

growing trade and investment linkages among the economies of North Asia could encourage further specialization, improve resource allocation and efficiency, and increase the flexibility, adaptability and dynamism of all the member economies.

There would appear to be little reason, however, to think that the economies of North Asia will form anything resembling an exclusionary, treaty-based bloc in the foreseeable future. While increases in trade among economies in the region should be expected given the growth rates in these countries, the economic fundamentals necessary for forming an exclusionary bloc are not present. Considerable obstacles to trade, investment and capital movements still exist. Moreover, infrastructure bottlenecks, environmental problems and shortages of trained personnel in China may constrain the region's prospects. It is in the region's self-interest to remain dynamic, export-oriented and fairly open to extra-regional inflows of foreign investment and goods.

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 should be viewed as a second-best option, the result of these economies perceiving that they had been left out of other regional arrangements. Moreover, any regional integration scheme would probably encompass the economies of East Asia rather than just those of North Asia.

The viability of this second-best strategy is debatable. The ongoing difficulties that most Asian economies are experiencing in their attempts to penetrate the Japanese market make it unlikely that Japan would be a realistic, or viable, alternative to the U.S. and other western destinations. Furthermore, given the continued importance of U.S. and EU markets to both Japan and the other North Asian economies, it would be difficult for Japan to go it alone with the region, despite its formidable financial resources and record of economic successes. Moreover, Japan would like to have the U.S. remain engaged in the region, to help mitigate the historical animosity between Japan and its immediate neighbours.

Many observers have suggested that it is vital to the long-term competitiveness of Canadian industry, as well as to Canadian commercial interests and policy, to be a part of the continuing transformation of the fastest growing region of the world. Competing in Asian, particularly North Asian markets, may be an important test of a company's ability to succeed globally. While some of Canada's largest firms may be well placed in the region, small and medium-sized Canadian firms are under-represented. Without an on-the-ground presence, Canadian firms will miss out on information about emerging technologies, products and competitors' activities. This not only reduces the ability of Canadian firms to compete in North Asian markets, but