

**Spill-Over and Cycle Effects of Regional Integration:  
Growth and Cycles of Asia and Enlarged EU**

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**【Outline of survey】**

Under the WTO-IMF regime the globalization of the world economy has increased international mobility of goods, services and capital flows. In addition regional integration has enhanced regional linkages where the expansion and deepening of *production networks* based on international division of labor has promoted regional economic growth (*spill-over effects*). Empirical research on these points is not well-developed yet, though.

Whether or not the enhanced linkage of capital markets has promoted economic growth has not been ensured by empirical research yet. Rather, it appears likely that enhanced capital movements increase financial risks so as to generate financial crises. The impact of integration upon business cycles, thus, tends to magnify the cycles through suppressing financial risks (*cycle effects*).

This study examines the spill-over effects of regional integration through production-networking in the Asia-Pacific region, the cycle effects through increasing and deepening assets markets as well as asset accumulation, and then the interactions between the two effects. Then this study scrutinizes some policy options and designs development strategies to cope with these changing industrial structures and financial markets.

**【Expected results】**

The engine of regional integration through trade and investment in the Asia-Pacific region is multi-national corporations rather than trade and investment agreements, while the enlarged EU aims at reforming industrial structures through active investment policies as its globalization strategy. This study will show how the regional integration shapes industrial structures and clarify the impacts of the spill-over effects on regional economic growth and business cycles. Meanwhile the enlarged EU tries to consolidate their macroeconomic policies by way of a common currency, whose experiences will give some important lessons to the Asia-Pacific region despite different initial and other conditions between the two regions. This study will highlight the complementary relation between financial intermediation and capital markets to live with cycle effects and design some regional currency regimes for stabilization and external adjustments in the region.

**【References by the principal investigator】**

- Kohsaka, Akira, "A Fundamental Scope for Regional Financial Cooperation in East Asia," Yoshinori Shimizu, ed., *Economic Dynamism of Asia in the New Millenium: From the Asian Crisis to a New Stage of Growth*, World Scientific Publishing, Singapore, 2007, pp. 139-176.
- Kohsaka, Akira and Masahiro Enya, "The Balance Sheet Effects and Macroeconomic Development in the Pacific Region," *Asian Economic Papers*, vol. 6, issue 1, 2007, pp. 101-129.

**【Term of project】** FY2008—2011

**【Budget allocation】**

**68,200,000 yen** (direct cost)

**【Homepage address】**

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