For the past two decades, four of the five Asian economies--Hong Kong, Taiwan, South Korea and Japan--examined in this paper have experienced good-to-spectacular economic growth, while the fifth, China, entered a period of rapid growth fifteen years ago. In recent years, they also have moved markedly toward increased economic interdependence, despite differences in language, culture, resource endowments and levels of income. Flows of trade and investment within the region have grown substantially. Discrete actions by private firms and individuals appear to be the driving force in this phenomenon, as businesses in the region strive to retain competitiveness in the wake of appreciating currencies, rising wages and land costs, and technological change. Government actions at a variety of levels have supported these moves. Already characterized by an outward orientation and policies to attract foreign investment, the North Asian governments have unilaterally liberalized, to varying degrees, their markets for goods and capital in recent years.

Increasing economic interdependence in the region has not led to the raising of new formal or informal barriers to economies outside the region. The growth in intraregional trade that has been observed in recent years has not come at the expense of foreign, including Canadian, access to and influence in the region. Increased regional interdependence, if it contributes to a lowering of trade and investment barriers, for example, can improve the business environment for all potential suppliers. Intensified intraregional ties can exist side-by-side with active trade and investment relations with other partners and can support the continued development and evolution of the multilateral trading system. Moreover, to the extent that interdependence is the product of the freeing of market forces in the region, it is both less likely to harm outsiders and less susceptible to new protectionist policy influences.

As the 1980s passed, Japan's and the NIEs' need for new sources of supply for land, raw materials and labour to maintain the competitiveness of their respective export-oriented economies increased.[2] Consequently, during this period, Japan followed by the NIEs invested heavily in Southeast Asia's manufacturing industries.[3] Intraregional production and tariff reduction schemes attracted the interest of companies that wished to rationalize their operations in East Asia (North Asia less

[2] The NIEs are Korea, Taiwan, Hong Kong and Singapore.

[3] For a more detailed discussion of direct investment in Asia by firms from Japan and the NIEs and the relationship between foreign direct investment and trade, see Seiji Naya and Eric D. Ramstetter, "Foreign Direct Investment in Asia's Developing Economies and Trade in the Asia Pacific Region", in Foreign Investment, Trade and Economic Cooperation in the Asian and Pacific Region, U.N./Economic and Social Commission for Asia and the Pacific, Development Papers No. 10, 1992, pp. 43-100.