Conclusion

This research studied the fundamental issues related to financial market development and carbon market development in the context of globalization, using recently developed econometric and statistical methods. Chapter 1 contained an overall review of the literature on the development of financial markets. Chapters 2 to 5 examined specific issues related to financial development whilst Chapter 6 was about the geographic determinants of CDM development, which is an important part of carbon markets, especially for developing countries.

Chapter 2 sought to investigate the political, economic and geographic determinants of the development of financial markets. By jointly applying two prominent tools for addressing model uncertainty, BMA and Gets approaches, it suggested that initial GDP, initial population, legal origin and institutional quality are fundamental determinants of the cross-country differences in financial development.

Chapters 3 and 4, respectively specifically focused on the economic and political determinants of financial development in the context of globalization. By using GMM estimation on averaged data and a common factor approach on annual data, Chapter 3 indicated a positive causal effect going from aggregate private investment to financial development, and vice versa. From a political viewpoint, Chapter 4 revealed a positive effect of institutional improvement on financial development at least in the short run, and an increase in financial development after democratic transformation.

Chapter 5 analysed what induces governments to undertake financial reforms, and what causes financial development. Starting from AM and allowing for error dependence across countries and over time, Chapter 5 found that some of the AM findings are robust, but others are fragile. It also identified a negative effect of the extent of democracy on policy reform. Together with Chapter 4, it seems to indicate that a short-run increase in financial development emerges after democratization, but that once democracy has been established and enhanced, its extent may exert negative effects on the likelihood of financial reform.

The last chapter found that countries with larger (smaller) CDM credit flows tend to be geographically clustered with other larger (smaller) CDM host countries and countries with higher absolute latitude, higher

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elevations and more exports of services tend to have more CDM credit flows than others.

This research to some extent contributes to our understanding of the causes of financial development, and adds to the growing research in this area. However, what I have done so far merely represents a start being made in this direction, much remains to be done. A number of areas for further research are summarized below:

1. While it is suggested that the level of financial development in a country is determined by its institutional quality, macroeconomic policies and geographic characteristics, as well as the level of income and cultural characteristics, further research into the more fundamental factors behind these characteristics is obviously worthwhile. To this end, other approaches may be considered, for example, recursive methods or dynamic programming applied to the theoretical models.

2. This research suggests that economic reforms with more open trade policies and attractive investment policies, and political reforms aimed at a more democratic society, should be conducive to financial development. Other research suggests that legal and regulatory reforms boost financial development. However, how to undertake these reforms, and in what sequence, has not yet been fully understood.

3. Although this research takes into account in Chapters 3 and 4, the effects of globalization on financial development, much work is still needed to explore the link between domestic and international financial markets, the impact of financial market integration on the development of domestic financial markets and the role of foreign financial institutions in domestic financial development.

4. As time goes, with more data available on the number of CDM projects and/or the volume of CDM credit flows, time series studies or panel data studies can be carried out to find whether or not a more open trade policy is conducive to CDM development, whether or not institutional quality is important for CDM, whether or not financial development promotes CDM development, and so on.