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OSABE, Shigeyasu / 長部, 重康

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THE IMPACT OF EC MARKET INTEGRATION AND EAST EUROPEAN LIBERALIZATION ON ASIA-PACIFIC ECONOMIES

Shigeyasu OSABE

Professor, Faculty of Economics, Hosei University, Tokyo

I, Simultaneous Occurrance of Historical Transformations

The overthrow of socialism in East European countries since the second half of 1989 has put an end to the Cold War era. With the beginning of 1990, the division of Germany which had supported the old postwar order abruptly disappeared and a "Greater Germany" came to be on the 3rd of October, 1990. The Post-Cold War age (the disintegration of the Soviet Empire) and the Post-Post War period (the construction of a new European order) are unfolding simultaneously in Europe, where West European countries are engaged in a struggle over the coming EEC market integration in 1992. In less than 10 years, Europe could become the new center of the world; a center where three historic transformations are proceeding simultaneously.

The structural factor which has brought about these simultaneous transformations in Europe is ultimately due to an enormous metamorphosis of capitalism undergone in the 1980s. Relative economic importance has been drastically shifted from heavy and traditional industrial sectors such as the iron and steel industry or ship building to light, high-technological industries such as microelectronics or biotechnology. At the same time, the financial and information industries such as independent research and consulting firms and software companies are also expanding rapidly. From the production process to the stage of consumption, passing through various distribution networks, semiconductors, computers and telecommunication systems are being widely introduced. Before making a decision on an output schedule, for example, producers are forced to collect detailed information on consumers' demand for new goods. Once consumption followed production; now the former commands the latter. Information processing is not limited to industrial sectors, but also penetrates every nook and corner of society. So-called "value added communication networks" are radically changing the behaviour of people.

The economy has been "softened" or become "service oriented" and the society widely "informationized" or "information oriented". To describe this phenomenon, the Japanese Finance Ministry advocated a new English term "softnomics" as early as 1983[1]. The metamorphosis to "softnomics" is, in brief, the result of the "Microelectronic Revolution". Consumers in an affluent society diversify and differentiate their needs so strongly that suppliers are forced to manufacture a wide range of products in relatively small lot sizes. But artisan production methods or traditional small-scale production methods can not compete with these new demands; it becomes necessary to introduce a "quick response system" or more flexible mode of manufacturing, in which a plant can shift in minutes from the production of one model to another[2)]. The essential point of "softnomics" is to introduce highly differentiated technology on the existing base of mass-production. In order to meet keen international competition, large capital investments and intensive research and development are required on a continual basis.

The standard-bearer of the "Microelectronic Revolution" was Japan, which has not only developed "flexible manufacturing" but also exported widely the "Kanban card system" or just-in-time production system which depends heavily on information processing. During the 1980s, developing countries had seen a deterioration in living standards. For example, per capita income in Latin America had decreased by 10% and in Southern Africa by 25% over the decade. The 1980s could be called the "missing decade". Only the East Asian developing countries exhibited exceptional growth. As it is clearly shown by the different growth rates of international trade between main regions (Table 1), presently the most dynamic

Table 1. Geographical Distribution of World Trade

	share (%)		growth rate (%)
	1980	1988	1980～1988
Intra-West Europe	27.1	31.4	6½
Asia-Pacific ⟷ North America	6.5	10.8	11½
Intra-Asia-Pacific	6.5	9.8	10
Asia-Pacific ⟷ W. Europe	4.7	7.5	11
N. America ⟷ W.Europe	6.3	7.4	6½
Intra-N. America	4.0	5.2	8
Intra-Soviet Union & E. Europe	4.1	4.4	5½
N. America ⟷ C. & S. America	4.1	3.5	2½
W. Europe ⟷ S. U. & E. Europe	4.0	3.1	1
W. Europe ⟷ Africa	5.5	3.0	−3
W. Europe ⟷ Middle East	6.3	2.2	−8½
Asia-Pacific ⟷ Middle East	4.6	1.8	−7
W. Europe ⟷ C. & S. America	2.5	1.8	0
Asia-Pacific ⟷ S. U. & E. Europe	0.9	1.0	6

Source: *Jetro Sensor*, Sept. 1990, p. 45.

growth pole in the world is to be found in the Asia-Pacific region where Japan has stimulated during this decade its rapid industrialization. Japan has exported labour intensive manufacturing to Asian developing countries and at the same time imported considerably large amounts of their manufactured goods as well as foods and raw materials. Across the Pacific basin, Japan, the United-States, Canada, the

NIES and ASEAN countries as well as Australia and New Zealand are both furiously competing with each other as well as engaging in extensive cooperation in many areas such as manufacturings, marketings, financial transactions, and research and development.

"Esprit", the European Strategic Program for Research and Development in the Information Industry, was formulated in 1984 by the Commission of the EEC as a rather desperate response to this Asian challenge[3)]. This is the first European project for cooperative research among the larger corporations in the information industry. The aim is to catch up with Japan and the U.S., and moreover to restore to Europe a competitive edge. More importantly, in term of a "catch up strategy", the Single European Act was concluded in 1986 among the member countries. This act promises the full integration of EEC member states' markets before the end of 1992. This historical experiment in market integration gave the appearance of an offensive posture *vis-à-vis* the widely perceived Asian challenge[4)].

On the other hand, the overthrow of socialism is also, in essence, due to the "Microelectronic Revolution". During the 1970s, socialist countries could narrowly indulge in the illusion that 'socialism can catch up with capitalism and exceed it', partly thanks to the two oil crises during which the Soviet Union profited from the rapid increase of petroleum prices, while the Western developed countries suffered severely from "stagflation" by this same price escalation. But in the 1980s, socialist countries could not prevent breaking down when confronted with the overpowering push from "Softnomics". Citizens were shocked to discover through various media such as TVs, VCRs, or underground publications, the striking contrasts between the wealthy and liberal life in the West and their own miserable and suffocating one. As the most striking example, the newly created "Greater Germany" was brought into being by the East German citizens' eagerness for liberty and wealth. People abandoned at last their miserable barracks-like state and pressed for the rapid annexation of East Germany to West Germany.

The structural factor which engendered the simultaneous occurrence of these three historical transformations; the overthrow of socialism, the birth of the Greater Germany and market integration in 1992, is, therefore, the metamorphosis of capitalism in the 1980s, that is, "softnomics" produced by the "Microelectronic Revolution". It may be said without much exaggeration that the Asia-Pacific region, especially Japan, was primarily responsible for these historic changes in Europe. It is truly the end of an age.

II, "1992" and the New Role of EC in Europe

Apart from the structural factor mentioned earlier, it is Gorbachev who pulled the trigger on East European socialism and consequently prompted the birth of Greater Germany. Abandoning the so-called "Brezhnev Doctrine" which denies any socialist country full sovereignty, he adopted a *laissez-faire* policy for East Europe. This policy change came partly because Gorbachev, on facing the threat of bankruptcy for his program of *perestroika*, was obliged to slash military expenditure and to invite an inflow of western capital and technology. The change came also because of Gorbachev's strongly European oriented character. He dreadfully anxious lest the Soviet Union should be left behind in the post "1992" European dynamism which is expected with ever increasing confidence. It can be said without much exaggeration that "1992" has put an end to the Cold War era and the Post War period.

Until the mid 1980s, Europe, compared with the U.S. and Japan, had been characterized by being caught in "Euro-pessimism"; especially after the second oil crisis in 1979. Unemployment rates had held fast at very high levels, growth rates had remained slow, and international competitiveness had continued to decline. But since then, the EEC had engaged in restructuring the European economy through profound reforms of industrial relations and the adoption of market oriented policies. Now "Euro-pessimism" has turned into "Euro-dynamism".

At the same time, "1992" as a target for final unification was agreed upon in 1986. But external countries like the U.S. and Japan considered it at first as a fantastic idea which was not likely to be realized. Even at the EEC summit on Rhodes in December 1987, one could not make confident projections for success in "1992" because of the obviously severe conflict of interests among the member states. This was truly the gloomiest Christmas *en route* to European integration. But at an extraordinary summit hastily held in Brussels in February 1988, there was a narrow agreement as to the most important structural reforms: a broad reduction in agricultural expenditures, the expansion of regional development funds and the increase in revenue ceiling of community budget. Since then, the dream of "1992" has suddenly come real. As a result of the governmental agreements, the environment for business has changed. Intense M&A activity and cooperative technical and financial tie-ups are now spreading across borders among European big businesses especially in Germany and France. National champions are being selected and oligopolistic industrial structures are now being promoted.

Not only the U.S. or Japan but also Asian countries like Malaysia or Singapore are issuing warnings against a "Fortress Europe" which could prevent external countries from reaching the EEC market. American and Japanese corporations are trying frantically to obtain a footing in Europe before 1992. External as well as internal big enterprises are making a dash for the intensive M&A race.

The effect of market integration has been analysed by various researchers. Among others, the *Cecchini Report*, initiated by the EEC Commission, gives a very optimistic prediction that economies of scale resulting from market integration will raise European GDP by 4.25~6.5% in the medium term, and if member countries adopt desirable economic policies along with the market integration program, they will receive additional macroeconomic effects with total GDP increasing by a further 7%[5)]. But other estimates give more pessimistic results with internal GDP rising by 3.2~5.7% while the medium-term improvement in the external balance would be only 1%[6)]. Reinforcing this last point, another study attempts to estimate the impact of the EEC market integration on the rest of the world, suggesting that the policy would produce a reduction in the growth rate for the rest of the world by 0.73%[7)]. This would be caused by a trade diversion effect on the EEC imports or a shift of imports from external countries to other EEC member countries. In this case, according to other calculations, considerable decline in extra-EEC imports will be seen for office machinery (66~68%), motor vehicles (41~64%), artificial fibres (48 ~ 58%), footwear (25 ~ 35%), carpets (20 ~ 24%), and electrical household appliances (24%)[8]. With these analysis, concerns over "Fortress Europe" expressed by external countries are easily understood not to be simply sentimental reactions to the unknown.

In the field of textiles and garments, the EEC already has bilateral agreements with 26 textile exporting countries under the MFA (Multifibre Arrangement). Multilateral negotiations between exporting and importing countries limit the annual growth rate of textile imports to the EEC market, while bilateral arrangements impose "regional shares" or export quotas from each exporting country to each importing nation. Germany takes the largest regional share, 25%, followed by 21% for the U.K., 16.5% for France and 13.5% for Italy in 1987[9].

In addition to the formal multicountry arrangements, a clause of the Treaty of Rome (Article 115) can be used to prevent imports from an external country. In 1988, Denmark and West Germany made no use of this clause, but seven countries made limited use of it; the Benelux countries used it against shirts from Hong Kong and Taiwan; Portugal against motorcycles from Japan; and Greece and the U.K. against dollar-zone bananas. Four countries have made considerable use of this clause: France used it in 52 cases including colour TV sets from Japan and South Korea; shirts from China, Hong Kong and Sri Lanka; Ireland has used it in 33 cases; Italy in 20 cases; and Spain in 17 cases. For developing countries, almost all of the targets of the European import restriction are concentrated on non-MFA textile goods such as shirts, underwear, gloves, sweaters, and parkas, but for Japan and NIES countries, they are directed against manufactured goods such as TVs, car radios, VCRs, sewing machines, ball bearings, and motor vehicles.

The second term of the Jacques Dlors' Commission started in January 1989 and has attached considerable importance to advocating free trade. But Asian developing countries can not still fears of being shut out from the enlarged market because the "Fortress Europe" could, they believe, easily become viable alternative whenever circumstances require it. The real question is would the EEC become more protectionist ? This may depend, for the time being, upon three factors; the future prospects for international business fluctuations, the degree of unity, actually achieved, after "1992" among member states, and finally the extent of restructuring of European industry[10].

The last factor is the most uncertain. Since East European countris have started to make a splendid comeback to maintaining market economies, the EEC is going to be charged with the task of supporting this historic return. At the Arch Summit held in Paris in July 1989, the EEC was appointed as the coordinator of financial assistance for Poland and Hungary that will be provided by 24 developed countries. It is the first time that the EEC was assumed a political role on the international stage; before this its character had been limited to the purely economic. Worse still, with the failure of *perestroika* and the outburst of nationalist conflicts, a crisis surrounding the disintegration of the "Soviet Empire" appears imminent. The EEC which is located close by the Soviet Union will be obliged to promptly organize financial aid for it in order to avoid possible calamities[11].

Considering these problems, it is very urgent to bring about a new European order to face up to this Post-Post War or Post-Cold War period. The most feasible picture for this new order must be model of two sets of concentric circles with the economy as the first set and politics as the second set. Concerning the economy, the EEC with a 340 million population, including that of former East Germany, will form the core supporting three outer circles. The first inner circle is called the EEA (European Economic Area) which comprises a common market with the free exchange of goods, money, labour, and services between the EEC and the 6-nation EFTA with a 30 million population. The middle circle will be provided by a treaty of association between the EEC and East European countries with 140 million people. It is expected that some of the latter would be accepted as member countries of the EEC in the future. Finally, the outer circle would be established with the Soviet Union through technical and financial aid. At the last summit in Houston in July, 1990, EEC member state already proposed $ 150 billion aid. One of the most important institutions for this Post-Cold War order could be the European Bank for Reconstruction and Development which is to start operation in London in next April. This bank will be responsible principally for undertaking investment insurance for the East European region and the Soviet Union to assure a credit line from Western private financial institutions[12)].

Concerning the second set of concentric circles for politics and security concerns, with NATO and the Warsaw Pact losing their *raison d'aître* the formation of a new European order becomes very urgent; but it is not yet so clearly defined, compared with the new economic order discussed above. According to positions scheduled by François Mitterand and following this by Jacques Dlors, in early 1990, a new European political order is vaguely emerging as follows: the EEC and the EFTA countries will form the European Federation which is encircled by the European Confederation made up of all countries in Europe. The latter can be considered almost the same as the European Common House already proposed by Gorbachev. For the time being, CSCE (Conference on Security and Cooperation in Europe) which encompasses 34 countries, including the U.S. and Canada, would provide a sort of military forum between the NATO and Warsaw Pact member countries.

In addition, the EEC, which had been moving to enlarge its functions from the purely economic by including politics, could, in the long run, assume collective defense instead of, or as a supplement to, the NATO. Thus the new European political and security order will be have a structure of concentric circles made up of the European Federation as inner circle and the European Confederation as outer circle with the original EEC as the core.

The formation of a Greater Europe will not be so easy in the short run. Because in East European countries, there exist many difficult problems to be resolved such as poor infrastructure, outdated productive equipment, outrageous environmental pollution, and, above all, state-control oriented mentality among economic agents. The conditions for success in integrating the West and the East would primarily depend on the progress of East European reforms, the development of a strategy by West European enterprises for dealing with East European firms, and the level of West European zeal for development assistance. At any rate, the birth of a Greater Europe could reawaken historical frames of reference and create a sense of Euro-centralism among Europeans[13)]. The countries of the Maghreb, black Africa and the Middle East fear more and more lest they should suffer from the devastating effects of an inward looking Europe in commerce, investment, and especially aid. Asian developing countries cannot escape from this fear.

III, Asian Concerns over "1992"

When "1992" comes true, it will follow the overthrow of socialism and the birth of Greater Germany. Facing rapid changes, Asian political leaders have expressed the fear that a "Fortress Europe" would result from these changes, and the outflow of capital investment and grants from developed countries to developing countries, especially to Asian countries, would deteriorate. Last May, Singapore Prime Minister Lee Kuan Yew made a tour of European countries, France, the U.K. and West Germany, and appealed to western firms to continue investing in Asia. At the "South Summit Conference -G 15" held in Kuala Lumpur last June, the Malaysian Prime Minister, Dr. Mahathir Mohamad, speaking as the voice of the Third World countries, warned developed countries not to shift their capital investment and aides from the South to East Europe[14)].

According to the Bank for International Settlements, this process has already started (Table 2). Since 1988, East European countries have become the main

Table 2. Borrowing from BIS Reporting Banks

	Changes, excluding exchange rate effects								Stocks at end-1989
	1982	1983	1984	1985	1986	1987	1988	1989	
	in billions of US dollars								
Non-reporting developed countries	16.0	7.2	5.2	7.3	7.2	4.7	2.9	3.2	133.1
Eastern Europe	−4.6	−1.1	−0.1	5.7	3.7	2.3	8.0	9.5	97.6
OPEC	8.2	9.8	−2.1	0.2	0.5	2.0	5.5	4.1	133.0
Non-OPEC LDCs	19.8	12.6	9.8	11.0	3.1	1.9	−8.9	−17.7	355.6
of which: Latin America	*12.1*	*8.3*	*5.3*	*1.7*	*1.5*	*−3.9*	*−11.1*	*−15.2*	*200.0*
China	*−0.6*	*0.4*	*1.4*	*4.9*	*0.7*	*4.8*	*7.2*	*−0.6*	*22.6*
Taiwan	*−0.2*	*−0.5*	*−0.8*	*−0.6*	*4.0*	*8.3*	*−1.7*	*−0.5*	*15.6*
Other Asia	*5.1*	*3.5*	*4.2*	*3.8*	*−2.1*	*−5.5*	*−1.8*	*1.6*	*81.1*
Africa	*1.7*	*0.6*	*0.1*	*0.9*	*−0.2*	*−0.6*	*−0.7*	*−1.7*	*22.1*
Middle East	*1.7*	*0.3*	*−0.4*	*0.3*	*−0.8*	*−1.1*	*−0.7*	*−1.4*	*14.3*
Total borrowing	39.4	28.5	12.8	24.1	14.4	10.9	7.5	−1.0	719.3

Source: *BIS Annual Report 1990*, P. 132.

group of borrowers, with, in 1989, the Soviet Union ($ 7.1 billion), the German Democratic Republic ($ 1.2 billion), Bulgaria ($ 0.8 billion), and Czechoslovakia ($ 7.1 billion) as the principal borrowers of new funds. On the contrary, Latin American borrowing from western banks contracted sharply, largely as a result of debt conversion operations. Thus the flow of international finance has become increasingly polarized between East European countries in expansion and Latin American countries in decline. Asian countries have maintained basically the same position, with some countries showing a slight reduction (mostly China and Taiwan) and others showing a slight addition of new dredit.

As for trade relations between Asian countries and the EEC, the Japanese market share of total EEC exports in 1989 was 5.2%, for the NIES it was 5.4% and for the ASEAN countries (except Singapore) it was 2.0%. With respect to imports, Japan took 10.5%, the NIES 6.5% and the ASEAN 2.5%. The total share of East

Table 3 . East Asian Share in Extra-EEC Trade

(%)

	Import					Export				
	1985	1986	1987	1988	1989	1985	1986	1987	1988	1989
Extra-EEC	100	100	100	100	100	100	100	100	100	100
Japan	6.4	9.4	10.5	11.0	10.5	3.0	3.3	4.7	4.7	5.2
NIES*	4.7	6.8	6.3	6.9	6.5	3.5	3.7	5.2	5.2	5.4
ASEAN	1.8	2.2	2.3	2.4	2.5	1.6	1.5	1.6	1.8	2.0
total	12.9	18.4	19.1	20.3	19.5	8.1	8.5	11.5	11.7	12.6

Source: OECD, *Monthly Statistics of Foreign Trade.*
Note: * Thailand, Malaysia, Indonesia, and the Philippines.

Asian contries was 12.6% for EEC exports, and 19.5% for EEC imports (Table 3). A number of factors suggest that there exists considerable vulnerability in Asian-European trade relations. First, the importance of the Asian region in EEC trade remains limited and that of Japan occupies about half. Second, for Asia-EEC trade, there is serious imbalance between imports and exports, the former being two times as large as the latter in 1988. Third, the major items of export from Asia to Europe have changed drastically during last decade from foods and raw materials (rice, manioc, timber, or rubber) to manufactured goods (textiles, clothing, electric and electronic products or vehicles), with the importance of manufactured products increasing rapidly from 29% of total Asia-EEC exports in 1980 to 53% in 1988. This trend could presumably be expanded. The trade ties are not only thin in quantity, but also changing so rapidly in kind; furious complaints are bound to be aroused among the EEC nations.

Table 4 . Foregin Direct Investment for the ASCAN Countries (local currency)

	Indonesia (Rupiah mio)'		Malaysia (M$ mio)		Philippines (thousand pesos)		Singapore (S$ mio)		Thailand (Baht mio)	
	1986	1967/ nov. 1987*	1986	1987	1987	1968/1987*	1986	1987	1986	1987
total	800.7	17,640.6	—	—	3,427.3	25,775.3	1,189.6	1,448.0	25,211.2	54,400
Japan	324.6	5,458.9	58.1	230.1	591.3	4,141.5	492.8	601.1	14,421.0	23,548
U.S.	128.4	1,021.9	17.1	61.3	740.0	9,724.3	443.4	543.5	904.3	5,025
EEC	161.6	2,242.4	223.8	63.1	481.6	4,416.7	204.8	241.0	6,900.6**	6,900.6**
EEC Shares (%)	20.2	12.7	—	—	14.0	17.1	17.2	16.7	27.4**	12.7**

Source: EEC/ ASEAN relations, in the Commission of EC, *Europe Infomation*, no. 92, 1982.
Notes: * cumulative
** EEC+EFTA
April 1988: 1 US$=1948,21 Ind. Rupiah 1 US$=1,9951 Singapore $
1 US$=2,5745 Mal $ 1 US$=25,210 Baht
1 US$=21,0299 Phil. pesos

European capital investment in South East Asia has increased during the 1980s. In 1987, European investments ranked second after Japan in Indonesia, Malaysia, Thailand and third after Japan and the U.S. in the Philippines and Singapore (Table 4). European countries play the role of major investors in South East Asia, but the investments are largely based on vulnerable trade relations mentioned above. That is one of the reasons why South East Asian countries are concerned about the shift from Asia to East Europe in capital investment and aid.

In the ASEAN countries, perhaps the largest fears are caused by the unification of Germany and consequently the birth of a Greater Europe, in which West European countries will shift their trade and capital investment from Asia to East Europe. In particular, Greater Germany will probably have to focus more and more its energy towards the East. First, after the unification, the financial charge for reconstruction of former East Germany is continuing to expand rapidly, for the condition of its infrastructures and productive equipment is revealed to be worse than expected. Greater Germany is forced to concentrate its efforts on this long and severe task of rebuilding. Second, there is the impact on Middle European countries which once formed the Austro-Hungary Empire and was comprised of multiple languages, cultures and religions. After the destruction of the "Iron Curtain", a reinvigoration of the traditional *Mitteleuropa* (Middle Europe) in this region becomes feasible. Third, former East Germany, according to an arrangement of the COMECON, had supplied to the Soviet Union 40% each of that nation's demand for medical equipment, agricultural instruments, and chemicals; a third of total demand for garments, and a considerable share of military equipment uses. Greater Germany has to take over these duties and consequently will tower above all other West European countries as trade partner and investor in the Soviet Union.

When the United Kingdom had entered into the EEC in 1973, West Germany and France filled the vacuum created by the British trade shift from Asia to the EEC. Making a comparison of the ASEAN countries' export destinations between 1960 and 1988, the U.K. fell from its overwhelming position at 48% to a almost half, at 25%. On the contrary, West Germany expanded its share by 10% points from 23% to 32% and France increased by 8% points from 5% to 13% (Table 5). This drastic change reflects principally British entrance to the EEC and, at the same time, rapid deterioration of its home economic intensity. If the birth of Greater Germany brings about considerable trade and capital investment shifts from Asia to Europe, can we find any country which will act as West Germany or France did in 1970s ?

Concerning this issue, one bilateral set of ties should be mentioned: France has begun recently to strengthen her relationships with Vietnam and big banks like the Société Générale or the Banque Indo-Suez opened representative offices in Hanoi and Ho Chi Mihn City which will provide an important means to improve the investment conditions in Vietnam. In addition, the French government decided to resume official loans after an eight year interruption and the IMF will begin to offer financial sources[15)]. The U.S. is also changing its attitude *vis-à-vis* Vietnam, taking into account the improvement of American-Soviet relations. Thus peace moves in Indo-China are now beginning to have some impact, but it will take much more time to bear fruit in the economic field.

Table 5. Distribution of EEC-ASEAN Trade by European Country

	Total	W. Germany	Greece	Spain	France	Italy	Netherland	the U. K.
EEC export to ASEAN								
1960	100.0	27.2	0.3	2.8	10.5	9.6	14.2	27.3
1970	100.0	26.7	0.4	5.2	11.9	11.4	13.2	22.6
1980	100.0	27.7	0.4	3.5	14.9	10.5	13.7	21.8
1988	100.0	25.7	0.5	4.2	13.4	9.7	14.9	22.6
EEC import from ASEAN								
1960	100.0	22.7	—	0.4	5.3	3.7	12.9	47.6
1970	100.0	30.0	—	0.4	7.3	7.9	10.2	37.0
1980	100.0	31.7	0.1	1.7	12.3	8.5	11.6	26.5
1988	100.0	32.2	0.1	2.0	13.0	9.1	9.9	24.8

Source: Eurostat, *External Trade, Statistical Year Book.*

The withdrawal of Europe from Asia will necessarily reinforce the Japanese presence in South East Asian region. This is not desirable either to South East Asian nations or to Japan. Prime Minister Lee Kuan Ywe, *en route* to a tour of European coutries, pointed out that, "If the world tends towards economic and trading blocs and Asia is forced to enter in the 'Yen bloc', that would become an apple of discord". Futhermore, as the East-West *detante* reaches Asia, power balance in the Asia-Pacific region will be radically changed. The Malaysian Deputy Foreign Minister, Mr Abdullah Fadzil warned of possibility that India and Japan would fill the political vacuum caused by super powers' eventual disarmament in this region. In any case, facing the Post-Cold War period, Asian states' fears of an intensification of Japanese presence in Asia are increasing[16)].

In order to appease Asian concerns, on the occasion of the EEC-ASEAN regular conference held February 1990, the EEC declared once again its intention to meet commitments in Asia for providing ODA. In 1988, the ASEAN group received 20% of the total $ 440 million financial aid for developing countries given by the EEC. The shares for Thiland and Indonesia are the most important and follows that of the Philippines. Main items of assistance are agricultural technology, environmental protection, flood control and job training. Since 1988, the EEC has joined the dairy development program in China in accordance with the World Food Program.

Last May, the EEC Commission put forward an ambitious five-year aid program. If the plan gets the go-ahead, Asian countries will receive two-thirds of an ECU 2.9 billion ($ 2.3 billion) aid package, with the rest earmarked for Latin America[17)]. An EEC commissioner insisted that further economic cooperation in Asia is both "a vital need and an opportunity not to be missed." And he added that while EEC aid to East Europe is short term and tied to political and economic conditions, assistance to Asia is "long term and constant"[18].

IV, From a Tri-polar System to a Bipolar or Perhaps a Two and One-half Polar System

In the era of the Cold War between the United States and the Soviet Union blocs, the international economy in the West used to be explained by a tri-polar system consisting of the U.S., Europe and Japan. But the end of the Cold War heralds the coming of new era in which the economy dominates politics and military affairs; the traditional world of the tri-polar system will be drastically transformed. The most important factor producing this transformation is the enlargement of Europe and consequently the rise of "Euro-Centralism".

In the international economic triangle, the strongest ties link the U.S. with West Europe. Sharing both ethnic and historical relationships as well as liberal democratic values, they have constructed wide pipelines between them for trade and capital investment. For the security, they have engaged in a collective defense regime by establishing NATO. These days, with a view towards "1992", American firms have launched an intense M&A race in Europe, especially in the U.K. and Germany, while European capital, aiming at globalizing their activities, are trying to make inroads into the American market as well as into the intra-EEC market.

Nevertheless, since the end of the World War II, because of the continual decline of the European old colonial empires, the centre of gravity of the international economy never ceased to shift from the Atlantic to the Pacific, and so the U.S. has continued to move away from Europe. On the other hand, apart from the self-conscious separatism of *Gaullist* France, Mediterranean countries such as Italy, Spain, and Greece have continued to criticize the U.S. military presence in Europe. West Germany, while declaring a pro-American posture, has gradually set aside from its diplomatic concepts the defense of common Atlantic benefit[19]. This change has been shown particularly by the extremely determined peace movement against the deployment of Cruise and Persing missiles in Germany during the early 1980s. Winning back its confidence by reclaiming a clear position of dominance over East Europe and the Soviet Union, West Europe has strongly turned in upon itself. European tendency to become more independent *vis-à-vis* the U.S. since the end of the War will be accelerated on a long term basis[20].

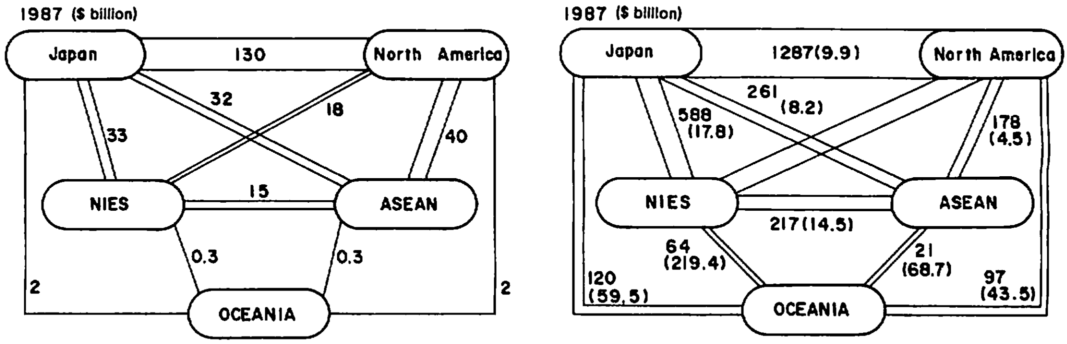
As for the U.S., since the early 1980s, business enterprises had hankered after easy wealth and become absorbed in the money game of Wall Street to the neglect of basic manufacturing. As a result of this, some de-industrialization occurred. But the U.S. is obliged to pay the price of ignoring the manufacturing base; the U.S. is witnessing a decline in a international competitiveness in manufacturing. The "centripetal force" in the traditional social and economic order is diminishing and serious social difficulties are provoked by the increase of narcotic-related crimes or the decline of quality of education. From the geographical point of view, the disintegration of the U.S. has been taking place gradually during the 1980s. In contrast with the decline of the established East Coast areas, the Sun Belt zone and especially the West Coast region are showing rising strength. One American author insists on a new conception of North America as being divided into 9 real "nations" across the present international borders of the U.S., Canada and Mexico[21)]. As the U.S. is pulled in different directions between the two growth poles, the Asia-Pacific region and Greater Europe, the U.S. would become increasingly polarized. The Pacific region in the U.S. in particular could turn more and more towards Asia.

In short, because of the weakening of American-European relationships on one hand, the disintegration of the U.S. itself on the other hand, the U.S. will not be able to assume the role of one distinct pole of growth. The present tri-polar system of the international economy will turn to an economic and political bipolar system composed of the Asia-Pacific region and Greater Europe as growth poles[22)]. If this scenario appears to be too much of an exaggeration, it might be more realistic to suppose we will have a two and one-half polar system involving the U.S. as one-half pole. In this case, the U.S. is clearly losing its previous predominant position and is assured only of a position of one half growth pole between the Pacific and the Atlantic.

At this point it would be useful to make a comparison between two poles of the Asia-Pacific region and Greater Europe and sum up briefly some of features of each area. Concerning the Asia-Pacific region, the most important agent in this region is the Pacific Ocean which is two times larger than the Atlantic and is equivalent to one third of the surface of the glove[23)]. The Mediterranean had cultivated European civilization based on the ancient Greek Culture and Christianity apart from providing a route of transmission of Islam. The Atlantic Ocean had conveyed the Latin Culture and afterwards Anglo-Saxon traditions from the Old Continent to the New. But the Pacific is not only so wide, but also so diversified in topography that it cannot be defined as a simple entity. Across the Ocean, there are spread in a mosaic various religions and cultures; Buddhism, Hinduism, Islam, Christianity, and Confucianism, the last accompanying a cultural sphere of countries using Chinese characters.

Since the end of the World War, West Europe, the EEC nations at least, enjoying relative homogeneity and stability in spite of being under the Cold War, have shared the same value of liberal democracy and approximately same degree of economic development; Asia-Pacific region has been widely in dispersion including very different types of political regimes and economic performances. This variety accelerated economic development as will be discussed latter, but politically it brings about instability such as civil wars, *coups d'État*, invasions, insurrections and so on. As a result, the Asia-Pacific region could not form a closely connected economic and political integration like that of the EEC or the U.S.-Canada Free Trade Agreement. In other words, this region is incompatible with narrow minded blocs. There assemble 34 countries and concentrate one half of world wealth and population.

In the Asia-Pacific region, there are three main internal axes (Figure 1): 1) the North-South axis of vertical division of labour, between Japan and the NIES, the ASEAN, Australia and New Zealand. 2) the East-West axis of horizontal division of labour in the northern hemisphere between Japan and the NIES on one side and the U.S. and Canada on the other side. 3) the second East-West axis of horizontal division of labour in the southern hemisphere between Australia and New Zealand on one side and the U.S. and Canada on the other side. Besides these areas, the



Source: *Gaikô Fôrum*, Sept. 1990, p. 45.
Notes: 1) ( ): increase ratio between 1970 and 1987.
2) North America: the U. S. and Canada.
ASEAN: Thailand, Malaysia, Indonesia and the Philippines.
NIES: South Korea, Taiwan, Hong Kong and Singapore.

Figure 1. Evolution of Intra-Asia-Pacific Trade

littoral region of China is entering gradually into this pole of growth.

On the other hand, Greater Europe is absorbing, as has been mentioned earlier, the East European countries and, in the future, the Soviet Union. They will be connected around the core of the EEA (European Economic Area) which will be formed by the EEC and EFTA countries. Greater Europe, with a 700 million population, will have $800 billion in total GDP which will exceed the $ 500 billion of the U.S.. Apart from the fall of the socialism in East Europe as a historical exception, West Europe has enjoyed since the end of the War a relative political stability thanks to its social and economic homogeneity. The weaknesses of West Europe were, however, also clear: the eçonomy could not develop competitive forces nor did a strong dynamism. Seeds of vital power, researchers, *entrepreneurs* or capital for example, did not cease to go across the Atlantic and to drain out toward North America. Futhermore, Europe could not go with the tide of "softnomics" in the 1980s, and the gap of international competitiveness between Europe and the Asia-Pacific region has widened enormously.

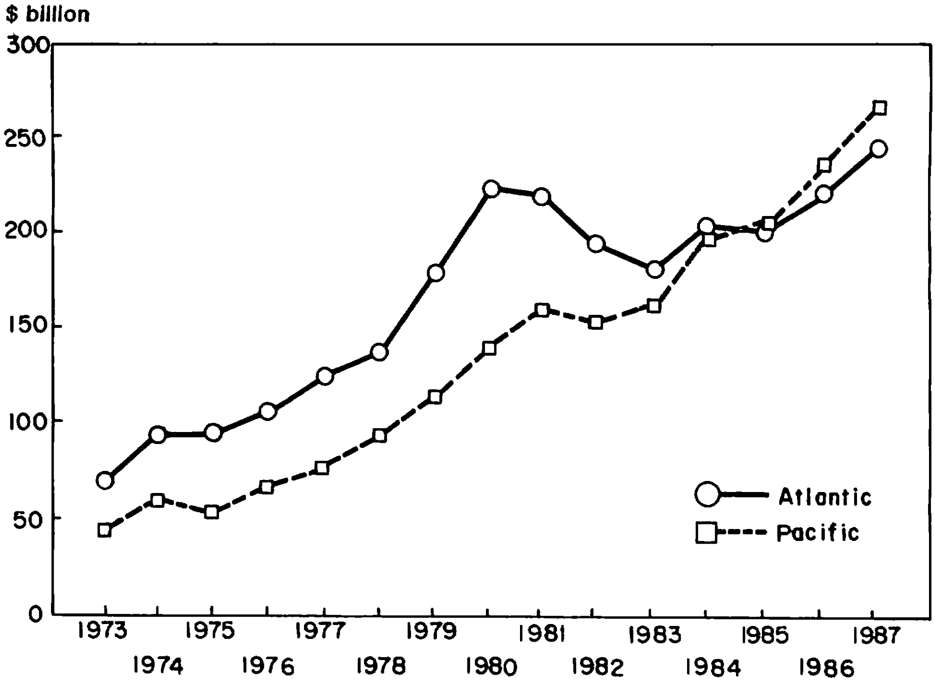
The essential reason for this relative economic weakness can be attributed to the European development pattern pursued through the period of rapid growth of the late 1970s. To cope with the rapid expansion of demand and scarcity of labour, the European developed countries introduced, in a massive fashion, perhaps more than 5 million immigrant labourers from South Europe, Turkey, Yugoslavia and the Maghreb region, as well as from black African countries. These workers were willing to be employed for lower wages than domestic workers. The European economy has come to depend on price competitiveness based on cheap labour, neglecting labour saving efforts in order to upgrade industrial structures. In contrast with this involvement of immigrant labour within West Europe, Japan, in this period, did not absorb immigrant labourers. This is partly because it did not yet allow for cheap air transportation which might enable South East Asian immigrants to fly to Japan over the wide Pacific Ocean, but principally because there existed unresolved political and diplomatic problems with neighboring countries such as South Korea, Taiwan and China. In order to leap over the hurdle of labour shortage crisis during rapid growth period, Japan was, therefore, obliged to invest intensively in introducing automation equipment such as robots and computers into the production system.

The Mediterranean Rim encouraged the "internalization" of immigrant labour in Europe; the large Pacific basin forced Japanese firms to launch into "Micro-Electronic Revolution" and afterward, facing an apparently continual appreciation of the yen *vis-à-vis* the U.S. dollar, to shift its labour intensive sectors to the NIES and afterwards the ASEAN countries. This process could be called the "externalization" of immigrant labour in Japan. Asian dynamic development has been stimulated by this Japanese "export" of gradually upgrading manufacturing facilities to its partner countries. Forunately, through this period of the 1980s, the U.S. could largely absorb, by means of accelerated process of de-industrialization, manufactured exports from newly industrializing countries in East Asia. Because of this, the Asian development pattern is called sometimes "flying geese development".

In Europe, because of "internalization" of cheap labour, any clear axis of vertical division of labour has not been formed. Rather the core region of West Europe is covered by an intensive network of horizontal division of labour, in other words, the mutual opening of each national market for manufactured goods. Certainly, core nations are trying to develop some vertical linkages with Mediterranean states, but this is a rather recent phenomenon since being faced with "1992". Now expanding its range to East Europe and also to, in the future, some part of the Soviet Union, Europe can rather expect a potential development in vertical and horizontal division of labour in the long run. One serious problem may be caused by a possible wave of immigration due to the disintegration of the Soviet Empire. Because the West European countries will be forced more than once to "internalize" several million refugees or immigrants even as they suffer from an unemployment count of 15 million including the additional 2 million Eastern German workers who were laid off recently.

Turning back to U.S.-European relations, the interaction between the U.S. and Europe is activated for the time being, by events related to economic integration in 1992. It is inevitable that the U.S. should disengage from Europe militarily and politically as well as economically. In the U.S., "westernization", the shift of economic activities towards the Pacific states like Californa or Washington, turns the U.S., more and more, into a Pacific country. In fact, the amount of trans-Atlantic trade was exceeded by trans-Pacific trade in 1985 and since then its gap has been widening (Figure 2). Concerning American corporations, they must cope with the globalization of the economy and world wide economic interdependence. But if they are obliged to choose a partner or a market between the open minded Pacific and an introverted Europe, their chioce may lie in many cases with the Pacific.

In the military field, the U.S. must withdraw its troops from Europe because of increasing Federal budget problems and, above all, because of the intensification of East-West *detante*. In the U.S., aside from the outburst of the Gulf War, people do not cease to demand a "peace dividend". As a result, the defense of Europe will become, in the long range, irresistibly European. If the U.S. loses its footing in the NATO, they will not be able to secure one special right of presence in Europe[24]. As one reaction, the U.S. is planning to strengthen the North American Free Trade Zone between the U.S. and Canada and also in near future with Mexico. Problems come from the fact that free trade between the U.S. and Canada have already



Source: *Gaikô Fôrum*, Sept. 1990, p. 46.

Note: Trans-Pacific trade: total amount of trade between the U. S., Canada, and Latin America as one part and Japan, Australia, New Zealand, the ASEAN, and the NIES as the other part. Trans-Atlantic trade: total amount of trade between the U. S., Canade, and Latin America as one part and West Europe and Africa except South Africa as the other part.

Figure 2. The Trans-Pacific Trade Exceeds the Trans-Atlantic trade

existed for long time for motor vehicles and car components and so further trade diversion effects would be largely limited. Furthermore, in Canada as well as in Mexico, almost all big enterprises are in fact possessed or controlled by American capital. Yet the establishment of a "Continental Economy" has not seemed to yield more a dynamic economy.

The last problem we should mention is that the relations between Europe and Asia have long lacked cultural sympathy for each other. Even economic relations have a relatively short history. For Japanese trade relations with Europe really began in 1974, which occurred unfortunately alongside the first oil crisis. The rapid Japanese economic advance and the take off of exports towards Europe in the NIES intensified since 1979, which occurred alongside the second oil crisis when European countries began to suffer from the "Euro-pessimism". The economic relations between Japan, as well as the NIES, and Europe opened in an untimely fashion. Futhermore trades items in both side have competitive characters lacking in ability to complement each other, so that the relationship is always characterized by tension. The U.S. can export to Japan foods, raw materials, jumbo jet liners, military equipment as well as other manufactured goods; Europe cannot easily assure a market in Japan for those items because of geographical and political handicaps. In the case of foods, European transport ships are handicapped by its long voyage crossing the line; in the case of huge manufactured goods, Europe does not share any military alliances or special political relations with Japan.

The emergence of Greater Germany is, by consolidating the core of European economy on the whole, a preferable development for Japan. But, as mentioned above, Asian developing countries feel a certain concern about the intensification of introversion in Europe which will have a strong impact on the vulnerable trade and capital investment relations between Asia and Europe. On the other side, however, people are worried by strong Japanese overpresence in the South-East Asian countries just as East European people are afraid of the influence of a Greater Germany. One solution is for Japan to try to make inroads into the markets of East Europe and the Soviet Union, and reciprocally Germany and other West European countries should move into the Asia-Pacific basin. If Japan and West European states engaged in cooperation and coalition in the third countries, it will be of great significance in preparing the new international economic order, irrespective of whether a bipolar system or a two and one-half polar system emerges.

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