

Trade, Structural Transformation and Income Convergence: An Analysis of the ASEAN Experiences

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Abstract:

Economic growth is almost invariably associated with structural transformation within an economy or region. ASEAN features a mix of high- and low- income countries which makes the issue of cross-country income convergence pertinent. Studies have argued that interregional convergence in incomes is tightly linked with convergence in economic structure. Hence, this study, using the Theil index of inequality and Chenery-Syrquin Model, tests whether trade has any role to play in income convergence in the ASEAN via its impact on structural transformation during 2000-2017. The results indicate that the ASEAN has experienced income convergence as we find negative linear trend in Theil index of income inequality. Sectoral analysis reveals that while inter country inequality in industrial and services orientation have declined to some extent, the economies of lower income countries of the ASEAN are heavily agriculture oriented. Finally, our panel data analysis supports that trade is a vehicle of structural transformation in the ASEAN and, the lower income countries are catching up with the higher income countries of the ASEAN in economic structure as they have gained in terms of both services and industrial orientation. Catching-up in economic structure, propelled by trade has led to income convergence in the ASEAN.

Keywords: ASEAN, Trade, Structural Transformation, Chenery-Syrquin Model, Income Convergence, Theil Index of Inequality

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