

Business cycles in the US and five ASEAN countries: are they related?

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Abstract

Given the inter-country linkages arising from technological advances in communication and transportation, this paper examines the interdependent relationships between the output of the world's largest economy, the US, and those of five other ASEAN countries, namely, Indonesia, Malaysia, Philippines, Singapore and Thailand. Based on results of the augmented VAR of the Granger non-causality test, the paper finds a weak interdependence between the US and the five ASEAN countries, but a strong interdependence among the ASEAN countries. The empirical findings also revealed bi-directional causality among ASEAN countries especially Malaysia and Singapore. As such, every ASEAN country has to consider the economic developments and policies of other ASEAN countries as their decisions could affect one another.

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1. Introduction

In this information age, easier access to information, technologically improved communication channels and convenient transportation systems have virtually connected the different countries of the world. Fundamentally, an economy that is closely linked with the rest of the world is said to have greater opportunities for trade, economic development and growth. However, the threat of possible undesirable economic fluctuation is also inevitable. Like a plague, any adverse economic condition or implementation of economic policy by one country could be easily transmitted to another. It is therefore crucial to be aware of the economic condition of other economies, especially among trading partners, so that necessary precautionary measures can be taken to cushion against any negative impact on the economy.

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