

## Executive Summary

North Asia is not yet evolving into a trading "bloc". A combination of macroeconomic forces, strategic business decisions, governmental policies, political realism, cultural factors and security considerations are encouraging increased economic interdependence in North Asia, but rather more slowly in relative terms than the trade data might appear to indicate at first glance. Most importantly, the interaction is a natural phenomenon, driven by market forces and the pragmatic, informal actions of business and government.

Between 1980 and 1993, intraregional trade grew in both absolute and relative terms. With the exception of China-Hong Kong trade, however, bilateral exchanges between member countries expanded only modestly compared to trade with other markets. If entrepôt trade is factored out, the modest increase in intraregional commerce that is observed in relative terms does not support the thesis that economic integration is dramatically increasing in North Asia.

Intraregional flows of foreign direct investment (FDI) grew substantially during the past decade, as many companies from Hong Kong, Taiwan, Korea and Japan moved their labour-intensive operations to lower-cost China. There is no indication, however, of a trend to intraregional investment accounting for a greater share of total outward investment from the North Asian economies.

One can conclude that economic interdependence among the economies of the region will increase, that Japan will continue to play a large role in the region's commercial activity, that China provides much of the market expansion potential, and that the U.S. will remain the single most important market for North Asian goods. Japan's role in North Asia will be constrained by the historical hostility and mistrust the region's other economies feel towards it, and by the growing economic importance of mainland China. Japan's role could also remain constrained should the U.S. maintain, or enhance, its commitment and level of involvement in the region.

The increase in North Asian economic interdependence that is taking place 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. 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. The strong and 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.