THE POTENTIAL ECONOMIC IMPACTS OF FINANCIAL LIBERALIZATION IN LIBYA IN CASE OF ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO)

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A Thesis Submitted to the University of Huddersfield in Partial Fulfilment of the Requirements for the Degree of Doctor of Philosophy

The University of Huddersfield

University of Huddersfield Business School

January 2016

Abstract

Given the significance of financial liberalization and the key role of financial development in economic growth, according to the financial liberalization theory, liberalizing the financial sector is a route to increasing savings, investment and growth. However, the recent studies have shown that a number of developing countries do not demonstrate this kind of relationship and have, rather, recorded relatively low growth. The primary purpose of this research is to explore the potential economic impacts on the Libyan economy of economic liberalization in general, and liberalization of the financial services sector in particular, in the event of Libya's accession to full membership of the WTO. In order to ascertain and to quantify this impact, the study used a mixed methodology. The existing theoretical arguments have been critically reviewed in order to develop the research idea.

In line with the research objectives, the methodology used include a quantitative and qualitative approach. First, the quantitative aspect is based on an empirical assessment of the impact of financial liberalization using time-series econometric techniques from 1978 to 2011 for secondary data analysis; and second, the qualitative approach, based on semi-structured interviews directly related to the research aims and objectives.

The empirical findings achieved the aim of the research. The results obtained show that despite the reforms and liberalization in the financial sector, there is a negative relationship between financial liberalization in Libya and economic growth during this period. This disproves the theory of financial liberalization that claims a positive co-relation between financial liberalization and economic growth. The research outcomes include a set of recommendations based on the findings of the study, which are potentially useful for policy makers and further research.

Acknowledgements

First of all, I wish to express my greatest gratitude and sincerest appreciation to Dr Kalim Siddiqui and Dr George Ndi for their great guidance and continuous cooperation in spite of their tight schedules, throughout the stages of this research work. This has had a great impact on me, to think more deeply, to make appropriate ideas in the research field.

I am also extremely grateful to all members of staff in the Business School at the University of Huddersfield, especially, Professor John Anchor, Professor Collins Ntim, Dr John Day, Mrs Parveen Yunis, Mrs Hannah Spencer for their help and ongoing support.

I express my gratitude to many institutions in Libya – the Libyan Ministry of Education, the Libyan Cultural Affairs Office in London, and Al-zitouna University – for giving me this chance and sponsoring me to study for a Doctorate at the University of Huddersfield Business School. I would also like to acknowledge my gratitude to many respondents from the banking sector, insurance companies, and the stock market in Libya who generously contributed their time and expertise and made this research possible.

I equally wish to express my deepest thank to many people who have contributed directly or indirectly to the realization of this research: Dr Mostafa Al-Bosufy, Dr Yusef Yakhlef, Dr Tatyana Karpenko-Seccombe, Mr Ibrahim Alshbili and Ms Jane Fieldsend for their support, advice and encouragement, throughout the stages of this research.

I want to express my thanks also, to all my colleagues and friends for their moral support and help.

Lastly, I would like to give my sincere appreciation, too, to my beloved parents, my brothers, and my sisters for their support, encouragement, and prayers during all the stages of my study.

Dedication

I would like to dedicate this thesis to:

God Almighty, who gave me the ability and patience to complete this study.

And to my mother and father for their full support and endless encouragement.

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List of Abbreviations

ADF	**Augmented Dickey Fuller Unit Root Test**
AIC	**Akaike Information Criteria**
ARDL	**Autoregressive Distributed Lag**
CBL	**Central Bank of Libya**
DF	**Dickey Fuller**
DW	**Durbin-Watson Criteria**
ECTt-1	**Error-Correction Term**
EXR	**Exchange Rate**
FDI	**Foreign Direct Investment**
FL	**Financial Liberalization**
GATS	**General Agreement on Trade in Services**
GATT	**General Agreement on Tariffs and Trade**
GDP	**Gross Domestic Product**
INF	**Inflation Rate**
IMF	**International Monetary Fund**
L	**Labour Force**
LYD	**Libyan Dinar**
MENA	**Middle East and North Africa**
NCI	**National Corporation for Information**
PP	**Phillips and Perron Unit Root Test**
RI	**Rate of Interest**
SBC	**Schwarz Bayesian Criteria**
TO	**Trade Openness**
VECM	**Vector Error Correction Model**
WTO	**World trade organization**

Chapter 1: Introduction and Background

1.1 Introduction

The aim of chapter one is to provide an introduction to the dissertation on the issue of financial liberalization in the context of the World Trade Organization. This chapter is organized into ten main sections as follows: Section 1.2 is the Introduction and background to the study. In Section 1.3 the motivation behind conducting this research is illustrated, while Section 1.4 describes the problems addressed by the study and discusses the rationale for the research questions that are presented. In Section 1.5 the research aim and objectives are posited, with Section 1.6 presenting the research questions of this study. Section 1.7 provides a brief discussion of the research methodology, followed by Section 1.8 wherein the contribution of the research is discussed. Section 1.9 suggests the research scope and limitations, and finally, in Section 1.10, a brief summary of the style, format and structure of this research are provided.

1.2 General Background

The liberalization of global trade in financial services has brought many changes to the economies of countries such as South Korea, Taiwan, Singapore, and United Arab Emirates. At the forefront of these trends is the General Agreement on Trade in Services (GATS) which provides the framework for multilateral negotiations on improved market access for foreign services and service suppliers. Also, increased trade resulting from the liberalization of domestic markets together with technological advances has made economic activities more globalized. Consequently, the demand for financial services has grown all over the world. Liberalization under the GATS and WTO framework means more domestic market access by foreign firms providing financial services. The key issue and challenge facing many developing and emerging economies nowadays is how to ensure effective economic management and financial stability in a global marketplace where liberalization has become the dominant policy feature.

Liberalization of financial services is one of the important aspects of negotiations on GATS that depends mainly on multilateral negotiations with WTO members (Sally, 2003). The key issue and challenge facing many developing and emerging economies is how to manage economic growth and financial stability in a globalized economy where capital flows and financial markets are increasingly liberalized in line with the WTO and GATS regime. The financial sector plays a crucial role in the economy, and evidence from the developing or developed economy shows that liberalization can improve financial sector performance, with potential benefits for other economic sectors. However, there are also risks associated with liberalization – for example, in relation to subsequent financial instability resulting in limited access to financial services. Careful sequencing of reform, appropriate regulation and other complementary policies are required to ensure liberalization delivers the expected benefits (Cali, Ellis, & te Velde, 2008).

The financial services sector has undergone important structural changes in recent years with growing numbers of worldwide cross-border mergers and acquisitions and increased competition among different types of financial institutions (McKinnon, 1993). The WTO led financial liberalization process seeks to eliminate discrimination between foreign and domestic providers of financial services, the removal of barriers to entry and establishment of the provision of cross-border financial services. The main objective of liberalization is to promote competition, efficiency and diversification of the domestic financial system (Chanda, 2005; Hoekman & Kostecki, 2009). Since 1980 there has been a revolution in the global economy due to the creation of an unprecedented demand for worldwide financial services. Evidence of this can be seen in ever-increasing cross-border trade and foreign investment flows into the financial services sector between 2000 and 2010. However, this in turn has provided great opportunities for financial institutions to expand globally, especially within the framework of the GATS and WTO regimes (Matsushita, Schoenbaum, & Mavroidis, 2003; Stewart & Badin, 2011).

In light of the potential economic benefits of financial liberalization, many developed and developing countries have adopted policies aimed at liberalizing their financial services sector. For example, the United States and the United Kingdom began to liberalize their financial sectors around the mid-1970s, Latin American countries (such as Argentina, Chile and Uruguay) towards the end of the 1970s, and the southern Asian countries (such as South Korea and Taiwan) at the beginning of the 1980s (Zagha & Nankani, 2005). From the start of the 1990s onwards, some Arab countries such as Egypt, Jordan, Tunisia, and United Arab Emirates continued to reform and to liberalize their economies, including modernization of their financial infrastructure and reform of their banking system. Also, they reduced government intervention in credit allocation decisions, lifted bank interest rate ceilings, lowered the reserve requirement and entry barriers, and privatized many banks and insurance companies (Omar, Callie, & Chia, 2008).

In recent years the relationship between financial development and economic growth has attracted a great deal of attention and debate in the economic literature, in particular with regard to financial services liberalization under the WTO regimes (Bird & Rajan, 2001) . It has been argued that financial liberalization policies increase economic efficiency, which in turn positively influences economic growth (Zaim, 1995). An increasing openness is expected to have positive impacts on economic growth – i.e. it is an essential determinant of growth and development. There is evidence to indicate that GDP increases in countries that open their financial markets in comparison with those whose markets are less open (Mattoo, Rathindran, & Subramanian, 2006). "Global capital flows fluctuated between 2 and 6 percent of world GDP during the period 1980-95, but since then they have risen to 14.8 percent of GDP, and in 2006 they totalled $7.2 trillion, more than tripling since 1995. The most rapid increase has been experienced by advanced economies, but emerging markets and developing countries have also become more financially integrated” (IMF, 2008, p. 4). The main objective of this research is to test this evidence against data analysis on financial services liberalization in Libya.

1.3 Research Rationale and Motivation

The last two decades of the twentieth century witnessed significant growth and expansion of global trade in goods and services with the advent of globalization. At the forefront of this global phenomenon was the World Trade Organization (WTO), of which Libya has ‘observer’ or ‘candidate country’ status. The increasing internationalization of commercial activities, especially in the financial services sector, has resulted in the availability of capital through investment, while at the same time introducing many challenges in the absence of appropriate regulations. According to Khalaf (2011), finance plays a significant role in economic development, and financial depth and economic performance in developing countries is low due to government intervention in the financial system. Faced with this situation “The developing countries have launched different policies to make their financial systems play a key role in the whole process of economic development and they continue to do so” (Khalaf, 2011, p. 67). Such policies have included measures aimed at a restructuring of the financial system such as fiscal consolidation, the lifting of foreign currency and exchange rate controls, deregulation of financial sector activities and financial markets, and privatization of financial institutions including banking and insurance.

Libya has not been isolated from the effects of globalization or the prevailing trends towards economic liberalization, including deregulation and privatization in the financial services sector. In reviewing the development of Libyan policy in this regard two main periods can be identified: the first phase covers the period from the 1970s through to the 1990s, when public sector enterprises were the dominant force in the Libyan economy (Otman & Karlberg, 2007). The second phase begins with the 2000s, by then Libyan authorities had realized that the public sector approach to economic management was not bearing fruits and consequently embarked on a change of economic strategy, thus ushering in a new period in the modern history of the Libyan economy (Vandewalle, 2012). Therefore, we found that during the second phase the economy expanded to become more open to Western economics.

However, the period from 2003 onwards saw the privatization of public firms and entities involved in the provision of financial services such as banking and insurance, and also witnessed the onset of policies aimed at general trade liberalization. Thus the many decades of excessive reliance on the public sector were followed by a policy transition from a planned economy based on public entities to a market-based economic system (Alafi & Bruijn, 2010). Since the year 2003 Libya has made steady progress with the privatization of public entities, the restructuring of the financial services sector, policy reforms on trade and general economic liberalization. These policy trends are consistent with world bank recommendations and also its aspiration and strategy for accession to full WTO membership (IMF, 2006a; Masoud, 2009).

Although the international organizations (the World Bank and IMF) started in the mid 1980s to prescribe financial liberalization as a major frame for developing nations to accelerate economic growth in the wake of crisis, Libya has been involved in this process only recently, since 2003. There are evidently many potential benefits that may accrue to Libya in general, and to the financial services sector in Libya in particular, in the advent of full membership of the WTO. The opening of the domestic financial sector will certainly increase competition and reliance on market forces. These include the potential for economic growth and greater economic efficiency with the improved economic performance that comes with increasing the level of competition in the market place. Indeed, it could be argued that Libya's aspirations (and expectations) in this regard are very much in line with the McKinnon-Shaw hypothesis which argues that there is a positive association among financial liberalization and higher rates of economic growth – and that financial liberalization will lead to greater rates of savings, greater investment and ultimately to accelerated economic growth (McKinnon, 1973; Shaw, 1973). But it is equally evident that there are also many potential challenges and pitfalls, which could be the undesired side effects of such a transformation of economic policy (Stiglitz, 2000). Competition, for example, can be a double-edged sword – it might indeed offer the opportunity for improved economic performance, which comes through exposure to market forces; however, local firms will in the process be open not only to domestic competition, but also to the international competition that is borne out of market access to the financial services sector in Libya, which Libya's membership of the WTO will offer to foreign competitors. It is thus axiomatic that before Libya becomes a full member of the WTO, it has to be prepared so that Libyan firms can withstand such competition; furthermore, it has to be confident of the fact that Libyan firms are well equipped to compete on the global stage – i.e. not only in the Libyan market but also in foreign markets by accessing the markets of fellow WTO member states.

The transition from a planned to a market economy in the context of Libya, which began in the past two decades, has caused many changes in the environment of Libyan companies. For instance, more than 360 non-oil companies were sold to the private sector and other restructuring under the supervision and control of the General Board of Ownership Transfer of Public Companies and Economic Units. This organization was established to implement the program transfer to a public company and economic unit with private ownership. Thus, the majority of the evidence in recent years shows that the Libyan economy has started its development of progressing from a planned economy to free market economy. This includes Libya taking such measures as privatizing their public sector and liberalizing their economy. Also, it has applied to become a full member of the WTO (IMF, 2006a).

The subject of liberalization has been an interesting issue across the world. A number of theoretical and empirical studies have indicated that the function of financial improvement in an economy might vary across countries. This is due to the diverse characteristics of institutional and economic structure. (Bell & Rousseau, 2001; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997). Economic reforms that have recently characterized most developing countries, including Libya, such as the financial liberalization process, have been implemented with the objective of achieving distribution of resources through market forces rather than state intervention, thereby engendering competition and ensuring increased productivity as well as lowering prices, and ultimately, improving consumer welfare.

This study is the first of its kind in offering a critical notion of liberalization in Libya. The main motivation for focusing on or selecting Libya is of interest for many reasons: firstly, Libya was struggling with economic and financial crises by the mid-1980s and international UN sanctions following US Libya-specific trade sanctions in the early 1990s (Vandewalle, 1991). By then, traditional remedies were becoming ineffective. The challenges of planning a strategic policy aimed at achieving the sustainable development of the Libyan economy are mainly linked to current official tendencies for restructuring the economy through increasing the role of the private sector and by continuing to open the public sector to private investors. Thus, economic liberalization has been the government's top priority in recent years. The government of Libya has been enthusiastic in building more clear relations through the WTO. For example, this includes current policies on motivating employees and managers concerning private sector activities. Moreover, this research relates to a single country as the key case in order to determine a good understanding of knowledge relating to economic reform. It concerns what Libya would like to do, such as joining the WTO. Amidst many developing nations, Libya has been chosen as an important study for this specific research, due to Libya being at its turning point from a bureaucratically controlled and planned economy to an open market scheme. Finally, the finding in this research might provide an insight regarding the efficiency of financial liberalization as well as the fundamental principles required towards this success.

1.4 Statement of the Research Problem

Many countries seek to increase efficient financial institutions to promote and support economic growth. In the last two decades of the twentieth century, and first decade of the twenty-first century, many developing countries – including Libya – implemented economic reform programmes due to changes in the international economy. Specifically, they found themselves under pressure from global organizations such as the World Bank, IMF and WTO. The relationship between financial liberalization and economic growth has become a subject of extensive analysis and debate. Many developing countries have joined the WTO in recent years to take advantage of expanding global markets for goods and services; in such circumstances, it is important to know all the implications for financial services of joining the WTO. In particular for Libya, it is vital to consider the benefits and drawbacks before joining the WTO and liberalizing its financial sector; especially as one of the main policies adopted by international organizations such as the World Bank and IMF suggests that financial liberalization is part of economic reform and structural adjustment programmes can correct deteriorating economic conditions and accelerate economic growth, particularly in developing countries. Thus, it will be useful to discuss this in the literature review and to ascertain and take advantage of some of the experiences of emerging economies that have liberalized their financial sector.

Libya is still at the beginning stages of economic reform; one possible strategy is to join the WTO and seek financial liberalization, which is why a comprehensive study is needed to access the impacts of financial services liberalization on economic growth. According to Khalaf (2011, p. 68) “Liberalization of the financial system was one of the main agendas that developing countries, including Libya undertook to ensure the development of their financial systems as a key to higher levels of economic growth. Through financial liberalization, many countries have nurtured their economic growth; while, many others got frustrating results and had to face financial crises.” At this crucial time in Libyan economic history, it is very important to research this situation and provide a number of well-researched recommendations grounded in economic reality that may be utilized in lessening the problems and obstacles that may arise from liberalization of financial services in the case of joining the WTO.

The research problem is to ascertain the ability of Libyan financial institutions to be able to take advantage of the liberalization of financial trade services. It is more likely that under its weak economy Libya would be unable to compete with the worldwide financial institutions that enjoy such tremendous technological progress. There is a lack of coordination, cooperation and incorporation between this country and international financial and banking corporations, which makes Libya unable to provincially affect the financial trade in services. Also, there is some reluctance and doubt in developing countries in general and Libya in particular with regard to taking advantage of the outcome of the international trade liberation set up by the Uruguay Round conference according to international standards. It seems that the weakness of the Libyan economy stems from the fact that the country relies only on a single revenue of income, upon which the state is hugely dependent. Therefore, owing to this limitation the economy will be seen as non diversified, resulting in weak competition with international financial institutions.

1.5 Research Aim and Objectives

As mentioned in the earlier section, the main aim of this research is to investigate the impact of financial liberalization on economic growth in one of the less-developed countries, namely Libya, in the case of accession to the WTO. To achieve this aim the following key objectives are set for this research study:

1) To investigate the possible impact of economic liberalization on the financial sector and on economic growth in Libya.

2) To examine the relationship between macro-economic variables (foreign direct investment, inflation rate, real rate of interest, labour force, trade openness, exchange rate) and economic growth in the long run.
3) To identify the opportunities as well as the challenges facing Libya's economy in the period of globalization.
4) To analyse the experiences of other developing economies in financial liberalization from which Libya can draw lessons.

1.6 Research Questions

In order to answer the primary objectives of the study, several research questions were designed. The following questions are to be answered by this research.

1) What will be the actual and potential economic effects of deregulation on financial services in Libya in case of joining the WTO?
2) Is there any association between financial liberalization and economic growth in Libya?
3) What could be the advantages and disadvantages for the Libyan economy due to liberalization of financial services and WTO membership?
4) What economic lessons can Libya as a candidate country of the WTO learn from the experience of developing economies that have carried out financial liberalization in recent years?

1.7 Significance and Relevance of Research

The importance of this research study will be in highlighting the possible benefits and consequences to the financial sector in Libya. The research hopes to improve the ability and efficiency of economic institutions in Libya, to contribute to the economic development of Libya and assist in developing their mechanics in the global market so as to benefit from liberalized trade in financial services.

This research differs from previous studies in that it specifically aims to examine the expected effects of WTO membership on Libyan financial services liberalization. Previously, the focus has generally been on the impact of economic liberalization on the economy as a whole. Therefore, by narrowing down the research on the impact of financial liberalization and further reducing its focus down to three financial sectors (banking, insurance and stock market), this research can be clearly distinguished from previous research. Also, this study uses mixed methods, whereas previous studies identified in the literature review relied only on secondary data.

As a result, this study aims to contribute to knowledge on the academic and practical levels as being one of the first attempts at investigating the economic effects of financial services liberalization in Libya; this was done by identifying the main concerns and problems that may arise in the case of joining the WTO.

There seems to be a gap in the existing literature and this study attempts to fill the research gap in the literature that combines both the qualitative and quantitative studies that interpret the relationship between liberalization of the financial sector and economic growth, in the case of Libya. Furthermore, the findings of this study may be useful to the policy and decision makers in Libya, as well as to countries that share a similar regulatory structure, by helping them to develop any future potential guidance for the financial sector, which can thus contribute to the formulation of their future economic plans. The financial liberalization sector is very important as it may lead to increased flows of capital, technology, efficiency and competitiveness. This is essential as it may have a positive impact on the Libyan economy, and also contribute to an increase in capital and the inflow of technology into the country.

1.8 Research Methodology

This study attempts to investigate and explore the impact of liberalization of the financial sector on economic growth in the case of Libya. Saunders et al., 2007 indicate "how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted" (Saunders, Lewis, & Thornhill, 2007, p. 481). Thus, the researcher should be careful when trying to choose the methodology, which must be appropriate to the researcher's aims and able to answer the relevant research questions. Consequently, in order to find and answer the key objectives and research questions, it is critical to use an appropriate methodology; thus the study was based on a combination of quantitative and qualitative techniques, as being more powerful than a single approach, in response to the objective of the research and questions to be answered.

In this regard, a mixed research approach was adopted. A mixed approach, according to Thomas (2003) is the process of using more than one form of research method to test a hypothesis and/or a proposition. Also in the same context, the combination of quantitative and qualitative approaches, according to Nau (1995), will make results support each other, while also providing an understanding of and insight into the context of the research. A mixed approach analysis of qualitative and quantitative methods has been used in order to achieve both the research aims and objectives. Firstly, primary data analysis (interviews) was used in the financial services sector. Primary data indicate important information obtained first hand by the researcher regarding the research variables; in particular, from the representatives of the financial sector in Libya such as managers of banks, insurance companies and the stock market, to ascertain the views of experts on the impact of financial liberalization on economic growth in Libya. Secondly, data collected from the secondary sources will be processed to determine the variables for application in the econometric model, which will estimate GDP during these variables; in other words, to assess the relationship between GDP and these variables and how financial liberalization could impact GDP in Libya in the case of joining the WTO, we have to collect secondary data variables.

According to Bryman and Bell (2007), using both quantitative and qualitative data in the same study enables triangulation to be applied, in order to improve the decision-making process for the research result and make it stronger. Therefore, in this research study, it is useful to combine secondary data and interviews. Consequently, final decisions are made by assessing and analysing all the available information – both qualitative and quantitative. Therefore, the essence of collecting data from more than one source, i.e. triangulation, is to help achieve reliability and subsequent validity of the results.

1.9 Research Scope and Limitations

A study on the impact of liberalization of the financial sector to economic growth in Libya has a very wide scope, and limited resources and time constraints make it impossible to achieve all. In consideration of the constraints, this study has a geographical as well as time limit that can be defined as follows:

Firstly, from a geographical point of view (the limits of location), the study is limited to the arena of Libya, which covers an area of 1,775,060 square kilometres, located in the northern part of the African continent. Libya extends from the Mediterranean coast in the north to the borders of Chad and Niger to the south, and from the border with Egypt and Sudan in the east to the border with Tunisia and Algeria to the west (NCI, 2014). Secondly, in relation to the limitation period of this research, it should be noted that the period covered in this research is from 1978 to 2011, thus covering both the periods of financial repression and financial liberalization, i.e., the period of economic activity that was fully dominated by the public sector and the period after the economic reform process. In fact, the issue of the availability of data is one of the most important problems facing the study, because Libya lacks well-organized statistical institutions. In addition, there is no high level of technology that enables Libya to provide all the data online. Therefore, the time series data in this study starting from 1978 represents the year with most observations with available data, while the year 2011 is selected as the last period in this study because the current data is only available up to the end of this study.

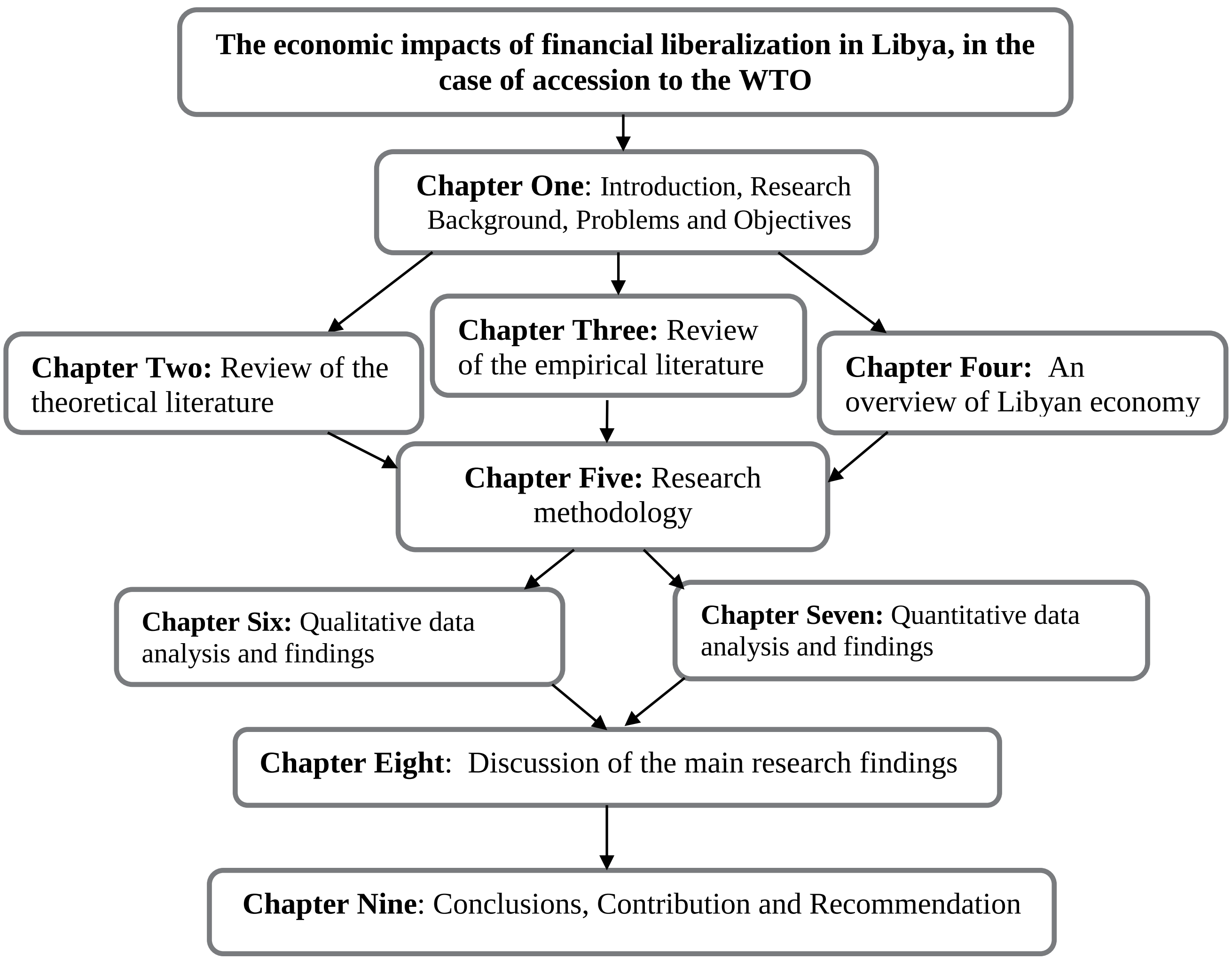
Libya is still in the early stages of financial liberalization and reform, but it has moved quickly as a result of the removal of UN and the US sanctions in recent years, and there are signs of rapid economic policy development. The most important are the beginning of the privatization programme which has allocated a number of public sector companies to the private sector, the accepting of Libya's application to join the World Trade Organization as an observer member, as well as the establishment of a stock market. However, as yet, as far as is known to the researcher, no study has explored the influence of liberalization of the financial sector on economic growth in Libya. Therefore, currently there is a lack of published material and in some areas the existing literature is quite limited. Thus, this study provides a contribution to the subject of Libyan economic growth by analysing the data needed to evaluate the success of the financial reform programme and the readiness of Libya to complete its transition to a market-based economy.

The most significant factor that has led to a major limitation of the primary data collection in the study is the ongoing civil war and violence that Libya has been witnessing since 2011, which has made it very difficult to carry out the fieldwork with companies and managers in Libya for primary data collection. On reflection, it would have been better to interview a larger number of respondents in the absence of time constraints and in the absence of the limitation imposed by the geographical location of the participants. However, the researcher believes that the size of the sample for the interviews and in particular the sectors selected are sufficient to validate the results of the study.

1.10 Structure of the Study

Regarding the structure, this thesis is divided into eight chapters, including the current chapter, as shown in Figure 1.1. In addition, it will be reinforced with diagrams, tables and appendices in order to improve the understanding of readers.

Figure 1-1: Structure of the Thesis



Chapter One: General introduction

This chapter provides an introduction to the study, including background information, with a statement of the research problems/ questions, research rationale and significance, as well as the research aim and objectives. It also includes a summary of the research methodology, research importance and contribution, scope and limitation of the research, and the layout of the study. In addition to Chapter 1, this thesis consists of seven further chapters and a concluding chapter (altogether 9 chapters) as follows:

Chapter Two Literature review: Financial liberalization: Theoretical Perspective

The chapter presents a review of the literature related to financial liberalization theory, which forms the theoretical basis of this study. The chapter also provides insights into the effects of financial liberalization on economic growth. An insight into sequencing of financial liberalization is also reviewed in Chapter 2. The theory of financial repression is discussed, and the link between financial liberalization and financial fragility is reviewed. The chapter provides evidence from some countries' experiences of financial liberalization; and finally, a summary of the chapter.

Chapter Three: Economic impacts of liberalization: empirical evidences

This chapter introduces a review of the empirical literature related to financial liberalization; the first section this chapter discusses the implications of financial liberalization on developing countries under the WTO regime. After that, it explores the relationship between financial development and economic growth. Also, the literature is reviewed on financial liberalization policy implementation and empirical evidence of its relationship with foreign direct investment, interest rate liberalization, the exchange rate, inflation and economic growth. And finally, a summary of the chapter is presented.

Chapter Four: An overview about the Libyan economy

This chapter provides an overview of the literature related to the financial sector and related issues in the Libyan context, in order to provide a framework for this thesis, starting with the general background about the political environment and the economic system in Libya. Then the chapter discusses financial liberalization policy as a reforming policy in Libya, including the banking sector, insurance companies and the stock market. It also discusses or gives brief information about the potential benefits and challenges of WTO membership for the financial services sector in Libya, as well as a summary of the content of the chapter.

Chapter Five: Research methodology

This chapter focuses on the methodology of this study. The aim of Chapter Five is to discuss the methodology used in this research. It contains a review and discussion of the research methods, their advantages and disadvantages. It also includes the selection of the research philosophy, research approach, strategy, research design, data collection methods, as well as sample and population. The chapter explicates the research approach of the study covering data required, data collection and its sources, and the various analysis techniques employed in the study. This chapter also presents concerns of validity and reliability with the selection of the statistical tools for data analysis. Finally, a summary of the chapter is presented.

Chapter Six: **Analysis of secondary data and empirical findings**

This chapter introduces the empirical results formulated from analysis of the data collected using secondary data, and runs an appropriate analysis by using statistical software. The unit root test is included in the chapter based on certain time series of variables used for investigating the effect of financial liberalization on economic development in Libya. There are many different techniques for the unit root test which are reviewed and used accordingly. These results are obtained by employing the sequential procedure, which is presented and explained throughout the chapter. Additionally, it discusses the co-integration tests, and their outcomes are also summarized in this chapter. The long- and short-term relations identified by the co-integration tests assess the effect of financial liberalization on several aspects of the Libyan financial and economic structures. Moreover, the chapter applies the model in forecasting future economic growth when the current regulations in Libya are in line with financial liberalization. The chapter also provides the results and a summary of the forecasting model, and is able to provide a basis for achieving objectives one, two and three of this research. Finally, this chapter will offer a summary of the key research findings.

Chapter Seven: Analysis of qualitative data and findings

This chapter offerings the empirical outcomes obtained from analysis of the data gathered from face-to-face interviews with respondents of the financial companies in Libya. The purpose of this chapter is to interpret, explain and give the participants' perceptions and perspectives on the possible effect of financial liberalization on economic growth. Thus, it is designed to fulfil two major purposes: firstly, to examine the participants' perceptions of the opportunities and challenges facing the financial sector when joining the WTO (i.e. the third objective of this study); secondly, to obtain additional information and explanations regarding the lessons that Libya as a candidate country of the WTO can learn from the experiences of developing nations in general, and Arab states in particular, that are already members of the WTO and have started to liberalize their financial sector (i.e. the fourth objective of this research).

Chapter Eight: Discussion of the main research findings

The aim of this chapter is to discuss the key quantitative and qualitative research findings of the empirical study in relation to the research objectives and in the context of the existing literature and research conducted in the same field. Also, the chapter reviews the key results of this study.

Finally, Chapter Nine: Conclusion and recommendations

This presents a summary of the key research outcomes. Furthermore, with a full understanding of the effect of financial liberalization on economic growth in Libya, the research has made a contribution to economic theory and practice which it is hoped policy and decision makers of the Libyan government will find useful in informing their future decisions. The contribution is in the form of recommendations based on the findings of the study. Additionally, the chapter discusses certain limitations of the research and also identifies opportunities for further research in the area of financial liberalization in Libya.

In the next chapter of this research, a review of the key literature is presented in order to provide a theoretical background and develop an understanding of the significance and role of financial services liberalization in economic development in developing countries.

Chapter 2: Financial Liberalization: Theoretical Perspective

2.1 Introduction

The financial sector is considered important to any economy. The relation among financial improvement and economic growth has received considerable attention in the literature. Much more theoretical and empirical work has emerged since the pioneering work of Schumpeter (1934). Services provided by a well-developed financial systems contribute to channeling financial resources to the most productive use. Schumpeter argued that the role played by the financial sector in any economy can be essential in the promotion of technological innovation and economic growth, as it provides basic services such as savings mobilization, management, monitoring and evaluation of investment projects. One of the most important issues recommended by international institutions such as the IMF and World Bank was the financial liberalization policy, which aims at boosting the efficiency and capacity of the financial system. Another aspect the system aims at is to mobilize savings for productive investment and to support economic growth in developing nations.

By the late 1980s, the issue of financial liberalization had received great attention. Many monetary and financial authorities in developing countries, including the Middle East, had implemented financial liberalization programmes, financial deregulation and privatization of financial institutions. Another element is to open their financial sectors to foreign investment with the objective of stimulating economic growth. In fact, many developing nations have implemented reforms in both the banking and non-banking sectors in order to improve efficiency and attract capital. This in the future will lead to an increase in their development as well as improving the economies of the countries in progression.

It is noteworthy that these programmes included the establishment of financial liberalization, public sector reform and reform of the tax system, as well as the social side and economic policies. The IMF and the World Bank require the application of liberal financial policies to provide the necessary funding in countries facing difficulty in obtaining them. The application of these institutions is recommended by the financial liberalization policy, which is implemented to increase financial intermediation in order to expand the capacity of the financial system. This will help to redirect savings for productive investment and support economic growth in developing nations.

In fact, the theoretical foundations of this policy are based on the work of McKinnon (1973) and Shaw (1973) which indicates the need to eliminate financial repression. They believe that repressive policies are contrary to financial deepening. Thus, the financial policy of repression that was applied by most developing nations in the 1950s and 1960s was seen as an important factor in holding back economic development and slowing economic growth (Bird & Rajan, 2001; Hermes & Lensink, 2005; Jayati, 2005; Mobolaji, 2008; Prasad & Rajan, 2008).

According to McKinnon and Shaw in 1973, removal of all constraints on the financial system is a must. Special consideration should be acknowledged on the basis of real interest rates, as the setting of interest below their equilibrium level generates a lower rate level of savings and investment. It therefore leaves market forces to determine the stability of the interest rate and allocate the necessary resources to strengthen and develop the financial system and make it more effective. In fact, an efficient financial system can perform critical business operations and turn savings into productive investment channels. The financial liberalization system would thus be able to mobilize the maximum savings for investment that in the future would lead to development and economic growth.

However, its present shortcomings in financial sector efficiency may reduce the effectiveness of monetary and fiscal policy. This can eventually cause a cutback on capital, which may lead to an increase in the economic downturn. Subsequently, the main policy of financial liberalization is to develop the financial system and increase competition and efficiency to promote economic development (Gallagher, 2010).

In this chapter, a review of the literature will be presented in order to provide a theoretical background and develop an understanding of the significance of liberalization of financial services. This is considered on the basis of economic growth in a broad-spectrum of developing nations. The purpose is to review the role of finance liberalization in economic growth on the basis of theoretical discussions and empirical studies. Throughout this chapter there will be critical discussion and analysis on the role of the financial system with regard to the economy. Additionally the reviews of the theoretical background behind the concept of financial repression will also be discussed, as well as the main ideas of the theory of financial liberalization. The chapter will start with the theory of McKinnon (1973) and Shaw (1973) which provides a theoretical framework that outlines the issues associated with it. Finally, a summary of the chapter will be presented.

2.2 Role of Financial System in the Economy

Financial liberalization in the 1970s became the most important phenomenon of the financial system in many developed nations such as the UK, the USA, Canada and Germany. Thus, it can be argued that "the effect of financial reform may be more beneficial in countries with a well-developed legal system that affords better protection to creditor rights" (Galindo, Schiantarelli, & Weiss, 2007, p. 21). There is an ongoing debate about whether financial liberalization is a benefit or a disadvantage for the development of the financial system and increasing economic growth. Indeed, the financial system plays significant role in the process of economic development. Its main task is to transfer scarce funds from savers to borrowers for consumption and investment.

Through the resources available for lending and borrowing, the financial system provides the means for economic growth. Theoretical and empirical studies have shown that a competitive financial sector is a precondition for economic growth (Bismuth, 2010). Also, the financial system plays an essential role that, is to help states to facilitate the allocation and deployment of economic resources.

Allen, Oura, and Ginkō (2004) investigated how a financial system could achieve an optimal allocation of risk. Their findings show information about how capital allocation is produced by its own economic efforts through financial intermediaries. In addition, financial liberalization could also play an important role in maintaining stability, while at the same time improving allocated efficiency through the liberalization process. These are the overarching reform objectives, both from a country and a global perspective (Chen, Jonung, & Unteroberdoerster, 2009).

Economists differ in their views according the role of financial liberalization in economic development. Indeed, the relation among the effects of financial liberalization on economic growth remains a question of debate in the literature. There are some studies that support the McKinnon and Shaw theory which sees that liberalization of the financial sector is the best way to stimulate economic growth in developing countries (Robert & Levine, 1993b). However, on the other hand, some countries don’t take this into consideration – a second stream is located on the opposite side and are against the McKinnon and Shaw idea.

2.3 Financial Repression

The discussion of the question of financial repression came in the 1970s, when some economists saw the benefit of financial liberalization. During that period governments around the world tried to control the distribution of credit, by setting interest rates below the market price. But over time, the majority of governments around the world enforced a strategy of financial liberalization. Many of them tried to remove or eliminate controls to avoid the financial costs associated with economic repression and control. It has been argued that financial repression could be identified by the actions and measures taken by the state. For example, financial repression is a group of controls on international capital flows with restrictions on domestic interest rates. It also affects government revenue as financial repression could be quite substantial for some nations to endure (Denizer, Desai, & Gueorguiev, 1998; Giovannini & De Melo, 1991; Hermes & Lensink, 2005)

Governments in developed countries have identified credit channels and determined interest rates as well as allocating restrictions on foreign investments. Furthermore, the state has also issued additional restrictions on bank operations, such as to restrict the setting up of banks. The strength of the state is that it determines the new institutions that exercise financial activity by trying to manage them through implemented laws and administrative procedures.

There are some points of view that can be argued against state intervention to improve the economic performance of the markets. In doing so, this will help in dealing with the prospect of risk that could lead to a crisis due to the information asymmetries between lenders and borrowers. Thus, economic performance may be affected by the intervention of the state, banks' profit maximization and credit rationing, through having real interest rates that ensure the efficient allocation of resources.

Stiglitz (1993) argued that many reasons for the liberalization of financial markets in several countries are based on the fact of ideological commitment. This cause of concern is misunderstood by an idealized conception of the market that is not based on fact. Stiglitz believes that financial markets differ from other markets, as they are exposed to pervasive market failures. In fact the usual continuation of the budget deficit is a significant predicament in many developing countries. Therefore, in order to find solutions to finance their deficit budgets, countries must choose financial repression as it provides lower inflation rates.

Money supply growth is seen as an easier public method to finance government expenditure. The money is simply printed on the back of government bonds. No government tax collectors are required, and state expenditures appear to be financed at little cost to the public. Legislative approval is often not required. Roubini and Sala-i-Martin (1995) argued that states repress financial performance by not allowing the financial sector to operate freely through the introduction of all kinds of regulations, laws, and other that are not based on the financial market system for operating in banks or other financial sectors generally. Fry (1980) shows that financial repression is a technique for maintaining institutional interest, particularly on deposit rates below the equilibrium level of the market. Moreover, with regard to Roubini and Sala-i-Martin (1992), an indication suggested that strict control and regulation of the banking system by financial repression would give monetary authorities greater control on money supply. Financial repression is linked with interest rates below market rates, which Leading to reduce service costs of the government debts. However, before the 1970s, many developed countries followed the policy of repression in the financial sector as a strategy to help the overall economic development process.

Furthermore, according to McKinnon's belief, financial repression on government tax had otherwise distorted their domestic capital markets. “The economy is said to be financially 'repressed'. Usury restriction on interest rates, heavy reserve requirements on bank deposits, and compulsory credit allocations interact with ongoing price inflation to reduce the attractiveness of holding claims on the domestic banking system" (McKinnon, 1989, p. 29).

In this regard, Roubini and Sala-i-Martin (1995) indicated that many economists prefer financial repression policies for several reasons. First, they believe states should enforce laws against usury. This would thereby cause interference in the free determination of interest rates. Second, regulation and strict control of the banking system would give the best facility to the monetary authorities to control money supplies. Third, it was believed that governments have better markets and private banking, which allows the optimal allocation of savings or investment. Finally, it was thought that if financial repression was identified with interest rates being below market rates, this could lead to reducing the costs of servicing government debts.

Giovannini and De Melo (1991) also found that one reason for the financial repression policy is that governments try to support the budget by imposing restrictions and placing high demands on liquidity and reserves. Further, putting a cap on interest rates creates excess credit demand, and directs credit to selected priority sectors. Financial repression practices include: ceilings on deposit and lending interest rates, quantitative controls and selective credit allocation, and inflation tax on monetary assets (McKinnon, 1973).

In a repressed financial sector, reserved requirements provide a significant means of borrowing, forced by the private sector, and the preferred borrowers are heavily credited from the bank sector. The deposit interest rate is set by state regulations that cannot be adjusted; however, investment savings can be compensated (Lewis, 1992). The distortions in the financial system created by the policy of oppression on high yield investment create a preference for capital-intensive projects, discourage future savings, as well as reducing both the quality and amount of investment in an economy (Gupta & Lensink, 1997; McKinnon, 1973; Shrestha & Chowdhury, 2006).

Haslag and Koo (1999) study of 119 countries gives data on the relationship among financial repression, financial improvement and growth during the years 1960–1989. The study focused on two measures of financial repression: the inflation rate and the reserve ratio. The findings suggested that countries with a high financial reserve means that the government keeps the capital as it is not being used in investment; therefore, on average the growth of capital tends to progress steadily, in comparison to countries with low financial reserve. Furthermore, a high level of financial reserve additionally contributes to having less advanced financial systems compared to countries with ratios of low financial reserves. Besides this, those that have a high financial reserve, on average, precede a high inflation rate, in comparison to those countries with low financial reserve ratios.

Another study, by Roubini and Sala-i-Martin (1995), argued on the basis of a sample of 98 countries from the period 1960–1985. They found a contradicting link between growth and diverse measures of financial repression. What's more, there is the effect of a negative link between growth and inflation rates. Additionally, according to their statistics, countries that are financially suppressed will have a significant degree of inflation rate and decreased interest rate. Similarly, they will also expect to see a greater foundation of money per capita, as well as lower per capita income, than countries that are economically progressing. Consequently, the results from the finding illustrate that financial repression is disadvantageous for economic development.

On the issue of the financial sector, Williamson and Mahar (1998) found that the financial systems of developed countries are classified as rather liberal. Nevertheless, they retain some dimensions of financial repression. The United States, for instance, still imposes a high deposit rate as well as limited assets that savings and loan institutions can gain. However, financial repression in 1970 almost became universal in most developing nations, as they all had directed credit and regulated interest rates. State control was also substantial at the time of entry of firms into the financial sector.

It goes without saying that when the government tries to intervene in the financial system, this could lead to disrupting the function of financial markets. The financial system is not able to fulfil its main role as mediator of savings mobilization and effective allocation of investment. In addition, financial repression policy impede economic improvement and, therefore, are expected to theoretically have a negative influence on the economic development of a country. For instance, limits on interest rates by the government, as a rule, lead to an increase in the spread among lending and deposit rates. In this context, the government controls the interest rates on banking transactions and, therefore, commercial banks could compete either in the deposit market or in the credits (Banam, 2010).

Many other factors hinder the improvement of the financial sector. For instance, when the government restricts price, this may lead to distortions in the financial sector that do not process effectively through savings and investment, but are due to restrictions on the financial sector, making it a non free market. These policies are mainly implemented by authorities in developing nations, so as to enable the use of the financial sector as a source of public finance. Some of the wrong policies lead to an increase in inflation, taxation and compulsory large reserve ratios. Other policies also include funds or controlled credit, as well as rates of return that were also among the incorrect regulations. The situation altogether is jointly referred to as “financial repression”; a considerable flow of research has demonstrated that these financial repression guidelines weaken economic development. A number of studies have proposed a significant degree of financial repression outcomes in reducing the growth of per capita GDP rate (Creane, Goyal, Sab, & Mobarak, 2004; Hanson & Ramachandran, 1990).

In fact, evidence from different studies points out that significant revenue is obtained by countries through control of financial markets. For example, Aizenman (2008) examined the relationship through commercial and economic openness of countries that are still in the process of development. His study shows that developing nations, burdened by excessive costs of tax, opt to use financial repression as an implicit tax on savings. This consequently offers the incentive for capital flight. It also suggests that the rather costly collection of taxes in progressing countries would be a new policy, regarding financial repression and, thus, be part of the option on taxes.

Government intervention could contribute to direct credit rates, and thus lower interest rates on loans and deposit rates. This also touches the decline on deposit interest rates, which savers can no longer catalyse inside the country, as this may encourage capital flight outside the country as part of the intervention and government censorship, the objective of financial discipline. Also, as this high tax provides the impetus for capital flight in search of a higher return on savings, it may result in budget constraint. This scheme could therefore increase the requests of banking liberalization policies, and in return imply greater trade openness (Zagha & Nankani, 2005).

In summary, the McKinnon-Shaw hypothesis about the deregulation of interest rates leads to higher deposit and lending rates which in turn helps to move the limited financial resources of the poor performance of projects to high efficiency. The studies by Roubini and Sala-i-Martin (1992) and Robert and Levine (1993b) on the links among financial improvement and economic indicators point out that an underdeveloped and repressed financial system allows the government to finance public expenditures more easily. This is only when the tax system is inefficient, but it can be a barrier to growth. More conversely, it can be realised from the overhead that regimes select financial repression policy primarily to collect money to finance their budget deficits (Reinhart, 2012).

2.4 Reform of the Financial Sector

These developing countries over the past 30 years have seen enormous strides towards liberalization as an essential and significant part of economic policies. Usually "financial sector liberalization in developing countries has been associated with measures that are designed to make the central bank more independent" (Jayati, 2005, p. 1). It also helps in reducing financial repression through freeing interest rates and reducing directed and subsidized loans. To add to these great comebacks, another key advantage is that more freedom is enforced in terms of external capital flows in various forms.

It seems that many developing countries, including Libya, have embarked on the adoption of these policies with regard to the economic reform programme. They have also been engaged in unprecedented efforts to alter their financial regimes, due to the urgent need of economies to accelerate the economic growth of their countries. The policies reduce unemployment problems as much as possible. Usually they are aimed at making the economy more open to international trade. However, the ultimate purpose is to increase reform and economic development in these developing nations (Bekaert, Harvey, & Lundblad, 2006).

It has become widely recognized that policies of financial repression based on state intervention are implemented to control economic activity; this includes the financial sector, making it work according to these specific regulations to serve the intended purpose of the sector. Therefore, the future of developing countries is critically linked to their success in reforming their financial policies to ensure more rapid and sustainable growth and higher living standards. On the other hand, financial reform and adapting the economic structure for integration into the world economy is part of a larger effort. This is to ensure that financial systems in developing countries are able to earn enough foreign exchange to fund their economic policies. "The vast majority of developing countries have some form of capital controls but they believed that these controls have been largely ineffective" (Khoon, 2007, p. 90).

Therefore, many developing countries, such as some countries of South Asia and the Middle East, and the Latin American countries have attempted to transform the strategy of their economies. This process has been carried out through adopting a new model of market-oriented mechanisms, instead of dominance of the public sector. The countries have attempted economic policy reform and to move to a situation in which the financial sector is simple in private hands with the state acting as a controller and regulator (Masoud, 2013).

Johnston and Pazarbasioglu (1995) observed that financial variables and reforming the financial system can influence economic growth and competence. Furthermore, panel data was collected from 40 different countries, which determined the reformed financial schemes. Accordingly, the reformed financial schemes were speculated to modify economic growth and productivity. This process is carried out through three key stages: firstly, the real interest percentage, characterizing the interest funds for capital. The second stage is the capacity of intermediation; and finally the financial sector performance. Consequently, the outcomes show the programme of financial reforms of the structural effects; financial variables and reforms are essential and crucial components of economic achievement.

There have been various efforts to change the course of economic policies, which have been under way with varying degrees of commitment, whereas in some countries such as those in South Central Asia, reforms have profoundly changed the business environment. This is usually the case for private decision-makers and government officials alike, while in other countries such as Libya, reforms have begun but, however, are only in their initial stages (Krueger, 2002). The econometric results suggest that financial services are mainly related to economic development and improved productivity. In addition, the effectiveness of other policy reforms depends upon the reform of the financial system (McKinnon, 1992; Robert & Levine, 1993b).

The study by Pill and Pradhan (1995) is one of the first studies to examine the impact of financial liberalization on growth. In discussing the role of financial liberalization in the financial sector improvement process, they suggested that the results of financial liberalization in the former group (e.g. Gambia, Ghana, Kenya, Madagascar, Malawi and Zambia) were less than the outcomes obtained in the case of the latter group (e.g. Indonesia, Korea, Malaysia, the Philippines, Sri Lanka, and Thailand). According to the authors, financial development in the former group has not changed post-liberalization. The reason behind this is due to lack of the necessary and appropriate conditions, such as a stable macro-economic climate and financial and institutional development. These were not favoured in the former group for the success of financial liberalization, compared with the latter group of the study.

It should be noted that the credibility of government policy in reform programmes may play a crucial role in many cases. It may also provide a useful link between both frameworks, and the result of these policies in the end is to increase prosperity in the country (Funke, 1993). Following financial liberalization, the market should determine real interest rates. Consequently, this will expand capital flow and resources obtainable to the financial sector. Likewise, real interest rates will act as a motive for borrowers to invest in further productive action. This will, as a result, enhance the productiveness of the economy by maintaining its savings. For this reason, liberalization of the financial system would cause a boost in both the capacity and the quality of financial intervention through the banking system. “A successful financial liberalization is usually an important component of a country’s strategy for economic growth” (Pill & Pradhan, 1997, p. 8).

From another perspective, the main reason that makes many countries adopt financial reform programmes is to treat deficiencies in their economic activities. The deficiencies may lead to inflation, and an increase in the number of unemployed. Pill and Pradhan (1997) believe that for financial reforms be achieved, there needs to be suitable economic environment. Macroeconomic stability is a precondition for successful liberalization of financial markets. According to Broner and Ventura (2010), financial liberalization with structural reforms raises productivity and improves institutions. Moreover, this method will help developing economics to grow and develop fast.

In fact, until 1980, most governments in developing and developed countries dominated the financial sector. However, since this period many countries have tried to remove the entry restrictions and barriers to foreign capital flows. Also, the IMF and the World Bank have played a major role in advising developing countries about the benefits of such reform policies (Abiad, Detragiache, & Tressel, 2008; Grabel, 2016).

2.5 Financial Liberalization Theory

Over the last three to four decades several reforms have occurred in the financial sector. The financial liberalization policy has been applied in many developed and developing nations, in order to develop their financial sector. Therefore, a significant amount of literature on this subject has appeared, and produced a wider scope of opinions, views and ideas. They range from those who are strongly in favour of reform and liberalization and those opposed greatly to both the objectives and methods of liberalization. Consequently, the economic literature on the link among financial development and economic growth is varied. There are two competing theoretical frameworks in the literature for this purpose. The first is represented by Schumpeter (1934), Goldsmith (1969), McKinnon (1973) and Shaw (1973) , Gupta (1984), Jung (1986), as well as King and Levine (1993), who claimed that financial services are essential for stimulating economic growth. The difference between the levels of growth in countries can be explained by the quality of services offered by financial organizations and regulations.

The second thought to negatively impact financial liberalization assumes that the level of economic growth is the main catalyst of financial deepening. According to this theory, the financial system only responds passively to the demand for services Patrick (1966), Saint Hill (1992); Pagano (1993) Joseph and Raffinot Venet (1998).

Numerous authors who suggested that financial repression has detrimental impacts and problems in the real economy, such as Goldsmith (1969) have discussed that the key effect of financial repression is the influence on capital efficiency. The prevailing economic policy that underlies conventional Keynesian theories carries the following assumption, that low interest rates set by the government would strengthen investment. Moreover, this would also increase economic growth. In general, the trend of financial liberalization is part of a larger trend to reduce direct state intervention in the economy. However, in some developing nations, financial liberalization is also a deliberate try to avoid financial repression. It acts as a policy to finance fiscal imbalances and the government subsidizes the priority sectors. One can consider this as a move strongly advocated by the work that McKinnon (1973) and Shaw (1973) carried out. According to them, financial repression involves convincing financial organizations to pay for low and usually negative real interest rates and reducing private financial savings. Doing this decreases the resources available for financing capital accumulation. “In a repressed system, financial mediators fail to channel savings to proper investments” (Banam, 2010, p. 13). In this perspective, thanks to financial liberalization, developing nations could boost local savings and allocate capital to more productive uses; both of which would improve the volume and efficiency of physical capital, and reduce the excessive dependence on foreign capital, therefore contributing to economic growth (Demirgüç-Kunt & Detragiache, 1998; Jalilian & Kirkpatrick, 2002).

Additionally, the distinction between liberalization and financial repression is essential to understand. Liberalization can be characterized as the process of giving the market the authority to determine who gets and grants credit, and at what price. Full liberalization allows any company to enter the market, also giving banks the independence to run their own affairs; some of which includes withdrawing from the ownership of financial organizations, and abandoning control over global capital movements thus capital outflows are a natural consequence of openness (IMF, 2015). According to Williamson and Mahar (1998), there are six dimensions of financial liberalization, which can be summarized as follows: elimination of credit controls; deregulation of interest rates; removal of barriers and opening up of the financial system to new entrants; private ownership of banks; autonomy of the financial operation; and finally, liberalization of international capital flows. Financial repression could be defined as when the main decisions in the relevant dimensions are made by the government; while in a liberalized system the regime plays a minor role only. Hence, the financial system can be partially or completely liberalized, and this depends on the strength of regime involvement in several of the above dimensions of liberalization.

Other studies, such as Rajan and Zingales (2003), found that openness may enhance the supply of external financing, as it aligns the interests of the most powerful economies more closely with financial improvement. In regard to their view, openness frequently leads to competition with established companies. Moreover, existing companies may feel concerned about the threat of entry, as the government has strong incentives to resist financial development in shaping policies and institutions in their own interests when they are in power.

However, due to potential competitors, the economy may need external financing for investment opportunities. The authors argue that when a country becomes more open to trade and global capital flows, this enables them to develop their financial sector in a more advanced way. This facility helps to compete with current and potential investors, as globalization will force the country to do what is advantageous for their economic improvement. In the light of this, evidence indicates that between 1960 and 2000 the percentage growth of open trade between countries increased from 16% to 73% (Wacziarg & Welch, 2008).

Conversely, Svaleryd and Vlachos (2002) noted that trade openness is associated with risk diversification. The authors argue that nations are at risk of being subjected to external demand shocks from foreign competition, and as such it will create new demand for external financing. In this perspective, the influence of trade finance is likely to work over the demand side. Some economists argue that there is a need, first of all, to progress the macroeconomic environment and follow the right procedure for liberalization. This procedure should be encountered before participating in a broad process of liberalization. However, Toroyan and Anayiotos (2009) put forward that, while it is significant to perform economic and financial reforms, it is also important to set priorities for the development of institutions; although only to those institutions that contribute to the development of the financial sector and that increase the advantage of financial liberalization. It is also key to take into consideration the potential for financial instability and what this could cause after liberalization (Demirgüc-Kunt & Detragiache, 1999).

2.6 Theoretical Criticisms of the Financial Liberalization

Although there are a number of critics about the theory of financial liberalization, they were nevertheless keen to promote policies of financial liberalization in many countries. This was part of the reforms through the work of the IMF and World Bank, perhaps in their own traditional role of promoting policies of financial liberalization in developing nations. It was the main focus of stabilization programmes and the wider reform policies that would be implemented. Nonetheless, after the application of financial liberalization, there were some issues of concern in a number of developing nations that led to criticism of this theory and also concern for how certain economists should be reconsidered. The disadvantage of this theory could be that it is not justified with evidence of development, and therefore the proponents of this theory gave some justification that it could be the cause of the failure of this theory.

It has been mentioned that the failure of liberalization was due to inadequate banking supervision and macroeconomic instability in developing countries. The political implications of this analysis are as follows: take out maximum interest, decrease reserve requirements and abolish direct credit programmes. In short, the liberalization of financial markets allowed the free market to determine the allocation of credit. It is assumed that there will be a free market with the help of several banks, ignoring issues of oligopoly, the root cause of rationing credit problems (Arestis, 2006; McKinnon, 1988; Stiglitz & Weiss, 1981; Villanueva & Mirakhor, 1990).

The McKinnon model (1973) presupposes the existence of a sophisticated financial system. This of course was determined to show a positive link among higher interest rates, financial improvement and investment growth. Through the market, interest rates can simply balance the supply and demand for savings of borrowers and depositors. In other words, with the real rate of interest determined by the market, it could adjust to levels at which savings and investment may be balanced. Besides this, low yielding investment projects would be eliminated, so that the overall effectiveness of the economic system could be improved. Also, as the real interest rate increases, it will additionally increase savings and the total supply of credit, which induces higher investment volume. Taking all this on board, economic growth will also be motivated, not only by the improved investment, but also because of an increasing in the average productivity of capital.

In addition, the impacts of lower reserve requests would increase savings on the supply of bank lending. While the abolition of directed credit programmes leads to an efficient allocation of loans, this further stimulates the average productivity of capital (Arestis, Nissanke, & Stein, 2005). However, Stiglitz (1989) argues that markets may not provide correct signals to balance the supply and demand. Consequently, government involvement should be targeted at creating moderate forms of financial repression to alter the signals that lead to a more positive relationship between borrowers and depositors.

In fact, Stiglitz also mentioned that, due to the undeveloped nature of the financial markets in these developing nations, adjusting even small forms of signal from the state may not produce the desired results. Eventually the failure of this procedure could lead to unintended consequences. Interest rates are important to make a decision in the market, but still considered as a dimension as they are one of the incentives and disincentives that effect the decision-making process in financial systems.

As a result of the emergence of some problems arising from the application of the theory of financial liberalization in some countries, a new approach has been established. This initiative has led to the introduction of new elements in the analysis of the financial liberalization thesis in the form of preconditions. They must be pleased before reforms can be considered and implemented. In summary, McKinnon (1993) argues that there is no problem with the theory or the policy from the theory. However, the problems are arising since there is no sequencing of the financial liberalization processes, especially when some countries have started to remove deregulation prior to completion of macroeconomic stabilization.

In short, financial transformation on the basis of the McKinnon-Shaw theory has prompted a widespread banking crisis. This is mainly due to the weak foundations of this specific theory; although, McKinnon (1993) has debated that the theory itself is not any problematic or the policies concerning it, but rather, the progression of when deregulation is presented before macroeconomic stabilization is formulated. This is the main issue facing the banking crisis in many developing countries.

2.7 Importance of Financial Liberalization

Since the 1970s, many countries such as the USA and the UK have developed measures of economic reform, by implementing a new model of market-oriented mechanisms. This method plans to help countries attempt to move from a planned economy to a free market . The objective and purpose is to provide their citizens with the highest level of living. Conversely, developing countries that have had to deal with the debt crisis and high inflation, for example countries such as Libya, which has resources but has been affected by the international boycott since 1986, have found they are unable to obtain foreign currency to meet their economic requirements (Masoud, 2009).

Many developing countries, due to pressure from the IMF, World Bank and WTO have turned to financial liberalization and lifted restrictions on cross-border financial transactions (Siddiqui, 2010; Simmons, Dobbin, & Garrett, 2006). The objective of financial liberalization is to ensure that the financial services industry has provided more operational flexibility and financial autonomy. In order to improve efficiency, productivity and profitability, the objective must be acknowledged in detail. The liberalization process has involved various measures such as the liberalization of interest rates, allowing financial innovations, and reducing direct and subsidized credit. It has also facilitated the entry of the private sector and foreign players in various segments of the financial sector, not to mention the greater freedom for foreign inputs as outputs too. The reform process has made a radical change both in the structure and development of the financial system.

The theory of financial liberalization has supported the views of Schumpeter to stimulate the improvement of the financial sector in economic. Schumpeter (1912) argues that economic stagnation in developing nations is due to the link among the country and its financial system. He argues that this sluggish economy is due to increased state intervention in the financial system. Therefore, financial liberalization includes a gradual deregulation of interest rates and credit policies directed by the state. Also outlined is the reduction in the reserve requirements of banks, the entry of non-banking financial institutions, and reduced restrictions for entry and operations of private banks (both domestic and foreign).

According to Ataullah, Cockerill, and Le (2004), the privatization of public sector banks is also affected, depending on the strong knowledge in the field of the philosophy of financial liberalization. This also includes the significance of a free market structure. One must explore the achievement of the industrial banking and financial systems, as the main aim is to contribute to the spirit of rivalry. Consequently, this method will enhance the efficiency of both financial and banking organizations functioning within industrial markets. It will further deliver their fundamental functions, primarily the continuing of financial intermediation.

Liberalization of financial markets can be seen as a method of operative reforms and guidelines, implemented to regulate and reconstruct the financial systems. The structure is also changed for the realization of a system within an appropriate legal framework based on the free market (Sundaranjan, 1999). Therefore financial liberalization is to take a qualitative development in the legal and regulatory scheme, and also the framework of the regulatory and supervisory environment. The change must be made to both the banking and financial sector operating systems. The widely known objective of financial liberalization is that it is intended to make country economies more efficient or to make them more attractive in the performance of resource mobilization for development (Mkandawire, 1999).

The objectives of financial liberalization may differ from country to country but the common objective is summarized as follows: in the approach of McKinnon and Shaw, the main objective of financial liberalization is to improve the welfare of countries. On the other hand it is implemented to reduce credit programmes directed by the authorities and to contribute to a competitive environment (Laeven, 2003). According to Kaminsky and Schmukler (2003), the aim of financial liberalization is to stimulate economic growth by enhancing savings, investment and the productivity of capital, including the resources to promote economic development.

As mentioned above, one of the key objectives of the liberalization of financial sectors is to enhance savings as well as interest needed for economic development. Also, McKinnon 1973 and Shaw 1973 clearly presented that the fundamental objective of liberalization of finances is to boost capital supply. It is also necessary to promote the allocation of finances for investment flow. This is seen as a great advantage as it will help boost the national economy. Their study further indicates that the dismissal of interest rate boundaries would enhance real interest rates. These rates will be determined by the market and stimulate savings. Furthermore, additional savings will push more investment within the economy, consequently leading to economic growth.

Generally, most economic literatures supported the idea of the process of financial liberalization that aims to reduce state intervention in the financial system and develop allocation of financial resources, stimulate saving and increase the whole supply of credit in the financial sector. This exactly creates the funds available for financing the real sector, which outcomes in an increase in the level and effectiveness of sustained economic development. For instance, Laeven (2003) argues that financial liberalization contributes to poverty reduction in developing countries as it promotes sustainable of the economic progression, through a more efficient international allocation of capital. Furthermore, Schmukler (2004) argues that there are advantages of financial liberalization that could motivate the deepening of the financial system that occur through two channels. The first is an increase in the availability of funds in the economy for borrowers who might have a productive investment plan. However, this could prove to be somewhat difficult as they may not be able to carry out the procedure due to the problem of the scarcity of capital that has been encountered before liberalization. Second, adopting a liberalization policy can bring new sources of funding – this could mean more money for borrowers, not only from funds provided by domestic financial institutions, but also from access to more funds provided by foreign banks. Subsequently, financial liberalization could encourage governments to improve the infrastructure between financial institutions that can facilitate asymmetric information matters of financial sectors, thus encouraging competition among them.

2.8 McKinnon-Shaw Hypothesis

The debate on the relationship among financial liberalization and economic growth has been attracting considerable attention. This has been ongoing since the reinvention of the hypothesis of financial liberalization by Ronald McKinnon and Edward Shaw in 1973. McKinnon (1973) and also Shaw (1973) hypothesized that financial liberalization accelerates economic growth and enhances efficiency of the financial sector, through positive interest rates, savings and investment. Before these hypotheses the dominant view in the literature of finance and growth was the neo-Keynesian perspective, which argued interest rates should be kept low. The reason for this argument was to promote the formation of capital (Das & Drine, 2011).

McKinnon (1973) and Shaw (1973) challenged the classical theory and were the first to suggest theoretical arguments against the policies of financial repression. They further believed that interest rates should be determined by the market and not by governments. What's more, there is an indication that the financial sector plays a significant role in increasing the volume of savings, hence investment. Ultimately, this will lead to economic growth in addition to bringing inflation down. Also, McKinnon and Shaw's published work indicates that financial repression consisted of lifting the interest rate ceiling, selective credit policies and direct lending programmes. Also on the agenda are high reserve requirements that reduce some local investment and productivity. Under these circumstances, and according to the owners of the financial liberalization school, what went on was the debate on how financial liberalization came into practice to eliminate the harmful effects mainly caused by financial repression in practising developing countries. The analysis was analysed through the period of the early 1970s. The analysis was chosen by the prominent pioneers McKinnon and Shaw.

During this period, many countries followed the philosophy of economic planning, with programmes of public credit and government control of interest rates. This group of hypotheses is targeted at investigative the effect of financial liberalization measures on the different aspects of growth and efficiency. McKinnon and Shaw, supporters of the financial liberalization theory, suggested that the removal of entry barriers would lead to an increase in the number of financial organizations in the market. Rendering to their financial liberalization theory, in which interest rate liberalization leads to stimulating savings, higher saving rates would finance a higher level of investment.

Nonetheless, liberalization helps in directing the funds to the most productive high-yielding enterprises instead of low-yielding projects. Furthermore, liberalization facilitates technological innovation leading to higher economic development, in addition to bringing inflation down. It is important to understand that any positive effects of liberalization of financial markets and high interest rates on economic growth must go through an increase in the productivity of investments (Odhiambo, 2011). Therefore, according to this view, restricting the interest rate will lead to stifling savings, reducing the quantity of investment to below the optimal level. It will also decrease the quality of investment by encouraging banks and other financial intermediaries to finance only low return projects (Gibson & Tsakalotos, 1994). McKinnon and Shaw (1973) argue that only financial liberalization will ultimately lead to accelerating economic growth in the economy. In fact, according to them, many developing countries such as Argentina, Brazil, Chile, Nigeria, India, Indonesia, China and Malaysia liberalized their interest rate, thus achieving important accelerations in economic development rates, although in some countries such policy was associated with excessively high and volatile real interest rates as well as inflation, which led to the financial crisis (Zagha & Nankani, 2005).

According to McKinnon (1973), competition in financial markets raises interest rates on deposits; this leads to a high savings rate. As a result, it also increases the amount of resources available for investment. In addition, liberalization of financial markets stimulates the financial sectors to become additional efficient by decreasing overhead costs, and improving banks in general and also risk management. Liberalization in addition offers new financial mechanisms and services to the market, making it more competitive.

Besides this, liberalization of financial markets means opening national markets to external competition, leading to the import of well maintained banks and risk management methods. This process also implements the introduction of new financial services. All of these purposes will enable the improvement and development of financial transition in a country. Consequently, this will contribute to greater returns of investment and also contribute towards higher funds in economic development (Orji, Ogbuabor, & Anthony-Orji, 2015).

Financial control was a common policy for both developed and developing nations until the early 1970s, and only in the late1970s and 1980s did policies begin to change. Liberalization of the financial sector is becoming the main programme undertaken to ensure the development of financial systems as the key policy measure for achieving higher economic growth. Financial liberalization has been propelled by the US, the UK and also international organizations such as the World Bank, IMF, OECD and WTO. The IMF and the World Bank, especially, believe that opening financial markets could increase the efficiency of the allocation of global capital and develop international capital markets (Zagha & Nankani, 2005).

However, in comparison, financial liberalization in some emerging nations such as Indonesia, Thailand and Mexican has led to disappointing results. This has led to economic and financial crises such as occurred in Latin America in the 1980s and in some South East Asian countries in 1997. It is worth knowing that, before the Asian crisis, in general the macroeconomic policies of these countries were sound. The problems and crises originated due to an increase in the activities of the private sector in economic activities without specific controls of governments (Rodrik & Subramanian, 2009). “These problems were aggravated by the fact that liberalization was not accompanied by the creation of an adequate supervisory and prudential regulation system worsening these problems substantially” (Chandrasekhar, 2005, p. 2). Given the actual experience of these countries, it is also true that many of the negative effects of financial liberalization were expected.

2.9 Sequencing of Financial Liberalization Process

In the last quarter of the twentieth century, the global financial system tended towards greater openness in financial markets on the basis that the role of the government makes prudential regulation rules within the financial sectors. This reduced direct intervention of the state in deciding how to allocate credit privatized the financial sectors, increased the level of competition, and encouraged the entry of overseas financial service providers. One of the key outcomes of the WTO was that new material has been added to trade policy – trade in services such as the General Agreement on Trade and Services (GATS), Trade Related Intellectual Property Rights (TRIPS) and Trade Related Investment Measures (TRIMs) (Hoekman & Kostecki, 2009; Wilson, 1995). Under the GATS, the largest service sectors including banks, insurance companies and other financial services are fully subject to multilateral trade rules based on open access to the domestic financial services markets of member states. According to the GATS, financial liberalization was an international financial services provider in each country. The financial sector liberalized its financial system, whereas GATS stands on the principle that open markets are the way to go for greater global prosperity. Conclusively, this aimed to eliminate barriers in all service sectors, including financial services. It encouraged the countries to open of markets to trade and investment. In the GATS negotiations, developed countries played a role in promoting the liberalization programme (Bongini, 2003).

It is generally accepted that financial liberalization is an integral part of financial sector development. As such, the policy of deregulation of interest rates, whether complete or partial, creates an opening of the capital account that could result in important implications for financial development and economic growth (Ang & McKibbin, 2007). As a result, the political debate on the link between financial liberalization and economic growth has become more important, especially in developing countries. It effects those countries that have adopted interventionist policies in the financial system (Gibson & Tsakalotos, 1994). Financial liberalization can be seen as a set of operational reforms and policy measures to deregulate and transform the financial system and to achieve a system focused on the liberalized market in an appropriate regulatory framework structure (Bisat, Johnston, & Sundararajan, 1999).

In another study by McKinnon (1993) the sequence of the financial liberalization process differs among countries, depending on the economic circumstances of each country. Consequently, governments should not undertake all liberalizing measures simultaneously. He argues that the sequence of liberalization is critical for any country that wants to liberalize their financial system. There are two fundamentals for successful implementation of macroeconomic policies of financial liberalization. McKinnon in his view stated the optimal order of liberalization consists firstly in the stability of macroeconomic policies and low inflation, and secondly, the balance of government finances. In other words, fiscal control must precede financial liberalization.

Accordingly, liberalization opens up the domestic capital market for account holders to secure. Similarly debtors pay real interest rates at satisfactory level that can achive their desires. However borrowings, loans without restriction can proceed satisfactorily when the price level is stabilized and budget deficits are eliminated. The banking system must be released to set interest rates on deposits and loans. Therefore, these requisites are a fundamental factor before embarking on a financial liberalization policy. McKinnon (1993) cautions that since the authorities will lose control over credit creation, the removal of reserve requirements as a means of financial liberalization policy is not recommended. This may impact on economic growth, as well as capital account liberalization and domestic financial reforms need to be addressed in an integrated way (Johnston & Sundararajan, 1999).

The most important issue for developing countries is how they present the strategy to liberalize capital account transactions. The main challenge is to identify precisely how foreign capital can enhance economic growth when entering the domestic market.

According to Karacadag, Sundararajan, and Elliott (2003), there are several key principles on sequencing financial liberalization:

- Reforms in financial system infrastructure, including accounting and disclosure, should start early in the process of the development of market forces. This gives the time needed to implement these reforms which are important to financial institution restructuring and good corporate governance.
- The liberalization of capital accounts should be through the development of a specific strategy to help develop the domestic market. This means allowing short-term capital flows for some sectors in order to support the exchange market development.
- A comprehensive approach to risk reduction requires effective supervision in carrying out the necessary adjustments to both the economic and financial policies.

Similarly, a proposed liberalization of capital flows was made by Ishii and Habermeier (2002). According to them, the basic principle for sequencing capital liberalization is that short-term flows should not be liberalized before the country obtains effective control over monetary and foreign exchange transactions. In addition, the country should restructure the financial and corporate sectors, strengthen prudential regulation and supervision, and also assess the risk management. It is also important to strengthen systemic liquidity arrangements and related monetary and exchange operations in order to improve accounting and statistics. Having this in place ensures the sustainability of the reforms and the transparency process of liberalization.

Since the Asian crisis, economists have had a widespread idea that emerging economies should not liberalize capital flows if certain basic conditions are not met. The liberalization of capital movements may increase market concentration and strengthen monopolization of a few firms in the market. However, this can create the conditions for increased economic instability, where the excitement periods and accelerated growth are followed by deep crisis and stagnation. Girma (2000) notes that premature financial liberalization could have a devastating impact on the nation's economy, as evidenced by the financial crisis in East Asia. He argues that in such a context, a gradual and cautious step towards financial liberalization in developing countries is not a choice but a necessity.

Many studies indicate that financial liberalization is considered as the source of the financial crisis (Demirgüç-Kunt & Detragiache, 1998; Prasad, Rogoff, Wei, & Kose, 2003, 2007). Nevertheless, it is important that financial markets function effectively, in order for them to import funds to economies that have more prolific investment opportunities. This process is essential, particularly with developing market countries, as investments can have particularly high returns, and stimulate fast economic development. Hence, the risks linked with financial liberalization do not necessarily mean that countries shouldn't follow the policy of liberalization; although, it is recommended that a number of strong procedures should be applied to avoid any financial systems crisis. Some of these disadvantages include sustainable macroeconomic management. These need to be enforced in order to complement organizational structures. Improvement of market policies should be complete, strong prudential regulations that provide strength of character in a supervisory framework (Karacadag et al., 2003).

Kaminsky and Schmukler (2003) studied the short- and long-run influences of financial liberalization on investment markets. Their study included the assessment of 28 developing countries from the period 1973 to 2002. Additionally their study also illustrated that local and international financial liberalization is a procedure in which a variety of restrictions are taken away over time. Similarly, while liberalization has followed as a continual process in many mature markets, it has been distinguished by vicissitudes in developing economies. This therefore resulted in taking certain controls and measures on capital.

Furthermore, Kaminsky and Schmukler (2003) found that the pattern of liberalization varies across regions, with developed countries liberalizing their stock markets first and developing economies opening their domestic financial sector first. They argue that liberalization reveals new problems in the domestic banking system that was protected by the government through access to new funding sources. During financial repression, banks are protected from foreign competition, as well as having a poorly regulated and inadequately supervised workforce. There is no pressure on financial sectors to operate efficiently. In such case, the main recommendation on sequencing the financial sector is to strengthen domestic financial establishments and make the necessary changes to government institutions. It would also be complementary to assess deregulation of the industry and opening of a capital account.

Furthermore, Andersen and och Tarp (2003) (2003) focused on the sequential process of successful liberalization as the financial system. The author states that the involvement of the government in the capital market has led to inefficiencies and has negative implications for the economy. A financial system that works well has a vital role in economic growth; however, it should be applied in a proper sequential order with enough time. It must also be suitable for the reform of the financial sector, rather than merely haphazardly applied liberalization.

It was mentioned by Bascom (1994) that price stability in macroeconomic policy is significant for a prosperous financial reform programme. Therefore, the control of inflation has been a crucial issue in reaching sustainable levels of positive real interest rates. At the same time effective control of inflation determines the ability of the state to establish financial expansion. This must be in specific accordance to the status and funding of the state's budget deficit. In addition, according to Bascom (1994), the first sequencing of reform is that the capital account can be liberalized after making local interest rates competitive with international interest rates. Fiscal deficit must be controlled first by the government, and in case of an inflationary environment, which can happen due to the large fiscal deficit financed by monetary development or due to tax inflation, it would require the central bank to maintain a low level of national interest rates. On the other hand, imposing higher reserve requirements for commercial banks was also required.

Kwon (2004) analysed the liberalization of finances procedure in South Korea due to wrong sequencing caused by the pressure of the United States of America and international financial institutions such as the IMF. The Organization for Economic Cooperation and Development (OECD) including the WTO tried to encourage the country to open its financial markets. By doing so, this would stimulate the competence of the distribution of global capital and progress capital markets internationally. Sadly, this was not the case as financial liberalization caused a financial crisis in the country during the year 1997.

In addition, Gibson and Tsakalotos (2004) discovered several issues about financial reform in developing countries, according to the experience of these countries with liberalization. They argue that the existence of the market failures of some developing countries due to the liberalization process in the international markets has led to a complication in and doubts about the process of liberalization and suggests that the simple approach of planned liberalization in many of the developing countries is inadequate.

They indicate an alternative strategy that domestic financial liberalization should be aware of. This is considered the liberalization of the real sectors (such as the industrial sector) before the liberalization of the external financial sector. Therefore, governments that wish to liberalize their financial systems to invite more FDI must be aware of the risks involved. They should make sure that the economic situation requires greater financial openness (Weller, 1999).

Financial liberalization and opening of a capital account is dangerous if the domestic banks have little experience in dealing with international financial markets. They should not open a market without a well organized sequence in the liberalization process. If this is not acted upon it could lead to risks, such as changes in the exchange rate, as well as banks and other non-banking institutions not being supervised (Wade, 1998). The banks should be encouraged to extend more credit to the private sector as that would contribute to the production process and thus speed up economic growth. However, this requires the development of relevant institutions.

According to Prasad and Rajan (2008), the successful implementation of fiscal policy depends on the level of institutional and economic development before the policy is implemented. Noted by Funke (1993) are the distortions in the economic sectors that can lead to a delay in the time of reform. This includes the rise in inflation due to financing the budget deficit which could undermine the credibility of reforms, thus making the process of liberalization difficult. Therefore, strengthening the need for an approach in sequencing should be made prior to liberalization of the financial sector.

2.10 Financial Liberalization and Financial Fragility

Although there are many different views on the effectiveness of financial liberalization to improve economic performance and theoretical analysis, there was also the view that financial liberalization increases financial fragility. Improving economic growth can only be done by removing interest rate ceilings, reducing reserve requirements and abolishing direct credit programmes. The process would be seen as rather effective as it would be directed to an even more efficient allocation of resources, thereby stimulating further the average productivity of capital; whereas financial fragility works to depress growth, which leads to crisis (Chandrasekhar, 2005).

As some also believed, “The theoretical arguments in favour of a market economy and consequently in favour of liberalization are taken for granted. But the transition from a heavily regulated economy to a more market-oriented economy is fraught with difficulties. Deductive logic does not tell us what transition path is best. In financial liberalization, much will depend on initial circumstances and on the institutional framework. Case studies may help to form a mental picture of the various obstacles on the road to liberalized financial markets and how to deal with them" (Visser & van Herpt, 2013, p. 2).

In short, on the one hand, it can be argued that the liberalization of financial markets allows the free market determine the allocation of credit, savings and investment, which are assumed to be in equilibrium. Ultimately, this should contribute to higher growth, not only by savings and increased investment but also because of an increase in the average productivity of capital. On the other hand, it is widely believed that financial liberalization can lead to loss of control over the economy due to financial fragility in the host country, and might not be economically beneficial in many developing countries that are not yet ready to liberalize their economy. Thus, financial liberalization can be seen as the source of the financial crisis. This is due to the majority of evidence and unexpected results of financial liberalization regarding what happened in some developing countries such as those in Latin America and East Asia. It is due to serious adverse consequences with regard to the stability of the financial system as a whole, including the incidence of severe financial crisis (Rossi, 1999).

Therefore, the implementation of financial liberalization programmes, especially in developing countries with weak institutions, has created many more problems than it has solved (Arestis & Demetriades, 1999). The literature indicates that non-diversified sources of income create weak institutions and policies for the distribution of capital. All these issues may lead to increasing the likelihood of financial crises in developing economies. Furthermore, Stiglitz (2000) and Mishkin (2009) have noted that financial liberalization contributes to financial instability in countries where the financial system is underdeveloped. In addition, another negative aspect of financial liberalization is that it is accompanied by liberalization of the capital account. This allows companies to invest abroad, which can make a big impact on the liquidity of the domestic market (Raza & Mohsin, 2011).

Brownbridge and Kirkpatrick (1999) and Glick, Moreno, and Spiegel (2001) have argued financial liberalization increases the openness of economies, but carries some risks that have led to serious economic and financial crisis in developing countries. This is particularly the case in Latin America, starting with Mexico in 1994–1995 and other Latin American countries. The Asian crisis of 1997–1998 and also the Russian crisis in 1991 involved some of the countries who endured the crisis. However, the proponents of financial liberalization argue that much of the financial crisis happened due to the lack of developed financial infrastructure in some countries; also volatile international capital movements brought about by globalization of financial markets were another cause (Goldsmith, 1998).

Nevertheless, it is essential that financial markets function effectively, in the hope of obtaining capital for investment opportunities. This is especially the case in emerging markets and funds can result, specifically in high ranking returns, as well as stimulating fast economic increase. Consequently, the risks of financial liberalization do not necessarily mean that countries shouldn't follow in the scheme of liberalizing their economies. Developing countries should develop appropriate strategies before liberalizing their financial sectors. This, as a result, will help to achieve and accomplish the benefits of liberalization. Moreover, as stated by McLeod (1998), the majority of countries around the world have entered a period of economic fragility. This era was established by a large and growing rate of high flowing capital. As a result, it included finances raised by the rapid expansion of banking and financial strategies, as well as the worldwide trend of capital flows.

In general, the crisis of the banking system is in fact more likely to occur in countries that have liberalized their economies. However, the fragility of the banking sector is not an element of the end result of liberalization, though it is important to understand that there could be a possibility that it may lead to a banking crisis. This is mainly the case in countries where the rule of law is fragile, and also where corruption is rather predominant, where governments are incompetent and implementing regulations of the contract have been shown to be unsuccessful. Financial liberalization seems to certainly create an effect on the likelihood of a banking crisis. Therefore there is solid evidence suggesting that the delicacy of financial liberalization has grown over the years in these developing countries. Consequently, one could argue that organizations were required to support a well maintained and functioning financial system, in countries that are usually not very well developed (Demirgüç-Kunt & Detragiache, 1998).

In addition, Weller (1999) claims that the developing economies became more sensitive to the banking crisis after financial liberalization. He used data from 27 developing economies between 1973 and 1998. The analysis shows that the probability of currency crises has a stronger reaction to financial variables to increase real trade sizes. As financial liberalization creates more competition for local banks, financial fragility may result from increased international financial competition. It can easily help the expansion of credit for projects that are seen as less feasible**.** Countries should focus on creating the necessary institutions and stabilizing macroeconomic indicators before opening their economies. Lack of such preparation would likely increase the likelihood of a banking crisis.

With regard to this discussion, it goes without saying that markets in developing countries are considered to be at risk of failure. Therefore, the effect of financial liberalization in developing nations shows that it makes sense to wait until an appropriate economic infrastructure and political will is there. This is necessary in order to contribute to developing the financial sector market and reducing the potential financial crises after liberalization (Demirgüç-Kunt & Detragiache, 1998). It is rather important to create adequate social security systems to liberalize the economy. Free markets can improve efficiency, but can also create imbalance between domestic and foreign companies. The most difficult or sensitive step is the liberalization of domestic financial markets and the capital account. Therefore, the distance or the time between liberalization and an appropriate economic and political infrastructure seems important for the country (Wyplosz, 2001). Financial development cannot happen without a strong institutional infrastructure. Also, public policy laid down by the government is one of the key factors as it plays an important role in the improvement of the financial market. This helps to attract foreign investments and eventually lead to increased economic growth (Awasu, 2002).

2.11 Lessons from Country Experiences of Financial Liberalization

The theory of financial liberalization of McKinnon and Shaw (1973) questioned the classical theory. They believe that not only will the credit markets and public sector lead to improvement in economic growth, but also that the private sector plays a significant role in increasing the volume of savings. The theory also determines that the interest rate should be determined by the market, not by governments, and ultimately lead to economic growth. According to them, interest rates are artificially low, as well as the allocation of credit from the government, leading to hampering economic growth.

Since the published work by McKinnon and Shaw on the association among financial liberalization and development, there have been many debates about the policy of financial liberalization of capital markets in developing countries, and how they were actually implemented. “Capital account liberalization refers to a policy by which a government gives foreign investors the right to purchase shares and bonds in the country’s markets, at the same time granting domestic investors the right to trade in foreign securities” (Tswamuno, Pardee, & Wunnava, 2007, p. 76). Moreover, the study tries to ascertain the experience of some developing countries in terms of the relevance of liberalization on financial markets. The theory of financial liberalization in the case of its application has received both positive and negative results for developing countries.

It can be argued that the absence of robust credit markets in developing countries has been an obstacle to sustaining economic growth. Before financial liberalization, the financial sector was heavily controlled by the government. Evidence suggests that financial liberalization can help improve financial development in developing countries. In theory, financial liberalization would allow a more efficient allocation of global capital from developed countries that are rich in capital compared to those that have scarce availability of capital, especially the developing countries (Mobolaji, 2008).

On the other hand, liberalization of the financial sector may also involve risks if they are not appropriately designed and implemented. According to Guitián (1998), these changes in policy provide many issues involved in the financial liberalization debate. One of the central policy and operational concerns for countries has been how to sequence the reforms in order to maximize their benefits and limit the risks. The literature on the sequencing of liberalization of the financial sector offers a broad range of views, as the practice was different from country to country, partly due to differences in initial conditions and objectives (Gibson & Tsakalotos, 1994; Mirakhor & Villanueva, 1993).

Awasu (1996) study concerned the experiences of financial liberalization in countries that have implemented financial liberalization such as China, Taiwan and South Korea. He noted that the existence of efficient markets and financial institutions was the essential condition for the success of financial liberalization. Without them, the process can slow down the development of the financial system by creating a high margin of inflation. This will reveal volatility in a financial market and also cause macroeconomic instability. International financial institutions such as the World Bank and IMF widely adopt the hypothesis of McKinnon and Shaw in their suggestions. However, it only refers to the benefits that can be obtained by developing countries in light of liberalization of the financial sector.

These requirements have taken the form of Structural Adjustment Programmes and stabilization improved by the IMF and the developing countries. It was said that the aim is to assist developing countries to overcome their economic problems such as high inflation, balance of payment deficit, the debt crisis, and unemployment. But, the results on implementation of financial liberalization, as envisaged by the World Bank and the IMF, are rather disappointing. In some cases, financial liberalization has not helped to achieve the goal of mobilizing savings and increasing investment and growth. Furthermore, in some cases, it has led to economic crises in developing economies, such as the Russian crisis at the beginning of the 1990s, Mexico in the mid 1990s and the financial crisis in East Asia in 1997.

With the spread of liberal ideology in many East Asian countries, in particular the more advanced, including Thailand, Indonesia and Malaysia, there are restrictions on capital account transactions. Obstacles to the entry of foreign, financial institutions in the local markets have been reduced and also the trade in financial services (Park & Bae, 2002). According to Wade and Veneroso (1998), financial liberalization in East Asia was an inappropriate economic policy as it only weakened the system of the region's economies. The authors mentioned that these economies have had an unparalleled financial system, which was able to mobilize significant amounts of domestic savings and direct them into productive investments.

It was a system based on financial relations in the long term, between businesses and banks, with the government ready to help both businesses and banks in the case of a systemic problem. However, they argue that financial liberalization has made these economies weak due to an effort to restructure this unique financial system. Similarly, Kumar and Debroy (1999) claim that financial liberalization in East Asian economies weakened the government's role in supervision and increased the role of private businesses. It was an integral part of their development plan. In the case of a lack of government body to oversee the strategy of individual firms and combining them with a broader sector or the national strategy of the company, its capacity is expanded by participating in an unrelated diversification. This expansion has become the key cause of the crisis. The emergence of massive excess capacity in some of the main export sectors resulted in rising interest rates, which raised the debt service obligations. Thus, according to the authors, the East Asian crisis is a case of market failure, not a failure of the government.

There are others, such as Hellmann, Murdock, and Stiglitz (1997) who argue that the financial liberalization policy is inappropriate for many developing nations. For them, a proper financial arrangement for developing countries is called financial restraint – a system that allows the government to develop a number of restrictions on financial transactions. However, the rents are held by the financial and industrial sectors and not by the government.

Capital flows can have significant effects on economic development and prosperity. However, to achieve and maintain the benefits of capital account liberalisation and minimise the risks, this process requires attention to the sequence of the economic reforms. Echeverria, Darbar, and Johnston (1997) investigated issues of the capital account liberalization and tried to draw on the experiences of some developing countries such as, Chile, Korea, Indonesia, and Thailand. The data was gathered from the period of 1985 to 1996. The study has mainly focused on the relation among capital account liberalization, the reform process in the domestic financial sector, and implementation of the design of monetary and exchange rate policy. As a result the research established that in these countries capital account liberalization should be an integral part of comprehensive reform programmes.

During the 1960s and 1970s, the financial market in Chile was undeveloped and the country's economy had witnessed much unrest. The process of financial liberalization was implemented in Chile since the mid-1970s. The government had abandoned the system of protection and prudent oversight of the financial system. The main objective of the Chilean government was to liberalize the local financial sector through free domestic interest rates. The key principle and outcome of this strategy was to encourage the creation of new banks and other financial institutions. Moreover, it was expected that as a result of these reforms, the credit would be allocated more efficiently, allowing domestic savings to increase. These reforms led to economic growth (Echeverria et al., 1997; Quispe-Agnoli & McQuerry, 2001). GDP in Chile had increased from 3.5% in 1976 to 5.3 in the 1981, though it had been reduced significantly to -14.1 in 1982. This was due to Chile experiencing many difficulties in 1982, for example banking crisis and the foreign exchange rate crisis. However, liberalization process was resumed in the mid-80s. After discovering that the crisis was due to exchange rate policy, which had to be abandoned, the exchange rate took several years to recover and to reduce the rate of inflation (Herpt & Visser, 1994).

The Chilean government opened its markets to the flow of capital, which helped it to lend to the private sector from abroad to meet the needs of foreign exchange. Contraction of the flow of money internationally led to a significant economic downturn in 1982. In order to solve this problem and to help recover the economy, in 1984 the government privatised state-owned banks. After that, the government began implementing a series of preventive measures to counter the rapid monetary expansion in the economy. In 1991 the government put into practice a number of controls on the capital flow in the short run (Quispe-Agnoli & McQuerry, 2001).

During the period of the Mahathir regime, Malaysia adopted significant economic liberalization. The Malaysian government began a programme of financial liberalization, in order to stimulate Malaysia as a key international financial centre (Jomo, 2007).

“Malaysia achieved an acceptable level of economic liberalisation as well as a higher living standard” (Omar et al., 2008, p. 79). To attract foreign capital, the Malaysian authorities allowed foreign institutional investors to buy shares in Malaysian corporations while lowering the tax rate on profits. In response to these measures, large amounts of portfolio investment flow entered the country between 1992 and 1995. Indeed, capital account liberalization in Malaysia had started more than 25 years before the East Asian Crisis in 1998. In this period the economy was highly open and governmental capital inflows were unrestricted. When the Asian crisis occurred, Malaysia was one of the countries affected. Three years prior to the crisis in East Asia, these countries had very high capital flows and an average of 5–14% GDP. However, as Kaplan and Rodrik (2002) observed, “the Malaysia economy failed to respond to the orthodox policies”. This meant the financial crisis deteriorated the economy of that country.

In fact, the East Asian crisis forced some countries such as Indonesia, South Korea and Thailand to call on the IMF for help. However, in September 1998, Malaysia altered its policies and chose not to follow in the same path, relying on a different structure of economic reform. Furthermore, the Malaysian authorities chose to control the capital account, including significant reduction of interest rates. This was to provide the supply of funds and a reduction of the statutory reserve requirement to increase liquidity, fixing the exchange rate at MYR3.80 per US dollar, thus making it lower than before the crisis. Significantly, the government introduced measures for financial regulation, such as the shutting down of the trading standards of the local currency. There was also control on capital flows, especially short-term capital flows for local citizens and foreigners, and the creation of state backed institutions to contribute to the restructuring of troubled financial institutions, as well as imposing some restrictions and procedures to define the foreign ownership ceiling of the assets (Kaplan & Rodrik, 2002). Inflation in Malaysia remained under 5% between 1987 and 2003; however, it increased to 6% during the financial crisis in 1997, but dropped again in the subsequent years after the crisis due to the policy of the Malaysian government to control the price of staple products (Ghosh & Ariff, 2004).

This specific method of solution was as a strategy for the country's crisis. This does not mean that all measures taken by the government in Malaysia during the crisis were appropriate. However, these procedures have been proven to be largely appropriate for the economic situation in Malaysia and helped the country to recover from the crisis (Mishkin, 2007).

In the same context, Ang and McKibbin (2007) used time series data from 1960 to 2000, to examine whether financial development led to economic growth in the case of Malaysia. They conducted co-integration and causality tests to assess the linking among financial and economic growth. The outcomes indicate that financial liberalization has a positive effect on the promotion of financial development.

There are some views in the literature on the liberalization of financial markets in East Asia. They link the East Asian crisis with the liberalization of financial markets. According to some economists, financial liberalization is the right policy, even though it was not correctly used in some countries. For instance, Collier and Gunning (1999) and Camdessus (1998b) suggest that the weakness of the financial systems in East Asia was uncontrollable. On this basis financial liberalization has not paid enough attention to the sequence of liberalization of capital movements.

Moreover, Masuyama (1999) claims that financial liberalization in East Asia was conducted without regard for the preparation and the sequence, adding that politics is often done under external pressure. This was influenced by the liberalization ideology and selfish motives of foreign financial institutions. In addition, Radelet and Sachs (1998) disagree that financial liberalization in the countries of the crisis was conducted in a random way that made the countries vulnerable to a rapid reversal of international capital flows.

Bandiera, Caprio, Honohan, and Schiantarelli (2000) used econometric analysis to investigate whether the influence of financial liberalization on savings was proportionate.

They carried out the analysis using a time series of 25 years to eight countries in the development process. The analysis found that in some countries such as Ghana and Turkey, financial liberalization had a significant direct positive effect on savings; although it was also stated to be negative and insignificant in Korea and Mexico, while no clear effect was apparent in Chile, Indonesia, Malaysia and Zimbabwe.

The analysis states that financial liberalization tends to develop the financial system, improving financing opportunities, reducing the cost of capital and investment, and increasing liquidity. At the same time, there is no evidence to indicate increased financial volatility after financial liberalization. It is true that financial crises have had a major impact on growth in some developing countries, such as Indonesia. But in other cases, the restoration was rapid, making the recovery fast, as in South Korea and Mexico. For example, Mexico has evolved from a very closed economy to an economy that has transformed to become a very large open one. GDP increased by 4.3% in 1985 to 20.4% up until 2002. Moreover, it would be difficult to argue that the economy would grow as quickly as it did, if it was still closed (Stiglitz, 1999).

In addition, Weller (2001) studied financial crises after financial liberalization on emerging economies by using 27 countries over the period from 1973 to 1998. The study found that liberalization allows more liquidity to enter an emerging economy. This method finds its way into productive and speculative projects. In particular, financial liberalization might lead to a reduction in the rate of return as a result of increased capital flows that reduce the local saving rate.

Domestic financial institutions might face excessive competition from foreign institutions, which can cause excessive pressure on local institutions and eventually lead them to bankruptcy. Finally, the results show the chance of financial crisis, especially in banking, becomes more apparent after financial liberalization. Another judgement was recognized by Fry (1997) who surveyed the limited work on the issue of financial liberalization. He supported the argument that financial liberalization allocates capital to more productive uses, thereby increasing economic growth, which reduces poverty.

2.12 The Main Lessons for Libya in the Case of Joing WTO

The literature review employed for the study reveal a number of results and hypothesis which may be instructive for Libya in its quest for economic liberalization in pursuance of full membership status of the WTO. One of the lessons Libya stands to learn from the experience of the Arab states and developing countries in general who are already members of the WTO is how to deal with issues of incompatibility between domestic policies and multilateral trading rules. A pertinent example concerns the possible tensions that could surface in the financial services sector between the rules of the multilateral trading system under the GATS and the domestic requirements of the legal system within the country. Can foreign firms accessing the Libyan financial services market under the GATS be required and under domestic Libyan legislation. These are key attributes that need to be monitored and considered by the Libyan government in order for the state to run their economy efficiently, and utilise their resources appropriately in accordance with the system.

There are many lessons for Libyan policy and decision makers to take on board as the country continues to make its slow but ineluctable progress on the long road towards attaining full membership of the WTO and liberalize its financial sector (CBL, 2010). There will undoubtedly be many more challenges in waiting once Libya fulfils its aspirations of becoming a full member, not least the challenge of dealing with the competing interests of other nations, including those of its trading partners within the multilateral trading system (Feichtner, 2009).

As part of the continuing preparations for membership, Libyan policy makers will have to design strategies for dealing with such challenges. They will need in particular to develop trade and litigation strategies within the framework of the WTO with a view to promoting and protecting the economic objectives and commercial interests of Libya (Santos, 2012). Moreover, there is a need to devise strategies aimed at ensuring that Libya retains some measure of regulatory competence over trade policies, without necessarily flouting the established rules of the multilateral trading system.

In short, it can be said that Libya certainly does have the advantage that there are many lessons to be drawn from the experience of other nations. These lessons are well embedded in economic literature and are readily available, and from them further lessons can be learnt by Libyan policy makers as the country embarks on the slow but seemingly inevitable path towards accession to full membership status of thw WTO.

2.13 The Link between Capital Account Liberalization and Economic Growth

According to Cobham (2002) the liberalization of capital movements is the process of removing restrictions on international transactions related to the movement of capital. This may involve the removal of controls on domestic residents and international financial transactions, and also investments in the country for foreign investors. On the other hand, Henry (2006, p. 887) indicated that capital account liberalization was "a decision by a country's government to move from a closed capital account regime, where capital may not move freely in and out of the country, to an open capital account system". Thus, capital flows can move inside and outside the country without restriction. Tswamuno et al. (2007) further defined liberalization of the capital account as a policy where the government gives foreign investors the right to buy shares and bond markets of the country. Moreover, this grants domestic investors the right to trade in foreign securities. The liberalization of the capital account, as a rule, includes changes in the exchange rate regime with full convertibility of the current account. It accompanies trade liberalization either before or at the same time, which is complemented with varying degrees of capital account convertibility (Jayati, 2005).

The liberalization of the capital market can have a beneficial effect on the economy in many ways. For example, several empirical studies have shown that liberalization has had a positive effect on developing economies. This has led to a reduction in the cost of capital, and increased profitability and investments of individuals. Thus, “the largest future welfare gains to capital account liberalization in developing countries such as China and India” (Henry, 2006, p. 923). Nevertheless, the liberalization of the country can be sensitive to some changes of economic and foreign policy, leading ultimately to greater market volatility. Some researchers argue that, because of the policy of market liberalization of the stock market, the Asian crisis of 1997 is an example of "turbulence" in national markets (Laopodis, 2004).

A number of studies have found that capital account liberalization spurs growth (e.g. Bailliu, 2000; Klein & Olivei, 1999; Quinn, 1997). Athukorala and Rajapatirana (1993) conducted some studies in Sri Lanka on the role of financial liberalization to improve economic growth (Ghatak, 1997). The outcomes were consistent with the liberalization theory. Athukorala and Rajapatirana (1993) found evidence from the study that indicated that private investment in Sri Lanka has become more profitable since liberalization. Similarly, they found evidence to support the financial liberalization hypothesis, and stated that high real interest rates motivate the capability of increasing savings and economic growth. In addition, Ghatak (1997) found that Sri Lanka’s financial liberalization has contributed significantly, having had a positive influence towards its economic growth. This theory was similarly compared with the MacKinnon-Shaw hypothesis, showing an optimistic and momentous outcome of financial liberalization on economic growth in Sri Lanka from 1950 to 1978.

The study by Tokat (2005) examined the effect of financial liberalization on some macroeconomic variables. This was conducted in two developing countries (Turkey and India) from the period of 1980 to 2003. Their results suggest that there is a greater mutual dependence between the variables after the financial liberalization process. The study offers evidence of the growing influence of foreign economies on both countries with regard to macroeconomic variables. Therefore the implication is that financial liberalization has benefitted India and Turkey. Furthermore, Utkulu and Özdemir (2004) investigated the influence of trade liberalization on growth in the Turkish economy. They used time series data covering the period 1950 to 2000. The study applied co-integration on analysis to test the long-term association among the variables. The finding suggested that trade liberalization has had a beneficial influence on the long-term growth of Turkey.

In fact, the link among trade openness and economic growth has been an important factor in stimulating trade reforms in more than 100 countries over the past twenty years. Many of these programmes were voluntary, however most have been linked to the policy conditions that are central to the World Bank's Structural Adjustment Programme (Greenaway, Morgan, & Wright, 2002). Moreover, some empirical findings seem to support the link between free trade and growth such as Rutherford and Tarr (2002), who found that a 10% tariff cut leads to a 10.6% estimated decrease in growth, meaning the results support the reform's paradigm that trade liberalization can lead to significant income increases. In addition, the work of Dollar and Kraay (2001) in the prevailing view was supported by econometric work that showed there is a positive association among trade openness and the level of economic growth, through using trade indicators (exports plus imports divided by GDP) and a set of control variables in nearly 100 countries. Dollar and Kraay (2001) found that trade openness has a positive and significant effect on growth. Similarly, Klein and Olivei (2008) investigated the relationship between capital account liberalization and growth during the periods from 1976 to 1995. They found positive results for them in developed countries over the period of the study.

However, Rodrik (2000) argued that the allegedly false positive effect is due to errors in econometric specification. This is especially considered in the election of the indicator of trade openness and shows that exports and imports / GDP are selected systematically.

The results are in favour of showing a statistically significant association among liberalization and quantitative growth and trade.

However, Greenaway et al. (2002) found that liberalization of trade in some developing countries over the last 20 years has often been implemented with the expectation of growth stimulation. Moreover, the evidence points out that liberalization does appear to impact upon growth. Furthermore, the results suggest some factors that may be an explanation of why the previous literature on the impact of liberalization of growth is rather contradicted. The first reason is the obvious fact that sample sizes and composition differ as well as methodological approaches. Second, the analysis shows different uses of measures; some are ex ante indicators of liberalization, some are ex post and other indicators are clearly opening. Another reason is that many models are specified incorrectly according to estimates.

Despite an international movement of capital, liberalization provides a number of international opportunities to fast track for development. Conversely, it also involves significant risks and challenges for countries and the international monetary system. Free movement of capital allows a more efficient global allocation of savings and helps channel resources to their most productive uses on economic growth and prosperity. International capital flows have expanded opportunities for portfolio diversification, and thus provide investors with the potential to achieve higher rates of return. Current account liberalization promotes growth by increasing access to sophisticated technology and export competition. It also has domestic technology, improving the capital account on liberalization which may increase the efficiency of the domestic financial system (Fischer, 1997).

Muibi (2012) examined the direct effects of capital flow, trade openness and economic growth using data from Nigeria over the period of 1960 to 2001. This was done using statistical methods. The results show a statistically significant effect of capital inflow and trade on economic growth in Nigeria. In particular, the outcomes support the hypothesis that capital inflow and trade policies are complementary towards growth and enhancing developing economies such as Nigeria. Trade liberalization policies tend to enhance effectiveness of capital inflow and jointly promote higher economic growth in Nigeria.

The liberalization of the capital account allows the mobility of international capital, which, according to economists, will generate some benefits. This is due to the free movement of capital that allows a more efficient allocation of global savings and the direction of resources to their most productive uses. The key target is specifically aimed at capital mobility as a tool of efficient allocation of resources. Capital flow represents the trade of money between two countries. Also, capital inflow in many cases is associated with gains from foreign direct investment, managerial skills and access to markets; although on the other hand, capital movement enables risk diversification (Wang, 2006).

In the same context, Edwards (2001) showed that liberalization was found to promote economic performance. The impact is positive for the country that has reached a relatively advanced level of development, while, at low levels of degree of financial development, the suggestion is that open capital flows might lead to a negative effect of economic growth (Edison, Klein, Ricci, & Sløk, 2004). Edison et al. (2002) observed mixed evidence between capital account liberalization and economic growth, and that there could clearly be positive effects in the long run among developing countries such as East Asia.

Another study, by Klein and Olivei (2008), revealed the link between liberalization and growth capital account as being weak in some countries. The reason behind this was because the liberalization of capital movements began with a weak financial sector. While the study shows positive and statistically consistent data, the hypothesis suggests that liberalization of capital movement in other countries incorporates a strong financial sector and a good political environment. In the mainstream view, "the free movement of capital to help channel resources into their most productive uses, will most likely increase economic growth and welfare both nationally and internationally" (Camdessus, 1998a).

2.14 Summary of the Chapter

Overall in this chapter the discussion demonstrates a review of the literature that has been presented on financial liberalization and its effect on the economy. It has revealed that economists differ in their viewpoints relating to the role of financial liberalization in economic growth. There are different points of view found in the literature on the potential role of financial liberalization on economic performance. The first view supports the idea of McKinnon and Shaw, and considers liberalization of the financial sector as the best way to promote economic growth. However, the second view, such as Pagano (1993), Joseph and Raffinot Venet (1998) is against this idea and suggests that financial liberalization may potentially have a negative impact on growth.

The key issue of financial repression has been discussed. During this it has been shown that government intervention in financial markets in the past has repressed their financial systems. This procedure has been mainly implemented to gather money to finance the budget deficit. Furthermore, through the means of repression, the government can control and monitor all monetary instruments in order to organize effectively, and also to direct the money towards some sectors that can achieve the highest growth for the economy. However, such a policy of financial repression in practice has been proven to be unsafe for economic performance, whereas government intervention in financial markets leads to a low rate of savings and investment and in turn, low growth rates.

In short, this chapter was able to explain deregulation and liberalization from the theoretical point of view, where the economic policy theory of regulation justifies deregulation. The key purpose of the liberalization of financial markets is to increase the capital supply and improve the allocation of resources for investment. As part of the liberalization process, the barriers to entry in banking will be removed, as well as to the stock market. Entering the new banks into the market promotes the expansion of the financial system. Similarly, the improvement of the stock market expands the supply of capital for future investments, and will also help uphold liquidity in the market. The financial liberalization theory suggests that lifting the interest rate ceiling is a vital condition, in order to effectively mobilize domestic savings, increase the volume of investment, and thus promote growth.

The chapter also discussed the link between capital flow and economic performance. It also mentions that interest will flow from capital abundant countries into other countries that have comparatively less capital. This will ultimately lead to enhancing economic growth. However, it is debated by critics that this process will increase the likelihood of speculative attacks, which will further enhance the country’s exposure to global disturbance and capital flight.

Therefore, the speed and sequence of the processes of liberalization of financial systems are extremely significant in order to benefit from the fruits of liberalization. Supporting the optimal order of liberalization of McKinnon and Shaw consists of a balance of the government’s finances in the primary step. The second step is opening the local market and the final step should be liberalization of the foreign account. It is important to implement the financial sector reform and the development of prudential and regulatory rules, as well as effective control, prior to starting the implementation of the liberalization process. These are the main issues, which are mostly lacking in developing nations.

In summary, according to the theory of financial liberalization, this chapter has argued that the economic reform programme through financial liberalization plays a significant role in increasing economic growth. The next chapter will provide an overview of a variety of empirical perspectives on the impact of the liberalization of the financial sector with regard to economic growth.

Chapter 3: Economic impacts of Liberalization: Empirical Perspective

3.1 Introduction

This chapter will present a review of the literature in order to provide empirical evidence and develop an understanding of the significance. Furthermore, the chapter will also put forward the function of financial services liberalization in economic growth and its importance for the developing countries.

The implementation of liberalization policy of many markets in developing countries as well as the deregulation of global trade in financial services brings many significant changes. These include obvious economic and social impacts for the economies of the developing countries such as Libya. The financial service sector has gained increasing importance at the present time due to globalization of the economy. The agreement of GATS under WTO provides the framework for multilateral negotiations on improved market access for foreign services and service suppliers. Liberalization under GATS means more market opening for services by foreign financial firms.

In recent years, many developing countries started to rethink their strategies. Joining the World Trade Organization was one of the most important strategies that these countries undertook to ensure the development of their economic system. Also, increased trade resulting from liberalization, put into practice by domestic markets and technological advances, has made economic activities more globalized. Consequently, the demand for financial services has grown all over the world. “The key issue and challenge facing in many emerging market countries nowadays is how to manage economic growth and financial stability. It must be considered within a globalized economy where capital flows and financial markets are increasingly liberalized" (Mah-Hui & Maru, 2010, pp. 5,6).

3.2 Implications of Financial Liberalization in Developing Countries Under the WTO Regime

Liberalization of financial services is one of the important aspects of negotiations on trade in services (GATS). The issue of financial liberalization has received a wide spectrum of attention globally since the last quarter of the 20th century. The key issue and challenges facing many emerging markets in developing countries is how to manage economic growth. It is also important to supervise stability of the financial system in a globalized economy where capital account flows are increasingly liberalized all over the world. This is especially the case under the WTO and GATS (Bird & Rajan, 2001).

The financial sector plays an essential role in the economy, and evidence shows that liberalization can help to improve financial sector performance, with considerable benefits for the other economic sectors. According to Prasad et al. (2003), any country that is making progress in transparency, control of corruption, has a strong rule of law, and a good financial supervisory capacity will achieve high advantages from financial liberalization. However, there are also many risks associated with liberalization such as, "financial stability, and access to financial services. Moreover, careful sequencing of reform, appropriate regulation and other complementary policies are required to ensure liberalization delivers the expected benefits" (Cali, 2008, p. 8).

Financial service is one of the most important economic sectors that plays a crucial role in the growth and development of the productive sectors within the economy. The financial services have undergone important structural changes in recent years, with growing numbers of worldwide cross-border mergers. It has also attained acquisition and increased the competition amongst different types of financial institutions. The financial liberalization process seeks to eliminate discrimination between foreign and domestic providers of financial services as well as removing barriers to enter cross-border financial services (Bernard & Mattoo, 2011).

The main objective of liberalization is "to promote competition, efficiency, and diversification of the domestic financial system" (Chanda, 2005, p. 12). Global business systems have seen a revolution since the 1980s due to the creation of a huge demand for world-wide financial services. This is clear from rising cross-border trade and foreign investment flows in financial services. It is also apparent that there are great opportunities for financial institutions to expand globally, especially when the GATS became part of the WTO, after several countries' failure regarding the agreement where there was some disagreement between member states of the WTO about concluding an agreement of GATS (Mattoo, 1998; Sally, 2003).

The results of this failure of commitments were not satisfactory to some countries such as the USA who were pushing for a greater open market in this sector. However, an agreement on trade financial services was finally reached in December 1997 (Mattoo, 1998), which oversees during this agreement the exchange of these services between countries. It could be argued that creating a comprehensive multilateral agreement in financial services proved to be somewhat challenging among countries. This was in particular with countries that were still in development and in the process of emerging their economies. On the other hand, the idea reflects and demonstrates the growing complexity of the financial sector among various other service sectors.

Liberalization under GATS means more than market opening for services by foreign financial firms. GATS are mainly about providing more freedom to invest in the financial industry. The agreement of GATS covered the largest service sector such as insurance sector, banks and other financial services. Each one of these two categories (insurance sector, banks) included a more specific about the activities of financial services (Baker, Kay, & Walls, 2014; Gensey, 2003).

There are many developed and developing countries that have moved towards a liberalized financial system. For example, the United States and the United Kingdom began to liberalize their financial sector in the mid 1970s. Latin American countries such as Argentina, Chile and Uruguay started their liberalization towards the end of the 1970s. Also in line were the South Asian countries such as South Korea, Thailand, Malaysia, Indonesia and Taiwan who began their procedure during the 1980s (Zagha & Nankani, 2005).

At the beginning of the 1990s, some Arab countries such as Egypt, Jordan, Tunisia and Saudi Arabia continued to reform and liberalize their economies. They also modernized their financial infrastructure, and reformed their banking system. Also, they reduced government intervention in credit allocation decisions and lifted bank interest rate ceilings. Similarly the countries further decided to lower the reserve requirement and entry barriers, by privatized banks and insurance companies (Sami & Bechir, 2009).

3.3 The Relationship between Financial Development and Economic Growth.

In recent years the relationship between financial development and economic growth has received a lot of attention in the economic literature in both developed and developing countries. This was particularly seen after their entering into the financial sector (Agreement of GATS) under the WTO. Supporters of financial liberalization has argued that trade and financial liberalization policies have increased the efficiency in production and services between countries. This process positively influences economic growth.

The above argument is strengthened by the fact that countries with more open trade and liberalized financial policies may grow faster than those with restricted trade and financial policies. An increasing openness is expected to have positive impacts on economic growth. Financial services constitute a large and growing sector in virtually all economies. It is one of the largest service sectors in both developed and developing countries. This is an essential determinant of growth and overall development.

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There is evidence to indicate that GDP increases in those countries that are open to their financial markets compared to those markets that are less open. For example, growth rate in Mexico after liberalization rose from 8% in 1990–94 to 18% in 2001 (Tornell, Westermann, & Martinez, 2003). The service sector has a significant influence on GDP in most nations. In industrialized countries, financial services account for 2.5–13.3% of value-added GDP and an average of approximately 4% of the workforce. Moreover, in other developing countries, financial services make up more than 5% of GDP (Gillespie, 2000). The data of the IMF indicate that China's share of Global GDP rose from 2.2% in 1980 to 15.6% in 2013. Also , in both India and China the economic output per capita have doubled within 20 years, double the rate achieved during the industrial revolution (Baker et al., 2014). The service sector constitutes an increasing proportion of GDP in almost all developing countries. Such services contributed a staggering 47% of growth in Sub-Saharan Africa between 2000 and 2005, while the percentage of the industry contribution was 37% and agriculture lower at 16% (Velde, 2008). Many different sectors are included in the content of services. This research is focused particularly on the financial services sector, which is the largest service sector in the perspective of the GATS.

Also, financial services is one of the important economic sectors that plays a crucial role in the growth and development of the productive sectors of the economy. This in particular is the case in those economies that are experiencing rapid modernization. "This sector has seen massive Internationalization due to widespread liberalization around the world under the WTO, which includes domestic financial deregulation, and support the capital account liberalization and opening up to foreign competition'' (Chanda, 2005, p. 9). Financial services sector is the backbone of the various sectors of the economy, and therefore it is hard to do or think of any economic activity that does not depend in a significant way (either directly or indirectly) upon services provided by the financial sector. The development of a strong financial sector is now one of the key ingredients of sustainable development in any country.

Recent years have seen increased trade resulting from the liberalization moves in local markets. The growth of the financial sector is particularly high in those economies that are experiencing rapid modernization. Moreover, technological advances have made economic activities more globalized. Consequently, the demand for financial services has grown all over the world.

Numerous studies have attempted to explain the relationship between, financial development and economic growth (Eid, 2007; Levine, 1999; Omar et al., 2008; Robert & Levine, 1993b). It has become an object of extensive analysis and debate. The question one should determine is whether or not financial liberalization under the GATS is critical in influencing economic growth. Several attempts have been made to show that the liberalization of the financial sector together with other reforms can boost income and growth.

Economists have found empirical evidence that the liberalization of the financial sector together with other reforms can boost income and growth. For instance, Levine (1997) indicated that both developed and developing countries with open financial sectors have typically achieved a faster rate of economic growth than those with closed financial sectors. Also, (Robert & Levine, 1993b) found that growth is positively related to the level of financial development. Looking at the evidence from 80 countries, from 1960 to 1989, the relative size of the financial sector is positively correlated with economic growth over this period. However, positive correlation may simply reflect the fact that faster growing countries have larger financial sectors due to the increase in the number of financial transactions conducted.

Eid (2007) studied financial integration in Egypt in the period 1993–2005. The aim of his study was to investigate the impact of financial liberalization in Egypt. The author came to the conclusion that increased competition in the financial sector and domestic investments is the main generator of economic growth. He also concluded that financial integration is an accelerator to economic fundamental. Omar et al. (2008) study evaluated the impact of liberalization on Malaysia's economic growth by using annual data for a period of 34 years, starting from 1970 to 2003. The author used a co-integration analysis, an error correction method and also a Granger causality test. The findings suggest that, in the long run, the trade of liberalization has had a significant, positive impact on economic growth. However, the effect of financial and capital account liberalization suggests that openness in the short run will not be affected. The reason for this could be lack of credibility of the reform programme. Consequently, the developing countries including Malaysia must have made the most important preconditions of development and rehabilitation of financial institutions through the help of government prior to embarking on a significant liberalization programme (Kaplan & Rodrik, 2002).

In addition, Ozdemir and Erbil (2008) empirically examined the impact of financial liberalization on economic development in ten East European countries. The survey also included Turkey's experience of capital liberalization during 1995 to 2007. They built a variety of indicators of financial openness, using panel data for several types of capital flows, for example, foreign direct investment, trade openness index and other control variables. By using the Ordinary Least Square method (OLS), the estimates of panel data show the positive effects of long-term growth. Their conclusions incorporated financial liberalization as a policy tool, due to its ability to promote economic growth.

However, Liu and Li (2001) examined the relationship between financial liberalization and economic growth for China. In this case the panel data were used from the era of 1985 to 1998. The findings show that the growth of provincial production is positively correlated to the growth in domestic bank lending. The result also concluded that the availability of external funding is seen to be effective in promoting the growth of economic activities.

A number of studies found that, with openness, the financial sector can be efficient and competitive. It can help developing countries to achieve higher economic growth and lead them to an efficient transformation of savings to investment. For instance, a study by Chari and Henry (2002) found that opening the stock market to foreign investors could boost growth twice in five years. However, Wong and Zhou (2011) suggested that the development of stock markets, not only in developing countries such as China and Hong Kong but also in developed countries such as the USA, the UK and Japan, is able to improve economic performance and attract more funds through capital inflows.

In contrast to these studies, Mattoo et al. (2006) concluded that, for countries that do not have fully open financial sectors yet promote economic growth, a cautious approach seems to be more prudent. This was performed by mobilizing savings and facilitating investment grow faster than other countries that didn't open their financial sector. As a result, the authors believe that financial liberalization is one of the key factors of economic growth in the countries.

A large number of empirical studies have been carried out to answer the question of whether financial liberalization promotes economic growth or discourages it. Overall, the conclusion that emerges from the review of a large number of studies is supported for the relationship between openness to financial liberalization and economic growth. For instance, Klein and Olivei (1999), McKinnon (1973) and Shaw (1973) show a positive correlation between financial openness and economic growth. Also, several researchers have suggested that governments should amend their policies to improve the financial system, legal framework and regulation of credit institutions to improve economic growth. "removing entry barriers, liberalizing product restrictions, abolishing restrictive market definitions, eliminating intra-sectoral restrictions, etc. Making in this way financial systems more open and contestable, i.e., having low barriers to entry and exit, has generally led to greater product differentiation, lower cost of financial intermediation, more access to financial services, and enhanced stability" (Claessens, 2009, p. 84).

Whereas, policies that restrict competition, such as entrance restrictions and restrictions on foreign banks, have shown that the cost of financial services will be increased. Such policies therefore could undermine economic performance. Also, some authors highlight the necessity of making local banks stronger, as well as the abilities to compete with local and foreign banks (Gormley, 2005).

Sulaiman, Oke, and Azeez (2012) have tested the effect of financial liberalization on economic growth in developing countries. Their study focused on the Nigerian economy, by using econometric techniques such as Ordinary Least Square (OLS) method, Augmented Dickey-Fuller (ADF) Unit Root test and Johansen Co-integration. The data covered from 1987 to 2009. GDP growth in the country changed, whereby pre liberalization GDP was $205971.40 million, while the post liberalization GDP increased to $674889.00 million in 2008. Their study concluded that financial liberalization has a growth-stimulating effect in Nigeria and also recommends that the government should keep the macroeconomic stability and to continue to implement the strategy of regulation and control of the financial sector.

Fowowe (2008) examined whether financial liberalization policies affected economic growth by selecting 19 countries in Sub-Saharan Africa. During the period between 1978 to 2000, this method was carried out using panel data estimates. The evaluation findings suggest that financial liberalization has had a positive impact on economic growth and has also increased GDP by 0.7%. Moreover, Sub-Saharan Africa was among the developing countries which financial liberalization led the incentive to increased growth. The findings of growth rates have been presented for the period 1961 up until 2000; this is about 0.45% for Sub-Saharan Africa. However, the figure in Latin America and the Caribbean (LAC) was different, standing at 1.6%. Also, in South Asia the GDP growth rate remained at 2.3%, while in East Asia and the Pacific (EAP) it was shown to be 4.9%.

The analysis specifically pointed out the two indexes of financial liberalization and a model variable to capture major moves towards liberalization. It showed a significant positive relationship between economic growth and financial liberalization. Consequently, the findings supported the financial liberalization presumption that there is a positive correlation between liberal policy reform and economic growth. This meant that the results sustained the view that liberalizing allowed financial markets to eliminate financial repression and develop better functioning to promote the economic development process.

Contrary to this, some studies have found that financial liberalization has no positive effect and that it may lead to negative consequences. For instance, Achy (2005) investigated the relationship between financial development and economic growth in five MENA countries – Egypt, Jordan, Morocco, Tunisia and Turkey. The research was carried out for the period of 1970–1997. The research was intended to control fundamental variables such as private investment, human capital, and policy related variables in terms of trade openness, inflation rate, and external debt. The empirical results show that the relationship between financial development and private investment was strong. However, it did not create long-term economic growth and overall produced a negative effect in five MENA countries. Authors such as Edison, Levine, Ricci, and Sløk (2002) studied the relationship between international financial integration and economic growth between 1976 and 2000. This was conducted in 57 countries and they came to the conclusion that the study did not find any positive relationship between international financial openness and economic growth.

Al-Awad and Harb (2005) examined the links between financial development and economic growth in the Middle East. This again was performed using panel co-integration from 1969 to 2000. The results show that at some level of development there is a relation between financial development and economic growth in the long run. The results show that in the Egyptian case financial development had a significant impact on

GDP, up 37% in the future, Jordan up 33%, and also in Turkey up 38%, while this percentage does not exceed 7% in Algeria, 3% for Tunisia and 6% for Saudi Arabia. However they also conclude that the financial sector is not sufficiently developed in the MENA region to support sustained economic development. This implies that countries may need to reach a certain level of financial depth before there is a significant effect on economic growth.

On the other hand, Kraay (1998) argued that financial liberalization does not affect growth. There are arguments that put blame on financial liberalization, in terms of the crises it has caused. One could also argue that financial liberalization increases a country's exposure to international financial crises. Conversely, Singh and Weisse (1998) pointed out the risks of financial collapse and consequent economic recession that could result from rapid liberalization of once repressed financial systems.

The chapter follows a large number of in-depth studies by theorists who have performed critical analysis on liberalization of the financial sector. One of them being is Banam (2010) who investigated the impact of financial liberalization on economic growth in Iran, by using time a series data from 1965 to 2005. The author found that financial openness, capital, research and development, and also financial liberalization had a positive and statistically significant impact on economic growth. The findings suggest that the labour force has had a negative influence on economic growth in respect of Iran. The reason behind this is that Iran's workforce is still weak and is not effective in improving economic growth, as mentioned by economic theorists. This may be due to the low productivity of labour in Iran, where it is 1.2% compared to the labour force of the less developed countries such as those in Central Asia, which stands at 4.5%.

Similarly, Shahid (2014) examined the effect of employment on economic growth in Pakistan in the short term. The data was collected during the period from 1980 up until 2012. The results found that labour force within the country created a negative relationship with economic growth for the immediate future. This is in line with Frenkel and Simpson (2003) who found that a negative relation between financial liberalization and employment. This was due to most of the Latin American countries opening their economies fast, which led to employment loss, as a result this further led to the loss of competitiveness of local activities. However, a number of different studies suggest that the relationship between economic growth in Pakistan and labour force is positive. This clarification depends on the presence of a well maintained and skilled workforce that can effectively contribute to enhancing economic development (Duval, Eris, & Furceri, 2010).

Mujahid and Naeem Uz Zafar (2012) investigated the relation between employment and growth in Pakistan. This research was performed from 1980 to 2012. The results established showed a positive relation between employment and economic growth, probably due to the well-maintained strategy the government had put into practice in order to encourage training and rehabilitation of the workforce. Consequently, this method will work to sustain a positive effect on economic growth for the long term.

However, Bilel and Mouldi (2011) found a different relationship between financial liberalization, FDI and economic growth in six MENA countries – Tunisia, Morocco, Egypt, Jordan, Saudi Arabia and Oman. They also used time series data over the period 1986–2010. All of these countries have a liberalized financial system, but in a different period. The results of the study show that there is a negative relation between financial liberalization and economic growth and also a positive relation between FDI and economic growth, but it is still weak. The percentage share of FDI in GDP is 0.024%. Therefore, these countries are trying to attract more investment through political stability, improving the infrastructure, and providing many financial incentives that help to do so.

Others such as Mishkin (2007) also stated that liberalization of financial markets could help to promote the financial and economic development process. Since 1973, international trade has increased from 22% of world GDP to 42% in 2002. Moreover, the capital flow between countries has contributed to an increase in GDP all over the world, from 5% to 21%. However, the author suggests that if liberalization of financial markets is not managed properly, this could possibly lead to a very damaging financial crisis. This was confirmed in Tornell et al. (2003), who found that liberalization has led to a very high level of crises. Nevertheless, they also found that there is faster economic growth in the countries where there are strong credit market imperfections. Furthermore, Prasad et al. (2007) in their study suggested that the positive relationship between financial liberalization and economic growth was rather weak in the case of developing countries. The results suggest that financial liberalization is inherently risky and that developing countries need to retreat to a more powerful form of capital controls. Other than that they established that financial liberalization could be beneficial under the right circumstances, such as high quality of management implementation. “As a country makes progress in transparency, control of corruption, rule of law, and financial supervisory capacity, it will be in an increasingly better position to benefit from financial globalization” (Prasad et al., 2007, p. 500).

Also, Kabir and Hoque (2007) observed the effect of the liberalization of finance on economic expansion and financial development in Bangladesh. The GDP growth rate had changed in Bangladesh before the post reform period and after the pre-reform period. The annual figure of GDP showed an increase in the 1990s standing at 3.47%. This was 5% more compared to the 1980s. The average level of private sector to GDP also increased after the reform programmes from 17% to 26% in the 1980s. However, after the reform period in Bangladesh the average for investment was reduced to 7.19% in the 1990s, while it was 9.85% before starting the reform process. The findings of their study revealed that despite the extensive financial development in the post liberalization period, financial and monetary variables have not fully contributed to economic growth. Similarly, other researchers such as Hassan and Yu (2007) Khan and Senhadji (2003) came to similar conclusions.

3.4 Financial Liberalization and Banking Sector

Negotiation of the GATS rules for banking was completed in the early 1990s between member countries of the WTO, though countries' commitments did not expire, and only became part of the agreement after negotiations were completed at the end of 1997 (Cornford, 2015). Some developing countries started liberalizing their financial sectors which is a process known as capital account liberalization during the 1980s and the 1990s, with the aim of improving financial development and economic growth (Pinheiro, Chwieroth, & Hicks, 2014). Also, in the 1990s East Asia and Latin America were hit by financial crises in the form of banking problems or exchange rate instability. "Stability is important for several reasons. Research has shown instability has persistent effects on economic growth - growth is shown down for several years after a crisis has occurred" (Stiglitz, 2000, p. 1078). Liberalization has led to the launch of a new debate on the advantages and risks of financial services liberalization in these countries.

The development of a sound system and robust banking supervisory framework is very important. It should be introduced in various phases to support financial liberalization according to Johnston and Sundararajan (1999). The financial crisis literature tests whether financial liberalization increases the risk of financial crises. Some authors such as Kaminsky (1999) argue that the propensity to banking and currency crises increases in the aftermath of financial liberalization in emerging market economies. Liberalization of the financial system has different sides – many developing countries such as China, Malaysia, India and South Africa have increased their economic growth due to liberalization of the financial system; although others received unexpected results and had to face financial crises, for example, Thailand and South Korea which both suffered from significant losses (Khalaf, 2011, p. 68).

On the one hand, financial liberalization tends to relax borrowing constraints, leading to higher investment and higher average growth; on the other hand, it encourages risk-taking, generates financial fragility and increases the probability of financial crises, which often have severe recessionary consequences. The empirical relation between banking crises and also financial liberalization was analysed in the study of Demirgüç-Kunt and Detragiache (1998). The data of this study was performed on 53 countries and formulated in the years between 1980 and 1995. Moreover, the findings of this study go to show that banking crises are more likely to develop in liberalized financial systems. They also found that the effect of financial liberalization on a fragile banking sector is the weakest. This is in comparison to where the institution environment is strong. Nevertheless, the indicator of financial liberalization proposed by Demirgüç-Kunt and Detragiache (1998) can be scrutinized. This is due to their assessing of only the first year of interest rates as their starting date of financial liberalization. Although, the interest rate liberalization is essential, it restricts the definition of financial liberalization. This only covers an insignificant role of financial sector reform. According to Saqib (2016),who examined the effect of liberalization of banks on economic growth in the case of Pakistan from the period of 1971 until 2011. The findings demonstrate that there is a significant positive relationship for the long term amongst the banking sector development and the economic expansion in Pakistan. As a result, this findings support the prime ideas that the banking sector development invigorates the long term economic growth in Pakistan.

Some concerns have been raised on the likelihood of risks regarding the opening of the financial sector; for example, in the 1997 East Asian crisis as well as other emerging market disasters, in recent years have raised concerns regarding the suitability of speed and the degree of liberalization of the financial sector. What is more, it has also raised awareness of the effect of such liberalization by the governments' power to undertake savings and sufficient supervision, which is essential in maintaining economic stability. Financial crises in banking have also made some countries worry about the legal and regulatory framework in the agreement of GATS. This was to ensure that liberalization of the financial sector in their market does not jeopardize macroeconomic stability in these countries of liberalized financial systems (Chanda, 2005).

The study by Bonfiglioli and Mendicino (2004) questions the impact of financial liberalization and crises in the banking sector on economic development. The study used panel data from 90 different countries covering the period from 1975 to 1999. The study suggests that the liberalization of finances stimulates the average economic growth. Additionally, the banking crisis is seen to be unfavourable for economic development, having a significant impact in the countries that have weak financial systems, while this is less likely the case for countries where the financial institutions system is open and well developed.

Moreover, Demirgüc-Kunt and Detragiache (1999) surveyed the banking crises in 53 countries covering the years 1980 and 1995. The results indicated that 87% of all banking crises were linked to periods of financial liberalization. Also, the findings suggest that gradual liberalization of the banking sector and the design and activation of the task of prudential regulations, in particular in the banking sectors of developing countries, might reduce the incidence of banking crises. Some research makes a distinction between systemic and non systemic banking. For example, Shehzad and De Haan (2009) examine the influence of financial liberalization on systemic and non-systemic banking crises in 33 countries. This data was explored between the years 1981 to 2002. The researchers used different samples from developing and developed countries. The conclusion indicates that financial liberalization consistently reduces the possibility of systemic crises in banking. On the other hand, there is evidence to indicate that the probability of non-systemic crisis increases after the liberalization of financial markets.

It is worth mentioning that many developed countries put pressure within the WTO on member countries to undertake further liberalization of the banking sector. These pressures in fact came mainly from advanced countries and especially those who currently have a large presence in the international banking market. “Banking sector plays an important role in an economy to improve stability and increase economic growth. Banks play a central role in the money creation process and in the payment system. Moreover, bank credit is an important factor in the financing of investment and growth" (Al-Fayoumi & Abuzayed, 2009, p. 69).

The GATS rules on banking services were intended to be a vehicle for progressive cross-border liberalization. In spite of these safeguards in the Uruguay round, they give time to developing countries to execute commitments relating to the liberalized financial sector including banks. However, during the Doha round negotiations, the rules provided the framework through which pressure was put on the developing countries which were advised to open their banking markets to foreign participation (Cornford, 2012; Murinde & Ryan, 2003).

Various studies have attempted to explain the implications of financial liberalization that the banking sector may have suffered. For example, Murinde and Ryan (2003) evaluated the implications of the agreement of GATS under the framework of WTO for the banking sector in some countries in Africa that had signed a protocol of the WTO, highlighting the implications of full liberalization for the banking sector. Murinde and Ryan chose to examine the key performance indicators in 18 banking sectors in African countries during the period between 1997 to 1998. The results show that although many African banks have little to fear from the liberalization process, they are not reluctant to comply, because they believe that it may help them to restructure and compete with other international banks, at least in the local market.

In addition, Sami and Bechir (2009) studied the performances of 12 banks in Tunisia. The statistical method of data was used to study the extent of the influence of financial liberalization. This was based on the risk exposure of the Tunisian bank. The goal was to calculate the probability of bank failures over the period from 1988 to 2006. The result showed that financial liberalization increased, meaning a higher likelihood of banking crises. It also concluded that the boost in the loan offered by the Tunisian banking sector was positively correlated with the possibility of bank failure. In addition, liberalization of financial markets increased, as well as bank deposits, but were also negatively correlated with the likelihood of bank failure.

The findings supply strong evidence of a negative relation between the yield on the assets of the bank and the likelihood of failure. Furthermore, Yu and Van Luu (2003) investigated the nature of the Taiwanese banking sector and analysed the effect of financial liberalization. The Taiwanese banking industry used data econometrics during the sampling period which was separated into two stages: 1985–1991 and 1993–1997. The results of the analysis found that the Taiwanese banks have to get the benefit of economies of scale by merging with other banks, rather than expanding and opening more branches.

3.5 The Relationship between Financial Liberalization and FDI

Financial liberalization may lead to attracting capital due to opening which would increase financial efficiency. This, in turn, would lead to greater investment and hence faster economic growth. In addition, it is expected that financial development causes poverty alleviation in developing countries. In fact, the inflow of foreign capital was limited in developing countries until 1970, but, since the 1980s, many developing countries have adopted policies of economic liberalization in order to increase the inflows of capital. “FDI plays an important role in modernizing national economy and stimulating the growth. For these reasons, most country governments have prioritized the issue and exert every effort to come up with new ways to attract more and more FDI’’ (Lee & Chang, 2009, p. 250). Although the developed countries had a larger share of foreign capital flows compared to developing countries, the latter increased their share from 17.1% in 2000 to 21.4% in 2001 (Siddiqui, 2015).

Foreign direct investment is one of the crucial elements of financial globalization. Financial liberalization is more beneficial for the motivation of investment and promotion of economic growth. FDI plays a major role in the economy. It produces more value to

GDP, "decreases the unemployment, makes the international technology transfer easier and stimulates the level of the economic growth" (Khazri & Djelassi, 2011, p. 20). However, Borensztein, De Gregorio, and Lee (1998) claim that FDI has a positive influence on growth where the country has a highly skilled workforce that can help to exploit the benefits of FDI.

Some empirical evidence proposes that the links between FDI and financial openness positively affect economic performance. They are also conditional upon the presence of relatively developed national institutions and appropriate macroeconomic policies. Similarly, there is evidence that shows the influence of foreign investment on growth is affected negatively. For example, Omran and Bolbol (2003) studied foreign direct investment, financial improvement, and economic growth. They used a panel data analysis from 17 Arab countries. The results indicate that the effect of FDI on economic growth is based on improvement of the financial sector, as countries that have sophisticated financial institutions get more benefit than those countries that don't.

There are a number of studies that show that the development of the financial system plays a significant role in enhancing the positive relationship between FDI and economic growth. Some of the theoretical and empirical literature found that there is a positive relation between FDI and economic growth. Such studies have found that FDI positively and significantly affects long-term economic growth, in the view of the following theorists: (Adeniyi, Omisakin, Egwaikhide, & Oyinlola, 2012; Agrawal & Khan, 2011; Basu & Guariglia, 2007; Bengoa & Sanchez-Robles, 2003; Fry, 1993; Tiwari & Mutascu, 2011).

For example, Hermes and Lensink (2003) argue that responsibility plays an important part in enhancing the positive relationship between FDI and economic growth. This empirical study investigated the data from 67 countries, most of which are in Latin America and Asia. The research found that 37 of these countries have a sufficiently developed financial system in order to let FDI contribute positively towards economic growth. The results of the analysis also show that the development of the financial system in these stated countries is an important precondition for FDI. This is enforced in order to have a positive impact on economic growth. In this connection, Lee and Chang (2009) studied this along with financial development and economic growth in 37 countries using annual data for the period 1970–2002. They found that the relationship between FDI, financial development, and economic growth is strong in the long run while in the short run this relationship tended to be rather weak.

Also, the findings confirm that there are many potential benefits between FDI and countries that have reached the highest level of financial development. Furthermore, Kotrajaras, Tubtimtong, and Wiboonchutikula (2011) used panel data analysis with co-integration methods to examine the impacts of FDI. This process was done in groups of 15 East Asian countries classified by their level of economic development. The results show that FDI has a positive relationship with economic growth in high-income and middle-income based countries. This is due to these countries having adequate and appropriate economic factors. These characteristics include a higher education level, high government expenditure on investment in infrastructure, high level of financial development, and a high degree of trade openness. In addition, Balasubramanyam, Salisu, and Sapsford (1996) argue that liberalization of trade is crucial for FDI to promote economic growth.

More recent studies indicate that the positive growth impact of FDI is dependent on the extent of financial sector development in most countries. According to Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2014) FDI accelerates economic development in countries that have sufficiently sophisticated financial markets.

Bengoa and Sanchez-Robles (2003), investigating the relations among economic freedom, FDI and economic growth, analysed a sample of 18 countries in Latin America for 1970–1999. The results show that there is a significant positive correlation between FDI and economic growth in the host countries. Also, they found that economic freedom in the host country is a positive determinant of FDI inflows, which is required from the host country for enough human capital, economic stability and market liberalization.

Using a sample of 44 Asian and Oceania countries for the period 1996–2005, Chee and Nair (2010), found a positive correlation between the impact of FDI and financial sector development on economic growth. This, in turn, leads to enhancing the contribution of FDI on economic growth in the region. On the contrary, the study by Campos and Kinoshita (2008) inspects the importance of structural reforms as determinants of FDI inflows. This study depends on unique data constructed on structural reforms and institutions in 19 Latin American and also 25 Eastern European countries between the era of 1989 and 2004. In particular, as seen from financial liberalization, the major outcome is that there is a strong empirical linking between financial reforms and FDI. Other researchers confirmed similar conclusions, such as Nazmi (2005).

Another study, using data from 1970 to 2005 discusses the relation of FDI and economic growth in the case of Malaysia. Har, Teo, and Yee (2008) show that there are significant relationships between economic growth and foreign direct investment inflows (FDI) in Malaysia. What’s more, FDI has a direct positive effect on GDP. "Malaysia is among the top five recipients of foreign direct investment in the world" (Siddiqui, 2012, p. 34).In fact, the government in Malaysia through the development of laws and regulations helps to attract FDI inflows, which increased approximately twenty times during the period from the 1970s to 1990s. The inflows were $94 million in the 1970s, while amounted to about $2.6 billion in 1990s. Also, continued FDI rates in Malaysia increased and had reached around $7.3 billion before the crisis started in 1997. The main findings of this study illustrate that the FDI rate increased by 1%, leading to an economic growth increase of 0.046%.

Equally important is the result of Akpan (2004), whose study of financial liberalization and endogenous growth focuses on the case of Nigeria, using secondary data for the period from 1970 to 2002. The convergence suggests that financial liberalization results in a positive impact between broad money (M2), investment and real deposit rate of economic development. Also, after financial liberalization in Nigeria the economy managed to attract FDI inflows and halt capital flow outside the country. On the whole, the outcomes suggest a positive influence of financial liberalization on the Nigerian economy.

However, Ayanwale (2007), in his study of FDI and economic growth in the case of Nigeria, used annual data from 1970 to 2002, and found that FDI has a positive effect on growth, and that high levels of human capital through increased training and trade openness will facilitate the FDI in contributing more growth towards this country. Also, results showed that the most important factors helping to attract FDI are the size of the market and development of infrastructure in Nigeria to achieve stability for the economic policy. In addition, Kobrin (1977) argued that FDI could be a vehicle for the transfer of needed resources such as management skills, technology, marketing knowledge, export opportunities and transfer of capital from industrialized to developing countries. Therefore, he agrees that FDI will help to increase productivity and economic development. In addition, the orthodox approach assumes that the liberalization of interest rates will both enhance savings and progress investment efficiency (Shaw, 1973). This is demonstrated by Okuda (1990) who indicates that it is essential to encourage investment that will help efficient production in the sectors with the greatest expectation of rapid economic growth (Hussain, 2002).

On the other hand, some of the theoretical and empirical studies in the literature have shown that there is no positive association between FDI and economic growth (Alfaro, 2003; Borensztein et al., 1998; Bornschier, Chase-Dunn, & Rubinson, 1978; Carkovic & Levine, 2002; Effendi & Soemantri, 2003; Hermes & Lensink, 2005; Massoud, 2008).

For instance, Bornschier et al. (1978) found from the analysis of a sample of 76 developing countries from 1960–1975, using the estimation method OLS, that FDI has a negative influence on economic growth in these countries. This effect increases when income increases.

Borensztein et al. (1998) tested the impact of FDI on economic development of 69 developing countries by using data from 1970–1989. The researchers divided all countries into nine groups according to the level of FDI and human capital. The results suggest that FDI is important for the transfer of technology, promoting economic growth in host countries, which have a high level of human capital. Moreover, Alfaro (2003) concluded from an empirical analysis using the data base for the period 1981–1999 that FDI has a negative effect on growth.

In addition, Carkovic and Levine (2002), found that there was no impact from FDI on economic growth through using statistical techniques. These statistics related to 72 sample countries, some of which were developing countries such as India, Indonesia, Malaysia, the Philippines and Thailand. Furthermore, the authors found that FDI seemed to boost growth only in economies that had appropriate initial conditions. The conditions included high levels of human capital, financial sector development and policies that promoted international trade.

There are many indications that show weak and inefficient financial systems could be a significant impediment to economic development. By weakening the process of FDI to the country, an inefficient banking sector may hamper FDI and economic development. Furthermore, Hermes and Lensink (2005) investigated the association between financial liberalization on one hand and savings, investment and economic development on the other hand. To a significant degree, many improved economies have strived towards success in strengthening their economic productivity. This process was done using a new dataset for evaluating financial liberalization for an estimated 25 developing economies during the period between 1973 and 1996. The study's assumption was that expenditure is interrelated to utility. As a result, in speculation with advanced expenditure levels, there will be greater success. Furthermore, the results indicate that financial liberalization influences private savings and investment (private investment and public investment). This is favourably related with per capita GDP growth. On the other hand, there is a negative relationship between financial liberalization and public investment in these countries. Massoud (2008) found that FDI is not an aggregate phenomenon. FDI had an ambiguous result on growth in the case of Egypt during the period from 1974 to 2005.

Additionally, Babatunde (2011) examined the relation between finance, FDI and economic growth in some developing countries. This study included the following countries: India, Russia, Mexico, Brazil and China and some selected Sub-Saharan African countries, such as case studies. Panel data analysis used in this study also includes annual observations between 1980 and 2007. The results show that although economic growth in developing countries suggests instability, uncertainty and volatility, it dominates the experience of the five fast-growing developing economies of India, Russia, Mexico, Brazil and China. The results show that liberalization of financial markets and good institutions are important for the improvement of the financial sector. Conclusively they also suggest that liberalization of financial markets and good institutions is important for the development of the financial sector. This is especially recommended for Sub-Saharan African countries. Likewise, the outcomes demonstrate that while financial liberalization contributes to the development of the stock market, there is, however, a lack of good institutions. This in particular includes the fight against corruption, although bureaucratic quality and rule of law are less favourable to the financial development. In addition, research has shown that economic liberalization and human capital also play an essential role in attracting FDI. This will impact the growth of FDI in developing countries. The main conclusion of the policy is that Sub-Saharan African countries should endeavour to initiate and implement reforms in the area of the financial sector, development and FDI incentives.

3.6 Capital Liberalization and Interest Rate

The relationship between the liberalization of domestic interest rates and economic development has attracted major attention and discussion in previous years. The focus of the discussion has been whether liberalization of interest rates, as initially advised by McKinnon (1973) and Shaw (1973), could be conducted to promote savings and investment. This would lead towards economic development.

Moreover, since this hypothesis, much empirical evidence has revealed rather varied results. This could be a suggestion that the interest rate policy of liberalization itself is a necessity but, however, not a sufficient requirement for economic development in countries. Consequently, evidence of interest rate liberalization assumptions seems to indicate a significant development in the quality of investments, but this is not a case of the amount of investment and the capacity of savings.

On the foundation of the evidence provided, macroeconomic stabilization and financial sector regulation appears to be a successful implementation of the policy of liberalization on interest rates. Review of existing empirical literature shows two strains of results on the link between the liberalization of interest rates and economic development. The first strain of these studies shows the effect McKinnon and Shaw have had on the hypothesis. Early stages of the study suggest that McKinnon and Shaw’s hypothesis confirmed the liberalization of interest rates, encouraging economic growth. Nonetheless, other studies have found results and hypotheses against McKinnon and Shaw.

Several methods of research have been applied for empirically testing the relation between the policy of interest rate liberalization and economic development. Many factual studies have debated that an experienced financial system is an essential requirement of economic growth. They have further stated that liberalization of the financial system is important in achieving a profound financial success. The interest rate can be established as the cost for borrowing capital or as the chance of lending capital for a specific period; the real interest rate is adapted for the contribution and request of financial accumulation. The hypothesis supports that a higher real interest rate further helps assist direct inflow of capital to the most productive enterprises. What's more is that it facilitates technological innovation leading to economic growth (Cobham, 2002).

A number of studies supported the arguments that have been made about the positivity of the relationship between interest rate liberalization and economic growth. For instance, Roubini and Sala-i-Martin (1992) used a series of cross-sectional data from 98 countries during the years 1960–1985. Their results found that there is a negative relationship between the various measures of financial repression and growth. Also, the study found empirical evidence for the hypothesis and showed that there are real interest rates below –5%, which are moderately negative and significantly associated with low economic growth. They interpret this as an indication of the fact that the policies of financial repression reduce the growth rate of the economy.

Similarly, another study by Robert and Levine (1993a), using cross-sectional time-series data from 77 countries over 1960 to 1989, found strong evidence for a large set of variables of financial liberalization, including interest rates that lead to economic growth; furthermore, the above increases in capital accumulation lead to increased productivity and improved relations investment.

Likewise, Oshikoya (1992) examined whether the liberalization of interest rates in the case of Kenya had affected economic growth. The study used econometrics data from 1970 to 1989. The results showed a negative and insignificant coefficient for the real interest rate. Additionally, the sample was divided into two periods: the first from 1970 to 1979 and the second 1980–1989. Moreover, real interest rates also had a negative and significant coefficient for the period 1970–1979, but appeared to be positive and considerable for the period 1980–1989. This did not provide robust results to indicate the effect of interest rate liberalization on growth.

The relationship between finance and growth has been methodically discussed in the literature. Seck and El Nil (1993) and Charlier and Oguie (2002) used panel data to examine the relationship between finance and growth in Sub-Saharan Africa. Their studies showed that there is an important positive relationship between economic growth and the real interest rate. In the same vein, Barro (1989), in an attempt to examine the relationship between interest rate liberalization and economic growth in 98 countries, used regression analysis over the period 1960 to 1985. The finding shows that liberalization of interest rate promoted economic progress. Consequently, the study provides evidence of a positive impact and supports the financial liberalization hypothesis.

Empirically investigated by Obamuyi (2009) was the bond between interest rate and economic growth in the case of Nigeria. The study also used a time series and gathered annual data for the period covering 1970 to 2006. The co-integration and error correction model was used to capture both the long-term and short-term dynamics of the variables in the model. The empirical results indicate that real lending rates have a significant effect on economic growth. What's more is that these results imply that the behaviour of interest rate liberalization is important for economic growth. From this point of view, the study confirmed the positive relationship between interest rates and investment. It also found that the development and implementation of good fiscal policy would increase the interest rate and favour investment needed to promote economic growth in Nigeria.

In addition, Ram (1999) provided an analysis from four South American and South East Asian countries over the period 1965 to 1985. His analysis shows a positive relationship between liberalization and growth of economic interest, relating to only those countries with rapid economic growth rate. According to the report of Benhabib and Spiegel (2000), there were some specific variables of the financial sector, such as the liberalization of interest rates associated with components of economic development. In particular, this was capital increase and an increase in growth, productivity and investment.

On the other hand, Kendall and Economist (2000) assessed the policies of liberalization of interest rates in Guyana from 1965–1995. This study was conducted to verify the adequacy and effectiveness of economic development. The results found that there is a strong and positive relation among the liberalization of interest rates and economic growth. Also, the study concluded that the low efficiency of the capital was a problem that must of necessity be addressed if the extreme effect on economic growth was to be maintained.

A review was done by Odhiambo (2010) who investigated the dynamic relation among reforms of interest rate, bank-based financial development and economic growth. Using models of co-integration and error correction, the study found significant support for the positive effects of interest rate reforms on financial improvement in South Africa. The study finds that financial development, which stems from the reform of interest rates, generates investment and economic growth. In addition, Lanyi and Saracoglu (1983) found, by analysing a sample of developing countries, a positive and significant relation among interest rates and growth rates of GDP. Similarly, there is evidence from a study of the World Bank which considers a positive relation among real interest rates and economic development in 33 developing countries during the period between 1965 and 1985 (Gelb, 1989).

However, Gupta found contradictory outcomes among liberalization and interest in two studies. On the one hand, Gupta (1984), using a cross-section study of 25 Asian and Latin American countries, discovered an unfavourable influence of high level interest rates on the rate of economic growth.

On the other hand, Gupta (1986) discovered evidence that high level interest rates raised economic growth in Korea and India. Chete (2006) examined the relation among the real interest rate and economic development in Nigeria. The outcome revealed that there was a single long-term relation among interest rates and economic development. He summarized that the lower interest rate is an essential factor of economic development in Nigeria. Nevertheless, deregulation of interest rates in Nigeria cannot optimally achieve its purpose if other factors adversely affect investment and it is not appropriately understood.

Notwithstanding the arguments in favour of a positive relation among interest rate liberalization and economic development, a number of studies have also found contradicting outcomes on the efficacy of interest rate liberalization. This means that the results of these studies, such as Goldsmith (1969), Ogun (1986), Khatkhate (1988),and Gupta (1984) are against the hypothesis of the liberalization of interest rates. For instance, Goldsmith (1969) using the sample data from 35 countries during the period from 1860 to1963, reported that there is no certain correlation between the liberalization of interest rates and economic growth.

In addition, Ogun (1986) estimated the correlation among the liberalization of interest rates and economic growth. Ogun carried out his study using a cross-sectional analysis of 20 countries in Africa dating from 1969 to 1983. The results are not in support of financial liberalization, which leads to improved economic growth. Similarly, Khatkhate (1988) examined the impact of interest rates in the case of 64 developing countries over the period 1971 to 1980. Among them the macroeconomic variable such as rate of growth of real GDP, income and investment and the empirical findings obtained, do not support the hypothesis of Mckinnon and Shaw.

A review was done by De Gregorio and Guidotti (1995) who investigated the empirical relation among long-run growth and financial improvement. The outcome showed that interest rates are not a good indicator of financial repression. The relationship among real interest rates and economic growth is shown as low and negative. This is in contrast to

Seck and El Nil (1993) and Charlier and Oguie (2002) who examined the relation among growth and interest rates in Sub-Saharan Africa. The authors find that there is a major positive relation between economic growth and interest rate.

3.7 Relationship between Capital Liberalization, the Exchange Rate and Inflation

The relation between the exchange rate and inflation and economic growth has been the subject of much debate, both theoretically and empirically. Several studies have been conducted, both theoretical and empirical, to identify the relation between the exchange rate and financial liberalization. The study has attracted the attention of economists, as they play a crucial role in influencing the development of the country's economy. It is widely recognized in the literature that, depreciation of the exchange rate tends to expand exports and reduce imports. Moreover, depreciation of the exchange rate tends to cause a shift from foreign goods to domestic goods.

Thus, the decline in the exchange rate leads to a transfer of income from importing countries to exporting countries through a shift in the terms of trade. It also affects the economic growth of both importing and exporting countries (Aliyu, 2009). The empirical work which contends the existence of these positive relationships between the exchange rate and economic growth, includes studies such as Ubok-Udom (1999), Adeniran, Yusuf, and Adeyemi (2014), Ogun (2006), Opaluwa, Umeh, and Ameh (2012), Taofeek Olusola (2014), and Aliyu (2009).

For example, Ubok-Udom (1999) examined the relationship between the change in the exchange rate and the growth of domestic production in Nigeria, during the era of 1971 to 1995. The author expressed the growth of domestic production as a linear function of the evolution of the average nominal exchange rate. He has also used dummy variables to capture times of currency devaluation. The empirical results showed that all the coefficients of the main explanatory variables have negative signs.

Meanwhile, Adeniran et al. (2014) studied the impact of exchange rate on economic growth over the period 1986 to 2013. Data used in the study was collected from Central Bank of Nigeria, Statistical Bulletin of various issues. This was done using correlation and regression analysis of the ordinary least square method to analyse the annual data. The result of this study revealed that the exchange rate has had a positive but not significant effect on the country's growth. Likewise according to Ogun (2006), the aim of the study was to evaluate the impact of real exchange rate on the growth of non-oil exports in Nigeria. Consequently, Ogun highlighted the effects of real exchange rate misalignment and volatility on the growth of non-oil exports. The results show that, both misalignment and volatility adversely affect the country's non-oil export growth. Therefore, the conclusion is supported by studies, that developing countries are relatively flexible in the choice of exchange rate regime. The result also showed that the interest rate and inflation have a negative impact on economic growth, however not significantly.

Also, Opaluwa et al. (2012) studied the influence of exchange rate fluctuations on the Nigerian manufacturing industry for twenty years from 1986 to 2005. They used multiple regression econometric tools, which revealed a negative relation between exchange rate volatility and performance of the manufacturing sector. The reason behind this is that manufacturing production in Nigeria is highly dependent on overseas countries for importing inputs used in the production process, leading to the effect of devaluation of the exchange rate. Likewise, Taofeek Olusola (2014) assessed exchange rate fluctuation and its impact on the performance of the manufacturing sector in Nigeria. The study demonstrates data from 1986 to 2012 to investigate the relationship. The results show that there is a negative and significant relationship between the exchange rate and manufacturing performance in the country of the study.

Another contribution was established by Aliyu (2009) which evaluated the effect of oil price and real exchange rate volatility on real economic growth in Nigeria. This was on the basis of collected data covering the period from 1986 to 2007. Furthermore, the co-integration technique was applied in this study to examine the oil price and volatility of rates while short-term dynamics are changing. Long-term real interest rates were checked using a vector error correction model. The results provide evidence that the impact of oil prices and the exchange rate level will exert a positive effect on real economic growth in Nigeria.

Despite the arguments in favour of the exchange rate and economic growth, however, the empirical results from a number of studies have shown that the exchange rate has no significant impact on the performance of economic growth. According to the study of Aghion, Bacchetta, Ranciere, and Rogoff (2009) who investigated empirically that the real exchange rate fluctuations may have a significant impact on the long-term productivity growth, the effect however depends crucially on the financial development of a country.

For countries with relatively low levels of financial development, exchange rate volatility generally reduces growth, whereas in financially advanced countries, there is no significant effect. The study was based on 83 countries covering the period from 1960 to 2000. Findings from this study are in striking contrast and the study provides the argument to be apparent. Empirical exchange rate in literature largely finds the effects of exchange rate volatility on real activity to be relatively small and insignificant.

In the same context, a study by Bosworth, Collins, and Chen (1995) found from the analysis of a sample of 88 developing and industrial economies concluded over the period 1960–1992 that real exchange rate fluctuations may hinder economic growth and reduce productivity growth. Economic growth is a rather important factor for determining a country's real level of national output. This can be reasoned by an increase in the quality of resources. Such resources could include education enhancement and a boost in technology. Economic growth can be calculated by an increase in a country's gross domestic product (GDP).

Evidence from previous studies on the impact of exchange rate stability on growth tends to be a weak form of evidence for a positive effect. The experience of some 150-member countries of the IMF over thirty years was evaluated by Atish, Gulde, and Wolf (2003) who found weak evidence that the stability of the exchange rate affects growth in a positive or negative way. Similarly, Schnabl (2008), using an econometric technique to investigate the effect of exchange rate stability on growth, for a study employing a sample of 41 mostly small open economies of the European Monetary Union, found evidence for a strong negative relationship between the volatility of exchange rates and growth. In order to control high inflation, policy decision makers can raise interest rates by dropping money supply. This process can be done by an independent central bank of the developing countries.

In addition, some previous research on the effect of exchange rate, in terms of financial development reached contradicting results. For example, factual evidence suggested that real exchange rate variations may affect growth outcomes. Dickson (2012), assessed the impact of exchange rate inconsistency on economic improvement in Nigeria. This was conducted for the annual period of 1970–2009. Findings suggest that short-term financial growth is positively related to exchange rate inconsistency. However, in the long term, this may not be the case as a negative relationship continues amid both variables.

Basically, inflation rate could come from domestic factors. This is due to internal pressures and external factors affecting the economy. However, the effect of exchange rate on inflation is a function of the exchange rate system in the country (Achsani, Fauzi, & Abdullah, 2010). The exchange rate regime plays a key role in reducing the risk of fluctuations in the exchange rate. This will move the rate of inflation and hence the entire economy. For example, Barungi (1997) examined the inflationary process. It also determines public spending in Uganda and thus affects stabilization levels. Furthermore, the above theory found that rapid monetary expansion and sharp depreciation of the parallel exchange rate are the main determinants of inflation and liberalization.

Therefore, it is important to exchange the rate policy of maintaining macroeconomic stability.

Additionally, Kamin and Klau (2003) empirically compared multi-country links between inflation and exchange rate competitiveness. The results show that there is a relationship between the rate of inflation and exchange rate in many countries such as Asia and Latin America. Also, the study showed that the effect of exchange rate, changes on inflation rate, is higher in Latin American countries than in industrialized countries. Montiel (1989) examined sources of inflationary shocks in some developing countries. The study used econometric techniques on some variables, such as exchange rate, wages, income and prices. The results show that the fluctuations of the exchange rate played a predominant role in speeding up inflation in the countries that were selected. Other researchers came to similar conclusions such as (Lu & Zhang, 2003; Nnanna, 2002; Odedokun, 1997).

Omotor (2008) empirically investigated the exchange rate reforms and their inflationary consequences. Omotor used a vector error correction (VEC) model to analyse the annual time series data, covering the period 1970 to 2003. The study found that exchange rate policy reforms are important in the determination of inflation in Nigeria. However, Rana (1983) concluded, from analysis of the impact of the current exchange rate system on trade and inflation in developing member countries, that there is no relationship between the exchange rate and inflation. This means that changes in exchange rates do not affect the inflation rate.

3.8 Limitations of Previous Studies

From the above empirical literature review, the gap in previous studies, which the current research is aiming to bridge, is identified as follows:

- With regards to the previous studies identified in the literature, all of them are using econometric techniques, the main one being secondary data; however, this study uses mixed methods (primary and secondary data), in order to meet the research aims and objectives.
- Based on the review of the empirical literature presented above, most of the studies were carried out in developed countries and only a few empirical studies were conducted about developing countries. Furthermore, the majority of them were carried out in East Asia and Latin America and only a few in Africa; to the researcher's knowledge, none of the studies about financial liberalization that have taken place were performed in Libya.
- In this study relevant literature has been reviewed, in order to identify gaps which need to be addressed and completed. This study hopes to fulfil the gaps by conducting an empirical investigation on the link between financial liberalization and economic growth. The periods covered in this research have been taken from 1978 to 2011, covering periods of both financial repression and financial liberalization.
- This study could be recognized and considered as a step taken towards raising and improving the comprehension of financial liberalization programmes in Libya as well as completing the gaps in the literature in other developing countries. The study was carried out in a developing economy, that of Libya, and witnessed the transition from a planned to a market system. A gap certainly exists in the literature where the effect of financial liberalization and its implications may affect the economic growth in developing countries such as Libya in the long term.
- At present, although a number of empirical researches have examined the impact of financial liberalization in developing countries such as Egypt (Eid, 2007), China (Liu and Li, 2001), Nigeria (Sulaiman, Oke, and Azeez, 2012), East European countries (Ozdemir and Erbil, 2008), MENA countries (Achy, 2005, Bilel & Mouldi, 2011), Middle East (Al-Awad and Harb, 2005), Iran (Banam, 2010), there is no in-depth

research, such as at PhD level, that has examined the impact of financial liberalization on economic growth in Libya.

- The review of existing literature in this research reveals several gaps and the need for more empirical studies to be conducted. Therefore, this study has focused more on extending the empirical work in this area with the intention of filling some of the gaps in the literature of the Libyan economy in particular. This study can also be described as a significant exploratory study that includes crucial issues in the Libyan economy in order to the develop economic reform programmes and implement successful financial liberalization programmes to help to promote economic growth.

3.9 Summary of the Main Themes in the Literature

- From the empirical literature review, financial liberalization could have either a positive or negative impact on economic growth. This process depends on the McKinnon-Shaw hypothesis, as their method is always supposed to increase economic growth. However, while the paradigm of financial liberalization has been widely recognized at the conceptual level, the empirical verification of its validity remains, at best, inconclusive. For example, there is a view that financial liberalization will have a negative impact on growth, especially if it is introduced at an early stage of development (e.g. Kawai, 1994; Adelman and Morris, 1997; Goldsmith, 1969; Robert and Levine, 1993b; Fry, 1980; Bascom, 1994; Bandiera et al., 2000; Achy, 2005; Hermes and Lensink, 2005). However, others believe that there are positive effects of financial liberalization on economic growth, such as Odhiambo (2010), Fowowe (2008) and Shrestha and Chowdhury (2006).
- From the previous literature some of the results have reported that there is an appreciative relationship between financial liberalization and FDI (e.g. Adeniyi et al., 2012; Agrawal & Khan, 2011; Basu & Guariglia, 2007; Bengoa & Sanchez-Robles, 2003; Chee & Nair, 2010). However, another view presents different results, which

suggest that there is a negative relationship between FDI and growth (e.g. Alfaro, 2003; Borensztein et al., 1998; Carkovic & Levine, 2002).

- It is claimed that free markets and an international openness policy would increase economic growth and create more jobs. However, others argue that this statement is incorrect due to the free market tending to increase the relative importance of external companies in comparison to internal markets (Banam, 2010; Shahid, 2014; Frenkel & Simpson, 2003).
- Empirical evidence indicated that there is a relationship between financial openness and growth in GDP. Some studies found a positive relation, such as Fowowe (2008), Al-Awad and Harb (2005), whereas, others found different results, e.g. Achy (2005) and Edison, Levine, Ricci, and Sløk (2002).

3.10 Summary of the Chapter

It is clear from the literature that financial liberalization and the financial system play controversial roles in economic growth. In this chapter the empirical studies have focused on different aspects of financial liberalization and its influence on economic growth. They are related to different elements of the economy at various stages. Over the past four decades a wave of financial liberalization has motivated a large number of developed and developing countries to apply financial liberalization. Many studies have defined financial liberalization as the pathway to financial improvement and economic growth in developing countries.

The chapter has shed light on the controversy about the economic impacts of liberalization, by empirical evidence from different studies in the literature. Moreover, the research concluded with mixed results concerning the impact of financial liberalization on economic growth in developing countries. Overall, the foregoing review of the literature suggests that theory as well as empirical evidence on the relation among financial liberalization and economic growth gives mixed and inconclusive results, especially in developing countries, which began to rethink their strategies after decades of state control over the financial sector. Thus, some countries have economic growth that is fuelled by the liberalization of financial markets, while at the same time there are much more frustrating results, due to the financial crisis and delayed economic growth. In the next chapter, the research framework and methodology for this study will be set out.

Chapter 4: An overview of the Libyan Economy

4.1 Introduction

The purpose of this chapter is to provide information and general background knowledge on Libya, being one of the systematic components of many of the developing international countries. Libya has faced many procedures of political and economic activities, which have changed financial services and economic growth of the country over the past few decades.

Consequently, the main purpose of this chapter is to discover and review the environmental characteristics within Libya in order to achieve a better understanding of the context of the study. The chapter also helps to form a foundation to interpret the current economic status of Libya. Therefore, understanding the following factors will help in knowing the role of the financial systems and their effect on the development needs of such a country.

In particular, the research is focused on the liberalizing financial sector and its impact on economic growth in Libya. Thus, this chapter of the study is summarized in terms of a brief history and background information of Libya on the grounds of geographical location, religion, history and population. Furthermore, it is followed by a description of the political environment and economic context of the country. The second part of this chapter provides an overview about the financial sector in Libya which includes the banking sector, insurance companies and stock market.

4.2 Background about the Geographical Location and Population of Libya

Libya is located in the Maghreb region of North Africa; it is a low populated African country with huge oil reserves. To be specific, Libya is a country that is located in North Africa between six other countries, namely Egypt, Tunisia, Algeria, Sudan, Chad and

Niger. Libya has recently started taking several steps towards becoming a free economy. In terms of area it is the fourth largest country in North Africa and the 17th largest country in the world.

Libya is approximately seven times larger than the United Kingdom. Libya is a sizeable country with Tripoli being the capital. Much of the country lies within the Sahara desert. More specifically, it has an area of about 1,759,540 square kilometres, with a coastline stretching for 1770 kilometres (NCI, 2009; World Bank, 2016).

According to the Bureau of Statistics and Census Libya's population now currently stands at an estimate of more than 6.4 million people. The rate of this increase is due to the attention of the state to its citizens through the improvement of health facilities, where treatment is free of charge. There is also an increase in the proportion of spending as well as allocating large budgets to it annually.

In spite of the large geographical area owned by Libya, there are two main cities – Tripoli in the far west of the country, and Benghazi in the east. More than half of the population lives in these cities (Otman & Karlberg, 2007).

By far the predominant religion in Libya is Islam with 97% of the population being Muslims. Other than the overwhelming majority of Sunni Muslims, there are also small Christian communities. Geography is one of the main important issues which have helped the development of Libya. The geographical location of Libya is very significant and strategic, whereby there is a long Mediterranean coastline of some 2,000 km that has a link between Libya and Europe. This location has played a major role in the past regarding transport and trade activities between the Mediterranean and the northern Sahara (CBL, 2012; NCI, 2009). Furthermore, the main natural resources in Libya are oil and natural gas. The main language spoken in Libya is Arabic. In addition, Italian and English are used in business and trade. Most Italian speakers are from the older generation.

4.2.1 The Political Environment

Libya is a developing country that also has a long history, which for a very long time was under the influence of colonization. It has a lengthy cultural history from the centre of Phoenician, Greek, Roman, Berber, and many Arab civilizations. Libya has been occupied by many countries. The Berbers originally settled in Libya, but an Arab invasion in AD 642 made the region an Arab country under the name of Libya. The Arab people were the ones who brought the religion of Islam into the country. After that, Libya was occupied by the Ottoman Empire from 1551 to 1911, and more recently by Italy.

Since 24 December 1951 Libya has been an independent country and there have been many significant changes, both political and economic (Factbook, 2016). Consequently, during Libya's independence from 1951–1969, the capitalist system started to prevail in the country where the private sector was the dominant sector, especially in the financial sector, while the public sector had a lesser degree of dominance.

In September 1969, the country changed from capitalism to socialism and a new political system started in Libya when Colonel Al Gaddafi led the revolution with a group of military officers and overthrew King Idris, taking control over the country. They established the Revolutionary Command Council (RCC). Also the new government renamed the country the Libyan Arab Republic. In March 1977 the people's authority was announced by the General People's Congress. Moreover, Colonel Muammar Al Gaddafi or Brother Leader of the Revolution was referred, and presented his own political system in his Green Book, also called the Third Universal Theory, which was proposed as an alternative to capitalism and communism.

The Third Universal Theory consists of three parts, considered solutions to the problems existing in the world, whether political, economic or social. Moreover, the name of the state was changed to "The Great Socialist People's Libyan Arab Jamahiriya" (Saleh, 2001). The main idea in Al- Gaddafi's Third Universal theory included Arab unity, culture, economic egalitarianism, independence, religion and nationalism.

In addition, Gaddafi did not accept either capitalism or Marxism theory because they did not represent the reality of democracy in his opinion and he indicated his theory as an alternative to the existing theories in the world. The political system in Libya during the Gaddafi period is based on popular democracy in which the people themselves make the decisions, whether political, economic or social, through the Basic People's Conferences. In light of this, the plan of the political system in Libya was presented by the Third Universal Theory until the fall of the Gaddafi regime in February 2011.

When Gaddafi was removed from power most structures and institutions in Libya collapsed because they were built around his personal directives and by his theory. After 2011, Libya established a new democratic state through the establishment of new state institutions and a new constitution based on the development of the principles of democracy and also sustainable socioeconomic development for the Libyan people (NCI, 2014).

In general, there is no doubt that this new political system in Libya since 1969 has had a great impact on all aspects of life, especially the economic side, where changes began to apply a planned economy. The government controlled all sectors, whether production or services sector. This included trade, industry, banks and insurance companies and the nationalizing of all the private companies.

During the forty-two year reign of Colonel Gaddafi, Libya witnessed many changes that affected the Libyan economy. For example, the USA in 1986 imposed economic sanctions on Libya. The sanctions were justified by the belief that the Libyan state supported terrorism. Moreover, that same year, in August 1986, the US launched an aerial raid on both Libya's main cities, Tripoli and Benghazi. However, in 2004 due to

Libya getting rid of and abandoning its programmes to build weapons of mass destruction, the US removed its sanctions on Libya.

In response to the UN Security Council's decision on 12 September 2003 to remove the 11-year economic sanctions, the government of Libya put in place certain policies aimed at economic liberalization and the promotion of foreign investment with the view to improving economic growth (NCI, 2009).

It included ensuring macroeconomic stability, privatization of state ownership or public enterprises, liberalization of trade and finance, restructuring of the economy and the admission of direct foreign investment – generally considered to be the most essential features of a transition. Consideration was taken from a planned to a market economy (Abdussalam, 2006). This caused political and economic sanctions, with Libya being isolated from the international community for more than a decade.

As a result, the country has witnessed three political regimes since independence in 1951. From 1952 to 1969 there was the monarchical regime. Secondly, between the periods of 1969 to 2011 there was the revolutionary regime, with the third being the democratic regime that was enforced in 2011.

4.2.2 The Economic Context

To understand and to interpret the recent Libyan economic reform, such as privatization and financial liberalization, it is important to have an overview of the performance of the historical economic development in the country. In doing so and in order to talk about the economic context in Libya the researcher has divided it into two periods: the first period before the discovery of oil in 1959; the second period after discovering oil.

4.2.2.1 The Economic Situation Prior to the Discovery of Oil

There was nothing to indicate any economic progress in Libya before discovering oil in 1959. The economy in Libya was in a very bad position in terms of production techniques, capital, and also the lack of providing manpower with global skills (Vandewalle, 2012). All the plans that were developed before the discovery of oil under the auspices of the United Nations were designed to develop critical areas in Libya, in particular agriculture and education. However, unfortunately Libya remained one of the poorest countries in the world, characterized by extreme poverty. The Libyan people were living on loans and assistance received from the UN and various Western countries.

In addition, the level of per capita income in Libya in 1959 was less than US$50 per year (Fisher, 1990). Furthermore, the main source of income in Libya was agriculture and animal husbandry which were the major types of work for most people. In addition, there were a number of small manufactures operated by local labour that were dependent on the agriculture sector and were mainly for the domestic market and not for export. It was a simple contribution not exceeding 10% of gross domestic product (CBL, 2010).

The per capita income was very low in Libya before discovering oil and most people in Libya were living at subsistence level. The economist Benjamin Higgins, who was working in the United Nations Mission in Libya as a consultant and an economist, described the period as a deficit economy and pointed out that Libya's economy at the time in terms of income and resources ranked very low among states (Bait-El-Mal, Smith, & Taylor, 1973; Vandewalle, 2012; Wright, 1981). On the other hand, the performance of labourers in these sectors was weak and most of them were uneducated, while trade was somewhat limited and generally controlled by foreigners (NCI, 2009).

2. 2. 2. 2 The Economic Situation after the Discovery of Oil

Following independence, oil was discovered in the late 1950s. The Law on Libyan oil in 1955 was designed to promote all types of oil businesses, both large and small oil companies. Acknowledging both types of companies, private and public organizations worked to explore and perform the operations of oil development in Libya. This law was formulated by Western advisors. In the 1960s oil exports commenced, making the economic circumstances change completely from deficit to surplus, where a new era in the economic history of Libya began.

The government started to export quantities of oil and the country obtained high levels of financial flows in 1961. The Libyan economy grew so fast and increased well, making the state become richer, which encouraged a lot of international companies to invest in several sectors. Special interest was taken in the oil sector which provided an important source of capital and helped the country's need to develop its infrastructure and become the target of direct foreign investment (FDI) (Bait-El-Mal et al., 1973).

Moreover, the oil sector was also used as a strategy to open its economy and liberalize the financial system in accordance with Law No. 5 of 1997. This regards the encouragement of foreign capital investment, such as foreign banks entering and working in Libya (CBL, 2013). Furthermore, the discovery and export of oil helped the Libyan government to instigate many plans for economic and social development. These not only depended on oil export alone, but also on how to take advantage of the oil revenue for the development of other sectors. Such sectors incorporate education, health, trade, industry, security and other sectors that will help to provide great opportunities for local citizens in achieving sustainable development in Libya (Agnaia, 1996).

In addition, the country was no longer in need of aid or the financial support that was obtained from abroad. Libya was classified as one of the largest rich oil producing countries in Africa, with one of the least-diversified economies in the Maghreb region and among the oil-producing countries. This was due to the country depending on more than 90% of the oil revenue. A statement made by the Annual Statistical Bulletin of OPEC (2008) indicated that oil production since 2003 has increased gradually. The reason behind this issue could be mainly attributed to the lifting of the UN economic sanctions as well as the USA embargo in 2003 and 2004, respectively.

In the following year the government established the National Oil Corporation (NOC). After oil had been exported in the mid 1960s, oil revenues became the main source for economic activities in Libya. Since the oil was controlled by the government only, this encouraged the state to adopt more central planning as a method for economic development. As a result, different development plans were made by the government to develop social and economic institutions (NCI, 2009).

The first development plan was carried out in the period 1963-68. In general, the main focus of the first and second plans was to establish the infrastructure, which was very important, the main element being to develop the Libyan economy. Despite all the efforts made by the government attempting to upgrade the level of infrastructure, it still needed more. The state, therefore, also endeavoured to concentrate them in other phases of the development plans. Furthermore, in that period there was the private sector, both local and foreign, which was given great importance in helping the development process. Therefore, some statistics indicate that 70% of the total workforce in Libya were employed by the private sector (Alzuni, 2003; Gailani, 2008; Shernanna & Elfergani, 2007).

However, due to remarkable increases in oil revenues, this led to increased spending by the government on other sectors. The government has recorded some of their achievements, such as the education sector, where an increase in total public spending reached 38.1% in 1985. This was compared to the previous figure standing at 20.3% in 1970; also, in 1962 the oil revenues accounted for 24.4% of GDP compared to a staggering 61.7 % in 1996. The continued GDP from oil revenues, contributing to the total GDP, reached an overall 82.3% in the year 1992 (Otman & Karlberg, 2007). Furthermore, oil revenues awarded the rise in international reserves of Libya, reaching 24.6$ billion in 2004. This was a total increase of 15$ billion in comparison to 2002. Consequently, the civil war that occurred in Libya in 2011 led to a drop in the contribution of oil to the GDP to less than 40%. As a result, it is significantly noticeable that this created a negative effect on all other sectors within the economy, which crucially depend on oil revenues as a main source of income (CBL, 2012).

The second plan for development of the economy was for five years from April 1969 to March 1974. This plan was designed to increase expenditure in several fields, but was abandoned due to a new government that had been established, led by Gaddafi in 1969.

It should be noted that, for more than four decades of rule by the Gaddafi, there were several stages of political and economic development. Some of them were implemented, whereas others were not completed due to policies and economic crises that occurred to the Libyan state. During the Gaddafi period from 1973 to 1975, the first plan was introduced.

The first plan aimed to achieve several objectives such as giving special consideration to establishing the infrastructure and promoting the agricultural and industrial sectors more through increased spending. By implementing such procedures, the country would achieve self-sufficiency and improve the productive efficiency of farmers and labourers**.** In addition, this era was characterized by giving the highest role to the public sector for contributing to the development process.

The second plan was a five-year arrangement for socio-economic development that covered the period of 1976–1980. The main objective of this plan was to diversify the structure of the Libyan economy through investing in both the production and service sectors. For instance, the Libyan government started its goals of focusing on three main sectors which were agriculture, industry and housing. The five-year development plan covered the period between 1981 and 1985. This plan was put into practice in order to continue to accomplish the objectives set by the previous plans. The main purpose of this plan was to increase the industry sector and encourage the development of export industries (Vandewalle, 2012).

It should be noted that during the period 1980–1985 the production of oil was reduced due to an embargo by the United States and sanctions imposed on Libya by the United Nation from the early 1990s. This included the prohibition of many companies from importing Libyan oil to the USA. In addition, there was restriction of all exports to Libya including technology and equipment used in the oil industry. All these restrictions made the oil sector in Libya suffer immensely from a lack of appropriation and emergence that led to a reduction in oil revenue.

As a result, it should be noted that the oil sector, which had been the main source of revenue for the Libyan economy since it was discovered, was deeply affected during this period and suffered vast losses in terms of production, capacity and revenue. Unfortunately, these plans did not last long due to the fall in world oil prices as demand for oil fell. As a result of this the Libyan economy started to deteriorate as the country's strongest sector, oil, started to collapse. This sector was Libya's main source of reliance. As mentioned earlier in this chapter, the Libyan government after the revolution in 1969 changed to a bureaucratic system, especially at the end of the 1970s. This resulted in control by the state of all economic activities. The Libyan economy became a planned economy, which meant that all major decisions related to the production, distribution, commodity and service prices were determined by the government.

Market forces represent a very minor role in such kind of economy. Some statistics indicate that the ratio of public sector investment in the 1970s and 1980s was about 92%. At the same time the declining role of the private sector had reached the percentage of investments in that period of 8%. It has since become limited to the agricultural sector and some small artisanal activities (Faitory, 2004; Tapoli, 2004).

The public sector achieved great success in infrastructure projects and contributions to the increase in jobs and improving the income of individuals. But, on the other hand, it caused many disadvantages which were clearly witnessed in the late 1980s and early 1990s; for instance, non optimal use of resources, such as low productivity in many public sectors. Despite the presence of the high proportion of labour and the lack of financial incentives, workers were encouraged to perform more effectively at their workforce and expand their financial growth.

Unfortunately, the oil sector was still the main contributor to economic growth and also dominated the resource income in Libya. As a result of this, the collapse in oil prices in 1986 led to the government having to make a plan to reduce the role of the public sector in the economy. This was gradually done through reducing both the economic dependence on the revenues from oil, and state intervention in economic activities through the creation of alternative methods of achieving economic growth. The government began to develop many mechanisms to encourage and stimulate the private sector to increase its role in many economic activities (Bahgat, 2008).

In fact, Libya is one of the major oil producers and a member of OPEC, as well as one of Europe's biggest oil suppliers. Due to oil revenues and a small population, it has given advantage to Libya in becoming one of the wealthiest countries in Africa with one of the highest GDPs per person in Africa (CBL, 2013).

Following the lifting of the United Nation sanctions in 2003, economic activity in Libya increased dramatically. In 2004 the average real GDP growth increased approximately by 5% and inflation was reduced on average to less than 4%. Official foreign assets increased from 20$ billion at the end of 2003 and 170$ billion at the end 2010 (CBL, 2012).

4.2.2.2 Economic reform program in Libya

As explained at the beginning of the discussion in this chapter, Libya as many other countries, had long suffered from weaknesses in the economy. The deterioration of the public sector in many developing countries, including Libya, as a result of the global oil crisis in the 1980s, led to a reconsideration of economic policy. This was known to restructure the economy.

Libya has worked over the past three decades, particularly in the mid 1980s, to follow some of the economic policies that are designed to restructure the Libyan economy. The country has also worked hard to reduce the role of the public sector, by cutting down various economic activities and increasing the burden of the state's treasury. This was due to an increase in inflation, low rates of growth and employment, and the balance of payments deficit.

In fact, Libya has been struggling with an economic and financial crisis since the end of the 1980s. At that time, privatization had spread rapidly throughout the world, especially in the developing countries. In fact, Libya was no exception; it witnessed a desire by the authorities for the privatization of small public firms in 1987, especially in the wake of the US sanctions in Libya. There were also plans for trade liberalization in 1992.

The government has realized the need for political reform to solve the problems of the public sector by adopting policies and issuing a series of resolutions and laws since the late 1980s. Private investment could therefore be encouraged by starting to privatize small and medium sized public sector companies. However, unfortunately, due to the lack of compliance with laws and poor management, weak institutions, political and economic sanctions, all these factors led to the failure of the privatization process and also the progression of openness at that time.

As a result, the Libyan authorities had to postpone many of the economic reform plans. However, most of the evidence suggests that the Libyan economy remained tightly controlled by the state and showed little sign of reform. In fact, it is notable that the privatization in Libya in the 1980s and 1990s failed to achieve its objectives (Vandewalle, 1996).

After the United Nations suspended its sanctions regime in April 1999, Libya started to introduce social and economic reforms to liberalize its economy (John, 2008). At the beginning of 2000, the Libyan government began its transition system from a centrally planned to a market economy. This was done through privatizing its public sector, liberalizing its economy, restructuring the companies and continuing with trade reforms. These had to be consistent with the strategy for accession to the WTO (IMF, 2006b).

It is worth mentioning that the only way used to privatize these companies was through selling the property to the workers and management. This method was chosen because some leaders and decision makers in power still had ideas of bureaucratic control that had been adopted in Libya for a long time. Many of them in their statements and writings argued that this type of market freedom did not mean the acceptance of the capitalist system, but rather the expansion of the base of property. It further allows workers to own their businesses (Alafi & Bruijn, 2010).

For that reason, it seems clear that, although the Libyan authorities recognized that the public sector had failed and state control over the economy had led to many problems, they also understand that the adoption of this strategy to privatize these companies was an indicator of the lack of will and genuine commitment to privatization and transit into a market economy. One must also acknowledge the first stage of privatization, which was characterized by the weakness of the regulatory and administrative performance (Shernna, 2007).

It should be noted that Libya has a long history of extensive financial and economic reforms (John, 2008). This led the government to implement several decisions in order to promote the financial market in Libya to become more efficient and globally competitive. Thus, the regime of Libya under Muammar Gaddafi sought to take certain measures in liberalizing their economy and enacting open market mechanisms. These represented a shift towards less state control over the economy.

In 2001, the Libyan government set up an institutional framework for privatization, and developed a comprehensive plan to privatize public enterprises. An oversight Committee was formed in 2003. Also in the same year, the government began to privatize many companies, and more than 360 public companies were privatized. This included the financial sector, where more than 360 public companies were privatized. The data was as follows: 204 industrial, 56 agricultural companies, 82 livestock firms and also 18 marine companies (Aldroish, 2005). These firms were planned to be privatized in accordance with the schedule of the lock in three phases during the period of 2004 to 2008.

In January 2002, Libya declared their objective to expand their economy further and to attract foreign capital venture into the country. Also, the private sector was allowed to establish private banks and to contribute to public banks, while foreign banks were also allowed to operate as strategic partners in the Libyan banking sector and were given licences to open branches and representative offices in Libya (CBL, 2010). Prior to this period, foreign trade was not liberalized; this was due to the economic system prevailing in Libya's government. Nevertheless, with the removal of sanctions in 2003, Libya worked very hard to open its economy towards foreign investment (Factbook, 2016). Also, it should be taken into consideration that Libya is yet to be a full member of the WTO.

The proposals also encompassed tax incentives to foreign investors, the creation of a stock exchange, and the introduction of private banks. However, the delay in the implementation of the privatization agency and plan development, as well as the confusion and uncertainty in the process of economic decision-making, created serious predicaments. There were doubts about the willingness and policy credibility and management of implementing the privatization program as well as the economic reforms in general. In addition, many other factors, such as lack of clear constitutional and legislative changes, caused delays in reforming the financial sector in a broad spectrum.

The government continued to privatize goods and services in 2006 in its bid to give private industries a greater role in the economy. The authorities looked to encourage business by enacting laws to support existing companies and to encourage foreign direct investment. The policy was aimed at raising economic growth rates and diversifying the economy (CBL, 2006).

After the collapse of oil prices and economic sanctions in the 1980s the government realized that the centralized economic planning had failed to help the Libyan economy to achieve high economic growth. The Libyan political and economic system had seen several dramatic changes. The most significant of these changes were:

- In 1987, following military intervention in Chad and the emergence of the international oil crisis of 1986, the Libyan economy was deeply affected by the low price of oil. This, in turn, negatively affected the government’s general budget along with the international economic depression and, most importantly, the US embargo of Libya. As the leading importer of its oil, US economic sanctions affected the Libyan economy heavily. Political and economic reforms were instituted. These reforms included restricting and limiting the powers of the Revolutionary Committees, and removing travel restrictions. The Libyan government began reinstating private enterprises that were nationalized and the door was opened for privatizing several public sector organizations in 1979.

- By the early 1990s, political and economic reforms were discontinued as a result of the imposition of UN sanctions, when the Libyan government refused to hand over the two suspects of the Lockerbie airline bombing in 1988 in Scotland. However, the Libyan economy operated under economic sanctions from 1992 to 1998, which affected the privatization process.
- Since the lifting of UN sanctions in 1999, Libya has taken further steps and reform measures to liberalize its socialist economy which it continued to implement gradually. It stopped supporting terrorism. Libya's relation with the West had clearly developed and the animosity with the United States ended with addressing the issue of Lockerbie and the payment of compensation. It reached a point where the government admitted to possessing weapons of mass destruction and agreed to destroy them. After the settlement of all these conflicts and problems with Western countries the pace of reform accelerated somewhat, with the implementation of measures aimed at enhancing the role of the private sector in the economy (IMF, 2006a).

4.3 Financial Institutions

4.3.1 Libyan Banking System

In any modern country, the central bank is one of the main institutions that is influential in the economy. In general, a central bank is an organization of the government that maintains the significant public policy purposes. These include observing the performance of the financial systems, as well as managing the increase of fiscal supply. Central banks do not commonly work directly with the public, but communicate with all the commercial banks in the country. Also security dealers are forced to implement the policies being developed that are aimed at increasing financial stability and development within the state.

In 1901 the first bank was established in Tripoli – an Italian agricultural bank with many branches in the city. Following that, there were two other established branches, named the bank of Othman, one located in Tripoli and the second in Benghazi. However, both of them stopped working after one year of Italian occupation of Libya in 1911.

Central Bank of Libya was established in Tripoli in 1951 under the supervision of the Ministry of Finance in Libya. It can be argued that during that period there was no presence of Libyan banks. However, the central bank of Libya officially began its operations at the beginning of April 1956 and now has three branches: Benghazi, Sirte and Sebha. It became a legislative authority under the law, and the Central Bank of Libya the only one that is responsible for issuing banknotes and coins in Libya (CBL, 2006; Shukri, 2007).

Since all the banks in Libya were foreign, the Central Bank of Libya found too many obstacles to achieving its objectives because it was not able to control these banks. In 1963 the country witnessed the release of the Banking Act No. 4 of 1963, which was intended to build and regulate the banking system in general. The main condition of the banks was that they were to be based in Libya and, also take the form of joint-stock companies in which the Libyans invested at least 51% of their capital.

After the Gaddafi revolution of 1969, specific legislative laws were made that further ruled on fundamental changes in the banking system, consistent with the public policy of the state. The most important of these legislations were the following;

(i) The decision of the revolutionary Command Council on 13 November 1969 to transfer all the branches of foreign banks to the banks of the Libyan state. The state must own a share of 51%, including the majority of the members of the board of directors in Libya.
(ii) On 22 December 1970 Law No. 153 was issued in recognition of the banks in Libya, and under this law, it became the capital of all commercial banks operating in Libya.

These were owned by the government and individuals. Also, there was a law on the prohibition of companies that were not wholly owned by the Libyans in terms of doing any business banking. At that time, the vision of the state of this law was to implement the economic and social plans. They needed national banks to participate mainly on the development process rather than the pursuit of quick profit and the transfer of money abroad. For this reason the government controlled all the banking sector (CBL, 2006).

The government defined the main key objective of the central bank of Libya as promoting economic growth. According to the general policy of the state it includes the following: the first objective of the central bank is issuing and regulating banknotes and coins; the second, to maintain monetary stability.

The third objective is the supervision in commercial banks and ensuring the soundness of their finances, controlling the efficiency of their performance and protecting their depositors' as well as shareholders' rights. Another important factor is that the central bank must act as a bank and fiscal agent for the State and its public organizations. The banks should further advise the State on the formulation and evaluation of their financial and economic policy. Finally, supervising foreign exchange transactions should also be considered, along with issuing and managing all State loans.

It can be argued that the banking system in Libya was dominated by five main banks. These are the following: the National Commercial Bank established in 1970 which was 100% state owned; the Gumhouria Bank in which the state also owned a percentage of 100%; it was established according to the commercial banks by Law No. (64) 1970 that the Umma Bank held a share of 100%, Wahda Bank 87% and Sahara Bank 82.7%. Law No. (153) 1970 established that the banks constitute almost 90% of the assets of Libya's banking sector (CBL, 2010).

4.3.1.1 A brief Overview about Sources and Uses of Funds of Commercial Banks

- **Sources of Funds**

In this regard, it should be noted that deposits of various kinds with capital and reserves of banks represent the total sources of funds. Banks would like to utilize these funds in their economic activity. Where deposits of various kinds are the main source of funds for banks, the ability of banks to grant loans and credit facilities is directly proportional to the size of these deposits. Thus, the possibilities for banks to finance economic and social activities depend significantly on the development and encouragement of banks. Therefore, banks would need to deal with tools and how payment is diversified such as credit cards and instruments.

The statistics indicate that the source of funds of public commercial banks in Libya at the end of 2005 reached about 14.2 billion dinars, of which about 93.1% was in the form of deposits. This was made up of various kinds and the remaining 978.3 million dinars were in the form of capital and reserves (CBL, 2013).

- **Aspects of the use of Money Banks**

As mentioned, all commercial banks are owned by the state under resolution 153. The main function is to contribute towards the finance of development plans. The banks started to grant loans and credit facilities to various sectors, according to the perspective of development and social spending. For example, some statistics indicate that the balance of loans and progress granted by commercial banks in Libya at the end of 2005 was 6109.1 million dinars, distributed over different sectors (CBL, 2006). These included the economic activities and production and services which reached up to 43.4%. Mortgage loans were 23.3%, River industrial loans 6.1%, and finally loans social was 27.2% (CBL, 2013). Because of the dominance of the public sector, it makes the banking sector has suffered a lot of problems in Libya. Some of the problems are listed below in the following points:

4.3.1.2 Imbalance in the Pattern of Ownership

The essential side of the financial services proposed in the Libyan economy is whether banks in Libya wholly own a significant percentage of the country's Central bank. However, if this is the case, then it has certainly had a negative effect on the production of these banks, for the following reasons:

(i) Security of these banks is essential with many restrictions, supervision and the administrative side imposed by the laws on state-owned enterprises. The subject of the review of accounting by the finance and industrial form watchdog needs to be acknowledged. Another key aspect is the requirement for accessing a number of approvals to do with the programme's progression, and the agreed salaries of employees. This is related to Law No. (15) for the year of 1981 on wages, and assigned to departments by the government. Also, further negotiating of the requirements and conditions affecting the choice of competencies is required.

(ii) Underperformance by the managerial bureaucracy results from public ownership.

(iii) Lack of material encouragements for employees.

(iv) Low productivity and the presence of an important percentage of excess labour.

(v) Forcing the banks to grant loans to the public sector organization without credit to the studies of economic feasibility, and without sufficient safeguards. This has led to the faltering of most of these loans, as well as using influential force to engage in investments and contributions is economically unfeasible.

4.3.1.3 Double the Efficiency of the Technique Used

a) Banks depend on their banking systems to achieve their business, and these systems are programmed locally with limited efficiency. Also, being uncorrelated, in contribution to the limitations provided by operations of banking, and also weak oversight and control on these processes.

b) There are no network communications to link banks and their branches with the Central Bank of Libya. This has led to reliance on manual methods in the delivery of data and information, additionally leading to inefficiencies in the completion of banking operations. The result has made it difficult to control branches of these banks.

c) Banks depend on traditional instruments of payment such as money orders. Therefore, the deficiency of infrastructure and arrangements has led the banks to introduce a progression of tools as a quick and effective scheme for payment. Incorporated in this scheme are prepaid cards and credit cards that have led to the reliance on the use of paper money and coins. This has resulted in a gradual turnover of capital within the economy, which has proved to be a negative source in savings and hiring. Also, the ability of financial policy on the performance of its functions is equally significant (CBL, 2010).

4.3.1.4 Weaknesses of the Management of Human Resources

- **Training and Rehabilitation**

The most prominent drawbacks are under construction and qualification of human fundamental approaches within in the banking sector. Libya did not have real, favourable circumstances for training periods that were adequate to modern banking, technical knowledge. This also included the English language skills, plus banking activity. Even though there have been some efforts, they are not however enough due to the system not being utilised appropriately and in proportion. The country needs to keep up to date with the performance of training and improvement programmes for the function of mechanisms in their banking organizations.

- **Lack of Material Incentives**

This has had a negative influence on the ability of banks to attract talent and retain efficiency as well as being a drawback on employee productivity and their competence in the banking sector.

- **Deficiencies in the Administrative Organization**

There are different types in respect to this and most of the banks have no modern administrative structures. They should put in place the process of determining the functional levels and utility that are the basic foundations for the banks, and issuing specific requirements for the occupants of these positions is significant.

In summary, the monetary authorities in Libya in recent years have taken a series of measures to reform the banking sector, such as restructuring of commercial banks and liberalization of state-owned banks, through encouraging legislation and targeting a large number of companies from state ownership to privatization, with the aim of providing an opportunity for the private sector to play a key role in the economy. In addition, measures have been taken to enable the creation of new private banks, as well as to allow foreign investors and foreign banks to participate in the Libyan banking market; which can play an important role in stimulating competition, which improves the efficiency of the banking sector in Libya. Thus, it can play a major role in increasing economic activity (CBL, 2006).

4.3.2 Non-bank Financial Institutions

The establishment of non financial banks is one of the components of the financial sector in the national economy. Some of them present sovereign funds of the state and works in order to invest in the surpluses from oil revenues. Also, in order to achieve financial returns to contribute to the diversification of income sources, stability must be considered for the financial resources of the community; moreover, to support the movement of development and achieve a number of social goals, one of them being a social equitable distribution of income. Combating poverty is a necessity as well as the increase in prosperity within society.

Perhaps one of the most important sectors that has been witnessing a remarkable development during the past few years is the insurance sector, and the Libyan stock market (LSM). The markets have been continuing their activity for eight years since the commencement of the industry in 2006. The Libyan stock market is expected to have a significant role in the national economy through spreading the culture of investment among individuals and economic institutions in the community (CBL, 2010).

4.3.2.1 Libyan Stock Market

Libya started economic reform and made changes in their economic policies to become dependent on the market of liberalization policies by the process of privatisation. This was ordained especially after the removal of the UN and US sanctions in 2003. The government started to think seriously about establishing a stock market in Libya, as there was a substantial increase in the number of companies occurring.

This would be a great advantage for Libya in creating a favourable climate to encourage private investors and also to stimulate an increase in competition in the market. In 1993 many new regulations were imposed concerning commercial activities, bank currencies, credit and privatisation of many public units. The companies were passed as one of the main aspects of the government's agenda for success of the economic reform programme. To establish a stock market became an overdue necessity that needed to be put into practice in order to develop the economy very quickly.

The Central Bank of Libya is developing performance and establishments of monetary and financial contribution to the economic activity in Libya. The Bank has studied and prepared a draft law to establish a market for securities, and the results of the study also take into consideration the decision of Secretariat of General People's Committee in

2003. Issuing the terms to assign the establishment of the financial market in the Central Bank of Libya was another aspect (Aljabiri, 2008).

Accordingly, a decision by the governor of the Central Bank of Libya in 2004 to establish the department of stock trading was issued. This was implemented in order to manage the accounts and investments that embarked on this section as the active nucleus for the establishment of the Libyan market securities. However, on 24th March 2005 another decision was subjected by the secretariat of the General People's Committee No. 105 and under this decision was quoted the task of creating a market to the General People's Committee.

Consideration was only based on the principle that the Economy and Trade have already been making the necessary arrangements to supervise the establishment of this market. Besides, this activation of its role is to contribute to the financing of investment, and accelerate the expansion of ownership base through an exchange of shares and bonds.

Under the supervision of the People's Committee for Economic, Trade and Investment (Ministry of Economy), the Libyan Stock Market has been established since 2006, with a capital of LD 20 million. The headquarters is located in Benghazi whereas the main branch is in the capital city of Tripoli (CBL, 2006). Furthermore, due to many companies not having sufficient knowledge about how to deal with stock markets, the development was somewhat difficult.

As a result only six companies were listed, and operations of these companies were recorded manually. On the other hand, trading volumes were later increased and the reason behind that was due to the Libyan government starting to transfer some economic activities. This process led the public sector to move out from the private sector through the process of privatization. The procedure began over the past few years, and has led to an increase in the number of investors in the LSM. This has further enabled the stock market to start working its way through the use of electronic systems for trading, clearing, depository and central registry.

The above method makes work in the market easier and safer. Also, the number of companies listed on the stock market has increased since 2010 to become 14 (Edweib, Shafii, & Ahmad, 2013). The most important sectors contributing in the LSM are the banking and insurance sectors.

In 2008, two years after the establishment of the LSM, the General Peoples Committee issued a resolution to increase its capital to LD 50 million. Also, in the same year the stock market issued rules and regulations that regulate the work and safety of transactions within the market. The objective of the LSM is to promote and diversify finance availability, facilitate privatization programmes and the granting of credit. Also included are the encouragement of whether investment possibilities are more available, and also another main aim of the LSM is to ensure the transparency of economic and financial information.

During the first decade of the 21st century, the Libyan economy benefited significantly from the open door policy in terms of rate of growth in the country (Vandewalle, 2012). The Libyan government initiated a financial sector reform programme after the lifting of international sanctions in 2003. Consequently, it considered that there is significance to the stock market in supporting economic development, as the stock market can play a significant role in providing capital for investment, which in turn helps business corporations to increase investment and expand production. It will also help to pursue the development process in the national economy. As a result, there has been an increase in the efforts towards creating a stock market in the country to promote economic growth.

4.3.2.1.1 The Importance of Stock Market for Economic Growth

The stock market plays significant role in the economic growth in Libya. It can attract and consolidate savings and other forms of capital through the market, which is so critical to the development and growth of both the private sector and trade in general. Indeed, they represent the link among disparate social sectors in society and between investors and producers; the productive sectors still require financial resources to continue to have a supporting role in the function of the economy, as the stock market performance and function is a main means for transmitting the economy from people with accumulated surpluses to those who have a paucity of funds. The main function of the stock market is to ensure or increase the amount of financial resources available. The stock market offers many opportunities for lenders and civilians with the help of a few investment channels. Finally, it can help in the development of various methods of funding in short, medium and long term projects (Aljbiri, 2013; Edweib et al., 2013).

In short, it is also vital to note the importance of the stock market for the economy, since it allows the movement of funds from those who have them, and have no investment opportunities, to those who want to enjoy these opportunities, by means of an exchange function and increase of production to achieve and improve the economic efficiency and the level of prosperity in society. Financial intermediaries are banks, insurance companies and pension funds (Masoud, 2009). These institutions play a decisive role of an intermediary in transfers from lenders to borrowers. This has increased the role of the stock market in trade, information technology, communications and the phenomenal speed of access to financial information, as well as improving the productivity of the investments in the economy (Singh & Weisse, 1998). Thus, all these issues indicate the significance of stock markets in providing further opportunities for growth.

Another important role of the stock market is helping privatization of state-owned enterprises, as one of the main issues in modern economies in developing countries. The privatization of enterprises can significantly influence the development of the market and thus lead to increased economic growth. Especially as Libya is starting some steps of a privatization programme. In 2003, the Libyan government announced plans to privatize more than 360 state-owned enterprises, still others are under the process of privatization, which needs a good financial system including a stock market (Masoud, 2009). According to Demirgüç-Kunt and Levine (1996), the development of a good financial system before privatization was needed to ensure an immediate response to the economic requirements of newly privatized enterprises.

4.3.2.2 Insurance Companies

In general, during recent decades, there have been faster development rates in the insurance market activity in both developing and transition economies. This was in recognition of the process of financial liberalization. Insurance markets can have impacts such as encouraging financial stability, mobilizing savings, facilitating trade. They can also enable risk to be managed more efficiently, promising loss mitigation and also helping to ensure efficient capital allocation.

In regards to this, it should be noted that insurance market action might contribute not only to economic development itself, but equally through the complemented banking sector and the stock market. There is a relation between the insurance companies and banking, whereby the improvement of insurance activity might encourage banks to borrow by reducing risk exposures. This would promote higher levels of lending, which effect economic development by increasing the request of financial services (NCI, 2009).

Furthermore, another benefit would be that regarding the relation among the insurance market activity and stock market. It is also believed that through improvement of insurance activity, specific life insurance firms could stimulate stock market improvement by investing in funds. These savings would be raised through contractual savings produced in stocks and equities insurance companies (Omoke, 2012).

The insurance industry can contribute to the welfare of individuals, transforming some aspects of the economic and financial risks that Libya may face in everyday life (such as accidents, injuries, fire, theft, etc.). In particular, life insurance provides individuals and companies with such coverage through long-term savings instruments. These systems have maturities longer than traditional loans in the banking sector.

Therefore, the reform of the insurance system is an important element in the mobilization of savings and financial development. It is also important to allocate such measures in developed countries. The ratio of premiums to GDP ranges from 3% to 10.1% (World Bank, 1998). In comparison, the insurance industry of Libya is small with a ratio of premiums that represents less than 1% of GDP (IMF, 2006a).

In Libya, the first law of supervision and control under insurance companies was passed in 1959. This legislation was implemented in agencies, branches and also offices of foreign companies doing business insurance in Libya. It was subjected under law No. 131 of 1970 to oversee the facts concerning how insurance companies were operating, in the twentieth century under the establishment of new insurance companies in Libya. The first insurance company in Libya was established in 1964, the contribution of the Libyans was 60% and Iraq 40%. After a short while Libya then set up a company named All- Mqtar for insurance in 1968. The contribution of Libya was 60%, while Egypt had an input of 40%. The founding of North Africa's Insurance in 1969 was acknowledged with an involvement in Libya of 51%. Britain also contributed a total of 49% (CBL, 2006).

In the year 1980 the Libyan government decided to integrate all insurance companies into one company. Thus, under the law, the Libyan insurance company became the only company engaged in insurance activities in Libya, this situation continued until the founding of United Insurance Company on 1 April 1999. The United Insurance Company had a capital of ten million Libyan dinars. On the other hand the African Insurance

Company formulated in September 2004 had a capital of five million Libyan dinars (Vandewalle, 2012).

It goes without saying that Libya’s government started economic reform, and trade was opened to the outside world especially after the lifting of the UN Sanctions in September 2003. The number of insurance businesses has increased sevenfold in Libya since 2010. The increasing progression has played an active role in improving reform and increasing stability within the economy.

An improvement of the Libyan economy is a positive indicator for encouraging new insurance participants considering entering the insurance market. It means that economic growth leads to a rise in demand for insurance. For instance, the Libyan Central Bank forecasts real GDP growth in the future due to an increase of trade openness. Thus, with a surge in GDP growth forecast for Libya, it could be assumed that Libya’s insurance industry will follow systematically in accordance with the subjected criteria. For example the relation between economic growth and activities of the insurance companies is positively correlated.

In this regard, the statistics indicate that premium insurance in Libya peaked during 2010. The amount reached to 384.423 million dinars, compared to 368.997 million dinars in 2009. This was an increase of 4.1%, while the volume of direct compensation in 2010 alone amounted to 282.445 million dinars, compared to that of 126.484 million dinars in 2009. Again, there was an increase of 123.3%. Table 4.1 below shows the development of insurance premiums and compensation paid during the period from 2000–2012 (NCI, 2014).

Nevertheless, despite the recent approval for the private sector to operate insurance services, liberalization of the insurance industry in Libya is still in its infancy, and relatively underdeveloped compared to developed countries (CBL, 2013). This is a similar case with other developing countries around the world. The Libyan authorities recognize the growth potential of the non-banking sector, including the insurance industry. Therefore, they have started to regulate and upgrade the sector, in an effort to increase public appreciation of the significance of insurance policies. This is completed through the liberalization of the operating environment and enables the diversification of services that can provide the sector in the context of financial reforms (World Bank, 2006).

All insurance companies, including Libya for insurance belong to the private sector. In fact, the Libyan company for insurance was fully state-owned, but was privatized in the second half of 2007, through the action of the Libyan market (CBL, 2010). However, every company suffers from a lot of problems, the most important of which are the weakness of their capital base, and limited investment tools available for these companies.

Table 4-1: Compensation premiums and insurance companies operating in the Libyan market expressed in Million LYD

Year	Premiums	Growth rate	Reparations	Growth rate
2000	88.4	8.12	88.6	2.8
2001	97.9	10.7	91.7	3.4
2002	146.7	49.8	90.1	1.8-
2003	201.5	37.4	120.2	33.4
2004	166.1	17.6-	79.2	34.1-
2005	192.5	15.9	66.0	16.7-
2006	195.0	1.3	72.8	10.3
2007	192.0	1.6-	82.9	13.9
2008	275.1	43.3	110.4	33.2
2009	368.997	34.1	126.484	41.6
2010	384.423	4.1	282.445	47.3
2011	254.12	33.8-	119.24	29.8-
2012	317.195	22.7	217.28	34.1

Sources: (NCI, 2014).

As a result of the recent growth in trade, liberalization and economic openness have provided an increasingly important base for economic activity for Libya. Conversely, the country has moved from a centrally planned economy to a market economy. This has brought more awareness of the importance of the link between economic openness and an increase of insurance market activities. This can be noted clearly through Table 4.1 above, which refers to an important development in the activity of insurance companies in Libya since the Libyan government began to introduce economic reforms. “Putting state owned insurers onto a full market basis may take years and different models can be applied to the eventual privatization” (Lester, 2011, p. 28).

Local insurance markets are modestly developed in terms of company size and structure compared to their global counterparts, where small sized companies are able to provide insurance services. They could formulate the service from major projects in the fields of industry and oil, which usually are protected by insurance on activities carried out through international insurance companies abroad. One must understand that Libya is working hard to strengthen and improve their insurance companies. Their objectives include providing a sustainable service in the domestic and external markets, where the insurance companies have a large presence. They therefore have the ability to enter into a strategic partnership for the development of insurance services in Libya, to keep pace with the requirements of the development in economic activities.

4.4 Potential Benefits and Challenges of WTO Membership for the Financial Services Sector in Libya

As mentioned above, in response to the UN Security Council decision on 12 September 2003 on the lifting of the 11 year economic sanctions on Libya, the government put new policies in place. These policies were aimed at economic liberalization and the promotion of foreign trade with the view to improving economic growth. Another key pointer that is equally as important is ensuring macroeconomic stability.

Privatization of state owned or public enterprises, liberalization of trade and finance, restructuring of the economy and the admission of foreign direct investment are generally considered to be the most essential features of a transition from a planned to a market economy (Abdussalam, 2006). Such structural and policy changes will undoubtedly put great pressure on the Libyan economy. Changes will particularly be seen when it accedes to full membership of the WTO. Therefore, it is difficult to reconcile the objective of preserving the competitiveness with the liberalization of capital flow (Charfi, 2013). This is based on the analysis of the exposure to market forces and international competition after such a long period of isolation and protection from such forces under the planned economy.

There is an abundance of academic literature that explores the benefits and disadvantages of WTO membership. Many lessons can be drawn when assessing the potential gains and challenges that Libya may encounter in the advent of accession to full membership of the organization (Hoekman & Kostecki, 2009). One of the key benefits of membership is that it will grant access to world markets and export opportunities for Libyan firms. The financial services sector in particular will stand to benefit from access to foreign capital markets under the GATS.

Libya could well capitalise on this in the future to establish itself as the leading regional financial centre of North Africa and the Maghreb region. With the exposure to international competition, which membership entails, the Libyan economy can also stand to reap specific benefits of greater competitiveness. Some of these are improved performance, increased productivity and economic efficiency, which in turn will provide the incentive for sustainable economic growth.

The measurable or quantifiable economic indicators of such benefits will be in the form of higher GDP (and GDP per capita) and economic growth rates in the post-WTO membership period.

At the micro-economic level the potential benefits for Libyan citizens will include greater employment opportunities (including improved technical skills and the acquisition of new skills). As a consequence of the expected growth of the economy Libya will realize more income generation and wealth creation opportunities. Libyan consumers will also stand to benefit from more choice and variety of products sourced from different countries within the WTO system. This in turn will entail a cost of living benefits in the form of higher quality and competitively priced products.

From a legal perspective, WTO membership will also offer Libya a forum for the transparent, efficient and effective resolution of international trade disputes with its trading partners. This will be done through the organization's dispute settlement mechanism, which is particularly important in ensuring that countries do not resort to unilateral or retaliatory measures. It is also essential to recognize that trade disputes do not become too politicized and intractable – with the economic ramifications. If this is not appreciated it could entail lost trading opportunities.

Moreover, there are also many difficulties and challenges that Libya could be expected to encounter following its accession to full membership of the WTO. Foremost in the list of perceived potential disadvantages is the exposure of domestic firms to international competition (Malkawi, 2006). Competitiveness in this case can be a two-edged sword that cuts both ways. It could therefore be argued that international competition, following the elimination of tariffs and open access for foreign firms to the Libyan market pursuant to WTO rules, could be detrimental. This will consequently effect the growth of Libyan industries. The most severely affected are likely to be new start-up industries, which in turn could impact negatively on any policy or programmes aimed at the diversification of the Libyan economy.

The next challenge facing the financial services sector in Libya is how to deal with the risk of global economic contagion which may come with exposure of the financial services sector in Libya. It may spread to the world's financial markets following accession to full membership of the WTO. Modern economic history includes many examples of such events, the most recent being the sub-prime mortgage crisis that originated in the United States and quickly spread like a virus through the world's financial system (Reinhart & Rogoff, 2010).

The real risk for Libya in linking up of the domestic financial sector of Libya with the world's financial system through the GATS framework lies in the domino effect. A meltdown in one part of the system may have an effect on Libya. This is something which Libyan policy makers will need to bear in mind and aim to put in place contingency plans for dealing with such a crisis. Once access to international financial markets become available under the GATS, Libyan firms operating in the financial services sector can start to work through each stage.

From a political perspective Libya will not only need to be mindful, but also be prepared to accept the fact that full membership of the WTO will entail curtailing some of its regulatory autonomy. The country could in addition face legislative competences *vis-à-vis* local decision making on matters pertaining to both domestic and international trade. The extent to which a nation's economic sovereignty with regard to matters affecting international trade can be impacted upon by WTO membership is still very much the subject of academic debate (Santos, 2012).

However, it is nonetheless the case that submission to the rules of the WTO applies to a great extent. The imposition of limitations on the sovereign will allow governments to regulate trading policies purely on the basis of national interests.

4.5 Summary of the Chapter

This chapter presented an overview of the Libyan context to this research, which includes key issues such as location, population, religion, language and political system of Libya.

Also, another aspect is taking on board the characteristics and development of the Libyan economy, since the country is dependent on foreign aid. This was at the time before oil was discovered, up to the implementation of structural adjustment programmes in recent years. The purpose is to appreciate that this whole scheme is a firm framework in which to interpret and understand the results of the study.

The economic situation has seen big changes since the discovery of oil in 1959, and government control of the economic activity. The economy experienced rapid expansion during the 1970s and early 1980s in terms of real GDP. Thus, as a result, the large increase in GDP helped the government to develop a series of development plans based on oil revenues. However, in the mid-1980s economic growth slowed down with the collapse of oil prices in the world, as a result of the country's complete dependence on the oil sector. During this period the budget deficit, inflation and exchange rate increased, while growth and investment rates markedly declined. However, since the early 1990s, the Libyan state has adopted a new programme to reform and stabilise itself. This programme introduced measures such as financial liberalization and privatization.

It should be noted that Libya is one of the countries that have adopted a policy of planned economy since the 1970s. As a result of the adoption of the bureaucratically controlled system for decades, the liberalization of public sector institutions and the transition to a market economy requires serious reform for market liberalization and the creation of appropriate conditions for private sector investment in Libya.

As explained in this chapter, and despite the fact that Libya has begun many financial reforms, there still needs more effort in the financial sector so that it can compete in the global market. The World Bank and the IMF supported these programmes and encouraged the Libyan authorities to expand private investment and reform the financial sector to enable it to play an important role in the transition.

Chapter 5: Research Methodology and Methods

5.1 Introduction

The purpose of this chapter is to describe the research methodology that has been practical for the activity of this research. Furthermore, this chapter goes on to show the steps followed and the methods employed by the researcher to collect the research data. This is required to achieve the aims and objectives of this research. The justifications provided in this chapter are significant in order to understand the expectations, methods, sample selection, and data collection and tools, as well as the techniques used to analyse the empirical data. In this context, Collis and Hussey (2009) argue that there are many different issues that must be discussed in a research such as: why one collected certain data, what data, from where the data was collected, when and how the researcher collected it, and finally, how the data would be analysed.

Moreover, this chapter provides justification for adopting appropriate methods to collect data and carry out fieldwork and analysis, derived from the research objectives. This analysis plays a crucial role in formulating the research methodology. Two methods are therefore used: secondary data and interviews. Also, the last section of the chapter is a debate of the statistical methods performed in this research.

5.2 Research Aim and Objectives

As mentioned in the first chapter, the main aim of this research is to investigate the impact of financial liberalization on economic growth. The investigation will follow one of the less developed countries, namely Libya, in the case of accession to the WTO. The methodology shows, according to Saunders, Lewis, and Thornhill (2011), "how research should be undertaken. We believe that it is important that you have some understanding of this so that you can make an informed choice about your research. For this reason, we also discuss a range of philosophical assumptions upon which research can be based and the implications of these for the method or methods adopted" (Saunders et al., 2011, p. 481). According to this explanation, the researcher must be cautious when trying to select the methodology. The research must be appropriate to the researcher's aims and able to answer the relevant research questions. In order to choose an appropriate methodology, one must achieve the objectives which are set for this research study as follows:

Objective One: To investigate the possible impact of economic liberalization on the financial sector and on economic growth in Libya.

Objective Two: To examine the relationship between macro-economic variables (foreign direct investment, inflation rate, real rate of interest, labour force, trade openness, exchange rate) and economic growth in the long run.

Objective Three: To identify the opportunities as well as the challenges facing Libya's economy in the period of globalization.

Objective Four: To analyse the experiences of other developing economies in the financial liberalization so that Libya can draw a lesson from other experiences.

5.3 The Research Philosophy

A study philosophy is based on the certainty about the ways in which data about a phenomenon should be collected, evaluated and used. One of the most important issues in the research philosophy is to determine other fundamentals of a research methodology. This includes, for example, the study's approach, strategies of the plan, data collection process and techniques of data analysis. According to Saunders et al. (2011), research philosophy imitates the way we think about the improvement of knowledge and understanding. This as a result concludes the way a particular research project must be undertaken and establishes how the overall research procedure should performed.

Research philosophy in addition proposes and makes clear how to adjust to the research design according to the restrictions of information structures (Easterby-Smith Mark, Thorpe, Jackson, & Lowe, 2008). Patton (1990) argues that it is vital to identify the methodological paradigms argument in the field of a social inquiry. This must be done in order to understand and acknowledge the choice of techniques and perspectives obtainable by a researcher.

However, the most common belief concerns three elements which are the philosophies: positivism, pragmatism, interpretivism (Bryman & Bell, 2007, 2015). In the context of social science, there are two paradigms that dominate social sciences: ‘positivism’ and ‘phenomenology’. Both comprise a significant responsibility in a business and management research (Collis & Hussey, 2013; Creswell, 2009; Easterby-Smith, Thorpe, & Lowe, 2002). “The research philosophy you adopt contains important assumptions about the way in which you view the world. These assumptions will underpin your research strategy and the methods you choose as part of that strategy” (Saunders, Lewis, & Thornhill, 2009, p. 101).

In this context, Creswell, Plano Clark, Gutmann, and Hanson (2003) argue that the selection of any specific method of study depends on the study’s philosophy or model that researchers pursue in order to perform their research. Moreover, Easterby-Smith, Thorpe, and Lowe (2002) maintain that there are several different reasons that make the researcher’s understanding of philosophical issues very important for their study. Firstly, they can help to make clear the research designs. Secondly, familiarity of philosophy can assist the researcher in distinguishing which designs will work and which will not. The final motive is that understanding of philosophy can help the surveyor to recognize, and even produce, designs that help in the research. Furthermore, it may be further suggested how to adapt research plans, according to the limitations of different topics of understanding structures.

The literature reveals that there are different terms that are sometimes described as positive and phenomenological paradigms. For example, terms of positivistic paradigms can sometimes be quantitative, objectivist, scientific, or empiricist. At the same time the phenomenological approach can be differentiated as post-positivistic. It is also sometimes called constructivism or interpretivism (Collis & Hussey, 2013). Perry (1998) argues that the main difference between the positivistic (quantitative) and the phenomenological (qualitative) paradigms can be observed by the two main approaches to theory progress. This is a deductive theory testing and inductive theory structure. As a result, the deductive approach corresponds to the positivistic approach, whereas the inductive approach signifies the phenomenological approach.

A positivist approach to carrying out research is based on information achieved from a 'positive' authentication of clear experience rather than introspection or suspicion. Scientific technique or trial testing is the best form of attaining this knowledge. Positivism, according to Partington (2002), is linking logic and rationality with empirical observation. For example, it uses a scientific method in natural sciences in order to develop and test theories. "Positivism is an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond" (Bryman, 2012, p. 28). As the main goal of this research is to know and assess the impact of financial liberalization on economic growth in Libya in the case of accession to WTO, the main idea of positivism is that characteristics have to be calculated using objective techniques rather than using feeling, reflection or intuition (Easterby-Smith et al., 2008). Moreover, the research methodology indicates that the phenomenological approach emerged through criticism of the positivistic approach.

In contrast, the interpretative approach or phenomenological paradigm has emerged as a result of criticisms of the positivistic paradigm. The concept seeks to appreciate and value the meaning through dividing the sequence of events into sections and then illustrating the content of each component part. (Bahl & Milne, 2007; Cormier & Gordon, 2001; Polit & Beck, 2013). Interpretive philosophy believes that reality is not objective and exterior, but socially constructed by people (Easterby-Smith et al., 2008; Polit & Beck, 2013). Therefore, Saunders et al. (2011) suggest that researchers should not fall into reconsidering the case that one research approach is better than the other. This is due to each one being better and unique in different characteristics.

Collis and Hussey (2003) argue that neither of these two paradigms is considered better than the other, and therefore, it is useful to think of them as a continuum. In this regard, Creswell et al. (2003) suggested a pragmatic philosophy as another paradigm. This paradigm of philosophy is a compromise between realism and positivism. It rejects the idea of theories predetermined to shape knowledge and facts, or people who can build their own facts from nothing (Easterby-Smith et al., 2008). Pragmatists argue that social sciences researchers need to stop asking questions about reality and the laws of nature. The concern should be with apps and greeting problems, instead of methods that are not significant. The problem is more significant. Therefore, researchers should use every appropriate approach to realize the problem. Furthermore, they should use more than one approach to gain knowledge about the circumstances as well as understanding how to find the correct solutions for the matter of concern. In short, the basic idea is that any meaningful structure should emanate from the practical experience of individuals. Collis and Hussey (2009) argue that researchers should be quite clear that their choice of method is limited by their given paradigm. Therefore, the paradigms they have selected for their research, and how they limit their choice of methodology, are important.

Mixed method was applied in this research to guide the research philosophy and design, since both quantitative and qualitative approaches are combined. Quantitative data were acquired through secondary data analysis, and qualitative data were acquired through structured interviews. There are many different options of methods and techniques in order to analyse research data. The choices of methodology depend on the research philosophy and the aims of the study. On the other hand, to avoid any problems that may arise, according to the philosophy of a paradigm, one must adopt a pragmatic approach using a mixture of positivistic and phenomenological paradigms (Saunders et al., 2011).

This study examines the various research methods and philosophical paradigms. It identifies pragmatism as the appropriate research philosophy of this research. In general, there are two important research techniques that need to be considered; the inductive method and the deductive method. The deductive method involves theory testing, whereas the inductive method is involved in theory building (Saunders et al., 2009; Gill & Johnson, 2010).

The current study on the impact of liberalization of the financial sector is best suited to a deductive method. The deductive reasoning approach could be used towards the exploratory nature of the study. Moreover, the study needs to clarify the fundamental relationship between the GDP and other independent variables including financial liberalization; thus this method has been chosen, and also, due to paucity of the research and literature related to the topic under investigation. Additionally, this study also adopted the deductive reasoning approach through collecting data from experts and senior Libyan officials in the financial sector, in order to find general information that would regulate the subject matter.

The choice of a particular research paradigm or philosophy leads the researcher to implement a specific research project. In literature, there are different classifications of types of research. For example, the research is classified in accordance with the purposes of scientific research. Further addressing the research is exploratory, descriptive or analytical. Furthermore, conversely, Zikmund, Babin, Carr, and Griffin (2012) stated the descriptive research aims to determine the answers to "who, what, where and how questions". As a continuation of the descriptive research, an analytical or explanatory research goes beyond the simple description of characterizing the analysis and explaining why and how it happened (Collis & Hussey, 2013). Based on the aims and objectives of this study, this research can be classified as descriptive, explanatory and exploratory. The first two objectives are exploring the effect of financial liberalization on the Libyan economy, the relationship between the labour force and trade openness on economic development in the short run, as well as examining the relationship between macro-economic variables and economic development in the long run. In particular, this part of the research can be classified as exploratory. Moreover, the information is based on research objectives three and four. These objectives explain and critically analyse the opportunities as well as the challenges facing Libya's economy. To establish what economic lessons Libya as a candidate country of the WTO can learn from, the past experience of emerging economies in financial liberalization can be assessed. This element can be classified as an explanatory or analytical research.

5.4 Research Strategy and Design

In general, research strategy, according to Saunders et al. (2009), is a plan used by the researcher to determine and respond to the research question. Research design is important as it can create a foundation plan or approach for the study and conclude the judgment behind it. This method will make it promising to get a broader conclusion. Also, Bryman (2012) argues that every research design offers the general framework for the achievement and analysis of data connected with the phenomenon under analysis.

There are various research designs, strategies or approaches that possibly will be used when carrying out research. However, the nature or the framework of these research question(s) and objectives entails a particular type of research plan and strategy to be followed. Consequently, this incorporates the overall arrangement of the study and the methods used for data collection and analysis.

In addition, the research will highlight the significance of selecting the suitable research technique. The methodology of this research is designed to assess the impact of financial liberalization on economic development in Libya in case to joining the WTO. This study adopts the longitudinal study which is an observational research performed over a reasonable period of time (Shuttleworth, 2009). Empirical analysis uses time series data for the variables before and after financial liberalization.

Financial sector reform in Libya after independence could be categorized into two main stages on the basis of the economic structural changes in Libya. The mentioned period includes 1978 to 2002. This is known as the pre-liberalization period, whereas the era of 2003 to 2011 is known as the post-liberalization period. Choosing this period aims at achieving comprehensive coverage for study and these 33 years gave much more accurate results. It can be said that before 2002 the financial sector of the Libyan economy was under the control of the Libyan government. In truth, they had a monopoly over the complete financial sector in terms of them expanding and the operations used. For example, the banking sector was hugely affected by the government takeover. Additionally, the country does not allow any other foreign banks to operate and open branches in Libya.

Also, there are a number of problems and limitations since the government served to undermine the private sectors' self-belief in the system as a whole. What is incidental from the previous is that the financial sector reforms were required. The reforms were in fact needed to support the improvement of the economic market. The development was much needed and was essential for the deepening of fiscal intermediation. Besides this, the formation of new instruments for people to invest in and the organization of new financial establishments were equally as important. The procedure could make Libya's financial system much more competitive and stronger in the world economy. This left the Libyan government to begin the development in June 2003. Thus the government started a reform programme with the objective of liberalizing its economy, restructuring companies and continuing with trade reforms, consistent with its strategy for accession to the World Trade Organization (Otman & Karlberg, 2007).

5.5 Choice of Research Methods

The choice of the research methodology is very important as it will enable the researcher to find and investigate the issues put foreword in research questions in chapter one of this study, which can be found in the form of quantitative and qualitative data, which can be found in the form of quantitative and qualitative data. Many researchers have tried to use multi-methods (such as, secondary data and interviews). These are based on the assumption that quantitative and qualitative methods are complementary rather than competitive (Saunders et al., 2009). Consequently, this study focuses on answering several questions about the economic impact resulting from financial services liberalization in Libya. The data also includes the literature presented on the matter of the link between financial services liberalization in the WTO and economic growth in Libya. In doing so, the study will use a diverse approach of qualitative and quantitative research techniques, to achieve both the research aim and objectives. This is in line with the statement which indicates that “Most research does not fit clearly into one category or the other. The best often combines features of each. In the same research project, some data may be collected that is amenable to statistical analysis, while other equally significant information is not” (King, Keohane, & Verba, 1994, p. 5).

Therefore, researchers try to use a different set of regulations of methodology that assist them to carry out their study (Mingers & Brocklesby, 1997). In a similar vein, Crotty (2005, p. 3) maintains that methodology refers to “the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes".

In this regard, it is vital to differentiate between research method and the research process when discussing data collection methods. Research techniques, tools and methods are acknowledged to be the correct path for data to be collected (Collis & Hussey, 2003, 2013; Silverman, 2006).

There are different methods of data collection and analysis, such as qualitative method, quantitative research method, or mixed method (Bryman & Bell, 2015; Creswell, 2014). In this research the Mixed methods will be used, which include the combination or integration of qualitative and quantitative research.

5.5.1 Mixed Methods Approach

Mixed method is an approach that helps to have a more in-depth information about the problem and provide rich data to help us to understand the problem in-depth. By mixing both quantitative and qualitative research the study gains in breadth and depth of understanding of the issue related to the research subject. This means that the advantages of using mixed method of the study are that to provide a comprehensive understanding of the research problem than either quantitative or qualitative approaches alone. Also, it helps the researcher to explain the results to better understand (Creswell, 2014).

Mixed methods research involves the use of both quantitative and qualitative techniques. There are several methods of the quantitative approach. However, based on the reliability and the advantages of econometric modelling, the study adopts an econometric model to determine the influence of financial liberalization on economic development in the case of Libya. The study will use time series annual data covering the period from 1978 to 2011. Furthermore, secondary data will be used in this research to identify and select independent variables affecting the dependent variables. This is the level of economic growth in the case study, which is Libya.

Qualitative technique is a tradition that includes complex and diverse methods of inquiry and theoretical frameworks along with methods of data collection. There are various techniques and sources commonly employed to collect the data for a case study. For instance, data collection measures in qualitative research engage four basic forms; observation, interviews, documents and visual images (Creswell et al., 2003; Sarah, 2015).

The fiscal sector in Libya, though it is small and limited compared with developed countries, is still progressing towards the early stages of its financial liberalization and reform. It is moving quickly in a short period of time as a result of the removal of the UN and US sanctions over the past few years. Nevertheless, there are rapid signs of improvement and succession within the economy. The government is also encouraging further progression. Thus, it is necessary to probe into the professional views of those concerned in the management and strategy making of the financial sector.

In this study, structured interviews supported by the pre-sending of a structured list of questions were sent to interviewees to respond to. Furthermore, these questions will be distributed to a representative sample of participants from each Libyan company or organization.

Convergent parallel mixed methods is a form of mixed methods design in which the researcher meets or combines quantitative and qualitative data, in order to provide a comprehensive analysis of the study, thus integrates the information in the interpretation of the overall results.

5.6 Methods of Data Collection

The selection of the most suitable research technique in this study was formed on a combination of quantitative and qualitative methods. This was done with the aim of being more powerful than a single approach, in response to the objectives of the study and the questions that will have to be answered. In this context, the mixed approach was approved. According to Thomas (2003), this is a method for the use of additional forms of research methods to test the hypothesis. Also, in the same context, the combination between quantitative and qualitative approaches, according to Douglas (1976), will make results support each other. They will further provide insight and understanding into the context of the research.

A combined approach of quantitative and qualitative techniques will be used in order to attain both the study's aims and objectives. Firstly, the primary data (interviews) will be used in the financial services sector. Primary data addresses the important facts acquired first hand by the researcher concerning the research variables. The representatives of the financial sector in Libya such as bank managers, insurance companies and stock market, tried to ascertain the views of experts on the effect of financial liberalization on economic development in Libya. Secondly, the information collected from the secondary sources will be processed to determine the variables for application in the econometric model. This will allow an estimate of GDP during these variables.

In other words, to assess the relationship between GDP and these variables, one must know how financial liberalization could impact on GDP in Libya, in the case of joining the WTO. Therefore, secondary data variables must be collected. As reference was made earlier, the pragmatic paradigm was approved to gratify the research objectives; and the secondary data method of time series was selected as the key vehicle for data collection.

In general, the choices made between different techniques of methods of research depend on the research philosophy and the aims of the study or the research questions.

Consequently, in order to gather data, the researcher ought to be able to access the information that needs to be composed for the study. There are two main sources of data that can be used in this research: secondary and primary data. Secondary data is data which already exists, produced or collected by others for other purposes. It may include improving and developing the researcher's understanding of the subject better. The data could also be reanalysed by the researcher to get a better understanding of the concept of the study. This can be found in various sources.

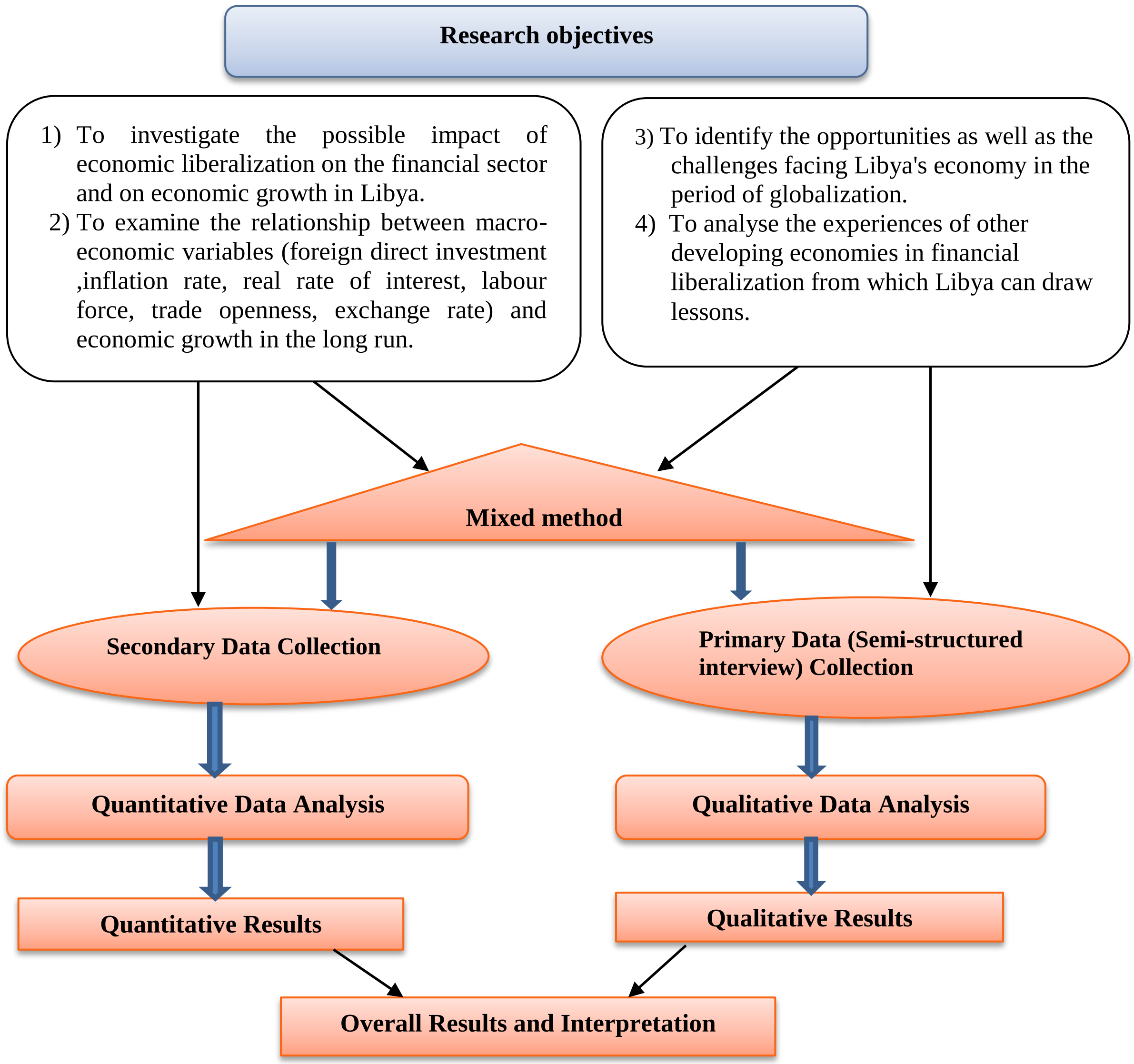
According to Sekaran (2003, p. 63), "Secondary data can be extracted from various sources, including books and periodicals, government publications and information sources". The media census also plays an essential role along with stock market reports, and mechanized and electronic information such as bar codes, scanner data, and the internet. Secondary data could be culled from the historic records of the institution itself, from evidence already available on the internet, or from external causes such as those mentioned above. This can be done either through the internet or otherwise. Other authors such as Mcdaniel, Gates, and Sivaramakrishnan (2008, p. 72), define secondary data as "some information which has been previously collected for other purposes than the problem at hand but may be relevant to the research problem".

Primary data (interviews) or original data are collected by the researcher to meet the research objectives (Collis & Hussey, 2013). Consequently, primary data is the second type of data collection method that has been used in this research. Primary information is incorporated when the researcher is unable to collect enough required information from secondary sources to solve specific problems or achieve the objectives and research questions. Another issue could be when the researcher aims to support secondary data, hence the necessity for primary data to take place within the research. The technique used for data collection in answering the research questions depends on secondary data, with the interviewees answering one main question and providing extra support to other questions. Thus, from qualitative studies such as interviews, words, sentences and narratives can be obtained that can help to understand the research objectives.

According to Bryman and Bell (2015), using both quantitative and qualitative data in the same study allows triangulation to be used. By doing so, this will help improve the decision-making process for the research result, as well as making the method stronger. Therefore, in this research study, it is useful to combine both secondary data and interviews. The secondary data will relate to exploring the relation involving financial liberalization and economic development in the Libyan economy. At the same time interviews are useful to carry out and help explore and understand the research issues.

Consequently, final decisions are completed by evaluating and analysing all the obtainable information, both qualitative and quantitative. Therefore, the fundamental nature of collecting data from more than one basis is triangulation. It will help to achieve reliability, as well as the subsequent strength of the results. According to Walker (1997), triangulation can also be implemented through using a combination of methods to gather and understand data. Figure 5.1 demonstrates the triangulation design of data collection in this research.

Figure 5-1: Triangulation design of data collection



Source: adapted from (Creswell et al., 2003)

5.7 Data Analysis

5.7.1 Secondary Data Required and Estimation Techniques.

5.7.1.1 Introduction

In fact, the time series econometrics is the major tool for investigation of economic models on co-integration analysis. The econometrics advent of error correction and co-integration analysis has changed the conduct of the time series analysis. Also, during the process it has restored economic theory to centre stage in explaining the relationships between economic variables. “A time series data set consists of observations on one or several variables measured at successive points in time or over successive periods of time. The time series data is arranged in chronological order and can have different time frequencies” (Asteriou & Hall, 2011, pp. 8,9). Moreover, a time series is a chain of recorded values.

These values are mostly real numbers recorded at regular intervals, such as biannual, annual, quarterly, monthly, weekly and daily. On the other hand, a time series data for instance, can include stock prices, gross domestic product (GDP), money supply, inflation rate and many others.

This thesis generally seeks to discover the effect of financial liberalization on economic development. Specifically, the thesis uses annual time series data from 1978 to 2011. For example, if Y denotes GDP of a country such as Libya from 1978 to 2011 then it denotes that as;

Yt for t= 1,2,3,4,5,............, T

Where t= 1 for 1978 and t=T= 1, 5 for 2011

The main aim of this research is to analyse the influence of financial liberalization on different aspects of Libya’s macro economy. The issue of the availability and the quality of the financial data is one of the most significant tribulations facing the applied of econometrics. This cause for concern is established in developing countries, due to the lack of statistical institutions that are well organized and can help the researcher easily formulate data. In addition, there is no high level of technology that enables complete and accurate statistical data to be provided. In order to make the study more relevant and accurate, the data of this study has been collected from different sources. Econometric models were used in this research to analyse the collected data and get a more accurate result. Also, statistical software, namely, Eviews 7 was used to analyse the relation among financial liberalization and economic expansion in Libya. This process took place during period of the study.

Similarly, the time series data in this study started from 1978 to represent the most observations with available data. However, 2011 was selected as the last period in this study due to the current data only being available up until this period of this study. Moreover, data presentation was done in tables and graphs. The data set consists of the annual reports of several variables over time series at constant prices and is given a total of 33 observations.

5.7.1.2 Secondary Data Required

As mentioned in the earlier chapters, there are many theoretical and empirical frameworks in the recent literature on the impact of financial liberalization on economic growth, such as the hypothesis of McKinnon (1973) and Shaw (1973). These authors show that there is a positive correlation between financial liberalization and higher economic growth. They also argue that a repressed financial sector has a negative impact on economic development, where the growth rate of per capita income is regressed on financial development on the increase of financial repression.

Jin (2000) argued that trade liberalization and openness of financial sector has provided an important base of economic activity. Thus, an increasing openness is expected to have a positive impact on economic growth. Also, Sachs, Warner, Aslund, and Fischer (1995) have argued that open economies have grown about 2.5% faster than closed economies. Therefore, the difference is larger between developing countries. The model employed in this study is built based on the modification of the models discussed in many recent studies (Banam, 2010; Bilel & Mouldi, 2011; Okpara, 2010; Omar et al., 2008; Sulaiman et al., 2012; Yen Li & Nair, 2010). The model specifies the endogenous variable, Gross Domestic Product (GDP) as a function of foreign direct investment, inflation rate, real rate of interest, trade openness (amount of exports and import), exchange rate, labour force, and FL Dummy variable, which takes 0 before financial liberalization and 1 after financial liberalization. All variables are expected to have positive coefficients. In other words, they expect financial liberalization to have a positive impact on economic growth. The model is specified as follows:

GDP= f (FDI, INF, RI, L, TO, EXR, FL…)…….........…… (1)

The range of variables are commonly tested in Gross Domestic Product functions, including foreign direct investment (FDI), Inflation rate (INF), real rate of interest (RI), trade openness (amount of exports and import) (TO), exchange rate (EXR), labour force (L), and financial liberalization (FL). Dummy variable, with 0 before FL and 1 after FL was presented; for example, dummy variables are equal to 1 when the capital account is liberalized and equal to 0 when the capital account is not liberalized. FL is included within the regression in order to study the effect of capital account liberalization on GDP and on other variables of the regression. The main objective is to estimate the FL coefficient, which will be indicated by its significant positive or negative value of the GDP evolution consequent to liberalization.

In order to examine the relationship between financial liberalization and economic growth in Libya, the growth rate of real GDP will be studied as an indicator of growth.

From equation 1 (above): the dependent variable is GDP; GDP depends on a large set of explanatory variables which are independent variables. In other words, the most important characteristics of this design of the equation is that the researcher can investigate the impact of one independent variable on a dependent variable, provided that all other variables do not influence the relationship between the two variables and are kept neutral. The general framework of the multiple regression model has the following form:

$$GDP = \beta_0 + \beta_1 FDI + \beta_2 INF + \beta_3 RI + \beta_4 L + \beta_5 TO + \beta_6 EXR + \beta_7 FL + \mathcal{E} \quad (2)$$

Where;

$\mathcal{E}$ is an error term of the equation, α is a constant representing a possible drift term,

(β_0, β_1, β_2, β_3) are the coefficients of independent variables that are determined by the calibration of the equation.

5.7.1.3 Type and Sources of Data

As mentioned earlier, this research employed a time series for the duration of 33 years, between 1978 and 2011. The study adopts an econometric model and some variables are used as secondary data sources, in order to ensure the reliability and validity of the data. The data employed in this study are collected from various sources, including: Central Bank of Libya, World Bank (GDP, trade volume), The Ministry of Planning in Libya, The Ministry of economy, The Ministry of Finance. They also further include UNCTAD, OECD database, National Board of information and Documentation, books, archives, documentation, both published and unpublished, and articles and journals.

According to Sekaran (2003, p. 63), “Secondary data can be extracted from various sources, including books and periodicals, government publications and information sources, the media, census, stock market reports, and mechanised and electronic information of all kinds such as the bar code, scanner data, and the internet. Secondary data can be culled from the historical records of the organization itself, from information already available on the internet, or from external sources such as the ones mentioned above, either through the internet or otherwise”. As a result of gathering data from the above sources, quite a few judgements were undertaken by the researcher in order to ensure that all data has consistency and is categorized according to the same criteria.

5.7.1.4 Tools and Techniques of Data Analysis

The regression method is one of the most accepted methods in econometrics. The regression study can be used to investigate the relations between variables. In this study, different tools and techniques have been used to assess the effect of financial liberalization on economic development in Libya. The data used in this research is based on collective annual time series, covering the period of the study from different sources. The methodology involves econometric techniques such as: Johansen Co-integration test, Augmented Dickey-Fuller (ADF), Unit Root test and Error Correction Mechanism (ECM), as well as Ordinary Least Square (OLS) method. As a preliminary test, the unit root test will be used. The purpose of the unit root test is to empirically scrutinize whether a series contains a unit root or not. If the series includes a unit root, this means that the series is non-stationary. Otherwise, the series will be classified as stationary. The Co-integration examination is used to find out the long-term relation between the variables. Moreover, in particular the Augmented Dicky-Fuller (ADF) test and the nonparametric Philips-Perron (PP) test are incorporated to check the stationarity of the variables.

5.7.2 Interview

The interview is possibly one of the most commonly employed methods in qualitative study. According to Bryman (2012) the most important evidence that a case study researcher can get, is from an interview. In the context, “The interview is an important data gathering technique involving verbal communication between the researcher and the participant. Interviews are commonly used in survey designs and in exploratory and descriptive studies” (Fox, 2009, p. 4). Furthermore, an interview with one or more people is an important approach to learning in-depth information and acquiring evidence for an individual for their fundamental research project.

The interviewer needs to know the subject related information about the phenomenon or main problems. The research study tries to get results through the interviews in order to reach an accurate solution to the problem or phenomenon. Moreover, in an interview, the researcher wants to ask questions of the participants. As a result, this information will help the researcher to find out more about the research topic. According to Collis and Hussey (2013), an interview is defined as one of the basic elements of collecting data that depends on research objectives, where the researcher brings the questions to the participant who has experience and information in answering them, in order to find a solution. An interview can also reveal what an interviewee thinks or feels. This technique has been used extensively in previous studies (e.g. Abugalia, 2011; Shukri, 2007). By looking at these theorists’ views; it can be suggested whether the research uses a positivist or phenomenological approach. Denzin and Lincoln (2009) believe that interviews are an essential tool in data collection in any qualitative research.

The main purpose of most interviews is to gather evidence through facts and other information supplied by witnesses. Interviews should generally seek to answer simple questions. Collecting information can be carried out in different ways, for example, face-to-face interviews are the most popular. In addition to face-to-face interviews, telephone interviews are also popular. Another method of interviewing could be through the use of the internet, for which there is a particularly rising demand. Due to developments in computer technology, all kinds of computer mediated communication (CMC) tools have been developed.

There are many forms of interviews for qualitative research purposes as mentioned earlier. In this research, just face-to-face interviews have been used. This is one of the widely used forms of interviews. Through face-to-face interviews, the researcher can learn more about the interview participants. Additionally, in the context of a face-to-face interview, conversation is more natural than by telephone and internet or any other form of interview. The researcher is able to interpret and understand the interview participant's responses better, in addition to better observation of body language for certain expressions and postures.

The researcher can also quickly see whether the issue has been misunderstood and reformulate the question accordingly. Additionally, the interviewer can also immediately ask questions, especially, since the research deals with diverse factors and variables that need to be studied in depth. In this research, personal interviews help a researcher to understand the opinions of senior Libyan officials who have information about the research subject. More specifically, a face-to-face interview allows for a deeper understanding of the relation between the economic impact of financial liberalization and economic development in Libya.

Nevertheless, time and resources are always a great factor in the study. Face-to-face interviews require more time from both the researcher and the participant. In addition, if the participant to be interviewed lives far away, the researcher might not have the money or time to travel for a face-to-face interview.

There are several types of interviews. For example, there is the standardized, open-ended interview –the same open-ended questions are asked of all interviewees. The second type is a closed, fixed-response interview. Regarding this type, all respondents are asked the same questions and the researcher may ask participants to choose from a range of alternative answers. For an informal, interview no predetermined questions are asked, in order to remain as open and adaptable as possible to the interviewee's nature. It is important to ensure that the same general information areas are collected from each of the respondents; this offers a more focused approach than the conversation.

In this regard, like any other data collection method, interviews have many benefits and drawbacks. The key advantages of using the interview approach are as follows. The first gain of the interview is flexibility (Bryman & Bell, 2015). It allows the researcher to adjust to interview questions to suit the case study and to explore new ideas and issues not anticipated during planning. The second advantage is the increase in certainty which means the research service is more accurate and honest in responses (Saunders et al., 2011). Due to the direct contact among the interviewer and interviewee, it lets the researcher clarify the persistence of the research more easily and explain any doubt or circumvent any confusion of the questions or the philosophies of the research.

Therefore, the researcher can follow up on incomplete answers from the interviewee or unclear responses by asking additional questions to get more information (Oppenheim, 2000; Silverman, 2005). The third advantage is that the apparent transparency may typically allow for more focused discussions and follow-up questions, because the information will come directly from knowledgeable people. An extra benefit is the depth of information. Interviews are virtuous for constructing data that deals with areas in depth or detail in certain forms. As a result, it also provides the chance for the exploration of the participant's answers about the subject accurately through face-to-face interviews. This is particularly useful when discussing sensitive issues.

On the other hand, there are some disadvantages in using face-to-face interviews for the research. First disadvantage is geographical limitations which can make interviews expensive for the researcher. Another disadvantage is that interviewees may be biased and try to please or impress the researcher, subsequently creating a false personal image. Furthermore, the interviews could end abruptly or give the researcher less time than expected. Despite the above disadvantages and due to the above advantages, the interview method was used in this research study.

However, it should be noted that interviews can be categorized into three main kinds: unstructured, semi-structured and structured interviews. Arrangements of interviews vary, from the highly-structured type, where questions are offered and asked in a fixed form and sequence, compared to the open or non-directed interview (Bryman & Bell, 2015; Saunders et al., 2009). Thus, in this research semi-structured interviews will be applied.

- **Semi-structured Interviews**

This type of interview is “similar to structured interviews in that the topics or questions to be asked are planned in advance, but instead of using closed questions, semi-structured interviews are based on open-ended questions’’ (Fox, 2009, p. 4). As such, this study used semi-structured interviews as a system of data attainment and data analysis. The reason behind selecting this type is since the interview questions were open-ended, it gave the researcher the opportunity to discover and attain more information as well as allowing freedom and spontaneity in the answers. Moreover, open-ended questions according to Denscombe (2014), have a much less biased effect on response than closed questions.

Additionally, semi-structured interviews mean the researcher should have some of the questions or fairly precise topics enclosed in their research study, often called an interview guide. However, the interviewee has many options or leeway in how to reply. Consequently, the research question does not necessarily follow exactly the same path outlined on the schedule. For example, some other questions may not be included, but might be asked along the way, as researchers pick up on things said by interviewees.

Therefore, all the questions that will be asked in this research have similar wording that will be used from interviewee to interviewee. Semi-structured interviews were carefully chosen as the means of data collection since it is well suited for the study of the observations and opinions of respondents concerning complex and sometimes delicate issues. This method allows the understanding of more information and explanation of answers (Louise & While, 1994).

Researchers sometimes employ the qualitative interview to summarize one of these three types of interview. The use of a particular type of interview, according to Leedy and Ormrod (2001), can provide the researcher with one data collection method that depends mainly on the research objectives. The researcher uses semi-structured interviews for the reason that they provide a very flexible procedure for small-scale research (Drever, 1995). Semi-structured interviews are non-standardized. These kind of interviews can be used in explanatory studies. Thus, semi-structured interviews can be used as the main source for answering some of the research questions and as support to explore and explain themes that have occurred from using the secondary data analysis (time series).

Semi-structured interviews are used in eloquent studies to obtain quantitative data, in order to place more emphasis and validate the findings from the secondary data. In doing so, many research questions that were asked and analysed by secondary data were re-explained in semi-structured personal interviews. This was done to ensure that the findings from the secondary data (time series) would be certified by the findings from the designed interviews.

It is worth mentioning that the difficulties of this research require to be explored in depth. It should also be understood that the use of secondary data does not always provide adequate answers for research questions. In many studies, qualitative data, according to

Bryman and Bell (2015) and Sekaran (2003), were used to validate and help maintain quantitative findings. Likewise, it is worthwhile combining secondary data with other techniques of data collection. Therefore, in this study there is only one way to achieve the research objectives, which is conducting interviews with secondary data. In doing so, this research has employed interviews to collect a great deal of information about the phenomenon of the research area. It was illustrated that semi-structured face-to-face interviews are a suitable form of data collection process for this study.

In addition, it provides flexibility, thus giving opportunity to the applicants to speak freely about what they accept as true, and can be complemented with secondary data to explore and understand all the research issues (Bryman & Bell, 2015). In order to explore the relation between financial services liberalization and economic growth in Libya, in the case of accession to WTO, qualitative face-to-face interviews were judged to be the most useful methods, especially since the research started dealing with diverse influences and variables that need to be scrutinized in great depth. Moreover, personal interviews can help the research to understand the opinions of senior Libyan officials who have information about the research subject. Specifically, it allows for a deeper understanding of the relationship between the economic influence on financial liberalization and economic development in Libya.

5.7.2.1 Design of the Interviews

A substantial amount of consideration was paid to the interview structure and various drafts and an in-depth assessment and pre-testing were performed before getting the final version of the interview (See Appendix C). The interview was designed to gather information about the potential impact of financial liberalization on the economic growth in Libya. As such, the final version consisted of five sections. The first section, i.e. general information, was designed to collect general information about the respondents in the research, such as job title, level of education, experience and about their companies.

The second section concerned problems and challenges with financial liberalization. This section collects information about the main challenges and problems that may face the financial sector in Libya after joining the WTO and liberalization of the country's financial sector. It was divided into three questions.

The third section concerned factors influencing the effects the financial liberalization on development (the expected role of financial liberalization on economic growth). This section deals with the views of the respondents about the impacts of financial liberalization on economic development. As well as the most important policies mentioned, the government should also acknowledge the benefits that can help to optimally develop the process of liberalization. This section has also been divided into three questions.

The fourth section was about competitiveness and the economic impacts of financial liberalization. It consists of three questions about the views of the respondents on the competitive advantage of the financial sector in general. The final section, lessons from country experiences, was designed to determine what the economic lessons of Libya as a candidate country to the WTO could learn from. Similarly, it also concludes the experience of the Arab countries and emerging economies that are already WTO members.

5.7.2.2 The Pilot Study

The researcher conducted a pilot study to ascertain and test individual semi-structured interview questions using four PhD students. Each participant was known by the researcher. Actually, the pilot study is usually the last stage before collecting real data. Likewise, the reason behind the pilot study was to ensure that questions were relevant and easy to ask and understand (Likupe, 2011). During this test the researcher discovered that some of the questions were vague. The interview questions were modified to get rid of any ambiguity and to encourage respondents to talk and perform their interviews better

(Krueger & Casey, 2000). More explanation about the process of translation is in the next stage.

5.7.2.3 Interviews Translation

In this study, a list of questions was prepared and produced in English by the researcher. The researcher chose Libya as a case study and Arabic is the official language in Libya. All interviewees were native Arabic speakers. Therefore, it was decided to translate the interview questions into Arabic, in order to make them very clear and easy for the participants to understand and answer.

The interview questions were structured in stages and underwent many repeated revisions with the supervision team to make sure they included all the necessary research objectives and questions, before a final draft was produced. The procedure that was followed for translating the research interview went through the following stages.

The primary principle was finishing the final English draft of the interview questions with the supervision team. The researcher started to translate the questions into Arabic language (the researcher is a native Arabic speaker and used to work as a proofreader). The researcher to the best of his knowledge tried to eliminate the problems and difficulties that may have occurred during the process of constructing the Arabic version. It was equally as important that additional care was taken during the translation process. This was essential as sometimes one word or expression may have a number of different meanings in the Arabic language. This could therefore influence the meaning and ambiguity or cause a misunderstanding.

In the second phase, both the original English version of the interview and the original version in Arabic were sent to be checked by two Arab academics, for the translation. One of them is a lecturer at the University of Tripoli, who also holds a PhD. His PhD was awarded by a British university and he has worked in the department of economics.

Another academic is a lecturer at the Academy of Graduate Studies, which is one of the largest institutes for postgraduate studies in Libya. This lecturer holds a PhD, also from a UK university. What's more is that he is fluent in both languages (English and Arabic).

Concluding, very useful feedback was gained from these lecturers who confirmed that the interview questions were clear and easy to understand for the interviewees. During the last part of the process, the final draft of the Arabic version was sent to an expert in grammar to make sure that the interview questions were written correctly, and that there were no mistakes in the sentence structure and wording. Finally, the researcher met this expert in grammar for reviewing and discussion of their comments as well as adopting the final version of the interview questions.

5.7.2.4 Ethical Considerations

The researcher assured the interviewees who participated from three financial sectors in Libya (banking, insurance companies, stock market) that they would not be identified in any report or publication emanating from the study, as the researcher believes that social or cultural factors may impinge on the research problem. Regarding this study, all ethical norms were considered and followed throughout the study. Every precaution was taken to protect the rights of the respondents. One of the rights included verbal consent, which was obtained from each respondent in the interview. Also, the researcher informed the interviewees that the information was being undertaken for the achievement of a PhD study; and furthermore, the information might be used for conference or articles. Finally, privacy, anonymity and confidentiality were maintained by using a code number and interviewing each respondent separately.

5.7.2.5 Interview Population and Sampling

The population is the entire group of people. The researcher may wish to choose some of the population, known as the 'sample'. It is rather useful to contribute and provide the information and data for the study. Many researchers have tried to use multi-methods for example, secondary data and interviews based on the assumption that quantitative and qualitative methods are more complementary rather than competitive (Saunders et al., 2009). There are different ways of choosing a sample size for interviews: the first decision is about choosing a suitable sample size for the research. Secondly, it is important to find a suitable sampling frame, and thirdly, to choose the most suitable sampling techniques. Ultimately, it is ideal to choose the respondents within each organization and to identify the names of personnel to who have specific knowledge and experience in the field. Consequently, this study can help the researcher to obtain more information on the research subject.

Based on the population, the study aims to use interviews as a qualitative research method. This is because the sample is relatively small. In order to make an accurate study, the researcher tried to target the whole population, but unfortunately the number of people who agreed to participate in the interviews was ten from the banking sector and four from insurance companies, with just one representative of the stock market. According to Huberman and Miles (2002), a qualitative research concentrates on the excellence of the information attained rather than the quantity and size of the model. The total number included in the sample during the study period ranged from fifteen institutions from different sectors, and the sample included both male and female. Moreover, the sample was selected based on two criteria: first, interviewee's approval to participate in the interviews; second, that the people were responsible for the process of adopting resolutions in the financial sector, and who have information and background covering all relevant research issues (Abugalia, 2011). Consequently, the interview sample includes fifteen individuals, one of them being from the Libyan stock market, four from the insurance companies, and the remaining ten from the banks.

The second phase is that the interviews will be used as a useful tool for the province and support of the research. It will further help the researcher to understand the overall process of liberalization in Libya. However, it is impossible in this study to use questionnaires on the Libyan financial sector due to the fact that financial liberalization in Libya is a new experience compared to other countries. In addition, Libya is still at the beginning stages of the economic reforms and information about the research topic is not relatively available. Furthermore, the financial sector available to study is relatively small (which is a limitation of this study). So, one of the most important issues in the interviews was how to choose the appropriate standard to take for a sample of the respondents.

In fact, the semi-structured interviews were designed fundamentally to answer two main objectives (objective three and four) of the study, as well as to maintain and investigate the quantitative findings. The researcher was determined to carry out the semi-structured interviews with senior Libyan officials in the financial sector whose jobs were directly associated to the research topic. Their opinions and beliefs about the issues under consideration would help the researcher to obtain and explore more in-depth information.

The small sample size is attributed to the fact that the researcher faced great difficulties in order to reach and conduct interviews with senior profile officials. It was one of the most challenging tasks performed in this research. This has been due to senior personnel normally having very busy schedules and scarce free time. Besides, during the period within which the fieldwork was undertaken, there were still many security crises that caused problems in collecting the interview data, and further created more difficulties for the researcher when arranging interviews.

5.7.2.6 Conducting the Interviews

After designing the interview framework in advance including what would be the main topics and subtopics, the process of conducting the interview was undertaken through the visit by the researcher to the financial sectors in Libya. More specifically, during the first two weeks of the data collection, the researcher attempted to make appointments with the representatives in Libya’s financial sector. However, this was not an easy task as the researcher needed first to make sure that the relevant managers were targeted. Indeed, according to Rubin and Rubin (2011, p. 64), “interviewees should be experienced and knowledgeable in the area you are interviewing about”. As such, after identifying the relevant managers who were selected based upon their knowledge and their agreement to participate in the study, the process of each interview was launched in each organization in which the time was flexible and chosen by the interviewees. However, it should be noted that the researcher also gave the interviewees brief information about the research subject before the commencement of the interviews and told them the importance of their answers in the developing subject. The interviewees were all assured that all the information would be treated with total discretion and they were made to feel relaxed and feel free to answer the researcher comfortably.

Additionally, before performing each interview, the researcher asked for consent from the interviewees to record the interviews and all respondents gave permission to do so. Recording the interviews was a very important step since it ensured that all the issues the participants talked about would be covered. Furthermore, it allowed the researcher to focus on questioning rather than paying attention to ensuring that no data would be lost. Thus, the interviews were made more reliable.

The interviews were performed verbally, face-to-face, through conversation to obtain or elicit relevant data, information, expression, as well as opinions and beliefs relevant to the research objectives; the researcher tried to use probing questions and guided the discussion by asking for more detailed explanations and examples to obtain in-depth information. In such circumstances, probing questions can help researchers to obtain more details (Rubin & Rubin, 2011), especially when there is an incomplete idea or some important information presented by the interviewee is missing as they spoke too briefly. However, the researcher wanted to get more details about questions such as “can you explain this in more detail?” or “can you give an example?” which assisted him in exploring the research subject in depth. Furthermore, the researcher was interested in ascertaining the views of the participants in the interviews only and confirmed the outcome obtained by the participants where there was no right or wrong answer for each question.

The researcher also took notes during each interview, which were written up straightaway after the interviews to make sure that all notes were recorded. At the end of each interview, the researcher gave a token of thanks to each participant's contribution in the interviews. As such, the semi-structured interviews were conducted with 15 respondents (see Table 5.3 below) – ten (66.67%) interviewees were from banks, four (26.67%) were from insurance companies, and one (6.66%) was from the stock market – over sixty days of fieldwork done by the researcher in Libya using the Arabic language. This was over the period from March to May 2012.

Table 5-1: The sample units of the respondents and the percentage of their response rate

Units of the interviewees	Number of the interviewees	The response rate (%)
Banks	10	66.67%
Insurance companies	4	26.67%
Stock market	1	6.66%
Total	15	100%

Source: Compiled from the conducted interviews by researcher

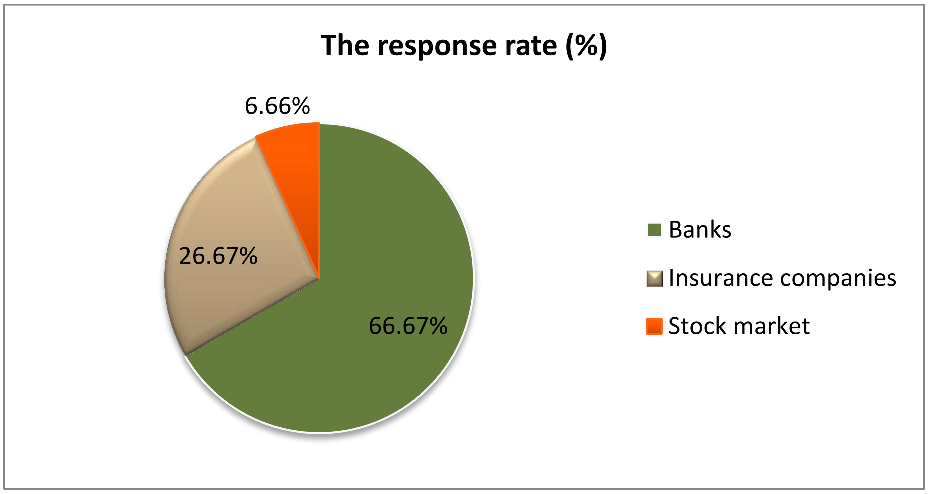
More specifically, the full profile of the interviewees, i.e. position of the interviewees, their gender, type of the company, interview type and the duration of the interviews is shown in Table 5.4 below. The interviewees in different companies were asked in a similar manner about the financial sector generally and moving then to more specific questions related to the sector in which they worked.

Table 5-2: Profile of the interviewees (total 15: N. All from Libya)

Case	Co.	Position (interviewees)	Gender	Financial Sector (Type of Company)	Interview type	Duration of interview
1	A	Director of foreign trade	Male	(Central Bank of Libya)	Face-to-face (recorded)	90 minutes
2	B	Head of foreign relations department of the Bank	Male	Bank	Face-to-face (recorded)	78 minutes
3	C	Assistant General Manager for Operations	Male	Bank	Face-to-face (recorded)	60 minutes
4	D	Assistant General Manager for Financial sector	Male	Bank	Face-to-face (recorded)	73 minutes
5	E	Assistant General Manager Management	Male	Bank	Face-to-face (recorded)	95 minutes
6	F	Director general of planning and investment	Male	Bank	Face-to-face (recorded)	70 minutes
7	G	Director of Administration and finance	Male	Bank	Face-to-face (recorded)	55 minutes
8	H	Assistant director of Administration and finance	Male	Bank	Face-to-face (recorded)	68 minutes
9	I	Assistant Director of Administration and finance	Female	Bank	Face-to-face (recorded)	60 minutes
10	J	Assistant General Manager	Male	Bank	Face-to-face (recorded)	65 minutes
11	K	Director of the company	Male	Insurance company	Face-to-face (recorded)	77 minutes
12	L	Assistant Director of Administration and finance of the company	Female	Insurance company	Face-to-face (recorded)	67 minutes
13	M	Head of department of administrative and financial affairs of the company	Male	Insurance company	Face-to-face (recorded)	54 minutes
14	N	Director of Administrative and financial affairs of the African insurance company.	Male	Insurance company	Face-to-face (recorded)	62 minutes
15	O	General Manager	Male	Stock Market	Face-to-face (recorded)	85 minutes

Source: The data obtained from semi-structured interviews

Figure 5-2: The sample of the interviewed companies and the percentage of their respondents



Source: Researcher's computation

It should be noted that the researcher held the interviews after collecting secondary data in order to explore the relation among financial liberalization and economic development. The researcher would therefore have a clear understanding of the topics that have appeared from the secondary data and validate the findings from the secondary data.

5.7.2.7 Analysis of Interview Data

Following the description of how all the interviews were conducted, it is important now to explain how the interview data was processed and analysed. The first step therefore was to professionally transcribe verbatim all interviews and to check and edit them in line with the original recording by the researcher. This was done in order to analyse the data more accurately and without missing any information. After this stage was completed, the next stage was to decide which technique could be utilized in analysing the qualitative data. In fact, there are many different techniques in the research method that can be used for analysing qualitative data such as content analysis, pattern matching, explanation building or interpretive analysis, template analysis, analytic induction, and narrative analysis. Some of these techniques are seen as highly structured, formalized and proceduralized, while others accept a much lower level of structure (Bryman & Bell, 2015; Leech & Onwuegbuzie, 2007; Saunders et al., 2011).

In this research however, only a qualitative content analysis approach was utilized. Raymond and Fielding (2004, p. 530) argue that “content analysis is one of the earliest approaches to the analysis of texts. As a result, lists of words are important tools in this tradition. Thus, the ideas, opinions and views of the interviewees are extracted from the text.” In this research, a content analysis technique was used because it is seen as a technique that looks directly at communication via transcripts, and therefore gets at the central aspect of the potential impact of financial liberalization on economic growth in Libya. In this regard, a qualitative content analysis approach to data analysis that involves reading and re-reading transcripts, looking for similarities and differences that enable the research to develop themes and categories, was undertaken. As such, the analysis of the semi-structured interviews was organized around content analysis. Therefore, the procedure of content analysis begins with the research objectives that the researcher seeks to explore through the use of the semi-structured interview method. More specifically, coding was used in the interview data to make it easier to analyse. Although there is a variety of software to use when considering utilizing content analysis technique, in this research as the number of the interviews was only fifteen, i.e. the sample size, the researcher did not need to use computer assisted qualitative data analysis software. Therefore, it was easy and possible to work on them manually.

5.7.2.8 Reliability and Validity of Data

Both concepts, reliability and validity, of data are very important and the researcher should take both into consideration to determine the objective of the research. According to Bryman and Bell (2015), reliability is determined by the extent to which the study outcomes are repeatable. For a qualitative study, reliability is related to the extent in which the characteristics of the study design are congruent with the research questions. In order to ensure that the results are reliable, they were asked the same series of questions. Therefore, since all informants were interviewed separately, subject bias was controlled to a large extent. The reliability of a method of data gathering is concerned with the degree to which the method will produce "consistent findings" and where similar observations would be made, or "conclusions" by other researchers, when the entity to be measured has not changed (Leedy & Ormrod, 2005).

Moreover, if a measure of the study is found to have excellent validity, then it must also be reliable. Hence, reliability is a prerequisite for validity (Sekaran, 2003; Van der Velde, Jansen, & Anderson, 2004). With respect to the question of reliability of the interview results, Punch (2013), Maylor and Blackmon (2005), and Saunders et al. (2011) have argued that the results of non-standard techniques of investigation, such as semi-structured interviews reflect reality at the time they were collected, in a situation that is subject to change. Thus, the reproducibility of these findings of the methods is difficult to achieve exactly. Besides that, the value of the use of semi-structured interviews achieved, due to their flexibility, can be used to explore the complexity of the topic.

With regard to validity, Bryman and Bell (2015) pointed out that any study should be related to the integrity of the findings it generates. Therefore, researcher validity has great significance. According to Yin (2013), in order to meet the test of construct validity, the researcher needs to be sure to cover two stages: first, to explain the phenomenon in terms of certain terms, thereby relating them to the objectives of the research; and second, to classify the operational procedures that comply with the concept of academic literature and other publications. As such, the interview questions were not only grounded in the literature, but were also piloted and checked by the researcher's supervisors in order to enhance their credibility. They were also piloted and pre-tested before being used for data collection. Piloting points out whether or not the design of the study and interviews can attain what they were expected to achieve. These included such measures as having the prospective to improve validity.

5.8 Summary of the Chapter

In conclusion, the researcher in this chapter presented in depth the research methods used for this study. Research methodology and research methods were discussed briefly and it was concluded that the methodology adopted needs to follow from the nature of the problem and the researcher's theoretical perspectives. Therefore, the methodology was highlighted and clearly explained according to the positivism and phenomenology approach. It also focused on the difference between these two ideas. Both quantitative and qualitative research techniques were used in order to investigate the research objectives of this study.

Two research methods were employed: quantitative and qualitative. The first section of this chapter explained the secondary data methods used in this study, in terms of the model design, tools and techniques of data analysis. Moreover, the second section of this chapter presented details about how the interview was used in this study, in terms of the types of interviews that have been used, interview question design, data collection, sample selection and interview analysis. In addition, the chapter also explained how to ascertain and establish validity and reliability.

The next chapter will present the first part of the analysis, namely, a description of the secondary data analysis. The results provided in Chapter Six relate to the first, second and third objectives of this study, as mentioned previously in the first chapter.

Chapter 6: Secondary Data Analysis and Findings

6.1 Introduction

In this chapter, the thesis presents the econometric analysis and the empirical outcomes from the impact of financial liberalization on different aspects of Libya's macro economy. The regression technique has been used to examine the relationships among variables in the analysis because it is one of the most popular techniques in econometrics as discussed in the methodology chapter. In this study different tools and techniques have been used to assess the effect of financial liberalization on economic growth in Libya. The data used in this study are aggregate annual time series, covering the period from 1978 to 2011 from different sources.

Thus, the thesis employs the Johansen Co-integration test, and Error Correction Mechanism (ECM) in order to create long and short period relations from the specified models. This chapter is sub-sectioned into seven parts, together with this introduction. Section 6.2 explores the stationary and non stationary nature of the data properties on variables and introduces the unit root test. The unit root tests were conducted by applying the, Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) methods. Section 6.3 introduces the Johansen test approach on co-integration to determine the long-term relationship between the variables concerned. Moreover, section 6.4 is related to empirical tests and presents the results of Error Correction Model (ECM), which was applied to test the speed of adjustment on stability. Section 6.5 tests the assumptions of regression, whereas, in section 6.6 the research relates to a gravity-type model in predicting future financial sectors and their effect on economic growth. This is established when current regulations are further liberalized in the Libyan international financial market. Section 6.7 summarizes the chapter.

6.2 Unit Root Tests

Since this study is on time series data, the unit root test is the primary stage for an empirical study on co-integration. This is because it helps the researcher to know the stationary and non stationary nature of facts before directing regression analysis in order to avoid the difficulty of spurious regression.

To test for stationary data means testing the order of integration of each variable in the model. If the variable integrated is of degree (1), it means that it's an I (1) variable, which illustrates that it has a unit root of a non stationary variable. Consequently, testing for non stationarity is the same as challenging whether there is a unit root in the series. Additionally, if a variable is found to be non stationary it is important, at this stage to identify how many times it needs to be varied for it to become stationary. For example, if it varies twice to become stationary, it is called I (2) variable, which is a key requirement when investigating the co-integration relationships. This is because it has diverse inferences on the number of co-integration relationships (Holden & Perman, 1994). According to Elliott, Rothenberg, and Stock (1996), it substantially improves power when an unknown mean or trend is present. The test regression included both a constant and a trend for the log levels and a constant with no trend for the first differences of the variables.

The Augmented Dickey-Fuller and Phillips-Perron tests are implemented to measure the stationarity of time series variables. The test results of the unit root are reached by assuming the existence of the null hypothesis (abbreviated H_0) which is that the independent variable has no effect on the dependent variable. A unit root and co-integration test imply that a variable that has a non stationary unit root versus the alternative hypothesis (abbreviated H_1) is an independent variable that has some effect on the dependent variable. This therefore suggests that the variable is stationary, i.e. does not have a unit root.

Several models are indicated for time series with the intercept, trend, and with both. Correspondingly, different models are approved for the operational break and with the time trend. In such case, specific judgements on the basis of financial theory must be functional in order to formulate a hypothesis about the nature of the series. However, this assumption may not always be true and can lead to completely wrong conclusions. For these reasons, one of the problems that may face the researcher is how to select a suitable technique for the test. Economic principles and the information available cannot be disregarded when using the test results delivered by a precise testing method. Different kinds of test methods or models may be applicable for a time series difference, in order to obtain results in line with the economic philosophies.

If this was the case, it would require sticking to only one method for all time series which could prove to be inappropriate (Shrestha, 2005). Thus, in this study, the Augmented Dickey-Fuller (ADF) is a more competent method than the Dickey-Fuller for the autoregressive unit root as suggested by Elliott et al. (1996) and Phillips and Perron (1988) unit root tests are applied. In order to test whether a variable is stationary or non stationary, two methods of testing the unit root were examined in this study, which are the Augmented Dickey-Fuller Test (ADF) and Phillips-Perron test (P-P). The results of the unit root tests are achieved by using the sequential method offered and interpreted in the next section.

6.2.1 Augmented Dickey-Fuller Test (ADF)

Dickey and Fuller (DF, 1979) developed three different regression equations useful for testing for the presence of unit roots in the series (Enders, 2008). The ADF test results presented in Table 6.1 clearly reveal the study variables, test at level, test at first difference and test on second difference, in each variable as well as the results of various tests for unit roots ADF. These were conducted three times to make the test reliable. In this regard, judgements were made based on the calculated statistics and McKinnon's critical value.

According to the Augmented Dickey-Fuller (1979), if the absolute test statistic (calculated value) is more than the critical value (absolute) at 5% then the null test hypothesis (H_0) can be rejected, and the alternative hypothesis (H_1) accepted. But if the test figures are less than the Mackinnon critical value at 5%, it cannot reject the null hypothesis and accept the alternative hypothesis. The second rule of the unit root test states that if the probability P value is less than 5%, it can reject the null hypothesis and accept the alternative hypothesis. But if the P value is more than 5%, it can reject the null hypothesis rather than acceptance (Kwiatkowski, Phillips, Schmidt, & Shin, 1992; Phillips & Perron, 1988).

In fact, the ADF test has three stages to analyse: first, having an intercept only, second, to have a trend and intercept and third, to have no trend and no intercept. A decision can be made as to whether the variables are stationary or not during all these three stages. There are three critical values 1%, 5% and 10%. Out of these three critical values normally the critical value of 5% would be chosen because it is commonly used in social science.

In general, Table 6.1 below reveals the results for the test of stationarity data level, i.e. before differencing. It could be assumed that all the variables have an ADF test statistics value less than the Mackinnon critical value which is (at absolute term) 5%. To guarantee the stationarity of data for variables found to be non stationary at level, there is a need to proceed to test for stationarity at first difference and second difference, with an ADF unit root test.

Table 6-1: Results of Augmented Dickey Fuller (ADF) Test

Name of Variables	Test at Level			Test at 1 Difference			Test at 2 Difference		
	Constant	Constant with trend	None	Constant	Constant with trend	None	Constant	Constant with trend	None
INF	*0.3005 **-1.9634 ***-2.9639	*0.5864 **-1.9833 ***-3.5683	*0.0360 **-2.1014 ***-1.9513	*0.0734 **-2.7785 ***-2.9639	*0.2128-- **2.7860 ***-3.5683	*0.0050 **-2.9163 ***-1.9524	*0.0000 **-7.8064 ***2.9639	* 0.0000 **-7.5909 ***-3.5683	*0.0000 **-7.8584 ***-1.9524
RI	*0.0000 **-6.1379 ***-2.9540	*0.0001 **-6.0465 ***-3.5529	*0.0000 **-6.1194 ***-1.9513	*0.000 **-10.3835 ***-2.9571	*0.000 **-10.2219 ***-3.5577	*0.000 **-10.5551 ***-1.9516	*0.000 **-6.2869 ***-2.9677	*0.0001 **-6.1581 ***-3.5742	*0.0000 **-6.4114 ***-1.9529
L	*0.0000 **-6.0191 ***-2.9540	*0.0000 **-11.3856 ***-3.6032	*0.8425 **0.6080 ***-1.9516	*0.0012 **-4.6370 ***-2.9918	*0.0087 **-3.6146 ***-3.3121	*0.0000 **-4.8850 ***-1.9556	*0.9866 **0.6045 ***-2.9980	*1.000 **2.3104 ***-3.6121	*0.7661 **0.3076 ***-1.9564
GDP	* 0.0198 **-3.3816 ***-2.9639	* 0.3113 **-2.5327 ***-3.5683	* 0.4595 **-0.5773 ***-1.9513	*0.2100 **-2.2003 ***-2.9571	* 0.9947 **0.0219 ***-3.5628	* 0.0159 **-2.45077 ***-1.9516	*0.0000 **-6.1820 ***-2.9718	*0.0377 **-3.7549 ***-3.6122	*0.0000 **-6.1925 ***-1.9533
TO	*0.3247 **-1.9079 ***-2.9540	*0.7969 **-1.5339 ***-3.5529	*0.2846 **-0.9839 ***-1.9513	*0.0000 **-5.8029 ***-2.9571	*0.0001 **-6.1461 ***-3.5577	*0.0000 **-5.78895 ***-1.9516	* 0.0000 **-7.2600 ***-2.9639	*0.0000 **-7.12343 ***-3.5683	*0.0000 **-7.3927 ***-1.9524
EXR	*0.9407 **-0.1053 ***-2.9540	*0.7138 **-1.7325 ***-3.5529	*0.9400 **1.22132 ***-1.9513	* 0.0012 **-4.4648 ***-2.9571	* 0.0063 **-4.4662 ***-3.5577	*0.0001 **-4.2594 ***-1.9516	*0.0000 **-6.3426 ***-2.9639	*0.0001 **-6.2390 ***-3.5683	*0.0000 **-6.4590 ***-1.9524
FDI	*0.0117 **-3.6032 ***-2.9639	* 0.0053 **-4.5671 ***-3.5683	*0.0007 **-3.6358 ***-1.9524	* 0.0034 **-4.1187 ***-2.9677	*0.8984 **-1.1579 ***-3.5950	* 0.0003 **-3.9180 ***-1.9529	*0.0000 **-7.3580 ***2.9810	*0.0000 **-7.2659 ***-3.5950	*0.0000 **-7.50172 ***-1.9544

Notes; *MacKinnon (1996) one-sided p-values.** Augmented Dickey-Fuller test statistic.***Test critical values at 5% level. Variables are defined as follows:Inflation rate (INF), real rate of interest (RI), labour force (L),Gross Domestic Product. (GDP), trade openness (amount of exports and import) (TO), exchange rate (EXR), foreign direct investment (FDI)

In short, from Table 6. 1, it could be discovered that most of the variables of the study were stationary at second difference. This is due to the respective ADF test statistic values being more than the Mackinnon critical value of 5% and at absolute term. Also, ADF unit root test for all these variables were computed (for purposes of brevity results are not reported here but are available upon request).

It is worth mentioning that most of the study variables are unstable in the level except L and RI and when data conversion settled some of the variables which were, INF, TO, GDP, EXR and FDI. However, it should be noted that most of these variables stabilized in the second difference except one variable which is L, thus, ensuring the instability in the time series of these variables on the level. The study will be conducted by Phillips Peron tests in the next stage.

6.2.2 The Results of Phillips-Perron Unit Root Test

The other common unit root test is the Phillips-Perron test, which is similar to ADF but with automatic correction that allows autocorrelated residuals (Phillips & Perron, 1988). It incorporates a non parametric adjustment to the t-test to deal with autocorrelation when the data is not AR (1). Its null hypothesis is similar to that of the ADF test with a unit root present in data series against the alternative which has none. Phillips and Perron (1988) proposed a non-parametric test, as an alternative to the ADF test. Though, the ADF test has been reported to be more reliable than the PP test, the problem of size distortion and the low power of the test make both these tests less useful (Maddala & Kim, 2003). Perron (1989) introduced the concept of structural changes within the unit root test. The author argues that the inclusion of structural change in the unit root tests may give a different result.

Table 6.2 shows the set of results by Phillip-Perron (P-P) test for unit roots with constant, constant and trend, and neither a constant or linear trend for levels. It also includes the first and second differences of the data. For each test the null hypothesis is non stationary, and the alternative is that the variable was generated by a stationary process.

In short, as mentioned earlier, the Augmented Dickey-Fuller and Phillips-Perron tests are used to measure the stationarity of time series variables; the unit root test being the primary function for the econometric analysis of time series data, basically in the co-integration tests. The test results are achieved assuming the presence of the null hypothesis (H_0) and that the variable has a unit root (non-stationary) versus the alternative hypothesis (H_1) which suggests that the variable is stationary. This means it does not have a unit root. The ADF and PP test results presented in Table 6.1 and 6.2 clearly reveal the study variables, test at Level, test at first difference and test at second difference, in each variable.

In short, from Table 6.2, it can be revealed that most of the variables of the study were stationary at second difference. This is because their respective PP test statistic value is more than Mackinnon's critical value of 5% and at absolute term. Also, the PP unit root tests for all these variables were computed (for purposes of brevity, however, are not reported here they are available upon request).

Table 6-2: Results of Phillip-Perron (P-P) test

Name of Variables	Test at Level			Test at 1 Difference			Test at 2 Difference		
	Constant	Constant with trend	None	Constant	Constant with trend	None	Constant	Constant with trend	None
INF	*0.0877 **-2.68260 ***-2.9540	*0.5537 **-2.04938 ***3.55297	*0.0347 **-2.11692 ***-1.9513	*0.0130 **-3.54666 ***-2.9571	*0.0298 **-3.79754 ***-3.5578	*0.0006 **-3.6809 ***-1.9517	*0.0000 **-6.6169 ***-2.9604	*0.0000 **-6.4434 ***3.5628	*0.0000 **-6.5534 ***-1.952
RI	*0.0000 **-6.22915 *** 2.9540	*0.0001 **-6.12802 *** 3.5529	*0.0000 **-6.12524 ***-1.9513	*0.0001 **-21.1965 ***2.95711	*0.0000 **-21.035 ***3.55776	*0.0000 **-21.6005 ***1.9516	*0.0001 **-33.2428 ***-2.9604	*0.0000 **-32.656 ***3.5628	*0.000 **-33.846 ***-1.952
L	*0.0000 **-6.01961 ***-2.9540	*0.0001 **-6.20576 ***-3.5529	*0.0011 **-3.45675 ***-1.9513	*0.0000 **-11.0544 ***-2.9571	*0.0000 **-11.2164 ***-3.5577	*0.0000 **-11.0771 ***-1.9517	*0.000 **16.1375 ***2.96041	*0.0000 **-16.724 ***-3.562	* 0.0000 **-16.249 ***1.9520
GDP	*0.3991 **-1.74726 ***-2.9540	*0.7197 **-1.71960 ***-3.5529	*0.4605 **-0.57497 ***-1.9513	*0.1839 **-2.281043 ***-2.9571	*0.4120 **-2.31982 ***-3.5578	*0.0136 **-2.5153 ***-1.9517	*0.0007 **-4.7102 ***-2.960	* 0.0043 **-4.6386 ***-3.562	*0.0000 **-4.6953 -1.952066
TO	*0.3266 **1.903716 ***-2.9540	*0.8100 **-1.49779 ***-3.5529	*0.2805 **-0.99417 ***-1.9513	*0.0000 **-5.80121 ***-2.9571	*0.0001 **-6.17245 ***-3.5577	*0.0000 **-5.7927 ***-1.9516	*0.000 **-10.586 ***2.9604	*0.0000 **-10.386 ***-3.562	*0.0000 **-10.781 ***-1.952
EXR	*0.9179 **-0.27771 ***-2.9540	*0.6510 **-1.86244 ***-3.5529	*0.9090 **0.974914 ***-1.9513	*0.0013 **-4.45177 ***-2.9571	*0.0062 **-4.47014 ***-3.5577	*0.0001 **-4.2997 ***-1.9516	*0.000 **-11.631 ***2.9604	*0.0000 **-11.551 ***-3.562	*0.0000 **-11.887 ***-1.952
FDI	*0.2389 **-2.11884 ***-2.9540	*0.3246 **-2.50329 ***-3.5529	*0.0455 **-1.99535 ***-1.9513	*0.0007 **-4.66720 ***-2.9571	*0.0047 **-4.58271 ***-3.5578	* 0.0000 **-4.7558 ***-1.9517	*0.0000 **-11.173 ***-2.960	*0.0000 **-12.099 ***-3.562	*0.0000 **-10.954 ***-1.952

* MacKinnon (1996) one-sided p-values

**Phillips-Perron test statistic.

***Test critical values at 5% level

In this regard, decisions were made based on the calculated statistic and McKinnon's critical value in comparison with the critical values. After the study was conducted the Phillip Perron test turned out to be the most appropriate out of the variables and is stable at level as well as at first difference I (1). These results are consistent with Dickey-Fuller tests, but it is also important to note that all variables without exception stabilized at the second difference I (2). This, in turn affirms that all variables of the study are stable together at the second difference. Thus, the result allows the Johansen co-integration test to be applied in order to establish a long-term relationship between variables.

6.3 Johansen Co-integration Test and Error Correction Method

After the results of the unit root tests, it is clear that all the variables are integrated of order I (2), so the purpose of the co-integration test is to determine the number of co-integration relationships between the variables in the long term. In other words, the main objective for the co-integration analysis is to determine the co-integration rank of the model. Considerable attention is focused on modelling the economic relationship of the variables; for instance, what variables to include in the model(Ahking, 2002; Banerjee, Dolado, & Galbraith, 1993). Economic theory often suggests that there should be a relation between economic variables in the long term (Rao, 1997). According to Engle and Granger (1987), it is always important to test whether a set of economic variables are co-integrated in stability for the long run. In economic theory it is usually expected that there be at least one relationship or more among the variables of the study. However, if there is no relationship, it means there is no long-term stability associated among the variables (Vuranok, 2009).

Co-integration tests will be conducted using the Johansen's procedure. If the variables are found to be integrated but not co-integrated, various VAR in first differences (VAR-D) will be estimated. If the series are found to be integrated and co-integrated, various Error

Correction Models (VECM) will be estimated to adjust the series into their long-term equilibrium conditions (Sinoha-Lopete, 2006).

6.3.1 Johansen Co-integration Test

The Johansen co-integration test is a technique used to study the long-term equilibrium relationship among the variables. It is very useful to check the existence of a long-term, stable relationship between the selected variables in the study (Paudel, 2007). Johansen's co-integration test enables several co-integrating relationships to be discovered rather than being constrained to only one as seen in Eagle-Granger co-integration. Therefore, using a time series with multiple variables in the study, the Johansen method is an ideal test to determine the number of co-integrations involved prior to using a vector error correction (VECM) model to determine the direction of the long-term causality. The error correction model suggests that changes may appear in the dependent variable as a deviation from the long-term equilibrium, though this depends on the co-integrating relations. The Johansen method estimates the number of co-integrations (Harris & Sollis, 2003; Zainir, 2012).

There are two tests suggested by Johansen: the Co-integration Trace Test and the Maximum Eigenvalue Test. The trace test defines whether the number of the co-integrating vector is zero or one. Consequently, straight after this a Maximum Eigenvalue test is used to define whether a single co-integration equation is sufficient or not. Under the null hypothesis, there is no co-integration between variables. In other words, there is no co-integrated equation. Conversely, the alternative hypothesis indicates there is a co-integration relationship between the variables for the long term. The Johansen method estimates the number of co-integrations between the variables as shown in Table 6. 3.

Table 6-3: **The Results of Co-integration Test**

Unrestricted Co-integration Rank Test (Trace)					
Hypothesized No. of CE(s)	Trace Statistic	0.05 Critical Value	P-value	Decision	
				H_0	H_1
None *	169.2628	125.6154	0.0000	reject	accept
At most 1 *	117.7201	95.75366	0.0007	reject	accept
At most 2 *	78.99936	69.81889	0.0077	reject	accept
At most 3 *	49.17603	47.85613	0.0374	reject	accept
At most 4	25.19871	29.79707	0.1545	accept	reject
At most 5	8.819426	15.49471	0.3823	accept	reject
At most 6	1.252670	3.841466	0.2630	accept	reject
Unrestricted Co-integration Rank Test (Maximum Eigenvalue)					
Hypothesized No. of CE(s)	**Max-Eigen Statistic**	**0.05 Critical Value**	**P-value**	**Decision**	
				H_0	H_1
None *	51.54271	46.23142	0.0124	reject	accept
At most 1	38.72070	40.07757	0.0705	accept	reject
At most 2	29.82332	33.87687	0.1413	accept	reject
At most 3	23.97733	27.58434	0.1355	accept	reject
At most 4	16.37928	21.13162	0.2035	accept	reject
At most 5	7.566756	14.26460	0.4245	accept	reject
At most 6	1.252670	3.841466	0.2630	accept	reject

***Trace test indicates 4 co-integrating eqn(s) at the 0.05 level**

*** Max-eigenvalue test indicates 1 co-integrating eqn(s) at the 0.05 level**

denotes rejection of the hypothesis at the 0.05 level.

- **The Trace Test of Co-integration**

As mentioned earlier, the Co-integration test determines the existence of the long-term relationship between variables in the model. Thus, the Trace test is employed to test the hypothesis. The condition for co-integration is that the trace statistic (likelihood ratio) must be greater than the critical value of 5% level of significance. The hypothesis of the co-integration test suggests that the null hypothesis (H_0), indicates there is no co-integration (absence of long-term relationship). At the same time the alternative hypothesis (H_1), shows there is co-integration between variables (presence of long-term relationship). Thus, according to Table 6.3, the results of the Johansen co-integration test above, the trace test illustrates that trace statistic is 169.262, more than the critical value (125.6154) of the 5% level. This gives the starter, decision to accept the alternative hypothesis (H_1), and reject the null hypothesis (H_0), meaning that there are co-integrating vectors at the 5% level. More specifically, there is the relationship between the variables of study in the long run.

In addition, there is another indicator which demonstrates that the P-value 0.000 is less than 5%. In this case the null hypothesis can be rejected and as an alternative another hypothesis can be accepted. As a result this implies that, a long-term relationship exists among the variables. A long-term relationship means that the variables move together over time, so that short-term disturbances from the long term will be corrected.

In the second stage, the null hypothesis mentions that there is at least one co-integrating equation among the variables in the long run. From Table 6.3 above, it could be inferred that the trace statistic is 117.7201, whereas the critical value of 5% is 125.6154. Therefore the trace statistic is more than the critical value of 5% significance level, meaning that the alternative hypothesis can be accepted. This shows that the variables are co-integrated during long-term equilibrium. In other words, there must be at least one relationship between the variables in the long term. However, the result is rejecting the null hypothesis, which suggests that there is at most one co-integration between variables in the long run. The second indicator of the P value is 0.0007, which is insignificant as well as being less than 5%. Consequently, the null hypothesis of no co-integration between the variables is rejected and the alternative hypothesis is applied. This means that there is more than one co-integration between the variables.

For the third stage, as the null hypothesis suggests, there are at most two co-integrated variables in the equations, from the results in Table 6.3 above. The trace statistic is more than the critical value of the 5% level. Moreover, the P value is 0.0077, less than 5%, therefore, the null hypothesis of non-existence of co-integration among the variables is rejected, implying that there is more than one relation between the variables. The fourth stage rejects the null hypothesis, which indicates that there are at most two relationships between the variables of the study for the long term, while accepting the alternative hypothesis. This means that there are more than two or at most three co-integrations among the variables of study in the long term.

On the other hand, in the fifth stage of the trace test, the null hypothesis stated that there are at most four relations between variables of the study for the long term. From the results, the trace statistic is 25.19871, whereas the critical value of 5% is 29.79707. This means that the null hypothesis cannot be rejected and therefore the alternative hypothesis must be accepted. Also, the P-value 0.15, which is more than 5%. Consequently, this result supports the null hypothesis H_0 and rejects H_1, which means there could be four relationships between the variables, but not more than four relations in the long term. Furthermore, the results of the trace test can be seen in Table 6.3, which shows that the trace statistic during the sixth and seventh stages is more than the critical value of 5%. In addition, P-value is more than 5% level, this means in both stages the null hypothesis of non-existence co-integration among the variables is accepted, whereas the alternative hypothesis is rejected.

To summarize, it should be understood that the result of the trace test indicates that there are at most three co-integration relationships of the 5% level among the variables of the study for the long term.

- **The Maximum Eigenvalue Test of Co-integration**

The concept of co-integration is associated with the long-term equilibrium relationship between two or more variables. Economic interpretation on co-integration suggests that two or more variables associated with the formation of the balance of relationships covers the long term. Although the series in the short term may deviate from equilibrium, they will be closer to each other in the long-term balance (Harris & Sollis, 2003).

The Maximum Eigenvalue test is employed to test the hypothesis of co-integration as mentioned earlier. The condition for co-integration is that the Maximum Eigenvalue statistic (likelihood ratio) must be greater than the critical value of 5% or 10% level of significance. It is very important to confirm the result of the trace co-integration test between the variables for the long term. Furthermore, if there is no positive relationship between the variables in the second test, it cannot ensure the stability of the co-integration between the variables of the study

From Table 6.3, in the first stage, the Max-Eigen statistic is 51.54271, while the critical value of 5% level is 46.23142. As a result, the Max-Eigen statistic is more than the critical value of 5%. Consequently, it can accept H_1 which refers to a co-integration relationship between the variables of the study in the long term. On the other hand, according to the results, the null hypothesis can be rejected. Also, the P value is less than 5% leading to 0.0124. This is another indicator to confirm the rejecting of the null hypothesis and acceptance of the alternative hypothesis.

In general, the results in Table 6.3 above suggest that the Max-Eigen statistic in the second, third, fourth, fifth, sixth and seventh is less than the critical value of 5%. Also, the P-value is more than 5% in all stages. In this case and according to the Johansen co-integration test the null hypothesis (H_0) can be accepted and the alternative hypothesis (H_1) rejected. This means there is no co-integration relationships between the variables in the long term for these stages.

Overall, from Table 6.3 above, it could be concluded from the Trace Test and the Maximum Eigenvalue Test that estimating the equation of the study is one of the most important stages of the analysis. For example, the outcomes of estimation for the long-term relation in the Trace Test show that there are at most three variables co-integrating. It also suggests that the equations are positively signed at the 5% level for the long term. Furthermore, the maximum Eigenvalue Test confirms the same results and there is co-integration, but there is at most one co-integration among variables in the long term. This means that there is no difference between results in both tests and data is co-integrated.

In short, the results according to the Johansen test statistics confirm the null hypothesis of co-integration vectors under the trace and Maximum Eigenvalue Tests. This indicates that variables in the model move together towards a long-term equilibrium stationary relationship defined by the co-integration vector. Thus, according to the co-integration test, if the research data is stationary and integrated, then there is a relation between variables for the long term that will lead the research to move on to the next stage of the analysis. At this point, the study starts to estimate the short-term and long-term coefficients by using a Vector Error Correction Model (VECM).

The superiority of error correction models lies in their ability to exploit the properties of time series data, while also addressing the problem of non-stationary time series of more data. In error correction models, economic theory defines long-run equilibrium, while data addresses short-term dynamics. Engle and Granger (1987) established an isomorphism between co-integration and error correction model suggesting that an ECM is derived through co-integration (Barrow et al., 1997).

6.3.2 Error Correction Mechanism (ECM)

The econometric relations estimated are the results of vector error correction models. This method was selected, because variables are non-stationary in terms of their level and first difference, but stationary in terms of their second difference. Also, the Co-integration Trace Test and the Maximum Eigenvalue Test indicate that there is a relationship among the variables of this study for the long term.

The Error Correction Mechanism (ECM) is the degree of adjustment, i.e. the rate at which the dependent variable adjusts to changes in the independent variables. A long-term relationship among variables has been established in this study. Therefore the next step is a test of the speed of adjustment, using the short-term dynamism of error ECM. The error-correction term (ECTt-1) represents the speed of adjustment between the short- and long-term periods. For example, it measures the long-term equilibrium relationship while the coefficients on lagged difference terms indicate the short-term dynamic terms by testing the null hypothesis (H_0) (Harris & Sollis, 2003).

Firstly, through the using of error correction model test in the Eviews software, the researcher was able to draw a symbolic form of the equation consisting of six independent variables and the dependent variable. In this analysis, the true form of the equation will be obtained, according to the data, called the systemic equation, as follows:

$\sum$ D(LnGDP)= C1$\sum$ D(LnGDP$_{-1}$)+ D(LnTO$_{-1}$) + D(LnL$_{-1}$) + D(D02$_{-1}$) + C2$\sum$ D(LnGDP$_{-1}$) + C3$\sum$ D (LnGDP$_{-2}$) +C4$\sum$ D(LnTO$_{-1}$) + C5$\sum$ D(LnTO$_{-2}$) + C6$\sum$ D(LnL$_{-1}$) + C7$\sum$ D(LnL$_{-2}$)+ C8$\sum$ D(D02$_{-1}$)+ C9$\sum$ D(D02$_{-2}$) + C10...................(1)

From equation (1), it can be noted that there is an edged. Firstly, the dependent variable (GDP) is indicative of the economic growth. The second part is the independent variables which are FDI, INF, RI, L, TO, EXR and DO.

The study employs multiple regression with the aid of Eviews package in conducting statistical operations for the construction of standard models, which is designed for this purpose (Alenaime, 2011). The regression procedure used for the analysis is the Error Correction Mechanism (ECM). ECM is a statistical method for selecting the most significant, independent variables from any given set of variables. It could also be a method of rejecting or excluding the variables that are not making any significant impact on the dependent variable (Brambor, Clark, & Golder, 2006; Draper & Smith, 1981). However, in order to meet the assumption of multiple linear regressions the data on the dependent variable (aggregate GDP) and independent variables had to be transformed to logarithms from their linear values.

However, the final analysis excluded FDI, INF, RI and EXR as independent variables from the model because they have multicollinearity problems. Therefore they did not give significant results on the dependent variable of the study. This may not be connected to the high correlation between these variables, as certain theories suggest the two variables are highly correlated and the GDP variables as shown in the two variables are highly correlated. Using them together can cause multicollinearity concerns, and sometimes each one serves as a proxy to the others in some studies (Hair, Black, Babin, Anderson, & Tatham, 2006).

In addition, according to Maddala (2001), sometimes the data use in multiple regression analysis cannot give decisive answers to the questions. This is because the standard errors are very high or the t-ratio is very low. The confidence intervals for the parameters of interest are thus very wide. This sort of situation occurs when the explanatory variables display little variation or high intercorrelation. The situation where the explanatory variables are highly intercorrelated is referred to as multicollinearity (Maddala, 2001).

Therefore, multicollinearity occurs when two independent variables have high correlation with each other; in this case, it is better to remove one of them and not to include both in the same model. However, there is no specific rule to remove any variable for its high correlation with other variables (Banam, 2010; Brambor et al., 2006) . By specifying the error correction model (ECM) from equation (1), the model becomes as follows:

D(LNGDP) = C(1)*(LNGDP(-1) - 6.0648319*LNTO (-1) + 6.4889116*LNL (-1) + 0.0408905*D02 (-1) - 0.0794774 + C (2)*D (LNGDP(-1)) + C(3)*D (LNGDP(-2)) + C(4)*D (LNTO(-1)) + C(5)*D (LNTO(-2)) + C(6)*D (LNL(-1)) + C(7)*D (LNL(-2)) + C(8)*D (D02(-1)) + C(9)*D (D02(-2)) + C(10) ……………………(2)

In equation (2), D (LNGDP) is the dependent variable and the coefficients of C1 indicate variables of the study for the long run – i.e., C1 explains all the variables of the study (dependent and independent variables) in the long term. C1 is the coefficients of the error correction model. It is (LNGDP (–1) – 6.0648319*LNTO (–1) + 6.4889116*LNL (–1) + 0.0408905*D02 (–1) – 0.079477), while the coefficients from C2 to C9 indicate the variables of the study for the short term. However, there is a need to use an estimation equation test to get the coefficient of the error correction term for the short term. Also, there is a requirement for awareness of the variables that have an effect on the study and other variables that do not have an effect. Finally, C10 is the constant of the error correction model. By estimating the equation, it could get the schedule of the error correction model for the short term as can be seen in Table 6.4.

Table 6-4: Result of the Short Run Vector Error Correction Estimates

Variables	Coefficient	Standard. Error	T-Statistic	Probability Value	Remarks
D ($LnGDP_{-1}$)	-0.743167	0.184840	-4.020600	0.0007**	Significant
D ($LnGDP_{-2}$)	-0.171528	0.061982	-2.767370	0.0119**	Significant
D ($LnTO_{-1}$)	-0.071712	0.170616	-0.420310	0.6787	Insignificant
D ($LnTO_{-2}$)	0.172863	0.103268	1.673923	0.1097	Insignificant
D (LnL_{-1})	0.393751	0.203366	1.936169	0.0671*	Significant
D (LnL_{-2})	0.242705	0.143651	1.689539	0.1066	Insignificant
D ($D02_{-1}$)	-0.224411	0.162643	-1.379780	0.1829	Insignificant
D ($D02_{-2}$)	-0.325327	0.156686	-2.076294	0.0510*	Significant
C_{10}	-0.058140	0.032458	-1.791278	0.0884**	Significant

Note: R^2= 0.738868**, F-statistic**= 6.287745, **Prob (F-statistic)** = 0.000314, **D.W test**= 2.523477
*** and ** denote the significance at the 10% and 5% levels respectively.**
Source: Author's Computation

There are some important issues that should be taken into consideration for the results of this study in the short run. One of the main principles is a coefficient signal as it determines the relation between dependent and independent variables, whether positive or negative, as well as signalling the amount of increase and decrease in the dependent variable. This is taken up when the independent variable increases by one unit. The second indicator is that the probability value of each variable must be less than 5% or 10% confidence level.

From the results of Table 6.4 (above), it could be deduced that five out of nine coefficients are statistically at 5% and 10%. In general, the coefficients of D (LnGDP–1), D (LnGDP–2), D (D02–1) and D (D02–2) are negatively related, while the coefficients of D (LnTO–2), D (LnL–1) and D (LnL–2) are positive. The coefficient of ECM in the parsimonious model is 0.058140, and indicates the speed of adjustment of any past deviation to the long-term equilibrium which is 5.81%, when any past deviation will be corrected in the present period. This shows that the present value of the dependent variable adjusts slowly to changes in the independent variables, meaning that it can be concluded by the coefficient values. They have an impact on GDP and can determine the probability (P-Value) of each variable and whether it is less or more than 5%.

It can be noted that D (LnGDP–1) and GDP are negatively related. The P-Value is 0.0007, which is less than 5%. D (LnGDP–1) has a coefficient of –0.743167. This implies that if D (LnGDP–1) should increase by a unit, GDP will decline by –0.743167 units. Also, after two lag observations of D (LnGDP–2) the coefficient of C2 has an impact on GDP because it is less than 5% and is 0.0119. Consequently, when it increases by a unit, it will lead to a decrease in GDP by –0.171528 because they have an inverse relationship. Also, from Table 6. 4, it can be deduced that D (LnTO–1) and D (LnTO–2) don't have any relationship with GDP. In other words, there is no evidence to suggest a relationship between these variables and GDP for the short term.

Furthermore, the estimated coefficient of D (LnL–1) is 0.393751. This indicates that there is a positive relationship between D (LnL–1) and GDP. It has been found that P-Value is 0.0671 and statistically significant at 10%, implying that a unit change in D

(LnL–1) will lead to an increase in GDP by 0.393751 units. The D (LnL–2) coefficient is 0.242705, which is more than 5%. This mean D (LnL–2) variable has no impact on GDP. The coefficient of ECM (–1) is found to be statistically significant at the 10% confidence level. This confirms the existence of the short-run relationship between the variables.

As mentioned before, a dummy variable serves as an indicator of financial liberalization in this study. Consequently, from Table 6.4, D (D02–1) does not have an impact on GDP, because the D (D02–1) coefficient is –0.224411; however, after two observations the D (D02–2) coefficient is –0.325327 and P is 0.051, less than 10%, thus, it has become a significant impact in the short run. This is an indicator for dummy variables representing other factors that affect GDP levels in some cases, such as culture, religion and economic sanctions. This takes the value of zero or one. In this case it has been used to obtain a better model and then better results. Therefore, it could be deduced that financial liberalization has no direct relationship with GDP in Libya, because they are negatively related.

Table 6.4 above is illustrative of the many important issues that should be taken into account when considering the quality of the model. This includes the value of R2, which should range between 0 and 1. Statistically, if R^2 is 1.0 that indicates perfect correlation between dependent and independent variables, while if the R^2 is 0.0, then knowing one term does not help you to know the other term at all. For example where there is 0 it suggests no correlation. Specifically, when R2 has a higher value, this implies that you can predict one term better than another (Hair et al., 2006). From Table 6. 4 above (R^2) = 0.738868 = 0.74, which indicates that 74% of total variations or changes in the present value of GDP are explained by changes of past value in the explanatory variables (D (LnTO–1), D (LnTO–2), D (LnL-1), D (LnL–2), D (D02–1) and D (D02–2)). However, the remaining 26% is explained by another variation outside the model i.e. the error term.

The F-Statistic (6.287745) indicates that the explanatory variables are jointly significant and are capable of explaining changes between dependent and independent variables. Also, Prob (F-statistic) = 0.000314 is less than 5%. The Durbin Watson (DW) statistic test (2.523) illustrates the absence of auto (serial) correlation. DW is always between 0 and 4 whenever they are in the middle or close to it; this means there is no problem with correlation. Consequently, the results reveal that with DW there is no serial correlation because it is close to 2 (i.e. 2.5). Thus, this model in the short run indicates an absence of a serial correlation problem in the residuals.

Estimating Equations in the Long-term Model

The result of the Johansen co-integration equation shows the existence of the long-term relationship among the variables. The co-integrating equation has been chosen based on the log likelihood ratio. If the log likelihood ratio is positively signed, this suggests choosing the equation with the lowest log likelihood ratio and, if it is negative, the highest log likelihood ratio can be chosen at absolute term.

Table 6-5: Result of the Long-run Vector Error Correction Estimates

Variables	Coefficient	Standard Error	T-Statistic	Probability Value
C (1)	0.058140	0.032458	-1.791278	0.0884
FDI	1.36E-06	3.8E-07	-	-
INF	-235.0252	54.4466	-	-
RI	-424.5054	131.103	-	-
L	24.87929	19.2221	-	-
TO	14.65210	49.5869	-	-
EXR	-22154.84	1876.00	-	-

From the results of Table 6.5 it could be deduced that there are some positive and negative relations between dependent and independent variables. The output of the results is presented as follows:

$$GDP = 1.36_{FDI}{}^{*} - 235.02_{INF}{}^{*} - 424.505_{RI}{}^{*} 24.879_{L}{}^{*} 14.62_{TO}{}^{*} - 221.54_{EXR}{}^{*} - 1380.173$$

(3.8) (54.4466) (131.103) (19.2221) (49.5869) (1876.00)

Note: The Standard Error Statistics are those stated in parenthesis and * denotes that the parameters are significant in the long-run.

Table 6.5 Shows the results of the long-term relationship between dependent and independent variables by the error correction mechanism result of the co-integration test. Therefore, from the table, it can be noted that the coefficient of C1 is 0.058140. The coefficient has a positive sign showing between the variables of the study for the long term. This means that the speed of adjustment to long-run equilibrium is 5.81% when any deviation will be corrected among the variables. Also, the P value is 0.0884, which is significant at the 10% level. It also indicates that C1 has an impact on the long term. For instance, it interprets all variables of the study, dependent and independent, in the long run. Thus, the vector error correction model in the long term indicates the relation between dependent variable (GDP) and independent variables (FDI, INF, RI, L, TO, EXR). In general, the results indicate that RI, INF and EXR have negatively affected economic growth in the long run, while FDI, L and TO have positively impacted on economic growth.

This is data taken specifically from regression results displayed in Table 6.5. The estimation of the long-term relation provides compelling evidence that foreign direct investment (FDI) has a positive relation with gross domestic product (GDP) in Libya. The coefficient of FDI is 1.36. The coefficient is positively signed showing that, in the long run, FDI and GDP are directly proportional. GDP will increase in the long term by 1.36 units if FDI increases by a unit. In other words, the coefficient of foreign direct investments has the expected positive sign. Thus a 1% increase in FDI has about 1.36% positive effects on economic growth. Theoretically, this result complies with financial liberalization theory, but might be true specifically in developing countries such as Libya, in particular. The state gave great attention to investing in 2003 and tried to create many laws and regulations to help to encourage investors. There is no doubt the success of foreign direct investment is a key contribution to economic growth in Libya because of the good environment.

However, if the environment is not suitable, it will not encourage foreign investors to come and invest. Good favourable conditions mean investors face fewer problems because all investors can carry out their activities strategically, in order to make more profit with the safety and security of the environment. Furthermore, foreign investors always try to search for lower wages to reduce average cost of production and hence strongly persuade foreigners to invest in that country.

A country with plenty of raw materials necessary for the production attracts investors more than a country without. Inflation rate (INF) exhibits a negative relationship with GDP. INF has a coefficient of –235.0252. It can be deduced in the long run, if INF should increase by a unit, which will cause GDP to decline by –235.0252 units. INF and GDP are inversely related, meaning that when the government has control of the funds, this leads to lower inflation and is in line with economic theory. The coefficient of the real rate of interest (RI) is –424.505. The negatively signed coefficient signifies that RI and GDP have a negative long-term relationship. A unit increase in RI means that GDP will decline by 424.5054 units. This implies that the assets of banks increase due to the fact that banks prefer to supply credit when the interest rate is high and vice versa.

Labour force (L) exhibits a positive relationship with GDP in the long term. This is an indication that there exists a direct relationship between GDP and L. The implication of this result on one hand is that the increase in L in Libya is also accompanied by an increase in the GDP. The results show the coefficient of L is 24.87929. This implies a 1% increase in the labour force and will also lead to increases of about 0.248% in economic growth. In Libya, this relationship may be ordered, which is logical because the findings in line with the economic theory indicate that the labour force is one of the main factors of production. For example, the Cobb-Douglas production function suggests there are three factors of production: physical capital, labour and technology, which are the determinants of economic growth.

Therefore, it is by nature that the increase of L leads to an increase in GDP according to economic theory. Also, this is consistent with the policy of openness and that the authorities in Libya are trying to move to a market economy instead of one that is centrally planned. This is done in order to reduce unemployment in the country. Also the authorities in recent years have tried to set up a new constitution, though this depends on the implementation of new policies that help to increase political and economic stability within the country.

Moreover, trade openness (TO) has a positive relationship with GDP in the long term. The coefficient of TO is 14.65210, TO and GDP is positively related, implying a unit increase in TO will cause a rise in GDP by 14.65210 units. This is expected and the result is consistent with economic theory. This result stresses the importance of variations in export and import prices on GDP growth. These variations are the major source of economic instability in developing countries, especially in Africa, where the bulk of export earnings is from primary commodities.

The outcome has also shown that the exchange rate has a negative association with GDP. This is an indication that on one hand an increase in exchange rate will lead to a decline in GDP. The coefficient of EXR is –22154,84, so EXR and GDP are negatively related. This implies that as EXR increases by a unit, GDP will decrease by 22154,84 units. Theoretically, an increase in the exchange rate is synonymous with devaluation of currency, which has the implication of discouraging importation and thus promoting and encouraging domestic output.

This trend is generally considered by the growth path through which exchange rate influences growth positively. However, the results of recent research show the opposite: Interest rate has an inverse relation with GDP in Libya. The reason behind the negative relation between EXR and GDP is probably, because in developing countries such as Libya, the domestic output is weak compared with developed countries. Thus the increase in exchange rate leads to a decrease in GDP in all the years covered in this study.

There are important issues which indicate a quality form of appreciation in the model that are highly significant such as: R-squared, residuals, P-value, the F-statistic. Durbin Watson statistic (DW) shows serial correlation in the residuals. Also, there is another problem that may arise in the model, for example, heteroskedasticity test and normality test. Thus, it is important to make sure there are no problems such as those mentioned above in the data of this study.

6.4 Diagnostic Test Statistics and its Interpretation

In order to draw the results of diagnostic tests from a regression done on a sample, a number of assumptions have to be met, which include the following:

6.4.1 Serial Correlation Test

In this study The serial correlation tests of the residuals were based on Breusch-Godfrey Serial Correlation LM Test. Also, The LM (Lagrange Multiplier) test is a general test for error autocorrelation (Asteriou & Hall, 2011). The null hypothesis of the LM test is that there is no serial correlation up to lag order P, where P is a pre-specified integer.

Table 6-6: Results of Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.642008	Prob. F (2,18)	0.2213
Obs*R-squared	4.628848	Prob. Chi-Square (2)	0.0988

As can be seen from Table 6.6, the result indicates that the value of F-statistic 1.642008 and P-value is more than 5% at 0.2213. Hence the null hypothesis of no auto-correlation cannot be rejected at the 5% level of significance, meaning that there is no evidence of serial correlation in the residuals or this model does not have serial correlation. This is further confirmed by the Durbin Watson statistic tests for the presence of autocorrelation in the residuals from a regression, whereby the result indicates that the value of DW is 2.5, which means no serial correlation. According to Brooks (2014) and Gujarati (2012), in the Durbin-Watson test, the value of two and above suggests that successive residual terms are, on average, very different in value to one another. Consequently, the model can be used for making inferences and valid economic policy suggestions.

6.4.2 Heteroskedasticity Test

Heteroscedasticity is a common problem in data analysis. Methods that correct for heteroscedasticity are important for data analysis. Heteroscedasticity occurs when the variance of the errors varies across observations. Therefore, it is necessary in this study to test for heteroscedasticity as the estimated standard errors can be either too large or too small. This could be as a result of economic behaviour, in either case resulting in incorrect inferences (Hendry, 1995). There are several indicators to establish whether there was a problem of heteroscedasticity in the data or not. The null hypothesis underlies the test and assumes that the model has heteroskedasticity.

Table 6-7: The Results of Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.964392	Prob . F (12,17)	0.5143
Obs*R-squared	12.15080	Prob . Chi-Square (12)	0.4336
Scaled explained SS	6.939069	Prob . Chi-Square (12)	0.8616

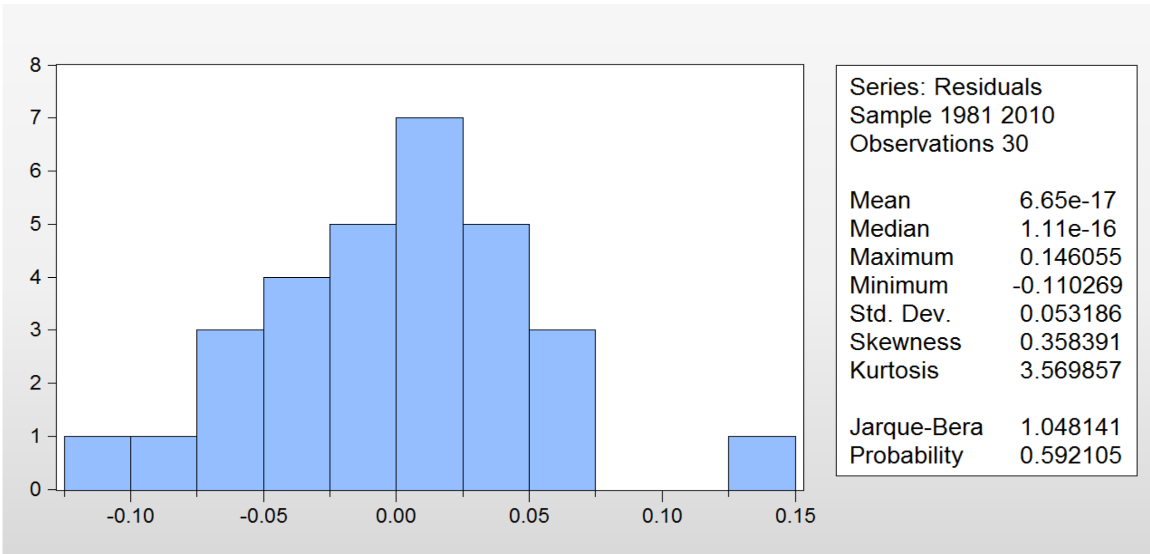
In this case, the outcomes of the diagnostic tests are detailed in Table 6.7. The White heteroskedasticity test has an F-statistic and R-squared, both of which are more than 5%. In addition, the P-value 0.5143 is more than 5%. Hence, with a null hypothesis of no evidence of heteroskedasticity, it implies that this model does not have a heteroskedasticity problem.

6.4.3 Normality Test

The Jarque-Bera statistics were applied to verify the normality of the variables in the different conditions and in accordance with the assumptions; for the null hypothesis (H_0), there is normal distribution of the data, while for the alternative hypothesis (H_1), data is not normally distributed. According to Hair (2010), all variables must be linear and have normal distribution; otherwise the variable must be transformed in the form of a log to obtain the condition. With regard to this, it is assumed that the model residuals are randomly distributed normally with the mean value of zero, as shown in Figure 6.1.

This assumption means that the differences between the model and the observed data are most often zero or very close to zero and differences much greater than zero occur only occasionally, as shown in the histogram. In this case, Mean= 6.65e-17, with standard deviation of 0.053 and N = 30. The residual model is represented by the dependent variable error term. The average mean in the whole section is 6.65, which indicates general agreement with the corporatization statements. The normality test depends on the probability of the Jarque-Bera test statistic. Therefore, it is primarily concerned with the P value and the guideline that the null hypothesis is rejected if the P value of the J-B test is less than 5%.

Figure 6-1: The Results of Normality Test



From Figure 6.1 it may be inferred that P value is 0.5921. This implies that P value is more than 5%. Also, this will lead to accepting the null hypothesis, i.e. H_0 could not be rejected and residuals of this model are normally distributed, which is desirable.

In addition, normality can be examined and checked statistically using the Kurtosis and Skewness value tests. The skewness and kurtosis statistics indicate that the performance variables are mildly non-normal. Skewness values are within the range of –1 to +1 and Kurtosis values are –3 to +3. This indicates an acceptable rate for normality, whereas values decreasing outside the range of skewness and kurtosis indicate a substantial exit from a normal distribution (Hair, Anderson, Tatham, & William, 1998; West, Finch, Curran, & Hoyle, 1995). According Figure 6. 1, kurtosis and skewness for all variables of the study fall within an acceptable scope except that some data was outside the acceptable range of skewness, but inside the acceptable range of kurtosis. Thus, it could be considered that all variables correspond.

In short, and as can be seen through the previous analysis, R-square is quite high and F statistic is significant. There is no serial correlation between the variables of the study. There is also no heteroskedasticity problem and residuals are normally distributed. Consequently, all these issues are good indicators; thus, the outcomes of the error correction model can be accepted into this study.

6.5 Validation of the Model

After calibration of the model using the error correction model method, all the statistical indicators and multiple regression parameters are determined, and the first step is to validate the parameters which are statistically significant; second, to test whether the model meets the assumptions of the multiple regressions; and lastly, to use the model and estimate the impact of financial liberalization on economic growth. If the value determined is close to the actual value, then the model is validated (Hair et al., 1998). The study summarizes and compares the results from the three samples, in order to validate and ensure the reliability of the model.

The regression of the data was evaluated using time series sample collected from 1978 to 2011. The results of the analysis of vector error correction model show a negative effect of financial liberalization on economic growth. After calibration of the model using the error correction method, all the statistical indicators and multiple regression parameters are determined. Overall, the regression model explains an important proportion of the variance of the data, with R^2 = 74% taken from a combined sample. Also, F statistic = 6. 28 which indicates the explanatory variables are jointly significant. Therefore, there is enough evidence to suggest the validity and reliability of the model, because the model is statistically valid since it meets the condition for multiple regression assumptions, namely residual diagnosis (serial correlation test, heteroskedasticity test, and normality test).

In view of the validity of the model, the study will apply the model to determine the impact of financial liberalization policy in the country by forecasting the future of

LNGDPF by actual LNGDP as will be explained in the next section. According to Hair et al. (2006) if the value determined is close to the actual value, then the model is validated.

6.6 Forecasting Test

As mentioned before, time series data are data collected on the same observational unit at multiple time periods. A forecast is merely a prediction about the future values of data. This means that extrapolating model forecasts assume the past is a representative of the future. A forecast is simply a prediction of what will happen in the future, according to Box, Jenkins, and Reinsel (2013). Forecasting models are built on regression methods.

In this study the data is used to analyse the relation between financial liberalization and economic growth in Libya for the period of 1978 to 2011. This data consists of annual data on several variables over time and is given a total figure of 34 observations. Out of this data range; the period starting from 1978 to 2004 will be used for estimating the regression line, which will be considered as the sample. Also the data collected from 2005 to 2011 would be used for forecasting, not to mention the data carried out in this study is that already known.

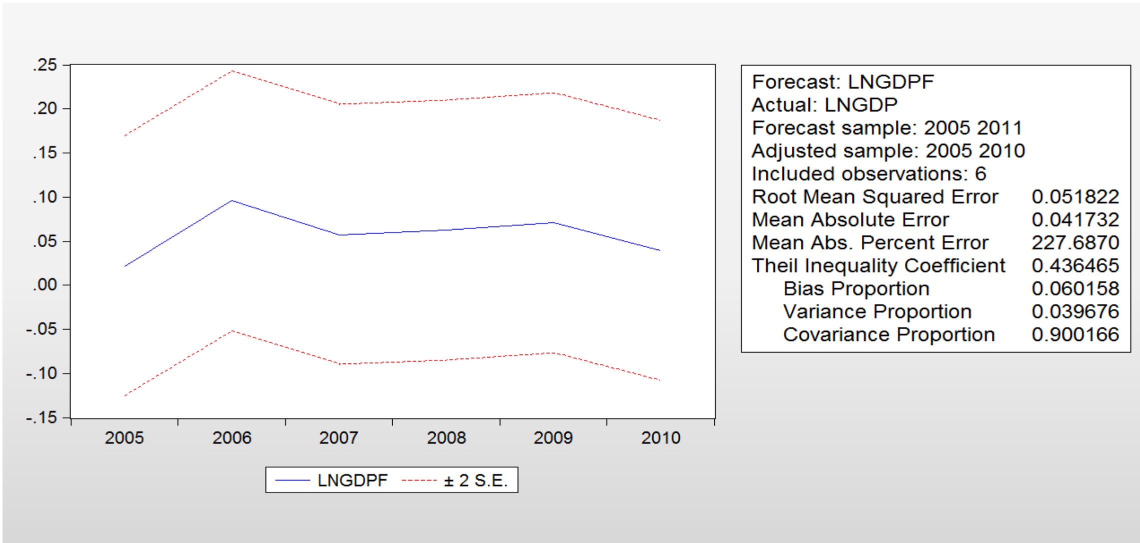
Therefore, this is known as ex-post forecasting. Additionally, there are two important factors for evaluating a forecast: the first indicator to be aware of is the root which means a square error and the second, the inequality coefficient. If they are small, that means the ability of the forecasting model will be better and vice versa.

First, an estimate of the model will be taken from 1978 to 2004, then from 2005 until 2011, and the forecast of the model will be conducted. In general, it should be noted that, before estimates of a regression model are taken, the model should have good characteristics. A forecast can only take place on dependent variables when the study of the model is free from serial correlation, free from heteroscedasticity, and residuals are normally distributed. Also, this implies that, if the model has no statistical error, this will require the model to be forecasted.

In Table 6.4 above, the results of the estimated model indicate that some coefficients are significant such as C (2), C (3), C (5), and C (9). The value of adjusted R^2 is quite high standing at 0.73. The inference is that the explanatory variables were able to explain up to 73.8% of the variation. The DW statistic of 2.5 was not so different from the standard value of 2, Prob. Moreover, statistic F is significant (0.003185). In addition, the test did not reject the null hypothesis of no serial correlation in the residual and P-Value which was 0.5395 = 53.95%, this is 5% more, meaning that it can accept the null hypothesis. Furthermore, the above formula signals there is no serial correlation between the variables and rejects the alternative hypothesis of the serial correlation in the residual. Also, the model does not have a heteroskedasticity problem nor a normality problem. In short, the model is ready and has good characteristics for the forecasting test.

Concluding on the next step in this analysis, the forecast will be carried out on the dependant variable of LNGDPF. This will further be compared with actual variables of LNGDP. If the gap between forecasted LNGDPF and actual LNGDP is small, meaning the forecasting error is small, this suggests that the ability of the model forecast is good. Also, this additionally elaborates that the specific regression line is good, though the predictive power of that regression line is satisfactory**.**

Figure 6-2: Results of forecasting model



The results of forecasting model reveal the forecast, valuation and forecast sample from 2005–2011. Software (Eviews) package adjusted sample: 2005- 2010. A root squared error is insignificant at 0.051822, this implies that actual LNGDP and forecast LNGDPF is moving closer. The data also suggests the predictive power of the regression model is good or satisfactory and the reason behind this is that the root square is very small or insignificant.

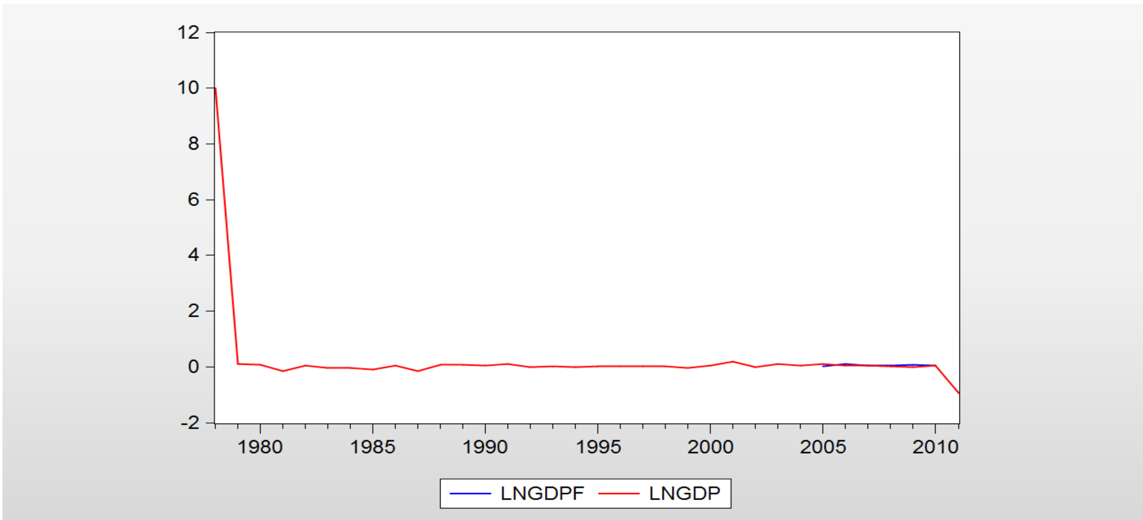
Also, it can be seen from the graph in Figure 6.2 that LNGDPF is moving between two lines of standard error, the cap call 95% confidence interval. Another point is Theil Inequality Coefficient (u), which ranges from 0 to 1. If (u) = 0, then there is a perfect fit, although if (u) = 1, the predictive power of the model might be inappropriate. This mean's (u) should be between 0 and 1, U=0. Moreover the figure of 436 shows that the predictive power in this model is good. It can be noted from Figure 6.2 that the Thiel inequality coefficient has three aspects; bias proportion, variance proportion and covariance proportion. The most important one is bias proportion (systematic error), which is small in our case study. This stands at 0. 06015 = 6.015%, and shows a good sign. It can be seen as suitable as the gap between the main actual LNGDP and the main forecast of LNGDP is small. The analysis of this study can be illustrated through the chart.

The next step of forecasting in this study is to check whether LNGDP and LNGDPF are moving together or not. If they are moving together, then the forecasting model is satisfactory, i.e. this implies that the ability to forecast an estimated regression model is very satisfactory.

The results of LNGDP and LNGDPF (for brevity reasons not shown here) indicate the emergence of a series studied from 1978 to 2011. The results were estimated earlier using error correction in E-views programme. Also, it should be noted that the predicted values of the period from 1978 to 2011 were deleted from series data (LNGDPF). The Software Eviews takes only the actual LNGDP after 2004–2011. After that the actual LNGDP can be compared with forecasting LNGDP, and therefore it is known of whether or not they are moving together.

In 2005 the actual variable of LNGDP = 0.10535, while the forecasting LNGDP in the same year = 0.02169. The coefficient of the actual LNGDP in 2006 = 0.055078, whereas the coefficient of forecasting LNGDP = 0.095918. Also, in the year of 2007 the actual LNGDP = 0.05736, while the forecasting LNGDP = 0.04848. Moreover, in the years 2008, 2009 and 2010 the actual values of LNGDP are 0.026778, 0.007409, and 0.042329 respectively, while the forecasting of LNGDP is 0.062342, 0.070639, and 0.038920. In summary, the results in general from 2005 to 2010 indicate that the actual variables of LNGDP and the forecasting LNGDP are overall moving close to each other. This can be established clearly in the graph in Figure 6.3.

Figure 6-3: The results between actual LNGDP and the forecasting LNGDP



From the graph in Figure 6.3 above, it could be inferred that the red line is the actual LNGDP from 1978 to 2011, while the blue line is forecasting LNGDP from 2005 to 2011. All the figures and evaluation mentioned are in evidence on the graphs. It is clear that both lines are moving very close together and the forecasting error is small; also, this means that the gap between LNGDP and LNGDPF is small, i.e. the ability to forecast the estimated regression model is very satisfactory in this study. According to these results, the study model can be relied upon to predict the policies of the government in the future. It is through this study that the Libyan government can make decisions and implement appropriate policies in effect of liberalization of financial services on economic growth in the future.

6.7 Summary of the Chapter

This chapter has provided the secondary data results, primarily for the use of a unit root test of every variable selected in the study. This is done by adopting the traditional method of ADF and the PP tests, in order to test the level of integration in the time series data for Libya over the period 1978–2011. The findings from both the ADF and PP tests show that all the variables are integrated in the I (2). Consequently, these are the preliminary results of this chapter. Additionally the order of integration was determined between time series data to avoid the problem of interference. The regression showed that ADF and Phillips-Perron tests may be appropriate to achieve this objective.

As mentioned earlier, the overall aim of this research is to examine the potential effect of financial liberalization on Libya's economic growth by developing an empirical model. This model determines and explains the relationship between the dependent variable (GDP) and the independent variables, including a dummy variable which is financial liberalization. The process is conducted using regression techniques as described in Chapter 5. The aim of this chapter is to achieve the first two objectives, analysed and interpreted.

Furthermore, this analysis includes the relationship between all variables together, which are GDP, FDI, INF, RI, L, TO and EXR. These variables were followed by a test, for the presence of a co-integrating vector/equation; the "co-integration" Johansen approach was applied to evaluate the long-term relation among the variables. The variables were categorized into two models, the first being the Trace Test of Co-integration, and the second being the Maximum Eigenvalue Test of Co-integration. The outcomes of the co-integration tests led to the adoption of the error correction model (ECM).

The findings regarding the Johansen Co-integration analysis in both the Trace and Maximum Eigenvalue tests indicate that there are co-integration vectors between the variables at the 5% level. To be more specific, Trace test indicates that there are, at most, three co-integrating vectors at the 5% level, whereas, Maximum Eigenvalue test indicates that there is, at most, one co-integration between variables in the long run.

An Error Correction Model (ECM) was applied to obtain the relation between the variables of the study for the short term. The major results obtained from this research show that there was a negative relationship between financial liberalization in Libya and economic growth for a short term during the period 1978–2011, i.e. the findings indicate that the coefficient of financial liberalization in Libya D (DO_{-2}) had a negative impact on GDP during this period, which goes against the Mckinnon (1973) and Shaw (1973) hypothesis which reported positive results regarding the impacts of financial liberalization on economic growth. Also, there is a positive relation between FDI, L, TO and GDP, while GDP is inversely related to RI, INF and EXR in the long run.

Furthermore, the forecasting test provides us with strong evidence on the quality of the model and the results acquired from the study. This means that these results are expected to be useful for policy and decision makers in Libya. This can also contribute to the formulation of their future economic plans.

Chapter 7: Qualitative Data Findings about the Potential Impacts of Financial Liberalization on Economic Growth

7.1 Introduction

This chapter presents the findings of semi-structured interviews conducted with senior Libyan officials in the financial sector. In this chapter, fifteen of the interviews are presented, regarding the impact of financial liberalization on economic growth in the case of Libya. These interviews were carried out verbally, face-to-face, with questions directed to interviewees by the researcher to obtain or elicit relevant data, information, expressions, opinions and beliefs relevant to the research objectives. As such, in addition to this introductory section, the chapter is divided into five sections that cover different aspects of the findings: problems and challenges with financial liberalization; effects of financial liberalization on growth (the expected role of financial liberalization on economic growth); competitiveness and the economic impacts of financial liberalization; lessons from emerging countries' experiences; and the final section summarizes the chapter.

7.2 Financial Liberalization: Problems and Challenges

7.2.1 Problems that the Financial Sector in Libya might Face after Joining WTO

To obtain a deeper understanding of the impact of financial liberalization on economic growth in Libya the researcher conducted several interviews with senior officials in the Libyan financial sector. The respondents in banks, insurance companies and the stock market were asked about the problems that Libya may face as a candidate country to the WTO.

It was established that most of the participants who took part in the interviews believe the WTO will have a significant and negative impact on Libya, especially in the banking sector but also on insurance companies. However, this is considered differently, on a positive note, in regards to the stock market. All of the officials who were interviewed in both the banking and insurance sectors stated that Libya will face a significant number of problems, especially in the short run, in terms of accession to the WTO. This was because neither of the above sectors was prepared, at the stage of the interviews, to engage appropriately in the competition with global banks and insurance companies that would come into force in Libya in association with joining the WTO. Also, Libya is still in its early stages of economic reform even though many new laws and policies taken by the government can be considered as positive steps towards economic reform. Thus, in spite of these progressive measures in the banking and insurance companies, Libya's economic growth in some areas could still be seen as weak and causing many problems. However, this issue could be taken into account and improved upon by further development. This would require from the state more effort to solve these problems, especially, at this critical stage of transition to a market economy. For instance, some respondents from Banks stated that:

> "*Well, when I talk about problems which Libya might be facing as a candidate country to the WTO, I think there are two parts of the problems. Firstly, the laws and regulations which exist now in Libyan banks are still working on the basis of a closed system and not on the basis of an open system. i.e., this implies that, many of the problems arise as a result of lack of independence of the banks from the Central Bank, where the presence of many of the constraints set by the Central bank may be the reason and an obstacle in the process of opening up to the outside world. Thus, the government should make amendments to all laws and regulations in the financial sector in general, including the banking sector, because they are inconsistent with the objectives of the WTO and the most important of which is the freedom of trade between countries without restrictions. Secondly, I also think the world trading system depends on side of the competition dramatically, but unfortunately competition in the financial sector in general and banks in particular in Libya is weak compared with banks in developed countries".(Company B, 2013)*

> *"….. In fact, all the banks in Libya, including our bank, are conventional banks in terms of the services that are offered compared with banks in developed countries, so no doubt they will face many problems, especially in the short term because they cannot cope with modern systems in global banks, through the upgrading of banking to the required level with goals of openness and access to the WTO". (Company D, 2013)*

In fact, many studies as mentioned in the literature review support fiscal policy reform. Respondents argue that the lack of efficiency of the financial sector in Libya is due to the nature of public property. Nevertheless, the absence of a competitive environment should be regarded as one of the main reasons for the failure of the public sector and the ineffectiveness of its institutions. The participants of the interviews stressed that the rationale for banking liberalization and the transfer of ownership of public companies to the private sector is to ensure better management and to protect public funds and public companies from exploitation. In addition, financial liberalization and the transition to a market economy would stimulate competition between economic institutions, thereby improving performance and efficiency of these companies and dealing with financial and economic problems produced by the public sector as well as the state. But the banking sector in Libya is not ready yet to engage in competition with other banks.

In this regard, one of the interviewees stated that:

> *"Actually, I think the banking sector and financial sector in general are not ready right now to engage in competition with other banks because of the inactivity of the banking sector in Libya, which has lasted for decades. Also, its role was traditional and it is very far from the process of competition. In addition, one of the other main problems is that some banks in Libya are in government ownership. Therefore, it is a result of state policies, it is impossible to take appropriate decisions knowing that all the decisions come from the state directly, including appointing directors of the banks. Moreover, there is international isolation in Libya. All of these issues certainly will be an obstacle to the banking sector and act as barriers to the international development in advanced banks". (Company A, 2013)*

Many of the interviewees are from different backgrounds and each carries a different level of status of work. They suggested that Libya should transfer to a market economy and liberalize the state-owned companies which caused many problems, due to the public sector failure to achieve its goals and also the disappointing results shown in terms of increased economic growth. Notably, a few of the participants thought most of the concerns were linked to liberalization policies. Additionally, the market economy guidelines should be considered by the Libyan government to make sure of a proper transition and avoid any negative effects arising from the regulations before joining the WTO. However, many of the participants stressed that the previous government had been unproductive and inept at succeeding and implementing policies of economic reform including insurance sectors. Thus, new policies for financial reform should be taken into account by the government before starting the process of liberalization.

Going by the responses from the interviews it is clear that Libya faces problems in the process of joining the WTO. All three respondents (i.e. Companies, L, N and M) revealed that the lack of a sophisticated insurance sector, which is a cause for concern, would result in many problems for Libya joining the WTO. Additionally, in spite of the presence of the private sector, it tends to still be in the early stages and seems to be suffering from many struggles in the laws and regulations established by the state. An interview with the officials in the insurance companies taken with many facts stated that the insurance company revealed that the company focuses on the development of re-insurance policies and the establishment of collaborative efforts between multiple insurance organizations, as part of the state's policy for creating strong insurance companies to enter the WTO. As one respondent stated:

> *"I think the most important problems that face Libya as a candidate for the world trade organization in insurance companies is regulations or domestic laws in which they operate these companies. That's where the internal laws operated by the government in this field are inconsistent with international laws stipulated by the WTO. Therefore, it is not easy to change all these*

issues as it takes time, where the Libyan legislators are trying to pass the laws which take into account several important aspects, e.g. laws compatible with religion or Islamic law. Also, another problem is how to rehabilitate the local companies in line with the objectives of foreign trade. Thus, trade openness will present many problems for insurance companies if there is no good strategy that serves the interests of local businesses and leads to growth of the local economy".(Company M, 2013)

Another respondent from an insurance company stated that:

"… There are no adequate possibilities that can help local companies compete in the case of trade openness. Also, capital is very small compared to the international companies in the area of insurance, where local insurance companies begin with the subscribed capital of three million; this amount is very small compared to the capital in international insurance companies. The Libyan market is not ready for such openness and it must face some changes in the laws and legislation of the government to match with the objectives and principles of the WTO. Consequently, all of these problems Libya will face when entering the WTO are expected". (Company k, 2013)

Here it becomes evident that although there are laws and regulations that have been instituted for a long time, joining the WTO means change needs to be made on all the laws and regulations since the earlier regulations were unable to advance and upgrade the insurance companies, in such a way they are placed apart from others in more developed countries. However, there was a different view when interview respondents at the Libyan stock market were asked about the problems that Libya could face as a candidate country to the WTO. A respondent from the stock market respondents stated that:

"*In terms of the stock market I do not think that Libya will face many obstacles, because the Libyan stock market is an observer member in the global stock markets and a member of international organizations. Also, there are rules and regulations semi-convergent with international stock markets, i.e. it is almost similar all over the world, e.g. the law of stock markets allows freedom for foreign investment without restrictions. The stock* *market does not distinguish between foreign investors and Libyan investors. I think the main problem found in banks, in terms of the entry and exit of money is that freedom of trading in funds is still restricted. Therefore, that is one of the problems facing the financial market in Libya".* (Company O, 2013)

7.2.2 Challenges and Opportunities that may Face the Financial Sector in Libya After Joining WTO

After the participants gave their opinions about the relationship that exists between financial liberalization and economic growth in general and in banks, insurance companies and the stock market, in particular, interviewees were then requested to give their opinions on the challenges and opportunities open to Libya in the area of banking, insurance companies and the stock market as a result of the liberalization of the financial sector.

All the interviewees agreed that there are many challenges and obstacles that may face the financial sector in Libya in the case of accession to WTO, especially in the short run. This is due to the financial sector not keeping up with financial systems in the world's modern system and not upgrading to the required level of openness.

The sanctions imposed on Libya during the 1990s led to the isolation of economic sectors for all international developments. This isolation has had a dramatic effect on the style and possibilities of the financial sector, especially in case of the banking sector. All these performances have had a negative and direct impact on economic growth, because the economic environment cannot grow without sophisticated technology in the banking sector and without clear and transparent laws. While the progressing government is prioritizing the country for a temporary period, its activities are restricted in providing fundamental results from the occurrences of previous problems. Most interviewees put forward the view that Libya is moving forward towards a market economy. Also, the guidelines and objectives issued suggest that the country had an incline for the free market. The situation in the banking sector was expressed by one of the respondents as follows:

> *"In general, the main challenge is how to reconsider the financial and administrative structure in all Libyan banks, including the central bank of Libya, especially as the banking sector has operated a period of time in isolation from the global development in this area". (Company G, 2013)*

With regard to the challenges facing the financial sector in Libya, actions have been taken by the Central Bank of Libya over the past decade, but in spite of their importance and the successes that have been achieved, these actions are still considered insufficient for bringing Libya to a similar advanced level as other developed countries.

One possible explanation of these challenges was given by one interviewee (i.e. B), who stated that, in spite of all the attempts made during that period to help the Libyan banking sector, these measures failed to achieve the goals, especially in the short term for two main reasons: first, the political system in Libya, which was highly centralized and controlled all decisions, whatever the political fallout from the economy; second, the Libyan economy depends on a single source, namely oil, which significantly affects all financial decisions of the state.

In the same vein, all interviewees emphasized that one of the major challenges in succeeding factors, and achieving social and economic objectives in the financial sectors are employees' skills. In addition, the absence of an effective mechanism to monitor the progress of the financial sector as a whole was one of the weaknesses in the financial sector in Libya. This is a major challenge for any country and is an essential source of imbalance that increases the likelihood of exposure to the financial crisis, as happened in Asia in 1997, and also in the global financial crisis in 2008, which were caused by the absence of an effective mechanism of control and supervision of financial institutions.

> *"The main challenges that face the financial sector are how rehabilitation of the human resource keeps pace with developments in the outside world and how to control the financial flows coming from outside. Also, how to re-structure the central bank to be strong and able to direct and control all the other banks in line with domestic and international laws". (Company A, 2013)*

All the contributors pointed out that the Libyan economy has surely progressed towards a market economy. They also further stated that Libya should privatize and liberalize their financial system because that will help to increase economic growth. However, some disagreed because they believe that sectors that are not up to a high quality should continue to work under the management of the government, pending a suitable environment being created for successful change.

In this context and in supporting these views, all the interviewees stated that the Libyan economy should be further liberalized due to the urgent need to create alternative sources of income, because the Libyan economy is totally dependent on oil; this poses a threat to economic stability and development in Libya. In fact, the objectives of the financial liberalization policy, in many developing countries, especially the former socialist countries, including Libya, are as follows: to expand the ownership base, opening the door for local and foreign investors to contribute more to the economic activity. Furthermore, the developments of financial markets will have a significant impact on the liberalization of the financial sector, thus increasing the contribution of private investors. As a result, it is important to make the transition from a planned economy to a market economy; the Libyan authorities need to modify many of the local laws, especially in the financial sector, in line with openness and joining of the World Trade Organization.

> *"Libya will pay high costs to change domestic laws and regulations. At the same time another challenge, after this big spending on the bank sector, is how the government can achieve profits through this change". (Company I, 2013)*

With regard to the interviews, the majority of interviewees revealed that the main challenge in the financial sector is a shortage of skilled labour because of the dominance of the state in economic activities for such a long time, which has led to misuse of economic resources, lower productivity levels, higher production costs, lower quality, low control in the public sector and lower return on capital.

Interviewees F and D also revealed that the banking sector will face a significant challenge in the future after entry into the WTO in the present time and also in the near future, because, even though the banks have large savings collected from institutions and individuals, they have not taken advantage of optimal exploitation, and as a result of weak banks and incompetent structures, this has significantly affected the weakness of the role of banks in financial intermediation. In addition, these causes lead to higher operational costs for banks, and low rates of profitability. An employee working in one of the selected companies stated that:

> *"In my opinion, it must be considered to challenge in financial sector on the basis of a competitor as well as finding a solution to overcome them, as this will support the national economy through further efforts in finding the correct solution, while the opportunities should be considered on the basis of optimal exploitation to develop the economy". (Company F, 2013)*

Banks have seen many developments globally since the early 1970s, and in the context of the financial globalization and financial liberalization adopted by many countries, it is expected these developments will continue, which will affect the future of Arab Banks, including Libya, as a result of their capital being too diminutive, and their not having many of the facilities and technology owned by the greater, well recognized banks in more developed countries. Therefore, when Libya has complete membership of the WTO, it will have to approve all agreements, including the liberalization of trade in the service agreement. These include financial services and banking, as well as other services, and would be a provision for institutions in Libya, in a very intense, competitive position with advanced foreign institutions, especially in the field of banking services. In this context, one of the interviewees mentioned that:

> *"There is a challenge regarding how to assess the current situation of banks and how to identify a particular strategy for reaching the goal, which is to increase economic growth. Additionally, the time factor is one of the most important challenges for process development and keeps up with the global economy. Beside the challenges, there are opportunities. For example, there are prospects to increase investment that leads to creating a lot of employment opportunities and the advantage of optimal exploitation. Therefore, entry into the WTO is a good opportunity for local banks to increase their development and contribution by taking advantage of foreign banks". (Company E, 2013)*

As a result of the global response to the rapid development, it has become essential for banks in Libya to introduce modern banking activities and equipment, to enable them to survive in a world with increasing competition which is growing daily.

> *"Time is a big challenge in the financial sector, we are still under development and to obtain the benefit of liberalization needs time, especially in the banking sector". (Company H, 2013)*

The economic system in Libya has seen many changes in terms of goals and aspirations, but most such changes were not based on scientific studies and research; this has generated great ambiguity and confusion in the process of developing the relevant policies. The process of developing economic policies in Libya has been unclear and usually not based on strategic studies, which has led to conflict and instability in the decision-making process, especially in the financial sector. Also, it can be argued that political factors, be they internal or external, during the rule of Gaddafi, had much direct impact on the process of devising economic policies. As shown by experiences during the former regime in Libya, dominance of the economy and public sector control, for several years, resulted in disappointing consequences for insurance companies. Accordingly, liberalization of these companies and the reform of the Libyan economy were the key measures in the former regime in the last few years, but there are many difficulties facing the liberalization policies in Libya that could impede the achievement of the desired objectives of liberalization and reform policies.

These difficulties are related to the financial sector in general and insurance companies in particular. In addition, the economic system in Libya was unclear due to the lack of a clear vision and solid strategy. Moreover, inconsistencies in the laws and the lack of a stable legislative base created an ambiguous picture about the nature of the economic system in Libya during the former regime; because in the previous system decision-making was controlled and unexpected judgements sometimes made, without any previous studies, an unsure vision was created.

One of the respondents from the insurance companies stated that:

> *"…. For example, the Libyan insurance company was controlled by the government for a long time. i.e. until the beginning of 2000 meaning that Libya has gradually adapted to fresh measures to liberalize its socialist economy. Consequently, there was the accumulation of many of the previous policies, whether technical or physical and thus it is no doubt these accumulations will be a great challenge for policy makers in keeping pace with the new policy of openness to the outside world. On the other hand, there are some opportunities, one of the most important being a chance for local companies to take advantage of foreign expertise in the field of insurance".(Company L, 2013)*

It should be taken into consideration that insurance companies generally experience changes and rapid developments at the regional and global level. This makes them vulnerable to challenges in different ways. Whereas global openness and the development of technology and customization is one of the most important current changes that directly affects insurance companies in Libya, local insurance companies are facing challenges in various aspects, especially in an era of dramatically increased technical fields. In fact, it is the insurance markets in developing countries in general, including

Libya, that desperately need to keep up with the wheel of progress and development to take advantage of the opening up process. An individual, who is working in one of the selected companies, said that:

> *"Changing laws and regulations on insurance companies is not easy as it needs a long time. On the other hand, one of the most encouraging factors for joining the WTO is stimulating local companies to develop their services better in order to face the foreign competition, whether inside or abroad". (Company k, 2013)*

In the light of the changes made by Libya's economic sector, there is an urgent need for the development of financial systems. It is the financial market in particular that needs to be able to support the changes coming and the activation of the role of the private sector, in order to have a greater role in economic growth. Thus, considering the existence of efficient markets and financial institutions is the essential condition for the successful process of financial liberalization. Another interviewee supported this view, stating:

> *"Lack of political and economic instability is one of the most significant challenges in the Libyan stock market. On the other hand, I think the main opportunities that the Libyan stock market can play is an important role through reform programmes such as deregulation, privatization and encouraging capital investments and establishing free zones". (Company O, 2013)*

7.3 The Expected Role of Financial Liberalization on Economic Growth

7.3.1 Effects of Financial Liberalization on Growth

Respondents in different sectors (banks, insurance companies and stock market) were asked about their opinion, as to whether a country such as Libya should start to liberalize its financial sector, and whether such a development would lead to economic growth.

There were different opinions among the interviewees about the effect of financial liberalization and economic growth. There are those who believe some instruments are important to get more advantages for financial liberalization to be effective and to increase economic growth. These include the government trying to develop its financial system before starting to liberalize its financial sector. One way this could be done is by ensuring that management has a financial policy with high efficiency, as that will lead to greater stability for the economy and protect or reduce both internal and external financial surprise for the country. In fact, the presence of a strong financial system and being able to allocate financial resources efficiently to serve the economic objectives is one of the most essential requirements needed to achieve high growth rates in any country.

On the other hand, the majority of interviewees were in agreement about the existence of negative effects, in the short run and actually these findings supported the findings of the secondary data. They stated that the Libyan financial sector will not be able to face competition which comes from the outside as the sector is still weak and needs time to develop in many aspects to be consistent with the new competitive environment. For instance, some interviewees from the banking sector (i.e. Companies A, E, D and H) mentioned that, through the process of identifying strategies, it has to develop its service quality and preserve its market share with the Libyan financial sector due to it being found weak in relation to its counterpart in other developed economies.

> *"The financial sector is a vertical spine and hence the economy within the government will not develop properly unless there are well developed financial sectors, specifically the banking sector. As we know the sources of growth need to finance the general budget of the government through the direction of the government to increase public spending that leads to increased investment, development or financing by the private sector by which most countries seek to increase development and economic growth. The banking sector needs to be developed to offer a prompt service. Consequently, the financial sector of liberalization will lead to a process of*

competition in making banks try to provide the best services, which helps in the process of investment and promoting economic growth. Also, Libya has the potential to achieve an increase in economic growth, but before liberalization its economy must be studied well and according to a suitable strategy that helps grow the local economy. I personally don't think it is a good time now for Libya to liberalize its economy and if done, it could lead to negative impact on gross domestic product". (Company A, 2013)

"Without any doubt liberalization of banks will lead to boosting gross domestic product, but only in the long term and not now. The reason behind this is because the existing restrictions on banks were caused by government policies. Therefore the liberalization of the banking sector means giving it all the power to contribute to the process of economic growth. I think that this will lead to an increase in the competition progression with the passage of time, and will have a positive impact on the editing process". (Company E, 2013)

The previous government attempted in the early 1990s to liberalize the economy and encourage domestic and foreign private sectors to contribute to the development of the economy and the financial sector of Libya. Therefore, certain reforms and measures were put into place. However, the dominance of the public sector continued, with the inevitable reluctance of the private sector to participate in financial activities. In addition, the lack of competitiveness in the financial sector and limited access to domestic credit for the private sector was not enough to significantly improve investment and growth.

Thus, as a result of the state dominance there have been many shortcomings due to the state power and the increasing growth of the public sector which have led to many disadvantages for the Libyan economy. These include competence in distributing economic wealth, failure to expand the basis of national income and also an inability to find an alternative to the industry of oil. Similarly, there are also disadvantages for the banking sector such as the build-up of debt, labour excess and continuing loss of companies. Additionally, as illustrated in Chapter 2 and as evident from studies, the public sector faced major difficulties, including low productivity and lack of attaining profits. Without the financial support from the government this inflicts a burden on the public budget.

In fact, the liberalization of the financial sector can stimulate economic growth in developing countries, including Libya, if there are policies and a good strategy for reforms. For example, there is the need for the Libyan agencies and authorities responsible for promotion and implementation of fiscal and monetary reforms to choose the right sequence of reforms in order to maximize the benefits and minimize the risks of such policies.

> *"Liberalization of banks is positive in itself, but this depends on the experience of the banking sector in the liberalization process. In fact, even now there are some banks who have started the process of liberalization and are not completely liberalized in this sector, but can be known through the experiences of other countries in this area and how to take appropriate policy requirements in the case of openness". (Company D, 2013)*

> *"Yes, I can say that if there is a good policy for government through laws and regulations that are financially appropriate, that will help to increase the GDP, because the purpose of liberation is growth in the case of optimal exploitation". (Company J, 2013)*

With regard to the interviews, the majority of interviewees also revealed an interesting finding about financial liberalization and insurance companies in Libya. Some respondents from the insurance companies stated that:

> *"Actually, I don't agree, because insurance companies in Libya are already liberalized according to law number 3. However, the problem is that their potential is still weak, whether physically or morally. For example, their capital is very small compared to the giant international companies in this field. Insurance awareness is also weak in Libya and developing countries in general, where the citizen always sees that the foreign insurance companies are better than local companies, even if they are opposite. All these issues will lead to the collapse of local companies". (Company M, 2013)*

> *"As we know all insurance companies follow the economic activity which is a series connected with each other, but at this period insurance companies are not ready for competition, so will not be able to increase economic growth in Libya especially in the short run. This is due to the reason that their perspectives are still weak". (Company N, 2013)*

In response to the question, the respondent believes that the stock market should be fully liberalized and independent from the government and not controlled by the Libyan Central Bank.

In Libya several studies that were recently carried out by the economic and financial authorities have recognized that restructuring of the stock market and the establishment of a strong financial market is necessary for improving medium and long-term financial intermediation. This enhances saving mobilization and expanding the financial sectors' competition, leading all these issues to the growth of the local economy. In this regard, interviewee L supports the idea that the establishment of a strong financial market is very important to help fast growth in the country and stated that:

> *"In fact, the stock market reflects the mirror of the national economy, which gives indicators of the economy. For example, falling prices give an indicator to government officials that there is an imbalance in this sector. The second indicator is that the stock market is based on disclosure, transparency and corporate governance on international standards and provisions of the necessary information for investment. Therefore, all these effects lead to motivating companies to exercise better performance, which contributes to higher growth of the economy". (Company O, 2013)*

To sum up the results, the respondents in this part of the interview tend to be consistent with the secondary data results in this study (see Chapter 6), in terms of the impact of financial liberalization on economic growth with regard to Libya joining the WTO and in the process having its economy liberalized.

7.3.2 The Main Prerequisites for the Success of the Process of Financial Liberalization

To obtain a deeper understanding policy of financial liberalization in Libya, interviewees were asked what their opinions about the basic fundamentals for liberation (banks, insurance companies and stock market) were, in order to be successful in Libya.

All interviewees confirmed that Libya is a country of trade and there are some basic conditions that could play an important role in the success of the process of liberalization, leading to increased economic growth. In relation, the respondents in the interviews stated that the Libyan economy had been socialist for decades; however, the adoption of many liberal policies in the last decade of the twentieth century turned it into a mixed system.

In the same event, they also argued that the previous government allowed the private sector to engage in some small- and medium-sized economic projects. The government had been given some limited and often conditional freedoms of the private sector, though the public sector is still dominant in most major sectors of the bank. This means that it continued to adopt the approach of comprehensive central planning for economic development. In this context, the previous regime had managed to establish a stable system for the economy that was consistent with the openness policy followed in recent times, including the liberalization of some financial institutions in the public sector from the privatization of these sectors. Most of the participants stated that the previous government did not effectively implement the programme. Even though some sectors were liberalized during the privatisation programme, some of the participants consider that the lack of administrative skill, deficiency of clear transparent plans, also, increase in financial and administrative sleaze in governmental departments were the main causes for a previous weakening implementation of reform policies in Libya.

Participants pointed out the grounds for privatization and transfer of ownership of state-owned enterprises of the private sector, to ensure better control and more incentives and rewards system. In addition, privatization would protect public resources and public companies from exploitation by politicians and bureaucrats, and thus realize the financial objectives, rather than the political goals and personal interests of politicians and bureaucrats.

In fact, Libya has a long history of large financial and economic reforms highlighted by the implementation of banking reform. These reforms were intended to promote a stronger banking system, more efficient and globally competitive. The Libyan authorities were implicit in the basis of adopting new regulations as a procedure for improvement and to address the problems of the public sector. The implementation of new laws will allow the government to encourage and expand with the growth of private investment, whether big or small. The new policies should only be put into practice after looking at the old ones and reviewing the previous laws of the 1980s which failed to accomplish the set goals and objectives. In 2001, the Libyan government recognized an institutional formation for privatization that helped to initialize a complete plan in 2003, which was to privatize 360 public companies. Carrying out the set objectives about uncertainty in the economic decision making process meant there were doubts about the willingness and integrity of those responsible in implementing the economic reform programme in general.

Thus, other pointers as illustrated in Chapter two were the inconsistency and lack of clarity in the appropriate constitutional and lawful adjustments, and also the postponement of reforming the banking and non-banking institutions. It all amounted to the lack of commitment by Libyan decision makers to these reforming policies. One should understand that the only method previously used to privatize companies was selling property to already existing workers and also to the management in these companies. This scheme was addressed by those in power and still in belief of the socialist policy developed in Libya over a long period. However, many have condemned this idea for not bringing about new policies on reform, and also because this way allows only workers and managers of these companies to acquire ownership and is therefore unjust for those who have not been given a chance. Thus, it is obvious that, although the government and decision makers in Libya knew that the public sector could not achieve the economic objectives, and state control of the economy has resulted in many problems, they only accept this method to reform these companies, which is a strong indication of the lack of desire and genuine commitment to transfer to a market economy.

Furthermore, the transition to a market economy would stimulate competition between economic institutions, thereby improving performance and efficiency of these companies, and deal with financial and economic problems produced by the public sector and state control of economic activity. Some respondents believed that to increase the benefit from financial liberalization, the Libyan government should develop strategies to be included in the financial sector, especially in the current phase, which is witnessing many regional, international and local developments. For instance, one respondent from the banking sector stated that:

> *"In my opinion, there are several conditions for the successful process of financial liberalization. First, one must develop an appropriate strategy for the financial sector in general, including the banking sector, through the use of local and foreign expertise in the financial sector. This means a feasibility study should be placed in each of the stages to see the goals clearly. In other words, transparency is an important precondition for economic reform in Libya, and which requires a series of legal and institutional arrangements to develop and improve economic growth. Consequently, in the implementation of the reform of the financial sector, in particular in the banking sector, the lack of transparency has serious implications for the reform process as a whole. Also, they should choose an efficient management for these banks, and in addition, restructure the banks and work on privatization to reduce the institutions owned by the state. All these issues will lead to enhancing competition and improve the efficiency of capital allocation in a better way. Thus, these issues are considered as the most important things for the success of the financial sector". (Company B, 2013)*

According to the results of eight interviews conducted on companies in the banking sector, some of the interviewees indicated that there are many challenges in banks and the major problem facing management in banks was the weakness of the infrastructure (i.e. Electricity and telecommunications system), which negatively impacts on the bank's performance and other sectors. This view was expressed in the following response:

> *"One of the most basic issues that the government must take into account is the establishment of conglomerates between banks before entering the WTO. Also, modifying the infrastructure of communications and transportation among others". (Company H, 2013)*

There are some basic conditions on which the government should take into account the success of the policy of liberalization in the banking sector. Included in these is the general availability of economic stability, and one of the most important pillars of public economic stability is the existence of a low inflation rate. Rising inflation leads to a depreciation of the currency, and therefore a significant loss for the economy. This prevents economic growth, and contributes to the weakening of the banking system.

In order to achieve overall economic stability, several preventive and remedial actions should be taken that enable the coordination of economic policies and banking liberalization policy. The availability of information and coordination involves coordination between the information to determine the relationship between the interest rate and the degree of risk, on one hand. Also the interest rate and expected payment, on the other hand, i.e. identifying the information on financial institutions that helps to determine the expected return of investment and risk management. In the light of this, one of the respondents expressed the following statement:

> "*Developing laws and legislation in line with the financial system; the other aspect which the government should take into account is how to develop the human resources in the English language and information technology whereby these tools help the financial system in general and banking sector in particular". (Company C, 2013)*

Moreover, two of the interviewees (J and D) stated that the Libyan economy should be further liberalized and privatized because the state has proved its inability to perform all economic functions that lead to investment and increased economic growth; accordingly the government only plays the role of the regulator in economic activity. In addition, they argued that policies of economic liberalization would create a competitive environment, helping to achieve many positive results in the Libyan economy.

In addition to the possibility of creating alternative resources for the Libyan economy rather than total reliance on oil, they also stressed that the Libyan government needs to take gradual measures in implementing liberalization. It should focus on how to develop the private sector to be able to perform the economic functions to the highest level. Thus, the state should play the role of regulator of the financial sector in general, and banking sector activity in particular, in order to guarantee the achievement of desired goals and to prevent any deviation that may occur in the process to economic transformation of the state, such as the financial crisis.

> *"Liberalization of the financial sector gradually and accordingly to a certain plan can contribute significantly to the creation of a competitive environment that will help reduce dependence on the oil sector and thus achieve the desired goals of liberalization which will increase the country's economic growth". (Company J, 2013)*

In fact, despite the success of banking liberalization policy in developed countries, it is experiencing difficulties in its application in developing countries, including Libya. This difficulty is due to the fragility of Libya's economy as a result of the burden of debt and other problems. Developing states resort to requesting loans to implement development programmes, and many developing countries become dependent on the IMF and the World Bank in order to achieve economic stability.

These circumstances have led some states to reject the application of the banking policy of liberalization, due to its negative effects on the economy. However, this policy can be applied successfully, but according to the terms and obligations relating to the application. This is because it is not important to apply the banking liberalization policy, but rather how it can be managed successfully, and to ensure adherence to the conditions for economic stability.

> *"Before entering the WTO, the government should rehabilitate the workforce in the banking sector, because in the current situation, if Libya entered into the WTO and liberalized its financial sector, it would not benefit from the process of liberalization, but would be an investment market for foreign banks only. Also, the banking system must follow certain steps in the sequence in the editing phase and the implementation of the banking sector's liberalization policy. They should start from the local level, and then move to higher stages". (Company E, 2013)*

According to some interviewees (i.e. N, M and L), respondents confirmed that there is a lack of awareness of the importance of insurance information from top managements. General managers of these companies were appointed by the government, who are neither professional nor qualified, although most of them hold various qualifications, but these are a far cry from the financial field. In addition, the absence of clear strategies and in particular training centres, interviewees believed that there are many employees in insurance companies not aware of important laws. Interviewees of insurance companies supported this view, stating:

> "*I believe that insurance companies in general, including our company, should take into account two things: First, they should build a strong union between the insurance companies, in fact, there is a union, but unfortunately it is weak and not supported correctly, and also unable to take any significant role. Secondly, the laws and legislation on supervision and control of insurance companies should be reconsidered". (Company L, 2013)*

> *"There must be a clear and appropriate strategy that can be followed by the insurance companies for them to compete locally and internationally at liberalization". (Company K, 2013)*

The stock market is very important to the Libyan economy and is needed for increasing the exchange of goods and services. The failure to establish a stock market in Libya for a long time caused many negative impacts, for example, causing an increase in the number of bankrupt companies over a period and encouraging capital sums to be invested abroad rather than in Libya.

However, Libya like many other developing countries has made remarkable progress with privatizing its public sector by transferring ownership from the state to private citizens. This has created many new shareholders. However, Libya is still at the beginning stage of reform, compared with other developed countries. Thus, it can be argued that supervision of financial markets aims to show how they cope with risks, and ensures transparency for financial gain. The government should develop an organizational structure and financial management institutions to cope with the policy of openness and join the WTO. A respondent from the stock market stated that:

> *"As I have already told you, Libya needs to develop the stock market and it should be a good strategy before joining the WTO. For example, establishing appropriate infrastructure, as well as an attempt to promote and encourage a culture of investment in Libya through various media forms. It is also important to improve the level of financial disclosure and competition between Libyan economic sectors and educate citizens in the government on the policy of openness. Another key point is to raise awareness among local institutions that the process of opening up to the outside world is the best way to increase economic growth in case of being used correctly". (Company O, 2013)*

7.4 Competitiveness and the Economic Impacts of Financial Liberalization.

7.4.1 Expectations of Access to Employment Opportunities in Light of Financial Liberalization

Many authors, as established in Chapter 4 in this research, expressed the view that the unsatisfactory performance and failure of the public sector in Libya was due to certain factors. One issue included the lack of competition towards the public sector as well as the government's interference in the pricing policies of state-owned companies. Moreover, the investment and employment policies were also classified as being interfered with by the government. All these problems, especially the inefficiency within public sector ownership in Libya, was the main underlying principle for adopting a structured procedure to promote private investments and Liberalization of state-owned companies.

Besides this, interviewees also gave their opinions on the rationale to liberalize state-owned companies. The interviewees made a popular judgement holding that Libya required shifting to a market economy and liberalizing the state-owned companies. The state’s control of economic activity in general, and the financial sector in particular, resulted in the inefficiency of state-owned companies, public budget deficits and poor quality of services and goods. All these circumstances resulted in a reduction in employment.

All the respondents agreed that the labour market should always be a source of serious concern to the authorities in developing countries, in particular, after joining the WTO and opening their financial markets which might increase unemployment rates in these countries. On the other hand, if the labourers’ required conditions are not met, they may believe that lack of skilled labour is one of the most important factors affecting the growth of the financial sector. It will be the biggest burden after liberalizing the economy, especially in the short run. The interviewees were asked to give their opinion about whether local people would have more opportunities to work after financial liberalization. One of the interviewees in the banking sector responded with the following comment:

> *“In fact, I think the ability of the financial sector to create jobs depends on the development of the human resources prior to its joining with the WTO, because development of the skills of the human element causes increased*

opportunities of employment which lead to increased GDP". (Company D, 2013)

The state should restructure the strong workforce through the formulation of laws and regulations that help to achieve the optimal use of national human resources. Furthermore, this will increase the activation of the role of the private sector as a partner in the development process and help absorb the labour force, thereby reducing unemployment. Another interviewee concluded that:

> *"It is known that after the accession of Libya to the WTO, the central bank will leave other banks in Libya the freedom to work in the framework of full competition with other banks. Consequently, the process of competition makes local banks reconsider their policies in everything, including employment policy. It may result in reducing employment. On the other hand, there is no doubt that the process of openness creates jobs, but only for human resources, skilled and trained to meet the required conditions in the banking sector". (Company I, 2013)*

There is no doubt that unemployment plays a negative role in national economies in general. Respondents confirmed that the labour market made the Libyan government worry and rethink about the result of joining the WTO because of rising unemployment in recent years. Where unemployment costs the government many burdens, through increased consumption and lower GDP. Consequently, the lack of the presence of skilled manpower is one of the elements that results in opportunities for optimising the process of liberalization being lost.

Diversification is essential in the development of training programmes for bank employees where the government needs to pay attention to the human element, in order to keep pace with global developments. This is done through the development of skills, in the field of bank employees and the banking system, through courses of short-term training for new employees. These issues can help to create more opportunities for local employees after economic opening. In light of this, one of the respondents expressed the following statement:

> *"I think it will lead to a lot of employment problems because a lot of local banks will re-employ and dispense with a number of employees, especially those who do not have scientific qualifications and are not experienced in the banking industry [...]. Whereby the Ministry of planning indicates that, the unemployment rate in the Libyan market reached 17% for the year 2009". (Company J, 2013)*

This is considered the most important reason leading to an increase in unemployment rates in the financial sector in developing countries, particularly Libya. There is a growing trend towards a decrease in government jobs as a result of privatization and economic reform programmes, as well as the spread of illiteracy and low level of education and training programmes available. These issues are leading to an increase in the number of unemployed and rising unemployment, where there is no pre-planning process of financial liberalization. This view has been expressed by one official in the banking sector who asserted that:

> *"Of course, there must be many studies explain the reasons and benefits of accession Libya to the WTO. This might help to create more opportunities for employees in the financial sector in general and the banking sector in particular and vice versa". (Company C, 2013)*

Respondents of the companies surveyed indicated that there is a set of elements to ensure the success of Libyan insurance companies before the expected competition. These include availability of sufficient funds for the success of insurance activity. Although the government has already in recent years started to increase capital among the companies, they are still collectively suitable for the size of the insurance operations.

Moreover, availability of technical personnel in the insurance areas and re-insurance investment is essential, therefore it is important for Libyan companies to develop and implement training programmes for workers. This is done in all activities in line with the next phase, to suit the needs of the local and international market. Another key aspect is to take advantage of the potential for information technology to improve services and attract more customers, as well as making it more effective. In light of this, one of the respondents expressed the following statement:

> *"Yes, if there is an appropriate strategy for Libya's insurance companies before joining the WTO, this will help to create more job opportunities for the citizens of Libya". (Company K, 2013).*

Despite the growing importance of insurance services in the developed world, and this has not reached its deserving place among other economic activities may be due to a lack of awareness among large segments of the citizens on the importance of insurance, in various economic and social aspects. The lack of sufficiently experienced cadres in the function of these companies has resulted in this. This is perhaps the biggest challenge suffered by the business of insurance in Libya. However, another respondent has a different view about the ability of the financial sector after liberalization to generate employment and he argues:

> "*I do not think so, because the entire Libyan economy is an oriented economy, meaning that everything is under state control. Therefore, in my view Libya's human resources, especially those working with insurance companies, many of them got jobs via social relations, i.e. through mediation and nepotism. They are not qualified and Libya's government must plan to qualify workforces in this sector before entering the WTO. Otherwise entry into the WTO in the current situation will lead to a reduction of the workforces rather than increasing the chances of work". (Company N, 2013)*

Overall, the Libyan government should make a number of financial corporations and mergers between financial institutions that can accommodate modern technological developments in the global financial markets. This will increase their ability to withstand volatility in global financial markets and thus their ability to compete with financial institutions in those markets. In addition, capital market liberalization can be a double-edged sword. It might have a positive effect as shown in several empirical studies on developing economies.

In fact, the liberalization of capital markets plays an active role in the distribution of savings and attracting domestic and foreign investment, thus providing funding for development, and supporting its ability to compete. In addition, it also helps in allocation of material and human resources in the case of optimal utilization, thereby helping increase the efficiency of private enterprises and creating job opportunities for local people, especially in the long run. On the other hand, liberalization may lead to political and economic crisis, such as the Asian crisis of 1997. Some economists argue that one the causes of the Asian crisis was the liberalization of the stock market in these countries. With regard to the above, one of the interviewees stated that:

> *"I do not believe that entry in the WTO at the moment would help to create jobs in the financial sector in Libya, because in my view the mentality of the Libyan employee is not eligible to policy of openness and it needs time. However, there is no doubt that in Libya's future case of joining the WTO, it would help in increasing employment opportunities in the financial sector in general. The state especially has tried to increase the human resource rehabilitation in this sector, since it became an observer member of the WTO in 2004. For example, in the Libyan stock market in 2007 it signed an agreement with the London Stock Exchange in the area of training and skills development of employees. Also, in the same year, the Libyan stock market signed an agreement with Jordan. Under this agreement it rehabilitated and developed the skills of employees in the filing of accounting in order to have local and international experience in this particular area". (Company O, 2013)*

7.4.2 The Role of Financial Liberalization to Attract and Encourage Foreign Direct Investment

Interviewees were also required to explain to what extent they thought that the financial liberalization policy would be helpful in making Libya more attractive to foreign investment.

All the participants noted that the economic system in Libya was unclear and unstable. They argued that the economy did not have any definition as it was uncertain in nature as a result of conflicting decisions and creating legislation that led to a lack of clarity in the parameters of the economic system. But recently the previous government had adopted many liberal policies. In addition, all the contributors noted that the Libyan economy is surely moving towards a market economy. They argued that the government needs to improve financial reforms by encouraging the privatization of some sectors and giving the private sector more of a role to play in the Libyan economy because this will lead to enhancing organizations' capability of finance in the domestic and international competition. Furthermore, financial reform before liberalization will also help to prevent or reduce disasters and crises in future unexpected incidents that might occur.

Regardless of the efforts made by the Libyan authorities through the development of laws and legislation, particularly during 2003 and 2007, they have achieved a number of successes in relation to foreign investment. Nevertheless, FDI is still limited because the political and administrative changes led to institutional instability. This created the conditions for the subsequent deterioration of economic performance, and consequently the aim to improve the investment climate.

All respondents in the financial sector believe that in order to gain a competitive advantage of the business environment, Libya needs to pay more attention to improving the physical infrastructure, as well as all other elements of the infrastructure, including communications and transportation. If this is not done, Libya will continue to suffer from a lack of economic growth and development. This view has been expressed by one respondent in the banking sector who asserted that:

> *"The Libyan government has encouraged an increase in foreign private investment since 1997 Law no. 5 of 1997 and its amendment in 2003 by law no. 7, which gave many incentives and guarantees to attract foreign business to participate in realizing economic development in Libya. However, FDI is still limited for the various economic sectors, because of the fact that the financial sector in general and the banking sector in particular have yet to develop appropriately". (Company A, 2103)*

Liberalization of the financial services requires openness to the outside world, and thus must be efficient in attaining global competitiveness, especially in the banking sector. The banking sector is one the most important factors helping to increase competitiveness and make Libya more attractive to foreign investment.

In the same way, many of the interviewees pointed out that the shortcomings of Libya's private sector will minimize their contribution to major projects. On the other hand, there is the possibility that Libya may be able to participate in the performance of several minor ventures. Moreover, participants stated that reconstruction projects will be implemented by foreign companies. Foreign investment will play a large role in rebuilding Libya following the expected pressure from some countries which have frozen the money belonging to Libya. Participants have suggested that some countries have been asked to offer investment and companies to implement reconstruction projects, rather than giving money and delivering the money to the Libyan authorities.

> *"Yes, many of the investors in various countries in the world want to invest in Libya and therefore there is no doubt that the Libyan government should focus more on the state of the financial sector in the future, because Libya needs too many reconstruction projects especially since this war. They need to be replaced with sophisticated financial systems. Banks are a vital objective due to them being one of the necessary things that help to bring foreign investment to the country". (Company D, 2013)*

With regard to the role of the financial liberalization sector in encouraging investment, the interviewees indicated that the Libyan government should make a number of financial conglomerates and mergers between financial institutions. These should be considered to accommodate modern technological developments in the global financial markets, and increase their ability to withstand instability in global financial markets and thus their ability to compete with financial institutions in those markets. Liberalization of the banking sector should encourage many external companies to invest in the local markets. This view was expressed by one of the respondents in the banking sector, who commented as follows:

> *"In fact, there is no doubt that financial liberalization will lead to attracting foreign direct investment, because liberation means removing many of the restrictions that were hindering investors. For example, the central bank sets the interest rate on deposits in banks and these types of restrictions are set on the banks and the investor in particular. In short, the liberalization process has advantages for attracting investment, which is expected to contribute to job creation and income generation, but at the same time, the government should protect its financial sector from financial crises". (Company H, 2013)*

On the whole it is obvious from all that is discussed above that it is the state's dominance in Libya and the failure of the public sector that has resulted in the increasing concerns. The Libyan government from the early 1980s to the 1990s started to implement new guidelines, in order to reduce the involvement of the public sector. They also wanted to decrease state interference in economic activities. Furthermore, they also started to encourage new strategies and motivate private investments to contribute more on the liberalization side and economically, along with a liberalization policy for the state-owned companies, so that the problems could be addressed and then improved and worked on. The requirements included working on the competence and output of the economic endeavours in the Libyan economy. Implementing these guidelines will be a solution for the improvement of Libya's developing economy.

The respondents argued that financial liberalization, through the banking channels plays an important role in economic activity. In particular, the integration of national markets with foreign ones has helped to reduce costs, as well as highly developed financial markets accelerating and improving productivity. This has led to the promotion of the efficiency of production. The reforms should include a variety of measures for banking and stock market development as a strategy to improve and increase economic growth. This view has been expressed by the following statement:

> *"In my view financial liberalization in its content is a good idea, and Libya at the beginning of the 21st century started to liberalize its economy in order to achieve more comprehensive development. However, the most important point is the benefit and return from the development, according to the Libyan financial sector. This means that liberalization will generate many investments, especially in a country such as Libya which has potential. The local banks should keep pace with the global development in order to meet the demand for the investor, especially as most of the financial procedures and transactions will be through banks". (Company G, 2013)*

The interviewees argued that, despite the efforts to improve banking services through the Central Bank of Libya's policies in terms of the establishment of private banks, the emergence of foreign banks as shareholders of the local banks was seen. The reality is that the services provided by this sector fall far below the expectations of local and foreign investors. Furthermore, economic openness and human capital also play an essential role in the act of FDI as well as the growth influence of FDI in the country. The Libyan government must make big efforts in an attempt to commence and implement a more solid financial sector of progressive reforms and FDI encouragement. In this regard, one official in the banking sector emphasized that:

> *"In my opinion, I believe that in the case of the development of appropriate laws and enactment of legislation by the state, foreign investment in the banking sector will have a positive and significant influence on the national economy to reduce unemployment and the transfer of advanced technologies*

> *in various fields, which will ultimately lead to the promotion of GDP". (Company B, 2013)*

Respondents L, N and K noted that the insurance market in Libya is a very small market compared to world markets and therefore the insurance premiums are limited and cannot accommodate a large number of companies and increased competition. Though on the other hand, it can create competition between companies to develop existing products and the creation of new insurance products and better services. This will lead to the development of the work and performance of insurance companies in Libya. In this regard, one of the interviewees in insurance companies stated that:

> *"Yes, the insurance market is small in Libya compared with the international market in this field, but whenever there is a clear policy of Liberalization serving the interests of the national economy; it will help increase investment and economic growth. This in turn leads to increased activity of insurance companies". (Company L, 2013)*

Respondents agreed that the stock market is important to the Libyan economy and is necessary to encourage investment and increase the growth rate. They claimed the lack of a stock market in the past caused a lot of negative consequences, such as an increase in the number of bankrupt companies over a period and encouraging capital investment abroad. Furthermore, respondents mentioned that the financial reform in Libya still needs to work on the development of the financial sector as it is the largest sector to include capital markets and institutions. Summarizing, the stock market will take part in a major role in the future. It will help to introduce practical competition among national companies and increase the amount of financial access within companies. This will make available potential investors with new investment strategies to boost the country's portfolio. There are non-banking financial intermediaries helping all of these key factors to attract savings and direct them to more efficient investment sectors and also helping to attract and encourage foreign capital work in Libya. All these developments would enhance the possibility of maintaining a balance and achieve macroeconomic stability. In light of this, one of the respondents expressed the following statement:

> *"I believe that Libyan economy is one of the most promising economies among MENA countries, because Libya is one of the emerging economies, which are still in the building phase, with possibilities of investment to create any project. There are many laws for that, such as, law no. 5 to encourage foreign investment. They will be able to enter and invest in Libya. Therefore, the stock market will have a significant role in the long run, because it helps to provide realistic competition between national companies. It is worth having an active financial sector qualified to contribute towards these investment projects". (Company O, 2013)*

7.4.3 The Ability of the Financial Sector to Increase Economic Growth

With regard to the interview questions, the interviewees were asked about their views on whether there is any competitive advantage in the financial sector that can help in promoting economic growth, in the case of Libya becoming a member the WTO.

Referring to the interview results, interviewees B and D openly indicated that the liberalization of the banking sector can have a positive impact on the economy in many aspects. For example, increased profitability and investment by individuals, and development of the financial sector. This can be done by a process of financial integration characterized by a reduction of impediments to cross-border financial transactions and an increased participation of foreign institutions in domestic financial systems. The way to carry out this procedure is by transferring technological knowledge, as well as reducing the cost of capital through better global allocation of risk. Ultimately, all these issues are essential to improve the economic situation in the country.

> *"Yes, as I mentioned earlier, despite the challenges which Libya may face when liberalizing its financial sector, Libyan banks have a great opportunity, as most banks have the capital if exploited properly that will lead to*

achieving all the possibilities that will help banks to compete and promote economic growth".(Company B, 2013)

"Along with this feature appropriate financial resources exist in the local bank. There is another advantage which is that due to the environment and culture, the Libyan citizen will have confidence in local banks in a short period of time, thus giving an advantage to the banking sector to increase the development process – but if the banks do not develop in this short period, this characteristic might not remain". (Company F, 2013)

In fact, the Libyan economy was largely affected by government intervention during the reign of Gaddafi in all economic activities. This intervention was dominant in particular in the financial sector. This led to lower rates of savings which further led to a reduction in investment. In addition, most investments were undertaken by the inefficient public sector. Where the public sector dominates the allocation of credit to particular sectors, there are preferential interest rates to some sectors, high taxation of the domestic banking sector through excessive reserve requirements, state ownership of banks, and tight control of external capital movements.

All of these actions had a negative impact on the local economy and, therefore, should be initiated into the process of liberalization, which is essential for promoting economic development in the case of a certain strategy. Libya has continued its reform and liberalization programme. Although it has penetrated all financial sectors, the programme has failed to invigorate competition, open new markets, or broaden access to capital on the scale required for accelerating Libya's growth.

"The question that arises is when and how, not if. We must allow free trade in financial services to increase economic growth. This matter raises many related subjects. First, while most of the studies show that the impact on long-term trade in the liberated financial services is beneficial, there is no clear evidence in the short term. In particular, in the current phase where innovation progresses rapidly prompted by information and communication technology and the development of a global knowledge economy, there is no

doubt Libya will face some problems as a result of changes to the economy. This depends on control of the state to an open economy, which depends on the competitiveness in the provision of financial services. They therefore become the country that it is the financial sector without a competitor for a long period time in a very bad situation". (Company G, 2013)

Some participants in the interviews pointed out that the previous government adopted many liberal politics and had recently allowed the private sector to get involved in some economic activities including the banking sector. However, they argued that there are many limitations and restrictions on ownership and private sector participation in the economy. A number of participants stated that the economic system in Libya was unclear and unstable. They claimed that the economy had no definition as it was unsafe in nature in terms of organization structure, because the previous political regime created conflicts in decisions and laws which led to a lack of clarity in the parameters of the economic system, especially the financial sector.

Evidence indicates that Libya has many physical possibilities for increasing economic growth via appropriate reform policy in the banking sector. Moreover, in order to diversify the economy away from central control by government policy and also to be successful, it requires more encouragement of the private sector – to clarify, this means the de-regulation and reforms of financial liberalization in general and the banking sector in particular.

"I see that it is important that the government creates the conditions for effective delivery of financial services, and efforts should be focused to promote a well-developed banking sector from a different aspect. The prime example is securing property rights and improving investor confidence, which play a key role in the functioning of the markets. This is key to economic growth". (Company E, 2013)

Respondents of the company's survey indicated the benefits of insurance companies for increasing economic growth in case of joining the WTO. The deployment awareness insurance between individuals should be the responsibility of society and the state in addition to the role of insurance companies themselves. This is seen in the course of contact with the public through various media and preparation of large-scale campaigns and intellectuals in every society. Thus, all these issues can help to promote economic growth after liberalization. An interviewee in one of the related companies disclosed the following expression:

> *"I think now that there is no competitive advantage, especially in the insurance sector, for being as small as I told you and also its capital account is undersized compared to global companies. Adding to this most of the staff in the insurance sector need more experience and training and also there is a lack of insurance awareness among the Libyan society". (Company N, 2013)*

Furthermore, evidence indicates that the lack of efficiency of the financial sector in general and insurance companies in particular was due to the nature of public ownership. However, the lack of a competitive environment should also be considered as one of the main reasons for the failure of the public sector and the inefficiency of its institutions.

Interviewees M and K emphasized that there is no doubt that the Libyan authorities in the past did not make a great effort to reduce the effect of nepotism which led to poor business performance in the insurance companies in Libya. There is no appropriate plan for these issues, which could be a major obstacle in the future, especially in light of international competition and opening to the outside world.

> *"Policies were established by the state after 2003 to reduce the risks and burdens of insurance and for the cooperation and development of a comprehensive and joint strategy. These plans are among the various insurance companies in order to share financial burdens and also try to gain access to the market even more and increase competitiveness, but each of these policies is still in the beginning stage of implementation". (Company M, 2013)*

The stock market in Libya is one of the emerging markets at the level of the Arab countries, where the role of the market is still limited, given the limited number of financial institutions listed on the market. There is no doubt that Libya can take advantage of emerging stock markets, in particular in Asian and Arab countries, because their economies share a lot in common with that of Libya.

Consequently, the development of a regulatory body to oversee the financial market helps to strengthen the confidence in this emerging market and improve the liquidity position by resulting in the growth of the market that plays an essential role as a component of the financial system. This is needed in Libya. To assert this, one respondent expressed his view by saying that:

> "*Yes, a feature is that the Libyan stock market is one of the emerging markets and therefore when liberalizing this will lead to attracting many corporate investments as a result of deregulation. This is also known as emerging financial markets where investment opportunities are large compared to the old markets where the profits are low. This has resulted in strong competition between the big investment companies. For example, companies' profits from Libyan market investment are between 5 and 20% in a year. However, in other countries the profit of investment companies is low between 1 and 3%". (Company O, 2013)*

7.5 Lessons from Country Experiences

With respect to the question querying the extent to which the respondents perceive the experience of other developing countries that are members of the WTO, these other members can provide lessons for Libya when liberalizing its financial services sector.

Participants in the interviews argued that one of the most important lessons is that Libya stands to learn from the experience of the developing countries who are already members of the WTO, and how to deal with any issues of incompatibility between domestic policies and multilateral trading rules in general and the financial sector in particular.

Also, the participants indicated that there will undoubtedly be too many challenges waiting for the Libyan economy. This will limit the achievement of its ambitions to become a full member of the WTO, not least the challenge of dealing with the competing interests of other nations, including those of its trading partners in the financial field within the multilateral trading system.

In the last two decades of the twentieth century, a lot of Arab countries had many serious discussions with other developing countries about the economic opening process and how the economic reform process is necessary before openness. This is considered as one of the main challenges in developing countries that are in desperate need of an economic and social development plan for sustainability. Alongside this, the international trade policy should also be taken into account. Some respondents from the banks stated that:

> *"Each country has its own specificity in terms of the potentials before entering the WTO and liberalizing its financial sector, but in general, Libya can benefit from the experiences of all developing countries, especially the Arab countries. This is because their economies are close or similar to the Libyan economy. Of course, Libya can get only part of the experience of developing countries, not completely, because the financial laws are different from one country to another. For instance, Qatar, United Arab Emirate, Malaysia, China and Morocco have internal laws organizationally linking among financial institutions, clearly. This is a very helpful factor for joining the WTO, while the financial regulation is not available in Libya". (Company D, 2013)*

However, a number of respondents argued certain procedures had to be considered by the state for positive measures to be undertaken to reduce the negative downfalls of the liberalization policies in the banking sector. It should be noted that the disadvantages include social issues consequential from liberalization and the cutback of the government's economic responsibility, such as, impacts on prices and quality of provided goods and services. As discussed previously, it is important that the government takes responsibility for reducing the implications of these factors and this is the main reason for successful liberalization; as the experience of many countries, especially developing countries is the failure of their governments to deal with these issues. Thus, this further leads to strong disagreements regarding liberalization and the economic reform programme.

Overall, participants in the interviews argued that the results of the experiences of developing countries will certainly have a great effect on the process of development of the banking sector in Libya. It especially affects those that have similar economic and financial structure. Thus, if Libya tried to apply the same strategy as similar economic structures that have made significant progress in liberalizing their financial sectors, this could help the authorities to take advantage of the time as well as reduce risk, thus enabling an increase in national savings, leading to investment and increased productivity. Also, it would increase the evolution of the economic growth rate. In this context, one interviewee said:

> *"I think it will be very useful for Libya to join the WTO as it will liberalize its economy and knowledge like the experiences of developing countries that have already entered the WTO. It offers many advantages of time, effort and cost to the Libyan government, particularly taking all the obstacles faced by these countries into account, and taking advantage of how one can avoid them". (Company A, 2013)*

> *"In fact, it's hard to say that Libya will get full benefit from the experience of developing countries which are WTO members and have liberalized their financial sector such as Malaysia, China and Arab Emarat. However, Libya might benefit in the financial aspects and obstacles in these countries and determine the extent of independence with the reality of the financial sector in Libya and its aspirations. Moreover, it may help them in finding solutions to remedy the drawbacks". (Company F, 2013)*

Interviewees B and H revealed that one of the main benefits of membership is the financial services sector in particular. The banking sector should benefit in the same way as some emerging countries that have been able to access foreign capital markets under the GATS. They should also consider obtaining benefits in the banking sector. Libya could well capitalize on this in the future to establish itself as the leading regional financial centre of North Africa and the Maghreb.

With the exposure to international competition, which membership entails, the Libyan economy could reap the benefits of greater competitiveness, improved performance, increased productivity and economic efficiency. This in turn will provide the enticement for sustainable economic growth. The measurable or quantifiable economic indicators of such benefits will be in the form of higher GDP (and GDP per capita) and economic growth rates in the post-WTO membership period. This was inferred by the following statement from one of the senior officials in the banking sector:

> *“Yes, I believe that there are many common characteristics between the Libyan economy and developing economies, especially the economies of Arab countries. The experiences of these countries in liberalizing their financial sector, is a key supporter and a major impact for the Libyan economy to take advantage of”. (Company H, 2013)*

Three respondents (i.e. Companies, L, N and K) stated that insurance companies are one of the sectors of the economy that will be affected as a result of the integration of Libya into the global free trade system. The entry of foreign insurance companies often causes debate on whether this process is beneficial to the host country or, conversely, makes the economy more vulnerable to economic uncertainty. The participants believe that under the development of insurance products and optimal use of capital, especially in light of the global economic variables companies, it has become an urgent requirement for developing nations to form larger entities. This would enable them to work in the context of globalization and production in the markets. Mergers may be the only refuge of stability and continuity in the practice of insurance activity. Consequently, one participant emphasized that:

> *"In the case of setting a good strategy, according to the experiences of previous states like the Malaysian experience, I believe that Libyan insurance companies, in the long-term, will benefit from liberalization and increased economic growth, as in many other developing countries". (Company K, 2013)*

Libya opened its stock market later than most developing countries (i.e. Egypt, Malaysia, China, Jordan, Tunisia, UAE, etc.). The first practical action of the state towards a stock market started in 2006 following the new economic reform programme of 1999 vis-à-vis private sector enterprise. One of the respondents indicated that the most important lessons that Libya can learn from the stock market comes from Arab nations as well as Asian and Latin American countries.

These findings might appropriately be studied in other developing countries that have similar economic and financial structures as those of the Libyan economy. The establishment of the Libyan stock market is very recent in comparison with those of most other countries. However, the Libyan stock market should have been able to review similar experiences in other countries, for example by evaluating the strengths and weaknesses of the stock markets in these states. According to the financial reforms already started in Libya, in order to get a strong stock market in Libya, advantage should be taken of the lessons developing from countries in this field and those that came out of the world financial crisis over previous years. Consequently, one participant emphasized that:

> *"Although the Libyan financial market is a member of various international organizations, it is still a new establishment compared with other developing countries such as the Malaysia, China, UAE and others. The Libyan government should adopt a financial sector assessment programme that implements both the IMF and the World Bank, in order to identify the strengths and weaknesses of the financial sector. They therefore should make better analysis of the financial systems in the member state countries of the International Monetary Funds. It needs to be done, especially as Libya is still*

in the early stages of experimenting compared with other member states. There is no doubt that Libya can benefit from some of the measures taken by these countries in its financial market, especially before entering into the WTO". (Company O, 2013)

7.6 Summary of the chapter

The aim of this chapter is to summarize and draw out the outcomes and results that emerged from this research while using the semi-structured interviews. They were conducted with senior officials in the financial sector in Libya in order to obtain and explore more in-depth the information about the research issues.

With regard to the interviews, all of the interviewees revealed and believed that financial liberalization in the case of Libya has a negative impact on economic growth in the short term. This means that the results of the interview analysis provide evidence that goes against the McKinnon (1973) and Shaw (1973) hypothesis or theory of a positive relation among financial liberalization and economic development.

However, in the Libyan context, the respondents believed that the impact of WTO membership on Libya's financial services sector will be far reaching, both in terms of benefits and challenges. Increased competition is likely to lead to greater economic efficiency and improved performance, with the acquisition of new skills by employees in the sector.

At the same time, local firms will be exposed to market forces and greater competition from international firms. Libyan firms in the financial services sector will need to put in place effective strategies for survival in the face of such competition. In addition to this is the risk of worldwide economic infectivity, which comes with exposure to the vicissitudes associated with the volatility of global financial markets. This is usually where a market collapse is seen in one part of the world which quickly spreads and infects other parts of the global financial system.

In conclusion, it can be said that, based on the findings of the interviews which indicate that Libya certainly does have advantages, there are many lessons to be drawn from the experience of developing economies in other nations. These lessons are well embedded in economic literature and are readily available, and from them further lessons can be learnt by Libyan policy makers as the country embarks on the slow but seemingly inevitable path towards accessing full membership status of the WTO.

Chapter 8: Discussion of the Main Research Findings

8.1 Introduction

As mentioned in the first chapter, the main aim of this study was to explore and evaluate the potential effect of financial liberalization on economic growth in the case of Libya joining the WTO. In addition, a number of objectives and research questions were developed in order to operationalize the research. This chapter presents the findings in an integrative manner, with the objective to answer the research questions of this study.

In order to make the discussion of the results clear and easy to follow, this section discusses the main findings corresponding to the research aim and objectives. Moreover, the chapter provides a discussion on the results of this research, together with other previous studies related to this field. This research used quantitative and qualitative research methodology to assist in the understanding of the main objectives of the study. Consequently, the discussion in this chapter is guided according to the research objectives. Four objectives were identified in this study.

Overall, the chapter is subdivided into two main sections including this introduction. Section 8.2 presents a summary and discussion of the secondary data and interview findings. Furthermore, section 8.3 summarizes the chapter.

8.2 Summary and Discussions of the Research Findings

The following section displays an overview of the main results presented in Chapters 6 and 7, with an overall discussion in relation to the research objectives and questions. Sub-section 8.3.1 summarizes and discusses the results of the secondary data analysis, while sub-section 8.3.2 summarizes and discusses the results of the interviews analysis.

8.2.1 Summary and Discussion of the Secondary Data Findings

This section highlights the key findings that emerged in Chapters 6 and 7. The results are discussed in the context of relevant literature and how they relate to the first two research objectives.

- In relation to the first objective: To investigate the possible impact of financial liberalization on the Libyan economy. This led the researcher to simulate the model and collect data from Libya using a time series from 1978 to 2011, as mentioned in Chapter 6, the results of the standard model to evaluate the potential impact of financial liberalization suggests that an increase in financial liberalization could not spur economic growth in the short term. This means that the results of secondary data analysis provide evidence that disproves the McKinnon (1973) and Shaw (1973) theory of a positive relationship between financial liberalization and economic growth. This could be due to the challenges that face the Libyan economy, foremost of which was domination by the public sector within the economy for a significantly long period. This helped to increase the burden on the Libyan government and create further financial liberalization resulting in negative consequences for the country's economic growth in the short run.

  The primary data also confirmed that mere capital liberalization will not be so productive. Thus, it has supported the quantitative findings. As a result, this will have a negative impact on economic growth, especially in the short run, because financial institutions in Libya are not quite ready to benefit from financial liberalization and open their economy. The most important reason behind that, according to the participant interviewees, was lack of efficiency of the financial sector. This was due to the dominating impact of the government in this sector, and also, lack of competition due to the inefficiency of its institutions and the government monopoly in this sector. This has been mainly due to the bureaucratic control since the 1970s, which resulted in the issuing of many laws and regulations limiting private investments and the role of the private sector in almost all economic activities including the financial sector. The public sector contribution amounted to about 92% of total investments in the 1980s.

The most important economic activities in Libya dominated by the public sector were banks, insurance companies and other sectors. This monopolistic situation in the Libyan market was and still is one of the reasons for the poor performance of public financial institutions. Hence, government control over economic activity for a long time has generated many disadvantages, which could become challenging in case of joining the WTO and liberalizing the financial sector.

The findings of this research regarding the purpose of the impact of financial liberalization on growth in Libya did not confirm the results of Ghatak (1997). This was in the context of Sri Lanka, where he found a positive impact of financial liberalization on the economy of Sri Lanka from 1950 to 1987. Also, the result is not consistent with the study of Sulaiman et al. (2012), which covered the period of 1987 to 2009, and concluded that financial liberalization has a growth-stimulating effect in Nigeria.

Theoretically, the finding of this research regarding the purpose of the impact of financial liberalization on growth in Libya does not support the McKinnon-Shaw hypothesis in the selected country of Libya. However, there is a negative effect between financial liberalization and economic growth in the short run, by which the country has been affected.

This result, however, is inconsistent with several studies conducted in developed countries which indicates that there a positive relation between financail liberalizatiopn and economic growth such as the findings of those made by Shandre and Ang (2004), Tswamuno et al (2007), and Klein and Olivei (2008).

In contrast, this result is consistent with several other studies that conducted in developing countries which do not support the positive effect of financial liberalization on savings and investment, with regard to economic growth, such as Goldsmith (1969), Robert and Levine (1993b), Bascom (1994), Bandiera et al. (2000), Hosseini and Balanchi (2003), Achy (2005), Hermes and Lensink (2005) and Bilel and Mouldi (2011). On the other hand, the empirical finding of this study contradicts the conclusions reached by a number of past studies of Roubini and Sala-i-Martin (1992), Demetriades and Luintel (2001), De Gregorio and Guidotti (1995), Ghatak (1997), Liu and Li (2001), Omar et al. (2008), Fowowe (2008), Shrestha and Chowdhury (2006), Odhiambo (2010), and Sulaiman, Oke, and Azeez (2012), who were in favour of the positive effects of liberalization that leads to more savings. This ultimately leading to an increase in investment, which eventually boosts economic growth.

- In relation to the second objective of the research, i.e. to examine the relationship between macro-economic variables (foreign direct investment, inflation rate, real rate of interest, labour force, trade openness, exchange rate) and economic growth in the long run, this study yielded the following results:

  - As mentioned earlier in Chapter 3, the relation between financial liberalization, investment and economic growth has been examined quite extensively. The debate has been more focused since the review McKinnon (1973) and Shaw (1973) which indicates that a policy of financial liberalization has more benefits for stimulating investment and economic growth. It also helps in reducing unemployment, makes international technology transfer easier and contributes to the level of economic growth. The relationship between FDI and financial liberalization could positively affect growth, if there are sophisticated institutions in the state. Thus, authorities in the Libyan government should implement appropriate policies that can help to increase economic growth, in order to obtain tangible benefits from the liberalization process.

Therefore, the market economic reforms undertaken in Libya in 2002 transformed the economy from a centrally planned to a market system where private capital was assigned to play a greater role in mobilizing resources. The pro-market policies led to removal of restrictions on imports and foreign investment. FDI can also contribute through the availability of funds and modern technology, especially in the financial sector to improve the efficiency of local companies, thus improving their chances of competing on a global scale. In addition, the authorities in Libya need to work more to improve the infrastructure facilities in general, including the financial sector in particular, which can help to attract FDI, and thus lead to economic development.

The findings of the secondary data show that there is a positive relation between FDI and economic growth in the long run in the case of Libya joining the WTO and as a result, liberalizing its financial sector. This finding is similar to those reported in previous studies that indicate that FDI positively and significantly affects long-term economic growth (Adeniyi et al., 2012; Agrawal & Khan, 2011; Basu & Guariglia, 2007; Bengoa & Sanchez-Robles, 2003; Chee & Nair, 2010; Fry, 1993; Lee & Chang, 2009; Tiwari & Mutascu, 2011).

On the other hand, however, there is empirical research about other countries (e.g.Alfaro, 2003; Borensztein et al., 1998; Bornschier et al., 1978; Carkovic & Levine, 2002), have found different results, which indicate that there is a negative relationship between FDI and growth. This could be due to some countries not having appropriate environmental facilities, in order to encourage and attract FDI to contribute effectively towards the economy. The reason being could be in relation to the corruption and lack of enforcement of appropriate legislation and regulatory procedures that if worked accordingly would achieve a great benefit from FDI.

In addition, the results of the primary data interview support the quantitative findings and show that financial liberalization can also help accelerate growth by promoting the competitiveness of domestic producers and speed up Libyan integration into the global economy. One of the main indicators of the increasing interdependence of economies among countries of the world is FDI, which is considered as the artery that maintains the continuity of the life of any economy.

Therefore, all countries aim at setting up programmes and policies to ensure the flow of investment, according to the goals and objectives of the economic system; investment, also, is considered one of the major factors for financial funding. In addition, it is a good strategy for acquiring the required knowledge and technology to gain success in economic projects in particular for developing countries such as, Libya. In addition to its financial value it is a means of acquiring the required knowledge and technology to gain success in economic projects. The Libyan economy is among those economies that require this kind of foreign investment to achieve the desired economic goals, which are correlated with the objectives of the Libyan economic system for subsequent stages.

Although the process of economic reform has made remarkable progress since 2003, Libya is still at the beginning stage of reform compared with other developed countries. In fact, the Libyan government has made efforts to change and develop the legislative macroeconomic system in general, including the financial sector, so there is no doubt that it will help to encourage and attract foreign investment and economic growth.

In this context, also, the analysis of the face-to face interview questions in Chapter 7 showed that the respondents indicated that real financial reform in Libya will have a very important role in improving FDI inflows. In fact, Libya does not have an adequate legal framework for privatization of its public sector and the transition to a market economy, although a few measures were taken by the previous government, and many laws have been published in the legislature to create this environment. Also, they stated that the Libyan legislative authority has lately issued a series of important laws such as investment law, labour law and the new Commercial Law, which regulate all the acts and practices of the private sector**.**

However, the respondents claimed that many of the problems have led to the irrelevance of the regulatory environment for effective privatization and transition to a market economy, such as instability and the contradictory nature of the laws, constant intervention by the state, due to the influence of bureaucratic ideas, and the lack of a unified constitution. Thus, the results related to the issue of the legal framework have shown that there are various difficulties of the regulatory framework, both in terms of the constitutional provisions and the instability and ineffectiveness of laws enacted by the previous regime. However, many laws recently issued are very important for creating the appropriate legal framework.

Moreover, according to the constitutional proclamation and expectations of respondents, the new constitution, following the recent political change, is expected to fill the gaps or the shortcomings of the old regulations. The interviewees expect the new constitution to include defining rules of the market economy, and to address the distortions and problems in the Libyan economy.

Some of the respondents of the interviews indicated that the Libyan authorities need to improve the macroeconomic environment in the first place and follow the correct procedure for liberalization before participating in a broad process of liberalization. They claim that it is important to carry out economic and financial reforms, but it is also essential to set priorities for the development of institutions that contribute to financial sector development and weigh the benefits of financial liberalization and reduce the potential financial fragility following liberation especially if local financial institutions are underdeveloped and competing with global institutions in this area.

Also, respondents stated that to enhance Libya's economic growth performance, the Libyan authorities should seek to boost the ratio of private investment to GDP and diversify its economy. Although domestic private investment has increased in Libya, in particular in the financial sector in recent years, it needs to rise much further to help to achieve more dynamic and sustainable growth. Therefore, the government should step up efforts to create an environment that encourages private investment, especially in an environment that fosters confidence of investors in the sustainability of appropriate macroeconomic policies, and ensure that the necessary infrastructure and skilled labour are available. It should create and maintain a transparent and effective regulatory framework and judicial system that protects property rights and promotes healthy competition more generally. This result is consistent with Bilel and Mouldi (2011), Saief Eddine, Fakhri, and Salem (2014) who found that liberalized financial systems play an important role in strengthening technological diffusion associated with FDI towards economic development.

- With regard to the inflation rate, based on empirical results in Chapter 6 it can be argued that there is a negative relation between inflation and GDP. Theoretically, the findings indicate an inverse relationship between inflation and GDP in the long run; this is consistent with financial liberalization theory which infers the importance of applying the principle of sequencing financial reform and also emphasizes that the stability of the macroeconomic environment before starting of the financial liberalization policy is very important for an economy, because instability of the macroeconomic environment and failure to address deficiencies in economic activities, in particular financial reforms, can cause financial crisis, including high rate of inflation. Empirically, this finding is consistent with some studies in the literature such as Funke (1993), Awasu (1996), Ogun (2006).

- In addition to the above-mentioned results, in respect of the exchange rate, according to the finding, results which point out that the exchange rate also has a negative relationship with GDP. This means that an increase in the exchange rate will lead to change in the gross domestic product, but in reverse. Theoretically, an increase in the exchange rate is synonymous with devaluation of currency, which has the implication of overvaluation of imports and thus promotes encouraging domestic output. This trend is generally considered the growth path through which exchange rate influences growth positively.

  However, the results of recent research show the opposite: Interest rate has an inverse relationship with GDP in Libya. The reason behind the negative relationship between exchange rate and GDP is probably because, in developing countries such as Libya, domestic output is weak compared with developed countries. Thus the increase in the exchange rate led to a decrease in GDP in all the years covered in the study. However, some empirical studies reported results that were consistent with these results (e.g. Dickson, 2012; Ogun, 2006; Taofeek Olusola, 2014; Ubok-Udom, 1999).

- In relation to the interest rate, the result of secondary data has also shown that the real rate of interest has a negative relationship with GDP in the long term. In theory, this implies that the assets (savings) of banks increase due to the fact that banks prefer to supply credit when the interest rate is high and vice versa. The results of the empirical analysis provide evidence which goes against the hypothesis of McKinnon (1973) and Shaw (1973) who argued that higher real interest rate helps direct the funds to the most productive enterprises and facilitates technological innovation, leading ultimately to accelerated economic growth in the economy. It also helps to increase savings which is beneficial in reducing foreign dependence and insulating the economy from external shocks. Empirically, the findings showed the opposite of the financial liberalization theory which infers that interest rate has a positive effect on economic growth (De Gregorio & Guidotti, 1995; Oshikoya, 1992).

- Regarding the labour force, the results in Chapter 6 showed that there is a statistically significant and positive coefficient on the relationship between labour and GDP. Theoretically, it implies that an increase in the labour force will lead to increases in economic growth in the long run. Therefore, this result is consistent with the theory of financial liberalization and with the policies that the Libyan authorities have tried and still are to access through a market economy and integration into the global economy in order to increase the expertise of the domestic labour force and to reduce unemployment, which leads undoubtedly to contribute more effectively to GDP. Empirically, this finding is similar to the results of previous studies that report a statistically significant and positive relationship between labour force and economic growth (e.g. Carkovic & Levine, 2002; Duval et al., 2010; Mujahid & Naeem Uz Zafar, 2012).
- In addition, with regard to trade openness the findings of this research infer that there is a positive relationship between trade openness and GDP. Theoretically, this finding is in line with liberalization theory, meaning that the effect of trade liberalization and increased openness on economic growth is positive during increased capital accumulation and the introduction of new technology, and all these issues will help to increase growth. Some empirical findings appear to support the existence of a positive link between free trade and growth, such as Dollar and Kraay (2001), Edwards (2001), Rutherford and Tarr (2002),Svaleryd and Vlachos (2002), and Omar et al. (2008).

8.2.2 Summary and Discussion of the Interviews Findings

In this particular section, key highlighted research findings have been presented, as previously in chapter seven. However, in this chapter, objectives three and four of this study were achieved by using semi-structured interviews. This further included a detailed discussion on how the interviews interlinked with the research objectives.

- Regarding objective three: To explain and to critically analyse the opportunities as well as the challenges facing Libya's economy. In order to achieve this objective the study collected data from semi-structured interviews in the financial services sector.

  As indicated in Chapter 4, in 2003 the UN Security Council removed economic sanctions on Libya. The Libyan government tried to change economic policy, and depend on a free economy through economic liberalization and the transition to a market economy. This was to be considered instead of the pre-planned economy, or the central which was state-dominated, with the aim of improving economic growth in the country. Such structural and political changes, of course, put great pressure on the Libyan economy. This was, in particular, when the economy was attached to full membership of the WTO, taking into account its impact on international competition and market forces, after the long period of isolation and protection against such forces under the planned economy.

  A number of literatures explore the advantages and drawbacks of WTO membership from which many lessons can be learned when evaluating the potential benefits and challenges that may arise in Libya in the advent of accession to full membership of the organization and liberalizing its economy (Bello & Holmer, 1994; Drahos, 2003).

  There are evidently many potential benefits which may accrue to Libya in general, and to the financial services sector in particular on the circumstances of full membership to the WTO. These include the potential for economic growth and greater economic efficiency with improved economic performance that comes with competition in the free market place. One of the major benefits of this membership is that it provides access to world markets and export opportunities for Libyan companies. The financial services sector in particular will take advantage of access to foreign capital markets under the GATS. Libya could therefore capitalize on this in the future, in order to establish itself as the leading regional financial centre of North Africa and the Maghreb. Also with the influence of international competition, which membership entails, the Libyan economy also stands to reap the advantages of greater competitiveness, improved performance, and increased productivity and economic efficiency. This in turn will stimulate sustainable economic growth.

The measurable or quantifiable economic indicators of these benefits will be in the form of higher GDP and economic growth rates in the post-WTO entry period. Indeed, it could be argued that Libya’s aspirations (and expectations) in this regard are very much in line with the McKinnon-Shaw hypothesis which argues that there is a positive correlation between economic liberalization and higher rates of economic growth. Consequently, financial liberalization will lead to higher rates of savings, higher investment and ultimately to accelerating economic growth (McKinnon, 1973; Shaw, 1973).

Despite the presence of many of the challenges of the global financial crisis that may occur as a result of the liberalization process, which may result in some serious problems in the performance and effectiveness of the financial establishments in developing countries, including Libya, participants in the interviews in the Libyan financial sector (banking, insurance and stock market), however, expressed that it is important, not to lose sight of the opportunities that can be made from liberalization of financial services. This includes the prospect of financial liberalization that can provide a catalyst for internal reform by creating a constituency to improve regulation and supervision, better disclosure rules, and an improved legal, regulatory framework. This process should be implemented before foreign institutions are allowed to operate in the country. In addition, the participants noted that liberalization of the financial sector can help local banks to merge with other banks and therefore benefit more, rather than to create a small expansion in other branches. For example, mergers with other banks help more in the process of competition in the international market, and also facilitate the transfer of technology.

Furthermore, access to international capital can be facilitated, as well as the amount of savings available for increased investment. Increased domestic competition can improve the quality of services and expand the range of choices in the form of access to new channels of financial service, and also provide faster access to these services. As a whole, financial liberalization provides an opportunity for the government, to bring new skills and technology from abroad. It will further promote the current domestic financial system.

It can be argued that the success of a market economy is based mainly on the adequacy of the economic and financial environment. This is where the main philosophy of a free economy prevails in the sense that competition and competitiveness of the relevant economic environment are key factors on the foundational success of the market economy.

In this context, the views of the respondents in the interviews are consistent with many of the previous studies such as Kikeri and Nellis (2002), Parker and Kirkpatrick (2005), and Nellis (2007) who believe that the provision of a competitive situation, especially in developing markets is a prerequisite for the success and transformation of the market economy. Furthermore, it contributes to achieving economic efficiency, which is the main aim of this policy. They also suggest that competition is one of the most important factors in achieving high economic benefits. Therefore, it can be accepted as a truth, that the impact of competition is the main reason for the increase of efficiency.

Returning to the literature, the finding of the interviews is similar to many studies such as Yu and Van Luu (2003), Robert and Levine (1993b), Eid (2007). Yu and Van Luu (2003) investigated the impact of financial liberalization on the Taiwanese banking industry. The results of the analysis found that Taiwanese banks have to get the benefit of economies of scale by merging with other banks, rather than expanding by opening more branches. In the same context, Robert and Levine (1993b) found that growth is positively related to the level of financial development.

However, they show that positive correlation may simply reflect the fact that faster growing countries have larger financial sectors due to the increase in the number of financial transactions conducted. In addition, Eid (2007) studied financial integration in Egypt, with the aim of investigating the impact of financial liberalization in Egypt. The author came to the conclusion that increased competition in the financial sector and domestic investments is the main generator of economic growth and that financial integration is an accelerator for economic fundamentals.

It is equally evident that there are many potential challenges and pitfalls that could lead to undesired side effects of such a transformation of economic policy. Competition, for example, can be a double-edged sword; it may indeed offer the opportunity for improved economic performance that comes through exposure to market forces. However, local firms will in the process be open not only to domestic competition, but also to the international competition that is borne out of market access to the financial services sector in Libya, which Libya’s membership of the WTO will offer to foreign competitors.

It consequently goes without saying that before Libya becomes a full member of the WTO it has to be confident of the fact that Libyan firms can withstand such competition. Furthermore, the country must also be confident of the fact that Libyan firms are well equipped to compete on the global stage – i.e. not only in the Libyan market, but also in foreign markets by accessing the markets of fellow WTO member states.

The interview findings revealed that the Libyan government has introduced a number of financial reforms and entered several amendments since the 1990s, to encourage the domestic and foreign private sector. The process functioned to contribute to the development of Libya's economy. However, there are still many challenges that have faced and continue to face the financial sector on liberalization in Libya. For instance, there is the dominance of the public sector in some sectors, with the inevitable reluctance of the private sector to become involved in financial activities. Moreover, the lack of competitiveness within the financial sector is due to the financial sector in Libya being small in size compared with the financial sectors in developed countries. There is also the issue of restricted access to domestic credit by the private sector, which is insufficient to significantly raise investments and growth.

The respondents indicated that state ownership of banking, insurance companies and the stock market has had a negative influence on the development of management interest. In addition, most respondents said that Libya is in need of moving to a market economy and liberalization of the financial sector. The procedure is under the control of the government, especially after the failure in achieving their goals, and the appearance of many problems caused by government control of economic activities. This is cause for concern, including inefficiency of state-owned companies, government budget deficits, poor quality of financial services, and disguised unemployment. Therefore, there is no doubt that all these issues will be great challenges for the Libyan government, especially after joining the WTO and liberalizing its market. However, some have argued that many issues must be taken into account by the government to provide adequate transition and to minimize the negative effects of liberalization policies. Thus, it can be argued that the findings of the interviews showed consistency with the studies of Tagoe, Nyarko, and Anuwa-Amarh (2005).

Moreover, some participants noted that the banking system is one of the main sectors of the economy that will be affected by the integration of Libya into the world system of free trade. It can be seen from this that foreign banks have been permitted to open their branches directly in this country. This development will bring the opportunity for additional capital inflow to the Libyan economy, and will further help with development.

On the other hand, it is suggested by some of the participants interviewed that Libya could face great challenges after joining the WTO. The entry of foreign banks often makes an economy more vulnerable to economic uncertainty. Foreign banks can lead to cross-border contagion in the financial sector of the host country economy, such as a continuation of the financial turbulence caused by external financing conditions.

The findings of the interviews showed consistency with the studies of Kaminsky and Schmukler (2003) who examined effects of financial liberalization on capital markets on several developing economies. Their study indicates that liberalization reveals new problems in the domestic financial system which was protected by the government from competition and suddenly acquired access to new funding sources. During the financial repression, banks were protected from foreign competition. The study recommends that it should sequence the financial sector to meet the challenges and problems through the promotion of local financial establishments and make the necessary changes to government institutions, and then start the editing process and take advantage of the international market in this field.

In addition, Brownbridge and Kirkpatrick (1999) and Glick et al. (2001) found that financial liberalization and increased openness of the economy carries some potential risks, which could lead to serious economic and financial crises in developing countries. However, the proponents of financial liberalization argue that much of the financial crisis happened due to the lack of developed financial infrastructure and volatile international capital movements brought about by globalization of financial markets.

The finding of Weller (1999) supports the aforementioned discussion of the interviews; he indicated that the developing economies are becoming more sensitive to the banking crisis after financial liberalization. The analysis shows the probability of currency crises with a stronger reaction to financial variables to increase as real or trade sizes; as well as financial liberalization creating more competition for domestic banks, financial fragility may result from increased international financial competition. This may easily help the expansion of credit for projects of lower quality. Developing countries should focus on creating the necessary institutions for stabilization before opening their economies, as they are likely to experience increased likelihood of a banking and currency crisis.

In addition, participants in the interviews argued that the lack of efficiency of the financial sector in Libya was due to the nature of public ownership, where the former regime had been dependent on bureaucratic ideas regarding the economic system since 1977. This problem led to the disclosure of many laws and regulations that limit private investment and the role of the private sector in almost all economic activities. The laws regulated included the financial system and the contribution of the public sector amounted to about 92% of the total investment in the 1980s (CBL, 2012).

Thus, the lack of a competitive environment should also be considered as one of the main challenges in the Libyan experiment. It was also one of the major reasons for the failure of the financial sector and the inefficiency of its institutions. Financial institutions were not exposed to the threat of competition pressure, which is supposed to be a strong incentive to improve performance. Consequently, this monopolistic situation in the Libyan market was one of the reasons for poor the performance of financial institutions. The public sector in general and the financial sector in particular in Libya were negatively affected by public ownership and management.

All the interviewees also reported the weakness of infrastructure (i.e., electricity and telecommunication system) and the lack of appropriate technological, development required for the financial system in Libya. Moreover, interviewees further mentioned the lack of transparency, oversight and effective supervision in implementing the necessary economic and financial policies in the Libyan environment. These are some of the most important challenges facing the financial sector. They recommended that the Libyan government should try more to overcome all these problems through adopting the latest international technology in this field before joining the WTO and liberalizing its financial sector.

The interview findings are consistent with many studies such as Mishkin (2007), Tornell et al. (2003), Prasad et al. (2007); all the above studies have pointed out that if financial liberalization is not managed properly it can potentially cause very disruptive financial crises. In addition, they found that financial liberalization could be beneficial under the right circumstances, such as high quality of management and competence.

- In respect of objective four: To analyse the experiences of other developing economies in financial liberalization so that Libya can draw a lesson from other experiences.

With the aim of providing answers to this objective of the study, the researcher conducted face-to-face interviews with officials in banking, insurance and the stock market. The interview findings revealed that there is no doubt that the results of the experiences of developing countries such as Malaysia, South Korea, China, Egypt and United Arab Emirates and other developing countries that have made progress in the issue of financial liberalization, will be of great interest in the process of development of the finance sector in Libya. This is especially the case with those that have an economic and financial structure similar to that of Libya.

In general, it can be said that economic reform programmes have become the new phenomenon in the last three and four decades, for many developing countries around the world. This includes, nations with natural resources such as Libya, as a result of increased debt crisis and high inflation. These countries are trying to achieve stabilization of their economies and have done so, because they found themselves unable to earn enough foreign exchange to protect their currencies. Indeed, many of these countries have begun transforming their state affairs of the bureaucratic system and state-owned enterprises to a market economy.

On one hand, the liberalization of the financial sector can stimulate economic development. On the other hand, financial liberalization also involves risks, if the implementation is not appropriately developed and formulated. Libya is still at the beginning stages of financial reform and it is important to study other countries' experiences in order to ascertain how to sequence the reforms on its own economy. This could help to maximize their benefits and minimize risks.

In early 1990s, for example, Libya launched a market system, instead of the central planning that had dominated the economy of Libya for a period of time from 1978-1990. During this period there were many bureaucratic procedures controlled by laws and regulations, released during the 1970s. However, market-based economies can provide opportunities for the introduction of managerial and technical skills that would allow the use of knowledge, ability and vitality in a more efficient way for the Libyan economy.

Therefore, the policy of many developing economies, including Libya, is to try their utmost to improve the management of the most productive state-owned enterprises and privatization of some of their economies. They are also encouraging the private sectors to contribute more in the development of this ongoing process.

As stated in Chapter 7, and according to interviews, respondents indicated that their financial liberalization experience differed from one country to another in terms of goals, implementation methods, and results achieved. In fact, international financial institutions such as the IMF and the World Bank and advanced countries such as the US played a strong role in supporting other countries towards financial liberalization. Overall, liberalization is accepted by many governments in the developing and transitioning countries. A number of studies in Chapter 3 proved that financial liberalization has achieved positive results in some experiments, especially in developing and transitioning countries; although in some aspects the results were disappointing, creating serious doubts about the appropriateness and effectiveness of liberalization policy in itself. As discussed in the literature review in Chapters 2 and 3, these differences were due to the presence of important conditions and factors essential for its success. In this context, it should be mentioned that, although there is no uniform model for liberalization of the financial sector, certain key conditions must be met to ensure its efficient application. These conditions may vary depending on the nature of the economy.

The respondents of interviews also indicated that Libya could benefit from the experience of some countries that have benefited dramatically from financial liberalization in the past. For example, Malaysia, China, United Arab Emirates and South Korea have all achieved rapid growth in their economies as a result of a large real flow of funds available for lending (Kaplan & Rodrik, 2002). This scheme was available due to the policies of these countries built on a clear strategy, according to the GATS and the WTO, which emphasized that countries could maintain selective controls on their capital account. As a result, they benefited from the financial liberalization process through making up the shortfall in local funds for lending, by borrowing from abroad to fill the shortage.

Countries such as those in East and South Asia and Latin America have tried to transform their communities through the adoption of a new model of market-based mechanisms. The process has undertaken extensive programmes of economic reform. Similarly, these countries have transformed their economies and society as dominated by the public sector to the one of the most countries open to the market economy. The reason behind this is due to the countries having found various economic problems such as shortages and weaknesses in the supply side of general economic growth, rising unemployment and inflation. All these variables have led these countries to adopt a programme of economic reform, in order to address weaknesses in their economic activities.

Overall, participants in the interviews argued that the results of the experiences of developing countries or emerging countries will certainly be of great interest in the process of development of the banking sector in Libya, especially those that have a similar economic and financial structure. This matter is closely related to the banking sector in Libya, and especially those other countries with a similar economic and financial structure. Therefore, if Libya tried to apply a similar strategy as these countries, it would lead the country to significant progress in liberalizing its financial sector. This would be done by increasing the efficiency of markets and local financial institutions before starting the full process of financial liberalization. This could also help authorities take advantage of their time, as well as reduce the risks that may occur due to liquidity and the financial flows coming into local economies. They could also find new ways to deal with these risks from the start and find good solutions to remedy the disadvantages that may occur as a result of financial liberalization. Thus, this would enable national savings to increase more, which in turn would lead to better investment and increased productivity, as well as evolution of the economic growth rate.

The findings of this research are similar to those reported in previous studies conducted in experiences of financial liberalization in some countries such as China, Taiwan and South Korea. In this context, Awasu (1996) argued that the existence of efficient markets and financial institutions were the essential condition for the success of financial liberalization in these countries. Without them the process can slow the development of the financial system by creating a high content of volatile inflation in financial markets and macroeconomic instability. Moreover, it is also consistent with Athukorala and Rajapatirana (1993) and Ghatak (1997) who highlighted the experience of Sri Lanka in the process of financial liberalization to improve economic growth. The increased role of the private sector in investment has had a significant and positive effect towards its economic growth. This means that the finding is similar to the conclusion of the MacKinnon-Shaw hypothesis, showing a positive and significant effect of financial liberalization on economic growth.

On the other hand, financial liberalization has a negative sign according to the interview findings; thus, these findings do not confirm the results of Tokat (2005), who investigated the impact of financial liberalization on some macroeconomic variables in two developing countries. The results found that there was a greater mutual dependence between the macroeconomic variables in both countries after the financial liberalization process, which implies that a positive relation was found. Also, the Iranian experience from 1965 to 2005 shows a positive effect of financial liberalization on economic growth, where a study by Banam (2010) was used to investigate the impact of financial liberalization on economic growth in Iran. The author found that financial intermediation, capital, research, development, and financial liberalization have a constructive and significant impact on economic growth.

Furthermore, interview findings indicated that financial liberalization of Libya will not increase economic growth in the short run due to the financial sector found to be still weak and non-competitive. Moreover, it requires many laws and appropriate legislation to be implemented. These results are somewhat consistent with Akpan (2004), who investigated the effects of financial liberalization on economic performance in Nigeria. He discovered that the economy was not being able to experience any impressive performance, such as the attraction of direct and or indirect foreign investment and reduced capital flight. He also noted that neither local savings nor investments improved significantly after the introduction of the reform programme.

Moreover, the banking sector in Libya remains largely oligopolistic and non-competitive. However, some of the interviews show that Libya can in fact benefit from all the countries that have already acceded to the WTO and liberalization of the financial sector. Though at the same time the decision-makers in Libya should realize that each country has a different case in terms of their potential before entering the WTO and liberalizing their financial sector.

Some developing countries have started the procedure of liberalizing their financial sectors and obtaining more benefits, while other countries have encountered too many risks and crises. These findings are consistent with some studies such as Bandiera et al. (2000) who examined whether financial reform would raise or reduce savings by using a time series index of financial liberalization for multiple developing countries. They include the following: Chile, Ghana, Indonesia, Korea, Malaysia, Mexico, Turkey and Zimbabwe. The findings support the previous presumption that the pattern of effects differs across countries. For example, financial liberalization appears to have had a significant direct positive effect on savings in Ghana and Turkey, and a negative effect in Korea and Mexico. No clear effect is apparent in other countries.

One of the lessons Libya stands to learn from the experience of the developing countries who are already members of the WTO and have liberalized their financial sector is how do deal with any issues of incompatibility between domestic policies and multilateral trading rules. A relevant example concerns the possible tensions that could surface in the financial services sector between the rules of the multilateral trading system under the GATS and the domestic requirements of the municipal legal system relating to Islamic banking and finance.

In summary, it can be argued that there are many lessons for Libyan policy makers to take on board as the country continues to make its slow but stable progress on the long road towards attaining full membership of the WTO. There will undoubtedly be many more challenges in waiting, once Libya fulfils its aspirations of becoming a full member. The country may well also face the challenge of dealing with the competing interests of other nations, including those of its trading partners within the multilateral trading system (Feichtner, 2009). As part of the continuing preparations for membership, Libyan policy makers will have to design strategies for dealing with such challenges. They will need in particular to develop trade and litigation strategies within the framework of the WTO with a view to promoting and protecting the economic objectives and commercial interests of Libya. Likewise, they will also need to devise strategies aimed at ensuring that Libya retains some measure of regulatory competence over trade policies, without necessarily flouting the established rules of the multilateral trading system.

8.3 Summary of the Chapter

In general, this chapter has focused on providing discussion of the main quantitative and qualitative research findings to the thesis. The main purpose of this research was to investigate the potential impact of financial liberalization on economic growth in Libya. This was demonstrated using both secondary data and interviews. The secondary data used a time series from the period 1978 to 2011. Semi-structured interviews were also conducted for the analysis, which produced some high-quality results. The research has explained that the economy of Libya has developed through numerous stages since 1978. It has emphasized that the nationalization in the mid 1980s and the improvement of the financial system in 2000 has resulted in the relaxation of the financial regulation environment. This has ultimately led to the simplification of controls on the financial system.

Also, it can be pointed out that the level of financial repression has decreased since 2000 which suggests that the Libyan financial system has become more liberal over the past two decades. This may be due to the decrease of the required ratio reserves, relaxation in the control of interest rates and the partial removal and reduction directed from credit programmes. Moreover, empirical analysis of both secondary and primary data in the study achieved the objectives within the scope and responded to its research questions.

Chapter 9: Conclusion and Recommendations

9.1 Introduction

In the previous chapter, the main quantitative and qualitative research findings were presented, analysed and interpreted. Also, the results were discussed in the context of relevant literature and how they relate to the research objective and to answering the research questions. The aim of this chapter is to present summaries of findings and conclusions as well as the contributions and the potential limitations of the research discussed. Finally, this chapter presents recommendations and identifies some key issues towards which further studies should be directed.

Overall, this chapter is subdivided into six sections, including this introduction. Section 9.2 presents the overview of the current research. Section 9.3 presents a summary of findings and conclusions. Furthermore, in section 9.4 contributions of the research are addressed and in section 9.5, the outline for limitations and future research is considered. Finally, section 9.6 focuses on the study recommendations.

9.2 Overview of the Current Research

As was pointed out earlier in Chapter 1, the study outlines the following key objectives;

- To investigate the possible impact of financial liberalization on the Libyan economy in the short run.
- To examine the relationship between macro-economic variables (foreign direct investment, inflation rate, interest rate, labour force, trade openness, exchange rate) and economic growth in the long run.
- To identify the opportunities as well as the challenges facing Libya's economy in the period of globalization.

- To analyse the experiences of other developing economies in financial liberalization so that Libya can draw a lesson from other experiences.

In an attempt to meet the above objectives, this chapter highlights the main research results that emerged in Chapters 6 and 7. Two analytical approaches have been utilized in this study to achieve the above objectives and answer the research questions. First, the study used both primary and secondary data, collected to understand the subject area in depth. Therefore, the first and second objectives of this study were achieved by using secondary data, whereas the third and fourth objectives of this study were achieved by using face-to-face interviews.

In general, Chapter 1 presented background information on the research topic, defined the problem and considered the aim and objectives of the research. This chapter also discussed the rationale of the research and significance for developing countries such as Libya. The aim of this research is to examine the potential impact of financial liberalization on economic growth in Libya. In terms of achieving this, the research objectives were formulated. The second and third chapters in this thesis reviewed in detail the main theoretical and empirical literature relevant to the research problem of this study. Chapter 4 represents the theoretical part of the study, particularly in the context of Libya. Likewise, Chapter 5 represents the theoretical, methodological and empirical studies undertaken to provide the conceptual framework of the research model in order to achieve the research objectives. Therefore, it can be seen that the quantitative and qualitative studies were closely integrated with each other in terms of providing confirmation of some important findings. This enhanced the external validity of the overall research

The combination of the quantitative and qualitative approaches also has the potential to overcome the limitations of adopting a single method. In addition, Chapters 6 and 7 represent the empirical data analysis, which is one of the major contributions of this study. Chapter 8 discusses the main quantitative and qualitative research findings, together with other previous studies related to this field. Finally, Chapter 9, the current chapter, further discusses the conclusion, contribution and implications for theory and practice. This chapter also points out the limitations and direction for future research (recommendations).

The primary purpose of the main research on which the study is based was to explore the potential economic impacts of economic liberalization in general, and liberalization of the financial services sector in particular, on the Libyan economy, in the event of Libya's accession to full membership of the WTO. The thesis on which the research is based is aimed at collecting, analysing and testing quantitative and qualitative data collected in Libya for the study period and testing it against the theoretical framework of the Mackinnon-Shaw hypothesis.

9.3 Summary of the Key Findings of the Research

After conducting a robust quantitative and qualitative analysis, this research has a number of important conclusions for the policy of financial liberalization and economic transformation in Libya. The most significant of these outcomes can be summarized as follows:

- In connection with the justification of the process of financial liberalization in Libya, the opinion developed from the literature review of the relevant theory and a number of empirical studies to understand the view that financial liberalization should lead to economic growth. In addition, financial liberalization should stimulate competition among economic institutions, increase the productivity and efficiency of these enterprises, and address the financial and economic problems caused by the public sector and state control of economic activities. However, the critiques have found there to be no such positive relationship between capital liberalization and economic growth. This means that the liberalization of the financial sector is not without problems and obstructions, in particular in countries with economies in transition, such as Libya, especially in the short term. For example, this study found that there is a negative link between financial liberalization and economic development in the short run. Part of the reason behind this could be because the financial sector in Libya is not keeping up with the modern system and upgrading to the required level in order to get the most out of the benefits of liberalization.

- The analysis in this study found that the labour force in the financial sector has a positive impact on economic development following liberalization. This shows that the implementation of economic reforms led to capacity-building in the financial services sector to raise the level of expertise and competence of the labour force and to the private sector being given a significant role to contribute towards raising productivity. In the process this could in turn create employment opportunities and increase of GDP.
- Through conducting face-to-face interviews the study concluded that the dominance of the public sector in Libya for several decades resulted in many disadvantages such as inefficiency in the allocation of economic resources, the failure to diversify sources of national income or find a substitute for oil, an inability to achieve profitability and the accumulation of debt in the Libyan banking sector. All these issues made the Libyan government rethink liberalizing the economy and further encouraged the private sector to become more active in economic activity.
- The results obtained from the analysis of the in-depth interviews found that although many positive procedures were implemented for effective financial liberalization by the former regime, many difficulties are still being faced by the government in the development of the economic and financial environment for financial sector liberalization through economic policy reforms in order to achieve the desired objective which is to increase economic growth.
- The study found that the participants of the interviews in general believe that Libya can benefit from the experiences of capital liberalization, as have other developing countries that have joined the WTO and liberalized their economy because their

economies are structurally similarly to the Libyan economy. Also, they indicated that joining the WTO gives opportunities to increase investment that will lead to the creation of employment opportunities and the advantage of optimal exploitation of resources, especially in the financial sector.

- Also the study discovered from the interview results that Libya needs more legislation that will help to attract more investment and therefore should bring in legislation to protect private property, enhance transparency and labour reforms in line with modern business requirements. Moreover, the government should promote the private sector as well as a free market mechanism, instead of a centralized economic system based on governmental authority. Consequently, it is an essential requirement to remove any constitutional ambiguity in restoring the private sector. Additionally, there will be more confidence in the structure of the economy, as it will provide suitable authenticity to the process of liberalization and create an efficient market economy. It should be noted that economic and financial progress and development in any country requires well-defined legal standards. The starting point is the Constitution, as the Constitution can define the nature of the economy in any country.
- Based on the interviews results the study concluded that a new strategy needs to be formulated aimed at making Libya an important financial and economic centre for Africa (Libya: the financial gateway to Africa). Such a vision should aim at building a sound and sustainable financial infrastructure to help them integrate with other African countries. This project could open new horizons for international cooperation, particularly in the fields of finance, not just African–Arab cooperation, but also in the African–European context, especially in the Mediterranean region.
- The financial system in Libya needs a complete overhaul. This can be seen as an integrated vision, whether economic or political. It is important for Libya to maximize the opportunities provided by the process of liberalization and integration into the global economy. Doing this will allow financial services to become more

open and competitive with the participation of local and international companies that provide services to satisfy customers.

- There is the need to improve the financial services infrastructure through the introduction of e-banking and financial services. Furthermore, this idea should contribute to institutional development, products and service diversification for ensuring stable capital growth and overall financial development. With regard to the Libyan market, the Libyan stock market needs to have a central role in the function of converting savings into capital investment by strengthening the organizational structure. Ultimately a more liberalized exchange rate mechanism should be adopted to accommodate international transfers.

9.4 Summary of Research Objectives Achievement

In trying to provide a full understanding of the above objectives, in the earlier chapters of the thesis the pros and cons of financial liberalization and its potential impacts were examined, along with the experiences of some countries in this area. This has helped the research concept to be developed and provided a good understanding in this subject area. In order to meet these objectives, this research has adopted mixed approach methods (qualitative and quantitative approaches). This section highlights the key summary of objectives achieved in this study:

- In relation to the first research objective (i.e. to investigate the possible impact of financial liberalization on the Libyan economy in the short run), this study has yielded the following results:

  Libya has witnessed many changes, including a new era which ushered in economic and financial liberalization policies as part of Libya's preparatory programme for the possibility of accession to full membership of the WTO. In order to ascertain and to assess this short-term impact, this empirical study analysed time series data from 1978 to 2011. The main finding concluded that financial liberalization in Libya had a negative impact on the economic growth during the study period (i.e., short run). This means that the empirical results could not show a significant positive contribution to financial liberalization in the Libyan economy as explained by supporters of the financial liberalization theory. As well as this, the results obtained from interviews supported this finding. The study found that there are many challenges and obstructions that may face the financial sector in Libya, especially in the short run in case of accession to the WTO and liberalizing of its economy. The results linked to this objective were interpreted and discussed in detail in the previous chapter. Based on the above, the researcher holds the view that the research objective 1 of this study was achieved.

- In respect of the second objective, i.e. this study aimed to examine the relationship between macro-economic variables (foreign direct investment, inflation rate, interest rate, labour force, trade openness, exchange rate) and economic growth in the long run.

  In Chapter 6, this research objective was achieved by an exploratory study to investigate the relations among macro-economic variables and economic development in the case of liberalization. The data were collected and analysed by using co-integration statistical analysis; results are reported as follows: first, financial liberalization led to positive relations between foreign direct investment and economic growth. This means that in the long term, liberalization will lead to increase foreign direct investment, which is expected to have a positive impact on economic development, and this is in line with the strategic economic plan that Libya seeks to achieve through the liberalization process.

  Additionally, the results of empirical evidence also show a positive relationship between financial liberalization and the labour force (employment) in the long run. This is could be due to the training programmes and plans undertaken by the government, in order to stimulate and encouraging the development of local employment skills within the financial sector. Consequently, this process is sure to have a positive effect in line with empirical results, based on Chapter 6. Moreover, inflation rate, exchange rate and interest rate all have an inverse relation with GDP. However, the research findings suggest that trade openness has a positive impact on economic growth in Libya in the long run. On the whole the results are considered in section 6.3.2 leading to the second objective to be achieved.

- The third objective of this research was to analyse the opportunities as well as the challenges facing Libya's economy following financial liberalization. In order to achieve this objective the study collected data from semi-structured interviews in the financial services sector. The results in Chapter 7 found that the most important of these opportunities is that the process of liberalization of the financial sector can provide access to world markets and overseas opportunities for Libyan companies in the financial services sector. Libya, particularly can benefit from global technological developments through collaboration and joint ventures with international companies in the financial sector.

  In addition, financial globalization will help to bring capital flows that will lead to improved performance, increased productivity and economic efficiency. However, at the same time the results found that financial liberalization may also present many challenges such as exposure of the Libyan financial sector to global financial crises and economic problems. Such exposure, in view of the lack of appropriate legislation and laws to help to stabilize the macroeconomic situation as well as the lack of an effective supervision system in the Libyan financial sector is a serious challenge that increases the likelihood of becoming a victim to global financial crisis-. By identifying these opportunities and challenges, and making some recommendations based on relevant findings, the researcher believes that the third objective was achieved by the study.

- The fourth objective of this study was to analyse the experiences of other developing economies in relation to financial liberalization so that Libya can draw lessons from other experiences of other developing countries such as Malaysia that were examined in Chapter 3. In order to achieve this objective the researcher carried out face-to-face interviews with 15 senior Libyan officials. All the participants were either from the banking, insurance or stock market sectors. The results in Chapter 7 found that the experience of the developing countries could benefit Libya in many ways, in terms of saving time and effort. Furthermore, the above strategy could help the government, by assisting them in how to sequence the reforms for their economic structure. This could further help to maximize their benefits and minimize the risks and crises that often occur because of financial liquidity flow as a result of the lack of preventive measures to avoid these disadvantages and problems. In Chapter 7 the findings were discussed and interpreted in great detail. Based on these findings, there were some recommendations on how to evaluate past experiences and how to apply them in the Libyan context for future policies. Thus, objective 4 has been wholly fulfilled and accomplished in this study.

After identifying a summary of the main findings of this study, the next section in this chapter highlights the contributions of the research to economic theory and practice. In the following section the researcher aims to reflect on the findings in terms of providing a number of recommendations for policy makers that can be used to develop an efficient environment for liberalization. Furthermore, the following section discusses the limitations of this research and also suggests opportunities for further research.

9.5 Contribution of the Research to the Theory and Practice

The research findings could represent a significant contribution to policy making, academic theory and to the financial services industry in Libya as a whole. As a result the researcher believes that the following need to be considered.

9.5.1 Contribution to Theory and Academic Literature

As far as the researcher is aware, this is one of the first studies of its kind on this important area, in view of the fact that no studies have been conducted yet on the potential economic impacts of financial liberalization in the event of Libya's accession to the WTO. The study has explored many new ideas through a series of interviews with officials in the financial sector, as well as using secondary data and statistical analysis in order to ascertain and quantify this impact. The study uses, amongst other methods, unit root test, Johansen Co-integration test and the Vector Error Correction Model (ECM)) to address the stated aims and objectives of the research, and to answer the research questions. Similarly the study included data interpretation, validation of research results and identified areas for future research.

Financial liberalization, according to the literature, may have either a negative or positive effect on economic growth. The process, which is based on the McKinnon-Shaw model, is often considered to boost economic growth through its impact in promoting the development of the financial system. However, while the financial liberalization paradigm has been widely recognized at the conceptual level, the empirical verification of its validity remains inconclusive. For example, there is a view that if financial liberalization is introduced at an early stage of development, it will have a negative impact rather than a positive one on growth (Adelman & Morris, 1997; Kawai, 1994). The findings of this research support such argument by showing that there is a negative relationship between financial liberalization in Libya and economic growth during the period of the study. This disproves the Mckinnon (1973) and Shaw (1973) model, which reported positive results regarding the impacts of financial liberalization on economic growth. The reason might be because of the weak institutional environment as well as the economy of Libya being at its early stages of development.

The research is exploratory in nature, using time series data, and was based on secondary data strategy. Although this methodology helped to fill the major gaps in the earlier literature and achieved the objectives of the research, it did not provide the opportunity to explore in more depth some of the areas related to other sectors. This is part of the research design which sets out to focus just on the financial sector and to examine it in more depth. Future research therefore perhaps can be conducted using different methodologies that focus on long time series through, for example, monthly or even quarterly from 1978 to more up-to-date data up until 2015.

In addition, this research used secondary and primary information in order to develop an understanding of the impact of financial liberalization on growth on the perspective of Libya. This is considered a contribution to knowledge since every time a social scientist collects and analyses primary data for either publication or assessment, a new contribution to the overall social knowledge is made (Hox & Boeije, 2005).

This study may therefore be useful to academic communities in these areas:

Firstly, the study will reinforce the worldwide pool of knowledge and understanding of financial liberalization impacts and contribute to the economic debate.

Secondly, as mentioned earlier, most of the earlier studies conducted on financial liberalization and economic growth are based mainly on evidence from Latin American and the East Asian countries. There is little attention devoted to North African countries; likewise, there are no known major studies at doctoral level that have been conducted about Libya's financial sector and the possible impact of capital liberalization on the domestic economy.

The academic exploration of the relationship between financial liberalization in Libya on joining the WTO (together with liberalizing its financial sector) and economic growth is a new concept. Although it is generally (according to the financial liberalization theory) believed that such factors are highly correlated, the study further determines by using quantitative methods the actual value of the relationship. Thus the study provides a primary analysis of the actual situation of issues relating to liberalization and economic transformation in Libya. This could be very useful for the purpose of conducting comparative studies on the Libyan economy in the future, or maybe for conducting similar studies in other developing countries.

This study also derives its rationale from the following points in supporting the market economy and, hence, liberalization of the financial sector in Libya. Firstly, there is an urgent need to adopt policies of liberalization and economic transformation in Libya. The reason behind this is due to the problems caused by the historic dominance by the public sector of economic activity in the pre-liberalization era, which led to stagnation in economic growth.

Secondly, the Libyan government in a previous administration began liberalization in large public institutions in key sectors. So there was a need to conduct an interim assessment of the success or otherwise of the liberalization programme, which is what this study has set out to do.

Thirdly, the research contributes towards the strength of the academic discipline through reference material and citations.

9.5.2 Contribution to Practice

This study has examined the impact of financial liberalization on economic growth. The majority of empirical studies in the field have been conducted in other countries (e.g.Arestis, 2006; Banam, 2010; Khalaf, 2011; Odhiambo, 2011; Shrestha & Chowdhury, 2006), just to mention a few, while no empirical research has been undertaken in the Libyan context.

The research findings through the forecasting test could provide a guide to Libyan policy makers based on strong evidence of the quality of the model and the results acquired from the study; i.e. the results will be useful for policy and decision makers in the Libyan government within the framework of economic liberalization, especially with Libya at a sensitive stage of financial and economic liberalization with a view to joining the WTO.

This study, like previous studies conducted on other developing countries, together with international experience, concluded that liberalization of the financial sector has produced many negative results and has not always achieved the desired goals. This has been due to the lack of certain conditions and requirements for success, as explained in the literature review chapters (Chapters 2 and 3) of this thesis. For that reason, it can be argued that this study makes an important contribution for decision-makers of the new regime in Libya. They should consider devising their new policies to avoid the negative consequences that may result from the liberalization policy, especially for a country such as Libya – a country still in transition and yet to attain full membership of the WTO.

This study seeks to make an original contribution to knowledge by investigating the impact of financial liberalization on economic growth in the case of Libya. Even though the study is only intended as a guide for informing decision makers on policy formulation, it could also be useful for exploring further investigation or for comparison with existing research outcomes on similar issues.

In the next section, the limitations of the study are summarized, to serve as a guide for all interpretations of the research results

9.6 Limitations and Future Research

The research concept of this study and its methodology was designed by the researcher with the specific objective of achieving the research aims and objectives, and with a view to providing answers to the research questions. However, as with any other research of this type, this study is also subject to a number of restrictions that warrant further discussion. These limited the scope for the present research but provide opportunities for future research.

- The first limitation is the period of the study: 1978–2011. After the recent political change, and because of the expected changes in the Libyan economy, it would be very useful to conduct another similar study in the near future. The study should explore and evaluate the adequacy of the financial, economic, administrative and legal environments for the economic transformation. It could be done with the possibility of making a comparison with the environment that prevailed during the previous regime. The new system should ensure having material changes on the economic system as a whole. However, a further research could include the period up to 2015.
- The second limitation is that the study was conducted in the developing economy of Libya, which has witnessed a transition from a centrally planned to a market-based system. Therefore, caution is required in generalizing the results to other countries, and more research should be undertaken in other developing economies.
- Also, another area for further research on this issue would be to change the methodological approach as this research relied on secondary data collection. In addition, the number of interviews conducted was limited to those respondents who were willing to participate in the research. Consequently, an alternative approach could be adopted by relying on primary data, through a questionnaire or large number of interviews with the industry practitioners. Future studies could include banks, insurance companies, the stock market and other stakeholders. The opinion of professionals in these sectors on the impact of liberalization could be scientifically analysed as another research pathway.
- This exploratory study of financial liberalization involved, in particular, banking, insurance companies and the stock market. A similar study could be undertaken to examine this phenomenon of liberalization on the Libyan economy in general.
- The most significant factor that led to a major limitation in the study was the Libyan war of 2011 which made it very difficult to interact with companies and managers in Libya for primary data collection. On reflection, even with the restriction of time

constraints and the geographical locations of respondents, it would have been more desirable to interview a larger number of respondents. Despite these limitations, this study represents a very comprehensive survey and explanation on the basis of financial liberalization. It also provides guidelines for fine-tuning the economy in the case of Libya entering into world trade and the liberalization of its economy.

- This study used the mixed method approach (i.e. a mix of primary and secondary data analysis). This involved data that were collected through secondary data sources and interviews, in response to research questions. This study also attempted to present a detailed and comprehensive view of the impact of financial liberalization and economic growth by using time series and interview questions. The overall time series used was from 1978 to 2011. This is the first study to investigate the relationship between financial liberalization and growth on joining the WTO. Some of the methods include interviews which were used to support and explain the results of secondary data. Consequently, this method is a figure of strength in establishing an equal link between financial liberalization and economic development. Further research could use a longer series, for example from 1978 to 2015.
- Furthermore, this study is based on the perspective of financial liberalization theory. As mentioned in Chapter 3, a liberalized financial theory may not be suitable for the interpretation with regard to Libya. The results of interviews and time series from 1978 to 2011 suggest that there is no evidence that could be used regarding the financial liberalization theory in Libya and other developing countries. In other words, the findings of this study do not agree with the theory of financial liberalization, which supports the view that there is a positive relation between financial liberalization and economic progression.
- Further research is recommended on the relation between financial liberalization and economic growth in the MENA region, rather than only focusing on one country. The role of local financial markets in these countries and the relation between financial liberalization and development should be emphasized immensely. This is

necessary in order to learn whether countries with a better financial system can exploit financial liberalization more efficiently, thus leading to an increase in economic growth. This is also necessary in order that under-performing countries can learn from those with better financial systems.

9.7 Recommendations of the Study

Based on the findings of this research, the researcher believes it necessary to offer some useful suggestions in the form of recommendations for policy makers. These suggestions should be put into practice in order to improve the Libyan business environment. The business sector in particular includes financial liberalization and economic reform efficiency. Many clear results have been established from this study, as can be seen from the chapters on empirical evidence. These chapters in particular present some important implications for the conduct of economic and financial liberalization in Libya. Below are listed some recommendations that, if used appropriately, could improve the business economy quite effectively.

- The results show that financial liberalization policies can be beneficial to the Libyan economy; however, the measures need to be further supported by the government and the government needs to realize that implementing these policies will enhance economic growth. This can be done by removing restricted access in the financial sectors of the economy. There is also the need to ensure effectiveness of the liberalization of lending to the private sector, credit evaluation and efficient surveillance of the public sector. As a result, it is essential to abide by vigorous accounting standards and the implementation of best auditing practices. Likewise, a proper legal framework needs to be implemented to help shape the process of financial deepening.
- There is also a need to improve the infrastructure of the financial services sector by introducing electronic banking and financial services as part of institutional

development. This could enhance the financial base before full liberalization. Insurance companies should be encouraged to increase their capital base and promote investment in the insurance business, in order to compete with domestic and foreign markets in the future. Besides this, the Libyan stock market should accommodate savings into capital investment by improving its organizational structure. As a result, a more liberalized exchange rate can be adopted to make international transfer easier.

- The Libyan government should improve its information technology system, and transparency in the financial sector will help to develop domestic installations. Similarly, it will also improve the general performance of the Libyan economy to facilitate its integration with the global economy. In addition, it will further smooth the progress of transformation to a market economy.
- It is recommended that the government should provide incentives and other forms of relevant support to promote institutional development and investment in information technology in the financial services sector, in order to facilitate the pace of economic growth.
- A new vision should be developed to make Libya an important financial and economic centre of Africa. Such a vision should be directed towards the development of a modern infrastructure to open new horizons to the state and promoting with other countries. This is especially the case in the financial field, not only in the Arab and African context, but also globally.
- It is recommended that significant government efforts should be aimed at creating a stable macroeconomic and political environment in connection with an improved institutional framework, before full implementation of the process of financial liberalization. As part of a new legal and institutional framework there should also be a strategy in place aimed at reducing and eventually eliminating corruption and for the promotion of investment between different financial and economic sectors.

- The Libyan government should try to overcome the problems of weakness of infrastructure through adopting the latest international technology in this field prior to joining the WTO.

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Appendices

Appendix A: School Letter

University of
HUDDERSFIELD

Business School

15th March 2013

<u>TO WHOM IT MAY CONCERN:</u>

Re: Mohamed Emhemed (PhD Student)

Dear Sir/ Madam

This is to confirm that Mr Mohamed Emhemed is a full-time doctoral student undertaking research for the Doctor of Philosophy (PhD) in Business studies at Huddersfield University Business School in England, United Kingdom.

Mohamed is jointly supervised by me, Dr George Ndi (as the second supervisor) and Dr Kalim Siddiqui as the main supervisor. Mohamed's research topic is on assessing the potential economic benefits of of financial liberalization under WTO membership to Libya.

In order to undertake further research on his chosen research topic Mohamed will need to travel to Libya from the 19th of March to the 19th of May 2013 for data collection on his chosen topic.

As one of Mohamed's supervisor, I am very pleased with the progress Mohamed has made to date and in my view the proposed trip will contribute greatly to his research. I would be most grateful if you could offer him any assistance which he may require and which you are able to provide.

Yours sincerely

Dr George K Ndi

Course Director (LLM in Legal Practice) & Research Supervisor
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Appendix B: An Invitation Letter

Dear Participant,

I am a PhD candidate presently studying in the Business School of the University of Huddersfield, United Kingdom, conducting a research leading to a PhD award titled "The Economic Impacts of Financial Liberalization in Libya, in Case of Accession to the World Trade Organization". The main aim of this research is to explore and understand the link between financial liberalization and economic growth in the Libyan case.

Based upon your knowledge of the Libyan economy generally and financial liberalization specifically, please attempt to answer the interview questions; there are no right or wrong answers. Therefore, I am only seeking your expert view as a professional person who works in this field. Your response is important to the success of this study. I would like to assure you that your response will be processed as strictly confidential and that your response will be only used for academic purposes.

In closing, I would like to thank you very much in anticipation of your kind cooperation.

I look forward to receiving your reply

Sincerely,

Mohamed O Emhemed
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Appendix C: **Interview Guidelines**

The potential impact of financial liberalization on economic growth

Section One: General information about respondents:

Company name: ....
Experience: ....
Gender: ....
Date: ....

Section Two: Problems and Challenges of Financial Liberalization

1. What kind of problems do you think Libya as a candidate country to the WTO may face, especially in the financial sectors (banks, insurance companies, the stock market)?
   Parables (e.g. Laws and regulations, lack of competition, etc.).
2. How do you see the challenges and opportunities in the financial sector in Libya after joining WTO?
   Parables (e.g. Lack of skills, time, inability to compete, while opportunities, e.g. new technology, new market, encouraging local private sector, etc.).
3. What do you think are the challenges Libya may face in the banking, insurance and stock market sectors when it joins the WTO?
   Parables (e.g. Poor infrastructure, communication, an inability to achieve profitability).

Section Three: Effects of Financial Liberalization on Growth (The Expected Role of Financial Liberalization on Economic Growth)

4. Do you think that liberalization of Libya's financial sector (banks, insurance companies and the stock market) can lead to higher economic growth?
   Parables (How? To what extent? Short and long run)
5. In your opinion, what are the main prerequisites for successful liberalization of the financial sector in Libya?
   Parables (Economic stability, the availability of skilled labour, good infrastructure, transparency, reduced unemployment, encouraging the private sector)

6. In case of joining the WTO, do you expect the financial sector in Libya to be able to create more jobs for local people?
   Parables (How? To what extent? Examples?

Section Four: Competitiveness and Economic Impacts of Financial Liberalization

7. To what extent do you think the financial liberalization policy will be helpful in making Libya more attractive to foreign investment?
   Parables (the simplicity of procedures, regulations, etc.)
8. Do you think employees in the financial sector (banks, insurance companies, the stock market) have the acquired knowledge and skills to help them face the competition that will come from abroad in case of joining the WTO?
   Parables (How? To what extent? Examples?
9. Do you think Libya has any competitive advantage in the financial sector (banks, insurance companies, the stock market) that can help in promoting economic growth, in case of accession to the WTO?

   Parables (Yes, e.g. human capital, technology, geographical location. No, e.g. lack of skills, small market, social and legal environment, etc.)

Section Five: Lessons from other Developing Countries' Experiences

10. To what extent do you think the experience of other Arab countries that are WTO members can provide lessons for Libya when liberalizing its financial services sector?

    Parables (e.g. Saving time and effort, Malaysia, China, Chile, Egypt, Arab Emirates, maximizing the benefits).

Appendix D: Arabic Invitation Letter

كلية إدارة الأعمال

عزيزي المشارك،

أنا طالب دكتوراه أدرس حاليا في كلية إدارة الأعمال بجامعة هدرسفيلد، المملكة المتحدة، أقوم حاليا بإجراء بحث للحصول على درجة الدكتورة بعنوان " الآثار الاقتصادية المحتملة لتحرير المالي في ليبيا، في حالة الانضمام إلى منظمة التجارة العالمية ". الهدف الرئيسي من هذا البحث هو استكشاف وفهم العلاقة بين التحرر المالي والنمو الاقتصادي في الحالة الليبية.

بناءا على معرفتك لتحرير الاقتصادي بشكل عام والمالي بشكل خاص، يرجى محاولة الإجابة على كل سؤال في المقابلة. لا توجد إجابات صحيحة أو خاطئة. لذلك، أنا أود فقط معرفة رأيك من خلال خبرتك العمليه والعلميه في حدة المجال وتعتبر مشاركتك مهمة لإنجاح هذه الدراسة. وأود أن أؤكد لكم أن ردكم سوف تتم معاملته في سرية تامة وأن ردكم لن يستخدم إلا للأغراض الأكاديمية.

في الختام، أود أن أشكركم جزيل الشكر لتعاونكم.
أتطلع لتلقي ردك

محمد امحمد
طالب الدكتوراه
قسم التسويق والاقتصاد
كلية إدارة الأعمال، جامعة هدرسفيلد،
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طرابلس - ليبيا

Appendix F: Interview Guidelines Arabic Version

القسم الأول: معلومات عامة حول المشارك :-

اسم الشركة: ....

الخبرة: ....

الجنس: ....

التاريخ: ....

القسم الثاني: مشاكل وتحديات التحرير المالي

1.في رأيك ما هي أنواع المشاكل التي قد تواجه ليبيا كدولة مرشحة لمنظمة التجارة العالمية ، خصوصا في القطاعات المالية (البنوك، شركات التأمين وسوق الأوراق المالية)؟

نقاط النقاش (قوانين واللوائح، وعدم وجود منافسة ...إلخ).

2. كيف تنظرون إلى التحديات والفرص في القطاع المالي في ليبيا بعد انضمامه لمنظمة التجارة العالمية؟

نقاط النقاش (نقص المهارات، الوقت، أسواق جديده ...إلخ)

3. في رأيك ماهي التحديات التي قد تواجه ليبيا في المجال المصرفي وقطاعي التأمين وسوق الأوراق المالية عند انضمامها إلى منظمة التجارة العالمية؟

نقاط النقاش (ضعف البنية التحتية، الاتصالات...إلخ)

القسم الثالث: أثر التحرير المالي على النمو الاقتصادي- الدور المتوقع للتحرير المالي على النمو

4. هل تعتقد أن تحرير القطاع المالي في ليبيا (البنوك وشركات التأمين وسوق الأسهم) يمكن أن يؤدي إلى نمو اقتصادي أعلى؟

نقاط النقاش (في المدي القصير والمدي الطويل)

5. في رأيك ماهي الشروط الاساسية لنجاح تحرير القطاع المصرفي في ليبيا؟

نقاط النقاش (الاستقرار الاقتصادي، توافر العمالة الماهرة، البنية التحتية الجيدة والشفافية)

6. بعد الدخول أو الانظمام الى منظمة التجارة العالمية هل تتوقعون ان القطاع المالي في ليبيا يكون قادر على خلق المزيد من الفرص عمل للموظفين في ليبيا ؟

نقاط النقاش (كيف؟ إلى أي مدى؟ أمثلة...)

القسم الرابع :تأثيرات التحرير المالي- القدرة التنافسية والاقتصادية

7. إلى أي مدى تعتقد أن سياسة التحرير المالي ستكون مفيدة في جعل ليبيا أكثر جاذبية للاستثمار الأجنبي؟

نقاط النقاش (بساطة الإجراءات، واللوائح ...إلخ)

8. هل تعتقد أن العاملين في القطاع المالي (البنوك وشركات التأمين وسوق الأوراق المالية) لديهم المعرفة والمهارات التي يمكن تساعد في تعزيز النمو الاقتصادي، في حالة الانضمام إلى منظمة التجارة العالمية؟

أن تساعدهم على مواجهة المنافسة التي سوف تأتي من الخارج في حالة الانضمام إلى منظمة التجارة العالمية المكتسبة؟

نقاط النقاش (إلى أي مدى؟ كيف؟ أمثلة...)

9. هل تعتقد أن ليبيا لديها أي ميزة تنافسية في القطاع المالي (البنوك وشركات التأمين وسوق الأوراق المالية) التي يمكن أن تساعد في تعزيز النمو الاقتصادي، في حالة الانضمام إلى منظمة التجارة العالمية؟

نقاط النقاش (نعم: رأس المال والتكنولوجيا، الموقع الجغرافي، تنمية العنصر البشري. لا: مثل الافتقار إلى المهارات، سوق صغيرة ...إلخ)

القسم الخامس: الدروس المستفادة من تجارب البلدان الأخرى النامية

10. الى أي مدي تعتقد ان تجربة الدول الناميه الأعضاء في منظمة التجارة يمكن أن تستفيد منها ليبيا عند تحرير قطاعها المالي ؟

نقاط النقاش (توفير الوقت والجهد، ماليزيا، مصر، الإمارات العربية، تحقيق أقصى قدر من الفوائد ...إلخ)