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INVESTIGATING THE NEXUS AMONG TRADE LIBERALIZATION AND ECONOMIC GROWTH: EVIDENCE FROM ASIAN TIGERS' ECONOMIES

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Abstract

This research is being carried out to model the nexus among economic growth and trade liberalization in Asian tigers' economies by applying annually panel data regression approach between the periods 1960-2014. This analysis shows how developing countries are achieving and experiencing high economic development due to trade liberalization, and how positive the economic effect is. This analysis observed a significant effect on Asian tigers' nations regarding trade liberalization and economic development. The Fixed Effect Model revealed that human

capital index and export price have a positive significant impact on economic growth, while import price negatively influences GDP. The Dumitrescu and Hurlin Causality suggested that LGDP has a bi-directional causality with human capital index(LHCI) and import price (LIM), while the causality with the export price is (LEX) unidirectional. The study recommends that policies relating to foreign direct investment must be reviewed to protect the local companies and the economy's output capacity so that trade liberalization in the economic activities of the Asian tigers will not be a drawback for the local companies.

Keywords: Policies, Trade liberalization, Asian tigers, Economic growth, Common effect, Ramdom effect, Hausman test

INTRODUCTION

Trade has been recognized to the countries at various rates of economic growth as a central and integral part of financial development. Trade may contribute to the improvement in economic development between one nation to the other, and better serve distribute capital. Many countries have undergone massive economic development while others have to experience economic volatility but there is less confirmation of occurrences as an effect. Consequently, foreign trade plays a significant role in the regard that there are both dynamic and static economic advantages around the globe. Trade theories, therefore, may not say much about the equality of certain advantages and trade-related profits.

In the 20th century, particularly within a second half and also in several Asian and African nations after the colonial period and the collapse of the Soviet Union; those regions were worried for the consequences of unemployment, low wage levels, rising crime levels, poor governance as well as economic hardship. The action to address most of these issues has been to enhance and encourage productivity within a nation. Economic expansion and production will raise competitive, generate additional economic opportunities which will provide governmental interventions to satisfy economic inequality and adequately fund public investment (Arrow et al, 1995).

From the foregoing, outstanding involvement in economic development processes prompted such countries' analysts and policymakers to consider appropriate ways to improve their financial development for the developed countries. Although many common approaches, moreover, the general attitude to privatize domestic firms make tax rates very competitive and lowering labour costs to build good opportunities for shareholders, and to promote the entrepreneurial activity and also major corporations. Although other economists and policymakers focused on the above approaches or methods, there are already varying views on

the connection between trade openness and economic development, and the argument also is going on. There seems to be a general belief that trade will help nations in potential long-term growth, as the theory of trade implies that eliminating barriers to international trade and also being open to foreign businesses, countries may compete in particular companies and help from a significant advantage (Hunt & Morgan, 1995). Many argue, nevertheless, that certain degree of trade barriers or restrictions like tariffs on imported goods must be enforced and also used to encourage and help local companies, in which they have the potential to benefit via lack of demand on domestic economies.

Can international trade also be a principal or critical component in a nation's progress? Are the growth and development needs of a nation inconsistent with the competitive advantage principle? Nevertheless, the biggest issue is to understand whether or not the process of globalisation will be a cost or blessing to countries engaging in it. Hozouri (2016) believes that responding to these issues requires a description of the economic structure, regulations and standard settings, the agenda and the countries' capacity throughout the international business environment.

Accordingly, various economic theories recently arisen through expanded trade ties among countries, attempting to understand how governments could improve its benefits by engaging mostly in the international economy, financial strategies are becoming less rigid or liberalised particularly after World War II, started in 1947, where 23 countries joined the Global Tariff and Trade Agreement (GATT). The major aim is to minimize import tariff as well as other requirements on trading too. The GATT and WTO, therefore, have an essential role to play in supporting trade liberalisation and also have eight executive meetings and conferences intended to reduce barriers such as duties and surcharges barriers. It became regarded as a start point for economic liberalisation or a major step further towards more liberalized economic strategies. Also, the World Bank and International Monetary Fund (IMF) have greatly encouraged the development of trade liberalisation across the world. For example, the developed nations were also motivated to modify their economic reforms that liberalise economic strategies and so many other local policies as well.

However, focusing on such unclear opinions, this research is being carried out to model the nexus among economic growth and trade liberalization in Asian tigers' economies by applying annually panel data regression approach between the periods 1960-2014. This regression analysis could show whether developed countries are achieving and experiencing high economic development due to trade liberalization, and how positive the economic effect is. To make a clear conclusion, the analysis emphasizes on its commercial history and trade. The manuscript has five sections. The introduction is the first section whereas the literature review is

the second section. As the third Section gives clear information on the methodology, the fourth section examines results acquired. In the end, the fifth section gives a comprehensive conclusion.

LITERATURE REVIEW

To measure the stable relationship between trade and economic development, economists and researchers experimented with several econometric methods. Literature gives the desired behaviour that trade openness and economic growth correlate positively. The significant growth success of the Asian Tigers over the previous years and also the encounters of expansion in India and China also introduced crucial policy reforms, particularly in trade and global investment. Panagariya (2004) addressed that the interpretation of free trade has been supported by encounters and performance in the previous fifty years. Accordingly, there are several opinions and analyses in earlier literature exposing the connection between economic growth and liberalization of trade.

Fiestas (2005) stated that there is no proof showing that liberalization of trade is unbeneficial to economic development in the region. The costs and drawbacks of outward-oriented strategies are clear and are generally recognized by both scholars and politicians. In reference, the association among both economic growth and trade liberalization, one of several issues that investigators, academics and economic policy experts always ask when evaluating how and when to implement free trade strategies. These were arguably diverse opinions of trade liberalization consequences on economic development of various nations. According to Dollar (1992), economic liberalization advocates emphasize that the adoption of liberated trade strategies, particularly in favour of inputs that provide a market for accumulating foreign investment which might contribute to growth and expansion without automatically paying liabilities. He supports liberalization of trade as a means of promoting financial activities and economic development, while free trade helps a given nation to reduce capital expenditure, drawing financing in the both domestic and global market.

Manni and Afzal (2012) specified that liberalization of trade initiatives are used by developed nations as an advantage to encourage investment and attain economic advancement. Using Bangladesh economy, they examined the effects of trade liberalization on developed nations economic growth from 1980 to 2010 by applying Ordinary Least Square technique (OLS). Scholars implored substantial variables such as growth rates, inflation, exports and imports. The results suggest that greater openness increases exports and imports, leading to economic growth.

Similarly, Yanikkaya (2003) Notes that trade liberalization gives financial system not just to evaluate global markets by its goods or services and also to connect key components required to improve its stock's product quality, including emerging technologies, availability of labour, and manufactured goods. Yanikkaya (2003) Further states that governments will make use of its technological advancements to achieve competitive advantage mostly on foreign markets by allocating capital to industries with better investments while liberalizing their economies. Moreover, Zhang (2001) concludes that liberalization of trade strengthens the interactions along with associations between nations, further improving the local economy in those regions.

Sachs and Warner (1995) Provide additional statistics also on strong relation regarding development with trade. Moreover, they statistically demonstrate that accessible and liberalized developed nations expanded at an annual rate of 4.49& whereas industrialized countries have to experience the development of just 2.29% annually. Restricted countries, however, including developed and advanced countries, reported just growth rates of 0.69 per cent to 0.74% yearly.

Krueger and Berg (2003) discussed on development with trade by applying cross country and panel data approach, they reported on business and organization rates and suggested how trade had significant impacts on economic development.

Using a dynamic panel data approach, Greenaway, Morgan and Wright (2002) access the effects of trade liberalization on trade and industry growth in the period of 1965 to 1985 of 73 different nations. Numerous variables effect on growth as a performance indicator has been identified, using a sequence of certain other indicators like trade openness and liberalisation.

Winters (2004) also revealed that trade liberalization has a positive effect on improving the economic development of a nation. Moreover, he stressed that this is important to essentially identify and calculate it while using trade openness to prevent any econometric errors and biases. The common error in cross-country analyses is the incorrect and inappropriate calculation of trade openness.

Given claims that trade liberalization and productivity expansion strongly associated, free trade critics claim that liberalization of trade is having a pessimistic impact on the development of the economy. It is argued that trade liberalization offers a forum to kill domestic economies, particularly in developed nations, thereby reducing their potential to deliver sustained and stronger development. Besides, it concluded how liberalization of trade provides a backdoor for the nations to deposit goods in developing economies but also destroy its domestic industry and increase the extent of deficiency (Bown and Tovar, 2011).

Kneller, Morgan and Kanchanahatakij (2008), also adopted the idea of developing nations have a greater influence on economic development and trade liberalization, whereas emerging economies seemed likely to have adverse relations.

There is also no common opinion on precise measures of trade liberalization. Level of trade openness may be calculated and find in several ways. It is because a specific factor leads scholars to calculate trade openness including tariffs on imports barriers and strength of trade (Alcala and Ciccone, 2003).

It is focused on those unfinished conclusions; the research seeks to reveal the true viewpoints of both the effects of economic development and trade liberalization by applying systems of Asian tigers. Furthermore, earlier research shows a significant effect on trade liberalization and financial development whereas others revealed a negative or negative influence both trade liberalization and development. The analysis is however observed to have a significant effect in certain nations regarding trade liberalization and economic development

METHODOLOGY

Using Eviews 10 software package and annual panel data, this research utilises several panel least squares to analyzing the effect of trade liberalization on Asian tigers' economic growth between 1960 and 2014. The rationale for selecting these periods was the availability of the data at the time of the analysis and to capture the rapid growth these countries went through industrialization since 1960 to 2014 and they took advantage of globalization and the emergence of technology to hold a sustainable economic position globally. The Asian tigers comprise of Taiwan, South Korea, Hong Kong and Singapore.

In this research, the variables are logged and the data are obtained from the Penn World Table (PWT) version 9.0. The model for this research is stated below:

$$Y_t=\alpha+\beta_1 X_{t1}+\beta_2 X_{t2}+\beta_3 X_{t3}+\varepsilon_t$$

Where:

Y_t: dependent variable,

α: constant term,

β: coefficients of regressions,

X_t: independent variables

ε: error term.

The model equation is further stated below:

$$LGDP=\alpha + LHCI+ LEX +LIM + \varepsilon_t$$

Where:

LGDP: real GDP

LHCI**:** human capital index

LEX: export price

LIM: import price

RESULTS AND DISCUSSIONS

For all the variables, Levine, Lin and Chu unit root testing is executed to evade spurious regression.

Table 1: Levine, Lin and Chu Unit Root Result

Model	T-Statistic	P-Value	Remark
LGDP	7.88822	0.0000	I (0)
LHCI	2.01238	0.0221	I (0)
LIM	3.57846	0.0002	I (0)
LEX	3.02710	0.0012	I (0)

Source: computed by the Arthur Eviewswith 10

The above indicated that at level, all the variables are stationary base on their p-values. Therefore, the alternative hypothesis is accepted whereas the null hypothesis is rejected. For all the variables, this proves the presence of common stationery.

Table 2: Common Effect Model (CEM) Results

Method: Panel Least Square; Dependent Variable: LGDP				
Variables	Coefficient	Std. Error	T- Statistics	P-value
C	8.790852	0.436420	20.14311	0.0000
LNHCI	4.100674	0.357278	11.47754	0.0000
LNLIM	-0.017310	0.434351	-0.039853	0.9682
LNLEX	0.399489	0.398311	1.002959	0.3170
Statistical tests				
R^2	Adjusted R^2	Schwarz criterion	F-statistic	Prob(F-statistic)
0.801564	0.798808	1.949579	209.8382	0.000000

Source: computed by the Arthur Eviews with 10

The above table is the CEM test of all the variables with common intercept. The result indicated that only LHCIis significantly related to LGDP base on it P-value. Also, the coefficient determinant specified that LHCI and LEX are positively related to LGDP whereas, LIM negatively related to LGDP. Therefore, 1% increase in LHCI and LEXwill increase LGDP by $410.1 million and $39.9 million respectively while 1% increase in LIM will decrease LGDP by $1.7 million. Furthermore, the result indicated that LGDP can be simultaneously influenced by

all the variables given the R-Squared and the adjusted R-Squared which are 80.2% and 79.9% respectively. Whereas, just 19.8% of the R-Square is explained by erstwhile variables.

Table 3: Fixed Effect Model (FEM)

Method: Panel Least Square, Dependent Variable: LGDP				
Variables	Coefficient	Std. Error	T- Statistics	P-value
C	10.36231	0.177257	58.45928	0.0000
LHCI	2.801741	0.146643	19.10585	0.0000
LIM	-1.662116	0.151336	-10.98292	0.0000
LEX	0.770859	0.154756	4.981132	0.0000
Statistical tests				
R^2	Adjusted R^2	Schwarz criterion	F-statistic	Prob(F-statistic)
0.981831	0.981319	-0.367627	1918.392	0.000000

Source: computed by the Arthur Eviews with 10

The above table is the FEM test of all the variables with common intercept. The result indicated that all the variables are significantly related to LGDP base on their P-value. Also, the coefficient determinant specified that LHCI and LEX are positively related to LGDP whereas, LIM negatively related to LGDP. Therefore, 1% increase in LHCI and LEX will increase LGDP by $280.2 million and $77.1 million respectively while 1% increase in LIM will decrease LGDP by $166.2 million. Furthermore, the result indicated that LGDP can be simultaneously influenced by all the variables given the R-Squared and the adjusted R-Squared which are 98.2% and 90.1% respectively. Whereas, just 1.8% of the R-Square is explained by erstwhile variables.

Table 4: Random Effect Model (REM)

Method: Panel Least Square; Dependent Variable: LGDP				
Variables	Coefficient	Std. Error	T- Statistics	Probability
C	8.790852	0.132983	66.10514	0.0000
LHCI	4.100674	0.146643	19.10585	0.0000
LIM	-0.017310	0.132353	-0.130788	0.8961
LEX	0.399489	0.121371	3.291484	0.0012
Statistical tests				
R^2	Adjusted R^2	S.E of Regression	F-statistic	Prob(F-statistic)
0.801564	0.798808	0.6166309	290.8382	0.000000

Source: computed by the Arthur Eviews with 10

The above table is the REM test of all the variables with common intercept. The result indicated that LHCI and LEX are significantly related to LGDP base on their P-value. Also, the coefficient determinant specified that LHCI and LEX are positively related to LGDP whereas, LIM negatively related to LGDP. Therefore, 1% increase in LHCI and LEX will increase LGDP by $410.1 million and $39.9 million respectively while, 1% increase in LIM will decrease LGDP by $1.7 million. Furthermore, the result indicated that LGDP can be simultaneously influenced by all the variables given the R-Squared and the adjusted R-Squared which are 80.2% and 79.9% respectively. Whereas, just 19.8% of the R-Square is explained by erstwhile variables.

Table 5: Random effects-Hausman Test results

Test Summary	Chi-sq. statistic	Chi-sq. d.f	P-value
Cross-sectionrandom	2113.329686	3	0.0000

Source: Source: computed by the Arthur Eviews with 10

The above table indicated that the random effects-Hausman test P-value is less than 5% and therefore, it is significant. Consequently, the alternative hypothesis is accepted whereas the null hypothesis is rejected. Furthermore, it is accepted that FEM is more suitable than REM and CEM.

Table 6: Normality Test Results

Jarque- Bera	P-value
1.125356	0.569682

Source: Source: computed by the Arthur Eviews with 10

The above table indicated that the normality test P-value is less 0.569682 and therefore, it is significant. Consequently, the alternative hypothesis is accepted whereas the null hypothesis is rejected. Hence, the residuals are normally distributed.

Table 7: Wald Test Results

Test Statistic	Value	df	Probability
F- Statistic	221308.2	(4216,)	0.0000
Chi-square	885233.0	4	0.0000

Source: computed by the Arthur Eviews with 10

The above table indicated that the Wald test is a significant base on the P-values. Consequently, the alternative hypotheses are accepted whereas the null hypotheses are rejected as the P-values are not equivalent to zero. Hence, it is believed that all the variables can jointly influence LGDP.

Table 8: Pairwise Dumitrescu Hurlin Panel Causality Test

Null Hypothesis:	W-Stat.	Bar-Stat.	Prob.
LIM does not homogeneously cause LGDP	0.69539	-0.45506	0.6491
LGDP does not homogeneously cause LIM	1.21058	0.22364	0.8230
LEX does not homogeneously cause LGDP	0.60957	-0.56811	0.5700
LGDP does not homogeneously cause LEX	3.51844	3.26393	0.0011
LHCI does not homogeneously cause LGDP	3.81949	3.66052	0.0003
LGDP does not homogeneously cause LHCI	26.4128	33.4241	0.0000
LEX does not homogeneously cause LIM	2.73847	2.23643	0.0253
LIM does not homogeneously cause LEX	9.45847	11.0891	0.0000
LHCI does not homogeneously cause LIM	1.51392	0.62325	0.5331
LIM does not homogeneously cause LHCI	43.9282	56.4982	0.0000
LHCI does not homogeneously cause LEX	3.31556	2.99666	0.0027
LEX does not homogeneously cause LHCI	30.1167	38.3035	0.0000

Source: computed by the Arthur Eviews with 10

The above table shows Hurlin panel causality test result. The result indicated that LGDP has a bi-directional causality with LHCI and LIM while the causality with LEX unidirectional. Also, LHCI has a bi-directional causality with LGDP and LEX while the causality with LIM unidirectional. Consequently, it is concluded that all the variables have combined effects on LGDP.

CONCLUSION

Nations aim for growth to create economic advancement. The challenges facing several countries nowadays are when to promote economic growth and development. Some studies and authors also argued that liberalization of trade is the remedy for achieving growth and development of an economy, whereas some claim that it is a downside in an economic environment allowing local producers its marginalization and must be managed to avoid in the order-preserving local industry. Is on the bases of such mixed judgments that this research is being carried out to model the nexus among economic growth and trade liberalization in Asian tigers' economies by applying annually panel data regression approach between the periods 1960-2014. This regression analysis could show whether developed countries are achieving

and experiencing high economic development due to trade liberalization, and how positive the economic effect is. To make a clear conclusion, the analysis emphasizes on its commercial history and trade. For all the variables, Levine, Lin and Chu unit root testing is executed to evade spurious regression. The Result indicated that at level, all the variables are stationary base on their p-values. The CEM test indicated that only LHCI is significantly related to LGDP base on it P-value. Furthermore, the result indicated that LGDP can be simultaneously influenced by all the variables given the R-Squared and the adjusted R-Squared which are 80.2% and 79.9% respectively. Whereas, just 19.8% of the R-Square is explained by erstwhile variables. Also, the FEM test indicated that all the variables are significantly related to the LGDP base on their P-value. Furthermore, the result indicated that LGDP can be simultaneously influenced by all the variables given the R-Squared and the adjusted R-Squared which are 98.2% and 90.1% respectively. Whereas, just 1.8% of the R-Square is explained by erstwhile variables. The REM test indicated that LHCI and LEX are significantly related to LGDP base on their P-value. Furthermore, the result indicated that LGDP can be simultaneously influenced by all the variables given the R-Squared and the adjusted R-Squared which are 80.2% and 79.9% respectively. Whereas, just 19.8% of the R-Square is explained by erstwhile variables. Moreover, the random effects-Hausman test indicated that FEM is more suitable than REM and CEM. The residuals of the variables in this model are normally distributed. Based on such findings, the research reveals that trade rates which including imports and exports and also the production of human resources play a significant role mostly in the growth cycle of the economic systems of Asian tigers; whereas the number of imports as an essential part did not generate positive outcomes. It is because operating conditions on imports were limited; hence the need to import products for economic activity is becoming a challenge. The overall result revealed that the effects of trade liberalization on Asian tigers' economic growth have been positively significant.

The study offers the following recommendations based on the analysis drawn from the research objectives and results:

- Human capitals were reported to play an important role in contributing to the development cycle in the Asian tiger economic system. Effective strategies will be placed in a place that will boost and maintain the use of human resources.
- Therefore, to ensure the sustainability of economic development and growth in the economic activities of the Asian tigers, constructive strategies which can regulate imports and boost favourable imports should be set in place.
- Policies relating to foreign direct investment must be reviewed
- Maintaining positive exchange-rate measures.

• Finally, effective and advantageous measures should be applied which would prevent the local companies and the economy's output capacity. So trade liberalization in the economic activities of the Asian tigers will not be a drawback for the local companies.

There is no doubt that the findings of this research will benefit further studies particularly when Asian tigers' growth and industrialization processes are compared to other developing countries of Africa and Latin America among other developing nations globally in further studies.

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