



UNIVERSITI PUTRA MALAYSIA

**YEN SYNCHRONIZATION AND MAASTRICHT CONVERGENCE
AMONG THE ASEAN-5, JAPAN AND KOREA**

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By

KELLY WONG KAI SENG

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in
Fulfilment of the Requirements for the Degree of
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In this thesis, the main objective is to investigate whether ASEAN-5+2 countries meet the conditions for creating an AMU with the yen as the currency unit. First, the results of BEKK-GARCH (1, 1) and the dynamic correlation coefficients show that only Singapore, Korea, and Thailand have the potential to adopt the yen as the regional currency unit. Second, the Maastricht criteria only have a significant impact on real GDP per capita growth for Japan, Korea, Singapore and the Philippines in the long term. In addition, the Maastricht criteria show that there were symmetry impacts on the growth of real GDP per capita for Japan, Korea, Singapore and the Philippines. Thus, only these four out of the seven countries (Japan, Korea, Singapore and the Philippines) appear to be potential candidates for establishing the AMU. Overall, the findings do not suggest the possibility of a formation of a full-fledged AMU by the ASEAN-5+2 countries. However, the formation of a sub-grouping of a few of the countries in the ASEAN-5+2 is more feasible, that is Japan, Singapore, and Korea. This is because these countries have higher institutional quality and fulfill the Maastricht treaty as well as being close in exchange rate regimes, and also have symmetrical economic behavior.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

**YEN PENYEGERAKAN DAN PEMUSATAN MAASTRICHT ANTARA
NEGARA ASEAN-5, JEPUN DAN KOREA**

Oleh

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Dalam tesis ini, tujuan utama adalah untuk menyiasat adakah ASEAN-5+2 negara dapat memenuhi syarat keperluan untuk mencipta satu AMU dengan menggunakan yen sebagai unit mata wangnya. Pertama, hasil BEKK-GARCH (1, 1) dan pekali korelasi dinamik menunjukkan bahawa hanya Singapura, Korea, dan Thailand mempunyai potensi untuk mengadopsi yen sebagai unit mata wang serantau. Kedua, kriteria Maastricht hanya menunjukkan kesan yang signifikan terhadap KDNK benar per kapita untuk Jepun, Korea, Singapura dan Filipina dalam jangka panjang. Selain itu, kriteria Maastricht menunjukkan bahawa ada kesan simetri terhadap pertumbuhan KDNK benar per kapita untuk Jepun, Korea, Singapura dan Filipina. Jadi, hanya empat dari tujuh negara ini (Jepun, Korea, Singapura dan Filipina) tampaknya sebagai calon berpotensi untuk membina AMU. Secara keseluruhan, penemuan tidak menyarankan kemungkinan pembentukan AMU penuh oleh negara-negara ASEAN-5 +2. Namun, pembentukan sub-pengelompokan beberapa negara di ASEAN-5 +2 adalah lebih layak, iaitu Jepun, Singapura, dan Korea. Hal ini kerana negara-negara tersebut mempunyai kualiti yang lebih tinggi institusi dan memenuhi perjanjian Maastricht dan juga menjadi dekat dalam rejim kadar pertukaran, dan juga memiliki perilaku ekonomi simetris.



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I certify that an Examination Committee has met on 27th July 2010 to conduct the final examination of Kelly Wong Kai Seng on his Master thesis entitled “Yen Synchronization and Maastricht Convergence among the Asean-5, Japan, and Korea” in accordance with the Universities and University Colleged Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science.

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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.

KELLY WONG KAI SENG

Date: 27th July 2010



LIST OF TABLES

Table		Page
2.1	Key Economic Indicators for ASEAN-5+2 Countries, 2007	13
2.2	Directions of Export Between ASEAN-5+2 Countries (% of Country Total Export)	16
2.3	Intra Regional Trade Growth Rates for the ASEAN-5 and Korea in Japan	17
2.4	Correlation Matrices for ASEAN-5+2 Real Income Growth Rates	19
2.5	Correlation Matrices for ASEAN-5+2 Inflation Rates: 1987 to 2006	21
2.6	Correlation Matrices for ASEAN-5+2 Interest Rates: 1980 to 2006	23
2.7	Summaries of Copenhagen Criteria and Maastricht Convergence Treaty Check for ASEAN-5+2 Countries	26
4.1	Currency Composition of Official Foreign Exchange Reserves (%)	54
4.2	Augmented Dickey-Fuller (ADF) Unit Root Test Result	61
4.3	Preliminary Descriptive Statistics	62
4.4	Bivariate BEKK GARCH (1, 1) Estimation Result Pre-Crisis Period	65
4.5	Bivariate BEKK GARCH (1, 1) Estimation Result During Crisis Period	66
4.6	Bivariate BEKK GARCH (1, 1) Estimation Result Post-Crisis Period	66
5.1	Augmented Dickey Fuller (ADF) Unit Root Test Result – Level	84
5.2	Augmented Dickey Fuller (ADF) Unit Root Test Result – First Different	85
5.3	Statistics for Selecting the Optimum Lag Order for the ARDL Bound Cointegration Test	88
5.4	Summary of the Results for the ARDL Bound Test – Long-run Coefficients	90



5.5	Summary of the Results for Unrestricted Error-Correction Representation for the Selected ARDL Models	92
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LIST OF FIGURES

Figure		Page
2.1	ASEAN-5+2 Trade Openness	14
2.2	Real Incomes for ASEAN-5+2: 1980 to 2006	18
2.3	Real Incomes Growth Rates for ASEAN-5+3: 1980 to 2006	18
2.4	Inflation Rates (measure by CPI) for ASEAN-5+3: 1987 to 2006	20
2.5	Interest Rates for ASEAN-5+2:1980 to 2006	22
2.6	Government Debt versus Fiscal Balance for ASEAN-5+2, 2007	24
2.7	ASEAN-5+2 Institutional Quality Indices, 1996 to 2007	25
4.1	Dynamic Correlation Coefficient Based on Bivariate GARCH models During the Pre-crisis Period	68
4.2	Dynamic Correlation Coefficient Based on Bivariate GARCH models During the Crisis Period	69
4.3	Dynamic Correlation Coefficient Based on Bivariate GARCH models During the Post-crisis Period	70
5.1	CUSUM Test for Testing Model Stability	93
5.2	CUSUM of Squares Test for Testing Model Stability	94



LIST OF ABBREVIATIONS

ABMI	Asian Bond Market Initiative
ACU	Asian Currency Unit
ADF	Augmented Dickey Fuller
ADB	Asian Development Bank
AERM	Asian Exchange Rate Mechanism
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AIC	Akaike's Information
AMF	Asian Monetary Fund
AMS	Asian Monetary System
AMU	Asian Monetary Union
AOCA	Asian Optimum Currency Area (AOCA)
APEC	Asia-Pacific Economic Cooperation
ARDL	Auto-Regressive Distributed Lag
ASEAN	Association of Southeast Asian Nations
BEKK	Baba-Engle-Kraft-Kroner
CGE	Computable General Equilibrium
CHN	China
CMI	Chiang Mai Initiative
CPI	Consumer Price Index
DM	Deutsch Mark
DRI	Data Resources Incorporate
EA	East Asia



ECB	European Central Bank
ECSC	European Coal and Steel Community
ECT	Error Correction Term
EEC	European Economic Community
EMS	European Monetary System
EMU	European Economic and Monetary Union
ERM	Exchange Rate Mechanism
EURATOM	European Atomic Energy Community
GARCH	Generalized AutoRegressive Conditional Heteroscedasticity
GBR	Government Budget Ratio
GCC	Gulf Cooperation Council
GDR	Government / Public Debt Ratio
GDP	Gross Domestic Product
GLS	General Least Squared
HDI	Human Development Index
HP	Hodrick-Prescott filter approach
IDN	Indonesia
IDR	Indonesia Rupiah
IFS	International Financial Statistics
IMF	International Monetary Fund
INFL	Inflation Rates
INT	Interest Rates
JPN	Japan
JPY	Japanese Yen



KOR	Korea
KRW	Korean Won
LM	Lagrange Multiplier statistics
LSDV	Least Squared Dummy Variables
MCC	Maastricht Convergence Criteria
MLY	Malaysian Ringgit
MUBS	Monetary Union between Brunei and Singapore
MYS	Malaysia
NAFTA	North Asia Free Trade Area
OCA	Optimum Currency Area
OECD	Organization for Economic Cooperation and Development
OECD.stat	Organization for Economic Cooperation and Development Statistics
OLS	Ordinary Least Squared
PHL	Philippines
PHP	Philippines Peso
RGDPC	Real Gross Domestic Product per Capita
RMU	Regional Monetary Unit
SAARC	South Asian Association for Regional Cooperation
SAGP	Stability and Growth Pact
SBC	Schwarz's Bayesian Criteria (SBC)
SGD	Singapore Dollar
SGP	Singapore
TBH	Thai Baht
THA	Thailand



UK	United Kingdom
UNDP	United Nations Development Programme
USD	United States Dollar
VAR	Vector Auto-Regressive
WDI	World Development Indicators
WTO	World Trade Organization



TABLE OF CONTENTS

		Page
ABSTRACT		i
ABSTRAK		ii
ACKNOWLEDGEMENT		iii
APPROVAL		iv
DECLARATION		vi
LIST OF TABLES		vii
LIST OF FIGURES		ix
LIST OF ABBREVIATIONS		x
CHAPTER		
1	INTRODUCTION	1
	1.1 Overviews of the Study	1
	1.2 Potential Candidates for the AMU	3
	1.3 Problem Statement	6
	1.4 Objectives of the Study	8
	1.5 Significance and Contribution of the Study	9
	1.6 Organization of the Study	10
2	OVERVIEW OF MACRO FUNDAMENTALS AND MAASTRICHT CONVERGENCE HYPOTHESIS FOR ASEAN 5+2	11
	2.1 Introduction	11
	2.2 ASEAN 5+2 Trade Openness and Intra-regional Trade	14
	2.3 Maastricht Convergence Treaty Check for ASEAN-5+2 Countries	17
	2.3.1 ASEAN 5+2 Real GDP per Capita and Growth Rates	17
	2.3.2 ASEAN 5+2 Inflation Rates (CPI)	20
	2.3.3 ASEAN 5+2 Interest Rates	21
	2.3.4 Government Budget Ratio and the Public Debt Ratio	23
	2.4 Institutional Quality in ASEAN-5+2	24
	2.5 Concluding Remarks	26
3	LITERATURE REVIEW	27
	3.1 Theoretical Framework	27
	3.1.1 Definitions of Economic Integration	27
	3.1.2 The Milestones of European Economic Integration	29
	3.1.3 The Theory of An Optimum Currency Area	31
	3.1.4 The Maastricht Convergence Criteria (MCC) and Stability and Growth Pact (SAGP)	34
	3.2 Empirical Frameworks	36
	3.2.1 Is it Feasible for the Asian Countries to Establish an AMU?	36



	3.2.2 The Empirical Support for Yen Block	38
	3.2.3 Maastricht Criteria Lead to Regional Economic Convergence	44
	3.3 Concluding Remarks	47
4	THE YEN AS AN ASIAN FUTURE ANCHOR CURRENCY: FACT OR MYTH?	52
	4.1 Introduction	52
	4.2 Yen Synchronization and Cointegrated Among the Asian Countries	55
	4.3 Data and Empirical Methodology	57
	4.4 Empirical Result	60
	4.5 Concluding Remarks	67
5	COULD THE MAASTRICHT TREATY LEAD ASEAN FIVE, KOREA, AND JAPAN TO A REAL ECONOMIC CONVERGENCE	71
	5.1 Introduction	71
	5.2 Modeling the Maastricht Criteria Hypothesis: Theory and Evidence	73
	5.3 Methodology and the Data	76
	5.3.1 Data	76
	5.3.2 Methodology	77
	5.4 Results and Interpretations	82
	5.4.1 Unit Root Test	82
	5.4.2 AutoRegrassion Distribution Lag (ARDL) – Bound Testing	85
	5.4.3 Long-run Cointegration Test	89
	5.4.4 Short-run Error Correction Dynamics Model	90
	5.5 Concluding Remarks	95
6	SUMMARY, CONCLUSION AND RECOMMENDATIONS FOR FUTURE RESEARCH	97
	6.1 A Summary of the Study	97
	6.2 Major Findings	100
	6.3 Conclusion	101
	6.4 The Implication of the Study	102
	6.5 Recommendations for Future Research	106
	6.6 Concluding Remarks	106
	REFERENCES	108
	APPENDIX A	117
	APPENDIX B	118
	BIODATA OF STUDENT	122

