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Friedrich von Kirchbach*

Euro-Asian Trade: The Stepchild in Triadic Relations Takes Over

Euro-Asian trade was for a long time by far the weakest link in the triadic chain of economic relationships between Europe, North America and Asia. The development of the EC towards the single market, the opening up of Eastern Europe and the growth of trade within the Asia Pacific region itself have led to the expectation that this link would become even weaker in future. The following article presents evidence to the contrary.

Current economic fashion appears to be preoccupied with what is perceived as emerging trade blocs. Europe, it is argued, is preoccupied with the completion of the single market. The share of intra-regional trade in total exports has risen constantly from 53% in 1985 to 60% in 1989 and 63% in the first six months of 1991.¹ Intra-European trade flows of more than \$ US 1 trillion in 1990 and 1991 are unrivaled anywhere else in the world. Their predominance does tempt one to conclude that Europe is inward-looking and that the realization of the single market takes place at the expense of Europe's competitive position in overseas markets. The opening up of Central and Eastern European countries and their orientation towards Western Europe further adds to the Euro-centric argument.

Europe's third country trade is modest, indeed, in comparison to its total trade and in per capita terms. Third country exports per European, at \$ US 1358 in 1990, were well below those per Japanese (\$ 2330) and only slightly higher than those of North Americans' third country trade (\$ 1242).

This applies also to Europe's trade with the fast-growing Asia Pacific region: Western European imports from France are equivalent to its total imports from the 11 major economies in the Asia Pacific region (Japan, China, EANIEs² and ASEAN).

A similar argument applies to the Asia Pacific region. For Asian firms, other Asian countries are by far the most important export market and source of imports. Intra-Asian trade, at \$ US 280 bn., exceeded bilateral trade with North America by two thirds and was more than twice as high as that with Western Europe.

The focus on intra-regional developments creates an image of mutual distance and limited exchange between the two regions. This image is, however, incomplete and hides some significant recent developments.

The present paper tries to provide an overview of the recent evolution in trade between Pacific Asia and Western Europe. It attempts to put orders of magnitude and trends into a realistic perspective and it argues that rapid growth of intra-regional trade is not necessarily incompatible with increasing international competitiveness.

¹ Eurostat: COMEXT CD-ROM.

² East Asian Newly Industrializing Economies, i. e. Hong Kong, Rep. of Korea and Taiwan.

³ The paper draws on data from the OECD for bilateral trade flows with OECD countries (Monthly Statistics, Series A), IMF data for bilateral trade flows of non-OECD countries (Direction of Trade Statistics), EUROSTAT database COMEXT on CD-ROM (for EEC data by countries and commodities) and UNDIESA projections 1991 to 1995 (model LINK). There are some discrepancies between these sources. As they do not affect the principal argument in this paper, no effort has been made to explain and reconcile these discrepancies. For more details on these sources, cf. F. von Kirchbach: Foreign Trade Statistics, A Guide for Market Research and Trade Promotion, International Trade Centre UNCTAD/GATT 1992 (forthcoming).

⁴ Cited from Kenneth S. Courtis in: International Herald Tribune, January 1992.

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REPORT

Table 1
Value and Share of EC, US and Japanese Exports
to Asia, 1980, 1985 and 1990

(\$US billion and percentage share of exports in Asian imports)

	Total imports			EC			USA			Japan		
	1980	1985	1990	1980	1985	1990	1980	1985	1990	1980	1985	1990
Japan	141	131	235	6 4%	8 6%	29 12%	20 14%	22 17%	49 21%			
EANIEs	88	107	266	8 9%	10 9%	29 11%	15 17%	17 16%	41 15%	19 22%	23 21%	57 21%
Hong Kong	22	30	82	3 13%	4 12%	8 10%	3 12%	3 9%	7 8%	5 21%	7 22%	13 16%
Rep. of Korea	22	31	68	1 6%	2 7%	8 11%	5 21%	6 19%	14 21%	5 24%	4 14%	17 26%
Singapore	24	26	61	2 10%	3 10%	7 12%	3 12%	4 13%	8 13%	4 16%	4 15%	11 18%
Taiwan	20	20	54	1 6%	2 9%	6 11%	4 22%	5 23%	11 21%	5 26%	5 25%	15 28%
ASEAN	63	63	159	7 12%	7 12%	20 12%	9 14%	8 13%	19 12%	13 21%	11 18%	33 21%
Indonesia	11	10	22	2 16%	2 17%	4 16%	2 14%	1 8%	2 9%	3 31%	2 22%	5 23%
Malaysia	11	12	29	1 13%	1 10%	3 11%	1 12%	2 12%	3 12%	2 19%	2 18%	6 19%
Philippines	8	5	13	1 10%	1 9%	2 12%	2 24%	1 26%	2 19%	2 20%	1 17%	3 19%
Thailand	9	9	34	1 11%	1 14%	4 13%	1 14%	1 9%	3 9%	2 21%	2 23%	9 27%
China	20	43	59	2 12%	6 13%	7 11%	4 19%	4 9%	5 8%	5 26%	13 30%	6 10%
Total	288	317	658	21 7%	28 9%	78 12%	45 16%	47 15%	105 16%	33 12%	43 13%	85 13%

Sources: OECD, Foreign Trade, Series A & C, 1982, 1987, 1991; IMF DOTS for total imports.

Notes: Singapore is included in totals of both EANIEs and ASEAN; ASEAN without Brunei; all export data are f.o.b. except for USA: f.a.s.; no adjustments were made for EC enlargement.

It goes without saying that both regions are extremely heterogeneous, and that economic aggregates for each region hide stark differences in development within each region. Yet there is a clear trend towards more cohesiveness within each of the two regions, a trend which justifies deploying the following arguments at the level of aggregated trade flows.

In open economies, trade data³ provide a fairly good picture of the competitiveness and the integration of countries into the international division of labour, provided that import-substituting foreign investment remains low. This holds true basically for Japanese imports and developing Asia's exports. For Japanese exports, however, trade data underestimates the strength of the Japanese economy. In 1990, the overseas production of Japanese firms was estimated at half the value of national exports.⁴ The same argument applies, to a lesser extent, to the imports of most of the developing countries of the region, which consist to a non-negligible extent of imports by transnational firms from Japan, the USA, other developing countries in Asia, and Europe.

Europe's Dynamic Export Drive

Contrary to conventional wisdom, Europe has successfully built up its position in the Asia Pacific Region over the second half of the 1980s. It doubled its share of Japanese imports from 6% to 12%, increased its share of

imports by the EANIEs by two percentage points to 11% and maintained its share of 12% in ASEAN. In China, the EC had overtaken both the USA and Japan in terms of import market share in 1990. By the turn of the decade, the EC had become a respectable Pacific power, with an import market share in the 11 countries (Japan, China, EANIEs, ASEAN) of 12% as compared to a US share of 16% (cf. Table 1).

Europe also did well in terms of geographic diversification. It significantly increased its share of imports by the two most dynamic players, namely Japan and the EANIEs, each of which absorbed one third of

Table 2
Western European Imports from and Exports
to Asia, 1986 and 1990

(in percent)

	Imports		Exports	
	1986	1990	1986	1990
Japan	53	46	27	33
China	6	9	14	7
EANIEs	25	27	29	34
ASEAN	10	11	12	14
Other Asia	7	7	18	12
Total (\$ US bn.)	78.4	156.2	51.8	105.6

Source: OECD Statistics, Serie A, Nov. 1991.

Note: Singapore included in EANIEs, not ASEAN; ASEAN without Brunei.

REPORT

Table 3
Value and Share of EC, US and Japanese Imports
from Asia, 1980, 1985 and 1990

(\$US billion and percentage share of Asian exports in total imports of importing countries)

	EC						USA						Japan					
	1980		1985		1990		1980		1985		1990		1980		1985		1990	
Japan	17.4	2.4%	21.4	3.4%	61.0	4.3%	32.9	13.1%	72.4	20.2%	89.7	18.1%						
EANIEs	13.6	1.9%	11.6	1.9%	36.9	2.6%	17.8	7.1%	39.1	10.9%	60.5	12.2%	7.4	5.3%	9.9	7.8%	25.9	11.1%
Hong Kong	5.1	0.7%	4.0	0.6%	9.7	0.7%	4.7	1.9%	8.4	2.3%	9.5	1.9%	0.6	0.4%	0.8	0.6%	2.2	0.9%
Rep. of Korea	2.8	0.4%	2.6	0.4%	8.6	0.6%	4.3	1.7%	10.0	2.8%	18.5	3.7%	3.0	2.1%	4.1	3.2%	11.7	5.0%
Singapore	2.6	0.4%	1.8	0.3%	6.6	0.5%	1.9	0.8%	4.3	1.2%	9.8	2.0%	1.5	1.1%	1.6	1.3%	3.6	1.5%
Taiwan	3.1	0.4%	3.2	0.5%	11.9	0.8%	6.9	2.8%	16.4	4.6%	22.7	4.6%	2.3	1.6%	3.4	2.7%	8.5	3.6%
ASEAN	9.6	1.3%	8.1	1.3%	21.9	1.5%	12.3	4.9%	14.7	4.1%	27.1	5.5%	21.4	15.3%	18.6	14.6%	28.0	11.9%
Indonesia	1.7	0.2%	1.4	0.2%	3.6	0.3%	5.2	2.1%	4.6	1.3%	3.3	0.7%	13.2	9.4%	10.3	8.1%	12.7	5.4%
Malaysia	2.5	0.3%	2.3	0.4%	5.0	0.4%	2.6	1.0%	2.3	0.6%	5.3	1.1%	3.5	2.5%	4.4	3.5%	5.4	2.3%
Philippines	1.2	0.2%	1.0	0.2%	1.7	0.1%	1.7	0.7%	2.1	0.6%	3.4	0.7%	2.0	1.4%	1.3	1.0%	2.1	0.9%
Thailand	1.8	0.3%	1.7	0.3%	5.0	0.4%	0.8	0.3%	1.4	0.4%	5.3	1.1%	1.1	0.8%	1.0	0.8%	4.2	1.8%
China	2.6	0.4%	3.0	0.5%	12.3	0.9%	1.1	0.4%	3.9	1.1%	15.2	3.1%	4.3	3.1%	6.6	5.2%	12.0	5.1%
Total	40.6	5.7%	42.3	6.8%	125.4	8.8%	62.2	24.8%	125.8	35.0%	182.7	36.9%	31.6	22.6%	33.5	26.3%	62.4	26.6%
Share (excl. intra-EC)	10.8%		13.8%		21.1%													
Total world	714.6		621.6		1,422.8		250.3		358.9		494.6		139.9		127.5		234.6	

Source: OECD Foreign Trade, Series A & C, 1982, 1987, 1991.

Notes: Singapore is included in totals of both EANIEs and ASEAN; ASEAN without Brunei; all data as reported c.i.f. (except for USA: f.o.b.) by OECD countries; no adjustments were made for EC enlargement.

Western Europe's exports to the region. In contrast, the relative importance of exports to South (other) Asia fell sharply over the second half of the 1980s (cf. Table 2).

In terms of increasing its import market share in the region, Europe has clearly been the most dynamic of the three triadic players. This is even more remarkable as the dollar value of the region's imports soared by an annual 16% over the second half of the 1980s. This performance certainly attests to the export competitiveness of Europe and puts it into the same league as the USA in Asian import markets.

Asia's Impressive Exports

Asian exports to Europe (in nominal dollars) grew by 24% p. a. over the second half of the 1980s, slightly faster than European exports to Asia. This has pushed up the share of the Asia Pacific region in total EC imports by two percentage points over the five years. It remains, however, small at 9% in 1990. Japan accounts for half of the region's exports to the EC (cf. Table 3).

The growing importance of trade with Asia comes out more clearly when looking at EC third country trade. The share of the Asia Pacific region jumped from 14% in 1985 to 21% of EC imports from non-member countries. It is

interesting to note that Japan, the EANIEs, ASEAN and China all contributed to this increase. It is clearly the region's, and not one particular country's, export drive.

In relative terms, Asia's import penetration in Europe remains significantly below that in the USA, even when excluding intra-EC trade. In the USA, Asian and Pacific countries reached a share of 37% of total imports in 1990.

Whereas the EANIEs registered a share of 11% in both Japanese and US imports, their share in the EC (excluding intra-trade) reached only 6% in 1990. The same structure

Table 4
Balance of Trade of the Asia Pacific Region, 1990

(in \$ US bn.)

Western Europe	27
Eastern Europe	- 1
North America	72
Latin America	- 2
Australia, New Zealand	-10
Middle East	-30
Africa	4
Total balance	60

Source: DOTS Yearbook 1991, IMF.

Notes: Asia Pacific: ASEAN, three EANIEs, China and Japan; intra Asia Pacific trade: f.o.b. basis.

applies, at a lower level, to the comparison of EC and US imports from ASEAN and China.

Over the second half of the 1980s, the sources of Western European imports from Asia became more balanced. Japan's share declined by seven percentage points to less than half, while China and the EANIEs increased their share notably (cf. Table 2).

The 1980s witnessed a pronounced redirection of Asian exports. Over the first half, the Asia Pacific share made rapid strides in US imports and Japanese imports, but changed little in the EC. The opposite held true in the second half of the 1980s: Asian penetration of US and Japanese imports stagnated, but increased drastically in Europe. Again, this applied not only to Japan, but to the entire region. The sequencing in export market development, beginning with the USA before shifting to the EC, was thus similar for Japanese and EANIE exporters.

Watershed

1991 marks a watershed in trade relations between the triadic powers Japan, North America and Western Europe. For the first time, trade between Western Europe and the Asia Pacific region surpassed trade across the Atlantic, owing to the dynamic development of bilateral trade between Asia and Europe. Within less than two decades, trade across the Atlantic was not only overtaken by trade across the Pacific, but became in fact the weakest link in triadic trade relations (cf. Diagram 1). This is particularly

significant, as the rise of Euro-Asian trade coincides with the economic disintegration of the physical land link.

Between 1989 and 1990, Euro-Asian trade (measured in US dollars) remained practically at the same level. In 1991, however, Asian exports to the EC expanded by 15%. This tipped the balance between transatlantic and Euro-Asian trade.

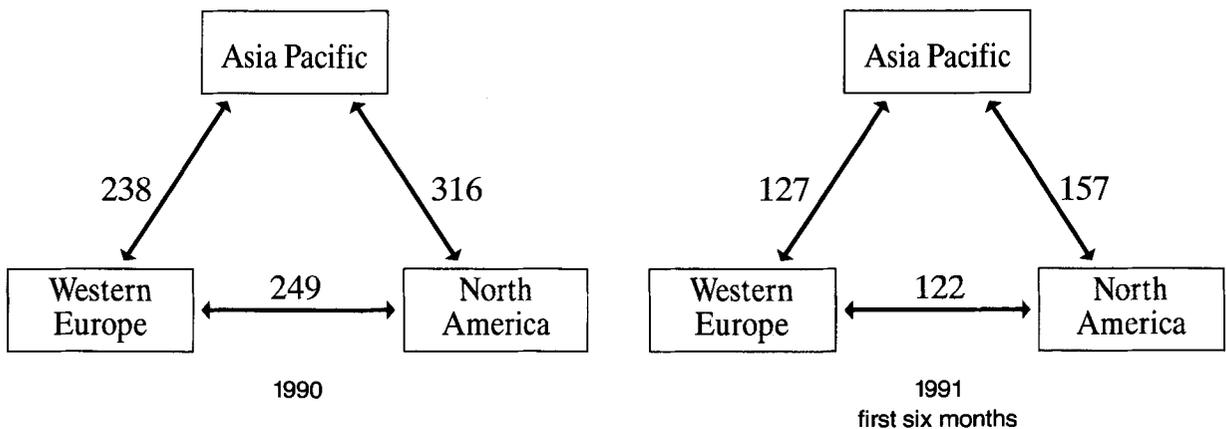
It also greatly exacerbated the EC trade deficit with Asia. The EC's 1991 trade deficit with the 11 Asia Pacific countries under review is likely to have increased by close to 50%, reaching some ECU 50 bn. (cf. Diagram 2).

Effect of German Reunification

In 1990, Asia Pacific registered a trade surplus of some \$ US 60 bn. The surplus with North America alone was \$ US 72 bn. and with Western Europe \$ US 27 bn. (excluding the new Länder in Germany). These high bilateral surpluses were partly compensated for by the oil-related trade deficit of \$ US 30 bn. with the Middle East (cf. Table 4).

The situation deteriorated significantly over the year 1991: Japan alone reported a trade surplus of \$ US 78 bn., i. e. 50% more than the previous year. While the Japanese trade deficit with the USA remained stable in 1991, the rise affected in particular the EC. Its trade balance with Japan increased by half to reach \$ US 27 bn. This reflects, on the one hand, a 9% reduction (!) of European exports to Japan (reflecting partly recession-reduced import demand in

Diagram 1
Atlantic Becomes Weakest Link in Triadic Trade Relations
 (\$US bn.)



Source: OECD Foreign Trade, Nov. 1991.

Note: All data are f.o.b. except imports of W. Europe from Asia Pacific: c.i.f.; Asia Pacific: ASEAN without Brunei, three EANIEs, China and Japan.

REPORT

Japan and reduced European art sales) and, on the other, a 10% rise in Japanese exports to Europe (partly reflecting the J-curve effect of the appreciation of the yen).⁵

Much of the additional EC imports are related to German reunification. As is well-known, German imports soared in 1990 and 1991. Significantly, the Asia Pacific region benefited to a large extent from this additional import demand. German imports from the region increased by a projected \$ US 35 bn. in 1991 as compared to 1990, of which about one third came from Japan and two thirds from developing Asia.⁶ Once economic recovery and reconstruction have picked up in Central and Eastern Europe, the Asia Pacific region is bound to participate actively. The present irrelevance of Central and Eastern Europe as a trade partner for Asia – for the time being it is less important than Africa – is likely to change.

A sectoral analysis of the changes in the Euro-Asian balance of trade identified product groups in which the balance of trade changed by more than ECU 100 m. between the first six months of 1989 and the first six months of 1991. The results are unequivocal:

Out of the 23 product groups identified – defined at the HS 2-digit level – there were only three in which the EC

trade balance improved. These product groups were aircraft; silk products; and animal feed and food industry residues. The improvement of the EC balance of payments in the latter two groups was exclusively the result of reduced imports from the Asia Pacific region. The exceptional performance of the European aircraft industry, as compared to other European industries, immediately invokes parallels with the USA.

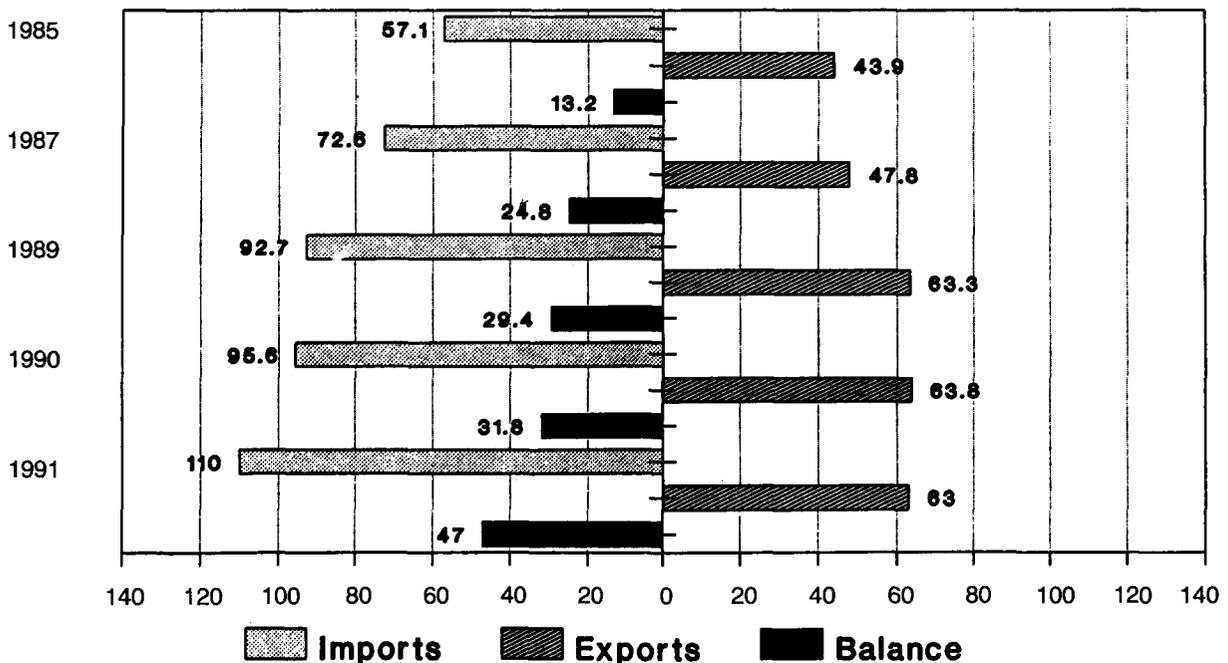
Product groups in which the Asia Pacific region has significantly improved its net export performance vis-à-vis Europe include: cars (HS 87); garments (HS 61 and 62); non-electric machinery (HS 84); consumer electronics and electric machinery (HS 85); footwear and leather articles (HS 42 and 64); and toys (HS 95). The broad range of products bears witness to the growing diversification of the region's competitive industries.

The decisive question will be to what extent Europe will be able to reverse its lacklustre third-country export performance in 1990/91 in particular with respect to the EANIEs. EANIE imports of manufactures were already in

⁵ Cited from: Journal de Genève, 22 January 1992, p. 6.

⁶ OECD: Monthly Statistics of Foreign Trade, Series A, December 1991.

Diagram 2
Balance of Trade of EC with Asia
1985-1991, ECU bn.



Source: Eurostat, COMEXT CD-ROM.

Note: Data for 1991 are estimated on the basis of the first six months.

1991, at over \$ US 200 bn., nearly twice as important as Japanese imports of manufactures. And, what is more, their industrial imports are projected to grow at 15% over the first half of the 1990s (cf. Diagram 3 and Table 5). In this respect, the EANIEs will be Asia's key and test market in the first half of the 1990s.

Conclusions

European and Asian firms have the advantage of a huge and rapidly integrating regional market in common, which absorbs over 60% and 40% of their exports respectively. This, however, has not prevented them from intensifying their trade relations over the second half of the 1990s. Europe has significantly increased its market share in the region to about 12%, and the 11 Asia Pacific countries under review have reached a market share of 9% in total European imports. The process of mutual market penetration has overall advanced in parallel.

The rapid increase in Euro-Asian trade has, indeed, led to the second major shift in the relative importance of trade within the triangle Western Europe, North America and the Asia Pacific region: Euro-Asian trade surpassed, for the first time, transatlantic trade. Within little more than one decade, transatlantic trade was thus relegated from the first to the last position in triadic trade relations.

It is true that the good performance of European trade is not matched as far as investment is concerned: European foreign direct investment in Asia remains far below that of Japan, the USA and other Asian countries, and continues to fall back. This trend, however, should be interpreted cautiously. One may very well argue that, firstly, European –and in particular German– firms have traditionally shown a high exports-to-foreign-investment ratio, and that,

Table 5
Projected Growth Rates for Asian Imports,
1991 – 1995

(percent per annum)

	Food	Fuels	Other Commodities	Manufactures
Japan	5.4	5.2	4.1	11.7
EANIEs	15.5	11.7	9.8	15.8
ASEAN	10.5	8.9	8.5	10.5
China	6.0	7.3	5.7	13.8

Source: UN DIESA, model LINK, 1991.

Note: Singapore included in both EANIEs and ASEAN.

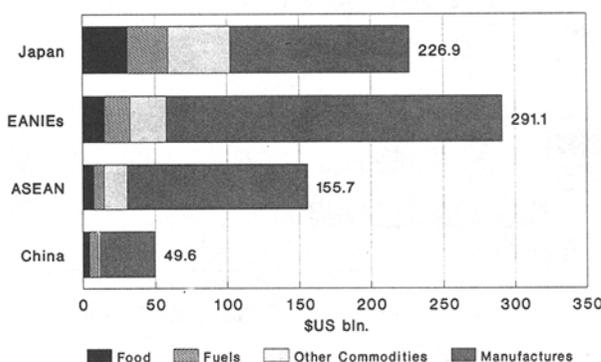
secondly, the significant intra-European investment is a major factor towards strengthening the international competitiveness of Europe. In turn, the weak European foreign investment position in Asia should not be overemphasized as an indicator for European competitiveness in Asian markets.

The second half of the 1980s witnessed a clear shift by the Asian export drive from the USA to Europe. Europe's trade deficit has markedly increased from 1985 to 1990 and has soared again in 1991. While this is related to a large extent to German reunification, it also reflects the growing competitiveness, diversification and complementarity within the Asia Pacific region.

Europe's trade deficit with Asia is likely to persist at least over the first half of the 1990s. From an economic point of view, such a bilateral deficit is not a reason for concern as long as there is no pronounced overall balance of trade deficit. At the political level, however, the order of magnitude of this deficit is likely to stir up reactions. It may very well reinforce tendencies towards raising European protectionism in its various forms, including industrial policy initiatives. This, in turn, is likely to further accelerate Asian investment in Western Europe, although such investment will not necessarily mitigate the balance of trade deficit. The political management of Europe's trade and investment deficit with Asia will be a key issue in Euro-Asian relations in the first half of the 1990s. As long as business and economic determinants take precedence over political factors, however, the prospects for Euro-Asian trade relations are very good.

In sum, the emergence of more cohesive trade areas notwithstanding, Europe is not only present in the Asia Pacific region, but Euro-Asian relations are likely to be the most dynamic element in interregional trade in the first half of the 1990s. What remains to be seen is whether the trade policy framework will be conducive or obstructive to this development.

Diagram 3
Composition of Asian Imports in 1991



Source: projection by UN DIESA, LINK, 1991.

Note: Singapore included in both EANIEs and ASEAN.