

Abstract (summary):

"Decoupling" refers to the divergence of business cycles among different countries, and "Re-coupling" corresponds to convergence. "Decoupling" is just a fancy word for "separation". The aim of this study is to discover whether there has been decoupling or convergence of business cycles through the trade channel.

As trade integration increased among Asian countries, business cycle synchronization among these countries was expected to increase through trade transmission. Theoretically, however, increased trade can lead to business cycles synchronization either rising or falling. Inter-industry trade resulting in higher specialization will induce less synchronized business cycles, while intra-industry trade could lead to increased business cycle synchronization. Thus, it is important to distinguish between intra- and inter-industry trade flows. A major part of the dissertation involved the calculation of inter-industry trade indices and intra-industry trade indices at the aggregate and industry levels based on the original data from IMF and WB.

I use both correlation analysis and dynamic factor models to study the evolution of global business cycle linkages. I find that the world factor has become less important in explaining the macroeconomic fluctuations from sub-period 1961-1984 to sub-period 1985-2007, while the regional factors do not play an important role in explaining aggregate volatility except for consumption. The explanatory power of country factors increase, on the whole. Domestic consumption and domestic investment variances are driven more by country and idiosyncratic factors than by the world factor, contrary to the output growth fluctuations. Regional factors and country factors also play a more important role in explaining gross import fluctuations than in explaining gross exports. Our results cast doubt on the strong forms of both the decoupling and the re-coupling hypotheses.