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BUSINESS CYCLES AND THE SYNCHRONIZATION PROCESS: A BOUNDS TESTING APPROACH

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ABSTRACT

To justify the business cycle synchronization (BCS) process among ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand), Japan and the United States, the Autoregressive Distributed Log bounds test and the UECM (**Unrestricted Error Correction Model**) representation advanced in Pesaran *et al.* (2001) is deployed. Evidently, ASEAN-5 has achieved some important degree of business cycle co-fluctuations, attributed to the improved intra-trading and cross-boarder investments. Nonetheless, the idiosyncratic and common shocks in ASEAN economies are more identical to the Japanese experience rather than the US's. Comparable pattern of economic development and liberalization process have created countries (ASEAN-Japan) with similar economic structures, implying that further economic cooperation and currency arrangements in the region are bright. In addition, our findings demonstrate that the bilateral exchange rate stability may not contribute to the business cycle convergence, as in the ASEAN-US case while bilateral exchange rate dispersion has neither jeopardized the ASEAN-Japan BCS process. Also, price divergences among the ASEAN-US-Japan indicate that scope remained for further price convergence if the Japanese Yen or the US dollar is to be adopted as common currency. Nonetheless, regional policy coordination should focus on narrowing the yen/dollar fluctuation, ahead of forming common currency area or monetary union.