TRADE SPECIALIZATION INDICES:
TWO COMPETING MODELS

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ABSTRACT

Revealed Comparative Advantage (RCA) index by Balassa (1965) is intensively applied in empirical studies on countries' comparative advantage or trade specialization. Asymmetric problem in the criteria of RCA index encourages Dalum et al. (1998) and Laursen (1998) to make Revealed Symmetric Comparative Advantage (RSCA) index. These two indexes are commonly employed in econometric models for analyzing countries' trade specialization. This paper aims to compare theoretically and empirically the two competing econometric models, one using RCA and the other using RSCA. The ASEAN countries' comparative advantages are presented for the empirical case studies. This paper concludes that RSCA can, to some extent, reduce the "outlier problem" of RCA in the econometric model; therefore, the model using RSCA can be more statistically reliable than the model using RCA. The two econometric models might not be suitable for forecasting purposes since the estimated values could theoretically violate their criteria of comparative advantage and disadvantage. In the cases of ASEAN countries, we find empirically that the model using RSCA is statistically more reliable than the one using RCA. The ASEAN countries have exhibited de-specialization.

JEL classification: F10, F14, F17

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