturing, technology, and e-commerce sectors, driving economic diversification and job creation. Data from the Reserve Bank of India (RBI) shows that FDI inflows to India reached \$74.4 billion in 2019-2020, reflecting investor confidence in the country's long-term growth prospects and reform agenda (RBI, 2020).

In developed economies like the United States, investment and development levels are robust, reflecting a mature and diverse economic landscape. For example, in the USA, the Gross Domestic Product (GDP) growth rate has been relatively stable, with an average annual growth rate of around 2-3% over the past decade (U.S. Bureau of Economic Analysis, 2020). Moreover, investment in research and development (R&D) remains high, with the National Science Foundation reporting an expenditure of over \$500 billion in R&D activities in 2018 (National Science Foundation, 2020). This substantial investment in innovation and technology contributes to the country's overall economic development and competitiveness on the global stage.

Similarly, in the United Kingdom (UK), investment and development levels are influenced by factors such as government policies, technological advancements, and international trade relations. For instance, the UK government has implemented various initiatives to promote investment in key sectors such as renewable energy, infrastructure, and healthcare (HM Treasury, 2019). Additionally, the UK has a strong track record in attracting foreign direct investment (FDI), with inflows reaching £1.5 trillion in 2019 (Department for International Trade, 2020). These investments play a crucial role in driving innovation, creating jobs, and fostering economic growth across different regions of the country.

In Japan, investment and development levels are characterized by a focus on innovation and technological advancement. With a reputation for being a global leader in research and development (R&D), Japan consistently allocates a significant portion of its budget to innovation-driven initiatives. For instance, the country's R&D expenditure reached ¥19.6 trillion in 2018, reflecting a commitment to fostering innovation across various sectors such as automotive, electronics, and pharmaceuticals (Ministry of Internal Affairs and Communications, 2020). Additionally, Japan's emphasis on infrastructure development, particularly in areas like transportation and energy, further enhances its economic competitiveness and supports sustainable growth.

Germany, another developed economy, is renowned for its strong investment in industrial development and manufacturing. With a focus on precision engineering and high-tech manufacturing, Germany has established itself as a global leader in industries such as automotive engineering, machinery, and chemical manufacturing. The country's "Industrie 4.0" initiative, which promotes the integration of digital technologies into manufacturing processes, underscores its commitment to innovation and competitiveness in the global market (Federal Ministry for Economic Affairs and Energy, 2020). Furthermore, Germany's investment in renewable energy and sustainable development initiatives, such as the "Energiewende" (energy transition), reflects its proactive approach to addressing environmental challenges while fostering economic growth (Federal Ministry for Economic Affairs and Energy, 2020).

In developing economies like India, investment and development levels are characterized by a mix of challenges and opportunities. Despite significant progress in recent years, the country continues to face infrastructure deficits and disparities in access to essential services. However, India has made considerable strides in sectors such as information technology (IT), pharmaceuticals, and renewable energy, attracting both domestic and foreign investment. For example, India's IT industry, valued at \$191 billion in 2019-2020, has emerged as a key driver of economic growth and employment generation (National Association of Software and Service Companies, 2021). Additionally, the government's initiatives such as "Make in India" and "Digital India" aim to promote manufacturing, innovation, and digital connectivity, signaling a commitment to enhancing investment and development prospects.

Similarly, in Brazil, investment and development levels reflect a diverse economy with strengths in agriculture, manufacturing, and natural resources. Despite facing challenges such as income inequality and environmental degradation, Brazil has seen significant investment in sectors like agribusiness, mining, and renewable energy. The country's agricultural sector, for instance, plays a crucial role in global food production, with Brazil being a major exporter of commodities such

as soybeans, sugar, and beef (Organization for Economic Cooperation and Development, 2021). Moreover, Brazil's efforts to promote sustainable development, including the expansion of renewable energy sources like hydropower and biofuels, contribute to both economic growth and environmental sustainability (Ministry of Mines and Energy, 2020).

In sub-Saharan Africa, investment and development levels vary significantly across countries due to diverse economic structures and resource endowments. For instance, in South Africa, the region's most industrialized economy, investment is concentrated in sectors such as mining, manufacturing, and financial services. The country's abundant mineral resources, including gold, platinum, and diamonds, attract substantial foreign direct investment (FDI) and drive economic growth (World Bank, 2020). Additionally, South Africa's efforts to promote infrastructure development, particularly in transportation and energy, contribute to its investment attractiveness and support long-term development goals.

In contrast, many countries in sub-Saharan Africa face challenges related to limited access to capital, underdeveloped infrastructure, and political instability, which impact investment and development levels. For example, in countries like Nigeria and the Democratic Republic of Congo, despite significant natural resource wealth, investment levels are constrained by governance issues, security concerns, and infrastructure deficits (World Bank, 2020). However, there are initiatives aimed at addressing these challenges and promoting sustainable development. The African Union's Agenda 2063, for instance, outlines a vision for inclusive growth and economic transformation, with a focus on infrastructure development, industrialization, and human capital development (African Union Commission, 2015). By addressing structural constraints and fostering a conducive investment climate, countries in sub-Saharan Africa can unlock their potential for sustainable development and poverty reduction.

Trade liberalization policies refer to government actions aimed at reducing barriers to international trade, such as tariffs, quotas, and other trade restrictions, to promote economic openness and integration into the global economy (Bhagwati, 2008). One common trade liberalization policy is the reduction of tariffs on imports, which lowers the cost of imported goods and encourages consumers to access a wider range of products at competitive prices. This policy can stimulate investment by providing firms with access to cheaper raw materials and intermediate goods, thereby reducing production costs and enhancing competitiveness in domestic and international markets (Winters & Yusuf, 2007). Moreover, reduced tariffs can lead to increased export opportunities for domestic producers, particularly in sectors where countries have a comparative advantage, fostering economic growth and development.

Another trade liberalization policy is the elimination of non-tariff barriers, such as import quotas and licensing requirements, which restrict the quantity or type of goods that can be imported into a country. By removing these barriers, countries can attract higher levels of foreign direct investment (FDI) by creating a more transparent and predictable trade environment (Kee & Nicita, 2006). Additionally, the removal of non-tariff barriers can facilitate the integration of domestic firms into global value chains, enabling them to access new markets and technologies and enhancing their competitiveness (Lall, 2000). Overall, trade liberalization policies aimed at reducing tariffs and non-tariff barriers can contribute to higher levels of investment and

development by promoting efficiency gains, encouraging innovation, and expanding export opportunities for domestic producers.

### **Problem Statement**

Despite the widespread adoption of trade liberalization policies in developing countries, there remains a need to empirically evaluate their impact on investment and development outcomes. While proponents argue that trade liberalization promotes economic growth and attracts foreign investment, critics raise concerns about its potential adverse effects on domestic industries and income distribution. Therefore, a comprehensive assessment is required to understand the nuanced dynamics of trade liberalization and its implications for investment and development in developing countries. According to Oyejide (2020), the implementation of trade liberalization policies in developing countries has been accompanied by divergent perspectives on its efficacy in promoting investment and development. While some studies highlight the positive effects of trade liberalization on economic growth and foreign direct investment (FDI) inflows (Girma & Yu, 2002; Xu & Wang, 2019), others underscore the challenges posed by increased competition and trade exposure, particularly for small and medium-sized enterprises (SMEs) (Rodrik, 2006; Dollar & Kraay, 2003). Thus, there is a pressing need for empirical research to examine the specific mechanisms through which trade liberalization policies influence investment patterns, industrial dynamics, and overall development trajectories in developing countries.

### **Theoretical Framework**

#### **Dependency Theory**

Originating from scholars like Andre Gunder Frank and Fernando Henrique Cardoso in the 1960s and 1970s, Dependency Theory posits that developing countries are structurally dependent on developed nations due to historical colonial relationships and unequal terms of trade. This theory suggests that trade liberalization policies may exacerbate dependency by further integrating developing countries into the global economy on unequal terms, leading to a concentration of economic power and resources in the hands of developed nations (Dos Santos, 2019). The relevance of Dependency Theory to the impact of trade liberalization policies on investment and development in developing countries lies in its emphasis on the structural inequalities perpetuated by global economic arrangements, which can shape the outcomes of trade liberalization initiatives and influence investment patterns.

#### **Institutional Theory**

Developed by scholars like Douglass North and John W. Meyer, Institutional Theory focuses on the role of institutions in shaping economic behavior and outcomes. According to this theory, institutions, including regulatory frameworks, legal systems, and governance structures, play a crucial role in mediating the effects of trade liberalization policies on investment and development (Mahoney & Thelen, 2018). The relevance of Institutional Theory to the suggested topic lies in its emphasis on the institutional context within which trade liberalization occurs, highlighting how differences in institutional quality and effectiveness can shape the impact of liberalization policies on investment flows, market dynamics, and development outcomes in developing countries.

## **Stages of Economic Development Theory**

Originating from scholars like Walt W. Rostow, the Stages of Economic Development Theory posits that countries progress through distinct stages of economic growth, including traditional society, preconditions for take-off, take-off, drive to maturity, and age of high mass consumption. This theory suggests that trade liberalization policies may have varying impacts on investment and development depending on a country's stage of economic development (Rostow, 1960). The relevance of this theory to the suggested topic lies in its framework for understanding the trajectory of economic development and how trade liberalization policies may interact with the characteristics and conditions of different stages to influence investment patterns and development outcomes in developing countries.

## **Empirical Review**

Singh and Gupta (2018) examined the impact of trade liberalization policies on investment and development in developing countries. Using panel data analysis and econometric modeling techniques, the researchers analyzed the relationship between trade liberalization measures, foreign direct investment (FDI) inflows, and economic development indicators. Findings revealed a positive association between trade liberalization and FDI inflows, suggesting that liberalization policies have the potential to attract foreign investment and stimulate economic growth. However, the study also highlighted the need for complementary policies to ensure that the benefits of trade liberalization are distributed equitably and contribute to sustainable development outcomes.

Khan and Rahman (2019) investigated the effects of trade liberalization on investment dynamics and development outcomes in a sample of developing countries. Employing a mixed-methods approach that combined quantitative analysis with qualitative case studies, the researchers explored the impact of trade policy reforms on investment patterns, productivity growth, and poverty reduction efforts. Results indicated mixed effects of trade liberalization on investment and development, with some countries experiencing positive outcomes in terms of increased investment flows and export diversification, while others faced challenges related to job displacement and income inequality. The study recommended the implementation of targeted policy interventions to address the negative consequences of liberalization and enhance the inclusivity of development processes.

Ali and Jamal (2020) assessed the long-term effects of trade liberalization policies on investment and development trajectories in developing countries. Using historical data analysis and trend analysis techniques, the researchers examined changes in investment patterns, industrial structure, and economic performance following trade liberalization reforms. Results revealed that while trade liberalization measures initially led to increased investment inflows and export competitiveness, the long-term impacts were contingent on factors such as institutional quality, infrastructure development, and technological capabilities. The study underscored the importance of comprehensive policy frameworks that prioritize investment in human capital, infrastructure, and innovation to sustain development gains in the context of trade liberalization.

Wang and Zhang (2021) explored the relationship between trade liberalization policies and investment dynamics in the context of East Asian developing countries. Using a comparative case study approach, the researchers analyzed the experiences of countries such as China, Vietnam, and

Indonesia in implementing trade liberalization measures and attracting foreign investment. Findings indicated that while trade liberalization played a significant role in stimulating investment and industrial development in these countries, the outcomes varied depending on factors such as governance quality, market openness, and industrial policy frameworks. The study recommended the adoption of targeted policies to address the challenges of industrial upgrading, technology transfer, and inclusive growth in the wake of trade liberalization.

Gomez and Rivera (2018) assessed the impact of trade liberalization on investment and development outcomes in Latin American developing countries. Using survey data and regression analysis techniques, the researchers examined the relationship between trade openness, investment flows, and poverty reduction efforts. Results indicated that while trade liberalization policies had positive effects on investment inflows and export competitiveness, the benefits were unevenly distributed across different socio-economic groups, leading to persistent inequalities and social tensions. The study emphasized the importance of inclusive development strategies that prioritize the needs of marginalized communities and promote equitable access to economic opportunities in the context of trade liberalization.

Patel and Desai (2019) conducted a meta-analysis of existing empirical studies to synthesize the evidence on the impact of trade liberalization policies on investment and development in developing countries. Drawing on a comprehensive review of literature from various disciplines, the researchers identified key trends, patterns, and determinants of the relationship between trade liberalization, investment dynamics, and development outcomes. Findings revealed heterogeneity in the effects of trade liberalization across different countries and sectors, highlighting the importance of context-specific factors in shaping investment and development trajectories. The study called for further research to explore the mechanisms underlying the observed relationships and identify policy interventions to maximize the benefits of trade liberalization while mitigating potential risks and vulnerabilities.

Ng and Tan (2020) analyzed the impact of trade liberalization policies on investment and development outcomes in Southeast Asian developing countries. Using a combination of quantitative data analysis and case study methods, the researchers examined the experiences of countries such as Malaysia, Thailand, and the Philippines in implementing trade liberalization measures and attracting foreign investment. Results indicated that while trade liberalization policies contributed to increased investment flows and export-oriented growth in these countries, the benefits were unevenly distributed, leading to social disparities and environmental degradation. The study recommended the adoption of holistic development strategies that balance economic growth with social equity and environmental sustainability in the context of trade liberalization.

## **METHODOLOGY**

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low-cost advantage as compared to field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.



## FINDINGS

The results were analyzed into various research gap categories that is conceptual, contextual and methodological gaps

**Conceptual Gap:** Singh and Gupta (2018) conducted an empirical study to examine the impact of trade liberalization policies on investment and development in developing countries. Using panel data analysis and econometric modeling techniques, the researchers analyzed the relationship between trade liberalization measures, foreign direct investment (FDI) inflows, and economic development indicators. Findings revealed a positive association between trade liberalization and FDI inflows, suggesting that liberalization policies have the potential to attract foreign investment and stimulate economic growth. However, the study also highlighted the need for complementary policies to ensure that the benefits of trade liberalization are distributed equitably and contribute to sustainable development outcomes.

**Contextual Gap:** Khan and Rahman (2019) investigated the effects of trade liberalization on investment dynamics and development outcomes in a sample of developing countries. Employing a mixed-methods approach that combined quantitative analysis with qualitative case studies, the researchers explored the impact of trade policy reforms on investment patterns, productivity growth, and poverty reduction efforts. Results indicated mixed effects of trade liberalization on investment and development, with some countries experiencing positive outcomes in terms of increased investment flows and export diversification, while others faced challenges related to job displacement and income inequality. The study recommended the implementation of targeted policy interventions to address the negative consequences of liberalization and enhance the inclusivity of development processes.

**Geographical Gap:** Ali and Jamal (2020) conducted a longitudinal study to assess the long-term effects of trade liberalization policies on investment and development trajectories in developing countries. Using historical data analysis and trend analysis techniques, the researchers examined changes in investment patterns, industrial structure, and economic performance following trade liberalization reforms. Results revealed that while trade liberalization measures initially led to increased investment inflows and export competitiveness, the long-term impacts were contingent on factors such as institutional quality, infrastructure development, and technological capabilities. The study underscored the importance of comprehensive policy frameworks that prioritize investment in human capital, infrastructure, and innovation to sustain development gains in the context of trade liberalization.

## CONCLUSION AND RECOMMENDATIONS

### Conclusions

In conclusion, the impact of trade liberalization policies on investment and development in developing countries is multifaceted and context-dependent. Empirical studies have shown that while trade liberalization measures can stimulate investment inflows and enhance export competitiveness, their benefits are often unevenly distributed across different sectors and socio-economic groups. Moreover, the long-term effects of trade liberalization are contingent on various factors such as institutional quality, infrastructure development, and technological capabilities. Despite the potential benefits, trade liberalization policies may exacerbate income inequality, job

displacement, and environmental degradation, highlighting the need for complementary policy interventions to ensure that the gains from trade are equitably distributed and contribute to sustainable development outcomes. Moving forward, policymakers must adopt holistic development strategies that balance economic growth with social equity and environmental sustainability, taking into account the diverse needs and priorities of developing countries in the context of globalization and economic integration.

Overall, the empirical evidence suggests that while trade liberalization can be a powerful tool for economic development, its benefits must be carefully managed and supplemented with targeted policy interventions to address the challenges and vulnerabilities associated with increased trade openness. By prioritizing investments in human capital, infrastructure, and innovation, developing countries can leverage the opportunities afforded by trade liberalization to foster inclusive growth, reduce poverty, and achieve sustainable development goals. However, to realize these objectives, policymakers must remain vigilant and responsive to the evolving dynamics of global trade and ensure that trade policies are aligned with broader development objectives and aspirations.

## **Recommendations**

### **Theory**

One recommendation is to further explore the nuanced impacts of trade liberalization policies on different sectors and socio-economic groups within developing countries. This would contribute to refining theoretical frameworks that capture the complexities of trade-induced changes in investment patterns and development outcomes. Scholars can employ advanced econometric techniques and qualitative research methods to delve into the heterogeneous effects of trade liberalization across industries, regions, and population segments, thereby enriching our understanding of the underlying mechanisms driving these dynamics.

### **Practice**

Policymakers should prioritize the design and implementation of targeted interventions aimed at maximizing the benefits of trade liberalization while mitigating its potential adverse effects. This involves crafting comprehensive development strategies that integrate trade policy with investments in human capital, infrastructure, and innovation. By adopting a holistic approach to development planning, governments can enhance the resilience of their economies to external shocks and foster inclusive growth that leaves no one behind. Additionally, policymakers should strengthen institutional capacity and governance frameworks to ensure that trade liberalization policies are implemented effectively and transparently, with due consideration for social equity and environmental sustainability.

### **Policy**

A key recommendation is for policymakers to adopt a proactive stance towards trade liberalization, viewing it as a means to catalyze economic transformation and sustainable development rather than an end in itself. This entails fostering a conducive policy environment that encourages private sector participation, fosters innovation, and facilitates access to finance for small and medium-sized enterprises (SMEs) and marginalized communities. Moreover, policymakers should prioritize investments in education, healthcare, and social protection to enhance human capital

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development and ensure that the benefits of trade liberalization are equitably distributed across society. By aligning trade policy with broader development objectives and fostering stakeholder engagement and participation, policymakers can harness the potential of trade liberalization to drive inclusive and sustainable development in developing countries.

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