

These structural and political dilemmas have implications for China's increasing economic interaction and interdependence with its North Asian neighbours, the wider Asian community and the global economy. Failure to address the economic problems listed above--for example, reform of the state enterprise sector--will eventually retard economic growth, which in turn will slow the rate at which North Asian economic interdependence can increase.

The reform process currently under way in China seems to be geared more toward multilateral liberalization than to entering regional arrangements. Although economic links with Hong Kong and Taiwan are particularly strong, and links with Japan and Korea are expanding quickly, the pace of trade and investment liberalization and reform in China will be heavily influenced by negotiations related to its GATT/WTO accession application and by bilateral relations with the U.S., its largest export market. China's dependence on exports of consumer products to developed economies and the need for investment capital from these same countries should work to ensure that China does not turn exclusively to developing relations with Asian economies.

## 5.6 Russia

The prospects for increased trade between Russia and the Asian economies of the North Asia region, and particularly Japan, would improve if the economic reforms undertaken to date were solidified and Russia's economic reform program were pushed forward. For example, the government will have to enhance the framework for business to engage in foreign trade. However, a broader political consensus that market-based reforms should proceed is a necessary precondition for this process to advance. Improved political stability also will be necessary if Russia is to attract more foreign trade and investment.

Ongoing macroeconomic problems continue to inhibit the production of some goods and services and, consequently, are suppressing exports and discouraging foreign investment. Concomitantly, exports of some commodities have increased as a result of a decline in domestic demand. One should note, however, that trade in some products (including fuels, timber and metals) must be undertaken through an authorised agent, who has to secure a licence from the Ministry of Foreign Economic Relations. Fluctuations in tax and tariff rates, as well as the ongoing evolution of commercial laws, have generated confusion for foreign traders and investors.

The main constraint on foreign investment is the instability of the Russian economy. Russia's bureaucratic requirements can be confusing and burdensome to investors (large scale ventures must be registered with the government), and