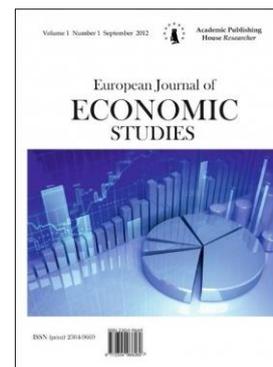


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UDC 33

## European Union Trading Bloc: Motivation for East Asian Countries

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### Abstract

European Union is extremely integrated market with more than 500 million consumers searching for quality goods. EU trading bloc is largest exporter to more than 80 countries and 71 per cent imports enter in EU region at reduced or sometimes at zero tariffs. Still EU has having motivated agenda with other world for a number of trade agreements in the pipeline. Basic idea behind this research study is, whether EU trading bloc has improved the performance of member countries or not? Research study finds that EU trading bloc has increased the production and welfare of the peoples in EU region. Now, it is suggestion for East Asian countries to make East Asian Trading Bloc (EATB) for improved performance and better wellbeing of the people in near future.

**Keywords:** European Union, EU trading bloc, East Asia, Performance.

### 1. Introduction

European Union has achieved a well-built position with one voice by acting together on the global state, rather than with 28 disconnected trade strategies. European Union is a composition of 28 member countries; most of the countries included from Central and Eastern Europe. EU member countries adopt common set of policies on social, economic and political issues. EU has regional development funds, possibly known as structural funds, having the second largest provision of budget (DG Regio, 2004b). EU member countries are a single market through which capital, goods and people can move freely with common trade and agriculture policies. European Union has become extremely integrated market into the globe. They have more than 500 million consumers searching for quality goods. EU is most open international market not only for developing but also for developed countries. EU is a single largest market of the world with transparent rules and regulations and also secures the legal investment framework. Know with modern transportation and communication, it is easier to produce, sell and buy products around the whole world.

European trading bloc is now world largest exporter to more than 80 countries around the world. More than 71 per cent imports enter the European Union at reduced tariffs or sometimes at zero tariffs. Still EU countries have motivated agenda with other world for a number of trade agreements in the pipeline. EU rules, regulations and procedures are having the transparent nature. EU goods and services trade was 33 per cent of their GDP in year 2011. In 2012, EU share for trade in goods and commercial services in the world are presented in table 1 and graph 1.

Table 1: *Share in world trade in goods and commercial services in 2012, Euro billions.*

Country/Region	Exports	Imports
EU	1882	1956
United States	1358	1762
China	1319	1197
Japan	685	641
South Korea	417	392

Source: <http://ec.europa.eu>

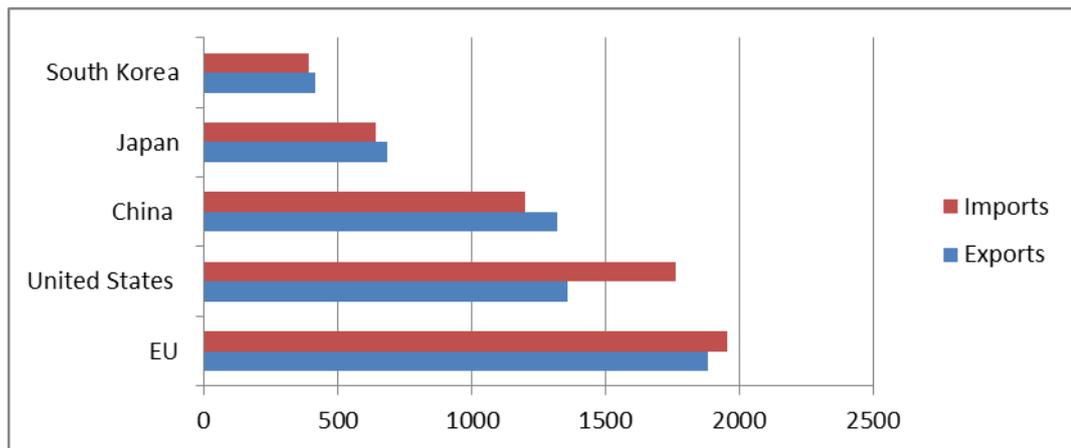


Figure 1: *Share in world trade in goods and commercial services in 2012, Euro billions (from table 1).*

Source: <http://ec.europa.eu>

Big countries have natural advantage when they came for trade. EU member countries are as a single are better place for shaping rules and regulations for trading system globally and also influence the regulations and standards. EU trading policies have four themes; first: creating open and fair trade globally, second: creating opportunities for companies of EU and their workers so that trade would be increased for rest of the world, third: ensuring the fact that trade is for sustained development, fourth: making sure the play of other by rules of international trade.

EU trading bloc works for EU member countries. It is suggested for East Asian member countries to construct regional bloc like EU trading bloc. Development objectives include investment facilitation and labor movement freely (Timothy, 2001). East Asia region consist of highly populated countries like China. After constructing a trading bloc, East Asian member countries can utilize their population in a better way, where not only individual performance for member countries will increase but the overall performance of East Asia region would also be increased. This will increased the overall wellbeing of the people of East Asia region.

Literature review on trading blocs is concentrated mainly on widening the new and existing trading bloc's agreements. Scope and number of regional trading blocs are rapidly increasing and now almost every country of the world has some form of alliance according to its own objectives and priorities (Switky, 2000). Whalley in 1996 have examined the various motives between the countries for constructing the regional free trading blocs/agreements. Kruegar in 1999 studied trade diversion and trade creation under NAFTA. Grimwade in 1999 talk about European Union growth and documents higher growth rate after the Euro zone integration. Amuedo-Dorantes and Wheeler in 2001 observe the impact that EU exerted on economic activity of Spanish. They concluded that EU has significant impact on economy of Spain by affecting inflation and output. Islam in 2003 has explored the effects of expansion of EU and NAFTA for member and non-member countries. Room in 2005 said that Libson Process moves EU toward socially inclusive and

dynamic economy. Yu and Zhang in 2005 inspect the economic performance of EU member countries. Winter and Chang in 2005 uses effects of prices for examining the regional bloc consequences. Baldwin in 2008 makes a survey on theoretical issues for systematic effects of trading agreements. Femenia and Gohin in 2009 explore free trade and protection effects for agriculture as international trade. Lee and Mensbrugge in 2009 explored the impacts for regional integration in North America, Asia and European Union.

**2. Welfare effects for EU**

Strict government controls can never provide optimal level of welfare. Barriers include the political and geographical fragmentation (Timothy, 2004). EU member countries work together for setting policies for collective interest through common institutions. Economic and trading bloc has ability to identify the issues and fill the gaps by increasing the production and welfare of the people. Members of EU have experienced a large rise after the mid of 20<sup>th</sup> century and still today. Some of the welfare effects for members countries of EU are listed as; First: increased economies of scale and economies of scope, second: increased competition and market efficiency, third: free trade within the bloc, fourth: financial market integration, fifth: international risk sharing, sixth: more and increased foreign direct investment, seventh: more jobs and protection.

**3. Data Collection**

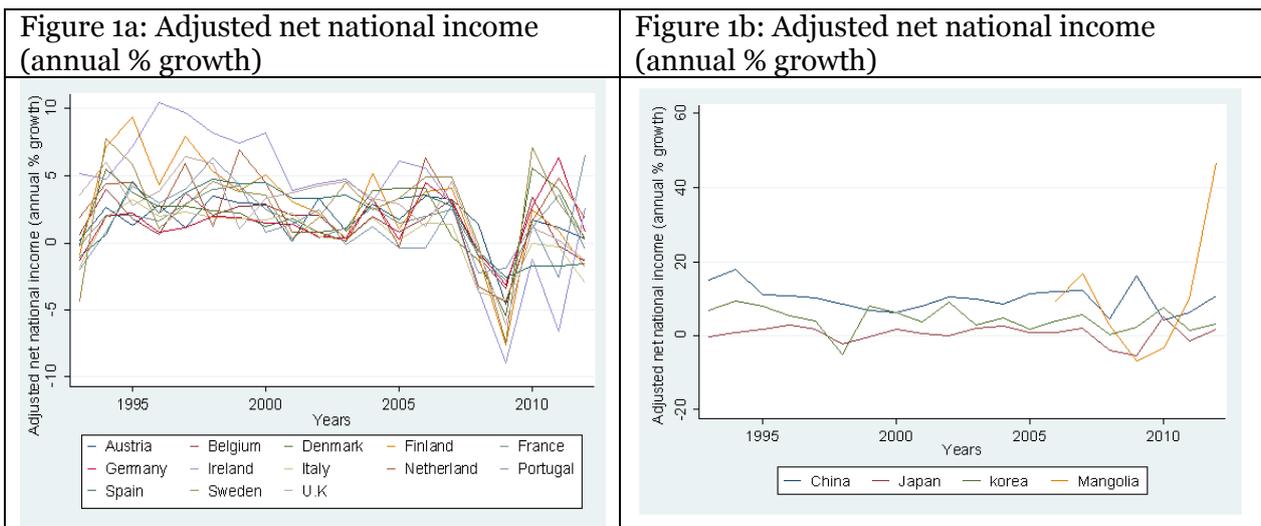
EU trading and economic bloc consists of 28 member countries but data is taken only for 13 member countries. For best explanation of data analysis those members are selected who have membership before 1996 except Luxemburg (Luxemburg is performing as an outlier). From East Asia countries data is also collected for only four countries (Japan, China, Korea and Mongolia). The data set consists of 20 years period from 1993 to 2012. Basic purpose of data analysis is to check whether EU trading and economic bloc have improved the performance of member countries or not?

**4. Data Analysis**

In global trade EU has prime position. EU is the largest economy with the GDP per capita of more than 25000 Euros. Data analysis is further divided into eight sub-sections which are presented below:

**4.1 Net National Income (Figure 1a & 1b)**

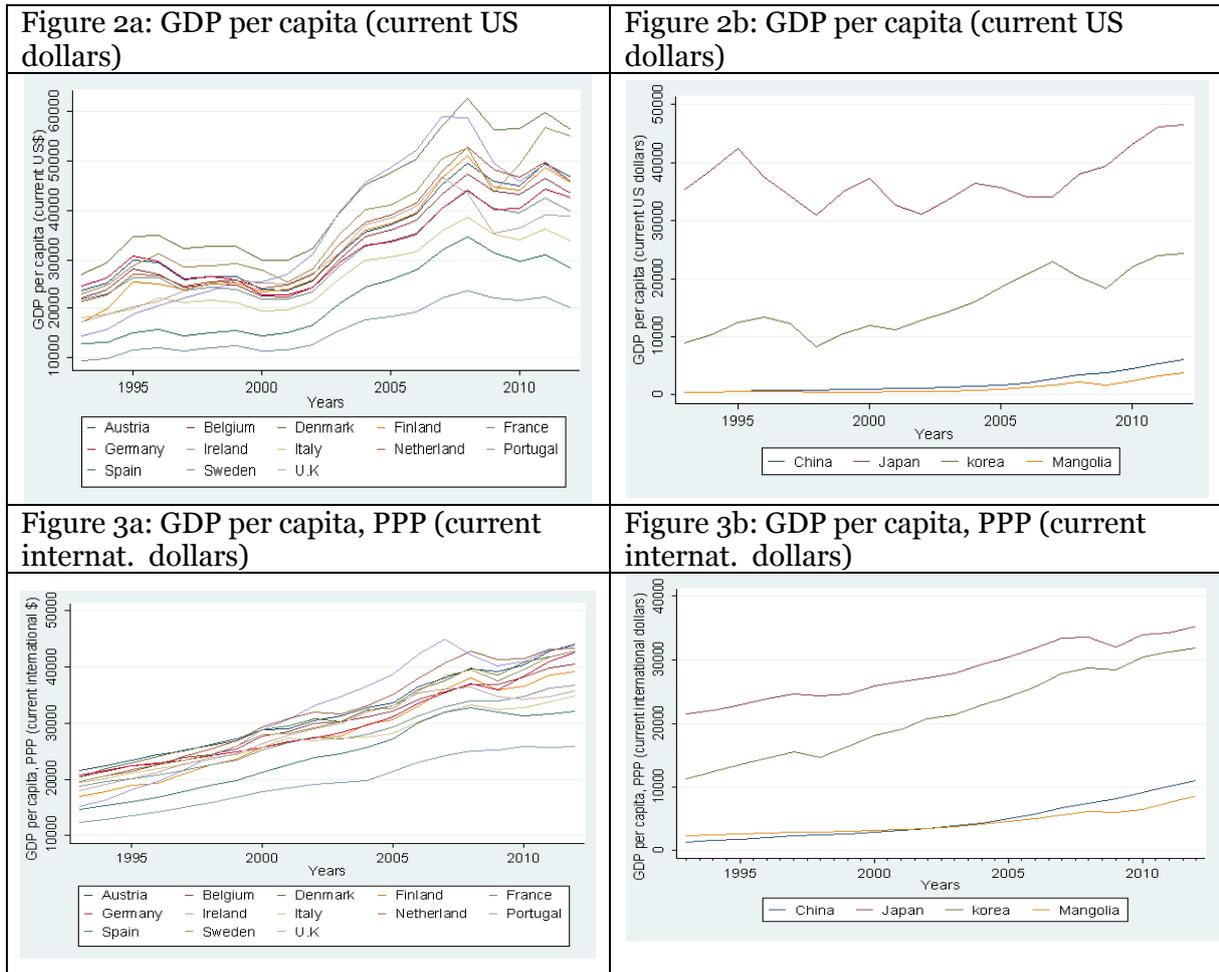
Net National Income (NNI) adjusted for Gross National Income is showing some even patterns for EU member countries but in East Asian countries only Mongolia is on increasing net national income from 2010 to onward which shows uneven patterns for NNI. Due to global financial crisis there is down turn in EU net national incomes for the period 2006-2009 while East Asian countries are less affected by global financial crisis as they all are not fully globalized.



**4.2 GDP per capita (Figure 2a, 2b & Figure 3a, 3b)**

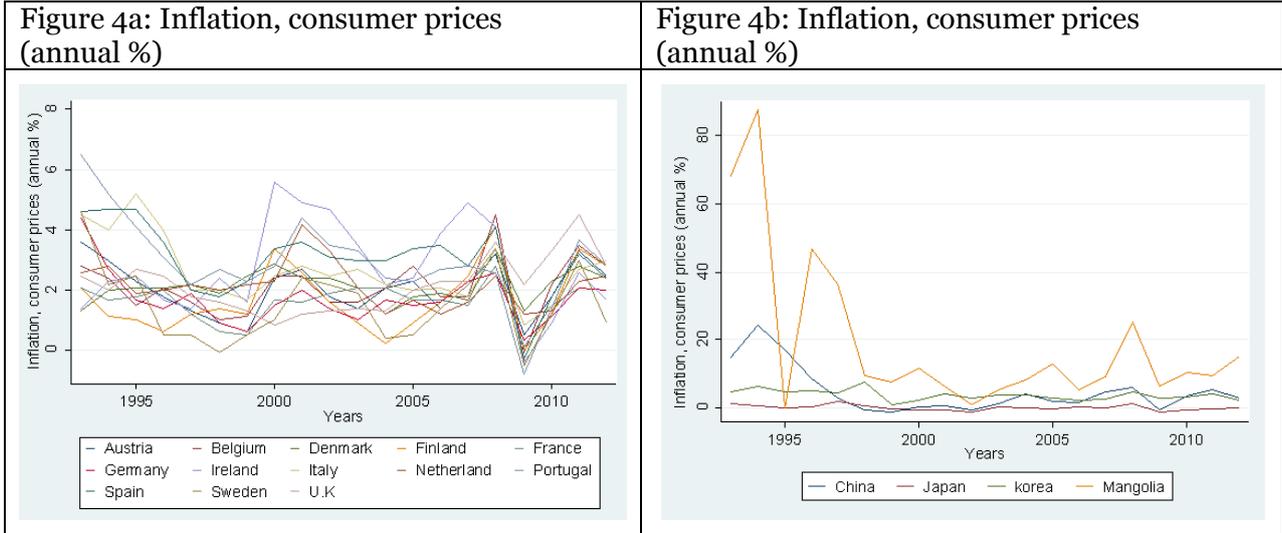
GDP per capita is GDP divided by population (midyear). GDP per capita data is in current US dollars. After the formation of EU trading bloc GDP per capita for member countries not only improved but all the EU countries are moving forward with some increasing pace or making a

band. On the other hand GDP per capita for East Asian countries are not improved much, only Japan is at leading stage.



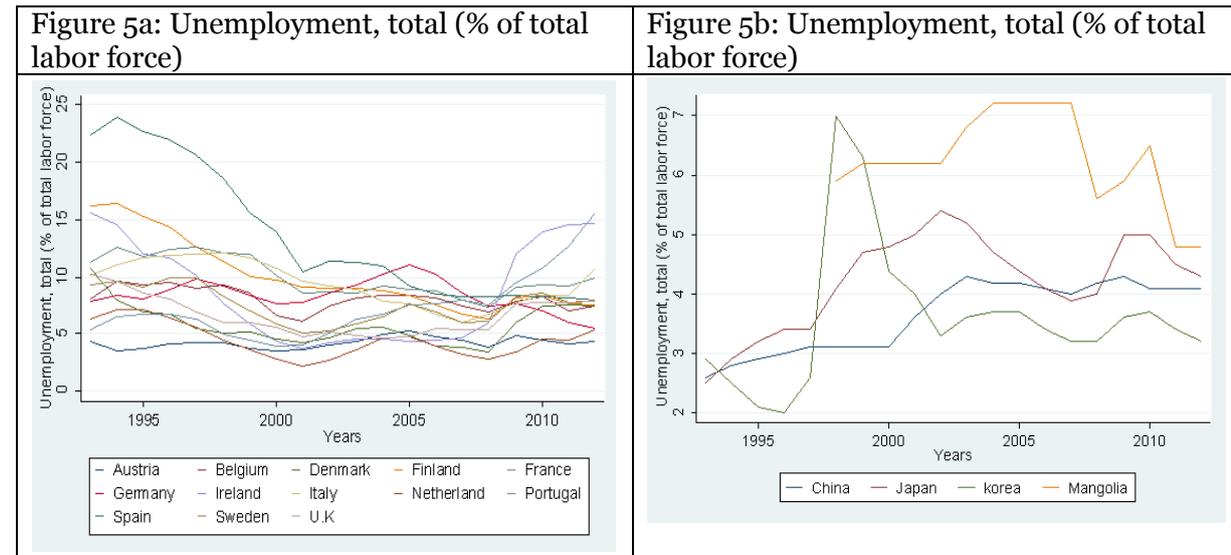
### 4.3 Inflation (Figure 4a & 4b)

Inflation is measured through consumer price index that reflects the annual price percentage change in consumers fixed basket of goods and services. EU member countries have ability to maintain inflation at low band about 2 to 4 per cent which is a good sign for more and stable economic framework. East Asian countries have no ability to control inflation or maintaining the inflation at low band. From East Asian region only Mongolia accounts for more than 30 per cent inflation in year 1994 and 1996, which is not good sign for the economy of Mongolia.



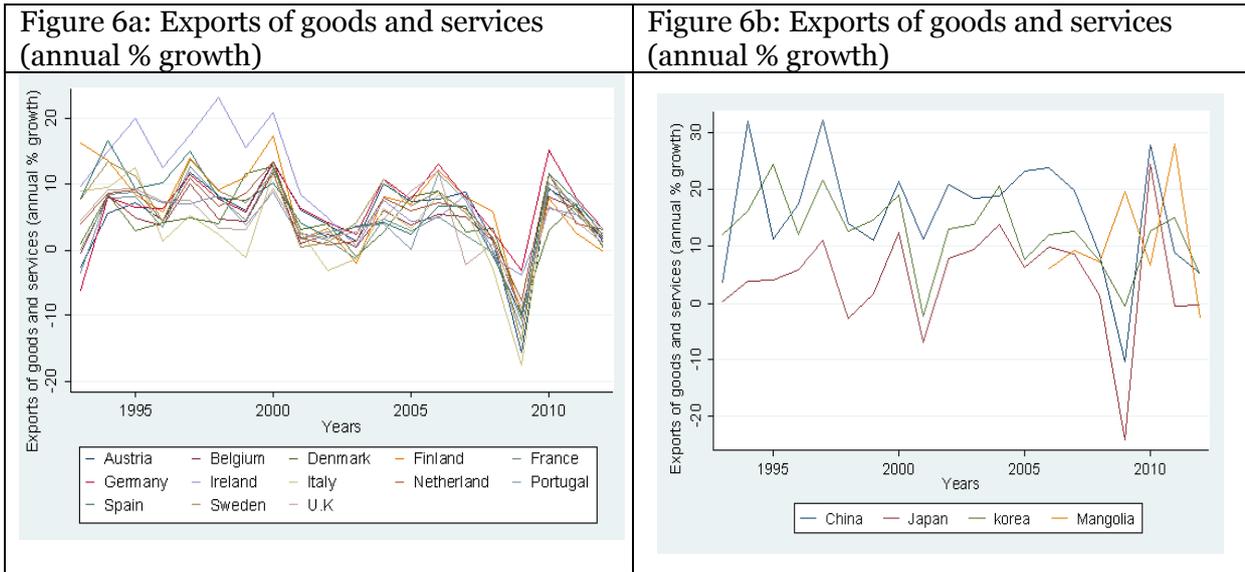
**4.4 Unemployment (Figure 5a & 5b)**

Unemployment refers to the labor force share without work but willing/seeking for employment. Unemployment rate is reducing in EU member countries with the passage of time frame, while East Asian countries still accounts for high and persistent unemployment which is not good for sustained economic growth and development.



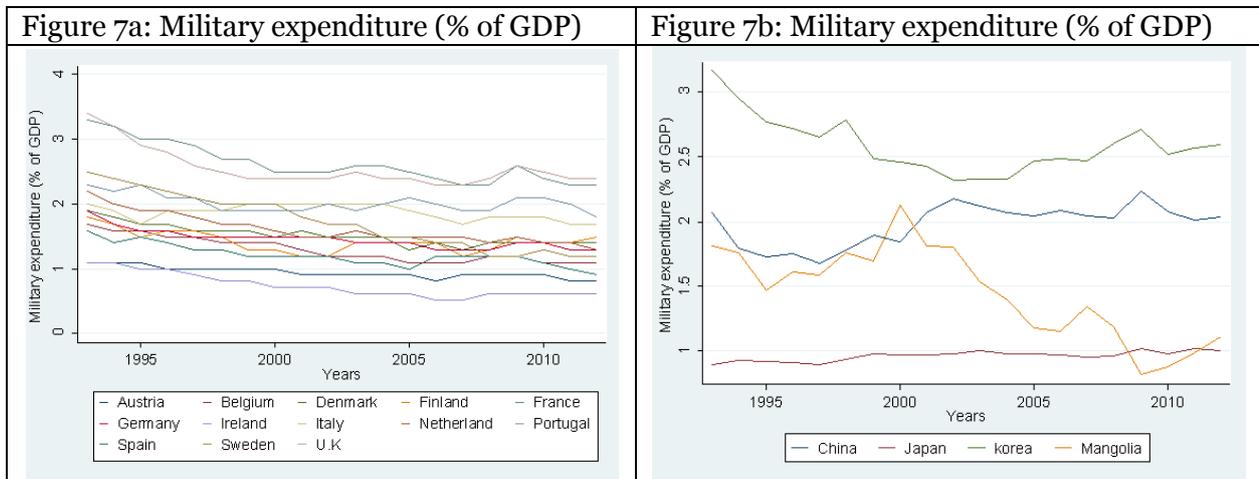
**4.5 Exports of Goods and Services (Figure 6a & 6b)**

Exports of goods and services with annual growth rate represent total market value of domestically produced goods and services that are provided to other world. Exports of goods and services include insurance, license fees, freight, royalties, value of merchandise, construction, information, communication, business etc. where transfer payments and employees compensations are excluded. EU member countries are making/constructing a band for growth of exports of goods and services while East Asian countries have some uneven patterns for exports.



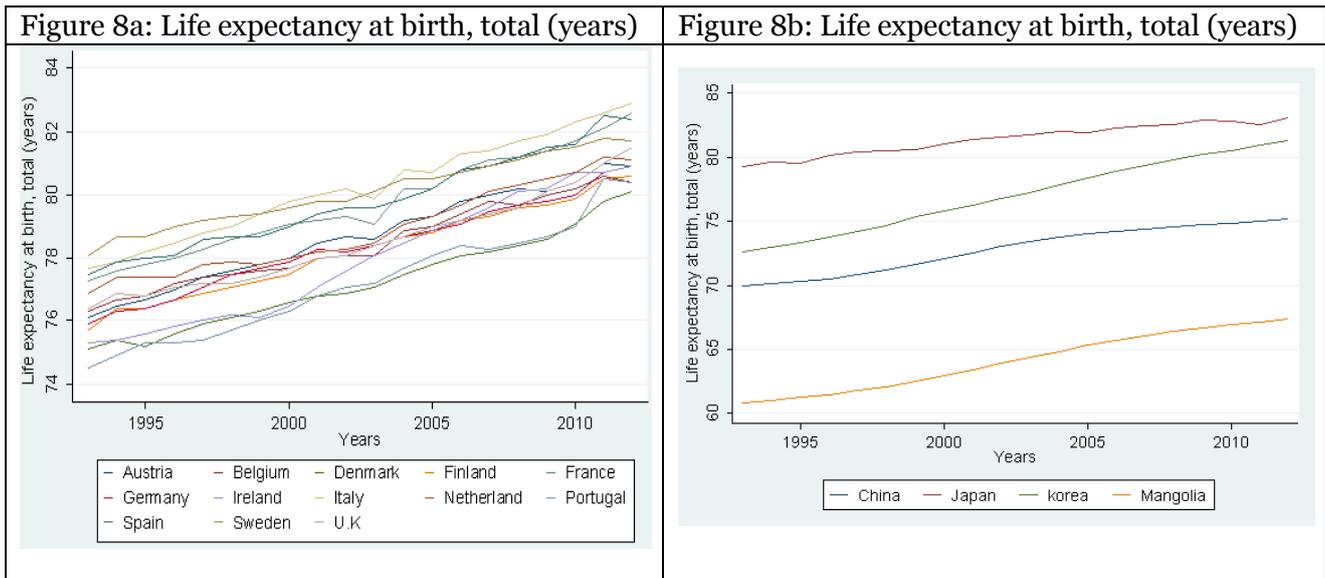
**4.6 Military Expenditure (Figure 7a and 7b)**

Military expenditures include expenditures on armed forces and other agencies of government engaged in projects of national defense. Different countries have different nature of expenditures for defense. Defense expenditures are unproductive expenditures which mean that these expenditures are the problem in the way of economic growth and development. From figure 7a, it can be seen that after EU bloc, military expenditures are going too decreased with every next year. But in East Asian region, large part of budget income of China and Korea is spent on military expenditure which is a great hurdle in the way of growth and development.



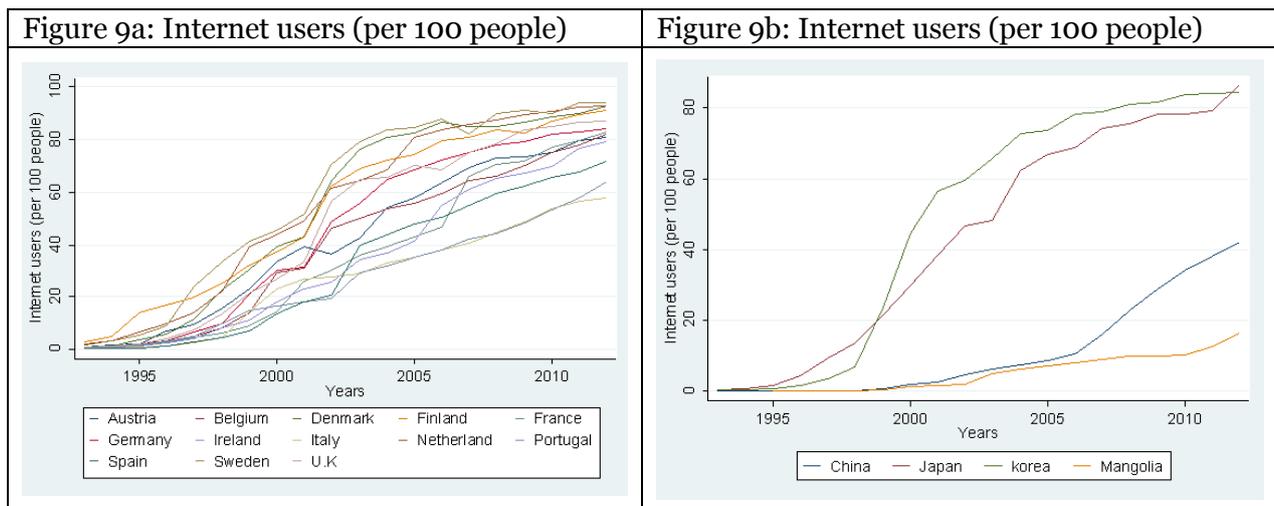
**4.7 Life Expectancy at Birth (Figure 8a and 8b)**

Life expectancy at birth indicated total years a newborn would live. All EU member countries are showing increased and even pattern for life expectancy at birth while East Asian countries are showing uneven patterns.



**4.8 Internet Users (Figure 9a and 9b)**

Individuals those use internets via computer, mobile etc. from any location are included in internet users. Internet is a very big source of providing information. Numbers of internet users are increasing more rapidly in EU member countries as comparing with East Asian countries, due to easy transfer of technologies between the EU member countries.



**5. Conclusion**

Trading bloc not only improves single country’s performance but it also increases the overall performance of the region. So trading bloc means regional growth and development. Trading bloc increases co-operation among the countries. After EU trading bloc the performance of every EU member country is increased, so here, a suggestion for East Asian countries to make East Asian Trading Bloc (EATB). In near future, this will not only improve the performance of member countries, it will also increase the performance and wellbeing of the people of whole East Asia region.

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