

## Characteristics of Trade Integration in East Asia and Their Implications for Institutional Economic Integration

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### Abstract

According to a statistical analysis on the regionalization coefficient of the three major trading blocs--The EU, NAFTA and East Asia (EA)--, the trend of trade regionalization has become stronger from the 1970s, along with economic growth.

The increasing geographical bias of international trade, especially since the mid 1990s, has been influenced mainly by the enforcement of regional trading arrangements (RTAs), in which a series of preferential trade policies had been introduced. In the case of EA, however, where no region-wide arrangements took place in the past, other factors have led intra-regional trade integration. Concentrated FDI flows, increasing intra-regional trade of intermediate goods and production sharing have been the main factors in the development of trade integration. The connecting roles of the NIEs and the rapid economic growth of China have been important contributors to trade integration in this region. In this sense, East Asian trade integration is being characterized as market-led integration.

There is, however, a growing need for institutional integration in this region. Given the market led integration in EA, one country's economic and financial turbulence could be easily transmitted to other economies. The macro economic and financial interdependence among East Asian countries are strengthening. These are the reasons why East Asian economies need to set up a kind of institutional integration that covers trade and investment facilitation, financial cooperation, and the harmonization of rules. The regular meeting of the 『ASEAN+3』 is an important step toward an institutional approach for region-wide economic and political cooperation.

On the other side, due to the institutionalization of regional cooperation and trade integration in EA, the world trading order is being transformed into a tripartite trading system-- the EU, NAFTA and EA--, in spite of the globalization of the world economy. This is because, trading blocs have their own regional trading rule according to their

RTAs even in EA. In considering this tripartite trading system, East Asian regional integration (East Asian regionalism) cannot help but be composed of protectiveness that is endogenous in nature and openness that is exogenous in the external relation nexus. Newly borne East Asian regionalism needs to be reshaped in order to embrace its identity on the one hand, and open regionalism through inter-regionalism on the other. In this sense, the Europe Asia Meeting (ASEM), as a means of inter-regionalism will be of major significance in determining the future of the world trading system.

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