

1. Introduction

This Paper sets out to determine whether North Asia--Japan, China, Hong Kong, Taiwan, South Korea and eastern Russia--is becoming more integrated economically and, if so, at what pace. Trade, investment and other economic data for, as well as the commercial and development policies of, North Asian countries are examined to determine whether recent economic changes and policy measures are contributing to a merging of North Asia's markets for goods, services, capital and labour.

The paper will look at the trends in and conditions for trade, investment and economic integration in North Asia (including intraregional and extraregional trade and investment); host country policies and factors influencing those trends and conditions; the relationship between foreign direct investment in the region and the area's trade patterns with some of the world's major economies; energy needs and resources; environmental conditions, consequences and opportunities; and current and proposed regional institutional arrangements.

The Paper will also attempt to answer the following questions:

- Are the trade and investment trends in the "region" something that should concern the Canadian private sector and Government?
- Is there more that the Canadian private sector and Government could or should do to strengthen Canadian participation in North Asian growth?

Economic integration is encouraged by the progressive removal of policy and other barriers segmenting markets for goods, services, capital and labour, so that resource flows approximate what would be expected without policy or other constraints. Full economic integration is the effective merging of markets for goods, services, capital and labour.¹

Steps toward integration may be taken unilaterally, bilaterally or multilaterally, and can take the form of trade and investment liberalization, regulatory harmonization, or political cooperation on economic matters such as regional infrastructure development. In addition, firms can contribute to integration by rationalizing production across national borders.

¹ For a more detailed review of the literature pertaining to economic integration, see Julie Fujimura, "Towards Regional Economic Blocs: Are We There Yet?", Department of Foreign Affairs and International Trade, Policy Staff Paper No. 95/01, January 1995.