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EU-Asia relations: Prospects in 21st century

by Malcolm Subhan

It will soon be 10 years since the publication by the European Commission of its first comprehensive survey of EU-Asia relations. The very opening words of the 1994 Communication, "*Towards a New Asia Strategy*," were a call to arms: "The rise of Asia is dramatically changing the world balance of economic power… The European Union needs therefore to accord Asia a higher priority than is at present the case and, as a matter of urgency, to strengthen its economic presence in Asia in order to maintain its leading role in the world economy."

In the 10 years since the European Union took up the challenge, Asia has continued to surge ahead. China now sees itself as the manufacturing centre of the world, shipping a stream of goods around the world. Chinese demand for raw materials has sent commodity prices spiralling upwards. The rise and rise of South Korea has won it membership in that First World club, the Organisation for Economic Co-operation and Development (OECD) in Paris. Vietnam's sustained economic growth enabled it to increase its exports to the EU from €83 million to €4 billion between 1990 and 2000. Bangalore in Southern India has transformed itself into an Asian Silicon Valley, complete with research labs set up by major American IT companies.

The European Commission updated its 1994 strategy in 2001, with its Communication "*Europe and Asia: A strategic framework for enhanced partnership*." It noted that "there has been a modest growth in our development and economic co-operation with Asian countries. But much remains to be done, for example, in deepening and broadening our political dialogue, in enhancing our bilateral trade and investment relations and strengthening our co-operation in the WTO…" The Commission therefore proposed "an overall strategic framework" for the coming decade, "based on the core objective of strengthening the EU's political and economic presence across the region."

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But giving priority to politics over economics is to ignore the EU's own experience. Europe began with the European Coal and Steel Community. The attempt to follow this up with the European Defence Community failed, and there was a return to economics, with the creation of the European Economic Community. Of course there have been some notable developments in the EU's political dialogue with Asia. There are summit meetings with China, India, Japan and Korea, and with seven ASEAN countries plus China, Japan and South Korea in the Asia-Europe Meeting (ASEM) framework. And the EU is an active participant in the ASEAN Regional Forum (ARF).

It is only too easy, however, to overstate the importance of these summits, and the host of meetings at the level of foreign ministers which precede them and continue alongside them. With the exception of the ASEM summit, the EU is represented at all these meetings by the country holding the EU's rotating presidency, the previous holder and the next. If all three countries have scant interest in Asia (which is likely to be the case after enlargement) a brief, half-day summit will achieve nothing, given that even the customary press statement is cobbled together earlier by senior civil servants.

It can be argued that economics will get you nowhere without a demonstration of political will by both sides. Summits at least send the right signal to economic operators. This is true, but only up to a point – because hardly any Asian government takes the EU seriously when it comes to political matters. The EU has no common foreign and security policy on issues of substance, with the exception of human rights and good (*id est* democratic) governance. Most Asian governments are willing to go along with the EU in its pretension to be a global player, mainly in order to let Washington know that they have a choice. They will therefore put up with summits at which the EU is represented by foreign ministers and not prime ministers.

The EU cannot hope to enjoy the same political clout in Asia as the US. It can increase its economic clout, however, by following the American example. The EU has a host of bilateral as well as regional economic co-operation programmes that seek to do just this. They are all one-sided, however: their aim is to strengthen the European presence in Asian countries, and get Asian economic operators behaving like their European counterparts. There is no attempt to strengthen the Asian presence in the EU – in the European economy, in European business schools, in European business organisations.

Compare, for example, the part played by the Asian *diaspora* in the US, on the one hand, and the EU on the other. In the U.S. you will find relatively recent immigrants running not only companies they have set up themselves but also old-established American companies. You will find them on the faculties of leading American business schools, and on the editorial board and staff of business publications. Both Microsoft and Intel have Asians in key posts, and you will find Asian scientists directing research in private and government research institutes.

The Asian *diaspora* in the EU is hardly as prominent or as well integrated into European business, nor does it occupy as important a place in European business schools or business publications. It would be interesting to compare a list of senior Asian executives in European companies with a list of their counterparts in American companies. It could have been argued 10 years ago that Asian expatriates in the US and in Europe represented a brain-drain, but no longer. India has devised the term "brain-gain."

The fact is that with modern technologies fuelling the growth of Asian economies, members of the Asian *diaspora* now move easily and readily between the U.S. and Europe and their home countries. This is an aspect of globalisation that is rarely mentioned. It is the free movement into the U.S. of workers in the knowledge-based sectors of the economy that has allowed the American economy to grow more rapidly than the European, and to take the lead in first developing cutting edge technologies and then bringing to market products which incorporate them.

The most obvious and tangible feature of the current wave of globalisation is the dramatic rise in foreign trade. You have only to look at the EU's import statistics to realise how sharply its imports from Asia have risen, and the extent to which manufactured products have replaced raw materials and semi-manufactured goods. Between 1990 and 2000 imports from Malaysia rose from €3.6 billion to €17.4 billion; from Indonesia, from €2.9 billion to €10.9 billion, and from Bangladesh from €0.5 billion to €3.1 billion, over this same period.

No less dramatic perhaps is the shift to manufactured products - not only clothing but also machinery, office equipment and integrated circuits, for example. With globalisation, it is no longer easy to determine the origin of finished goods. This may well make it more difficult for the EU to operate its generalised system of preferences; on the other hand, the free flow of components between the EU and Asia, and of products assembled from them, is probably more important than preferential entry for most Asian countries. As the EU pursues its Lisbon strategy, the focus of its relations with Asia should be on moving together with Asia into the 21st century. ■

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Prospects for the EU's development policy

by Commissioner Poul Nielson

I still have 11 months to go. My last major meeting will be the General Affairs and External Relations Council (GAERC) in October 2004, where we will present the last Annual Report of the Prodi Commission. At that point, I will give a full assessment of the results achieved over the last five years. Today, I will speak first about past achievements and then about things to do in the coming year.

Past achievements

I'm not easily satisfied – including by my own achievements. Also, to change anything in this system, a sense of crisis and urgency must be created. Some of you will remember the very critical remarks I made in 1999 and 2000. Those critical remarks were justified. They were also absolutely necessary to reassure member states that the Commission was determined to clarify its policy and improve its delivery.

We now have the full political backing for Community development co-operation in Council and in Parliament. But let me tell you this: if the EU Constitution had been written in 1999, "development co-operation" may not have been made a competence EU Member states would have shared in the Community framework.

Succeeding the Cotonou negotiations in January 2000 and agreeing with Member States in November 2000 on the statement on the "European Community's Development Policy" were the first, major successes. Without these early achievements, much could have been different today. Instead of retreating on development policy, our area of work has gained ground, in both the European and the global context.

First, all countries in the world signed up to the Millennium Development Goals (MDGs) for 2015. We are gradually succeeding in translating these into firm EU commitments and action. As to the Monterrey Commitments on aid volume, we could already be one third of the way towards the 2006 target of providing 0.39 % of EU income as aid. The United Nations Overseas Development Assistance (ODA) target of 0.7% of EU collective ODA could be reached sometime between 2015 and 2020. You may think 2015 is the distant future. But if we get to an EU-average of 0.7% in 2015 through the Commission-guided process, we can be proud. Keep in mind that today or tomorrow, no major EU member state would sign up to a binding UN resolution along these lines.

Other concrete steps were taken on the road to the MDGs at the World Summit on Sustainable Development in Johannesburg a year ago. We missed a step in Cancún, but we have nevertheless made impressive progress in ensuring coherence with trade policy and other areas that affect development such as fisheries, the Common Agricultural Policy (CAP) and the balance between intellectual property rights and access to medicines in developing countries.

The Commission – and the Development Directorate General (DG DEV) – has also been the driving force behind a whole series of global initiatives. Let me mention our support for the Highly Indebted Poor Countries (HIPC) initiative, the EU Water Initiative and possible Facility, the EU Energy initiative, and our Forest Law Enforcement, Governance and Trade (FLEGT**)** action plan to fight illegally harvested timber. FLEGT – like the plan on communicable diseases – is a model for what DG DEV can achieve with convincing arguments for mobilising other Community instruments for development purposes. I would like to see more of that.

While details are still discussed in Council, I should also mention our most recent success, the setting up of a Peace Facility mobilising €250 million to finance peace support operations in Africa. The Peace Facility is not routine development stuff. It shows an ability to do what needs to be done to clear the ground for Africa to get moving in the fight against poverty. In this twilight zone between politics and development we must not be paralysed. In any case, the DEV-RELEX-CFSP interface is here to stay. We better mobilise our funds and expertise. Engage, but do it right!

And we do not come bare handed to this discussion. We have introduced multi-annual programming, completing in two years the programming of the entire first generation of country and regional strategy papers under the new framework. The Inter-service Quality Support Group (IQSG) is giving reality to the global coverage of our policy. We hope to finish the programming for Overseas Countries and Territories (OCTs) in weeks from now.

This has brought a qualitative leap in programming of European Community aid. Country ownership has improved, and we have helped making Poverty Reduction Strategy Papers the reference for improved donor co-ordination with Member States and other donors. Sector programme support is more and more how we really work. And we are now reporting to the World Bank Development Assistance Committee (DAC) like other donors – exactly as I told the Parliament four years ago that we would.

So we have reached the objective set in 1999 of joining the donor mainstream. In fact, considering Monterrey;

considering our stance at the High Level Forum on Harmonisation in Rome in February 2003; considering our strengthened partnership with the UN and the World Bank, and considering our policy in favour of untying, I would even say that we are now a progressive donor.

You could also add our progressive work on integrating performance indicators in programming. After policy, reform and the strengthening of delegations, it's time to turn even more attention to what results are being achieved in the field. We must track a core set of 10 indicators in Country Strategy Papers (CSPs) for all countries, linked to the Millennium Development Goals. This will be central to our reporting to the European Parliament, to Member states and to the wider public. When we look at our achievements we have reasons to be proud. We have worked hard, and we were able to change things. For this I wish to express my deep appreciation and thanks to DG Development and all its collaborators.

Things to do

But we are not yet there. Let me briefly set out some of the main things that I want us to deliver in this Commission's term:

(1) We must conclude the CSP Mid-term Review. We should be looking for serious advances on performance and flexibility, and an effective incorporation of new initiatives and political priorities.
(2) The European Development Fund (EDF) should be budgetised. It will improve democratic control, establish normal budgetary procedures and safeguard the funds available for developing countries, and irreversibly anchor the African, Pacific, Caribbean (ACP) partnership as an integral part of what it means to be a member of the EU.
(3) We need further progress in the battle for policy coherence. The challenge in areas such as trade, agriculture, fisheries, ICT and migration policies is a constant part of our work.
(4) We need stronger co-ordination and harmonisation of procedures with other donors. Next year, special attention has to be given to the new Member States. Many of them will have their debut as donors. That's good, but it also represents a political challenge for us. For many of the new member states, practically all their ODA will be handled by the Community. It is up to us to ensure these new Member States have good reason to become active supporters of European development co-operation.
(5) This challenge also leads me to my last point: We need to ensure that the European Commission is well organised internally to deliver high-quality development policy, programmes and concrete actions out there. For me, these elements go together. It is my ambition that irreversible organisational logic should be accepted in the RELEX family before next summer. This implies preparing for working in a Commission with 25 members, avoiding a fragmentation of the political responsibility for development co-operation, which would only damage the capability of the organisation to deliver.

The draft Constitution contains some useful language on development co-operation and humanitarian assistance. This improved legal basis should strengthen the hand of the next Development Commissioner. I am confident that if she - or he - can take over sound policy, committed staff, a logical, coherent institutional set-up and Koos Richelle and yourselves, you will be able to go on enjoying working for European development co-operation, and see this as a meaningful and exiting professional and personal challenge. And I would probably break down myself, and finally seriously consider being satisfied! ■

Commissioner for Development and Humanitarian Aid, Poul Nielson, delivered this speech to the Staff Assembly of the European Commission, Directorate-General for Development, on 8th December 2003.

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A hindsight look at ASEM

by Dr Paul Lim

The Asia-Europe Meeting (ASEM), the dialogue process which started in Bangkok in 1996, will be eight years old in March 2004. It is a ***'forum'***, as opposed to being a ***'grouping'***, similar to the Asia–Pacific Economic Co-operation (APEC).

With preparations now apace for the Fifth Summit meeting of ASEM in Hanoi (ASEM V) in October 2004, perhaps, it is time to pause and reflect on what ASEM is about, where it is going and what needs to be done to maintain forward momentum. In short, 'Whither ASEM?'. The purpose of this paper is to raise issues in this direction.

A Unique Forum where the US is absent

ASEM is the only major forum of inter-regional co-operation between Asia and Europe where the US is absent as a participant. This is unusual, even remarkable.

Since the last war, the American have had their hands in most, if not all, *fora*, not to mention, the major issues as well. Without American participation, nothing was allowed to take off. Even as recently as in the 1990s, the USA had blocked such initiatives as Mahathir's East Asian Economic Caucus (EAEC) and the call for an Asian Monetary Fund. Yet, the Americans did not object to the formation of ASEM. Is this because it had deputy sheriffs like the UK and Japan in the ASEM process? Or, are the Americans confident that nothing serious could ever come about in any *fora* involving the EU, which, in the American view, is a collection of 15 factious countries – and that it would only get worse once it enlarges to 25 in May this year?

Cynical hypothesis aside, ASEM is an asset that the EU has in hand. The EU's Security Doctrine after all talks of "effective multi-lateralism" and ASEM not only presents an opportunity for the EU to reaffirm its new found post-Cold war independence – if not equi-distance – from the US. It also affords the EU an opportunity to carve out a role for itself and in its own right in the 21st century. If the EU wants to be effective internationally, it requires influence not only *vis-à-vis* the US, but also in Asia as a whole.

In the emerging world order, ASEM and APEC represent a tri-polar world, comprising the US, the EU and Asia. In other words, ASEM, where the US is not present, on the one hand, and APEC, where the EU is absent, on the other, are hinges that could bring the world together in some sort of equilibrium.

Seen in this light, the continued strengthening of the trans-Atlantic relationship is something to be welcomed. It adds value and helps square the circle of global co-operation and understanding. In other words, the trans-Atlantic relationship should be seen as part and parcel of that tri-polar calculus. But, all this depends on how the EU prioritises its relations with Asia *vis-à-vis* the US. If the EU is ever to realise "effective multi-lateralism", then the EU should give proportionate attention to Asia.

"Effective multi-lateralism" is one reading. Another reading of the EU's security doctrine is that the trans-Atlantic relationship is primary which raises the question of (Iraq demonstrates a unipolar world to the common man) a future bipolar world of the US and EU with Asia as ancillary rather than the equi-distance of "effective multi-lateralism" with an independent EU voice.

However, global interdependence is a reality. In this new emerging global calculus, the EU cannot afford to ignore the third polar – Asia. If it does, the EU cannot take its place in the world stage and have its voice heard.

Asian concern of the EU's commitment to ASEM

Since its inception, ASEM has been essentially a Heads of State/Government (Leaders)-driven dialogue process with Senior Officials Meeting (SOM) acting as the conduit to co-ordinate on issues between Summits.

Given this, attendance by Leaders at all previous four Summits has been good and their participation at meetings quite substantial. However, the same cannot be said, according to Asian officials, of the European Foreign Ministers in the ASEM Process.

The poor attendance by EU Foreign Ministers at all ASEM meetings, even when they are held in European's capitals, has not only raised the question of Europe's commitment to ASEM process. There is also a fear of the EU's internal pre-occupation over a raft of subjects, including constitutional reforms needed for enlargement as a contributing factor.

Europeans may explain the poor attendance to other pressing commitments of Ministers in implementing effective multi-lateralism and that, from an institutional point of view, their absence should not prevent work going on. No matter how valid these explanations are, it raises the question of the EU's commitment to ASEM, in building the tri-polar world.

The Asians seem to be asking a fundamental question of European commitment to ASEM and not just an issue of face in European participation in scheduled meetings.

Apparently, the problem has become so serious that at last July's ASEM Foreign Ministers Meeting (FMM) in Bali, Indonesia, the EU side came under heavy pressure over the question of poor EU Ministerial participation - be they meetings of Foreign, Economic or other Ministers. The European side proposed the convening a 'Special ASEM SOM' to "streamline" ASEM's "working methods" so as to make it "more efficient and effective".

The relevant part of the Chairman's Statement at Bali FMM 5 reads:

"Considering the current and future situation of the ASEM process, in order to ensure a more substantive partnership, the Ministers asked the SOM to examine ways and means and make proposals to the FMM 6 (Dublin) *to be adopted at ASEM V* (Hanoi Summit) *on more efficient, effective and streamlined working methods for the ASEM process. In this regard, an interim brainstorming session will be held before the end of 2003."*

Following the Bali decision, the Italian Presidency of the EU convened a Special ASEM SOM in Rome in November 2003. Both sides, it is understood, were no closer to an answer at the end of the meeting than they were at the beginning.

Need for a comprehensive reflection on ASEM

This focus on "streamlining" ASEM's "working methods" so as to make it "more efficient and effective" raises the question of whether this is enough? After eight years of ASEM, it is time to sit back and ask some fundamental questions of ASEM.

Further, no amount of tinkering with the 'working methods' of the ASEM process, including holding back-to-back meetings; redefinition of the roles of officials and Ministers or, for that matter, fine-tuning the frequency of meetings or making the agenda more attractive, is going to re-energise ASEM so long as there is lack of commitment on the part of EU Ministers, according to an Asian official. Commitment has to be dealt with first.

A comprehensive reflection on the future of ASEM must involve all actors. It should include academics, civil society, business and think tanks to find new vigour. Actors outside the official process can bring new thinking and fresh ideas. They can also be a source of pressure on EU governments in mobilising national and European-level parliamentarians and the media. Such a review exercise should not only identify problems, but also make specific recommendations so as to enable leaders when they meet in Hanoi in October 2004 to show the way forward.

Examples of a fundamental review

Apart from answering questions of what ASEM is, the review also needs to examine what needs to be achieved, where the process is going, what is its vision and also to question what has been or is being done? One concern I note, is the clusters, giving the impression that activities, initiatives and projects have fallen into place, that there is some kind of coherence. It is just a classification system but are these initiatives coherent with the whole overall conceptualisation of ASEM? Are they in fact national projects with national interests in mind? A thorough re-look on the criteria for projects should be undertaken. Can projects be put to rest if found to be lacking coherence? There must be a 'sunset clause' to end projects and initiatives, if they are found to be irrelevant. There is also no need to come up with new initiatives at every summit.

It is understandable to have these initiatives, projects and activities as they give ASEM legitimacy especially when most European and Asian citizens know little of ASEM. Public awareness leads to accountability: how public funds are spent and how they benefit the peoples of the countries of ASEM, which is where legitimacy comes in. For a start, legitimacy could be provided if initiatives are submitted to an independent committee to be vetted and approved. I wonder whether such a suggestion is acceptable to leaders and senior civil servants?

As for the future, education and training has to form a large part of ASEM's future work programme. It is in such non-traditional areas of co-operation and contact that ASEM can enrich the Asia-Europe relationship.

The apparent difficulties for Foreign Ministers to be present at meetings begs the question of whether ASEM should revert to a wholly Leaders-driven process, with the SOM co-ordinating issues in between Summits without precluding Ministers, including Foreign Ministers, meeting whenever it is deemed necessary.

Civil society has entered into the orbit of ASEM. In the view of the European side, ASEM, as an intergovernmental organisation, seeks legitimacy by involving civil society while, on the Asian side, different members have different attitudes towards civil society with some having cautious attitudes. Thus, as some Asians have expressed, civil society should be gradually integrated into ASEM. Civil society is ready to engage ASEM with the concern that if not, ASEM could forget or ignore the social dimension and issues of concern to them which are people-centred. However, both sides have not been able to work out a viable working relationship. The heterogeneity of civil society groups also means that there are civil society groups which do not see the need to engage ASEM because ASEM leaders and officials will not listen to them or are totally against what ASEM is promoting or not promoting. This situation is to be expected in a democracy but it also reflects the independence of civil society which some Asian ASEM members still feel untenable. There is a long way to go still for a meaningful engaging dialogue between official ASEM and civil society.

The Malaysian Ambassador at the Asia-Europe Consultative Seminar with Civil Society, held in Brussels in November 2003, raised the question of how civil society can take-over the running of the Asia-Europe Foundation (ASEF), instead of leaving this core mandate in the hands of seconded civil servants. The core mandate for ASEF should logically be driven by civil society; that real practitioners devise programmes that reach out to people in both regions in imaginative ways and that involvement of practitioners in designing and implementing programmes would not only bring about greater transparency, but also lend legitimacy.

Expansion of ASEM

Another fundamental issue that has unnecessarily bogged down the ASEM process is the inclusion of the remaining three ASEAN members – Cambodia, Laos and Burma/Myanmar – into ASEM. The Madrid FMM 4 resolved that these three countries should be given priority over any other new entrants and that the issue be finally resolved by/or at ASEM IV in Hanoi. The Asian side is firm on this issue. Is it possible that ASEM could come to a halt over this issue?

The EU has its objections to Burma/Myanmar's entry because of the non-observance of democracy by the military regime, particularly the non-respect of the results of the last elections, and the non-respect of human rights. The question is whether now it will allow Burma/Myanmar to hold ASEM to hostage? It has already given in to Burma/Myanmar's participation in EU-ASEAN Ministerial Meetings for the reason that Burma cannot hold EU-ASEAN relations hostage. Apparently, it is only a handful of European partners who have problems with Burma/Myanmar. The human rights' lobbies will be unhappy if the EU gives in to Burma/Myanmar's accession. It is more likely that a compromise will be worked out to allow ASEM to go on. Inspite of ASEM's informality, institutions refuse to die.

Asians prefer the ASEAN approach of engagement and dialogue. The government in Burma needs help, while the opposition needs to be equally guided to adopt a more realistic approach. As for the international community, they too need to show imagination so that all parties concerned can get out of the box. Actually, Burma/Myanmar presents Asia and Europe with an opportunity to work together and help those Burmese/Myanmarese parties to carry out national reconciliation, to move forward so that they do not continue to slip and stumble.

If the Burma/Myanmar issue cannot be solved in the Dublin Foreign Ministers' Meeting on 17-18 April 2004, its membership in ASEM, along with Vietnam and Laos, will be kicked upstairs to the Heads of Governments and States to solve in Hanoi. From a larger perspective, one could say that an ASEM stopped-in-its-tracks over Burma will be a disappointment when it is one of those few international *fora* where the US is not a player or dominates proceedings.

A few successes of ASEM?

ASEM has afforded an opportunity for countries of South-East Asia and North-East Asia to come together to pow-wow as they have to arrive at common positions *vis-à-vis* the EU. It has been said that this has been one reason which propelled the development of ASEAN plus three. *De facto*, some kind of realisation of Mahathir's EAEC has happened.

ASEM's second pillar, the Trade Facilitation Action Plan (TFAP) and Investment Promotion Action Plan (IPAP), has seen success in the first phase, if the voluntary yearly implementation reports of ASEM countries are accepted as proof. It is now in the second phase, 2002-2004 and deliverables have again been set which can be viewed on the European Commission's website. This has enabled ASEM to move on to explore the Asian Bond Market, the use of the Euro currency in Asia *et cetera* as in the Interim Report of the Task Force on Closer Economic Partnership between Asia and Europe.

The events of 11th September 2001, provoked a change of direction in the political pillar. The new atmosphere of security co-operation would be seen as a success, with human rights concerns falling by the wayside. In front of a common enemy, States and state personnel increasingly co-operate. Europeans are said now to be soft on human rights, even if they extracted agreement to include human rights in statements coming out of ASEM Copenhagen. In Hanoi, security will remain on top of the agenda.

In conclusion, one could just ask how events post-Cancún will affect ASEM, which has been used as a step to build towards the World Trade Organisation (WTO)? Will it be on the agenda of Hanoi? ■

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Countering money laundering in Pakistan

by Dr. Ikramul Haq

Money laundering is particularly damaging to the economic and social fabric of developing countries, leading to potential increases in crime and corruption, damage to the reputation of financial institutions and markets and a reduction of foreign private investment. The activity can also lead to the possible destabilisation of financial markets and the weakening of financial institutions, loss of tax revenue and a loosening of control over economic policy. Pakistan has been the worst victim of money launderers since 1977, while successive governments showed an extremely benign attitude toward corruption, drug trafficking and tax evasion.

In Pakistan, the banks, insurance companies, non-banking financial institutions, investment companies, money transmitters and real estate agents are all targets for the money launderer. According to the Chairman of the Securities and Exchange Commission of Pakistan (SECP), Dr Tariq Hassan, the financial institutions, inadvertently or otherwise, support money laundering by providing the means to convert cash into different types of financial instruments, to convert the currency of one country into the currency of another and to transfer funds to other financial institutions. Dr Hassan was speaking before a conference on money laundering in Lahore in December 2003.

It is heartening to note that the SECP and other regulating agencies are providing institutional support to the government of Pakistan for developing the necessary framework on the money laundering issue. The objectives of anti-money laundering coincide with the objective of SECP to create a transparent and efficient market. Over the past three years, the SECP has been actively involved in new initiatives for ensuring transparency and governance of companies. In March 2002, the SECP introduced a Code of Corporate Governance to instil openness, transparency and accountability into the affairs of companies. Besides encompassing all listed companies, the Code has also been endorsed by the State Bank and is applicable to commercial banks.

Additionally, the SECP is keen that private and public sector companies, particularly those using public funds for their businesses, should adhere to the Code of Corporate Governance. According to Dr Hassan, it is a fact that corruption prevails not only in the top management of the companies but has become very common amongst the employees at all levels. Thus, efforts are underway to require a formal code of ethics or code of conduct to be framed and implemented by all the companies, irrespective of size.

In recent years, a banking sector reforms project has been launched in Pakistan, which involves strengthening the regime for controlling money laundering and financial fraud. While the State Bank is the implementing agency in this regard, the SECP is also involved in providing the impetus for instituting anti-money laundering measures. The important measures so far taken under this project are the development of a comprehensive account opening form focusing at 'knowing-your-customer' by the stock exchanges. Compliance officers have been appointed to ensure compliance by companies with the SECP regulations and laws besides adhering to the anti-money laundering procedure. The measures also include payments by Non-banking Financial Institutions (NBFIs) through cheques or negotiable banking instruments for money transactions above PKR. 50,000.

Pakistan needs to develop a permanent structure in all the institutions, specifically in the federal-level Central Board of Revenue (CBR), the Federal Investigation Agency (FIA), the SECP and the State Bank so that money laundering can be tackled effectively. Special courts should be established and judges with expertise in financial and banking matters should be appointed, to hear money-laundering cases. The judiciary must be trained in the fields of accountancy and anti-money laundering. There is an urgent need to introduce both policy and structural changes in the banks. It is unfortunate that *Benami* accounts, accounts without a name, are widely accepted in the public and private sector banks. Presently, there are 28.8 million accounts with the Pakistani banks, out of which 14.8 million were opened against personal names whereas only 432,916 are liable to pay taxes.

The CBR, according to all available data and indicators, is the most inefficient, incompetent and corrupt arm of the Government. It is in fact ruled by a band of mediocre, corrupt, power-hungry and sycophants. The CBR, responsible for the collection of federal taxes, has failed miserably to introduce any tax intelligent computerised system, despite the fact that it has a market-wage oriented company, Pakistan Revenue Automation Limited (PRAL) at its disposal, to monitor the economic activities of the corporate and business sectors.

In the context of the prevailing grave challenge to combating terrorism, coupled with money laundering crises and the problem of ever-growing black money, (which according to official and independent experts is around Rs. 1.8 trillion, about 70 % of the total economy), there is an urgent need to launch a well-thought for anti-money laundering law. However, it is important before launching such a law to identify the sources of generation of black money. If such sources are not eliminated, the black money will keep on growing no matter what stringent laws we make.

Pakistan has been facing perpetual crises of resources for its developmental policies; a crisis to meet trade deficit, crisis on account of fiscal deficits and balance of payments. One of the factors responsible for the present situation is the great speed with which black money is generated. The Central Board of Revenue is directly responsible for this, as its mafia-like operations have helped certain people to avoid paying tax on incomes. Through the infamous system of Statutory Regulatory Orders (SROs), the CBR has provided "legal" ways and means to the mighty sections of society to amass huge wealth that is now threatening the very survival of the State.

A conservative estimate is that Rs. 600 billion is generated every year in Pakistan through the parallel economy. Add to this, the black money generated through smuggling in goods and narcotics trade that is between Rs. 300 billion and Rs. 500 billion. This makes a whopping Rs. 1000 billion. When the presence of black money is so apparent, why its criminal accumulation and generation are not revealed and the offenders punished, is a question which has long baffled honest citizens. They ask, whether it is on account of lack of political will, or rampant corruption, or collusion of tax dodgers and the tax administrators at defrauding the revenue. Or is it the fault of the political system, of the ineffectiveness and defectiveness of laws, or the pervasive stubborn indifference of the citizens towards their duties?

It is not possible to determine the precise amount of revenue loss and the size of black money or informal economy in Pakistan. Revenue loss estimated by World Bank because of smuggling in 1992-93 amounted to US$5.08 billion. In 2003, its quantum was estimated at over US$200 billion. Another report estimates revenue loss at Rs 40 to Rs 45 billion in 1989-90 and Rs 104 billion in 1995-96. Apart from direct monetary costs of corruption, other significant costs, such as loss of government credibility, spread of injustice, distortions in resource allocations and loss of foreign and local investment, are destroying the very fibre of civil society in Pakistan.

According to figures released by CBR in May 2000, the parallel economy is growing at an alarming rate of 22.93% per annum. Every fifth rupee transacted in Pakistan is black, according to the volume of black money generated in the year 1997-98 at Rs. 600 billion or 15 per cent of Gross National Product. This means that everyday tax fraud exceeds Rs. 1.64 million. It is not the final count. We have yet not accounted for kickbacks in foreign trade, smuggling (for example, huge tax evasion in the name of Afghan Transit Trade) and foreign exchange racketeering, apart from narcotic trade and other criminal traffic.

According to very conservative estimates the real tax potential of undeclared wealth in Pakistan is between PKR 700-1000 billion. It was the first time in the history of Pakistan that during the General Pervez Musharraf's take-over a military ruler became a tool in the hands of tax bureaucrats for exploiting the general masses for self-interest. The ordinary people of Pakistan were asked to pay a 23% General Sales Tax, small businesses were asked to pay a minimum tax of 0.5% on their turnover irrespective whether they earn taxable income or not. On the contrary, the military elite and influential classes were granted unprecedented tax exemptions.

Pakistan's underground economy has the following salient features:

(1) Since 1979, Pakistan's underground economy has developed at a surprising rate. Its large size ranging between 22% to 35% of GDP is a cause of great concern for both the official and independent economists.
(2) Its manifestations are very wide. It is not only large and all-pervasive but also exists in daily life of every Pakistani. It includes production of fake and substandard goods, smuggling, the "black society" economy, illegal business of sexual transactions and contraband toxicants, massive infringement of copyrights, interloping, tax evasion and avoidance with the active collaboration of tax officials, money corruption and rent seeking (exchange of power for money) activities of government officials, plundering of bank loans, just to name a few and significant ones.
(3) Massive migration towards big cities confirms that a huge population of Pakistan is directly engaged in underground economic activities. The large-scale mobility of people is also a contributing factor in generating underground economy e.g. huge demand of local private houses to accommodate the mobile population.
(4) The active participation of government officials. The rent-seeking activities of government functionaries is the single most important catalyst for accelerating the growth and sustainability of underground economy. The State has miserably failed to check rampant corruption amongst their officials.

Successive civilian governments in Pakistan provided many lucrative laundering schemes to the drug traffickers, rent seekers and tax dodgers, although these were termed as good economic measures to dig out black money! These schemes include Bearer National Fund Bonds and Foreign Exchange Bearer Bonds, Special Bearer Bonds, US Dollar Bonds & Certificates and a host of such other instruments. The object of these instruments was to mop up black money (mainly earned through illicit drug transactions) and to bring it out in the open so that instead of remaining concealed and idle, such money may become available for augmenting resources of the State and for the utilisation of social and economic planning. The schemes, however, proved counter-productive. The bearer bonds were converted into alternate currency and exchanged hands at a premium. It is an officially admitted fact that 'the instrument to render black money white was itself, used with vengeance to reconvert white money into black'. The Special Bearer Bonds carry a premium in the market and an increase in the premium was witnessed as the date of maturity of these bonds came closer. Under the Scheme any one can buy the bonds, present them to the Government and claim refund along with a specified interest. The source of investment in their purchase could not be questioned; whether it was white or black money. Thus, the drug barons could get their money and assets legalised with no questions asked about the source of such income.

During the last 15 years, money launderers in Pakistan hardly needed any international channel for money laundering. Even today, if anybody brings money (earned from drug trade or any smuggling operation or own untaxed money by hiring the services of local money exchangers to show it as remittance) into Pakistan through normal banking channels, the State bank and tax authorities do not pose any question about its origin. Drug traffickers and terrorist apparatus remit millions of rupees into the country every year from bank accounts maintained in various countries in fictitious names. This money in the hands of terrorist networks has made them invincible, besides making life harder and harder for those who earn from legitimate sources.

The recurrent appearance of amnesty schemes and money whitening instruments demonstrates that the State has conceded the failure of its tax machinery in performing the main function of collection of taxes. The people being hooked on ill-gotten wealth and income for many years know for certain that after every two or three years, there will be an amnesty scheme giving them a chance to get their income/assets whitened. It is an ugly joke with those who have been paying their taxes honestly at much higher rates than those offered to tax evaders, ranging between 5-10%, under such schemes.

The SECP's Chairman and the Governor of the State Bank of Pakistan perhaps are not aware of the fact that even today when the Pakistani Government, under tremendous pressure from the USA and other countries, is introducing anti-money laundering laws, the CBR is committed to giving a free hand to money launderers. The CBR, in a letter from February 2002, reaffirmed that "the Department would adhere to its policy of not probing the foreign remittance" brought into Pakistan by any "person".

In the Income Tax Ordinance 200, promulgated on the dictates of the International Monetary Fund (IMF) in September 2001, a special provision has been inserted giving a free hand to money launderers, that no question will be asked to them if they remit their drug money from outside through banking channels and surrender the foreign currency to the State Bank and receive Pakistani rupees. This scheme, presumably announced as a measure to bring huge foreign funds to Pakistani economy, succeeded immensely as foreign reserves of Pakistan crossed the US$ 12 billion mark on 31st December 2003. This scheme has been used liberally and cleverly by the Pakistani drug syndicates and tax dodgers to launder their money through State patronage**.** In the presence of this law is any foreign State going to take us seriously in our so-called announcements of combating money laundering and terrorism?

One of the worst consequences of black money and tax evasion is the pernicious effect on the general moral fabric of society. They put integrity at a discount and place a premium on vulgar and ostentatious display of wealth. This shatters the faith of the common man in the dignity of honest labour and virtuous living. It is, therefore, no exaggeration to say that ill-gotten wealth is like a cancerous growth in the country's economy, which if not checked in time, is certain to culminate in its death.

There is a need for a wider plan to document the entire economy once and for all. Huge budgetary deficits demand that revenue must be collected and all measures, both stringent and persuasive, to that end have to be taken. The Government has, therefore, to plan effective anti-money laundering-cum asset seizure legislation to draw upon the huge reservoir of the drug and untaxed money. Where swift action is not taken to seize money and property arising out of corruption, tax evasion and narco-arms-trade, the day is not far off when we are declared a nation of terrorists, as our present tolerance to ill-gotten money is a suicidal path leading to self-annihilation. ■

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Islam in South-East Asia

The Director of the Institute of Occidental Studies (IKON), Professor Shamshul A.B., presented a paper on "Islam and South-East Asia" to a lunch meeting of the European Institute for Asian Studies, on 11th December 2003. The meeting was co-organised with the Asia-Europe Foundation (ASEF), which is based in Singapore. Professor Shamshul outlined the place of religion in the Islamic arc that stretches through South-East Asia, how Islam is portrayed in the media and Muslims interaction with other religions in the region.

The Islamic arc that stretches through South-East Asia is the single largest Muslim community worldwide, larger than the Arab world. The terrorist problems reported in the media have shifted the world's focus on Islam from the Middle East, South Asia and Eastern Europe towards South-East Asia. Professor Shamshul told the meeting that there are two schools of thought on the place of Muslims in Asia. The first theory proposes South-East Asia as a unique geographic area suggesting less of a focus on individual countries or islands. Within the arc, Muslim discourse divides into two viewpoints, one side seeing Islam as stuck in a time capsule, while the other sees a valuable role for the religion as an integral part of a way of life. The second theory proposes a subject-oriented Islam, where members of the public see Islam through the media focus on terrorism or corruption. Professor Shamshul concluded that he could not make a choice between either theory but is searching for a middle ground.

The view that values Islam as an integral part of a way of life, Islam embedded, Professor Shamshul said, values the religion as a continuous process for explaining the origin, history and future of Muslims, by using knowledge as an analytical tool. In South-East Asia, two terminologies are in popular use to describe the role Islam undertakes in society. One stresses the role of the pre-colonial society, where a multicultural though dominant civilisation acquires outside influences and absorbs them. The other terminology stresses the role of plural society, where knowledge is centred around the nation state. The nature of public discourse revolves around the concepts of majority and minority factions in society. Although a demographic majority may not dominate society, the role of power and dominance are very much to the fore. Terrorists can make use of the plural society to cross borders easily and hide among the multi-nation or multi-ethnic make-up of a country.

The role of the colonial powers, particularly the Netherlands, the United Kingdom and France, had profound implications for governance and social structures in South-East Asia. For Europeans, church and State had already been separated. Taking Kerajan in Malaysia as an example, Professor Shamshul explained that the colonial powers tookover the governance part from the Sultan of Kerajan to legitimise rules and a constitution, but ignored the role Islam played in society. Each state in Malaysia has its own religious department which provides an Islamic bureaucracy, an Islamic judiciary and an Islamic education. The effect of the colonial powers still echoes in Malaysia with three different types of law in operation: common law, which would encompass murder, Islamic law, generally focussed around marriage; and customary law, on property issues.

The media, in the recent past, has reported concerns about Islam in transition. Professor Shamshul explained three themes affecting Islam today namely, secularisation, nationalisation and democracy. All three have problems for the modern Muslim. In Islam, God comes before the nation state and, in Islam, government is not necessarily for the benefit of the people. In Europe, modernisation is comprised of both political and economic elements. Muslims have focussed on concerns around terrorism, security and nationalism rather than on the economic factors which should lead to industrialisation. A recent speech by the Italian Minister for Foreign Affairs, reported on the BBC, said how Italy was spending money fighting terrorism, within an Islamic context. Professor Shamshul indicated that the West would be better off spending the money on developing better relations with the 95% of Muslims who are peace-loving.

The European Union is a multicultural society, with Islam in a minority. This minority can be divided further into emigrants by country of origin. In contrast, South-East Asia is not a multicultural society but, rather, is multi-ethnic. One of the major stated concerns of the West about Islam and Muslim countries is the apparent lack of respect for fundamental rights. Indeed, in the religion, Islam violates the right of Muslims to become non-Muslims.

Responding to questions, Professor Shamshul said that Christianity in the West is mono-theistic and increasingly secular. In contrast, in Islam is still undergoing experiences that the Judaeo-Christian world went through centuries ago. Many Muslims feel that even the concept of democracy is against the notion of an Islamic State. It is difficult for ordinary Muslims to counter the notion that Islam in South-East Asia is the Ferrari of terrorism. Seemingly inflammatory speeches by Prime Minister Mahathir of Malaysia often proved useful in getting a public debate started on controversial issues. ■

Professor Shamsul A.B. is Director of the Institute of Occidental Studies (IKON) and the Institute of the Malay World and Civilisation (ATMA). His talk to EIAS was part of a Europe-wide lecture tour sponsored by ASEF. This summary of Professor Shamsul's presentation was prepared by *EurAsia Bulletin*.

EU-Korea Trade Relations

by Dr Heungchong Kim

Korea and the European Union have made great progress in enhancing trade relations with bilateral trade volume expanding rapidly and a substantial scope of intra-industry trade relations can be observed. Both partners however need to recognise changing trade environments and thus take into full consideration emerging issues to boost further bilateral trade relations. Korea's exports to the EU increased by 250 times from US$87 million in 1971 to US$21.7 billion in 2002. Korea's imports from the EU also increased, by 67 times over the same period. Two-way trade composes of 12.3% of Korea's total trade volume in 2002. In the resulting trade balance, Korea has held a continuous surplus since 1998. The trade surplus last year amounted to US$4.6 billion.

As of 2002, the EU was Korea's third biggest exporting partner next to the US and China and the fourth largest importing partner next to Japan, the US and China, while Korea was the 13th exporting and 10th importing country for the EU. Korea's major trading partners are the 'big four' – the US, Japan, China and the EU.

Korea's four main exports to the EU include (i) *Electric Machinery and Equipment*, (ii) *Nuclear Reactors and Boilers*, (iii) *Ships, Boats and Floating Structures*, and (iv) *Motor Vehicles*, which account for over 78.5 percent of Korea's total exports to the EU. Safeguard measures and antidumping actions on the products of iron and steel, and artificial fabrics taken by EU trade authorities have had a significant impact on Korea's exports to the EU.

In the trade pattern of Korea and the EU, we can find a substantial degree of intra-industry trade in the level of the HS 2-digit. Among the top 10 exports and imports to the EU, respectively, six items appears altogether in both lists. It is noticeable that Korea's top five imports from the EU are all included in the top 10 Korean exports to the EU. The only exception to this trend in the top five items is *Ships, Boats and Floating Structures*, of which Korea exports a substantial amount without importing the same industry product by HS 2-digit level. On the other hand, Korea shows substantial trade deficit in pharmaceuticals and precious stones.

Does actual EU-Korea trade reflect potential capability?

To answer the question whether the current trade performance fully reflects the trade potential between Korea and the EU requires an analysis of such trade potential. Using the gravity analysis approach, both the volume of trade in the GDPs of the trading partners and the geographical distance between the two, form their potential trade volume. Thus, actual trade volume realised in the real world can be compared with potential trade volume as calculated by the gravity factors of GDPs of the two partners and the distance between the two. The theory would predict that the larger a product's impact on the GDPs in both countries and the closer the two are located, the larger the expected trade volume is between them.

Country data used for the analysis covers 95 countries, including the top 80 countries in terms of trade volume. Fifteen other countries are added on the condition that they are included in regional trade preferential areas such as MERCOSUR or NAFTA. Data for the trade volumes and GDP were taken from the IMF and distance information is from indo.com.

Six time points were used describing 1980, 1985, 1990, 1995, 2000 and 2001, and there are 4,465 sample cases per year implying a total of 26,790 observations. Some cases in the dataset are, however, incomplete for the 1980s, especially those for Central and Eastern European Countries (CEECs). Therefore, the actual number of observations used in the regression is less than 26,790.

Regression results are reported for each year separately as well as for the whole period 1980-2001 through pooled data. Each of the seven regressions is conducted using two dummies for the relations of Korea and the EU, and Korea and the eight Eastern European countries of Hungary, Poland, the Czech Republic, Slovakia, Slovenia, Estonia, Lithuania and Latvia. The first case among the seven regressions is for the time-series data pooled together, whereas the remaining six stand for those describing each year in 1980, 85, 90, 95, 2000 and 2001.

The regression result for the case of data pooling does reconfirm that the gravity factors of GDP and distance show standard results. The coefficient of GDPs is 0.96 with very high significance, while that of distance variable shows –1.17 within a 1% significance level. For the dummy variables, it was found that the coefficient of the Korea-EU dummy shows a positive sign of 0.64 with significant level. On the other hand, Korea's trade relations with the eight incoming member states are reported to be underdeveloped, as the coefficient of the dummy, Korea-Eastern Europe, shows a negative value of –0.47.

Factoring the whole data into six separate time-points shows less convincing results than the case of data pooling. The gravity factors still hold very strongly in all cases, as coefficients of GDPs range 0.92 ~ 1.00 and those of distance factors shows the values of -1.08 ~ -1.29 within a 1% significance level. In contrast with the stability of estimated values of the gravity factors, coefficients of dummies for Korea–Europe relations are found to be less statistically significant. In Korea-EU relations, only the year 2000 shows significant values of 0.72, and the 1980 and 1990 cases are found significant with the values of –2.55 and –1.84, respectively, in Korea's trade relations with eight Eastern European countries. However, we can find that the estimated coefficients maintain mainly consistent signs: Korea-EU have positive signs and Korea-Eastern Europe have negative signs, except for 1995.

The results of the gravity analysis may introduce a new perspective on EU-Korea trade. The results imply that trade relations between Korea and the EU have been generally *over*-traded beyond what the theory would predict, considering their GDP volumes and remoteness, while those between Korea and eight incoming members of Eastern European countries may have been *under*-traded. A possible interpretation of the results is that the trade relations between Korea and the EU have been developed fully up to their potential capacity.

Our conjecture for interpreting the result is that Korea has had a trade surplus with the European markets which Korea has heavily depended upon, and Korea's export surplus can partly explain the over-trade performances between the two. Korea's trade with Japan contrasts sharply with the case of Korea's trade with the EU. Although Japan is another important trading partner for Korea, Korea has suffered from substantial trade deficit with Japan. The gravity analysis reported in an earlier paper by this author (Kim 2002) has shown that there is substantial under-trading between Korea and Japan. That is, the actual trade performance in 1999 reflects only 46 percent of potential trade volume. Korea's under-performance in export may explain the under-trade between Korea and Japan.

Remaining issues and prospects for the future

The EU has been one of the most important trading partners for Korea and it is believed that the EU has made a great contribution to the industrialisation and openness of the Korean economy. Recognising the importance of Korea's trade relations with the EU, new trade issues between the two have emerged.

First, anti-dumping tariffs, safeguard measures and compensation duties for Korean exports have been levied or are under consideration. As of August 2003, the EU was imposing anti-dumping tariffs on at least 10 Korean exports including PET film, 3.5" floppy disks, and conducting safeguard measures on seven iron products and compensation duties on DRAM computer chips manufactured by Hynix Industries. These actions may reflect changing trade environments confronting the two. Korean trade representatives hope these measures are fully taking into consideration the rule-based system of the WTO.

The EU is now looking at enlarging eastwards in May 2004, which would have substantial implications for Korea. Enlargement of the EU would be desirable in that it implies a creation of an enlarged advanced economic area in the world, that can spread prosperity on a wider scale. This can be also important to trade relations, as Korea can enjoy enhanced transparency, improved judiciary and other institutional systems and growing purchasing power in Eastern Europe.

The fifth EU enlargement would be beneficial to Korea in terms of trade in the long run. The gravity analysis in this paper tells us that Korea's trade performances with Eastern European countries fall short of its potential capacity, while its trade performance with the EU is quite conspicuous. Thus, new member states "European Unionisation" would definitely encourage trade relations with Korea if one thinks of Korea's current trade relations with the EU.

One of concerns for the enlargement from the Korean's perspective may be whether the common external tariff (CET), which is to be adopted in the new member states upon enlargement, would induce the possibility of raised tariff levels, although the majority are expected to decrease their general tariff levels. For example, the average tariff levels in Estonia, Slovakia and Czech are 0%, 6% and 6% respectively, whereas that in the EU is 6,3% in 2003. It is hoped that the newly established CET will not lead to a creation of a kind of 'fortress' in Europe and degeneration from the principle of free trade found in the clause 24 of General Agreement on Tariffs and Trade (GATT) in WTO.

Korea is now changing its growth strategy from export-oriented to trade-oriented. From Korea's viewpoint, boosting the domestic market is not merely a short-term objective for solving the difficulties caused by worldwide recession; it is a way of achieving more balanced growth between domestic and world markets. Therefore, strengthening economic relations with our major trading partners, including the EU, is not necessarily part of a unilateral Korean strategy to promote its own exports. Indeed, Korea's interest in strengthening relations with the EU would be a means of bringing permanent prosperity and stability in the world. ■

Dr Heungchong Kim is head of Europe Team, Korea Institute for International Economic Policy (KIEP). For further analysis see Kim 2002 *Has Trade Intensity in ASEAN+3 Really Increased? – Evidence from a Gravity Analysis*, KIEP Working Paper 02-12.

Vietnam joins Education Fast Track

by John Quigley

After nearly 2 years since its launch, Vietnam has become the first Asian country to be included in the Fast Track Initiative (FTI) of the Education for All (EfA) programme that seeks to implement one of the Millennium Development Goals of ensuring access to basic education for all children. Following a meeting in Oslo, Norway, in late 2003, the international donor community, with the European Commission representing the EU, accepted the national education plan proposed by Vietnam thus paving the way for Hanoi to receive additional donor funding for the development of its education sector.

The meeting in Oslo comes at a time when the World Bank and international donors are coming under fire for the slow pace of progress with the Fast Track Initiative. Non-governmental organisations (NGOs), including the UK-based Action Aid, particularly condemned the reluctance to commit further funds to meet the education related targets outlined in the Millennium Development Goals (MDGs). In essence, the FTI has focussed exclusively on African and Latin American countries as international donors have moved too slowly to recognise domestic education sector programmes in Asia as sufficient criteria to permit their entry. For many developing countries, participation in the FTI is held up due to the absence of a full Poverty Reduction Strategy Paper, a key requirement of the EU and the World Bank in ensuring access to additional donor funding.

The Education for All programme was launched in April 2000 at a meeting of the World Education Forum in Dakar, Senegal. The international donor community entered into commitments to implement the MDG of ensuring access to complete and free primary education for all children by 2015 and, further, of eliminating gender disparities in both primary and secondary education by 2005. Two years later, the Development Committee of the World Bank created the FTI process to provide technical and financial assistance to those developing countries that were unlikely to meet the MDG by themselves. By June 2002, the World Bank announced that it had invited 18 countries to seek financial support under the FTI process. In Asia, only Vietnam seemed likely to meet the stated criteria of both a full PRSP and a national education plan developed in agreement with donors. The other 17 countries came almost exclusively from Africa and Latin America.

As an essential element for its participation in the FTI, Vietnam had to adopt a full Poverty Reduction Strategy Paper (PRSP). Adopted in May 2002, the PRSP sets out how Hanoi expects to meet the MDGs targets in education that, by 2015, there should be a 100% completion rate for all children in primary education, that gender disparity in primary and secondary education should be eliminated by 2005 and eliminated in all levels by 2015. In November 2003, the international donor community accepted Hanoi’s National Education for All Action Plan 2003-2015, which elaborates specific objectives for the early childhood care and education, primary education, lower secondary education and non-formal education sectors. The Plan seeks international help with relation to the cost of access in the primary sector, the quality of teaching and training for managers to implement education reforms. Vietnam’s Plan reports that primary education services cost an approximate US$366m in 2001. Hanoi envisages the cost of increasing enrolment and completion rates will raise this figure to US$633m in 2005, US$880m in 2010 and US$1.1bn in 2015.

The needs of the three Asian countries with the largest child population out of school, namely Bangladesh (3.5m), India (35m) and Pakistan (5.6m) (World Bank statistics 2002) are not addressed directly through the Fast Track process. Recognising that Education for All would not address immediately their needs and in an attempt to include these countries, the World Bank donors launched a so-called Analytical FTI. These three Asian countries, together with Nigeria and the Democratic Republic of the Congo, account for half (56.6m) of all the out-of-school children worldwide. The Analytical FTI is designed to help the five countries through developing capacity, policies and improved reporting. Thus, the EU is contributing €3.5m to the UNESCO Institute for Statistics between 2003-2006 for eleven FTI countries to strengthen national statistical capacities. The group of eleven includes Bangladesh, Pakistan and Vietnam.

One of the major problems facing the education sector in Asia is the number of children who never attend school. Generally, children who never attend school cannot because of access, cost, social and work reasons. A UNESCO regional report for South and East Asia states that, overall, enrolment rates in Asia have improved rapidly over the last decade. However, estimating the number of out-of-school children at 46m, the report says, in gender terms this can be divided up between 28m for girls and 18m for boys. In India there are more girls than boys out of school whereas in China, the reverse is true. The UNESCO report states that India and Pakistan are considered at “serious risk of not achieving either (MDG) goal”. Bangladesh, China and Sri Lanka may fail to achieve at least one of the goals. In contrast, Vietnam has a “high chance of achieving the MDG for education”.

With the first EfA goal deadline approaching in 2005, international donors at the meeting in Oslo proposed amending the application procedures to the Fast Track and decided that all low-income countries, in principle, should participate in the EfA programme. The original requirement for a full Poverty Reduction Strategy Paper has been qualified permitting the acceptance of any "equivalent poverty reduction strategy" and an education sector plan. Thereafter, any country will be "immediately eligible for the FTI". In Asia, Afghanistan, Bangladesh, Bhutan, Burma, Cambodia, East Timor, India, Indonesia, North Korea, Laos, Nepal, Pakistan, Papua New Guinea and Vietnam are classified as low income. To support the countries that do not have a national education plan, the Oslo meeting proposed creating a "Facility for FTI Programme Preparation" whereby donors and developing countries could develop the plan in association with civil society. Once an initial plan is in place, to assist those countries that fail to attract "additional external funding", donors have established an FTI Catalytic Fund which will provide funding for up to three years to allow countries "establish a track record of performance". It is envisaged that countries would eventually move from the Fund to the FTI. To date, the Fund consists of US$235m and covers the period 2004 to 2007. From the EU, the Netherlands is the only country to pledge money to the Fund. None of the six developing countries currently receiving support from the Fund are in Asia.

Within the EU, the Netherlands, Germany, Sweden, Belgium and the United Kingdom are the largest donors to the Education for All process. In line with other development objectives, most EU-level support is directed towards Africa. Within the education sector, Commissioner Poul Nielson has said that the EU is committing €1.3bn between 2003 and 2007. Of the three Asian countries in the Analytical FTI, the EU is contributing €135m to Bangladesh, €200m to India and €59m to Pakistan, although the timeframe varies between 2002-2004 and 2002-2006. In light of the successful EU contribution of €150m to the District Primary Education Programme (DPEP) in India, which ended in December 2002, the European Commission has signed a financing agreement with New Delhi to support the Sarva Shiksha Abhiyan (SSA) The SSA is India's new national education sector plan promoting universal elementary education. Although this agreement was announced at the EU-India Summit in November 2001, the EU only began releasing funds of €30m in December 2002. The delay is attributed to India's reluctance to submit to Europe's stiff financial transparency requirements.

With the SSA, India's prospects for entry into the Fast Track Initiative have been boosted significantly. According to a Commission official, such discussions are ongoing but New Delhi has already effectively been accepted. The government of Cambodia has requested participation in the FTI process and, once its national education plan is accepted, donor funding could follow quickly.

Despite a steady stream of commitments by Western countries to funding basic education programmes in developing countries, the rate of disbursements remains alarmingly slow. This has led to what NGOs and aid workers call the "financing gap". In September 2003, the Senior Vice-President for the Human Development Network at the World Bank, Mr Jean-Louis Sarbib, estimated the annual amount necessary to meet the MDGs in education to be US$4bn until 2015. However, the United Nations has estimated the amount to be US$5.6bn. Indeed, EU Commissioner for Development, Poul Nielson, characterised EfA as "not necessarily a huge success measured by the funds that gone into it". Speaking in New Delhi in November 2003, Indian Prime Minister Atal Behari Vajpayee, lamented that the Fast Track Initiative "has so far been neither fast nor adequate". He called on donors to "redeem the pledge" make in Senegal in 2000 that no country would be hampered by a lack of resources. For the first seven countries included in the FTI drive (none of which are in Asia), the European Commission has calculated that expected FTI needs between 2003 and 2005 will be US$326m. Over the three years, existing donors' commitments have reached US$208m leaving a financing gap of US$119m. A gap that represents just under one third of the budget, for only seven countries, does not bode well for the remaining countries.

Based upon current data, the Education for All programme seems unlikely to reach the 2015 goal of free and full access to primary education. International donors and non-governmental organisations alike, recognise that there is a significant funding gap between existing spending and that required to fulfil this part of the MDGs. The World Bank is compiling a report on the FTI process that will examine the level of funding pledged by donors to date and what is required for future progress. The report will also look at what lessons can be learned from both donors and developing countries' experiences since the introduction of the FTI in June 2002. The report should be available in April 2004. At EU level, the Council of Ministers has promised to prepare a report on the role of EU Member States in the Education for All programme, by November 2004. The Council has in the past criticised severely the "poor progress" made under the EfA and suggested that funding commitments would have to be tripled. The EU report will be published when the Council comes under the Dutch Presidency. In September 2003, the Netherlands' Development Minister, Ms Agnes van Ardenne, promised to increase Dutch aid levels for education to EUR2.5bn over five years, with EUR1.9bn going directly to basic education programmes. ■

Anti-dumping and the law

by Dr Willem van der Geest

An inter-disciplinary research workshop at the London School of Economics (LSE), revealed fundamental differences of perception between economists, lawyers and political scientists about the use of anti-dumping duties (ADDs). While some of the legal specialists focused on the possible positive effects which ADDs might have on employment in EU countries *as well as* developing countries, the economists resolutely stuck with their 'basic model' which shows that ADDs will always destroy employment opportunities globally. The scientific disagreement resulted from views about the nature of effects of duties on profits and the demand for labour but, also, from differences in perceptions on the notion of the 'strategic' use of law.

Professor Francis Snyder, Editor of the European Law Review and Millennium Professor at the LSE, convened the workshop with the aim of consolidating experience in the field of EU commercial legal studies. He analysed 25 years of European Commission anti-dumping cases, many of which had been brought against China, classifying them using a wide range of indicators. It was found that many of the complaints from within the EU had been brought by Small and Medium-sized Enterprises (SMEs)and their associations, rather than the large TransNational Corporations (TNCs). Might this be indicative of an implicit conflict within the EU, where the TNCs tend to operate through global production networks and intra-firm trade whereas the SMEs find themselves in a defensive posture as producers primarily for the EU's internal market? Were negative effects on the labour markets used as part of a strategy to derive political legitimacy for the anti-dumping laws? Furthermore, could the application of the 1998 Council Regulation No. 905 on 'market economy conditions' perversely have prompted a continued use of anti-dumping decisions against China in order to encourage market-orientation within its economy?

Dr Peter Holmes, Reader in Economics at the University of Sussex and this author were the main protagonists of the 'basic model' demonstrating that ADDs are (nearly) always bad for employment. As the duties raise consumer prices, the demand for the imported good is bound to fall. Consumers experience welfare losses as they now pay more for the goods (or services) demanded and are consuming less of it. Domestic producers facing reduced competition will inevitably increase their prices too, boosting profit margins and/or wages. Globally speaking, employment would be lost on account of three effects. Firstly, by the competitive supplier from outside the Union; secondly, within the Union itself as the higher import costs would force higher wages indirectly; thirdly, because higher production costs within the EU would reduce its export competitiveness. In a dynamic sense, ADDs would also slowdown the restructuring of EU firms, while global competitors in the US and elsewhere would be pushing ahead with technical change and productivity increases.

A conceptual difference amongst the participants, revolving around the notion of the strategic use of law (or other trade instruments) also became clear. In an economic sense, a strategic action would tend to raise the costs for your rivals and competitors, ensuring your advantage in terms of market share. The strategic use of ADDs did not appear to meet this criterion because the EU, when imposing the duties, was itself losing markets. However, the legal perception of a strategic use of law was referring to instances where the law was used to realise non-stated indirect consequences, for example, a slowdown of the contested outsourcing and de-localisation through foreign investment.

Discussion revolved around the EU's application of ADDs and its consequences. It was agreed by all that there were numerous instances where ADDs did not really achieve the intended consequences. First, there remained fundamental incompatibilities between the available trade policy instruments. Thus, while the Generalised System of Preferences (GSP) sought to encourage the imports from developing countries, the ADDs were actively used to discourage them. Moreover, the ADDs were frequently circumvented, for example, by de-localisation of production platforms to third countries not named in the anti-dumping decision, or even through simple re-routing and re-labelling. Importing components under different product descriptions was another frequently observed circumvention. Finally, the determination of an appropriate duty margin was fraught with difficulties because of the arbitrary aspect of the choice of third country reference prices, the problems of valuation of intra-firm transport costs and transfer prices and more generally the proof of the extent of economic loss and injury caused by the artificially lowered import prices.

It was also understood that ADDs were not going to be phased out, despite economic costs and the fundamental difficulty in predicting their indirect consequences. In the global trade policy tool-box they continue to be perceived as a valuable safeguard against predatory commercial practices, often by those countries such as India and China who had so often protested against the EU's and US's applications hampering their enterprise development. ■

Dr Willem van der Geest is the Director of EIAS. He acted as Chair and Discussant in the Exploratory Research Workshop, sponsored by the European Science Foundation and held at the LSE in December 2003, co-organised by the LSE and EIAS. The Workshop examined "The strategic use of European Law and its implications for labour market relations in the EU and China".

Debt relief overlooks Asia

by John Quigley

Eight years after the launch of the international debt relief initiative for poor countries and four years after an "expanded" approach was adopted, only three Asian countries have been considered for assistance. As originally intended, Burma, Laos and Vietnam were the only Asian countries with any prospect of participating in the Heavily Indebted Poor Countries (HIPC) initiative. Of the thirty-eight countries, mainly in Africa, that qualify for financing to relieve debt burdens, some two thirds now meet World Bank conditions for assistance, while eight have received sufficient relief commitments to their debt stocks to contemplate exiting the initiative entirely. None of these countries are in Asia. The EU's contribution to debt relief in Asia remains minimal, with little prospect for improvement in the near future.

Launched in 1996, HIPC was intended to provide relief to free up developing countries' economies and to tackle poverty. Such relief was to be available not just to highly indebted countries but also poor countries. To be considered for assistance, countries would have to fulfil three criteria including an unsustainable debt burden, sound economic policies and possess, at least, an interim Poverty Reduction Strategy Paper (PRSP). Preparation and implementation of the PRSP has bedevilled many Asian countries with, for example, Indonesia, Laos and Pakistan yet to adopt a full PRSP. However, international donors including the EU have declared PRSPs essential to the provision of development funding.

High debt countries have a net present value (NPV) of debt, as a percentage of exports, that exceeds 150%. According to figures for 2000, there are four countries in Asia that can be characterised as suffering from high debt. These include Indonesia at 182% of exports, Laos at 234%, Burma at 235% and Pakistan at 249%. Despite being worse off, under World Bank terms, than five of the eight countries that have reached a completion point, there is no serious prospect to address Asian needs. A further aspect of the HIPC initiative is that donor financing of debt relief must come from additional funds so that existing commitments are not simply redirected.

An enhanced HIPC was launched in 1999, with the undeclared aim of ensuring twenty countries would get to the decision point for debt relief, in time for the millennium. None of these was scheduled to be in Asia. By that stage, Vietnam, one of the only three Asian participants, was able to declare that it would not be seeking HIPC funding, as its debt as a percentage of exports had reached 64.4% in 2000 and the country could now be classified as low debt. The NPV reached 49% in 2002 and, according to the IMF, should decline to 37% by 2007.

Towards the end of 2003, the IMF and World Bank listed Burma and Laos as two of eleven countries that could still be considered under HIPC. The reluctance to address Burma's problems stems, in a large part, from political considerations related to the ongoing rule by the military junta. Without accurate data, the Bank concludes that "highly tentative estimates" indicate that Burma's debt exceeds HIPC thresholds. However, in the absence of economic reforms or consultations directed towards preparing an interim PRSP, the Bank sees little prospect for Burma's participation in HIPC. The Governor of the Bank for Burma, Major General Hla Tun, speaking in Dubai in 2003 seemed to recognise the need for international support. He said that Burma's development "would be achieved "faster and quicker when bolstered with international support". He called for the lifting of the suspension on multilateral financial assistance.

The last meeting of the Joint Development Committee of the World Bank and the IMF in 2003 acknowledged that adding Laos, Liberia, Somalia and the Sudan to the HIPC initiative could add a further US$10bn to the total cost of debt relief for all 38 countries. The total would therefore reach an estimated US$50bn. Laos has the advantage of an interim PRSP and its final PRSP is expected to be formally adopted within the coming months. The failure to address other Asian countries' problems, is a cause for general concern.

Although indebted countries in Asia are not at the forefront of receipt of international debt relief, several Asian countries have started to cancel debt they themselves are owed. Although Pakistan is the worst performing Asian country in net present value terms, Islamabad's debt stock is not deemed unsustainable. Indeed, Pakistan is one of three Asian countries that have agreed, with India and South Korea, to offer debt relief on all HIPC claims. Between them, this amounts to approximately US$43m. China has agreed to extinguish debt to the tune of US$285m, although this does not account for the full value of HIPC related debt Beijing is owed. Taiwan, Iran, North Korea and Thailand all have outstanding loans in HIPC countries but have not yet agreed to write this off.

The "sunset clause" for HIPC comes into effect in December 2004. To prepare for life after HIPC, the World Bank and the International Monetary Fund are preparing a report on debt sustainability for low income countries. The report will be considered at the next meeting of their Joint Development Committee in April 2004. The Commissioner for Development Co-operation, Poul Nielson, has indicated that he will publish a separate report on EU options for debt relief after HIPC. His report should be ready by the first quarter 2004. ■

EU-India relations: a view from the EU institutions

European Commission

Ms Laurence Argimon-Pistre welcomed the occasion of the fourth EU-India Summit, which took place in New Dehli in late November 2003. The EU was represented by EU Council President Silvio Berlusconi, CFSP High Representative Javier Solana, Commission President Romano Prodi and Commissioner for External Relations Chris Patten. As part of her role in the Commission, Ms Argimon-Pistre indicated that she had been to all four EU-India Summits, which started in Lisbon in 2000, followed by New Delhi in 2001 and Copenhagen in 2002. The 2003 Summit was, she said, a very successful event, better than many of the previous meetings. Both sides, she said, shared a common understanding on many policy areas and on current international events, for example, on the intervention in Iraq. The EU was looking to boost its relationship with India and promote multilateral ties. In particular, the European Commission sought during the Summit to increase its profile but failed to find sufficient backing from India for this.

The EU's relationship with India is based upon a third generation Trade and Co-operation Agreement, signed in 1994, and a Commission Communication from June 1996 on "EU-India enhanced partnership". Ms Argimon-Pistre announced that the Commission, during 2004, would seek to redraft this Communication. This would take into account India's "Look East" policy, as India tries to develop its relations with South-East Asia through ASEAN and with China. It would also examine India's role in South Asia through regional relationships with Sri Lanka, Nepal and Afghanistan. The fourth Summit was preceded by an EU-India Business Summit, which Ms Argimon-Pistre described as an excellent and dynamic event. The Business Summit brings together not just politicians but also representatives from European and Indian businesses. The value of both the political and business summits lies in the high-profile presence and leaders willingness to compromise to reach decisions that otherwise might not be reached by officials. Ms Argimon-Pistre cited the example of the EU-India Maritime Agreement, which the Summit agreed to launch negotiations. The Maritime Agreement will seek to improve transport conditions, reduce shipping times and costs and promote stability in economic operators. ■

Laurence Argimon-Pistre is Head of Unit, Directorate General for External Relations, Asia, European Commission. This summary of Ms Argimon-Pistre's presentation was prepared by *EurAsia Bulletin*.

Council of Ministers

Mr Antii Turunen said his impression of the EU-India Summit was of a friendly and business-like meeting. The Summit reached some good results and a positive plan of action for future co-operation beyond the November meeting. Mr Turunen outlined eight areas where Europe and India could make progress in the coming years. Firstly, Brussels and New Delhi seem now to have reached a common ground on the political will needed to handle international trade relations post-Cancún. This includes a North-South dimension which will have an impact on the EU's trading relationship with Asia, Latin America and Africa.

Secondly, both sides share the same opinion on the reform of the United Nations. Europe has common cause with India's long-held policy of the value of multilateralism above unilateralism. Thirdly, the EU and India will co-operate in trying to resolve the crisis in the Middle East. This will include efforts to address concerns over Iraq, Syria and Iran. New Delhi, Mr Turunen said, shares the EU's viewpoint in the region, which serves as a good basis for future co-operation.

Fourthly, the Summit gave important signals that both sides wished to continue their co-operation in the fight against international terrorism. The dialogue between the EU and India will include initiatives on possible co-operation between law enforcement authorities. Fifthly, the Summit addressed concerns over the threats to the stability of Afghanistan. Such threats include the growth of the drug industry, domestic terrorism and issues relating to regional stability. Both sides would work at resolving these problems through UN Security Council Resolution 1511. Sixthly, an area for future dialogue, Mr Tururen said, could be co-operation to stem weapons proliferation and promote non-proliferation, although the EU and India do not always share the same view on this.

Seventhly, the Summit agreed to discuss human rights, good governance and democracy in a comprehensive manner. This could be promoted through contact between the India and European Parliaments, political parties, trades unions and civil society. Finally, both sides at the Sunmit expressed a similar feeling over the India-Pakistan situation. Efforts were being made at a normalisation of relations, which the Summit applauded, and both the EU and India conveyed a feeling that the confrontation policies of the past could not continue. In conclusion, Mr Turunen said that India is seeking to redefine its international role as an global actor, a role that the EU believes in and shares. ■

Mr Antii Turunen is responsible for Central Asia and South Asia, Policy Unit, General Secretariat, Council of the EU. This summary of Mr Antii Turunen's presentation was prepared by *EurAsia Bulletin*.

To agree or dis-agree?

Iraq, Cancún and the EU-India future

by M. J. Akbar

Speaking at a conference, jointly organised by the European Institute for Asian Studies (EIAS) and the Konrad Adenauer Stiftung (KAS), on the results of the EU-India Summit, Mr M. J. Akbar examined the economic and social development prospects of the EU-India relationship. Mr Akbar noted that the creation of the State of India was the direct result of political pressures necessary to solve pressing social problems. He dismissed suggestions that India was unified by the United Kingdom when, clearly, the British were more concerned about exploiting India than governing in the interests of the people. India, he said, was in fact united through the activities of the Indian National Movement, trying to find answers to the problems they inherited from Britain.

In the twentieth century, the world primarily saw two kinds of battles, firstly, the two world wars and, secondly, wars of liberation. Mr Akbar stressed the world nature of the 1914-1918 and 1939-1945 wars as the victors, to a large extent ended up controlling the world. In contrast, wars of liberation can occur anywhere in the world but their unique effect has been to poison inter-State attitudes up until the present day. The two concepts are relevant even today, Mr Akbar said, as they have become confused in the current crisis over Iraq.

The victors of the Second World War took upon themselves the authority to divide up the world into their respective spheres of influence. It was in this period that the "age of imposition" declined following the end of the colonial period. The fate of defeated nations, particularly in the colonies, was defined by the indifferent attitudes of the West. The discourse on the fate of Islamic or Christian nations has become a replacement for some nations of colonialisation. In this sense, the language of the relationship between the developed and developing worlds has taken on an old colonial style aspect.

In post-war India, ordinary people have come to believe that anything is better than war. It is recognised that the creation of the Pakistan State was a failure of the Indian National Movement. India's development as a federal State and, latterly, as an economic power has had a significant effect on the ordinary citizen, as the government has pegged the value of the rupee across India, despite differing levels of economic development in different states. One of the important factors in India's nation building period was the right to economic migration. Today, however, the great unreported migration facing India is the movement of substantial numbers of Bangladeshi's into India. Another factor that contrasts India's polity with that of the European Union is in the realm of constitutional affairs. In India, a two-thirds majority is sufficient to change the constitution whereas in the EU, each Member State has a veto on potential changes to the legal order.

For Mr Akbar, the two most important events of 2003, where the start of the war in Iraq and the alliance generated in Cancún between India, China and Brazil. While countries across the world have criticised the Americans and British for conducting a war in Iraq, in contrast, no Muslim country objected to the US invasion of Afghanistan. Most Islamic States recognised the rogue-State nature of the Taleban regime and were wary of allowing the proliferation of terrorism. However, the war in Iraq is seen as a neo-conservative unilateral intervention and a return to neo-colonial ways. Muslims want the West to move into a post-colonial phase and treat developing countries on a more equitable basis. Interestingly, after the invasion of Afghanistan, the Doha development round reached consensus whereas Cancún, after the Iraq war, did not.

The India, China and Brazil alliance is significant because, from a historical perspective, the three countries have endured a colonial age and are determined to suppress divisive efforts at introducing a new period of neo-colonialism. At Cancún, the joint EU-USA report issued four weeks before the start of the meeting of Ministers, contributed to a general sense among developing countries of tensions between the developed and developing world. The report failed to recognise that Western agricultural subsidises were another form of neo-colonialism.

In Cancún, four African nations, Benin, Burkino Faso, Chad and Malawi put the issue of cotton exports on the agenda. Internationally, the price of cotton is determined by the level of American subsidies to its domestic farmers. For its part, India was determined to prevent the continued world order in cotton being based on such inequality. In partnership with Pakistan, New Delhi is determined to make progress on cotton subsidies. In contrast, the Members States of the European Union are still divided but, Mr Akbar said, they seem to have a sense that the rest of the world can not be treated as before. This is reflected in the rising economies of India and China, which has awoken the EU from its belief that it should, by right, be treated as an economic power.

The decision of the European Union to create a defence force, the so-called Rapid Reaction Force is tremendously significant. With this initiative, the "age of continents" will slowly be superseded by the growth of regional groupings, of which, the EU will be a principal member. India is another member and, with its alliance with the Association of South-East Asian

Nations (ASEAN) by 2007 or 2008, will possess a huge new market. This alliance could eventually prompt the emergence of a proper South Asian economic union. Security for each region will not be imposed. The groupings will have to ensure their own security. Once India and Pakistan resolve their problems over Kashmir, it is possible that the two countries could create a force to rival Europe's Rapid Reaction capability.

Responding to questions, Mr Akbar agreed that the lack of democracy in China would hinder China's full participation in a post-colonial regionalised world. Beijing's complete co-operation with the West on its application for membership of the World Trade Organisation (WTO) was the result of their recognition of their limited experience in dealing with such a global system. China believed it has surrendered a lot of ground in order to join the Geneva-based body, on the understanding that is commercial interests will be better served by trying to change the global trading order from within, rather than defending itself on the outside. However, Mr Akbar said, it is hard to see how you can have a free economy without free politics. While the foundations of the Chinese government system may be stable, it is partly based upon increasingly unstable pillars in the Chinese nation. China is witnessing an economic imbalance that is leading to social upheaval. For the first time ever, China has recently changed its position on a border dispute, this time with India over the State of Sikkim.

Mr Akbar dis-agreed with the notion that India was not a nation but merely a country. The success of the EU lies in its economic origins. Yet, the process of the development of Europe has begun to move beyond removing the threat of war towards a greater level of unity, that is, regionalism. Europe is about improving the lives of its citizens first and then expanding that notion to third countries. In contrast, India has not had a chance to put the scourge of conflict behind it.

In reply to a question on the pacifist movement in India, Mr Akbar retorted that India had no such movement. Of growing political importance is the greater numbers of women who vote. Women have a new sense of confidence and the understanding that their problems are best addressed by other women in positions of power. After the 'result' of Cancún, the positions of the EU and the United States have begun to diverge. Both Brussels and Washington thought they could sway enough developing countries to make a deal, until the witnessed the emergence of the Group of 21. The days of unilateralism, Mr Akbar said, will soon be over. ■

This summary of Mr Akbar's presentation was prepared by *EurAsia Bulletin*. Mr M. J. Akbar is Editor-in-Chief of the *Asian Age*, which is based in New Delhi and Bangalore.

Gender and trade in EU-India relations

by Dr Ranjana Kumari

The European Union and India are trying to stabilise their relationship in the fast changing modern world system around the principles of freedom, democracy and inter-dependence. Between the 17th and 21st century India-Europe interactions have grown through phases of (i) trade contacts, (ii) confrontation, (iv) colonisation, (iv) decolonisation, (v) benign neglect, (iv) strategic interactions, and (vii) creative co-operation.

I would like to point out that several basic domains for sustainable co-operation between India exist around the quest for participatory democracy through gender equality. These include the economy, social development, security and environment. This report* focuses on three of these four dimensions, gender, trade and the environment.

Export growth in the past decade has led to more employment opportunities for women in the garment, fishery and food processing industries. Other sectors in the Indian economy that provide livelihood opportunities to a large number of women include textiles, agro-products, handloom, dairy and crafts, amongst others.

Textiles are the largest industrial sector of modern India and the second largest source of employment, after agriculture, with 35 million directly employed. It accounts for over 20% of industrial production and is closely intertwined with the agricultural and rural economy. India has also emerged as the world's second largest producer of food and the leading producer of milk. There has been a steady growth in the exports of India's major processed food items such as rice and marine products.

Studies conducted by the Centre for Social Research and others, show that export growth has generated an increase in women's employment but also that the increase in wages or the improvement in living conditions of women are *not* commensurate with such increased exports. Women are recognised as being more productive than men with higher concentration spans and they should be duly rewarded.

Generating female employment and better incomes should also be seen as a global public good. It is one of the main development pillars of any society and is an important Millennium Development Goal (MDG). Women, rural inhabitants, ethnic minorities and other poor people are progressing slower than the national average - or showing no progress - even when the country as a whole shows positive trend towards achieving many of the MDGs. This is managed more easily by improving the circumstances of people already better off. This approach fits well with the letter of the law of the MDGs but, fails to fit their spirit. Every third illiterate in the world is an Indian. Forty six percent of Indian women were found to be illiterate in the 2001 Census. Female literacy rates among the Scheduled Tribes were as low as 7% in Rajasthan and 9% in Madhya Pradesh. Sixty one percent lack drinking water. Forty four percent don't have electricity. Thirty eight percent of Indian households live in single-room dwelling.

But over all, people in India are getting more income, becoming healthier, and live longer than they did a decade ago. Gross Domestic Product (GDP) growth in 2001 was 5.4%, stronger than 4% in 2000 and has accelerated since. The *per capita* consumption expenditure has increased more than four times between 1983 and 2000. There was a drop of nearly 10% in the number of persons living below poverty line, between 1983 and 1993-1994, whereas in half that time, between 1993-1994 and 1999-2000, there was a further drop by 9%.

The EU is a very important destination market for Indian exports, in particular textiles and Ready Made Garments (RMG). It is argued here that EU should include gender interests in its negotiating strategies and proposals. There is a need to carry out a systematic gender analysis of economic policies and trade agreements including engendering trade statistics. Gender experts should be involved to promote a system that creates a regime of Gender Sensitive Products (GSPs) that are women friendly. The same concept could possibly be applied in services like health care, tourism, hospitality and education, where person-embodied services have a high global demand and for which women in India are trained and skilled.

There is also a need to examine the impact of trade defence measures such as anti-dumping, subsidies and countervailing measures on women's livelihood. Trade liberalisation by itself may not generate better living conditions and higher wages for women. A quantum jump in the level of professionalism, organisation of women workers and entrepreneurs along with a shift to bigger size targeted programmes are needed. A special 1% tax on export earnings could finance this.

The challenge of environment promotion is much more down to earth for common persons of India and EU as the natural resources for human survival has been badly affected by our endeavours of modernisation of agriculture, industries and life style. At the same time, it is encouraging that global environmental problems are linking all of us in so many ways. It is most urgent that India-EU co-operation creates a basis for global understanding ton meet the crisis of global warming. Indians have been helped by the EU in facing a series of natural disasters ranging from super cyclones to devastating droughts. The issue of bio-diversity has alerted the scientific community of India and EU about the potential advantages and threats from genetically modified crops. Similarly the problem of conservation of water sources, soil and forests is creating vertical and horizontal links between local and regional communities, institutions and processes. It is obvious that poorer women and their households are the most acutely affected sections of our society by the problems of environmental degeneration.

An increasing number of OECD and developing countries have introduced environmental accounts, compiling different components according to the environmental accounts, compiling different components according to their environmental concerns and priorities. Resource-rich countries have usually developed asset accounts in order to design policies for better natural resource management. Countries in which pollution is a main concern have implemented physical flow accounts, often linked into environmental protection accounts so as to analyse the impact of consumption and production patterns on the environment and the impact of environmental expenditure in reducing emissions.

Pilot projects have shown that some of the components of the SEEA can be compiled using existing information from various data sources. These exercises have identified data gaps and inconsistencies, helping to improve both environmental and economic data. The results have already been used by government planning agencies in designing policies and by NGOs and academia in advocacy efforts. In the network of EU-India civil society organisations on environment protection, in most of the ecological movements, women are making effective contribution as leaders, organisers and supporters. The governments of EU and India have joined forces in global debates for environmental conservation. For example, both have offered unequivocal support for accepting and implementing the Kyoto Protocol.

It is obvious that India and EU have moved closer to each other in recent years and this unity has the potential of promoting a global consensus for moving towards a humane society. So far the architects of the India-EU relationship have focused primarily on trade, media and academia but gender, in particular, needs fresh initiatives. ■

Dr Ranjana Kumari is the Director, Centre for Social Research, New Delhi. *A comprehensive version of her presentation at the EU-India Summit Conference including a discussion about gender and the economy, social development, security and environment is available from www.eias.org

Corruption, Transparency and the Good Governance Agenda in India

by Prof Gurharpal Singh

In the emerging agenda for action between the European Union and India there is a clear identification of the areas of joint concern. Of particular interest is the emphasis on trade and development which implicitly recognises the need for 'good governance' generally, but more particularly, in promoting individual rights and the rule of law. Good governance here does not necessarily mean the prescriptions of the World Bank or the IMF; it does, however, mean effective, accountable and transparent governance.

In contrast there is broad agreement - inside and outside India - on indicators of bad governance. Chief among these is the incidence of corruption. In India high levels of corruption in public life and the private commercial sector co-exist with equally high levels of mass poverty, illiteracy, underdevelopment and the increasing criminalisation of politics. As a recent editorial in a leading newspaper observed: corruption in public life is one of the most daunting issues facing the country. Things have come to such a pass the *all* politicians evoke public ridicule.

Public life in today's India is dominated with concerns about corruption and the inability of politicians to tackle it effectively. In the last few weeks, scandals have followed scandals: a Cabinet Minister was caught on video accepting a bribe; a legal paper scam involving several states, politicians of many different parties, the police and the criminal underworld has defrauded the treasury of an estimated billion dollars; and regional politician is alleged to have massed nearly $800 million worth of property abroad.

Such scandals are not the exception but a regular feature of Indian politics, both at the national and regional levels. The current National Democratic Alliance central government, which came to power in 1999 as a coalition with difference, untainted with the previous association with the institutionalised 'licence permit raj' of Congress regimes, has not done much better. In the last four years it has been dogged by one corruption scandal after another to the point where it has now become embarrassed about its ability to deliver clean government.

Actions of governments and politicians apart there are general indicators that corruption is a serious issue in the medium term development of the Indian economy. In Transparency International's Corruption Perception Index, India ranked 72 in 2001, 73 in 2002, and 83 in 2003. In fact all countries in South Asia rank poorly. In 2002 and 2003 Bangladesh was ranked as the most corrupt country in the world. External findings of surveys by the likes of TI are also confirmed by opinion polls and surveys within South Asian states.

Corruption and the Good Governance Agenda

In the last decade external and internal pressures have compelled Indian politicians to address the good governance agenda. Externally, the World Bank, IMF, the Asian Development Bank and other national development agencies such as DFID have made significant contributions to the anti-corruption process. September 11th 2001 and the war in Afghanistan, for example, threw into sharp focus the complex relationship that exists in South Asia between corruption, terrorism, money laundering and political decay. In November 2001, India signed up to the ADB-OECD Anti-Corruption initiative for Asia-Pacific. The initiative commits each signatory to the development of an anti-corruption action plan which requires them to address three pillars of anti-corruption activity: civil service reform, reduction of bribery, and the closer involvement of civil society. Donor agencies, moreover, have been more insistent that programme funding is tied more specifically to anti-corruption policies and procedures.

Internally, the pressure for change has come not only from the mobilisation after well-publicised scandals over the last decade, but also the growing expansion of civil society activisms centred around access to information, accountability audits by grass roots organisations, the growth of information technologies, and the broader impact of economic liberation which has created the need to reform long-standing institutions created during the licence permit raj period. Yet while these developments have no doubt created a strong momentum for change, politicians in India have proved quite adept in managing the good governance agenda to their own advantage. In the face of external and internal pressures for greater self-regulation, ruling national and state governments have frequently targeted political opponents in the name of anti-corruption drives, co-opted anti-corruption campaigners, and significantly compromised the effectiveness of anti-corruption institutions and proposed legislation.

Nevertheless it would be churlish to say that in the campaign against corruption has failed to produce useful outcomes. Among these are:

a) *The growth of civil society networks engaged in anti-corruption work*. The last decade has seen the rise of NGOs involved in a broad range of anti-corruption activity at the village, city, regional and national levels. These organisations are active on many fronts. Their main contribution is in promoting civil activism. Some like the MKSS in Rajasthan have achieved global recognition in the efforts to mobilise the peasantry; others like Lok Satta, based in Hyderabad, are well respected for their campaigns and promotion of institutional reform. These organisations are increasingly networking and provide useful role models for anti-corruption campaigners.

b) *The increasing demand for transparency and freedom of information.* The rise of civil activism has been accompanied by demands for greater transparency in public life often channelled into campaigns for freedom of information legislation. Since the early 1990s these demands have been fuelled by the greater diversity in the media and the rise of investigative journalism which, as in the case of Tehelka.com, made spectacular disclosures. Some States have passed freedom of information legislation, and others are in the process of enacting it.

c) *Elections and the Election Commission.* Within in some State institutions there is clear recognition that part of the problem is the funding of political parties. The prohibition on company funding in the 1970s led to the rise of black money. Recently, companies have been allowed to fund political parties. Furthermore, the Election Commission has taken a number of measures to decriminalise the political process by seeking the public declaration of a criminal record. It has also introduced codes of practice to better regulate the activities of candidates and parties.

d) *Use of information technology.* E-governance initiates have begun to cut through the web of bureaucracy. Some states in India have begun to provide service delivery on-line. And government websites sometime provide practical information on how to confront make complaints about corrupt acts.

e) *Bureaucratic policy entrepreneurs and anti-corruption.* Among the higher echelons of the Indian civil service there has been the emergence of new policy entrepreneurs who have now begun to champion the anti-corruption agenda. In particular, I want to mention the former head of the Civil Vigilance Commission, N. Vittal. During his tenure he turned the campaign into a personal crusade and achieved a great deal of public recognition. Mr Vittal's example has created a new role model for traditionally conservative civil servants who have been reluctant to be identified with anti-corruption campaigns.

Good Governance, the EU and India

Despite these positive developments a great deal needs to be done. What can the EU contribute to reducing corruption in India? First, there is a need to support the broad coalition of civil society groups and organisations operating at the various levels to better realise their anti-corruption objectives. There is immense diversity, complexity and rivalry among these groups and organisations, but if their activities are to have a wider impact there needs to be some kind of co-ordinating effort to better share best practice. More opportunities need to be provided for networking, co-ordinating effort, and developing policies.

Second, the EU needs to encourage and support the processes of political reform that are currently underway – in the fields of transparency and freedom of information, civil service and judicial reform, and to better regulate the funding of political parties. The reforms are obviously for the medium term and as such should be engaged both in terms of capacity building as well as crafting new institutions for a globalised and dynamic economy.

Third, related to the last point, while it is important to promote civil action and transparency in the fight against corruption, it should not be forgotten that the state provides the main agency for change. Despite the ability of Indian politicians to manage the good governance agenda for their own benefit, we should be weary of the arguments that see civil society as uncorrupted and the state as corrupt. To tackle corruption effectively there is need for a strong consolidated State characterised by rule-governed behaviour. Excessive emphasise on de-regulation and transparency may undermine precisely those outcomes that are being sought.

Fourth, the EU in its own project management should establish models of best practice. No doubt this is being attempted, but more openness would also help to compare EU practice with other examples and enable activists on the ground to evaluate local impact. International development agencies have been engaged in such work for a while.

Finally, there is need to recognise that the issue of corruption cannot be ignored or put on the back burner. If the trade relationship between EU and India is to develop and the targets for foreign direct investment to India are to be realised, then the levels of public and commercial corruption will need to be reduced dramatically. A clearly focused EU anti-corruption agenda in India would contribute significantly.

In the emerging EU-India agenda, the EU has a very important role to play in promoting good governance which should include reducing corruption in public and commercial life. This can be best done by engaging constructively with Indian State institutions, organisations and movements working to achieve the same ends. The EU as India's largest trade partner cannot afford to ignore this responsibility. ■

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