

Changes in Trade Relations among Countries in East Asia: the Implications for Korean trade policy

For the past thirty years, the trade volume of East Asian countries has grown at a rapid pace, centering on industrial products, increasing the region's share in world trade. Also their trade structures have become rapidly more advanced as exports of capital and technology intensive products, such as computers, telecommunications devices and semiconductors expanded rapidly, taking over from those of labor intensive products, such as clothing. Since the 1990s, in particular, with Japan losing much of its economic dynamism, the economies of the Association of Southeast Asian Nations(ASEAN) and China have developed, boosted by growing investments from multinational companies. In addition, thanks to the worldwide Information Technology(IT) revolution, related industries(computers and semiconductors) saw rapid growth in many countries of the region. As a result, the trade structures of the East Asian countries have become increasingly similar.

Such structural change has contributed to the deepening of competition among East Asian countries in the U.S. and other major overseas markets, but on the other hand it has also brought about the increase of intra-industry trade in the area.

Up until the early 1990s, most of the countries in the region competed solely in household electric appliances or clothing in overseas markets with only Japan and the newly industrialized economies(NIEs), including Korea, competing in computers and telecommunications devices, and Korea and Japan in semiconductors and automobiles. However, recently in the case of computers and telecommunications devices, such competition has already spread to most of the nations in the region. For semiconductors too, not only Japan and Korea but also the other NIEs and major ASEAN member states are now in competition.

Along with the deepening of competition in the global market, intra-regional trade has expanded greatly, especially in the form of intra-industry trade which involves exports and imports of goods belonging to the same industry. Semiconductors, computers and household electric appliances are the major industries that have experienced brisk intra-industry trade within the region.

The coincidence of the surge in competition and the expansion of intra-regional trade seems to have stemmed from the rapid simultaneous upgrading of trade structures and the subsequent increasing similarity of the economies in the region, which were again brought about by the

liberalization of trade and investment, the expansion of inward investment by multinational companies and the worldwide IT revolution.

Considering the accession of China and Taiwan to the WTO and the efforts being made to form regional free trade zones in the area, it seems that competition among the East Asian countries and regional intra-industry trade is set for a continued intensification. Under such circumstances, there are certain policy implications for Korea if it is to sustain economic growth and maintain current account surpluses through the stable expansion of exports.

As a first step, to tackle the ever fiercer competition among East Asian countries in the U.S. and other major overseas markets, Korea should take more aggressive measures to develop and diversify products such as DRAMs, mobile phones and automobiles(those products in which Korea enjoys a comparative advantage over other countries in the region, apart from Japan), increase the quality of existing products and make effort to improve productivity and reduce costs. As for intermediate goods such as textiles, steel and petrochemicals, in which Korea still has an edge over other NIEs, the ASEAN countries and China, Korea should strive to accelerate the development of higher value-added products. To that end, investment should be expanded in R&D and highly trained specialists should be fostered, while strategic alliances should be pursued with corporations in industrialized countries.

Meanwhile Korea should further increase its investments in East Asian countries with whom intra-regional trade has been growing fast. Although overseas investment may detract from direct exports of finished goods to a certain extent, it provides an advantage by facilitating exports of intermediate goods in a stable manner and securing a market for products manufactured in the region.

Finally focusing on the current series of changes in the regional economic climate: Japan and Singapore signing a free trade agreement; a free trade zone among ASEAN underway; a strong possibility of the economic integration among China, Hong Kong and Taiwan. Korea, being left out from such regional alliances, may thus experience difficulties conducting intra-regional trade and investment. Thus the country should also make efforts to expedite measures toward free trade agreement with other economies in the region.