

# **ECONOMIC LIBERALIZATION AND ITS LINK TO CONVERGENCE: EMPIRICAL EVIDENCE FROM RCEP AND TPPA COUNTRIES**

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## **ABSTRACT**

Economic liberalization has been the emphasis of adjustment policies in developing countries; ASEAN countries jumped on the bandwagon and espoused economic reforms by liberalizing its international trade and financial policies. Through the development of free trade agreement policies such as AEC and RCEP, regional economic integration is accelerating in South East Asia; not leaving behind the less developed member countries such as Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). Hence, the objectives of this paper are to examine the dynamic impact of economic liberalization (financial and trade liberalization) on ASEAN's economic growth and to assess the possibility of the existence of convergence club between ASEAN and its RCEP counterparts. Using the annual data covering the period of 1994 to 2014, the analysis is based on the Pooled Mean Group (PMG) estimations for liberalization analysis while the Phillips and Sul (2007) methodology is used to assess the economic convergence clubs. The empirical evidence suggests that both trade and financial liberalization play a significant role in ASEAN's economic growth. For convergence in RCEP, full sample find an absence of homogenous convergence; as a result, four club convergences are formed. The result highlights the importance of trade and financial liberalization in enhancing economic growth of ASEAN and implies that strong commitments in continuation of liberalization and integration policies are recommended to promote a sustained economic growth.

**Keywords:** Economic Liberalization; Convergence Club; TPPA, RCEP.

## **1. INTRODUCTION**

In recent years, the Regional Comprehensive Economic Partnership (RCEP) is being negotiated to form a more comprehensive region-wide free trade arrangement (FTA) from current bilateral and smaller regional agreements. Many would argue that RCEP is implicitly assumed as China's attempt to counteroffer the US-led TPPA (Das, 2013; Hamanaka, 2014; Petri et al., 2014). The RCEP represents a unique regional economic cooperation among 10 ASEAN countries and has implications for regionalism and for the balance of economic power among the major trading blocs, namely Australia, Japan, New Zealand, Korea, China and India (Scollay, 2014; Das, 2015). This FTA aims to attain a comprehensive and mutually beneficial economic partnership agreement that will entail deeper engagement between ASEAN and its FTA partners<sup>1</sup>. The core of RCEP covers trade in goods and services, investment, economic cooperation and dispute settlement; this has sparked an interest among

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<sup>1</sup> ASEAN's FTA partners include China, India, Japan, South Korea, Australia and New Zealand.