General Introduction

A careful reading of the thesis title *Convergence, Business Cycles, Economic Growth and Financial Markets in Asia Pacific* may give the impression of a very heterogeneous collection of topics. Already the different time horizons behind the single economic analyses clarify this wide variety: Both convergence and growth characterise dynamic processes in the long run, which may take years or just as well decades. In contrast, business cycles represent a regularly recurring phenomenon changing within months. At last, the adjustment to innovations in the financial market takes place on a daily or even shorter basis. Eventually, this separation remains purely artificial, since the economic achievements especially of the Asian Pacific region are determined by the interaction of all these different factors.

A prime example for this argumentation in the negative sense has been the Asian financial crisis in 1997/98: In the beginning, an overall vulnerable economic environment could not withstand a speculative attack on the Thai baht, which ran into landmark depreciation. Contagion effects then tore through the regional financial markets, thereby destabilising the confidence built in decades of systematic development. Capital flight and recessive investment turned the financial into an economic crisis, hitting severely the real sector of many South-East Asian countries. Especially unstable but high-performing nations as Malaysia and Thailand were set back years in their development process.

However, the Asian financial crisis as a striking example should not put the extraordinary dynamic growth process in the shade. Economies like Taiwan, South Korea or Singapore, which had hardly exceeded the state of developing countries in the 1970s, nowadays belong to the highly industrialised world. In stark contrast, for example Indonesia and the Philippines may have picked up certain foreign growth impulses, but did not realise the industrial take-off until the present time.

Motivated by these conditions, the first thesis part entitled *Macroeconomic Integration in Asia Pacific: Common Stochastic Trends and Business Cycle Coherence* on the one hand takes a closer look at the state of long-run convergence between the national GDPs in Asia Pacific. Therefore, it aims at providing deeper insight into whether the geographic region can as well economically be seen as an integrated whole. Concerning the stochastic trends driving the partly exceptional development, a surprising homogeneity can be established. Even if taken into account, that the evidence is somewhat weaker across industrialised and developing countries, the dynamic economic growth originates in fairly similar driving forces. Notwithstanding this remarkable result, one should not overlook the divergence in per capita income, which makes some poorer countries fall further behind.

As a second element of analysis, the first paper examines the symmetry of the business cycles, which, as medium-run phenomena, play a significant role for monetary policy, coordination of trade and currencies or international economic interdependence. Here, both idiosyncrasy and comovement can be stated, whereas the latter seems to be prevailing mostly among the low-income countries. In a last step, the question of economic leadership is tackled. As it turns out, among the main senders of economic impulses are Japan, Taiwan and Singapore; other countries are orientated towards these impulses, which are processed in their domestic economies.

Until now, the thesis has addressed *similarities* among the growth processes of the Asian Pacific countries. The task of uncovering the *sources* of growth, including the so-called 'Asian miracle', is picked up in the second paper *Common and Uncommon Sources of Growth in Asia Pacific*. Two important factors are thereby identified: First, practically all successful countries switched from import substitution to export-orientated strategies, mostly in the 1970s. Second, immense flows of FDI and high domestic saving rates allowed a capital accumulation, which laid the foundations for the rapid catch-up process with the highly developed industrialised nations, exemplified by the 'tiger economies'.

Conclusively, the analysis includes aggregate exports and investment as decisive variables in driving GDP growth. This consideration is supported by the econometric examination, which indeed reveals two distinct stochastic trends linked to the chosen variables. In this, the export trend proved especially important for the less developed economies, whereas otherwise, the domestic investment effects dominate. This implies, that outward orientation can be a successful strategy for threshold countries, but the sustained growth dynamics have to be backed by domestic capacity development. Once again, the coherence in the Asian Pacific region is of interest: Although evidence is mixed, particularly the innovations of exports and aggregate demand are connected within certain clusters of nations.

The third part called *Volatility and Causality in Asia Pacific Financial Markets* stems from a totally different view. Motivated by the intensive discussion on financial vulnerability, monetary coordination and related topics, it deals with the interactions between the national financial markets. The relevance is straightforward: Financial markets are key institutions in attracting economically important long-term investment, they determine the means of currency stabilisation and are main bearers of volatility transmission. While the contagion literature focuses on international spillovers, the current approach analyses the money, stock and foreign exchange markets within each country.

Within the framework of this set-up, various interesting results can be established, of which the most important may be the following: First, the Asian Pacific countries are mostly able to conduct a certain currency stabilisation by using the interest rate as policy instrument. This point gains its utmost significance from the experience of fatal depreciations in the Asian crisis. Furthermore, it becomes obvious, that most central banks indeed make use of this opportunity despite their *de facto* free-floating systems. This fact raises the question of an efficient future policy coordination, which however cannot be stated when analysing symmetry of interest rate innovations. The relevance of this task is underlined by the stock markets reacting positively to currency strengthening, and thus negatively to devaluations.

The underlying thesis makes an attempt to contribute to a thorough understanding of economic mechanisms, determining the soundness and sustainability of the future economic and political progress in the Asian Pacific region, and in this even affecting the whole world in the era of globalisation. Wealth and poverty, stability and catastrophe represent outcomes of the same integrated process, leaving us in the certainty, that prudent policy decisions will be crucial for the direction, future development will go in. I hope, that the subsequent studies can be helpful in making available information on starting point and prerequisites of promising policy strategies.