

Financial Development, ICT Diffusion and Economic Growth: The Causal Nexus in Asia

Abstract

In the context of ongoing reforms process in the world economy in general and Asia in particular, the study makes an attempt to investigate the regional disparities in financial development, information communication technology (ICT) diffusion and economic growth across 21 Asian countries (Bangladesh, India, China, Hong Kong, Indonesia, Iraq, Iran, Israel, Japan, Kuwait, Malaysia, Philippines, Pakistan, Qatar, Saudi Arabia, Singapore, South Korea, Sri Lanka, Thailand, United Arab Emirates and Vietnam) over the period 1961-2012. The study also examines the causal nexus between financial development and economic growth, ICT diffusion and economic growth and between financial development and ICT diffusion for the selected Asian countries. The study focuses on the indices of financial development and ICT diffusion and their individual components. Analyses have been done for individual countries as well as for the groups (i.e. region-wise analysis). The countries have been selected on the basis of purchasing power parity classification of the World Bank. The study adopts principal component analysis for composite index formation, while coefficient of variation is used for analyzing regional disparities. The Granger causality test is applied for studying the causal nexus between financial development, ICT diffusion and economic growth. The empirical analysis finds that there exist inter-regional disparities in the availability of financial development, ICT diffusion and economic growth in the Asian countries. The Granger causality test shows that both financial development and ICT diffusion have substantial impact on economic growth. It also shows that both financial development and ICT diffusion cause each other. It is, thus, necessary to have sufficient availability of financial development and ICT diffusion and their integration in the Asian countries for achieving higher economic growth in the region. The deficiency of same brings in different policy implications in the Asian countries.

Keywords: Financial development, ICT diffusion, Economic growth, Principal component analysis, Granger causality test