Empirical Economics Letters, 24 (7): pp. 245-260, (July 2025) *ISSN 1681 8997*
https://doi.org/10.5281/zenodo.17509232

Effect of Trade Liberalization Policies on Unemployment: Evidence from the Developing World

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Abstract: This paper provides a comprehensive comparative analysis of the impact of Foreign Direct Investment (FDI) and increased openness (Tariff Liberalization) on unemployment rates across Asian, African and Latin American countries, particularly in less developed countries like India, Bangladesh, Argentina, Pakistan, Egypt etc. using two distinct models. In the case of Asia, we see that FDI initially reduces unemployment but may increase it under certain conditions, as opposed to an increase in unemployment caused by tariff liberalization. African and Latin American countries benefit from FDI in terms of reducing unemployment. Across continents, a rise in openness (Tariff Liberalization) consistently reduces unemployment, while increasing FDI varies in its impact, highlighting regional economic nuances. Overall, while increased FDI and Openness generally mitigate unemployment, the combined effect of higher FDI and Openness are intricate and context-dependent. Policy implications suggest contextualizing FDI policies to regional conditions, cautiously enhancing Openness (Tariff Liberalization), investing in education aligned with FDI sectors, promoting economic diversification, and establishing robust monitoring frameworks. This study underscores the importance of tailored economic policies in reducing unemployment in the presence of varying regional contexts across Asia, Africa, and Latin America.

Keywords: Trade liberalization, Foreign Direct Investment, Unemployment Rate, Panel Tariff liberalization, Panel Data.

JEL Classification Numbers: C33, F21, F66, F68, J64

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