IOSR Journal of Economics and Finance (IOSR-JEF)
e- ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 9, Issue 4 Ver. III (Jul – Aug. 2018), PP 01-09
www.iosrjournals.org

Trade And Financial Openness And Economic Growth In Morocco: Theoritical Debate

[1]EL Kilali Abderrazak, *PHD Student Fsjes Souissi*,
[2]Chegri Badreeddine, *Professor Fsjes Souisi*, [3]Mohamed Najib Eloualidi, *Fsjes souissi*
Corresponding Author: EL Kilali Abderrazak

Abstract: *The development model adopted by Morocco since the 80s is characterized by the opening and conduct of structural reforms in favor of the conclusion of many free trade agreements, has had a significant impact both on depth strategic country and the economic attitude that prevailed until then. Following the development of globalized finance, there has been growing interest in understanding the effects of trade and financial openness on economic growth. During the 1980s, a large number of emerging and developing economies opened up their capital account, thus conforming to the "Washington Consensus" 2, which recommended a swift opening of the central bank account. capital associated with structural reforms and a strict fiscal policy to favor the external financing of productive capital, and thus the economic take-off. The paper deals with the impact of trade and financial openness on economic growth and trade and financial openness nexus . In recent decades, financial liberalization has been one of the most important strategies for Morocco to promote growth. However, debate emerges in a post-financial crisis context on whether liberalizing financial markets and allowing for free access to international capital markets, would benefit or impede economic development. In spite of, This article looks at the impact of financial and trade openness on economic growth. The analysis is based on the review of theoretical and empirical literature on financial and trade openness and its causal link with growth and the effects of financial openness on economic growth.*

Date of Submission: 22-08-2018 Date of acceptance: 04-09-2018

I. Purpose of research

The purpose of the study is to examine the impact of trade and financial openness on economic growth in morocco and answer the three questions:

- Did financial openness and international trade reinforce each other and drive economic growth more than a century ago?
- Does trade and Financial Openness Affect Economic Growth in moroccan Economies?
- Is there any linkage between trade and financial openness and economic growth for morocco?. Does any of the trade and financial openness pose positive or negative effects?
- If no direct impact revealed, can trade and financial openness still have growth effect under certain fundamental or institutional conditions?

Debates over the effects of trade openness and economic growth

The theoretical background on trade openness–economic growth nexus has its roots in the neoclassical theory of growth. The theory established a strong causality from trade openness to economic growth based on the fact that trade openness influences the decision of various economies to integrate their home economies with the rest of the world, which will in turn boost both export and import thereby increasing specialization and productivity[1]. Anoruo and Yusuf[2] documented a bi-directional causality between economic growth and trade

[1] Shahbaz, M. (2009). A reassessment of finance-growth nexus for Pakistan: Under the investigation of FMOLS and DOLS techniques. Journal of Applied Economics, 1, 65–80. Shahbaz, M. (2012). Does trade openness affect long run growth? Cointegration, Causality and Forecast Error Variance Decomposition Tests for Pakistan (MPRA Paper No. 37391). Retrieved March 16, 2012, 10:47 UTC, from http://mpra.ub.uni-muenchen.de/37391/
Shahbaz, M., & Rahman, N. M. (2012). The dynamic of financial development, imports, foreign direct investment and economic growth: Cointegration and causality analysis in Pakistan. Global Business Review, 13, 65–82.

[2] Anoruo, E., & Yusuf, A. (2000). Openness and economic growth:Evidence from selected ASEAN countries. *The Indian*

openness while Jung and Marshall[3] observed a unidirectional relationship between economic growth and trade.The debate on the relationship between trade openness and economic growth centres around issues ranging from the disagreement on composition of trade openness index; use of cross-sectional analysis; and the direction of causality between the two constructs[4]. For instance, Rodrik[5] observed that most studies on the relationship between the two hardly appropriately capture trade regimes and trade policy choice, among other. Similarly, Yanikkaya[6] and Dowrick and Golley[7] focused on the direction of causality between trade and economic growth. In the study, the authors observed that no relationship exists between trade and economic growth while Frankel and Romer[8], Lucas (2007) and Harrison (1996), among others, documented the existence of a functional relationship between trade and growth.

Debates over the Effects of Financial Openness on Economic Growth

Starting in the mid-80s, international financial liberalization has become a major policy prescription for countries to promote economic growth. In particular, developing and underdeveloped countries have embarked on financial opening policies by liberalizing their current and capital accounts, and deregulating international capital transactions. These countries have been opening up their financial markets to foreign investors and liberalizing capital restrictions to attract international capital investments.

This wave of global financial integration has thus resulted in a surge of cross-border capital flows among countries and regions. In theory, lifting capital restrictions should induce capital flows from rich to poor countries, thus accumulating capital for poor countries to spur growth. A broader range of financial liberalization includes liberalizing domestic financial markets, easing capital account restrictions, and further encouraging inflow and outflow of foreign investments among countries. The benefit of liberalization includes: facilitating risk-sharing, improving capital allocation efficiency, and strengthening financial market development. According to McKinnon and Shaw[9], financial repression will lead to low savings, low credit rationing, less investment opportunities and inefficiency in capital allocation. Once financial restrictions are lifted by policymakers, economy would be stimulated through increases in saving and investment and thus promote growth[10].

This capital reallocation will then benefit both capital rich and capital poor countries in that for capital rich economies, the return rate of savings will be driven up and investment risk will be reduced down due to diversification. For capital poor economies, more investment opportunities will be offered, employment rate will be improved, financial development will be promoted, and competition will be enhanced. However, there are also skeptics on the positive effects of financial liberalization on the economy.

Devereux and Smith[11] argue that international risk sharing will reduce saving and thus slow down growth[12].Stiglitz[13] also questions the profitability of foreign capital due to information asymmetries, in that foreign investment might be riskier than investors expect from the lack of complete information3. Moreover, policy makers are often warned that international capital flows could cause financial market instability and macroeconomic volatility. Especially short term capital flows, which are subject to the rapid and frequent

---

Economic Journal, 47, 110–117.

[3] Jung, W. S., & Marshall, P. J. (1985). Exports, growth and causality in developing countries. *Journal of Development*
Economics, 18, 1–12. http://dx.doi.org/10.1016/0304-3878(85)90002-1

4 Bojanic, A. N. (2012). The impact of financial development and trade on the economic growth of Bolivia. Journal of Applied Economics, 15, 51–70.

[5] Rodrik, D. (1997). Trade strategy, investment and exports:
Another look at East Asia. Pacific Economic Review, 2, 1–24. http://dx.doi.org/10.1111/per.1997.2.issue-1

[6] Yanikkaya, H. (2003). Trade openness and economic growth: A cross-country empirical investigation. Journal of Development Economics, 72, 57–89. http://dx.doi.org/10.1016/S0304-3878(03)00068-3

[7] Dowrick, S., & Golley, J. (2004). Trade openness and growth: Who benefits? *Oxford Review of Economic Policy, 20,* 38–56.
http://dx.doi.org/10.1093/oxrep/grh003

8 Frankel, J., & Romer, D. (1999). Does trade cause growth? American Economic Review, 89, 379–399. http://dx.doi.org/10.1257/aer.89.3.379

[9] McKinnon, R. I., 1973, "Money and Capital in Economic Development." Oxford Press

[10] Mckinnon (1973) and Shaw (1973)

[11] Devereux, Michael B. and George W. Smith 1994, "International Risk-Sharing and Economic Growth," *International Economic Review,* 35(3), pp. 535-550.

[12] Devereux and Smith (1994)

[13] Stiglitz, Joseph, 2000"Capital Market Liberalization, Economic Growth, and Instability," *World Development,* 28 (6), pp. 1075-1086

withdraws when an economy is in turmoil, are not associated with long term investment growth and will not contribute to long run economic development. Short -term capital flows often play influential roles during the time of crisis.

By decomposing the effects of financial liberalization, Ranciere, Tornell, and Westermann [14] find that liberalizing cross-border transactions increases the possibility of financial crises and in turn leads to growth loss. Schmukler[15] also pointed out that the benefits from the risk diversification might not be as much as investors' expectation due to the potential high correlations among global markets after financial integration. Furthermore, from the policymakers' perspective, allowing free capital flows across borders inhibits difficulties in regulating and supervising the domestic financial system.6 Indeed, for the past few decades, there are countries that did not show strong progress and suffered a series of financial crises even with liberalizing foreign capital transactions and domestic financial markets.

Bekaert, Harvey, and Lundblad[16] not only find that capital account opening is associated with factor productivity which accounts for nearly two thirds of the economic growth but also prove that the financial openness does not induce financial crises. It is the high leverage of banks, not openness, to increase the risk of crisis[17]. By confirming the dual effects of financial liberalization, Ranciere et al[18] confirm that the growth gains still outweigh the growth loss by nearly 1% of growth rate. Thus, many researchers started to cast doubts on the fast pace of financial openness with negative empirical results of the effects of financial openness on growth. In other words, the conventional wisdom that financial liberalization leads to output growth has been challenged. Therefore, policymakers mainly based one the two contrasting views of financial liberalization to determine if financial liberalization should be fully executed to promote economic growth. Nonetheless, literature continues to deliver empirical evidence of the positive impact of financial liberalization on growth. Quinn[19] claims that the change in financial regulation is positively associated with long-run economic growth by employing capital account openness as an indicator of openness.

Applying equity market liberalization data as an alternative measure of openness, Bekaert, Henry, and Lundblad[20] found that liberalizing domestic capital markets leads to 1% increase in annual real economic growth.

Summers[21] adds that the increased financial openness has proven to be one of essential policies for countries that seek to improve their national income level. Moreover, a growing number of empirical studies show no evidence on the effect of financial liberalization on economic growth.

Edison and al[22] do not reject the null hypothesis that financial openness has no effect on growth, even when comprehensive macroeconomic variables are controlled for in their model. Additionally, Prasad, Rogoff, Wei, and Kose[23] do not find a strong supportive association between financial liberalization and economic growth or consumption volatility. That is, liberalizing financial market shows conditional impact on economy. Another branch of literature on the effect of financial liberalization focuses on the impact of financial market opening on capital allocation efficiency. Cho[24] documents empirical evidence of the substantial improvement in capital allocation of credit as measured in the reduced variation of firms' borrowing costs, after the Korean government started to implement various financial liberalizations since 1980. In addition, Abiad, Oomes, and

[14] Ranciere R., Tornell A., and Westermann F., 2008, "Decomposing the effects of Financial Liberalization: Crises vs. growth," *Journal of Banking & Finance*, Vol. 30 I 12, pp 3331-3348.
[15] Schumkler, Sergio, 2004, "Financial Globalization: Gain and Pain for Developing Countries,"Federal Reserve Bank of Atlanta, Economic Review, Second Quarter, 2004
[16] Bekaert, G., C.R. Harvey, and C. Lundblad, 2011, "Financial Openness and Productivity?" *World Development,* Vol. 99, No. 1, pp. 1-19
[17] Bekaert, G., C.R. Harvey, and C. Lundblad, (2011)
[18] Ranciere R., Tornell A., and Westermann F., 2008, "Decomposing the effects of Financial Liberalization: Crises vs. growth," *Journal of Banking & Finance*, Vol. 30 I 12, pp 3331-3348
[19] Quinn, D., 1997, "The Correlates of Change in International Financial regulation," *American Political Science Review* 91, 531-51
[20] Bekaert, G., C.R. Harvey, and C. Lundblad, 2005, "Does Financial Liberalization Spur Growth?" *Journal of Financial Economics* 77:1, 3-55
[21] Summers, Lawrence, 2000, "International Financial Crises: Causes, Prevention, and Cures," *American Economic Review*, 90:2, 1-16.
[22] Edison, H., Levine, R., Ricci, L., Slok, T., 2002, "International Financial Liberalization and Economic Growth," *Review of International Economic* 9, 688-702
[23] Prasad, E., Rogoff, K., Wei, S., and Kose, M., 2003, "Effects of Financial Globalization on Developing Countries," *Economic and Political Weekly*, 4319-4330
[24] Cho, Yoon Je, 1988, "The effect of Financial Liberalization on the efficiency of credit allocation: some evidence from Korea." *Journal of Development Economics* 29:1, 101-110.

Ueda[25] showed robust evidence that financial liberalization promotes capital allocation efficiency due to reduced variation in expected returns to investment. In their research, a proxy for financial liberalization was used in place of the dispersion in Tobin's Q across firms in five emerging economies. Similarly, Umutlu, Akdeniz, and Salih[26] study twenty-five emerging countries and find the degree of financial liberalization inversely related to the total volatility of stock returns, even after controlling for firm size, liquidity, and crisis factors

Financial Openness and Economic Growth,

The link between financial openness and economic growth is a field of research largely invested by the economic literature. The lessons that the latter conveys, both on the nature of the channels of transmission of the effects of openness and on their respective effectivities and importance, may sometimes appear ambivalent. However, it is none the less true that this literature is almost unanimous as to the positive impact of financial openness on economic growth. In spite of , Openness produces a "market size" effect which, while easing the pressure of demand, generates externalities via "learning by doing" and deepens the level of integration of the production process, and to accelerate technical progress and the process of bringing the world technological frontier closer together. On the other hand, openness favors the "spin-off effects" of technology and knowledge transfer from the more advanced countries and sectors to those lagging behind. openness can, moreover, deepen specialization, particularly in tradable goods, through better allocation of resources, and in turn, increased productivity. The entry of foreign competitors into the domestic market is likely to improve productivity in two ways. First, competition selects the most productive producers and forces the unproductive to leave the market. In addition, it requires domestic firms to innovate in order to deter foreign competitors.

While, on the whole, the preceding elements support the positive impact of financial openness on economic growth, , the empirical work shows that the results of developing countries, having pursued such policies, are contrasted. In particular, small economies have been the biggest losers. Indeed, it is widely recognized that openness discourages the innovation of the lagging firms and that of the countries furthest away from the global technological frontier. Does this mean that barriers to innovation should first be removed before engaging in the financial opening process?

Financial Openness Indicators : advantage and disadvantage

The broad definition of financial openness refers to free cross-boundary capital flows resulted from less capital restrictions imposed by government and more free market role in capital market. Ever since the debate over the impact of financial liberalization on growth started, many research studies have presented different findings. One of the main reasons that complicates empirical analysis and has caused the mixed results across studies is the variety of the measurements of financial openness proxied in the literature. Therefore, this paragraph provides a comparison on characteristics, advantages and disadvantages of a range of different financial openness indicators employed in current research. At present, more than ten different types of indicators of financial openness have been used as proxies of financial liberalization. There are mainly two types of measures of financial openness employed in the literature: de jure and de facto measures. The former, determined by policy makers, reflects the degree of a country's restrictions on capital market integration, international financial investment, and foreign exchange rate regime; the latter captures the actual capital account flows across border[27].

There are four scenarios showing how these two measures are related: countries with openness policies experiencing high volume of capital flows, as industrialized countries; countries with openness policies but still facing low volume of capital flows, as certain less developed countries with undeveloped infrastructure; countries with highly regulated and thus restricted policies but still attracting large financial flows, as emerging economies; and countries with fully closed policies resulted in low flows of capital. Thus, it is essential to consider these two types of measures in the analysis to test for the robustness of the effect of financial liberalization on growth. De jure indicators employed in most of the early literature differ somewhat but are all developed based on IMF's record of capital account restriction for countries. Starting in 1966, the IMF issues an annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). , this IMF's restriction report reflects capital account information in the following categories: capital account openness, current account

[25] Abiad, Abdul, Nienke Oomes, and Kenichi Ueda, 2008, "The quality effect: Does Financial Liberalization improves the allocation of capital?" *Journal of Development Economics* 87:2, 270-282

[26] Umutlu, Mehmet, Levent Akdeniz, and Aslihan Altay Salih, 2009, "The degree of financial liberalization and aggregated stock-return volatility in emerging markets," *Journal of Banking &Finance*, 509-521.

openness, surrender requirements on the proceeds of export, and exchange rate practices. Earlier international finance literature directly used IMF's report as their openness measurement or generates their own de jure indicators with the information mainly from the category of capital account openness for their studies. All these categories are reported in the form of binary variables. These binary indicators show either 0 when a country is always restricted or 1 when never restricted. Updated annually, this IMF report provides restriction information of member countries in terms of exchange rates and trade practices and capital control. This report, namely AREAER, spans 188 countries and is considered the largest sample coverage available. Several challenges should be highlighted for considering the data source derived from this apparently comprehensive AREAER report. First, this binary indicator assigned based on IMF's judgment does not provide the level of a country's capital account openness. Second, as long as one restriction imposed, this country scores 0 regardless other openness policies might be in place. Third, the detailed composition of the openness which could be sensitive to analysis cannot be found in this on/off indicator.

For example, according to IMF's record, a country that is open to foreign investment but prohibits residents to invest abroad scores the same as a country that imposes restrictions on foreign investment but no restrictions on their residents' investment abroad. Fourth, there are two different dataset formats for AREAER. Although IMF's annual report does not provide intensity and features of capital account openness (or restriction), the number of years in which a country has opened capital markets is recorded in IMF's AREAER report. Therefore, studies such as Grilli and Milesi-Ferretti[28], Rodrik[29] and Klein and Olivei[30] generate a variable ranging from 0 to one as an alternative indicator by calculating the proportion of years that a country has opened capital markets during certain period.

In order to capture the intensity of capital transaction controls other than the "proportion" index described earlier, Quinn[31] develops coding rules by assigning scores ranging from 0 4 associated with the intensity of capital controls based on the capital and current account restrictions reported in AREAER. Rather than IMF's on/off indicator, Quinn's measure quantifies a nation's capital restrictions by ranking the control instruments. For instance, 0 will be assigned for the country that capital account transactions are completely restricted, 0.5 will be assigned if some regulations are imposed, and 1 will be assigned when heavy taxes are levied on capital transactions. In general, Quinn's indicator outperformed IMF's coarse one for two reasons: first, Quinn was the first to classify capital flows into inflows and outflows; second, Quinn's measure quantifies the level of de-jure controls a country imposes. These assigned values are financial indicators and they are available annually since 1950, covering 64 countries (OECD and non-OECD).

However, this subjective measure draws some criticism since it may not capture the direction of capital flow restrictions and the types of transactions targeted. KAOPEN is another de jure financial liberalization measure, constructed by two economists, Chinn and Ito, and is the most frequently used by current studies. In order to better measure the intensity of cross border financial openness, Chinn and Ito[32] constructed an index based on the four assigned binary indicators (the presence or absence of multiple exchange rates, current account restrictions, capital account restrictions, and the repatriation and surrender of trading proceeds) from the tables in the IMF's AREAER by reversing the value of IMF binary variables which originally indicate more controls when the value is higher. Instead, 1 will be assigned when restrictions are lifted (open) and 0 when restrictions imposed (close) under each category in constructing KAOPEN. For the variable of capital account restrictions, the value takes on the average of shares of a five-year window that capital restrictions were not in effect. The important advantage of this de jure alternative is first the A growing number of studies such as Bekaert and al[33] and Chari and Henry[34] have considered stock market openness as a proxy for financial liberalization instead of conventional capital account openness. The indicator is based on the official date of equity market liberalization. The binary variable takes on the value one when foreign investors are able to own domestic equities and zero otherwise. From the policymakers' perspective, de jure measures might be more

[28] Grilli V., Gian Maria Milesi-Ferretti, 1995, "Economic Effects and Structural Determinants of Capital Controls," *IMF Staff Papers*, V42:3, 517-551

[29] Rodrik, Dani, 1998, "Who Needs Capital-Account Convertibility," Harvard University

[30] Klein, M. and Giovanni Olivei, 1999, "Capital Account Liberalization, Financial Depth, and Economic Growth," *Working Papers, 99-6*, Federal Reserve of Boston

[31] Quinn, D., 1997, "The Correlates of Change in International Financial regulation," *American Political Science Review* 91, 531-51

[32] Chinn, Menzie D. and Hiro Ito (2008). "A New Measure of Financial Openness". *Journal of Comparative Policy Analysis*, Volume 10, Issue 3, p. 309 – 322

[33] Bekaert, G., C.R. Harvey, and C. Lundblad, 2005, "Does Financial Liberalization Spur Growth?" *Journal of Financial Economics* 77:1, 3-55

[34] Chari, A., Henry, P.Y., 2004, "Risk sharing and asset prices: Evidence from a natural experiment," *Journal of Finance* 59:3, 1295-1324

relevant since the authorities have control over policy implementation. Nevertheless, de facto measures are gaining importance in the literature as the de facto measures focus on quantitative measurement of financial openness as opposed to the qualitative de jure measurements, and thus may better capture the actual effects and the intensity of liberalization. These de facto measures are especially important when the focus is on countries with lax regulations Most of these outcome-based measures involve capital account inflows as well as outflows. For example, Lane and Milesi-Ferretti[35] proxy financial liberalization by aggregating a nation's gross foreign direct investment and portfolio of asset and liabilities. It is done via the accumulated inflows and outflows of foreign capital in sample countries as a share of GDP. This stock of capital flows indicates the diversifying opportunities of nonresidents' investment in a country and residents' outward foreign investments.

As an alternative to measure the market liberalization by assigning either 0 or 1 based on if the equity market is accessible to foreign investors, this continuous variable quantifies the degree of equity market openness with scale 0-1 where two extreme opposites refer to fully open to foreign investor (1) or closed . Much research is done now by incorporating both de jure and de facto measures to provide a more comprehensive examination. This approach is done so as to capture more dimensions of financial integration, e.g., Edison and al[36] proxy four indicators: the degree of capital account restriction from the IMF as a de jure indicator and three other de facto indicators involving stock of assets and liabilities. Although this strategy intends to clarify previous results on the effects of financial liberalization, it tends to overlap information and presents itself with inter-correlation problems. Quinn and Toyoda (2003) point out that the variables that were assumed to be independent and were used in growth regressions turn out to be not independent but rather exhibit a strong correlation between them. The advantage of de jure measures is that they reflect policy levers, and thus results based on them may have policy implications for reforms that a government might consider. Their disadvantage is that they may capture poorly the actual degree of financial integration, either because the true nature of legal restrictions is erroneously measured, or because these government impediments are imperfectly enforced. Nonetheless, from the volume of the literature, authors' place more weight on the de jure measures, since the de facto ones represent equilibrium outcomes, and may be more noisy reflections of policy.

Literature Review Over the effects of opening financial flows on the economic growth

There has been little consensus in empirical literature over the effects of opening financial flows on the economic growth. Different estimation results stem from various financial liberalization indicator, econometrics techniques, and data coverage. This paragraph surveys various studies that are most cited on this topic and provides detailed review of the papers along different dimensions. The literature surveyed is classified into three groups based on different measures employed: the first group of the literature considers de jure measures as the proxy of financial liberalization, the second one employs de facto measures, and the third group employs both. The first group employing de jure measures in their studies include Quinn, O'Donnell[37], Klein and Oliveri[38], and Bekaert[39].

Although de jure measures are commonly used in these empirical studies, ambiguous results are still found. Quinn was the pioneer to create a financial liberalization index based on the IMF's capital account control report. The Quinn index quantifies the capital account control (or openness) by subjectively assigning scores within 0-4 range of scale for each country based on the narrative description provided by IMF and thus this Quinn index is more informative relative to IMF's 0 or 1 record of capital account control. The advantage of this manually adjusted index is that it is able to capture the intensity of the financial openness rather than IMF's on/off category.

Other studies have shown that liberalization policy may affect countries differently. By using Share measure (years of liberalization as a share of the years considered), O'Donnell (2001) documents that there is a positive impact of liberalization on poor countries but a negative effect on rich countries. Klein and Olivei find similar results that financial liberalization has greatly impacted solely the middle-income countries but not the poorest and the richest countries. Employing the date of equity market opening to foreign investors as a proxy

[35] Lane, Milesi-Ferretti, 2007, "The external wealth nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970-2004," *Journal of International Economics* 73, 223-250

[36] Edison, H., Levine, R., Ricci, L., Slok, T., 2002, "International Financial Liberalization and Economic Growth," *Review of International Economic* 9, 688-702

[37] O'Donnell, Barry, 2001, "Financial Openness and Economic Performance." Dublin, Trinity College

[38] O'Donnell, Barry, 2001, "Financial Openness and Economic Performance." Dublin, Trinity College

[39] Bekaert, G., C.R. Harvey, and C. Lundblad, 2005, "Does Financial Liberalization Spur Growth?" *Journal of Financial Economics* 77:1, 3-55

for financial liberalization, Bekaert and al implement a growth model that includes the ratio of trade to GDP as one of the control variables. Their study shows strong evidence that financial market opening leads to a 1% increase in annual GDP growth per capita. For comparison, two other de jure measures of capital account openness are used in Bekaert's (: IMF capital account openness and Quinn's measures. Interestingly, the results show that the growth effect is not significant with IMF indicator, but there is a strong growth effect with Quinn's measure.

Abiad and al study whether financial openness improves efficiency of capital allocation, as measured by the dispersion of Tobin's Q across firms from five countries: India, Jordan, Korea, Malaysia, and Thailand. Prasad and al find no robust evidence supporting the effect of financial openness on economic growth. The paper reports that consumption might fluctuate in some countries where one might interpret the liberalization policy as harmful to the economy. It is worth noting that their results also show that countries with better macroeconomic policies, including more stable political environment, more sound financial system, more stable and transparent government operation, better quality of human capital, and more sound financial system, tend to perform better in attracting foreign direct investment. Edison an dal find no support for the effect of financial openness on economic growth even when controlling for macroeconomic characteristics . To assess the potential effects on certain countries, they add several interaction terms between financial openness indicator and several key macroeconomic conditions in the model specification.

Financial openness and economic growth in Morocco

Financial openness, which translates for nations by the connecting dilemma improving the national income to instability and the crisis of the financial system, represents a variable that takes on a clear importance in the models of growth of developing countries. Placed in the predefined context, Morocco is called to exploit the opportunities offered by financial globalization in terms of economic growth without threatening the fundamentals of the country, especially in terms of the stability of its financial system. In other words, the country must succeed in financial integration with less damage.

Our results show that financial globalization had no significant impact on the Moroccan economic growth, we report two key, quantitatively meaningful to explain this result: 1) the weakness of the country financial opening and 2) the inefficiency of the transmission channels. Also, our research showed that financial instability had no negative effect on economic performance, in particular because the country financial system didn't experienced a crisis able to destabilize its real economy.

the design of an economic development model with financial openness as a decisive variable, requires improving the efficiency of the previously defined transmission channels. This should focus on three points: - The development of domestic savings. It seems that the effect of the level of domestic savings outweighs the magnitude of the transfers of external savings. In addition, there is a significant part of internal financial resources that is used in informal channels preventing any development of formal financing channels. - The improvement of the level of economic and institutional development. Financial globalization has a positive effect on the real economy conditionally at the level of economic and institutional development. The persistence of macroeconomic imbalances does not allow for the necessary conditions for better financial integration. Moreover, the complication of administrative procedures is fertile ground for the appearance of the evils of corruption. To this end, the inadequacy of the efficiency of the institutions hinders the process of simplicity, rationalization and shortening of the administrative procedures. - The development of the mechanisms of direct finance. Capital flows generated by financial globalization are very short-term and transit through financial markets. In addition, financial integration is characterized by sophistication of products and operations, including derivatives. Lack of development of the latter deprives the country of the potential gains of international savings flows seeking some speculation and risk coverage

Trade openness and economic growth in Morocco

Morocco has started a policy of economic liberalization since mid-1980, dedicating the insertion of Morocco in the currents of international exchanges and investments as a determining strategic choice. The potential of the Moroccan economy is very high; however, it is clear that since the entry into force of the trade agreements, we are witnessing a chronic and almost general trade deficit with the consequent reduction of economic growth and a worsening of youth unemployment.

It shows that Morocco is still fragile to face the aggressiveness of international competitiveness because it has not been able to take full advantage of the opening of these markets. In this wake, improving the performance of exports and consolidating the attractiveness of the Kingdom, in order to ensure the stability of the macroeconomic framework becomes an imperative to meet the challenge of growth and well-being.

This requires the combination of the efforts of all socio-economic actors, as well as the establishment of an arsenal of reforms: the exchange rate policy, the deepening of structural and institutional reforms, the development of human capital and training , the modernization of the administration with a flexible, efficient

and effective interlocutor, the improvement of the business environment (ease of doing business ...) and the promotion of scientific research, etc.

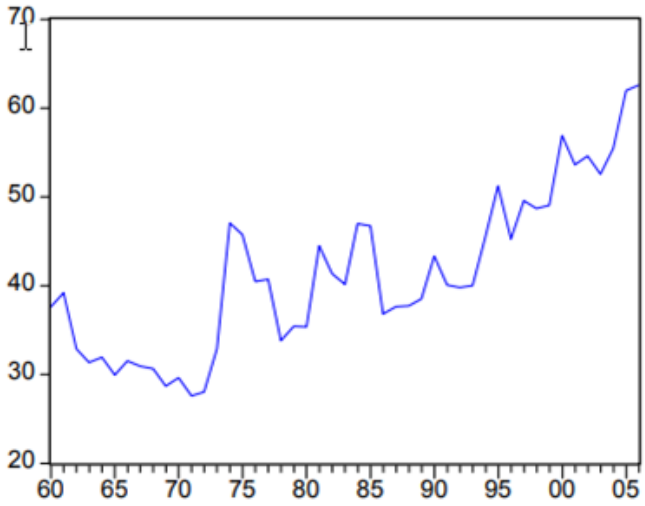

Figure: Evolution Of Trade Opening (OC) In Morocco (%) Between 1960 And 2006

But in the absence of a genuine real will to adapt and upgrade, the expected effects may be negative. Similarly, all efforts must be made to improve the competitiveness of the Moroccan economy, increase the exportable supply, particularly through high value-added goods and services that require a profound reform of the economy. education and training. Not to mention the diversification of export markets, especially to Africa, America and Asia. This new economic policy is to be implemented urgently if the country wants to avoid a tomorrows tomorrows

Reference

[1]. Abiad, Abdul, Nienke Oomes, and Kenichi Ueda, 2008, "The quality effect: Does Financial Liberalization improves the allocation of capital?" *Journal of Development Economics* 87:2, 270-282
[2]. Aizenman, Noy, 2009, "Endogenous Financial and Trade Openness," *Review of Development Economics* 13:2, 175-189
[3]. Alfaro, L., Areendam Chanda, Sebnam Kalemli-Ozcan, Selin Sayek, 2010,"Does Financial Direct Investment Promote Growth? Exploring the role of financial markets on linkages," *Journal of Development Economics* 91:2, 242-256
[4]. Arellano, M. and Bond, S., 1998, "Dynamic Panel Data Estimating Using DPD98-A Guide for Users," Institute for Fiscal Studies, mimeo.
[5]. Arellano, M. and Bover, O., 1995, "Another Look At the Instrumental Variable Estimation of Error Components Models," *Journal of Econometrics* 68:1, 29-51.
[6]. Bhagwati, Jagdish N.,1998, "The Capital Myth: The Difference between Trade in Widgets and Dollars," *Foreign Affairs*
[7]. Barro, Robert and Jong-Wha Lee, "A New Data Set of Educational Attainment in the World, 1950-2010." forthcoming, *Journal of Development Economics*.
[8]. Bekaert, G., C.R. Harvey, and C. Lundblad, 2005, "Does Financial Liberalization Spur Growth?" *Journal of Financial Economics* 77:1, 3-55
[9]. Bekaert, G., C.R. Harvey, and C. Lundblad, 2011, "Financial Openness and Productivity?" *World Development*, Vol. 99, No. 1, pp. 1-19
[10]. Bekaert, G., 1995, "Market Integration and Investment Barriers in Emerging Equity Markets?" *World Bank Economic Review* 9, 75-107
[11]. Borensztein, Eduardo, José De Gregorio, and Jong-Wha Lee, 1998, "How Does Foreign Direct Investment Affect Growth?" *Journal of International Economics*, Vol. 45 (June), pp. 115–35.
[12]. Blundell, R. and Bond, S., 1998, "Initial Conditions and Moment Restrictions in Dynamic Panel Data Models," *Journal of Econometrics* 87:1, 115-143.
[13]. Boyd, J., Smith, B., 1992,"Intermediation and the Equilibrium Allocation of Investment Capital:Implication of Economic Development," *Journal of Monetary Economics* 30:3, 409-432
[14]. Camdessus, Michael, 1998, "The IMF's Role in Today's Globalized World," *International Monetary Fund*, Frankfurt, Germany
[15]. Chari, A., Henry, P.Y., 2004, "Risk sharing and asset prices: Evidence from a natural
[16]. experiment," *Journal of Finance* 59:3, 1295-1324
[17]. Chinn, Menzie D. and Hiro Ito (2008). "A New Measure of Financial Openness". *Journal of Comparative Policy Analysis*, Volume 10, Issue 3, p. 309 – 322
[18]. Chinn, Menzie D. and Hiro Ito (2006). "What Matters for Financial Development? Capital Controls, Institutions, and Interactions," *Journal of Development Economics*, Volume 81, Issue 1, Pages 163-192
[19]. Cho, Yoon Je, 1988, "The effect of Financial Liberalization on the efficiency of credit allocation: some evidence from Korea." *Journal of Development Economics* 29:1, 101-110.
[20]. Chow, P. C., and Gates Gill (eds), 2000, "Weathering The Storm." Brookings Institution Press
[21]. Cole, Harold L. and Timothy J. Kehoe (1996), "A Self-Fulfilling Model of Mexico's 1994-1995 Debt Crisis," *Journal of International Economics* 41(3-4), pp. 309-330.
[22]. Devereux, Michael B. and George W. Smith 1994, "International Risk-Sharing and Economic Growth," *International Economic Review*, 35(3), pp. 535-550.

[23]. Edison, H., Levine, R., Ricci, L., Slok, T., 2002, "International Financial Liberalization and Economic Growth," *Review of International Economic* 9, 688-702
[24]. Edison, H., Warnock, F., 2003, "A simple measure of the intensity of capital controls," *Journal of Empirical Finance* 10, 81-104
[25]. Edison, H., Klein, M., Ricci, L., Slok, T., 2004, "Capital Account Liberalization and Economic Performance: Survey and Synthesis," *IMF Staff Papers*, 51:2, 220-256
[26]. Grilli V., Gian Maria Milesi-Ferretti, 1995, "Economic Effects and Structural Determinants of Capital Controls," *IMF Staff Papers,* V42:3, 517-551
[27]. Klein, Michael and Giovanni Olivei, 2008, "Capital Account Liberalization, Financial Deepness and Economic Growth," Journal of International Money and Finance 27, no. 6 (2008): 861-875.
[28]. Klein, M. and Giovanni Olivei, 1999, "Capital Account Liberalization, Financial Depth, and Economic Growth," Working Papers, 99-6, Federal Reserve of Boston
[29]. Kose, M., Prasad, E., Rogoff, K., Wei, S., 2006, " Financial Globalization: A Reappraisal," IMF Staff Papers, 06/189
[30]. Karcher, S., Steinberg, D.,2013,"Assessing the Causes of Capital Account Liberalization: How Measurement Matters," International Studies Quarterly, 57(1), pp. 128-137.
[31]. Lane, Milesi-Ferretti, 2007, "The external wealth nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970-2004," Journal of International Economics 73,223-250
[32]. McKinnon, R. I., 1991, "The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy." Baltimore: Johns Hopkins University Press
[33]. McKinnon, R. I., 1973, "Money and Capital in Economic Development." Oxford Press
[34]. O'Donnell, Barry, 2001, "Financial Openness and Economic Performance." Dublin, Trinity College
[35]. Prasad, E., Rogoff, K., Wei, S., and Kose, M., 2003, "Effects of Financial Globalization on Developing Countries," Economic and Political Weekly, 4319-4330
[36]. Quinn, D., 1997, "The Correlates of Change in International Financial regulation," American Political Science Review 91, 531-51
[37]. Quinn, D., Toyoda, A.M., 2008, "Does Capital Account Liberalization lead to economic growth?" Review of Financial Studies.
[38]. Ranciere R., Tornell A., and Westermann F., 2008, "Decomposing the effects of Financial Liberalization: Crises vs. growth," Journal of Banking & Finance, Vol. 30 I 12, pp 3331-3348.
[39]. Rodrik, Dani, 1999, "Making Openness Work: The New Global Economy and the Developing Countries," Overseas Development Council, Washington, DC.
[40]. Rodrik, Dani, 1998, "Who Needs Capital-Account Convertibility," Harvard University
[41]. Schumkler, Sergio, 2004, "Financial Globalization: Gain and Pain for Developing Countries," Federal Reserve Bank of Atlanta, Economic Review, Second Quarter, 2004
[42]. Shaw, Edward S., 1973, "Financial Deepening in Economic Development." New York, Oxford University Press.
[43]. Stiglitz, Joseph, 2000"Capital Market Liberalization, Economic Growth, and Instability," WorldDevelopment, 28 (6), pp. 1075-1086

1ELKilali Abderrazak. " Trade And Financial Openness And Economic Growth In Morocco: Theoritical Debate." IOSR Journal of Economics and Finance (IOSR-JEF) 9.4 (2018): 01-09.