Sep 30, 2001
No.1, 2001

IIMA

Institute for International Monetary Affairs

Research Report

（財）国際通貨研究所

JAPAN AND ASIAN REGIONAL ECONOMIC INTEGRATION

Cornelis Keijzer[1]

I INTRODUCTION

After World War II and especially in the wake of the formation of the European Community in 1958, the world saw a surge of free trade agreements and customs unions. Most of these economic integration arrangements were between developing countries and few of them survived. However, again inspired by the success of the Community and its internal market program, the 1980s and 1990s saw a revival of regionalism, which resulted in a number of new and more successful regional trading arrangements, including the US-Canada Free Trade Agreement (FTA) of 1988, which was formally

---

[1] Cornelis KEIJZER works at the Delegation of the European Commission in Tokyo. This paper was written during his stay as a visiting research fellow at the IIMA. The article is written on a personal basis and does not necessarily reflect the view of the European Commission or the IIMA.

The author would like to thank his colleagues at the IIMA and in particular Junichi MORI and Kazuko TANAKA for their help in writing this article. A stay as a visiting research fellow in the Economic and Social Research Institute of the Cabinet Office was also instrumental in acquiring some of the insights that led to the writing of this article. The author would like to thank in particular Nobuo KAGOMIYA and Yoshiro SHIBAMOTO for their help on this subject.

extended in the North American Free Trade Agreement (NAFTA) in 1994 to include Mexico. In 1983 Australia and New Zealand formed the Closer Economic Relation (CER), which includes tariff free trade in goods as well as national treatment in most services. Argentina, Brazil, Uruguay and Paraguay's customs union MERCOSUR was created in 1991, its common external tariff was introduced in 1995. At a 34-nation summit of American leaders in Quebec on 22 April 2001 the leaders of all American countries (except Cuba) agreed to create a Free Trade Area of the Americas (FTAA) by 2005. The Governments involved plan to start talks on removing regional trade barriers in May next year and to conclude an agreement by January 2005.

Some of the older arrangements, like the Andean Community of Bolivia, Columbia, Ecuador, Peru and Venezuela (formerly known as the Andean Pact) were revitalized. The Association of South East Asian Nations (ASEAN), which made an unsuccessful attempt at trade integration in the 1980s, created the ASEAN Free Trade Area (AFTA) in 1995. AFTA includes a timetable for the elimination of tariffs between members. Phase-in periods for some sensitive sectors extend up to 2010 and some sectors are still excluded. The timetable for completion of the free trade area between the five original members (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and Brunei has been accelerated to 2002. The new members Vietnam (entered 1995), Laos, Cambodia and Myanmar (entered 1999) will phase-in their obligations at a slower pace (APEC-Secretariat 2000).

The European Union is negotiating its enlargement to the east and in the process of concluding Euro-Mediterranean Association Agreements with the countries around the Mediterranean Sea and FTA's with Mexico and MERCOSUR. North East Asia (Japan, China and Korea) is therefore left as the only major economic region in the world where currently no regional trading arrangement is in place.

In the monetary field, 11 European Union countries introduced the Euro in 1999 and a twelfth country, Greece, joined this year. From 2002 on the Euro will be sole legal tender in the Euro-zone. A number of countries in- and out- side the European Union have pegged their currency to the euro, effectively establishing a Euro-bloc.

In Latin America, dollarisation is gaining popularity, with El Salvador and Ecuador joining Panama in unilaterally adopting the dollar as a sole legal tender for all transactions. Argentina fixed its peso to the US dollar with a Hong Kong-style currency board. A number of other Latin American countries have become de facto dollarised and/or have pegged their exchange rate in some way to the dollar.

These developments have led a number of authors, including Asians, to believe that two giant trading and monetary blocs have emerged. One would be the European bloc, encompassing the whole of Europe, and the other, the Western Hemisphere bloc encompassing the two American continents.

Ever since its entry in GATT, Japan has been a staunch defender of multilateral liberalization of trade based on the Most Favoured Nation (MFN) principle, at times criticizing the Community and others that took the road of regional economic integration. It can be reasonably suspected that Japan was against regional economic integration not only because of its natural commitment to free trade as an important trading nation, but also because of the perceived impossibility of engaging in regional economic integration itself. Japan was for a long time the only truly industrialized nation in the region. GDP levels of Japan and the other East Asian countries varied widely, leaving Japan as a developed island in an underdeveloped continent. Japan's trading partners were primarily the United States and the European countries, rather than its Asian neighbours.

Other, non-economic reasons are sometimes mentioned as reasons why Japan and the other East Asian countries have not engaged in economic integration. The great diversity in ethnicity, religion, political systems, history and economic mechanisms of Asian countries is sometimes mentioned as a reason. Contrary to the America's or Europe with predominantly Christian population, Asia has a diversity of religion's with Christianity strong in the Philippines and Korea, Islam dominant in Indonesia and Malaysia, Confucianism in the different countries of Chinese population (China, Taiwan, Singapore and Hong Kong), Buddhism in Korea, China and Japan and Shintoism in Japan only (Goto and Hamada 1994). However, it is difficult to see why this would pose an important obstacle for economic integration since most countries have a mix of religions in the first place. Looking at the recent experience of Malaysia, Indonesia and the Philippines, religion (and ethnicity) is an obstacle to *national* integration, but could be an argument in favour of regional integration.

The question is whether Japan is still so culturally, economically and politically different from its neighbours that it will continue to be a relatively isolated, wealthy

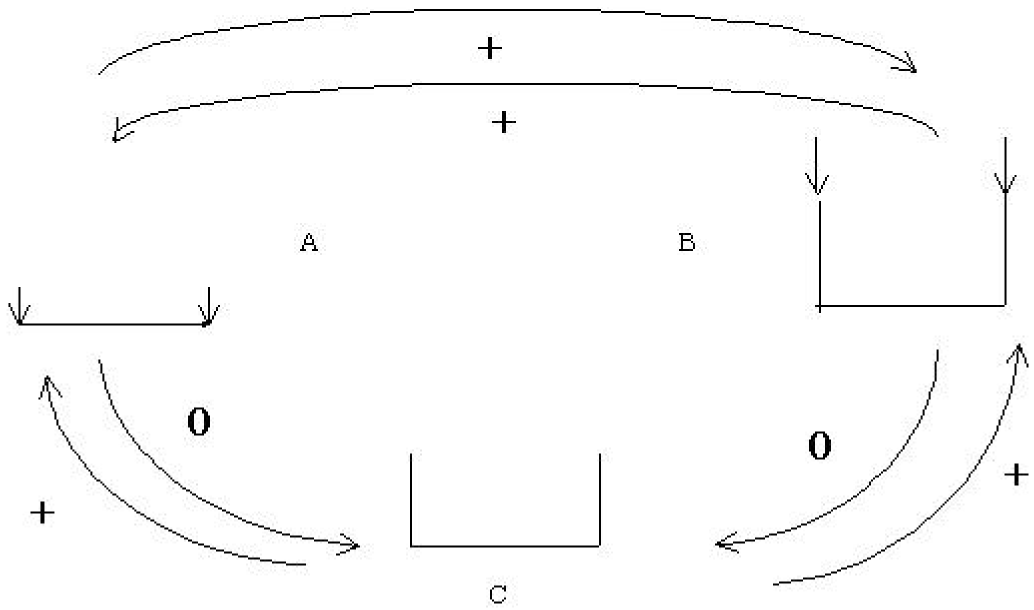
"Switzerland of Asia"? Or have conditions fundamentally changed and will Japan now be able to successfully promote regional economic integration in Asia?

II ECONOMIC THEORY AND REGIONAL TRADING ARRANGEMENTS

What does economic theory have to say about regional trading arrangements and its assessment? The most influential contribution to work on this issue to date was made by Viner in 1950. His work is generally considered to be the starting point of the analytical assessment of the trade and welfare effects of regional trading arrangements. In economic theory, the general assumption is made that trade leads to increased economic welfare through the provision of a better and cheaper choice of products for consumers. From the perspective of economic theory imports as well as exports are beneficial. Increased trade leads to increased efficiency and welfare worldwide. Therefore, a regional trading arrangement is considered to be beneficial by Viner if trade creation occurs. However, if the countries in the regional trading arrangement shift imports from low cost producers in countries outside the regional trading arrangement to high cost producers within the regional trading arrangement zone, then trade diversion occurs. If the trade diversion outweighs the trade creation effect then the worldwide economic welfare declines.

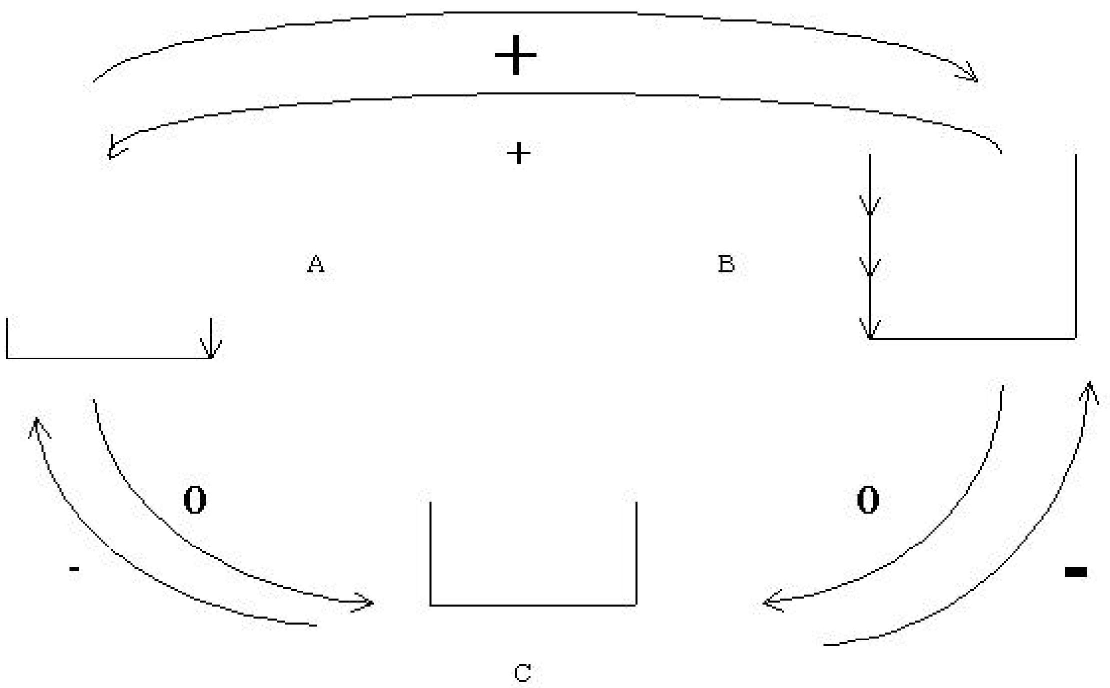
A simple diagram can demonstrate this reasoning and at the same time help assessing regional trading arrangements.

Diagram 1) Multilateral Liberalization



In diagram 1) the "regional" trading arrangement comprises the whole world. Country A has low tariffs, country B has high tariffs, country C's tariffs are somewhere in between (but the size of its tariffs are irrelevant because they are assumed not to change in this exercise). In diagram one country A and country B reduce their tariffs according to a formula, very much like in the tariff cutting Rounds that have occurred in GATT/WTO since 1947. Country C is a free rider and does not reduce its tariffs in this exercise. According to the Most Favoured Nation principle country C also benefits from the tariff reductions in countries A and B. It can easily be seen that in this case, which is the case of multilateral liberalization, trade between A and B will increase. C's exports to A and B will also increase. A and Bs exports to C are unaffected, since Cs tariffs are unchanged. This type of liberalization has optimal economic effects, since only trade creation and no trade diversion occurs.

Diagram 2) FTA between Country A and Country B



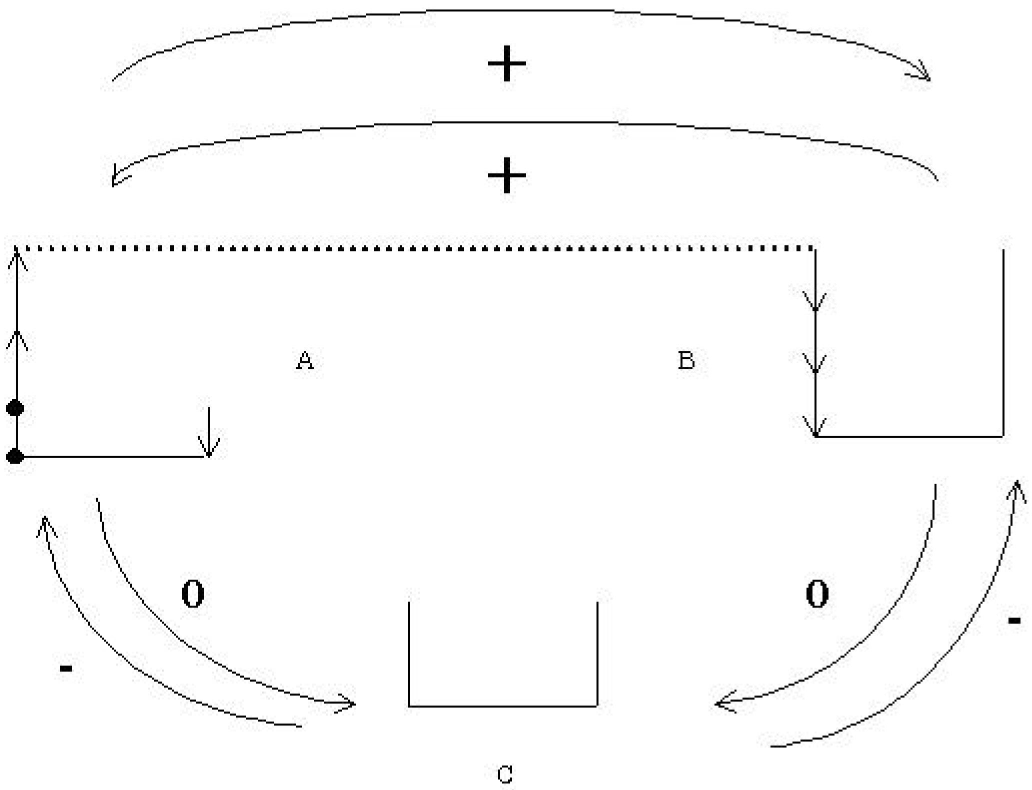
In diagram 2 the same countries A and B conclude a Free Trade Agreement. The tariffs between A and B will therefore disappear, but the low tariffs of country A and the high tariffs of country B will continue to apply to country C's exports. In the diagram, it can be seen that country A will increase its exports to country B considerably, since country B's high tariffs do no longer apply to its exports. Its imports from country B will increase, but only modestly, because its tariffs were already low. For country B, the contrary applies: its imports from A will increase more than its exports to A. Country C's exports to country B will diminish substantially, since its products will become less competitive compared to A's products, which enter country B free of tariffs. This is where most of the trade diversion occurs. Country C's exports to A will also decrease, but to a lesser extent, because A's tariffs were lower in the first place. Exports to country C are unaffected, because its tariffs do not change. There are therefore gains in trade for country A, but the trade diversion makes the exercise disadvantageous for country C. B's gains in trade (mostly through increased imports from A) will be largely undone through trade diversion. The higher country B's tariff towards 3rd countries is, the greater the trade diversion will be.

Looking at this diagram, it can easily be understood why countries like India warned about trade diversion to Mexico at the time of the formation of NAFTA. In the diagram, country A (low tariff protection) would be the United States and country B (higher tariff protection) Mexico. The rest of the world is country C. Economic theory would suggest that Mexico has lost out, while the United States has benefited at the expense of the rest of the world. In the FTAA, something similar can be expected to happen. The hesitations of Brazil on the issue of FTAA can be understood in this context.

Applying this reasoning to the ASEAN Free Trade Agreement (AFTA), it would appear that Singapore benefits from the lowering of tariffs in the other countries, while trade diversion appears in countries like Thailand, Malaysia, Indonesia and the Philippines.

In the diagram, the main reason for the trade diversion to occur is the fact that country B maintains its high tariffs vis-à-vis country C. This explains why Mexico has negotiated away its higher external tariff in the FTA negotiations with the Community and why it has offered to do the same for Japan and other countries. The Philippines decision to unilaterally decrease its third country tariffs to 5% in time is another way of attempting to undo the negative effects of trade diversion. The US business community has requested liberalization in the FTAA to occur on an erga omnes basis, since US multinational companies are based throughout the world. If this request would be accepted, trade diversion would disappear, since the outside tariff (towards country C) of country A and country B would become 0. However, the chances of this proposal to be accepted are small, since it would leave the countries included in the FTAA without negotiating leverage in WTO.

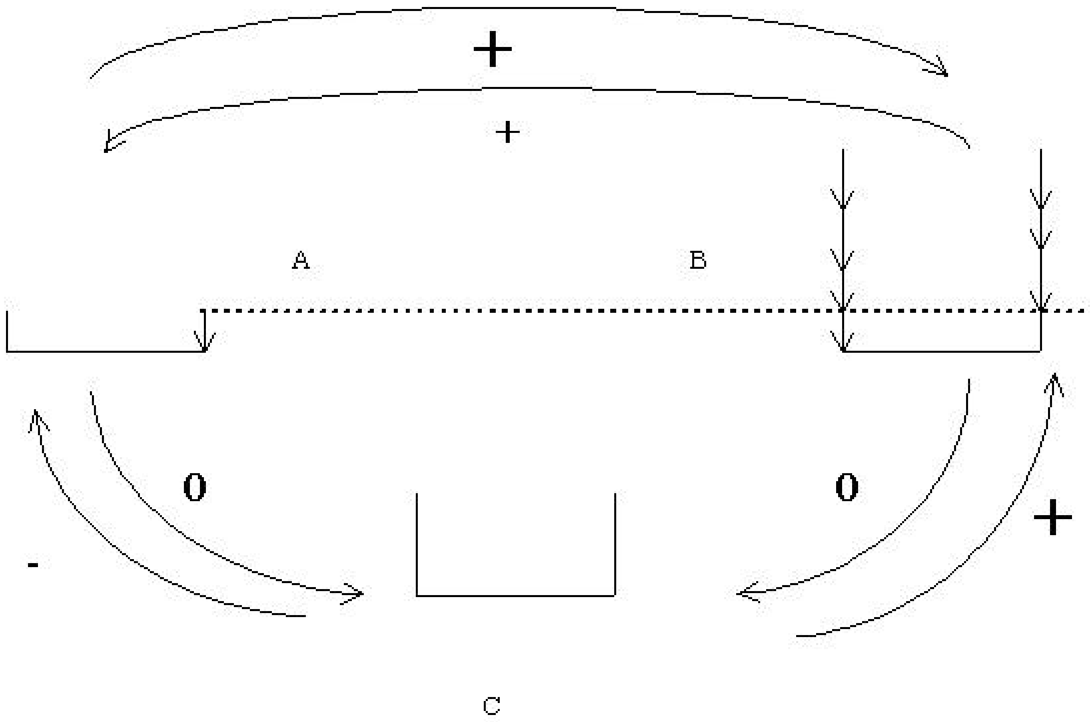
Diagram 3) Customs Union between Country A and Country B (adopting Country B's higher tariff)



In diagram 3, the case of a customs union between A and B is represented. In this case, as for the FTA, the tariffs between A and B disappear, however now A and B introduce a common external tariff. The question is now what the size of this common external tariff will be. In diagram 3 it is assumed the countries will adopt the higher tariff applied in country B. The result is that, as in diagram 2, A's exports to B will greatly increase, but now exports from B to A will increase as much, because of A's tariff increase towards C. This time, the consequences for country C are even worse. Not only will its exports to B decrease as before, but its exports to A will also decrease substantially because of the tariff increase in A. Trade diversion will outweigh the trade increase between A and B and world economic welfare will decrease.

Some research would suggest that in the case of MERCOSUR diagram 3 applies (Yeates, 1998). Certainly, the recent decision of Argentina to increase tariffs of consumer goods up to the WTO bound rates will cause trade diversion by inciting Argentinean importers to switch to higher cost but tariff free Brazilian products. Chile decided in 2001 to shelve its application for membership of MERCOSUR exactly for this reason. Chile would have had to substantially increase its tariffs in order to comply with MERCOSUR's common external tariff, causing important trade diversion.

Diagram 4) Customs Union between Country A and Country B (adopting Country A's lower tariff)



In diagram 4, A and B also form a customs union, but they agree to adopt country A's lower tariff as the common external tariff. Again, the trade between A and B will increase. The trade diversion now largely depends on the size of country A's tariff. The lower its tariffs, the less trade diversion will appear. Country C will increase its exports to B, whereas the loss of exports to A is per definition smaller. The welfare for the world as a whole will therefore increase. The lower A's tariff is and the higher B's initial tariff was, the higher the trade creation will be. Diagram 4 is what happened in the Community. The Customs Union completed in 1968 adopted the lowest tariffs as its new common external tariff.

The diagrams based on the theory of economic integration show that multilateral liberalisation, as practiced in WTO/GATT since 1947, is beneficial and increases world welfare. The economic effects of an FTA are negative if tariffs applying to third countries remain sizeable, which in practice is often the case. The increased trade effects of the European Community style Customs Union of diagram 4 make it a superior trade arrangement to the FTA. The Customs Union of diagram 3 is the worst possible alternative. In principle, this form of integration is not allowed under WTO rules, since Art. XXIV of GATT specifies that a Customs Union or FTA must not increase protection against the rest of the world. However, where countries have bound their tariffs in their WTO tariff schedules at a higher level than the actual applied level, an escape clause would appear to exist.

Apart from the static effects as described above, the Community also enjoyed the benefits of dynamic effects, such as advantages of scale and increased competition. However, although internal tariffs had been abolished by 1968, non-tariff barriers to trade remained in the Community. The full benefits of integration came only with the introduction of the Single Market Program from 1987-1993. The Cecchini Report (1988) at the time estimated the costs of maintaining physical, technical and fiscal barriers to trade and therefore the benefits of the full scale harmonization and mutual recognition in the Single Market Program at around 3-6% of GDP annually. The Economic and Monetary Union established in 1999 and the introduction of Euro notes and coins in 2002 will complete the process of economic integration.

III. JAPAN'S CHANGING ROLE IN ASIA

In order to see to what extent Japan's relation with Asia has changed, it is useful to look at some economic data. The first table shows the development of per capita GDP in dollars in the region from 1960-1998. It is clear that, in spite of a certain catching up of the other Asian countries, Japan's population still has the highest per capita income in the region. Only Singapore and Hong Kong have comparable GDP per capita income levels. Korea and Taiwan have not yet reached half Japan's level. The figures would change, certainly for China, if they were adapted for purchasing power parities, but this is unlikely to affect the main observation, which is that most Asian countries still have a long way to go before they approach Japanese levels of per capita GDP, in spite of a decade of higher average GDP growth in other Asian countries compared to Japan.

Table 1): GDP per capita incomes in Asia ($, 1960-1998)

	Korea	Taiwan	Hong Kong	Singapore	Indonesia
1960	155	na	na	433	na
1970	272	386	959	916	77
1980	1643	2325	5624	4862	491
1990	5893	7870	13111	13819	590
1996	11422	12683	24424	30089	1155
1998	6908	11958	24892	26710	436

	Thailand	Malaysia	Philippines	China	Japan
1960	97	275	253	89	477
1970	195	382	195	112	1967
1980	693	1787	675	307	9146
1990	1528	2409	714	342	24273
1996	3024	4685	1152	671	36555
1998	1895	3199	na	770	30120

Source: Economic Planning Agency "Asia keizai 1999"

However, it is interesting to note in this context that no criteria concerning level of development or income have ever been used for entry into the European union. In fact, the GDP per head in purchasing power standards as a percentage of existing EU levels of the European Union candidate countries varies from 79% in Cyprus and 68% in Slovenia to 23% in Bulgaria and 27% in Latvia. The European Union applies two economic criteria. First of all, the existence of a market economy and second, the capacity to cope with competitive pressure and market forces after entry into the Union. [2]

[2] The next main event in the process of economic integration in Europe will be the enlargement of the European Union with Central and Eastern European countries. Negotiations with six of the applicant countries (Poland, Hungary, the Czech Republic, Slovenia, Estonia and Cyprus) opened in March 1998. Formal negotiations were launched in mid-February 2000 with another six candidate countries (Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia). Turkey's status as a candidate country has been recognized in 1999.

The criteria for Membership were laid down at the Copenhagen summit in June 1993. Candidate countries should first of all have the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union and should have stable institutions

If these criteria would be applied to the Asian countries, what would the result be? As far as the existence of a market economy is concerned, Burma (Myanmar), Vietnam, Cambodia and Laos are countries in transition and they will therefore be left out of this analysis. China will soon enter the WTO as a full member, which for the purpose of this analysis will be considered sufficient proof for its market economy status.

The criteria of competitiveness should be given a closer look. Recent figures on the world production of electronics, for example, show that in Asia, Japan remains only dominant as a producer of DVD's. According to the figures China is now the leading producer of TV's, VTR's and car stereo's, Taiwan is the largest producer of PC's and desktops and HDD's are primarily made in Singapore. Malaysia is an important producer of TV's, VTR's, car stereo's, DVD's and HDD's. Indonesia is strong in VTR's and the Philippines produces HDD's.

Table 2) World production of electronics (number of units (1000) and percentage)

	TV	VTR	car stereo	DVD	mobile ph.	PC	desktop	HDD
World	128210	59140	82830	14780	400320	23100	107000	180000
Japan	3.6	7.6	13.5	45.7	12.5	25.3	3.7	9.3
Korea	7.8	7.7	7.4	1.8	15.9	2.6	5.3	6.4
Taiwan	0.6	0.4	2	1.2	2	51.6	19.6	0
Singapore	0.9	0	1.1	2.7	2.1	1.8	3.1	33.4
Thailand	5.9	6.1	5.6	0	0	0	0	14.7
Malaysia	8.8	18.6	11.4	22.3	1	0.4	1.6	13.7
Indonesia	2.8	13.9	4.6	0	0	0	0	0
Philippine	1.1	0.5	2.8	0	0.1	1.8	0	12.1
China	24	21.2	20.2	19.2	8.7	1.4	9.6	7.5
Total Asia	51.9	68.4	55.2	47.2	29.2	59.6	39.3	87.8

Source: Machinery Exporters Association of Japan

Table 3 compares Japan's external trade with the combined trade of the other Asian countries. This table shows that Japan's trade was slightly smaller than Asia's trade in

guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Apart from these political and legal criteria, two economic criteria exist:

-The existence of a market economy

-The capacity to cope with competitive pressure and market forces within the Union (European Commission, 2001)

1960, but surpassed it in 1970. By 1980, however, the rest of Asia had caught up again and by 1990 Asia's trade was about two times as large as Japan's.

Table 3): Japan and Asia's Trade Compared ($ million)

	Exports		Imports	
	Japan	Asia	Japan	Asia
1960	8296	8406	8798	9966
1970	56844	49120	54597	51830
1980	189181	218749	148231	215862
1990	373299	718429	280428	719960

Source: Economic Planning Agency 2000

The Institute for International Management Development (IMD) of Switzerland produces every year a competitiveness ranking based on 286 criteria. Without making any judgement on the method used by the IMD, it is nevertheless interesting to observe that Japan continues to fall in competitiveness in this ranking and for 2001 has been put in a 26th place. Singapore, Hong Kong and Taiwan do substantially better at 2nd, 6th and 18th place. Japan's position is not so far from Korea and Malaysia at 28th and 29th place. China follows in 33rd position. Thailand is in 39th position and the Philippines close the ranking for 2001 in 40th position (see annex I).

The Japanese Center for Economic Research uses a different methodology, but also shows a steady fall in Japanese competitiveness. Japan has dropped from third place in 1990 to 16th place in 2000, behind Singapore and Hong Kong and only just before Taiwan and Korea (see annex II).

The figures on trade, production and the different rankings on competitiveness show that Asia has changed. Admittedly, Japan's GDP still accounts for around two thirds of total output in the East Asian region and its income levels are unrivaled, but Japan is clearly no longer the only industrialized nation in Asia, nor is it the most competitive. As far as the competitiveness criteria of the European Union is concerned, the studies would appear to suggest that integration between the ASEAN original members, China, Taiwan, Hong Kong, Korea and Japan is no longer impossible. Differences in level of competitiveness between the ASEAN countries themselves (between Singapore and the others) are greater than the differences between those countries and Japan.

The industrialization of Asia has changed the structure of Asian trade. Table 4) shows the percentage of trade within the each region compared to the total. Regional trade in Asia has substantially gone up and is higher as a percentage than in NAFTA.

Table 4): Intra-Regional Trade (%)

	Asia	Asia/Oc.	NAFTA	America's	EU
1985	38.46%	40.95%	38.74%	46.19%	58.64%
1990	43.02%	45.06%	37.89%	42.95%	65.82%
1995	51.49%	53.42%	44.08%	46.81%	61.63%
1997	51.25%	53.38%	45.08%	52.48%	62.41%

Source: IMF, Direction of Trade

A similar development can be seen in Asian investment flows. Table 5) shows that the Japanese investment flow to the US has decreased, while at the same time Japanese investment in ASEAN countries and to a lesser extent in China has increased. In 1995, the Japanese investment flow to ASEAN countries was more than double the amount of investment flowing into the US. The NIES have massively increased their investment into China (increase by over 1000% from 1990 to 1995) and increased investment in ASEAN. The investment of Japan and the NIES in the region in 1995 is more important than US and EU investment taken together for that year. This trend continued in 1996. More recent figures are not currently available for all countries, but Japanese investment in the region has declined since the Asian crisis. However, existing Japanese investment was rarely withdrawn (JETRO White Paper 2001, p.31).

Table 5): Regional Direct Investment (US$ million)

From \ To		Japan	NIES	ASEAN4	China	U.S.
Japan	1986	0	672	647	201	7268
	1990	0	1585	6810	503	18754
	1995	0	2161	12622	3108	5252
	1996	0	2190	15734	3679	11930
NIES	1986	57	86	339	1145	0
	1990	62	276	8733	1930	287
	1995	231	311	11104	26116	1236
	1996	1200	726	14446	27753	-901
ASEAN 4	1986	0	10	27	11	0
	1990	0	3	754	10	56
	1995	3	200	1627	765	-10
	1996	11	683	3211	932	90
China	1986	na	17	2	0	0
	1990	na	6	141	0	37
	1995	13	58	56	0	na
	1996	5	6	109	0	-100
U.S.	1986	448	555	238	315	0
	1990	664	1515	1514	456	0
	1995	1843	3478	6700	3083	0
	1996	2122	2954	4592	3443	0
EU	1986	118	289	251	130	20490
	1990	1139	681	2654	147	21892
	1995	1199	1953	9694	2131	43577
	1996	1698	1951	7666	2737	59897
Total	1986	623	1629	1504	1802	27758
	1990	1865	4066	20606	3046	41026
	1995	3289	8161	41803	35203	50055
	1996	6841	9718	50800	41726	78828

Source: JETRO Higashi Asia ni okeru Shijou-keizai no Shinten to Chiiki-kyoryoku ni kansuru Chyosakenkyu (p.125) and "White Paper on Foreign Direct Investment" (p.17)

Figures on trade and investment flows show that extensive links have been created in the region. These trade and investment flows are partly caused by Japanese companies relocating production facilities in other Asian countries. Over 30% of the total Japanese imports from other Asian countries concerns "reversed imports", exports from Japanese companies located in Asia and producing for the Japanese market (MITI, White paper 2000).

IV. JAPAN'S FREE TRADE AGREEMENTS?

In last year's white paper on international trade (MITI, 2000), the Japanese government reversed its stand on regional trading arrangements. Regional economic integration, including the integration that has occurred in the EU and NAFTA, is now considered beneficial for the economies involved. MITI claims in its paper that: "In past economic analyses, even where regional integration was shown to have a negative impact on extra-regional entities, it was only slight. Recent analyses reveal the dynamic effects-market expansion, promotion of competition, etc.- to be greater than the static ones, suggesting that it is useful to consider the economic effects of regional integration with countries with similar income levels and industrial structures."(MITI, White Paper, p.34). The Government of Japan therefore considers that: "As regional integration involving Japan is compatible with current economic circumstances and, as suggested by progress in other regions and economic analysis, could have economic value for Japan, such integration should be pursued as a supplement to the multilateral trading system."(MITI, White Paper p.39)

Pressure from KEIDANREN, the influential Japanese federation of business lobby groups, has also played a role in the Japanese governments' changing perception of regional trading arrangements. Not surprisingly, KEIDANREN is concerned about the worldwide mushrooming of regional trading arrangements like AFTA, NAFTA (and a possible FTAA), MERCOSUR, as well as by the expansion of the European Union.

In their May 1999 proposal entitled "Challenges for the Upcoming WTO Negotiations and Agendas for Future Japanese Trade Policy", Keidanren urges the Japanese government not only to strengthen its efforts towards a new WTO round, but also to consider concrete ways to realize free trade agreements. After the failure of the WTO Ministerial Conference in Seattle in December 1999 to launch a new trade round, Keidanren's pressure on the government intensified. In their July 2000 paper "Urgent Call for Active Promotion of Free Trade Agreements, Towards a New Dimension in Trade Policy", Keidanren criticizes the government for being "lamentably slow" (Keidanren, p.1) in taking initiatives for FTA's.

However, Keidanren stops short of calling for Asian economic integration. In its paper it compares the formation of economic blocs to the pre-World War II breakdown into blocs. In order to avoid this, Keidanren proposes to conclude agreements with various countries and regions. Keidanren welcomes the FTA's already considered at various government and private-sector levels with countries such as Singapore, Korea, Mexico, Chile and Canada. In Asia, Keidanren is eyeing the countries of ASEAN as possible partners. Keidanren also proposes the US as a possible partner.

Having changed its position on regional economic integration, the Japanese Government took a number of initiatives towards the establishment of FTA's:

Japan-Singapore

On 8 December 1999 the then Prime Minister Keizo Obuchi and Prime Minister Goh Chok Tong of Singapore decided to conduct a joint-study to examine the feasibility and desirability of concluding a free trade agreement between Japan and Singapore. On 22 October 2000 the Prime Ministers (Mori for Japan) received the report of the Joint Study Group, which comprised government officials, prominent academics and business leaders from the two countries. At this occasion the Prime Ministers decided to start formal negotiations in January 2001, effectively launching Japan's first negotiations on an FTA. The intention is to conclude negotiations before the end of the year.

Singapore is Japan's ninth trading partner. Japan ranks third among Singapore's trading partners. The choice of Singapore as a candidate for Japan's first FTA is not surprising, taking into account Singapore's small agricultural sector. Agricultural, forestry and fishery products only account for 1.7% of bilateral trade. The FTA is announced not only to cover goods and services, but also to promote the flow of people, capital and information. The joint study recommends enhanced cooperation in financial services by such means as coordinating rules on capital markets, establishing common rules in electronic commerce, as well as increasing the mobility between the two countries.

This should not come as a surprise, since benefits cannot be expected to be very large in traditional sectors taken into account the virtual absence of tariffs in Singapore. Apart from four tariff lines at the HS 9-digit level involving alcoholic products, Singapore's applied tariff is zero (WTO-Secretariat 2000). Singapore will be country A in diagram 2 of

The only advantage for Japan will be to lock in Singapore's zero tariffs and liberal trading environment in a bilateral treaty, whereas Singapore has left many tariffs and services sectors unbound in WTO. Singapore has bound 70.5% of its tariff lines, with an average bound rate of 9.7% (European Commission 2001). In terms of additional market access, the FTA cannot be expected to increase Japan's trade. Japan will qualify as country B, which implies that trade diversion will occur as a result of the Agreement, because of Japanese importers switching to Singaporean products if the tariff difference is important.

Japan-Korea

The Japan External Trade Organization (JETRO) and the Korean Institute for International Economic Policy (KIEP) conducted a feasibility study into a comprehensive FTA between the two countries. The joint-study, which was presented to both Governments in May 2000 concludes an FTA would be to the advantage of both parties. However, the study shows that Japan's competitiveness in high-level manufacturing sectors and Korea's generally higher average tariff rates would exacerbate Korea's trade deficit with Japan. The gains for Korea are expected to come from the results of dynamic competition and increased investment in Korea.

Increased imports of Japanese goods into Korea would increase welfare through the availability of more cost-efficient goods for consumers, but politically any Korean government will have difficulty selling an FTA which will lead to an increased trade deficit with Japan. In any case, Korea would, because of its higher tariff rates, be the country B in the FTA diagram from chapter II and would experience substantial trade diversion.

Japan-ASEAN

Japan and the 10 ASEAN Member States set up a group of economic experts in May 2001 to study the possibility of a Japan-ASEAN FTA. The Group will compile and submit its proposals to the economic ministers when they meet in Hanoi this fall, and the Ministers will report on the outcome of their discussions of the proposals to the following Japan-ASEAN summit in Brunei.

A Japan-ASEAN FTA will politically be less difficult to achieve than any trading arrangement involving Korea or China, since most ASEAN countries (with the possible exception of the Philippines) are historically pro-Japanese. In particular Indonesia, Thailand and Mahathir's Malaysia have close relations with Japan. In Singapore some sensitivities from the war reportedly remain with the majority Chinese population, but this has apparently not prevented the launching of negotiations on an FTA.

If an FTA will be concluded it is clear that all ASEAN Members, except Singapore, will experience substantial trade diversion because of the much higher tariff rates. Japan will economically be country A, but only in industrial goods. Agriculture will be a major obstacle to the conclusion of a FTA with ASEAN from the Japanese side, while it would be difficult to imagine ASEAN Members to subscribe to an agreement without agriculture. On the other hand, a working group has also been set up to study a FTA between China and ASEAN, providing an incentive for Japan to pursue a Japan-ASEAN FTA, or be excluded from the region.

North East Asia

It is sometimes argued that an FTA between Japan, Korea and China would be desirable because China's trade deficit with Korea, Korea's trade deficit with Japan and Japan's trade deficit with China would factor each other out. Economically, trade surpluses or deficits with one country are not very relevant, as long as the overall Balance of Payments is sustainable. However, politically such an argument might help the Korean government sell an agreement. This thinking could be behind Korea's initiative to study a North East Asian FTA.

Politically, a regional trade agreement between Japan, China and Korea will not be easy to achieve. The political relations between China and Japan are currently at a low point, due to a school history textbook published by a group of nationalist historians, restrictive trade measures taken against Chinese exports (leek, shiitake and rushes, the straw used in tatami) and the issuance of a visa for Taiwanese former president Lee Teng-hui for a medical check-up.

The most important historical and political problem between Japan and China remains the invasion of China by the Japanese Army during and before World War II. Former Prime Minister Miyazawa has apologized to all Asian peoples, but China has requested a specific apology for the atrocities committed by the Japanese Army in China, which Japan so far has not been willing to give. Relations with Korea are equally difficult because of the annexation of Korea by Japan from 1910 to 1945.

However difficult relations between Japan and Korea and China may be, it should be reminded that the whole reason to start with European integration in the first place was exactly to solve very difficult political and historical relations between the European partners and thereby to avoid a new war.

ASEAN-plus-three

The conclusion of a FTA region wide is already the subject of a study by a working group set up by an ASEAN-plus-three summit in Singapore in November 2000.
This scenario, although considered totally unrealistic until very recently, might actually turn out to be the most likely outcome. Politically it will be easier for Japan, China and Korea to be part of a greater free trade zone, than to conclude a FTA together. Japan and China have already made moves to conclude FTA's with ASEAN, combining these efforts would have a logic to it. Once the negotiations obtain their own momentum, none of the countries will want to stay outside.

Economically, such a regional free trade zone would cause important trade divergence, notably for China and ASEAN (except Singapore) with relatively high levels of protection. For Japan important trade diversion could occur if the agricultural sector were to be opened up exclusively to its Asian FTA partners. The economic effects of such a trade zone would therefore be largely negative for most of the participants ("country B" effect) and certainly for the outside world ("country C" effect). The only real beneficiary would be Singapore. Singapore would obtain substantial extra export possibilities as a result of free trade in the region and would suffer little trade diversion because of its low level of protection ("country A" effect). It comes as no surprise that Singapore is aggressively promoting FTA's in- and out-side the region.

An Asian regional free trade zone would only become beneficial economically if the countries involved would at the same time substantially lower tariffs towards third parties, or if it would be turned into an European Community style Customs Union, with a Common External Tariff converging at the lowest level.

The way Non Tariff Barriers (NTB) will be dealt with is also important in evaluating the result of FTA negotiations. Almost all of the (over 100) trade barriers found in Japan included in the European Commissions' market access database are NTB's in the area of standards, regulations, distribution, competition policy etc.. In most of the other countries in the region NTB's are equally important. The so-called "new generation" FTA's are intended to include disciplines on NTB's including in services and intellectual property rights. In these areas the same reasoning can be applied as for tariffs: if liberalization will take place on an erga omnes basis, it will be beneficial. If liberalization would only apply to FTA partners, trade diversion will occur.

ASEAN-plus-three plus two?

Australia and New Zealand have launched negotiations to link up their Close Economic Relationship (CER) to the ASEAN FTA. Also, Bayoumi and Mauro (1999) found close interlinkages between Australia/New Zealand and Japan. There is little doubt these countries would also want to join a larger ASEAN-plus-three Free Trade Zone. If concluded, such a FTA would cause some trade divergence for most of the Asian countries involved, because of the lower protection levels of Australia and New Zealand.

Japan-Chile

A FTA between Chile and Japan has been the subject of a study made by JETRO at the request of the Ministry of Foreign Affairs of Chile. The results of the study were presented in June 2001. The study concludes that an FTA between Japan and Chile would "provide an effective means of further strengthening economic relations between the countries, and that maximum efforts should be made to conclude a Japan-Chile FTA as soon as possible" (JETRO-study report 2001, foreword).

Japan-Mexico

Mexico is very well aware of its "country B" trade diversion problem because of NAFTA and has therefore already signed a FTA with the European Community in July 2000. Japan's industry has a "country C" type disadvantage in competing with rival companies from NAFTA or the European Union. It is therefore not surprising that Prime Minister Koizumi and President Fox agreed on 5 June 2001 to set up a study group to examine the possibility of a FTA between Japan and Mexico. It is another proof of the inefficiency of FTA's that Mexico will now have to negotiate separate FTA's with all its trading partners in order to avoid trade diversion.

Japan-Canada

Thomas d'Aquino, president of the Canadian Business Council on National Issues made a proposal on June 5, 2001 to establish an FTA between Japan and Canada to a

Japanese delegation of business leaders, including Mr Hiroshi Okuda, Chairman of Toyota Motor Corporation and also Chairman of the Japanese Federation of Employers Associations. The obvious problem in a Japan-Canada FTA would be agriculture. There are some indications that Canada would be willing to exclude agriculture, but this would run into problems with WTO rules, which specify that an FTA has to cover "substantially all trade" (Art. XXIV GATT 1994). Since trade in agricultural products covers about 60% of total trade between Canada and Japan, it is difficult to see how it can be excluded from an FTA, without violating WTO rules.

The Canadian problem is important in more generally evaluating the chance of success of the FTA's including Japan that are currently under study. Article XXIV GATT's requirement that "substantially all trade" should be included has not been subject to jurisprudence. Sometimes a rule of thumb of 90% is applied as a benchmark.

V. MONETARY COOPERATION

Asian crisis

In July 1997 the Asian financial crisis started in Thailand. The slowdown of GDP growth from 9% on average in the preceding years to 5.5% in 1996 (mainly as a result of zero growth of exports), the weakness of the banking sector exposed to an overheated property sector, the inadequate regulation and supervision of financial institutions, the high proportion of short term external debt (about 40% in 1996) and the widening of the current account deficit (8.1% of GDP in 1996) led to a change of mood in financial markets and to a devaluation of the baht (European Commission, 1998).

At the lowest point in January 1998 the currency had lost more than 50% of its value. The floating of the Thai currency triggered a crisis and loss of confidence that was soon followed by declining equity prices and exchange rate pressures, which soon developed its own momentum throughout Asia.

The Asian crisis involves many related structural and cyclical factors, including weak financial institutions and supervision, lack of transparency and inadequate risk assessment. However, most analysts agree that the problems were compounded by inappropriate exchange rate levels, caused by the fact that most currencies in the region were pegged to an appreciating dollar.

In these context, two lessons can be drawn from the Asian crisis:

-the Asian region has become highly interdependent;

-a “soft peg” is an inappropriate exchange rate arrangement

The first observation follows directly from the increased trade and investment links in Asia as described in chapter III and led to contagion spreading very rapidly in the region. The second lesson stems from the observed failure of the countries affected by the Asian crisis to maintain the peg with the dollar. Only Hong Kong, which has a currency board arrangement was able to defend its peg to the dollar, but at a significant cost. It would appear therefore that only floating currencies or “hard pegs” (currency board, single currency, dollarisation) are appropriate exchange rate mechanisms. Indeed, according to the IMF’s index of exchange rate systems most countries in the region have floated their currencies, the most notable exception (apart from Hong Kong) being Malaysia（Annex III）.

Short-term capital controls

Since the Asian crisis short-term capital controls have made some sort of a come back among policy makers and economists. Malaysia decided to peg its currency to the dollar and at the same time (re)introduced short term capital controls resulting in higher growth rates during the crisis than most other countries affected countries in the region.

A recent IMF Working Paper shows that a number of other Asian countries (Korea, Thailand, Indonesia) attempted to stabilize the exchange rate by introducing short term capital controls (Ishii, 2001). Only Malaysia was successful in defending its exchange rate vis-à-vis the dollar. In October 1998 the Malaysian government set the rate of the ringgit at 3.80 to the dollar and imposed capital controls that prevented foreign companies from repatriating profits quickly and prohibited the use of ringgit outside Malaysia. The success of this strategy depends according to the authors on sound accompanying macro-economic policies, strong fundamentals and rigorous enforcement of the measures. These conditions were united only in Malaysia. However, a number of costs of capital controls are identified, including a negative impact on market confidence and therefore investment, an administrative burden and hindrance of non-speculative current account transactions.

Another disadvantage of capital controls not mentioned by the authors is the fact that its abolishment can cause capital flight afterwards. The Malaysian authorities abolished in May 2001 the 10% tax on repatriation of stock market profits in a bid to attract foreign funds, causing an immediate outflow of capital. Foreign reserves are dwindling and approaching the critical three months' of imports level. Malaysia is therefore now in a situation where it may have to devaluate its currency after all, in spite of a current account surplus on the balance of payments (Dresdner Bank 2001).

"Soft pegs" would therefore indeed appear to be inappropriate for the Asian region (and possibly for everywhere else in the world) and it is not certain whether Malaysia will remain the exception to confirm the rule. However, the standard conclusion of Washington based economists that therefore freely floating exchange rates would be the only appropriate arrangement for the region is questionable. Exchange rate volatility tends to have adverse effects on trade and investment, especially for the developing countries in the region, and the high degree of intra-regional trade and the similarity of trade composition in East Asia would suggest the current system of floating is sub-optimal.

The depreciation of the yen has caused most floating currencies in the region to depreciate against the dollar as well. Most currencies in the region have depreciated by 11 to 18% recently and other Asian countries currency's depreciation against the dollar has outpaced the depreciation of the yen. There is still a significant potential in the East Asian region for competitive devaluation and depreciation and a real danger of "beggar thy neighbour" policies.

New initiatives

Japan and other Asian countries undertook a number of new initiatives after the outbreak of the Asian Crisis. In September 1997, Japan proposed an Asian Monetary Fund (AMF) to prevent another Asian crisis and to initiate institutionalized financial cooperation between Asian countries. The AMF would fulfill the role of lender of last resort in times of crisis. Background of this idea was the perceived insufficiency of IMF funds in the case of huge speculative currency crises in Asia as well as criticism of the IMF conditionality, considered inappropriate to the situation in Asia at that moment. The AMF never came about, on the one hand because of predictable opposition from the IMF and the United States and on the other hand because of opposition from China, which perceived the Japanese proposals as an attempt at economic and financial hegemony in the region.

The proposal for an Asian Monetary Fund was made around the time of the ASEM Finance Ministers' meeting in Bangkok on September 19, 1997. On September 21 the Deputy Finance Ministries of twelve countries (Korea, Japan, China, Hong Kong, Malaysia, Indonesia, Philippines, Thailand, Australia, Singapore and New Zealand, as well as observers from the US and the IMF) met to discuss the Japanese proposals at the occasion of the IMF/World Bank annual meeting. Japan proposed to provide half the funds required for the establishment of the AMF. Then Deputy Finance Minister Eisuke Sakakibara traveled extensively in the region to promote the Japanese proposal. However, after pressure from the US, Japan agreed at a meeting in November 1997 of fourteen Deputy Finance Ministers in Manila not to pursue its AMF proposal in exchange for an increase in IMF funds through the approval of the New Arrangements to Borrow (NAB). Although Japanese officials claim the AMF proposal is still on the table, Japan has not actively pursued it ever since.

Instead, in October 1998, Minister of Finance Miyazawa launched the "New Miyazawa Initiative", promising to contribute $30 billion dollar to assist five Asian countries to overcome the effect of the crisis. The aids consist of $15 billion of short term capital support and $15 billion mid- to long- term support for economic recovery (Kim, Ryou, Wang, 2000).

However, the most important development in this area would appear to be the Chiang Mai Initiative agreed in May 2000 at the annual Asian Development Bank meeting. At this meeting the Finance Ministers of ASEAN, China, Japan and Korea agreed in a sense on the same thing as Japan proposed in its earlier AMF proposal, namely a regional financing arrangement to supplement the existing international facilities. This agreement, however, does not seem to have aroused significant opposition from the US or the IMF, possibly for two reasons:
-The scale of the initiative is much smaller than the AMF
-Participating countries agreed at their meeting in Honolulu on 9 May 2001, in spite of opposition from Malaysia, to apply IMF conditionality to as much as 90% of the disbursement of funds (details are still under negotiation).

At the Honolulu meeting the Japanese Ministry of Finance announced to have reached substantial agreement over terms and conditions for bilateral swap agreements under the Chiang Mai Initiative with Korea, Malaysia and Thailand. The amounts involved include $2 billion for Korea, $1 billion for Malaysia and $3 billion for Thailand. The amounts come on top of the existing arrangements of $5 billion for Korea and $2.5 billion for Malaysia under the Miyazawa initiative.

A single currency for Asia?

Since most countries in the region now apply floating exchange rates (Annex III), it is unclear what exactly the swaps are intended to prevent and at what stage they would be used. The amounts involved would in any case not be enough to ward off a crisis the size of the Asian Crisis of 1997/1998. The only point in having the arrangements therefore is to consider them as a first step towards an exchange rate mechanism. Unlike the European Community, where a blueprint for Economic and Monetary Union (the Werner report) was adopted almost thirty years before its final realization, in Asia there are no blueprints or time schedules. However, the idea of further development of regional cooperation leading to an exchange rate mechanism with fixed exchange rates, possibly leading to a single currency, is clearly in the back of the mind of the policymakers involved in this process. The next step in the process is likely to be increased surveillance.

Regional discussions in which academics as well as policy makers participate include subjects as the use of a currency basket, either one basket for the region as a whole or different currency baskets per country according to the trade weightings.

A number of authors have looked into the question whether East Asia would constitute an optimum currency area. In 1994, Goto and Hamada found, after analyzing economic data on trade, investment, labour mobility, price levels, interest rates and real GDP, that East Asia was as ready for a single currency as the European Community in 1990. Kawai and Takagi (2001) updated these data for 1995 and found that what Goto and Hamada observed in 1990 remained essentially unchanged. The authors in fact found more intensive trade links between, for example, Korea and Japan than between France and Germany or even the Netherlands and Germany…

The intensive trade and investment links as observed in chapter III are the main reason these and other authors conclude East Asia may constitute an Optimum Currency Area. Opponents of fixed exchanged rates and currency union often use the argument that different monetary policy reactions are required in case of a-symmetric economic shocks, whereas in a currency union (or otherwise fixed exchange rate system) monetary policy is no longer available for each member country. The economy can then only adapt through changes in relative prices. However, if wages are downwards inflexible, the economy cannot reach a new equilibrium and large scale unemployment will occur (Milton Friedman, 1953). Therefore countries likely to be subject to a-symmetric economic shocks are not good candidates for a monetary union.

If, on the other hand, labour markets are flexible, the economy can reach a new equilibrium at a lower level of wages, while maintaining permanently fixed exchange rates. In this respect it is important to note that labour markets in Asia are generally more flexible than in Europe. One of the explanations is the absence of powerful trade unions in most countries. Even in Japan employers have an important flexibility in the wage rate through the payment, or non-payment, of important end-year bonuses. This would make Eastern Asia a better candidate for an Economic and Monetary Union than Europe.

However, the European experience learns that an exchange rate mechanism, and finally Economic and Monetary Union, can not come about without some sort of coordination of economic policy and resulting surrender of sovereignty. At this moment, even the most ardent supporters of Asian integration, like Prime Minister Mahathir of Malaysia, are not favourable to any surrender of sovereignty. His proposed East Asian Economic Caucus (EAEC) is an attempt to form a counterweight against the US and the EU in trade matters, but Mahathir opposes any surrender of sovereignty (Mahathir and Ishihara 1995).

VI. CONCLUSIONS

Although Japan remains the main economic player in Eastern Asia with two thirds of GDP, a number of other countries in the region have successfully industrialized and increased their share of regional production and trade. After a decade of slow growth, Japan has lost competitiveness, making regional economic integration a more likely possibility than twenty or thirty years ago. If the economic criteria for enlargement of the European union are used, then economic integration in the region would appear just as possible as in Europe, with the possible exception of the new members of ASEAN.

In practice, regional economic integration has already taken place: Asia is now trading more with itself than with the EU or the US. Trade and investment flows have created extensive links in the region. In this context, as well as in the context of developments in Europe and the America's, Japan has reversed its traditional policy on regional economic integration.

After years of opposition against regional trading arrangements, Japan is now embarking on a range of initiatives which could lead to the negotiation of a number of FTA's in and outside the region, possibly also leading to a larger Asian Free Trade Area including the countries of the ASEAN-plus-three grouping. Such an FTA would, according to economic integration theory, lead to important trade diversion, especially for those countries with higher protection levels. This trade diversion would be to the detriment of third countries as well as to the countries themselves. This could be avoided by in parallel lowering of protection levels against third countries, or alternatively by changing the objective to a European Community style Customs Union, with a common external tariff converging to the lowest tariff level.

Japan's success in pursuing economic integration in the region will in any case depend on whether it will be able to include agriculture in the agreements or not. If agriculture is to be totally excluded, a real issue of WTO compatibility will arise. Japan circumvented this problem in the FTA with Singapore, because Singapore exports few agricultural products. However, Japan's first FTA will be meaningless because Singapore's applied tariffs are already virtually zero. Some trade diversion can be expected to occur at the expense of the rest of the world, when higher Japanese tariffs will be reduced to zero for Singaporean exports only.

In parallel, Japan pursues increased cooperation in the monetary sphere in the framework of the ASEAN-plus-three grouping. The regional network of bilateral swaps in the context of the Chiang Mai Initiative could be the beginning of an exchange rate arrangement finally leading to an Asian single currency. High trade dependency and a high share of intra-regional trade make Eastern Asia a good candidate for economic and monetary union. Flexible labour markets might make fixed exchange rates and eventually a single currency in Eastern Asia theoretically easier than in Europe. However, the European experience shows it is unlikely that Economic and Monetary Union in Asia can come about without some sort of surrender of sovereignty.

ANNEX I: World competitiveness scoreboard **Ranking as of 1 April 2001**

Country	2001	2000	1999	1998	1997
USA	1	1	1	1	1
Singapore	2	2	2	2	2
Finland	3	4	5	6	7
Luxembourg	4	6	3	3	8
Netherlands	5	3	4	4	4
Hong Kong	6	12	6	5	3
Ireland	7	5	8	7	10
Sweden	8	14	14	16	19
Canada	9	8	10	8	6
Switzerland	10	7	7	9	12
Australia	11	10	11	12	15
Germany	12	11	12	15	16
Iceland	13	9	13	18	21
Austria	14	15	18	24	20
Denmark	15	13	9	10	13
Israel	16	21	22	25	25
Belgium	17	19	21	23	23
Taiwan	18	20	15	14	18
UK	19	16	19	13	9
Norway	20	17	16	11	5
New Zealand	21	18	17	17	11
Estonia	22				
Spain	23	23	20	26	26
Chile	24	25	25	27	24
France	25	22	23	22	22
Japan	**26**	**24**	**24**	**20**	**17**
Hungary	27	26	26	28	37
Korea	28	28	41	36	30
Malaysia	29	27	28	19	14
Greece	30	34	32	33	36
Brazil	31	31	34	35	34
Italy	32	32	30	31	39

China	33	30	29	21	27
Portugal	34	29	27	29	32
Czech Rep.	35	40	37	37	33
Mexico	36	33	35	34	40
Slovak rep.	37				
Thailand	38	35	36	41	31
Slovenia	39	36	39		
Philippines	40	37	31	32	29

Source: IMD

ANNEX II: Competitiveness ranking

US	1	(2)	65.2
Singapore	2	(1)	61.8
Netherlands	3	(4)	61.7
Finland	4	(9)	61.5
Hong Kong	5	(5)	59.5
Norway	6	(10)	57.6
Sweden	7	(8)	57.4
Australia	8	(19)	57
UK	9	(7)	57
Switzerland	10	(12)	56.2
Japan	16	(3)	54.1
Taiwan	19	(21)	49.7
Korea	23	(24)	45.6
Malaysia	26	(25)	40.8
China	27	(28)	35.7
Thailand	28	(27)	35.6
Indonesia	29	(30)	30.2
India	30	(31)	28.5
Philippines	31	(29)	27.9

Source: Japanese Center for Economic Research

ANNEX III: Exchange rate regimes

Brunei Darussalam	Currency Board
Hong Kong SAR	Currency Board
China, mainland	Conventional Peg
Malaysia	Conventional Peg
Vietnam	Horizontal Band Peg
Cambodia	Managed Floating
Laos	Managed Floating
Singapore	Managed Floating
Philippines	Independent Floating
Thailand	Independent Floating
Indonesia	Independent Floating
Japan	Independent Floating
Korea	Independent Floating

Source: International Monetary Fund, International Financial Statistics, May 2001

REFERENCES

APEC Secretariat (2000), *APEC Economic Outlook* (http://www.apecsec.org.sg)

ASEAN Institute of Strategic and International Studies (ISIS) and Japan Institute of International Affairs (JIIA) (2000), *"Towards Vision 2020: ASEAN-Japan Consultation Conference on the Hanoi Plan of Action: Final Report with Recommendations"*.

Bayoumi, Tamim and Paolo Mauro (1999), *"The Suitability of ASEAN for a Regional Currency Arrangement*", IMF Working Paper 99/162

Boorman, Jack, Timothy Lane, Marianne Schulze-Ghattas, Ales Bulir, Atish R. Ghosh, Javier Hamann, Alexandros Mourmouras and Steven Philips (2000), "*Managing Financial Crises: The Experience in East Asia*", IMF Working Paper 00/107

Cecchini, Paolo (1988), "*The Costs of Non-Europe*", European Commission, Brussels.

Dresdner Bank (2001), "Facts, Figures and Forecasts, March 2001", *Malaysia: How Long Will the Peg Hold?* p.46.

Economic Planning Agency (1999), (Keizaikikakuchyo Asia Keizai 1999) [Japanese only]

European Commission (1998), "Asian Crisis – Effects on Market Access". *MAAG doc. 129-final, Council Paper*, unpublished

European Commission (2001), "*The European Union and the World*", EC Publications Office, Luxembourg.

European Commission (2001), *Market Access Database: Singapore Report* http://mkaccdb.eu.int/mkdb/chksel.pl

ERINA Report (Economic Research Institute for North East Asia) (2001), *ERINA Report 2001 April, vol. 39*, Niigata City, Japan.

Friedman, Milton (1953), "The Case for Flexible Exchange Rates" *Essays in Positive*

Economics, pp.157-203, University of Chicago

Goto, Junichi and Hamada, Kochi (1994), "Economic Preconditions for Asian Regional Integration" *Takatoshi Ito and Anne O. Krueger, eds "Macroeconomic Linkage,* University of Chicago Press

Goto, Junichi and Hamada, Koichi (1997),"EU, NAFTA, and Asian Responses: A perspective from the Calculus of Participation". *Regionalism versus Multilateral Trade Arrangements*, p.91-118 *Takatoshi Ito and Anne O. Krueger, eds* University of Chicago Press.

International Monetary Fund (IMF) (2001), *International Financial Statistics, May 2001*, http://www.imf.org

Institute for International Management Development (IMD) (2001), "*World Competitiveness Ranking*" http://www.imd.ch/

Institute for International Monetary Affairs (IIMA) (2001), "*International Conference on Future Prospects for Regional Cooperation in East Asia; Summary of Discussions*"

Institute of Developing Economies (IDE) and Japan External Trade Organisation (JETRO) (2000), "*Toward Closer Japan-Korea Economic Relations in the 21st Century: Summary Report*"

Ishii, Shogo, Inci Oetker-Robe and Li Cui (2001), "*Measures to Limit the Offshore Use of Currencies: Pros and Cons*", IMF Working Paper 01/43.

JETRO (2001), *Study Report on the Japan-Chile Free Trade Agreement.*

JETRO (2001), "*White Paper on Foreign Direct Investment 2001*"

JETRO (2000), "*White Paper on Internaional Trade 2000*"

JETRO (1998). "*White paper on Foreign Direct Investment 1998*"

Japanese Ministries of Foreign Affairs, International Trade and Industry and Finance and Singaporean Ministries of Foreign Affairs and Trade and Industry(2000), "*Japan-Singapore Economic Agreement For a New Age Partnership*" Joint Study Group Report

Kawai, Masahiro and Takagi, Shinji (2001), "*Proposed Strategy for a Regional Exchange Rate Arrangement in Post-crisis Asia*". World Bank

KEIDANREN (Japan Federation of Economic Organisations) (2000), "*Urgent Call for Active Promotion of Free Trade Agreements –Towards a New Dimension in Trade Policy*"- (provisional translation, unpublished)

Kim, Tae-Joon, Ryou, Jai-Won and Wang, Yunjong (2000), "*Regional Arrangements to Borrow: A Scheme for Preventing Future Asian Liquidity Crisis*", Korea Institute for International Economic Policy (KIEP)

Mahathir, bin Mohamad and Ishihara, Shintaro (1995), "*The Voice of Asia: Two Leaders discuss the Coming Century*" Kodansha, Tokyo

Ministry of Finance, Japan (2001), *Report on Progress of the Chiang Mai Initiative*

Ministry of Finance, Japan(2001), *Joint Ministerial Statement of the ASEAN-plus-three Finance Ministers Meeting*

Ministry of International Trade and Industry (MITI) (2000), "*White Paper on International Trade 2000, Japan's course in the global economy*".

Miura, Kiyoshi (2000), "*Workshop on Framework for Regional Monetary Stabilisation in East Asia*", Institute for International Monetary Affairs (IIMA), Newsletter No.6.

Mundell, Robert A (1961),"*A Theory of Optimum Currency Areas*" American Economic Review 51, p.509-517.

Nariai, Osamu, (2001), "*Towards a New Paradigm of Japanese and Asian Economy*", Series B No. 23, Economic and Social Research Institute, Tokyo.

Sangyo kenkyujo (Industrial Research Office) (2001), "Higashi Asia niokeru Shijokeizai no Shinten to Chiiki-kyoryoku ni kansuru Chyosakenkyu"[Japanese only]

Viner, J (1950), *"The Customs Union Issue"*, Carnegie Endowment for International Peace, New York

WTO Secretariat (2000), "*Singapore Trade Policy Review*"
http://www.wto.org/english/tratop_e/tpr_e/tp130_e.htm#Top

Yeats, A (1998), *"Does MERCOSUR's Trade Performance Raise Concerns about the Effects of Regional Trade Arrangements?"* World Bank Economic Review 12, p.1-28.

Kanoh Yoshikazu (2001), "Hashiru Asia Okureru Nihon" [Japanese only]

Young, Soogil (1993), *"Globalism and Regionalism: Complements or Competitors?"* Pacific Dynamism and the International Economic System, C. Fred Bergsten and Marcus Noland, eds, Institute for International Economics, Washington

---

Address: 3-2, Nihombashi Hongokucho 1-chome, Chuo-ku. Tokyo
103-0021, Japan
Telephone: 81-3-3245-6934, Facsimile: 81-3-3231-5422
e-mail: admin@iima.or.jp
URL: http://www.iima.or.jp/