

TRADE INTEGRATION AND BUSINESS CYCLE SYNCRONIZATION

Empirical Study of ASEAN-5, China, Japan, Korea and India

Abstract

The lowering of tariffs in East Asian countries that started in the 1980s has accelerated this trend of increasing trade worldwide. From theoretical point of view, however increased trade across trading partners can cause their business cycles to move in either direction, toward convergence or divergence. The aim of this research is to understand that business cycle synchronization in ASEAN-5 countries, namely Indonesia, Malaysia, Thailand, Philippines and Singapore, was influenced by increasing trade integration with China, Japan, Korea and India. This is not only relevant for a better understanding of the influence of important trading partners on the business cycle fluctuations in the domestic economy, but also an important implication in terms of evaluating benefits of macroeconomic coordination.

This research finds that intra industry trade is the major channel by which the business cycles of China, Japan, Korea and India becomes more synchronized with that of the ASEAN-5 economies. This result has important implications for the prospects for a unified currency in the region. We expect that the costs to member countries of joining a currency union will be severely diminished only when intra industry trade is predominant in the trade region as a whole after the currency union is formed.

Keywords : trade integration, business cycle, synchronization.