

Macroeconomic Interdependence in East Asia

Jun Nagayasu*

University of Tsukuba

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Abstract

This paper analyzes macroeconomic interdependence among 10 Asian countries using data in the pre- and post-Asian crisis periods. In this connection, we decompose their macroeconomic activities (real GDP) into common and country-specific components using the Bai-Ng method (2004). Our results suggest first that both components are nonstationary and thus have permanent effects on their overall economy. Second, we find the relative importance of common factors in all countries in terms of their contribution to variations in real GDP. But evidence is also obtained of country-specific effects increasingly important in countries like China in recent years. Therefore, if for example China is expected to grow at a fast pace in future, our findings imply that creation of a regional monetary union of these 10 countries needs to be held back until the Chinese economy has become more dominant in the region.

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*Corresponding author; University of Tsukuba, Graduate School of Systems and Information Engineering, 1-1-1 Tennodai, Tsukuba, Ibaraki 305-8573 JAPAN; Tel/Fax +81 29 853 5067; Email Nagayasu.jun.gn@u.tsukuba.ac.jp. This research was funded by a Grant-in-Aid for Scientific Research (B) No. 21330075. An earlier version was presented at the 3rd All China Economics International Conference (HK 2009) and the 3rd International Trade Workshop at the Research Center for International Economics (Beijing 2009). I would thank for comments Juyoung Cheong, S. R. Gangadharan, Hyun-Hoon Lee, Tatsuyoshi Miyakoshi and other conference participants. However, all remaining errors are mine. This paper was prepared for the annual meeting of the Japanese Economic Association (Tokyo 2010).