Summary

International trade plays a crucial role in economic development of both developed and developing countries. After the end of World War II, many countries have engaged more on international trade and other types of international economic transactions. Trade policies in developing countries have gone through some transitional stages. Before 1980, most developing countries implemented import-substitution policies. The movement of the developing countries toward the adaptation of export-oriented policies attributed to the success of newly industrializing countries (NICs), such as South Korea, Hong Kong, Singapore, Taiwan, and the Persian Gulf oil producers. The success of NICs confirmed that, as believed the World Bank, IMF, and some western countries, outward-oriented policies are more promising for industrialization and economic development. In addition, during the end of 1970s and the beginning of 1980s, the world experienced some severe economic crises. Therefore, new economic orders were needed to improve the economic performance of developing countries. This has led to the inclusion of the enforcement of trade openness to the structural adjustment packages that IMF and the World Bank provided to developing countries. Since then, trade openness and other outward-oriented policies have gained more popularity.

While trade openness and liberalization are gaining their popularity, the debate of the impact of trade and openness on growth, among policymakers and academic scholars, is still on-going. Economists have paid more attention to this
issue since many developing countries switched their trade policies from being inward-oriented to being outward-oriented. The rapid pace of development in many developing countries, especially newly industrializing countries, has grown confidence that trade and openness can spur growth. In parallel to the changing face of economic structures, voluminous theoretical and empirical studies on the trade-growth relationship have also been carried out. Many such studies have claimed that trade openness positively influences growth (Edwards, 1992, 1997; Sachs and Warner, 1995; and Wacziarg, 2001). Others have warned, however, that it might be too early to conclude the positive effects of trade. Extensive discussion on this issue can also be found in the works of Krugman (1994), Rodrik (1995a, 1995b), and Thirlwall and Pacheco-López (2008).

It seems that the comprehensive analysis using the same type of models and the same trade measures have not been conducted. In these regards, this dissertation takes different approaches and look at different aspects of trade-growth relationship. The overall objective is to carry out the net impact of trade on growth in different groups of countries and to find out the groups and the conditions in which trade works well. To serve the objective, we compare the impact of trade on economic performance in different regions and different levels of income of developed and developing countries. Thus, the more specific objectives are:

- To examine the direct and indirect impact of trade on growth among groups of countries, classified by regions.
- To examine how the direct and indirect impact of trade on growth change, when some policy reforms are implemented after economic crises occurred.
- To investigate whether a country should trade more or less to gain more.
- To see the net impact of trade and to reveal which group of countries should be the role models for others.

This dissertation consists of eight chapters. Four out of eight chapters (Chapter 4, 5, 6 and 7) are the main analytical chapters. All chapters are devoted to investigate the various impacts of trade on economic performance.

Chapter 1 provides the general overview of trade policy, the factors behind policy reforms (crises), trade volume, and economic growth of all countries in the world. In addition, it discusses the trade-growth relationship arguments, and provides the objective and the scope of this dissertation.

Chapter 2 provides the literature of trade and growth theories and various empirical studies. It presents the insights into the puzzle of impact of trade on growth and why the empirical studies are controversial. The issues raised in this chapter also include the reviews of trade-growth relationship, the impact of trade on some macroeconomic factors, and
the review of crises and economic reforms.

Chapter 3 is devoted to the conceptual framework, the models, the econometric methods used in this analysis, and the data and sample classification. Two models used to examine the impact of trade on growth are derived. The first model is nonlinear growth model. The second model provides the causal relationship among determinants of economic growth. Also, two types of econometric methods, fixed-effect dynamic OLS estimation and VECM for panel data are described. In addition, the data sources and samples’ classification and definition are presented.

In Chapter 4, in order to address the first research question, an empirical analysis is presented. It investigates whether there is a long-run relationship between trade and economic growth in different sampled regions. It is found that there is direct impact of trade for most regions except North America and Sub-Saharan Africa (where trade affects growth negatively). Trade boosts financial development in South East and South Asia, Europe, and Sub-Saharan Africa. It also attracts FDI to Europe and Middle East and North Africa.

Chapter 5 examines the effect of trade on long-run growth before and after economic crises. This chapter provides distinctive aspects from many other studies in that it shows that, after crises occurred, the impact of trade and some determinants on growth change significantly. These changes seem to be attributed to the policy reforms that are introduced to tackle the negative effects of crises. In this chapter, it is found that South East Asian and South Asian regions seem to have good policy adjustments that are complementary to trade after the debt and Asian financial crises occurred.

Chapter 6 provides the empirical analysis aims to investigate whether the countries that trade more gain more and vice versa. We find that for the countries that trade more, there is direct positive impact of trade on growth, and there are indirect effects of trade via financial development and foreign direct investment.

Chapter 7 is devoted to the study of trade and economic performance of Lao PDR, as a case study of small open economy which has relatively low trade level and relies on trading in natural resources. It is found that trade affects growth negatively in Lao PDR. This might be due to the Dutch disease effect. Trade seems to be influenced mainly by foreign direct investment that concentrates on energy and mining sectors. Therefore, we infer that foreign direct investment brings in the Dutch disease. Nevertheless, foreign direct investment does have a positive impact on growth, but its impact is relatively small.

Finally, Chapter 8 reports the main findings in each analytical chapter. It then provides further insights of what are
the net effects of trade in each sampled region and income group. In the end, Chapter 8 provides summaries and draws policy implications.