

**ANALYSIS OF INCOME CONVERGENCE AND THE ROLE OF ASEAN  
FREE TRADE AREA ON CONVERGENCE IN ASEAN COUNTRIES**

**UNDERGRADUATE THESIS**



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**Submitted in Partial Fulfillment of the Requirements for  
the Degree of Bachelor of Economics**



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**APPROVAL PAGE**

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## FOREWORD

The researcher offers upmost gratitude to God Almighty for His blessings and guidance, which have enabled the researcher to complete this thesis entitled **"Analysis of Income Convergence and the Role of the ASEAN Free Trade Area on Convergence in ASEAN Countries."**

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## ABSTRACT

This study aims to analyze the existence of income convergence among ASEAN member countries over the period 2001–2024 and to examine the role of regional trade integration through the ASEAN Free Trade Area (AFTA) and structural factors in driving the convergence process. The analysis employs absolute and conditional  $\beta$ -convergence frameworks using panel data estimation with Random Effect Model (REM) and Fixed Effect Model (FEM) approaches. The results confirm that absolute  $\beta$ -convergence exists in the ASEAN region at a speed of 1.54 percent per year, while conditional convergence reveals a higher speed of 6.25 percent per year after controlling for structural factors.  $\sigma$ -convergence is also confirmed through a declining income dispersion over the study period. The AFTA variable does not exhibit a statistically significant direct effect on growth, suggesting that regional trade integration remains shallow. Conversely, Foreign Direct Investment (FDI) and institutional quality (WGI) are found to be positive and significant drivers of the catch-up effect, while trade openness and human capital show no significant short-run impact. These findings affirm that convergence in ASEAN is conditional and largely determined by each country's structural capacity.

**Keywords:** Income Convergence, AFTA, Panel Data, Fixed Effect Model, ASEAN