

A Factor Analysis of Trade Integration: The Case of Asian and Oceanic Economies

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Summary

The aim of this paper is to study trade integration among 15 selected Asian and Oceanic economies after the 1997 Asian financial crisis. By using monthly data of these economies from 1999 to 2007 and applying a factor model, this study identifies the presence of a common factor driving the degree of trade integration among these economies. It also finds that the evolution of the common trade integration factor is affected by a time trend, some seasonal patterns, economic activity, and trade barriers. Moreover, the empirical results suggest that there is an ASEAN group factor that affects the degree of trade integration of the five ASEAN economies in the sample. If the policy objective is to enhance economic efficiency and coordination between these economies via strengthening the degree of trade integration, according to the empirical results in this paper, policies of reducing trade barriers and promoting economic activity should be adopted.