

Opportunities and Challenges in Economic Relations Between Asean and Eastern European Countries

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1. Eastern Bloc's admission to the EU

The EU officially admitted 10 new members on May 1, 2004 raising its membership to 25 and making it

the world biggest economic bloc. This development affects its relations with other groupings including the ASEAN. Ten new members turn the EU into the world biggest market with a population of 454 million

people (2002) and a GDP (PPP-based) in 2003 of some US\$10,000 billion.

Eight out of the 10 new members are former socialist countries. This means that some less developed economies are added to the EU-15.

The most difficult problem to the integration process of new members is the difference in development levels between new and old members. Bridging this gap requires great efforts from the new and great help from the EU-15. Many economists and politicians share an optimistic view on the integration process by Eastern European countries. Many important factors have helped these countries integrate successfully into the EU. This reflects in high growth rates gained by Eastern European countries in recent years.

In addition, engaging well in international division of labor and specialization helps improve competitiveness of Eastern European countries. In recent years, they have developed many technology-intensive products, such as machines, pharmaceuticals, laser technology and robots. Foreign trade of these

Table 1: EU-15 and new members in terms of GDP

Member	Population (mil.)	PPP-based GDP (US\$ bil.)	Per capita GDP (US\$)
Poland	38.60	365.290	9,463
Czech Republic	10.30	150.534	14,615
Hungary	10.00	125.693	12,569
Slovakia	5.40	64.623	11,967
Slovenia	2.00	34.128	17,064
Latvia	2.40	18.230	7,596
Lithuania	3.70	29.510	7,976
Estonia	1.40	13.875	9,911
Cyprus	0.80	16.120	20,150
Malta	0.40	5.199	12,998
EU-15	376.50	9,113.309	24,205.14

Source: World Development Indicators Database, World Bank, April 2003

Table 2: Growth rates of EU members

Member	1985-94	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
Poland	1.3	6.8	6.0	6.8	4.8	4.1	4.0	1.0	1.3	2.6	4.1
Czech Republic	—	5.9	4.3	-0.8	-1.0	0.5	3.3	3.1	2.0	1.9	3.3
Hungary	1.1	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.3	3.6	3.9
Slovakia		6.5	5.8	5.6	4.0	1.3	2.2	3.3	4.4	4.0	4.2
Slovenia		4.9	3.5	4.6	3.8	5.2	4.6	3.0	2.9	3.2	3.8
Latvia		-0.8	3.7	8.4	4.8	2.8	6.8	7.9	6.1	5.5	6.0
Lithuania		3.3	4.7	7.3	5.1	-3.9	3.8	5.9	5.9	5.3	5.7
Estonia		4.3	3.9	9.8	4.6	-0.6	7.1	5.0	5.0	4.9	5.2
EU-12**		2.2	1.4	2.3	2.9	2.8	3.5	1.4	0.8	1.1	2.3

* estimated data ** excluding Denmark, Sweden and the UK

Source: World Economic Outlook, IMF, March 19, 2003.

countries has been expanded since the socialist bloc collapsed in 1991. 18% accounted for by the U.S. Trade barriers between the EU and

Table 3: Export from Eastern European countries

Country	Export value /GDP	Manufactured goods / exports	Capital goods/ exports
Poland	27.9	80.2	34.2
Czech Republic	63.6	88.4	44.3
Hungary	55.4	85.1	57.4
Slovakia	65.6	83.8	38.5
Slovenia	56.1	76.6	33.6
Latvia	47.0	58.6	8.0
Lithuania	44.0	58.2	19.9
Estonia	84.3	74.9	34.1

Sources: *World Investment Report 2002; Transitional Corporations and Export Competitiveness* (UN, 2002); *UNCTAD Handbook of Statistics 2002*

Since 1995, most goods from the East Europe have gone freely to the EU except for farm products, aquatic products and clothing. The share of goods exported from these countries to the EU represented 68.8% in 2001.

Regarding the development of technology and science, the East Europe gained a high level. They also share many historical, cultural and religious factors and convenient geographical positions.

2. Opportunities and challenges to the ASEAN after East Europe's admission to the EU

According to many economists, the EU expansion will affect to a certain extent the trading relations between groupings. It also leads to new opportunities and challenges to the EU-ASEAN and EU-Vietnam relations as well.

a. Opportunities:

Firstly the political and diplomatic relations between the EU and ASEAN have made good progress after four meetings of high levels. The ASEM 4 (in September 2002 in Copenhagen) reflected the EU policy to enhance its relations with Asia. The political and diplomatic relations provide a firm basis for trading and investment relations between the two groupings.

Secondly, the EU expansion means a bigger market for the ASEAN because the EU has been the ASEAN's second biggest export market and third biggest trading partner, after the U.S. and Japan. Moreover, the EU import is estimated at US\$1.800 billion equaling 21.9% of the world import, in comparison with

ASEAN are simplified according to EU policies on outsiders. Goods imported into any member could be circulated in the EU without limit. This practice allows the ASEAN to increase its exports to this market.

Thirdly, Eastern European countries, after joining the EU, have to reduce their tariffs to the EU ones, which facilitates flows of imports including the one from ASEAN.

b. Challenges:

Firstly, all bilateral relations with any Eastern European country must now be adjusted to EU trading policies.

Secondly, ASEAN countries have so far enjoyed slack non-tariff barriers and less demanding markets in

the Eastern bloc. This favorable condition ceased to exist when they joined the EU.

Thirdly, the EU protectionism for farm products is now extended to the Eastern bloc, which leads to more barriers to such products from ASEAN. For example, Vietnamese rice is now taxed 100% and many others 200%.

Fourthly, the Eastern bloc will become competitors to ASEAN for investment from the West Europe. In recent years, investment from the EU-15 has accounted for more than 50% of foreign investment in East Europe.

Fifthly, the EU will remove all quota and GSP status for imports from developing countries according to trade liberation principles. This means more difficulties for exports from ASEAN.

3. For a better trading relation with the EU

- ASEM, as a forum for European and Asian countries, is held every two years. In the ever-changing world, such meetings are much needed to solve common problems.

- Economic, trading and investment relations between the two groupings must be beefed up regularly, especially when both of them have just admitted new members.

- Cooperation in other fields, such as technology and science, infrastructure, service, information, education, environmental protection, etc. could serve as a basis for the development of trading relation between the two groupings. ■

