
Market mechanisms, institutional quality, financial development, and structural transformation in emerging economies: interactions between resource allocation, economic openness, and technological innovation

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Abstract

This paper reviews the relationship between market mechanisms and economic development in emerging economies by examining the conditions under which markets contribute to productivity, inclusion, structural transformation, and resilience. The review is organized around three main dimensions: market functioning and resource allocation; economic openness, industrial policy, and institutional quality; and finance, financial markets, and technological innovation. The literature shows that competition and market access can improve resource allocation and firm performance, but their effects depend on infrastructure quality, information availability, transaction costs, and institutional capacity. Trade openness and foreign investment can stimulate productive reallocation and integration into value chains, although adjustment costs and institutional weaknesses may limit their benefits. Financial development also produces heterogeneous effects: credit and micro-finance can relax financing constraints without generating uniform welfare improvements, while digital finance, mobile money, crowdfunding, and blockchain can reduce transaction costs and broaden access to financial services. Overall, the review indicates that market mechanisms are most effective when supported by credible institutions, adequate infrastructure, appropriate regulation, and financial and technological systems capable of reducing frictions and facilitating adaptation. Economic development in emerging economies therefore depends on the interaction between market incentives and the institutional conditions that shape their transmission.

Keywords: Market mechanisms; Economic development; Emerging economies; Resource allocation; Institutional quality; Financial development; Fintech; Trade openness.

JEL classification: O10; O16; O17; O19.

Introduction

Market mechanisms play a central role in economic development by shaping the allocation of resources, the formation of prices, the organization of production, and the incentives that guide

firms and households. In emerging economies, however, these mechanisms operate within environments characterized by institutional constraints, infrastructure gaps, financial frictions, informality, and uneven access to domestic and international markets. The literature therefore increasingly questions the idea that market expansion alone is sufficient to generate sustained development. Restuccia and Rogerson (2017) show that resource misallocation can significantly reduce aggregate productivity, while Aghion et al. (2015) demonstrate that public intervention may complement competition when industrial policies are designed without weakening market discipline. Infrastructure also conditions the effectiveness of market exchange, as transport costs, connectivity, and access reliability influence specialization, labor mobility, and firm location. Donaldson (2018), Storeygard (2016), and Asher and Novosad (2020) illustrate how improved market access can reshape economic activity. At the same time, information asymmetries, transaction costs, and institutional quality affect bargaining conditions and the organization of exchanges, indicating that market performance depends on a broader set of structural and institutional conditions.

The relationship between market mechanisms and development becomes even more complex when trade openness, industrial policy, finance, and technological innovation are incorporated. International integration can stimulate competition, firm selection, labor reallocation, and participation in global value chains, yet its effects remain conditioned by local adjustment capacities and institutional quality. Brandt et al. (2017) and McCaig and Pavcnik (2018) show how trade can support productive transformation, whereas Dix-Carneiro and Kovak (2017) underline the persistence of regional adjustment costs. Financial development presents a similar pattern. Access to credit may relax constraints without producing uniform welfare gains, while capital flows can create both financing opportunities and external vulnerabilities. More recently, fintech, mobile money, crowdfunding, blockchain, and digital platforms have introduced new mechanisms for reducing transaction costs, facilitating payments, expanding financial inclusion, and connecting firms to broader markets. Against this background, this review examines how market mechanisms contribute to economic development in emerging economies, focusing on three interrelated dimensions: market functioning and resource allocation; openness, industrial policy, and institutional quality; and finance, financial markets, and technological innovation. The objective is to identify the conditions under which these mechanisms support productivity, inclusion, resilience, and structural transformation.

1. Market functioning, resource allocation, and market access

1.1. Competition, prices, productivity, and transaction costs

Restuccia and Rogerson (2017) place resource misallocation at the center of international productivity differences, showing that distortions can prevent capital and labor from being allocated toward the most productive firms. Aghion et al. (2015) complement this perspective by showing that industrial policy can support productivity when it is directed toward competitive sectors and implemented without weakening rivalry among firms. The effectiveness of public intervention therefore depends partly on its capacity to preserve market discipline while addressing structural constraints. Bento and Restuccia (2017) extend this reasoning by showing that barriers preventing productive establishments from reaching an efficient scale can reduce aggregate productivity. Firm size differences consequently reflect not only structural characteristics of economies but also the extent to which markets allow productive firms to expand. Bergquist and Dinerstein (2020) provide a related perspective from agricultural markets by examining competition among intermediaries and its effects on producer prices and marketing margins. Stronger competition among buyers changes the distribution of market gains and the

conditions under which agricultural producers participate in exchange. Market-based development therefore depends on the capacity of competitive structures to support resource reallocation, productive expansion, and more favorable conditions of exchange.

Mitra et al. (2018) show that price information asymmetries influence negotiations between agricultural producers and intermediaries and can affect the share of value obtained by producers. Access to information therefore shapes bargaining conditions and the distribution of gains within agricultural value chains. Choukar et al. (2021) approach a related issue through transaction cost theory by showing how relationships between firms and stakeholders can affect information, negotiation, coordination, and monitoring costs. These relational conditions influence the efficiency with which exchanges are organized. Touil et al. (2024) extend this perspective to sustainable quality management in supply chains, emphasizing the contractual and organizational relationships linking firms, suppliers, and other partners and their connection with financial performance. Storeygard (2016) introduces the spatial dimension by showing that transport costs influence urban economic activity and access to broader markets. Lower transport costs expand opportunities for exchange and strengthen connections between production centers and national or international markets. Information quality, contractual organization, and physical accessibility therefore operate through distinct but interconnected mechanisms that shape firms' ability to participate in markets and transform exchange opportunities into economic performance.

1.2. Infrastructure, connectivity, and market access

Donaldson (2018) shows that railways in India reduced trade costs, strengthened market integration, affected prices and trade flows, and enabled greater specialization according to comparative advantage. Infrastructure therefore changes the spatial organization of economic exchange by reducing barriers between regions. Ghani et al. (2016) reach a related conclusion in their study of India's Golden Quadrilateral, showing that proximity to major highways influenced the location and performance of manufacturing activity. Improved connectivity reduces spatial transaction costs and facilitates access to inputs and output markets. Asher and Novosad (2020) show that rural road construction also affects labor allocation by improving access to employment opportunities outside villages. The effects of infrastructure therefore extend beyond local production and include changes in worker mobility and occupational allocation. Brooks and Donovan (2020) add the role of reliability by showing that bridge construction in rural Nicaragua reduces uncertainty surrounding market access and influences household production decisions. Transport infrastructure consequently affects development through reductions in trade costs, greater market integration, changes in firm location, increased labor mobility, and more predictable access to exchange opportunities.

Aggarwal et al. (2024) show that market access and trade costs influence producers' incentives to adopt productive technologies. Greater distance from markets can reduce expected returns from technological investment because producers face higher costs when selling output or obtaining inputs. Technology adoption is therefore partly conditioned by the economic opportunities created through market connectivity. Allcott et al. (2016) identify another infrastructure-related constraint by showing how electricity shortages affect Indian manufacturers. Unreliable electricity supply imposes additional costs on firms and can lead them to invest in self-generation rather than allocating resources directly to productive activities. Energy deficiencies can therefore operate as productive distortions by affecting investment choices and reducing industrial competitiveness. Market access and infrastructure reliability consequently influence firm decisions through different channels: trade costs shape expected returns from technology, while energy shortages alter production costs and investment allocation. These mechanisms indicate that the effectiveness of markets depends not only on competitive exchange but also on the

availability and reliability of the infrastructure required for firms and producers to respond to market incentives.

1.3. Informality, entrepreneurship, networks, and firm performance

Ulyssea (2018) shows that informality should not be treated as a homogeneous condition outside regulation, since firms differ in the way they enter, remain in, or move between formal and informal activities. Changes in formalization policies can consequently affect firm entry, exit, size, and productivity, linking regulatory conditions directly to the structure of production. Meghir et al. (2015) reinforce this perspective by showing that formal and informal employment are connected through labor-market mechanisms rather than operating as completely separate segments. Workers and firms respond to institutional differences between the two sectors, meaning that informality participates directly in the allocation of labor. McKenzie (2017) adds the role of financial constraints by showing that entrepreneurs with high growth potential may remain below their efficient scale when they lack access to substantial financial resources. Bruhn et al. (2018) identify a complementary constraint related to managerial capabilities, demonstrating that firms may possess capital and market opportunities while lacking the management practices required to exploit them efficiently. Regulation, labor allocation, financing conditions, and managerial capabilities therefore jointly influence whether firms can formalize, expand, and improve their productive performance.

Atkin et al. (2017) show that access to export markets can alter firm behavior beyond the direct increase in demand generated by foreign buyers. Egyptian carpet producers exposed to export opportunities improved product quality and experienced changes in productive performance, indicating that participation in international markets can generate learning effects. Cai and Szeidl (2018) identify another channel through which firms can improve their market position by showing that interfirm networks facilitate information exchange and can improve business outcomes. Relationships between managers reduce informational frictions, help identify opportunities, and improve access to commercial partners. Fafchamps and Quinn (2018) reach a related conclusion in African contexts, where connecting entrepreneurs affects information flows and certain firm behaviors. Business networks can therefore complement formal institutions when commercial information remains costly or imperfect. McKenzie (2017) provides a financial counterpart to these relational and market-access mechanisms, since his findings show that potentially productive entrepreneurs may fail to expand when financing remains insufficient. Export opportunities, business networks, and access to finance thus affect firm development through different channels: learning from external markets, circulation of information among firms, identification of opportunities, and the capacity to fund expansion.

Bruhn et al. (2018) show that weaknesses in managerial practices can constitute a market imperfection in their own right because firms may be unable to transform available capital and commercial opportunities into sustained growth. Improvements in management capabilities can therefore affect firm performance over time rather than producing only temporary changes. Ulyssea (2018) provides a regulatory dimension to this mechanism by showing that firm decisions concerning formalization, entry, exit, and scale are influenced by the institutional environment surrounding formal and informal activity. Cai and Szeidl (2018) demonstrate that access to managerial networks can partly overcome informational constraints by facilitating exchanges among business owners and improving access to commercial knowledge and partners. Atkin et al. (2017) show that interaction with foreign markets can generate another form of capability building through learning associated with exporting and improvements in product quality. Firm productivity is therefore conditioned not only by physical or financial resources but also by management quality, regulatory incentives, relational access to information, and exposure to

demanding markets. These mechanisms influence how effectively firms recognize opportunities, organize production, adapt their practices, and translate market access into sustainable improvements in performance.

Meghir et al. (2015) indicate that labor allocation between formal and informal activities depends on the institutional differences faced by workers and firms, making informality an integral part of labor-market functioning. Fafchamps and Quinn (2018) show that relational structures can also shape business decisions by changing the information available to entrepreneurs and influencing their interactions with other firms. Ulyssea (2018) extends the institutional dimension by demonstrating that formalization policies can reshape the distribution of firms through effects on entry, exit, scale, and productivity. Atkin et al. (2017) introduce external market access into this framework by showing that exporting can generate improvements in quality and productive performance through learning mechanisms. The allocation of labor, the regulatory status of firms, access to business information, and participation in international markets therefore interact with the broader process of productive transformation. Firms do not respond exclusively to prices or demand conditions; their trajectories are also shaped by institutional incentives, relational structures, information flows, and opportunities to learn from new markets. These conditions influence whether productive resources move toward more efficient activities and whether firms are able to expand and improve their position within domestic and international markets.

2. Economic openness, industrial policies, and institutional quality

2.1. International trade, FDI, and integration into value chains

Dix-Carneiro and Kovak (2017) show that the effects of trade liberalization are distributed unevenly across regions and can persist when workers and economic activities adjust slowly to trade shocks. Labor-market frictions therefore influence how quickly territories absorb the costs and benefits associated with greater international openness. Brandt et al. (2017) examine a different dimension of this adjustment by showing that China's accession to the World Trade Organization intensified international competition and generated changes within firms and industries. Lower trade barriers can therefore contribute to productivity through competitive pressure, firm selection, and the reallocation of resources among producers. McCaig and Pavcnik (2018) identify a related mechanism in Vietnam, where expanded export opportunities encouraged workers to move toward firms and activities connected to the export sector. International trade can consequently modify the sectoral distribution of labor and contribute to structural transformation. El Hamidi and Ed-Dib (2019) introduce the institutional conditions surrounding these mechanisms by examining trade openness, institutional quality, and foreign direct investment in North African countries. Their findings imply that international integration cannot be separated from the institutional framework through which trade and investment affect domestic economic outcomes. Trade liberalization therefore operates through competition, labor reallocation, territorial adjustment, and the institutional conditions governing the transmission of external economic opportunities.

Alfaro-Ureña et al. (2022) show that domestic firms entering multinational supply chains can experience changes in performance through increased demand, production standards, learning, and direct interfirm relationships. Foreign investment can therefore generate effects beyond the capital invested directly in multinational subsidiaries by influencing the capabilities and opportunities of domestic suppliers. Ed-Dib and El Hamidi (2020) place these effects within a broader institutional framework by showing that the contribution of foreign direct investment and economic openness to growth in North African countries depends on the environment in which international flows are transmitted. Institutions can therefore condition the capacity of

economies to convert external investment and openness into domestic growth. Brandt et al. (2017) provide a complementary competitive mechanism, showing that increased exposure to international competition following China's WTO accession affected firm performance and resource allocation across manufacturing activities. McCaig and Pavcnik (2018) add the labor-market dimension by demonstrating that export expansion can redirect workers toward firms and sectors more closely connected to international markets. Foreign investment and trade openness thus influence productive transformation through supplier linkages, competitive selection, learning, labor reallocation, and institutional transmission. Their effects depend not only on the magnitude of international flows but also on the capacity of firms, workers, and institutions to respond to the opportunities and pressures created by greater integration into global markets.

2.2. Industrial policy, subsidies, and public procurement

Kalouptside (2018) shows that industrial subsidies can alter firms' production costs, capacity choices, and the international distribution of output, as demonstrated in the Chinese shipbuilding industry. Public support therefore changes the incentives faced by firms and can reshape the competitive structure of a global market. Lane (2025) provides a related perspective by showing that South Korea's heavy and chemical industrialization policy generated persistent structural effects, including through production linkages with other sectors. Temporary intervention can therefore have lasting consequences when targeted sectors are embedded in broader production networks. Fadic (2020) introduces public demand as another mechanism of intervention by showing that winning a government procurement contract can influence the growth trajectory of small firms in Ecuador. Public procurement can thus create market opportunities rather than functioning solely as a budgetary expenditure instrument. Bosio et al. (2022) qualify these mechanisms by distinguishing formal procurement rules from actual administrative practices. Competitive legal frameworks do not automatically ensure efficient contract allocation when implementation is weak. Industrial support and public procurement therefore affect market outcomes through the incentives they create, the sectors they target, the opportunities they generate for firms, and the quality of administrative implementation.

2.3. Taxation, formalization, and institutional quality

Pomeranz (2015) shows that value-added taxation can use transactions between firms to generate information that supports tax enforcement. The requirement to issue and request invoices creates incentives for firms to report transactions, reducing reliance on external administrative monitoring alone. Naritomi (2019) extends this logic by showing that consumers can also become part of tax enforcement when incentives encourage them to request receipts and indirectly transmit information to the tax authority. Carrillo et al. (2017) demonstrate, however, that firms adapt strategically when tax administrations observe only selected components of reported information. Partial monitoring can therefore lead firms to shift misreporting toward less observable margins rather than eliminating evasion. Best et al. (2015) add the productive dimension by showing that the design of corporate taxation influences reported behavior and resource allocation when administrative capacity is limited. Tax institutions consequently affect markets not only through revenue collection but also through information generation, enforcement incentives, strategic responses by firms, and the distortions created by alternative tax bases. The effectiveness of taxation therefore depends on how institutional design interacts with the behavior of firms and other market participants.

Benhassine et al. (2018) show that reducing administrative procedures alone does not necessarily generate widespread formalization among informal firms in Benin. The expected benefits

associated with formal status also influence whether firms choose to register. de Andrade et al. (2016) reach a related conclusion in Brazil by distinguishing the effects of information, assistance, and stronger enforcement on firms' formalization decisions. Remaining informal can represent a rational economic choice when the expected benefits of registration remain below its perceived costs. El Hamidi et al. (2021) introduce institutional trust into this decision by showing that formalization in the Moroccan informal economy cannot be reduced to the administrative cost of registration. Economic actors' relationship with institutions also shapes their willingness to enter the formal sector. Pomeranz (2015) complements these findings by showing how institutional arrangements can make market transactions themselves contribute to compliance through information generated along value chains. Formalization therefore depends on the broader incentive structure surrounding firms, including administrative costs, expected benefits, enforcement mechanisms, access to information, and confidence in institutions. Regulatory reforms are consequently more likely to influence behavior when they change the economic conditions attached to formal status rather than merely simplifying procedures.

El Hamidi and Karboub (2023) emphasize the role of institutional quality in Morocco's macroeconomic resilience to external shocks, showing that institutions influence the economy's capacity to absorb and adjust to deteriorating external conditions. Makhrouf et al. (2024) extend the institutional perspective to the distributional effects of public policy by examining the effectiveness of Moroccan policies in supporting growth that benefits lower-income populations. Economic performance therefore also depends on the extent to which growth and policy interventions translate into improved conditions for groups with fewer resources. Best et al. (2015) show that poorly designed taxation can generate distortions in firms' decisions and resource allocation, especially where tax administration has limited capacity. Bosio et al. (2022) similarly demonstrate that formal rules are insufficient when implementation practices fail to support efficient allocation in public procurement. Institutional quality consequently affects market functioning through several channels, including taxation, public spending, contract allocation, shock adjustment, and the distribution of economic gains. The capacity of markets to support development is therefore conditioned by institutions that can implement rules effectively, limit distortions, facilitate adjustment, and ensure that public intervention translates into productive and socially distributed economic outcomes.

3. Finance, financial markets, and technological innovation

3.1. Credit, microfinance, and business financing

Crépon et al. (2015) show that the expansion of microcredit in rural Morocco affects borrowing and certain economic activities without producing uniform improvements across broader dimensions of household welfare. Access to finance can therefore relax specific financial constraints while leaving other development outcomes unchanged. Banerjee et al. (2015) reach a comparable conclusion in Hyderabad, where microcredit modifies some entrepreneurial and investment decisions but does not generate a generalized transformation in household well-being. Angelucci et al. (2015) similarly show that the geographical expansion of microcredit in Mexico affects borrowing behavior and some economic activities, while its effects vary across different dimensions of welfare. Tarozzi et al. (2015) reinforce this interpretation through evidence from Ethiopia, where greater credit availability does not systematically produce large changes in all economic indicators. The expansion of credit markets must therefore be distinguished from a uniform development effect. Financial inclusion can influence borrowing, investment, and entrepreneurial activity, but the magnitude and distribution of these effects depend on household characteristics, existing economic opportunities, and the specific constraints that access to credit is able to relax.

Augsburg et al. (2015) show that expanding microcredit to previously marginal borrowers in Bosnia-Herzegovina changes household budget constraints and investment choices, while also generating adjustments in other categories of expenditure. Credit therefore affects household behavior through internal trade-offs rather than through a single investment channel. Attanasio et al. (2015) add the contractual dimension by showing in Mongolia that the design of lending arrangements, particularly joint-liability contracts, can influence borrower behavior and the use of funds. The structure of the financial contract is consequently as relevant as the availability of credit itself. Ziky and El Hamidi (2023) extend this contractual perspective to Moroccan firms by examining their choice between profit-and-loss-sharing financing and mark-up-based financing in the presence of established conventional banking relationships. Financing choices are therefore shaped by competition between alternative contractual arrangements rather than by isolated financial products. Ayad et al. (2024) introduce a behavioral component by showing that SME debt decisions in Morocco are also influenced by decision-makers' perceptions and behavioral biases. Financing outcomes consequently reflect the interaction between credit availability, contractual incentives, existing banking relationships, and the behavioral characteristics of borrowers.

Kersten et al. (2017) show through their systematic review that SME financing interventions in developing countries generally produce favorable effects on investment, firm performance, and employment, although the magnitude of these effects varies substantially across programs. The effectiveness of finance therefore depends on the design of the intervention and the context in which firms operate. Meager (2019) reaches a related conclusion by reanalyzing seven randomized microcredit experiments within a hierarchical Bayesian framework and finding relatively modest average effects accompanied by substantial heterogeneity across borrowers and settings. Banerjee et al. (2015) illustrate this heterogeneity at the microeconomic level, since access to credit changes some entrepreneurial behaviors without generating broad welfare improvements for all beneficiaries. Augsburg et al. (2015) likewise show that borrowers adjust several dimensions of household expenditure when credit constraints are relaxed. Financial interventions can therefore support productive activity without producing identical outcomes across firms or households. Their effects depend on the productive opportunities available to borrowers, the uses made of additional liquidity, and the adjustments that financing induces in consumption, investment, and entrepreneurial decisions.

Meager (2019) shows that the average effects of microcredit remain modest when evidence from multiple randomized experiments is considered jointly, which limits any interpretation of financial deepening as an automatic source of development. Kersten et al. (2017) indicate that SME finance can nevertheless support investment, employment, and firm performance when financial mechanisms are adapted to the constraints faced by enterprises. Ziky and El Hamidi (2023) show that financing outcomes also depend on the contractual alternatives available to firms and on their pre-existing relationships with conventional banks. Ayad et al. (2024) demonstrate that debt decisions cannot be explained solely by interest costs, collateral requirements, or other conventional financial variables because behavioral biases also affect the choices made by SME decision-makers. The functioning of credit markets therefore depends on more than the quantity of finance supplied. Contract design, borrower characteristics, existing banking relationships, behavioral factors, and productive opportunities influence how financial resources are selected and used. These conditions help explain why similar expansions in access to finance can generate different effects across firms, households, and institutional environments.

3.2. Fintech, mobile money, crowdfunding, and the digitalization of financial transactions

Riley (2018) shows that mobile money can strengthen household risk-sharing by facilitating transfers from individuals located outside areas affected by local shocks. Lower transfer costs therefore improve the operation of informal insurance mechanisms and increase households' capacity to mobilize external resources during periods of difficulty. Suri and Jack (2016) extend this perspective by showing that the long-term expansion of M-Pesa in Kenya generated measurable effects on poverty and economic opportunities, with particularly important effects for some women. The reduction of transaction costs allows resources to circulate more efficiently between individuals and broadens access to financial services in an incomplete financial market. Munyegera and Matsumoto (2016) identify a comparable mechanism in rural Uganda, where mobile money facilitates the receipt of transfers when conventional banking infrastructure remains limited. Geographic distance therefore becomes less restrictive when digital services provide alternative channels for financial transactions. Aron (2018) places these mechanisms within a broader perspective by emphasizing lower transaction costs, improved financial access, and easier transfers as central channels through which mobile money can influence economic outcomes. Digital payment infrastructure can consequently modify household financial behavior by reducing geographical and transactional barriers that previously limited participation in financial exchanges.

Lee et al. (2021) show that mobile banking reduces frictions in financial transfers between urban workers and their rural families in Bangladesh, thereby facilitating resource flows between geographically separated groups. Digital payment systems can therefore strengthen economic connections between areas that are not equally served by conventional financial infrastructure. Ozili (2018) broadens this mechanism by showing that digital finance can improve financial inclusion through lower service-delivery costs and expanded access for underserved populations, while also creating new risks that require appropriate institutional and regulatory responses. Ait Hbib et al. (2021) apply this reasoning to the informal sector by showing that fintech can provide alternative financial access to agents who remain excluded or insufficiently served by traditional intermediaries. The actual contribution of these technologies nevertheless depends on innovation characteristics and users' perceptions, which influence adoption decisions. El Hamidi et al. (2020) extend the role of fintech beyond financing by examining digital loyalty programs among Moroccan SMEs through transaction cost theory. Digital technologies can modify relationships between SMEs and customers by reducing some of the informational and transactional frictions surrounding exchange. Digital finance consequently influences market participation through payment accessibility, reduced transaction costs, financial inclusion, and new forms of firm-customer interaction.

Errassaa et al. (2023) examine crowdfunding as an alternative response to the limitations of conventional bank financing faced by Moroccan SMEs. Digital platforms create a mechanism connecting firms seeking capital directly with potential fund providers, thereby widening the range of financing channels available to enterprises. Ait Hbib et al. (2024) identify a broader function of digital platforms by showing that B2B fintech adoption can automate transactions, facilitate financing, and expand commercial relationships among Moroccan SMEs. These platforms can therefore simultaneously affect financial access and coordination between businesses. Makhrouf et al. (2024) add the blockchain dimension by examining its adoption through transaction cost theory. Blockchain can potentially influence verification, coordination, and transaction security costs, although adoption depends on the organizational assessment of expected costs and benefits. Ozili (2018) provides the institutional counterpart to these technological mechanisms by emphasizing that the development effects of digital finance also depend

on the capacity of financial and regulatory institutions to manage risks associated with digital transformation. Fintech platforms, crowdfunding, and blockchain can therefore reduce different forms of market friction, but their economic contribution remains conditioned by organizational adoption decisions, accessibility, institutional oversight, and the capacity of firms to integrate these technologies into existing financial and commercial practices.

El Hamidi et al. (2020) show that fintech adoption can change the organization of exchanges between Moroccan SMEs and their customers by affecting information and transaction costs associated with digital loyalty programs. Makhrouf et al. (2024) extend this transaction-cost perspective to blockchain, where potential reductions in verification, coordination, and security costs provide economic incentives for adoption, while anticipated implementation costs can restrain organizational decisions. Ait Hbib et al. (2024) identify similar mechanisms in B2B fintech platforms, which can facilitate financial operations, automate business processes, and broaden access to commercial partners. Suri and Jack (2016) demonstrate at the household level that digital financial infrastructure can also generate wider development effects when reduced transaction costs facilitate resource transfers and expand economic opportunities. The implications of digitalization therefore extend across different levels of market activity. At the household level, digital finance can improve access to transfers and financial resources; at the firm level, it can modify coordination, customer relationships, financing opportunities, and transaction security. The economic effects of fintech consequently depend on its capacity to reduce specific market frictions while remaining sufficiently accessible and beneficial for households and firms to adopt and use it effectively.

3.3. Capital markets, monetary policy, Islamic finance, and international capital flows

Chari et al. (2021) show that quantitative easing episodes, the taper tantrum, and changes in international investor sentiment influence portfolio flows and financial conditions in emerging economies. International capital mobility can therefore provide financing opportunities while simultaneously exposing emerging markets to external volatility. Bowman et al. (2015) identify a related transmission mechanism by showing that unconventional U.S. monetary policy affects financial conditions and asset returns in emerging economies. Financial markets consequently transmit policy decisions across national borders through changes in financing costs and market valuations. Arcand et al. (2015) introduce a limit to the developmental role of finance by showing that the relationship between financial deepening and growth is nonlinear. Beyond sufficiently high levels of private credit, additional financial expansion may cease to support growth and can become detrimental. Ziky and El Hamidi (2022) examine these market mechanisms at the level of Moroccan initial public offerings by studying returns around IPO events and subsequent performance. Capital-market development therefore involves both the capacity to mobilize financial resources and the mechanisms through which securities are valued. Financial expansion, international capital flows, and market valuation can support resource allocation, but their effects depend on the scale of financial intermediation and the exposure of markets to external monetary conditions.

El Hamidi and Karboub (2023) examine the determinants and stability of money demand in Morocco, emphasizing a monetary relationship that influences the macrofinancial environment in which financial markets operate. Stable money demand can contribute to the predictability of relationships among economic activity, prices, interest rates, and monetary balances. Ziky and El Hamidi (2023) extend this monetary perspective by analyzing a Taylor rule in a DSGE framework that incorporates sovereign sukuk. The coexistence of conventional bonds and sukuk can alter the transmission of interest-rate changes because investors may arbitrage between financial instruments with different characteristics. Ziky et al. (2024) focus on *ṣukūk al-*

muḍārabah as instruments for financing and liquidity management among Moroccan Islamic banks. Their use can broaden the set of instruments available to participatory banks while responding to institutional constraints associated with Sharia-compliant financial intermediation. Chari et al. (2021) show that domestic financial architectures remain exposed to changes in international liquidity and investor behavior through portfolio flows. Monetary transmission therefore depends not only on policy-rate decisions but also on the structure of available financial instruments, liquidity-management mechanisms, money-demand conditions, and the interaction between domestic markets and international capital movements.

4. Discussion

The literature reviewed suggests that market mechanisms contribute to economic development primarily when they improve the allocation of resources, strengthen competitive pressures, and reduce the frictions that constrain productive activity. Restuccia and Rogerson (2017) and Bento and Restuccia (2017) show that distortions affecting the allocation of capital and labor can prevent productive firms from expanding and reduce aggregate productivity. This perspective is reinforced by Aghion et al. (2015), whose findings indicate that industrial policy can support productivity when it preserves competition rather than replacing it. The review also shows that market performance depends on the quality of information and the conditions under which exchanges take place. Mitra et al. (2018) demonstrate that information asymmetries can weaken producers' bargaining position, while Choukar et al. (2021) emphasize the importance of transaction costs in shaping relationships between firms and stakeholders. Infrastructure constitutes another component of this mechanism. Donaldson (2018), Storeygard (2016), and Asher and Novosad (2020) show that transport connectivity affects trade costs, labor mobility, and market integration. The overall implication is that market efficiency depends on a combination of competitive structures, effective resource allocation, reliable infrastructure, and reduced informational and transactional frictions.

A second result emerging from the review concerns the role of institutions and public intervention in shaping how markets operate. Trade liberalization and international integration can support structural transformation, but their effects depend on the capacity of firms, workers, and territories to adjust. Brandt et al. (2017) show that greater exposure to international competition can promote firm-level reallocation, whereas Dix-Carneiro and Kovak (2017) underline the persistence of regional adjustment costs when labor mobility remains limited. This institutional dimension is also visible in the studies of El Hamidi and Ed-Dib (2019) and Ed-Dib and El Hamidi (2020), which place institutional quality at the center of the transmission of trade openness and foreign investment in North African economies. Public intervention may also influence market outcomes through industrial subsidies, procurement, taxation, and formalization policies. Kalouptsi (2018) and Lane (2025) show that targeted industrial policies can reshape productive structures, while Bosio et al. (2022) stress that formal rules are insufficient when implementation is weak. Benhassine et al. (2018) and El Hamidi et al. (2021) similarly indicate that formalization depends not only on administrative simplification but also on incentives and institutional trust. Markets therefore operate within institutional frameworks that can either reduce or reinforce existing distortions.

The financial dimension of the review further shows that greater access to finance does not automatically generate stronger development outcomes. Banerjee et al. (2015), Crépon et al. (2015), and Meager (2019) indicate that microcredit can modify borrowing, investment, and entrepreneurial behavior without producing uniform improvements in welfare. This suggests that the developmental effect of finance depends on borrower characteristics, productive opportunities, and the design of financial contracts. Kersten et al. (2017) similarly show that SME

financing interventions can support investment and employment, but with substantial heterogeneity across contexts. Digital finance introduces additional mechanisms by reducing transaction costs and broadening access to financial services. Suri and Jack (2016), Riley (2018), and Aron (2018) show that mobile money can facilitate transfers, risk sharing, and financial inclusion, while Ait Hbib et al. (2021) and El Hamidi et al. (2020) highlight the importance of adoption conditions and transaction-cost reductions in the Moroccan context. At the macrofinancial level, Arcand et al. (2015) also caution that excessive financial deepening may become counterproductive. The literature therefore supports a conditional interpretation of financial development in which accessibility, institutional quality, technological adoption, and financial architecture jointly determine whether finance strengthens economic development.

Conclusion

The review shows that market mechanisms contribute to economic development through several interconnected channels rather than through a single automatic process. Competition, resource allocation, infrastructure, information, institutional quality, international openness, and access to finance jointly shape the capacity of firms and households to respond to economic opportunities. The literature indicates that markets perform more effectively when productive resources can move toward efficient firms, when transport and energy infrastructures reduce spatial and operational constraints, and when informational and transactional frictions remain limited. It also shows that public intervention is not necessarily opposed to market functioning. Industrial policies, procurement systems, taxation, and formalization measures can support productive transformation when they preserve incentives, reduce distortions, and are implemented within credible institutional frameworks. Conversely, weak implementation, persistent labor-market frictions, administrative burdens, or unreliable infrastructure can limit the expected gains from liberalization and competition. These findings support a view of development in which markets and institutions are complementary rather than mutually exclusive. The effectiveness of market mechanisms depends on the quality of the environment in which exchanges take place and on the ability of public policies to facilitate adjustment, reduce constraints, and improve the allocation of productive resources.

The financial dimension leads to a similar conclusion. Expanding access to credit, developing capital markets, or introducing digital financial services does not systematically generate uniform development outcomes. The effects of finance depend on the characteristics of borrowers, the nature of available contracts, productive opportunities, institutional quality, and the capacity of financial systems to manage risk. Microcredit can relax specific constraints without transforming all dimensions of household welfare, while SME finance can support investment and employment when interventions correspond to the actual needs of firms. Digital finance, mobile money, crowdfunding, blockchain, and B2B fintech platforms further broaden the mechanisms through which markets can reduce transaction costs, facilitate transfers, improve coordination, and extend access to financial services. Their contribution nevertheless remains conditional on trust, accessibility, regulatory capacity, and effective adoption by users. At the macrofinancial level, international capital flows and monetary transmission can provide financing opportunities while also increasing exposure to external volatility. The literature therefore points toward a balanced interpretation of market development: stronger markets can support growth, inclusion, and structural transformation, but their effectiveness depends on institutional quality, appropriate regulation, technological integration, and the capacity of economic actors to convert market opportunities into sustained productive outcomes.

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