

INSIDE THIS ISSUE

Development *and* Culture?

by Malcolm Subhan

Development, yes. Culture, yes. But development and culture? What does culture have to do with development? Well, to begin with culture is a key element of human development, of our humanity. This is clear from the way in which the Human Development Index is calculated by the United Nations Development Programme (UNDP). "The HDI reflects achievements in the most basic human capabilities – leading a long life, being knowledgeable and enjoying a decent standard of living. Three variables have been chosen to represent those dimensions – life expectancy, educational attainment and income"*.

Do the authors of the Human Development Report ignore the role of culture (and of spiritual activity) in human development? Never mind. There is another basic guide to development, the *World Development Report*, published annually by the World Bank. Here is the *Report* for 2003, on what it sees as "the core development challenge." The core challenge for development "is to ensure productive work and a better quality of life...This will require substantial growth in productivity and income in developing countries."

Does the World Bank confuse human development with economic growth? Certainly not. "The capacity of any society to meet the 'requirements' of individual well-being depends on the level and quality of a range of assets – and on how society deploys them." These assets, the *Report* points out, include human-made assets, particularly those used in production, but also human assets (such as innate skills), knowledge assets (essentially "codified knowledge") and social (or relational) assets (the interpersonal trust which facilitates co-operation within or among groups). Well, culture, however defined, does not seem to be an especially important asset for the World Bank either.

All of which makes the 2-day seminar on External Cultural Action, organised recently by François Nizery and his colleagues from the European Commission's EuropeAid Co-operation Office (AIDCO), a remarkable,

EDITORIAL

Development and culture? 1

VIEWPOINT

Culture: A seminar, an assessment 3
by François Nizery

Culture and development 5
by Alain Sancerni

Making waves or just drifting along? 7
by Georg Wiessala

Towards a North-South summit on global ageing 9
by Inder Kumar Gujral

EU-ASIA NEWS

One global and two regional currencies 12
by Willem van der Geest

EU Co-operation Officer for Macao ruled out 14
by John Quigley

ASEAN Ambassadors dialogue with journalists 15
by David Fouquet

Building university links 17
by Malcolm Subhan

China joins ITER, major progress expected 18
by John Quigley

Controversial start to ALA review 19
by John Quigley

INSIDE ASIA

ARF and Asia-Pacific multilateral security 20
by Ken Jimbo

Tax cuts: a non-starter for Japan 22
by Andrew deWit

The enigma of North Korea 25
by Glyn Ford

EU-ASIA TRADE

SIA's and world trade in textiles 26
by W. H. Lakin

Achieving better market integration 29
by Roberto Rosati

BOOK REVIEW & COMMENT

Afghanistan: "Droga di Dio" 30
by Roberta Zavoretti



even daring, event. It is clear from Mr. Nizery's assessment of the seminar, an in-house event which brought together some 50 officials from AIDCO, that the organisers were nervous about what they recognised was an attempt to challenge the traditional approach to development.

This is not to say that the European Union (EU), and more particularly the European Commission, is unaware of the importance of the cultural aspects of its relations with developing countries. The 1994 EU-India co-operation agreement specifically provides for cultural co-operation. Under the 1995 Barcelona Declaration, culture was included for the first time in the field of co-operation between the EU and its 12 Mediterranean partners.

The EU-India agreement provides for cultural exchange programmes, the protection of historic sites, and similar activities. The Barcelona Work Programme supports cultural and artistic events, vocational training and a dialogue between cultures and civilisations. These are all worthy activities but have little to do with the core issues of a cultural approach to development.

Take the Human Development Index. It was largely the creation of a Pakistani economist, Dr. Mahbub ul Haq, with help from the Indian economist and Nobel laureate, Dr. Amartya Sen. Their collaboration was made possible by the fact that both had very similar academic and professional backgrounds (degrees from Western universities, international experience) and both worked in the English language. It would have been impossible for them to work together in their respective mother tongues (Urdu and Bengali).

In other words, to what extent is development theory and practice determined by the fact that it is conducted mainly in English? (Most senior economists at the World Bank have degrees from European or American universities, whatever their country of origin). You cannot translate the term "development," as used by Dr. Mahbub ul Haq and Dr. Amartya Sen, into Urdu or Bengali. Perhaps you cannot translate the term "development," as used by Western development experts, into Swahili or Chinese either. Defining development in terms of four basic needs was an attempt to get around this problem.

Western-educated Hindu economists may well respond to the English word "cow" and the Hindi word "gau" in much the same way – intellectually. But "gau" is a very emotionally charged word for Hindus in general. The minister for animal husbandry in an Indian state recently urged urban intellectuals to keep cows as pets. His state in fact conducts research into cow urine, according to a major Indian newspaper. European economists react as emotionally to words such as "dog" and "rat." Hence the absence of EU-funded

development projects for breeding more tasty species of dogs and rats.

A cultural approach to development would also look at the values which underlie the economic growth model (capitalist, free market) that is being globalised. Dr. Norman Borlaugh, the American agronomist who invented the miracle rice that launched the Green Revolution in India, maintained that he was simply trying to help Indian farmers by developing high-yielding varieties of their traditional foodgrains. But is miracle rice value-free? Are chemical fertilisers value-free? Or does their use in developing countries inevitably entail far-reaching economic and social changes?

A cultural approach to development involves looking at the types of behaviour which the market economy rewards, and therefore encourages. The engine which drives the market economy clearly is the entrepreneur; its folk hero surely is Bill Gates. The successful entrepreneur is motivated by personal ambition, seeks private profit, at the expense of the community if necessary (as when his activities pollute rivers).

The market economy values the individual over the family or the group, the community. The behaviour it rewards is individualistic, rather than collective. Hindu and Buddhist societies, however, value the community (eventually caste, in the case of Hinduism) over the individual. Economic production is a collective matter, organised eventually on a family basis. The family itself is the extended, rather than the nuclear, family. The emphasis is on prudence rather than on risk taking, on stability rather than on constant change, on self-sufficiency rather than on the production of a surplus for sale on distant markets.

An idealised picture of the traditional Hindu society, a society in the throes of rapid economic and social change? Yes, in that large, family-owned companies in India are breaking up, as the younger members of the family return home with MBAs from Harvard and Wharton. Yes, in that apartments in Indian cities are small (and expensive), and therefore can no longer accommodate the extended family. No, in that cultures shaped over long periods of time do not give up their hold easily, and may well exact a price when they do.

To take culture into account, when drawing up development programmes and projects, involves an examination of the values of one's own society, and of the society in which these programmes and projects are to be implemented. It requires a genuine respect for other cultures, and a willingness to call one's own values into question. Mr. Nizery and his colleagues are going down a long and difficult road, but it is the only way to a genuine partnership in development. ■

* *Human Development Report 1999*. Published for the UNDP by Oxford University Press, 1999.

A seminar, an assessment

by François Nizery

Let's be clear: this is an assessment, not a summary and certainly not a conclusion. What is more, it's my assessment, and it is therefore not neutral. By its very nature it's a personal view of an event that was not, but referred to values and ideas, blending the emotions they aroused and the intellect. It was an unusual event in its way because it dared to deal with a subject that both fascinates and disturbs, is simultaneously the object of curiosity and rejection and, occasionally of derision, because it calls into question the very meaning of words and deeds.

Such a challenge can frighten or irritate. Why culture? What has this rich dish for slightly snobbish gourmets got to do with our industrious cooks and bottle-washers? Hence the ambiguous feelings which prevailed within the AIDCO group on culture, which had been working for several months preparing this seminar: feelings of working more or less clandestinely, of belonging to a conspiracy of the unfaithful – unfaithful to a certain approach to development co-operation.

Hence the almost palpable tension in the room at the start of the seminar. Would our gamble succeed, would we be able to bring culture into the open and to replace it at the very heart of development co-operation? Hence the burning question: how to convince those who had to be convinced of the urgent and absolute need to rethink culture as the motor of development.

But whom did we have to convince? The policy makers of course – all those who, in one capacity or another, will be called on to give political and legal shape to the ideas which emerged from two days of discussions. But before that it was up to us, convinced in advance, through intuition, experience or reflection, to develop our case, answer questions and identify the pitfalls. This was not obvious, and from this standpoint at least the gamble which the seminar represented paid off. The initial tension gave way to self-assured determination.

Is culture the favoured tool of development? This was the key question, and it received the serious and well thought-out reply it deserved. However, before culture can be thought of as a tool, it must be thought of as an obstacle, as Malcolm Subhan pointed out.

Culture, an obstacle? Obviously, because by definition economic progress, and therefore development (as viewed from the standpoint of the market economy), can hardly adapt to the distinctive cultural identity of the actors when development is viewed in this light. To do so is to be faced inevitably with the intractable

contradictions between tradition and modernity, between the preservation of identities and integration into the world of commerce.

Any attempt to highlight culture as a development tool carries with it the risk of finding oneself caught up in an ideological confrontation between a development model based on the laws of the free market and globalisation, and one based on a respect for distinctive local identities and the fight against economic globalisation. Those taking part in the seminar succeeded totally in avoiding such a confrontation.

But it was necessary first to avoid another pitfall, that of confusing cultural promotion with a withdrawal into one's cultural identity. This is a complex problem, as was made admirably clear by both Danièle Smadja in her conclusions and Ambassador Munoz Ledo in his introduction. Culture obviously defines identities, and its key role in development is precisely that of giving back to disadvantaged populations a suppressed or lost sense of identity, thus making it possible for them to enter into a relationship with the Other. Culture thus becomes a vehicle for dialogue.

Avoiding the risk of an ideological confrontation also means going beyond a purely economic approach to development to a holistic one, in which it is possible to consider poverty as not simply a lack of material goods but also the possession of non-material riches, as was admirably stated by Malcolm Subhan and Stephen Kinnock. What no doubt remains to be done is to match this holistic approach to development and the concept of "controlled globalisation" dear to Trade Commissioner Lamy and which, in many ways, is the translation from the institutional to the international level.

Behind this debate on the possible loss of control at the ideological level, and the means of overcoming it, one can make out the basic question regarding individual actors and their role in this process of promoting culture for developmental ends. How and with whom is this process to be encouraged? There are the artists and all those who participate, in whatever capacity, within civil society, in cultural activities. But there are also firms. How are the normal commercial interests of cultural enterprises to be reconciled with their natural mission as promoters of cultural diversity?

Cultural industries, as Philippe Kern quite rightly emphasised, are not charitable organisations. They help foster cultural expression, on the basis of commercial criteria, through productions which meet a demand. It is therefore up to public institutions to see to it, by means of a suitable international framework (UNESCO and the WTO in particular) that the free play of market forces does not result, in the case of cultural goods, in a



reductionist approach to the diverse forms of cultural expression but, on the contrary, is accompanied by a lively dialogue between cultures. It is this expression of the diversity of identities that must be protected. It is respect for this diversity which must be the touchstone of quality, and which must be backed by a political will stronger than the inertia of bureaucratic structures and commercial apparatus.

However, a plethora of cultural activities, managed on a shoestring, is incompatible with the administrative constraints of public institutions such as ours, which favour large-scale projects which allow management costs to be kept to a minimum. It is also incompatible with market forces. The market clearly must not impose its own criteria in the case of activities undertaken in the framework of cultural co-operation; but one cannot ignore its impact, on not only producers but also consumers of cultural goods.

The necessary political impetus is not possible, however, in the absence of the appropriate instruments. It is necessary to combine daring and imagination with realism and effectiveness, in order to ask all the questions one mustn't ask ("thinking the unthinkable" in Stephen Kinnock's words), for we need to know who is best placed to assume operational responsibility for external cultural co-operation.

Is it the European Commission, an institution that is one of a kind and the depository of the very idea of cultural diversity? Is it a representative "agency," or one that relies on all the cultural institutes of the 15 member states? And what is one to make of the attractive idea, launched at the very beginning of our seminar by the Mexican Ambassador, of a responsibility shared between the European Union and its developing country partners?

Asking the forbidden question, "who does what" when it comes to co-operation, does more than throw light on the European Commission's management constraints in this field as in others. It requires us, above all, to view the Commission's actions in terms of its own value added. What are the areas of activity, as regards cultural cooperation, in which the European Commission can do better than the others, and be more effective? Alain Sancerni's excellent working paper identified three such areas:

- ◆ Cultural development, which may be defined as everything that contributes to the introduction of mechanisms which facilitate dialogue, creativity, training and access to culture, the physical and legal protection of sites and works, and also measures the effects of cultural policy.
- ◆ The creation of networks of actors, together with professional mobility needed to allow them to

share their experiences; the work of cultural foundations.

- ◆ The quickest way, and the one that is most in keeping with the concept of holistic development, is the integration both of culture's transverse dimension, and respect for the culture of the Other, in all development co-operation projects, as the basis of the EU's co-operation policy.

The gamble which the seminar represented can be considered as having succeeded in all its concrete and operational aspects. The instruments are there, real or potential; they have been identified and only ask to be used.

The last, and most important, question remains. How can we transform this potential, how translate the conviction born of strong and robust arguments, into a truly political decision?

This was not the aim of the seminar, which was to prepare the ground, argue, convince, but not decide. This will be for later, after a necessarily long period of development, following a path at the end of which our programming instruments and our papers on regional and country strategy will end up by taking into account the cultural dimension of co-operation, and the pressing need to act in this area.

Culture is the final antidote to the poison of hate and barbarity. ■

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Culture and development

by Alain Sancerni

Europe can be defined not only by similarities in its shared way of life, but also by certain key values: respect for difference, human rights, democracy, freedom, equality, social responsibility, the human dimension of development, regulation of market forces, etc. These values have never been a given: they have been deliberately formulated, shaped and applied, through a conflictual history, against contradictory traditions and hostile forces.

At certain times, they have been the pretext for the most barbaric acts and the cause of the most deadly wars. They have informed the construction of Europe from the start. Today they are part of our cultural heritage. They determine our way of acting in the world and of dealing with international relations, as well as with domestic issues.

Europe needs to express these values and to share them with others. Our partners are right to demand the same privilege in return. The European Commission must therefore devise and implement methods, programmes and mechanisms which can enable this exchange to take place on a basis of equality.

Cultural activity has a serious image problem, not only in the eyes of the European Commission itself, but also more generally in the view of the authorities of the European Union member states. Culture is still seen as undeniably valuable, but only in a highly abstract sense. There is no longer any will to give that value form through concrete action, tangible policies and actual programmes. Society is now a "market," in which immediate payback and quantifiable benefits take pride of place. The need to "prioritise" means that culture has been banished from most institutions.

The advocates and devisers of cultural policy must also bear part of the responsibility for this state of affairs. They have not always succeeded in explaining why culture is still central under the modern economic order. Nor have they always been able to demonstrate effectively how culture can respond to the globalisation of exchange and trade, by articulating the values on which it should be based.

EU policy

European Union cultural policy operates on 3 levels:

1. Within the EU: the protection and promotion of European resources and creations; strengthening solidarity and exchange; promoting shared values.

2. With third countries: The direct aim of the cultural exchange policy with third countries is entirely focused on the promotion of intercultural dialogue between Europe and the rest of the world. It seeks to promote awareness of European cultures and their diversity outside Europe, and to enhance European knowledge of other cultures, so as to improve mutual communication and understanding.

3. "Development by cultural means:" A policy of "development by cultural means" seeks to extend this intercultural dialogue and to build on its results: through the EU the European nations are pursuing programmes to promote development and reduce poverty (in the broadest sense of the term, i.e. not simply material poverty) as well as the social inequalities to which poverty gives rise. Culture is an essential element in these strategies.

Only the second and third of these three levels are addressed through the European Commission's cultural co-operation programmes, but all three are clearly aspects of a single project, which is grounded in the practice of encouraging a "dialogue between cultures." Individual programmes address a number of complementary objectives through projects which vary according to the five regions* where they are executed, as well as in response to local situations and circumstances.

These objectives include:

- ◆ Cultural exchanges.
- ◆ Strengthening the capacity for expression, dialogue and exchange.
- ◆ Economic, social and human development. Reducing poverty and inequalities.
- ◆ Promoting cultural industries.
- ◆ Conservation of resources, traditions, works and sites.
- ◆ Access to culture for all, through training, sharing and dissemination of cultural goods.

Cultural co-operation with Asia

The European Commission has two co-operation programmes which incorporate a cultural dimension (defined here as including exchange programmes for training, research, social activities, etc.).

1) The EU-India Economic Cross-cultural Programme:

This programme, launched in 1997 and now extended until 2006, seeks to strengthen mutual understanding. Funds totalling €37.5 million have been made available for the co-financing of projects in three areas: universities, media and communication and business.



2) The Asia-Europe Foundation (ASEF):

Launched in 1997, ASEF seeks to promote exchanges between civil society representatives from the 15 EU and 11 Asian countries. It has €20 million in funding, of which the European Commission has contributed €3.5 million. Its activities include cultural, social and intellectual exchanges; seminars, meetings, conferences; exhibitions, artistic competitions, shows and youth camps and community-level exchanges.

An assessment

The European Commission's external cultural co-operation activities may be modest in scale, but at least they do exist, and they often have a significant impact in the areas where they are applied. Where actions have been implemented, they are always appropriate, and usually stand out for the originality of their approach when compared to other multilateral or bilateral co-operation.

Results have been achieved; programmes are running and continue to grow; methods have been established; experience is being built up. All this should help better define the place and objectives of European cultural policy. The European Union is aware that it has the potential to play a central role in world cultural dialogue, both because of the values which it represents and defends, and because of its capacity for implementing projects, either jointly or on its own.

In the field of development aid and co-operation, the European Commission is gradually defining its own distinctive objectives and methods, with the aim of establishing an equal dialogue with its partners. This involves both integrating culture into economic and social development processes, and encouraging the widest possible access to the goods and values generated by the cultural industries.

The quality of these achievements, and the scale of the potential, should not be allowed to disguise the weaknesses of European cultural co-operation. To begin with, EU policy lacks regional coherence. The ACP countries may receive systematic (or, at least, regular) support for culture, but there is no comparable consistency in the approach to other geographical zones (including Asia).

This disparity has a number of consequences. It reduces the potential for horizontal co-operation between the different zones, and with it Europe's capacity to promote the inter-cultural dialogue which is one of its objectives, and for which it could usefully act as catalyst. At the same time, differences between the technical and financial instruments used to implement the various programmes only aggravate these geographical disparities.

Available funding is put to good use, but remains inadequate with a view to creating a sustainable, dynamic and consistent set of projects which could function as a whole. The EU just does not devote enough money to these programmes to have a significant impact on the economic and social conditions of cultural development, or of development *through* culture.

Culture would appear to be a "relative priority" – relative, that is, to the European Commission's other priorities and commitments. Indeed, it has always to date been a low, or even negative, priority. The Commission has not yet given itself the means to match the important role which culture plays in society, where it has not only an economic impact, but also a role in creating employment, furthering education, and ensuring social harmony and political balance. A real European policy for external cultural co-operation has yet to be defined – one which would identify a field of action, objectives, an approach and methods which are specific to Europe's political structure and to its fundamental values.

Due to what we might call "natural subsidiarity," authority in cultural matters currently resides, often by default, with the former colonial powers, on the one hand, and to the international agencies (UNESCO, UN) on the other. The former have clung to the prestige which it confers, and take the lead on cultural exchanges and events; the latter have taken over the moral and physical management of our universal heritage, and are responsible for protecting heritage sites and promoting inter-cultural dialogue.

The European Commission's present approach wavers uncertainly between these two poles, and this uncertainty weakens its action, by depriving it of any distinctive character. Creating a clear identity for its cultural action is the main task now facing the European Union. ■

* They are: Africa and the African, Caribbean and Pacific (ACP) countries; the Euro-Mediterranean partnership; Latin America; Asia and Eastern Europe.

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Making Waves or Just Drifting Along?

by Georg Wiessala

The EU's designs towards its Asian partners are undergoing a gradual reincarnation. Until now, EU 'Asia Policy' has traditionally been a dynamic amalgam, structured by many elements: the Common Foreign and Security Policy (CFSP), Development Policy, a number of Commission 'Strategy Papers' (1994, 2001), erratic relations with ASEAN, and by the new conduit of ASEM, beginning in Bangkok in 1996. The events of 11 September 2001, however, and what was subsequently termed the 'war against terrorism' in Afghanistan and elsewhere, have re-focused minds, brought EU-Asia relations into a sharper focus and subjected them to more intense public scrutiny.

True, the Union's Asia approach had already developed its own, considerable, dynamics, driven by 'Asian Flu' and its aftermath from 1997/8 onwards. The Commission's new blueprint *Europe and Asia: A Strategic Framework for Enhanced Partnerships* (COM (2001) 469 fin), the ASEM 4 summit in September 2002 and the July 2002 update (see e.g. COM (2002) 340 fin) of an older Council Regulation (EEC 443/92, 25 February 1992), covering Asia and Latin America (the 'ALA'-Regulation), have all provided sufficient corroboration for that.

And there is considerable merit in the fact that there is now a lively EU-Asia dialogue *at all*, where there was, at best, benevolent neglect, a decade or so ago. This and the rapid 'branching-out', widening and deepening, of Asia-Europe relations after the end of the Cold War count for a lot in the volatile arena of international relations.

But there are now a considerable number of new agents and catalysts, which re-shape the EU's more recent relations with its Asian partners. Some of these are extensions of the traditional policies mentioned above; some are entirely new departures for the Union; most are a mixture of both; all appear to be informed by the varying geo-strategic vocabulary of 'threat'.

Threat, that is, not only in terms of the traditional - almost 'time-honoured' - challenge of being out-manoeuvred by an overwhelming American or Japanese presence in Asia, but also regarding the new dimensions of terrorism in Afghanistan, Bali, Yemen and elsewhere. Recognising this, the European Parliament, in a report of 19 June last year, called on the EU to intensify its association with Asia, in

particular with Malaysia and Indonesia, and asked very pertinently: '*do we wish to be relevant in Asia or just to drift along?*'

To be sure, questions of the EU's continued relevance in Asia have been uppermost on decision-makers' minds since at least the Commission's 1994 paper, *Towards a New Asia Strategy* (COM (94) 314 fin). And the activities connected with the EU's prevailing agenda of 'presence, prioritisation and profile' in the East have been woven into every major policy strategy on Asia since then. Even so, the re-routing of the EU-Asia dialogue occasioned by the events of the last two years is considerable - and it is here to stay.

EU-Asia relations have undergone a rapid re-prioritisation since those crimes against humanity of 11 September 2001. As has been justly argued, there can be little doubt that some traditional aid-oriented EU policies towards Asia - India in particular - have been adversely affected by a re-distribution of resources. But beyond that, a broader EU policy-realignment towards Asia now appears to be firmly on track and is gaining momentum.

The overhauled ALA-Regulation aside, evidence for this can be found in new EU initiatives covering e.g. Pakistan and Afghanistan. It includes the Council's new Common Positions and a fresh cluster of Commission 'Country Strategy Papers' covering a number of countries, including many Asian ones. It can also be traced in the recent Asia-Europe Meeting (ASEM 4) in Copenhagen.

The Conclusions of the European Council meetings at Ghent and Laeken and of the General Affairs Council have paved the way for this paradigm-shift. On the one hand, this has happened by reaffirming 'total solidarity' with the US, however contentious this might have been; on the other hand, concerning Asia, it has been realised by affording a stronger preference to the 'dialogue of equals'-discourse, over and above millennial 'clash-of-civilisations' anxieties, fuelled by the now (in-)famous Huntington article and its numerous (mis-)interpretations.

In mapping out a more stringent, regionally focused, approach, Ghent may well be seen, in retrospect, as somewhat of a milestone for EU-Asia dialogue. It can, perhaps, best be conceived of as a set of concentric circles: more immediate concerns regarding Afghanistan (crisis management, aid, regional stability, democracy) are located in the centre; long-term ambitions, such as CFSP-related activity pertaining to the country, are found on the outer rings. Thus Ghent, like the campaign in Afghanistan, has had effects on the EU's Asia Strategy, akin to a stone being thrown into a pool of water and making waves.



Among the first ripples were the EU's new measures for the region, i.e. the upgrading of ties with neighbouring states. Particularly prominent was the speedy intensification of EU-Pakistan links. This encompassed measures widely interpreted as 'political incentives', such as the fast-tracking of the long dormant Co-operation Agreement. This was accompanied by EU pledges for accelerated economic assistance to Pakistan, including a € 1.4 billion package of trade concessions, designed to improve access for Pakistani exports to the EU (*European Voice*, 18-24 October 2001: 25). Through this trade deal and the inclusion of Pakistan in the EU's special GSP-related drugs regime, the Commission clearly articulated its view of trade as a 'weapon of peace'. This is hardly a new, neither a very contentious, view.

What was new was the directness with which this move 'rewarded' Pakistan for its 'courageous decision' to side with the West in the fight against terrorism. Further, outward-moving, waves of the new EU-Asia policy were caused by the plans for a more vigorous development of relations between the EU and India, Iran, Saudi Arabia, the Middle East, the Gulf States, the DPRK, South East Asia and the Central Asian Republics. The Commission's Country Strategy Paper on Central Asia of 10 October 2002 further reflected the re-evaluation of regional EU foreign policy aims for a region possessing considerable strategic importance.

This geo-strategic re-positioning of EU Asia priorities was also detectable in the development of the ASEM process and throughout ASEM 4 in September 2002. Within the established 'pillar-system' of ASEM (economic, political and cultural/educational pillars), it was the strengthening of the last two, which presented the participants with the greatest opportunities and challenges over the last few years. Cultural issues emerged in a much more pronounced and irrevocable way from the shadow of an EU-Asia relationship hitherto overwhelmingly dominated by economic interest. This general re-weighting of interests within ASEM was welcomed by many. It both set the scene, and was reinforced by, the recent Copenhagen meeting.

In addition to this, it can be argued that each summit - bar, perhaps, the first one - was, to a degree, sidelined by a different 'over-arching' event or situation. What 'Asian Flu' was for ASEM 2 (1998), the 'Asian Recovery' and the prospects of inter-Korean reconciliation represented for ASEM 3 (2000). Not surprisingly, 11 September and the 'international war against terrorism' cast a long shadow over ASEM 4. Without wholly taking over the summit, pressing issues of international security, however, considerably augmented the need for both Asian and European partners to contribute to the development and re-direction of a 'new' New Asia Strategy towards North Korea, Pakistan, Iran,

Indonesia or elsewhere in the region. In the way it attempted to come to terms with the new 'catastrophe-terrorism', ASEM 4 proved to be wholly commensurate with the new trends in the Union's approach to Asian countries.

Whether this is taking place with the intention of counterbalancing increasing American weight is, of course, open for debate. It is encouraging, though, that the EU's policy- realignment, in conjunction with international events since 11 September 2001, is now beginning - only just beginning - to be conducted through a more meaningful 'inter-civilisational dialogue' on human rights and values.

The EU's Asia policy must now be developed further, in order to transcend a position in which it is beginning to drift towards a number of directions at the same time. The spirit of anti-terrorism has clearly provided the Union with an unprecedented opportunity to overhaul its dialogue with Asia. The challenge of the immediate future will now be to move things into clearer focus, to avoid being seen as prolific on rhetoric but going around in circles. One issue, above all, presents itself as an example of the way forward: an unbiased, focused, inter-continental discourse on the implications which of the 'war against terrorism' has on Human Rights and Civil Liberties, in Asia and Europe, should be pursued as an imperative. It must not be ignored, if the Commission's memorable, new 'ASEM motto' of *Unity and Strength in Diversity* is not to remain dead in the water. ■

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Global Ageing

The world's population will age faster in the next 50 years than during the past half century, according to the latest report on world population prospects from the United Nations Population Division. An indicator of population ageing is an increase in the median age – the age that divides the population into two equal halves.

The median age for the world rose from 23.6 years in 1950 to 26.4 years in 2000. It is expected to reach 36.8 years in 2050. Over the last 50 years the median age for Europe has risen from 29.2 years to 37.7 years; over the next half century it is expected to reach 47.7 years. The median age for Asia is estimated at 38.7 years (as against 22.0 in 1950 and 26.1 in 2000).

“In the coming decades, the European Union and its accession countries will undergo unprecedented changes in the size and age structure of its population.” The European Commissioner for Economic and Monetary Affairs, Pedro Solbes, made this sobering prediction when opening the 2-day conference on global ageing, which he organised, jointly with the Center for Strategic International Studies (CSIS) in Brussels.

The general approach to the challenge of ageing populations was suggested in the title of the Conference: “The economic and budgetary implications of global ageing.” But the core issue, as Mr. Solbes noted, “is the impact of ageing populations on labour markets and potential growth.”

The former Prime Minister of India, I. K. Gujral, provided this response:

Towards a North-South Summit on Global Ageing

by Inder Kumar Gujral

Global ageing is an issue that had escaped notice until recently, yet it is of profound importance; it may even determine the shifting balance of economic and political power between the various countries and regions of our planet earth.

There are many issues and problems which threaten to undermine the very foundation of the civilised world, as we know it today. Whether it is global warming and climate change, environmental degradation, the AIDS epidemic, or the threat from global terrorism, one very basic lesson must be learnt. It is that no single country or society is powerful enough in itself to ward off the

manifold threats to its prosperity and well-being. Collective security is essential if human civilisation is to prosper and progress. Global ageing is likewise a profound challenge which will not be solved within the individual means of any single country or region. The resources of the world as a whole would have to be marshalled to address the challenges that lie ahead.

The Centre for Strategic and International Studies (CSIS) has done pioneering work in studying and analysing global ageing, and I am privileged to have been associated with it for some time now. I am glad that the report of the CSIS panel shares my view that a North-South dialogue on the issue of global ageing, including perhaps North-South summit meetings, would serve a useful purpose.

I have studied the CSIS panel report, “Meeting the Challenges of Global Ageing,” with considerable interest. It is an excellent summary of the various complex forces that are determining the dynamics of the global ageing and the manner in which it is likely to impact our societies in the decades ahead. I have two observations, however, as regards the approach adopted in the report.

My first observation is that the research seems to be excessively focused on the microeconomic elements of the ageing phenomenon. An overwhelming majority of its recommendations relate to adjustments required in pension schemes, labour markets and the financial rules of the game in developed societies. The underlying concern seems to be on the short-term measures required to improve the solvency of the pension and welfare liabilities of the ageing industrial world.

To my mind, insufficient attention is paid to the big picture. The fundamental issue is how can the world economy in aggregate grow faster; how can we sustain and enhance improvements in productivity, innovation, technology in order to maintain, and possibly enhance, the historical growth rate of the world economy? If such global macro-economic gains could be realised this would provide a favourable environment to tackle the microeconomic adjustments necessary to meet future requirements.

My second observation is that the inherent microeconomic bias of the report tends to underestimate the challenges that global ageing poses. Indeed, the very word “ageing” is in some respects a misnomer for it tends to convey the impression of a civilised, leisure-oriented and benign existence of ever-increasing human longevity. It disguises the underlying and very real threat posed by depopulation, the result of the growing numbers of the elderly who are being supported by an ever-declining number of younger people. India, for example, is also



ageing; our elderly population will increase from 76 million today to 103 million in ten years time.

It is against this background that I feel that we should look at the larger picture first. There are at least three areas in which I can see North-South co-operation fundamentally improving the dynamics of global economic growth, thereby mitigating the problems of global ageing. Firstly, there is the unresolved issue of liberalising world trade in agriculture. This trade is grossly distorted at present by the indiscriminate support provided to domestic agriculture by developed countries such as Japan, the US and, more particularly, the European Union.

The developed countries spend an estimated \$1 billion per day, or about \$400 billion per annum, on a range of agricultural subsidies. The net effect of this on the world economy is both regressive and wasteful. It is regressive because it reduces employment and income opportunities in the poorer regions of the world, even while raising food prices to Western consumers. It is wasteful since it ties down the manpower and resources of the West to comparatively less productive activities, while foodgrains could be sourced better and more cheaply in the developing world.

Australia and New Zealand in particular have shown that the elimination of agricultural subsidies need not destroy local agriculture but can redirect it to more specialised and value added uses. A genuine liberalisation of world trade in agriculture would, through indirect multiplier effects, stimulate the trade, travel and transport industries amongst others, and lead to greater developing country demand for the goods and service of the developed nations. I believe that in a world of global ageing, whole-scale reform of the common agricultural policy will become inevitable. Speaking here in Brussels, I must urge the European Union to view the issue in a wider context, and speedily pursue its overdue agricultural reform.

A second major sector in which North-South co-operation offers a way out from the daunting challenges of global ageing is through the opportunities offered by technology. While the dynamics of demography can be predicted accurately, and thus planned for, there is no equivalent means of projecting advances in science and technology. What cannot be foreseen is inevitably ignored, and our present approach implies tackling the problems of the future through the instruments of today.

There is one apt and interesting example of the manner in which technological developments can be coupled with North-South co-operation, to directly mitigate the effects of ageing in the industrialised countries. Since this example is drawn primarily from India, I can elaborate upon it with a degree of authority. The

Internet age has enabled the transmission of data around the world at negligible cost. This phenomenon has led many pundits to believe that the whole process of value addition in the Western world would be recast in as fundamental a manner as the industrial revolution transformed manufacturing from a cottage industry to the factory-based mass production methods of the 19th and 20th centuries. In the 21st century, however, the digital age has already led to the phenomenon of “business process outsourcing”, BPO in short, which enables many non-core functions of Western corporations to be outsourced to any location of their choosing.

Increasingly, many corporations, attracted by the talent and industriousness of India’s young people, are locating BPO operations in India. BPO includes a variety of functions, ranging from telephone call centres to very sophisticated back office operations, including global logistics management, equity research and analysis, the handling of complex financial transactions, and the like. The BPO industry was virtually non-existent in India as recently as 1999. Today it is multi-billion dollar industry, and experts claim that by the year 2008, India’s BPO sector will be generating about \$21 billion in annual revenues, while employing two million workers directly and a further two million indirectly.

The interesting feature of the Indian BPO industry, and the point that I particularly want to emphasise here, is that the average age of the quarter million Indians who work today in the BPO industry is just 27 years. Modern technology, in other words, has enabled the young graduates of India’s educational institutions to join the global labour force without having to leave home. This process has helped India as well as Western firms, allowing them to cut costs and reduce their labour force.

The CSIS panel report notes that problems of depopulation in countries such as Germany and Japan are already so severe that just maintaining the age structure of the German population would require the influx of millions of immigrants each year. The movement of people in such large numbers would obviously be socially disruptive. The Internet, however, poses no evident limitations on the number of virtual workers who can be enlisted in the value creation networks of the digital workplace. Nor will the emergence of the Internet economy lead to what detractors call a “hollowing out” of Western enterprises. On the contrary, this Internet-induced revolution would free the Western labour force for work in sophisticated, high-value industries such as space, engineering design, biotechnology and the like.

Another area in which the present analysis underestimates the potential for North-South interdependence is in the maintenance of global peace and



stability. Indeed, the CSIS panel report tends to visualise the dynamics of global ageing in terms that suggest a possible adversarial relationship between the Western industrialised world and the emerging economies of China and India. A World Bank study, quoted in the report, suggests that there would be no net income benefits in North-South co-operation.

I beg to differ. The third and, in my view, the most beneficial impact of North-South openness to each other would be in the most basic requirement of human security. The imperatives of global peace and security demand a world economy that is expanding, one that draws on all its resources and likewise offers opportunities to all. It is perhaps a truism that nations and societies which trade and invest in each other do not, whatever their differences may be, end up in violent conflict.

I hardly need to emphasise this point here in Brussels, which has been the centre of the dramatic transformation of Europe from a continent that was perpetually at war to a continent of peace, through slow, steady incremental steps towards integrating first trade and later economic, monetary and political policies. Progressive North-South economic integration would be an indispensable contribution to a global environment of peace, security and well-being.

An interdependent, global economic community, in which all countries, whether developed or developing, felt that they had a stake, would be a durable guarantee for peace. Such an environment would greatly reduce the risks posed by the rogue regimes and failed states that have unleashed so much terror on the world in recent years. It would lead to a world where military expenditures could decline and where confidence, trust and rising human resources would reinforce each other, to sustain economic growth and social well-being.

Finally, I wish to point to the growing global concerns about governance and unethical corporate behaviour. Whenever the subject of corruption is raised, it is seen as a problem for the South, a weakness that is endemic and peculiar to the developing world. Yet as some of the most recent corporate scandals have revealed, unethical corporate behaviour is no less a problem in developed societies, where indeed it poses much wider, transnational concerns. Our own experience would confirm that developing countries face a major problem when they open up their markets to trade and investment from abroad, in that such liberalisation often attracts the least desirable and most unethical of foreign investors – those seeking to cash in quickly by exploiting the inefficiencies and vulnerabilities of an immature local economy. Such predatory behaviour must be effectively curtailed through an international system of norms and regulations, in order to ensure that

liberalisation entails the spread of best management techniques and strongly ethical corporate practices.

I would like to conclude on an optimistic note. I come from India, a country with a prolonged colonial past and a heterogeneous people that have successfully created a sophisticated, multi-dimensional democracy and is challenging the world today in many areas of high technology. So optimism perhaps comes naturally to me. I believe that there is no human crisis so acute that it cannot be resolved through human ingenuity. Challenges, indeed, are usually opportunities in disguise. I am sure that the challenge of global ageing can be overcome, and that North-South co-operation will be central, not peripheral, to its solution. ■

Editor's Note:

This is a shortened version of the speech delivered by Inder Kumar Gujral, a former Prime Minister of India, at the Conference on "The Economic and Budgetary Implications of Global Ageing," held in Brussels on March 4 and 5, 2003. The Conference was jointly organised by the European Commission and the Centre for Strategic and International Studies.

This is what *European Commissioner Pedro Solbes* had to say about the core issues in a speech "Is Europe facing up to the challenge of ageing populations?":

"Fertility rates are expected to remain well below the natural replacement rate, and life expectancy is projected to continue to increase by about one year each decade. Migration flows are hard to predict, but in the absence of major policy changes, they are unlikely to reverse the overall demographic pattern. The population of working age in Europe will start to shrink as of 2010. Unless offset by increases in productivity growth, a fall in the supply of labour will mean that the potential growth rate will fall...living standards will be lower than what could be expected."

"Short and medium-term challenges inevitably receive greater attention than long-term challenges. The main concerns are pensions and health care programmes, which lie at the very heart of the social contract between governments and citizens. Negotiations on reform are inevitably complex and sensitive."

"I would like to call for a wider public debate on what I consider to be two of the most fundamental issues. Firstly, we need to reconsider our approach to working lives. Is it sensible that people abruptly retire between the ages of 55 and 65, only to be economically inactive for the last 20 or 30 years of their lives. Secondly, I think a wide public debate is needed on the relationship between the State and individual citizens as regards the burden of responsibility for demographic risk. The question must be asked as to how individuals and governments should share bearing the risk of increased longevity."

One Global and Two Regional Currencies: What Next?

by Dr. Willem van der Geest

The creation by the European Union (EU) of a 12-member monetary union with its own currency, the euro and the EU's forthcoming enlargement, are developments of truly of global economic significance. The euro, which is already in the pockets of some 300 million consumers within the EU, will find takers in Central and Eastern Europe, and perhaps even the United Kingdom. Economic and Monetary Union has made the euro the second global currency, after the US dollar.

In this article I will review the euro's international role after its first year of full-scale introduction. It is argued that inter-regional co-operation between the euro and the yen may become a distinct possibility. The euro already contributes to greater global stability – but more can still be achieved. Closer collaboration between the euro and the yen would help reduce global currency volatility, with benefits to both the EU and Japan.

This inevitably is a project for the long term. However, a start on strengthening the dialogue on economic and financial policies could be made without delay. I am thinking in particular about sharing experiences in economic and financial integration with a view to supporting monetary co-operation in Asia. Indeed, why not look into the feasibility of an Asian Monetary System?

The Euro's international role

The European Central Bank (ECB) monitors the international role of the euro continuously. However, promoting the euro as a global currency is *not* an independent policy goal of the ECB. Strategic decisions about using the euro (whether for reserves, transactions or as a unit of account) are made by central banks, private sector operators and households in a decentralised way. They evaluate their perceived returns and risks. The ECB's recent review points to a gradual strengthening of the international role of the euro*:

- Since its launch, the percentage of euro-denominated international debt securities (with a maturity of one year or more) has steadily increased from 20 to 29 %, as compared to 44 % for the dollar and 13 % for the Yen.

- In money markets, euro-denominated instruments (maturity of less than one year) increased from 9% on average between 1994 and 1998 to 19% by the middle of 2002.
- The largest euro-bond issues by non-euro area residents were for €5 billion each – three from the Federal Home Loan Mortgage Corporation and one from Ford Motor Credit, as well as two from the European Investment Bank (EIB), with maturities of 3, 5 or 10 years. Asian institutions, such as the Development Bank of Japan, have also floated euro-denominated bonds.
- Emerging market issuers make only limited use of the euro, except those geographically close to the EU, including Turkey, which is one of the largest issuers, using both the euro and US dollars.
- Euros accounted for about one-fifth of global spot trading – well behind the US dollar (approx 42 %) but ahead of the Japanese yen (13 %).
- Global and euro swap volumes fell, while euro forward trading remained stable at the level of the legacy currencies.

While the US dollar remains the main vehicle currency in Asia, the Middle East, North and Latin America, the euro is gaining ground in the Nordic countries and some Central European countries. The euro can be said to have inherited 'the regional vehicle currency role' of the deutsche mark.

This is the rationale behind the call for greater co-ordination between the euro and the yen. Both these currencies have a secondary global role, while they are the key currency vehicles and anchors within their own regions (respectively Europe and East Asia).

The ECB is fundamentally committed to an inflation-targeting regime, with 'fully' flexible exchange rates – interventions in the foreign exchange markets and/or money markets are made with a view to keeping the inflation rate below the maximum. From the ECB's perspective, a decision by any country to use the euro as an anchor currency is 'a unilateral decision which does not involve any commitment from the Eurosystem' (ECB, 2002, p.45). Japan therefore must compare this with keeping to the present regime of an independent floating currency and/or a closer alignment with the US dollar.

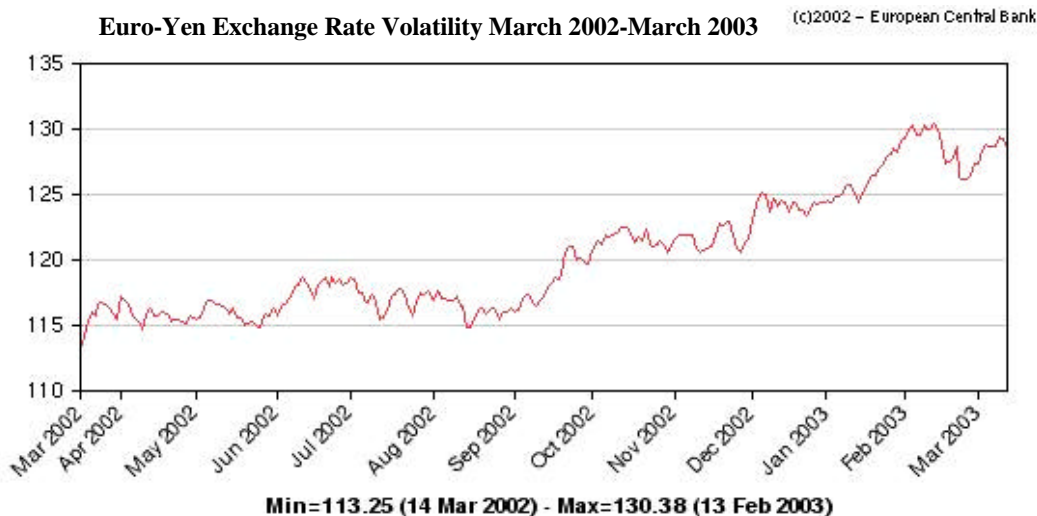
Euro-yen exchange rate volatility

The euro has been very volatile relative to the dollar as well as to such major Asian currencies as the Japanese yen and the Korean won, during the three years since its introduction. The risks of using the euro are positively correlated with its volatility vis-à-vis the other major currencies, particularly the Japanese yen and the US dollar. As *EurAsia Bulletin* went to press, the Euro touched a 4-year high against the dollar at euro 1.1039 -- against the backdrop of the Iraq crisis.



The euro had also gained against the Japanese yen: it peaked 130 yen to the euro on February 13, although by early March the yen started to appreciate faster.

Japanese exports, whether in its trade with its "hinterland" (Korea, China and South East Asia), or through increased trade with the EU and the US.



Any attempt to forecast the international value of the euro and the dollar vis-à-vis Asian currencies over the medium term is fraught with difficulty, because of the multiple forces pulling in different directions. Throughout East and Southeast Asia, the relationships between exchange rates, financial flows, fiscal deficits, non-performing loans and the geopolitics of the Iraq crisis are complex, and the subject of intense debate among the region's economic and financial analysts.

Some of the major global imbalances result from the underlying flow of funds matrices. Japan has throughout the 1980s and 1990s seen its savings rates decline from 32% to 28% of its stagnating gross domestic product (GDP). These levels nevertheless were far higher than those of the EU (constant at around 20%) or the US, which declined from 18% in the second half of the 1990s to 16% in recent years.

While net lending has remained positive for Japan and the EU, the US has continued net borrowing on both private and public accounts. However, the economic slowdown in Japan has significant longer-term consequences for the position of the other global players as well. A reduced volume of savings in Japan means a greater shortage of global resources available for investment.

The US may find it increasingly difficult to attract net resources to ensure that its investment rate can exceed its savings rate. In the long term, one would expect to see (i) higher borrowing costs as excess demand drives up interest rates, and (ii) a secular slowdown in US growth rates.

Because of the peculiar structure of this global flow of funds matrix, we should expect to see a continued appreciation of the yen, relative to the dollar and the euro. This would limit the scope for an expansion in

However, significant countervailing powers are at work too. Japan's fiscal imbalances have grown dramatically during the 1990s, just as the EU adopted an aggressive stance to keep its fiscal deficits under control through the application of the strict Maastricht criteria – its so-called Growth and Stability Pact.

In Japan, government deficits (general) have rocketed from 2.8% (in 1994) to minus 7.1% per cent of GDP during the period 1999-2001. Over the same period, in Stage Three of its Economic and Monetary Union, EU fiscal deficits were much reduced: from over 5% in the first half of the 1990s, they dropped markedly to around 1.5% for the first years of EMU (1999-2001).

Although these tight targets are under much pressure as a result of the present, post-September 11 slowdown, the overall picture is one of considerable fiscal prudence in the EU. The IMF forecast for the eurozone is for a fiscal deficit of -1.5% during 2003 – which is well below the -2.3% foreseen for the US economy.

It is quite impossible to make an accurate forecast of the euro/yen exchange rate over the medium term. While some believe that the rate will stabilize around current levels, others maintain that the euro is overshooting on account of uncertainty regarding Iraq in particular and geopolitics in general.

Less controversial is the view that the dynamics are likely to lead to considerable and continued volatility as regards not only the euro and the dollar but also intra-regional exchange rates. Asia's strong official reserves - with the lion's share held by China, Japan and the Republic of Korea - will not be enough to reduce volatility. However, regional monetary co-operation may provide part of the answer.



Benefits of an Asian monetary union

The economic benefits of closer monetary co-operation within Asia, as in the case of the eurozone, include:

- reduced volatility in the exchange rate of the union vis-à-vis its major trade and investment partners, a
- reduced transaction costs for cross-border trade and investment in goods and services within the union.

The benefits of monetary union may be expected to increase if there is (i) greater price flexibility within the countries; (ii) greater mobility of factors across borders; (iii) economic shocks are symmetric across the countries; and (iv) the economies within the union are more open and integrated.

It is an important policy research question whether any groups of countries within East Asia (such as ASEAN-plus-Three) satisfy the criteria for an “optimal currency area” (OCA). Would the benefits of monetary union more than compensate for the inevitable loss of independence in framing monetary policy? Srinivasa Madhur has argued that the success of independent monetary policies in ASEAN has been quite limited. Moreover, ASEAN countries score high on most of the criteria for OCA: (i) factor mobility is quite high as evidenced by the “Asian System” of cross-border migration; (ii) ASEAN has high trade-to-GDP and trade intensity ratios, and (iii) there is a high degree of shock symmetry, due to the openness and the similarity of their economic structures.

For Srinivasa Madhur the “long-run goal of a common currency may be worth considering...because judged by the criterion of optimal currency area, the region is as suitable for the adoption of a common currency as Europe was prior to the Maastricht Treaty.” Another recent survey by Raul Fabella, one with a greater focus on East Asia, concludes that by the criteria of “optimum currency area calculus alone, a case can be made for an East Asian currency union.”

Perhaps most importantly, the political benefits of monetary co-operation are also considerable, as it fosters a climate of co-operation through its mechanism for regional surveillance, information exchange and peer review of macroeconomic policies. These benefits are realised at virtually no cost to the participating countries. Moreover, they are not conditional upon having free trade agreements (FTAs) or single market-type arrangements in place. On the contrary, the existence of effective monetary co-operation facilitates faster growth of inter- as well as intra-regional trade and investment. ■

*European Central Bank, (2002), “Review of the International Role of the Euro”, (ECB, Frankfurt).

EU Co-operation Officer for Macao ruled out

The European Commission has decided not to appoint a Co-operation Officer to the Special Administrative Region (SAR) of Macao, despite numerous requests from the European Parliament. The latest request came from the Portuguese Socialist leader, Mário Soares, who is writing Parliament’s opinion on the European Commission’s Annual reports on Macao for 2000 and 2001.

Parliament is pressing for a Co-operation Officer to be appointed to oversee the European Union’s development co-operation projects in Macao. The European Commission had undertaken to base a Co-operation Officer in Macao, “to assist the co-ordination of bilateral co-operation,” in its 1999 Communication “The European Union and Macao; beyond 2000.” Perhaps in recognition of the fact that Macao already had one of the highest *per capita* incomes in Asia in 1999, the Communication noted that the officer would be appointed only “for a limited period”.

The European Parliament appears to have ignored this point. In his report to Parliament’s Foreign Affairs Committee, Mário Soares called for an EU-Macao Co-operation Officer as part of a broader effort to strengthen links. These links already include a Trade and Co-operation Agreement, signed in 1992, visa-free access for Macao to the EU and a re-admission agreement, which is due to be signed very shortly. Mr. Soares proposed greater links between the Parliament and the Macao Assembly through a “Friendship Group.” Another Portuguese member, Mr Vasco Graço Moura, from the Christian Democrat group, called the appointment of an EU representative as “essential to the maintenance of good relations”.

The continued growth of Macao’s economy means that it will no longer be eligible to participate in co-operation projects, such as the earlier initiatives for a centre for tourism studies, off-shore services development and an Institute of European Studies. This is because Macao no longer qualifies under the criteria set by the Development Assistance Committee (DAC) of the Paris-based Organisation for Economic Co-operation and Development (OECD). These cover a developing country’s capacity to engage in the world economy and the poverty level of its citizens.

The only ongoing project between the EU and Macao is a four-year co-operation programme on legal training, launched in late 2002. The programme trains civil servants, judges and government lawyers on the



drafting of legal texts. The EU is contributing almost €1 million to the programme, which is run in alliance with the Legislative Affairs Office of Macao.

Macao will still be able, however, to apply to *Asia Invest*, the EU programme that promotes business co-operation, particularly between small and medium sized enterprises. *Asia Invest* started in 1997 and targets 19 countries. A second phase of the programme began in January, 2003, with a budget of €41 million. It will run until 2007. However, here also, preference will be given to less developed countries in Asia, which will be eligible for higher levels of co-financing.

Macao has not pressed for the appointment of a Co-operation Officer, according to the European Commission. Although the government under Chief Executive Edmund Ho is careful to maintain the SAR's relationship with mainland China, this has not prevented Macao from pursuing formal relations with the EU and the World Trade Organisation (WTO) in Geneva. Macao will continue to require assistance from the EU, but on terms better related to the level of its economic development. This will be reflected in a new Communication from the European Commission, to take into account Macao's changing needs. The Communication is not expected before the end of this year, however.

The Macao SAR government is expected to issue shortly a proposal to update its sedition laws, along lines similar to the Article 23 legislation that Hong Kong recently proposed. There is no suggestion that the new legislation will be as wide-ranging, although civil rights groups and opposition politicians in Hong Kong had expressed alarm at the severe nature of the bill proposed by their Chief Executive, Mr Tung Chee-hwa. In the event, he subsequently watered down the proposal. The government was also criticised for the short period set aside for public consultation, which was set at three months.

On a bilateral level, the Portuguese government has been actively promoting EU participation in the forthcoming third Eureka (meets) Asia meeting, which is scheduled to take place in Macao in May. The Eureka programme was established in 1985 to promote research and technological development in Europe, through industry and research institutes. The link with Asia was created in 1998, with all bi-annual meetings taking place in Macao. The theme for the third meeting is "Green enterprises for sustainable development." In an effort to boost European participation in an event that is usually dominated by Chinese companies and institutions, Portugal brought it to the notice of both the Education, Youth and Culture Council and the Competitiveness Council. Lisbon has described the meeting an important "showcase for European excellence and innovation." The European

Commission will take advantage of the meeting to hold a seminar explaining the EU's sixth Framework Programme for Research and Technological Development and, in particular, the funding opportunities open to Asian participants.

The one thing that both the European Commission and Parliament agree on is the progress Macao is making under the "one-country, two-systems" principle. For Mr Soares, Macao is "evolving in a satisfactory way," while the European Commission believes that it "shaping up reasonably well for the future". ■

John Quigley

ASEAN Ambassadors dialogue with journalists

Having overcome years of tension and paralysis over trade and human rights issues at their recent ministerial meeting, the European Union (EU) and the Association of South-East Asian Nations (ASEAN) have still to overcome significant differences of approach, if they are to move ahead on their once-ambitious plans.

EU-ASEAN Trade Ministers will gather in Laos in March, as a follow-up to the January meeting of Foreign Ministers in Brussels. On the agenda: examine ways of expanding relations, with moves towards either a preferential trade agreement, as sought by the EU's Asian partners, or gradual regulatory co-operation until the conclusion of the WTO Doha Development round, as preferred by the European Commission.

Having ruled out discussions on any separate Free Trade Agreements (FTAs) until the international trade negotiations are over, Trade Commissioner Pascal Lamy proposed a two-stage process to the EU-ASEAN Ministerial Meeting in January, with the aim of maintaining an EU presence in the wide range of FTAs and other accords ASEAN is entering into with its other partners.

These developments provided most of the talking points for the eight ambassadors, or other representatives, of the 10 ASEAN countries during their briefing for journalists, held in Brussels on March 5. The two-hour, off-the-record session was organised jointly by the European Institute for Asian Studies, the European Policy Centre and the International Federation of Journalists.

Some of the envoys took the opportunity to express their dissatisfaction with the EU's lack of ideas on how to improve relations, whether with ASEAN or during



the recent Asia-European Summit (ASEM) in Copenhagen, and its patronising attitude toward human rights, political diversity or conditionality. Some ASEAN countries expressed their own, more long-term, views on human rights. One diplomat claimed that the EU seemed to have no focus in its relations with the region, as evidenced by the sparse attendance by EU ministers at some meetings, even in Europe.

While the tone of the briefing was often critical of EU attitudes, one ASEAN Ambassador asked his colleagues not to confine themselves to "EU bashing." ASEAN, he pointed out, had its own problems and "has to put its own house in order." But it wanted an equal partnership with the EU, with ASEAN's diversities taken into consideration.

At its last summit in Phnom Penh, in November, 2002, ASEAN leaders set in motion plans for a series of agreements with China, Japan, South Korea, India and the US, while the EU appeared hesitant, or even excluded, following years of stagnation or bickering. And this despite the fact, as one Ambassador underlined, that the ASEAN region was the EU's largest two-way trade partner in Asia. He also pointed out that non-Japan Asia was expected to be the most dynamic economic region in the world. Another diplomat noted in this context that the region had been obliged to cope with the 1997-98 economic and financial crisis without much external help.

The EU could certainly support more actively ASEAN's efforts to successfully integrate some of its newer, less developed member states. However, ASEAN, unlike the EU's African, Caribbean and Pacific (ACP) partners, did "not have the ACP dependence mindset." It was noted, for example, that a number of ASEAN companies had begun to invest in the EU and Eastern Europe.

The hope was expressed that the European Commission's long-awaited Strategy Paper on Southeast Asia, now nearing completion, would chart a course for the future, which would be affected by the EU's forthcoming enlargement to 25 member states. In the wake of this development, EU-ASEAN relations and dialogue would have to be streamlined in the interests of greater effectiveness. This could involve fewer high-level meetings but more meetings at the level of experts to work out the details.

While valuable discussions had taken place recently, in both the EU-ASEAN Ministerial Meeting and the ASEM Summit, there was a need to avoid duplication, and make the most effective use of each process, to ensure that neither was seen as "a waste of time." Some ASEAN diplomats also felt that some individual EU countries might be more interested in entering into separate bilateral agreements, rather than following the bloc-to-bloc approach. One of them even commented

that the EU had no coherent approach in this area. It was noted, however, that EU relations appeared paralysed with other parts of Asia, including India and Japan. "What does it mean?" inquired one ASEAN envoy rhetorically.

Some of the ASEAN Ambassadors noted that a number of ideas had been floated at the January meeting, and in their subsequent contacts with Commissioner Lamy, on an accord with the EU as a successor to the 1980 EU-ASEAN co-operation agreement. They insisted, however, that discussions on this subject were still at an early stage. They would continue to press for a preferential or a free trade agreement in the near future, and defended their existing individual or regional FTAs as supplementing, rather than undermining, the multilateral WTO approach.

Some ASEAN representatives nevertheless felt that the WTO, with its 150 members, slowed down the pace of trade liberalisation. Consequently, members who sought faster and more extensive progress could do so in order to stimulate a WTO process which appeared to be in some difficulty, especially in areas such as agriculture. One ASEAN ambassador maintained that in future "the multilateral approach might be proved wrong and the bilateral approach right."

The ASEAN diplomats held that the EU should recognise the diversity of ASEAN, in matters of trade and other policy issues, including human rights. They expressed some satisfaction over the fact that the years of fencing over Burma/Myanmar's political and human rights record had ended at the January EU-ASEAN ministerial meeting, at which Myanmar had been present, instead of being excluded as the EU had insisted in previous years. The discussion of this particular problem had been more "mature" as a result, and "no one regretted having invited Myanmar." The EU might now consider sending a "troika" Mission to Myanmar, as it had done to North Korea, one Ambassador suggested. The EU was commended for being involved in programmes to combat AIDS in Myanmar, which could be expanded.

The briefing for journalists touched only briefly on questions of terrorism, Iraq and the prospective entry of East Timor into ASEAN. ■

David Fouquet



Building university links

The European Union (EU) has allocated €40 million, over a 5-year period, to encourage Asian and European universities and other higher educational institutions to work together under the *Asia-Link* programme. The aim of the programme is to increase mutual understanding and strengthen mutual awareness of European and Asian cultural perspectives, through projects in the areas of (1) human resource development (2) curriculum development and (3) institutional and systems development.

The European Commission, which is running the programme as the EU's executive arm, received 240 proposals last year, following its first call for proposals. They were submitted by 240 lead applicants, and brought together 717 partner institutions. The proposals thus involved a total of 957 universities and higher educational institutions from the EU and Asia. The European Commission set two deadlines for its first call for proposals. It received 74 proposals under its first deadline (February, 2002). This included 57 EU applicants (77% of the total) and 17 Asian applicants (23%). Of the 229 partner institutions, 122 were from the EU (54%) and 105 from Asia (46%).

The number of proposals received by the European Commission was nearly three times higher for its October, 2002, deadline. It received 166 proposals, involving 488 partners, making a total of 654 institutions of higher education. Proposals were received from 128 EU applicants (77% of the total) and from 38 Asian applicants (23%). Of the partner institutions, 268 (or 55%) were from the EU, 220 (or 45%) were from Asia.

Germany led the way in terms of the numbers of proposals submitted, with as many as 41 (both deadlines). It was followed by the UK (31), the Netherlands (24), Italy (19), France and Belgium (17 each) and Finland (11). China was in the lead among Asian countries, with 12 proposals, followed by India and Thailand (8 each) and Vietnam and Bangladesh (5 each).

The country ranking largely unchanged as regards the 42 proposals selected by the European Commission for co-financing (they included 12 from the first deadline, 30 from the second). The UK led, with 9 proposals, followed by Germany (5), the Netherlands and Italy (4), Finland (3) and Denmark (2). Belgium, however, had only one proposal accepted. Of the Asian countries, China, Thailand and Vietnam each had two proposals accepted, and India and Indonesia one each. Chinese institutions of higher education were well ahead of the other Asian countries, with a total of 24 of them being selected, whether as applicants and

partners. They were followed by institutions in Thailand (9), Indonesia (8) and India, Sri Lanka and Vietnam (4 each). The large number of Chinese institutions was also reflected in the 12 proposals accepted under the February, 2002, deadline: as many as 7 specifically related to China. They included a European multimedia curriculum for studying modern Chinese language and society, product engineering design education in China, and algebras and representations in China and Europe.

The five remaining projects covered subjects as diverse as the development of an Asian-European M.A. in food science and technology; gender, development and public policy studies in the Asian context; a new curriculum based on open distance learning for Asian-European education and training in landslides management; curriculum development for urban planning, with special emphasis on poverty alleviation, and geo-environmental engineering curriculum development for the South and Southeast Asian regions.

Of the 42 projects selected by the European Commission, 21 were in the area of Curriculum Development (CD) and 20 in the area of Human Resource Development (HRD). The total EU contribution to the 12 projects selected under the first deadline amounts to €3.4 million, and under the second deadline to €8.8 million. Under the rules set down by the European Commission, each proposal must involve at least three organisations, of which two at least have to be from two different EU countries and one from an Asian country or territory. The size of the EU grant ranges between €200,000 and €300,000. It cannot exceed 75% of the total eligible project costs, except in the case of proposals involving higher education institutions that are exclusively from the LDCs.

Proposals can also involve associated partners, including government departments and agencies; commercial organisations, such as chambers of commerce but also companies; NGO's; think tanks and foundations. Associated partners will not benefit from EU funding, however. Individual EU countries obviously have their own bilateral university exchange programmes with Asian countries. The *Asia-Link* programme is designed, however, to create networks of higher educational institutions from Europe and Asia. The project in food science and technology, for example, was submitted by the National Food Science Engineering Institute in France; the partners are universities located in the UK, the Netherlands, Malaysia, Thailand and the Philippines.

Asia-Link is open to the 15 EU member states and seventeen Asian countries. Higher educational institutions from Singapore can take part in projects, but only as associate partners. ■



China joins ITER - major progress expected this year

The prospects for the success of the International Thermonuclear Experimental Reactor (ITER) brightened in early 2003 with the admission of China to the project and the re-entry of the United States. ITER is an attempt by the EU, Russia, Canada, Japan, China and the US to develop fusion energy as a safe, clean and sustainable energy source. Chinese sources in Brussels welcomed their new membership saying that ITER had the potential to provide an alternative energy source for the largest developing country in Asia, that has growing energy needs.

China's entry to ITER was announced at the 8th negotiation meeting, which was held in St Petersburg, Russia, on 19th February. China's Minister for Science and Technology, Mr Xu Guanhua, had sent a letter in January to the other heads of delegation requesting Beijing's participation and stating Beijing's intent to make a substantial contribution to the project. International experts agree that China has made substantial progress with its own fusion research programme but the cost of developing a reactor is so prohibitive, that it can only be done in conjunction with other partners. EU Commissioner for Research, Philippe Busquin, has estimated that the project will cost €10bn over 30 years.

The ITER project, which is seen as the essential next step in the process of developing fusion, has been running since 1987. It has a patchy history despite continuous support from the European Union. The Americans had withdrawn from the project in 1999, a move that was forced on the Clinton administration by Congress, who cited lack of progress. However, three separate reports commissioned by the US Department of Energy in 2002 advocated re-entry. The US Secretary for Energy, Spencer Abraham, announcing the decision said it was time to "embrace international efforts to realise the promise of fusion energy".

The key issue facing the partners now is the choice of site. Both France and Spain have proposed sites, which have received the backing of Philippe Busquin. The other runners in the race include Japan and Canada. Russia is also a member of the ITER group but for financial reasons has not advocated hosting the project. Neither the US nor China have expressed any interest in hosting the reactor site but their entry into the negotiations adds new dimensions to the EU efforts to push for either of its two sites.

The entry of China to the project at this stage probably reflects Beijing's attitude that sufficient progress has been made in the developmental stage of the project

and the likelihood that the operational phase could commence shortly. Sources at the Chinese embassy in Brussels indicated that China's participation reflects the concerns of a developing country with a large population and growing energy requirements. Although China is engaged in harnessing hydro-electric power on a massive scale, these projects have been dogged by controversies surrounding the dams' construction and the destruction of the environment. China hopes that ITER will live up to its promise of providing clean energy without the major polluting problems associated with other sources.

The 7th negotiations meeting which was held in Spain in December 2002 received an "expression of interest" from the government of South Korea about joining the project. Although discussions between the existing partners and Seoul are underway, it is understood that these are taking place at an informal level. Should South Korea reach a decision about joining, the government would be expected to give a similar statement of intent as Beijing's about the level of Korea's contribution but, it is understood that this may be some months away yet. Alternatively, Seoul may chose to participate not as a full member, but through some form of co-operation agreement.

The European Commission has indicated that it plans to present a Communication to the May Competitiveness Council on the state of play regarding ITER. This document could be expected to set out some possible policy directions for the EU Council of Ministers to decide upon which of the two EU sites to propose, the management structure and should provide some expectations of the cost burden between the partners. The Communication may establish a more certain timetable for the project. The Commission expects that, despite the addition of new members, the draft international agreement to enable ITER become operational will be ready by the end of this year. This Joint Implementation Agreement would also address issues surrounding "procurement allocation" and "intellectual property rights".

Commissioner for Research Philippe Busquin raised the progress to date with ITER at the meeting of EU Ministers in the Competitiveness Council on 3rd March. When the choice for a single European site emerges, the decision would normally be ratified by the Council. Mr. Busquin told the Ministers that the planned Communication in May would provide a more detailed report on the state of negotiations, just ahead of the 9th negotiations meeting which is due to take place in Munich on 20th-21st May. Joint Implementation Agreement is signed by the end of 2003, it is estimated that the actual construction of the ITER reactor could begin in 2005 or 2006. Scientific results would start to flow by 2014. ■

John Quigley



Controversial start to ALA review

The review of the European Union's 1992 Asia and Latin America (ALA) Regulation has begun in earnest in the European Parliament, with a debate and a policy speech by the European Commissioner for Development and Humanitarian Aid, Poul Nielson. The ALA Regulation governs the way in which the European Community provides development aid to countries in Asia and Latin America. Under the European Commission's proposal to replace the 1992 Regulation and offer a new legal framework, annual or multi-annual programming would replace the "project-by-project" approach that has proved controversial in the past.

Mr Nielson described the proposal as an attempt to provide the EU with "flexible, simple and clear rules" for development co-operation with Asia. He criticised the present ALA Regulation for its "lack of clear priority setting" and "lack of quality programming". He identified three areas in which these shortcomings have had a negative impact on development co-operation: management, efficiency and the impact of aid.

The European Commission's proposal for a new Regulation, which dates from July 2002, requires the EU Council of Ministers and the European Parliament to make a number of significant changes to the conditions established in the 1992 Regulation. Whereas development co-operation with Asia to date has been largely based on a project-by-project approach, the Commission wants to eliminate the "political and strategic orientations" and introduce "clear and simple procedures". EU objectives would be defined much more broadly, in order to introduce greater flexibility.

This was a criticism levelled at the 1992 Regulation by an external evaluation group, which analysed the pattern of development spending between 1993 and 2000. The group claimed in its May 2002 report to the European Commission that the Regulation had "lost much of its relevance" quite quickly. This was due to its "relatively detailed strategic content" and the "small volume of funds available". Moreover, the adoption of regional strategy papers by the Commission, and more particularly its 1994 Communication on Asia and subsequent update in September 2001 made the 1992 Regulation "obsolete". Commissioner Nielson has called on the EU Council and Parliament to set the "political guidelines," leaving the new Regulation to "simply establish the rules" for implementing development co-operation.

This approach has been severely criticised, however, both in the European Parliament and by non-governmental organisations (NGO's). The Dutch Liberal MEP, Mrs Marieke Sanders-Ten Holte, who is writing the report for the Development Committee, expressed concern that the European Commission proposal did not focus sufficiently on the objective of combating poverty, particularly as Asia accounts for some 75% of those living in poverty. She wanted at least 35% of the EU's annual development budget to be devoted to social infrastructure, mainly health and education.

The adoption of a new Regulation could also affect the European Parliament's "democratic control" over development policy. The EU's elected representatives do not provide legislative input into the European Commission's Communications or regional strategy papers, which can set out specific development objectives. Mrs. Sanders-Ten Holte proposed an annual reporting system, under which the Commission would set out "detailed objectives and spending targets". Mr Nielson indicated that he had reservations about increasing Parliament's role, on the grounds that the idea "needs careful discussion". He stated he was "willing to discuss" protecting Parliament's powers, given that the Commission, Parliament and Council all need to agree on objectives.

Another key aspect of the proposed Regulation provides for aid to be untied at the regional level. Companies from across the enlarged EU and Asia would be eligible to take part in tenders and contracts. In addition, the more developed countries in the region, such as Japan, would be allowed to take part in regional co-operation programmes on a case-by-case basis. A November 2002 Commission Communication had already proposed untying Community aid and called on EU member states to follow suit. At the time, Max van den Berg, a Dutch Socialist MEP and Vice Chair of the Development Committee, held that a "limited pool of bidders increases the potential for corruption and reduces effectiveness". He estimated that almost €6 billion of the aid provided by member states annually was tied.

Simon Stocker, the Director of EUROSTEP, a network of development NGO's, expressed concern that the absence from the proposed Regulation of a clear definition of the EU's development objectives could result in any new system of co-operation becoming subordinate to the EU's "political objectives". He claimed that the draft did not "firmly establish the goal of eradicating poverty". Mr Stocker noted, in a statement issued in February with 10 other development organisations, that the flexibility that the Commission wanted could be used to include activities related to defence and security.

The draft Regulation establishes procedures for the implementation of co-operation objectives that consist of “strategy papers, multi-annual indicative programmes and annual action plans”. Strategy papers would be used to define “long term objectives and strategic priorities” and

would cover a five to seven-year timeframe. The level of spending in Asia is envisaged at €2.52 billion, between 2003 and 2006. This compares to €1.27 billion for Latin America over the same period. It could take up to 2004 before the draft Regulation is adopted. ■

ARF and Asia-Pacific Multilateral Security

by Ken Jimbo

The end of the Cold War has had a far more profound impact on security in Europe than in the Asia-Pacific region so far. While European international security institutions have undergone fundamental changes, comparable changes have yet to take place in Asia. The North Atlantic Treaty Organisation (NATO) has transformed both its membership and functions by virtually reducing its East-West border and adopting a far-reaching decision on its future role, including the creation of the cutting-edge NATO Responsive Force. At the purely European level, the enhanced multilateral effort has taken place within the European Union, through its Common Security and Defence Policy (CSDP), the establishment of a military committee and the creation of a European Rapid Reaction Force (RRF).

Comparable developments in Asia could hardly be imagined, certainly not in the near future. The basic “hub-and-spoke” structure of the network of bilateral alliances created during the Cold War remains unchanged, although the Japan-US alliance, which is at its core, has adjusted its concept, role and missions to the post-Cold War environment. The ASEAN Regional Forum (ARF), the major multilateral security forum in the Asia-Pacific region, is a framework for co-operative security and enhanced dialogue that has only just begun its efforts to promote preventive diplomacy.

This “double track” approach, under which the alliance provides the core of the deterrence and response capability, while multilateral security co-operation complements the alliance by helping build comfort levels and create an atmosphere conducive to co-operative security in the region, has been considered to be the best model for security in the Asia-Pacific region. However, recent developments in this region pose considerable challenges that go to the very heart of the decade-old “double track” approach. Hence the growing efforts to create more co-ordinated networks between US-led bilateral alliances through “web networks” rather than the “hub-and-spoke” model. The Japan-US-South Korea Trilateral Co-ordination and

(TCOG) is a primary example of this. The US is also seeking to intensify military-to-military co-operation with a number of countries, especially the Philippines, Singapore, Thailand and Australia.

At the level of multilateral security, the ARF adopted in 2001 the “Definitions and Principles of Preventive Diplomacy” as a basic platform for the introduction of further measures, including an enhanced role for the ARF Chairman. Exchanges between defence officials and among defence ministers have flourished increasingly in recent years. After September 11, co-operation in the fight against terrorism has provided greater grounds for multilateral security in the Asia-Pacific region. There is also growing security co-operation in East Asia that is based not on its geographical groupings but rather on its security concerns and capabilities. This is leading to the formation of “regional security complexes” or new forms of “coalitions of the willing.” These multidimensional developments indicate that security co-operation in East Asia is giving rise to far more complex models today.

A clear distinction must be made, for analytical purposes, between two types of multilateral security: bilaterally networked multilateral security (expanded bilateralism) and multilateral security co-operation (enhanced multilateralism).

Bilaterally networked multilateral security, one of the new emerging features of multilateral security in the Asia-Pacific region, is based on the belief that bilateralism best serves one’s interests, it could be expanded multilaterally. It was developed initially by the US Pacific Command (CINCPAC), which advocated the creation of a “security community” based on “enriched bilateralism.” According to Admiral Dennis Blair, a former CINCPAC commander, it is essential to develop a regional, multilateral approach to common security challenges. From his point of view, this is best done by developing policy co-ordination, including combined military co-operation, over a particular regional security issue or series of related security issues. To this end, US armed forces, in conjunction with their allies and other partners in Asia, should undertake to improve regional readiness for combined operations.

Based on this concept, the US/Thai bilateral exercise, Cobra Gold, was combined with two other traditional



US bilateral exercises – Tandem Thrust (US/Australia) and Balikatan (US/Philippines) – to give rise to the exercise Team Challenge (TC)01). It brought together CINCPAC and forces from Thailand, Australia, the Philippines and Singapore, in an umbrella exercise during April and May 2001, which was observed by 22 countries. The multilateral framework of TC-01 complements existing bilateral relationships throughout the region, and provides additional opportunities for training and engagement. What is more, it provides an ambitious two-phase plan for future development, including the creation of the Combined Joint Task Force (CJTF), involving sea, air and ground forces from the participating countries.

The focus of CINCPAC-led military exercises has shifted to anti-terrorist operations, especially after the events of September 11. The prime focus of the operation Balitakan in 2002 was the hunt for the anti-government group Abu-Sayaff, which is suspected of having strong links with *Al-Qa'ida*. The future prime of Team Challenge has yet to be stated, but the “web” of US-led military co-operation offers a growing potential for turning into a solid foundation for multilateral security co-operation.

Multilateral security co-operation in ARF is now in the transitional phase, developing possible measures for Preventive Diplomacy (PD). The 8th ARF ministerial meeting in 2001 adopted, on the basis of consensus, three papers on PD: “Concept and Principles of Preventive Diplomacy,” “Enhanced Role of the ARF Chair” and “terms of Reference for the ARF Experts/Eminent Persons.” These manifestations of PD have provided a platform for developing further measures, which have led the ARF to play a more visible role in conflict prevention.

The debates in the ARF on preventive diplomacy indicate, however, that it is moving ahead cautiously. It has defined the aims of PD, for example, as “helping to prevent disputes and conflict from arising *between States* that could potentially pose a threat to regional peace and stability,” thus limiting its application to State-to-State conflicts, to the exclusion of intra-State conflicts. In addition, PD is based on the “principle” that it should be;

- (1) diplomatic
- (2) non-coercive and
- (3) respectful of sovereign equality, territorial integrity and non-interference in the internal affairs of a state.

These terms reflect the high degree of sensitivity still prevailing in the ARF member states. Even so, the proponents of ARF are seeking, within the limits set by these definitions and principles, to develop more concrete measures, especially as regards the enhanced role of the ARF Chairman in taking the lead in mediation and arbitration when contingencies arise.

“Coalitions of the Willing”

The notion of the *coalition of the willing* is also taking shape in the Asia-Pacific region. Agendas for security co-operation are being pursued increasingly in ASEAN+3, the Shanghai Co-operation Organisation (SCO), and other bilateral and multilateral frameworks for security co-operation. These recent developments appear to challenge the very nature of multilateral security in the region. Multilateral security through “multilateralism,” as in the case of the ARF, is based on “inclusiveness” and equality, with countries in the region free to participate in the Forum. “Engagement” is the core principle for this type of multilateral co-operation, as shown by the inclusion of China, Russia, an enlarged ASEAN, India and North Korea in the ARF.

Multilateral security, in contrast, does not necessarily require this unequivocal, inclusive nature. The so-called “coalitions of the willing” are made up of capable and willing actors. Most of the existing coalitions are based on the principle of open membership; they do not rule out the future participation of non-member states. But their tacit assumption is that countries that are reluctant to co-operate within this framework are not wanted, which virtually leads to the politics of exclusion.

The advantage of the “coalition of the willing” is that it can lead to security co-operation with like-minded states to ensure deeper co-operation. Such coalitions can even be seen as an alternative to “inclusive, region-based” co-operation, as in the case of the ARF. As long as the ARF “continues to move at a pace comfortable to all ARF participants and on the basis of consensus,” it cannot address vigorous moves toward security co-operation. The “coalition of the willing,” however, will move towards higher levels of co-operation without the interference of external actors, inviting them to join after the coalition has adopted its agenda. This model provides fresh opportunities for security co-operation in the Asia-Pacific region, as it allows meaningful measures to be adopted.

The “China factor”

Since the gestation of the ARF, the tacit agenda was how to engage China in a security co-operation forum. Moves towards multilateral security in the Asia-Pacific region could neither distance themselves from nor ignore the “China factor.” How, then, can the ARF and the “coalitions of the willing” challenge this agenda?

The answer may be supplied by a China which is struggling to adjust gradually to the emerging structure of multilateral security in the region. China’s “new security concept,” first advocated in 1997, emphasises multilateral efforts, and points to such examples as that of the CBMs between China and Russia on border



issues, and the Shanghai Security Organisation (SCO) initiatives. Concept's position paper insists that China would emphasise extending security co-operation to non-traditional fields, such as combating terrorism and international crimes.

China also decided, for the first time, to send observers to the US-Thai military exercise, Cobra Gold, in May, 2002, and its recent military contacts are increasingly richer and more flexible. The journal *China's National Defence* stated in 2002 that "China intends to selectively and gradually participate in more multilateral joint military exercises in the non-traditional fields." A Chinese PLA official claimed that his country "will no longer oppose these military exercises, even by the US, if the purpose of these exercises are non-traditional missions, such as peace keeping and disaster relief."

These episodes indicate how the ARF and the "coalition of the willing" could work with China and other major powers in this region. China's willingness to join the coalition in non-traditional fields could result in the setting of norms and co-operation levels without compromising the established agenda. The US may find that the ARF and other mechanisms could serve as a complement to the alliance in more visible terms. If they can deal with low-intensity conflicts, as was the case in East Timor; political crises and small border conflicts in the Asia-Pacific region, the US can avoid an over-commitment to regional affairs.

China would then be able to promote preventive diplomacy through the ARF, and to participate vigorously in it. Unless Beijing does so, the ASEAN countries will tend to rely more on the security "web networks" that might exclude China. The result could be a US-led "China encircling" security system. To avoid such a situation, China inevitably would join in order to create a more viable multilateral security mechanism. This is the possible point of the "strategic convergence" which may help to create the more promising architecture for a "multi-layered security network" in the Asia-Pacific region.

Japanese perspectives on strategic convergence

Japan has long been a proponent of multilateral security co-operation in the Asia-Pacific region, even while maintaining a strong Japan-US alliance as the linchpin of its defence policy and regional security. Priority has been given to the issue of how the alliance could viably address the issues in northeast Asia and the wider region, and how multilateral security could complement it, on the basis of the "double track" approach.

Japan is in a position to support the emerging structure more vigorously in an era of "strategic convergence" if it can overcome its unique situation. Firstly, the Japanese government may find a way to play a role in an expanded, "non-traditional" security co-operation in the case of anti-terrorism and in low-intensity contingencies, which may be politically more acceptable than high-profile military projects. Secondly, US plans for a forward presence, articulated in the Quadrennial Defence Review (QDR), urged the importance of a more global role for the alliance, and underlined the importance of securing military access points in Southeast Asia. This concept would require Japan to seek alliance support in the wider context of the interlinking of Northeast and Southeast Asia. Thirdly, the idea of "strategic convergence" would both keep the alliance strong and expand multilateral co-operation. Japan has strong reason to favour bridging the two concepts.

Whether Japan could play a major role in the emerging structure depends on whether it has the political will to overcome legal, political and diplomatic constraints in pursuing security co-operation, especially military co-operation. Japan's long-standing interpretation of the ban on its exercise of the right of self-defence has been a major obstacle to Japanese participation in viable military co-operation. Overcoming this would be one of the key issues for viably addressing Japan's political and security roles to enhance its "strategic convergence." ■

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Tax Cuts: A Nonstarter for Japan

by Andrew DeWit

The neo-liberals in contemporary Japan's tax debate often label the fiscal system as "socialist." They believe that income taxes are too high and the tax state too re-distributive from upper- to lower-income earners. Not a few academics, politicians and journalists have warned that investors lack incentives because they are taxed too much and that the poor lack a stake in politics because they pay little or no income tax.

This kind of thinking echoes ideas that are well to the fore in the United States. Recent editorials in the *Wall Street Journal*, for example, have even dubbed America's low-income earners as "lucky duckies." The



Journal insists that the poor be forced to pay more income tax, in order to pre-empt the threat that they might support income redistribution. This, and similar supply-side rhetoric, is embodied in the presidency of George W. Bush, whose economic policy centres on \$3 trillion in long-term tax cuts, disproportionately targeted at the top 1% of taxpayers.

The Bush Administration's tax cuts are supposed to pay for themselves through higher economic growth. America's Congressional Budget Office reported in late January that the 2000 election campaign's fantasy of a \$5.6 trillion, 10-year surplus "has now all but been eliminated," even without President Bush's January, 2003, proposal for \$1.8 trillion (including interest costs) worth of cuts. Whether such policies are good for America remains to be seen. But this year's expansion of the deficit to over \$300 billion, with a probable war and protracted economic weakness on the horizon, hardly appears promising.

What is certain is that simplistic tax-cutting policies are not good for Japan. The country already carries the industrialised world's largest public sector gross debt (151% of GDP for 2003) and deficit (7.7% of GDP in 2003). It must also face up to the most rapid rate of ageing, potentially protracted slow growth, and several other fiscal challenges. Unfortunately, the debate on how to deal with these challenges is being shaped by dubious arguments about Japan's tax system and, more generally, the role and influence of the tax system in the contemporary capitalist economy.

Is Japan's Tax System Socialist?

The most recent statistics from the Japanese Ministry of Finance show that Japan's overall tax burden, including social security, is 38.8% of national income

in FY 2002, as against 66.1% in France (1999), 56.7% in Germany, 50.0% in the UK (1999) and 35.9% in the US (1997). The statistics also show that Japan's proportion of elderly citizens was 18.5% in 2002, as against 16.4% in Germany, the next highest among the world's five largest economies.

Japan's tax burden, in other words, is at the low end of the scale. At only 6.8% of national income, Japan's reliance on re-distributive personal income taxes is also minimal. Moreover, as in any fiscal system, progressive income tax is only one of many taxes. Most of the other taxes, such as those levied on consumption and property, are either proportional or regressive, so that the overall incidence of the tax burden by income levels tends to be nearly flat, if not regressive.

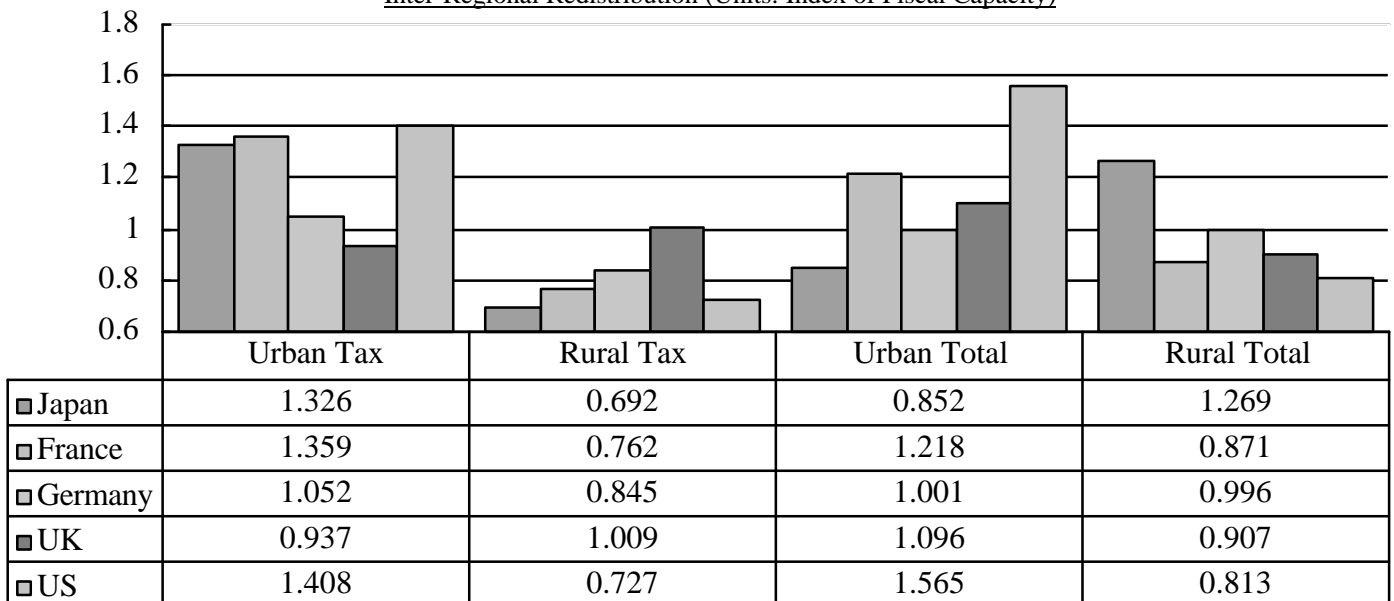
In sum, Japan stands out against the rest of the advanced industrialised states in having a relatively low level of inter-personal redistribution via the tax and expenditure systems. Japan does redistribute a lot of income inter-regionally, and via regulations whose burden is generally regressive; but these facts do not make its taxation especially onerous and/or redistributive nor its state especially large.

Excessive Inter-regional Redistribution

The main problems confronting Japan with regard to the tax system are excessive inter-regional redistribution and poor revenue productivity. The two are related, as the former results in highly politicised waste that poses a profound barrier to resolving the latter. Let us take up these issues in turn.

Japan's inter-regional redistribution is an essential aspect of its post-war political economy. The "economic miracle," with its double-digit rates of economic growth

Inter-Regional Redistribution (Units: Index of Fiscal Capacity)



Source: "Local Economic Autonomy," MOF, Japan, 2001



in the 1950s and 1960s, was also a socio-political miracle. This is because relative political stability was maintained even as the country embarked on a profound industrial transformation. In one generation, Japanese society shifted from being heavily agricultural and rural to an urbanised, manufacturing powerhouse. Unless a country is extremely small, such as Singapore, the almost inevitable consequence of this kind of transformation is massive inter-regional inequities. Rapid growth is geographically uneven, resulting in a concentration of incomes and wealth in urban, industrial areas, and a corresponding depopulation and impoverishment of rural areas. We see this happening in contemporary China, where increasing inter-regional income disparities pose a strong threat to the country's political stability.

Japan managed to create a relatively balanced growth model because the state acted to redistribute income to the regions. This was the outcome of the country's political and fiscal institutions. Thus Japan's long-governing Liberal Democratic Party soon learned to consolidate its support among farmers and other rural interests after its formation in 1955. This entailed the expansion of price support for agricultural produce as well as aggressive programmes of public works to redistribute incomes and growth to the regions. The fiscal structure of Japan's unitary state also encouraged this kind of policymaking. In most unitary states, the greater part of public spending is undertaken by the central government. In Japan's case, however, about two-thirds it is carried out by regional and local authorities, such as prefectures, municipalities and villages. This local share of public spending is even greater than in most federal regimes.

Yet only about 40% in all of the tax revenues to fund this spending are raised locally. The rest of the financing is largely provided by the central government via block grants and targeted subsidies. And the taxes that fund these programmes are raised mainly in urban areas, because of their high concentration of incomes, corporate headquarters and economic activity. For example, though Tokyo and Osaka together comprise about 16% of the Japanese population, they pay roughly 40% of all national taxes. Moreover, compared to rural prefectures they receive, on average, well under one-fifth of the per capita flow of subsidies from the central government.

In its report for 2001, Japan's Ministry of Finance calculated the effect of these fiscal flows, and compared them with flows in the other four largest OECD economies. The Ministry concluded that Japan's initial inter-regional inequality of fiscal capacity rivals that of the US. But it also shows that Japan's intergovernmental system has the most powerful equalising effect. One could indeed argue that the system "over equalises," as it leaves Japan's rural areas with a much higher index of per-capita revenues than the urban areas.

The effect of this kind of redistribution is an unduly skewed set of incentives, especially because much of Japan's inter-regional flow of subsidies is used to finance wasteful public works. The poorer regions' incentives to grow dynamic economies are impaired, and even in richer areas the outlook is distorted by their concern to get their "fair share" of spending on infrastructure. Japan thus has emphasised political effectiveness rather than economic efficiency in its inter-regional redistribution, and achieved it. Inefficiency was a minor problem during the high-growth years, but not over the past decade. And though spending on public works has declined somewhat over the past two years, it remains close to 5% of GDP, which is a larger share of GDP than the Americans spend on their military. Like the so-called military-industrial complex in the US, the "construction state" in Japan remains a potent force in politics.

Fixing What is Broken

In fixing its centralised fiscal system, Japan would seem to have two major choices. On the one hand, it could try to copy the current American model, cutting taxes and the non-defence public sector in order to enhance individual incentives to invest and work. But leaving the costs of ageing, upskilling, and so on, to the market, poses enormous risks. Japan lacks the vigorous, often religiously based non-governmental organisations that deal with the heavy fallout from the American model, such as homelessness and hunger. Japan also lacks the enormous flow of youthful immigrants that makes ageing far less fiscally daunting for Americans.

On the other hand, instead of swinging abruptly from a concern with political effectiveness in its intergovernmental redistribution to a supply-side zeal for efficiency, Japan might seek a better balance. This alternative would, to put it simply, involve mobilising rather than sacrificing public finances. Japan could thus learn from the Scandinavian model of fiscal and economic reform, as advised by a growing number of Japanese scholars. The Swedes met the grave challenges of the 1990s through a more balanced approach. Even as their pundits forecast the end of the state through the ineluctable, erosive forces of globalisation, the Swedes and others made the state more efficient and decentralised. They developed Information Technology centred economies that are as dynamic as the American, but with far less inequity and insecurity. Japan, if it is to cope with rapid ageing and stay ahead of its Chinese competitors, would do well to look to the Scandinavian-style "knowledge society" as a social project. ■

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The enigma of North Korea

by Glyn Ford, MEP

North Korea is an enigma. For some in the Bush Administration it is the epitome of the 'axis of evil', a remnant of the Soviet Empire with a dangerously irrational and unstable leader, that is long overdue for collapse. In the meantime it is a country that is prepared to escalate to a point where the slightest error of judgement on either side will precipitate a war, one that at best will lead to the death of millions and at worst will see the first use of nuclear weapons since Hiroshima and Nagasaki - more probably by the US rather than the North Koreans. A war that will at once devastate the global economy and make the consequences of *Al-Qa'ida* shrink into insignificance.

Yet there is a very different reading of the motives and intentions that are woven together behind the unfolding drama. North Korean 'Communism' is not of the same brittle variety imposed by the Soviet Empire on Central and Eastern Europe, a Communism that immediately collapsed, once Gorbachev's reforms in the Soviet Union removed the crutches that supported it. North Korea's ideological superstructure, in contrast, is deeply rooted in Korean history, experience and culture. Marxism-Leninism has been almost subsumed into a version of the Japanese cult of the Emperor, as Kim Il Sung became the father of the nation. A leader no longer first among equals but empowered with Papal infallibility, whose 44-volume *Collected Works* acts as a handbook to describe and proscribe the past, present and future. Unlike in Europe, there has been no internal surrender as yet by the North Korean people

The crisis is as much a product of US misjudgement, malice and malfeasance as the result of any provocation by the Democratic Peoples Republic of Korea (DPRK). In 1994 the US and North Korea signed a Framework Agreement in which the DPRK agreed to mothball its nuclear programme, based on a Russian Graphite Moderated Reactor capable, like all such plants, of producing weapons grade plutonium, in exchange for a package of support and commitments from the US. The Clinton Administration undertook to normalise relations and not threaten North Korea militarily, but rather lift the half century-long economic embargo, arrange for the construction of two Light Water Reactors (LWR) and, in the meantime, to fill the energy gap by producing 500,000 tonnes of heavy fuel oil (HFO) per annum. None of these promises is being kept at present.

President Bush in his January 2002 'axis of evil' speech traded a headline grabbing sound bite for global instability. This, coupled later with the commitment to pre-emptive deterrence - it used to be called attack -

tore up the US promise of no military threat to the DPRK. Neither the Clinton nor the Bush Administration normalised relations. The embargo was criminally tweaked, allowing Coca-Cola to gain global publicity for a shot of its first lorry load of the 'World's Favourite Drink' crossing into North Korea from China. The two LWR's are running a minimum of seven years late (a rate of progress that would put completion of the project back to sometime after 2050); and in December the US strong-armed KEDO - the South Korean, Japanese, EU and US consortium responsible for building the LWRs - into cutting off the HFO deliveries.

With the final promise broken, the North Koreans started to put the Yongbyon plant back online. The trigger was the October, 2002, meeting between US Ambassador Kelly and the North Koreans in Pyongyang, when they admitted to acquiring from Pakistan the technology to produce Highly Enriched Uranium (HEU), a complex and slower route to nuclear weapons status. The North Koreans were cheating. They were breaking the spirit, if not the letter, of the Framework Agreement.

There is nothing in the Agreement that explicitly bans uranium enrichment. But it was insurance; Kim Jong Il had already taken the first tentative steps on the reformist path, against the resistance of the hard-liners in the military. He opened up to the South, embraced diplomatic relations with the European Union, created Chinese-style Special Economic Zones (SEZ), abandoned food rationing in favour of the market, re-valued the won and admitted to, and apologised for, North Korea's kidnapping of 13 Japanese nationals.

But with limited success. Only the SEZ bordering South Korea at Kaesong has excited business interest, while the economic reforms have shifted resources to the centre in Pyongyang, where the core of the party's functionaries live, and away from the countryside and the regions, allowing Kim Jong Il to claim to the elect that the 'Arduous March is Over,' after three million North Koreans died of starvation in the late 1990s. Initial gains in living standards are being undermined, however, by steep price rises for basic commodities, such as rice. As for Japan, the press and public reaction to Kim's confession has been so violent that, instead of leading to a new beginning with Korea's former colonial master, it has pushed back to the future normalisation of relations and compensation to Korea for Japan's colonial crimes and misdemeanours.

Kim Jong Il acted in bad faith, when he began cheating in 1998; but he was not alone. The pot was calling the kettle black. Years before, virtually before the ink was dry on the Framework Agreement, American negotiators were reassuring the country's sceptical right wing that the LWRs would never have to be

delivered, as the North Korean regime would be a memory by 2003. At the Kelly meeting the North offered to halt the HEU programme, in exchange for direct talks with the US. Ambassador Kelly was kept on a tight leash, however, by the believers in physical force in the State Department like John Bolton; they started the slide into crisis by refusing the offer and demanding that the North back down unilaterally.

The result is that now, day by day, week by week, the stakes are being raised. In the light of clear threats of military action by the United States, the North Koreans are reprocessing the spent fuel rods from Yongbyon and, in parallel, threatening to end their self-imposed moratorium on the testing of medium- and long-range missiles, due to expire sometime in 2003. North Korea is using its ability to develop nuclear weapons as leverage for talks. The danger is that if too much time passes the idea becomes reality, with all the tragic consequences that will follow.

Despite all the press hysteria in Japan over North Korea's failed launch of a Kwang Myong Song satellite, using a three stage Taepodong rocket, in August, 1998, the reality is that the threat to Japan comes from the well-tested, medium range Nodong missiles that have been in place for years. Korea's prime target is a Non-Aggression Pact with the US. This will require bi-lateral talks. Unfortunately, at the moment there is about as much chance of such talks taking place as there is of North Korea deciding independently to abandon its nuclear programmes.

Of course, ultimately the crisis will only be totally defused through direct talks. Yet, to get there interim multilateral talks will be necessary. The European Union is rightly concerned that the DPRK's abrogation of the non-proliferation treaty will lead first to the domino-effect acquisition of nuclear weapons by South Korea, Japan, and Taiwan.

Textile Wars

T-day is not far off now. The first of January 2005, will see the end of a system of quotas on developing country exports of textiles and clothing that has been around for over 40 years. The liberalisation of world trade in these items is being variously viewed around the world. The Chinese dragon and Indian tiger are expected to eject many of their competitors from the world's developed markets, in the view of the Director-General of Euratex, which represents the views of the European textile and clothing industries.

It is the European textile industry itself that may well collapse after 2005, in the absence of intervention by the European authorities, in the view of the ACTE Joint President, Roberto Rosati. ACTE, the European

This is one reason why China may find an excuse to "save the revolution" in North Korea by sending in the military to change the second tier leadership of the Korean Workers Party and then withdrawing. Equally, actors in other regions, like Egypt and Syria, may feel forced to join the nuclear club.

The European Parliament has proposed 7-power talks in Brussels with North and South Korea, Japan, China, Russia and the US. They will not solve the core crisis but, rather, put on the table the help that the international community could provide in terms of security guarantees, humanitarian aid and assistance for economic development. There is a re-emerging threat of a new humanitarian crisis. Latest figures from UNICEF/World Food Programme show that, despite massive aid shipments, 3% of Korean children under five (some 70,000) will die of malnutrition in the next few months, and a million will be permanently stunted and brain damaged. Yet UNICEF's programme may have to be abandoned within months. This will be particularly inopportune timing, as donors punish Korean children for the 'crimes' of their Father by withholding this year's funding.

Equally, North Korea needs to recognise the benefits of an international underpinning to any future agreement with the US, to keep it from being as fragile as before. It also needs to recognise that South Korea, Japan and the EU will be more reluctant than in 1994 to pick up the tab for an American-brokered agreement. The US writes cheques on the bank accounts of others, and automatically expects them to be honoured. ■

Editor's Note:

Glyn Ford MEP recently returned from a visit to North Korea where he met with the chief of the Korean Peoples' Army, Panmunjon Mission, Ri Chan Dok, and President of the Presidium of the DPRK Supreme People's Assembly, Kim Yong Nam.

Textile Communities Association, was set up in 1991, to "defend and promote those territories that are primarily dependent on the textile sector." Its members include 130 textile communities, 55 municipalities and some 250 employers' and workers' organisations, located in seven European Union (EU) countries.

Their views are set out in somewhat greater detail in the two articles which follow. Mr. Lakin's article is an amended version of an address he delivered at a seminar on sustainability impact assessment. The text by Mr. Rosati consists of large extracts from his speech to the symposium on the European Union's market access strategy. Both seminar and symposium were organised by the European Trade Commissioner, Pascal Lamy, in Brussels.



A word about the emerging concept of Sustainability Impact Assessments. SIAs are carried out during a trade negotiation, with the aim of identifying the possible economic, social and environmental impacts of a trade agreement. "If trade is to be a tool for development," Mr. Lamy told the symposium, "we need to ensure that it is compatible with sensitive management of the environment and social development. SIAs are an essential means to help us achieve these challenges." Flanking measures would be adopted to mitigate the negative effects of trade agreements. They aroused a good deal of controversy at the symposium, however.

The EU is committed to them since 1999, although the next three years were spent developing a methodology. Since then the European Commission is conducting SIAs on the WTO negotiations, for example. Some fear that SIAs may yet turn out to be another form of protectionism. ■

SIAs and world trade in textiles

by W. H. Lakin

It is important at the outset to dispel a few myths about the textiles and clothing industry in Europe. The 15-nation European Union (EU) today is the world's leading exporter of textiles; it is the world's third largest exporter of clothing. Since the launch of the Uruguay Round, it has sought secure, open markets for its products, rather than protection against its foreign competitors. Even today, against a background of many still closed third markets, the industry exports over €40 billion annually outside the EU. This represents more than 20% of its turnover.

Each time that an erstwhile closed market opens, EU exports grow substantially. For example, in 2001 exports of clothing to China were 35% higher than in the year 2000. In textiles alone the EU has a balance of payments surplus with the rest of the world in excess of €5 billion; and it is growing. In clothing we face a deficit of some €35 billion. These are figures which clearly demonstrate the openness to the world of Europe's textile and clothing industry.

It is true that we are still in the final stages of the dismantlement of the Agreement on Textiles and Clothing (ATC). This agreement provides for the removal of all quotas on textile and clothing trade by 1 January 2005, but it also commits **all** WTO members to improve access to their domestic markets under Article 7. This provision is not widely known. And, needless to say, few developing countries who are themselves

major exporters of these goods have actually done anything tangible to open their own markets.

This has led us as EURATEX, and in agreement with the European Commission, to seek to prise open third country markets by accepting the premature removal of quotas against genuine access to their markets. In this respect Sri Lanka, the Ukraine, and Brazil have taken up the challenge in binding their textile duties at lower rates and accepting a ban on a wide range of non-tariff barriers. How many industries would be prepared to make such a deal if they did not have a genuine commitment to free trade? A similar arrangement is under consideration with Vietnam. I personally fail to see why a country such as India should not have taken advantage of such an attractive offer – perhaps it is in New Delhi that real protectionism is alive and kicking.

To return now to the Agreement on Textiles and Clothing, concluded at the end of the Uruguay Round negotiations in 1994, as an example of what Sustainability Impact Assessments could have usefully achieved if they had been properly used at the time by WTO negotiators. (A Sustainability Impact Assessment, or SIA, is defined as a process undertaken to identify economic, social and environmental impacts of trade agreements.) Throughout the then GATT negotiations the developed world was under severe pressure from developing countries to bring the quota system to an end. The pressure came from not only the larger exporting countries such as India, but also a whole range of other exporting countries, ranging from Bangladesh and Sri Lanka to Indonesia, Brazil and South Korea. They all clamoured for unlimited access to the EU and north American markets. And, indeed, they got what they asked for, subject to a 10 year phase-out which comes to an end on 31 December 2004. But was this what they all really wanted?

In fact, for most countries this shining beacon of free trade, which flared so brightly in 1994, has been reduced to a mere flicker of itself, from fear of partial, if not total, ejection from the world's developed markets by the joint efforts of the Chinese dragon and the Indian tiger. These two countries in particular are now predicted to take between them the lion's share of available growth on the developed markets, even as they effectively take over large parts of the current quota-protected shares of smaller or weaker competitors.

China and India are also expected to make some inroads on the market share of local producers. No one anywhere in the world today contradicts this forecast. The Bangladeshi industry and authorities have every reason for concern, since their advantage today of quota free treatment will disappear by 31 December 2004. A number of other countries also are extremely pessimistic. The issue is not one of whether they will



lose market share, but of how much they will lose, and how quickly?

There is little doubt that an in-depth Sustainability Impact Assessment prior to 1994 would have led to the conclusions which everyone has now drawn. These conclusions in the SIA context would have been extremely negative in social, economic and gender terms for a majority of the countries signing up to the Marrakech agreements. The only question in my mind is whether the results of such an analysis, at that time, would have been believed. And even had they been believed, would anyone have acted upon them, and how?

The World Trade Organization (WTO) and the Doha Development Agenda offer the negotiators a heaven-sent opportunity to make effective use of the SIA findings in the textile and clothing industry, provided that such findings are predicated upon achievable and logical objectives, and that they keep to the forefront of their mind that the Doha Development Agenda was formulated to achieve progress for the least developed as much as for the major developing nations.

As I indicated earlier, the end of the quota system in textiles and clothing will benefit more especially a handful of developing countries, and severely jeopardize the economic development of many others. We should never forget that in many cases the countries under greatest threat depend to a very large extent on textile and clothing exports for their income. Deeper cuts in textile and clothing tariffs, as advocated by the EU in its submission to WTO Group on market access for non-agricultural products, would simply exacerbate this situation for the least developed countries, which today enjoy duty-free and quota-free treatment for their exports to the EU.

Many of them hardly have more than a toe-hold on the EU and US markets. They could well fall off the cliff. Happily, there now appears to be a growing realization within these countries, and even within Civil Society as a whole, that these comments, which EURATEX has been making since April, 2000, are not mere alibis to encourage a more protectionist stance by the EU authorities, but matters which must be taken into consideration if we are serious about development, and wish to avoid paying mere lip-service to the concept.

Nearer to home, a similar logic can be applied to the situation of the new countries that will join the EU in May, 2004, and also Turkey, which is already in a customs union with the EU. This is also the case for the countries of the wider Pan-Euro Mediterranean area. They, too, are for the most part highly dependent upon textiles and clothing for employment and export income. Every effort therefore needs to be made to ensure that whatever solutions emerge from the Doha

Development Agenda, they do not neglect the justifiable interests of our nearer neighbours.

This leaves us all – governments, WTO and industry – with a number of difficult questions to answer. First and foremost, is there a real possibility of finding markets for everyone, and development prospects for those who need them most, in a post-ATC (Agreement on Textiles and Clothing) world? And can this be done in such a way as to ensure that we will not impoverish everyone, including the consumer, by creating even greater overcapacities, for large distributors to feed upon, to their own exclusive advantage? And what of the more affluent consumer in the developing world? Is he to be permanently deprived of the wider choice and higher-quality products on his home market, as a result of the refusal of the authorities there to offer access to their national market, for fear of a little foreign competition?

The writer does not claim to have a full answer to any one of these questions. He would nonetheless suggest that a number of the other major developing nations need to take a leaf out of China's book, and reduce their tariffs to the point where their lesser developed brothers will be in a position to sell products on their home markets. The contribution of all the industrialised nations would be to offer zero duty access to their markets for products manufactured in the countries defined by the United Nations as least developed. These two steps would not resolve the problem at a stroke, but they might well offer some breathing space, during which "flanking" measures might be implemented for those in greatest need.

The beginnings of a genuine dialogue with textile and clothing industries around the world began at a Conference organized by Euratex in September, 2002, in Geneva, on the theme of "Market access in the post-2005 world." During the course of 2003, we expect to build upon this start, and to deepen our relationships with our colleagues and competitors around the world. It is our hope that these bilateral and multilateral discussions will lead to solutions which will work to the advantage of all our industries. ■

Editor's Note:

W. H. Lakin is the Director-General of Euratex. An amended version of an address to the Seminar on Sustainability Impact Assessments (SIAs), organised by the European Commission's Directorate-General for Trade in Brussels on 7 February 2003. The European Apparel and Textile Organisation (Euratex) is located in Brussels.



Achieving better market integration

by Roberto Rosati, Joint President, ACTE

The European Union (EU) is still the world's largest trader in textiles and clothing products: total trade amounted to €110 billion in 2000. Europe is also the WTO's biggest exporter of textile and clothing products, and its industry is eager to compete on the world market. However, since the WTO Agreement on Textiles and Clothing (ATC) entered into force in 1995, EU imports have increased at a steady pace (over 67% since 1995), despite the existence of quotas. As a result, the European textile industry has lost 17% of its workforce.

On 1 January 2005 the remainder of trade will be integrated, resulting in the removal of all EU quotas. From this date onward, there will be free competition for all suppliers of textile and clothing products to the EU. They will all be on the same footing. Our concern centres on two different but related points: non-tariff barriers to trade and third countries' trade defence. We believe that without substantial intervention in these areas we will witness a collapse of the European textile industry after 2005.

We want the EU to implement the five principles contained in the European Petition on the international negotiations on world trade in textiles and clothing. They are: (1) competition in conditions of reciprocity; (2) simplification and harmonisation of international trade rules; (3) elimination of non-tariff barriers; (4) protection of intellectual property and (5) environmental and social issues.

(1) To compete in conditions of reciprocity requires the elimination in 2005 of all protectionist barriers still existing in most developing and developed countries. Europe is one of the major areas of consumption of textile and clothing products. The persistency of trade barriers will produce a "displacement effect," with the European industry being pushed out of its own market by products from countries with cheap labour.

In addition, because of the high customs duties maintained by other countries, Europe will continue to find it very difficult to export to them products in the medium-to-high price range. Other economic areas, such as the US, India and China, with their particularly high customs duties, will still find ways of protecting their own market.

(2) The elimination of non-trade barriers is closely related to the above. The EU has found that there are

over 170 non-tariff barriers for textile and clothing products in 24 countries. They are technical and procedural obstacles that make access to these markets difficult and costly. The US has 12 types of obstacles, India 12, China 7, South Korea 9, Argentina 19 and Brazil 13.

Trade liberalisation also means simpler procedures, fewer bureaucratic formalities and transparency in commercialisation procedures and public markets. Customs regulations are an import barrier in themselves, and amount to protection for local industries, often supported in their trading activities by state aids and export incentives.

(3) The harmonisation of rules requires the elimination of tariff peaks. Their simplification is necessary in order to avoid fraud and uncertainty.

(4) The protection of intellectual property is very important because one of the main competitive advantages of the European textile and clothing industry is its ability to create and innovate products in response to the market. This ability is backed by huge human and financial resources, which must be protected and developed. Hence the need to give concrete application to competition law, promoting specific multilateral negotiations.

(5) As for environmental and social clauses, we observe a significant rise in the demand for environmental protection. The public authorities and private companies have taken important steps in order to raise work standards, promote consumers' rights and public health, and foster corporate social responsibility.

As regards environmental questions, it is necessary that the WTO clarify the ecological labelling system and harmonise the rules and regulations; define standards and agree certification procedures; prevent tests from becoming an additional form of protectionism, and define a group of trade measures in order to achieve the aims of environment policy through multilateral environmental agreements.

The EU's system of incentives for developing countries that respect the main ILO conventions is inadequate and it is clear by now that there is no evidence of the creation of a WTO working group to examine the relationship between international trade and fundamental working rights. As with environmental issues, market-based non-protectionist instruments must be defined, in order to allow consumers to make informed choices.

Finally, two principles must be observed: (a) the textile sector cannot be considered a "bargaining chip," used for the benefit of other industrial sectors, and (b) the negotiators must open up markets as a priority. ■

“Droga di Dio – la Società dei Credenti”. Niccoló Rinaldi. Published by Odisseo Narrazioni, Italy. 2002. 192 pp.

Droga di Dio, “The Drug of God - the society of believers,” introduces the reader to a land that remains *terra incognita*. Despite the whirlwind interest in Afghanistan, after 11 September 2002, the country seems remote and inaccessible from almost any other part of the world. Entering the very heart of Asia cannot be the result of a sudden “landing”, and Niccoló Rinaldi warns the reader from the very beginning with a quotation from Fourier: “A foreigner who happens to find himself in Afghanistan will be blessed by God if able to leave safely and unscathed.” The author – and the reader – make their way through Afghanistan on tiptoe.

Niccoló Rinaldi applied for a UN post in Italy, unaware of what his actual destination would be. He was sent to New York for training as an information officer, but Central Asia seemed very remote while he explored the Big Apple. In fact it was not his short period of training among the skyscrapers that “initiated” him to Afghanistan, but an article he came across by chance while waiting to be interviewed at the UN Office in Rome. It was an interview given by Michael von der Schulenburg, the UN envoy in Afghanistan during the Soviet invasion, in which he described his first approach to that country as “difficult and exciting.”

Mr. Rinaldi’s book recounts his experiences during the first UN mission in Afghanistan. But the book is more than a record of Mr. Rinaldi’s professional activities; he also engages the reader in a personal encounter with that country, by writing of his personal interest in Afghanistan and describing his impressions and feelings, and setting out his ideas on the country and its people. His book tells of a people, a culture and a country through faces, landscapes and objects that embody the traditions and tormented history of the Afghan people.

“Once arrived, your attention will be drawn to everything around you – just have a walk through the market of the old town of Peshawar among spices, boughs, carpets, picturesque faces and currency dealers who operate out of a hovel as if it was a bank. Back home, you will have lots of tales to tell.

This does not mean that you will have understood what you have actually seen. The more Afghan reality imposes itself on the visitor and exposes its history and tragedy, the more difficult it becomes to understand truly. The veneer has grabbed hold of you, but the inner face remains hidden”.

Mr. Rinaldi also succeeds in giving the reader an impression of a people for whom time has a very different dimension, who regard hours, dates and even age as purely incidental matters. Reading his description of the weaving of a carpet, the reader is made aware of a different pace of life, a different notion of time and of mental space and freedom. He or she is unaware that something is missing, until the author dates an event very precisely, in order to bring Western readers back to their own world, and to remind them, by the same token, that Afghanistan is on the same planet.

War is the reader’s constant companion: invasion by the USSR, civil war and, finally, the US-led attack to overthrow the Taleban. Afghani men can forget about their poor and miserable lives by becoming warriors, while others unable to fight on the battlefield struggle daily for survival, as if it was the normal human condition. War is intimately linked to faith in Afghanistan, where sacrifice and fighting are religious imperatives, for God is the believer’s guide through life and his leader in war. Niccoló Rinaldi conveys the part which faith plays in Afghan lives by a comparison between drugs and God, and brings home to the reader the people’s attachment to religion, an attachment that is far removed from European abundance and secularism.

Mr. Rinaldi describes the various faces of a war fought in a country marked by poverty, under-development and the absence of justice. The focus is the ground reality of war: the atrocities perpetrated by all sides. The Taleban, bred by the US during the Soviet invasion of Afghanistan, were happily tolerated by the West for years under what the author appropriately calls the “*Pax Talebana*”. Quotations from official documents and interviews with the local people provide an insight into civilian life in Afghanistan, under a regime that found something sinful in even so ordinary a pastime as kite flying. The Taleban’s war against women holds the reader’s attention because of its sheer efficiency in *deleting* half the population, by denying the right to work, to healthcare and education – and even to go outside their homes.

Back in Europe, Mr Rinaldi finds that the West has proved itself incompetent in its dealings with Afghanistan. US policy has been “completely wrong” in his view, while Europe, distressed by events, has not ceased to debate about “what to do.” However, when Ahmed Shah Massoud visited the European Parliament, no one explicitly offered him political support. For Mr. Rinaldi, Afghanistan needs more than humanitarian aid and detached curiosity. He believes that the European rationale of compromise does not work in a country driven by faith. Europe therefore should make up its mind, take sides, choose its own ethics, and “find its place in the world.” ■

Roberta Zavoretti

LETTER(S) TO THE EDITOR

Embassy of the Kingdom of Bhutan
Geneva
Switzerland

20th January 2003

Sir,

I wish to refer to your Bulletin Vol. 6 No. 10 (October 2002 and, in particular, to the article entitled "Special Representative for Nepal? - No EU role foreseen for Nepal", by Mr John Quigley. While the article is apparently about Nepal, as its title indicates, we are concerned by the extensive references to Bhutan and the serious factual errors contained therein.

The problem of the people in the refugee camps in Nepal, which Mr Quigley refers to, is an extremely complex one, rooted in illegal immigration from one source country resulting from population explosion, poverty, and environmental degradation, all of which compel vast movements of population in search of better livelihoods. Bhutan has always been a place for refuge for displaced persons, especially in recent years.

However, Bhutan's legitimate efforts to deal with the problem of illegal immigration to safeguard its national interest have been exploited by vested interests.

It is a well known fact that there are different categories of people including non-Bhutanese in the camps in Nepal. This has been acknowledged and agreed in written agreements by the governments of Bhutan and Nepal. The majority of these people posing as refugees are non-Bhutanese and many have never set foot inside Bhutan. Furthermore, no proper screening procedures were applied till after two years of opening of the camps, by which time the population had reached its present proportions. One of the main objectives of the bilateral process between Bhutan and Nepal has been to determine the antecedents of these people through joint field verification. To term all these people, as the article has done, is therefore incorrect and prejudices the outcome of the joint verification.

Yours sincerely,

Pema Choden, First Secretary

MAPPING MUSLIM POLITICS IN SOUTH-EAST ASIA AFTER SEPTEMBER 11

by Dr Suzaina Kadir

The events of September 11 also left a lasting imprint on Muslim communities around the world. Suddenly, Muslims were confronted with thought-provoking questions about their own religion and religious identity, especially vis-à-vis the modern secular nation-state as well as an increasingly modern and globalised world. As the US-led "War on terror" enters more directly into the region, the challenge is for the international community to support the consolidation of democratic states in the region, one that would ensure a balance in state-society relations, and to forge stronger links with moderate-mainstream Islamic groups.

The US-led war on terrorism will continue to have a serious impact on Muslim communities in South-East Asia but the impact need not be destabilising. It is vital for the United States to make clear that its efforts are not directed at strengthening repressive and authoritarian regimes or against Islam. But this will be a difficult task since it is becoming increasingly difficult to sieve through the processes of Muslim politics in the region. Also, there is evidence to suggest that even moderate/mainstream Muslim communities associate globalisation with negative connotations of Americanisation. In a recent survey of 1000 Muslims in Java, the data results showed that the higher the level of religiosity, the higher the likelihood that the respondent would view Americanisation as negative and problematic. Hence, Muslim politics in Southeast Asia may take on a stronger anti-American flavour if not addressed sensitively.

Suzaina Kadir, PhD (Wisconsin-Madison) is an Assistant Professor, Department of Political Science, National University of Singapore.

THE CHINA PERIPHERY: THE NEW US CHALLENGE AND BEIJING'S RESPONSE

by Dr Greg Austin

In Taiwan, Tibet and Xinjiang, China's leaders have for many years seen themselves as facing threats to the country's national integrity and territorial sovereignty. The specific circumstances of Taiwan, Tibet and Xinjiang remain quite different and there has been little reason to see them as connected. But strategic policy makers in Beijing are beginning to see these once distinct problems as having new common threads that make them together a much higher order of security problem than any of the three cases had represented individually. The single most important thread in this evolving perception is the view that since President George W. Bush came to power in January 2001, the USA has been positioning itself to limit China's potential strategic power and it has been using developments in these three areas to do that. The US's need for China's support in Security Council votes on possible war with Iraq in late 2002 has overshadowed and even contained some of the emerging negative trends in US-China security relations that were so visible in 2001. But this paper contends that the underlying fundamentals remain negative. China's support for the US (and UK) position in the UN Security Council is based on shared values to some degree but it is also part of China's strategy for responding to the new US strategic challenge that is emerging on its periphery.

Dr Greg Austin is a Visiting Senior Research Fellow at the European Institute for Asian Studies since April 2002. His monograph on China's Ocean Frontier -- International Law, Military Force and National Development is widely recognised as the most comprehensive and detailed analysis of the subject, informed by years of primary research in China. He worked for the International Crisis Group in Brussels, in which capacity he helped to establish its Central Asia Project.