Box 2.1

A look at intra-regional trade in East Asia\(^{(1)}\)

Intra-regional trade is a prominent feature in East Asia’s merchandise trade flows. In 2012, as illustrated in *Chart 1*, this kind of trade accounted for about 49% of East Asia’s total merchandise exports, up from around 46% in 2000\(^{(2)}\). Meanwhile, the share of the region’s exports to the US and the EU fell visibly from 39% to 26% during the period, leaving an impression that the significance of the US and EU markets has been diminishing over time.

*Chart 1* : Intra-regional exports feature prominently in East Asia's total exports

However, the higher share of East Asia’s intra-regional trade does not necessarily imply decoupling from the influence of vicissitudes in the advanced economies, as East Asia’s intra-regional trade and the region’s exports to the advanced countries are strongly correlated. *Chart 2* shows the year-on-year rates of change in East Asia’s intra-regional trade and the region’s exports to the US and EU over the past decade, which generally move together. The simple correlation between the two series during the period is as high as 0.92. The co-movement between the two series continued in recent periods, with the slowdown in East Asia’s exports to the US and the EU from a peak of over 30% year-on-year in early 2010 to a slight negative growth in the first quarter of 2013, matched by a similar magnitude of deceleration in the intra-regional trade growth.

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(1) In this Box, East Asia refers to the following ten economies: the Mainland, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, Korea, Taiwan and Thailand.

(2) According to the Asia Regional Integration Centre of the Asian Development Bank, the intra-regional trade share in East Asia-15 (viz. the ten member countries of the Association of Southeast Asian Nations (ASEAN), the Mainland, Hong Kong, Japan, South Korea and Taiwan) rose from 52.2% in 2000 to 53.6% in 2011 (latest year available). This was broadly consistent with the trend depicted in this article.
Box 2.1 (Cont’d)

The high degree of co-movement observed could be partly explained by rapidly growing intra-industry trade within East Asia, where companies in different countries specialise in different stages of production, export and import intermediaries between them with a view to sell the final products to the US and EU markets. Dissecting the intra-regional flows in East Asia by end-use category in 2012(3), raw material and capital goods accounted for a majority 75% of the intra-regional trade, while consumer goods contributed less than one-fifth. The heavy concentration on intermediate goods conceivably indicates that the bulk of intra-regional trade in East Asia is related to intra-industry trade. The disproportionately large share of intermediate goods in East Asia’s intra-regional trade also suggests that exports within the region are mostly motivated by vertical specialisation across borders in an attempt to exploit comparative advantages of different countries. This conjecture, coupled with the observation that East Asia’s intra-regional exports tend to move closely in sync with the region’s exports to the US and the EU, suggests that still quite a significant proportion of the intra-regional exports could eventually be destined to the advanced markets after multiple rounds of processing. This conjecture means that East Asia’s exports still come under the heavy influence of the global economic cycle at present and that the lacklustre export performance of East Asia in recent periods stemmed largely from the sluggish final demand in the US and the EU.

(3) Intra-regional exports by end-use category are broad-bush estimates based on statistics from the United Nations Comtrade Database.