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Impact of Trade Liberalization on Economic Growth in Japan: Autoregressive Distributed Lag Model (ARDL)

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Abstract
The objective of this study is to identify the impact of trade liberalization on economic growth in Japan. Annual data are utilized from 1985 to 2016 via on Autoregressive Distributed Lag Model (ARDL) Cointegration test and Vector Error Correction Model (VECM) based Granger causality. The findings from unit root tests revealed that all the variables of mixed results whereby they are integrated at I(0) and I(1) and could proceed to the ARDL Cointegration test. Furthermore, all the variables have long-run relationships between trade openness, investment, education, inflation and economic growth in Japan. However, this study found a significant positive of trade openness and investment on economic growth in the long run. Lastly, VECM based Granger causality showed some of the causality relationships between variables in the short run for Japan.
Keywords: ARDL, Economic growth, Trade liberalization.

Introduction

Trade liberalization is the process of removing barriers and opening the economy of one country to abroad investment and competition. According to Narayan and Smyth (2005), trade liberalization can refer to three aspects, namely diminution in a barrier of imports with unchanged in the incentive of exports; the composition in relative prices towards neutrality; and the substitution of cheaper for expensive forms of protection. The history of 70 years in Japan, it's economic had built by a strong work ethic, mastery of high technology, a comparatively small defense allocation, and cooperation with government-industry (Central Intelligence Agency's World Factbook [CIA], 2018). The fourth biggest industrialized and free-market economy in the world is Japan. The main economy of Japan as well-known by its competitiveness and efficiency in exports oriented sectors, but the productivity of services, agriculture, and distribution are lower compare to other sectors. Japan had the second-highest gross domestic product (GDP) in the world during the 1970s but in the beginning of 1990s Japan has succumbed to the economic recession of 10 years, also called "*Lost Decade*". This is because Japan was a speculative asset price bubble during a boom cycle that sent