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## THE EUROPEAN UNION'S COMPETITIVE POSITION IN RELATION TO THE ASIAN REGION

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**Abstract:** For the last several years differences in economic performance between the European Union and Asian countries have posed the question about changes on the world economic map in the future. One of the most interesting issues is competitive position of the EU in relation to Asian dynamic region. The aim of this paper is research on changes in the ability to: export, attract FDI and produce income in the EU and Asian region. The key conclusion is that the EU overall competitive position has not worsened for the last several years in relation to Asian region.

**Key words:** international competitiveness, European Union, Asia.

### 1. Introduction

The popular opinion is that Asia has been the most dynamic and competitive region in the world for the last several years. In fact many Asian countries have recorded rapid economic growth for some decades. It can bring huge changes on the world economic map in the future. The world economic centre may be shifted from the Atlantic to the Pacific region. The previous economic triad – the United States, the European Union and Japan – can be superseded by the new one, for example: the U.S., China and India.<sup>1</sup> But this can be an oversimplification. The EU has enlarged by twelve new countries since the year 2004. This may be an urge of the EU development in the future. In spite of that, the situation is changing over time due to a dynamic international economic environment and unexpected events such as the world economic crisis. So, one of the most interesting issues is relative performance of the EU. The main aim of this analysis is to answer the question whether the EU competitive position in relation to the Asian dynamic countries has deteriorated or not in the last several years. Moreover it should be noted that Asia is not a homogeneous region and there are many differences among particular economies. As a result, the analysis here covers the EU, the whole Asian region and also some of the most

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<sup>1</sup> J. Sheth, *Chindia Rising: How China and India Will Benefit Your Business*, Tata McGraw-Hill, New Delhi 2008.

dynamic Asian countries for whom adequate data are available, as well as Poland which is the largest new EU member state.

## 2. Competitiveness – the subject of interest and research

The rising competition pressure generally makes economies more interested in their competitiveness. The latter is commonly considered at different levels of aggregation (i.e.: firm, industry, country) and now also in different context. However, the interpretation of the term “competitiveness” is very difficult and there is no widely-accepted definition. It arouses a lot of controversy and the interpretations of that are very different. Ambiguous meanings of competitiveness lead to different indicators and also cause methodology problems with regard to measurement. The most problematic is the interpretation of macroeconomic competitiveness as there is no theory of competitiveness of nations.<sup>2</sup>

The first task in the interpretation of both micro- and macroeconomic competitiveness is to choose among its three aspects: competitiveness performance (position), management process or competitiveness potential.<sup>3</sup> This analysis covers competitive position as the ability to compete in the given time and the outcome of initiatives undertaken in the past to improve the competitiveness. It is considered as *ex post* and static competitiveness and the outcome of market evaluation. In the case of competitive position, problems with meaning and therefore with methodology remain. There are several dozen of performance indicators in the literature.<sup>4</sup> They mainly measure past and present competitiveness. The market share and profitability, which determine financial situation, are commonly used as the basic performance indicators.

Among a variety of definitions of international competitiveness of nations H. Trabold's definition was chosen here. It describes competitive position in a clear way but considers manifold aspects of it and contains same exemplary propositions of measurement for each of its elements. According to this definition: “competitiveness of countries includes the ability to sell, the ability to attract and the ability to adjust – all these leading to the ability to earn”.<sup>5</sup> H. Trabold presents a competitiveness definition in which:<sup>6</sup>

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<sup>2</sup> P. Krugman is even in opposition to relate competitiveness to national economy. P. Krugman, Competitiveness: A dangerous obsession, *Foreign Affairs* 1994, No. 2.

<sup>3</sup> P.J. Buckley, C.L. Pass, K. Prescott, Measures of international competitiveness: A critical survey, *Journal of Marketing Management* 1988, No. 2, pp. 175-200.

<sup>4</sup> M. Durand, C. Giorno, Indicators of international competitiveness: Conceptual aspects and evaluation, *OECD Economic Studies*, Autumn 1987, No. 9, pp. 148-181.

<sup>5</sup> G. Hunya, Uneven competitiveness of industries in the wake of foreign penetration of advanced economies in transition, *Transnational Corporation* 2001, No. 2, pp. 35-66.

<sup>6</sup> *Ibidem*.

- the ability to sell is interpreted as the ability to export and measured by market shares and their changes over time,
- the ability to attract is viewed as the ability to attract foreign direct investment (FDI) and expressed mainly by the relative size of annual inflows and inward stock of FDI in the given country,
- the ability to adjust is understood as the ability to structural changes of production and exports which are reflected by speed and direction (upgrading) of structural changes, while the last one is understood as a shift to more advanced structure with greater share of higher value added and technology products,
- the ability to earn is the final result of all activities of a country and at the macro level is generally measured by GDP *per capita* and GDP growth with comparison to other countries.

The last aspect of competitiveness in the above presented interpretation is often considered in other definitions. For example K. Aiginger defines competitiveness as the ability of nation to create its welfare.<sup>7</sup> While the World Economic Forum states that more competitive economies tend to be able to produce higher levels of income and grow faster over medium and long time.<sup>8</sup>

In research of the EU competitive position three of the four above-mentioned elements of H. Trabold's competitiveness definition are analyzed. The speed of structural changes and their direction as the ability to adjust measures are omitted because there is no published statistical data at the appropriate aggregation level apt for structural analysis.

### 3. The ability to sell

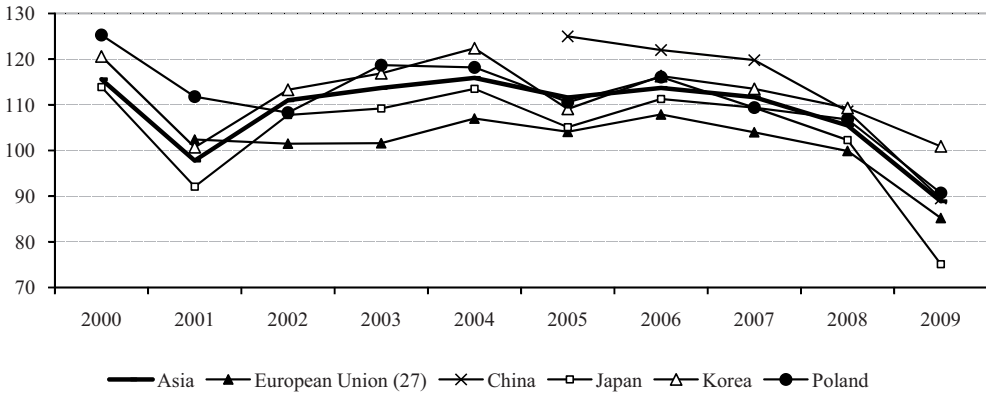
The evaluation of competitive position on the basis of selling ability is made with the use of two indicators: merchandise export volume index and export market shares. These measures indicate only changes of goods competitiveness on foreign markets. It should also be noted that the volume of exports is determined by many variables among which there are outward factors independent of a given country like the situation on the world market.

The Asia region achievements in merchandise export volume growth are generally better than those of the EU during the research period, taking into account that there was the drop of export volume for both regions in 2009 as a result of the world economic crisis. Among Asian countries, China has had the most dynamic exports, Korea has achieved slightly better than average results and outcomes for Japan have been rather ambiguous. But it should be stressed that in 2009 when the world economic crisis was strongly felt in the international trade, Chinese exports did not stand out in plus at all. However Poland's exports performance has been close to these of Asia and even slightly better.

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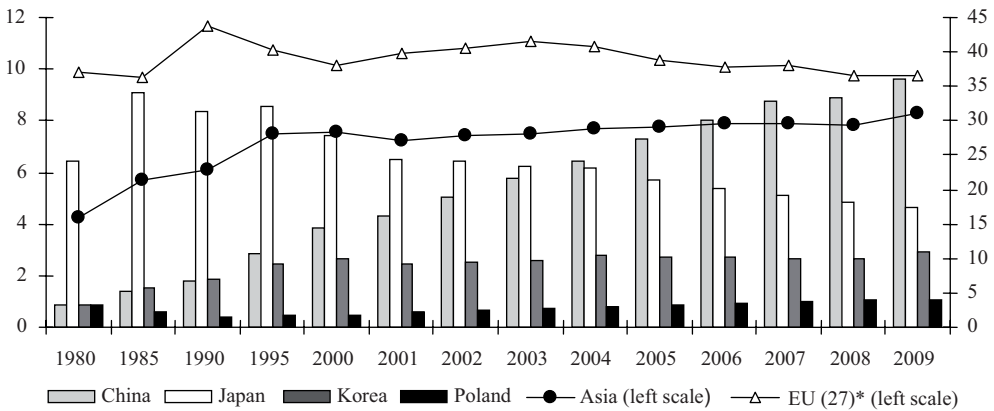
<sup>7</sup> K. Aiginger, Competitiveness: From a dangerous obsession to a welfare creating ability with positive externalities, *Journal of Industry, Competition and Trade* 2006, Vol. 6, No. 2, pp. 161-177.

<sup>8</sup> *The Global Competitiveness Report 2009-2010*, World Economic Forum, Geneva 2009, p. 4.



**Figure 1.** Merchandise export volume index in Asia, EU, China, Japan, Korea and Poland, 2000-2009 (previous year = 100)

Source: <http://stat.wto.org/StatisticalProgram/WSDDBViewData.aspx?Language=E> (accessed 15.04.2010).



\*EU (15) in 1980-1995

**Figure 2.** Export market share, Asia, EU, China, Japan, Korea and Poland, 1980, 1985, 1990, 1995, 2000-2009 (%)

Source: own calculation according to the WTO data, <http://stat.wto.org/StatisticalProgram/WSDDB-ViewData.aspx?Language=E> (accessed 15.04.2010).

The second analyzed index is exports share in the world exports (export market share). The data show significant Asian region expansion in the world export market, but that was in the 1980-1995 period. Then since 2000 there has been stabilization and a little increase in the year 2009. On the other hand, the EU export market share more or less has not changed in the last years with respect to the beginning of the

research period, even if during the 1990s there were significant changes. The export market share changes were very different in relation to selected economies. Japan is the one which noted the greatest decrease. China, on the contrary, recorded a huge increase in the world export market share. Poland has also gained since the beginning of the transformation process, but it has been a rather slow growth. Whereas Korea at first increased quickly and next stabilized its share in the export market.

The evaluation of the EU exporting ability aspect of competitiveness in relation to Asian region is not clear. The position of the EU on the world export market has not worsened since the 1980s although the Asian position has boosted. Moreover the EU export performance was earlier much higher than Asian one, thus the export growth rate could not be so high as at the low level of performance. There is a known rule which states that developed economies sustain their position or slightly reinforce it rather than note very large changes in it.

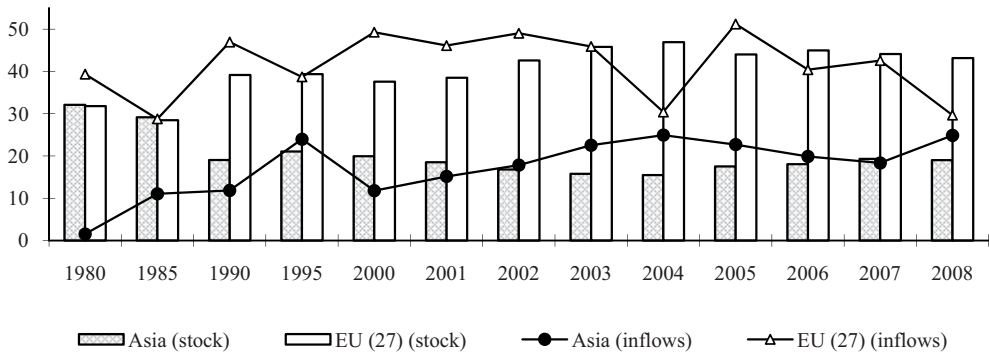
#### 4. The ability to attract

Many indicators are used to estimate attractiveness for economic activity location. This *ex post* analysis of the EU-Asia competitive position in the ability to attract aspect is based firstly on the EU and Asia share changes in the world foreign direct investment (FDI) inflows and inward stock. It measures the absolute values of FDI inflows into host country in relation to total world performance. The value of inward FDI depends not only on the country attractiveness (competitiveness) but also on the size of host economy which plays a relatively important role in respect of absorption possibility.<sup>9</sup> There is a principle that the larger an economy (as measured by GDP), the more FDI could be received. It means that the size of economy should also be taken into account in this analysis. Thus the ratio of inward FDI stock to GDP was used as the next indicator.

The EU share in global FDI inflows was higher than Asia's in all research years with significant variability of this index. The EU reached near 50% share in some years, which means that the EU was the host region for about half of total world FDI flows. Moreover, the EU position looks even better when the share in the world FDI inward stock index is taken into account. It should be stressed that Asia has largely reduced its share in research years. While the EU and Asia positions were similar in the 1980s, during the next years there was a huge change in favour of the EU. So far the advantage of the EU in FDI attracting is seen as strong as well as sustainable.

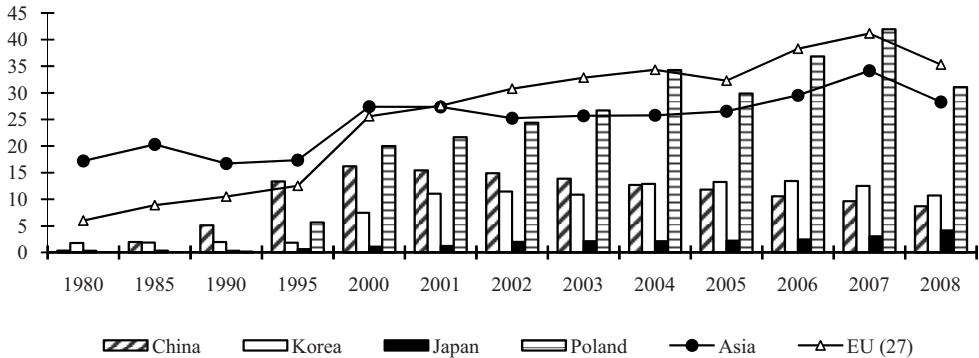
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<sup>9</sup> UNCTAD introduced in 2002 special indicator called Inward FDI Performance Index to benchmark success in attracting FDI. It is the ratio of a country's share in global FDI flows to its share in global GDP. See: *World Investment Report 2002. Transnational Corporations and Export Competitiveness*, UNCTAD, New York and Geneva 2002, chapter II.



**Figure 3.** Share in the world foreign direct investment (FDI) inflows and inward stock, Asia and EU (27), 1980, 1985, 1990, 1995, 2000-2008 (%)

Source: <http://stats.unctad.org/FDI/TableView/tableView.aspx> (accessed 15.04.2010).



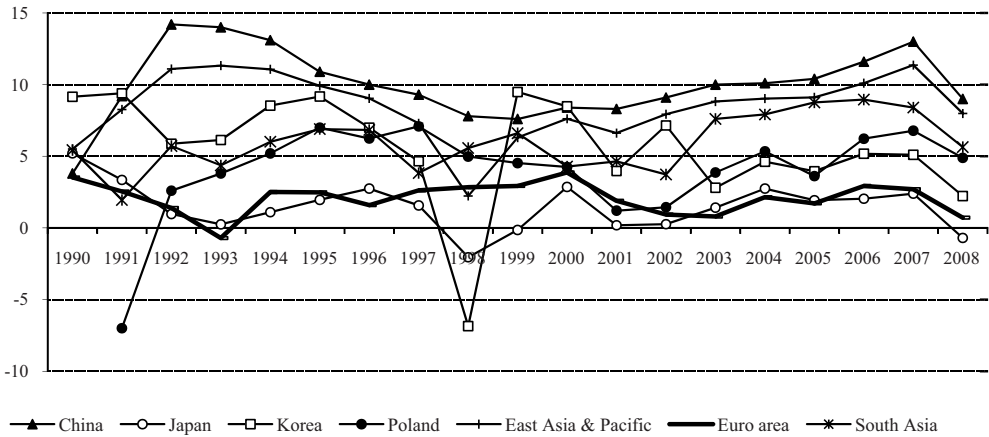
**Figure 4.** Inward foreign direct investment (FDI) stock as a percentage of GDP in Asia, EU, China, Korea, Japan and Poland, 1980, 1985, 1990, 1995, 2000-2008

Source: <http://stats.unctad.org/FDI/TableView/tableView.aspx> (accessed 15.04.2010).

The comparative indicator of the ability of an economy to attract FDI, like the relation of inward stock to GDP, indicates significant increase in the EU performance in relation to the Asian region during the research period. Since 2002 the EU has received more FDI in relation to the size of its economy than Asia. Taking into account selected economies, there has been a visible advantage of Poland since the year 2000. China, Korea and especially Japan have not managed to succeed in FDI attracting in comparison with Poland so far. It can be interpreted that the EU is more competitive as a place for running a business than Asia.

### 5. The ability to earn

In the data set used in the analysis of earning ability economies are aggregated in a different way than earlier. Thus here such regions as: the Euro Zone, East Asia with Pacific and South Asia are used instead of the EU and Asia. The ability of economy to earn means the ability to produce income measured by economic growth rate and this indicator is presented below. Moreover the result of earning is high level of wealth so the GDP *per capita* changes are analyzed, too. It should be stressed that the idea is to earn more than our rivals.



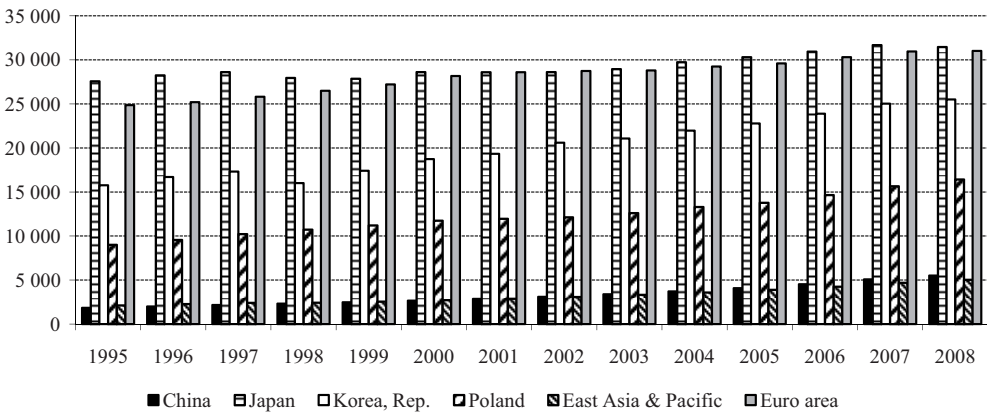
**Figure 5.** GDP growth in China, Japan, Korea, Poland, East Asia and Pacific, Euro area and South Asia, 1990-2008 (annual %)

Source: [http://databank.worldbank.org/ddp/home.do?Step=2&id=4&hActiveDimensionId=WDI\\_SE-RIE](http://databank.worldbank.org/ddp/home.do?Step=2&id=4&hActiveDimensionId=WDI_SE-RIE) (accessed 22.04.2010).

The GDP growth rate for East and South Asia was quite similar in some research years but in others the differences were significant. It confirms substantial differentiation in economic cycle among selected Asian countries, especially in the 1990s. Moreover the Euro area GDP growth was clearly below that of the Asian region. But the growth rate depends on the level from which growth is achieved so that all developed economies generally note relatively low but stable growth and developing countries experience adequate higher and variable rate. In this respect Japanese performance is interesting. This developed Asian economy noted GDP decrease in 1998 and 2008, stagnation in 1993, 1999 and 2001-2002 and, besides that, significant changes in the 1990s. It confirms a worsening competitive position of Japan, which was already visible in the earlier analysis. Poland is characterized by medium pace of economic growth, generally between Euro area and East and South Asia rate but considerably below the level of China. However, it should be

stressed that Poland had relatively good economic performance in recessionary circumstances like 1997-1998 crisis which began in the Asian region and the last crisis which started in the USA at the end of 2007. It indicates that Poland as a post-communist and transformation country is more competitive in unstable and uneven conditions also in relation to most Asian economies, despite the fact that Poland is still seen as emerging and developing economy.<sup>10</sup>

The higher GDP growth rate for Asia does not mean that this region earned more than the Euro area. It is even difficult to state if the gap in wealth between Asia and the EU was diminishing or not. It is however possible on the basis of the GDP *per capita* indicator.



**Figure 6.** GDP *per capita* in China, Japan, Korea, Poland, East Asia and Pacific, Euro area, 1995-2008 (PPP, constant 2005 international dollars)

Source: [http://databank.worldbank.org/ddp/home.do?Step=2&id=4&hActiveDimensionId=WDI\\_SERIE](http://databank.worldbank.org/ddp/home.do?Step=2&id=4&hActiveDimensionId=WDI_SERIE) (accessed 22.04.2010).

In the GDP *per capita* analysis South Asia region is omitted because of significant lower GDP level than East Asia and Pacific.<sup>11</sup> Of the most importance from the GDP *per capita* index overview is that despite very dynamic economic growth of China and other developing Asian countries, the wealth disparity is still hugely in favour of the Euro area and Poland. Moreover, the gap in GDP *per capita* level between Asia and Euro area as well as Poland has grown in 2008 as compared with 1995. Among presented Asian countries only Korea considerably reduced its distance to the European countries. On the other hand, Japan, having a high level of GDP *per capita*, deteriorated its position in relation to the Euro area. Poland is a medium

<sup>10</sup> See: *World Economic Outlook. Rebalancing Growth*, IMF, Washington, April 2010, p. 151.

<sup>11</sup> See: the World Bank data, [http://databank.worldbank.org/ddp/home.do?Step=2&id=4&hActiveDimensionId=WDI\\_SERIE](http://databank.worldbank.org/ddp/home.do?Step=2&id=4&hActiveDimensionId=WDI_SERIE) (accessed 22.04.2010).



wealthy economy, but an important finding is that the gap in GDP *per capita* level has decreased. It means that Poland was able to earn more than the Euro area and even more than most dynamic Asian countries. Thus Poland is a more competitive country than old EU member states and therefore it may be stated also that enlargement of the EU has had a positive influence on its competitiveness. Summing up this part, the higher GDP growth rate of Asia could not be interpreted as its more relative ability to earn.

## 6. Conclusions

The analysis of the EU competitive position in relation to Asian region conducted in three aspects of competitiveness, i.e. ability to sell, to attract and to earn, indicates that the EU performance is relatively good. The least favourable situation is in the scope of ability to export, where China is very competitive but other Asian countries are considerably less. The improvement of the Asian competitive position on the world export market was made at the cost of others and not the UE region. The EU advantageous competitive position was especially visible in the ability to attract and to earn. The most important is the ability to earn as the final result of all activities of an economy. In this respect China and the rest of Asia have deteriorated their position in relation to the Euro area and Poland. Moreover it should be stressed that differences in performance among selected economies are significant. There are some countries in Asia and among EU members, which have similar competitive position. Taking into account all analyzed aspects of competitiveness it can be stated that the thesis that Asian region is more competitive than the EU is not true. And the EU situation has not actually worsened for last some years.

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## POZYCJA KONKURENCYJNA UNII EUROPEJSKIEJ W STOSUNKU DO AZJI

**Streszczenie:** Osiągnięcia gospodarcze krajów azjatyckich ostatnich lat oceniane są jako wyraz ich rosnącej konkurencyjności oraz zagrożenie dla dotychczasowej pozycji krajów rozwiniętych, w szczególności Unii Europejskiej. Niniejsza analiza ma na celu zbadanie zmian pozycji konkurencyjnej UE w stosunku do regionu Azji w ostatnich latach. Przedmiotem badań są wybrane trzy aspekty konkurencyjności: zdolność do eksportu, zdolność do przyciągania zagranicznych inwestycji bezpośrednich oraz zdolność do uzyskiwania dochodów. Wyniki wskazują, że ogólna pozycja konkurencyjna Unii Europejskiej nie tylko jest wyższa od pozycji regionu azjatyckiego, ale także nie pogorszyła się w ostatnich latach.