Internationales Asienforum, Vol. 15 (1984), No. 3/4, p. 287-300

EUROPEAN TRADE WITH THE FAR EAST AND ITS FUTURE

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I. THE DEVELOPMENT OF MARKETS IN THE FAR EAST

The purpose of this paper is to analyze mutual trade relations between Europe and Far Eastern developing countries in the 1970s and to discuss trade prospects for the 1980s. The term "Europe" basically includes all European OECD countries but the empirical analysis is largely focussed on the member countries of the European Community. The term "Far East" describes a heterogenous group of developing Asian countries, i.e. the member countries of the ASEAN group (Indonesia, Malaysia, Philippines, Singapore, Thailand), the "Newly Industrializing Countries" (NICs) Hong Kong, Republic of Korea, and Republic of China (Taiwan) as well as the People's Republic of China.

All these Far Eastern countries have two important characteristics in common. First, they belonged to the group of countries which experienced the highest rates of economic growth in the 1970s. Western Industrial Economies grew at an average annual rate of 3.2 per cent in the 1970s while these rates were between roughly 6 and 10 per cent in Far Eastern developing countries[1]. Hence, the first stylized fact of trade with the Far East is that of rapidly expanding markets for both domestically produced and imported goods. In the 1970s imports from all OECD countries grew at an average annual rate of 23.2 per cent in nominal terms[2]. The expansion of trade with the Far East was significantly larger than the expansion of world trade which grew at an annual rate of 20.4 per cent during the same period.

The second stylized fact concerns the nature of import demand of Far Eastern developing countries. A common drive towards industrial development[3] had resulted in rapidly expanding demand for imported technology which is embodied in investment goods primarily supplied by the Western industrialized countries. The relative importance of this demand is reflected in actual trade flows. In 1980, exports of machines and transport equipment (Category 7 of the Standard International Trade Classification) accounted for more than 40 per cent of total OECD exports to the Far East.

II. EUROPEAN EXPORTS TO THE FAR EAST

The major trading partners of Far Eastern countries are the industrialized countries in the Pacific Basin, in particular Japan and the US. Proximity to Far Eastern markets, old ethnic or colonial links to many of the countries in the region and, last but not least, a high degree of international competitiveness in manufactured products have secured Japan an advantage over other exporters from industrialized countries. Therefore, it is not surprising that in 1970 almost half of total OECD exports to the Far East originated from this country (Table 1). The United States were the other major exporter to NICs and ASEAN countries while there was virtually no trade with the People's Republic of China at the beginning of the 1970s as the result of a trade embargo

In addition to the US and Japan, the group of European OECD countries, i.e the 9 member countries of the EC, the member countries of EFTA, and Greece Turkey, and Spain had established themselves as the third leading exporter to the Far East in the early 1970s ranking even slightly higher than the US in terms of total value of exports. European exports to the NICs and ASEAN countries matched the US exports to this region and European trade with China, PR was close to Japanese exports to this country although the total value of trade with China was still small. However, European exporters did, on average, not succeed in securing their market shares during the period of economic prosperity which characterized the decade of the 1970s in the Far East.

Europe increased exports to the Far East significantly during the 1970s but the respective share in total OECD exports dropped by roughly 4 percentage points in trade with NICs and ASEAN countries and by 6-8 percentage points in trade with China, PR. The US, on the other hand, gained on both counts. This country was not only able to expand exports to the Far East in line with growing import demand, but also to outcompete exporters from other countries. As a result, the US share increased by 3 percentage points in trade with NICs and ASEAN countries while its share in exports to China, PR jumped from virtually zero in 1970 to 28 per cent in 1980[4]. An analysis of European exports by commodity groups (Table 2) confirms the above general finding. European exporters have been losing market shares in almost all export categories[5].

The limited success of European exporters in trade with the Far East in the 1970s requires an explanation. There are, actually, several factors affecting the relative competitive position of exporters from different countries which should be briefly discussed. First, exports to the Far East are not entirely governed by market forces. There are political strings attached to trade, particularly to trade with China, PR. Development assistance granted on a bilateral basis is often tied to purchases of goods and services in the donor country. The receiving country does not have the freedom to select the most reasonable and appropriate offer. Since the US and Japan are the largest bilateral donors in the Far Eastern region, exporters in these countries enjoy

Table 1: Exports[a] of OECD Countries to the Far East[b] and China, PR: 1970 and 1980

To \ From	Far Eastern Developing Countries[b]		China, PR	
	1970	1980	1970	1980
OECD Total	8 837 450	67 508 674	1 237 102	13 405 361
USA	2 331 789	19 820 961	-	3 748 994
Japan	4 036 772	28 228 892	568 870	5 078 302
European OECD Countries[c]	2 331 946	15 182 779	528 961	2 907 839
EC[d]	2 026 907	12 599 721	454 915	2 362 327
	Percentage Share of Total OECD Trade			
USA	25.4	29.4	-	28.0
Japan	45.7	41.8	46.0	37.9
European OECD Countries[c]	26.4	22.5	42.8	36.8
EC[d]	22.9	18.7	21.7	17.6
	Average Annual Growth Rate			
	1970/80		1970/80	
OECD Total	22.5		26.9	
USA	23.9		-	
Japan	21.5		24.5	
European OECD Countries[c]	20.6		18.6	
EC[d]	20.0		17.9	

a) In 1000 US$. - b) The Far East includes Thailand, Malaysia, Singapore, Indonesia, Philippines, Hong Kong, Republic of Korea and Republic of China. - c) European OECD Countries include the EC, the EFTA and Greece, Turkey and Spain. - d) The EC includes all 9 member countries both in 1980 and 1970. Source: OECD, Trade by Commodities 1970 and 1980, Vol. 1, Paris.

Table 2: Exports[a] to the Far East[b] and China, PR, by Major Commodity Groups: 1970 and 1980

Commodity Group	Year	Far Eastern Developing Countries[b]					China, PR				
		OECD Total	European OECD Countries[c]		EC[c]		OECD Total	European OECD Countries[c]		EC[c]	
		Value	Value	Share[d]	Value	Share[d]	Value	Value	Share[d]	Value	Share[d]
Food and Live	1970	732 758	124 996	17.1	115 119	15.2	136 142	16 912	12.4	16 883	12.4
Animal (SITC 0)	1980	4 449 000	436 093	9.8	400 527	9.0	2 186 659	25 561	1.2	24 657	1.1
Beverages and	1970	118 825	49 417	41.6	47 377	39.9	n.a.	n.a.		n.a.	
Tobacco (SITC 1)	1980	712 329	315 034	44.2	287 532	40.4	1 768	1 313	74.3	1 306	73.9
Crude Materials	1970	539 657	28 477	5.3	21 602	4.0	34 348	18 165	52.9	8 621	25.1
excl.Fuels (SITC 2)	1980	4 343 444	188 165	4.4	100 761	2.3	1 855 231	150 154	8.1	66 946	3.6
Mineral Fuels etc.	1970	61 474	7 492	12.2	7 272	11.8	310	309	99.7	302	97.4
(SITC 3)	1980	1 094 283	118 799	10.9	82 700	7.6	12 070	5 985	49.6	3 251	26.9
Mineral, Vegetable	1970	34 801	4 059	11.7	3 682	10.6	380	21	5.5	21	5.5
Oil, Fat (SITC 4)	1980	187 083	25 495	13.6	24 375	13.0	122 305	2 987	2.4	621	0.5
Chemicals, Related	1970	917 983	324 552	35.4	284 382	31.0	258 489	120 202	46.5	111 955	43.3
Prod.NES (SITC 5)	1980	9 071 720	2 302 359	25.4	2 020 007	22.3	1 650 807	678 187	41.1	590 801	35.8
Basic Manufactures	1970	2 303 027	435 991	18.9	362 868	15.8	554 080	240 188	43.3	215 995	39.0
(SITC 6)	1980	13 475 579	2 508 681	18.6	2 008 423	14.9	3 381 087	536 313	15.9	440 081	13.0
Machines, Transport	1970	3 436 075	1 103 144	32.1	1 000 011	29.1	230 264	115 891	50.3	91 358	39.7
Equipment (SITC 7)	1980	28 687 611	7 382 268	25.7	6 421 525	22.4	3 727 218	1 325 099	35.5	1 101 392	29.6
Miscellaneos	1970	597 746	228 598	38.2	143 401	24.0	21 956	16 563	75.4	9 071	41.3
Manufactured Goods (SITC 8)	1980	4 675 019	1 587 469	34.0	1 017 991	21.8	390 334	166 535	42.7	118 548	30.4

a) In 1 000 US$.- b,c) Country coverage as in Table 1.- d) Percentage Share of Total OECD Trade in the Commodity Group.

Source: See Table 1.

an institutional advantage over suppliers from other countries.

A second factor influencing the direction of exports concerns the proximity to export markets. Proximity to markets does not only have a geographical dimension which works through lower transport costs and better knowledge of consumer preferences both favouring Japan and, to some degree, also the US. Marketing of export products can also be facilitated by direct investment abroad which creates intra-firm trade in industrial intermediates[6] and demand for investment goods. European investors have not been particularly attracted to countries in the Far East. European investment was rather directed towards countries in Latin America and Africa while overseas investment in the Far East is dominated by companies from the US and Japan which amounted to more than 50 per cent of the total stock of foreign investment in most Far Eastern countries (except for China)[7].

A third influence on European exports to the Far East results from what could be called a pull effect of well established trade links. This effect works through channels similar to those discussed with regard to foreign direct investment. Increasing trade between two countries improves the flow of information on opportunities for trade, and past successful export expansion encourages potential exporters to follow the example. The data shown in Table 3 suggest, however, that such a pull effect is not likely to have much of an impact on European exports to the Far East. The share of these exports in total exports has remained very small in the 1970s - less than 3 per cent for all European countries and around 4 per cent for the member countries of the EC.

The traditional export markets of European countries are the other industrialized countries, African countries and more recently the OPEC countries, in that order. The export shares for individual commodity groups presented in Table 3 show that the Far East did not only remain a marginal market for European exporters in the 1970s; the region even lost in relative importance for exporters in the EC in all important commodity groups. The declining export shares of the Far East show that the export expansion of the EC focussed on other markets than the Far East.

The survey of export expansion during the last decade has yielded two major results: European exporters have lost market shares in Far Eastern markets particularly to suppliers from the US, and Far Eastern markets have lost in relative importance as an export destination for European exporters. An entirely different picture emerges from the subsequent analysis of Far Eastern exports to Europe.

Table 3: European Exports to the Far East[a] as Percentage Shares of Total European Exports[b] by Commodity Group: 1970 and 1980

Commodity Group	European OECD Countries[b]		EC[b]	
	1970	1980	1970	1980
Total Exports to the Far East (SITC 0-9)	2.6	2.8	4.2	3.7
Food and Live Animal (SITC 0)	1.4	0.9	2.1	1.1
Beverages and Tobacco (SITC 1)	4.2	4.7	8.8	5.7
Crude Materials excl. Fuels (SITC 2)	0.5	0.8	0.8	0.8
Mineral Fuels etc. (SITC 3)	0.2	0.2	0.4	0.2
Mineral, Vegetable Oil, Fat (SITC 4)	0.8	1.1	1.5	1.4
Chemicals, Related Prod.NES (SITC 5)	3.9	4.0	6.5	5.2
Basic Manufactures (SITC 6)	1.9	2.0	2.8	2.7
Machines, Transport Equipment (SITC 7)	4.0	4.9	6.9	6.6
Miscellaneous Manufactured Goods (SITC 8)	2.5	2.7	2.8	2.7

a,b) Country coverage as in Table 1.
Source: See Table 1.

III. FAR EASTERN EXPORTS TO EUROPE

In the 1970s, all Far Eastern developing countries have successfully promoted industrial development and expansion of manufactured exports. Table 4 shows that in the 1970s Asian NICs, ASEAN countries, and China, PR achieved rates of growth of manufactured exports clearly in excess of those achieved by other developing countries and in excess of expansion of world trade[8]. The Asian NICs where manufactured exports already accounted for 70 per cent of total exports in 1970 maintained an annual average rate of growth of nearly 30 per cent, thus outpacing not only the expansion of manufactured exports of other LDCs but also that of other "NICs" such as Argentina, Brazil, Greece and Spain (see Table 4).

The real "success story" concerns, however, the export performance of ASEAN countries. These countries had adopted a package of policy reforms in order to diversify the composition of their exports which in 1970 consisted almost entirely of primary commodities (ranging from 94 per cent in Malaysia and

Table 4: Growth of Total and Manufactured Exports of Asian Developing Countries in the 1970s

Country	Exports (Million US$)					Annual Growth Rate (%)		
	Total			Manufactured[a]		Total		Manufactured
Country Group	1970	1979	1981	1970	1979	1970-79	1979-81	1970-79
China, PR	1 366	10 159	12 770	595	4 550	25.0	12.1	25.4
Hong Kong	2 514	15 159	21 820	2 322	13 919	22.1	20.0	22.0
Rep.of Korea	835	15 051	20 224	627	12 286	37.9	15.9	39.2
Rep.of China	1 429	16 046	22 611	1 033	13 454	30.8	18.7	33.0
Singapore	1 598	14 721	22 100	448	6 342	28.0	22.5	34.2
Asian NICs	6 376	60 977	86 755	4 430	46 001	28.5	19.3	29.7
Indonesia	1 055	15 590	22 260	12	399	34.9	19.5	47.4
Malaysia	1 687	11 079	11 198	106	1 929	23.3	0.5	38.0
Philippines	1 060	4 601	5 757	68	927	17.7	11.8	33.8
Thailand	710	5 297	6 784	37	1 192	25.0	13.2	47.1
ASEAN[b]	4 512	36 567	45 999	223	4 447	26.2	12.2	39.4
Other NICs[c]	-	-	-	4 271	29 718	-	-	24.1
Other LDCs	44 440	322 628	459 980	5 500	36 818	24.6	19.4	23.5
World Trade	312 350	1 639 290	1 832 400	172 936	870 877	20.2	5.7	19.7

a) SITC 5 + 6 - 67 - 68 + 7 + 8. - b) Excluding Singapore. - c) Defined as: Indonesia, Brazil, Greece, India, Israel, Portugal, Spain, Yugoslavia.

Sources: UN Commodity Trade Statistics 1970, Statistical Papers Series D Vol. XX (Nos. 1-3, 1-10, 1-36, 1-46, 1-49, 1-50). United Nations, New York, various years; UN Commodity Trade Statistics 1979, Statistical Papers Series D Vol. XXIX (Nos. 1-3, 1-7, 1-12, 1-14, 1-17, 1-23). United Nations, New York, various years; UN 1980 Yearbook of International Trade Statistics, New York, 1981; The Trade of China (Taiwan District) 1979, Statistical Department, Inspectorate General of Customs, Taipeh, Republic of China, May 1980; 1979 Foreign Trade Statistics of the Philippines, National Census and Statistics Office, National Economic and Development Authority, Manila, 1979; Directory of Trade Statistics Yearbook 1982, International Monetary Fund, Washington, D.C., USA; Indikator Ekonomi Agustus 1982, The Central Bureau of Statistics, Jakarta, Indonesia; Statistical Yearbook of the Republic of China 1982, Directorate General of Budget, Accounting and Statistics, Executive Yuan, The Republic of China.

the Philippines to 99 per cent in the case of Indonesia). As a result of these decicions (which included tariff reforms, exchange rate adjustments, liberalization of foreign direct investment, establishment of export processing zones and various other incentives) and despite slower growth of world trade and external disturbances such as the first "oil shock", the share of manufactured in total exports had risen to about 20 per cent in Malaysia, Philippines and Thailand by 1979[9].

The remarkable export performance of both NICs and ASEAN countries in the 1970s has not only been accompanied by a growing importance of manufactured exports but also by significant changes in the pattern of export destinations (Table 5). New and expanding markets for the NICs' manufactured exports were not opened up so much in Japan or the US, as one might have expected, but rather in Europe and in other developing countries, particularly in the Middle East. By 1979, almost one fifth of all manufactured exports of the NICs were supplied to markets in the EC. A similar development can be observed with respect to manufactured exports of ASEAN countries. The share of these exports going to markets in the EC almost doubled in the 1970s while

Table 5: Direction of Exports of NICs and ASEAN Countries by Principal Destination 1970-1979 (Percentages)

Destination[a]	NICs				ASEAN[b]			
	Total Exports		Manuf. Exports		Total Exports		Manuf. Exports	
	1970	1979	1970	1979	1970	1979	1970	1979
NICs	7.8	8.7	7.5	7.6	18.9	17.8	27.2	22.9
ASEAN[b]	10.2	9.4	8.9	7.7	5.2	3.1	8.0	4.3
Other Developing Countries	12.3	15.8	10.5	15.1	3.6	6.2	12.1	6.8
Japan	11.7	13.1	7.1	9.5	28.4	33.1	6.7	9.7
US	31.8	26.5	41.2	29.9	19.6	19.3	28.6	26.2
EC[c]	15.0	16.2	14.3	18.5	15.4	14.5	10.8	19.3
Other Industrialized Countries[d]	7.0	6.0	10.3	10.9	3.1	2.3	6.1	10.7
Total Dev. Countries	30.3	33.9	26.9	30.4	27.7	27.1	47.3	34.0
Total Industr. Countries	67.8	64.3	72.0	68.8	68.4	70.6	52.2	65.8

a) Definition of country groups as in UN Commodity Trade Statistics.

b) Excluding Singapore.

c) Including United Kingdom.

d) Excluding Centrally Planned Economies.

Source: See Table 4.

the traditional markets in the Pacific Basin such as Japan, the US and the NICs contributed little to the expansion of manufactured exports.

Trade relations between China, PR and Europe have traditionally been well developed. In 1970, almost 40 per cent of total exports of China, PR and slightly more than 50 per cent of manufactured exports were delivered to European countries[10]. However, Europe's position as an important destination for exports of China, PR has weakened in the subsequent decade. Europe's share in total exports of China, PR dropped to one third in 1979 and to less than 20 per cent in 1981. A similar trend can be observed with respect to manufactured exports; the European share in these exports was only 27.4 per cent in 1981. One reason for slow growth of manufactured exports to Europe is the high degree of China's specialization in textiles and clothing. In these

Table 6: Commodity Composition of Far Eastern Exports[a] to the EC[b], 1970 and 1980 - Percentage Share of Total Trade with the EC

Commodity Group (SITC)	NICs[a]		ASEAN Countries[a]	
	1970	1980	1970	1980
Agricultural and Food Products (0+1+22+4)	13.5	4.5	35.5	40.4
Raw Materials (2-22+3+67)	17.9	7.0	55.9	39.1
Manufactured Products	66.3	86.1	3.5	16.2
Resource-Based Manufactures (61, 62, 63, 64, 66)	3.6	6.7	1.9	3.9
Textile, Yarn, Fabrics (65)	10.4	5.9	0.4	3.9
Clothing (84)	26.5	25.5	-	4.7
Chemicals (5)	-	-	0.1	0.3
Non-Electrical Machinery (71 through 75)	0.7	2.7	-	-
Electrical Machinery (76,77)	5.6	15.7	-	3.0
Miscellaneous Manufactures (812, 831, 89)	14.6	15.2	0.2	1.8

a) Region includes the Newly Industrializing Countries (NICs) Hong Kong, Republic of Korea, Republic of China, Singapore and the ASEAN countries Indonesia, Malaysia, Philippines, Thailand.
b) The EC is the EC of the 9 countries both in 1980 and 1970.

Source: See Table 4.

markets, China has to compete with competitive suppliers from NICs and ASEAN countries.

The change in the composition of Far Eastern trade with Europe is reflected in Table 6. The share of ASEAN manufactured exports to the EC has increased from 3.5 per cent of total exports to the EC in 1970 to 16.2 per cent in 1979. This shift shows that ASEAN countries are not longer just suppliers of raw materials and agricultural products, although these primary commodities still accounted for about 80 per cent of all exports to the EC. They have become internationally competitive exporters of labour-intensive manufactured products such as textiles, clothing and electronic parts and components. In these export categories ASEAN countries were able to expand their market shares considerably, partly at the expense of the NICs.

The NICs have been a well established exporter to European markets already in 1970, particularly with products such as textiles, clothing and miscellaneous manufactures[11]. The increasingly protectionistic attitude of European countries, saturation of some markets and competition from newcomers such as the ASEAN countries have, however, limited the scope for further expansion of these exports. This is evident from stagnating or declining shares of the respective export categories in total exports to Europe (Table 6). The rapid expansion of the NICs' trade with Europe was achieved by export diversification, i.e. expansion into new markets. The NICs succeeded to increase substantially their exports of resource-based products (such as leather, rubber, wood and cork products, and manufactures of paper and paperboard or non-metal minerals) and, in particular, electronical goods (SITC 76, 77). The export share of the latter tripled in the 1970s from about 5 to 15 per cent of total exports to Europe. The NICs also made first inroads into the markets for investment goods which is shown by the growing share of non-electrical machinery in their export basket.

This shift from traditional labour-intensive exports to more sophisticated technology- and capital-intensive products in the case of NICs and from primary commodities to light manufactures in the case of ASEAN countries indicates the growing maturity of these economies of the Far East. The structural change observed in the 1970s is likely to continue in the 1980s and has to be kept in mind when speculating about future trade relations between Europe and the Far East.

IV. PROSPECTS

Future European trade relations with the Far East will depend on the momentum of economic growth which Far Eastern countries can maintain, the direction this growth is going to take, and the pace at which the required structural adjustment can be accomplished in the European economies. The prolonged and severe recession in the US and Europe had a strong impact on economic growth in NICs and ASEAN countries. By 1982, when Japan had fallen in step with the recession in other industrialized countries, the growth rate of Gross Domestic Product slowed down and export expansion came to a standstill in most of the countries.

For both NICs and ASEAN countries the stage for future economic growth will have to be set by economic recovery in OECD countries. NICs will immediately benefit from a revival of demand in the US and the EC in terms of "modern" exports such as electrical and non-electrical machinery, though restrictions against exports of "traditional" goods to these countries, which were leveled in particular against exports from Asia, will remain a major stumbling block. The overall effect of economic recovery on exports of NICs will, therefore, depend on continued structural change in the manufacturing sectors of these countries towards the production of more skill- and technology-intensive, though not necessarily capital-intensive, goods.

Concerning ASEAN countries, their ability to further diversify and expand manufactured exports is linked to some recovery of commodity exports revenues, which would help to alleviate the pressing balance-of-payments problems. Despite low income elasticities, some early improvement in both volume and prices of primary commodity exports is probable in view of the depletion of inventories which are drawn down, in part because of the burdensome carrying cost at high interest rates. But, even if external demand for commodities picks up, the impact on total export revenues is likely to be modest and remains subject to sudden supply or demand disruptions. ASEAN countries will, therefore, have to continue their efforts to diversify and expand manufactured exports, if export revenues are to be stabilized and increased substantially. Similar considerations apply to China, PR which will need higher export revenues if imports of Western technology are to be continued.

The chances of all Far Eastern countries to return to higher levels of economic growth are generally viewed as being excellent. All private and official forecasters share in the conviction that these countries will remain the "economic growth center" of the world in the 1980s just as they had been the fastest growing region in the world in the 1970s. The average level of economic growth may, however, be somewhat lower in the 1980s than the 8.2 per cent rate of average annual growth in real terms achieved in the 1970s. The World Bank has estimated an average real rate of growth between 6.4 and 8.1 per cent annually for the 1980-1990 period which compares to an (projected) annual growth rate of 2.8 to 3.6 per cent in the industrialized countries for the same period[12].

Continued rapid economic growth in NICs and ASEAN countries and some degree of import liberalization in the People's Republic of China would mean that the Far East remains a rapidly expanding market for exports of industrialized countries throughout the 1980s. Real growth of total imports of Far Eastern countries may be a bit slower than the 10 per cent annual rate achieved in the 1970s, but imports of investment goods, which accounted for about one third of total imports, will rather be growing faster to satisfy the needs of industrial restructuring. It should be mentioned here that China, PR is not yet likely to play a dominant role as importer of industrial goods in the 1980s. In 1980, total imports of China, PR amounted to roughly 20 billion US-$, well below total imports of either Korea or Hong Kong, or Singapore. Given the strategy of cautious modernization on which the Peking government seems to have embarked, it is not likely that import growth of China, PR is going to exceed the expansion of imports of other Far Eastern countries in the 1980s.

Concerning the chances of European exporters to benefit from the rapid expansion of Far Eastern markets, several factors come into play. Import demand of the Far East will focus on raw materials (inclusive oil), industrial intermediates and investment goods. European exporters will only be able to supply the markets for the latter two product categories. In 1980, the top ten export products, which together accounted for 57 per cent of total European exports to the Far East, comprised almost entirely investment goods[13]. This pattern of specialization in trade with the Far East essentially meets the requirements of these countries for a continued promotion of industrial development in the 1980s. Hence, there is a potential for European exporters to expand their trade with the Far East. Whether this potential can be used by European exporters will depend on their ability to retain a competitive edge over suppliers from other industrialized countries.

The experience of the 1970s provides a mixed picture. Looking at growth of total exports, Europe has ranked second behind Japan but well ahead of the US and the average export growth of all industrialized countries. Despite this favourable overall performance, however, European exporters lost market shares in the Far East, in particular to the US, as mentioned above. This pattern seems to suggest that European manufacturing industries can successfully compete in international markets, but lack the required knowledge and understanding of Far Eastern markets to take full advantage of import expansion. Such a bottleneck could, of course, be remedied by increased marketing efforts if European suppliers were aware of the opportunities open to them in these markets. This awareness seems to be lacking, however, and casual observations even suggest that European exporters tend to withdraw from Far Eastern markets, leaving these markets to Japanese and US companies. A case in question is the European passenger car industry which has made hardly any effort to defend its well established Far Eastern markets against the Japanese export offensive.

An even more sceptical note on future European export expansion seems to be in place, though there are reasons to believe that European companies will find it increasingly difficult to maintain their international competitiveness in general. The new and rising wave of protectionism in Europe has slowed the necessary process of industrial restructuring and therefore labour and capital continue to be employed in industries which have lost their competitiveness to other industrialized countries or to NICs.

The impact of protection on export industries is twofold. It increases the cost of necessary inputs (such as in the case of protection to the iron and steel industry), and it becomes more difficult (and costly) to attract labour and capital to new, potentially competitive lines of production. Furthermore, protection reduces the incentives for large companies to diversify their product mix since profits are secured in the protected domestic markets. Similar developments cannot be observed either in the US or in Japan. Therefore, it seems to be a rather acute possibility that growth of European exports may lag behind the expansion of world trade in the 1980s.

The conclusion to be drawn from these considerations is certainly not an overall decline of European exports to the Far East. I would rather like to suggest that European exports to the Far East continue to grow in the 1980s, though at a much lower rate than import demand. This is to say, that past trends are likely to continue in the future. European exporters will not fully participate in the trade expansion created by rapid economic growth in the Far East and will further lose market shares to other industrialized countries. A reversal of this trend would - among other things - require a reorientation of trade and industrial policies in Europe which is not in sight.

Notes:

1) World Bank, World Development Report 1982, The World Bank, Washington, D.C., August 1982; Asian Development Bank, Key Indicators, October 1981, Manila 1981.
2) OECD, Trade by Commodities 1970 and 1980, Vol. 1, Paris.
3) For details see Hiemenz, U., Industrial Growth and Employment in Developing Asian Countries: Issues and Perspectives for the Coming Decade, Asian Development Bank Economic Staff Paper No. 7, Asian Development Bank, Manila/Philippines, March 1982.
4) This rapid increase was largely due to US exports of food and raw materials which accounted for two thirds of total US trade with China, PR in 1980.
5) The only exceptions are Beverages and Tobacco (SITC 1) and Animal, Vegetable Oil and Fat (SITC 4) which show a slight increase of the European share in total OECD exports to NICs and ASEAN countries. The total value of exports in these two commodity groups is, however, rather small and has little significance for the overall export performance. In 1980, exports in the categories SITC 1 and SITC 4 accounted for 1.2 per cent of European trade with the Far East (incl. China, PR) and only 0.06 per cent of total European exports. The important categories are exports of investment goods and industrial intermediates such as Chemicals and Related Products (SITC 5), Machines and Transport Equipment (SITC 7) and Miscellaneous Manufactured Goods (SITC 8). Exports in these categories account for nearly 75 per cent of all European exports to the Far East (incl. China, PR). The loss of market shares which occurred in these export categories pri-

marily caused the relative decline of total European exports to the Far East recorded above.

6) For details see Helleiner, G.K., Intra-Firm Trade and the Developing Countries. London and Basingstoke: McMillan Press, 1981.
7) For details see Krägenau, H., Internationale Direktinvestitionen - Ergänzungsband 1982. Hamburg: Weltarchiv 1982; Lee, Chung H., Direct Investment and Industrial Development and Restructuring in the Pacific Basin Area, Working Papers of the Enter Development Studies - Social Science Research Institute, University of Hawaii at Manoa, Honolulu, Hawaii, 1981.
8) See Havrylyshyn, O., and Alikhani, I., "Is There Cause for Export Optimism? An Inquiry into the Existence of a Second Generation of Successful Exporters". Weltwirtschaftliches Archiv, Vol. 118, 1982, pp. 651-663.
9) For details see Hiemenz, U., "Export Growth in Developing Asian Countries: Past Trends and Policy Issues". Weltwirtschaftliches Archiv, Vol. 119, 1983, pp. 686-708. The least developed ASEAN country, Indonesia, achieved a similarly high rate of manufactured export growth as the other countries in this group but given the low base in 1970, the share of manufactured in total exports was still low (3 per cent) at the end of the decade. This was also due to the huge rise of oil export earnings that resulted from the oil price hikes of the 1970s in oil-rich Indonesia.
10) All data on trade between China and Europe are taken from OECD, Statistics of Foreign Trade, Series C, Trade by Commodities, 1970, 1979, 1981, OECD, Paris.
11) This group combines the SITC categories 812, 831, and 89 and comprises plumbing, heating and lighting equipment; travel goods and handbags; printed matter; articles of plastic; toys and sporting goods; office supply; jewelry; musical instruments; and a small number of minor items.
12) See World Development Report 1982, op.cit.
13) Computed from OECD, Trade by Commodities, op.cit.