

Nexus between Economic, Trade and Financial Liberalization of European Economies

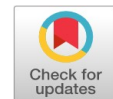
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Abstract: This study explores the relationship between economic, trade and financial liberalization, with remittances, and real exchange rate across 12 European countries. Using panel data from 2000 to 2023 the study employs various econometric techniques including fixed and random effects models, Panel Auto Regressive Distributive Lag Model, and dynamic Granger causality. The results reveal that real exchange rate and remittances significantly influence economic liberalization in both the short and long run. Real exchange rate depreciation steadily reduces economic liberalization, while remittances also show a negative long-run effect, suggesting inefficiencies in their use. Trade liberalization and financial liberalization possesses short-run positive effects. The error correction term confirms a stable long-run relationship among the variables. The study concludes that specific policy changes such as keeping exchange rates stable, making better use of remittances, and improving institutional policies to ensure that liberalization efforts lead to long term economic liberalization.

Keywords: Trade Liberalization, Financial Liberalization, Economic Liberalization, Remittances, Real Exchange Rate, ARDL Model, Granger Causality.

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INTRODUCTION

Liberalization of trade and finance has a direct impact on economic liberalization of economy, especially for developed and developing economies (Nguyen, 2021, Roy, 2023). A number of predominant factors determine the expansion and performance of economies, such as investment, labor force trend, technological innovation, trade openness, and quality of institutions (Ali et al 2022). Public and private investment, in terms of capital accumulation, is crucial for increasing productive capacity, while an educated and increasing labor force increases output potential of an economy (de borija, 2019).

External conditions such as financial integration and trade liberalization can contribute a lot to economic liberalization by opening up a country's markets, capital, and innovation to the world (Nguyen, 2021). Institutional quality like political stability, regulatory conditions, and good governance has also been found to have a positive impact on economic environment by providing conditions that allow for sustainable growth (Acemoglu et al, 2005). Researchers have investigated an array of determinants, ranging from domestic investment and labor productivity to institutional quality and trade openness.

Recent researches has emphasized the contribution of globalization and policy changes for instance, Nguyen (2023) established that trade liberalization has a strong positive impact on economic liberalization in emerging markets, whereas Ghosh (2022) illustrated that financial liberalization enhances capital flows and economic performance.

Simpson (2024) revealed that economic liberalization, which is the process of minimizing state intervention and stimulating market-led economic growth, has been broadly associated with GDP growth. By promoting efficiency, competition, and private sector growth, liberalization increases productivity and investment, directly contributing to greater economic output. According to Sachs and Warner (1995), nations that have pursued liberal economic reforms are seen to experience more vigorous and sustained GDP growth, primarily because they benefit from enhanced resource allocation and institutional upgrade.

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Wenwen (2023) focus that the most important dimensions of liberalization is trade liberalization, which is the elimination of tariffs, quotas, and other impediments to international trade. This exposure of domestic economies to the world market raises export prospects, lowers the cost of production, and encourages specialization. Frankel and Romer (1999) discovered that openness to trade substantially increases GDP by allowing economies to enjoy comparative advantage and economies of scale. More recently, Tran (2021) presented evidence that trade liberalization continues to propel GDP growth in emerging economies through industrial production and innovation increases.

Idrees et al (2022) states that another important aspect is financial liberalization, covering deregulation of interest rates, relaxation of capital controls, and development of domestic and international financial markets. Financial liberalization enhances credit access, foreign investment, and the efficient allocation of capital when used correctly. Roy (2023) debates that when liberalization reforms are supported by strong institutions, they can significantly increase economic liberalization. Reforms help in encouraging private investment and increasing overall economic performance. Together, they play a key role in shaping a nation economic liberalization.

Objectives

- To study the short-run and long-run relationship between economic, financial, and trade liberalization for 12 European nations from the year 2000 to 2023.
- To examine the causality direction between economic liberalization and other macroeconomic variables based on the Granger causality test.
- To provide policy suggestions to boost economic and financial liberalization by promoting trade, proper remittance utilization, and exchange rate stability.

Significance

This study offers a systematic comparison of effects of economic, trade, and financial liberalization by highlighting that trade and financial liberalization in the presence of remittances and exchanger rate serve as a persistent strong and predictable driver. Multiple studies have emphasized the role of globalization and policy reforms. For example, Nguyen (2023) found that trade liberalization significantly promotes economic liberalization in developing economies. This study shows that how trade liberalization and financial liberalization both affect economic liberalization as well as how they work together, focusing on European countries. First, it includes trade liberalization and financial openness as connected factors that can affect economic liberalization.

Second, most studies so far have focused on either how trade liberalization affects economic liberalization or how financial liberalization does, but not both at same time. There are very few studies those looks at the combined effect of trade and financial liberalization on economic liberalization. Studying both together can help policymakers make better decisions by choosing the right combination of trade and liberalization policies, along with remittances and exchange rates, to support sustained economic liberalization. The study also focuses on the individual effects of trade liberalization and financial liberalization.

The study's novelty is that it deals with trade liberalization, financial liberalization and economic liberalization in the presence of remittances and exchange rate for the 12 European countries namely; France, Germany, Italy, Netherlands, Spain, Portugal, Belgium, Finland, Poland, Hungary, Denmark, Greece; for the period 2000-2023. In addition, it makes comparison of the results based on which country benefits most from the trade and financial liberalization.

LITERATURE REVIEW

In recent years, a growing body of empirical research has focused on understanding how trade liberalization influences GDP growth across different economies. For instance, Bardi (2021) examined Mediterranean-bordering countries and found that trade liberalization, supported by EU trade agreements, significantly enhances economic liberalization in the long run. Similarly, Alugbuo (2020) analyzed Nigeria's economy and reveals that trade inflows can negatively affect GDP in the short term, the broader impact of trade liberalization is positive when paired with export led strategies. Peverga (2024) supported the findings by highlighting the positive long run contribution of trade liberalization to Nigeria's GDP. Sowrov (2024), in his study of G-20 countries, confirmed a strong positive relationship between trade liberalization and GDP, while also showing that high tariffs negatively

influence economic liberalization. These studies, spanning both developing and developed contexts, reinforce the consistent role of trade liberalization in stimulating economic activity, expanding markets, and enhancing productivity through specialization and competitiveness.

In contrast Benarbia et al. (2023) studied Algeria's financial sector and found that increased access to private-sector credit improved monetary policy effectiveness and indirectly increases economic liberalization. On the other hand, Javeid et al (2024), focusing on South Asian economies from 2000 to 2019, found that while trade liberalization promoted economic liberalization and financial liberalization showed a negative impact, particularly when financial markets lacked proper regulation. Ersin (2022), analyzing the Fragile Five economies Brazil, India, Indonesia, South Africa, Turkey, found similar results that trade liberalization have positive effect on economic liberalization in a long run, but financial liberalization have adverse long run effects, potentially due to macroeconomic instability or weak financial supervision. These different findings indicate that the benefits of financial liberalization are not spontaneous and often require a foundation of strong governance, transparency, and institutional quality to translate into sustainable economic gains.

Focusing on European and transition economies, several studies have emphasized the importance of liberalization and regional union. Erkisi (2019), in the analysis of 13 transitioning European economies from 1995 to 2016, demonstrated that exports, imports, capital formation, and financial liberalization had both short-run and long-run positive effects on economic liberalization. Javorcik (2024) reported that European countries in Central and Eastern Europe experienced significant GDP per capita gains about 14 percentage mainly due to increased trade and financial liberalization. Further emphasizing this development, Uğurlu (2024) used a panel PMG-ARDL approach for (Czech Republic, Hungary, Poland, Slovakia) during the COVID-19 period from 2010 to 2021, revealing that trade volumes are crucial to sustaining economic liberalization during the crisis. These findings underscore that, in Europe, structural reforms and integrating trade liberalization remain essential for long-term economic stability and catching up with more developed economies.

Seti et al (2025) explored that financial and trade liberalization positively influences long term economic liberalization in developing countries, especially when supported by strong policies and institutions. Similarly, Nam et al (2024) studied how trade liberalization affects economic liberalization in developing countries from 1995 to 2018. The study showed that trade liberalization generally supports growth by improving market access, encouraging technology transfer, and raising productivity. However, the benefits depend on the strength of institutions and economic policies, with better governance leading to stronger results. This suggests that trade liberalization works best when supported by effective institutions. Findings of Tosunoğlu (2023) show that trade liberalization helps drive both economic and financial liberalization in newly industrializing countries, while financial and economic liberalization strengthen each other. These benefits are better when supported by structural reforms and strategies that attract investment and encourage exports.

Abd Latib et al (2023), study's five ASEAN countries Thailand, Singapore, Indonesia, Malaysia and the Philippines for the period 1990 to 2021, revealed that both financial and economic liberalization are key drivers of economic liberalization .The study highlights that liberalization of the financial sector is an important force behind economic liberalization in ASEAN nations. Tufaner (2022) studied Turkey and five Turkic Republics (Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan) from 1998 to 2017 to find the effects of trade and financial liberalization on economic liberalization. The study showed a strong long-term relationship among the variables, with both trade and financial liberalization generally supporting economic liberalization. However, financial liberalization had a negative long-term effect overall, and the impact varied across countries. The study also found no causal relationship between the variables. Sorkhi et al. (2022) studied the impact of financial and trade liberalization on investment in 14 OPEC member countries from 2010 to 2019. They found that trade liberalization significantly influenced financial liberalization across the countries. In Iran, liberalization directly supported financial liberalization. However, weak institutional frameworks in many OPEC countries limits the effectiveness of these reforms.

How financial liberalization, trade liberalization, and their combined effects influence Nigeria's economic liberalization is studied by Afolabi (2022) for the time period 1981 to 2018. The study confirmed a long-term relationship among the variables using ADF and Johansen tests. Results from DOLS and Granger causality showed that financial liberalization and exchange rates significantly impact real GDP, while trade liberalization and financial liberalization had no significant effect. The study supports trade and demand driven liberalization and suggests

improving the financial liberalization and diversifying the economy to boost trade and output. Jalil (2021) studies the link between trade and economic liberalization using data from 82 countries from the time period 1960 to 2019 and also using advanced econometric methods. The study found that trade liberalization supports economic liberalization, challenging the findings that claimed trade restrictions could promote liberalization.

Furthermore, Duru (2021) study the effects of trade liberalization on economic liberalization in Mexico, Indonesia, Nigeria, and Turkey from 1986 to 2020. Using the ARDL Bounds approach and Toda-Yamamoto causality tests, the study found no long-run link between trade liberalization and GDP per capita, except in Mexico, where the link was weak. Causality tests showed no relationship in Mexico and Indonesia, a two-way relationship in Nigeria, and a one-way link from trade liberalization on economic liberalization in Turkey. The results suggest that trade and economic liberalization can be pursued separately in Mexico and Indonesia, and together in Nigeria, and that trade liberalization have supported economic liberalization in Turkey. Fathima Rinosha et al. (2021) studied the relation between financial liberalization and economic liberalization in Sri Lanka. The study found that credit to the private sector, investment, and inflation positively influences economic liberalization, while trade and labor force have a negative effect. It concluded that financial liberaliation supports economic liberalization and recommended liberalizing trade policies.

In summary a number of studies have examined how trade and financial liberalization influence economic liberalization and growth in different countries. Most research shows that trade liberalization generally has a positive effect on economic liberalization, especially when supported by good governance, strong institutions, export strategies, and structural reforms. For instance, Bardi (2021), Sowrov (2024), and Jalil (2021) found that trade liberalization plays a key role in driving economic liberalization across both developed and developing countries. However, results from countries like Nigeria, Mexico, and Indonesia (as seen in studies by Alugbuo 2020 and Duru 2021) show that the effects may vary in the short term or under different conditions. Financial liberalization, however, shows mixed results. Nam et al. (2024) found that trade liberalization boosts economic liberalization, but it depends on strong institutions and policies. While studies like Seti et al. (2025) and Abd Latib (2023) reported positive impacts in developing and ASEAN countries, others like Ersin (2022) and Tufaner (2022) found that financial liberalization may have negative effects, especially where financial systems are weak or poorly regulated. Javeid et al. (2024) also noted that without strong oversight, financial openness can be harmful. In Europe and transition economies, Erkisi (2019), Javorcik (2024), and Uğurlu (2024) highlighted the importance of liberalization, trade integration, and structural reforms for long-term stability and catching up with more advanced economies. In general, the findings show that trade liberalization tends to support economic liberalization and growth, while financial liberalization needs to be backed by strong institutions and policies to have a positive impact. The combination of both is most effective when managed with clear strategies, strong institutions, and well-designed reforms.

Literature Gap

Although numerous studies have examined the relationship between liberalization and economic liberalization, most have analyzed economic, trade, and financial liberalization separately, limiting a holistic understanding of their combined impact on economic liberalization. Additionally, there is a scarcity of recent empirical research focusing specifically on European countries using post 2000 data. Few studies employed methods like the panel ARDL model, which accommodates mixed integration orders and captures both short- and long-run dynamics. Furthermore, the combined influence of variables such as remittances, exchange rate within the liberalization-growth framework remains underexplored, particularly in the context of developed economies. This study addresses these gaps by integrating multiple liberalization dimensions and applying a robust methodological approach to assess their collective effect on economic liberalization in European nations.

Theoretical framework

This study draws upon well-established economic theories to explain the mechanisms through which each independent variable affects GDP. The relationship between financial development and economic growth is grounded in the McKinnon-Shaw Hypothesis, which posits that liberalized financial systems promote savings mobilization and efficient capital allocation, ultimately enhancing economic growth (McKinnon, 1973). A high Financial Development Index (FDI) indicates stronger institutions, better financial access, and more effective intermediation,

all of which contribute to increased investment and GDP growth (Beck, 2009).

Trade liberalization and its impact on economic liberalization can be explained through Ricardo’s Theory of Comparative Advantage, which suggests that open economies benefit from resource specialization and international trade, leading to higher efficiency and economic performance (Ricardo, 1817). By removing barriers to trade, countries can expand their markets, attract foreign investment, and access advanced technologies, which together improve productivity and output (waczirag, 2008).

The influence of remittances on GDP aligns with Keynesian consumption theory, which asserts that higher disposable income raises consumption levels, thereby boosting aggregate demand and economic output (Keynes, 1936; Friedman, 1957). In many developing and middle-income countries, remittances serve as a vital income source for households, enabling increased spending on goods, services, and human capital, all of which contribute to GDP growth (Giuliano et al, 2009; Chami et al., 2008).

Lastly, the role of the real exchange rate in determining growth of economy can be understood through Purchasing Power Parity (PPP) theory and the Elasticity Approach. According to these frameworks, exchange rate depreciation can improve trade balance by making exports more competitive and imports more expensive, thereby supporting domestic production and economic growth (Dornbusch, 1988; Edwards, 1989). However, excessive depreciation may create inflationary pressures and reduce investment incentives if macroeconomic management is weak (Rodrik, 2008; Bahmani-Oskooee & Ratha, 2004). These theories collectively provide a strong foundation for analyzing the nexus between financial development, trade openness, remittances, exchange rate, and economic growth.

METHODOLOGY

This study employs a panel data methodology to examine the impact of financial liberalization, trade liberalization, remittances, and real exchange rate on economic liberalization across 12 European countries over the period 2000 to 2023. The analysis begins with panel unit root testing to determine the stationarity properties of the variables, applying the Levin, Lin & Chu (LLC) test to identify the order of integration. Following this a series of methods comprising on Common Effect Model, Lagrange Multiplier (LM) test, and random effect model, Hausman Test and fixed effect model are used to determine the most appropriate model specification. Given the mixed integration order of variables, the study also applies the ARDL model in a panel framework to estimate both short-run and long-run dynamics. To further investigate directional relationships, the Dynamic Granger Causality Test is used to assess causal linkages among the variables. Diagnostic tests are conducted to ensure model reliability, including checks for autocorrelation, heteroscedasticity, multicollinearity, and normality test. This comprehensive econometric strategy ensures the robustness, reliability, and validity of the findings, supporting sound inferences for policy and theoretical implications.

RESULTS

Unit Root Test

Table 1: . Unit Root Test

Variables	Table 1: . Unit Root Test			Decision
	Level	First difference		
	Intercept	Intercept & trend	Intercept	
GDP	-9.00649	-	-	I (0)
TO	-1.35859	-8.87484	-	I (1)
FDI	-1.77661	-	-	I (0)
R	-1.60084	-0.34834	-3.2459	I (1)
RER	-1.3461	-3.83695	-	I (1)

The results of the panel unit root test using the Levin, Lin & Chu (LLC) method reveal a mixed order of integration among the variables under study. At level, Economic liberalization and Financial Development are stationary, whereas, trade openness, real exchange rate and remittances are non-stationary at level but become stationary after first differencing. This mix of integration orders across the variables, particularly the presence of

I(0) and I(1) series, suggests that traditional cointegration techniques requiring uniform integration levels may not be suitable. As a result, the use of the ARDL (Auto Regressive Distributed Lag) approach is appropriate for this study, as it can accommodate variables with different integration orders (I(0) and I(1)), while still allowing the estimation of both short-run and long-run dynamics.

Common Effect Model

Table 2: . Common Effect Model

Dependent Variable: Economic Liberalization				
Variable	Coefficient	Std. Error	<i>t</i> -Statistic	Prob.
RER	-0.115429	0.039853	-2.896392	0.0041
R	0.185822	0.346896	0.535671	0.5926
TO	0.005962	0.006144	0.970287	0.3328
FDI	-2.15639	1.7513	-1.231308	0.2193
C	13.55188	3.727041	3.636097	0.0003
<i>R</i> -squared	0.081662		Mean dependent var	1.50515
<i>F</i> -statistic	5.757838		Durbin-Watson stat	1.81575
Prob (F-statistic)	0.000187			

The results from the common effect model show that among the independent variables, only the real exchange rate has a statistically significant effect on economic liberalization, with a negative coefficient of -0.1154, suggesting that depreciation in the exchange rate adversely impacts economic growth. The other variables remittances, trade liberalization, and financial liberalization have statistically insignificant coefficients, indicating no meaningful influence on Economic Liberalization within this model specification. The model's R-squared value is relatively low at 0.0817, implying that only about 8.17% of the variation in dependent variable is explained by the included variables. While the model highlights the negative impact of exchange rate changes on Economic Liberalization, its limited explanatory strength indicates the need for more refined modeling techniques, such as fixed or random effects.

Lagrange Multiplier Test

Table 3: . Lagrange Multiplier Test
(Breusch-Pagan test hypothesis)

	Cross-section	Time	Both
Test Statistic	0.383948	636.2472	636.6311
p-value	-0.5355	0.00	0.00

The results of the Lagrange Multiplier (Breusch-Pagan) Test indicate whether a random effects model is more appropriate than the common effects model. The test shows that the cross-section effect has a test statistic of 0.3839 with a p-value of 0.5355, suggesting it is not statistically significant, meaning cross-sectional variation does not warrant random effects. However, both the time effect and the combined effect are highly significant. This implies that time-specific factors significantly affect the dependent variable and that a random effects model is preferred over the pooled model due to unobserved heterogeneity over time. Therefore, based on these results, the random effects model is more appropriate than the pooled OLS model for this panel data analysis.

Random Effect Model

Table 4: . Random Effect Model

Dependent Variable: Economic Liberalization				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RER	-0.097888	0.031118	-3.145698	0.0019
R	0.535933	0.203182	2.637696	0.0089
TO	0.002925	0.003614	0.809186	0.4192
FDI	-1.32425	1.067605	-1.240393	0.216
C	11.29525	2.889006	3.909735	0.0001
R-squared	0.162029		Adjusted R-squared	0.149088
F-statistic	12.51999		Durbin-Watson stat	1.197822
Prob.	0.00			

The Random Effects Model results show that RER negatively and significantly affects Economic Liberalization while Remittances have a positive and significant impact. Trade Openness and Financial liberalization remain insignificant. The model explains around 16% of variation in dependent confirming the relevance of RER and PR in influencing Economic Liberalization.

Hausman Test

Table 5: . Hausman Test

Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.ã
Period random	17.256699	4	0.0017

The Hausman Test results show a Chi-square statistic of 17.26 with a p-value of 0.0017, which is statistically significant at the 1% level. This indicates that the null hypothesis which favors the Random Effects Model is rejected. Therefore, the test suggests that the Fixed Effects Model is more appropriate, as it better accounts for correlation between the explanatory variables and the unobserved individual-specific effects. Thus, for this analysis, the fixed effects model should be preferred over the random effects model.

Fixed effect Model

Table 6: . Fixed effect Model

Dependent Variable: GDP				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RER	-0.190592	0.063247	-3.013458	0.0029
R	0.894943	0.308429	2.901612	0.0041
TO	0.035699	0.021403	1.667967	0.0967
FDI	-2.463842	2.177324	-1.131591	0.259
C	17.9067	6.054012	2.957823	0.0034
R-squared	0.782645		Adj R-squared	0.748175
F-statistic	22.70485		Durbin-Watson stat	1.37865
Prob.	0.00			

The Fixed Effects Model results reveal that RER and R have a statistically significant impact on Economic Liberalization. RER has a negative coefficient of -0.1906, indicating that exchange rate depreciation reduces economic growth, while PR has a positive and significant effect, showing that remittance inflows support Economic Liberalization expansion. Trade Openness is marginally significant, suggesting a potential positive influence, whereas Financial Development Index remains insignificant. The model has a strong explanatory power with an

R-squared of 0.7826, indicating that about 78% of the variation in Economic Liberalization is explained by the independent variables. The overall model is highly significant, confirming the suitability of the Fixed Effects Model, as supported by the earlier Hausman Test.

ARDL Long Run

Table 7: . ARDL Long Run

Dependent Variable: D(GDP)			
Variable	Coefficient	<i>t</i> -Statistic	Prob.
Long Run			
PR	-3.997083	-4.965727	0.00
RER	-0.080249	-3.547696	0.0005
TO	0.054589	3.428443	0.0008
FDI	-1.477122	-0.635122	0.5265

The ARDL long-run estimation results show that both Remittances and Real Exchange Rate have a statistically significant and negative impact on Economic Liberalization. The coefficient of PR is -3.9971, indicating that an increase in remittance inflows is associated with a reduction in long-term economic growth. This finding contradicts the Keynesian Consumption Theory, which posits that higher household income through remittances should boost consumption and, consequently, economic liberalization (Keynes, 1936; Giuliano & Ruiz-Arranz, 2009). A possible explanation for this divergence is that remittances, in the long run, may not be channeled into productive investments but rather consumed in non-productive areas or used to support imports, thereby exerting limited growth-enhancing effects or even creating dependency.

Similarly, the coefficient for RER is -0.0802, which means that depreciation in the real exchange rate has a long-term negative effect on Economic Liberalization. This result supports the Elasticity Approach and PPP Theory only in part. While mild depreciation is often expected to improve export competitiveness and stimulate growth (Rodrik, 2008), excessive or unmanaged depreciation can create inflationary pressures, reduce real incomes, and destabilize macroeconomic conditions, ultimately harming Economic Liberalization. Thus, this result aligns with the view that without strong policy management, real exchange rate depreciation may be detrimental to long-term growth, especially in countries with high import dependence or fragile monetary systems.

In summary, the ARDL long-run results reject the theoretical expectations of the Keynesian consumption model for remittances and only partially support the exchange rate-growth linkage as described by the Elasticity and PPP theories, highlighting the importance of how these variables are managed in practice and the structural characteristics of the economies under study.

ARDL Short Run

Table 8: . ARDL Short Run

Dependent Variable: (GDP)				
Variable	Coefficient	Std. Error	<i>t</i> -Statistic	Prob.
Short Run				
COINTEQ01	-0.762057	0.215	-3.5444	0.0006
D (GDP (-1))	-0.204385	0.14094	-1.4501	0.1495
D(PR)	-17.66247	11.9886	-1.4733	0.1431
D(RER)	0.022575	0.046	0.49078	0.6244
D(TO)	0.424449	0.06573	6.45768	0.00
D(FDI)	7.146167	7.97768	0.89577	0.3721
C	6.290497	2.30717	2.7265	0.0073

The error correction term (COINTEQ01) is -0.7621, indicating a strong and significant speed of adjustment. This means that approximately 76% of any short-run deviation from the long-run equilibrium in Economic Liberalization

is corrected within one period, confirming the validity of the long-run relationship among the variables.

Remittances show a large negative short-run effect on Economic Liberalization (-17.66), which contradicts the Keynesian Consumption Theory. Rather than stimulating growth through increased household consumption, remittances may be used for non-productive purposes or imports in the short term, limiting their contribution to domestic output. The Real Exchange Rate has a small but positive impact on Economic Liberalization (0.0226), supporting the Elasticity Approach in the short run. This suggests that exchange rate depreciation can initially improve export competitiveness and boost economic activity before any longer-term negative effects set in. Trade Openness positively affects Economic Liberalization (0.4244), aligning with Comparative Advantage Theory, which posits that fewer trade barriers enable countries to benefit from specialization and greater market access, contributing to short-term economic gains. Financial liberalization also shows a strong positive effect (7.1462), consistent with the McKinnon-Shaw Hypothesis, indicating that improvements in financial systems enhance credit flow and investment, leading to increased Economic Liberalization in the short run.

Dynamic Granger Causality Test

FDI has a direct positive effect on both Economic Liberalization and PR, indicating that stronger financial systems promote growth and support remittance flows. Economic Liberalization positively influences TO, PR, and RER, suggesting that economic growth boosts trade, remittances, and exchange rate appreciation. A two-way positive relationship exists between TO and PR, meaning trade openness and remittance flows reinforce each other. PR also positively affects RER, likely through currency demand and supply effects. There is no direct significant effect of TO and FDI on RER. Overall, Economic Liberalization and PR are key drivers of the economy and mutually influence each other, though Economic Liberalization's effect on PR is positive but moderate.

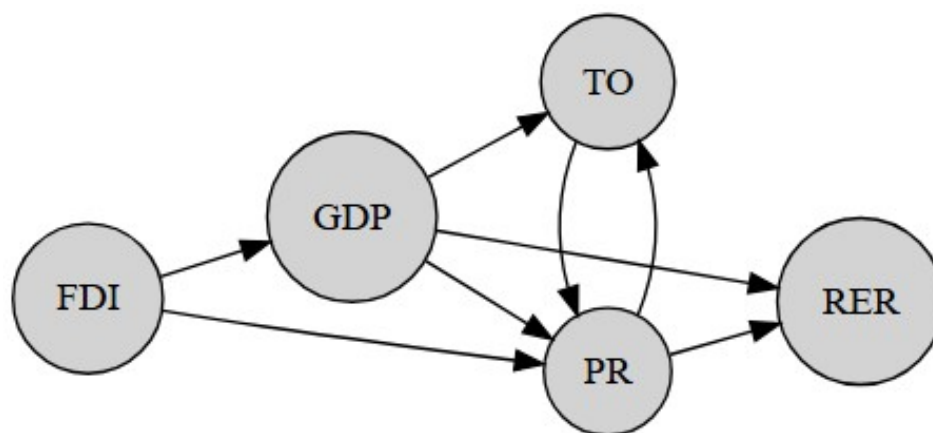


Figure 1: Research Model

CONCLUSION

This study examined the impact of financial liberalization, trade liberalization, remittances, and real exchange rate on Economic Liberalization across 12 European countries from 2000 to 2023 using advanced panel econometric techniques. The findings reveal that real exchange rate and remittances significantly affect Economic Liberalization in both the short and long run, with exchange rate depreciation showing a negative effect consistent with the elasticity approach, while remittances unexpectedly reduce Economic Liberalization, suggesting they may be used inefficiently or for non-productive purposes. Trade liberalization and financial liberalization show positive but short-term effects, indicating that their long-run growth potential depends on supporting policies and institutional strength. The presence of a significant error correction term confirms a stable long-run relationship among the variables, while the results of the causality tests further underscore the directional influence of these factors on Economic Liberalization. These findings highlight the importance of maintaining exchange rate stability, enhancing

the productive use of remittances, and implementing structural reforms that ensure financial and trade liberalization translate into sustained economic growth.

RECOMMENDATIONS

Based on the results of study, following policy recommendations emerges; reduction in trade barriers and promote agreements to enhance trade liberalization and boost Economic Liberalization; support for export diversification to reduce dependency on limited sectors and improve resilience; ensure exchange rate stability through sound fiscal and monetary coordination, redirect remittances toward productive uses via investment incentives and diaspora bonds, improve financial inclusion and credit access to enhance the impact of financial liberalization, liberalize financial markets gradually with strong regulatory oversight to avoid instability, strengthen institutions by improving transparency, legal frameworks, and governance and conduct training programs to guide remittance users toward investment and capital formation.

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