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THE IMPACT OF INTERNATIONAL TRADE LIBERALIZATION ON IMPORT-EXPORT GROWTH IN FIVE ASEAN COUNTRIES

Melti Roza Adry
Department of Economics, Universitas Negeri Padang, Indonesia
***Corresponding author:** -*

Abstract: *Trade liberalization or free trade is a condition in which a country engages in trade with other nations without any barriers. The process towards achieving free trade is referred to as trade liberalization. One of the goals of trade liberalization is to promote economic growth by capturing both static and dynamic benefits of trade through more efficient allocation of resources. This research aims to examine the impact of international trade liberalization on export-import growth in five ASEAN countries. The study employs a qualitative descriptive research approach using literature review methods, drawing information from previous research journals and utilizing data obtained from the World Bank. The research is conducted in five ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. The results of this research explain that trade liberalization and economic openness provide access to knowledge for developing countries and create a more competitive environment, forcing domestic producers to improve the quality of their products to remain competitive with foreign producers. Trade liberalization is associated with opening market access for a country's export products to the world. The increasing foreign investment leads to a rising flow of investment profits (income) to foreign countries.*

Keywords: *Trade Liberalization, Exports, Imports.*

INTRODUCTION

Trade liberalization or free trade is a condition where a country engages in trade with other nations without any barriers. The process toward achieving free trade is known as trade liberalization. One of the goals of trade liberalization is to promote economic growth by capturing both static and dynamic benefits of trade through more efficient allocation of resources (Budiyanti, 2019).

Trade liberalization is a policy that reduces or even eliminates trade barriers, including both import tariffs and non-tariff barriers. However, tariffs act as obstacles in the process of achieving trade liberalization because they represent taxes imposed on products crossing territorial borders. The liberalization process aims to reduce barriers set by a country, indicating that trade liberalization creates significant opportunities for a country to engage in international trade. Currently, many governments impose trade restrictions for protectionist reasons or to influence other nations through non-tariff policies such as antidumping measures, export restrictions, import quotas, and more. As trade liberalization evolves, debates arise regarding its pros and cons.

Countries in favor of trade liberalization believe it enhances economic efficiency, ultimately boosting overall economic growth. On the other hand, countries opposing trade liberalization argue that adopting such policies could lead to losses, although, in certain conditions, benefits may also accrue. One of the challenges faced by ASEAN in trade liberalization is the reduction or elimination of import tariffs. This can have a significant impact on import growth by opening access to foreign markets, making products from other countries more affordable and easily accessible.

Liberalization enhances growth from the supply side through more efficient resource allocation. However, from the demand side, it may hinder economic growth unless a balance between exports and imports can be maintained through currency depreciation or sustained inflows of capital. This study takes five ASEAN countries as representative data for comparison, namely Indonesia, Malaysia, Singapore, the Philippines, and Thailand. These countries were chosen as they are the nearest neighbors to Indonesia.

Generally, trade liberalization has an impact on exports and imports in a country. The same is expected to occur in ASEAN. The Heckscher-Ohlin theorem suggests that free trade benefits both parties. Therefore, this research aims to answer questions about the short-term, medium-term, and long-term impacts of trade liberalization on the growth of exports and imports in the five ASEAN countries, with the hope of making a significant academic contribution.

LITERATURE REVIEW

1. Trade Liberalization

According to Chacholiades in the book "Liberalisasi Perdagangan Agro" (Anonymous n.d.-g), participation in international trade is voluntary, making it a free activity. Internally, a country's decision to engage in international trade is a choice, and therefore, trade is often considered to be mutually beneficial. In a closed economic system (autarky), a country can only consume goods and services produced domestically.

The freedom to conduct international trade, also known as international trade liberalization, is motivated by the ideas and theories put forward by Adam Smith in his book "The Wealth of Nations." Smith argues that the prosperity of a nation will increase if international trade is conducted in a free market with minimal government intervention (Fahrazi, 2015).

There are various reasons why countries engage in international trade, such as it being the backbone for a nation to become prosperous, affluent, and strong. This has been proven throughout the historical development of the world. With a free trade system, resources are used more efficiently, leading to optimal well-being. However, in Europe, the reality has been social injustice and inequality between wealthy entrepreneurs and poor laborers or farmers.

According to Kindleberger and Lindert in the book "Liberalisasi Perdagangan Agro," international trade should be allowed to happen freely with minimal tariffs and other barriers. They argue that freer trade benefits both participating countries and the world, promoting greater prosperity compared to no trade.

Trade liberalization policy is a policy adopted by a country that reflects a movement towards a more neutral, liberal, or open stance. Specifically, the shift towards greater neutrality includes equalizing incentives among different trade sectors. A policy regime is considered to be implementing liberalization when overall intervention levels decrease. Additionally, liberal policies may also be characterized by the increasing importance of trade in the economy. Liberalization policies can be achieved through various means, such as reducing trade barriers or implementing export subsidies.

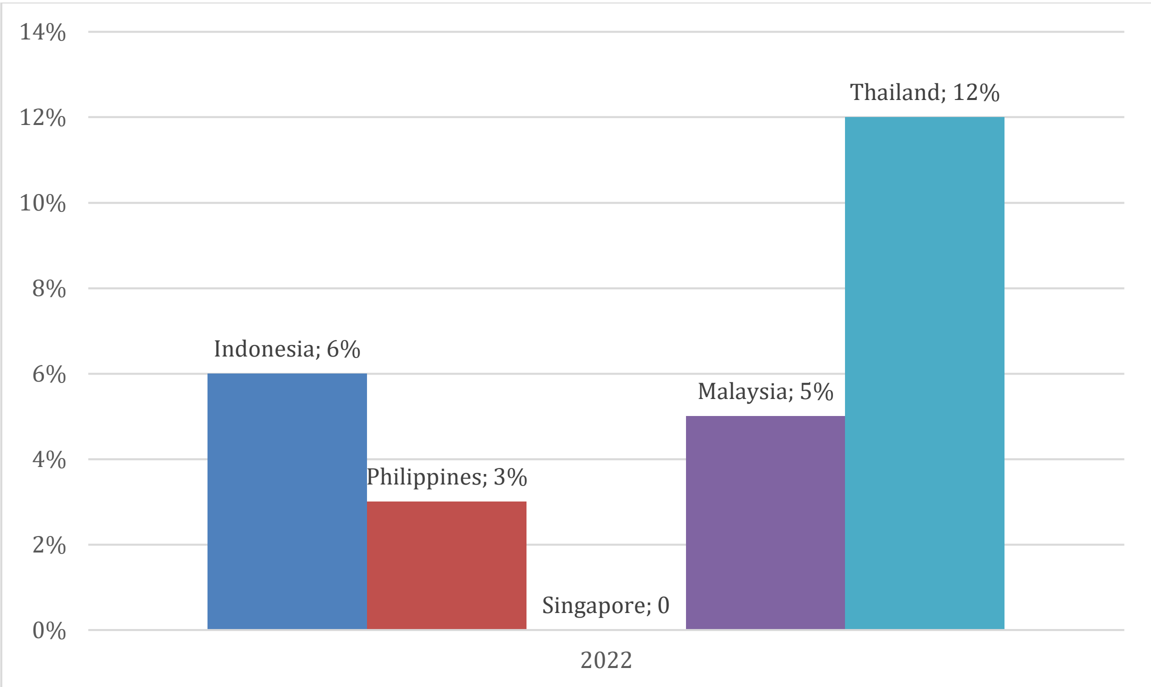
Liberalization policies can be categorized into global and unilateral, as well as bilateral or regional policies. Global policies are related to agreements decided upon in the WTO, while unilateral policies are unilaterally implemented by a country. Regional or bilateral policies are implemented based on bilateral or regional agreements, usually within a trade agreement. Cross-border trade benefits a country's economy significantly, with liberalization using more intensive price mechanisms to reduce anti-export bias in trade regimes. It is also mentioned that liberalization can depict a situation where the domestic market becomes more open to foreign products. The acceleration of market liberalization is attributed to technological, telecommunication, and transportation revolutions overcoming spatial and temporal constraints (Anonymous n.d.-f).

RESEARCH METHOD

This study employs a descriptive qualitative approach with a literature review method through a review of literature derived from journals of previous research (Kurniawan, 2014) related to the topic. Additionally, data access is obtained from websites as sources of information publication. The descriptive qualitative study can be interpreted as the researcher serving as the key instrument, where data collection techniques involve merging and analyzing data inductively (Sugiyono, 2012). This approach aims to produce descriptive data, such as narrating the results of interviews and/or observations.

RESULTS AND DISCUSSION

Countries that are pro-free trade view trade liberalization as a means to enhance economic efficiency, ultimately boosting their economies. On the contrary, countries that are against trade liberalization believe that implementing such policies would lead to losses, although under certain conditions, it might also bring about benefits.



Source: (World Bank, 2023)

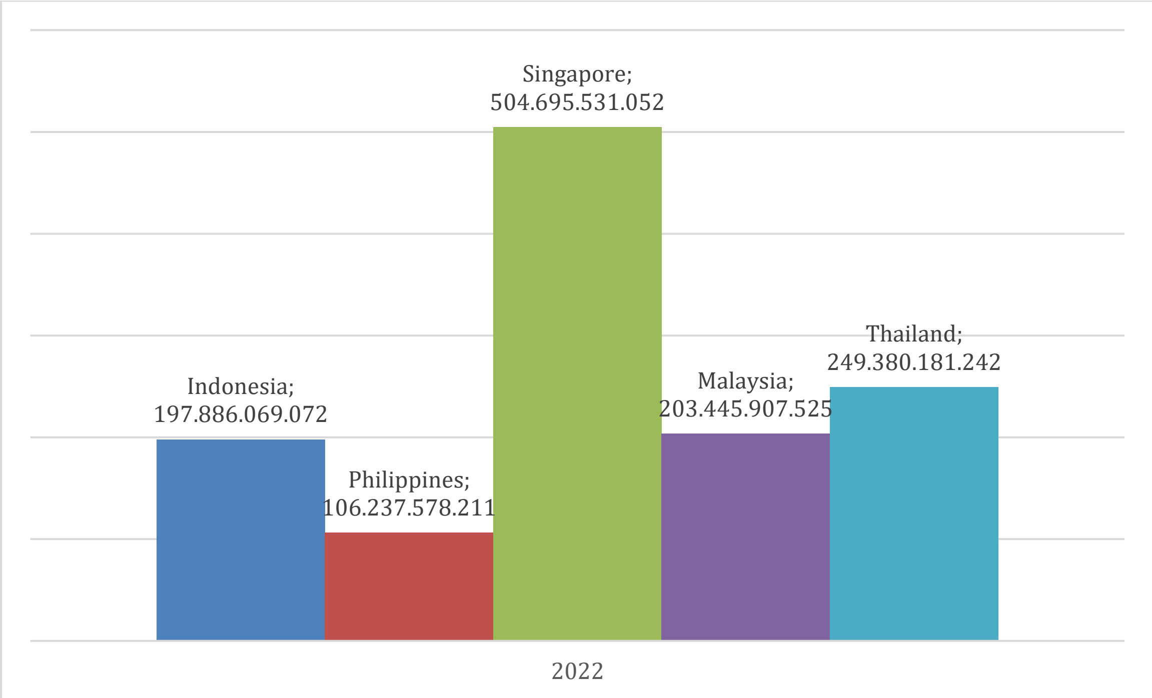
Figure 1. Import tariffs in 5 ASEAN countries in 2022

Figure 1 above shows import tariffs in ASEAN countries and the year the tariffs were implemented. The data is taken from the World Bank, explaining the latest year each ASEAN country submitted its tariff schedule to the World Trade Organization. In 2022, based on World Bank data, Thailand recorded the highest tariff rate at 12%. However, Thailand is one of the countries benefiting the most from trade liberalization.

Singapore is a country that fully implements trade liberalization by eliminating import tariffs. However, Singapore does not fully enjoy the benefits of trade liberalization in the ASEAN and Asia regions. The implementation of a zero percent tariff has led to relatively low and not significantly high real GDP growth in Singapore. On the other hand, Indonesia, Malaysia, and the Philippines have experienced numerous opportunities, periodic benefits, and positive economic growth with trade liberalization.

From the data above, it is evident that Singapore has completely removed tariffs. This is because Singapore prioritizes the trade sector and heavily relies on exports and imports. Singapore's economic liberalization, accompanied by the free opening of markets and industrial growth supported by state-owned enterprises or GLCs, began in the early years of independence in 1965. Singapore's economic liberalization is reflected through liberal economic policies. Before 1965, Singapore's economic policy was import substitution industrialization, imposing restrictions on its export-import activities, and shifted to an export-oriented industry in 1967 after Singapore became an independent republic (HELMIA, 2016).

One of the challenges for ASEAN in trade liberalization is the reduction or elimination of import tariffs. This can have a significant impact on import growth, opening access to foreign markets, and making products from other countries more affordable and easily accessible by removing other trade barriers.



Source: (World Bank, 2023)

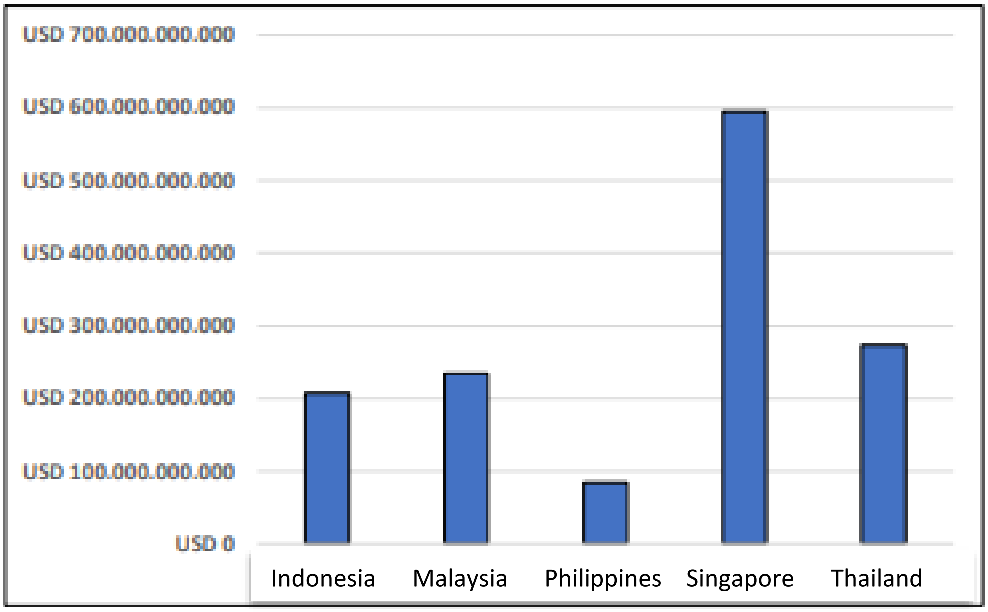
Figure 2. The Import Value of the Five ASEAN Countries in the Year 2022 (USD)

Based on Figure 2, Singapore recorded the highest average import value among the five ASEAN countries, amounting to 504,695,531,052 USD. This is because Singapore is the only ASEAN country without mining products, and it relies on imports for 90% of its food needs. Singapore imports raw materials from other countries to develop and advance domestic production, which is then exported to other nations. This is the reason why Singapore fully implements trade liberalization, with a 0% import tariff, aiming to maintain stability in domestic needs.

Meanwhile, Thailand ranks second with an average import value of 249,380,181,242 USD. With liberalization, consumers have access to various products from abroad. This can lead to increased imports as consumers are interested in new or innovative products not produced locally, and imported goods are often cheaper. According to Kadek et al. (2017), an increase in the Big Trading Index will result in higher production costs, accompanied by an increase in the prices of those goods.

In 1992, Indonesia, along with five ASEAN countries—Singapore, Malaysia, Thailand, the Philippines, and Brunei Darussalam—signed the ASEAN Free Trade Area (AFTA) agreement on January 28, 1992, in Singapore. AFTA is a trade bloc formed by ASEAN. The external goal of establishing AFTA is to increase intra-ASEAN trade intensity in the international market, while internally it aims to reduce the disparities among member countries in the cooperation area.

In 2002, ASEAN began expanding its liberalization by enhancing international cooperation with China, resulting in the ASEAN-China Free Trade Area (ACFTA). Through this agreement, it is expected that the domestic industries in ASEAN countries can expand their markets.



Source: (World Bank, 2023)

Figure 3. The Export Values of the Five ASEAN Countries in the Year 2022 (USD)

Singapore is noted as the only country in Southeast Asia with the highest export flow, as indicated by the data in Figure 3. This is because Singapore does not have mining products. To meet its needs, Singapore imports mining products from other countries and processes them for export to other nations. Singapore heavily relies on trade liberalization and focuses on the industrial and service sectors to boost the country's income. Singapore imports raw materials from other countries to develop and advance domestic production, which is then exported to other countries. This is the reason why Singapore fully implements trade liberalization, with a 0% import tariff. Indonesia, as a developing country with an open economic system, sees export and import activities as contributors to economic growth (Rangkuty & Hidayat, 2019).

Most countries in ASEAN are export-oriented nations, as their economies rely more on domestic consumption levels. The contribution of exports to economic growth is relatively small, and these countries often rely on the export of specific commodities.

CONCLUSIONS AND SUGGESTIONS

Trade liberalization and economic openness provide access to knowledge for developing countries and create a more competitive environment, forcing domestic producers to improve the quality of their products to remain competitive with foreign manufacturers. Trade liberalization is related to opening access to the global market for a country's export products. The increasing foreign investment leads to a rise in the flow of profit (income) from overseas investments.

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