

UNIVERSITI TEKNOLOGI MARA

**NEXUS OF FINANCIAL
DEVELOPMENT AND ECONOMIC
GROWTH IN THE ASIAN REGION
COUNTRIES WITH
TECHNOLOGICAL
ADVANCEMENTS AS THE
MODERATOR**

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ABSTRACT

Since the early nineteenth century, scholars have paid attention to verifying Financial Development (FD) and Economic Growth nexus (EG) but the results are vague concerning causality and linearity among FD and EG. Further from the late nineteenth, scholars added Technological Advancement (TA) to the list since TA makes miracles to boost economies. However, they understood that the influence of FD and TA towards EG is affected by structural breaks. Hence, intellectuals have attempted to examine the effect of structural breaks on economic activities to assess the relationship of FD, TA and EG. Thus, this study ran on four objectives, first, to examine FD and EG nexus in Asian regional countries, second to identify the effect of FD to EG concerning income level difference of individual countries. The third is to assess the moderator effect of TA towards FD and EG nexus and the final is to assess the effect of structural breaks to FD and EG nexus. The sample consisted of 34 Asian countries and data were gathered for 20 years from 2000 to 2019. FD and TA were the explanatory variables while EG was the response variable. In addition to key independent variables, Human Capital (HC) and Private Consumption (PC) were taken as control variables. The Global Economic Crisis was considered to examine the effect of structural break outbreaks. The study followed short-panel and long-panel data analysis techniques and the results indicated that all the independent variables significantly affect to EG. Further, FD and PC have a significant negative effect on EG whereas TA and HC have a positive connection with EG. However, these relationships vary with income level disparities of individual countries. In addition, the results showed that the moderator effect of TA is negative indicating that despite there being a positive effect of TA to EG as individual variables, the interaction effect of TA while blending with FD shows negative results. Last but not least the third objective of the study was to examine the effect of structural break where the analysis confirms that there is a significant effect of Global Financial Crisis to change the relationships of FD, TA, HC and PC with EG. Hence, the outcomes of this study contribute to guiding the policymakers in developing sustainable policies in terms of Asian region and individual countries and to maintaining better investment portfolios to maintain appropriate levels of FD, TA, HC and PC while vigilant on structural breaks.

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CHAPTER 1

INTRODUCTION

This chapter starts with the background of the study and is followed by the problem statement which lays the foundation and elaborates on the issues that are going to be addressed through this piece of work. Then the objectives are mentioned with the research questions afterwards with expects relationships between variables and the scope which explains the boundaries. Finally, the significance of the study is showing the importance of this investigation.

1.1 Research Background

Examining the relationship between Financial Development (FD) and Economic Growth (EG) has taken substantial attention in both theoretical and empirical literature during the last couple of decades. Since the early nineteenth century, intellectuals have attempted a lot to identify the effect of financial development on economic growth and the nexus of FD and EG.

The term 'Nexus' refers to the relationship between the explanatory variable and the response variable of the study. The Oxford Dictionary define the term Nexus as; "*A connection or bond; a point at which two things are interlinked*". Hence, the term "Nexus" is used to show the relationship or the link between explanatory variables and the response variable.

Therefore, many scholars have proven the significance of financial development to grow the economic condition of a country. Hence, they have introduced many theories to emphasize the importance of FD in improving gross domestic production. In 1911, Joseph Schumpeter introduced the Supply leading theory and explained that the development of financial services makes a positive contribution to economic growth. In 1952 Jain Robinson showed that EG leads towards FD and the development of the financial sector is one of the crucial factors in a country. Same as in 1994, Paul Romer stated that in addition to technological advancements, human capital and entrepreneurship skills, there is a significant influence from financial sector development to the economic growth of a country. Hence, it confirms how FD is significant to a country in maintaining sustainable economic growth.