Capital Account Liberalization, Institutions and Economic Growth: Evidence from Selected Asian Countries

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ABSTRACT

The neoclassical growth model predict that capital account liberalization is beneficial for economic growth as capital diffuse from abundant country to those having scarcity. This study separately investigates the allocative and productivity channels of Capital account liberalization (CAL) through which it affects economic growth of a country. The study estimated three different dynamic models using GMM technique. The study utilizes panel data of 14 Asian countries for the analysis covering the period 1980 to 2019. Findings of the study reveal that pace of economic growth have a corresponding movement with capital account liberalization. Touching upon the role of institutions, results of the study shows that institutional quality enhances the positive impact of capital account liberalization and hence accelerate economic growth in the sample countries. The contribution of this study lies in two ways. Firstly, we develop a theoretical model based on neoclassical growth model that permit us to evaluate the effects of CAL on economic growth. Secondly, unlike existing empirical literature on the subject, the study investigates the moderating role of institutions in interlinked relationship between CAL and economic growth.

Keywords: Capital Account Liberalization, Economic Growth, Institutional Quality

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