

Chapter 2 Widening and deepening regional integration

As Japan's interdependence with Asia deepens, new trends are emerging toward regional integration involving Japan.

As noted above, the Asian economic crisis has spurred the steady deepening of interdependence between Asia and Japan, while Japanese companies in Asia are reshaping their management strategies to meet the challenges of the changing economic circumstances. Where the market has led the way to date in deepening interdependence in Asia, new directions are now beginning to emerge, as seen in research among industrial, academic and government experts on a possible free trade agreement between Japan and Singapore, as well as private-sector studies by research institutes on a Japan-Korea FTA.

In terms of world trends, the number of regional groupings grew in the 1990s, while the shape of integration also developed from trade liberalization through tariff reductions to "deeper integration" reaching as far as the harmonization of domestic systems. Examining the economic significance of regional integration and observing developments in the EU, NAFTA and other regional groupings will be valuable in charting the road ahead for Japan and regional integration.

1. Economic assessment of regional integration—Dynamic effects

Regional integration takes various forms¹. Recently, integration has been moving beyond simple tariff reductions toward "deeper integration", whereby regional barriers in terms of investment, services, labor markets, regulations, economic policies and even currency integration are lowered and eliminated (Fig. 3-3-1)².

The formation of regional groupings gained new momentum in the 1990s.

Regional integration gained new momentum in the 1990s. The number of regional trade

¹ Balassa (1961) divides regional integration into five stages according to the degree of integration: (1) the free trade area (elimination of regional tariffs); (2) the customs union (extra-regional tariffs harmonized); (3) the common market (capital and labor flows liberalized); (4) the economic union (tax measures, regulations and economic measures harmonized); and (5) complete economic integration (budget systems and currency measures integrated).

² Lawrence (1996) describes regional integration and linkage, including dispute settlement, the harmonization of domestic systems, and other areas beyond trade liberalization, as "deeper integration",

agreements notified to the GATT/WTO (including those based on the GATS and the so-called “enabling clause”) soared to 78 over the decade (Fig. 3-3-2), with many countries, both developed and developing, now participating in some form of regional trade agreement. Conversely, only a handful of countries have yet to conclude such agreements, among them Japan, China and Korea. Factors behind this surge in regionalism include: (1) the expansion of existing regional groupings, as seen in the growth of EU membership and the EU’s eastward expansion; (2) the US policy shift to active promotion of regional integration and the subsequent formation of NAFTA; and (3) the formation of regional groupings by the former socialist countries as a way to secure market access and attract foreign investment (the Central European Free Trade Agreement (CEFTA), for example).

The various economic effects of regional integration can be divided into the static and dynamic.

The economic effects of regional integration have been divided into five categories (of which, (1) to (4) relate to resource allocation (static effects), while (4) and (5) are dynamic effects³.

- (1) Trade creation effect (regional trade expanded through the elimination of regional trade barriers)
- (2) Trade diversion effect (elimination of regional trade barriers diverts imports from efficient (low-cost) extra-regional producers to regional sources)
- (3) Terms of trade effect (establishment of common tariffs strengthens purchasing power of countries within regional grouping, pushing down extra-regional import prices)
- (4) Market expansion effect (elimination of regional trade barriers expands market, opening the way for cost reduction through scale merit)
- (5) Competition promotion effect (opening of regional market raises competitive pressure on domestic markets, boosting production)

The actual economic effect comprises a combination of different effects and is an empirical issue.

In all the above cases, trade provides members of regional groupings with economic benefits such as lower prices and lower costs, creating economic incentive for participation,

distinguishing this from “shallow integration” (integration aimed solely at trade liberalization).

³ Viner (1950) has led the field in work on effects (1) and (2).

but extra-regional countries can be negatively affected through, for example, reduced trade. Where member countries experience economic growth as a result of economic integration and boost the effectiveness of their economic activities, this has a secondary positive effect on extra-regional countries (Fig. 3-3-3). The economic effect of regional integration is a combination of the five different categories described above, and is an entirely empirical issue.

Further, the way in which regional integration encourages direct investment and policy innovation is also in fact an important concern.

In addition to the various trade-centered effects noted above, there have been cases, for example, where the market expansion effect has been accompanied by a spurt in direct investment inflows. Moreover, while not a direct economic effect, deepening integration tends to stimulate innovation in domestic systems as countries look around at other members of their grouping. For example, where regional integration strengthens competition policy, extra-regional countries looking to enter the regional market benefit to the extent that national treatment is maintained. This can be described as a policy innovation effect, and can be seen in cases such as the EU, where market integration is encouraging domestic regulatory reform on the part of EU members.

According to past economic analyses, even where regional groupings did impact negatively on extra-regional countries, this impact was slight.

The bulk of economic analyses of regional integration based on empirical research and calculations using economic models have focused on static effects such as trade creation and trade diversion. The results of such studies have generally indicated that even where regional groupings have had a negative extra-regional impact, this was slight, and have conversely identified positive effects, albeit on a minor scale compared to the economy as a whole (Fig. 3-3-4).

Recent analyses indicate that dynamic effects such as market expansion and competition promotion are greater than static effects ...

Recently, as suggested in the second half of the above figure, analyses have come to focus on dynamic effects, such as market expansion and competition promotion. This shift reflects the fact that the dramatic post-war growth in world trade is due not to classic inter-

industry trade grounded in static effects but rather to intra-industry trade, which is closely related to dynamic effects. Further, there is a growing economic sense that measuring the market integration of the former EC in terms of static effects alone results in an under-evaluation. On a theoretic level too, it has been observed that the potential scale of dynamic effects might well be several times that of static effects. This perspective could be particularly valuable in examining the economic benefits of regional integration to group members with highly similar income levels and industrial structures.

... and are useful in examining the benefits of regional integration to countries with similar income levels and industrial structures.

2. Evaluations of precedents—Deepening integration and widening alliances

Looking at recent developments in regional integration precedents—the EU, NAFTA and MERCOSUR—trends include (i) further acceleration in trade interdependence in all groupings, although not due entirely to the regional agreement in question; (ii) increases in membership in all groupings; (iii) deepening integration not just in terms of tariff removal, but also domestic measures (labor markets, regulations, currencies, etc.); and (iv) moves toward inter-regional groupings. The EU, NAFTA and MERCOSUR are examined below as examples of regional integration precedents, looking at (i) the current state of trade interdependence; (ii) developments in terms of expanding and deepening integration; and (iii) the economic effects of these groupings.

(1) European Union (EU)

(a) Trends in regional trade

The EU's regional export ratio has continued to rise since 1958 ...

European integration has been prompted both by economic factors and by the quest for political stability. Over the 40 years since the European Economic Community was launched in 1958, the grouping has expanded from its initial membership of six to 15 countries, bringing about an according jump in the regional export ratio from 30.1 percent to 61.4 percent (Fig. 3-3-5).

Integration is expanding and deepening, including currency integration and reform

of service regulations.

(b) Deepening and expansion of integration

The first signs of deeper EU integration date back to the 1950s and 60s, as seen in agricultural cooperation and common agricultural policies, but the trend only gathered real momentum with market integration at the end of 1992. *Completing the Internal Market: White Paper from the Commission to the European Council*, a study released in 1985, listed close to 300 non-tariff barriers, while spurred by the 1987 entry into force of the Single Market Act, Europe moved vigorously ahead with mutual recognition of quality standards, free capital movement and the simplification of customs procedures. In terms of implementation of the EU single market program, while the speed of progress depends on the area, EU directives are succeeding in advancing competition-promoting reform (Fig. 3-3-6). The introduction in January 1999 of the euro, the European single currency, brought member states into an economic and currency union. Pressure is also mounting on members to undertake structural reforms toward reducing their fiscal deficits and stabilizing prices. At the EU Summit held in December 1999, leaders agreed to consider the 12 Eastern and Central European countries and Turkey as candidates for membership⁴.

(c) Evaluation of economic effects

A significant contribution to regional economic growth has been estimated.

One comprehensive analysis of the economic effect of EU market integration was *The European Challenge 1992* (Ceccini Report, 1988). This study calculated the microeconomic effects of integration—the profit reaped from elimination of the various non-tariff barriers—and also used a macroeconomic model, with both sets of calculations suggesting 4-7 percent of the GDP of the EC (12 member countries) and an interim profit of around 200 billion ECUs (Appended Fig. 3-3-1).

The Single Market and Tomorrow's Europe (Monti Report, 1996) compared EU single market evolution up to 1996 with a scenario in which no such market had been developed, demonstrating that the single market had created 300,000 to 900,000 new jobs and brought down inflation by 1.0 to 1.5 percent.

⁴ The 12 East European countries scheduled to join the EU are the Czech Republic, Hungary, Poland, Estonia, Slovenia, Cyprus, Bulgaria, Latvia, Lithuania, Slovakia and Malta.

(2) North American Free Trade Agreement (NAFTA)

NAFTA's regional export ratio too passed the 50 percent mark in 1998 ...

(a) Trade trends

The United States, Canada and Mexico began negotiations on formation of a free trade area in 1991, with the North American Free Trade Agreement (NAFTA) entering into force in 1994. NAFTA's regional export ratio grew from 33.6 percent in 1980 to 61.4 percent in 1998 (Fig. 3-3-5). By country, the ratio of US exports to Canada and Mexico rose relatively moderately (up from 16.0 percent to 22.7 percent in the case of Canada, 6.9 to 11.6 percent for Mexico), but Canadian and Mexican exports to the US have grown steeply since the late 1980s, with both countries' dependence on the US increasing (Fig. 3-3-7). This deepening of regional trade relations has been due not only to NAFTA, but also to other factors such as Mexico's peso devaluation in 1994 and shift to liberalization policies; in the case of Mexico's exports to the US, the development of the maquiladora zone, as well as the United States' adoption of preferential tariffs, both pre-dating NAFTA; and in the case of US-Canada trade, the US-Canada Free Trade Agreement.

(b) Expanding and deepening of integration

NAFTA is comprehensive, covering services, investment and other areas. ...

NAFTA was preceded by the US-Canada Free Trade Agreement, which went into force in 1989. Where previous free trade agreements has dealt primarily with the removal of tariffs on trade in goods, this agreement sought more comprehensive trade liberalization, including services, investment, government procurement and dispute settlement. NAFTA, which also embraced Mexico, further liberalized services and provided national treatment for investment, while supplementary agreements on labor conditions and environmental protection standards were also concluded (Fig. 3-3-8).

(c) Evaluation of economic effects

... and has been evaluated as having a positive impact on the US and Mexican economies.

In line with the United States' NAFTA Implementation Act, the *Study on the Operation and Effect of the NAFTA* was submitted in July 1997. The study, which examined data up until 1996, found that NAFTA had had a slight but positive impact on US net exports, income, investment and export-related job creation, and had contributed to a swift recovery from the Mexican financial crisis. The study also indicated that US exports to Mexico of textiles, transport equipment and electrical machinery grew strongly, while Mexican exports to the US saw marked expansion in areas such as apparel (Appended Fig. 3-3-2).

(3) MERCOSUR (Mercado Común del Sur)

The first concrete move toward regional integration by the Latin American countries came with the 1985 agreement between Brazil and Argentina on a program for integration and cooperation. In the Treaty for Integration, Cooperation and Development signed in 1988, the parties set the objective of creation over 10 years of a common market, and in June 1990, it was agreed to move up the establishment date for MERCOSUR to January 1995. Paraguay and Uruguay elected to walk the same line, signing the Treaty of Asuncion on the formulation of MERCOSUR in 1991.

(a) Trade trends

The regional export ratio has tripled since MERCOSUR was formed ...

A comparison of the value of MERCOSUR's intra- and extra-regional regional trade in 1991 to the 1998 value reveals that regional trade grew faster than extra-regional trade in terms of both exports and imports. While the regional export ratio accounted for only 6.7 percent in 1988, it reached 25.1 percent within the decade, outstripping the 15.0 percent ratio of exports to the US and 22.0 percent to the EU. Argentina and Brazil accounted for the lion's share of regional trade in 1998—89.1 percent of exports and 83.6 percent of imports—with the expansion in trade within the MERCOSUR region boosting the value of both countries' regional trade (Fig. 3-3-9).

... with the region now aiming to move beyond the customs union level to deeper integration, including services and competition policy ...

(b) Expanding and deepening integration

The Treaty of Asuncion identifies four objectives for MERCOSUR: (1) elimination of regional tariff and non-tariff barriers and liberalization of goods, services and productive factor flows; (2) establishment of common external tariffs; (3) coordination of competition policy and macroeconomic policy; and (4) development of legal infrastructure among member countries. While the initial objective was the establishment of a customs union, serious consultations on policy coordination in other areas began around 1996, producing agreements on consumer protection, social security and the liberalization of regional air routes. Member countries have also agreed to promote the liberalization of regional services, finance and transport over the ten years from 1998. MERCOSUR's next challenges will be the protection of intellectual property rights, liberalization of regional labor flows, and harmonization of the various elements of tax systems.

In terms of expansion, free trade agreements were signed with Chile in October 1996 and with Bolivia in January 1997, giving both countries the status of associates, and in April 1998, agreement was reached with the Andean Common Market (ANCOM) on launching a free trade area in 2001. Outside Latin America, negotiations are underway to establish a free trade area with the EU.

(c) Assessment of economic effects

... to which end MERCOSUR is working hard to attract direct investment.

In a recent report, the Inter-American Development Bank (IDB)'s Institute for the Integration of Latin America and the Caribbean (INTAL) evaluated MERCOSUR as the only successful case of regional integration in Latin America since the 1960s. Regional trade increased at the rapid pace of 26.2 percent per annum between 1991 and 1998, and as this was accompanied by overall trade liberalization, extra-regional trade grew 12.6 percent over the same period. In other words, while the regional trade ratio shot up, no striking trade diversion effect emerged.

Since August 1998, the deterioration of macroeconomic indicators and shrinking regional trade have caused a temporary slowdown in MERCOSUR's steady development. The main reason behind the sluggishness of regional trade has been the heavy slump in auto sector trade in response to member countries' domestic recessions. At the same time, the value of direct investment in MERCOSUR member countries leaped 78.2 percent on the same

quarter the previous year in the first quarter of 1999 despite the regional economic slowdown, with currency devaluation and the expansion of the regional market brought about by MERCOSUR continuing to draw in investment (Fig. 3-3-10).

(4) Links between regional groupings—A new direction

Links between regional groupings and supra-regional efforts have been gathering momentum.

Recently, interest has emerged in trade liberalization beyond traditional regional frameworks, namely the strengthening of links between regional groupings. Examples include the Free Trade Area of the Americas (FTAA), designed to link the US and Latin America, the Trans-Atlantic Free Trade Area (TAFTA) between the US and the EU, moves toward conclusion of a free trade agreement between EU and MERCOSUR, and consensus on a free trade agreement between Mexico and EU. Factors behind this new trend are as follows: (1) further promotion of free trade liberalization through the creation of frameworks beyond traditional regional groupings; (2) promotion of access to extra-regional markets; and (3) the desire to strengthen influence over other regional groupings and negotiating power with these.

3. Japan-related regional integration prospects

(1) Asian market-led regional integration

The first step toward Asian regional integration was the market-led deepening of economic interdependence.

Asian regional integration has evolved through a market-led process, with trade and investment deepening substantive economic interdependence. Compared to Europe and the Americas, the region has been slow to formulate clear policies and address expansion. Regional trade has grown rapidly since the mid-1980s. Regional trade data for the nine East Asian countries (Japan, the NIES and ASEAN) indicates that the regional export share grew from approximately 25 percent in the mid-1980s, when Asia was still heavily dependent on the US, to close to 40 percent prior to the Asian crisis in the 1990s. This share fell after the crisis, but has recently been on the upsurge again as the Asian economy recovers (Fig. 3-3-11).

(a) Asia-Pacific Economic Cooperation (APEC)

APEC was launched in 1989 ...

The basic framework for regional cooperation in the Asia-Pacific is the Asia-Pacific Economic Cooperation (APEC) forum. Since APEC was launched in 1989, its membership has grown rapidly from the original 12 to the current economic community of 21 economies, including Japan, the US and China. The above-mentioned deepening of regional economic ties in Asia has proceeded in parallel with APEC's regional cooperation framework. Unlike other regional initiatives, APEC respects the autonomy of member economies, and also observes the principle of "open regionalism", extending the benefits of trade and investment liberalization to countries outside the region. Embracing a wide range of economies, including China and Taiwan, which have yet to accede to the WTO, as well as NAFTA, the ASEAN 7 (Indonesia, Malaysia, the Philippines, Thailand, Singapore, Brunei Darussalam and Vietnam), Russia and certain Latin American countries, APEC could be regarded as a link between regional groupings, with a resulting high regional export and investment value (Fig. 3-3-12).

... and has promoted open regionalism, achieving a high regional trade and investment ratio, ...

When APEC was initially launched, the forum focused on projects for human resource development and technology transfer in the ASEAN economies, but as of the 1993 Seattle meetings, APEC's main theme has shifted to the liberalization of trade and investment. The second Informal Economic Leaders' Meeting in 1994 adopted the Bogor Declaration, with member economies committing to achieving free trade and investment by 2010 for developed economies, 2020 for developing countries. To implement the Bogor Declaration, the Osaka Action Agenda was adopted in 1995, the Manila Action Plan in 1996, shifting APEC from vision to action. At the 1997 Vancouver meetings, members reported on progress with implementation of their Individual Action Plans, while proposals were also put forward on initiatives such as early voluntary sectoral liberalization (EVSL), and in 1998, members agreed to develop economic cooperation, particularly in response to the Asian economic crisis which was sparked in 1997. At the Auckland meetings in 1999, the new target of strengthening of market functions was added to the APEC menu, with members affirming the importance of structural reform (promotion of competition, regulatory reform,

etc.), the fostering of small and medium enterprises and the development of legal infrastructure (Fig. 3-3-13).

... shifting APEC from vision to action.

(b) Association of Southeast Asian Nations and the ASEAN Free Trade Area

ASEAN has developed regional trade with Singapore as the hub ...

ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand as a means of ensuring regional security and political stability. Brunei Darussalam joined in 1984, followed by Vietnam in 1995, Myanmar and Laos in 1997 and Cambodia in April 1999, bringing membership to 10.

... establishing a free trade area in 1992 ...

Since the first Summit in 1976 in Bali, ASEAN has worked at trade liberalization and industrial cooperation. As to the former, however, there has been little progress (Appended Fig. 3-3-3). Singapore has played a major role as the hub of ASEAN's trade flow, with regional trade growing steadily since the 1980s (Fig. 3-3-14).

... and agreeing to complete liberalization by 2002.

Moves within other regional groupings in the 1990s spurred ASEAN to agree to establish the ASEAN Free Trade Area (AFTA) in January 1992 as a means of strengthening the competitiveness of ASEAN industry and encouraging investment inflows. The initial plan was to reduce regional tariff rates to 0-5 percent and eliminate non-tariff barriers by 2008, but in 1994, the tariff reduction deadline was brought back to 2003 and the scope widened to include agricultural products. In responding to the 1997 Asian economic crisis, Thailand, the Philippines and Malaysia moved counter to trade liberalization in boosting tariffs on some imports and introducing import license systems, but at the Sixth ASEAN Summit in December 1998, members agreed that the deadline for AFTA trade liberalization would be brought back to 2002 in principle.

(2) Japan-related investment agreements negotiations and consideration of free trade agreements

In addition to multilateral efforts, Japan is also working on the bilateral level.

As seen above, regional groupings are forming worldwide, with growing interest in creating inter-regional ties. Japan, however, has just begun to consider investment agreements and free trade negotiations. Japan continues to promote international rule-making on the multilateral level, with policy based on strengthening the WTO-centered multilateral trading system, but has also begun to develop bilateral investment liberalization frameworks. While Japan has yet to conclude a free trade agreement, research by industry, academics and government is currently underway between Japan and Singapore, and is also proceeding at the private-sector level with Korea, Mexico and Chile. Investment agreements have already been signed with eight countries⁵, and negotiations are underway with Korea, Mexico, Vietnam and Mongolia, as well as being scheduled with Indonesia. The following section examines the main bilateral treaties under concrete consideration. Such considerations need to be promoted together with efforts to strengthen the multilateral trading system and promote regional cooperation as part of a multi-layered trade policy.

(a) Japan-ROK investment treaty, Japan-ROK trade treaty

As Japan-Korea economic relations flourish, ...

In October 1998, Korean President Kim Dae Jung visited Japan to demonstrate the friendly relations between Japan and Korea. Talks with Prime Minister Keizo Obuchi resulted in the announcement of the Joint Declaration on a New Japan-Republic of Korea Partnership Towards the 21st Century. The action plans appended to the Joint Declaration included the strengthening of economic cooperative ties. As a follow-up, the Japan-ROK Ministers' Meeting in March 1999 announced the Japan-Republic of Korea Economic Agenda 21, which contains acceleration of negotiations on conclusion of a Japan-ROK investment agreement, early conclusion of a mutual recognition agreement, and intellectual property rights cooperation. Steady progress has already been made, including approval and entry into force of a Japan-Korea tax convention (Fig. 3-3-15, Appended Fig. 3-3-4).

Early conclusion is being sought to the Japan-Korea investment treaty, the aim being to

⁵ Japan has signed investment protection treaties with Egypt, Sri Lanka, China, Turkey, Hong Kong SAR, Pakistan, Bangladesh and Russia (in order of signature). Of these, all but the agreements with Russia and Pakistan are in force.

produce a treaty containing the level of discipline and a level of effectiveness appropriate among developed countries⁶.

... private-level research is being undertaken in both countries toward a free trade agreement.

In November 1998, Korea proposed undertaking joint research on a free trade agreement, and it was decided that the project would initially be handled by study groups under government institutes. In December, Japan launched the 21st Century Japan-Korea Economic Relations Study Team under JETRO-IDE, while research has also begun in Korea under the Korea Institute for International Economic Policy (KIEP). The results of their joint examination will be released in early 2000.

Column 3-3-1 Economic profit from regional integration—Kyushu

In considering the economic profit of regional integration to Japan, the economic ties between Kyushu and Korea and other Asian countries offer a valuable precedent. Kyushu has a relatively high degree of interdependence with Asia compared to Japan as a whole because of its geographical proximity to the region (Figs 3-3-16 and 3-3-17).

As economic exchange with Korea has developed, there have been cases where certain areas have been quicker to reap the economic benefits of regional integration. For example, some technology-intensive small and medium enterprises based in Kyushu which face a chronic shortage of R&D human resources have been able to substantially strengthen their R&D capacity through tie-ups with Korean companies, providing access to the relatively abundant and available supply of Korean researchers, and as a result, have been able to boost their product levels and expand their sales channels. This indicates that the market expansion effect of regional integration could be significant not only in product markets but also labor markets (access opened to Korea's R&D human resource market, which is more flexible than Japan's). Korean manufacturers too are starting to establish production bases in Kyushu with an eye to taking advantage of market expansion and competition promotion effects.

⁶ Japan is also negotiating with Vietnam over an investment treaty, and is scheduled to open negotiations with Indonesia in the near future. As both countries are popular among Japanese companies seeking to set up bases abroad, the conclusion of investment treaties should promote investment exchange and create even closer economic relations.

(b) Japan-Singapore free trade agreement

Based on agreement between the governments of Japan and Singapore, joint research by representatives from industry, academia and government has been underway as of 2000.

During Singaporean Prime Minister Goh Chok Tong's visit to Japan in December 1999, leaders agreed to launch joint research by representatives from industry, academia and government on a bilateral free trade agreement. This research began in March 2000, with considerations underway as to the elements of a suitable agreement between the two countries, such as the necessary scope⁷. Research will be concluded in November this year, and the two countries' leaders will be presented with a joint report containing recommendations as to whether formal negotiations on a free trade agreement should be opened.

(c) Bilateral agreements with countries outside Asia

Private-sector level FTA considerations are also being conducted with countries outside Asia.

Private-sector level FTA considerations are also being conducted with countries outside Asia.

To examine a possible Japan-Mexico FTA, JETRO established the Committee for Closer Economic Relations between Japan and Mexico in February 1999, which considered aspects such as the significance of an FTA and produced a report⁸. Secretaria de Comercio y Fomento Industrial (SECOFI; the Mexican Department of Commerce) researched the same theme and compiled a report, with both countries jointly releasing their reports in April 2000.

The government plans to promote negotiations toward conclusion of such an agreement, aiming at producing an investment treaty with a high level of discipline, as appropriate

⁷ In terms of coverage, Prime Minister Goh Chok Tong has suggested that rather than the traditional tariff-centered free trade agreement, Japan and Singapore should aspire to a "New Age FTA" embracing a much wider range of areas.

⁸ Prior to this, Keidanren launched a Working Group on Japan-Mexico Bilateral Treaties in January 1999, producing a report welcoming such treaties (*Report on the Possible Effects of a Japan-Mexico Free Trade Agreement on Japanese Industry*, 20 April 1999).

between developed countries.

The possibility of launching research on a bilateral FTA with Chile was also mentioned when Chilean Vice-Minister for International Economic Relations of the Ministry of Foreign Affairs Jara visited Japan in February 2000. Accepting this proposal, JETRO established a study group to consider the possibility of an FTA, including the significance and economic effects.

(c) Toward regional integration

Regional integration involving Japan is in line with economic realities, while progress in other regions and economic analyses suggest that it would also offer economic profit.

This line should therefore be pursued as a supplement to the multilateral trading system ...

... ensuring that regional integration and economic structural reform remain mutually complementary.

In light of the economic development of other regions and the economic analyses overviewed in this section, Japan stands to gain economically from pushing further ahead with regional integration. The deepening of economic interdependence in Asia indicates that regional integration is compatible with economic realities. Further, given progress in other regional groupings, there is obvious significance in examining the economic benefit of going beyond border measures to seek deeper integration. In examining the potential benefits of regional integration with Korea and Singapore, which are on much the same economic level as Japan, it would be particularly valuable to consider (i) the recent move away from the traditional approach to analyzing the effects of regional integration, which focused on static effects, toward economic analyses emphasizing dynamic effects such as market expansion and competition promotion and (ii) the policy innovation effect which regional integration tends to induce in member countries (Fig. 3-3-18). Economic globalization is steadily integrating domestic and external economies, and regional integration and economic structural reform must be pursued as mutually complementary elements.

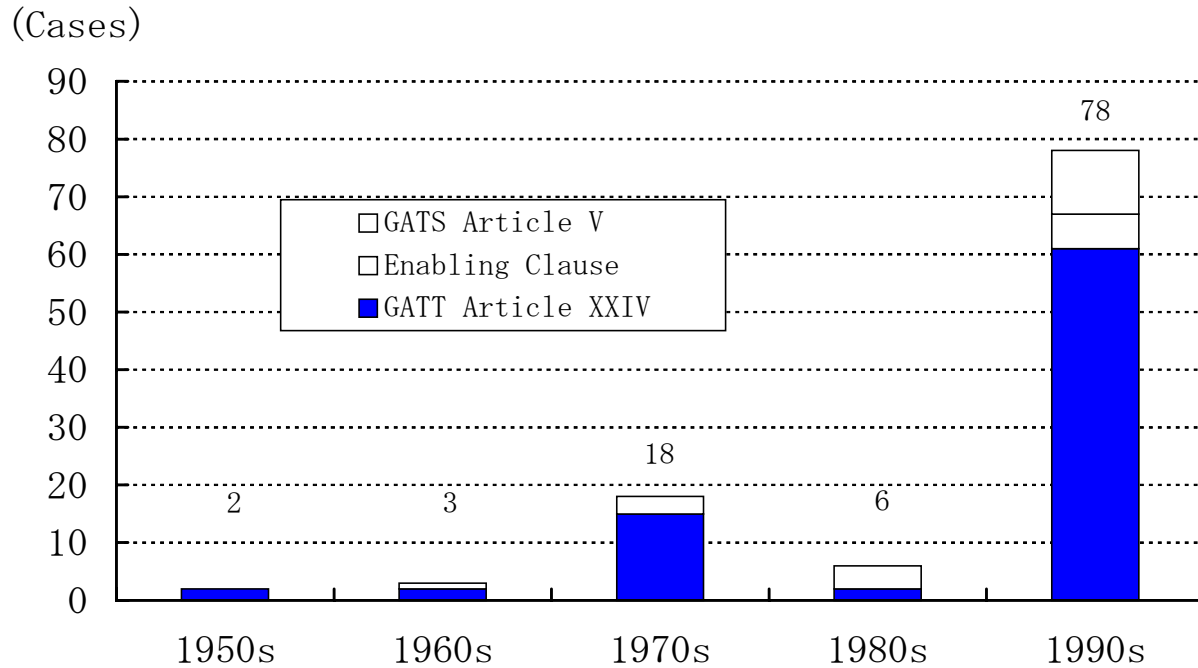
Further, noting the recent move toward ties between regional groupings, rather than a single-layered and fixed arrangement between specific countries, regional integration should be considered a multi-layered and evolutionary phenomenon, and a flexible approach also needs to be taken to widening the scope of regional integration, while firmly positioning such integration as a supplement to the WTO-centered multilateral trading system.

Figure 3-3-1 Types of regional integration

Type	Content	Example			
		EU	NAFTA	MERCOSUR	AFTA (ASEAN Free Trade Area)
		15 European countries	US, Canada Mexico	Brazil, Argentina, Paraguay, Uruguay	10 ASEAN members
Free trade area	Elimination of regional tariffs		○		○ (0-5%)
Tariff union	Regional tariffs eliminated Common extra-reg. tariff	○		○	
Deeper integration	Investment & services liberalization, etc.	○	○	○	
	Labor market integration	○		○	
	Common regulations & economic policies	○		○	
	Currency integration	○			

Note: Examples here refer to goals of the regional groupings, and do not imply that these have already been completely fulfilled.

Figure 3-3-2 No. of regional trade agreements notified to GATT/WTO



Breakdown of regional trade agreements notified in 1990s (Based on GATT Article XXIV)

EU-related	14
EFTA-related	12
Former Socialist countries	19
North America	3
Other	13
Total	61

Note: No. of regional trade agreements for each decade calculated on a notification year basis (as at April 1999).

Source: *Regional Trade Agreements Notified to the GATT/WTO and in Force in April 1999* (WTO Secretariat)

Figure 3-3-3 Effects of regional integration: intra- and extra-regional impact

Effects of regional economic integration		Content	Appraisal	
			Members	Non-members
Static effects	Trade creation	Regional trade expands through elimination of regional trade barriers	+	+ (indirect)
	Trade diversion	Elimination of regional trade barriers leads to shift from effective (low-cost) extra-regional imports to regional imports	-	-
	Terms of trade	Common tariffs strengthen purchasing power of countries within grouping, pushing down extra-regional import prices	+	-
Dynamic effects	Competition promotion	Elimination of regional trade barriers leads to market expansion, allowing lower costs through scale merit	+	+ (indirect)
	Market expansion	Opening regional markets boosts regional market competition pressure, improving productivity	+	+ (indirect)

Figure 3-3-4 Economic analyses on effects of regional integration

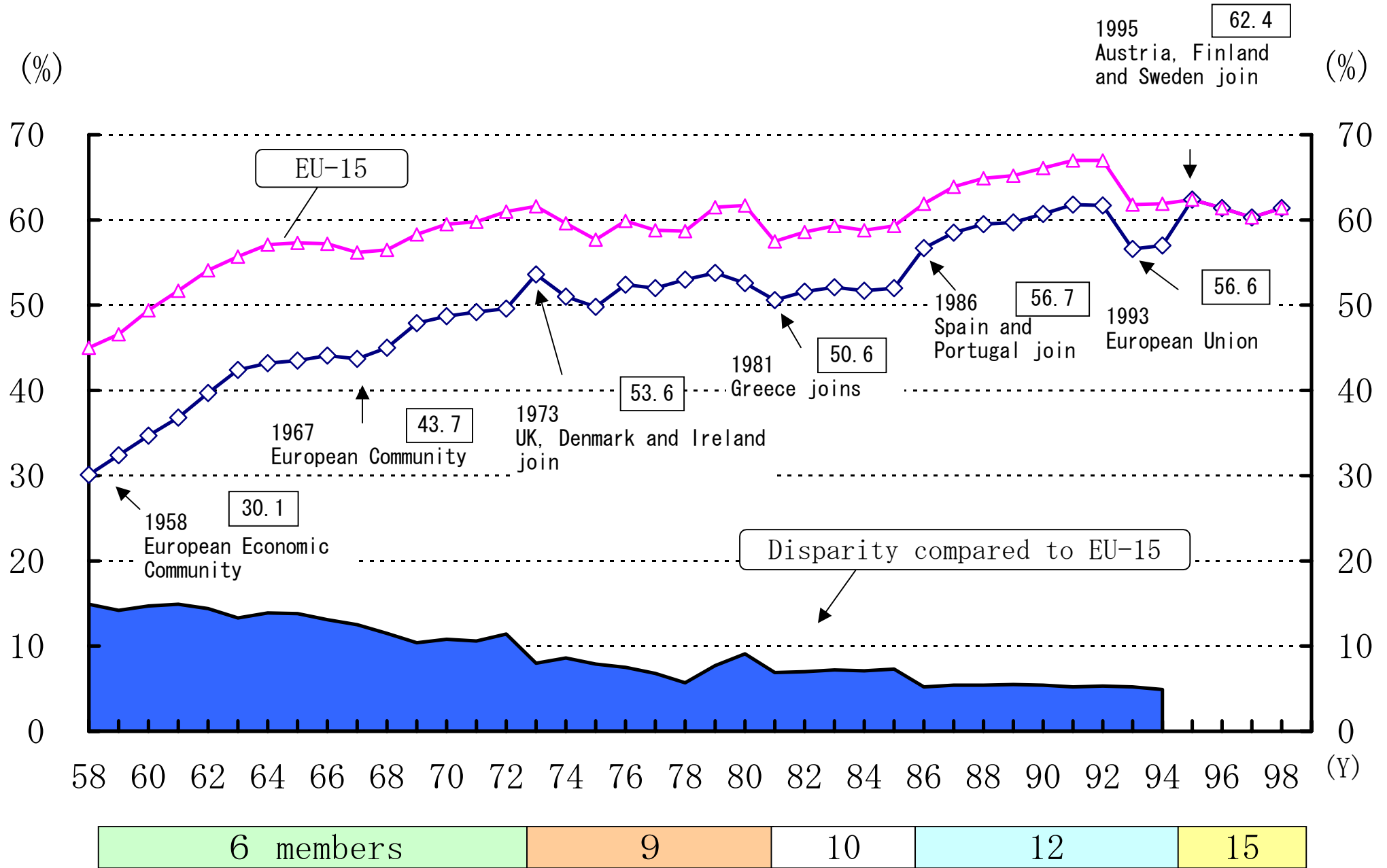
<i>Analyses focusing on static effects (trade creation, trade diversion, terms of trade)</i>			
Work (Author, year)	Analysis approach	Scope of analysis	Main results
Johnson (1958)	Calculation of economic effect of the UK joining the EC (static partial equilibrium analysis). Examined greater potential welfare increment for UK through the profit derived from the lower tariff payments (exports) and prices (imports) resulting from EC membership	Elimination of UK-EC tariffs in manufacturing industry. Common tariffs levied after regional integration settlement.	EC accession will boost UK exports between 62 million and 192 million pounds (0.8-2.4% of exports), imports 31 million pounds (0.3%). The resulting increase in economic welfare would be equivalent to 1% of UK GDP.
Balassa (1967)	Empirical analysis of economic effect of EC formation (partial equilibrium analysis). Focus on change in income elasticity of income demand before and after EC formation.	Economic changes caused by EC formation and consequent regional barrier elimination. Looks at 1953-59 as pre-EC period, 1959-65 after EC formation. Data divided into seven main product types.	EC formation has resulted in a trade creation effect in the manufacturing industry. A trade diversion effect has not emerged for raw materials, but has for food. The estimated economic effect on the EC is an annual real GDP increase of 0.1%.
Hamilton and Whalley (1985)	Calculation of effects of various regional integration cases using a static general equilibrium economic model. World divided into eight blocks, looking at six products per country (five of which open to trade). Assumes complete competition and constant returns according to scale.	Analyzes various economic integration scenarios including a detailed analysis of regional integration between the US and the EC.	Regional integration has a minimal effect on economic welfare in all cases. The model revealed an extensive terms of trade effect. Integration between the US and the EC would boost US exports to the EC by 9.7%, EC exports to US by 5.8%. In terms of relations with other regions, while the impact was not extensive, US exports would fall and imports increase, with the opposite pattern emerging for the EC.
Krueger, Anne O. (1999)	Examines trade creation and diversion effects of NAFTA and other regional groupings.	① Mexican share of US imports and of world imports analyzed based on data from 1987-88 onward. ② Correlation between trade data with participation in NAFTA, EU, Mercosur and other regional groupings included in explanatory variables (so-called gravity model). Other explanatory variables include GDP, population, exchange rate and distance.	① Due also to the 1994 peso devaluation, Mexico's exports to the US and the world are increasing, while trade from outside the region has not been diverted. ② There is no sign of any regional grouping causing major changes to trade patterns. NAFTA membership is only a weak deciding factor in terms of trade flow, and is not significant.

<i>Analyses focusing on dynamic effects (market expansion, competition promotion)</i>			
Work (Author, year)	Analysis approach	Scope of analysis	Main results
Mueller (1981)	Empirical research on response of Italian home electric manufacturers to elimination of intra-European tariffs.	Economies of scale effect achieved through EC market expansion.	Scale of improvement of economic welfare by sector huge compared to static improvement.
Baldwin (1992)	Effects of EC market integration calculated using a dynamic general equilibrium model. Assumes increasing returns in terms of economies of scale (corporate scale). Premised on static effects of EU market integration calculated by Cecchini (1988), using a model to calculate effects.	What kind of economic impact will reduction in non-tariff barriers through 1992 EU market integration have in terms of economies of scale?	The dynamic welfare effect of trade liberalization will increase the static profit of economic welfare by 15 to 90%.
European Commission (1996)	Empirical analysis of results of 1992 market integration. ① Proves reduction in logistics costs using corporate data ② Conducts an econometric analysis of trade flows in various manufacturing sectors	Competition promoted and costs cut through the market expansion effect of 1992 EU market integration	① Logistics cost as a share of total corporate income fell 30% between 1987-93. ② Competition promotion lowers margin rate (price/cost) 3.9% for manufacturers covered by the single market program, market share of domestic companies increases (competition with foreign companies lowers market share of domestic manufacturers outside the single market program).

Reference

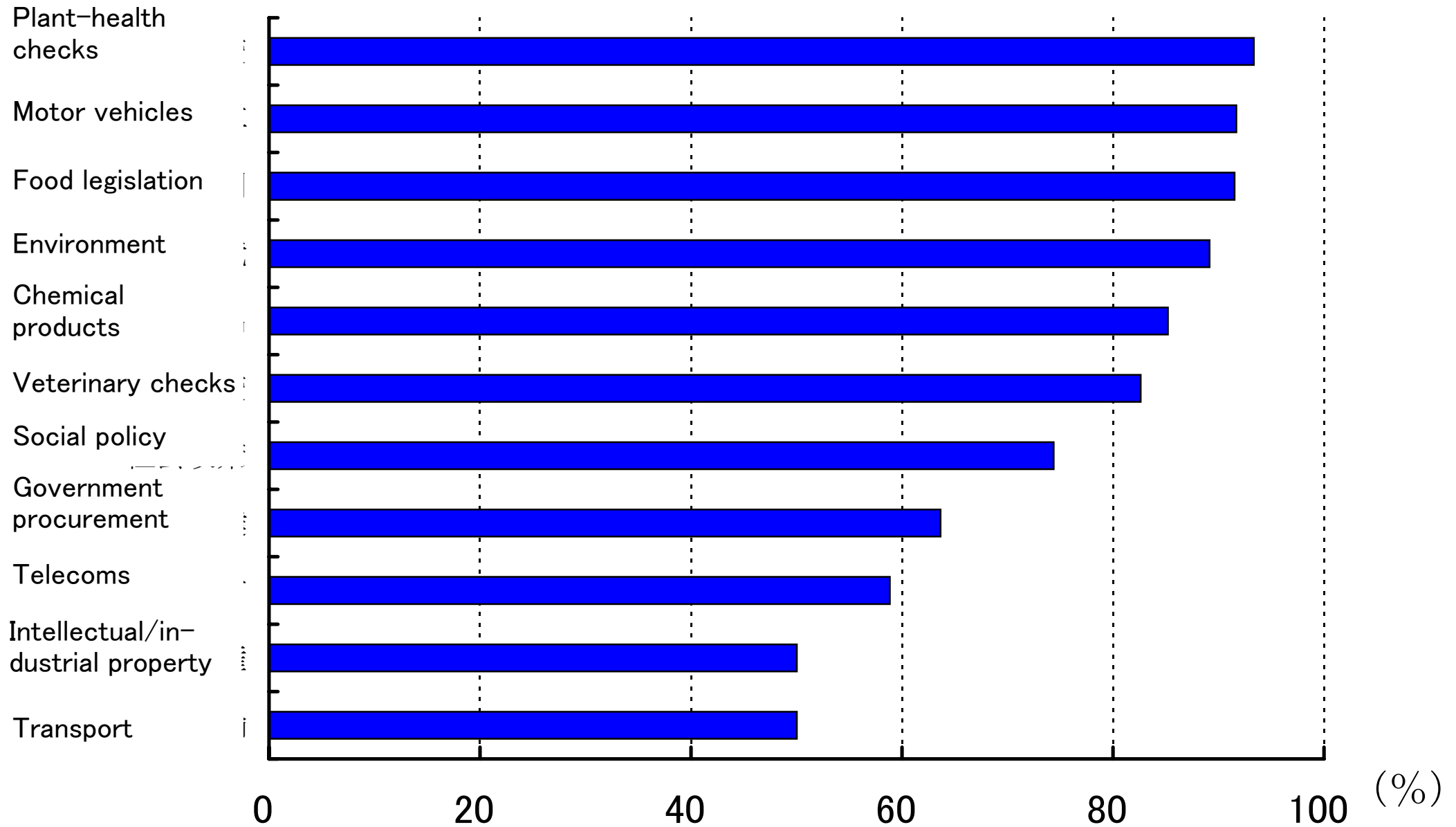
OECD (1999)	Empirical analysis of correlation between degree of trade intensiveness and TFP. Uses national data covering 1961-65.	Productivity boosted through deepening of trade ties. ✘ Not research focused on regional integration, but provided here as a reference.	Where the degree of trade intensiveness ((Exports + imports)/GDP) rises 10%, TFP rises 0.9%.
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Figure 3-3-5 EU's intra-regional export ratio



Note: Intra-regional export ratio = intra-regional exports/world exports
 Source: DOT (IMF)

Figure 3-3-6 Breakdown by sector of implementation of EU internal market directives



Source: *Single Market Scoreboard No. 5* (November 1999; EC)

Appended Fig. 3-3-1 Vol. 1

- Potential gains in economic welfare for the EC resulting from completion of the internal market

	Billions ECU	% of GDP
Step 1: Gains from removal of barriers affecting trade	8-9	0.2-0.3
Step 2: Gains from removal of barriers affecting over-all production	57-71	2.0-2.4
Gains from removing barriers (sub-total)	65-80	2.2-2.7
Step 3: Gains from exploiting economies of scale more fully	61	2.1
Step 4: Gains from intensified competition reducing business inefficiencies and monopoly profits	46	1.6
Gains from market integration (sub-total)	62-107*	2.1-3.7*
Total		
- for 7 Member States at 1985 prices	127-187	4.3-6.4
- for 12 Member States at 1988 prices	174-258	4.3-6.4
- mid-point of above	216	5.3

Notes:

1. Asterisked figures totaling Steps 3 and 4 cannot be broken down into two steps.
2. 7 members = former West Germany, France, Italy, UK, Netherlands, Belgium and Luxembourg

Appended Fig.3-3-1 Vol.2

● Macro-economic consequences of EC market integration accompanied by economic policy measures (medium-term)

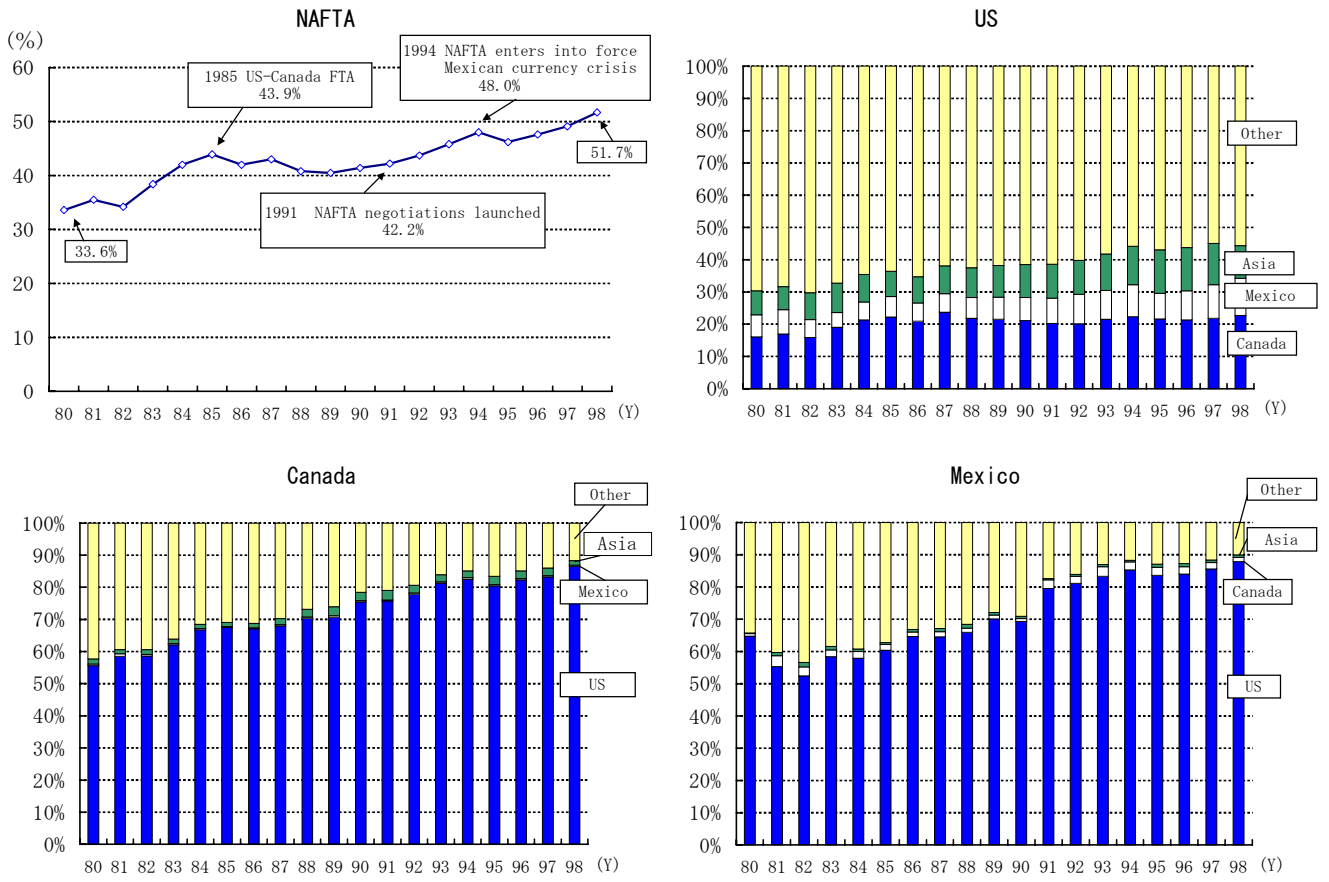
	Name of economic policy	Economic consequences				
		G D P (%)	Consumer prices (in %)	Employment (in millions)	Public budget balance (in % point GDP)	External balance (in % point GDP)
Without accompanying measures		4.5	▲ 6.1	1.8	2.2	1.0
With accompanying measures	①Public budget balance	7.5	▲ 4.3	5.7	0	▲ 0.5
	②External balance	6.5	▲ 4.9	4.4	0.7	0
	③Price reductions	7.0	▲ 4.5	5.0	0.4	▲ 0.2
Margin of accuracy		±30%				

Notes:

1. In the case of price reductions, accompanying economic policy was calibrated so as to use 25% of the deflationary reservoir created by consumer price reductions.
2. The above consequences are estimated by using HERMES (EC Commission and national teams) and INTERLINK (OECD) economic models.

Source: Cecchini (1988)

Figure 3-3-7 NAFTA's intra-regional export ratio



Note: Asia here comprises Hong Kong, ROK, Singapore and the ASEAN 4.

Source: DOT (IMF)

Figure 3-3-8 Deepening North American integration: From the US-Canada FTA to NAFTA

US-Canada FTA

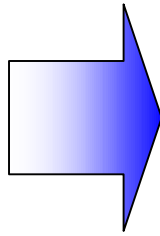
Goods	• Immediate or progressive elimination of tariffs and quantitative restrictions
Services	• Covers agriculture, forestry, mining, construction, distribution, commerce • Existing laws and regs maintained. National treatment to be offered in the future
Investment	• Basically unchanged. In future, nat. treatment to be granted where laws & regulations on start-ups, acquisitions, etc. are created or amended
Trade policy	• Bilateral safeguards (transitional measures, max. 3 year duration) • Multilateral safeguards • Application of domestic laws for anti-dumping and subsidies
Agriculture and agricultural products	• Tariffs on agricultural products to be eliminated in 10 (max. 20) years • Agreement in direction of elimination of agricultural subsidies
Dispute settlement	• Handled in bilateral consultations, a trade committee, or an expert panel

* In addition, agreements on IPR, govt. procurement, rules of origin, etc.

NAFTA

Goods	• Immediate or progressive elimination of tariffs and quantitative restrictions • Non-tariff barriers eliminated in princ.
Services	• National and MFN treatment • Liberalization of finance • Progressive lib. of land transport
Investment	• National and MFN treatment • Abolition of certain restrictions
Trade policy	• Bilateral safeguards (transitional measures, max. 3 year duration) • Multilateral safeguards • AD & countervailing measures reinvestigated by a bilateral panel
Agriculture and agricultural products	• Tariffs and tariff quotas introduced in place of ag. product non-tariff barriers • Many ag. product tariffs eliminated • Ag. subsidies adjusted so as not to impede trade
Dispute settlement	• Handled in a bilateral panel, a free trade committee, or a mediation panel
Labor	• <i>Introduction of a monitoring mechanism allowing effective implementation in all 3 countries (not creation of common standards)</i>
Environment	• <i>Regional dispute settlement procedures laid down, allowing sanctions to be taken against infringing countries</i>

* In addition, agreements on IPR, govt. procurement, rules of origin, etc.



Source: MITI research

1. Effect on NAFTA regional trade

* Compared to 1993 and 1996, intra-regional trade since NAFTA was concluded has grown 44 percent, outstripping the 33 percent rate of increase of extra-regional trade.

* Regional exports supported an estimated 2.3 million jobs in 1996. This represents an increase of 312,000 jobs since 1993, 189,000 supported by exports to Canada and 122,000 by exports to Mexico.

2. Effect on trade barriers

* Mexico's average applied tariff on US imports has dropped 7.1 percentage points from 10 percent in 1993 to 2.9 percent in 1996, heavily outweighing the 1.42 percentage point drop in US tariffs on Mexican imports.

3. Effect on the US economy

* Given that NAFTA has only been in effect for three years, as well as factors such as Mexico's peso crisis and severe recession, it is challenging to determine the exact impact of NAFTA. It would seem to have had a modest positive effect on US net exports, income, investment and jobs supported by exports.

4. Effect on Mexican economy

* After the 1982 financial crisis, it took five years for Mexican production to return to pre-crisis levels, seven before Mexico was back in international financial markets. The recovery from the December 1994 financial crisis was infinitely faster, partly because Mexico implemented a strong economic adjustment program and received bilateral and multilateral financial support, but also partly because of the economic reforms locked in by NAFTA.

5. Impact on key industrial sectors

* The US share of the Mexican import market climbed from 69.3 percent in 1993 to 75.5 percent in 1996. By sector, textile products account for 86.4 percent of the market (up 17.2 percent), transport equipment 83.1 percent (up 19.2 percent) and electronic goods and appliances 74.3 percent (up 5.7 percent).

* The Mexican share of the US market rose from 6.9 percent in 1993 to 9.3 percent in 1996. By sector, apparel improved to 9.6 percent (up 5.2 percent).

6. Labor protection

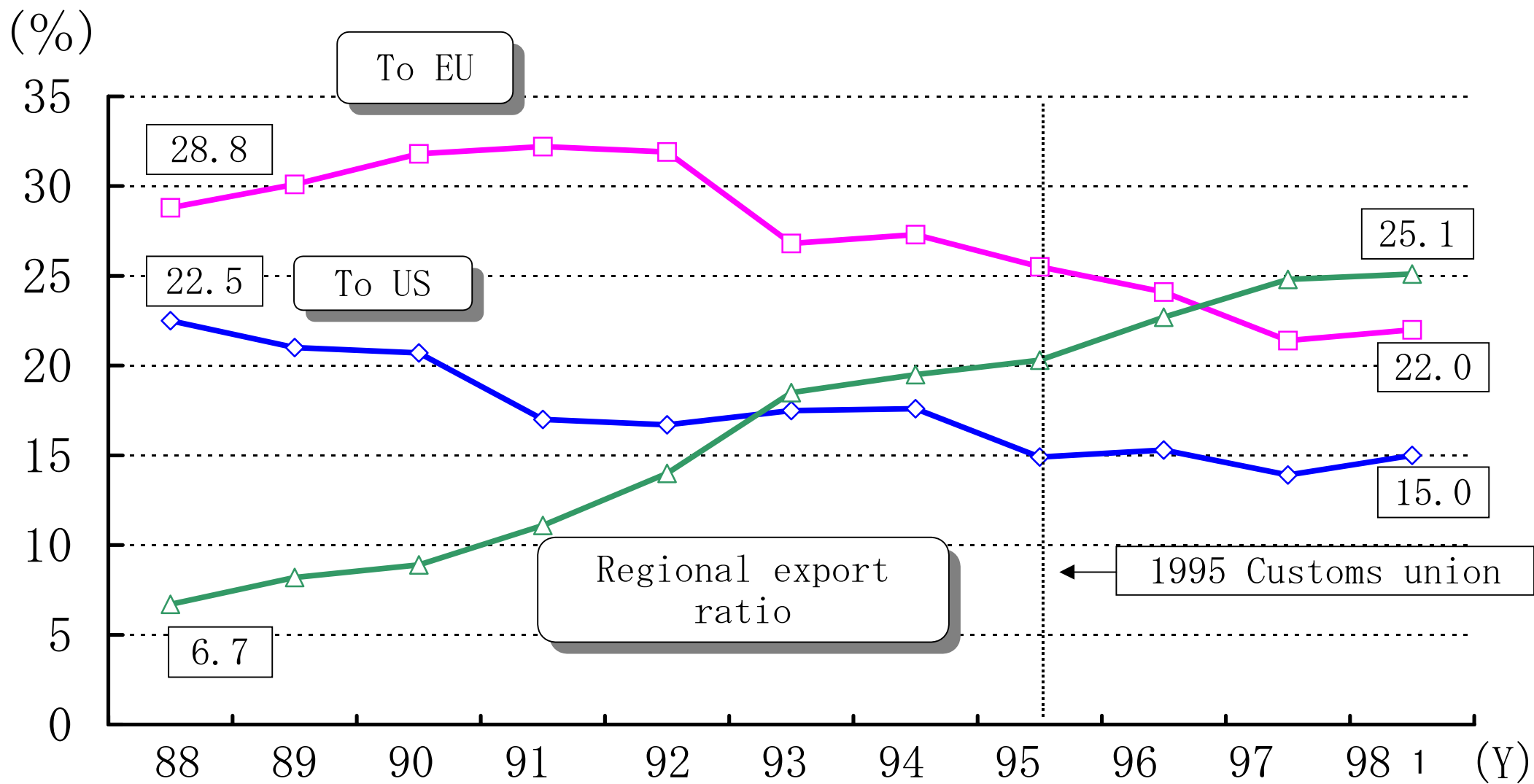
* In terms of labor issues, the North American Agreement on Labor Cooperation (NAALC) has spurred an improvement in labor conditions. Since NAFTA came into force, the Mexican government's funding for labor laws has grown 250 percent, while illnesses and injuries in Mexican workplaces have declined 30 percent.

7. Environmental protection

* The environmental agencies established under NAFTA's environmental agreements are providing financing for environmental improvement in border areas. Since NAFTA was implemented, infringements of environmental standards in the maquiladora zone have decreased by 72 percent, while plants in complete compliance have increased 43 percent.

Source: *Study on the Operation and Effect of the NAFTA* (1997; President of the United States)

Figure 3-3-9 MERCOSUR regional export ratio



Source: DOT (IMF)

Figure 3-3-10 Trade and investment within MERCOSUR

Intra- and extra-MERCOSUR trade (1991-98)

Category	1991	1993	1995	1997	1998	Growth (annual %)	
						91-97	97-98
Exports (US\$ millions)	45,911	54,162	70,401	83,210	81,208	10.4	▲2.4
Internal (%)	11.1	18.5	20.4	24.8	25.0	26.2	▲1.8
External (%)	88.9	81.5	79.6	75.2	75.0	7.4	▲2.6
Imports (US\$ millions)	32,140	47,823	75,311	96,740	93,204	20.2	▲3.7
Internal (%)	15.9	19.6	18.7	20.7	20.7	26.2	▲1.8
External (%)	84.1	80.4	81.3	79.3	79.3	18.8	▲4.2
Trade volume (US\$ Millions)	78,051	101,985	145,712	179,950	174,412	14.9	▲3.1
Internal (%)	13.1	19.1	19.5	23.0	23.3	26.1	▲1.8
External (%)	86.9	80.9	80.5	77.0	76.7	12.6	▲3.5

Notes:

1. Figures for 1997 are provisional values, 1998 expected values.
 2. As data is drawn from different sources, it does not tally with *DOT* (IMF) figures.
- Source: *MERCOSUR Report No. 5*, Table II.1 (IDB-INTAL)

(%) Figure 3-3-11 Contribution by area to changes in the East Asia 9's exports to the world

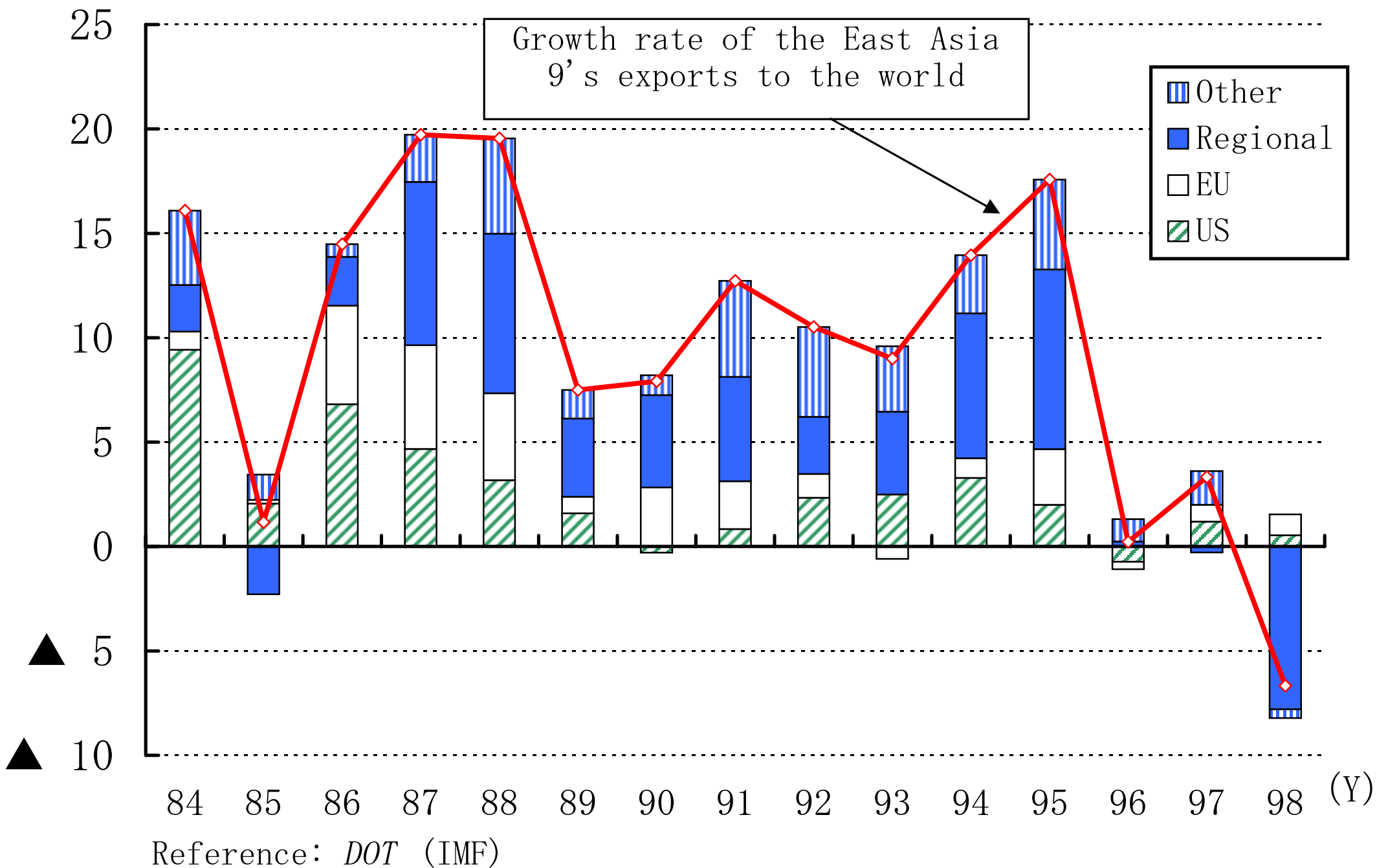
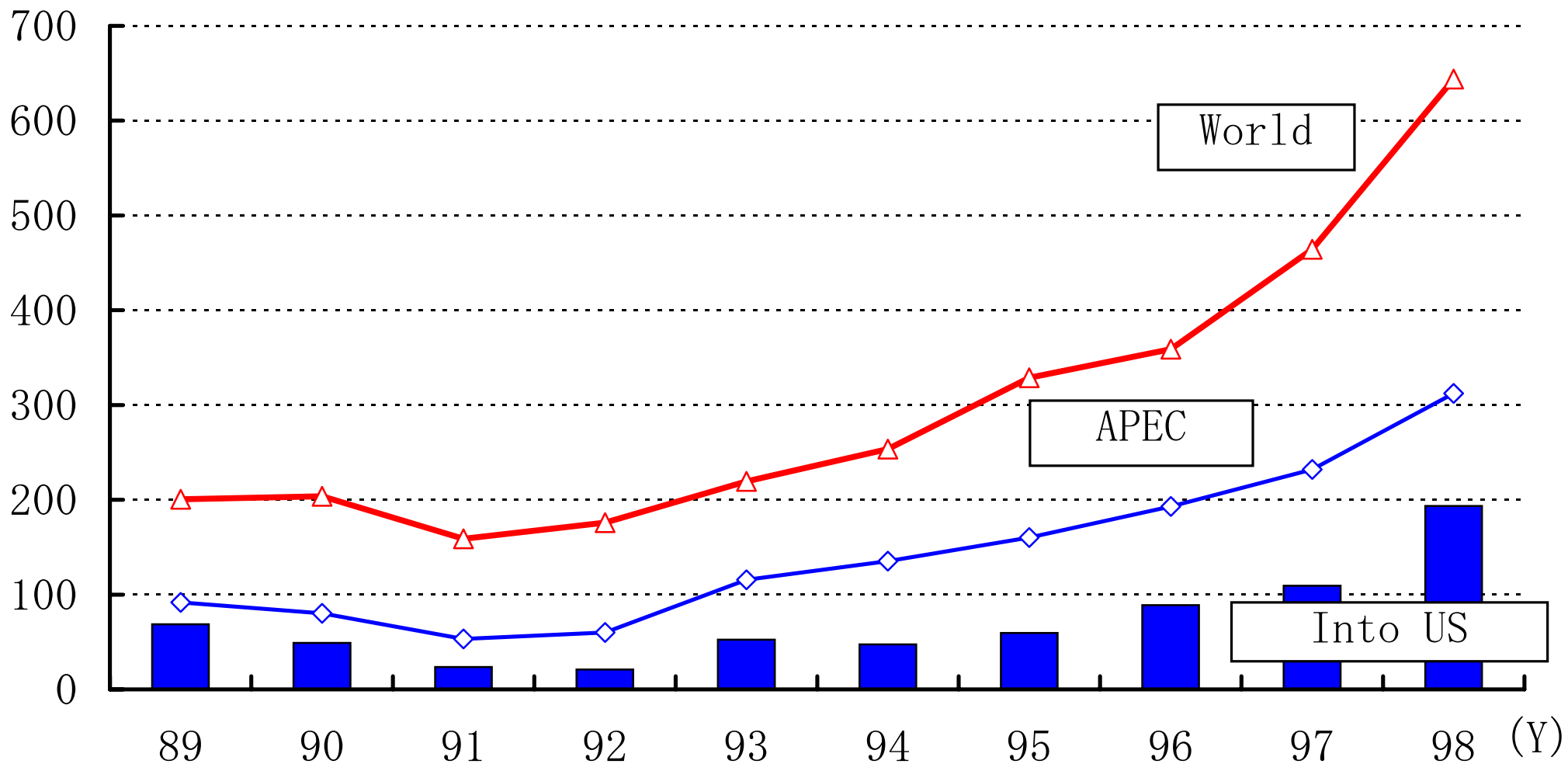


Figure 3-3-12 Direct investment inflow into APEC region
(1989-98)

(\$ billion)



12 economies	15	17	18	21
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Sources: *IFS* (IMF), *World Investment Report* (UN)

Figure 3-3-13 History of APEC and main results

Year	Leaders' and Ministerial Meetings	Main results
89	1st Ministerial (Canberra, Australia)	<ul style="list-style-type: none"> • Forum centered around economic cooperation • Principles affirmed, inc. ① respect for diversity ② equal partnership & reciprocal cooperation, ③ strengthening of open multilateral trading system • Min. centered on trade, investment and tech. transfer
90	2nd Ministerial (Singapore)	<ul style="list-style-type: none"> • Ministerials regularized • Establishment of seven Working Groups (trade promotion, HRD, energy, etc.)
91	3rd Ministerial (Seoul, Korea)	<ul style="list-style-type: none"> • Basic nature (open regional cooperation), goals (Asia-Pacific growth, etc.) • China, Taiwan and Hong Kong join
92	4th Ministerial (Bangkok, Thailand)	<ul style="list-style-type: none"> • Formal structure established (Secretariat, APEC Central Fund)
93	5th Ministerial (Seattle, US) 1st Informal Economic Leaders' Meeting (same)	<ul style="list-style-type: none"> • Committee on Trade & Investment, Declaration on an APEC Trade and Investment Framework adopted, Mexico & PNG join
94	6th Ministerial (Jakarta, Indonesia) 2nd Leaders' Meeting (Bogor, Indonesia)	<ul style="list-style-type: none"> • Adoption of Bogor Declaration • Trade & investment liberalization sought by 2010 for developed economies, 2020 for developing economies • Chile joins
95	7th Ministerial (Osaka, Japan) 3rd Leaders' Meeting (same)	<ul style="list-style-type: none"> • APEC moves from vision to action: Osaka Action Agenda created (① trade & investment lib. & facilitation, ② economic & technical cooperation (13 areas))
96	8th Ministerial (Manila, Philippines) 4th Leaders' Meeting (Subic, Philippines)	<ul style="list-style-type: none"> • Manila Action Plan (MAPA) • Individual Actions Plans & Collective Action Plan submitted
97	9th Ministerial (Vancouver, Canada) 5th Leaders' Meeting (same)	<ul style="list-style-type: none"> • 15 areas chosen for early voluntary sectoral liberalization (EVSL)
98	10th Ministerial (Kuala Lumpur, Malaysia) 6th Leaders' Meeting (same)	<ul style="list-style-type: none"> • Further economic cooperation to handle Asian crisis • Russia, Vietnam and Peru join
99	11th Ministerial (Auckland, NZ) 7th Leaders' Meeting (same)	<ul style="list-style-type: none"> • Coordination toward new WTO round • Strengthening market functions through competition promotion and regulatory reform

Source: MITI research

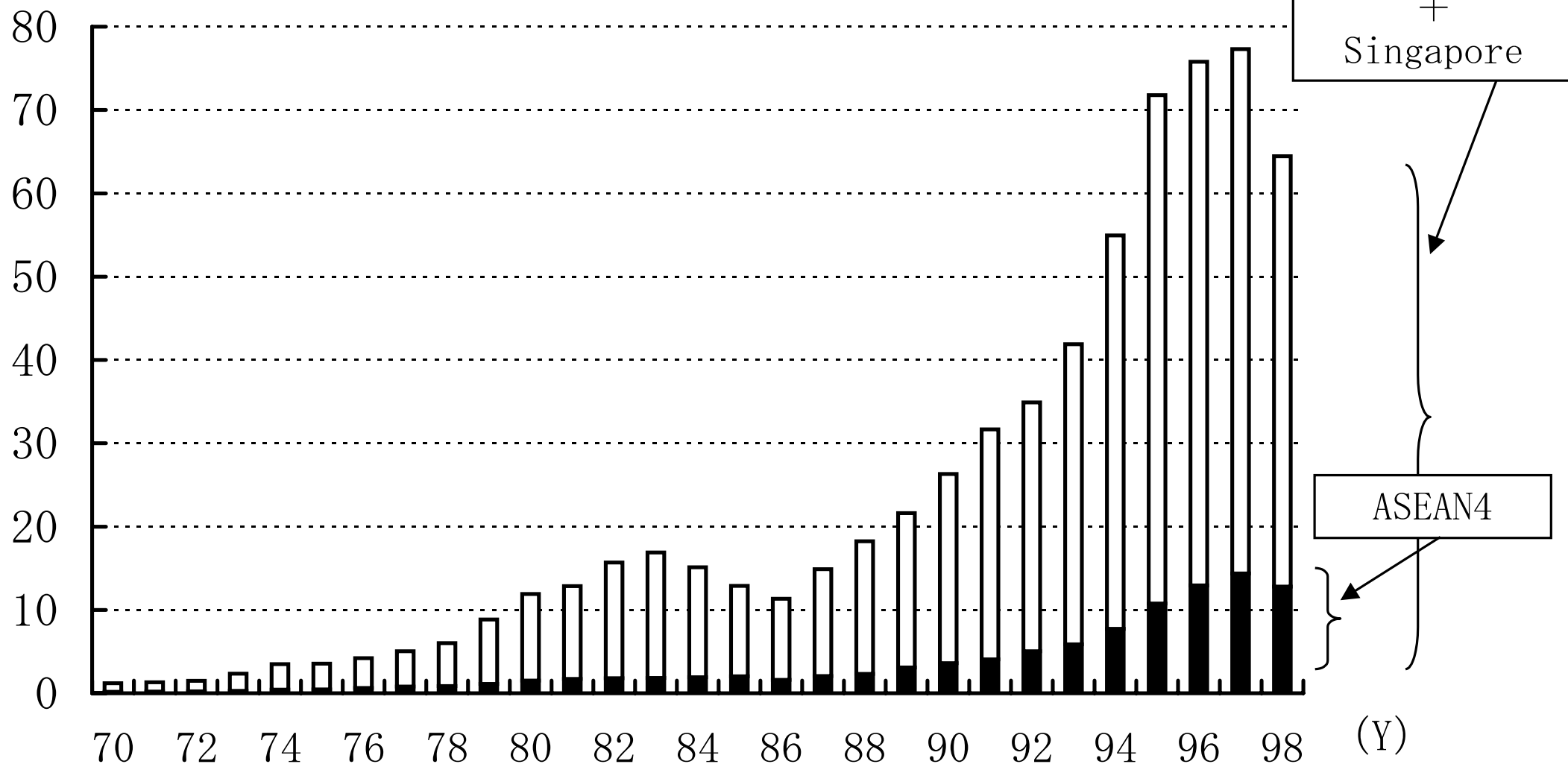
Appended Fig. 3-3-3 ASEAN expansion and deepening regional economic cooperation

Year		Members
1967	Association of Southeast Asian Nations (ASEAN) formed	1967: Indonesia, Malaysia Philippines, Thailand Singapore
76	Bali Summit Adoption of Declaration of ASEAN Concord	
	<div style="text-align: center;"> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin: 0 auto;">Full-scale regional economic cooperation</div> <div style="display: flex; justify-content: center; gap: 100px; margin-top: 10px;"> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 2px; width: 100px; margin: 0 auto;"><i>Trade liberalization</i></div> </div> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 2px; width: 100px; margin: 0 auto;"><i>Industrial cooperation</i></div> </div> </div> </div>	
77	Adoption of Agreement on ASEAN Preferential Trading Arrangements	ASEAN Industrial Projects (AIP)
81		ASEAN Industrial Complementation Projects
83		ASEAN Industrial Joint Venture (AIJV)
88		ASEAN Brand to Brand Complement (BBC)
93	Agreement on Establishment of ASEAN Free Trade Area	1984 Brunei joins
96		1995 Vietnam joins
	ASEAN Industrial Cooperation Scheme (AICO)	1997 Laos and Myanmar join
2002	AFTA tariff reductions completed	1999 Cambodia joins

Source: MITI research

Figure 3-3-14 Intra-regional export value

(\$ billion)



Notes

1. ASEAN4 = Indonesia, Malaysia, Philippines, Thailand
2. The value of Singapore's exports to Indonesia was calculated by dividing Indonesian data by 1.2.

Source: *DOT* (IMF)

Figure 3-3-15 Five priority areas in the Japan-ROK Agenda 21 and progress in these

Five priority areas	Progress
<p><u>1. Investment promotion</u></p> <p>① Launch negotiations and reach early agreement on a Japan-ROK investment agreement</p> <p>② Strengthen inv. promotion framework through ??Japan-ROK Joint Government-Private Sector Investment Promotion Council</p>	<p>• Japan-ROK investment agreement negotiations launched 30 Sept. 1999 toward early conclusion</p> <p>• 2nd meeting held December 1999 (hosted by MITI Minister & ROK Minister for Industry & Resources)</p>
<p><u>2. Tax convention</u></p> <p>Early entry into force of the Japan-ROK Tax Convention (signed October 1998)</p>	<p>• Approved by Japan 9 June 1999, by ROK 12 Aug., official docs. exchanged 23 Oct., effective 30th.</p>
<p><u>3. Standards and conformance cooperation</u></p> <p>① Launch mutual recognition investigations</p> <p>② Implement standardization cooperation, such as harmonization with int. standards and int. rule development</p>	<p>• Briefing on ROK stds & conformance held July 1999 in Tokyo, on Japanese stds & conformance in Seoul in November.</p>
<p><u>4. IPR cooperation</u></p> <p>Create a joint platform for IPR systems and operation</p>	<p>• ROK inspectors sent to Japan June 1999. Further exchanges of inspectors scheduled this year.</p> <p>• Patent officer appointed to JETRO Seoul office as of July 1999.</p> <p>• Meetings of Japan-ROK patent agency directors</p>
<p><u>5. Cooperation toward next WTO round</u></p> <p>Advance concrete coordination toward success of next round</p>	

Source: MITI research

Appended Fig. 3-3-4 Recent developments in Japan-Korea cooperative ties

Year	Month	Govt. level	Mth	Other
1998	Oct.	Japan-ROK Summit (Tokyo, Kim Dae Jung visit) ☆ A New Japan-ROK Partnership Towards the 21st Century		
	Nov.	1st Japan-ROK Ministerial (Kagoshima) • Investment agreement preparatory consultations launched	Dec.	1st Japan-ROK Joint Government-Private Sector Investment Promotion Meeting
1999	March	Japan-ROK Summit (Seoul, Obuchi visit) ☆ Release of Japan-ROK Economic Agenda 21		
	Sept.	Japan-ROK Summit (Tokyo, Kim Dae Jung visit) • Japan-ROK investment agreement negotiations launched		
	Oct.	2nd Japan-ROK Ministerial (Cheju)	Dec.	2nd Japan-ROK Joint Government-Private Sector Investment Promotion Meeting
2000				<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <i>Compiles interim report on a Japan-ROK FTA</i> </div>
			May	Joint Symposium on a Japan-ROK Free Trade Agreement

Source: MITI research

Figure 3-3-16 Asian share of trade, investment and personnel exchange

(1998 : %)

	Trade			FDI	Personnel exchange			Infra-structure	Cultural exchange
	Exports	IC exports	Imports		Out	In	Resident	Air routes	Sister cities
Kyushu	43.2	74.4	43.8	79.3	55.5	85.1	88.1	84.0	41.5
Japan	34.7	62.9	37.1	61.0	43	61.6	73.3	43.6	28.3

Note: Sister cities refers to share of cities, towns, villages with sister city ties.

Sources: *Trade Statistics* (Ministry of Finance), *Immigration Control Statistics* (Ministry of Justice),
 ??Kyushu Economic Survey Association research, ??Association for the Internationalization of Local Bodies
 research

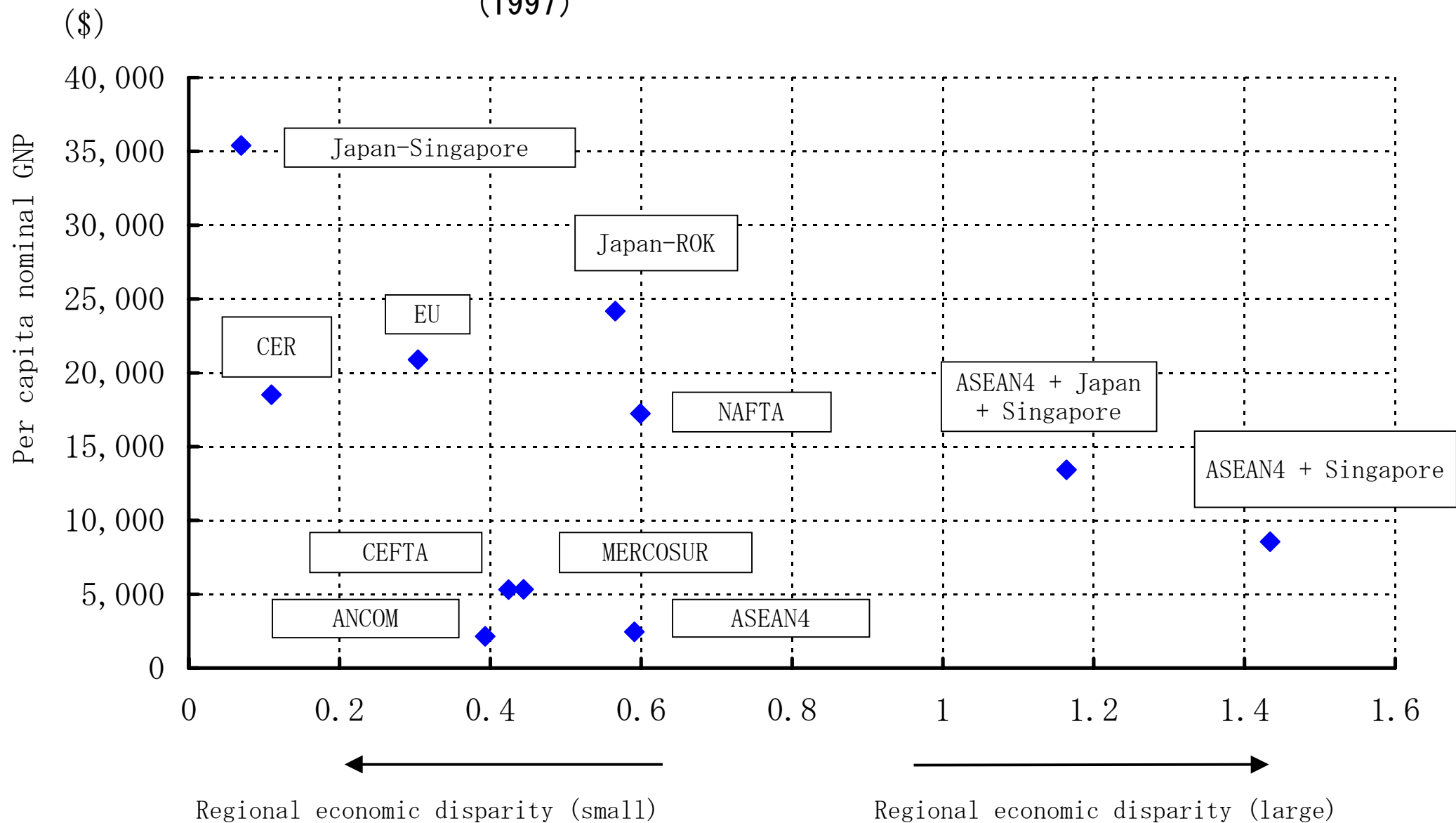
Figure 3-3-17 Examples of regular meetings between Kyushu and Korea

● Kyushu Economic Exchange Committee (Korean Ministry of Industry & Resources, Steering Committee for the Kyushu-ROK Economic Exchange Committee)

Year	No.	Location	Main results
93	1st	Kita-Kyushu	Acceptance of ROK technical trainees
95	2nd	Seoul	Retired engineers dispatched to ROK
96	3rd	Nagasaki	Industry-specific missions sent/business talks held (becomes an annual event)
97	4th	Chonju	Agreement to hold sister-city exchange meetings
98	5th	Beppu	Kyushu, ROK & China participate in a joint fair Decision made to hold a Korean goods fair in 1999
99	6th	Kwangju	Kyushu-ROK private sector exchange (private-sector round established)

Source: Kyushu MITI research

Figure 3-3-18 Per capita nominal GNP levels and regional economic disparities in main regional integrations/groupings (1997)



Source: *World Development Report 1998/99* (World Bank)