

## THE IMPACT OF INTERNATIONAL TRADE DISCLOSURE IN THE SERVICE SECTOR ON ASEAN ECONOMIC GROWTH

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**ABSTRACT :** The service sector can be a driving force for the economy of a country by relying on human resources owned by that country or from other countries. For example, countries that are members of ASEAN can take advantage of the service sector to improve their economy by relying on the human resources of each country and the human resources of the countries that are members of ASEAN. This research was conducted on 10 ASEAN members, namely Brunei Darrussalam, the Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand, and Vietnam. The type of data used is quantitative data in the form of secondary data. Data collection is done through records or reports from relevant sources or agencies.

**Keywords:** *export, import, GDP*

### I. INTRODUCTION

The service sector is an important supporting sector for other sectors, Arnold, et al (2007) stated that the service sector affects the productivity of the manufacturing sector, and trade liberalization in the service sector will improve the performance of the manufacturing sector so that it will encourage increased trade in goods.

In addition to Southeast Asia itself, trade liberalization began with the establishment of an ASEAN trade area known as AFTA (ASEAN Free Trade Area). AFTA was inaugurated at the 4th ASEAN Summit in Singapore in 1992, the heads of state announced the establishment of a free trade area in ASEAN (AFTA) within a period of 15 years. The CEPT Agreement, which is the main mechanism of AFTA, was signed by the ASEAN Economic Ministers on January 28, 1992. The objectives of AFTA are: (i) To make the ASEAN region a competitive place of production so that ASEAN products have strong competitiveness in the market. globally, (ii) Attract more Foreign Direct Investment, (iii) Increase trade among ASEAN members (intra-ASEAN Trade).

In 2015, ASEAN again created a trading area called the ASEAN Economic Community (AEC). AEC is a realization of the ultimate goal of economic integration that has been embraced in the ASEAN Vision 2020 which is based on the convergence of interests of ASEAN member countries to be able to expand and deepen economic integration through existing and new initiatives with a clear time limit.

The MEA was formed based on four pillars, namely making ASEAN a single market and production center, creating :balanced economic growth, becoming a competitive economic region, and integration into the global economy.

The forms of AEC cooperation include the development of human resources (HR) and capacity building, closer consultation on macro-financial and economic policies, taking steps to finance trade, improving infrastructure, increasing the role of the private sector to be able to build the MEA. , and recognition of professional qualifications. The MEA was formed to realize ASEAN economic integration, namely the achievement of a secure ASEAN region with a higher and integrated level of development dynamics, alleviation of the ASEAN community from poverty, and economic growth to achieve equitable and sustainable prosperity.

MEA is believed to be a milestone for economic growth and equity in Southeast Asia. To realize this goal, it requires the involvement of all parties, not only from the government elite or conglomerates, but the small and medium-sized economic community must also take part. Small and medium economic communities, especially those who work as fishermen, farmers, and Indonesian workers (TKI) will face problems in implementing the MEA where the flow of labor will be more free and intense.

Most of the ASEAN region has a very wide maritime territory. This should be seen as a big capital to integrate the Southeast Asian economy by utilizing marine resources which are in fact very abundant. The marine wealth in the ASEAN region can be used as a commodity and also a tourist attraction whose implementation involves all parties, including in this case fishermen and small and medium-sized entrepreneurs. This program is intended as a new economic power base in Southeast Asia to tackle the free flow of employment. One method is to unite profit-oriented activities as well as social goals, namely by integrating the creative economy, utilization of natural resources, tourism, and community financing as a whole in a single platform where the framework of thought can be applied throughout the ASEAN region. For this reason, the MEA has four main characteristics, namely a single market and production base, a highly competitive economic area, a region with equitable economic development, and a region that is fully integrated with the global economy.

The service sector has a strategic role in the economies of ASEAN member countries. In an effort to increase economic cooperation through trade liberalization in the services sector, ASEAN member countries have agreed and ratified the ASEAN Framework Agreement on Services (AFAS) on December 15, 1995 in Bangkok, Thailand. To follow up on the agreement, a Coordinating Committee on Services (CCS) has been formed which has the task of preparing modalities to manage negotiations for liberalization of services within the AFAS framework covering 8 (eight) sectors, namely: Air and Sea Transportation Services, Business Services, Construction Services, Services Telecommunication, Tourism Services, Financial Services, Health Services and Logistics Services.

Openness of trade as seen from the proportion of the total value of exports and imports to GDP has an influence on the flow of foreign investment in a country. According to Skipton (2007) in Pramudita (2012), the impact of trade openness on the level of private investment in the economy, in the long term indirectly affects economic growth. If it takes time to see the impact of trade liberalization on investment behavior in markets, then there is reason to believe that there is a lag between trade liberalization and the level of private investment in the economy.

**Table 1. International trade disclosure in the Services Sector in ASEAN (in Percent)**

COUNTRY	2015	2016	2017	2018	2019
<b>Brunei</b>	17.80%	19.08%	14.85%	15.82%	18.00%
<b>Cambodia</b>	34.33%	32.06%	33.16%	34.62%	34.55%
<b>Indonesia</b>	6.17%	5.77%	5.71%	6.61%	6.34%
<b>Lao PDR</b>	13.36%	11.75%	11.26%	12.45%	13.35%
<b>Malaysia</b>	24.92%	25.14%	24.93%	23.65%	23.20%
<b>Myanmar</b>	10.35%	9.37%	9.72%	10.65%	13.60%
<b>Philippines</b>	17.99%	17.38%	18.56%	18.79%	18.36%
<b>Singapore</b>	102.24%	97.46%	102.36%	108.02%	108.55%
<b>Thailand</b>	25.07%	26.02%	25.78%	26.14%	25.39%
<b>Vietnamese</b>	14.11%	14.25%	13.48%	13.56%	13.60%

Secondary Data, 2021

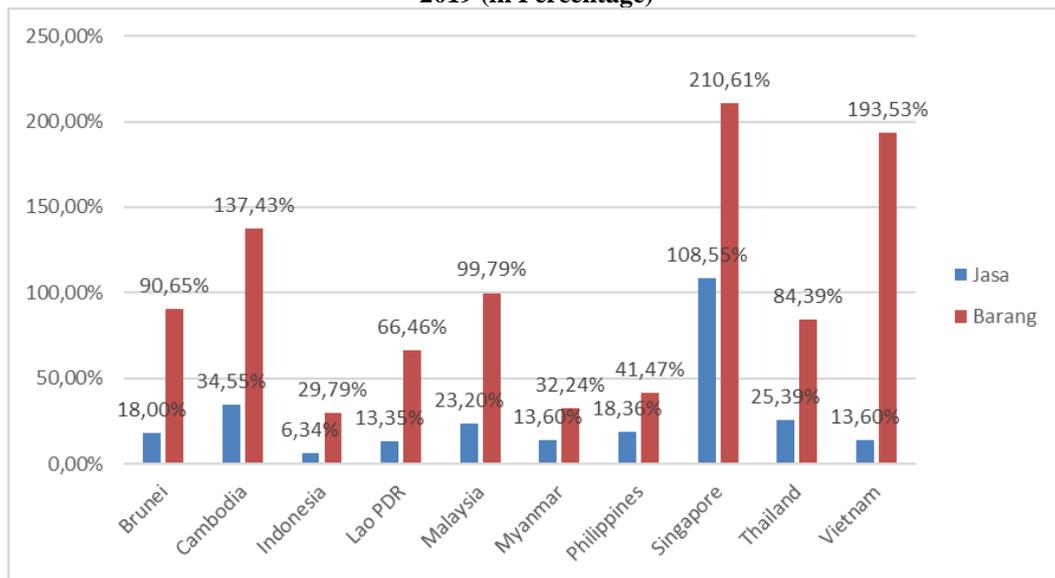
According to Nowbutsing (2014:414) the level of openness can be classified into 3 categories, namely less than 50% is included in the category of low level of openness, more than 50% and less than 100% is included in the category of moderate level of openness and more than 100% is included in the category of level of openness. high openness.

From the data obtained, it can be seen that the average trade openness of each ASEAN country is fluctuating. In addition, from the data above, it can be seen that only Singapore is very open to trade in the service sector for the ASEAN region. Because, Singapore has an average percentage above 100%, so Singapore can be categorized as having a high level of openness. This illustrates that in helping Singapore's economic growth by utilizing its human resources. Because Singapore itself has a narrow area and very limited resources.

Meanwhile, other ASEAN countries have a percentage of international trade openness that is less than 50%, which can be categorized into a low level of openness. For example, Indonesia, where the percentage of International Trade Openness in the Indonesian Services sector is the lowest among 9 other ASEAN countries. This can be caused by the policies imposed by the Indonesian government in the implementation of international trade.

According to several economic observers, the Indonesian government is too closed off or protectionist with the policy of increasing import tariffs, increasing the use of non-tariff measures, and limiting imports of services. Some of these things make Indonesia's international trade barriers increase and cause Indonesia to have a low percentage of International Trade Openness in the Services sector (CIPS, 2020).

**Figure 1.1 Comparison of International Trade Disclosure in the ASEAN Services and Goods Sector in 2019 (in Percentage)**



Secondary Data, 2021

Figure 1 shows a comparison of the International trade disclosure between the Services sector and the ASEAN Goods sector in 2019. In the graph, it can be seen that Singapore is the country with the most open international trade among 9 other ASEAN countries. Given that Singapore does have limitations in natural and human resources. However, Indonesia is still a country with the highest level of international trade openness among 9 other ASEAN countries. This shows that Indonesia is closing itself off from international trade or maybe Indonesia is unable to compete in international trade.

The trade war between China and the United States has had a significant impact on the interaction and flow of world international trade. This has resulted in several countries experiencing obstacles both in the service sector and in the goods sector. In a situation like this, the Indonesian state chooses to be more protective of international trade. If there are obstacles in international trade in the goods sector or in the manufacturing sector, Indonesia should be able to take advantage of the service sector. Because according to the predictions of the Central Statistics Agency (BPS), Indonesia will enjoy a "Demographic Bonus" where the service sector will become a promising sector for Indonesia if it can take advantage of the "Demographic Bonus".

In addition, ASEAN has been supported by the existence of AEC activities that make it easier for ASEAN countries themselves to trade in the ASEAN region itself, especially in the service sector because one form of cooperation contained in the AEC is to improve the quality of human resources in ASEAN countries. Therefore, this study will analyze the effect of trade openness in the service sector on ASEAN economic growth. In addition to international trade openness, a country's economic growth is also affected by several factors. According to Todaro (2006), these factors are population growth, productivity and foreign investment. So that these factors are included as control variables in this study.

## II. METHODS

This research was conducted in 10 (ten) ASEAN member countries, namely, Brunei Darussalam, the Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand, and Vietnam. The data in this study were obtained using the secondary document study data collection method. Data is collected by observing, tracing, reading and recording information that occurs on secondary data in the form of export and import reports in the service sector of ASEAN countries. The data analysis technique used in the panel data regression method. The selection of panel data regression is due to the fact that this study uses a time span of several years and also many countries. First, the use of time series data is intended because this study uses a time span of 19 years, namely from 2001-2019.

## III. RESULTS AND DISCUSSION

### Description of Research Result Data

The estimation methods used in the data processing results with panel data regression are Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). This study uses one dependent variable, namely Economic Growth and four independent variables, namely Service Sector Trade Openness, Population growth, Foreign investment, and Service Productivity.

**Table 1. Estimation Results of the Effect of Trade Disclosure in the Services Sector, Population Growth, Foreign Investment, and Service Productivity on ASEAN Economic Growth**

Variable		Estimation Method		
		CEM	FEM	BRAKE
<b>Service Sector</b>	Coefficient	0.033572	-0.117828	-0.016231
	Std.Error	0.013454	0.045290	0.029500
	t-statistics	2.495378	-2.601623	-0.550212
	Prob.	0.0135	0.0101	0.5828
<b>Population growth</b>	Coefficient	0.321703	0.237981	0.244530
	Std.Error	0.327765	0.351398	0.343672
	t-statistics	0.981508	0.677239	0.711520
	Prob.	0.3276	0.4991	0.4777
<b>Foreign investment</b>	Coefficient	-3.30E-11	2.87E-12	-1.87E-11
	Std.Error	2.69E-11	3.09E-11	2.69E-11
	t-statistics	-1.229029	0.092987	-0.693808
	Prob.	0.2206	0.9260	0.4887
<b>Service Productivity</b>	Coefficient	-7.11E-05	0.000144	-3.35E-05
	Std.Error	2.49E-05	6.94E-05	2.49E-05
	t-statistics	-8.005953	2.068560	-1.342467
	Prob.	0.0000	0.0400	0.1811
<b>R-Squared</b>		0.276422	0.516527	0.024586
<b>Adjusted R-Squared</b>		0.260777	0.480816	0.003496
<b>F-Statistics</b>		17.66844	14.46404	1.165765
<b>Prob. (F-Statistics)</b>		0.000000	0.000000	0.327406

Description: CEM= Common Effect Model, FEM= Fixed Effect Model, REM= Random Effect Model

### Regression Analysis Results

Because  $p\text{-value} = 0.0000 < 0.05$  then  $H_0$  is rejected. So that the conclusion of the fixed effect model is obtained. Because  $p\text{-value} = 0.000000 < 0.05$  then  $H_0$  is rejected. So it can be concluded that all independent variables have a significant effect simultaneously or jointly on the dependent variable.

### The Effect of International Trade Disclosure in Services on ASEAN Economic Growth

Table 1 shows that the results of the t-statistical test of international trade openness in the service sector have a negative and significant effect on ASEAN economic growth. This means that the increasing international trade disclosure in the service sector reduces ASEAN's economic growth. Table 1 shows the coefficient value of -0.117828, so it can be interpreted that when there is a one percent increase in international openness in the service sector, economic growth will decrease by 11.78 percent. then, when viewed from the test results on the probability obtained a value of 0.0101 which is smaller than = 5%, which means that the service sector trade openness variable is significant to ASEAN economic growth at the 95% confidence level. The results of the analysis indicate that increasing international openness in the service sector can reduce ASEAN economic growth, because increasing international trade openness in the services sector requires investment and qualified human resources to help increase ASEAN economic growth.

According to Amala and Heriqbaldi (2015) the openness of trade in services has a significant effect on economic growth in all countries observed. The openness of sectoral service trade in the travel sector has a significant effect on economic growth in the observations of all countries as well as on partial observations in middle and low income countries, but on partial observations in high-income countries this variable has no significant effect on economic growth. The openness of trade in services in the other business services sector has a significant effect on economic growth in the observations of all countries as well as on partial observations in high, middle and low income countries. Jin (2004) states that trade openness has a negative impact on economic growth in the short term. Rodriguez (2007) states that based on data in the period of his research, countries with the highest economic growth are countries that restrict their trade, while countries that are very open to trade experience a decline in economic growth, resulting in a negative relationship between trade and economic growth. Therefore, even though the country international trade disclosure in the services sector by reducing barriers to trade in services, the country still has to provide protection through policies to protect the service sector in the country coupled with increased competitiveness to get gains from trade from trade in services. Countries with the highest economic growth are countries that restrict their trade, while countries that are very open to trade experience a decline in economic growth, resulting in a negative relationship between trade and economic growth. Therefore, even though the country international trade disclosure in the services sector by reducing barriers to trade in services, the country still has to provide protection through policies to protect the service sector in the country coupled with increased competitiveness to get gains from trade from trade in services. . Countries with the highest economic growth are countries that restrict their trade, while

countries that are very open to trade experience a decline in economic growth, resulting in a negative relationship between trade and economic growth. Therefore, even though the country international trade disclosure in the services sector by reducing barriers to trade in services, the country still has to provide protection through policies to protect the service sector in the country coupled with increased competitiveness to get gains from trade from trade in services.

#### **The Effect of Population Growth on ASEAN Economic Growth**

The results of the t-statistical test of population growth have no significant effect on ASEAN economic growth. That is, even though there is an increase in population growth or a decrease in population growth, it does not have an impact on increasing or decreasing economic growth. This shows that the service sector is less attractive to ASEAN member communities. Table 1 shows that only Singapore which is a member of ASEAN is included in the category of high trade openness. This means that the population growth of ASEAN members is not proportional to the absorption of labor in the service sector. So this has no effect on population growth on ASEAN economic growth.

The results of this study are in accordance with the theory put forward by David Ricardo which says that the increasing population growth factor at one time will cause the number of workers to be abundant. Excess labor will result in lower wages. The wages can only be used to finance the minimum standard of living so that the economy will experience a stagnating state.

Another theory put forward by Irawan and Suparmoko which says that population growth has two roles in economic development, namely in terms of demand and the other in terms of supply. In terms of demand, residents act as consumers and from supply, residents act as producers.

#### **The Effect of Foreign Investment on ASEAN Economic Growth**

The results of the t-statistical test in table 1 show that foreign investment has no significant effect on ASEAN economic growth. This is influenced by the movement of ASEAN member communities which are more inclined towards the goods sector as shown in Figure 1. So that foreign investment in the service sector is less attractive and only Singapore is included in the category of countries with a high level of trade openness. This means that even though foreign investment has increased or decreased, it does not have an impact on increasing or decreasing economic growth. The result of this influence does not have an impact on the influence of foreign investment on ASEAN economic growth.

The results of this study are in accordance with the findings put forward by Salebu (2014). In his research, panel data regression was tested on 17 sub-sectors and it was found that the service sub-sector partially did not have a significant effect on economic growth.

#### **The Effect of Service Productivity on ASEAN Economic Growth**

The results of the t-statistical test of service productivity have a significant and positive effect on ASEAN economic growth. Table 1 shows the coefficient value of 0.000144 which means that if service productivity increases by 1 USD, ASEAN's economic growth will increase by 0.0144 percent. Then when viewed from the test results on the probability obtained a value of 0.0400 which is smaller than = 5%, which means that the service productivity variable has a significant effect on ASEAN economic growth. The results of the analysis show that service productivity can affect economic growth, because productivity can encourage individual efficiency in providing output that can assist in driving economic activity. The results of this study are in accordance with the results of research from Ramayani (2012) in this study partially productivity has a positive and significant effect on economic growth.

### **IV. CONCLUSION**

The international trade disclosure in the service sector, population growth, foreign investment, and service productivity simultaneously affect ASEAN's economic growth. The international trade disclosure in the service sector has a negative and significant impact on ASEAN's economic growth. Service productivity has a positive and significant impact on ASEAN economic growth. Population growth and foreign investment have no significant effect on ASEAN economic growth.

The negative impact of international trade openness in the services sector needs to be investigated further and more deeply to find out what are the factors that influence the negative impact of international trade openness in the services sector on ASEAN economic growth, whether there are other obstacles that affect trade openness in the service sector in increasing growth. ASEAN economy.

The positive impact given by service productivity can be one of the driving forces for ASEAN member countries to create their competent human resources and can increase ASEAN economic growth.

The impact given by population growth and foreign investment is not significant, so the authors suggest that further research can explore more what supporting factors can help ASEAN economic growth.

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