

Title: Income Convergence and Growth of Asian Regional Trade: Empirical Evidence for ASEAN+3 Free Trade Agreement

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Abstract: In earlier cross-sectional gravity-theory reports (see for example Frankel and Romer, 1999), empirical modeling evidence lends support to the hypothesis of “trade cause growth”. In our time-series study on trade-growth causation for a new Asian regionalism (namely ASEAN+3), the hypothesis was also confirmed (Tran Van Hoa, 2002c). A number of benchmark models have also been proposed to find out what causes trade (for a brief survey, see Baier and Bergstrand, 2001), but specific research on income convergence and Asian or more specifically ASEAN+3 bilateral trade in the volatile period 1968-2000 and, using an extended Helpman-Krugman (1985) function-free model and World bank national account and CHELEM trade data, tests the impact of convergence on this trade. Surprisingly, this convergence is found plausible but statistically insignificant and, in contrast to the findings of previous studies, ASEAN output growth and, crisis are found to be the principal determinants of the trade flows between the East Asian3 and the ASEAN

Key Words: Free Trade Agreement, ASEAN+3, Convergence Theory, Gravity Theory, Causal Economic Modeling, Economic and Trade Policy.

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