CHAPTER V

Conclusion and Suggestion

After analyzing the estimation results of the two models, this chapter will present conclusions and some suggestions that can be taken.

5.1 Conclusion

Empirical studies have found that financial liberalization can boost economic growth and harm it through a crisis. Therefore, this study attempts to analyze the effect of financial liberalization on economic growth and the probability of a financial crisis and to examine whether this effect is different in developed and emerging countries. This study used panel data from 21 developing countries and 9 emerging countries from 1998 to 2018. As a measure of financial liberalization, this study uses the extended IMF's financial reform index by Abiad et al. (2010).

The effect of financial liberalization on the probability of a financial crisis is analyzed using the probit model. From this model, we obtain the marginal effect of financial liberalization on the crisis. The estimation results indicate that financial liberalization positively affects the probability of a financial crisis in developed and emerging countries. However, this effect is only significant in developed countries.

Then, the effect of financial liberalization on economic growth, otherwise referred to as the liberalization effect, is analyzed using the Fixed Effect model. From this model, it appears that financial liberalization generates a different effect on economic growth for developed and emerging countries. In developed countries, financial liberalization is estimated to have a negative and significant effect on growth. Meanwhile, in developing countries, the results show that financial liberalization on growth, although positive, has no significant effect.

Financial crisis and polity are also estimated to affect economic growth in developed and emerging countries. The estimations show that financial crisis has a negative relationship with growth, and polity has a positive relationship. Other controls variables also generate a different effect on economic growth. Inflation is estimated to negatively affect emerging countries' growth, but no significant effect is found for developed countries. Trade openness, government expenditure, and population growth are also found to have no significant effect on growth in both developed and emerging countries.

From these two models, we can calculate the net effect of financial liberalization. The results show that the net effect of financial liberalization is different between developed and emerging countries. Developed countries have a negative net effect, and emerging countries have a positive but insignificant net effect.

5.2 Suggestion

This study certainly has many drawbacks. Nevertheless, the results of this study can contribute to providing some suggestions. Financial liberalization was found to generate different effects on growth in developed and emerging countries. This difference is due to the different levels of liberalization in the financial sector of developed and emerging countries. The results indicate that too much liberalization in the financial sector can jeopardize growth. At the same, too much control would not generate a significant effect on growth. Considering that this study uses the financial liberalization index built by seven dimensions of financial reforms, it can be suggested that liberalization policy can be implemented in the financial sector if restrictions in specific dimensions are still maintained.

In addition, because the financial liberalization index data is still limited for most countries, it is highly recommended to extend the data in further research. In this way, the effect of financial liberalization can be further analyzed for future policy references, especially after the global financial crisis and the recent global pandemic.