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Financial liberalization, openness and convergence

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Abstract

All industrialized nations relied on capital account controls for significant periods of their economic development and relaxations of capital account restrictions thought to be an integral aspect of economic development. Economists long advocated the removal of capital controls as a stabilizing factor of the development process to improve efficiency and return economies from distorted factor prices to production frontiers. Empirically, however, financial liberalizations have become associated with capital flight, which has partially offset the benefits of liberalization. We investigate the role of capital account controls in the process of economic development. Our findings show that capital account controls have a significant impact on the growth rate of the economy. In response to the liberalization of capital accounts, the growth rate of the economy has increased significantly. Our findings confirm our findings.

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