

INSIDE THIS ISSUE

Transatlantic
 Transasian alliance

by Malcolm Subhan

It has been a bad year for the European Union, struggling to make its mark on the world stage as a political force. The Americans – certainly the Bush Administration – have been dismissive of it. President Bush has openly sided with Ariel Sharon, for example, by agreeing to delay finalising the roadmap for the creation of two states – Israel and an independent, sovereign, democratic Palestine – until after the Israeli general elections. At the same time he has pressed ahead with preparations for an all-out war on Iraq, blatantly disregarding European concerns.

Nor do the European Union’s Asian partners take it especially seriously. Trade and investment aside, the South-East Asian countries want the EU to strengthen its presence in their region, essentially in order to counterbalance the strong American presence. The two largest gatherings of European and Asian presidents and prime ministers – the Asia-Europe Meeting (ASEM) and the EU-ASEAN summits – have done little to broaden and deepen relations between the two sides. As for the three EU-India summit meetings, only the first lived up to expectations.

Just why the Transatlantic relationship has turned sour is clear from an article by MM Asmus and Pollack in the *Policy Review*. Its opening words are: “For 50 years and more, the US and our European allies co-operated in a grand strategic venture to create a democratic, peaceful, prosperous continent free of threats from within and without. At the dawn of a new century, that task is approaching completion...Europe today is at peace with itself and more democratic and secure than at any time in history.”

“But there is bad news too,” according to the two Americans. America and Europe “are faced with new scourges – terrorism, weapons of mass destruction, mass migrations, rogue and failed states, and the threat of disruptions to the economic lifelines of the world.”

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Addressing this threat is “the strategic challenge of our time,” it is “the new Transatlantic project,” the 21st century “equivalent of what facing down Stalin was for Truman and his (European) counterparts in 1949.”

But there is another, and very different, sort of project that awaits the EU. What is more, the 15 EU nations embarked on the first stage of this project in Copenhagen, when they invited no fewer than 10 Central and East European countries to join them in a greatly enlarged European Union. One has only to look at the map to understand the true significance of this move. Europe is separated from the United States by an ocean, even while it is part of the vast EurAsian continent.

The 21st century alliance for Europe can only be a Transasian alliance. For Europeans to insist on the continued importance of the Transatlantic alliance is to live in the past, to continue to see the world through American eyes. If terrorism, weapons of mass destruction, rogue and failed states are indeed “the new scourges,” then the only effective response to them lies in a Transasian alliance.

This is partly because the new technology that is arming terrorists and rogue states is also bringing about vast changes throughout the EurAsian landmass. The European Commission’s new Asia strategy has failed to recognise the ferment in Asia; it continues to divide the Asian sub-continent into South, South-East and East Asia. The fact is that even the boundaries between South and South-East Asia are no longer so clear-cut. India is not only a dialogue partner for ASEAN; it has also offered to enter into a free trade agreement with ASEAN. Meanwhile Indian companies are entering into joint ventures with their Chinese counterparts in China itself, often to produce consumer goods for export to India.

Central Asia is no longer the remote region, made up of Soviet states, which it once was for both Europeans and Asians living in South and South-East Asia. The European Commission recognised the importance of Central Asia to Europe some years ago, when it looked into the possibility of encouraging Turkey to play a leading role in that region, perhaps with the two other members of the Economic Co-operation Organisation (ECO), Iran and Pakistan. (What apparently prompted the idea was the belief that while Turkey could not be invited to join the EU, it nevertheless could help cement relations with Central Asia.)

Would European moves towards a Transasian alliance mean the eventual destruction of the European identity? The real question is, What shapes national and regional identities? To what extent is the European Union itself reshaping and recreating identities? And as for the United States, its European foundations are

being steadily undermined by changes in the make-up of the American people. The days of the white, Anglo-Saxon, Protestant (WASP), New England-based aristocracy would seem to be numbered. Today the second most powerful lobby in Washington, after the Jewish lobby, reportedly is the Indian American lobby.

Decision-makers, whether in the EU institutions in Brussels and Strasbourg, or in the national capitals, cannot be expected to abandon the Transatlantic alliance from one day to the next. The task of preparing the ground for a serious examination of the merits of a Transasian alliance must be assumed by decision shapers – think tanks, research institutes, universities and other elements of European and Asian civil society.

It is not enough, however, for research to be conducted by think tanks, research institutes and universities. Their authors must have the opportunity to test their ideas and findings on government and EU officials, in a word, on those who actually shape policy and ultimately implement it. The Brussels-based European Institute for Asian Studies has sought to do just this through its conferences and seminars, both on its own and in alliance with other European and Asian think tanks. The most recent of its seminars was held in the European Parliament in late November, on the theme of “EU and ASEAN – integration and solidarity.” The seminar, which was funded by the Konrad Adenauer Stiftung, brought together not only academics and researchers but also members of the European Parliament and officials from the EU institutions. The keynote speaker was the Director-General of the WTO, Dr. Supachai Panitchpakdi. Other speakers came from both European and Asian think tanks and universities.

John Maynard Keynes, who was both a decision shaper and a decision maker, wrote in the work for which he is best known, *The General Theory of Employment, Interest and Money*, in 1936: “Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist...It is ideas, not vested interests, which are dangerous for good or evil.” It is time for economists and political scientists to examine the part that a Transasian alliance could play in broadening and deepening ties between an enlarged European Union of 25 member states and an Asian landmass in the throes of change.

And lest this seem a wild suggestion, let Keynes have the last word. “Words ought to be a little wild, for they are the assault of thoughts on the unthinking.” ■

The fourth EU-ASEAN Think Tank Dialogue

Has the relationship between the European Union (EU) and ASEAN become an unintentional casualty of September 11? Is the 15-nation EU losing interest in ASEAN, as it grapples with the problems arising from its coming enlargement to 25 member states, and with the strains in its transatlantic relationship? Is the EU-Asia summit, the modestly entitled Asia Europe Meeting, or ASEM, quietly taking over the much older EU-ASEAN partnership? Are the concerns of ASEAN developing countries only marginal to the WTO's Doha Development Round? And, above all, do Asians and Europeans view their relationship in the same light?

These were some of the questions which Asian and European experts discussed during the fourth EU-ASEAN Think Tank Dialogue*, held in the European Parliament, with the active support of the Parliament's ASEAN Delegation, on November 25 and 26. An insider's view of the present state of EU-ASEAN relations was offered by the Ambassador of Malaysia to the European Union, Dato' Deva Mohd. Ridzam. He held that the "last truly meaningful Ministerial" between EU and ASEAN foreign ministers was the 11th AEMM, held in Karlsruhe, Germany, in 1994. At the 13th, held in Vientiane in 2001, "no EU foreign ministers were present." Each side was now concentrating on its own agenda, while politely exchanging much-rehearsed platitudes about their desire for co-operation.

The keynote address was delivered by the Director-General of the World Trade Organisation (WTO), Dr. Supachai Panitchpakdi. He stressed that promoting free and fair trade had always been central to his thinking, and that the multilateral process, to which both the EU and ASEAN were called upon to contribute significantly, was vital if there was to be progress towards predictability and certainty.

Focusing on the main challenges posed by the Doha Development Agenda (DDA), the WTO Director-General pointed out that never before had development been put at the heart of trade negotiations. Agricultural subsidies were going to be a life and death issue, and there was a real danger that this issue alone could block the Cancun mid-term review agenda in 2003. The Director-General sounded a global warning: if the current Round could not be concluded by 2005, then global economic growth could well be in jeopardy. ■

Overview of the proceedings

Over the course of the conference, most speakers agreed that the ASEAN-EU relationship does not need new structures; rather it should focus on strengthening existing mechanisms. They also agreed that the future of the EU-ASEAN relationship rests less on increasing trade and more on the development of co-operation in education and culture, for example; the creation of an EU-ASEAN Business Council, and the establishment of media links. It was felt that these new areas of activity would make the relationship more stable.

Most Asian participants held that respect for the principle of non-intervention in the domestic affairs of another member state, should continue. Thus, while the Burmese junta was despised, it was felt that only through a process of patient negotiation, restraint and ongoing contacts could progress be made.

Many speakers agreed that ASEAN was externally driven, responding to events rather than developing a strategic vision. Its continued, successful development required that it not remain the preserve of the elites, but become relevant to the needs and aspirations of ordinary people. This is a criticism that the EU has also endured for many years, without apparently making any serious attempts to deal with it.

The Asian Financial Crisis

Prof. Ludo Cuyvers (European Institute for Asian Studies, Brussels) said the crisis demonstrated the need for a social safety net in Asia, as it particularly affected vulnerable sections of society, such as the poor, the elderly, women, children and the unemployed. To address these concerns, the 6th ASEAN Summit in Hanoi, in December 1998, had adopted a six-year Plan of Action to build a safety net in each ASEAN country, consisting of social insurance policies, social assistance and social welfare.

Part of the difficulty ASEAN countries faced in responding to the crisis lay in their inability to effect a co-ordinated response. Thus the currency swap agreement was funded to the tune of only US\$200 million; as a result, countries could do very little to counter currency speculation. The sum was raised to US \$1 trillion at the ASEAN Central Banks Forum in 2002. Dr Carolina Hernandez (Institute for Strategic and Development Studies, Manila) stated that after the 1997 financial crisis, Asian countries realised just how inter-connected their economies really were. The major consequence of the crisis was stalled economic development and a general sense of malaise. While there are signs of recovery,



many experts question its sustainability. Another consequence of the crisis has been the strengthening of the ASEAN + 3 (China, Japan, South Korea) relationship. However, there is a recognition that with the economic rise of China, after the crisis, ASEAN is no longer as attractive to foreign direct investment as it once was.

Dr. Willem van der Geest (European Institute for Asian Studies, Brussels) noted that the EU had *not* been a fair-weather friend of ASEAN but, in fact, had responded to the Asian financial crisis by a firm pledge at the London ASEM II to keep its markets open. Trade statistics clearly showed that ASEAN exports to the EU had continued to grow rapidly, while its imports from the EU had fallen dramatically, following the fall in purchasing power and the sharp devaluations. Thus, Thailand's recovery had been helped considerably by the strong growth in its exports to the EU.

Post-September 11th Security

For Dr. Carolina Hernandez, ASEAN had become a diplomatic and security co-operation area in response to the terrorist threat and the 'war on terrorism'. Enhanced co-operation was demonstrated by intelligence sharing between Malaysia, the Philippines and Indonesia. ASEAN had also signed an agreement with the United States to fight terrorism – a multilateral deal that would be impossible at the bilateral level because of the American position on Burma.

Prof. Jürgen Rüländ disagreed. Unlike Dr. Hernandez, he did not see the anti-terrorism proposals as a motor for the development of ASEAN. On the contrary: the flurry of initiatives was a sign of disorientation within ASEAN. This could be shown by the lack of collective endorsement for the intervention in Afghanistan, for example. Similarly, no collective pact had been forthcoming on the consequences of the arrest of ASEAN nationals in the territory of another Member State.

On the EU side, the Rapid Reaction Force (RRF) had been sidelined into humanitarian tasks while NATO proposed its own RRF. Post-September 11th, the EU's Common Foreign and Security Policy (CFSP) had shown its limitations as an inter-governmental model of co-operation. The EU remained reliant upon the US, both for command and control structures. At the same time Europe saw itself as a civilian power, while the US relished a hegemonic role for itself.

Enlargement of the EU and of ASEAN/ASEM

Dr Hernandez pointed out that the enlargement of ASEAN to 10 members made the organisation more

diverse in political and economic terms. This meant that consensus was now harder to achieve, which had implications for regional solidarity. The divide, essentially between the older and newer member states, was a hurdle that ASEAN would have to address if it wished to ensure regional prosperity. Unfortunately, just as ASEAN was enlarging, the Asian financial crisis blew up and destroyed the hopes of the new member states for economic growth through ASEAN.

The adoption of the ASEAN 2020 Vision for economic development was followed by the Initiative for ASEAN Integration, in November 2000, that sought to close the growing gap between member countries which enlargement had highlighted. Dr. Hernandez felt that ASEAN now needs to examine its processes and principles, in response to its enlargement to 10 countries and, more particularly, as part of its response to globalisation.

Addressing the results of the fourth ASEM summit, held in Copenhagen, Ms Yeo Lay Hwee (Singapore Institute for International Affairs) held that the two sides had finally recognised that while the EU-Asia relationship had its problems it also had significant potential. Their leaders no longer had romantic notions of what could be achieved, but recognised that progress will take time. The issue of the enlargement of ASEM to include Burma, Cambodia and Laos will be discussed at the Hanoi Summit in 2004. At that meeting, ASEAN will be pressing the EU to include the three countries, even though Burma remains an important sticking point in EU-ASEAN relations. The EU, however, must first decide what its strategic interests in the region are, before the relationship can truly develop. Equally, ASEAN will have to get its act together and get into the driving seat for the region. This, however, would require considerable political will on the part of its leaders. Failure to enlarge ASEM could result in a weakening of the EU-ASEAN relationship.

Prof. Rüländ warned that the continuous creation of new structures for EU-ASEAN contacts, through ASEM and ASEF, risked institutional redundancy with so many dialogues running simultaneously. Malaysia's Ambassador to the EU, Dato Deva Md. Ridzam, thought the Copenhagen summit showed a lack of commitment on the part of the EU to the ASEM process, since all the proposed initiatives were put forward by the Asian side. Asians would therefore be keenly watching the participation level of the EU in the 2004 Hanoi summit.

Integration and Regional Relationships

The nature and pace of integration in ASEAN, as compared to the European Union, was a theme that came up throughout the conference. It was directly addressed by Ludo Cuyvers and Carolina Hernandez in



the first session. It was noted that integration within ASEAN only took place through economic or social initiatives at the inter-governmental level. Integration in the EU, in contrast, had a significant political dimension to it as well. Thus the principle of non-interference in the internal affairs of another ASEAN country has meant, in effect, that little progress has been made with regard to Burma. But it has also meant that ASEAN has been able to engage with China through the ASEAN Regional Forum.

Mr. Ha Hong Hai (IRR, Hanoi) commented that integration within ASEAN had proceeded at different speeds throughout its history. Its five original members were highly integrated and now, and he expected the process to continue with the ASEAN Free Trade Agreement. The strategic long-term vision of ASEAN's leaders left something to be desired, however. The difference between ASEAN and EU integration levels, according to Prof. Cuyvers, was that the former was stuck at the basic level of integration – a free trade agreement – while the latter had moved forward to combine elements of a common market with the highest form of integration – an economic union. While EU member states were prepared to countenance forms of supra-national authority to regulate their integration, their ASEAN counterparts stuck rigidly to inter-governmental co-operation.

Responding to questions, Dr Hernandez said that the pace of integration in ASEAN was related to the economic and development gap between the older and newer member states. Some of the former were becoming impatient at the slow pace of integration. She called for further EU support, not least as a dialogue partner. It was noted that while the EU shared many cultural similarities, the nations of ASEAN were much more diverse. For Prof. Jürgen Rüländ, neither the regional integration initiatives, to bridge the gap between old and new member states, nor the security agreements to share intelligence pointed to a new dynamism in ASEAN. The initiatives were too diverse and focussed more on regional power balances, including the ASEAN + 3 relationship. ASEAN was also engaged in balancing the dominance of China-Japan by building bridges to India.

Prof. Rüländ agreed with the lack of a consistent, strategic vision within ASEAN; he thought that the various vision groups of recent years had achieved only limited success. For Singapore's Ambassador to the European Union, H.E. Ampalavanar Selvarajah, the EU-ASEAN relationship was not at its highest point. It rested mainly on trade and economic interests. However, with the EU preoccupied with the reform of its internal structures, its own enlargement, and its 'near abroad' in general, it was up to ASEAN to keep the relationship alive.

Development Issues and Concerns

Two speakers focused on developing countries' concerns arising from the Doha Development Agenda (DDA). Dato Mohamed Jawhar Hassan (ISIS, Malaysia) was more pessimistic than Dr. Djisman Simandjuntak (CSIS, University of Indonesia, Jakarta) about the benefits of the DDA for developing countries in general and ASEAN in particular. He believed that the process was weighted in favour of developed countries, given their size, research budgets and ability to dominate institutions and rule-making when it came to development issues. While developed countries wanted to address some of the concerns of developing countries as regards market access and implementation issues, there was no systemic review of the development process. For the latter, Doha was a net step backwards.

Dr. Simandjuntak was more optimistic. He saw the current development negotiations as an opportunity for ASEAN to put across its concerns to developed countries. He noted that none of the ASEAN countries was highly protectionist, but enjoyed a comparative advantage in several products, including information technology, textiles and footwear. Some, in fact, were no longer totally dependant on the last two of these products.

However, in order to derive benefits from the development round, ASEAN had to learn how to negotiate with developed countries over services. The ASEAN Secretariat unfortunately was not sufficiently developed, and spent much time preparing endless meetings, in Dr. Simandjuntak's view. But ASEAN governments needed to change their attitude also, and to involve private business more in advance of trade negotiations. They also needed to consolidate and deepen their own regional bloc, through greater integration, before concluding free trade agreements with the EU and countries such as Japan and the United States. ■

*The Dialogue, the fourth in the series, brought together think tank directors from eight ASEAN countries and key actors in the European political, academic and business sectors. This year's Dialogue covered four topics: "regional integration and regional solidarity"; "EU-ASEAN relations - political and strategic dimensions"; "WTO Doha Development Round - EU and ASEAN perceptions" and "ASEAN and China – competitors for foreign investment?"

These Dialogues are jointly organised by the Konrad Adenauer Stiftung, the European Institute for Asian Studies, Brussels, and ASEAN ISIS. Previous Dialogues were held in Manila (1999), Strasbourg (2000) and Bangkok (2001). The fifth Dialogue will be held in Singapore in 2003. Additional information is available on the EIAS website www.eias.org



Seeking better ASEAN-EU relations

by Dato' Deva Mohd. Ridzam

Purely mercantilist or ideological considerations were never the motivating force of the ASEAN-EU relationship. Formalised in 1980, with the signature of the ASEAN-EC co-operation agreement, the relationship dates back in fact to 1972. The interaction between the two regions was particularly effective in the 1970s and 1980s, when it was dominated by trade, investment and development co-operation. It began to change in the mid-1990s, however.

Without farsighted vision and sustained engagement, both regions today risk undermining a strategic and purposeful relationship that has served ASEAN and the EU – and the world – so well and for so long.

ASEAN-EU Relations Do Matter

Within 20 years (1980 – 2000) ASEAN-EU two-way trade increased by 33% *per annum*, from €14 billion (1980) to some €105 billion (2000), which is more than the EU's trade with countries like China and India. What is more, the two groupings have engaged in practical, mutually beneficial and, in some areas, even intense co-operation going well beyond their commercial relationship. In addition to development co-operation, they have also been successful in areas as diverse as education, forestry and the environment.

Have relations fallen on hard times?

The question is whether the relationship has now fallen on hard times. The European Parliament (EP) at least thinks so. In September 2002, MEPs lamented the fact that the EU lacked a clear policy towards Asia generally, and South-East Asia in particular. In his report to the EP, the MEP Jules Maaten:

-regretted the impression given that the EU's policy towards Asia is one assembled on a haphazard basis, rather than flowing from a strategic relationship; and

-noted that while the EU has stated time and again that Asia is a strategic partner, its actions speak differently.

The Rapporteur urged EU member states to abandon their "laissez-faire" and "minimalist" approach towards Asia. In his reply the External Relations Commissioner, Chris Patten, acknowledged that relations with South-East Asia should be given "a much higher priority," adding, "The part of Asia to which we have not given sufficient attention, where we

have not made our policies sufficiently coherent, is South-East Asia."

ASEAN's Concerns

Owing to a divergence of views over issues such as labour laws and the environment, as well as differences over subjects like East Timor and Myanmar, some EU member states have used these extraneous issues to hold the dialogue process hostage. In addition, the EU has become increasingly introverted with its preoccupation over internal reforms and its "near abroad" (the Western Balkans). As a result, the Ministerial Meeting between the two regions did not take place for over five years.

Some of the problems in the ASEAN-EU relationship can be traced to the fact that, unlike ASEAN's other dialogue partners, the EU is neither a state nor a government. As such, it generally has had difficulties engaging the outside world and, conversely, the outside world has found it difficult to deal with a unique, 'one of a kind,' *sui generis* entity. As it is still basically a customs union of 15 countries - soon to become 25 – there is a certain degree of ambivalence in the EU's attitude and approach when dealing with a heterogeneous continent like Asia.

Perhaps this also explains the *EU's frequent shifts in focus* when it comes to Asia. When things do not go its way, the EU tends to fluctuate in its views *vis-à-vis* Asia. For instance, the EU put aside its three-decade long relationship with ASEAN when it felt that Japan, South Korea, China, and now India, are countries where the money and/or prestige lay. It would seem that it is all a question of 'the flavour of the month'.

The EU has also *done little to build coherence in its external relations*. While EU member countries trade freely with each other, externally they regard each other as competitors. This is because EU governments in their foreign relations have always been largely driven by their individual national interests rather than the interests of the Union as a whole. And even when they do act together, as with ASEAN, it has always been on the basis of the lowest common denominator.

This contrasts sharply with the approach adopted by *ASEAN's other dialogue partners*, who have maintained a certain clarity of purpose and a long-term view in engaging the outside world. For the EU to play a global role in a triangular relationship between Asia, on the one hand, and the US, on the other, so as to strengthen multi-polarity in international relations, due recognition must be given to the strategic importance of all parts of Asia, including ASEAN.

A strong EU and a resurgent Asia, working together on the basis of partnership, would certainly help keep all concerned firmly on the path of multilateralism, and at



the same time give due recognition to the importance of the use of “soft power”. It is therefore time that the EU engages the emerging new Asia, of which ASEAN is an integral part, with more determination and verve, even while bearing in mind that, historically, we have always had to do things somewhat differently to achieve the same goals of jobs, prosperity and regional peace.

Today, more than ever, national interests are best served in alliance with others; and ASEAN is a logical partner for the simple reason that it has been a long-standing interlocutor of the EU. The question to ask, therefore, is *whether the EU – in reality - views ASEAN as a long-term partner?*

ASEAN Is Important to the EU

It is important that the EU keeps an eye on the big picture when it comes to Asia. While China, Japan, South Korea and India are undoubtedly important, there is *more than one Asia* for the EU to think about and there are vast differences to be considered. Here again, ASEAN has had a good track record in dealings with all of its dialogue partners and, indeed, the world at large.

Despite some difficulties facing Southeast Asia today, *ASEAN's resilience and self-belief remains remarkably intact*. As a bastion of stability in Southeast Asia, ASEAN countries have always pursued policies to ensure that the flow of trade and other exchanges remain secure within Asia and between Asia and Europe, as well as the US and Asia. Important *co-operatives security initiatives* for the wider East Asian context, such as ASEAN-PMC, ARF, ASEM, ASEAN+3 etc, did not spring out of Beijing, Tokyo or Seoul. Rather all this initiative came from, and continues to be steered by, ASEAN.

In the meantime, things have not remained static in ASEAN. Like the EU, ASEAN is also in transition. A great deal of progress has already been achieved in a number of new areas. With the full implementation of AFTA and the tremendous prospects offered by the ASEAN Investment Area and the ASEAN Mekong Basin Development Co-operation programme, ASEAN will become an even more important area for trade and manufacturing, transport and communication and natural resources. So the notion that ASEAN is less hospitable, or is no longer attractive for foreign direct investment, is certainly wide off the mark.

The Way Forward

After a lapse of some five years ASEAN and the EU may wish to consider that:

-their senior officials meet to brainstorm in a considered and deliberate manner the future of the dialogue process;

-their foreign ministers renew their earlier commitment to meet once every 18 months (AEMM), in order to manage the relations between the two regions and also review the whole dialogue process.

Unless both sides do something soon to stop this drift or decline, the whole dialogue relationship could atrophy. The question is *whether we stay the current course or make a fresh start*.

Untapped Potentials

There are many features of this important ASEAN-EU relationship that still remain to be harnessed. They include:

(a) Explore *synergy* between ASEAN and EU in *third markets*:

-EU private sectors could work closely with their ASEAN counterparts in China and India. ASEAN entrepreneurs possess vast business and trading assets vis-à-vis these two markets; and

-the EU and ASEAN could set examples of partnership other countries may wish to emulate. For instance, governments and private sectors of ASEAN and the EU could work together to help to accelerate the newer members to integrate within ASEAN by participating in the Greater Mekong Sub-region programme.

(b) Non-traditional areas like *education and training* could form a large part of future co-operation. Perhaps, there is a need to establish a number of bodies (councils) to bring together not only businesspersons but also our educators, artists, media-persons and other groups who will benefit from the sharing of ideas.

(c) The EU and ASEAN were founded to subsume past animosities in a common interest; that mission remains valid for the future. The EU has also made remarkable progress in breaking down natural barriers. These and other *EU contributions on integration can benefit ASEAN*. We can talk about our successes and failures – and learn from them.

(d) The EU and ASEAN can also join hands to *fight intolerance and misunderstanding*. There could be regular exchanges of scholars and religious personalities, to benefit both regions through deeper knowledge and understanding – and, of course, closer friendship.

It is important to always keep in mind that ASEAN and the EU have had a long and valued relationship. They have their roots in history, in trade and in people-to-people contacts. In an increasingly globalising world we will have to continue to look forward and outward.

It should not be forgotten that the views of ASEAN and the EU converge on many issues. We may differ in some of our assessment on a few subjects. This is normal in the realm of international relations. The



important point to underscore is that a divergence in views on one or two issues ought not to prevent us from engaging constructively on a whole range of issues of mutual interests.

All told, the relationship that binds us can be enormously rewarding for both the EU and ASEAN. It is too important to be taken for granted. Perhaps, too little time has been spent on maintaining and strengthening this relationship. Standing still is not an option. Both sides must work to *regain the momentum they have lost*. ■

H.E. Dato' Deva Mohd. Ridzam is the Malaysian Ambassador to the European Union. He made this speech in a personal capacity at the Fourth EU-ASEAN Think Tank Dialogue.

EU and ASEAN integration and solidarity

by Prof. Ludo Cuyvers

There are four types of regional economic integration, broadly speaking. The lowest level is represented by a free trade area (FTA). Member countries eliminate tariffs on their imports from each other but each retains its own system of tariffs on imports from outside the FTA. The second level is a customs union, in which free trade between member countries goes hand-in-hand with a common external tariff. In addition, members of a customs union act as one when it comes to trade agreements with non-members.

The third level is represented by a common market, which also provides for the elimination of all barriers to movements of labour and capital. An economic union is the fourth and highest level of regional integration: it is a common market plus unified economic institutions and co-ordinated economic policies.

The European Union (EU) is not a full-fledged economic union, in spite of being a monetary union since 2000. This is because member states retain full or partial sovereignty over quite a number of policies. The EU therefore is more than half-way between a common market and an economic union.

ASEAN has become a free trade area with some measures to liberalise intra-regional investment flows. The ASEAN Free Trade Area (AFTA) was concluded in 1992 with the aim both of liberalising trade and, according to key witnesses, of stimulating investment in the region. In the 1990s the AFTA programme of tariff reductions was broadened to include a host of "AFTA Plus" activities.

The type of economic integration that a country opts for is largely determined by its preference for a national or a supra-national approach. The national approach is dominant in a free trade agreement. In a customs union decisions about the external tariff system are delegated to a supra-national body. Consequently, weaker types of economic integration (such as FTAs) imply weaker possibilities for influencing income disparities between the member states.

Convergence and regional policies

In the EU, policy instruments such as the structural funds are employed to reduce regional disparities. Four types of structural funds have been introduced over the years, as the process of building Europe has progressed. EU assistance is additional to national funding, and member states must maintain their own public expenditure at the same level as in the preceding period, at the very least.

The EU established a Cohesion Fund in 1994. Eligibility is limited to member states whose per capita GNP is less than 90% of the EU average, and which have a programme aimed at achieving economic convergence, as defined by the EU. Greece, Spain, Ireland and Portugal currently benefit from the Cohesion Fund. The European Investment Bank, set up under the 1957 Treaty of Rome, also contributes towards the integration, balance development and economic and social cohesion of the member states.

In ASEAN the major instrument for convergence and "sub-regional" development is sub-regional co-operation. ASEAN therefore supports a number of growth areas, including the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). The Asian Development Bank (ADB) actively supports ASEAN sub-regional co-operation. ASEAN's considerable reliance on the ADB reflects the national rather than the supra-national approach.

Exchange rate systems and solidarity

A system of fixed (but adjustable) exchange rates favours solidarity between the countries that are part of it. However, the broader the agreed intervention bands, the lower the level of institutional solidarity between them. Floating exchange rates do not create such a built-in mechanism of solidarity among the participating countries.

In the EU, monetary integration has evolved from the currency serpent system of 1972 to the 1979 European



Monetary System (EMS). In practice, the EMS had similar consequences to the system of floating exchange rates for two reasons: (1) EMS member individually still faced the floating exchange rates of their national currencies in relation to the other industrialised countries, and (2) the EMS was dominated by the Bundesbank, which was not obliged to defend the other EMS currencies within the agreed currency intervention margins.

Eleven EU countries set up the European Monetary Union (EMU) in 1999, to which a twelfth (Greece) acceded in 2001*. They adopted the Euro as their common currency in early 2002. However, because of the mandate given to the Frankfurt-based European Central Bank (ECB), the creation of EMU has eroded the macroeconomic solidarity mechanisms between its members. The ECB is responsible only for price stability, not for combating economic downturns and unemployment. However, due to the convergence between the EMU countries in the 1990s, as a result of their application of the "Maastricht criteria," the need for macroeconomic solidarity is much less.

In the case of ASEAN, a modest \$200 million currency swap agreement existed among the five larger economies, in order to avert currency speculation. Even so, ASEAN could not co-ordinate its members' responses to the Asian financial crisis of 1997-1999. A Japanese proposal to establish a \$100 billion Asian Monetary Fund (AMF) was shelved, following opposition from the US, China and the IMF, it resurfaced in the context of the ASEAN + 3 meetings.

These countries concluded the Chiang Mai Initiative (CMI), on the sidelines of the May, 2000, annual meeting of the ADB Board of Governors. Seen by many as a much watered down version of Japan's AMF proposal, the CMI nevertheless led to an ASEAN Central Banks Forum in 2002, when the 10 ASEAN monetary authorities agreed to expand the multilateral currency swap agreement among the member countries from \$200 million to \$1 trillion. The CMI countries also agreed to contribute \$40 million each to a common fund, which will allow them to swap each other's currencies.

Social policies and social co-operation

The 1957 Treaty of Rome provides for the creation of a European Social Fund (ESF). Financed by contributions from the member states, the ESF is one of the four EU structural funds. Its aim is to improve employment opportunities and generally raise EU living standards. While unemployment is largely seen as the most pressing social problem in the EU, its member states have jealously guarded their independence in areas of social policy, under the subsidiarity principle.

Subsidiarity is required in the framework of a developed exchange of "best practices" and "social benchmarking" at the EU level, according to a report prepared by experts for the Lisbon conference on the future of social Europe, held in May, 2000, very shortly after the Lisbon Summit on employment, economic reform and social cohesion. Thus it would mean that EU institutions (and probably the social dialogue at the EU level as well) should be confined to defining "soft laws," comparative analysis and recommendations on social matters.

ASEAN co-operation in social affairs is implemented under the common slogan, "Sharing prosperity through human resources development, enhancing technological competitiveness and strengthening social cohesiveness." The Asian financial crisis of 1997 to 1998, which had a direct impact on the socially vulnerable, showed up clearly the need for a "social safety net."

The ASEAN Action Plan on Social Safety Nets was adopted by ASEAN ministers at an informal meeting held in December 1998. Its four priority areas include the implementation of social safety net programmes and the monitoring of economic and social services delivery. The 6-year Hanoi Plan of Action (HPA) was adopted at the 6th ASEAN Summit in December 1998, provides for social development programmes aimed at dealing with issues of unequal economic development, poverty and socio-economic disparities.

At the intra-regional level, research is being conducted to set up social safety nets between countries which are part of a "sub-regional" economic co-operation scheme. Thus a Thai working group produced a working paper on comparative social safety nets in the Greater Mekong Sub-region in 2001. Multilateral agencies and donor countries, including Australia, are following regional approaches in helping the ASEAN countries.

Some conclusions

It is clear that the EU, which has delegated national sovereignty in some areas to the supra-national level, disposes of deeper and more powerful mechanisms of solidarity than ASEAN. Thus the European Structural Funds have proved to be very effective in reducing disparities among member countries and between regions within them. The European Investment Bank has also played an important role in this connection.

Contrary to the EU's largely supra-national approach, ASEAN has approached the problem of regional disparities by agreeing on so-called growth areas, such as the Greater Mekong Sub-region, in the framework of "sub-regional co-operation." These co-operation



programmes are largely informal, and their implementation is facilitated by the ADB.

Turning to monetary issues, the creation of the European Monetary System (EMS) was not especially instrumental in creating “macro-economic solidarity” among its members. The establishment of the European Monetary Union (EMU) seems to have further eroded the earlier, if relatively weak, solidarity mechanisms, largely because of the European Central Bank’s relatively “monetarist” mandate.

ASEAN “macro-economic solidarity” is even weaker than in the EU. The Chiang Mai Initiative is essentially another currency swap initiative, even if the amount pledged is much larger than that of the original currency swap agreement among the ASEAN-5.

Whether regional social policies are needed at all, remains a matter for discussion, given the different social systems of the member countries of regional economic integration initiatives. There is room for the development and adoption of social benchmarks and minimum standards at the supra-national level. However, both the EU and ASEAN find it difficult to adopt even this minimalist approach. ■

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*The 12 are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

EU-ASEAN relations: political and strategic dimensions

by Prof. Jürgen Rüländ

As an Asian specialist I feel more confident commenting on ASEAN developments from a European perspective. My time frame is basically the post-September 11 period. I begin by analysing political and strategic developments within ASEAN and Europe from a multilateral perspective, then look at bilateral developments and, finally, domestic developments, on the assumption that domestic and international politics are closely intertwined.

The multilateral dimension

The flurry of new **East Asian regional initiatives** last year has led some observers to speak of rejuvenation, after the havoc wrought by the Asian financial crisis in ASEAN and other regional and trans-regional institutions in the Asia-Pacific region. The empirical evidence of a rebirth of East Asian regionalism may be said to include ASEAN + 3 co-operation; the moves to create an Asian Monetary Fund (AMF), followed by the Chiang Mai Initiative, ASEAN and bilateral swap agreements and East Asian monetary regionalism. Other initiatives include the China-ASEAN Free Trade Area, bilateral trade agreements (of which three have been concluded so far), and the anti-terror agreement between the US and ASEAN.

I do not share the thesis that there is a new East Asian regionalism in the making: interests are highly diverse, so that commonalities are limited. The flurry of regional initiatives is more a sign of disorientation after the Asian crisis and a jockeying for political influence in the region by major players.

Thus the ASEAN + 3 initiative amounts to a recognition by ASEAN that as a regional organisation it is too weak to counter the pathologies of globalisation. In other words, if it is to resist the destructive forces of globalisation, ASEAN must be able to participate in defining the rules of international competition. But in order to do this, it must bring in such East Asian heavy weights as China and Japan.

The Chiang Mai Initiative cannot be understood as an element of East Asian solidarity. Its achievements are limited and IMF approval for swaps of a certain magnitude are still needed. The bilateral free trade agreements are stumbling blocks rather than building blocks: they create distrust, acrimonious responses by those left out and increase the level of competition. Anti-terror co-operation does not lead to a reinvention of ASEAN, for the security interests of its members are as divergent as ever. Indonesia, Malaysia and Vietnam failed to endorse US military intervention in Afghanistan. Meanwhile, there are angry nationalist responses in the event that one ASEAN country arrests nationals of another member country on terrorist charges.

Regional activities are more in the nature of a balancing game, involving competition between Japan and China for influence in South-East Asia. The balancing is increased by a reinvigorated US presence in Asia, and by ASEAN’s efforts to balance China, Japan and the US by bringing in India. The precondition for long-term institution building includes investments in institutions and acceptance of governance costs.

Turning to **Europe and the EU** I want to highlight the following points:

Post-September 11 has clearly shown the limits of the European integration process. In the event of a crisis, European countries continue to cling to national sovereignty. Thus responses to President Bush's Iraq policy have ranged from unqualified British support to unilateralist responses, such as those of the German Chancellor, to institutionalist responses emphasising a UN mandate, for example. The EU has supported all UN resolutions condemning terrorism.

There is a deepening distrust in transatlantic relations. While NATO's Article 5 was invoked for the first time after September 11, the US acted unilaterally in Afghanistan. The invitation to seven East European countries to join NATO was more the result of an American initiative than European insistence. Part of this distrust results from different perceptions underlying security policies. The EU sees itself as a civilian power, favouring conflict prevention measures and the containment of conflicts through institutional means. Its more legalist approach towards the terrorists detained in bases in Afghanistan and Guantanamo is at variance with the Bush Administration's disdain for international institutions and regimes.

The bilateral dimension

In the aftermath of September 11, of the **ASEAN** countries the Philippines and Singapore have gone farthest in supporting the US in its war against international terrorism. Interestingly, Burma too has given the US its full support. There has been a considerable improvement in US-Malaysian relations, despite initial irritations. The US has been critical of the lax response of the Indonesian authorities to the alleged links between Indonesian Islamists and *Al Qa'ida*; at the same time there has been a *rapprochement* with the Indonesian military.

Disunity within ASEAN is reflected in a number of developments. Thus Singapore has blamed Indonesia for not cracking down seriously on Islamic militants, while Malaysia and Indonesia are at odds over the treatment of illegal migrant workers, and the Philippines and Indonesia over the arrest of Indonesian nationals charged with terrorist activities.

In the **EU**, German criticism of US policy over Iraq has led to strained bilateral US-German relations. The German attitude must be attributed in part to a pacifist mood among sections of German society, in part to a political class unable or unwilling to make unpopular decisions. More worrisome is the rise of a new populism, in Germany and elsewhere in Europe.

Domestic politics

Islamic militancy in **South-East Asia** does not signify a clash of civilisations, but rather a clash within civilisations. The overwhelming majority of South-East Asian Muslims is moderate. Yet, as part of a worldwide religious revival, Islam has become more assertive in the last two decades, with a rise in the number of Indonesian Muslims who support the unity of state and religion.

The rise of political Islam in Indonesia, the world's largest Muslim nation, must be linked to external and domestic factors. The external factors revolve around globalisation. Poorer Muslims see themselves as the losers of economic globalisation, particularly after the Asian financial crisis. Domestic factors include the use of Islam in intra-power struggles since the end of the 1980s. While anti-terrorist measures appear to be working against democratisation elsewhere in South-East Asia, in Indonesia the slowing down of democratic reforms must be seen in the light of the country's political transition.

In **Europe**, fears over the decline of the rule of law and democracy are not new, and are primarily linked to globalisation. However, post-September 11 international terrorism and the internationalisation of crime is seen by some observers as leading to an abolition of major tenets of the rule of law. At the same time there is reservation, distrust and even an atmosphere of fear towards Islamic culture, reflected in more complicated immigration procedures for persons with an Islamic background.

Conclusion

Military power is again taking precedence over institutionalist solutions, accompanied by the continuing atrophy of international institutions. At the same time there is a re-emergence of Manichean options that seemed to have ended with the Cold War. The threat is not only to the established democracies of the West but also to the new democracies elsewhere in the world. ■

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“The Taliban spirit still reigns in Afghanistan”

by Anna Karamanou

The journey has indeed been «long, full of adventure, full of knowledge», just like the Greek poet Cavafis would say, for a group of six socialist women members of the European Parliament -Lissy Groner, Fiorella Ghilardotti, Marie-Helene Gillig, Genevieve Fraise and myself. On the last day of October we launched a journey to Afghanistan, spending an entire week in the country that has so much troubled the entire world during the past year.

It was sheer folly, according to some. It was the first time that a European Parliament delegation was visiting the country. Our fears and doubts receded nevertheless when faced with the goal: to express the Parliament’s sincere support for and solidarity with the Afghan people, and to ensure that the country is being rebuilt in a way that caters for the advancement of all Afghan women.

We met the President, Hamid Karzai, who is trying to save his country but faces many problems, since he controls only Kabul. We also met the former king and current Father of the Nation, Zaher Shah, as well as the Ministers of Health, Education, Foreign Affairs, Women Issues, Interior Affairs, National Economy and Justice. We also met Sima Samar, President of the Committee for Human Rights, and representatives of several non-governmental organisations (NGOs).

We visited areas where EU projects are being implemented, both in Kabul and in the countryside. Although we witnessed some bright gestures, such as the liberation of 20 women who had been convicted of adultery just one day after our visit to the Interior Minister, we nevertheless reached a common conclusion – that not much has changed for women in Afghanistan.

It was an overwhelming experience. We visited a Third World country with an extremely low level of economic and social development. Afghanistan is not a modern country, with a powerful central government. Law does not apply, order does not exist. Just looking around would convince anyone that it will be very difficult to make any progress. Homes in fact are huts, and conditions of hygiene are non-existent, although public baths, destroyed by the Taliban, are now being rebuilt with EU funding.

Markets lacking basic commodities, while there is an army of children begging in the streets. There are very few hospitals: the only hospitals in Kabul are those set up by NGOs. In rural areas there are none. Ninety-nine

percent of women give birth without any medical assistance; as a result, roughly one woman dies every half hour. This is among the highest mortality rates in the world.

The situation of women remains tragic in every respect. “Blue ghosts,” namely women wearing their blue veils or *burqas*, are everywhere – only a few dare take them off, and thus endanger their lives. Women are a means of solving land disputes. They are being traded between quarrelling factions. Meanwhile, forced weddings are a part of daily life. Girls just 13 years of age are being sold to the highest bidder, usually older men. If they manage to escape, they are sent to prison and punished severely. The Taliban may have lost power, but their spirit lives on.

In Bamian, where the Taliban destroyed the statues of Buddha, we met the forum of women organisations, and realised that this was the first opportunity these women had to speak in public. They were even ashamed of uttering their names, and were constantly hiding their faces. Women are subjected to many kinds of abuse, including rape, and are victims of crimes of honour. Their lives have no value whatsoever, for the men guilty of these crimes go unpunished.

The biggest achievement of the Hamid Karzai administration is that parents now allow their daughters to attend school. Some steps are also being taken with respect to work for women. But there are many problems. The Taliban continue to move about freely; they even appear on TV. A few weeks ago, bomb-pens were left in several schoolyards; as a result many female students were mutilated or killed. These attacks were underpinned by local priests, who object to women’s education.

Ours was an unforgettable experience. It convinced us that women in Afghanistan need more than humanitarian aid; they also and perhaps more importantly need that bold political action be undertaken. It is therefore essential that:

- a) the new Constitution procures women their rights and specifically provides the necessary legal framework to combat discrimination;
- b) the government implement measures, with specific regard to education and health;
- c) a Council for Afghan Women be created, with the goal of bringing together members of the government and women’s organisations;
- d) a European Fund for Afghan Women be created, in order to support their increased needs.

I would urge the Greek Presidency of the European Union to set up this Fund as quickly as possible.

These proposals are only a beginning. Whatever we do at this stage will not be enough for those women who



are still suffering unutterable misery, and whose one message to the world is: "We want peace, not war." In order to turn a culture of violence to a culture of peace, it is essential that women be allowed to participate, on an equal footing with men, in the drafting of their country's new Constitution. ■

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Tied aid casts slur upon rich countries

by Max van den Berg

The former Dutch Minister for Development, Evelien Herfkens said, in 2001, that tied aid cast a slur upon rich countries, when the G7, the worlds' seven richest countries, recognised the importance of untying aid as a means for poverty reduction. Within the G7, Germany and the United Kingdom are strong advocates of untying. But, recognition is the first step. It is now time to take step two: abolishment of tied aid. The European Union now has the chance to take that second step.

In April 2002, Denmark cancelled a US\$ 45 million aid contract to repair ferries in Bangladesh. The event caused a political storm since both the Bangladeshi Government and the Danish Government traded insults over who was to blame for the cancellation; the Bangladeshi Government claimed that the cancellation was due to the Danish insistence on tying the contract to Danish firms which made the contract unsustainable, and the Danish Government claimed that attempted corruption was at the heart of the row.

The Danish grant was tied, that is, given on the condition that Bangladesh would use it to purchase goods and services from suppliers based in Denmark. In this case, the ferries at issue were to be repaired in Denmark and then sent back to Bangladesh. Some other rehabilitation work was to be undertaken in Bangladesh but with equipment and capital goods imported from Denmark. The bidding price was four times higher than if all the work had been undertaken and sourced from Bangladesh or within the region. Following a request from the Bangladeshi minister to increase local supplies to reduce the price, Denmark cancelled the contract. The case is currently being investigated by the Danish parliament's Foreign Affairs Committee.

Despite a string of commitments to untie aid, most donors continue to tie aid. In May 2001 donors agreed to untie aid to the 48 Least Developed Countries. The

decision was reaffirmed at the Monterrey meeting in March 2002 although no progress has so far been seen on the issue. It is hard to track however as most donors exclude technical cooperation and food aid from their figures. NGOs like ActionAid Alliance have been challenging the current reporting system as misleading, especially as technical co-operation is taking up a higher percentage of aid budgets*.

NGOs have long argued that it represents poor value for money, that it undermines transparency, that it reduces aid effectiveness and (for EU Member States) that it is incompatible with European internal market and competition rules. Since tied aid contracts are open to a limited number of bidders the price can be up to 25% less competitive than for goods procured on the open market. Again, the limited pool of bidders increases the potential for corruption and it reduces effectiveness in a number of ways:

- It discourages donor co-ordination as each donor continues to keep their own procedures and favour their own sectors and countries
- It imposes an additional burden on developing country governments who are forced to use several different donor country procedures
- It discourages donors from increasing local procurement of goods and services and subsequently eliminates the possibility of creating commercial opportunities for companies from developing countries
- It discourages donors from using more efficient (untied) forms of aid delivery, such as budgetary support.

The European Commission has just issued (November 2002) a discussion paper on aid untying, that addresses Community aid and Member States' own bilateral aid programmes. The paper is a frank admission that tied aid is contrary to internal market rules. In 1999, 900 European NGOs called on the European Commission to investigate Member States practice of tying aid. The Commission has just opened legal proceedings against Denmark and Italy since it suspects that their practices may indeed run counter to Community law.

The merit of the EC proposal is not only that it unties EC programmes but that it challenges Member States to follow suit. Member States' response to the proposal will contribute to shaping future debates among donors. This is significant since the EU – Member States and the EC – is the leading donor providing more than half of world aid. It is essential that both processes – the untying of EC and Member States programmes – run in parallel. Tied aid is still common practice among Member States. Approximately €6.2 billion of Member States aid is tied every year and so far only the United Kingdom has untied its aid. Although it has to be recognised that the percentage of aid donated by the United Kingdom is relatively low



compared to that of for instance Denmark and The Netherlands.

As well as untying, Member States should ensure that untied aid would lead to greater sourcing of local supplies and expertise. This will not only produce more relevant goods and services for development projects, but also offer better value for money and enhanced effectiveness. Fostering the participation of developing countries' firms in aid-funded contracts will lead to increased economic growth, which is vital for poverty reduction. Without these accompanying measures, aid will never be sustainable which is of course, the ultimate aim. ■

*EU Member States provide 40% of world technical co-operation

**OECD/DAC official statistics for 2002.

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Gandhi and globalisation

by Narendar Pani

Soon after the collapse of the Soviet Union there was a widely held belief that we had seen the end of ideology. Even those who did not subscribe to the treatises on the end of history, often tended to argue that the time when the global system could be understood in terms of one or other large, ideological model had ended. And yet, more than a decade later, this tendency has not quite disappeared.

The old capitalism versus socialism debate may have receded, but most of the characteristics of ideological thinking can be seen in the opposing attitudes to globalisation. Both sides treat globalisation as a system. Those who oppose it treat it as a system that must be rejected. At the other extreme, globalisation is treated as a 'golden straitjacket' that the whole world must accept. Everyone is then required to be either for or against globalisation on ideological grounds.

Both sides of this new ideological divide can be challenged, however. Despite rampant globalisation, we are far from abandoning national frameworks for dealing with global issues. Positions on regime change in Iraq, for instance, are still dominated by national interests. The national element is even more evident in the workings of the WTO. The pace at which markets are opened up, as well as the specific market sectors to be opened up, are still dependent on national interests.

The position that globalisation is a system that can be rejected *in toto*, is not easy either. The protestors against globalisation have not been able to completely

reject the technologies and social elements of globalisation. In fact, protests against globalisation have themselves become globalised, particularly after Seattle. Every effort is being made to use the technologies of globalisation to bring together anti-globalisation protestors, even when there are major differences between some of them.

Rather than treating globalisation as a system that is to be championed or rejected, it may be much more rewarding, therefore, to understand it as a process. Different groups can then be seen to be identifying with the specific elements of the process that suit them. Anti-globalisation protestors would be particularly enthusiastic about the internet, its communication benefits and the access it gives them to information that would otherwise be well beyond their reach. Global business, on the other hand, may be more keen to focus on what the new technology has done for capital flows and the opportunities it provides for the various activities of a firm to be located in different parts of the world.

Clearly, there is a tendency to reduce the globalisation process to the elements that each individual or group is comfortable with. However, technologists may see it as no more than a matter of developing technologies that reduce the elements of distance and time in transactions to as close to zero as possible. But it is obvious that these technological changes have had wide-ranging political, economic and social ramifications. With terrorist groups operating as a global network, the very nature of international politics has been changed. As firms distribute their activities across the globe, even microeconomics requires an international perspective. Social relations cannot remain the same when families are spread across the world. However, any attempt to reduce these complex sets of interrelationships to a single model is bound to be incomplete, if not completely misleading.

The popular response of policy makers to this challenge has been to champion pragmatism. It is now possible to justify virtually any economic decision on the grounds that it will come up with the desired results. Such a celebration of pragmatism is fundamentally flawed. When a policy is made, no one can be absolutely certain that it will achieve the desired results. Thus, the package of measures justified as pragmatic tends to vary a very great deal. Deng Xiao Ping's pragmatism is very different from Tony Blair's pragmatism. With possibility of treating a very wide range of policies as pragmatic, the policy maker can choose what is convenient. This reduces policy-making to expediency. What is considered expedient can cover a very wide range of temptations from political support to personal economic benefit.

There is thus a need for an alternative method to understand and deal with the complex process of globalisation. This method would have to be inclusive, so that it does not reduce the globalisation process to one or other grand model. And one thinker whose ideas can help us understand the globalisation process is Mohandas Karamchand Gandhi. At the heart of Gandhian thinking is the belief that there cannot be a single grand theory that explains everything. Gandhi held that it “is not possible to enunciate one grand principle and leave the rest to follow of itself” (Collected Works, Vol. 88, p. 59). Each situation thus calls for a separate understanding, based, if necessary, on a variety of abstract models. This approach made Gandhi seem a quaint thinker in the first half of the twentieth century, when grand ideological theories dominated the world. But his approach is much more relevant today, with the failure of such theories.

Gandhi’s method of focusing on an issue, while remaining inclusive, was to emphasise the primacy of action. His method was inclusive in that it took into account all the consequences of that action. The action itself could then be evaluated in terms of the goodness, or otherwise, of its consequences. For Gandhi, this challenge did not arise. His inclusiveness ensured that no single action-consequence relationship could be seen in isolation from another. Ending a person’s life may be viewed as the means to achieve one end, but it is simultaneously the end for the person concerned. There cannot then be a clear demarcation between means and ends. The goodness of the ends automatically requires the goodness of the means. Taking a person’s life could then never be justified.

The consequences of an action can be varied and affect a wide range of individuals in different ways. This raises the question: Consequences for whom? It was to address this question that Gandhi developed his concept of *swadeshi*. Gandhi announced in 1916, “After much thinking I have arrived at a definition of *swadeshi* that perhaps best illustrates my meaning. *Swadeshi* is that spirit in us which restricts us to the use and service of our immediate surroundings, to the exclusion of the more remote” (Collected Works, Vol. 13, p. 219). *Swadeshi* is not confined to geographical nearness. The same preference for the immediate surroundings can be seen in other arenas as well. In the realm of religion, the immediate surroundings could well be fellow believers elsewhere in the world. There could be a similar closeness in say, the Israeli or the Indian *diaspora*.

After the end of the Cold War, as countries reworked their alliances, there was a clear preference for regional blocs. Again, the perception of immediate surroundings could change depending on the issues involved. India and Pakistan, for instance, find it much easier to come together in the WTO than in other more political forums. To give another example, on religious issues

an Indian Muslim living in Delhi could be closer to a Muslim in the United States than he is to his Hindu neighbour. But, on other issues, like the prospect of being dominated by the US, he could find himself closer to his Hindu neighbour than the American Muslim. *Swadeshi* thus implicitly recognises multiple identities and loyalties. What action is finally chosen is then a “bargained consensus” between different interpretations of the consequences of an action.

A bargained consensus does not, of course, necessarily have to be an ideal one. Weak parties can be forced to accept a consensus that is unequal and perhaps even unfair. There is thus a need to continuously improve the quality of the bargained consensus. Gandhi believed the quality of the bargained consensus was dependent on three elements. First, there was the empowerment of those backing each interpretation of the consequences of an action. Second, the quality of a bargained consensus was dependent on the options available. Gandhi promoted homespun cloth in the belief that it provided the poor an additional economic option that would help them resist an unfair bargained consensus. Third, the quality of a bargained consensus also depended on the degree of fairness involved. And the moral pressure created by the need for fairness could also be used in arriving at a superior bargained consensus.

The working of all three elements can be seen, for instance, in the WTO negotiations. Empowerment is the most obvious, with the major powers having a greater say than most others. Countries have also tried to empower themselves by building alliances. In order to increase the number of options available in the negotiating process there is a continuous effort to enlarge the agenda, so that the option of getting a concession from one country in one area can be used to force a concession out of that country in another area. And fairness too has been a factor with Special and Differential treatment being offered to developing countries, together with other concessions being offered to the Least Developed Countries. The Gandhian method can thus be used both to analyse trends in a globalising world as well as to build a case for institutions that help harness globalisation in a way that improves the quality of the emerging bargained consensus. ■

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ASEAN Summit in Phnom Penh analysed

Like its counterpart, the 15-nation European Union (EU), the Association of Southeast Asian Nations (ASEAN) is often characterised as being confronted with the difficult choice between “widening” or “deepening” the scope of its activities and policies.

The most recent ASEAN Summit meeting, held in Phnom Penh in November, was generally regarded as having extended relations between the 10-member grouping and its other Asian neighbours and partners, in an ambitious series of accords visualising free trade and other collaborative or confidence-building processes.

These new ASEAN agreements with China, Japan, Korea and India, together with a recent indication of US interest in working towards trade liberalisation, were generally well-received. They were seen as proof that the sometimes criticised ASEAN system had re-established its credibility and appeal. Some officials and analysts in the region were also contrasting these gestures towards ASEAN with the hesitation and aloofness shown by the EU, whose relationship with ASEAN has stalled recently. Some have concluded that the EU, more interested in extending its own membership, will be left behind by the renewed dynamism displayed by ASEAN and its other partners.

However, a number of critics and analysts contend that ASEAN should view such expressions of intent for improving trade and economic integration only as the first, hesitant promises, with limited concrete substance. They should not be confused with a new lease on life for ASEAN: this could only result from true reforms and the strengthening of the Association’s sketchy internal institutions, policies and relationships. A major point of discussion, as regards ASEAN’s effectiveness, revolves around the question of whether its steadfast adherence to policies of informality and non-interference in the internal affairs of its members is, in fact, a fundamental flaw, and one that prevents true problem-solving.

The immediate results of the two-day ASEAN 8 Summit, and the series of bilateral summits with China, Korea, Japan and India, as well ASEAN’s internal structure and future, were the subject of an unofficial, follow-up seminar, held in the Cambodian capital just a few days later, on November 11 and 12. Organised by the Cambodian Institute for Co-operation and Peace (CICP) and the Friedrich Ebert Foundation of Germany, it brought together Asian and European scholars, researchers and officials.

The theme of their discussions: “ASEAN at 35. Where is it going?” A series of briefings by senior Cambodian and other officials were followed by a number of panel discussions.

A leading Cambodian Foreign Ministry official characterised the official ASEAN Phnom Penh sessions as creating “a culture of peace and co-operation.” He pointed not only to the string of accords on free trade and other elements of economic co-operation, but also to a long-discussed Code of Conduct between ASEAN states and China over their competing claims to parts of the South China Sea.

The Cambodian official also noted the expected enlargement of ASEAN to newly-independent East Timor, the recently-announced Integration Initiative involving a series of infrastructure and other projects designed to reduce the gap in levels of economic development between the older and newer members of ASEAN, and the agreements to intensify their collaboration and their combat against terrorism.

Asians and Europeans tended to see the Phnom Penh Summit results in a different light, in the discussions that followed. One Asian personality remarked that the meetings had “rejuvenated” ASEAN and established its relevance. A European participant remarked, however, that ASEAN had “no lack of ideas, but a lack of implementation.”

Another Asian official explained that ASEAN was expanding with two additional specialised ministerial meetings. It was also quietly continuing its co-operation. This included a new political direction, with some elements of EU collaboration, called for by Singapore’s Prime Minister, Goh Chok Toh. The official also noted that some \$15 million had been pledged to the Integration Initiative, involving projects in Cambodia, Vietnam, Laos and Burma, but that the organisation lacked the means to move faster. He felt that the process would be worthwhile, even if it only offered an opportunity to meet, and pointed to the agreement with China on the code of conduct for the disputed South China Sea, as an example of how China had been persuaded to deal with the issue in the multilateral diplomatic context of the ASEAN Regional Forum.

A European speaker, who admitted that he was playing the devils advocate, delivered a highly sceptical assessment of ASEAN’s performance. He suggested that ASEAN had been unable to cope with the many challenging problems confronting its membership. They ranged from the massive expulsions of migrant workers from ASEAN countries by one or more of its members, to disputes over water or other



natural resources and the endemic smog from forest fires started to clear land for cultivation. He claimed that the more recent efforts to deal in an effective, co-ordinated fashion with terrorism were “doomed to fail”. As he saw it, ASEAN’s approach was generally to deal with such issues by making declarations or drawing up non-binding plans.

Another Asian speaker tended to agree. He noted that the ASEAN + 3 dialogue and accords also amounted to “declarations not successes;” they did nothing to address ASEAN’s acknowledged structural and policy constraints. Other speakers maintained that the Phnom Penh Summit had been dominated by terrorism, external relations and other external issues, rather than internal processes and development. Yet other speakers stressed that the desire to seek a free trade accord with China by 2010 represented a complete change from ASEAN’s past position. The fact was that, despite being neighbours, the economic interaction to date between ASEAN and China was relatively limited. This drew the rejoinder that ASEAN was not diluting its credibility by expanding its contacts.

The Asian participants were also generally agreed that ASEAN appeared to be more of an elitist forum, and did not adequately incorporate a social dimension or involve young people. Another Asian speaker saw a need for greater democratisation in the region, even going so far as to observe that a number of governments in the region were incapable of it. He called for a new “Vision 2020” exercise, similar to one conducted a few years ago, that would formulate a genuine action plan.

While accepting that ASEAN’s “soft” institutions could be as effective as the legalistic EU, one European academic noted that ASEAN seemed unwilling to use even the tools for integration which it had at its disposal, raising expectations and then losing credibility by its failure to meet them. ASEAN had thus been seen to fail in coping with the Asian financial crisis, the East Timor problem, pollution and other problems. One consequence of this, the academic pointed out, was the fall in European investment: while Europe remained the largest investor in Southeast Asia, the level of its investment had fallen by half. Turning to terrorism, he suggested that Europe might be a better partner for ASEAN than the US: it gave priority to addressing the root causes of the problem, whereas the US seemed to give priority to military cooperation.

In the discussion on the ASEAN Regional Forum (ARF) security process, the point at issue was whether ASEAN could remain in the driver’s seat, in the face of some impatience. Most participants indicated that while ASEAN was not the leader of issues such as the situation in the Korean Peninsula, it was the organiser

of what in fact is an important and useful process. It was noted that the ASEM and APEC summits are also involving themselves in such issues. However, the discussion on proposals to alter or share the leadership of ARF sessions did not result in any clear consensus or direction. A willingness to question the quality of ARF leadership was tempered by a recognition that it was not yet an effective problem-solving mechanism, and a hesitation to turn it into “another UN Security Council,” in the words of one speaker. A lively debate ensued over the possible role of the EU in this exercise. A number of speakers suggested a possible useful role for the EU, one distinct from that of the US. However, one Asian speaker maintained that he saw no such a role for the EU, terming its presence in the ARF “accidental.” He nevertheless felt that major European countries, such as Britain, France or Germany, might play a useful role in their individual capacities. Another participant disagreed: he saw the EU as a partner, from whose experience ASEAN could draw lessons in applying various tactics and techniques.

One of the panellists, comparing ASEAN’s future challenges and needs with those of the EU, found a number of similarities between them. He noted that both regional groupings needed to establish their presence and their identities without the tools of national sovereignty which governments possess, such as political, economic, cultural and ethnic solidarity. They therefore had the difficult task of establishing a consensus on objectives, mechanisms, pace, and implementation among disparate members. Failure to meet expectations meant a loss of credibility.

To reach their goals both the EU and ASEAN had to take steps to overcome differing levels of development among their members, even while adding value to all their members. Both were seeking, for example, to secure the benefits of a collective approach in their relations with external partners. Asian speakers also focused on the need to build in accountability, and expand public participation in the ASEAN process. There was also a need, as one of them pointed out, to be more proactive in the security sector, especially in the struggle against terrorism. ■

*This report was compiled by David Fouquet, who attended the unofficial summit as the EIAS Secretary-General.



The peace process in Sri Lanka

by Nanda Godage

“That our long night is ending, and that the dawn is surely breaking, is manifest in the success that has attended the process.” Prime Minister Ranil Wickremasinghe, speaking at the opening session of the Oslo Peace Support meeting on November 26.

Two important milestones were reached in a matter of days, at the time of writing. The peace process had really got under way. The LTTE reconfirmed that they are prepared to explore a solution founded on the principle of internal self-determination, based on a federal structure within a united Sri Lanka. They had made a somewhat veiled statement to the same effect at the Oslo Peace Support Conference the previous week. They further agreed that the solution had to be one acceptable to all communities. This development was indeed a quantum leap for the peace process.

The Tamils had sought a Federal Constitution for the country even before Independence. They pursued their cause with added vigour after the promulgation of the Sinhala Only Act in 1956. If a federal structure is realised, it would indeed be a significant achievement for the Tamil people. As for the Sinhalese and other minorities, they too can find satisfaction in the fact that the LTTE, having waged a war to establish a separate state, is now prepared to accept the concept of a united Sri Lanka.

The Peace Support Conference, which was held in Oslo prior to the third round of negotiations, was also a major success story. Never before in its history has Sri Lanka been the focus of an international meeting. The conference was attended by a large number of countries and the European Union (EU). They pledged both their support for the peace process and funds for the immediate and most urgent reconstruction needs of the north and east. Prime Minister Ranil Wickremasinghe, speaking on that occasion stated that tangible support by the international community to the peace process could only move the process forward. He described the new atmosphere that has enveloped Sri Lanka as filled with “the palpable sense of people enjoying the benefits of a re-discovered freedom”.

The peace process has indeed released a huge breath of fresh air, which pervades the entire country. As the Prime Minister himself acknowledged, it has brought with it, at the same time, a huge risk factor in the form of the growing expectations of the people, who are looking forward impatiently to the peace dividend.

“Human aspirations are anchored in legitimate expectations,” the Prime Minister declared. He called for a paradigm shift, pointing out that unless the government stays ahead of the peace process, it could collapse.

“Development is a part of the healing process in a wounded, divided society,” Prime Minister Wickremasinghe declared. “Development is underpinning peace in Sri Lanka,” he noted. “Peace will sustain development. The two processes of peace and development have become inextricably intertwined and inter-related”. He claimed that his government was determined to ensure that all Sri Lankans enjoy not only the benefits of development, including a high quality of life, but also security and internationally accepted human rights, the rule of law and a democratic form of governance, which he saw as “the birthright of all our citizens”.

It was in this context that the Prime Minister appealed for tangible support, to rebuild the war ravaged areas in the first instance, and then for national reconstruction. He noted that the rest of the country had also suffered pain and deprivation as a consequence of the war; hence the need for national reconstruction. The United States and Norway, along with India, have all helped carry the peace process forward. Japan has now joined them, and given the process strength and stability.

India, perhaps the only country with a permanent interest in the stability of Sri Lanka, has been in the forefront of the process and has been consulted at every step, according to reports. Continuing instability in the north of Sri Lanka, or even a settlement which creates a loose confederation, would have an adverse impact on India’s polity. India therefore would be more than an interested party with regard to any re-imaging of Sri Lanka that could emerge as a part of any settlement.

The Indo-Sri Lanka Agreement of 1987 proposed devolution of power on the Indian model. Greater devolution would have an impact on the Indian polity. Thus an asymmetric devolution of power in Sri Lanka, establishing a confederal form of governance, would have adverse consequences for India, which already has to contend with many nascent separatist movements. In this regard it must be mentioned that India has categorically stated, on numerous occasions, that it fully supports the unity and territorial integrity of Sri Lanka.

The present government came into office on a peace platform, and the promise of bringing the war to a close through an honourable peace. The fact that there were no easy solutions to the country’s problems led to expectations that it would be a long haul. The success achieved so far has surpassed all expectations,



however, and surprised even the cynics. As for the peace process itself, the government and the LTTE each unilaterally declared a ceasefire on 21 December 2001. Both were renewed a month later, and a formal agreement was signed on 22 February 2002.

The initial objectives of the Agreement were twofold: (1) to bring about an immediate cessation of hostilities and (2) restore the war-torn areas of Sri Lanka to conditions of normalcy. The achievement of these objectives would create the environment needed to arrive at a mutually acceptable political settlement. The cessation of hostilities was itself a significant achievement, for it ended a six-year period of armed hostilities in a war that had gone on intermittently for almost 20 years.

Negotiations to reach a settlement were officially launched in Sattahip, Thailand, on September 16. Unlike the two previous occasions when talks were held, first in Thimpu, Bhutan, in 1985 and then in Sri Lanka itself in 1994/95, this time round the talks commenced with a third country, Norway, in the role of “facilitator.” The negotiations appear to have been structured on the basis that their sequence was as important as their substance, and that priority be given to the more urgent issues of human existence and the normalisation of living conditions in the north and east. The so-called core issues, dealing with the bases of a political settlement, were not addressed at this first meeting.

At the first round of talks both sides expressed their resolve to address the full range of issues pertaining to a lasting political solution. They also agreed to follow a step-by-step approach, and to continue with confidence building measures. The two sides also agreed to set up a committee to deal with issues relating to high security zones (HSZ), with the aim of enabling the large number of internally displaced persons to return to their homes.

The humanitarian situation, particularly in the Northern province, was also discussed at this first meeting. It was agreed to establish a Joint Task Force (a partnership between the government of Sri Lanka and the LTTE) that would be responsible for identifying, financing and monitoring urgent humanitarian and reconstruction activities in the North and East. The meeting also identified the accelerated clearing of land mines as a matter of urgency. (Over one million mines reportedly are buried in the North and East).

The second round of talks took place at the Rose Garden in Thailand between October 31, and November 3. It has taken the peace process even further, to the point where many observers admit that it is moving at a faster pace than expected. The two sides have continued their step-by-step approach to a lasting political settlement. They addressed the situation on the

ground, and the need to defuse existing ethnic tensions, particularly in the Eastern province. The significant achievement of the second meeting was The acknowledgement by the LTTE that human rights should be respected, and that “peace belongs to all the people of Sri Lanka,” was a significant achievement of the second round of talks. The LTTE also accepted the need to accommodate the needs and aspirations of all communities in the North and East.

Issues set out during the first round of talks were discussed in greater detail during the second round, and it was agreed to establish two sub-committees to act on specific matters under the aegis of the negotiating teams. The decision to establish a Joint Task Force, taken during the first meeting, was followed up the decision to set it up in the form of a sub-committee on “Immediate Humanitarian and Rehabilitation needs in the North and East.” This sub-committee will ensure the participation of all ethnic groups, so that everyone’s needs and aspirations are taken into account. The activities initiated by the sub-committee would be financed from a fund to be set up in agreement with donor governments. The donor conference in Oslo on November 25 was a consequence of this.

A second sub-committee, dealing with matters relating to the High Security Zones, was also established. It is meant to ensure the de-escalation and normalisation of conditions in the North and East, and to examine ways of accelerating the pace of resettlement and the resumption of normal economic activity in the North and East. As mentioned earlier, this process is moving faster than generally expected. This is evident from two important developments: the decision to establish a sub-committee to address the complex political issues that are at the heart of the conflict, and the LTTE’s subsequent agreement to consider a solution based on a federal structure within a united Sri Lanka.

The fact that the two sides felt sufficiently confident to address “core issues” so early in the peace process, and to agree on the basis of a solution to the problem, is a clear indication of progress. It also points to the growing confidence that the LTTE has in the *bona-fides* of the Wickremasinghe government and the peace process itself. The biggest single factor that makes for the success of the peace process is the strong desire for peace of all Sri Lankans. It is a people’s movement, stretching from north to south, and from east to west. As the Prime Minister has pointed out, “There is no way that people on the threshold of such possibilities would give it all up to return, of their own volition, to the pain and trauma of war.” ■

Mr. Nanda Godage is the former Sri Lankan Ambassador to the European Union.



North Korea - back to the future

by Glyn Ford

Next year's crisis on the Korean Peninsula has come early. 2003 was to see a change of regime in South Korea, markedly less sympathetic to engagement with the North than current President Kim Dae Jung, the final failure of the US to deliver the North two promised nuclear power stations, and the expiry of North Korea's self-imposed moratorium on missile testing; an explosive conjuncture of events. All were pre-empted by North Korea admitting that - aided and abetted by Pakistan - they have been engaged in a clandestine programme to produce enriched uranium since the end of the 1990s, breaching Agreements made with the US in 1994.

The question is why has North Korea's leader triggered such a crisis now? The answer is twofold. First, they see the US as comprehensively failing to deliver technically, politically and militarily on the promises of 1994, and with Iraq in US sights, an opportunity to negotiate a new comprehensive solution rather than precipitate US military adventurism by breaking US hawks attempts to neatly sequence action against the three 'Axis of Evil' regimes. Secondly, they need international aid. North Korea has taken a series of, almost certainly irreversible, steps transforming their command economy into one where the market plays a central role.

The old system of guaranteed food delivered through the People's Distribution Centres has, since the 1st of July, been superseded by an emphasis on producers and production, where massive increases in wages are available as an incentive. The old emphasis on equality that allowed free riding has been swept away. Now agriculture and industry have to be competitive. Yet these very changes pose a threat. Over the past five years, one in eight of the population has died of starvation. Food production still fails to match demand, many factories lack fuel and raw materials but not workers. With no work possible, millions now face an even bleaker future. The consequences can only be eliminated by greater, rather than less, aid and assistance.

North Korea is going for broke. They've agreed a human rights dialogue with the EU. They have made public their nuclear programme to be able to trade it, their missiles and even arms exports for guarantees of system survival and stability. They have finally admitted to abducting a dozen Japanese nationals in a similar attempt to normalise relations with Prime Minister Koizumi's Japan, and now want to draw the US and the wide international community into

the game. As Vice Foreign Minister Choi Su Hon said at a seminar last week in Brussels, North Korea wants to talk.

Back in 1994, the world came closer to a nuclear war than at any time since the Cuban missile crisis in 1962. It certainly came close to war. The US believed that the North Koreans had up to five nuclear weapons, made from diverting plutonium from their Russian-designed graphite moderated reactor. Refusing to allow Iraqi-style special inspections by the International Atomic Energy Agency (IAEA), North Korea announced a suspension of its then recent adherence to the Nuclear Non-proliferation Treaty.

America's Defence Planners prepared for surgical strikes against the North: the F1-11s in Okinawa were fuelled, their engines primed and ticking over. North Korea threatened to turn Seoul into a sea of fire. At the last minute, former President Carter intervened directly with the North Korean leader Kim II Sung. After long negotiations the two sides signed, in Geneva, a Framework Agreement with the US promising to construct two 1000 MW Light Water Reactors in North Korea in exchange for them abandoning their own nuclear programme. The Korean Energy Development Organisation (KEDO) was to have the first of these reactors on line by the end of 2003 and the second a year later. The US strong-armed the Republic of Korea into committing two-thirds of the \$4.5 billion funding required, while \$1.0 billion was to come from Japan, with the \$500 million funding gap to be filled by minor contributions from the European Union and others. The US was to provide no direct funding, but in the interim to supply 500 million tonnes per annum of Heavy Fuel Oil (HFO) for delivery to North Korea's ageing oil-fuelled power stations.

Paralleling this were a series of commitments to improve bi-lateral relations with the North, with moves towards the full normalisation of relations, with the gradual lifting of economic sanctions, in place since the end of the Korean War half a century ago. Equally assurances were to be given to North Korea against the threat or use of nuclear weapons by the US. In exchange, North Korea was to make available its nuclear sites for inspection by the International Atomic Energy Agency (IAEA), immediately prior to the delivery of the key nuclear components to the KEDO site, in order that the IAEA could finally establish whether or not nuclear material had in fact been diverted towards a clandestine nuclear weapons programme.

Right from the start, the Framework Agreement was as much honoured in the breach as in the observance. The HFO flowed in fits and starts. Congress failed to deliver the money and EU funds, agreed for the nuclear programme, were dubiously diverted to pay for HFO.

The project was successively delayed by Japan, South Korea and at times, North Korea as a series of incidents soured relations. If it started badly, it got worse. From the beginning, the North suspected that KEDO was not going to deliver.

In North Korean eyes, compounded by US bad faith as senior administrators argued KEDO as a means of procrastinating to wait out the North's collapse. Now eight years on, it's clear to all that they were right. The construction of the Light Water Reactors (LWR) is running at least seven years late - in fact it's barely started. All the North Koreans have to show is two large holes in the ground and several thousand tonnes of concrete. Since Bush came into office, the US has been demanding early IAEA inspections, outside of the Agreement adding a further three years to completion. The US has neither normalised relations nor lifted the embargo, and since Bush's 'Axis of Evil' speech in January clearly re-instated the threat of nuclear strikes against the North.

Yet it's in the World's interest to resolve this new crisis. The most intransigent will be the US where Congress will neither play nor pay. It will not allow new resources, and maybe not old ones, to be delivered to the North, even in the unlikely event that Donald Rumsfeld wants to provide them. Yet the US is now in reality a minor player in KEDO. Any possible resurrection depends on the two key paymasters South Korea and Japan. The EU should take its lead from Seoul and Tokyo rather than Washington.

On the broader security and economic issues the North Koreans want a comprehensive settlement. To end their nuclear programme and to allow a permanent moratorium on missile testing by launching their satellites and by compensating them in the short-term for abandoning their only flourishing export trade in missile technology, is no different from the US paying the Taliban \$40m in June 2001 for limiting opium production. Providing at the same time assistance to establish new export industries based on North Korea's mineral wealth as a substitute for weapons exports makes good sense. The EU and China could help supply the political impetus to overcome US opposition, while South Korea, in its own best interests, and Japan as part of the settlement of the legacy of World War II and in exchange for a normalisation of relations, could provide the bulk of the financial resources. ■

Glyn Ford, Member of the European Parliament representing South West England, has visited North Korea five times.

New Korean President will also need to be a peacemaker

When the newly-elected President of South Korea moves into Seoul's Blue House in February, he will face a challenging task – that of a peacemaker, like his Nobel Peace Prize-winning predecessor, trying to persuade North Korea and the US to overcome their seemingly irreconcilable hostility towards each other.

Immediately after his close election victory - by a 2% margin - President-elect Roh Moo-hyun let it be known that one of his first acts in office would be to visit Washington, ostensibly to de-dramatise the emerging showdown between North Korea and the US, which is putting unrelenting pressure on Pyongyang over its reported nuclear programme. He will be acting in the knowledge that Washington had embarrassingly withdrawn its support from his predecessor, President Kim Dae Jung, during just such a visit.

But Mr. Roh will also have to obtain a rollback of the North's stubborn persistence in its quest for nuclear and other capacities, perceived as a threat by the US, Japan, China, Russia and the rest of the international community. In the diplomatic turmoil following the disclosure by Washington on October 16 of a resumed North Korean nuclear programme, the European Union (EU) will have to decide whether it will lean more towards the conciliatory approach of the new government in Seoul, or Washington's line, characterised by one Western expert as "including no diplomatic options."

They will also have to determine whether there is any likelihood of continued support for the crippled Korean Energy Development Organisation (KEDO), given that it has been virtually abandoned by both Washington and Pyongyang, although it was supposed to be the key confidence-building measure following the DPRK nuclear arms crisis of the 1990s.

The European Institute for Asian Studies (EIAS) has also obtained new information, which apparently confirms North Korea's renewed clandestine efforts to acquire nuclear capability, and of more recent EU and other initiatives aimed at reaching out to North Korea following the crisis.

Well-informed sources have indicated to EIAS that independent, non-US intelligence had confirmed the "open secret" that North Korea had resumed its nuclear activities. A diplomatic source revealed that North



Koreans had visited the Congo in the late 1990s, when it was under President Laurent Desiré Kabila, to explore the possibility of obtaining supplies of Congolese uranium.

But it was also suggested that although US Administration had united the other major players in a solid front against North Korea, the EU had explored the possibility of sending a diplomatic mission to Pyongyang, only to be quashed by Washington. Other informed sources claimed that the former US Secretary of Defence, William Perry, a leading Republican who had earlier undertaken a major mission for President Bill Clinton, and issued a now-discarded report on a possible comprehensive solution to the earlier crisis, had tried to launch a new mission to North Korea in recent weeks, only to be rebuffed by Pyongyang.

Some of these sources indicated that the stage was being set for additional pressure against North Korea, which includes the prospect of additional famine or mass starvation when the UN World Food Programme's stock of food aid runs out in April. This, and the overhanging threat that the US will turn its military might against North Korea once the campaign against Iraq is over, led one leading source to remark that "the solution may be worse than the problem." Mr. Roh himself had created a state of panic, which it was thought would sink his chances in the last days of the election campaign, by indicating that South Korea might not follow the US in a conflict with the North.

Defence and security experts regard the Korean Peninsula, which is still in a prolonged state of military confrontation, with more than 1.5 million men under arms, as potentially much more dangerous than Iraq.

In the midst of this mounting international confrontation against North Korea, South Korea voted late last month, narrowly but decisively, to continue its policies of engagement with Pyongyang and of economic reform.

The election of reformist lawyer Roh Moo-hyun, on December 19, marked a surprising comeback for the Millennium Democratic Party, following the scandals and disillusionment with its leader, Kim Dae Jung.

As usual, the election reflected the deep traditional, regional divisions within South Korea itself. The outcome was seen as a victory by the younger generation of politicians and voters over establishment politics, exemplified by the defeat of the right-of-centre Grand National Party candidate, Lee Hoi Chang, who had also contested and lost the previous presidential election.

Voting took place at a time of rising tensions, with the two major protagonists influencing the political-

strategic situation on the divided Korean Peninsula – the isolated throwback communist regime in North Korea and an American Administration whose stern rhetoric and military presence in the region has again raised the spectre of conflict. The election was also conducted during a period of unparalleled South Korean irritation with the US diplomatic approach and continued military presence there aroused by a fatal accident which saw US soldiers cleared of killing two young Korean girls.

While the top contenders were widely regarded as centrists with similar platforms and proposals, a significant division existed in their views toward dealings with North Korea. The winning candidate had campaigned vigorously for what was essentially seen as a follow-up to his predecessor's Sunshine Policy of opening, engagement and self-interested assistance toward the North. The losing side, while not completely renouncing contacts with the North, had seemed to make them conditional on reciprocity, and had attacked the lack of results the Sunshine Policy had achieved.

North and South Korean delegations had continued to meet, and had sought laboriously to improve their relationship through a number of joint activities, designed to take advantage of the hopes aroused by the first-ever Summit meeting between ROK President Kim Dae Jung and the DPRK leader, Kim Jong Il. ■

Basic freedoms under threat in Hong Kong

Five years after the transfer of Hong Kong to the People's Republic of China, Martin Lee, Q.C., Chairman of Hong Kong's Democratic Party, said that the "honeymoon period is over for Hong Kong". Speaking at a lunch meeting of the European Institute for Asian Studies on November 15th, Mr Lee was in Brussels to highlight the pending introduction of a controversial new security law. Mr Lee had meetings with Chris Patten, the European Commissioner for External Relations, and members of the European Parliament, in his last major international mission as party chairman.

Worldwide support for the handover to China in 1997, Mr Lee said, was predicated upon Hong Kong continuing to enjoy its fundamental freedoms, under the one country-two systems formula. That formula was outlined in the 1984 Sino-United Kingdom Joint Agreement, which promised that basic freedoms and rights would be protected. However, in September 2002, the Hong Kong Special Administrative Region (SAR) government produced a "consultation document" with a proposal to implement a new law based upon Article 23 of the Basic Law. That article relates to "treason, secession, sedition and subversion," and prohibits "foreign political organisations" from conducting political activities in the SAR and domestic political organisations from making links with foreign political bodies.

The consultation period of three months, which the government has organised, has been criticised by many human rights groups and members of the Legislative Council (LegCo) as too short for such a wide-ranging proposal. The period ends on 24th December. The need for an anti-subversion law has also been questioned, when the SAR does not appear to have much in the way of subversive problems or political instability, leaving to one side the government's concern over Falun Gong. However, Mr Lee told Chris Patten that he was extremely concerned at how the proposed law could be interpreted. If adopted, it could cover journalists trying to report on the activities of the central government; libraries containing certain books; academic teaching, religious practices and the political activities of legitimate political parties.

The consultation document lists the legislation already in force as regards treason, sedition, subversion and the theft of State secrets. Some of these offences are currently punishable by life imprisonment. The document proposes that the penalty for secession, for which there is no existing penalty, should be set at life.

Aiding or abetting secession would carry a similar penalty. In future, seditious publications would be subject to a term of seven years imprisonment and a fine of US\$500,000. An act of subversion, which is not currently legislated for, would carry a sentence of life imprisonment. Obtaining unauthorised access to documents would be subject to imprisonment for between three to five years. Those convicted of organising or supporting a proscribed organisation, an offence not currently on the statute books, would be subject to seven years in prison and an unlimited fine.

Mr Lee's lobbying of the European Parliament proved successful when, on December 19, Parliament adopted a Resolution sponsored by John Cushnahan, expressing "widespread concern" at the proposed legislation. Primarily in the PPE-ED group, the Resolution enjoyed cross-party support. For several years, Mr Cushnahan has drafted Parliament's opinion on the European Commission's Annual Report on Hong Kong. He warned that any enactment of legislation under Article 23 would raise concerns about the "fundamental freedoms and autonomy" of Hong Kong.

However, speaking in the European Parliament in November, Antony Leung, Hong Kong's Financial Secretary, said that the SAR's freedoms would not be diluted and gave a "personal guarantee" that the legislation would not undermine the rule of law. Mr Cushnahan believes that the new law should address this guarantee and the need to protect human rights, civil and political liberties. He called on the SAR government to publish the specific contents of the draft bill and to allow a further adequate period for reflection. The Acting Chief Secretary of Hong Kong, Sir Donald Tsang, said on December 10 that freedom of speech was an "essential characteristic" of the SAR.

The European Parliament Resolution expresses concern that the list of offences under Article 23 legislation should "remain within the exclusive jurisdiction" of the courts of Hong Kong. In line with the wish expressed by Martin Lee, Parliament has proposed that peaceful protests should be "specifically excluded" from the list of offences and, that nothing in the draft bill should violate the principles set out under the International Covenant on Civil and Political Rights. One of the strongest elements of the Resolution highlights Parliament view on EU relations with China. Although it has only a limited role in foreign policy, Parliament stated that the development of EU-China relations should be based in part on respect for the "full autonomy" of Hong Kong.

Martin Lee was replaced as Democratic Party Chairman in early December by Mr Yeung Sum. Mr Yeung is the former Vice-Chair of the party and a former elected member of the Legislative Council. ■



Science and technology for national development - an Indian perspective

by Dr. Murli Manohar Joshi

India was a focus of science in ancient times, along with the other ancient civilisations of Babylon, Egypt and China. Indian astronomy developed a mathematical basis during the three centuries before and after the Christian era. A thousand years before Copernicus, the Indian astronomer-mathematician Aryabhata proposed that the earth rotates on its axis, stressed the importance of zero, and determined the value of pi to the fourth decimal place.

Given its own long scientific tradition, India did not view Western scientific ideas and technology as alien to its own ethos. Traditional astronomy co-existed with modern astronomy, and traditional medicine with modern medicine. The Indian Association for the Cultivation of Science was established in Calcutta in 1876 by Mahendra Lal Sirkar.

During the first half of the 20th century India produced the first scientists and mathematicians exposed to Western science, however imperfectly, although educated in India and rooted in Indian culture. The physicist, Dr. C. V. Raman, after whom the Raman effect is named, declared, "There is only one solution for India's economic problems, and that is science, more science and still more science." To which the nuclear scientist, Dr. Bhabha, added, "and technology."

Education

At the time of India's independence in 1947 there were just 20 universities and 60 national laboratories in the country; today there are more than 200 universities, 140 recognised medical colleges and 400 national laboratories. Nearly 6.5 million students were enrolled in institutions of higher education in 1996. The government recently introduced a programme which seeks to provide an acceptable quality of education for all children in the age group 6 to 14 by 2010. It has an annual budget of some \$2 billion. (The European Union is among the international donors to the programme.)

Food and agriculture

India is today self-sufficient in food. The country witnessed not only the Green Revolution, but also the "white" (milk), "yellow" (oilseeds) and "blue" (fish) revolutions. India today ranks first in the world as regards the production of milk, pulses, groundnuts,

fruit, tea and jute, and second as regards wheat, rice, sugarcane, vegetables and fresh water fish. It is third for tobacco and cotton and fifth for potatoes.

Indian scientists have developed and released for commercial production more than 2,300 high yielding varieties and hybrids of field crops, including varieties of wheat, rice, maize and millet, sorghum, castor and safflower. They have embarked on major programmes in biotechnology and genetically modified crops, in order to meet the challenges of a growing population, parts of which remain undernourished, and a progressive reduction in the availability of land.

Health

Life expectancy at birth, which was around 30 years in the 1950s, had doubled to 64.6 years in 2000. A number of diseases, including smallpox, have been eradicated, and polio is on the verge of eradication. A number of research centres have been set up to deal with many persistent or emerging infective disorders, and with the growing incidence of heart disease, cancer, diabetes and mental disorders, resulting from demographic shifts and changing life style.

To meet the growing demand for drugs, the Indian pharmaceutical industry today produces the largest number – about 350 – of bulk drugs of any country in the world. It also exports to over 100 countries worldwide. This is vital, since multinationals are generally uninterested in developing the drugs specially required by the poorer countries. There is also a revival of interest in developing and marketing drugs belonging to India's indigenous systems of medicine. An Indo-Russian Centre for Ayurvedic Medicine is being set up in this connection.

Atomic energy

Shortly after independence, it was felt necessary to initiate programmes in the most advanced areas of science. India's atomic energy programme was thus launched some 50 years ago. It was initiated by Prime Minister Jawaharlal Nehru and work was started under the guidance of Dr. Homi Bhabha. The programme's focus is on the peaceful uses of nuclear energy, its long-term aim to achieve self-reliance through the use of domestic mineral resources. It operates 14 reactors at six sites, two plants are under construction, and work should begin shortly on another five.

Space programme

The Indian National Committee for Space Research was established in 1962. The Indian space programme



is now one of the most successful and cost effective programmes, with one of the largest domestic satellite systems in the world, combining telecommunications, television and radio broadcasts, and meteorological services on a single platform.

India started its remote sensing programme in the 1970s, using an American satellite for this purpose. In 1979 and 1981 it became one of the few countries to develop and launch its own experimental satellites. India now has the largest constellation of remote sensing satellites in operation, with the result that there has been a dramatic improvement in the country's resource monitoring and management techniques.

Under its launch vehicle programme, India developed the first experimental launch vehicle in 1980. Since then Indian scientists have successfully developed the Polar Satellite Launch Vehicle, capable of putting satellites in the 1,000 – 1,200 kg. class into 820 km. solar synchronous orbits. An Indian geo-synchronizing satellite launch vehicle made its successful maiden flight in 2001.

Information technology

The Indian IT sector has recorded a compound annual growth rate of 55% between 1992 to 1999. It is forecast to grow to \$87 billion in 2008, from \$5.7 billion in 1999. This is one of modern India's major success stories: more than 40% of the 500 largest American companies today use the services of Indian enablers, for example.

The very success of India's IT sector has also created a digital divide within the country, between the poor and the rich. A number of projects in the course of implementation suggest that the problem is not an insurmountable one. The SARI (Sustainable Access in Rural Areas) experiment, which is being conducted jointly by Indian technology institutes, the MIT Media Lab, the Indian government and non-governmental organizations (NGOs), seeks to connect 1,000 villages in a district in South India. It will ultimately establish 2 million connections.

Renewable energy

The Indian government has been implementing one of the world's largest programmes on renewable sources of energy, covering improved cooking stoves, biogas plants, solar thermal photovoltaic cells, wind farms, small and micro hydroelectric systems, ocean energy, hydrogen energy and gasohol. Some 3.2 million family-size biogas plants and 550,000 photovoltaic systems, including water pumps, are in operation at present.

Ocean development

A separate department was created in 1981. It operates the marine living and non-living resources programme and the polar science programme, under which India organises its Antarctica expeditions. In the field of ocean thermal energy conversion, a technology demonstration project of 1 MW rating, now nearing completion, will be the first of its kind in the world. A processing plant for treating polymetallic ocean nodules is under construction. ■

Dr. Joshi is the Minister for Science and Technology, Human Resources Development and Ocean Development in the Indian government in New Delhi. This article is based on a talk he gave in Brussels on November 12, at a meeting organised by the European Institute for Asian Studies and the European Policy Centre.

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EU mission to Pakistan betrayed by Council

In a very forceful speech to the European Parliament, John Cushnahan, MEP, strongly attacked the Council of Ministers in general, and the Danish Presidency in particular, for having betrayed the European Union Election Observation Mission (EOM) to Pakistan's general election last October. In September, an official from a member state was suspected of having leaked to the media Mr. Cushnahan's briefing document on the state of the election process. The Danish Presidency issued a Declaration on October 15, commending the authorities in Pakistan for their co-operation with the EOM.

Mr Cushnahan echoed these comments when he spoke at a meeting at the European Institute for Asian Studies on December 12, together with Pakistan's Ambassador to the EU, Tariq Fatemi. He characterised the election process as "seriously flawed," with the adoption of ordinances designed to interfere in domestic political arrangements. Mr. Cushnahan claimed that the Government in Islamabad probably felt it could be hostile to the EU mission, given Brussels' uncritical attitude to Pervez Musharraf's election as President. However, as leader of the EU-sanctioned mission, he believed that he could not tailor the conclusions of the EOM to suit any particular prevailing geopolitical wind. To do otherwise, would amount to "an absolute prostitution" of the principles upon which the Mission was based.

The actions of the official, who is based in Islamabad, and the "mild concern" the Presidency expressed in the October Declaration, "betrayed the EU mission," Mr. Cushnahan told the Danish Minister for European Affairs, Bertel Haarder, and the European Development Commissioner, Poul Nielson. Apart from endangering the election observers who worked in a "particularly sensitive political and security environment," the Presidency's failure to endorse the EOM's conclusions betrayed those in Pakistan who "courageously worked for the restoration of democracy". The Declaration exposed the Danish Presidency's hollow commitment to its pledges of increased effectiveness and greater openness in the field of human rights.

Bertel Haarder, who left the European Parliament to become Denmark's Minister for European Affairs, did not share Mr. Cushnahan's bleak view of the state of the election process. Although "noting the concerns" expressed in the EOM report, the Council had focussed more on the fact that the elections took place under the agreed timetable laid down by Pakistan's Supreme Court. With the expected transfer of power, the

Council, Mr. Haarder said, would like to move to implement the EC-Pakistan Co-operation Agreement, signed in November 2001. Under Article 1 of the Agreement both sides undertake to respect human rights and the rule of law. This provision would give the EU a "good tool" for discussing human rights with Islamabad, the Minister said. At the time, the Council welcomed the signature as "substantially contributing to strengthening the EU-Pakistan relationship".

The Council has received the support of the European Commission for an early implementation of the Co-operation Agreement. Poul Nielson told Parliament that the European Union wants to engage with Pakistan "both in political and economic terms" within the terms of the Agreement. The EU should engage "significantly and visibly" with Islamabad, not least following President Musharraf's decision to "side with the international community on Afghanistan". Such an engagement should include the fight against terrorism, Pakistan-India relations, regional stability and the transition to democracy. While Cushnahan had the support of other Christian Democrats and the Socialist Group, Ms. Liz Lynne of the Liberal Group declared that she did not personally agree with many of the concerns expressed about Pakistan. Musharraf had taken over in a bloodless coup, political parties were not banned and there were no restrictions on the media. The elections were a step in the right direction. She criticised the EU for looking at the problems from a too "European perspective".

At the meeting in the European Institute for Asian Studies, Ambassador Tariq Fatemi dealt with some of the criticisms contained in the final report of the EOM. While the elections may not have complied with internationally accepted standards, the steps Pakistan had taken towards the full restoration of democracy must be welcomed. President Musharraf, moreover, had honoured the commitment he made on the election timetable, even though the route had been long and tortuous. Ambassador Fatemi noted that the shortcomings that had been identified should not invalidate the whole process. He claimed that the Election Commission would learn from the issues raised in the EOM Report, and cautioned European observers against passing judgement on Pakistan's internal legal framework. With the new National Assembly in session, it will be up to the Pakistani people to decide which laws are appropriate. Mr Cushnahan is also writing Parliament's report on the Co-operation Agreement with Pakistan. Despite the concerns and recommendations contained in the EOM's conclusions, he indicated that he would recommend that Parliament adopt the Report, as a basis on which to make progress on EU concerns with Pakistan. ■



EU re-admission agreement with Hong Kong signed

The first-ever re-admission agreement with a third country to be concluded by the European Union (EU) was approved by the European Parliament on December 19. This decision paves the way for the EU Council of Ministers to conclude formally the agreement with Hong Kong, which had been initialled with the Special Administrative Region's (SAR) government in November 2001. The Commissioner for Justice and Home Affairs, Antonio Vitorino, called the agreement "an important milestone" in Hong Kong-EU relations, and it should both invigorate the efforts to create a common EU policy on tackling illegal immigration, and serve as a model for similar agreements with, *inter alia*, certain Asian countries.

The reciprocal agreement provides for the voluntary repatriation of those residing illegally, either in the EU or in Hong Kong. The negotiations were concluded "after one single negotiation round", in part because the Council was able to agree, in March 2001, to offer Hong Kong visa-free requirements for Hong Kong citizens entering the EU. That freedom of movement is limited to periods of three months. In addition, the number of illegal Hong Kong residents throughout the EU is thought to be very low. Speaking in Brussels in late November, Hong Kong's Financial Secretary, Antony Leung, said that the agreement demonstrated the "determination of the EU and Hong Kong in tackling illegal immigration". It also reflected the EU's confidence in the "efficiency and integrity" of Hong Kong's immigration controls.

The European Parliament was consulted about the agreement on a non-binding legal basis. As the first-ever re-admission agreement to be successfully concluded, MEPs expressed strong regret at the lack of Parliament's formal involvement in the negotiations between the Hong Kong SAR and the European Commission. This criticism was contained in the report prepared by the British Liberal, Graham Watson, in the Citizens Freedoms and Rights, Justice and Home Affairs Committee. While welcoming the scope of the agreement, he issued a general warning that unless the EU adopts a comprehensive immigration policy, policy will be set by "criminal gangs of human traffickers".

Mr Watson told Commissioner Vitorino that Parliament had been "neither consulted nor kept informed" about the bilateral negotiations and, regretfully, was adopting his report after the Council had approved the signature of the agreement. Re-admission agreements are "an essential element" of any credible immigration policy, he said. The debate in the Member States on immigration policy had been

dominated, however, by its "repressive aspects, with scant regard for its humanitarian aspects". The agreement contains extensive provisions for the creation of procedures for the identification and return of persons who have overstayed the three-month period, or who have illegally entered the territory of either the EU or Hong Kong. The agreement outlines procedures for the transit of the returnees. It also covers those "third country nationals" who might unlawfully enter the EU through Hong Kong. Where an EU Member State identifies a person to be re-admitted to Hong Kong, the SAR authorities must issue a travel document valid for a period of six months. However, the application for re-admission must be made within twelve months of the government becoming aware of the unlawful status of the person.

The agreement stipulates that return should normally take place by air. Where third country nationals are involved, either government can refuse re-admission if the national "runs the risk of persecution or criminal prosecution" in another State, or where "domestic security" is threatened. Monitoring of the agreement will take place through a "Re-admission Committee," which will be made up of representatives of the SAR government and the European Commission. The Committee will decide its own rules of procedures and have the power to propose amendments to the terms of the agreement. The agreement does not contain any formal provisions as to what may happen if the EU comes to the conclusion, at some point in the future, that the quality of Hong Kong's border controls, praised by Antony Leung, has deteriorated. While the Re-admission Committee can propose amendments, either side may call for the termination of the agreement after a six-month period of notice has elapsed.

The EU is currently negotiating similar agreements with several other countries, including Sri Lanka, Pakistan and Macao. The Commission is awaiting authorisation from the Council to begin negotiations with China. The agreement with Sri Lanka was initialled in Brussels, in May 2002, by the European Commissioner for External Relations, Chris Patten, and the Sri Lankan Minister for Foreign Affairs, Tyronne Fernando. The Macao agreement was initialled in October 2002. Parliament has yet to give its opinion on either of these re-admission agreements. Negotiations with other countries are likely to be much more difficult and protracted than the single round of talks with Hong Kong. While the agreement with Hong Kong is based on voluntary return, other agreements may provide for the forced return of illegal immigrants. Thus, the Afghanistan Return Plan, agreed by the EU in November, contains provisions for the forced return of Afghan nationals, provided that the infrastructure for their reception is adequate. ■

Trends in EU Textiles and Clothing Trade*

The European Union's overall textile and clothing trade deficit continued to deteriorate in 2001, according to Euratex, the Brussels-based European textile and clothing industry association. The deficit in 2001 increased by just 0.5%, following increases of 18% in 2000 and 17% in 1999. In absolute terms, the EU's deficit rose from €29.15 billion in 2000 to €29.29 billion in 2001. The slowdown was the result, to some extent, of weaker economic and spending growth in the EU. Also, the weak domestic market forced EU producers to turn to exports in order to maintain sales.

The trade surplus which the EU still enjoys in textiles increased sharply in 2001 to €5.07 billion, an increase of 20%. This was even better than in 2000, when the surplus rose by 11%. The higher textile trade surplus reflects continuing export success by EU firms. Textile exports rose by 5% in 2001, while imports rose by just 1.5%.

To some extent, recent trends in trade may be currency related. In 2000 the average value of the euro against the US dollar was almost 14% lower than in 1999. This made the EU market less attractive than the US market for foreign suppliers – especially those in Asia who tend to fix their prices in dollars.

For the future, the question arises as to how long the EU textile and clothing industry can hold off a further significant deterioration in the trade position. Although the 2001 increase in the trade deficit was modest, it was the fifth in succession. The last time that the EU saw an improvement in its trade deficit was in 1996.

In fact there seems little prospect of any sustained reversal of the present trend. Rather, the early years of this century are more likely to resemble those in the late 1980s and 1990s, when annual surges in EU imports were the norm. Certainly, the driving forces behind such a scenario are all in place, notably the continuing fallout from the Asian financial crisis – despite a recovery in Asian demand – together with a progressive weakening of quota restrictions in keeping with the WTO Agreement on Textiles and Clothing (ATC).

Within the overall total deficit, the EU's deficit with its seven leading Asian suppliers – China, Hong Kong, India, Indonesia, Pakistan, South Korea and Thailand – amounted to €21.08 billion. This represented 72% of the EU's deficit with all countries in 2001. However, China and Hong Kong alone accounted for 38% of the total deficit in 2001.

One particular surprise was the fact that the EU's deficit with "other trading partners" – they include all other developing and newly industrialised countries – actually narrowed in 2001. The main source of the improvement was a €659 million reduction in the EU's trade deficit with Hong Kong. But there was also a €263 million fall in the deficit with South Korea, another of €121 million in the deficit with Taiwan, and one of €100 million in the deficit with Thailand.

The EU's deficit with a number of other Asian countries also declined. With Indonesia it was down €72 million, with the Philippines and Malaysia it was down €51 million, and with Macau it was down €43 million. These improvements were partially offset, however, by the rise in the EU's deficit with India (up €183 million) and Pakistan (up €110 million).

Textile trade

The EU's fastest growing textile supplier in 2001 was the Czech republic; the second fastest was Poland. Strong growth was also recorded in imports from Turkey, the EU's leading supplier. As a result, Turkey strengthened its lead over China. EU textile imports from China rose by only 3.3% in 2001. However, this modest increase probably represents a correction after the meteoric 40% recorded in 2000. Similar corrections were also apparent in the case of India (up 1.8%, following 18% growth in 2000) and South Korea (down 4%, following 27% growth in 2000).

India's modest rise in 2001 did nothing to improve the country's ranking. As recently as 1998 India was the EU's leading textile supplier. But in 1999 it lost first place to Turkey, and in 2000 it fell to third position, behind China. The entry of the Czech republic in 1999 displaced Indonesia from the 10 leading suppliers. EU textile imports from Indonesia rose by 36% in 1997, during the Asian crisis, when the rupiah fell by 38% against the US dollar. However, production was badly dislocated during the crisis, and exports to the EU declined by 4.2% in 2001.

Clothing trade

Geographically, EU clothing exporters did well in several leading markets, especially those in nearby regions, such as the former Eastern bloc and North Africa. The most dynamic market was Russia in 2001. Romania was another fast growing market for EU exporters, as was Hungary. The Hong Kong market was almost as dynamic, however; here EU exporters managed an 11% increase in 2001.

Clothing imports into the EU continued to increase in 2001. In value terms they reached €50.79 billion, as compared to €48.32 billion in 2000. The growth rate decelerated sharply, however, falling from 17% in 2000 to 5.1% in 2001. Among the fastest growing



items in 2001 were imports of woollen articles (up 23%), knitted slips (up 19%) and trousers (up 16%). In many cases imports declined significantly – imports of skiwear, for example, were down 27% and of “other wool articles” were down 27%.

While the EU’s 10 leading clothing suppliers in 2001 were the same as in 2000, there were changes in some of the rankings. Among Asian suppliers, Bangladesh moved up one place while Poland overtook Indonesia and Hong Kong fell four places to seventh position. In recent years import growth has tended to be strongest from low cost countries which are close to the EU – especially Turkey, North African countries and countries in Central and Eastern Europe. This reflects the continuing use by EU manufacturers of outward processing.

Outward processing has suited many players in the textile production chain by providing an outlet for the EU’s high technology, capital intensive fibre, yarn and fabric manufacturing capacity. Outward processing can also benefit EU clothing firms. It helps them to compete on price with low cost apparel imports from Asia, and therefore stay in business. It also allows manufacturers to minimise lead times, by maintaining low cost sources of supply which are close to the marketplace.

A few Asian suppliers continued to make inroads in 2001, despite their locational disadvantages. The most dynamic was Bangladesh. Although EU clothing imports from this source grew more slowly in 2001 (by 9.5%) as compared to 44% in 2000, Bangladesh moved up from sixth to fifth place in the league table, having risen by two places in 2000. Between 1995 and 2001 EU clothing imports from Bangladesh rose by a massive 186%, equivalent to an annual average growth rate of 19%. Significantly, the unit prices of Bangladesh exports are among the lowest in the world.

EU clothing imports from India rose by 7.8% in 2001. Although this was more modest than the 21% increase recorded the previous year, it was still well above the average growth rate of 5.1% for all EU suppliers in 2001. India has benefited from a substantial increase in competitiveness as a result of the depreciation of the rupee. However, in the EU market it faces strong competition from China and from other very low cost countries in South Asia, such as Bangladesh.

Imports from China, the EU’s biggest clothing supplier, also rose more slowly than in 2001, when growth moderated to 7.2%. Even so, China was able to increase its grip on the EU market still further. In 2001 China’s import share reached 16.4%, up from 16.1% in 2000 and 12.8% in 1995.

Outlook

EU firms are reported to have succeeded in penetrating several Asian markets as the effects of the 1997-98 financial crisis recede into history. Such successes have been more common in textiles than in clothing, however. EU firms find that their access to the clothing markets of a number of developing Asian countries continues to be heavily restricted.

With US demand uncertain, Asian exporters are likely to divert their output to European markets in order to maintain export levels. The most competitive suppliers will cut their prices, as needed, in order to gain market share. Furthermore, imports will become more competitive in the EU market if there is a further weakening in the value of the US dollar. This could reverse the competitive benefits which the EU industry has gained as a result of the depreciation of the Euro in recent years.

In clothing, Asian competition will be felt most by low cost countries in the Mediterranean rim and Eastern Europe where, in recent years, a significant proportion of EU clothing manufacturing has been relocated. The future of this activity will depend to a large extent on the premium which buyers in Western Europe are willing to place on proximity – to retain control and facilitate quick response – rather than choosing more distant suppliers who offer the lowest prices.

In the longer term, EU production growth will be difficult to sustain, in both textiles and clothing. International price competition will continue to be strong in the wake of Asian currency depreciations, and will intensify as the quota phase-out programme continues under the ATC. ■

*This article is taken from the report on “World Textile and Apparel Trade and Production Trends,” published in the September-October 2002 issue of *Textile Outlook International*, a bi-monthly publication of Textile Intelligence Limited, Wilmslow, U.K.



Pascal Lamy - Internet chat

Pascal Lamy, the European Union's Trade Commissioner, has not forgotten the lesson of that epic battle in Seattle, when the anti-globalisation brigade squashed the efforts of the world's trade ministers to launch a new WTO round of trade negotiations in 1999. He now regularly hosts a 2-hour Internet chat session, when all and sundry may question him on EU trade policy. The subject of his November chat was the WTO trade round, officially known as the Doha Development Agenda.

Mr. Lamy made it clear that the new round "makes multiple references to the interests of developing countries," and that its outcome has to be "development friendly." The new round in fact is "tackling more seriously than ever before coherence between trade and development." What is more, the EU, like many other countries, was doing its best to ensure that its trade and development policies were coherent with each other. But Mr. Lamy was equally clear that in order to "make trade work for development," it is "important that the economic growth generated by increased trade is accompanied by appropriate national policies, to ensure that the effects of restructuring are addressed and adverse social impact is mitigated."

Agriculture

The EU Trade Commissioner was very forthcoming on this issue. "I hope for a very significant liberalisation in the agricultural sector, particularly to benefit developing countries," he said, adding, "it's what we all signed up to at Doha." A caller agreed with Mr. Lamy that "poor countries need both market access in agriculture and rules on competition, investment, etc.," but their capacity to negotiate on the latter was limited. Hence "the priority for this development round should be on freer and fairer trade in agriculture and labour-intensive manufactures. The other issues could be tackled later."

"But when is later?" the Trade Commissioner shot back. "Investment," he went on, "is badly needed now and competition is key to good domestic governance." Mr. Lamy pointed out that "40 years of preferential access (to the EU market) for developing countries have not sufficed." This was despite the fact that the EU is the most important market for the agricultural exports of developing countries, and the biggest importer by far of food from these countries. The EU had begun to reform its common agricultural policy (CAP) already in 1992, and "readjustment proposals" were "about to be translated into draft legislation," Mr.

Lamy noted. There would be a "formidable incentive" for CAP reform as a result of the EU's forthcoming enlargement. This was because expenditure under the CAP had been stabilised until 2013, despite the expected addition of 10 new member states in 2004 and, consequently, a 50% increase in the number of EU farmers.

Foreign direct investment

Mr. Lamy stressed the need to promote FDI flows to developing countries. A multilateral agreement on FDI would promote such flows "by improving transparency and predictability." The Investment for Development agreement now proposed by the EU "allows developing countries to regulate their economy and pursue their development policies, provided they do so without discriminating against foreign investors" (i.e. observe the most-favoured-nation rule originally enshrined in the GATT). The Trade Commissioner noted that even on the issue of non-discrimination the EU was flexible.

Host countries, he declared, "could screen investors, for whatever reason. However, after admission, all investors should be treated equally." Non-discrimination, Mr. Lamy told the WWF representative, "is an essential principle that guarantees security and transparency for economic operators, as well as ensuring the most efficient allocation of resources." The EU, nevertheless "was not proposing absolute rules on non-discrimination," according to Mr. Lamy. "Countries may have good reason to discriminate, and they may do so by reserving certain sensitive sectors, or not taking on commitments in certain areas."

Regionalism vs multilateralism

The Trade Commissioner noted that the EU is currently negotiating regional trade agreements of one kind or another with about 100 countries, including African, Latin American, Mediterranean and Gulf countries. "I believe that the mix of trade opening and rule making we are looking for is more easily attainable short term on the regional basis, because of greater proximity in collective preferences, tradition, language" Mr. Lamy said by way of explanation. "Our bilateral and regional deals are with those partners who are most geographically or historically close to us, or are willing to go beyond multilateral liberalisation." Regional agreements had to be compatible with the WTO, and "respect rules like Article XXIV of the GATT or Article V of GATS." While regionalism and multilateralism "can and should be mutually supporting," multilateral liberalisation remained "the bedrock," in Mr. Lamy's view.



China

China attracted the most attention. The EU Trade Commissioner told one caller that he expected “China to play a key role in making a success of the WTO ministerial meeting in Cancun next September.” He believed that “all WTO members, even the smaller ones, will find it easier to deal with China, now that it has joined us all in the WTO.” He saw China’s future growth as providing opportunities for traders in developing countries.” ■

The Doha Development Agenda: Challenges Ahead

by Dr. Supachai Panitchpakdi

Three years as the Director General of WTO is not a long time, and I have therefore set myself four goals. The first is to improve our legal services. The WTO is essentially a body overseeing a set of rules and regulations designed to make trade predictable. Because trade disputes are very costly, we’ve taken the unusual step of offering a mediation service. I also want the WTO to provide technical assistance to developing countries. As a rule-based organisation, the WTO is not involved normally in development work. However, it can provide technical assistance limited to the trade-related aspects of development, helping developing countries understand trade diplomacy and build up the necessary institutions at home.

The third of my goals relates to coherence in the policies followed by international organisations. This is a subject I first raised when we were setting up ASEAN. Take the trade-related application of intellectual property rights. At the WTO we know the rules; but we need to work with the World Intellectual Property Organisation, World Bank and the World Health Organisation when we bring TRIPs to bear on the health needs of poor countries. Our efforts to give these countries concessionary access to medicines puts a human face on the WTO. My fourth goal is to strengthen the WTO itself. It has been assigned a great many tasks, but it has only 570 staff members and a budget of \$100 million, which is equal to the World Bank’s travel budget.

My four goals cut across the requirements of the Doha Development Agenda (DDA), launched by WTO members in Qatar in 2001. The DDA is the most ambitious and wide-ranging trade negotiations ever undertaken. For the first time we are dealing not only with issues but also principles, such as the principle of special and differential (S&D) treatment for developing countries, which allows them more time to adjust to the

demands made on them. S&D treatment was included in the Tokyo and Uruguay Rounds, but on a voluntary basis. It is now mandatory; hence the need for a monitoring mechanism.

The DDA is the chance of a lifetime for developing countries, because development issues lie at the heart of the Doha Round. Through these negotiations developing countries have the opportunity to achieve enhanced access for their products in developed countries. But the DDA also provides an opportunity to reduce barriers to South-South trade. Market access is vital to development and poverty alleviation efforts.

Simply put, market opportunities promise substantially greater benefit to developing countries than either development assistance or debt relief. The World Bank estimates that reduced barriers to the flow of developing country goods could result in \$1.5 trillion in additional cumulative income for developing countries between 2005 and 2015. This is far beyond what they receive in development aid.

Ensuring that the DDA lives up to its name is an overriding challenge for these negotiations. But what are the chances of finishing them by 1 January 2005? Given their complex nature, it is clear that a deal cannot be put together at the last minute. And since the Round can only be concluded as a single undertaking, nothing is agreed until everything else is agreed. This means that progress in one sector has to be matched by progress in others. What is ultimately crucial is the overall balance of gains and concessions to be achieved.

From this perspective, there is a degree of unevenness in the negotiations that is worrisome. A good part of the first year, of what is a 3-year Round, was spent on procedural issues: which are the groups to be set up, who is to chair them, what are their modalities, etc. But we are beginning work on the substantive part of the negotiations. Some 85 proposals have been tabled by developing countries; it is a major challenge to see that some of them are taken up seriously by the end of this year. Requests and offers are being tabled in the services sector, which is making the strongest headway in the negotiations.

In the coming weeks in Geneva, WTO members will be taking some key decisions on the first batch of deadlines. They must reach agreement on three important areas: on the question of special and differential treatment for developing countries, on the difficulties faced by developing countries in implementing WTO agreements and, vitally, on how to



address the issue of providing life-saving drugs in developing countries which lack the capacity to produce them domestically.

Meeting these targets will be essential in sending the right signals to advancing the negotiations to the next stage, and to give confidence to developing countries. Following the recent Australian-sponsored meeting in Sydney, which was attended by 25 ministers, I believe that the chances for reaching agreement by the December deadline are good. However, I do not foresee complete agreement on the S&D principle, although I hope it will be systematised and made clearer. As regards public health issues, we must ensure that those who spend money on R&D are guaranteed adequate returns through the operation of TRIPS. Importing and supplying countries must decide how to prevent drugs being supplied cheaply to Senegal, for example, are not re-routed to Belgium.

If we look further ahead, by March 2003 we will face deadlines in the negotiations on agriculture, services and market access for non-agricultural products. By the end of May, 2003, agreement on improvements and clarifications to the Dispute Settlement Understanding (DSU) will be required. Each of these stages represents a significant moment in a set of complex political processes and issues in the overall negotiations. Whether we met these deadlines, and how we do it, will impact on the rest of our process. And if the deadlines are not met, we run a real risk of overloading the agenda at Cancun, which is already very substantial.

Clearly, one of the biggest challenges in the negotiations is agriculture. It is a core issue, on which the Round can stand or fall. Some 50 developing countries depend on agriculture for half their export earnings. The factors holding back the agricultural exports of developing countries include lack of normal market access, subsidies and a deterioration in the terms of trade due to excessive intervention by developed countries. EU sugar prices are three times higher than prices elsewhere. The OECD countries together spend \$1 billion a day on farm support. Developing countries have made a concerted plea for these issues to be addressed, and subsidies to be phased out in the next couple of years. We will not succeed in the Round if we do not succeed in closing the gap between those seeking rapid and fundamental reform and liberalization of trade in agriculture, and those who are advocating a much more gradual approach.

I want to turn now to one of the big systemic issues in world trade today – the relationship between the multilateral trading system and regional integration. There has been a proliferation of regional trading agreements (RTAs) and free trade agreements (FTAs).

Some countries have entered into as many as 30 RTAs and FTAs. I have never opposed such agreements myself, having negotiated some of the earliest Thai bilateral agreements. I have always believed that RTAs, when properly constructed, can be useful building blocks for multilateralism. However, the non-discriminatory “open regionalism” typically associated with APEC appears to be waning. Instead, there is an emerging pattern of discriminatory bilateral and plurilateral trading arrangements.

We are seeing in Asia today a wave of preferential trade negotiations, with all Asian WTO members now being engaged in, or actively negotiating, RTAs with other countries in the region and further afield. The international press has just reported that the US and Singapore have just struck an FTA deal, that the EU and Chile have signed an ambitious trade accord, and that Japan and Mexico are seeking a meaningful FTA. These agreements are barely regional in nature.

The emergence of diverse and relatively complex regional regulatory structures can reduce trade policy options for WTO members, and seriously hinder multilateral trade negotiations. Some countries are involved in up to 15 bilateral negotiations, and therefore cannot afford staff for the Geneva negotiations. Also, as RTAs proliferate, and their scope broadens to include policy areas not regulated multilaterally, the risks of regulatory confusion, distortion of regional markets, and severe implementation problems are likely.

A meaningful effort has to be made in the Doha negotiations to redraw the balance between regionalism and multilateralism. In the Rules negotiating group the discussion on RTAs seems to be moving in a promising direction. Hopefully, by Cancun we may be in a position to get a good result on this element of the negotiations. However, we should be realistic. If the Round does not move ahead fast enough, a further flurry of bilateral and regional initiatives may be hard to avoid. Members of the EU and ASEAN are among the strongest supporters of the multilateral trading system. This support is especially important as we face a weakening world economy. America, after a long period of sustained growth, has slowed considerably. Japan risks slipping back into recession, while in Europe, the world economic downturn is starting to bite. With an uncertain world economic outlook, it is even more important to deliver on this Round. The future prospects of many people depend on it. ■

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Doha to Cancun - Tough Time ahead for Harbinson and Smith

by Pradeep Metha

As the suave Chairman of the WTO General Council, Stuart Harbinson's task last year was to ensure the successful completion of the Doha Ministerial Conference. He is facing an even bigger challenge now as Chairman of the WTO's negotiating group on agriculture. His chairmanship is curious, as he now works for the WTO Director General, Supachai Panitchpakdi. Perhaps his skills as a clever chair have thrown him into this, in the expectation that he can broker a deal between the European Union and the Cairns Group of agricultural exporting nations, on the crucial issues of agriculture, which WTO Ministers agreed to at Doha in November 2001.

Ambassador Ransford Smith of Jamaica has the enviable task, as Chair of the Committee on Trade and Development (CTD), of doing a Harbinson to resolve the sticky negotiations on Special and Differential Treatment (S&DT), for which the deadline is the end of this year. This is an issue on which the like-minded group of countries (which includes India, Pakistan, Malaysia and Egypt) had created an agriculture-type make or break situation at Doha. India's Commerce Minister, Murasoli Maran, had threatened that, if you don't give us this, we will not move an inch.

The deadline for agriculture is end March 2003. However, instead of building upon what we had agreed to at Doha, we have gone backwards in fact. The EU's refusal to reform its Common Agricultural Policy, coupled with the Cairns Group's unwillingness to dilute its position at all, has added fuel to fire.

It is crunch time for the WTO now. Progress in negotiations over the next two months will decide the fate not only of the Cancun Ministerial Conference but also the entire Doha development round. A panic situation seems to be setting in, as is quite evident from the remarks by Stuart Harbinson. During the November 18-22 negotiating session on agriculture, he warned Members that they faced a "daunting" task in trying to reach an agreement, by the end of next March, on the framework for carrying forward their mandated negotiations on the further liberalisation of farm trade.

The more immediate task before the Members is to complete the review of S&DT, for which the year-end deadline is just three weeks away. Much ground

remains to be covered in this very short period of time. WTO Members have to display both political will and flexibility; otherwise we are back to square one. Several meetings took place in the last week of November, their subjects ranging from agreement-specific and cross-cutting issues to monitoring mechanisms and "the way forward". Everyone knows that a failure on S&DT, coupled with the absence of a breakthrough in agriculture, will certainly seal the fate of the Cancun meeting and the entire Doha Round.

The divergence over S&DT, between mostly developed countries and most of the developing countries, centres on how to deal with the 85-plus proposals that have been submitted to the special sessions of the Committee on Trade and Development so far. To add to the injury, the EU circulated an informal paper last month on "differentiation and graduation", which held that S&DT should apply differently to the least developed countries and developing countries. This was vehemently opposed by developing countries, because it would have meant driving another wedge between the poorest and the poor countries, thus breaking their occasional unity. They also argued that it would divert the S&DT review away from its mandate to strengthen these provisions and make them "more precise, effective and operational".

Currently, all S&DTs in favour of developing countries are best endeavour clauses, without any teeth, while S&DTs in favour of rich countries, such as in agriculture, textiles and clothing, are binding. The WTO "mini-Ministerial", held in Sydney, Australia, could not do anything on agriculture. It was busy, however, on a political fudge on the issue of TRIPs and Public Health. This, too, has become mired in the US pharmaceutical lobby, which is seeking an extremely narrow definition of "diseases" that is currently being debated in Geneva. Suffice it to say, this is another example of the power play in the WTO, when the rich get what they want, and the rest of the world can go to hell.

Following the Sydney mini-Ministerial, protectionist Japan has offered to host another mini-Ministerial in February, in a bid to break the "deadlock" over farm trade. This meeting, too, is unlikely to yield the desired results. This is reflected in the initial remarks of Japan's Foreign Minister, Yoriko Kawaguchi, who said, "We don't want to settle farm issues by giving in to the Cairns group; we will use the meeting to deepen their understanding".

The US has thrown a spanner in the works, in the midst of all this, with yet another proposal. US Trade Representative Robert Zoellick unveiled a proposal, on November 26, for the elimination of tariffs on virtually all consumer and industrial products by all WTO members. While most US manufacturers greeted the



proposal enthusiastically, it met with strong resistance from the US textiles and apparel industry. Criticism was also heard from the EU, several developing countries, including India, and the WTO Director General, Supachai Panitchpakdi.

The US proposal, which was submitted to the WTO Negotiating Group on Market Access, envisages the elimination of tariffs in two phases by 2015. All tariffs of 5 percent or less, and tariffs on highly traded goods, would be eliminated by 2010, while the remaining duties would be reduced to less than 8 percent. All remaining tariffs would be cut to zero by 2015. These efforts would be complemented by a reduction of non-tariff barriers. The US plans, in fact, to submit a list of such barriers, in January 2003.

A close look at the US proposal on industrial tariffs, on the one hand, and on agriculture, on the other, will show that the ball is being lobbed into other's courts. The proposal to end industrial tariffs by 2015 would put a greater burden on developing countries, as many poor countries have average tariffs of up to 40%, as compared with 4% in the US and the EU.

Similarly, the US proposal of capping trade-distorting domestic support to 5 percent of the value of agricultural production would require no reduction in its current level of support, which is about \$10bn. The EU, however, would be forced to reduce its support from \$47bn at present to about \$12bn, and Japan from \$33bn to \$4bn. One can see who will have to move, if negotiations are to progress.

However, it is agriculture, not industrial tariffs, which holds the key to the success of the Cancun Ministerial session and the Doha Development Round itself. In the past, failure to reach a mutually amicable agreement has often derailed trade talks, whether during the Uruguay Round or at Seattle. Now it is the turn of the Cancun meeting to face this acid test.

Progress on the Doha Development Agenda has been miserable. We have failed to meet the deadlines. The issues which must be addressed first are not agriculture or S&DTs or industrial tariffs, but tariff peaks, tariff escalation and the resolution of the TRIPs and public health debate. Clearly the burden for this lies on the world's two largest trading powers: the EU and the US, as otherwise Cancun may turn out to be just a miserable holiday! ■

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Blocking the trade in conflict diamonds

The European Union has taken the necessary steps to prevent the trade in conflict diamonds, the rough stones used "to finance bloody wars in Africa," in the words of the EU Commissioner for External Relations, Chris Patten. By undertaking to implement the Kimberley Process Certification Scheme for the international trade in rough diamonds, the EU will be "depriving those who have thrived on this trade in conflict diamonds of their income," thus helping "to remove the incentives that have driven so many savage conflicts."

The EU is by far the largest trader in rough diamonds, handling more than 60% of the global annual production. The annual value of its exports amounts to about EUR 11 billion, while its imports are slightly higher. A substantial part of India's imports from Belgium consists of rough diamonds, for example. The stones are cut and polished in India, for export to Belgium and around the world. The Kimberley Process Certification scheme does not cover polished diamonds.

The EU's decision to implement the Kimberley scheme "is a clear signal that carefully drafted trade measures can support the pursuit of development," according to the EU Commissioner for External Trade, Pascal Lamy. "Consumers buying diamonds will be able to rely on a system of certifications and controls by the national authorities, coupled with sanctions for the traders who do not respect the scheme."

The regulation adopted by the EU provides for a set of controls that build on the control mechanisms that already exist in some EU countries, improves on them, and creates a system of controls that will apply uniformly throughout the EU. The regulation also provides for an effective system of self-regulation by the European diamond trade.

The Kimberley Process, chaired by South Africa, had its origins in the decision of Southern African countries to take action to stop the flow of conflict diamonds to world markets, while at the same time protecting the legitimate diamond industry. The Process, which involves more than 30 governments, the EU and the diamond industry, has been setting minimum international standards for national certification schemes relating to trade in rough diamonds. The UN General Assembly endorsed the work of the Kimberley Process in its Resolution 55/56, which was adopted on 1 December 2000. The Resolution was co-sponsored by 48 states and was unanimously adopted. More states joined the Process after the adoption of the resolution. ■

CSR – looking to the future

“The Corporate Social Responsibility bandwagon is gathering pace, and the European Commission has enthusiastically jumped aboard,” according to Xavier R. Durieu, the Secretary-General of EuroCommerce, the Brussels-based organisation representing the retail, wholesale and international trade. He has committed his organisation to playing an important role in the European Union (EU) Multi-Stakeholder Forum on CSR launched by the Commission on October 16.

Not for us to blow our own trumpet. The fact remains, however, that the European Institute for Asian Studies (EIAS) devised the EU-India CSR project some five years ago, when the CSR bandwagon was at an experimental stage, and long before the European Commission’s White Paper on CSR. What is more, at a time when the CSR dialogue is still essentially Euro-centric, we have been working hard, with our partners, to introduce a multicultural element into it. As Mr. Durieux points out, “The best examples of CSR are found where good practice is rooted in the culture and ethos of the company, and where doing the right thing also helps companies make money.” However, the culture and ethos of even small and medium-sized companies are being challenged in an increasingly globalised economy, in which markets and even partners are to be found in distant lands. And what is true of Europe-based companies, is also true of companies located in India.

To help them find their way in unfamiliar business environments, we have brought out a CSR kit, consisting of a pamphlet, setting out the views of leading European and Indian practitioners of CSR, and a CD-Rom packed with a wide range of information. It includes video-interviews on the state of CSR practices in India with Mr. Simon Scarff, Chairman of GlaxoSmithKline, India, and Mrs. Madhu Kanoria, Special Advisor to KPL International Ltd. Like Mr. Durieux, we believe that the best way forward is by offering examples of good practice, combined with clear exposition of the business case.

The CD-Rom includes the first-ever EU-India CSR Directory. The Directory draws on a major study which covers such important issues as transparency and governance, primary education and health care. The study found, for example, that although the majority of companies implement policies on education and child labour, very few of them support entrepreneurship schemes. The CSR Directory also provides detailed information on company initiatives in all these areas, as well as their approach to CSR monitoring and evaluation procedures.

The Directory also contains detailed information on trade federations from both Europe and India, such as *Eurochambres*, the International Chamber of Commerce and the Confederation of Indian Industry. The section on business schools clearly shows that European schools have better CSR facilities, on the whole, than their Indian counterparts. At the same time there seem to be fewer CSR organisations in India than in Europe, although a large number of non-governmental organisations (NGOs) in India are working on corporate responsibility with companies such as Cadbury, ABB, Birla and Coca Cola. The CD-Rom also provides valuable information on corporate responsibility from the perspective of both North and South, and addresses issues at the forefront of the European Union’s current debate on CSR.

This has been a collective effort. At the same time our partners have contributed individually also to furthering the aims of our EU-India CSR project. Thus our partner in India, the New Delhi-based Business and Community Foundation (BCF), has established links with European organisations active in CSR. Its head, Dr. Vikas Goswami, has joined us in CSR conferences in Europe. Our French partner, the “Assemblée permanente de Chambres de Métiers” (APCM) in Paris, has developed links with Indian organizations active in the crafts sector, while our UK partner, the National Resources Institute, affiliated to Greenwich University, has carried out studies in India on differing perceptions of codes of conduct in the textiles and seafood sectors.

Our two-year project, co-financed by the European Union under the EU-India Economic Cross-cultural programme, is over. Given the growing importance of CSR in discussions on corporate activity in a global economy, we are determined to make sure that the experience we have acquired over the two years of the project is not lost. To this end EIAS is already looking forward to submitting a fresh project, for co-financing under the Economic Cross-cultural programme early in 2003. It is our hope to set up a one-stop “shop” for European and Indian companies seeking to promote CSR in a multicultural framework.

Helping Indian stakeholders make their views known on EU legislation, especially while it is still in the drafting stage, will be an important area of activity. The EuroCommerce Secretary-General believes that “competitive pressure and consumer expectations will do more than government regulation ever can to spread CSR.” But if there is to be EU regulation, we hope it will be drafted in a cross-cultural context. And to the extent that European executives going to India, to manage the Indian subsidiaries of EU companies, for example, will need help in adapting to the Indian CSR practices, we would like to provide them this help. ■