Article

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

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

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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

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,