

Economics of Regional Integration

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Abstract

Two effects, static as well as dynamic, are expected as merits of establishing regional economic integration (REI) such as EU, NAFTA and APEC. The Viner's trade creation versus trade diversion criteria evaluate only static effects of abolishing intraregional tariffs or shallow integration which are estimated to be limited and smaller than global trade liberalization (Section 2).

In contrast, a deeper integration opens larger market among REI members, promotes their reform in production method and organization especially due to freer movements of foreign direct investment, and, thus, brings about big dynamic gains of greater social economies of scale (Section 3).

The Akamatsu/Kojima model of flying geese patterns of development well explains the successful growth of post-war Japanese economy and its regional spread to East Asian countries (Section 4).

The paper reaches a conclusion (Section 5) that a shallow integration worldwide is possible to be established by GATT/WTO whereas a deeper integration is to be promoted to cultivate greater dynamic gains through REI.

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