

ABSTRACT OF THE THESIS

The Institutional Spillover, Financial Development and Economic Growth : International Political Economy Perspectives

by

Kurukulasuriya Dinesh Udana Devindra Fernando

Ph.D. in International Relations

International University of Japan, 2022

Professor N.S. Cooray, Supervisor

International Political Economy (IPE) tries to interpret the complex contemporary environment, its interrelated and interactions between markets, states and international actors at different levels. Economic liberalism has mainly shaped the contemporary economic system, which argues for the limited role of the state in the relationship with the market. The failures and externalities of the free-market system have paved the way for institutionalism, which proposes minimising transaction costs, strong property rights and enabling the proper contract enforcement. Most studies on institutions in respect of the finance–growth relationship in neoclassical contexts are inconclusive and inconsistent. This study explores the institutional spillover on financial development and economic growth. The variables of good governance indicators for institutions and financial development index to measure financial development and per capita GDP for economic growth are mainly used in this study. The first objective is explored analysing the panel data of 152 countries for the period 2002–2019 using spatial econometric modelling to explore the spatial spillover of the institutions on the finance–growth nexus. Results indicate that financial development and institutions of surrounding countries create a reverse spatial spillover impact on local countries. The second objective is achieved by employing global panel data from 181 countries for the years 2002–2018 using simultaneous equation modelling. The financial market and its moderation of economic growth indicate a spillover behaviour. The third objective is achieved by the analysis in the Sri Lankan context using the data from 1990–2019 by time-series modelling and provincial data from 2013–2019 for nine provinces using spatial econometrics, including the inclusive growth to compare the institutional impact on economic growth. Results find that the mediator impact of institutions on inclusive growth and moderation impact of institutions with financial development on economic growth is adverse. Further, provincial analysis indicates that fiscal decentralisation had no significant impact on economic growth and inclusive growth. Results concluded that global governance is a positive-sum game; monitoring and governance structures have failed at the international level in relation to separate states. To prevent institutional failure at the state level, good governance and links with the global governance structure could energise local institutions.