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主　論　文　の　要　旨

論文題目　Financial Development, Institutions, and Economic Growth: Evidence from Asian Economies and Case Studies of Nepal
(金融発展、政治経済制度と経済成長の関係　－アジア諸国とネパールの事例より－)

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論　文　内　容　の　要　旨

1 Introduction

This doctoral dissertation tries to fulfil the gap underlying the critical issues of the financial development, institutions, and economic growth, evaluating evidence from Asian economies and some cases of Nepal.

The neoclassical theories of economic growth explained that population and savings are the principal determinants of economic growth. However, the production function invented by Cobb and Douglas (1928) stated that physical capital and labour as a factor of production and total factor productivity explains the economic growth. Later on, the endogenous growth theory of Romer (1990) gives importance to technological innovations for economic growth. Since then, many researchers have explored critical determinants of economic growth that stimulate the accumulation of factor productions and technological innovations. The empirical evidence of Barro (1996) pointed out that human capital that evolves from *"initial schooling and life expectancy"*, *"rule of law and terms of trade",* along with other factors determine the economic growth. However, financial development and institutional development are also emerging as critical means of economic growth in recent years.

Historically, Schumpeter's (1911) influential study and Hicks (1969) raised the implication of the financial sector to encourage innovations through proper resource allocation in the economic development process. Later on, the empirical evidence presented by King and Levine (1993b) and Levine (1997, 2005) stated that a financial development along with other nonfinancial developments such as human capital and information and technology could promote economic growth. Capital accumulation through proper resource allocation and promotion of innovation is possible through well-developed financial sector development. Hence it is considered a necessary means of economic growth. A well-functional financial system through efficient institutional frameworks and markets channels the available resources in investment activities in a productive way. Therefore, both financial development and economic growth are strongly linked to institutional development.

The institutional development, which differs across the countries, on the other hand, is also taken as necessary means of economic growth and primarily addressed by various researchers. Institutions are social technology which shapes the socio-economic behaviours of stakeholders in the economic development process. North (1991) stated that institutions are humanly made a set of rules, either informal or formal, that determine or shape stakeholders' social, political, and economic interactions. The codes of conduct, customs, and traditions are considered informal characteristics of institutions, whereas constitutions, laws, and property rights protection are considered formal characteristics of institutions. Before Romer's endogenous growth theory, North (1989) introduced the role of institutions on economic growth by examining political and economic institutions' interdependence. Since then, institutions are emerging as critical means of economic growth and widely discussed in the literature of economic development theories and practices. The economic and financial stakeholders may not perform well if a country has poor socio-economic conditions, lack of investment environment, high corruption, unstable government, low regulatory quality and poor law and order. Strong, inclusive, and transparent institutions make society more peaceful and stimulate economic development in the presence of an efficient legal system. Therefore, both financial development and institutional development are also evolving as critical elements of economic growth and productivity in the present globalized world (Demetriades and Law, 2006). Both the country's domestic financial system and institutional quality keep strengths of mobilizing available source of finance, either external or internal, in productive sectors in an economic growth process.

Therefore, this dissertation first examines how the economic growth effects of financial development vary concerning the countries' economic development stages and institutional qualities. Second, it examines finance-growth relationship evaluating intermediations of institutions in the Asian context. Third, it examines the country-specific case of Nepal's finance-growth relationship, giving attention to the significance of financial reform and liberalization. Fourth, it evaluates the role of financial and institutional development on channelling external sources of finance such as remittances and foreign direct investment for Nepal's economic growth.

2 Analytical Chapters and Objectives of the Study

This dissertation has below listed analytical chapters and objectives.

Chapter 2. Significance of Financial and Institutional Development for Economic Growth: A Brief Review of Literature and Asian Experience

Objective 2.1: To study the significance of financial and institutional development for economic growth.

Chapter 3. Financial Development, Institutions and Economic Growth: Evidence from Asian Economies

Objective 3.1: To study the dynamic relationship between financial development and economic growth of Asian economies and examine institutions' intermediation role in their intercourse.

Chapter 4. Financial Development and Economic Growth in Nepal

Objective 4.1: To study the dynamic relationship between financial development and economic growth of Nepal.

Chapter 5. Remittances and Economic Growth: The Role of Financial and Institutional Development in Nepal

Objective 5.1: To study the role of remittances on Nepal's economic growth and to examine how financial and institutional development fosters the impact of remittance inflow on Nepal's economic growth.

Chapter 6. Foreign Direct Investment and Economic Growth: The Role of Financial and Institutional Development in Nepal

Objective 6.1: To study the relationship between foreign direct investment and Nepal's economic growth and to examine how financial development fosters the impact of foreign direct investment on the economic growth of Nepal.

Objective 6.2: To study the intermediation role of institutional development in the relationship between foreign direct investment and economic growth of Nepal.

3 Data and Methodology

This dissertation uses secondary data for all analytical chapters. A review of previous literature and descriptive statistics are presented in chapter two. In chapter three, a cross-sectional estimation of sixty economies under panel least square-fixed effects (PLS-FE) model is used to examine whether the economic growth effects of financial development significantly differ according to the economic development level countries and their institutional quality or not. Pooled mean group (PMG) estimation under panel autoregressive distributive lag (PMG-ARDL) model developed by Pesaran, Shin and Smith (1999) was being used to examine the dynamic relationship of finance-institutions-growth nexus of Asian economies. The secondary data obtained from the World Development Indicators (WDI) of the World Bank and International Country Risk Guide (ICRG) of political risk Service (PRS) group from 1985 to 2016 are used.

In chapter four, the study uses secondary data for the period of 1985 to 2016 obtained from

WDI of the World Bank to see the cointegration relationship and causality between Nepal's financial development and economic growth. This chapter is designed to conduct time series econometrics on which four various indicators of financial development are selected. In chapter five, the study uses secondary data for the period of 1993 to 2018 obtained from WDI and the World Governance Indicators (WGI) of the World Bank to see the effect of remittances on economic growth and to examine the intermediation role of financial and institutional development on its channel to foster economic growth of Nepal. This chapter is designed to conduct an endogenous growth model with time series econometrics. In chapter six, the study uses secondary data for the period of 1985 to 2018 obtained from WDI and WGI of the World Bank and, United Nations Center for Trade and Commerce (UNCTAD) to see the two-way causal dynamics between foreign direct investment and economic growth of Nepal and to examine the intermediation role of financial and institutional development on their intercourse. This chapter is also designed to conduct an endogenous growth model with time series econometrics.

This study uses a multivariate time series autoregressive distributive lag (ARDL) bound test approach for chapter four and linear and non-linear autoregressive distributed lag (ARDL and NARDL) bound test approach for chapter five and six developed Pesaran and Shin (1998) and Pesaran, Shin and Smith (2001).

4 Findings and Policy Recommendations

Cross-sectional estimations of Chapter 3 confirm that financial development explains economic growth positively and significantly in the long-run. Therefore, this study recommends developing economies to choose effective policy instruments to diversify and develop their financial system to promote economic growth. The higher magnitude of financial development on real GDP per capita in middle-income economies and Asian economies gives a message to low-income economies that financial development is a prerequisite condition for economic growth. More developed the financial system, more the economy can use available resources in productive sectors

(Levine, 2003). However, chapter four also discusses how financial reform and liberalizations are essential to develop and diversify the domestic financial system and how it benefits economic growth in the long run. More importantly, the institutional development level is generally significant to foster the effect of financial development on economic growth, which is remarkable in the upper-middle-income group, where the institutional quality index is comparatively better than other income groups. The significant differences of the causality pattern of financial development on economic growth depending upon the economic development stages of economies and their level of institutional quality also signify that economic development effects depend on country-specific financial policies, structures and institutions (Demetriades and Hussein, 1996; Zingales, 2003). Therefore, developing economies must build better institutional frameworks, both political and economical, while developing their financial sector. Besides this, the study also finds that financial development and economic growth of Asian economies are cointegrated with bi-directional causality, as most Asian economies are middle-income economies. Therefore, the developing economies should have to build the supply-side capacity of financial services according to their size and growth. The level of institutional development individually and interacting with financial development is insignificant to cause economic growth in Asian economies, suggesting that there is much space to work on institutional development in this region. Therefore, policymakers should focus on setting a clear policy to enhance institutional qualities by which financial activities operate efficiently. If financial institutions mobilize saving and channel it to the most productive sector in a sound institutional framework and investment environment, a country can achieve higher economic growth. Besides this, the study finds that the financial sector of Asian economies benefits from the distinct features of institutional development.

Nepal struggles for economic progress for the last three decades, even after introducing liberalization in the mid-1980s. The domestic civil war from 1996 to 2006 and prolonged political transitions became the main obstacle to achieve various development goals. Despite these difficulties, Nepal has uplifted into the lower-middle-income country from a low-income country as of July 2020. Due to rapid migration, the Nepalese economy has shifted to remittance-based consumption economy from traditional agricultural economy. Therefore, the current economic growth is at risk as it is driven by remittance-based consumption rather than investment (Cosic, Dahal and Kitzmuller, 2017). This dissertation presents Nepal's policy recommendations concerning its financial and institutional development, keeping the focus on utilizing an external source of finance such as remittances and FDI.

Chapter four confirms that Nepal's financial development and economic growth are cointegrated with bi-directional causality in the long-run. It means the Nepalese financial sector is well-functioning, especially with financial reform and liberalization enacted after the 1980s. The development of institutional and legal framework supported the domestic financial system to increase its depth, stability and efficiency. However, it is dominated by the banking sector only. Despite the significant progress in the diversification of the bank-based financial system, the capital market is still in the preliminary phases. Basically, Nepal has to develop and diversify its financial system in terms of both financial institutions and the market.

Chapter five confirms that remittance inflow is significant and positive to cause Nepal's economic growth, although remittance is being mostly used in primary consumptions. Despite this, the study recommends policymakers set policies that can divert the path of remittances towards saving and investment from consumption. The government must motivate migrant's family and returnees to invest in SMEs. The growth impact of remittance through investment activities would be higher than consumption. The findings also confirm that Nepal's financial system has intermediated as a channel of fostering effects of remittance inflow on economic growth. However, the magnitude is shallow. It seems that the financial sector is not playing an influential role to support migrants to enhance their investment activities. Therefore, policymakers should set policies to promote entrepreneurial activities of returnee migrants through inclusive and well-diversified financial institutions. The participation of returnee migrants in SMEs, especially for generating local employment, is vital for Nepal. The institutional development of Nepal was deteriorating until the peace talks of 2006 but remained inconsistent after that. The study also concludes that Nepal's low institutional development has reduced the effects of remittances on economic growth. Therefore, Nepal should give greater attention to improve institutional quality, which is taken as a social technology for steady economic growth. A better investment environment is a prerequisite condition for mobilizing remittance income into productive sectors.

Nepal has left behind to attract foreign direct investment compared to its neighbors because of domestic civil war and political transitions despite having considerable potentials, especially in energy, tourism and infrastructure sectors. Chapter six confirms that the FDI net inflow ratio to GDP is insignificant to cause GDP per capita of Nepal. However, the FDI inward stock ratio to GDP is found significant to cause real GDP per capita of Nepal. Therefore, effective policy instruments are still needed to attract more FDI as Nepal has entered into a new phase after promulgating the constitution in 2015. Findings also confirm that Nepal's financial development is not intermediating the influence of FDI on the economic growth of Nepal. Therefore, strengthening financial institutions is to be done to finance big projects of FDI. The study has found that institutional development has played a substituting role to minimize the effects of FDI. FDI, especially net inflow, is very sensitive to institutional development as it keeps strength to explain the host country's investment climate and gives fundamental ideas to international investors to make their investment decisions. Therefore, Nepal's main development agenda must be focused on *"Institutions, institutions and institutions"* taken as a social technology for steady economic growth as explained by Acemoglu and Robinson (2012). A better investment environment is always a prerequisite for resource mobilization, either domestic or international, on an economy.