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The impact of financial and trade liberalization on financial development in OPEC member countries

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Abstract

The present study examines the impact of financial and trade liberalization on investment in OPEC member countries. This was descriptive research with a correlational type. The statistical society comprised OPEC member countries. Simple random sampling was used for 14 OPEC member countries. The time interval of 2010-2019 was considered due to heterogeneous published data and consideration of a certain year for all data. The data were derived from World Bank, World Development Indicators (WDI), and Worldwide Governance Indicators (WGI) to be analyzed. Data analysis was done through Eviews software and the generalized method of moments (GMM), and the results indicated the significant impact of trade liberalization on the financial development of selected countries. On the other hand, liberalization affected the financial development of Iran. According to data and statistics, OPEC member countries have relatively poor institutional quality indicators leading to minor impacts of this liberalization compared to other countries with high intuitional quality. It is suggested that the institutional and legal environment of countries be improved in these countries to achieve better and higher impacts of financial and trade liberalization on financial development.

Keywords: Financial and Trade Liberalization, Financial Development, OPEC Member Countries

Introduction

Financial development has received great attention from many countries over recent decades. It is necessary to consider efficiency institutes for funds and achieve effective economic development. An effective financial system can accelerate economic progress by mobilizing and collecting saved funds, paying attention to investments, monitoring corporate governance, accessing information, and reducing transaction costs. Surveillance of internal and external investors provides better access to funds decreasing the cost of capital and increasing financial portfolio diversification. Economic development includes various reforms, including official property rights, corruption,

etc., in which trade and financial liberalization are managed by these institutes. Liberalization of financial markets has been discussed following the globalization and financial integration subjects. Financial liberalization includes various concepts, such as interest rate liberalization, capital account liberalization, the entrance of FDI (foreign direct investment), and portfolio investment, which have different effects on countries' economic growth. According to studies conducted on this subject, institutional-legal infrastructures and information transparency in financial markets must be created to benefit from financial liberalization's impacts. Moreover, trade liberalization comes before financial liberalization (Abdullahi, 2019). Financial liberalization concerns the openness of financial markets allowing financial capital to move freely from one to another country. However, trade liberalization simply means the removal (reduction) of trade barriers in international trade. Although this short definition explains liberalization, it requires further explanation and revelation (Soheyli & Shekarbeigi, 2016). It is stated that capital account liberalization contributes to financial market development by channelizing funds. The reason for the result is that financial liberalization reduces the degree of financial repression in different financial markets and increases the actual productivity rate approaching to equilibrium rate in the competitive market.

One significant goal of financial institutions is to inspect and revise the asset plan; hence, the poor performance of financial organization leads to little property so that the major part of the high-performing asset is replaced with the low-performing assets causing less financial progress (Khalili Araghi & Salimi Shendi, 2014). Factors affecting financial progress are highly valuable. The present study examines the effectiveness of financial and trade liberalization, which is one of the important factors in the motivation of selected OPEC member countries and organizations influencing financial progress (Ahmadi, 2021).

Therefore, this study aims to examine the impact of financial and trade liberalization on the financial development method used in selected OPEC member countries to answer this question: whether financial and trade liberalization results in the financial development of selected OPEC member countries?

Literature Review

Financial Liberalization

Financial liberalization means the reduction or removal of all barriers in the financial services sector by allowing foreign financial firms to enter the banking system, stock market, and other financial service sectors of a country. Financial liberalization plays a vital role in the economic growth of developed and developing countries by reforming financial infrastructures, strengthening the financial-economic system, and enhancing commodity trade efficiency (Mohseni, 2020). Financial liberalization points to the increase and expansion of global communications of countries through international capital and financial flows. Financial liberalization has been considered one of the tools fostering the financial

systems and reforming the financial structure of countries by making them more competitive. Moreover, it is a process that plays an effective role in explaining international and world financial relationships between countries. An interconnection exists between financial liberalization and other economic activities. In this regard, some factors such as international capital flows, financial convergence of countries, enhanced regional and international financial relations, shaped regional and international financial hubs and blocks, liberalized and integrated regional and international interest rates, liberalized exchange rates, and founded monetary unions, high-performance financial institutions, and decline in control and monitoring lead to the development of financial liberalization (Sahabi et al., 2020).

Trade Liberalization

In this era, some efforts were done to establish an international organization to manage business relationships in the world in line with the UN which was founded to manage political relationships, and the international monetary fund (IMF) and world banks that were established to manage financial and monetary relations in the world. After many ups and downs, General Agreement on Tariffs and Trade (GATT) was founded for trade liberalization in 1947.

Hence, trade liberalization means the removal or at least reduction of industrialization motivations through import substitution. Because the growth obtained from industrialization strategies through import substitution will gradually slow down, trade liberalization is the only solution that can be used for this phenomenon to escape from the continuous decline in the economic growth of developing countries.

Trade liberalization is a term indicating the full or partial removal of governmental policies or subsidies regarding the inverse effect on trade. Elimination of trade-deviating policies may be done unilaterally in one country or multilaterally in several countries (Abayomi et al., 2016).

Trade liberalization through the reduction of tariffs, export development by fostering specialized and productive forces, and adaptation of policies in line with trade liberalization can amplify the industry sector to achieve high industrial growth (Farid & Taheri, 2018).

Financial Development

Financial development is defined as a state in which, the ratio of financial assets to GDP and the ratio of financial assets and institutions to total financial assets are increased. The mentioned two factors indicate savings institutionalization. Accordingly, financial development increases investment levels and access to financial resources through the saving rise channel emphasizing the increased financial capital accumulation. The important point for financial sector development in developing countries includes reducing financial market dispersion so that more accurate and consistent prices will gradually appear in financial markets. McKinnon and Shaw (1973) explain that positive real interest rates are the first step to preparing the field for the development of a financial system based on

more accurate prices (Motameni & Kashiri, 2014). Financial development means some improvements in data generation about potential investments and capital allocation, corporate surveillance and application of corporate governance, trade, diversification, risk management, saving integration and mobilization, and ease of goods and services transaction (Abdullahi, 2019).

Research Background

Financial markets play a vital role in sustainable economic growth. The developed financial market increases growth by improving the more efficient allocation of resources, encouraging more accumulation of physical-human capital and advanced technological capita, and reducing transaction, information, and surveillance costs. On the other hand, the financial market is influenced by economic interactions and policies, so economic variables can highly affect financial development. Researchers have recently considered some factors, including the impact of trade on the financial markets. Two competing perspectives exist in this case making it difficult to examine this subject. Some economists believe that an enhanced trade level in a country leads to more need for industries and firms for external financial resources, which can lead to the further financial deepening of the country. Other economists assume that trade openness in some countries, especially developing countries increases demand to get financial services from foreign countries due to their financial non-development. This issue causes a restriction in the domestic financial sectors of these countries (Morduch et al., 2022).

Financial markets play a significant role in sustainable economic growth. Therefore, developed financial markets lead to growth rise in one side. On the other hand, the financial market is influenced by economic interactions and policies, so economic variables can leave a considerable effect on financial development (Stulz, 1999).

(Karikari, 2010) asked whether financial liberalization leads to financial development, and reviewed some antecedents from emerging economies. This paper differs from the available literature in its approach to financial development measurements and consideration of financial liberalization as a gradual process. Their results indicated that financial liberalization has a positive impact on financial depth and competition in terms of freedom in the capital market, while liberalization resulting from the interference of banks and financial institutions has a positive effect on the financial sector stability. Trade openness plays a vital role in increasing financial sector efficiency. Moreover, antecedents indicate that capital account openness enhances depth without making the financial sector unstable. Gross Domestic Production (GDP), political stability, surveillance quality, and government effectiveness are important factors that affect more than one aspect of financial development in a country.

(Santana, 2020) studied the relationship between financial development and economic growth in Latin American countries: the role of banking crises and financial liberalization. The main findings indicate that financial liberalization did not

create a positive relationship between financial development and economic growth. Their findings also confirmed those theoretical approaches that showed financial liberalization could generate banking crises while bringing into question those approaches that supported a positive relationship between financial development and economic growth.

(Moyo & Le Roux, 2020) conducted a study entitled "Financial liberalisation, financial development and financial crises in SADC countries" and concluded that financial liberalization obtained by real interest rate reduced the likelihood of financial crises. Moreover, regulatory quality strengthens this reductive effect on the financial crises. On the other hand, financial development indicated with bank credit increases the incidence of financial crises. The results also imply that financial liberalization may increase the probability of financial crises indirectly through financial development.

(Elkhuizen et al., 2018) carried out a study entitled financial development, financial liberalization, and social capital. They concluded that during the post-Washington-consensus period, countries with a high level of social capital can ensure that financial liberalization positively influences financial development despite the poor quality of their formal institutions.

(Ilker et al., 2012) conducted a study entitled "To liberalize or not to liberalize: Political and economic determinants of financial liberalization" and found the positive effects of financial development and financial liberalization on financial instability. The findings also showed that economic growth could reduce financial instability, and the rate of reduction in the pre-liberalization period is higher than in the post-liberalization period.

(Husseinzadeh & Arjmandi Mazrae, 2020) examined the effect of "Impact of financial liberalization on financial market development and economic growth (Case Study: selected developing countries)" and found a positive effect of financial liberalization, trade liberalization, human capital, and physical capital on the financial development and economic growth. Inflation harmed financial development and economic growth. Finally, institutional factors had positive and negative effects on economic growth and bank loans, respectively, while this variable did not affect the stock value.

(Abdullahi, 2012) investigated the "Effects of financial liberalization on financial market development and economic performance of the SSA region: An empirical assessment". Economic planners and policymakers must prove a suitable platform for the business development of financial services regarding the importance of financial liberalization. According to their findings, financial liberalization negatively affected the financial market development, while leaving a positive impact on economic growth.

(Farid & Taheri, 2018) studied financial liberalization and financial development based on evidence from developed countries. According to the literature review, the mutual effect of financial and trade liberalization had a significant effect on financial development so their mutual effect was separately higher on financial development improvement based on each variable. Furthermore, financial liberalization had less effect on financial development compared to trade liberalization indicating that trade

liberalization comes before financial liberalization.

(Asgari, 2021) studied the relationship between liberalization, financial development, and economic growth in OPEC countries. The results showed a positive and significant effect of financial openness and development in OPEC countries. Moreover, lagged dependent variables, human capital, inflation rate, trade openness, population growth rate, and government expenditures had a positive and significant effect on economic growth.

(Motameni & Kashiri, 2014) studied the relationships between financial development trade liberalization, and economic growth by focusing on the underlying role of financial development in trade liberalization and economic growth of Iran. They found that financial development is defined as the all-round growth of financial markets, so the financial system can do its tasks, including reducing information costs, easing transactions, and scrutinizing costs to achieve economic growth and development. On the other hand, trade liberalization and financial development policies can reduce inefficiency in the production process and improve economic growth. Therefore, the nexus between financial development, trade liberalization, and economic growth leaves significant effects on adopting relevant policies.

Hypotheses

1. Traded liberalization affects the financial development of selected countries.
2. Trade liberalization affects the financial development of Iran.

Methodology

The present study aims to examine the impact of trade liberalization (independent variable) on financial development (dependent variable); hence, this was a correlational study in terms of method. The multivariate regression model was used to test the relationship between these variables.

The statistical population of the study comprised all OPEC member countries that simple random sampling was used for 14 OPEC member countries. The time interval of 2010-2019 was considered due to heterogenous published data and consideration of a certain year for all data. The data were derived from World Bank, World Development Indicators (WDI), and Worldwide Governance Indicators (WGI) to be analyzed.

Model and its variables

The research model and its operational definitions have been proposed herein:

$$FD_{it} = \beta_0 + \beta_1 OT_{it} + \beta_2 IQ_{it} + \beta_3 DEMO_{it} + \beta_4 OF_{it} + \beta_5 FINST_{it} + \beta_6 SK_{it} + \beta_7 IN_{it} + \beta_8 GOV + \varepsilon_{it}$$

Financial development index (FD): this study considered the financial development index in form of Domestic Credit to the Private Sector as a GDP percentage. The important

advantage of this index is the elimination of the government sector's credits from its computation. Therefore, this index better represents the role of financial intermediaries in leading financial funds to investors of the private sector and participation of the private sector. Previous studies have shown that private credits are the most comprehensive activities that financial intermediaries do (Khoshnevis et al., 2010). Furthermore, the credits-to-private sector index was selected instead of credits to the public sector because the public sector must achieve various goals when investigating an investment project, unlike the private sector. The main purpose may not always be to obtain a positive rate of return on governmental investments. Therefore, this index can better represent the role of financial intermediaries in leading funds toward private-sector investment and participation. This metric presents the value of loans granted by depository banks and other financial institutions. This index only includes the credits assigned to the private sector, which is the opposite point of credits given to the government and other financial institutions. Moreover, this variable does not include the credits granted by the central bank (Moradi, 2017).

The openness of trade index (OT): net export divided by GDP is used as the economy openness index.

Intuitional Quality (IQ): this study used International Country Risk Guide (ICRG) as institutional quality index based on the studies conducted by (Blue et al., 2020), (Arfaee et al., 2021). ICRG includes ranking 22 variables in three different subgroups political risk, financial risk, and economic risk. The political risk index of ICRG is the most important part of this indicator its scores and rankings are widely used in other popular international indicators, such as "The Fraser economic freedom index," "The Heritage Foundation's economic freedom index," "good governance index" of world bank and other cases.

Democracy index (DEMO): a composite scale of democracy and autocracy (dictatorship) has been considered as a democracy index to measure this variable following (Elkhuizen et al., 2018). The range of this variable is sorted from -10 (full dictatorship) to +10 (full democracy), and included the weighted average value of four components: making party membership competitive (+2 to -2), making party membership free (+1 to -1), changing manager-oriented to the law-based system (+4 to -4), making political presence and people surveillance over government's actions (+3 to -3). The data relating to democracy were derived from Polity IV published by the University of Maryland.

Financial liberalization index (capital account) (OF): financial liberalization index is related to the openness of financial markets considering the free movement of financial capital from one to another country. This index is presented based on the chinn-ito index derived from the database of chinn-ito (2018) based on the Annual Report of IMF on exchange arrangements and exchange restrictions.

Financial instability index (FINST): Domestic Credit to the Private Sector is used as a percentage of GDP for the financial instability index. The important advantage of this index is the elimination of the government sector's credits from its

computation. Therefore, this index better represents the role of financial intermediaries in leading financial funds to investors of the private sector and participation of the private sector. Previous studies have shown that private credits are the most comprehensive activities that financial intermediaries do (Khoshnevis et al., 2010). Furthermore, the credits-to-private sector index was selected instead of credits to the public sector because the public sector must achieve various goals when investigating an investment project, unlike the private sector. The main purpose may not always be to obtain a positive rate of return on governmental investments. Therefore, this index can better represent the role of financial intermediaries in leading funds toward private-sector investment and participation. This metric presents the value of loans granted by depository banks and other financial institutions. This index only includes the credits assigned to the private sector, which is the opposite point of credits given to the government and other financial institutions. Moreover, this variable does not include the credits granted by the central bank (Moradi, 2017).

Physical capital reserve (SK): this index represents physical capital reserve, which is measured, by using Perpetual Inventory Method (Santana, 2020). Accordingly, the accumulative physical capital reserve model has been designed based on past investments:

$LN\ (\dot{k}_{i,t} = I_{i,t} + (1-\delta)k_{i,t-1}\ )$

where $\dot{k}_{i,t}$ indicates the physical capital reserve of country *i* in period *t*, $I_{i,t}$ represents the gross fixed capital formation of country *I* in period *t*, δ is the depreciation rate of physical capital, and $k_{i,t-1}$ indicates physical capital reserve of each country in period *t-1*. The primary physical capital $k_{i,0}$ was measured based on the method introduced by (Karikari, 2010):

$$equalK_{i,0} = \frac{I_{i,0}(1-\gamma_{i,0})}{\delta_{i,0}-\gamma_{i,0}}$$

Where $gamma\ indicates$ the average value of the investment's historical growth (Oduor, 2010) with a depreciation rate of 5%.

Inflation index (IN): this index indicates the inflation rate of studied countries. The long-run inflation rate is indeed one of the underlying issues of developing countries, which weakens the economic structure of these countries. This issue is particularly critical in the financial sector of these countries. The real interest rate is reduced with an increase in the inflation rate and mandated determination of the interest rate by the government, which discourages people to save money in banks. Moreover, granting a major part of credits to the governmental sector (allocating credits by the government) leads to assigning fewer funds to the private sector, which hurts the financial development of the country.

Government size index (Gov): this index defines the relative share of total government expenditure as a percentage of GDP.

Results

Results of Descriptive statistics

The data analysis phase was done by measuring descriptive statistics, including mean, med, mode, variance, and standard deviation (SD). (Table 1) reports the abovementioned values.

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Table 1. Descriptive statistics

Statistic	FD	OT	IQ	DEMO	IN	GOV	SK	OF	FINST
Mean	0.416	0.925	2.289	0. 249	2.161	0.227	18.59	0.498	0.386
Med	0.289	0.814	2.291	0.5	0.093	0.230	18.27	0.432	0.309
Max	1.657	2.423	3.379	1	9.983	0.245	21.82	1	1.431
Min	0.013	0.315	1.175	-0.9	-0.021	0.198	12.28	0	0.042
SD	0.361	0.310	0.034	0.645	0.326	0.015	1.27	0.103	0.098
Skewness	1.393	0.239	-0.187	-0.480	0.76	-0.661	0.142	1.373	0.556
Kurtosis	4.094	2.991	2.638	1.545	2.72	2.284	2.75	4.138	2.825

Reliability of variables

In this research, Levin, Lin, and Chu method were used for the panel root unit test. The null hypothesis (H_0) of this test indicates variable non-stationary. In this case, H_0 is rejected if probability values are less than 0.05. (Table 2) reports the results of panel data stationary.

Table 2. Results of reliability test for variables

Variable		At level		One differentiation	
		Coefficient	Prob.	Coefficient	Prob.
Financial development index	FD	-0.63	0.26	-31.42	0.00
The openness of the trade index	OT	-30.57	0.00	-	-
Institutional quality	IQ	-7.14	0.00	-	-
Democracy index	DEMO	-10.04	0.00	-	-
Financial liberalization index	OF	-15.33	0.00	-	-
Inflation	IN	-32.21	0.00	-	-
Government size	GOV	-22.01	0.00	-	-
Financial instability index	FINST	0.96	0.83	-42.71	0.00
Physical capital reserve	SK	-0.48	0.41	-17.08	0.00

According to the results, all variables are reliable at the level because the probability rates of all variables are less than 0.05. Hence, H_0 (non-stationary) is rejected.

Counteraction test on panel data

The long-run economic relationships were examined in the next step by using the stationary test and panel cointegration test. Some tests, such as Kao, Pedroni, and Fisher are used to examine panel data cointegration. This study used the Pedroni test for this purpose (Table 3).

Table 3. Normality test of statistical distribution

Kao Cointegration	t-statistic	P-value
With dependent variable (financial development)	-1.697	0.0322

The obtained t-value of the Kao test confirms cointegration; therefore, a long-run equilibrium relationship exists between each financial instability index and dependent variables, so regression will not be a fallacy estimation.

Hypothesis testing

The GMM is proposed as an alternative method to estimate dynamic panel linear regression models. Therefore, this study used the dynamic panel method or GMM. (Table 4) and (Table 5) reports the estimation results. It should be explained that the dependent variable enters the model as an explanatory variable with a lag. Moreover, the Sargan test was used to examine the reliability of the tools matrix, and the Arellano–Bond test was used to determine the order or error terms' autocorrelation. In this test, H_0 implies non-correlation between tools and error terms.

Testing Hypothesis 1

H_0: trade liberalization does not have a significant impact on the financial development of selected countries.

H_1: trade liberalization has a significant impact on the financial development of selected countries.

Table 4. Testing hypothesis 1 using the GMM method

Independent variable		Coefficient	t-value	Prob.
First-order lag of financial development	FD(-1)	0.91	8.52	0.0000
Trade openness	OT	0.15	2.93	0.0035
Institutional quality	FS2	0.065	6.68	0.0000
Democracy index	FS3	0.058	1.86	0.0628
Financial liberalization index	OF	0.086	3.02	0.0026
Financial instability index	FINST	-0.082	9.94	0.0000
Physical capital reserve	SK	0.055	0.45	0.6472
Inflation	IN	-0.059	-0.75	0.4529
Government size	GOV	0.41	4.81	0.0000
Arellano–Bond test	AR(1)	m-statistic		-1.95
		Prob		0.04
	AR(2)	m-statistic		-0.19
		Prob		0.85
J-statistic		20.29		
Sargan test		0.43		

According to the results of the Sargan test, H_0 (correlation between residuals with instrumental variables) is rejected. Hence, the instrumental variables used in model estimation required validity. In other words, the results of the Sargan test indicated no correlation between error terms and instrumental tools through model estimation.

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Therefore, the results had the validity required for interpretation. The Arellano–Bond test was used to determine the correlation between error terms. According to (Table 4), H_0 (lack of correlation between differentiated error terms) was not rejected. Therefore, Arellano–Bond test is a suitable method for estimating parameters and eliminating fixed effects. In other words, the serial correlation between error terms is removed with an order of differentiation from error terms, and differentiated error terms do not have first- and second-order autocorrelation. Hence, the model estimated with first-order lagged differentiation is suitable without modern specification bias.

According to the regression model's coefficients reported in (Table 4), a positive relationship exists between trade liberalization and the financial development of OPEC member countries. In other words, the coefficient of trade liberalization reported in (Table 4) indicate that a one-unit increase in trade liberalization leads to a 0.15% rise in the financial development of OPEC member countries. Moreover, the significance level of <5% indicates that this relationship is reliable and significant. Hence, the first hypothesis of the study is rejected, and trade liberalization has a significant effect on the financial development of selected countries (OPEC member countries).

Testing Hypothesis 2

H_0: Trade liberalization does not have a significant impact on the financial development of Iran.

H_1: Trade liberalization has a significant impact on the financial development of Iran.

Table 5. Testing hypothesis 2 using the GMM method

Independent variable		Coefficient	t-value	Prob.
First-order lag of financial development	FD(-1)	0.76	5.19	0.0000
Trade openness	OT	0.06	2.30	0.215
Institutional quality	FS2	0.041	0.1919	0.8479
Democracy index	FS3	0.039	1.92	0.0544
Financial liberalization index	OF	0.066	8.93	0.0026
Financial instability index	FINST	-0.13	-5.71	0.0000
Physical capital reserve	SK	0.002	0.62	0.5354
Inflation	IN	-0.011	-1.57	0.1162
Government size	GOV	0.73	5.08	0.0000
Arellano–Bond test	AR(1)	m-statistic		-1.95
		Prob		0.04
	AR(2)	m-statistic		-0.19
		Prob		0.85
J-statistic		20.29		
Sargan test		0.43		

Regression model coefficients reported in (Table 5) indicate a positive correlation between trade liberalization and the financial development of Ira. In other words, one unit increase in trade liberalization leads to a 0.06% rise in the financial development of Iran. Moreover, the significance level of <5% indicates that this relationship is reliable and significant. Hence, the first hypothesis of the study is rejected, and trade liberalization has a significant effect on the financial development of Iran.

Discussion and Conclusion

This study was conducted to examine the impact of financial and trade liberalization on the financial development of OPEC member countries. Two hypotheses were designed based on the research subject. The statistical population of the study comprised 14 OPEC member countries. Data analysis was done through Eviews software and the GMM method. The obtained results have been reported herein.

According to the results of the first hypothesis, a positive relationship exists between trade liberalization and the financial development of selected countries. Hence, this is a reliable and significant relationship, so H_0 can be rejected. Therefore, trade liberalization affects the financial development of selected countries.

According to results obtained by (Husseinzadeh & Arjmandi Mazrae, 2020), a relationship exists between financial liberalization and financial market development in developing countries, which is matched with the results of the present paper. The results obtained from the study conducted by (Abdullahi, 2012) indicated the negative and positive impacts of financial liberalization on financial market development and economic growth. Findings obtained by (Santana, 2020) indicated that financial liberalization could not create a positive correlation between financial development and economic growth due to the incidence of banking crises. (Moyo & Le Roux, 2020) confirmed the relationship between trade liberalization and financial development. Financial liberalization may increase the likelihood of financial crises indirectly through financial development. These results are in line with the results of the present study. According to results obtained by (Morduch et al., 2022), it is not reasonable to adopt trade liberalization policies at least in the initial stages to achieve financial development. Hence, it is better not to use this policy to achieve this goal but the income rise and economic growth must receive greater attention. The researcher confirmed the relationship between trade liberalization and financial development.

The results obtained from the second hypothesis indicated a positive correlation between trade liberalization and the financial development of Iran. Hence, this is a reliable and significant relationship, so H_0 can be rejected. Therefore, trade liberalization affects the financial development of Iran. (Motameni & Kashiri, 2014) concluded that the relationship between trade liberalization and financial development policies can reduce production inefficiency and strengthens economic growth. A nexus exists between financial development, trade liberalization, and economic growth. This result is matched with the results of the

present study. Financial development is an important factor in the economic growth and development of each country. The economic growth and development have been accelerated more permanently regarding its role and performance in the country. Financial development is a multifaceted concept that includes many other dimensions in addition to banking sector development: non-banking sector development, monetary sector development, monetary policy, banking regulations, and surveillance, open financial sector, and institutional environment. The following results were obtained from this study:

- The higher and better the trade and financial liberalization, the more improved the financial development and economic growth and development will be.
- According to data and statistics, OPEC member countries have relatively poor institutional quality indicators leading to minor impacts of this liberalization compared to other countries with high intuitional quality. It is suggested that the institutional and legal environment of countries be improved in these countries to achieve better and higher impacts of financial and trade liberalization on financial development.

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