

# BOUNDS ESTIMATION FOR TRADE OPENNESS AND GOVERNMENT EXPENDITURE NEXUS OF ASEAN-4 COUNTRIES

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## ABSTRACT

Southeast Asia countries are encountering several challenges as they are moving towards the globalization and trade liberalization era. Due to that, government intervention is essential in ensuring that the economy is resilience against the severe implications of trade openness. Therefore, this study aims to examine the relationship between trade openness and government expenditure of ASEAN-4 countries using the Autoregressive Distributed Lag [ARDL] bounds testing approach that covers a sample period of annually data from 1974-2006. Empirical results indicate that there is an existence of a significant positive long-run linkage between trade openness and government expenditure of all the ASEAN-4 countries under study. This means that government intervention in an open economy is crucial as to cushion the risks associated with trade liberalization.

**Keywords:** ARDL, ASEAN-4, openness, government expenditure

## 1. Overview

The Association of Southeast Asian Nations [ASEAN] countries with the exception of Singapore are mainly low- and middle-income developing countries whose economies share many resemblances related to their geographical location as well as common aspects of their culture, history, economic and social development. The main reason for the economic success of the ASEAN countries lies in their progressively increasing openness, in addition to the pursuit of relatively stable fiscal and monetary policies. Nevertheless, government intervention still remains influential in ASEAN countries with certain degree of protectionism via tariffs, quotas and other nontariff barriers to imports. The four main ASEAN countries namely Indonesia, Malaysia, the Philippines and Thailand (henceforth ASEAN-4) have dissimilar degree of economic freedom as well as government freedom. Based on the [2008 Index of Economic Freedom](#) assessment, Malaysia has the highest freedom in economy, which rated at 64.5% freedom and ranked world's 51<sup>st</sup> freest economy. This is followed by Thailand (63.5%) ranked at 54<sup>th</sup>, the Philippines (56.9%) ranked at 92<sup>nd</sup> and lastly is Indonesia (53.9%) that ranked at 119<sup>th</sup> freest economy. On the other hand, among the ASEAN-4 countries that have most freedom from government is Thailand with 90.7% freedom, followed by the Philippines (90.2%), Indonesia (89.7%) and Malaysia (80.8%). Therefore, the total government expenditures, such as consumption and transfer payments are low in Thailand, the Philippines, and Indonesia with the percentage of 17.6%, 18.1% and 18.5% of GDP, respectively. In Malaysia, however, the government spending is in the range of moderate that equaled 25.3% of GDP.

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