The Impact of Open Trade on Economic Growth in ASEAN Developing Countries

Muhammad Riza Ainul Yaqin¹, Setyo Wahyu Sulistyono²*
rizayn@gmail.com¹, setyowahyu88@umm.ac.id²*
¹,²Program Studi Ekonomi Pembangunan
¹,²Universitas Muhammadiyah Malang

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Abstract: Trade openness promotes industrialization and has a significant impact on a nation's economic development. Increased economic growth can be a result of foreign investment, and state revenue can rise as a result of significant exports of domestic goods. This study aims to assess how economic trade openness affects the economic development of ASEAN nations. Cross-sectional and time-series analyses were conducted using panel data between 2013 and 2022. The study demonstrates that whereas FDI and positive and major economic growth, exports and positive and large economic growth, and imports and negative and insignificant economic growth, are all associated with significant inflation and negative economic growth. It is anticipated that the nation will raise the standard of goods to promote commerce and economic progress.

Keywords: Economic Growth, Export, Foreign Investment, Import.

INTRODUCTION

The state of the global economy greatly affects the economic progress of a country (Astuti & Fitri, 2018). With wider economic opportunities, it will be a challenge for all countries to globalization (Nurani & Bagio, 2019). When economic trade is open, there will be cooperation between countries through exports and imports, so a country's economy will increase (Wulandari & Zuhri, 2019). Involvement in open economic trade in both exports and imports plays an important role in the economic development of a country, and the determining factor of economic growth is the economic well-being of a country (Hamdan, 2016). The purpose of open economic trade is to improve a country's standard of living (Schumacher, 2013). The openness of economic trade helps the economy grow as well as the number of fields. In addition, the openness of economic trade also encourages industrialization and investment of international companies. These activities tend to lead to bilateral and multilateral cooperation, although free trade takes precedence (Aristeus, 2014). To start cooperation in open economic trade, there is usually a binding agreement for each party, which serves to avoid obstacles when cooperation between countries. It is believed that with the openness of economic trade can accelerate economic growth (Gnangnon, 2018).
addition to impacting the economic growth rate, the openness of economic trade also has a good impact on important aspects such as inflation, exports, imports, and direct investment (Suherjon, Marwanti, & Irianto, 2018). Several developing countries around the world, especially in Southeast Asia, are affected by the global economy, Southeast Asia is a region inhabited by several developing countries that have enormous economic potential (Ighni & Amran, 2015). Therefore, it is important to understand how the openness of economic trade can affect economic growth variables in ASEAN countries (Wibowo, 2018).

With the opening up of economic trade, there may be opportunities to export products with factors of production that require a lot of resources and import products with factors of production that are rare or expensive if made domestically (Manik, 2022). The openness of economic trade is considered to improve the economy. If a country produces more exports than imports, then the country's income will increase, which will certainly have a good impact on economic growth (Suliswanto, 2016). According to (Nowbutsing, 2014) modern economic growth theory, it is found that a country's economy can be improved by cooperation between countries through the openness of economic trade. Indonesia, Malaysia, the Philippines, Thailand, and Vietnam are located in the ASEAN region and have different economic characteristics (Asbarini, Isnaini, & Wibowo, 2021). Indonesia has potential including the existence of very large and abundant natural resources, Malaysia is known as a country that has export commodities such as palm oil, the Philippines has a growing service industry, Thailand is a manufacturing center in the region, while Vietnam in recent decades has experienced rapid economic growth due to investment entering the country and the export of electronic goods. Case studies in these five countries will provide valuable insights into how international trade affects open economic variables and investment across a variety of economic contexts (Amala Faizatul, 2017).

According to (Jamila & Vera, 2023) There are two components in the openness of economic trade, including exports and imports. Developed countries can get materials or raw materials needed by their industries through export-import trade. Import is the purchase of goods or services from abroad, while export is sales to foreign markets (Elia & Marselina, 2023). In addition, established countries can purchase products sold to established countries by exchanging currencies with developing countries. As a result, it can have a good impact on developing countries by exporting their products. (Farina & Husaini, 2017). Open economic variables include aspects such as government funding and government spending in the form of investment, exports, and imports of goods and services, supporting economic sustainability.
in developing countries. The carrying capacity of an open economy has a multiplayer trade effect as an indicator of increasing income in developing countries as an effort to improve the economy through inflation, investment, export, and import variables, while investment variables include foreign direct investment. Strong and sustainable economic growth is an important condition for maintaining the sustainability of economic development according to (Anitasari & Soleh, 2015). The purpose of this study is to determine the impact of economic trade openness on the economic growth of developing countries in ASEAN against the background of similar characteristics, economic activities, export and import communities, and community conditions that are said to be cognates. The novelty of this study is the addition of inflation variables and different research objects, while the study (S. A. Fitriani, Hakim, & Widyastutik, 2021) "Analysis of the Cointegration of Trade Openness and Economic Growth in Indonesia", and previous researchers (Dewi & Wijaya, 2023) researching on "Trade Liberalization, Foreign Investment, and Its Impact on Tax Revenue in Emerging Asia with Moderating Economic Growth".

The results provide a better understanding of the economic dynamics in the region and help formulate more effective economic policies to promote economic growth and stability in developing countries in ASEAN. The research provides a deeper understanding of the complexity of the relationship between open economic trade, and the economic growth of developing countries in the ASEAN region. The results of this research can benefit policymakers, academics, and national practitioners (Karya & Syamsuddin, 2017) economics in designing more effective and sustainable economic development strategies in the 5 ASEAN countries and possibly other developing countries around the world. Economic trade openness includes macroeconomic variables that use the amount of GDP, the amount of foreign investment that enters both flows and stocks and the total amount of exports and imports of both services and goods. When a country has economic trade openness, it can expand its economic relations with other countries through foreign investment, international trade, and capital flows.

In a situation like this, exports can also have a good impact on economic openness with quality products from several countries, as well as abundant production factors and importing products with rare or expensive production factors. Modern economic growth theory argues that with economic openness, economic growth will also increase. Countries can expand their access to markets, capital, and technology by opening up to international markets. This can allow the country to capitalize on its comparative advantage and increase its
production and exports. Keynes argued that governments should invest through fiscal and monetary policy to encourage full employment, resulting in price stability and economic growth. Keynes argued that national income can be measured by the increase in economic growth of a country, just as investment, consumption, exports, and imports should increase. The use of the expenditure approach to calculate national income states that \( Y = C + I + G + X - M \). The national income identity equation is an equation where \( Y \) is the national income and aggregate supply, \( G \) is government spending, \( I \) is an investment, and \( X - M \) is net exports.

Gross Domestic Product. The process of continuously improving the economic condition of a country is called economic growth. A country's economy is considered to be developing if the economic activities of its population directly produce higher goods and services (Rinaldi, Jamal, & Seftarita, 2017). An economy is considered to grow or expand when total output increases. Real national income can economically increase, remain constant, or stagnate. Conversely, a country's actual gross domestic product (GDP) may increase, shrink, or remain the same over time. While growth is a positive change, decline is a negative change. According to (Arfiani, 2019) An increase in added value is also a sign of economic growth. The calculation of a country's GDP is based on its income, production, and expenditure. According to (Munandar, 2016) Economic growth is the process through which economic activity increases society's revenue. According to (Nasrullah, 2014, Mankiw, 2014).

Inflation. One of the key economic variables is inflation, which is controlled at a modest and steady rate to prevent catastrophic diseases that cause economic instability. Inflation affects the economy both positively and negatively. Inflation is determined using index data collected from various kinds of goods exchanged in the market with their respective economic growth rates (of course, these goods are the most abundant and are the basic needs of the community). The index figure is calculated using Economic Growth statistics. The Consumer Index is a number used to calculate goods purchased by consumers.

According to research (Daniel, 2018) Inflation negatively impacts economic growth, although not significantly, the study is supported by (Salim, Fadilla, & Purnamasari, 2021) which states that Indonesia's economic growth is significantly but negatively affected by the inflation rate. This is the result of growing economic problems that cannot be overcome. One example is the increase in the inflation rate due to the coronavirus pandemic which has caused an increase in the prices of various basic commodities, including vehicle fuel prices. Increasing inflation will further affect Indonesia's economic growth. Not all inflation has negative economic effects. Low inflation, or inflation below 10%, can boost economic
growth. This is because inflation can encourage the government to increase production. After all, rising prices can affect production and generate large profits, so entrepreneurs want to increase production. If inflation exceeds ten percent, it will affect economic growth (Simanungkalit, 2020).

Foreign Investment Index. The Harrod-Domar theory states that the economic growth of a country is closely linked to its investment levels. It emphasizes that to achieve high economic growth, a nation requires a correspondingly high level of investment. More savings and investment are considered primary drivers of economic growth. This theory also highlights the importance of capital accumulation for sustainable economic growth (Suharyono & Hemanona, 2017). According to research (Kong, Peng, Ni, Jiang, & Wang, 2021) shows that FDI has a significant positive influence on economic growth. The results showed the positive influence of FDI on economic growth and openness of trade and GDP. Several studies indicate that FDI can positively contribute to the economic growth of a country as it can stimulate domestic capital accumulation and the economic growth of the host country.

Exports can consist of products and services produced domestically and sold to consumers abroad. Through exports, there is a flow of products abroad, and in return, the country receives income in the form of foreign exchange that flows into the country. Therefore, it can be concluded that exports play an important role in increasing national income (Karya & Syamsuddin, 2017). According to Keynes theory, a country will export goods produced using abundant and cheap factors of production intensively. It increases the income of a country and accelerates the process of development and economic growth. According to (Putri & Siladjaja, 2021) If domestic goods and services are fulfilled, export activities can occur because those goods and services have competitive prices and characteristics in foreign markets with comparable goods and services. As a result, exports generate foreign exchange for the country which is then used for development. In addition, these actions allow an increase in the amount of output that supports economic growth and are projected to have a significant impact on the country's economic growth and stability (Hodijah & Angelina, 2021).

Import. Transactions that aim to buy goods from a country originating from abroad are known as imports (Suparmono, 2018). A country can import goods or products using factors of production that it does not have or rarely has. Compared with inefficient self-production, this action will benefit the state. Sending goods or services from one country to another
through the process of trade is also known as import. Importing involves bringing goods or commodities into a country from another country. This includes raw materials, advanced technology, foreign exchange reserves, as well as goods and services that cannot be produced domestically. According to Keynes, if imports become excessive, it can lead to a decrease in a country's income. This is because it will reduce domestic production, which in turn can increase state revenue. In research (Supiyadi & Anggita, 2020) said that imports hurt economic growth, because the higher the value of imports, the lower the economic growth. Therefore, it can be said that the domestic strategy to increase economic growth is industrial development, agricultural production, plantations, and exploration of gold resources, as well as increasing the competitiveness of domestic products. (E. Fitriani, 2019).

**RESEARCH METHOD**

This descriptive quantitative research collects data and then processes and analyzes it. The study used secondary data from 2013 to 2022, collected annually. To understand the relationship between variables, this secondary data is treated as primary data based on specific criteria for each variable. The World Bank provides data on the dependent variables of economic growth which are proxied with Gross Domestic Product, independent variables include inflation, exports, and imports, while UNCTADstat provides data on foreign investment. In this study, samples were selected based on predetermined criteria through panel data processing. Samples from five ASEAN developing nations (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam) were chosen. Three approaches were used to analyze the data in this study: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect.

\[
LOG_{GDP_t} = \beta_0 + \beta_1 Inflation_{it} + \beta_2 FDI_{it} + \beta_3 LOG_{Export_{it}} + \beta_4 LOG_{Import_{it}} + \epsilon_{it} \quad (1)
\]

Note:

- \( LOG_{GDP_{it}} \) = logarithm of Bruto Domestic Products in U$
- Inflation_{it} \) = Total Inflation in 
- \( FDI_{it} \) = Total Foreign Investment in 
- \( LOG_{Export_{it}} \) = logarithm of Export in U$
- \( LOG_{Import_{it}} \) = logarithm of Import in U$
- \beta_0 \) = intercept
- \( \epsilon_{it} \) = error
RESULT AND DISCUSSION

The impact of open trade on economic growth in ASEAN developing countries is investigated using the results of panel regression analysis. The following regression analysis uses fixed and random effects models. The table 1 displays the findings of the best test options.

Table 1. Results of Best Model Slection

<table>
<thead>
<tr>
<th>Model Selection Test</th>
<th>Effect Test</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chow Test</td>
<td>Cross-section Chi-square</td>
<td>0.0000</td>
</tr>
<tr>
<td>Hausman Test</td>
<td>Cross-section random</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Table 1 shows the results of the Chow test and the Hausman test, both obtaining probability values of 0.0000 for chi-square and random cross-sections. Chi-square and random values are less than the significance level of 5% ($\alpha = 0.05$). Based on these findings, it can be inferred that, as per the Chow and Hausman tests, the appropriate model for this study is the Fixed Effect Model (FEM), while the LM test suggests a Random Effects Model (REM). Therefore, the selected model for this research is the Fixed Effect Model.

Table 2. Result Regression Fixed Effect Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>9.932237</td>
<td>1.644263</td>
<td>6.040539</td>
<td>0.0000</td>
</tr>
<tr>
<td>X1_Inflation</td>
<td>-0.008912</td>
<td>0.004144</td>
<td>-2.150847</td>
<td>0.0374</td>
</tr>
<tr>
<td>X2_FDI</td>
<td>0.007370</td>
<td>0.002960</td>
<td>2.489650</td>
<td>0.0169</td>
</tr>
<tr>
<td>LOG (X3) Export</td>
<td>0.788862</td>
<td>0.149631</td>
<td>5.272041</td>
<td>0.0000</td>
</tr>
<tr>
<td>LOG (X4) Import</td>
<td>-0.150880</td>
<td>0.146978</td>
<td>-1.026544</td>
<td>0.3107</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.986315</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.983645</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob (F-statistic)</td>
<td>0.000000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$LOG_{PDB_{it}} = 9.932237 - 0.008912\text{Inflasi}_{it} + 0.007370\text{FDI}_{it} + 0.788862LOG_{Ekspor_{it}} - 0.150880LOG_{Impor_{it}} + \epsilon_{it}$ ........................................................................................................

Table 2 shows that the independent variables, consisting of inflation, Foreign Direct Investment (FDI), exports, and imports, have a simultaneous effect on the economic growth of 5 developing countries in ASEAN, as indicated by the probability value $F = 0.0000$, which is equal to 0% and less than $\alpha = 5\%$. The adjusted-R2 value of 0.983645 implies that 98.36% of the variability in Y can be accounted for by X1, X2, X3, and X4, whereas only 1.64% is ascribed to other variables not encompassed in the model.

From the regression model shown in Table 2, it is explained that inflation has a significant and negative impact on economic growth in 5 ASEAN countries. With a coefficient value of -0.008912, this means that when inflation increases by 1%, GDP will
decrease by 0.008912 percent. Since inflation remains relatively low, below 10%, it is not a problem and may even stimulate businesses to expand their production. However, high inflation can negatively impact a country's economic growth as it encourages the entry of cheaper foreign goods, affecting domestic production. The findings of this study are in line with research conducted by (Larasati & Sulamisriyati, 2018; Pratiwi, 2015) shows that economic growth is significantly and negatively affected by inflation.

For the five ASEAN nations, foreign direct investment has a major and favorable effect on economic growth. With a significant return of 0.0169, FDI fell short of the 0.05 significance level. Thus, it can be concluded that the heightened economic growth in the five ASEAN nations is also influenced by foreign direct investment (FDI). FDI is a term used to denote financial resources employed to support local projects with the aim of enhancing a country's economy. Foreign investment is highly advantageous to the viability of home ventures, promoting a nation's economic expansion. As a result, more investment will better support the nation's economic growth through sustainable development. This result is consistent with studies carried out by (Ogbebor & Aigheyisi, 2019; Ridzuan et al., 2018), which show that Foreign Direct Investment (FDI) has a positive and significant impact on economic growth. Studies show that FDI results in a positive relationship with economic growth. Research (Prastity & Cahyadin, 2015) also revealed the significant and positive influence of FDI on economic growth.

Export variables have a positive and significant impact on economic growth in the 5 ASEAN countries, with a significant value of 0.0000, indicating a significance level of less than 0.05. These findings are consistent with previous research conducted by (Bambungan, Rotinsulu, & Mandeij, 2021; Fatmawati, 2015), which shows that the value of exports has a positive and significant effect on economic growth. This is due to the large contribution of exports to the high value of GDP. Export performance is considered good because the demand for goods from abroad is greater than domestic demand. With positive export trends, this is in line with Keynesian theory, which suggests that high export volumes lead to economic growth, increase GDP, and theoretically have positive trends. Previous research findings (Purwaning Astuti & Juniawati Ayuningtyas, 2018) indicate that the economic movement of a country can be observed through increased production.

Variable imports are not significant to economic growth in the 5 ASEAN countries and have an insignificant negative influence. It has no impact on the economic growth of the country as a large number of local entrepreneurs produce high-quality products at competitive
prices and with well-known brands. As a result, many people prefer to use domestic products rather than foreign ones. Therefore, the government plays an important role in controlling imports and encouraging people to support local products, supporting small and medium enterprises (SMEs) in expanding their business and producing goods and services. By increasing exports and reducing imports, a country's income increases, meaning that a decrease in imports does not affect a country's economic growth. This finding is in line with research conducted by (Febriyanti, 2019; Ismanto, Rina, & Ayu Kristini, 2019), which states that economic growth is not affected by imports.

**CONCLUSION**

Research findings show that the number of inflation variables has a significant negative impact on economic growth and economic growth in ASEAN countries. High inflation affects the socioeconomic condition of the people, while low and stable inflation represents sustainable economic growth, which ultimately benefits the population as a whole. In addition, the study highlights that variable quantity inflation significantly affects economic growth and economic growth in ASEAN countries. High inflation affects the socioeconomic condition of the people, while low and stable inflation signifies sustainable economic growth, which ultimately benefits the whole society. In addition, Foreign Direct Investment (FDI) has a major influence on economic growth, as the inflow of foreign capital helps develop domestic projects and boost economic growth. In addition, exports also have a significant influence on economic growth, through an increase in quality domestic products, it will be able to help increase state revenues and economic growth through the high volume of domestic goods exported. In order for imports not to have a significant impact on economic growth, government intervention is needed to control imports and encourage people to increase the use of domestic products and support domestic industries to develop their products internationally. Government efforts to reduce imports in large quantities are very important because excessive imports will hamper domestic products.

**REFERENCES**


