

barriers to trade that prevent it from exporting to the host country, and that intrafirm trade follows this investment then, to the extent that foreign subsidiaries trade with their parent firms, the low levels on FDI would translate into losses of potential exports from foreign firms to their subsidiaries in Japan. One of the five baskets of issues that the Japan-U.S. "Framework" talks are addressing is competitiveness and the need for regulatory reform in Japan. Specifically, the negotiations are examining the barriers to foreign participation in the Japanese economy that are generated by Japanese laws, regulations, administrative practices and competition policies. The opening of the Japanese economy will be a long process, thus limiting, *inter alia*, the scope for fuller economic integration in North Asia.

5.2 Korea

A variety of factors could affect Korea's prospects for closer economic interdependence/integration with North Asia. Historically, Korea's contact with the other nations of North Asia has not been good. China has been seen as a threat to the independence of the Korean peninsula, and Korea has only recently established diplomatic relations with China. In response to this diplomatic shift, Taiwan severed relations with Korea and announced that all preferential economic and trade treatment granted to Korea in the past would be phased out. Secondly, Japan's occupation of Korea from 1910 to 1945 created an animosity that endures to this day. Concern over specifically Japanese investment has reportedly been a factor in the relatively slow liberalization of Korea's foreign investment regime.

Although Korea has made notable progress in removing formal restrictions to imports, more subtle barriers have effectively prevented fuller liberalization. Standards, testing, labelling and certification requirements have reportedly been used to block the entry of goods in such sectors as agriculture, cosmetics, chemicals and electronics. Continued use of such restrictions will place limits on Korea's economic links with its North Asian neighbours.

In addition to the barriers mentioned above, Korea has also undertaken several "frugality campaigns" in recent years, designed to curb imports and consumption of luxury goods. The government has consistently denied taking a role in such campaigns, maintaining that anti-import activities are grass-roots initiatives designed to reduce both conspicuous consumption and Korea's external debt.

Despite these impediments, several factors are leading Korea toward closer links with the region. Economic restructuring in Korea and consequent direct investment flows to East Asian countries and, more recently, China, have generated closer economic ties. Korea's direct investment in Asia remains mostly concentrated in