

Trade and Investment Convergence Clubs in East Asia Pacific

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Abstract: *East Asia Pacific has catapulted to be the most dynamic region in the world as a result of economic liberalisation and sustainable growth. This study seeks to investigate if selected East Asian countries are able to converge in terms of trade and investment openness. This paper uses the concept of Phillips and Sul to evaluate trade and investment convergence in East Asia Pacific region during the period 1990 to 2016. The overall results do not support the hypothesis that all countries converge on a single equilibrium in trade and investment liberalisation. However, findings point to the existence of club convergence.*

Keywords: Convergence Club, Catch-up Effect, East Asia Pacific, Trade Openness

JEL Classification: F13, O16, O53

Article Received: 14 March 2018; Article Accepted: 28 August 2018

1. Introduction

The resilience of East Asia Pacific through its strong economic performance coupled with its increasing integration of trade and investment has resulted in the region emerging as an important player in the global arena. East Asia Pacific integrations differ from Europe and North America because the market is driven naturally in the absence of a formal institutional framework (Zhang, 2001). Zhang added there is an apparent trend that is created by international firms, paving the way for an outward trade and foreign direct investment (FDI) relationship in the region. China, Japan, South Korea and Indonesia are among the top 20 countries in terms of their Gross Domestic Product (GDP) growth (International Monetary Fund, 2014). The East Asia Pacific region generally adopts an export-oriented strategy, resulting in a progressive increase of foreign trade, from 6 percent in 1953 to 28 percent in 2006 (Kang, 2009). By 2005, share of its trade to GDP rose to 47% in East

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