

Corruption and Stock Market Development: Evidence from Asian Countries

Kelvin Lee Yong Ming*

Kolej Sunway Kuchingd, Malaysia

Mohamad Bin Jais

Faculty of Economics and Business, Universiti Malaysia Sarawak, Malaysia

Rossazana Abd Rahim

Faculty of Economics and Business, Universiti Malaysia Sarawak, Malaysia

Ayoib Che-Ahmad

Universiti Utara Malaysia

Abstract

Stock market plays a significant role in corporate financing. However, stock market movements were highly affected by certain external factors such as economic, psychological and political factors. By using the sample of 10 Asian countries, this study intends to investigate the impacts of macroeconomic and corruption factors on the stock market development. The sample period covered from the year 2003 to 2015. The dependent variable used in this study was stock market development. Whilst, the variables of interest used in this study were i) income level, ii) savings, iii) foreign direct investment, iv) value of stocks traded, v) money supply and vi) corruption perception index (CPI). A panel data approach had been applied in testing the relationship between the variables due to the nature of data. As expected, the gross domestic savings, foreign direct investment, and money supply were found to have a significant relationship with stock market development. On the other hand, the income level found to have a significant negative relationship with the stock market development. Noteworthy, the results also indicated that lower corruption level could lead to the growth of stock market development. Thus, a change in corruption level was the important matter to be considered before making any investment decision as corruption level had a significant impact on the stock market development.

Keywords: Stock market development; Macroeconomic factors; Corruption.



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1. Introduction

The stock market acts as the heart of financial market and plays a significant role in elevating the economic growth (Levine and Zervos, 1988). There are two main functions of the stock market where it serves as a platform for the listed companies in raising equity funds and stock trading between the stock market participants. Thus, stock market performance always attracts the attention of investors, researchers and business or financial organizations. Intuitively, the stock market index will be used as the benchmark for the stock market performance. However, the stock market performance can be measured from different aspects of investments such as returns, development and liquidity. As stated by Ayaydin and Baltacı (2013), the development of financial system is greatly influenced by the stock market development.

This study focuses on the stock market development and aims to investigate the impact of macroeconomic and corruption factors towards the stock market development. As applied in the previous studies, stock market development is commonly measured by the ratio of stock market capitalization to the gross domestic product (GDP). As shown in figure 1, Asian stock market had developed in term of market capitalization in these recent years. Generally, there has been an upward trend in the market capitalisation of the Asian market over the last 14 years, except for the year 2008 and 2011. Undoubtedly, China had the highest increment of about 1,427 percent in terms of market capitalisation from the year 2003 to 2016. In 2003, the stock market capitalization of China was just \$0.513 trillion in 2003 and increased dramatically to \$8.188 trillion in 2015.