

Business Cycle Correlations in Asia-Pacific

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Mark Crosby
University of Melbourne

Summary

Of key importance to policymakers is the reaction of the domestic economy to disturbances in economies in close geographic proximity, or to larger but perhaps more distant economies such as the United States. Many countries fear that a prolonged recession in the U.S., for example, will have serious adverse effects on home country growth and employment. In this paper I try to understand these relationships. I focus on countries in the Asia-Pacific region, and attempt to explain correlations between GDP since 1970. The variables used to explain business cycle synchronisation include trade linkages, the similarity of monetary policy, and structural variables such as the size of the manufacturing sector.

While there are a number of papers that explore business cycle synchronisation among OECD economies, there are few papers that explore this issue in other countries. In this paper the focus is on countries in the Asia-Pacific region. The sample includes countries that are very open to trade, such as Hong Kong, Singapore, and Malaysia, which all have trade to GDP ratios of over 100 percent. In addition, countries such as Australia and Singapore are very closely synchronised with cycles in the United States. Finally, the Asian crisis experience generated data that is useful in understanding what factors may explain simultaneous recession experiences. It is hoped that this variability in the sample will help identify the factors that explain business cycle synchronisation.

The findings of the paper can be summarised as follows. Firstly, business cycle synchronisation is difficult to explain. The explanatory power of the regressions is small both in absolute value and relative to similar regressions in related studies on OECD economies. Secondly, there is not strong evidence that business cycles are synchronised through trade, a channel often emphasised in the literature. Finally, the most statistically significant variables in the regressions are those that capture structural features of an economy such as the similarity of the level of technological know-how or manufacturing structure.