

CHAPTER – V

Conclusion and Policy Implications

Present thesis has twin objectives. First, to measure objectively pattern of growth of stock markets of sample countries and second, to study development implications of this change in the stock market behaviour.

Initially we selected twenty-two countries to answer the above questions. Criteria for selecting countries were: proximity of the date of liberalization of the sample countries, availability of relevant information, stages of economic development and sequencing pattern. As our primary interest is Asia, sample consists of more countries of this region.

To measure pattern of stock market development, we relied on an Weighted average index, where weights of each variable were assigned based on the Principal Component Analysis. Our findings suggest –

- Growth of South-east Asian stock markets such as Hong Kong, Singapore, Malaysia, Korea etc. are truly impressive. These markets are growing at a faster rate than many developed markets;
- Experiences of south Asian markets such as India, Sri Lanka, and Bangladesh are totally disappointing. Sri Lanka enjoys the lowest ranking among all sample countries.
- Among the Asian countries fall of Japan in ranking though expected, the experience is important for further policy measures;
- Latin American countries, excepting Mexico, also poorly in our ranking. The findings are not surprising considering the unruly behaviour of the markets in this region;
- USA tops the list and other developed European markets performance is also noteworthy.

What makes the difference between fast and slow moving markets? Why the countries at the bottom of our ranking failing to improve their performance even in the post liberalization period? Our statistical analysis suggest –

- Inappropriate sequencing;
- Poor infrastructure such as inadequate rules and regulations, poor accounting standard, high level of corruption, inadequate property right, lack of transparency etc.;
- Inadequate openness of the economy;
- Slow growth of economic development, are the main reasons that can describe why poorly developed stock markets failing to improve its performance.

Based on the above findings we suggested some measures to improve its performance of the stock markets of sample countries that belong to different stages of economic development.

- Low-income countries with immature stock market should primarily focus on the basic requirements i.e. institutional development, infrastructure development, macroeconomic stability etc.;
- Middle-income countries where stock markets can be a potential force for economic development should focus on efficiency factor such as, technological readiness, improving skill and education of participants, enhancing institutional efficiency etc.;
- For high-income countries with developed markets we suggest the following steps- increase business sophistication, emphasize on innovation etc.

But the issue remains open – how society can be benefited from a well-functioning asset markets? All the above discussions will appear as worthless if financial development cannot influence growth adequately.

Therefore, we emphasize on the issue: Is there any relationship between finance and growth? If yes, Is it bank- or market-based financial system that can better satisfy the need of the society? Is there any best financial structure that can be followed across countries?

To answer above questions we tried Granger type causality to assess the causal relationship among the variables of our interest.

In fact, there are two groups of economists whose opinion vary widely. While some attempts to prove desperately (i) finance leads to economic growth, while others disapprove the theory and suggests (ii) economic growth precedes finance.

Our findings offer a mixed baggage of experiences that is consistent with our assumption that finance-growth relationship varies across countries and it may change over time.

- At least for six countries causality runs from finance to growth, the findings that supports Neo-classical theorists;
- In all these six countries both market and bank combined contributions in economic growth. It confirms our assumption that this two channels offer different bunch of services and jointly their efficient functioning can help society to develop;
- At least for nine countries, causality runs from growth to finance. Out of nine countries, five are Asian countries and they belong to different stages of economic development;
- Besides these two broad groupings for few countries such as Hong Kong, USA, South Africa bi-directional causality is apparent.
- Ignoring direction of causality, it appears institutional finance influences or is influenced by economic growth more prominently than that of asset markets. This finding is specifically relevant for Asian economy.

Why should we bother about deepening and widening of financial system? Should we ignore Neo-classical doctrine and embark upon the proposition if economy grows finance will automatically follow? Our study fails to offer any definite answer of the above questions. If anything is sure it is that we know little about finance-growth linkage.

At the bottom, we like to emphasis that lack of sufficient information for many developing economy very often deter us to undertake more sophisticated economic analysis to answer our research questions. We believe country-specific study of the financial system may help researchers more objectively to understand reality and to prescribe policy accordingly.

However, this is beyond our scope of the study but we welcome any such attempt that we believe will contribute further in our understanding about finance growth relationship.

In addition, there is no denying the fact that economic growth of a country does not only depend upon stock markets and/or banking sector. The government securities markets, derivatives markets, private debt markets, venture capital, and new issue markets along with legal and institutional factors are also important for invigorating the economic development of a country. However, a comprehensive study of this nature escaped attention of serious researchers.