CHAPTER 4

TRADE OPENNESS, FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN FRAGILE FIVE COUNTRIES

Mustafa Batuhan TUFANER[1]

1. INTRODUCTION

The basis of the trade liberalization process that started in the 1990s is the decrease in prices and the increase in economic growth rates as a result of the increasing competition in foreign trade. With the financial liberalization process that started in the 1990s, financial markets have become an increasingly important factor, especially in terms of economic growth of developing countries and their integration into the world economy. In its economy report published in 2013, Morgan Stanley described the countries that will be most adversely affected by the tight monetary policy of the FED as "Fragile Five countries". The national currencies of Fragile Five countries that take place Brazil, India, Indonesia, S. Africa, and Turkey are the ones that are most affected by external shocks. In this context, trade openness and financial development level are of great importance for Fragile Five countries in terms of economic growth.

Studies conducted in recent years reveal that financial development and trade openness may affect economic growth. Especially developing countries are going to liberalize both their financial systems and trade systems in order to increase economic growth. Countries with strong financial markets can attract foreign direct investment inflows more because they are considered as a safe atmosphere for foreign investors. The basic functions of the financial system; producing information and distributing capital, monitoring companies and implementing corporate governance, reducing risks, pooling savings and implementing changes that will contribute to economic growth. Thus, financial development can contribute to the economic growth of countries by increasing the performance of foreign direct investments.

[1] Asst. Prof. Dr., Beykent University, Faculty of Economics and Administrative Sciences, Department of Economics, batuhantufaner@beykent.edu.tr

REFERENCES

1: Asghar, N & Hussain, Z. Financial development, trade openness and economic growth in developing countries: recent evidence from panel data. Pakistan Economic and Social Review, 52(2), 99-126

2: Ayad, H & Belmokaddem, M. Financial development, trade openness and economic growth in MENA countries: TYDL panel causality approach. Theoretical and Applied Economics, XXIV(1), 233-246

3: Baltagi, B, et al. Financial development and openness: evidence from panel data. Center for Policy Research, 107

4: Bencivenga, V, Smith, B. Economic development and financial depth in a model with costly financial intermediation. Research in Economics, 52(4), 363-386

5: Dumitrescu, E & Hurlin, C. Testing for Granger non-causality in heterogenous panels. Economic Modelling, 29(4), 1450-1460

6: Gries, T, et al. Linkages between financial deepening, trade openness and economic development: causality evidence from sub-saharan Africa. Center for International Economics Working Paper Series, 2008-08, 1849-1860

7: Kar, M, et al. Trade openness, financial development and economic growth in Turkey: linear and nonlinear causality analysis. International Conference on Eurasian Economies 2013, 17-18 September 2013, St. Petersburg, Russia (pp. 133-143)

8: Khatun, R & Bist, J. Financial development, openness in financial services trade and economic growth: a panel data analysis in BRICS economies. International Trade, Politics and Development, 3(2), 42-65

9: Kletzer, K, Bardhan, P. Credit markets and patterns of international trade. Journal of Development Economics, 27(1-2), 57-70

10: Krugman, P. Scale Economies, product differentiation, and pattern of trade. The American Economic Review, 70(5), 950-959

11: Lawal, A, et al. Economic growth, financial development and trade openness in Nigeria: an application of the ARDL bound testing approach. Cogent Economics & Finance, 4(1), 1-15

12: Menyah, K, et al. Financial development, trade openness and economic growth in African countries: new insights from a panel causality approach. Economic Modelling, 37(C), 386-394

13: Niroomand, F, et al. Financial market development and trade openness: evidence from emerging economies. Applied Economics, 46(13), 1490-1498

14: Oguz, S & Huskic, M. On the relationship between financial development and trade openness. Siyaset, Ekonomi ve Yönetim Araştırmaları Dergisi, 7(1), 23-32

15: Pedroni, P. Purchasing power parity tests in cointegrated panels. The Review of Economics and Statistics, 83(4), 727-731

16: Pesaran, M. General diagnostic tests for cross section dependence in panels. Cambridge Working Papers in Economics, 0435, 1-39

17: Pesaran, M. A simple panel unit root test in the presence of cross-section dependence. Journal of Applied Econometrics, 22(2),

18: Sundaresan, S. (2009). Fixed Income Markets and Their Derivatives. (Third Edition). Academic Press, Elsevier

19: Westerlund, J. Testing for error correction in panel data. Oxford Bulletin of Economics and Statistics, 69(6), 709-748