

# Intra-regional trade in intermediate goods and macroeconomic interdependence in East Asia \*

Tuan Khai Vu \*\*

January 2018

**Abstract:** Over the last few decades there has emerged quite a unique and interesting trade structure in East Asia, in which countries in the region trade intermediate goods heavily with themselves while trade more final goods with the rest of the world. This paper discusses the facts about this trade structure in detail and empirically investigates how it is related to the macroeconomic interdependence in East Asia using a VAR model and data of eight major countries in the region. Our main findings are as follows. First, positive USA output shocks raise exports, imports and GDP in most of the East Asian countries, and these shocks explain a larger fraction of output in an East Asian country where exports are more concentrated in intermediate goods. Second, export shocks of an East Asian country that raise its exports also raise its imports, and the contribution of these shocks in the variance of imports is increasing in the share of intermediate goods in imports of the country. Third, compared to output shocks from Japan, those from China appear to be more influential to the East Asian economies.

**JEL Classification Codes:** F41, E32.

**Keywords:** trade in intermediate goods, international macroeconomic interdependence, trade and production and trade network in East Asia, VAR.

---

\* This work has received the financial support from the Japan Society for the Promotion of Science (KAKENHI, Grant number 16K17123). I would like to thank the discussant Juan Guerra-Salas and participants at the 14th International Conference of the Western Economic Association International (Newcastle, Australia, Jan 2018) for useful comments.

\*\* Mailing address: 4342 Aihara-machi, Machida-shi, Tokyo 194-0298, Japan. E-mail: [vu.tuankhai@hosei.ac.jp](mailto:vu.tuankhai@hosei.ac.jp).