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and East and South-East Asian Economy**

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EUROPEAN ECONOMIC INTEGRATION AND EAST AND SOUTH-EAST ASIAN ECONOMY*

ZHANG YUNLING**

European economic integration, characterized by the development of a European Single Market and European Monetary Union (EMU), has been widely discussed in recent years. This paper intends to analyze this development and its impact on the outside world, especially on the East and South-East Asian region. Three topics will be discussed: 1) European Single Market; 2) East and South-East Asian economy; 3) European integration and East and South-East Asian relations.

1. European Single Market and its Impact

It is alleged that the completion of the Single Market will give an extra dynamism to the economic growth of the European Community. This dynamism is expected to come especially from the following two factors: greater economies of scale and increased competition, as a result of the opening of the borders between the member states. Estimates of the effects are based on many assumptions and are rather different. According to the Emerson Report and the Cecchini Report (1988), the gain will be around 4.5 per cent in once-for-all additional economic growth, while Richard Baldwin, professor at Columbia University, maintains this figure significantly underestimates the economic effects by an order of magnitude of five (Baldwin, 1989). Of course, given the context of recession on the other hand, the

* I am grateful to Professor Susan Strange for her valuable comments on the draft of this paper.

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effect would be much less than these estimates. Generally speaking, the effects in the medium run will be reflected in the following economic fields: a) consumer price down; b) public finance improved; c) new jobs created; d) external imbalance improved. Some optimistic views hold that the economic growth rate of the EC under the Single Market condition may be as high as that of the 1960s if the Community as a whole and the member countries adopt the correct policies (Giersch, 1989).

The completion of the internal market has been characterized as a *revolution* bringing about changes in the economic, social and cultural sphere. At the Maastricht summit meeting in December 1991, political leaders declared that they had decided to push forward with EMU, which means that the Community will be much more integrated than it would have been under the 1992 program of the Single Market. Many of the effects can be seen already. For example, lots of European companies, as the forerunners, have taken steps to meet the challenge. The number of mergers within the EC has increased significantly during the last two or three years. The economic policies of the member states have begun to change to meet the anticipated requirements of the internal market. This will have long term effects on the social and economic structure and development. Among the economic sectors, the service sector is considered to be the one that benefitted most from the opening of the borders. The banking service, for example, is likely to improve due to cross-national competition, which will provide benefits for other sectors as well.

The fascinating future and the promising benefits of the Single Market are of great attractiveness to outsiders. A market without internal borders, with a population of more than 300 million, a total GNP of more than 5000 billion US dollars and exports and imports of about 2700 billion US dollars (1990 figure), would be the largest single market in the world. To non-EC countries, however, the promising potentiality of the internal market also poses a threat. They are afraid of being kept out of the common market and of being discriminated against. In an immediate reaction, many European countries have now applied for membership. Even the newly independent Ukraine announced its intention to join the EC in the

near future. This wave of applications encourages the EC to accelerate the integration process and execute the further integration on a broadening scale and depth. Not surprisingly, the negotiations on the European Economic Area (EEA) between the EC and the EFTA countries have resulted in a successful agreement. Companies in non-EC countries have taken steps to enter the internal market before the end of 1992 in order to be treated as domestic companies and get the internal benefits. Japanese, US and NIC investments have increased rapidly in recent years. The number of cross national mergers between European and non-European companies increased significantly. During the mid-1980s when people talked about the 'decline of Europe', *moving out* used to be a kind of alternative strategy for many companies including European companies themselves. With the progress on the completion of the Single Market it has now been replaced by *moving in*, either by setting up more production units, or by establishing larger and more efficient sales networks.

Nonetheless, the full effects of the Single Market will only be seen in the long run, and the real gain to the member states will depend on the scale and the degree of the restructuring of their economies. It is hard to believe that the EC market will become a genuine single market in the short run since the structures of different markets, the tradition of customers, the supreme inter-interest oriented policies of the national governments will all continue to play a role. Walter Goldstein argues that "the fundamental weakness of the EC will remain since the EC organized its power not in market terms but in state units" (Goldstein, 1991-92). Therefore, there is a danger that market barriers exist while the borders are open. National markets may still be divided even within a common market, which will surely cut down the expected benefits from completion of the Single Market as well as from EMU.

The impact of the internal market on the outside world is still not clear. The Commission of the European Community has repeatedly emphasized that the European Single Market is not a protected market, but rather one open to all. It is asserted that the benefits from the Single Market will not only go to the European Community, but also to other countries since an enlarged market may create more opportunities for all trade partners. The possible benefits to outsiders

will depend on: a) the potentiality and the structure of the internal market itself; b) the policy of the EC towards the outside world; c) the ability to compete in the internal market by outsiders. According to some studies, the pattern of trade of the EC under the Single Market will not change much in the short run, but in the mid-term and long-term run. For example, the trade creation and the trade diversion caused by the internal market relating to the manufactures of the developing countries are almost the same for a one year period, but the latter may be four times larger than the former, which means there may be a significant change in the EC trade pattern with the outside world (Davenport, 1990; Langhammer, 1990). One should, of course, be cautious when using these estimates since there are many factors that must be considered, like the real development of the internal market itself, the effects of protective regulations, the diversion of direct investment and the export redistribution among the suppliers (Emmerij, 1990). The increasing competition from the outside, especially from East and South-East Asia, will also have an impact on these estimates. Actually, what worries the non-EC countries most is not the static figure, but its *internal benefit* character, the possible *fortress Europe*. As Ruediger Machetzki argues, "notions of comprehensive liberalization and free access to the EC market contain strong elements of wishful thinking" (Machetzki, 1991). Both sides can easily be understood. On the one hand, the EC will continue to keep many of the existing protective measures, and on the other hand, the EC will surely impose new restrictions when meeting with strong competition from the outside.

The effects of the Single Market will be manifold. One should consider the following factors when analyzing the impacts of the Single Market on the outside world. First of all there are the effects of the pressure created by the Single Market on the trade partners to meet the challenge, which compels them to upgrade their technology and enhance their efficiency. This in turn strengthens their competitiveness. Thus the completion of the Single Market is not only a dynamic force for the EC economy, but also, indirectly, for the trade partners. One may easily find examples of this in the case of Japanese and East Asian companies. Secondly, the gain from the investments in the internal market should be

considered. The *internal benefit* will not necessarily all go to European companies. We may assume that what is beneficial to the European Community is also beneficial to other countries. So that the companies of the European Community will not necessarily be the winner in the internal market as long as the European Community or its member states do not adopt discriminatory measures. One cannot rule out the possibility that the internal market becomes protective if the outsiders become too competitive, either through normal trade or through direct investment. "The never-ending demands for quota regulations, local contents shares, anti-dumping actions, reciprocity arrangements and other restrictive schemes as well as demands for so-called voluntary self-restraint agreements (euphemistically called 'orderly marketing') will not be silenced without compensation" (Machetzki, 1991). Considering the increasing trend to trade protection within the EC market in recent years, "the pressure for protectionism may intensify as the Single Market is realized" (Andersson, 1991).

To sum up, the benefits of a European Single Market are obvious. Three points need to be emphasized here. First of all the traditional structure of the economy and the market will not be easy to change, which means that it is really naive to think that there will be a really unified internal market in the short run. One may see this from the very low rate of implementation of the regulations passed by the Council for the Single Market. Further integration, based on the construction of EMU, will be more difficult to be completed. Secondly, in an open economic system, the picture of competition and the distribution of the benefits is rather mixed. The real gain from the Single Market of the European countries will largely depend on their ability to restructure their economies, rather than on the new protection. Actually, the investors from the outside will also gain from the internal protection, and lose equally if the trade partners retaliate (a real disaster for all if it happened). Thirdly, the internal market cannot replace the external market since there is a structural dependence of the EC economy on the external market in a highly integrated world economy. This means that the dynamics of future growth in the EC economy will not only come from the internal market; the expansion of the external market will still be very important. Compared to the

situation in the late 1950s and early 1960s, the EC economy is now much more deeply integrated with the world market. The engine of the EC economy must be fueled by external growth.

2. The East and South-East Asian Economy

The term 'East and South-East Asia' is used here to refer to Japan, China, the four NICs and ASEAN. This region began to show its dynamism of economic growth in the 1960s. It was first led by Japan, with a continuous high growth rate of 10 per cent in a decade, and then by the 'four dragons' - Taiwan, Hong Kong, Singapore and South Korea, with a growth rate in the range of 8-10 per cent in the 1970s and 1980s. ASEAN achieved economic success through its regional cooperation, and some countries were labeled as the 'tigers' of the economic development since the late 1980s. The reforms and the open-door policy gave a new dynamic to the Chinese economy. Within a decade, starting in 1979, the GNP doubled, foreign trade quadrupled, and the coastal area, with a population of more than 300 million and with more than 20 special economic zones or 'open cities', has become the belt of the west rim of the Pacific basin with high expectations of economic prosperity in the 1990s and in the next century. It is interesting to recall the discussion of the 'Asian Era' in the mid-1980s which was in sharp contrast with the 'decline of Europe' in the same period.

The area will continue to show dynamism in the 1990s. Japan is and will continue to be the leading economy. Its growth rate may slow down but it will still be higher than that of the other industrialised countries, and though its share in the region will decline, it will still increase in the world economy compared with the previous decades. The four dragons will surely continue to keep relatively high growth rates since their economies will gain new strength through the transformation of the labor-capital intensive economies to the capital-technology intensive economies. The four tigers, Thailand, Malaysia, Indonesia and the Philippines, with more population, more resources and larger scale economies, will probably carry on the wave of growth. China, with its rich resources and extraordinary potentiality, will

continue its course of modernization. Considering its magnitude, the continuous development of the Chinese economy will make a significant contribution to the prosperity of the region.

There are three important trends that characterize the economic development of this region:

- The *ladder-shaped structure* of the regional economies will become more striking in the future, which may provide special dynamism to the regional economic development since the transfer of technology, the exchange of goods, and the flow of other resources will be conducted on a rational and expanding base.
- Regional economic cooperation will be strengthened. In the last decade and especially in the last two or three years, intra-regional trade and intra-regional investment increased significantly. The summit meeting of ASEAN in February of 1992 agreed to turn ASEAN into a free trade area by the end of this century. The possibility of an economic organization in this region on a larger scale cannot be ruled out for the future. Surely, regional economic integration will speed up either through the economic organization or through the normal trade and investment.
- The external market will continue to be vital to the economic development of this region. The Japanese economy has transformed from the model of *export-leading* to that of *investment-leading*, which makes it more integrated to the other economies. The new generation of high-tech products produced by the old four tigers needs to find expanding markets especially in the industrialized countries. The development of the export-leading new industries of the new four tigers as well as China are largely based on exports to foreign markets. In this case, the regional market cannot replace the other markets because of structural differences.

The dynamics of the East and South-East Asian economy stems largely from the internal dynamics of the economic transformation from a lower or to a higher stage and from the resulting structural space for the transfer of regional resources, while the growth prospect of the EC economy mainly stems from the further integration of the Single Market and EMU. Thus the two regions may play a vital role in

shaping the future development and the structure of the world economy. However, it is still hard to tell whether the future of the world economy will be an 'Asian Era' or a 'European Era'.

3. The European Community and East and South-East Asia

Let me first present a brief review of past patterns of trade between the two regions before going into detail about their possible future relations. Table 1 illustrates the general pattern and the trend of EC trade. In the 1980s, the share of the internal trade in the EC increased slightly, from 55.7 per cent in 1980 to 60.7 per cent in 1990. These figures show both the absolute and the increasing importance of the internal market. On the other hand, the share of EC trade with East and South-East Asia has increased, though the absolute share is still small compared to the internal trade (it must be noted that the import share is much larger than the export share, they are 5.2, 8.6, 9.1, 9.1 per cent in 1980, 1987, 1989 and 1990 respectively).

Table 1. The regional distribution of EC trade in percentages

year direction	1980	1987	1989	1990
export to EC	55.7	58.8	59.7	60.7
export to EFTA	11.1	10.9	10.4	10.3
export to Europe	71.2	70.2	69.0	67.0
export to ESEA*	3.1	4.7	5.6	5.6

* East and South-East Asia.

Source: Direction of trade statistics, yearbook, 1986, 1991.

The trend becomes more obvious if compared to the general figures. In the period 1980-1990, the total export of the EC increased 0.96 times, while the export to East and South-East Asia as a whole increased 2.7 times, and to Japan 3.3 times. Another trend can be derived from the table. The share of trade to both EFTA and Europe actually declined. The large reduction of the export to Europe in 1990 was mainly due to the worsening economic conditions of Eastern Europe and the former Soviet Union. For example, the import of the Soviet Union from Europe declined by 18 per cent in 1990, and that of Bulgaria by 27 per cent in the same year (Direction, yearbook, 1991). Nonetheless, an imbalance of the EC trade with the East and South-East Asian region still exists, with a large deficit on the EC side, especially with regards to Japan. This has been criticized as the result of an imperfect strategy towards the East and South-East Asian market (Mackziski, 1991). It is hard to believe if one just looks at the increasing trend of the internal trade of the EC during 1980s.

Let's now look at the picture on the other side. From Table 2, one may find out that the importance of the EC market for East and South-East Asia is much more significant than that of the East and South-East Asian market for the EC.

Table 2. ESEA* export to the EC in percentages

year direction	1980	1987	1989	1990
export to EC(1)	16.5	16.2	20.4	21.1
export to EC(2)	14.0	16.6	17.5	18.8
export to EC(3)	13.3	12.7	12.5	14.0

* East and South-East Asia; (1)ESEA; (2)Japan; (3)China.
Source: Direction of trade statistics, yearbook, 1986, 1991.

The increasing share of the trade of the East and South-East Asian region with the EC reflects the fact that the market of the EC becomes more and more important. During the 1980s, the total export of East and South-East Asia increased 1.5 times, while that to the EC increased 2.1 times. As a matter of fact, there was a 'strategic shift' towards the EC market, especially after the mid-1980s. This may be more obvious if we compare it to the trend of the trade with the United States. Both the export share of the East and South-East Asian region as a whole and that of Japan with the United States declined by 4 per cent in a four year period from 1987-1990, while export to the EC increased by 4 per cent in the same period. The major market of Chinese exports is in East and South East Asia, especially in Japan and Hong Kong. The share of Chinese exports to this region increased from 56.2 per cent to 61.5 per cent in the period 1985-1990. The share of the Chinese export to the United States was 23.5 per cent in 1990, against 14.6 per cent in 1987, while export to the EC was 14.0 per cent in 1990, an increase of only 1.3 per cent compared to 1987. The importance, however, of the EC market has been given more attention by the Chinese exporters after the construction of the European Single Market. The desire to restructure the export markets has become stronger after the recognition that the export trends are more geared towards the Japanese and the US market. According to the latest statistic figure, the EC market share in Chinese exports increased significantly in 1991 (China, yearbook, 1991).

Generally speaking, the opportunities provided by the European Single Market to East and South-East Asia seem to lie mainly in the following aspects:

1. The expanding market, with an increasing demand for imports. The increasing opportunities on the EC market coincide with the need of a structural shift of the external market of East and South-East Asia from the United States to Europe.
2. The non-barrier large market, making business easier and more efficient. This provides the advantage of economies of scale for the exporters in the production for the EC market, which is especially important to the new high-tech products.
3. A more dynamic economy, with more opportunities and better conditions for investment. This is only a partial explanation for investments on the EC market

from the rest of the world. There is also a strong incentive for investors to break through the trade barriers formed by the common border.

These opportunities can only be exploited through arduous efforts. The EC market will become more competitive both because of the strengthening competitiveness of the EC itself and due to increasing competition from outsiders. Besides this, the most anxious point to the East and South-East Asian region is whether the EC will adopt a protectionist policy facing increasing competition from the outside, typically from East and South-East Asia.

The following factors are likely to have a negative effect on the EC agenda for its relations with East and South-East Asia:

1. "Most attention so far has been paid to the creation of the Single Market, with all its remaining difficulties" (Andersson, 1991). This is largely true for the Commission of EC, the national governments, as well as the European companies.
2. Special attention is being given to Eastern Europe and the independent republics of the former Soviet Union. The difficulties of their transformation to market economies make the trend more pivotal. There is a general concern that capital and technologies of the EC may increasingly flow to Eastern European countries and the Commonwealth of Independent States (CIS), either through aid programmes or through commercial contracts.
3. The external relations of the EC are largely politically structured, which is reflected in the market arrangements with the ACP group and the Mediterranean countries. East and South-East Asia do not seem to be on this 'preferential agenda'.
4. The differences in market structure, the regulations, the culture etc. between Europe and Asia create some difficulties for the European countries in tapping the Asian markets.

Facing all this, the important point for the EC is how to gain the benefits from this increasingly dynamic region. One may find that the Single Market is not enough of a change to curb the declining or sluggish trend in the EC economies. It is possible that opportunities are missed if there is not an immediate response and a

correct policy. This is, of course, also true for the East and South-East Asian region in meeting the challenge of the Single Market from the other side. A first assessment of the different initiatives brings me to the preliminary conclusion that East and South-East Asia has done better than the EC.

4. Conclusions

It is still rather difficult to draw a clear picture of the real benefits and the costs of the European Single Market and its related developments to both the internal and the external economies. A tentative analysis of the existing information leads to the following conclusions:

1. Although the potential benefits of the Single Market are widely recognised, the real gain from it will depend on many factors. At least some of them are still not clear and remain uncertain. The 'internal benefit' doctrine is not necessarily a safeguard for the relations of EC member states with the rest of the world.
2. The East and South-East Asian economies are and will continue to be dynamic. Beside increasing regional cooperation, there is a clear trend, a 'strategic shift', towards the EC market, largely in response to the establishment of the European Single Market.
3. The EC has given most of its attention to internal European affairs, to the completion of the Single Market (including EMU as well as political union), and to the transformation of the East European economies. It is hence likely that opportunities in the East and South-East Asian region are missed. What is needed in the short term is an EC policy and plan of action for relations with East and South-East economies.

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