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The Role Of Institutional Quality, Foreign Direct Investment, And Country Size On Trade Openness In The ASEAN-6 Region

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Abstract. The current development of globalization has led to a very fundamental transformation in the economic system. the phenomenon of globalization cannot be avoided by any country, moreover, countries that previously isolated themselves from the outside world cannot be avoided either. Therefore any country will still be affected by globalization so it will create international trade that is increasingly spreading from every country. This study aims to analyze the role of institutional quality through government effectiveness and regulatory quality, foreign direct investment, and country size on trade openness in the ASEAN-6 region during the 2002-2021 period using panel data analysis techniques. in using the panel data technique based on the best testing through the Chow test and the Hausman test that the best model used in this study is the Fixed Effect Model (FEM) which shows the variables of government effectiveness and investment directly have a positive and significant effect on trade openness. while the quality of regulations and country size has a negative and significant effect on trade openness in the ASEAN Region.

Keywords: Trade Openness, Institutional Quality, Foreign Direct Investment, Country Size

JEL Codes: F14, P48, P45, O50

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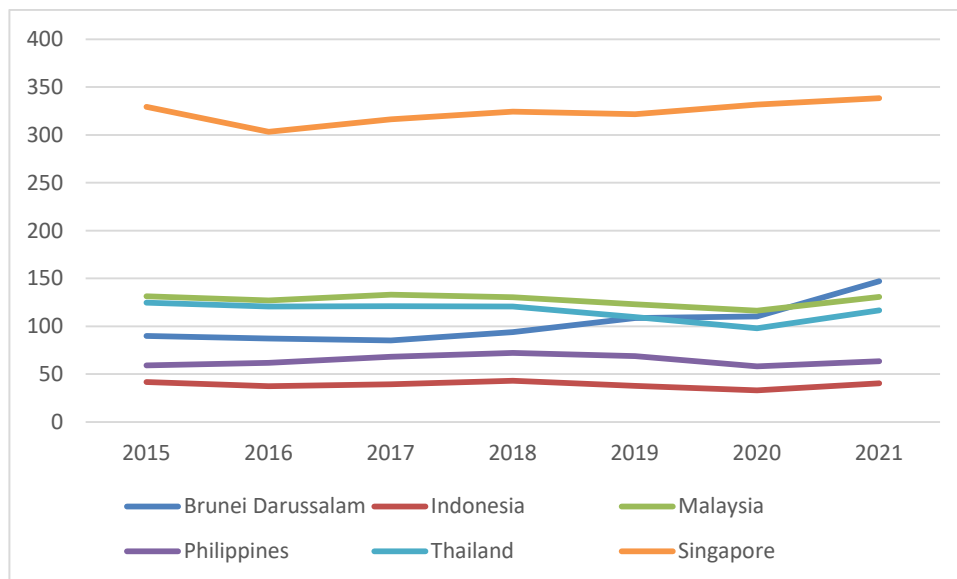
1. Introduction

The economic system underwent a very fundamental transformation during this period as a result of the growth of globalization. Globalization has the effect of fostering development and transactional breadth (Sachithra et al., 2014). According to Greenwald (2006), no nation can escape the effects of globalization, particularly those that have previously kept themselves cut off from the outside world. As a result, globalization will continue to have an impact on all nations, leading to an increase in the amount of trade between them. This is evident in the emergence of economic cooperation across a number of the nation's regions (Sachithra et al., 2014).

The secret to a nation's success in developing an effective strategy is emerging as a result of the interaction between trade openness and institutional quality. The degree of trade openness has a significant



impact on both a developing and advanced nation's development. This is evident in populous nations like China and India, which are revising import policy substitution and developing export-oriented policies to give domestic business owners flexibility and convenience in light of the effects of trade openness.



Source: World Bank, 2022

Figure 1. Level of International Trade Openness in ASEAN-6

Singapore, out of the other five countries, has the greatest trade-to-GDP in the ASEAN area, with an annual average of 360%. Singapore also has the highest level of trade openness. With an average rating above 100%, Malaysia and Thailand have a high level of trade openness. This suggests that an economy will perform better the more open it is (Salvatore, 1997). Because of this, nations with the highest economic openness indices also have the highest per capita GDPs in the world. As opposed to nations like the Philippines and Indonesia, where trade openness is quite low and averages just 50.89 percent.

Tybot (2001) in (Yuslian, 2021) sees that this trade openness can increase efficiency and competitiveness as a result of the widespread international market expansion. Through this increase, a country will have more and more quality human capital to increase market productivity. One of the things that encourage openness of trade in a country is regulated by the quality of a country's institutions (good governance).

The government has an important role and contributes greatly to influencing the condition of economic performance as stipulated in the policies. When the government's performance is getting better, of course later it will be able to achieve the main goals of development in the country, and one of them is trade openness in international trade. In carrying it out, every country needs to have good quality and adequate government governance conditions (Yuslian, 2021).

The quality of government in every country is not always the same, because every country has a different form of government. Likewise in the six countries in the ASEAN region. Indonesia and the Philippines have a



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Presidential Republic form of government; Singapore has a Parliamentary Republic form of government; Malaysia, Thailand, and Brunei Darussalam with a form of government of the Sultanate and Monarchy. Singapore is the only country that has a parliamentary form of government with a high government effectiveness and regulatory quality score with an average score of 2.12 out of 2.5, this indicates that the quality of government governance in Singapore is a country with a fairly good system among the other five countries that have different systems of government. Malaysia has a governance score of 1.2 out of 2.5, Thailand has a governance score of 0.4 out of 2.5 and Brunei Darussalam has an average score of 1.1 out of 2.5. whereas Indonesia and the Philippines which adhere to a presidential republic government have an average score below 0.5 even in 2012-2016 Indonesia's governance score was minus. It can be said that government governance in Indonesia, with the second largest population in Asia, has policies that are produced which are not very evenly distributed or these policies are increasingly sharp downwards and blunt upwards which results in the people in Indonesia having a pretty bad view of the government in Indonesia.

These various forms of government will shape the quality of government governance with their own characteristics from each country. As research conducted by Gede (1995) & Remmer (1998) shows that countries with characteristics such as democracy can carry out trade openness reforms.

A country's participation in international trade depends on specific factors within a country, including; the implementation of national trade policies, trade structures and institutions (Sakyi & Afesorgbor, 2019). Institutions with good quality can encourage trade (De Groot et al., 2014; Franois & Manchin, 2013; Levchenko, 2007). Because institutions with good quality will certainly involve stronger consumer rights, democracy, legal protection and property rights, the quality of government governance can be seen in how good the quality of regulations issued by the government is in formulating and implementing policies and regulations by encouraging development in the sector. private.

International trade has a significant role in accelerating economic development. In theory, the ability of the economy to access international markets will provide new markets for the products it produces, which will lead to an increase in the country's income. Apart from being a market for the products produced, the international market also provides access to new technologies and innovations that can be adopted to increase production efficiency and produce products that are more competitive and have added value. The theory expressed by Vernon stated that the transfer of capital, especially for direct investment, (FDI) begins with international trade (Appleyard, 2004).

According to Todaro & Smith (2000) Investment plays an important role in the pace of a country's economy. The investments made will provide new capital to carry out production which will later encourage economic growth. Investments from within and outside the country can improve the performance of various economic sectors (Epifani & Gancia, 2009). Countries that have open economies will be more open to foreign investment (FDI).

The highest foreign investment value in the ASEAN Region is Singapore with a foreign investment value of US\$ 74.7 billion, contributing to GDP of 21% in 2020 with a level of trade openness of 363%. While Indonesia is the second largest country with an FDI value of US\$ 19 billion in 2020, the Philippines is US\$ 6.82 billion, Malaysia is US\$ 4.05 billion, Thailand is US\$ 4.84 billion and Brunei Darussalam is US\$ \$565 Million. Suci (2020) explains that the value of foreign investment directly has a long-term impact on trading activities in a country.



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In other words, in order to improve trading performance, investment is absolutely necessary. According to Skipton (2007), the impact of trade openness on the level of private investment in the economy, in the long run, has an indirect effect on 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.

A country's trade openness is also negatively affected by the size of the country, where the influence is negatively catalyzed by the size of a government-owned by that country (Alesina & Wacziarg, 1998). Indonesia is a country with a very large population among the five other countries with a population of 267.36 million people with a very low level of trade openness of 40.42 percent in 2021. Meanwhile, Singapore has a population of 5.45 million people with a very large level of trade openness, namely 338 percent in 2021. It can be said that a country with a small population means that it has a small domestic market as well so countries with these conditions will be more open to external trade. Research conducted by Alesina (1998) supports the argument that the larger the size of a country, the less open it will be. The results of this study are supported by other studies which found that the openness of a country is influenced by the size of its domestic population and the distance to potential trading partners of that country (Reserve Bank of Australia, 2006).

The relationship between economic openness to international trade and growth has been the subject of much research. Generally, these studies provide evidence that greater integration into the world economy is associated with faster economic growth (Dollar & Kraay, 2003; Edwards, 1998; Frankel & Romer, 1999). More recently, there have been developing separate strands of investigation focusing on the role of governance (governance) in driving growth and better development outcomes (Bertocchi et al., 2015; Chong & Calderon, 2000; Downes, 2003; Hall & Jones, 1999; Kaufmann et al., 2009; Mauro, 1995; Scully, 1988). Collectively, these studies provide overwhelming evidence that governance, broadly defined as the framework of rules, institutions and practices by which authority is exercised, is a key element for a well-functioning market economy and is indispensable for sustainable growth and sustainable development.

Research related to government governance, especially related to government effectiveness and the quality of regulation in the private sector on trade openness, has not been carried out much. There is controversy over the differences in the results obtained, that government governance is significantly related to openness in international trade (Al-Marhubi, 2005; Ngouhouo et al., 2021; Nguyen et al., 2021). On the one hand, other studies suggest that governance has no significant effect and has a negative relationship. When the quality of government governance is getting better, it will reduce trade openness or become more closed (Pertiwi et al., 2020). Foreign direct investment (FDI) also has differences in the results of research conducted by previous researchers, that foreign direct investment can result in the opening of a country from international trade (Safitriani, 2014; Seim, 2009). Meanwhile, according to Liargovas & Skandalis (2012) and Grosse & Trevino (1996) that there is no influence between investment inflows (FDI) on trade openness in the short and long term. therefore the update in this research is to review the institutional quality by looking at government effectiveness, regulatory quality, foreign direct investment (FDI), and country size on trade openness in the ASEAN-6 Region.



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2. Literature Review

Research on Colombia's institutional quality and the institutional distance between it and its partners, which is statistically significant and affects its international sales, was done by (Abreo et al., 2021). In addition, relative to other factors in the model, Regulatory Quality and The Rule of Law have a significant impact on Colombia's export performance. Al-Marhubi (2005) offers proof that the development of international trade is significantly influenced by the effectiveness of governance. According to Busse & Gröning (2008), the impact of commerce on governance is favorable but very minor when compared to political factors. The impact is almost minimal for the nation with the lowest beginning governance score. Governments in these nations will suffer from greater exploitation and export of primary resources.

Research on institutional quality and trade openness was done by (Ngouhou et al., 2021). According to the study's findings, trade openness is determined by domestic institutions as a composite indicator. Additionally, trade openness increases with government effectiveness, regulatory quality, and rule of law. A similar analysis was done by Nguyen et al., (2021), but they included technical variables to support institutional quality and trade openness.

Research on the effectiveness of institutions and the degree of openness and how these factors affect economic growth in Sub-Saharan Africa was done by (Conteh et al., 2021). Performance in SSA is significantly inversely correlated with trade openness. However, trade openness and institutional quality working together simultaneously have a favorable and considerable impact on GDP. This demonstrates that the effectiveness of institutions in African nations determines the beneficial effects of trade openness on growth. Unlike the study done by Sari & Prastyani (2021), which focused on evaluating the effectiveness of institutions for economic growth in the ASEAN Region. This contradicts studies by Messo et al., (2020) and Yu et al., (2015), which found that the institutional quality variable had a negligible positive connection. These unimpressive outcomes were duplicated by developing policies that enhanced industrialization while modifying trade structures to be export-oriented when the individual institutional variables were introduced independently.

The widespread consensus is that a nation's economic performance may be improved with good governance. The study by Absadykov (2020) demonstrates that there is a strong positive correlation between big government and economic performance. The findings, in particular, indicate that Corruption Control has the greatest influence on GDP per capita. According to research by Asamoah et al., (2019) and Septiantoro et al., (2020), adding direct investment (FDI) as a stimulus from the ongoing Asongu & Nnanna (2019) explain that economic activity with foreign aid volatility increases governance standards, particularly political and public governance, has a positive influence on government governance.

There has already been researched on the factors that influence trade openness. The size of a country has a negative impact on how open its markets are, and the size of its government has a negative catalyzing effect (Alesina & Wacziarg, 1998). This is due to the country's sizable local market, which causes it to be more intent on growing its internal market first rather than prioritizing exports.

On the other side, a tiny population also translates into a small domestic market, making a country with these characteristics more open to foreign trade. Alesina's 1998 research lends credence to the claim that a nation's openness decreases with increasing size. Other studies that indicated that a country's openness is influenced by the size of its domestic population and the distance to possible trading partners of that country



corroborate the findings of the present study (Reserve Bank of Australia, 2006). The country will often be more engaged in international trade the closer it is to potential trading partners. Research on trade in African nations backs up findings that show distance has a substantial impact on trade openness (Mbogela, 2019).

Fiscal policy and governance are closely related to each other. According to Cavusoglu & Onal (2020) and Pertiwi et al., (2020), every 1% increase in government spending causes a rise in economic activity of 0.9 % that is significant, ongoing, and stable in emerging nations countries with greater institutional quality. For nations with poorer institutional quality, however, the benefit is smaller (0.4%) and more transient. Le et al., (2016) research also discovered that while economic growth and trade openness are the primary predictors of deep finance in rich nations, improved governance and institutional quality support financial development in poor countries.

3. Methodology and Data

This study focuses on the effect of institutional quality through government effectiveness and regulatory quality, foreign direct investment (FDI), and country size on trade openness in the ASEAN-6 region. the data used in this study is secondary data originating from the World Bank such as the World Development Indicator and the Worldwide Governance Indicator for the 2002-2021 period in the ASEAN-6 region. the countries are (1) Brunei Darussalam, (2) Indonesia, (3) Malaysia, (4) Singapore, (5) Thailand, (6) Philippines.

Quantitative analysis and descriptive analysis are the two types of analysis employed in this study. In order to make it easier to comprehend research findings, descriptive analysis is a type of analysis that explains research variable data shown in tables or graphs and is linked to theories that are pertinent to the variables under study. Quantitative analysis is an analysis that uses mathematical, statistical, and econometric approaches to determine the relationship between the independent variable and the dependent variable, namely the role of institutional quality in the form of government effectiveness, regulatory quality, foreign direct investment (FDI), and country size on trade openness in the ASEAN region.

The data analysis technique employs panel data. The Common Effect Model, Fixed Effect Model, and Random Effect Model are the three techniques (models) that are used (Gujarati, 2011). Using the general model in the research shown in equation, the three are separated on the basis of the presumption that there is a connection between the error component and the independent variable (regressor):

$$TO = F (GE,RQ,FDI,POP) \quad (1)$$

Then a regression equation is formed which can be seen in equation (2):

$$TO_{it} = \beta_0 + \beta_1 GE_{it} + \beta_2 RQ_{it} + \beta_3 \log FDI_{it} + \beta_4 \log POP_{it} + e_{it} \quad (2)$$

Description:

β_0 = Parameter Intersep

TO = Trade Openess



- GE = Government Effectiveness
- RQ = Regulatory Quality
- FDI = Foreign Direct Investment
- POP = Population
- β_1 - β_4 = Regression Coefficient of Each Independent Variable
- t = Time Period
- i = Observation District/City
- e_{it} = Error term.

4. Empirical Result

4.1 Unit Root Test

For time series data, stationarity is a crucial condition in econometric models. When the mean, variance, and auto variance (in lag variations) are constant across time, the data is said to be stationary. As a result, the time series model is considered to be more stable when using stationary data. The validity and stability of the data must be reevaluated if the model's input data are non-stationary since false regression will arise from using non-stationary data to obtain regression findings. A regression that has a high R2 but no meaningful association between the two is referred to as spurious regression.

The unit root test is one of the formal ideas used to assess the stationarity of data. The Augmented Dickey-Fuller (ADF) Exam, created by David Dickey and Wayne Fuller, is a well-known test. If a time series data is not stationary at order zero, I(0), then the level of stationarity can be found at the nth order (first difference), or I(1), or second difference, or I(2).

Table 1: Unit Root Test Result

| Variable | Unit Root Test | | | |
|----------|----------------|----------|----------------|----------|
| | Level | | 1st difference | |
| | t-statistic | ADF-test | t-statistic | ADF-Test |
| TO | 7.137 | 0.848 | 43.988 | 0.000 |
| GE | 15.084 | 0.236 | 59.079 | 0.000 |
| RQ | 8.108 | 0.776 | 45.404 | 0.000 |
| logFDI | 31.606 | 0.001 | 66.589 | 0.000 |
| LogPOP | 13.395 | 0.341 | 64.511 | 0.000 |

Source: Processed Data,2022



Based on the table above, there are several variables that are not stationary, such as trade openness, government effectiveness, and regulatory policies, so this needs to be seen at the first difference level. The result shows that all variables can be stationary at the first difference level with various conditions.

4.2 Classical Assumption Test

To find out whether the regression model really shows a significant and representative relationship, the model must meet the classical assumptions used. The purpose of the classical assumption test is to assess the parameter estimator used is unbiased. The classic assumption test used in this study is the multicollinearity test and the heteroscedasticity test.

Table 2: Multicollinearity and Heteroscedasticity Test

| Variable | Multicollinearity Test | Heteroscedasticity Test |
|----------|------------------------|-------------------------|
| GE | < 0,80 | > 0,05 |
| RQ | < 0,80 | > 0,05 |
| logFDI | < 0,80 | > 0,05 |
| logPOP | < 0,80 | > 0,05 |

Source: Processed Data,2022

The multicollinearity test is based on the assumption that multicollinearity exists when the correlation matrix value between the two independent variables is larger than 0.90, but multicollinearity does not exist when the correlation matrix value is less than 0.90. Each independent variable in this study does not have any connection between variables, or there is no multicollinearity issue, according to table 2 above, which shows that each independent variable has a correlation value of less than 0.90.

The heteroscedasticity test in this study used the Glejser test with the following decision making if the probability value of the independent variable is greater than the 5% significance level then heteroscedasticity does not occur, whereas if the independent variable's probability value is less than the 5% significance level, then heteroscedasticity occurs. Based on table 2 above that each independent variable, such as government effectiveness, regulatory quality, foreign direct investment (FDI), and size of a country has a probability value greater than the 5% significance level, it can be said that the residual value from one observation to other observations are constant or homoscedasticity or there is no heteroscedasticity.

4.3 Model Estimation Result

The model is an explanation and a brief description of what exists from the actual phenomena that occur in human life (Gujarati, 2011). The variables in this study consist of the dependent variable, namely Trade Openness. The independent variables are Institutional Quality through Government Effectiveness, and Regulatory Quality as well as foreign direct investment, and country size. Based on these variables, the model in this study will be estimated using panel data regression using Common Effects, Fixed Effects, Random Effects to choose the best model to be used. The statistical estimation model is as follows:



Table 3: Panel Data Estimation Results

| Variable | Common Effect | | Fixed Effect | | Random Effect | |
|----------|---------------|-------------|--------------|-------------|---------------|-------------|
| | Coefficient | Probability | Coefficient | Probability | Coefficient | Probability |
| C | -241.9612 | 0.0000 | 3843.177 | 0.0000 | 704.2447 | 0.0000 |
| GE | 94.41883 | 0.0000 | 44.98626 | 0.0000 | 30.22458 | 0.0001 |
| RQ | 68.66983 | 0.0011 | -23.92881 | 0.0096 | -31.63424 | 0.0003 |
| logFDI | -4.256612 | 0.4256 | 5.271259 | 0.0129 | -0.762660 | 0.7050 |
| logPOP | 22.30543 | 0.0001 | -227.3417 | 0.0000 | -32.40710 | 0.0000 |

Source: Processed Data, 2022

The panel data model, which incorporates cross-sectional data and time series as a whole independent of variations in time and entities, may be estimated with this method in the simplest way possible (individuals). This strategy is frequently employed in Ordinary Least Square (OLS). The behavior of the data is consistent across persons and time periods because the Common Effect Model ignores variances in each individual dimension and time. From the results of the panel regression model with common effect, the yield values for each constant, government effectiveness, regulatory quality, foreign direct investment, and a country's size towards trade openness are -241.9612 ;94.41883; 68.66983; -4.256612; 22.30543; with a t-statistic value of 6.186914; 3.342263; -0.799510; 3.953961 and a probability of 0.0000; 0.0011; 0.4256; 0.0001 with α below 5% or 0.05 so that there are 3 independent variables that have a significant effect on the dependent variable, namely Government Effectiveness, Regulatory Quality, and Country Size, with R2 0.84 and Adjusted R-squared 0.84 assuming that 84.17% of the four independent variables can explain the dependent variable and the remaining 15.83% is influenced by other variables.

The Fixed Effects model approach assumes that each individual's approach differs between individuals while the slope remains the same. This technique uses dummy variables to capture the variability of intercepts between individuals. Based on table 3 above, the results of the panel regression with the results of the fixed regression model obtained constant variable coefficients (intercept), government effectiveness, regulatory quality, foreign direct investment, size of a country, on trade openness of 3843,177; 44.98626; -23.92881; 5.271259; -227.3417, with a t-statistic of 5.244384; -2.637562; 2.526983; -10.15394 and each probability is 0.0000; 0.0096; 0.0129; 0.0000, there are all independent variables that have a value of α below 5% or $\alpha = 0.05$ so that the independent variable has a significant effect on the dependent variable. the value of R2 is 0.982347 and Adjusted R-squared is 0.980903 assuming that 98.23% of the independent variables can explain variations in the dependent variable and the remaining 1.77% is influenced by other variables, the results of the panel regression F-statistics are 680.1556 values obtained prob (F-statistic) 0.0000.

The approach taken in Random Effects assumes that each country in the ASEAN-6 Region has different intercepts, namely random or stochastic intercept variables. If the individuals (entities) chosen as a sample are chosen at random and accurately reflect the population, the model is highly helpful. This method additionally



accounts for the possibility of errors having a correlation between the cross section and the time series. Based on table 4.6, the results of panel regression with the results of random regression analysis obtained the results of the coefficients of each constant, government effectiveness, regulatory quality, foreign direct investment, and the size of a country on trade openness of 704.2447; 30.22458; -31.63424; -0.762660; -32.40710 with respective t-statistics of 4.010596; -3.703569; -0.379502; -5.756389 and a probability of 0.0001; 0.0003; 0.7050; 0.0000 with α below 5% or $\alpha = 0.05$ so that there are 3 independent variables that have a significant effect on the dependent variable, namely Government Effectiveness, Regulatory Quality, and Country Size with an R2 value of 0.19983 and adjusted R-Squared 0.17199 with an assumption of 17.19 % of the independent variable can explain the variation in the dependent variable and the remaining 82.81% is influenced by other variables, the results of the panel regression F-statistic 7.17987 value obtained prob (F-statistic) 0.0000.

4.4 Best Model Testing

Determination of the best model in panel data regression with common effect, fixed effect, and random effect models. These three techniques are used in panel data regression to obtain the right model in estimating panel data regression. In determining the model used, the best test is carried out based on the Chow test, Hausman test, and Larange multiplier test which aims to get the best model.

Table 4: Chow and Hausman Test

| Effect Test | Statistics | df | Prob |
|--------------------------|------------|---------|--------|
| Cross-section F | 168.586832 | (5,110) | 0.0000 |
| Cross-section Chi square | 259.087854 | 5 | 0.0000 |
| Cross-section Random | 161.912461 | 4 | 0.0000 |

Source: Processed Data, 2022

The Chow test was used to evaluate the Common Effect and Fixed Effect models in order to pinpoint the precise model that lies between the two. The best regression model in this study is estimation with a Fixed Effect, or it can be said that the Fixed Effect model is more appropriate to use in this study compared to the Common Effect model, according to the Chow test explanation for the trade openness equation, where the probability value of F cross-section is 0.0000, meaning Prob F 0.05.

The fixed effect and random effect models were compared using the Hausman test in order to determine which model, between the fixed effect and random effect, best fits the trade openness model. The Probability (Prob.) Cross-section Random value according to the Hausman test results is 0.0000, which means that H0 is not accepted. Therefore, the best research model based on the Hausman Test is an estimate with a Fixed Effect, or it can be said that the Fixed Effect model is more appropriate to use in this study (Gujarati, 2008; Verbeek, 2008; Wibisono, 2005a).

Through testing the Chow test (Common Effect and Fixed Effect) and the Hausman test (Fixed Effect and Random Effect), so there is no need to do the Lagrange Multiplier (LM) test, the LM test value is carried out only if it is done on the Chow test indicating the model used is Common Effect and in the Hausman test the model used is Random Effect, so it is necessary to test the final stage to determine the Common Effect or



Random Effect. If the results of previous tests with the Chow and Hausman tests show the correct Fixed Effect model, then there is no need for the LM test (Gujarati, 2008; Wibisono, 2005b). Based on the previous Chow test that the best approach model is to use the Fixed Effect Model approach with a Probability F value of less than 0.05 so that H0 is rejected and H1 is accepted, while in the Hausman test the selected model is using the Fixed Effect Model approach with cross probability results -section random of 0.0000 or less than 0.05 so that H0 is rejected and H1 is accepted. So that the best and most appropriate model used in this study is the Fixed Effect Model approach, and also considering that the number of T is greater than N. The following table 4 estimation results using the Fixed Effect Model approach.

Table 5: Statistical Test Result Using the Fixed Effect Model Approach

| Dependent Variable: TO? | | | | |
|--------------------------|-----------------|------------|-------------|--------|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 3843.177 | 360.1484 | 10.67109 | 0.0000 |
| GE? | 44.98626 | 8.577987 | 5.244384 | 0.0000 |
| RQ? | -23.92881 | 9.072321 | -2.637562 | 0.0096 |
| logFDI? | 5.271259 | 2.085989 | 2.526983 | 0.0129 |
| logPOP? | -227.3417 | 22.38951 | -10.15394 | 0.0000 |
| R Squared | 0.982347 | | | |
| Adjusted R Square | 0.980903 | | | |
| F-statistic | 680.1556 | | | |
| Prob(F-statistic) | 0.000000 | | | |

Source: Processed Data,2022

Before carrying out further analysis stages, there are statistical tests including: F test, t test, and the coefficient of determination. The results of the F statistic test show that the probability value of the F statistic is less than the 5% significance level ($0.000 < 0.05$), so that together the variables of government effectiveness, quality of regulations, foreign direct investment, and the size of a country have a significant effect on trade openness. Meanwhile, to analyze the effect partially carried out using the t test.

The probability value of the variable government governance through government effectiveness is less than the significant level of 5% ($0.000 < 0.05$) so that partially government effectiveness has a significant effect on trade openness. The probability variable quality of regulation has a value lower than the significant level of 5% ($0.0096 < 0.05$) so that partially the quality of regulation has a significant effect on trade openness. The probability variable of foreign direct investment has a value less than the 5% significance level ($0.0129 < 0.05$) so that partially foreign direct investment has a significant effect on trade openness. The probability of a country's size variable has a value smaller than the 5% significance level ($0.0000 < 0.05$) so that partially the size of a country has a significant effect on trade openness.

The value of the coefficient of determination (R-Squared) in this study has a value of 0.982347 or 98.23%, meaning that the variations in the independent variables used in the model are government effectiveness,



regulatory quality, foreign direct investment, and the size of a country capable of explains 98.23% of the variation in the dependent variable, namely trade openness, while the remaining 1.77% is influenced by other variables.

In table 5, the estimation results of the coefficient values of each country in the ASEAN-6 Region show that Malaysia, Singapore and Thailand have a positive correlation, while Brunei Darussalam, Indonesia and the Philippines have a negative correlation. This means that the role of foreign direct investment government governance and the size of a country as input factors in creating trade openness play a significant role in each country. As for the comparison between Singapore, which has a positive correlation with countries that have a negative correlation, it can be interpreted that there will be a decrease in government governance, foreign direct investment, and the size of a country or there will be a decrease in international trade as a whole, or this can be associated with a momentary shock. considering that this country still relies on import activities rather than exports so for countries that have a negative correlation they will create their domestic market first. Bearing in mind also that countries with negative coefficients in each region have a large population, which later means that a large population will have a large domestic market so that countries with these conditions will be more closed to external trade.

Apart from looking at the interpretation values for the intercept division of each country, it can be seen in table 6 as follows:

Table 6: Intercept and Cross Section Fixed Effect Model Results

| Countries | Crossection Value | Intercept Value |
|-----------|-------------------|-----------------|
| _BD--C | -165.7454 | 3677.43 |
| _IND--C | -14.21909 | 3828.95 |
| _MLY--C | 14.88062 | 3858.05 |
| _SGP--C | 172.4426 | 4015.61 |
| _THA--C | 18.65347 | 3861.83 |
| _PHI--C | -26.01215 | 3817.16 |

Source: Processed Data,2022

Table 6 shows the results of the intercept coefficient of the Fixed Effect Model (FEM) intercept value indicating that in each country the magnitude of the intercept value is different if there is no development of the variables in the model. the difference in intercept values in each country is due to differences between individuals/objects and the time studied as shown in table 6 which explains the individual effect model calculated by looking at the influence of cross section units or individuals in this case the 6 countries in the ASEAN region. Where is the overall intercept average, namely $\beta_{oi} = 3843.177$. The range of intercept values ranges from 3677.43 to 4015.61. The intercept for Singapore is 4015.61, which means trade openness for Singapore in 2002-2021 is 4015.61 when parts of government governance, foreign direct investment, and the size of a country can be considered or trade openness with these dependent variables has a mutually binding relationship. Openness of trade between countries is decomposed into sub-activities such as exports and imports, causal factors and characteristics of other units and the heterogeneity and various characteristics of



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regions that lead to an increase in international trade activities based on the governance components provided by the government.

Table 6 also shows that each value of β_1 and β_2 indicates the magnitude of the average influence of government governance variables through government effectiveness, regulatory quality, foreign direct investment, and the size of a country on trade openness where the average intercept value for each country has a negative influence. As in the Brunei Darussalam region where the average influence of governance, foreign direct investment and country size on openness is 3677.43, which means that every additional 1 score on governance increases FDI inflows and adds 1000 to the population of a country's size. trade openness will decrease by 3677.43, which means that if government governance experiences an increase in adding output for the private sector, the trade openness of each country in the ASEAN-6 Region will decrease by 3677.43.

Likewise, other countries are equally increasing the level of trade openness of ASEAN-6 from each of their intercepts. Therefore, the countries in the ASEAN-6 Region where there are differences in each country on the basis of governance, FDI, and the size of a country towards trade openness where Singapore has the largest contribution and Brunei Darussalam the lowest. By observing the differences in trade openness in countries in the ASEAN Region, it is necessary to plan the country's development performance by looking at exports and imports as one of the international trade transactions, looking at the available market share, and increasing the country's potential optimally with each country's characteristics. in the ASEAN Region.

The Role of Government Effectiveness in Trade Openness

Based on the estimation results of testing the Government Effectiveness variable on Trade Openness, it obtained a regression coefficient (Coefficient) of 44.98626 (positive effect) and a P-value (Prob.) of 0.0000 so that the test can be concluded that there is a significant influence of government effectiveness on trade openness. If there is an increase in government effectiveness, trade openness will also increase. The findings of this study are related to the statement that the quality of the bureaucracy and institutional framework according to (Busse & Hefeker, 2007) will encourage the flow of foreign investment. Therefore, an appropriate framework from the government and corporate institutions has an influence on the formation of strategies for internationalization and diversification of foreign companies (Pertiwi et al., 2020).

The research findings Asamoah et al., (2019) state that the quality of institutions both within the government and institutional levels at the corporate and industrial levels will increase investment portfolios in certain countries. According to (Muslim, 2016) that investors tend to do business and invest their portfolio capital in countries that have good economic growth prospects. In addition, institutional performance and quality that leads to ease of doing business according to (Aziz, 2018) will increase investment. This finding is in line with research results (Asamoah et al., 2016) and (Mina, 2007). On the other hand, according to (Herrera et al., 2014) that the relationship between state governance attracting foreign investment has a significant positive relationship.

Good governance as seen from the effectiveness of a government will later bring in investors and in turn, the openness of a country in trade will be even greater considering that in addition to business opportunities



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for local companies by opening new markets, it will remove barriers and will result in easier international trade through cooperation carried out by countries in the ASEAN Region.

The Role of Regulatory Quality on Trade Openness

Based on the estimation results of testing the variable quality of regulation on Trade Openness, it obtains a regression coefficient (Coefficient) of -23.92881 (negative effect) and a P-value (Prob.) of 0.0096 so that the test can be concluded that there is a significant effect of regulatory quality on trade openness. If there is an increase in the quality of regulation in the private sector, trade openness will decrease or a country will become more closed in international trade.

Regulatory quality is the government's ability to formulate and implement sound policies and regulations that enable and promote private sector development. When the quality of regulations produced is good enough, business development in the private sector will also be better and vice versa. The quality of regulations determines the development of other sectors, as in this case the development of the private sector, so business actors in improving their business sector, business actors will sell their products not only domestically but will also sell goods produced overseas due to selling prices abroad. higher than the selling price in the domestic market. However, there are many problems that arise as a result of international trade such as obstacles that can affect the flow of goods, capital, information technology, business services and administrative barriers.

This is in line with previous studies that state governance through regulatory quality to develop the private sector has a significant negative effect on trade openness (Abreo et al., 2021; Agyei & Idan, 2022; Busse & Gröning, 2008; Le et al., 2016; Mamoon & Murshed, 2006). These results can be interpreted that the quality of regulation has a negative influence on trade openness in the ASEAN Region. When the policies produced by a government in developing the private sector decline, it will actually increase the country's openness in trade. these results are due to the quality of policies produced in the private sector which actually make it more difficult for business actors in international trade transaction activities, this is because the country's economic readiness is easily shaken and threatened by the impact of a wave of competition from outside, so to reduce these negative impacts the government often immediately erect a protection wall (through import customs tariff instruments and non-tariff policies). This can be seen from the results of regulatory quality data in Indonesia, the Philippines and Thailand which are relatively small, in recent years the decline in the level of public perception of their ability continues to decline every year by around 5%, this means that the government's ability to formulate and implement policies and Good regulations that enable and promote the development of the private sector are highly regarded as not making it easy for business actors to develop their businesses.

In the future, in improving the quality of policies that encourage the development of the private sector, the government must re-correct policies related to exports and imports, facilitate administrative policies in international trade by removing barriers that occur in trade and create bilateral trade cooperation to guarantee business actors in developing their business sector so that it will benefit the country in international trade, both in the form of inflows of funds, transfer of technology, and the products produced can compete with other products in the international market.



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The Role of Foreign Direct Investment (FDI) on Trade Openness

Based on the estimation results of testing the Foreign Direct Investment (FDI) variable on Trade Openness, it obtained a regression coefficient (Coefficient) of 5.271259 (positive effect) and a P-value (Prob.) of 0.0129 so that the test can be concluded that there is a significant effect of Foreign Direct Investment (FDI) on trade openness. If there is an increase in direct foreign investment, trade openness will also increase or the more open a country will be in international trade.

The results of this test are in line with previous research that there is a significant positive effect of direct foreign investment on trade openness (Gnimassoun & Anyanwu, 2019; Mazurura, 2016; Saepudin, 2022; Sazali et al., 2018; Sikwila, 2015; Vijayakumar et al., 2010). One of the elements that affect foreign direct investment (FDI) is the degree of trade openness. A country's economic ties to other countries can be measured by looking at how open its trade is. Countries that are more open to trade have a higher stock of FDI inflows, this is consistent with the results of this study that FDI has a strong influence on the degree of openness in trade.

Countries that have an open economy will be more open to investment from foreign sources, this indicates that the flow of foreign investment entering the country as the host country will open itself to external and internal trade, both in the form of technology to raw materials originating from other countries. or import. If the investment objective of a foreign company is to enter a local market that was previously unable to import goods, then an export-oriented foreign company will prefer a host country that is more open to trade (Asiedu, 2002).

This is also in accordance with the results of trade openness and FDI in ASEAN countries. For example, Singapore has a level of openness to trade which is around 300%, with a foreign investment value of 3 Million USD in 2021. The level of incoming investment in the country is due to the trading system regulated by the government in terms of policies and regulations which have greatly satisfied entrepreneurs in the private sector, this means that the ease of doing business in the country is relatively easy. In general, in the ASEAN region, the inflow of direct foreign investment shows that countries are also more open to the trade sector, in other words, most countries in the ASEAN region have foreign investment entering the industrial sector, and their products are consumed outside the country. so that most of the products produced are exported to other countries.

The Role of a Country's Size on Trade Openness

Based on the estimation results of testing a country's size variable on Trade Openness, it obtains a regression coefficient (Coefficient) of -227.3417 (negative effect) and a P-value (Prob.) of 0.0000 so that the test can be concluded that there is a significant influence of a country's size on trade openness. If there is an increase in the population of a country, trade openness will also decrease or the country will become more closed in international trade.

International trade is the most important part of the development of a country by looking at exports and imports in trade transactions. This is consistent with the theory of endogenous economic growth that



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international trade in the form of export and import activities influences output and economic growth. The theory of endogenous economic growth formulates that reducing barriers to international trade will accelerate economic growth and development in the long term, with increasing growth along with increasing exports, the degree of openness of countries in international trade will also increase. As a result of the country's openness in trade, it will produce a wider market share. A broad market share will create a skilled workforce in producing goods.

Fukumoto & Kinugasa (2017) conducted research by looking at the age structure, namely the productive age working as part of the population towards trade openness. The results show that the productive age, namely the productive age of young and old, has a significant and negative effect on trade openness. These results are in line with research conducted by Gutmann & Richards (2006), Alesina & Wacziarg (1998), and Fukumoto & Kinugasa (2021) that population size as a share of the size of a country has a significant negative effect on openness trading. Based on the results of this study, the openness of trade in a country is negatively affected by the size of the country, where this influence is catalyzed negatively by the size of the government-owned by that country (Alesina & Wacziarg, 1998). This is because the large domestic market makes the country more focused on maximizing its market first so external trade becomes the second choice.

On the other hand, a country with a small population means it has a small domestic market as well so a country with these conditions will be more open to external trade, so it can be concluded that the larger the size of a country, namely the population, the less open it will be. The results of this study are also supported by other studies which find that the openness of a country is influenced by the size of the domestic population owned and the distance to potential trading partners from that country (Gutmann & Richards, 2006).

5. Conclusion and Recommendation

(1) Government governance through indicators of government effectiveness has a positive and significant effect on trade openness, which can be interpreted to mean that when the quality of public services, the quality of regulations, and the size of a country are high, trade openness is also high. This research generally examines the influence of government governance through government effectiveness, and regulatory quality, foreign direct investment (FDI), and the size of a country on trade openness in the ASEAN-6 Region in 2002–2021. (2) Government governance through regulatory quality indicators has a negative and significant effect on trade openness, this can be interpreted that if there is an increase in the quality of regulation in the private sector, trade openness will decrease or a country will become more closed in international trade. (3) Foreign investment directly has a positive and significant effect on trade openness, this can be interpreted that if there is an increase in capital inflows from outside, trade openness in a country will be more open. (4) The size of a country through population has a negative and significant effect on trade openness, this can be interpreted that if the population increases in a country, the degree of openness to trade will decrease or in other words, the country will become more closed in international or external trade.

Based on the discussion and conclusions that have been put forward, the policy implications that can be put forward in this study are: (1) State governments must place all macroeconomic factors as important considerations in the international trade decision-making process. Policy makers and economic actors need to



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be aware of macroeconomic conditions, state governance and trade openness of a country when formulating international trade policies in order to have a positive impact on economic growth and people's welfare. State governments must also design appropriate policies to encourage international trade between participating members and with countries that are not members of the ASEAN Region. (2) In order for the development process to go smoothly and for the community to experience the benefits of this economic development, the government is expected to be able to improve the quality of its performance in the context of improving good governance. Additionally, economic actors and all societal levels should be able to increase awareness of the implementation and enforcement of the law in force in order to create good governance, which in turn can increase economic growth. (3) The government is also expected to be able to make policies that favor entrepreneurs who trade or export. Thus, it will be easier for domestic producers to sell their products on the international market, thereby increasing economic activity which can attract investors to invest their capital which will ultimately increase trade openness and economic growth.

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