# Trade openness and the informational efficiency of emerging stock markets


## Abstract

This paper examines the empirical link between trade openness and the informational efficiency of stock markets in 23 developing countries. Our fixed effects panel regression results document a significant negative relation between trade openness and stock return autocorrelations only when the de facto measure is used. On this basis, we argue that a greater level of de facto trade openness is associated with a higher degree of informational efficiency in these emerging stock markets because the former signals higher future firm profitability, and investors tend to react faster to information when there is less uncertainty about a firm's future earnings or cash flows. Further analyses find no significant association between the extent of financial openness and the degree of informational efficiency.