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## Economic relations between the EU and East Asia: Past, present and future

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### Conclusions

The foregoing remarks show that it will not be a simple matter to define a uniform monetary policy that will have the same real economic impact throughout Europe, given the differences in financial structure. The United Kingdom, in particular, will suffer additional economic costs if the common monetary policy of the European Central Bank is geared primarily to the structures prevailing in continental Europe. The financial structures of countries wishing to participate in EMU will therefore have to be examined in greater depth, and it would be wise to incorporate some reduction in disparities in the convergence programme.

The argument that the problem of interest rates being fixed for only short periods will be resolved "automatically" by changes in market practices when countries join the monetary union, as it constitutes an area of stable prices and hence less volatile long-term interest rates, falls short of the mark, as it is based on a purely static comparative approach and ignores the transitional phase of gradual adjustment in structures and conduct. The uncertainty accompanying the transition could create even more problems for the monetary policy of the European Central Bank during its inaugural stage and hence weaken confidence that it can be effective from the very outset.

The fact that the convergence criteria laid down in the Maastricht Treaty demand a certain measure of interest rate convergence is also an insufficient answer to this problem.<sup>19</sup> First, the Treaty's consideration of long-term interest rates ignores the great significance of short-term rates in some EU countries. Secondly, long-term rates are first and foremost a reflection of interest rate expectations. It is only natural for long-term rates in countries regarded as potential members of the monetary union to converge, as inflation in these countries will be the same in future. Hence, the convergence of long-term rates only demonstrates that the countries in question are expected to become members of EMU. The interest rate criterion is therefore more a kind of derived criterion that reflects the fact that the other conditions of membership have been broadly met or even merely the expectation that a "political" solution will be found by easing the criteria, but is far from being evidence of the convergence of financial structures. This analysis also shows that the conditions set out in the Maastricht Treaty for the introduction of monetary union are not sufficient to ensure that the European partner countries have converged sufficiently to cope with a single central monetary policy.

<sup>19</sup> See also P. Nöbling, *op. cit.*, pp. 164 ff.

Christopher M. Dent\*

## Economic Relations between the EU and East Asia: Past, Present and Future

*Present economic linkages between the European Union and East Asia are relatively underdeveloped despite the fact that a number of EU member states have deep historical associations within the region. It is imperative that EU business engages itself more intensively in East Asia if Europe is not to become marginalised in an emergent "Pacific century".*

As the 1990s have progressed, European Union (EU) governments, companies and other agencies have become increasingly aware of the need to more highly prioritise their region's economic relations with East Asia.<sup>1</sup> This can be mainly attributed to two interrelated factors. First, the dynamic economic growth that has been sustained by numerous East Asian countries in recent decades has created a new important pole of economic power and wealth within

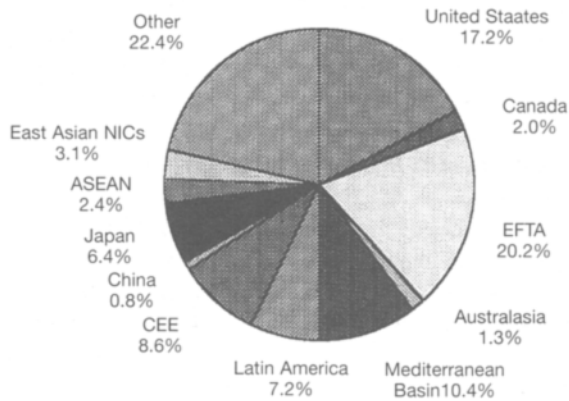
the world economy. It has therefore become strategically imperative for EU business to engage itself more actively in this region, not least in order to acquire a wider stake in the new prosperity it offers. Second, East Asia's economic destiny appears to be far more closely aligned to North America's, the remaining "Triad" power. This trans-Pacific relationship has most recently been fostered through the

<sup>1</sup> For the purposes of this article, East Asia will refer to Japan, China, South Korea, the ASEAN group (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), Taiwan and Hong Kong.

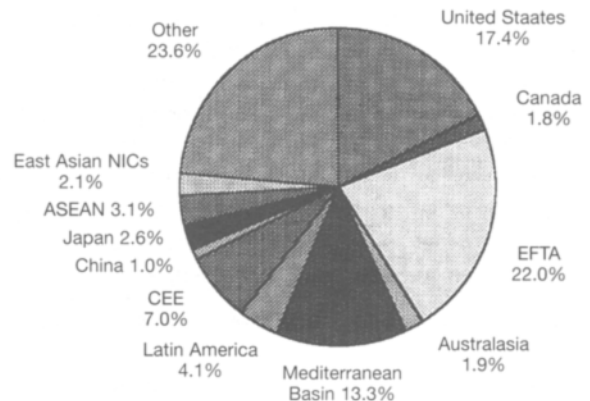
\* University of Lincolnshire and Humberside, Kingston upon Hull, UK.

Figure 1

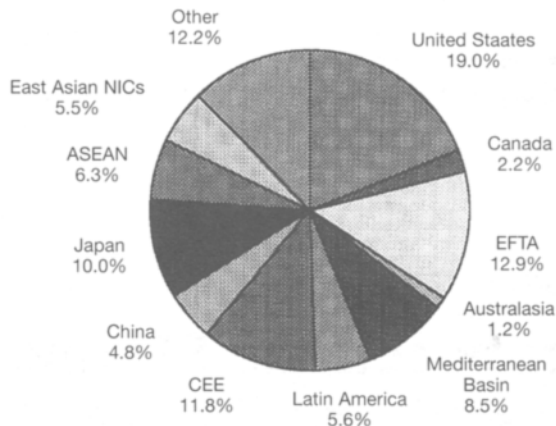
Extra-EU Imports, 1983 (% share by trading partner)



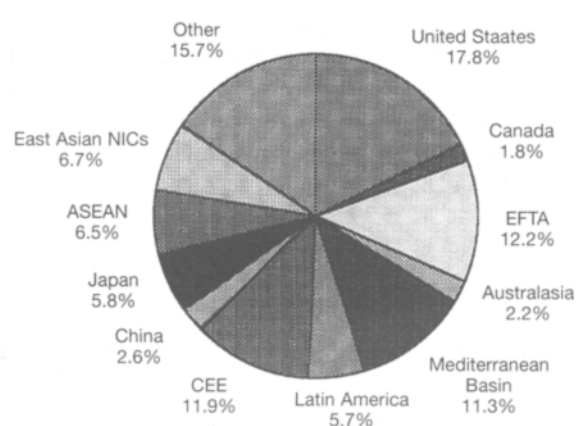
Extra-EU Exports, 1983 (% share by trading partner)



Extra-EU Imports, 1995 (% share by trading partner)



Extra-EU Exports, 1995 (% share by trading partner)



Source: Eurostat.

Note: East Asian NICs are Hong Kong, Korea and Taiwan. Singapore is included in ASEAN.

Asia-Pacific Economic Co-operation (APEC) forum, which currently aspires to form a Pacific Free Trade Area (PAFTA) by the year 2020. Such an interregional arrangement would effectively lock APEC's 18 member countries into a liberalised trade and investment zone which is likely to account for well over half the world's output and international trade.

While many EU member states can claim to have deep historical associations with the South East Asian states in particular, its present economic linkages with the wider region are relatively underdeveloped. Thus, Europe faces the prospect of economic marginalisation in an emergent "Pacific century" that will be to some extent delineated by APEC programmes. Initiatives recently undertaken by the EU have,

however, aimed to enhance its economic relations with East Asia.

Notwithstanding the generally positive response that these initiatives have had from East Asian states, persisting difficulties must be overcome and new challenges met if the two regions are to become more intimate economic partners in the future. The solutions prescribed to achieve these ends also carry significant implications for the world economy, which also need to be considered.

### Dynamic Partners?

East Asia's economic growth and dynamism, and the new commercial opportunities and threats that accompany it, have increasingly demanded attention

**Table 1**  
**Direction of East Asian Trade; 1983 and 1995 (% shares by main trading partners)**

	1983							
	US		EU15		Japan		Other E. Asia <sup>1</sup>	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Japan	19.6	29.5	7.4	14.5	–	–	25.0	24.9
China	12.9	7.7	17.1	11.7	25.8	20.4	11.1	31.3
Korea	24.0	33.8	9.3	13.7	23.8	13.8	9.8	9.7
ASEAN	15.8	18.2	13.6	10.6	21.6	26.0	16.5 <sup>2</sup>	29.2 <sup>2</sup>
Hong Kong	11.0	32.2	12.2	17.5	23.0	4.4	43.9	27.1
Taiwan	17.9	43.3	5.7	10.9	19.5	9.4	4.3	7.7

	1995							
	US		EU15		Japan		Other E. Asia	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Japan	22.6	28.2	14.6	15.9	–	–	35.3	42.4
China	12.2	16.6	16.0	12.9	22.0	19.1	32.6	36.8
Korea	19.3	22.5	13.4	12.2	24.1	13.6	15.0	33.2
ASEAN	13.8	19.1	14.7	14.7	24.4	14.7	32.7 <sup>2</sup>	39.4 <sup>2</sup>
Hong Kong	7.7	21.8	10.8	15.0	14.8	6.1	59.7	44.4
Taiwan	18.6	27.0	13.1	15.0	28.0	12.8	22.1	45.9

Source: IMF: Direction of Trade Statistics Yearbook.

<sup>1</sup> Other E. Asia consists of those countries listed below Japan in the table. <sup>2</sup> Includes intra-ASEAN trade.

amongst the global community of businesses, policy-makers and academics.<sup>2</sup> Combining a range of fast expanding markets and new competitive sources for inputs, the region continues to attract an ever larger number of exporters and inward investors. Moreover, East Asia's share of world exports had risen from 9.6% in 1980 to 26.4% by 1995. Together with South Asia, the wider region's developing countries<sup>3</sup> have managed to more than double their world share of inward foreign direct investment (FDI) from 8.5% over 1981-85 to 18.8% over the period 1991-93. These trends have had a clear impact upon the EU economy. East Asia is now the EU's most important regional trading partner. In 1992, EU – East Asia trade flows overtook EU – North America trade flows. Over 1983-1995, East Asia's shares of total extra-EU imports and exports rose from 12.7% and 8.8% to 26.6% and 21.6% respectively (see Figure 1), thus making the region Europe's most dynamic trade partner.

However, as Table 1 indicates, the EU's relative importance as a trade partner to East Asian countries has improved only marginally in recent years. Furthermore, these countries have generally maintained their level of import and export dependency on the US economy, yet more significantly these have been raised amongst themselves. This is part of a broader trend that similarly applies to intra-regional investment flows, reflecting the greater economic inter-

dependence that has been witnessed across East Asia through the progressive interlocking of transnational exchanges.<sup>4</sup> On the account of inward FDI in East Asia, EU business has again performed disappointingly with its share of the total actually falling from 16.4% in 1980 to 12.4% by 1993. A comparable trend can, though, also be observed for both the USA (16.0% to 14.1%) and Japan (25.1% to 21.0%), although their shares still remain higher than the EU's.

With the above trends in mind, breaking into East Asia's emerging commercial alignments may appear to be an increasingly difficult task for European firms. However, the dynamic state of the East Asian economy implies that its producers are fervently searching for new opportunities in yet unexplored or underexploited territory. The EU economy, as an established provider of advanced technologies, capital and prosperous markets, has perhaps been underutilised by even East Asia's most outward-looking companies. This is partly due to the EU's being perceived in many East Asian quarters as technologically and commercially inferior to the USA and burdened by the associated ills of "Eurosclerosis".

Such perceptions have, though, been modified by the Single European Market (SEM) programme's attempt to revitalise the EU economy. Interest amongst East Asian firms has been stimulated by the new economic opportunities bestowed by the SEM upon non-EU companies. The SEM offers specific

<sup>2</sup> See World Bank: *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, Oxford 1993.

<sup>3</sup> n.b. omitting Japan.

<sup>4</sup> E. K. Y. Chen and P. Drysdale: *Corporate Links and Foreign Direct Investment in Asia and the Pacific*, Harper Educational, Pymble 1995.

benefits to exporters that are targeting their products across dispersed but now linked or, better, integrated EU markets. Notwithstanding external tariff effects, a growth-induced demand for third country imports has also been anticipated. East Asian firms can gain further from developing alliances with incumbent SEM firms or acquiring "insider" status themselves through FDI strategies. This latter option has, though, only been available to a small, albeit growing number of East Asian companies with the "global reach" to conduct these strategies successfully.<sup>5</sup>

### EU – East Asia Economic Diplomacy

The development of the EU – East Asian partnership owes much to the formalised links of economic diplomacy that have been nurtured and the subsequent initiatives that have aimed to reinforce these. On the EU side, this has been largely conducted by the European Commission<sup>6</sup> given its responsibility for managing external trade policy, amongst other related matters, on behalf of EU member states.<sup>7</sup> Those links forged between the EU and the Association of South East Asian Nations (ASEAN) group have been the cornerstone of the former's Asia policy,<sup>8</sup> owing largely to various post-colonial ties that exist between EU and ASEAN member states. Informal EC-ASEAN links were made in the early 1970s with the 1980 Framework Agreement institutionalising political and economic dialogues.<sup>9</sup> Over time, a plethora of initiatives and supportive schemes helped broaden points of contact and areas of mutual assistance between the EU and ASEAN. The economic relationship has also gradually shifted from its historical "donor-recipient" basis to that of more equal partners. This has been warranted by the rapid upgrading of ASEAN's techno-industrial capabilities and subsequent structural changes in the group's exports to Europe. When the Framework Agreement was signed, primary products made up half the value of ASEAN's exports to the EU; by 1994, 81% of this value derived from manufactured goods. Furthermore, Figure 1 testifies to ASEAN's growing

significance in EU trade, overtaking Latin America both as an import source and as a destination for exports by 1995. Efforts to move beyond the current provisions encoded within the 1980 Agreement have, however, been principally thwarted by the ongoing dispute between Portugal and Indonesia over human rights issues in East Timor.

While the EU's relations with ASEAN are the most formalised of those studied, coming to terms with Japan's post-war ascendancy has posed a far more potent challenge to EU economic diplomacy. This has particularly centred on the pronounced trade surpluses that have been sustained by Japan against the EU. These have not been attributed solely to the country's growing industrial prowess. Since the 1980s, Japan's apparent low import propensity has come under close scrutiny. Facing similar trade deficits, the USA initially spearheaded such investigations with its so-called "market-oriented, sector-specific" negotiations in telecommunications, drugs and other industries from the mid-1980s onwards, and then later in 1989 with the economy-wide Structural Impediments Initiative (SII).<sup>10</sup> Both sought to expose the "internal" barriers to trade prevalent within the Japanese economy whose origins lay *inter alia* in domestic policy regimes (e.g. an ineffective competition policy) and the interlocking corporate relationships within the *keiretsu* business groups that were thought to reduce opportunities for foreign competition. The EU has frequently followed in the wake of such US initiatives, seeking to match the bilateral concessions granted by the Japanese government. Like the US, the EU has also used multilateral channels to apply pressure on Japan to open up its domestic markets.

However, the EU's trade deficit with Japan should be at least equally attributed to the former's own inadequacies. These generally relate to a slow and ad hoc development of a common policy towards Japan at a political level in addition to widespread industrial inertia at meeting the Japanese challenge at an economic level.<sup>11</sup> A more proactive EU approach has nevertheless emerged since the early 1990s. In 1991, the EU-Japan Declaration paved the way for more cordial economic relations and provided a catalyst for export-promotion schemes and further industrial co-

<sup>5</sup> See C. Dent and C. Randerson: Korean Foreign Direct Investment In Europe: The Determining Forces, in: Pacific Review, 1996, Vol. 19, No. 4.

<sup>6</sup> Hereafter referred to as the "Commission".

<sup>7</sup> Individual EU member states still maintain their own policy competence on international investment through bilateral investment treaties. However, these are still subject to EU Treaty obligations, such as those on state aid aimed at inducing inward investments.

<sup>8</sup> CEC: Creating a New Dynamic in EU-ASEAN Relations, Brussels 1996.

<sup>9</sup> ASEAN itself was conceived in 1967, initially as a loose regional co-operation arrangement concerned mostly with political and security matters. More recently, economic co-operation has become a prime focus.

<sup>10</sup> L. D. Tyson: From MOSS to Motorola; and Cray: Managing Trade by Rules and Outcomes, in: P. King (ed.): International Economics and International Economic Policy, McGraw Hill, London 1995.

<sup>11</sup> J. McIntyre: Europe 1992 and Japan's Relations with Western Europe, in: T. Mason and A. Turay (eds.): Japan, NAFTA and Europe: Trilateral Co-operation or Confrontation?, MacMillan, London 1994.

operation between European and Japanese firms.<sup>12</sup> This new tact may have directly contributed towards the EU's recently narrowing trade deficit with Japan which has declined by around 10% per annum over 1992-1995. Meanwhile, the substantial flows of Japanese FDI into the EU from the mid-1980s onwards added another significant dimension to this economic relationship.

Prioritising its economic affairs with another emerging East Asian giant has become an increasingly important task for the EU. Formalised EU-China economic relations date back to a 1978 Trade Agreement, coinciding with the advent of China's economic reforms. The basis of these relations was broadened by a Trade and Co-operation Agreement signed in 1985. Three years later, the EU's trade balance with China turned negative for the first time. Its trade deficit with the country continues to diverge and in 1995 was ECU 11.8 bn, around 70% of that with Japan in the same year.

Endeavours made by the EU to redress this imbalance have followed three routes. Firstly, China's exports to the EU have attracted a growing number of protectionist measures, including nearly a quarter of all EU anti-dumping duties (ADDs) imposed on third country imports over the period 1988-95. Secondly, the European Commission has sought to negotiate similar bilateral market-access concessions that have been acquired earlier by the USA from China. Thirdly, the EU's lack of bilateral leverage in comparison to the USA's own, combined with the growing impact China is exerting on the world economy, has led to its support for the integration of China into multilateral fora, and in particular the World Trade Organisation (WTO).<sup>13</sup> China's accession into the global community should not only yield certain public goods for the EU and other WTO members, but also help diminish the USA's relative gains as well as oblige China to remove specific "internal" barriers to trade in the future.

Despite their growing importance as trade and investment partners, the EU's economic relations with Hong Kong and Taiwan have remained largely informal, particularly with the latter, owing to political sensitivities regarding their own relations with China. However, Korea's more neutral position has helped engender a slower but less politically burdened development of its economic relations with the EU. The receding of military governance in Korea from the

late 1980s onwards and its consolidated status as Asia's third largest economy pressed the Commission into seeking a formalised framework in which these relations could be cultivated. This began in 1993, though a protracted negotiation process took until 1996 to culminate in the EU-Korea Trade and Co-operation Agreement being signed by both parties.<sup>14</sup>

As with Japan, the EU has pressed for similar concessionary treatment in Korea's markets to that first offered to the USA, for example on intellectual property rights (IPR) and telecommunications. Korea's own structural impediments have also been a preoccupation for the EU, especially in relation to the large, conglomerated *chaebol* firms that dominate the economy's markets and supply-chain networks to an even greater extent than Japan's *keiretsu* groups. Like their Japanese counterparts, the *chaebol* have made concentrated export penetrations into European markets and have similarly endured counter-reactionary protectionist measures under the EU's Common Commercial Policy (CCP).

Partly as an attempt to draw together these bilateral links into a more coherent framework, both the EU and East Asian states have recently promoted the Asia-Europe Meetings (ASEM) which adds an interregional dimension to their relations. In wider strategic and geo-economic terms, the ASEM also represents an endeavour to strengthen the traditionally weak link in Triadic relations. Hence, it joins the New Transatlantic Agenda (NTA) and APEC and was the last formal inter-Triad arrangement to be installed. By the mid-1990s, both regions had acknowledged the need for such a pact to be made.<sup>15</sup> The ASEM's principal aims have been to further promote interregional economic exchange and to provide a new dialogue forum in which WTO ministerial matters are to be pre-discussed. Its prime objective is, though, to encourage a greater two-way flow of trade and investment through establishing more congruent regulatory procedures (e.g. on customs), new network links between European and Asian firms and other informal "opportunity creating" initiatives. Thus, the main thrust of the ASEM is indisputably economic, with political and cultural initiatives arguably serving only to underpin broader commercial objectives.

The ASEM's framework primarily rests on the Senior Officials Meeting on Trade and Investment

<sup>12</sup> CEC: Europe and Japan: The Next Steps, COM(95) 73 final, Brussels 1995.

<sup>13</sup> CEC: A Long-Term Policy for China-Europe Relations, COM(95) 279 final, Brussels 1995.

<sup>14</sup> CEC: Framework Agreement for Trade and Co-operation between the European Community and its Member States, on the one hand, and the Republic of Korea on the other, Brussels 1996.

<sup>15</sup> For the EU, this was outlined in its "New Asia Strategy", COM(94) 314 final, Brussels.

(SOMTI), the Asia-Europe Business Forum and economic and foreign ministers' meetings that constitute a series of private and public sector fora in which collaborations and negotiations are set. It remains to be seen whether the intended mutually reinforcing effects that ASEM and established bilateral channels are supposed to have on each other will be realised. In the meantime, ASEM initiatives are to be implemented at a bilateral level.

### Opposing Concerns

While the EU - East Asia economic relationship has made significant advances in terms of trade and investment exchanges, its progress has nevertheless been encumbered by various opposing concerns. For the EU, removing East Asian states' "internal" barriers to foreign trade and investment has been its central preoccupation. This contrasts with East Asia's focus on the EU's "external" barriers that stem from protectionist CCP measures.

"Internal" barriers can relate to legal, administrative or policy regimes that either overtly or covertly disadvantage foreign commercial interests. They can also refer to idiosyncratic structural features of an economy which inherently exclude or narrow foreign access to host markets, supply-chain networks, sources of capital or other strategic assets that are necessary to secure effective entry. Such structural impediments are arguably most apparent in Japan and Korea, where the respective introversions of the *keiretsu* and *chaebol* groups have helped resist the attempted penetrations made by many foreign exporters and investors. Furthermore, in most East Asian countries, European producers also often face regulatory frameworks that either directly or indirectly place them at a competitive disadvantage in relation to domestic or other established rivals.

"External" barriers refer to traditional protectionist measures, such as tariffs, duties and quantitative restrictions. While the more mercantilist trade policies of China and poorer ASEAN states remain a concern for Commission negotiators, their relative significance as an economic diplomacy issue with East Asia has diminished.<sup>16</sup> Despite the fact that East Asian producers have seen most of the EU's own tariffs and quantitative restrictions on their imports fall over the 1990s, they remain deeply anxious about the proportionately high number of EU anti-dumping duties and surveillance measures that they attract. Between January 1988 and September 1996, East Asian countries had attracted 56% of all ADDs

imposed by the EU on selected third country imports. Moreover, the EU's "tariff escalation" regime ensures that developing countries face progressively higher tariff rates as they move towards downstream value-added production in a range of "sensitive" industries.<sup>17</sup> These are typically where East Asian producers have a particularly strong competitive advantage, such as in textile, resource-based and basic industrial chemical products.

Recent changes made to the EU's Generalised System of Preferences (GSP) scheme, which essentially affords trade concessions to developing countries, has also compromised the position of East Asian exporters in EU markets. Since 1995, most East Asian countries have seen GSP concessions in specific sectors withdrawn as part of a partial graduation from the scheme. Moreover, the richest beneficiaries - Hong Kong, Korea and Singapore - are set to fully graduate in 1998. The Commission has justified its decision on the basis that the rapid industrial advances made by East Asian countries have undermined their eligibility as GSP beneficiaries. However, some East Asian states (most notably Malaysia) have been deeply critical of the EU's timing and the criteria used to determine GSP graduation.

### Global Impacts

Whether or not effective solutions to these opposing concerns are quickly found, it meantime remains in both regions' interest to fortify their economic relationship for the reasons thus far suggested. In working towards this objective, major consequences are carried for the wider international economy. More closely entwined EU and East Asian economies would indubitably lead to a further consolidation of Triadic dominance within the world economy and a re-balancing of economic relations between the Triad powers themselves. It is more in the EU's own interests than East Asia's that the latter is realised. However, for the smaller East Asian states, the EU's more active presence in the region could provide a useful geo-political counterweight to influences exerted by the localised superpowers (i.e. the USA, Japan and China). In the EU's own backyard, neighbouring associates (e.g. Central and East European and Mediterranean Basin countries) may themselves express concern over where the new intimacy in EU - East Asia economic relations will lead, as may other newly industrialising countries (NICs) for whom EU trade is so critical. This will

<sup>16</sup> This also applies to Japan and Korea in certain sectors.

<sup>17</sup> See WTO: Trade Policy Review - European Union, Geneva 1995.

especially apply in industrial sectors and market niches where NIC competition is fiercest.

The ASEM initiative is likely to be of most interest to the North American states, especially if a more ambitious future agenda is likely to generate significant trade diversionary effects. This, though, cannot be anticipated if the ASEM's somewhat informal methods of facilitating greater two-way flows of trade and investment between the regions prevail. Nevertheless, it is worth noting that APEC's own humble beginnings were similar to the above. Yet like APEC, the ASEM also expresses a formal commitment to uphold the WTO's "open regionalism" principle. Further assistance to the WTO's cause may also derive from the ASEM's pre-multilateral level forum for dialogue in which prior understanding at future WTO ministerial meetings is intended to be achieved. The ASEM's focus on tackling the "internal" barriers that hinder trade, investment and network links being established will not only work more to the EU's advantage, but could also exert more indirect pressure for the WTO's competencies to be strengthened in new prospective areas (e.g. IPR, competition policy, FDI rules). Some East Asian states may therefore push the EU for "external" trade barrier concessions in compensation for this.

Established bilateral links will, though, act as the main conduits for EU – East Asia economic diplomacy for the foreseeable future. We have noted how these have become generally more harmonious and formalised in recent times. The greater emphasis on co-operation reduces the scope for disputes in EU – East Asian economic relations to spill over into the wider international arena. Nevertheless, tensions stemming from unilateral US deals and the opposing concerns highlighted above may yet disturb the foundations of the new multilateral order. This is less likely to arise from a bilateral relationship where the EU has moved into a trade surplus position, as indeed it has with ASEAN, Korea and Hong Kong. Less powerful East Asian states also lack the leverage to persuade the EU to make more benign adjustments to the CCP. Moreover, they are obliged to seek recourse through WTO channels to negotiate such an outcome. Japan and China, both with substantial trade surpluses with the EU, have of course less cause for complaint. Meanwhile, the EU has taken hope in both its contracting trade surplus with Japan and China's own obligations to remove various internal and external barriers to trade as a prerequisite to WTO membership. Recent progress made in EU-China economic relations itself has already assisted this process.

### The Next Steps

Since the early 1990s, much progress has been made in developing the EU – East Asia economic relationship. The potential impact of future Pacific regional initiatives will make further progress particularly imperative for the EU. Thus, the ASEM framework provides an important step towards equilibrating the balance of Triadic relations, even if it only represents at this stage a symbolic pact between two regions. At a time when the WTO carries the hope that a new multilateral regime can be firmly installed by the advent of the next century, the ASEM partners must, though, be circumspect of developing too close an economic relationship. The creation of a possible EuroAsia Free Trade Area could ultimately prove counterproductive, especially with respect to the EU due to the removal of "external" trade barriers it would infer. For reasons explained earlier, it is also in the EU's interest to lend considerable support to the WTO and particularly in new prospective areas of competence. In addition, the EU can be expected to press the WTO into closely monitoring APEC's commitment to "open regionalism" as the PAFTA arrangement falls into place.<sup>18</sup>

With these things considered, congruency rather than harmonisation should be anticipated to be the basis of any forthcoming ASEM regulatory arrangements struck between the two regions over the medium term. Furthermore, the APEC obligations of East Asian states may deter them from promoting a similar, overlapping framework with the EU. It is also highly doubtful that bilateral relations will be subsumed into an all-embrasive interregional framework. On the Asian side in particular, significant economic and political heterogeneity would make it impractical for such a framework of relations to be managed through supranational interlocutors. Not even EU-ASEAN relations have aspired to be conducted on this basis. Hence, bilateral links will therefore predominate in the EU – East Asia economic diplomacy for a considerable time to come and provide the main channels through which future developments will occur. At a more informal level, the pressures of globalisation will provide an additional spur for EU and East Asian businesses to more closely examine the commercial opportunities, and indeed threats, emerging in each other's region. This exercise will be particularly important for EU firms for reasons that have been outlined above.

<sup>18</sup> P. Drysdale and A. Elek: *The APEC Experiment: An Open Economic Association in the Asia-Pacific*, in: *International Journal of Social Economics*, 1996, Vol. 23(4-6), pp. 164-87.