Article

The Nexus between Economic Liberalisation and Economic Growth: Empirical Evidence from ASEAN, China, and India

Sonia Kumari Selvarajan
Faculty of Economics and Business
Universiti Malaysia Sarawak, Malaysia.
Email: soniaakamoney@gmail.com

Rossazana Ab-Rahim
Faculty of Economics and Business
Universiti Malaysia Sarawak, Malaysia.
Email: rossazana@gmail.com

Journal of Entrepreneurship and Business
E-ISSN: 2289-8298
http://fkp.umk.edu.my/journal/index.html

Vol. 3, Issue 2, pp. 1 - 12.
December, 2015

Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan
Locked Bag 36, 16100 Pengkalan Chepa
Kota Bharu, Kelantan, Malaysia

Date Received: 09, November 2015
Date Accepted: 03, December 2015

DOI: 10.17687/JEB.0302.01

Abstract - The main objective of this paper is to examine the impact of economic liberalisation on economic growth. This paper also explores the relationship between trade and financial liberalisation. The analysis focuses on all ASEAN countries as well as China and India. Using the Generalised Method of Moment (GMM) dynamic panel data analysis, this paper finds that economic liberalisation is significantly related to economic growth in ASEAN6 and CLMV. For ASEAN, China, and India as a whole, trade openness has no significant impact on economic growth. However, a strong financial growth nexus exists. In ASEAN6 and CLMV, the results indicate that economic liberalisation leads to economic growth.

Keywords: Liberalisation; Economic Growth; Dynamic Panel Data; ASEAN

1. Introduction

Economic liberalisation has been central in the adjustment policies introduced in developing countries since the late 1970s, mostly in the context of promoting domestic efficiency and productivity as well as to provide a friendlier environment for trade and foreign investment (Fujita & Hu, 2001). As economic liberalisation is the primary driver of economic globalisation, authorities of developing economies are moving towards a more open economy on the basis that liberalised trade and financial policies will be beneficial to future economic growth and development (World Trade Report, 2008). As a result, many developing countries are lowering down their tariffs and cutting exchange rate controls, all in the effects of opening up their markets to foreign competition (Germain, 2006). One of the missions of the World Trade Organization established in 1995 is to make certain trade flows to be as free as possible; in line with the process of globalisation (World Trade Report, 2012).

As developing countries move towards an integrated world economy, liberalisation and globalisation are extensively debated. On the one hand, proponents of economic liberalisation such as Bilquess, Mukhtar, and Sohail (2011) and Awojobi (2013) claim that openness increases trade flows as producers are allowed access to international markets, thus profiting the economy of participating countries. On the other hand, the opponents of liberalisation such as Kose (2003) and Seguino and Grown (2006) fear that the liberalisation policies are unable to generate steady increases in income,

hence dampening the economic environment. However, despite the varying views on openness and globalisation, it is eminent that economic liberalisation should be implemented (Rivoli, 2005). Figure 1.0 shows that trade flows of low-income countries are consistently higher than high-income countries, despite the decline in percentage due to the financial crisis in 2009. This scenario implies that more countries particularly within the low-income criteria are participating in easing trade flows by lowering their trade barriers.

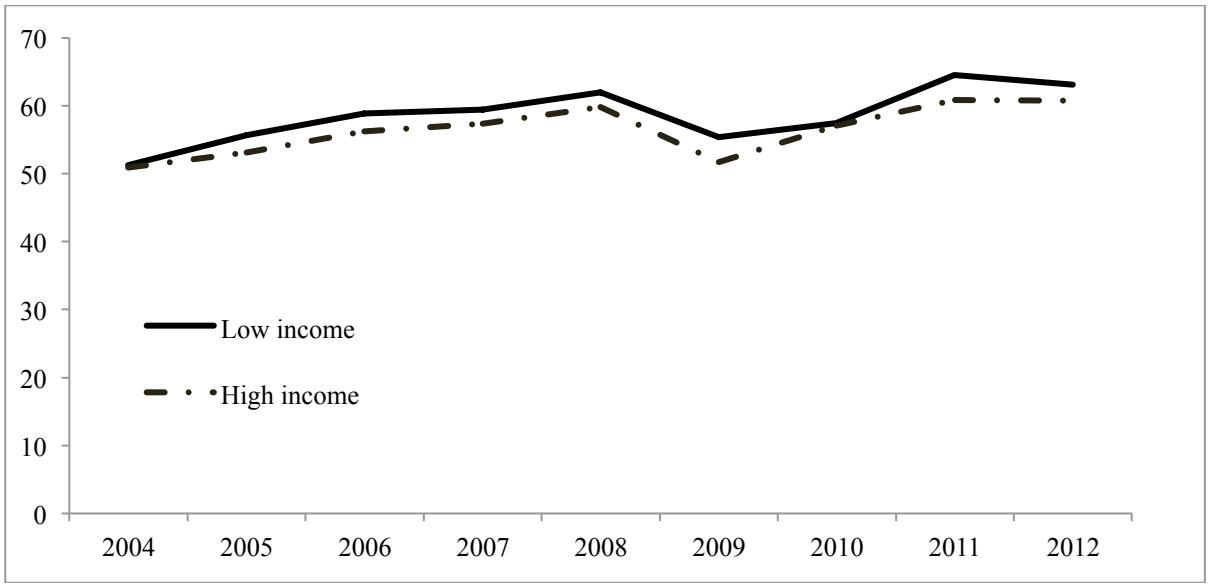

Figure 1: Trade over GDP between Low Income and High Income Countries (%)
Source: World Bank (2013).

Asia has risen to be the most dynamic region due to sustainable economic growth amongst member countries. To maintain the growth rate, market integration to ensure free flow of goods, services, and capital across borders is required (Asian Development Bank, 2013). Studies by Okamoto (1994) and Lloyd and MacLaren (2004) show that an increased participation in trade amongst countries has proven to be an important contributor to economic growth. Over the period of 1960 to 2005, the share of exports to the world GDP increased from 12 percent to 27 percent (World Bank, 2008). By 2005, East Asia and Asia Pacific trade to the GDP share elevated up to 47 percent. An increase in trade agreements amongst Asian countries as well as with countries from other regions affects the acceleration of Asia. Existence of trade agreements such as Asean Free Trade Area (AFTA), Asia-Pacific Trade Agreement (APTA), South Asia Free Trade Agreement (SAFTA) and many more clearly shows that Asian countries whether developed or developing are also in pursuit of economic liberalisation (Tsen, 2005; Soukhakian, 2007; Bashar et al., 2008). The Association of Southeast Asian Nations (ASEAN) is made up of 10 countries, and although the development of ASEAN has a relatively short history, having only been established for less than 30 years, it is a free trade area that is growing rapidly. The formation of ASEAN Free Trade Area (AFTA) in 1992, complemented by the 1998 ASEAN Investment Area (AIA) and the recent ASEAN Economic Community (AEC) are in the efforts of creating a single market and production base with the Asian region, in line with the process of liberalisation. Moreover, in the past decade, ASEAN has expressed interest in strengthening ties with two continental sized Asian dynamos, China and India through the establishment of the ASEAN-China Free Trade Agreement and ASEAN-India Free Trade Agreement (Rajan & Sen, 2005).

Thus, this has offered unique features for this research to embark upon the issue of economic liberalisation on economic growth in ASEAN, China, and India. Table 1.0 shows the trade deals of

Asian countries with selected developed countries. Existence of trade agreements such as ASEAN Free Trade Area (AFTA), Asia-Pacific Trade Agreement (APTA), South Asia Free Trade Agreement (SAFTA), and many more clearly shows that Asian countries whether developed or developing are also in pursuit of economic liberalisation (Tsen, 2005; Soukhakian, 2007; Bashar et al., 2008).

Table 1. Selected Trade Agreement of ASEAN

Trade Deals	Year Formed
European Free Trade Association- Singapore Free Trade Agreement	2003
United States-Singapore Free Trade Agreement	2004
ASEAN-China Comprehensive Economic Cooperation Agreement	2005
ASEAN-European Union Free Trade Agreement	2007*
ASEAN-Australia-New Zealand Free Trade Agreement	2010
ASEAN-India Comprehensive Economic Cooperation Agreement	2010

Note: * – Negotiation of ASEAN - European Union Free Trade Agreement for launched in May 2007 but not signed and in effect yet.
Source: Asian Development Bank (2015).

Although the full impact of globalisation is yet to be felt in all countries, developing nations have taken numerous steps towards the process of globalisation. Specifically, these countries are opening up their economies by lowering barriers to trade and capital flows. As it is a prerequisite for countries to have open economies to join World Trade Organization, liberalisation appears to be a vital component for globalisation. In other words the more liberalized countries are, the more impact it would have on the process of globalisation. This interesting link between liberalisation and globalisation adds another purpose for this research. Subsequent paragraphs present a few problem statements that lead to the motivation of this research.

In 2007, ASEAN leaders formally adopted the ASEAN Economic Blueprint 2015 and the Implementation Plan was endorsed in 2009, with the aim of creating a single market and production base by achieving free flow of goods, services, investments, and capital. This aim rests upon economic liberalisation policies. According to the AEC Blueprint, in line with AEC's trade openness policies, ASEAN-6 has applied zero tariffs on 99 percent of goods while CLMV countries plan to achieve the same goal by 2015. Moreover, in efforts to liberalise financial policies, the ASEAN Comprehensive Investment Agreement (ACIA) was signed in February 2009. This ACIA offers free and open investment to the most favourite nation and a reduction of investment restrictions to all other countries. Recently, ASEAN appears to be fast becoming a hub of free trade agreement (FTA) activity and its strengthening economic ties with China and India, the two most dynamic economies in the world (Rajan & Sen, 2005). With the establishment of ASEAN-China FTA and ASEAN-India FTA, economic cooperation between China, India, and ASEAN has improved. The dynamic liberalisation progress of AEC as well as the resilient integration between China and India motivates this research to investigate the effects of economic liberalisation on economic growth in ASEAN, China and India.

Different development paths of member countries have been a key challenge for ASEAN since its establishment in 1967 (OECD, 2013). As a result, the Initiative of ASEAN Integration (IAI) was launched in 2000 to narrow development gaps among member countries. However, the issue seems to be unresolved; it is unclear if economic liberalisation would benefit all countries of ASEAN (Nugroho & Yanfitri, 2011) Over the last decade, ASEAN has undergone a few challenges including non-traditional security such as political instability, environmental crisis, terrorist attacks, and economic recession (Yeo et al., 2005). In addition, there is substantial divergence in the development paths among ASEAN member countries (IISD, 2007). For instance, from 2010 to 2014, Singapore's GDP per capita ranged from 46569.7 USD to 55182 USD while Vietnam's GDP per capita ranged from 1333USD to 1910USD (World Bank, 2014). In order to narrow the development gap of ASEAN, leaders of member countries have now affirmed their strong commitment to accelerate the

establishment of the AEC by 2015. Thus, this serves as a motivation for this research to investigate the process of economic liberalisation in ASEAN.

A bulk of studies have examined the relationship between trade liberalisation and economic growth (Hassan, 2005; Wacziarg & Welch, 2008; Nannicini & Billmeier, 2011; Kiyota, 2012; Falvey, Foster and Greenaway, 2012); amongst them, some offer inconclusive evidence.[1] Studies such as Wacziarg and Welch (2007) and Nannicini and Billmeier (2011) advocate positive relationship between trade liberalisation and growth while Lee, Ricci, and Rigobon (2004), Bashar et al. (2008) as well as Chandran and Munusamy (2009) find that it did not have a robust effect on growth. Yanikkaya (2003) found that contrary to conventional view, trade barriers are positively associated to growth. The abovementioned studies show that past trade liberalisation studies offered mixed results. Similarly, with regards to financial liberalisation, results of past studies also offer mixed evidence (Bakaert, Harvey & Lundblad, 2005; Braun & Raddatz, 2008; Bilquess, Mukhtar, & Sohail, 2011; Dal Colle, 2010, Gehringer, 2012). McKinnon (1973) and Shaw (1973) suggest that government control regulates financial development and it is important for economic growth. Dal Colle (2010) examines the finance-growth relationship and concludes a positive long run relationship between financial development and growth. On the contrary, there are also past studies with pessimistic findings of financial openness (Ang & McKibbin, 2005; Allesandra & Qian, 2005).

The above discussions highlight the fact that past studies on the relationship between trade openness and financial liberalisation and its association with economic growth remains inconclusive. Nevertheless, although most studies focused on trade liberalisation or financial liberalisation, little attention has been given on the analysis of the relationship between economic liberalisation and economic growth (Tsen, 2005; Soukhakian, 2007; Ahmed & Suardi, 2009; Kim et al., 2010; Awojobi, 2013). Furthermore, the result of the past studies on economic liberalisation presents inconclusive evidence. On the one hand, Ahmed and Suardi (2009), Kim et al. (2010), and Awojobi (2013) offered optimistic findings of the liberalisation-growth nexus. On the other hand, Yannikaya (2003) and Bashar (2008) found that economic liberalisation did not have a positive effect on economic growth. In view of this, this research attempts to fill the gap in existing literature by examining the effects of economic liberalisation on economic growth in ASEAN, China, and India.

The general objective of this research is to investigate the impact of economic liberalisation on economic in ASEAN, China, and India. Specifically, this paper will assess the relationship between trade openness, financial liberalisation, and economic growth of countries in ASEAN, and China and India. Next, this research attempts to investigate if there is a bilateral nexus between trade and financial liberalisation, trade liberalisation and economic growth, and financial liberalisation and economic growth in the ASEAN+4 region. Discussions of past studies is presented in Section 2.0, followed by the methodology of this research.

2. Literature Review

Krueger-Bhagwati (1978) defined trade liberalisation as 'any policy which reduces the degree of anti-export biases' while Michaely et al. (1991) defined trade liberalisation as 'any changes which leads a country's trade system toward neutrality in the sense of bringing its economy closer to the situation which would prevail if there were no governmental invention'. Krueger (1978) found that there are two channels of trade openness, which affected growth: direct effects (dynamic advantages) and indirect effects (exports). He concluded that a bias reduction increases export, which will then affect

[1] Please refer to Goldberg and Pavcnik (2004) and Santos-Paulino (2005) for a review of trade liberalisation and economic growth.

GNP growth. Grossman and Helpman (1991) and Edwards (1992) explained the role of free trade in generating technological progress, stating that a higher degree of openness allows smaller countries to obtain technology from bigger countries and grow more rapidly.

Recent studies show inconclusive evidence of trade liberalisation to economic growth. Some analyzed trade liberalisation on growth effect, taking economic crisis into account, and reported that even though trade liberalisation in crisis and non-crisis periods increases growth rate, internal crisis implied lower acceleration but an external crisis suggested higher acceleration comparatively to a non-crisis regime (Falvey, Foster, & Greenaway, 2012). Kiyota (2012) studied trade liberalisation, economic growth, and income distribution. The research included different industrial and developing countries and its finding showed that countries with labor abundance might rise in income inequality and experience a fall in GDP per capita with liberalisation if their capital abundance is of a local sense. On the other hand, instead of a research of trade openness as a whole, Matoo, Rathindran, and Subramaniam (2014) chose to analyze service trade liberalisation of economic growth and found that service trade liberalisation has a long run effect on economic growth. Nannicini and Billmeier (2011) found that trade liberalisation had a positive and strong impact on the pattern of real GDP per capita. However, in their study consisting of 67 countries, they also found that a country making the transition towards economic liberalisation without opening up to trade would hamper growth.

There have been several empirical studies on trade liberalisation and economic growth under the Asian context. Urata (1994) carried out a study on liberalisation of trade effects productivity through demand-side and supply-side behavior in Asia. With the demand-side, competition generated through liberalisation will cause a country to be more efficient, thus more positive. On the supply-side, trade liberalisation encourages firms to use high-quality components resulting in high productivity. It is also said that in the long-run, trade openness has a significant contribution to manufacturing growth (Chandran & Munusamy, 2009). Okamoto (1994) found that liberalisation of trade in the Malaysian context had a positive impact on the economy through the improvement of total factor productivity and foreign direct investment.

As for financial liberalisation, classical theories show that financial liberalisation can promote economic development through the increment of saving, investment, and productivity of capital. However, there are studies to prove the theory and some that do not. Financial liberation essentially means freeing the financial market from government intervention and allowing the market to determine the price and allocation of credit. One of the first theories of financial liberalisation was derived by McKinnon (1973) and Shaw (1973) who saw government intervention as the cause for low savings, credit rationing, and low investment. They also claimed that financial repression affects the efficiency of savings to investments and the equilibrium level of saving and investments. After the McKinnon-Shaw model, the endogenous growth model states that financial development can affect growth by increasing the savings rate and investments.

The endogenous growth model continues to add that government intervention is distortionary and will have a negative impact on growth; tax decreases equilibrium of growth rate. Loayza and Ranciere (2006) concluded that negative short-run nexus between financial development and growth is linked to financial fragility and there are positive effects to financial liberalisation in the long-run. Studies done by Demirguc-Kunt and Detragiache (1998b), Daniel and Jones (2007), and Alessandria and Qian (2005) also concluded that in the short-run, financial liberalisation causes fragility and may pose a threat to international trade and even cause financial crisis. According to Greenwood and Javanovic (1990), an increase in involvement in financial market promotes economic growth. McKinnon and Shaw (1973) also claimed that the government's control on the financial system is vital for economic stability and growth. Studies from Huybens and Smith (1999) and Taghipour (2009) however, give a different conclusion; a less repressed financial system is a mechanism for growth.

The same debate exists with the research done in the Asian context. Some believe that financial liberalisation causes the currency to devaluate and even causes financial crisis (Jomo KS, 1998). Others concluded that financial liberalisation has helped the financial system but there is no long term effect (Ang and McKibbin, 2005). Hiro Ito (2006) found that a higher level of financial openness is found to spur equity market development only with the existence of legal development. However, Goh et al. (2003) reported that financial liberalisation made the Malaysian interest rate more responsive to foreign interest rates.

Inconclusive evidence was also shown in recent empirical studies. The findings of Bilquess, Mukhtar, and Sohail (2011) on financial liberalisation of D8 countries showed that capital flows, trade openness, and institution strength are positive and strong determinants of financial development. Another analysis which studied 60 different empirical studies with regards to financial liberalisation reported that there is a positive effect of financial liberalisation on growth, but the impact is weak although financial-growth nexus was more significant in the 1980s than the 1970s (Bumann, Hermes, & Lensink, 2013). Gehringer's (2013) study on financial liberalisation in the European integration proved that financial openness generates a strong positive impact on growth and there appears to be findings that this positive contribution is caused by the formation of the EU membership. The writer also divided the EU nation into 2 country groups within the EU and both groups provided results of impact to growth.

In theory, economic liberalisation should enhance international risk sharing, reduce macroeconomic volatility, and foster economic growth. However, in practice, empirical evidence shows that it is not that clear cut. According to Beck (2002), there are a few reasons for investigating the link between financial liberalisation and trade openness. First, the structure of trade balance highlights the importance of financial sector development for economic development. Second, the two variables have implications on the international trade theory. Beck (2002) stated that reforming the financial sector would be impactful to trade balance if the financial development is a determinant of comparative advantage. The additional role of trade openness and its link to financial development has received growing attention given the seminal contribution of Rajan and Zingales (2003). Rajan and Zingales' (2003) 'interest group theory' shows that when a country is open to trade and capital flows, it is more likely to develop its financial system thus leading to faster economic growth. This hypothesis has very important policy implications, calling for simultaneous trade and financial liberalisation. Henceforth, this research uses the Rajan and Zingales (2003) interest group theory as its primary theoretical framework.

According to Awojobi (2013), there is a long run relationship between financial development, trade openness and domestic output. In his study of Greece (1960-2009), he also used the Granger causality test and his findings suggested that there is a causal relationship between financial development and economic growth but financial development has no impact on trade. Dritsaki and Dritsaki (2013) used the bound testing approach and Granger causality to measure financial development, trade openness, and growth relationship in Bulgaria. This study found a positive impact; there is a unidirectional causation from financial development and trade openness to growth in the long run. There also appeared to be an indirect causal effect that financial development had on economic growth through trade openness but this would depend on the financial development measured in the case of Malawi (Kenani, 2012).

3. Methodology

Panel data were pooled from 12 countries (members of ASEAN, China, and India) from years 1988-2013. Variables include GDP per capita, domestic private credit, broad money (M2), and trade shares. Depending on the availability of data, this paper has selected the longest possible sample period to avoid the small sample bias. Data on all variables have been collected from World Development Indicators (WDI) from the database of the World Bank. This paper estimates the impact of economic liberalisation on economic growth using the system GMM dynamic panel estimation method.

The economic equation is specified as:

$$GDP_{i,t} = \alpha_0 + \alpha_1 GDP_{i,t-1} + \alpha_2 Trade_{i,t} + \mu_t + \delta_i + \varepsilon_{i,t} \quad (1)$$

where $GDP_{i,t}$ denotes the logarithm of initial GDP per capita, Trade measures trade openness, proxied by trade shares, μ_t is the time specific effect, δ_i is the unobserved country-specific fixed effect, and $\varepsilon_{i,t}$ is the error term.

While trade openness has the potential to affect economic activity through a host of channels, in a second set of regressions, this paper examines the link between trade openness and economic growth, specifically the one working through financial markets. The hypothesis we would like to test is whether the level of financial development in the recipient country affects the impact of trade openness on economic growth.

The regression including the role of financial liberalisation to be estimated is the following:

$$GDP_{i,t} = \alpha_0 + \alpha_1 GDP_{i,t-1} + \alpha_2 Trade_{i,t} + \alpha_3 FL_{i,t} + \mu_t + \delta_i + \varepsilon_{i,t} \quad (2)$$

where FL is proxied by domestic private credit and broad money (M2).

This paper then specifies the following log-linear model for economic liberalisation as follows.

$$InGDP_{it} = \alpha_0 + \alpha_1 In\, GDP_{i,t-1} + \alpha_2 Trade_{it} + \alpha_3 InFL_{it} + \mu_t + \delta_i + \varepsilon_{it} \quad (3)$$

(+/-) (+) (+)

The panel GMM estimation proposed by Arellano and Bond (1991) is used for this research. This research uses a 4-year average of the variables. This estimator is a dynamic one that estimates the model in first differences and uses lagged values of the variables as instruments. In order to have a reasonable relationship between the number of cross-sectional observations and the number of over-identifying restrictions, only one lag of the dependent variable is employed as the instrument.

The consistency of the system GMM estimator is assessed by two specification tests. The validity of these restrictions can then be tested via a Sargan test, using a χ^2 distribution with three degrees of freedom. Failure to reject the null hypothesis gives support to the model. The second test examines the null hypothesis that the error term is not serially correlated. Again, failure to reject the null hypothesis gives support to the model.

4. Results and Discussion

Table 2 shows the descriptive statistics for the model. The variables are defined as follows: LRGDPC (log of GDP per capita). Trade openness variable consists of LTO (log of trade shares over GDP) whilst LM2 (log of broad money over GDP) and LPC (log of domestic private credit over GDP) construct the financial liberalization. Table 2 displays the minimum values, maximum values, mean values, and the values of standard deviation of all the four variables. Mean value provides the central tendency of the values of a variable. Number of observations of each variable is 72. Standard deviation and the extreme values (minimum in comparison to maximum value) give the dispersion of the values of a variable from its mean value. These statistics are useful in getting the central tendency and the dispersion of a variable.

Table 2. Descriptive Statistics

N = 72	LRGDPC	LPC	LM2	LTO
Mean	7.341	3.575	3.986	4.151
Standard Deviation	1.580	1.174	0.857	1.434
Minimum	4.359	-0.548	0.559	-1.175
Maximum	10.469	5.039	5.270	6.045

Table 3: Panel Cointegration Test

Pedroni	Standardized Statistics	P-value
Panel v-Statistic	1.799205	0.0360**
Panel rho-Statistic	0.557625	0.7114
Panel PP-Statistic	-1.659484	0.0485**
Panel ADF-Statistic	-2.537591	0.0056*
Group rho-Statistic	1.494966	0.9325
Group PP-Statistic	-2.786696	0.0027*
Group ADF-Statistic	-3.175400	0.0007*
Kao Test		
ADF	-3.643111	0.0001*

Note: The null hypothesis of no cointegration is tested. *, ** indicate the parameters that are significant at 1%, 5% probability level respectively.

Table 3 provides the results of the panel cointegration tests suggested by Kao (1999) and the results of the seven panel cointegration tests suggested by Pedroni (1999). Based on the panel cointegration shown in Table 3 above, the five tests by Pedroni (1999), group t-statistics, and panel t-statistics reject the null of no cointegration with 5% and 1% significance level. Panel cointegration tests by Kao (1999) clearly indicate that the model is panel cointegrated with 1% significance level.

Model is estimated using the Arellano and Bond dynamic panel GMM estimation. The variables are defined as follows: LRGDPC (log of GDP per capita). Trade openness variables consist of LTO (log of trade shares over GDP) whilst LM2 (log of broad money over GDP) and LPC (log of domestic private credit over GDP) construct the financial liberalisation. The results show that in ASEAN, China, and India, domestic private credit and broad money are significantly associated with economic growth. This suggests that financial liberalisation leads to economic growth. However, trade shares are not significantly associated with GDP per capita; indicating that trade openness does not lead to economic growth. It is also important to highlight that signs of the estimated coefficient on real GDP per capita are consistent with theories except for trade shares. In the ASEAN6, domestic private credit and trade

openness are significantly associated with GDP per capita. This suggests that economic liberalisation leads to economic growth. However, broad money is not significantly associated with GDP per capita. The results show that in CLMV, all indicators are significant to the GDP per capita. This indicates that economic liberalisation leads to economic growth. It is hoped that the present study on economic liberalisation would help to stimulate further work in the sphere of globalisation. In addition, through the identification of appropriate factors that influence economic liberalisation, it is also hoped that this study would help provide the necessary guidance for charting out appropriate policies and strategies to ensure rapid development in countries.

Table 4: Dynamic Panel GMM

Variables	ASEAN, China and India	ASEAN6	CLMV
Constant	1.439	6.249	0.183
	(5.78)*	(3.06)**	(3.03)**
InRGDPCit-1	0.769	0.804	1.007
	(23.71)*	(6.31)*	(117.76)*
InPCit	0.107	0.127	0.013
	(1.43)***	(1.92)**	(3.07)**
InM2it	0.135	0.33	0.014
	(2.87)*	(1.20)	(2.30)**
InTOit	-0.036	0.514	0.061
	(-1.13)	(2.25)**	(4.20)*
Sargan Test	10.40	3.62	-
(Chi-sq test)	(0.319)	(0.934)	
(p-value)			
AR(1)	-	-	0.012
p-value			
AR(2)	-	-	0.685
p-value			

Note: * - significant at 1% level, **- significant at 5% level and ***- significant at 10% level.

5. Conclusion

This paper examined the relationship between economic liberalisation and economic growth using the dynamic panel GMM model. In a panel of 12 countries of ASEAN, China, and India over the period of 1988 to 2013, financial liberalisation generally showed a significant and positive impact on economic growth. However, trade openness showed contrary findings. In ASEAN6 and CLMV, the results indicated that economic liberalisation led to economic growth. This research aimed to develop a sound empirical framework of the nexus of the economic liberalisation in ASEAN, China, and India. In view of that, this study allows readers to observe the impacts of economic liberalisation on the economic growth of all member countries. Since there appears to be limited studies on the topic, this research serves as a contribution to other empiricals. With this, this research hopes to provide a regulatory framework with regards to the financial and trade sector as well as to come up with sound policies that can be used by institutions and to conduct future research for further improvements. Perhaps the most relevant results shown in this study would be able to provide a platform for policy makers to make adjustments for the betterment of the economy.

References

Asian Development Bank. (2013*). Regional cooperation and integration in a changing world*. Manila: ADB.

Ahmed, A. D. & Suardi, S. (2009). Macroeconomic Volatility, Trade and Financial Liberalisation in Africa. *World Development*, *37*(10), 1623–1636. Doi:10.1016/j.worlddev.2009.03.009.

Alessandria, George & Jun Qian. (2005). Endogenous financial intermediation and real effects of capital account liberalization. *Journal of International Economics, 67*, 97-128.

Ang, J. B. & McKibbin, W. J. (2005). Development and Growth : Financial Liberalization, Financial Sector Development and Growth : Evidence from Malaysia. Brookings Discussion Papers No.168. Retrieved from The Brookings Institute, Washington.

Arellano, M.,& Bond, S. (1991). Some tests of specification for panel data: Monte carlo evidence and an application to employment equations. *Review of Economic Studies, 58*(2), 277- 297.

Awojobi, O. (2013). Does trade openness and financial liberalization foster growth: An empirical study of Greek economy. *International Journal of Social Economics*, *40*(6), 537–555.

Bashar K.M.R., Lau W.K., & Sim C.H. (2008). Impact of economic liberalization on growth: evidence from Malaysia. *Malaysian Journal of Economic Studies, 49*, 79.

Beck, T. (2002). Financial development and international trade: Is there a link? *Journal of International Economics, 57*, 107-31

Bhagwati, J, & Srinivasan, T.N. (2002). Trade and poverty in the poor countries. *American Economic Review Papers and Proceedings*, *92*, 180-193.

Billmeier, A. & Nannicini, T. (2009). Trade openness and growth: Pursuing empirical glasnost. *IMF Staff Papers*, *56*, 447-475.

Bilquess, F., Mukhtar, T., & Sohail, S. (2011). What matters for financial development in D8 countries?: Capital flows, trade openness and institution. *Journal of Economic Cooperation and Development, 32,* 71-91.

Braun, M. & Raddatz, C. (2008). The Politics of Financial Development: Evidence from Trade Liberalization. *The Journal of Finance, 63* (3), 1469 - 1508.

Bumann, S., Hermes, N., & Lensink, R. (2013). Financial liberalization and economic growth: A meta-analysis. *Journal of International Money and Finance*, *33*, 255–281. doi:10.1016/j.jimonfin.2012.11.013.

Chandran, V.G.R & Munusamy. (2009). Trade openness and manufacturing growth in Malaysia. *Journal of Policy Modelling, 31*, 637-647.

Dal Colle, A. (2010). Finance–Growth Nexus: Does Causality Withstand Financial Liberalization? Evidence from Cointegrated VAR. *Empirical Economics*, *41*(1), 127–154. doi:10.1007/s00181-010-0439-7.

Daniel, Betty C., & John B. Jones. (2007). Financial liberalization and banking crisis in emerging economies. *Journal of International Economics*, *72*,202-21.

Dritsaki, M., & Dritsaki, C. (2013). Bound Testing Approach for Cointegration and Causality Between Financial Development , Trade Openness and Economic Growth in Bulgaria. *The IUP Journal of Applied Economics, XII*(1), 50-67.

Falvey, R., Foster, N., & Greenaway, D. (2012). Trade Liberalization, Economic Crises, and Growth. *World Development*, *40*(11), 2177–2193. doi:10.1016/j.worlddev.2012.03.02.

Fujita, M., & Hu, D. (2001). Regional disparity in china 1985- 1994:the effects of globalization and economic liberalization. *Annals of Regional Science, 35,* 3 – 37.

Germain, J. C. (2006). *Trade liberalization and globalization: The experience of Haiti* (Doctor dissertation). Union Institute and University Cincinnati, Ohio, United States.

Goh, S.K., Alias M.H. & Olekalns N. (2003). New evidence on financial openness in Malaysia. *Journal of Asian Economics, 14*, 311-325.

Goldberg, P. & Pavcnik, N. (2004). Trade, Inequality, and Poverty: What Do We Know? Evidence from Recent Trade Liberalization Episodes in Developing Countries. Brookings Trade Forum 2004, 223-269.

Gehringer, A. (2013). Growth, productivity and capital accumulation: The effects of financial liberalization in the case of European integration. *International Review of Economics & Finance*, *25*, 291–309. doi:10.1016/j.iref.2012.07.015.

Hassan, A. F. M. K. (2005). Trade Openness and Economic Growth : Search for a Causal Relationship. *South Asian Journal of Management, 12* (4), 38 – 51.

Huybens, E. & Smith, B. (1999). Inflation, financial markets and long-run real activity. *Journal of Monetary Economics*, *43,283*-315.

International Institute of Sustainable Development. (2007). Regional integration, trade and conflict in southeast asia. IISD, Singapore: The Singapore Institute of International Affairs.

Jomo, K.S. (1998). Financial liberalization, crisis and Malaysian policy responses. *World Development, 26*(8), 1563-1574.

Kenani, J. M. (2012). A dynamic causal linkage between financial development , trade openness and economic growth : Evidence from Malawi . *Interdisciplinary Journal of Contemporary Research in Business*, *4*(5), 569–584.

Kern, A. & Fahrholz, C. (2009). Global Imbalances and a Trade-Finance-Nexus. *Journal of Financial Economic Policy*, *1* (3), 206 – 226. doi:10.1108/17576380911041700.

Kim, A. D., Lin, S. & Suen, Y. (2014). Are Financial Development and Trade Openness Complements or Substitutes. *Southern Economic Journal*, *76* (3), 827 – 845.

Kiyota, K. (2012). Trade liberalization, economic growth, and income distribution in a multiple-cone neoclassical growth model. *Oxford Economic Papers, 64*(4), 655–674. doi:10.1093/oep/gps002

Kose, M. A. (2003). Financial Integration and Macroeconomic Volatility. *International Monetary Fund Staff Papers*, *50*, 119 – 42.

Krueger, A. O. (1978). Liberalization, direction of bias and economic growth. *Liberalization Attempts and Consequences* (pp. 277-300). New York, NY: National Bureau of Economic Research.

Lee, H. Y., Ricci, L., & Rigobon, R. (2004). Once again, is openness good for growth?. *Journal of Development Economics, 75* (2), 451- 472.

Lloyd, P. & MacLaren, D. (2004). Gains and Losses from Regional Trading Agreements: A Survey. *Economic Record, 80* (251), 445 - 467.

Loayza, Norman V., & Romain Ranciere (2006). Financial development, financial fragility and growth. *Journal of Money, Credit and Banking*, *38*,1051-76.

Matoo, A., Rathindran, R., Subramanian, A. (2006). Measuring services trade liberalization and its impact on economic growth : An illustration. *Journal of Economic Integration, 21*(1), 64–98.

McKinnon, R.I. (1973). Money and capital in economic development. *World Development, 2*(3), 87-88.

Nannicini, T., & Billmeier, A. (2011). Economies in transition: How important is trade openness for growth?. *Oxford Bulletin of Economics and Statistics*, *73*(3), 287–314. doi:10.1111/j.1468-0084.2010.00626.x.

Nugroho, & Yanfitri. (2011). The potential impact of establishing single market integration on indonesia's economy. Occassional Paper, Bank of Indonesia, No. OP/02/2011.

OECD. (2013). Economic outlook for southeast asia, china and india 2014: Beyond the middle-income trap, *OECD Publishing*. http://dx.doi.org/10.1787/saeo-2014-en.

Okamoto, Y. (1994). Impact of trade and FDI liberalization policies on the Malaysian economy. *The Developing Economies, 32*, 460-478.

Rivoli, P. (2005). *The Travels of a T-Shirt in the Global Economy*. Hoboken, NJ: John Wiley & Sons.

Rajan, R.S., & Sen, R. (2005). The new wave of free trade agreements in Asia: with particular reference to ASEAN, China and India. forthcoming ADB volume on *Asian Economic Cooperation and Integration.*

Rajan, R.S., & Zingales, L. (2003). The great reversals: the politics of financial development in the twentieth century. *Journal of Financial Economics, 69,*5 – 50.

Rodriguez, F., & Rodrik, D. (2001). Trade policy and economic growth: a skeptic's guide to the cross national evidence (Working Paper No. 7081). Retrived from National Bureau of Economic Research website: www.nber.org/papers/w7081.

Santos-paulino, A. U. (2005). Trade Liberalisation and Economic Performance : Theory and Evidence for Developing Countries. *The World Economy, 28* (6), 783 – 821.

Seguino, S. & Grown, C. (2006). Gender Equity and Globalization: Macroeconomic Policy for Developing Countries. *Journal of International Development*, *18*(8), 1081-1104.

Shaw, E. S. (1973). *Financial deepening in economic development.* New York: Oxford University Press.

Soukhakian, B. (2007). 'Financial development, trade openness and economic growth in Japan: Evidence from granger causality tests', *International Journal of Economic Perspective, 1*(3), 118-127.

Tsen, W. H. (2005). Openness, financial development and economic growth in Malaysia. *International Journal of Business and Society, 6*(1), 93-121.

Urata, S. (1994). Trade liberalization and productivity growth in Asia: Introduction and major findings. *The Developing Economies, 32*, 363-372.

Wacziarg, R., & Welch, K. H. (2007). Trade Liberalization and Growth: New Evidence. *The World Bank Economic Review*, *22*(2), 187–231. doi:10.1093/wber/lhn007.

World Bank. (2013). *The World Bank Annual Report 2013*, Washington, DC: World Bank. doi: 10.1596/978-0-8213-9937-8.

World Trade Organization. (2008). Trade in Globalization World. *World Trade Report 2008,* Geneva: WTO.

World Trade Organization. (2012). Trade and public policies: a closer look at a non-tariff measures in the 21st century. *World Trade Report 2012.* Geneva: WTO.

Yanikkaya, H. (2003). Trade openness and economic growth: A cross-country empirical investigation. *Journal of Development Economics*, *72*(1), 57–89. doi:10.1016/S0304-3878(03)00068-3.

Yeo, L, Hwee., Zaur, I., & Ekeroth. M. (2005). Conflict map of southeast asia. *Dialogue and Cooperation*. Occasional Papers, Southeast Asia-Europe, 13, 5-17.