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Trade Openness and Inclusive Growth in Morocco : Challenges and Opportunities in a Post-Pandemic World

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Abstract: This study aims to determine the impacts of trade openness on economic growth in Morocco, following the SVAR approach by (Blanchard and Perotti, 2002) and using impulse response functions over the period 1990-2020. The results indicate that trade openness has an insignificant effect on economic growth in the country, in the sense that a positive shock to the degree of openness of 1% has a timid effect on economic growth. The nature of the relationship between trade openness and economic growth is justified by different external economic shocks. Therefore, Morocco has experienced the establishment of a trade liberalization policy in the face of a macroeconomic framework that is often unstable due to the non-diversification of the country's exports and the concentration only on a few limited sectors. In addition, the existence of certain barriers and obstacles has cooperated to disrupt the freedom of trade between Morocco and the outside world including the financial crisis of 2008 (GFC) and recently the health crisis of COVID-19. Accordingly policy makers need to integrate multiple institutional, macroeconomic, human, and financial factors to achieve a model that can drive post-COVID-19 economic activity.

Keywords : Economic growth ; Trade openness ; COVID- 19 shock ; Morocco ; SVAR.
JEL Classification : C22, F14 , F43, O11.

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1. Introduction

The increasing of income inequality over the past three decades has presented a serious challenge to policymakers all across the world (IMF, 2007 ; Stiglitz, 2013 ; Topuz,S.G, 2022 ; Cerra et al., 2022). To promoting inclusive growth the nexus between openness to trade and economic growth has sparked many debates ongoing in empirical and theoretical in the academic fields (Lucas, 1988 ; Grossman & Helpman, 1990 ; 1991a ; 1991b ; Romer, 1990 ; Rivera-Batiz & Romer, 1991 ; Young, 1991 ; Sachs & Warner, 1995 ; Harrison, 1996 ; Edwards, 1998 ; Frankel & Romer,1999 ; Dollar & Kraay, 2004; Wang et al., 2004 , Zarra - Nezhad et al. 2014 ; Keho, 2017 ; Agyei & Idan, 2022).

During the last three years, global trade has been greatly influenced by the COVID-19 pandemic (UNCTAD, 2021a). To achieve this, in comparison with the recent crisis, the decline in global trade in 2020 was close to that during the global financial crisis of 2008/09 and substantially worse than that during the recession in 2015. Overall, global trade declined by about $2.5 trillion in 2020 (or by about 9 per cent compared with the level in 2019). The effect of the pandemic on trade has been executed with varying degrees. At an aggregate level, during the pandemic, trade trends were similar in the least developed countries, developing countries and developed countries. In general, economies in East Asia were the first to experience declines in trade and the first to recover (Shujiro, 2022). In contrast, in developing economies in the rest of Asia, the effects were particularly detrimental to trade, with the value of exports declining by more than 50 per cent in 2020. Pandemic-related disruptions also resulted in a sharp decline in exports from Africa and Latin America in 2020, aggravated by a decline in commodity prices (UNCTAD, 2022).

In 2020, Morocco experienced the most severe economic recession in its recent history, with real GDP contracting by 7.2 percent (HCP, 2021) , This is due to the abnormal agricultural production conditions that the country has experienced and the COVID-19, a global health crisis, caused significant major social, economic, and political upheavals both external and domestic demand, particularly in a key sectors of Morocco’s economy such as tourism and trade sector (World Bank, 2020).

The Pandemic World crisis highlighted the pivotal role of the State, both at the national and international levels. For this purpose, our paper aims to examine empirically the effects of trade openness on economic growth in Morocco for the period 1990-2020 to challenge public policy for resilience and growth in the Post-COVID-19 World. The paper is organized as follow The first part reviews the theoretical and empirical literature. The second part presents the procedure of the empirical analysis and discussions around the results.

2. Literature review

- **Theoretical framework**

The crucial role of commercial openness has been established by the founding father of the classical current, (Adam Smith, 1976) by introducing his famous theory of absolute advantages, the author has shown that countries with a low cost of production of a given product can specialize in the product and participate in international trade, this theory may have created a limit in the sense that countries have no absolute advantage cannot export their products and will therefore be condemned to autarky, something that prompted (David Ricardo, 1817) to prolong the analysis by his theory of comparative advantages. According to the author, each country has an interest in exporting the goods for which it has a comparative advantage, in other words, a lower opportunity cost than other countries. This theory was supported by the work of the Swedish school represented by (Heckscher & Ohlin, 1933), with emphasis on endowment in terms of production factors as a comparative advantage.

Besides, new endogenous growth models explain a positive relationship between trade openness and economic growth, with a focus on the long-term implications of government intervention in trade. They stipulate that innovation is a catalyst for growth and encourages opening policy, insofar as gains in free trade come mainly from the research and development aspect. In this context, the innovation generated helps to boost the stock of knowledge and technology transfer (Grossman & Helpman, 1990 ; 1991a ; 1991b ; Romer, 1990 ; Rivera-Batiz & Romer, 1991). From this perspective (Levine & Renelt, 1992) adds that trade openness can drive economic growth through investment, which promotes long-term growth through the attraction of foreign investment, and which, according to the authors, will lead to a decline in domestic investment due to fierce international competition.

Therefore, some researchers argue that commercial openness cannot create an explanatory link with economic growth, because some developing countries will be expected to specialize in less productive sectors, which destabilizes growth (Krugman, 1987; Lucas, 1988 ; Young, 1991 ; Acemoglu & Zilibotti, 2001 ; Banerjee & Newman, 2003). In this context, economists recommend protectionist trade policies at least temporarily to protect emerging industries.

Moreover, theoretical studies has not succeeded in deciding on a favourable or unfavourable effect of trade openness on economic growth. The results vary based on each model used, depending on the sample and the characteristics of the countries chosen. On the other hand, empirical work has revealed complementary results and identified a positive effect of openness on growth see (Feder, 1983 ; Balassa, 1985 ; Harrison, 1996 ; Edwards, 1998 ; Barro & Sala-I-Martin, 1995 ; Sachs & Warner ,1995 ; Rodriguez & Rodrik, 2000 ; Wang et al., 2004 ; Das & Paul, 2011 ; Zarra - Nezhad et al., 2014 ; Keho, 2017 ; Wiredu et al., 2020 ; Oppong et al., 2022 ; Agyei & Idan, 2022).

- **Empirical studies**

On the empirical front, a growing body of literature has examined the link between trade and economic growth. However, the evidence from (Frankel & Romer, 1999) investigate the trade-growth nexus by using an instrumental variable method, incorporating geographic characteristics (the proximity of one country to other countries and the size of the country). The authors state that international trade has a crucial and significant impact on growth**.** In further research (Brueckner & Lederman, 2015) employed the instrumental variable approach with a panel of 41 Sub-Saharan African countries. They find that trade openness affecting positively economic growth both in the short and long run. In the same area, (Lawal et al., 2016) employ the ARDL methodology in Nigeria and find a positive long-run impact of trade openness and financial development on economic growth.

Nearly, (Iyoha & Okim , 2017) discussed the impact of trade on economic growth in the ECOWAS region. via the pooled ordinary least square (OLS), the fixed effect model, the fandom effect model, and the dynamic panel regression model, their results stipulate that exports were consistently positively related to growth. They also found that the four regression equations had high coefficients of determination and F-statistic.

Along the same lines, (Agbahoungba et al.,2018) using the Generalized method of moments (GMM) on a panel of 12 ECOWAS countries over the period (1996-2016), their results indicate a negative and significant relationship between the trade ratio and economic growth. According to the authors, the current level of foreign trade is not a proven source of economic growth in the ECOWAS area. In terms of economic policy implications, the study suggests better participation in international trade for Member States with a careful analysis of the structure of goods traded including imports.

Additionally, (Nketiah et al., 2019) examine Ghana's economic growth in the years following liberalization, from 1975 to 2017, by investigating the relationship between foreign direct investment, openness to trade, and economic growth. The Augmented Dickey-Fuller (ADF) test for unit root, regression analysis, descriptive analysis, and Pearson correlation was applied. The results show that trade openness is the main factor affecting Ghana’s economic growth (annual %).

In this field of research Wiredu et al. (2020) also determine the effects of trade openness and foreign direct investment (FDI) on economic growth measured by Gross Domestic Product (GDP). For a committee comprising representatives from four West African nations (Côte d'Ivoire, Ghana, Nigeria, and Senegal) over the period 1998-2017. The evidence from the statistical analysis suggests that trade openness impact positively and significantly the economic growth in the whole sample.

Recently, (Oppong et al., 2022) use four variables such as inflation, real exchange, and investment to study the impact on economic growth in Ghana and Nigeria by using panel data from 1998 to 2017. The results show that trade openness and real exchange rate positively and significantly impact economic growth using the random effect. In contrast, inflation and investment have an insignificant impact on economic growth using Random effect estimated models.

More recently, The study of (Agyei & Idan, 2022) seeks to cast light on the role of institutions in the trade openness and inclusive growth nexus in Sub-Saharan Africa (SSA) in particular 39 SSA countries from 1996 to 2017. By employing the System General Method of Moment estimation technique (GMM). The study findings unveiled that institutions strengthen the positive relationship between trade openness and inclusive growth in SSA. According to the authors Economies in SSA should put in policies to strengthen their institutions to improve the positive link between trade openness and inclusive growth. Similar conclusions were achieved in the works of (Rodrik et al., 2004) who revealed that higher institutional framework could boost trade openness and economic growth nexus among East Asian countries.

In consequence, On the empirical front, studies on trade opening and economic growth have been widely examined. There are large numbers of empirical studies on the correlation between trade and economic growth which have reported that trade has a strong positive impact on economic growth see (Sachs & Warner, 1995 ; Harrison, 1996 ; Edwards, 1998 ; Frankel & Romer, 1999 ; Rodriguez & Rodrik, 2000 ; Wang et al., 2004 ; Das & Paul, 2011 ; Zarra - Nezhad et al., 2014 ; Brueckner & Lederman, 2015 ; Lawal et al., 2016 ; Keho, 2017 ; Iyoha & Okim, 2017 ; Agbahoungba et al., 2018 ; Nketiah et al., 2019 ; Wiredu et al., 2020 ; Oppong et al., 2022 ; Agyei & Idan, 2022). Their focus was on policy interpretation variables, particularly those related to trade and to further clarify the existing ambiguity in the literature between trade and economic growth. The majority of their studies contribute to the creation of innovative models for trade and economic growth.

3. Data and Methodology

Since the work of Sims (1980), the use of VARs has become very famous in Macroeconomics, However, there is abundant literature on the effects of monetary policy in such a context. Our empirical approach, on the other hand, relies on a structural VAR analysis, which is robust for examining the effects of integration shocks on economic growth. In particular, the identification of Trade openness shocks on economic growth in Morocco over the period 1990-2020. The empirical investigation is inspired from the methodology originally proposed by (Blanchard and Perotti, 2002) which revisited the discussion on the efficacy of fiscal policy by analyzing how taxes and shocks to public spending affect macroeconomic performance. The choice of the period concerned is justified by the transition from the Moroccan economy to a market economy in the 1990s. The following model is inspired from (Blanchard and Perotti, 2002) equation :

$$AY_t = \sum_{k=1}^{K} C_k Y_{t-k} BU_t$$

Où Y_t : is the vector of endogenous variables that includes annual data namely the rate of growth of real GDP per capita, the rate of trade opening, and financial development, the latter is measured by the private loans granted by the banks over the period 1990-2020.

A : is a size matrix (n, n) representing the simultaneity relationships between the variables of Y_t.

U_t : is the vector of structural shocks that are assumed to be independently and identically distributed, they are also orthogonal.

Based on the literature review around the research topic and in order to examine the effect of trade openness on economic growth we have considering that GDP growth as the dependent variable while Trade openness and Financial development are independent variables.

Table 1: Description and source of variables

Variables	Significations	Period	Data Sources
TSGDP	GDP per capita growth (annual %) : The annual percentage growth rate of GDP per capita based on constant local currency	1990-2020	World Bank database
OPEN	Opening rate (In % per year) : Measures Exports plus imports as a share of GDP	1990-2020	World Bank database
DFINANC	Financial development is approximated by domestic credits to private sector by banks (% of GDP)	1990-2020	World Bank database

Source: Developed by the authors from World Bank database.

4. Empirical result

a) Augmented Dickey-Fuller test for unit root

We investigate the time series properties of our variables. In the first step, we test for the existence of unit roots. Standard augmented Dickey-Fuller (Dickey and Fuller, 1979) tests indicate that there is a unit root in the level of GDP per capita growth (annual %). While trade openness and financial development are not stationary in level, after estimating it in the first difference trade openness becomes stationary, and the same for financial development which seems stationary after starting the second difference.

Table 2 : ADF unit root test

ADF test results at 5% level			
Variables	**Dickey-Fuller Augmented (ADF)**		**Stationarity**
	Critical value	**t-statistic**	**Order of Integration**
TSGDP	-3,50	-4,0117	I(0)
OPEN	-3,50	-4,247	I(1)
DFINANC	-3,50	-5,2929	I(2)

Source : Developed by the authors using R software

In the next step, we therefore test for co-integration using the Johansen test (Johansen 1995) Consequently, we could not specify a vector error correction model (VECM), especially when the variables are not stationary of the same order, besides, the cointegration relationship in the sense of Granger is not justified, Structural vector autoregression (SVAR) is the most suitable model for our study.

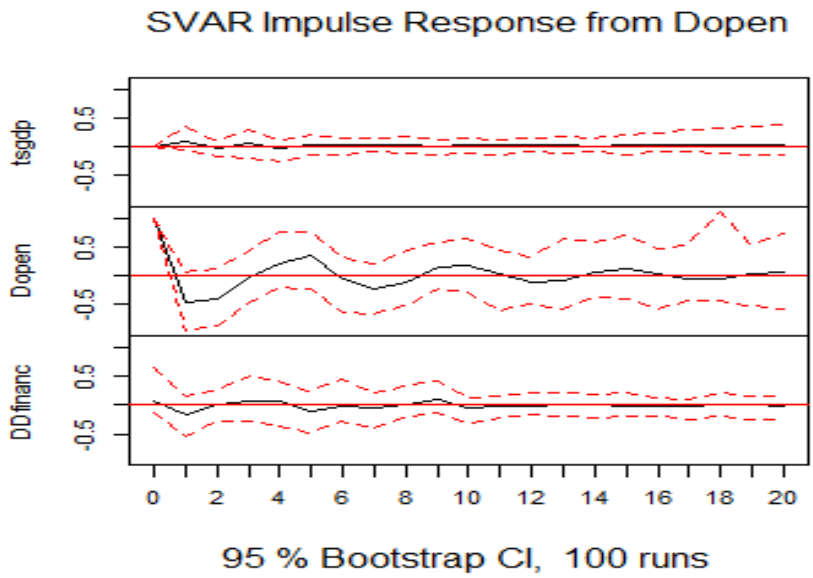
b) Granger (1969) Causality Test

This test is based on the study of the causal relationships between the variables, it allows one to detect which is the variable that causes the other. The results of this test indicate that trade openness and financial development do not cause economic growth in the sense of Granger as shown by the probabilities of this test which are high about the 5% level. On the other hand, GDP per capita growth (annual %) causes trade openness and financial development.

c) Impulse Responses Function

The simulation of structural shocks is based on a relevant approach in the analysis of the dynamics of a set of variables. They project the response over time of variables to identify contemporary shocks. We will trace the responses to the residual shocks of the variables studied over 20 years, as long as this period represents the time needed for these variables to return to their long-term level. All shocks are standardized to 1% and therefore the vertical axis indicates the percentage of the approximate variance of economic growth in response to 1% shock on other variables. The results of this test show us the following reactions :

Figure 1 : Response of Economic growth **(TSGDP)** from trade openness **(DOPEN)** Shock



Source: Developed by the authors using R software

A positive 1% degree of trade openness shock has a significant positive effect and a very sensitive effect on economic growth. In other words, following a 1% increase in trade openness, it can be seen that this change has covered only a small or fragile change, and then it has faded quickly. It can be concluded from this observation that economic growth is not determined structurally and significantly by trade openness in the long term. This outcome differs with writers like as (Sachs & Warner, 1995 ; Harrison, 1996 ; Edwards, 1998 ; Frankel & Romer, 1999 ; Rodriguez & Rodrik, 2000 ; Wang et al., 2004 ; Das & Paul, 2011 ; Zarra - Nezhad et al., 2014 ; Brueckner & Lederman, 2015 ; Lawal et al., 2016 ; Keho, 2017 ; Iyoha & Okim, 2017 ; Agbahoungba et al., 2018 ; Nketiah et al., 2019 ; Wiredu et al., 2020 ; Oppong et al., 2022 ; Agyei & Idan, 2022) which shed light on the pivotal role of trade on economic growth.

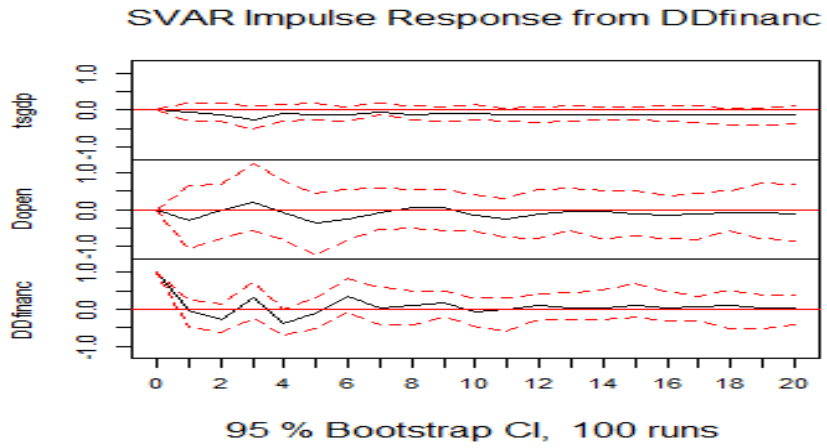
This finding is justified by the introduction of a trade liberalization policy in the face of an often unstable macroeconomic environment due to the lack of diversification of Moroccan exports and the concentration only on limited sectors such as industries «Phosphates and derivatives» ; «Agriculture and Food Processing» and «Textile-Leather». In addition, the existence of certain barriers and obstacles have contributed to disrupting trade freedom between Morocco and the rest of the world, including the 2008 financial crisis and the recent COVID-19 pandemic.

The literature suggests that well-designed structural reforms can have meaningful effects on potential output growth, there is substantial uncertainty with regard to the magnitude and timing of their impact on economic activity and welfare (Bouis & Duval 2011 ; Duval & Furceri 2018 ; Acemoglu et al. 2019 ; October 2023 Regional Economic Outlook : Middle East and Central Asia).

It should be noted that Morocco launched a new wave of structural reforms in the wake of the pandemic to address lower growth since the mid-2000s, still high informality, elevated youth unemployment, and low female labor market participation. The country's New Model of Development, 2021 report , aims to boost private sector investment, strengthen human capital accumulation, enhance women's participation in economic life, improve the social protection system, and reinforce the governance of public institutions (Cardarelli & Koranchelian, 2023).

In addition, the NDM report outlines a new development model, sets out a national ambition by 2035, including a comprehensive reform of social protection programs, an overhaul of the health and education systems, a new strategy to deal with water scarcity, and several measures to strengthen the business climate by improving the private sector and reduce the role of the state in the public investment.

Figure 2 : Response of Economic growth **(TSGDP)** from financial development **(DDFINANC)** Shock



Source : Developed by the authors using R software

In this framework, a positive 1% degree of financial development shock has a negative and non-significant effect on economic growth in the long term. This finding is contradictory to the remarks of (Mc Kinnon & Shaw, 1973), who highlighted the crucial role of the financial system as an effective means of boosting economic growth through a channel of transmission of positive real interest rates.

The relationship between finance and economic growth has been treated in serval studies (Mc Kinnon & Shaw, 1973 ; King & Levine, 1993 ; Beck et al., 2000) other empirical studies have considered the effect of financial inclusion on inclusive growth (Abor et al., 2018 ; Corrado & Corrado, 2017 ; Demirguc-Kunt et al., 2017 ; Agyei & Idan, 2022).

When it comes to the financial development in Morocco. The latter question is much debated on the empirical front (Jung et al., 2014 ; Anser et al., 2021 ; Sekali & Bouzahzah, 2021). Actually the Moroccan government has modernized the banking industry since the 1990s by implementing significant changes that guarantee efficient deposit mobilization and efficient reinjection of these

funds to support the country's economy. Recently the financial recession have coincided with the outbreak of pandemic world known as COVID-19. In this regard pandemic world has obstructed economic activities and financial transactions, leading to high volatility in the stock prices (Fallahgoul 2020 ; Procacci et al., 2020) also the entrepreneurial activities have been distressed which affects the debt market, causing a global conjuncture financial crisis to emerge (Brown & Rocha, 2020). Therefore, it may be necessary for Morocco to make different policy efforts to achieve steady economic growth in the long run.

Given the previous background, the new dynamic to be instilled in private investment could be based on the role of the Mohammed VI Investment Fund in financing productive diversification and the economy's upscaling. This Fund's operations can be conducted through equity investments in the capital of private companies with high growth potential. The Mohammed VI Strategic Investment Fund was established to complement the government of Morocco's COVID-19 recovery package. It aims to provide equity and quasi-equity instruments to strengthen the solvency of companies and contribute to the rebounding of investments in priority areas for economic growth (infrastructure, innovation, domestic firms and Startups companies). It is interesting to note that the annual target size for The Mohammed VI Strategic Investment Fund has been set at DH45 billion, of which DH15 billion is provided by the state ; DH30 billion is to be mobilized from domestic and foreign public and private investors.

4. Conclusion

The purpose of this paper was to discuss the effect of trade openness on economic growth, in light of the literature review the impact was found to be positive in some studies and non-significant or even negative in others. As an illustrative case, we opted for Morocco during the period 1990-2020 by using the SVAR approach inspired from the methodology originally proposed by (Blanchard and Perotti, 2002).

It seems that the impact of trade openness has no significant effect on economic growth in Morocco in the long term. This result contrasts with authors like (Sachs & Warner, 1995 ; Edwards, 1998 ; Grossman & Helpman, 1990, 1991a, 1991b ; Iyoha & Okim, 2017 ; Wiredu et al., 2020 ; Oppong et al., 2022 ; Agyei & Idan, 2022) which shed light on the positive role of the fight against trade barriers in favor of economic growth. Similarly, financial development has a negative and non-significant effect on economic growth. This result is not consistent with the results of the study by (Mc Kinnon and Shaw, 1973) which have highlighted the crucial role of the financial system as a factor capable of stimulating economic growth through a channel of transmission of positive real interest rates.

Moreover, Morocco has introduced of a trade liberalization policy in the face of an often unstable macroeconomic framework due to the lack of diversification of the country's exports and the concentration only on very limited sectors. Furthermore, the existence of certain barriers and obstacles have cooperated to disrupt the freedom of trade between Morocco and the outside world including the financial crisis of 2008 and recently the COVID-19 pandemic. Decision-makers need to integrate multiple institutional, macroeconomic, human, and financial factors to achieve a model that can drive post-COVID-19 economic activity, to achieve this goal, Morocco must begin a transformation of its diverse productive fabric.

In conclusion, the COVID-19 pandemic has further exposed the weaknesses in the structure of the international social and economic order, with direct implications for the role of the State and international cooperation. it is important to look back at the COVID-19 crisis and learn from it to remake society for a better future and provide answers to questions on trade, finance, digitalization, global value chains, institutional quality. The vision is there : the New Model of Development, 2021 report, new investment charter, the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development and the Paris Agreement. These are available tools can be activated to achieve the Macroeconomic resilience and promoting inclusive growth.

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