

that the U.S. will remain the single most important market for North Asian goods.

Economic interdependence in North Asia is taking place at a variety of levels and degrees. A "bloc" is not taking shape, but the economic interdependence of this subregion is increasing, although rather more by default than by design, and rather more slowly in relative terms than the trade data might appear to indicate at first glance. A combination of macroeconomic forces, strategic business decisions, governmental policies, political realism, cultural factors and security considerations are encouraging economic integration in North Asia. Most importantly, the integration is a natural phenomenon, driven by market forces and the pragmatic, informal actions of business and government. The need to remain competitive through the exploitation of different countries' comparative advantages appears to explain much of the increase in intraregional business activity and commerce during the past decade. The impetus for economic integration in both East and North Asia comes from the rapid economic growth of its countries, particularly China. Bilateral investment relations and trade in both products and services are both widening and deepening, although not yet to the significant detriment of North Asia's economic relations with the rest of the world, including North America.

North Asian economic interdependence is not based primarily on inter-industry patterns of trade, as is the case for the developed economies of the EU. Rather, integration is based on disparities in economic development, and is the result of a process that has seen the more advanced economies move their mature production to the less developed members of the region. In the case of North Asia, Japan and Korea have followed the lead of Hong Kong and Taiwan in taking advantage of opportunities that have presented themselves in China as a result of that country's economic reform program.

There would appear to be little reason to think that the economies of North Asia will form anything resembling an exclusionary, treaty-based bloc in the foreseeable future. Increases in trade among economies in the region should be expected, given the growth in these countries and the attendant rise in their importance in the world economy. The economic fundamentals necessary for forming an exclusionary bloc are not present in North Asia. Considerable obstacles to trade, investment and capital movements still exist. The region's diversity--social, political and economic--is also an impediment. Infrastructure bottlenecks, environmental problems and shortages of trained personnel constrain the region's prospects.

Given the region's continued reliance on the U.S and other non-Asian markets, the area's first best strategy would be to support a strengthening of the world trading system and multilateral trade liberalization. Any formal regional integration plan would