

Strengthening Fortress Europe

by Malcolm Subhan

If you thought that the European Union (EU) had quietly shelved its plans for a Fortress Europe, then think again. Or, rather, look at two documents recently put out by the European Commission, which is responsible for both charting the future of the 15-nation EU and mapping the way to it. The two documents are the European Commission's Action Plan for a "Wider Europe" and the report of an independent, high-level study group, entitled "An Agenda for a Growing Europe."

The reasoning behind the drive to create a Wider Europe is quite straightforward. Next May the EU "will enter a new and historic phase," with the creation of an enlarged Union of 25 countries, with a combined population of more than 450 million and a gross domestic product (GDP) of nearly €10,000 billion. What could be more natural, therefore, than that the EU "should aim to develop a zone of prosperity and a friendly neighbourhood – a 'ring of friends' – with whom it enjoys close, peaceful and co-operative relations*."

Enlargement, in other words, gives a fresh impetus to the EU's on-going plans to draw closer to itself the 385 million inhabitants of Russia, three of the 11 Newly Independent States (the Ukraine, Moldova and Belarus) and the nine southern Mediterranean countries and the Palestinian Authority. The Action Plan for a Wider Europe calls for increased trade and investment, to ensure secure and sustainable energy supplies. It also calls for "economic diversification towards labour-intensive, employment-creating industries and services. If energy dominates trade with Russia and Algeria, textiles and agricultural produce represent a large share of the EU's imports from Moldova, Morocco and Tunisia, for example.

Now the driving force behind this Wider Europe is the present 15-nation EU. But the EU "has become stuck in a rut," when it comes to economic growth, according to the report of the high-level study group. In his covering letter to the European Commission President,

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Romano Prodi, who commissioned the study, the group's chairman notes that "in the EU, there has been a steady decline of the average growth rate decade after decade, and per capita GDP has stagnated at about 70% of the US level since the early 1980s."

The report sets out a 6-point agenda, to ensure that the EU achieves its two strategic economic goals for the years to 2010 – creating the most competitive and dynamic knowledge-based economy and rapidly raising living standards in the 10 new EU countries. The report also endorses the European Commission's strategy for a Wider Europe, and proposes that the "EU should offer (its ring of friends) the prospect of a stake in the Single Market, with free movement of goods, services, capital and persons." This Euro-Mediterranean Single Market might in due time "constitute a gigantic entity, with a population of about one billion, or roughly three times the size of the United States" (but with only one-third its per capita GDP).

After a Wider Europe, the Wider World? The report, which runs to 173 pages, devotes exactly half a page to the wider world. In other words, it ignores the most important challenge facing the EU – globalisation. The challenge is not new, however. The report notes that in 2003, as in the 1980s, "Europe is still struggling with the spiral of low growth and high public expenditure." And, as in the 1980s, a major reason is the "shocks produced by long-lasting trends in demography, technology and globalisation." The report acknowledges that "the context in which EU economic policies have been developed changed fundamentally over the past thirty years," with the result that these policies no longer deliver in today's world, which is "characterised by economic globalisation and strong external competition."

The report refuses, however, to meet the challenge of globalisation head on. It calls on the EU and its member states to boost investment in knowledge, thus helping ensure that the EU is the most competitive and dynamic knowledge-based economy by 2010. But the report refuses to look at the impact globalisation is having on the wider world, on countries such as India and China. The fact is that by 2010 both India and China will also have made substantial strides towards a dynamic knowledge-based economy.

This is already happening in India's software industry which is now engaged in innovation and brand building. Other countries in Asia are not simply manufacturing integrated circuits for American companies; they are also inventing them. They are engaged in a process which began with the Industrial Revolution in the second half of the 18th century, and is one of the driving forces behind globalisation. The other is international trade.

The textile industry is a prime example of this process. India began by exporting raw cotton to Manchester. It went on to set up its own spinning and weaving mills, replacing its exports of raw cotton with cotton yarn and unbleached cloth. Garment manufacture followed, of standard, mass-produced items, for European and American retailers. But the garment industry is steadily moving up-market, exporting garments created by Indian designers. The growth of the textile industry has been matched by the growth of an industry manufacturing textile machinery.

By imposing an import quota on Indian cotton fabrics and anti-dumping duties on Indian bed linen, the EU is simply locking up human and financial resources that were far better employed in innovative, knowledge-based industries. Asian countries have accepted the logic of globalisation. China is a very good example of this, with its determined efforts to become the prime supplier of a rapidly expanding range of goods and services to the world.

The EU should be looking well beyond the Wider Europe to the Wider World, rather than trying to create a pan-European Fortress Europe. Trade Commissioner Lamy has defined globalisation as "the result of an increase in the world-wide flows of goods, services, capital, technologies and people against a background of deregulation." Missing from the study group's report, however, are policy recommendations in the two key areas of external trade and immigration.

The report refers several times to the superior economic performance of the United States, but stops short of looking at the role played by foreign trade and immigration. The fact is that the US is a more open market than the European, with American industry far more ready to outsource to developing countries than its European counterpart. At the same time the US has welcomed scientists and other professionals from Asian and Latin American countries, and allowed them to play an important role in its knowledge based industries. It would be interesting to know how many Europeans of Asian origin hold key positions in European research labs and high-tech manufacturing and service industries.

Perhaps Commission President Romano Prodi will now ask for a report on the EU and the Wider World, to be prepared by a study group which includes economists of international standing from Asia and Latin America. It might be an effective complement to the present report and the Action Plan for a Wider Europe. ■

* All quotations are from one or the other of the two documents in question. This one is from "Wider Europe – Neighbourhood: A new framework for relations with our Eastern and Southern Neighbours" COM(2003) 104 final.

ASEAN Integration and the European experience

by Michael G. Plummer

South-East Asian economic co-operation, through the institutional mechanism of the Association of South-East Asian Nations (ASEAN), has been quite exciting of late. This is particularly noteworthy because the organisation took almost a decade, from its creation in 1967, to develop even the most superficial forms of economic co-operation. Another 15 years were to elapse before the ASEAN Free-Trade Area (AFTA) was launched in 1992. (It is scheduled for full implementation by the five original ASEAN member states next year).

Since then, ASEAN has embraced other forms of co-operation, such as the ASEAN Investment Area (AIA), and is discussing other options, particularly on the financial side. Moreover, the group has been ambitious in terms of horizontal integration: it has expanded from five countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) in 1967 to include Brunei Darussalam in 1985, Vietnam in 1995, Laos and Myanmar in 1997, and finally Cambodia in 1999. ASEAN now encompasses all of South-East Asia.

The ASEAN leaders dedicated themselves in 2002 to the vision of an “ASEAN Economic Community” (AEC) by 2020. The date is significant for at least two reasons. Firstly, it coincides with that of the “Bogor Vision” of APEC, to which APEC developing member countries (including all ASEAN countries except Cambodia and Myanmar, for obvious reasons) committed themselves to a region of “open trade and investment” (the developed APEC countries are to do this by 2010). Secondly, 2020 is also the year in which Malaysia plans to become a developed country.

Perhaps even more interesting, however, is the name, which obviously borrows from the European co-operation experience. This is nothing new. ASEAN has always studied carefully European economic integration and has seen it as a sort of “role model,” to be adapted, however, to the Southeast Asian context. In this short piece, which draws in part on a recent article I have published in *World Economy*, I would like to delineate briefly some of the economic lessons that ASEAN might consider as it develops the AEC.

First, on the real side, we might begin with a *negative* lesson: ASEAN should avoid some of the pitfalls of the inward-looking discrimination from which the European Union (EU) continues to suffer (especially in agriculture), but which would be potentially catastrophic in the context of the ASEAN countries.

Intra-regional trade in ASEAN is only about one-fourth of global trade (compared to two-thirds in the case of the EU) and ASEAN member states are highly globalised and closely integrated with international production networks. Hence, any real-side economic co-operation needs to be outward-looking. In fact, this is exactly what the ASEAN leaders have in mind. ASEAN economic integration is seen as a way of integrating more closely with the *global* economy. Some scholars have noted that AFTA is actually more of an investment agreement than a trade agreement; free trade reduces intra-regional transactions costs and presents multinational corporations with a vertically-integrated market.

Attracting Foreign Direct Investment (FDI) has become even more important in ASEAN in the wake of the Asian crisis of 1997-99. A key culprit in the crisis was not really the massive current account deficits that ASEAN countries had raked up (of the order of 4 percent to 8 percent of GDP) *per se*, but rather how they were being financed. With financial liberalisation in the early 1990s, short-term capital inflows (especially in the form of bank loans) boomed in absolute values, and especially relative to long-term inflows (e.g. FDI), making the region extremely vulnerable to exchange rate fluctuations and, therefore, to a crisis. The second lesson that ASEAN can learn from Europe regards, therefore, an integrated FDI structure. Most of the directives that led to the creation of a tightly integrated market for FDI in Europe came with the Single Market programme, which has been a major success.

It is important to emphasise that what the European experience teaches us is that accomplishing such a feat goes well beyond mere national treatment/most-favoured-nation treatment in the regional marketplace. Economic co-operation is needed to reduce the myriad transition costs associated with FDI, including those with respect to the labour market, mutual recognition of product standards, and the like. Thus, while AFTA and the AIA are intended to boost FDI in the region, it will eventually be necessary to make progress in other areas as well, in order to create a truly integrated market. No doubt this is one of the motivations behind the AEC.

Coming back to real-side integration, a third lesson relates to how the EU has been able to gain from intra-regional trade liberalisation, though this could have been better organised to minimise trade diversion (rather than maximise it in some sectors, as in the case of agriculture). The customs union was important in building a regional market; the Single Market programme, by creating a Common External Commercial Policy (rather than just a Common External Tariff) was able to do much more by keeping real-side transaction costs within the EU to a minimum, and producing a truly regional marketplace,



resulting in a more efficient division of labour in most markets (almost all empirical studies show that European integration has been trade creating in most sectors, with agriculture being a major exception).

But how will ASEAN be able to create a customs union, even by 2020? Tariff dispersion rates across ASEAN countries are, indeed, impressive: while ASEAN members tend to have fairly low tariffs and non-tariff barriers relative to other developing countries (except for the transitional ASEAN economies), they still vary considerably across the region. Moreover, the case of Singapore is a difficult one: it essentially has no tariffs. The EEC did not face this problem. Given the openness of its economy (over 300 percent of GDP), Singapore cannot raise tariff rates to accept an ASEAN Common External Tariff. The only option here would be for a complete free-trade zone in ASEAN. This, too, would be difficult, especially since the current definition of free trade within AFTA is 0-5 percent! However, overall tariffs are falling, in line with the general goals of most ASEAN governments.

Prior to the Asian crisis, the Philippines had tabled a proposal to multilateralise all AFTA cuts, thereby rendering AFTA non-discriminatory. The proposal had supporters but was shelved due to the chaos of the crisis (one official quipped that “when the kitchen is on fire, you tend to forget about your garden”). Were it to be picked up again and actually implemented, the possibility of a customs union would be possible. (The alternative would be an “ASEAN-X” approach, which has major drawbacks).

On the financial side, the Asian crisis underscored the policy externalities associated with macroeconomics in general and finance in particular: bad policies in one country will have a negative effect on partner countries. A fourth lesson from the EU experience would be that taking a regional approach to capital market deepening can yield considerable gains. ASEAN is not only working as a region to help strengthen financial markets but also laying the foundations for regional equity and security markets. The EU experience has a great deal to teach ASEAN in these endeavours.

Fifth, an obvious EU-inspired movement in ASEAN relates to the question of monetary union, which will no doubt receive increasing attention as AEC initiatives are developed. If we use the EU as a yardstick, the literature would suggest that an ASEAN or “ASEAN+3” arrangement (ASEAN plus Japan, China and South Korea) would make about as much sense economically as European Monetary Union, or EMU, in Europe, at least from an optimal-currency-area perspective.

Moreover, an important economic argument in favour of monetary union in ASEAN relates to financial market development. The process that would be set in motion would facilitate capital market diversification and deepening, as it did in the case of EMU. Such institution-building aspects of monetary union are often ignored in economic literature, where the methodological focus tends to be on macroeconomic symmetry. As ASEAN considers monetary co-operation issues, it will find a great deal of useful, practical lessons, starting with the European Monetary System and leading up to EMU, which is arguably the most remarkable accomplishment in international finance since the creation of the Bretton Woods System.

A sixth lesson concerns the importance of linking the real and financial sides of regional co-operation. The EU experience - as well as those of NAFTA, MERCOSUR and other regional accords - has shown that financial and monetary co-operation can have a critical bearing on the success and direction of real integration. These regional co-operative “externalities” can be internalised by fostering financial co-operation at the same time that real co-operation deepens, rather than treating them as different issues. This is clearly a goal of AEC.

Of course, the political and political-economy issues that made EMU relatively popular and successful in Europe are not necessarily present in the case of ASEAN, particularly with respect to the motivations of the ASEAN leaders themselves. But things are changing. The Asian crisis, coupled with the perceived gains from monetary integration and the successful introduction of the euro, have increased the political possibility of such a regional monetary grouping.

The seventh and final lesson discussed here relates to the complicated process of integrating transitional economies into a market-based regional framework. This is even more complicated for ASEAN than for the EU, as Vietnam and Laos are still Communist countries; Myanmar faces extensive sanctions from the international community, and Cambodia is one of the poorest countries in the world, with an extremely delicate political situation (it was supposed to join ASEAN in 1997, with Laos and Myanmar, but was prevented from doing so because of a political coup).

In sum, there is a great deal that ASEAN can learn from the EU experience, though obviously the differing contexts suggest that there can be no “cookie-cutter” approach to economic integration in which ASEAN would merely import the EU model. This would be particularly difficult with respect to the development of supporting institutions in ASEAN. The EU has long had an extremely large bureaucracy, whereas the ASEAN Secretariat has purposely kept a very low profile: the idea of supranational institutions is a



delicate one in ASEAN, as it is in many other regional groupings. The EU in fact is the exception here. But as ASEAN leaders implement the AEC, they would do well to study carefully the EU experience. And that seems exactly what they propose to do. At the 2002 ASEM meeting, the EU agreed to finance a project ("APRIS") that would do just that. Of course, what will ultimately determine the success or failure of AEC will be the existence or otherwise of the political will to embrace deep integration. This was lacking in Europe prior to the Single Market programme, and it will be interesting to see how far the ASEAN leaders are willing to go down this road. ■

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EU-China Rights Dialogue: an "Acceptable Option"?

by Haina LU

The EU-China Human Rights Dialogue Seminars scheduled to take place in Beijing at the end of May 2003 were postponed due to the continuing outbreak of Severe Acute Respiratory Syndrome (SARS) in Beijing. The crisis over SARS reveals a variety of human rights problems in China, both in terms of civil and political rights, such as the right to freedom of expression, and in terms of economic and social rights, such as the right to health. In addition, the impact of the crisis on the Chinese economy, and its repercussions on neighbouring countries in East and South-East Asia, also proves once again the close connection and interaction between a healthy human rights situation and a healthy economy.

The EU-China human rights dialogue has been going on for years. As often stated by the European Union (EU), "the dialogue is an acceptable option only if enough progress is being achieved and reflected on the ground." Before the seminars and dialogue are re-launched is a good time to conduct an evaluation of the EU's "policy of dialogue" with China on human rights issues.

The EU and China have conducted a twice-yearly, high-level political dialogue on human rights since 1997. The major purpose is to encourage the Chinese Government to respect human rights and fundamental freedoms, and to enhance co-operation with international human rights organisations.

This process of political co-operation is complemented by the activities of the EU-China Human Rights Network, an academic project funded by the European Commission. This co-operative project aims to help China bring its laws into compliance with international standards, and to advance the implementation of the substantive rights guaranteed by the UN Human Rights Covenants. In addition to a series of independent academic activities, such as Network seminars, the Network is also responsible for organising the twice-yearly EU-China Human Rights Dialogue seminars on behalf of the European Commission, the Chinese Ministry of Foreign Affairs and the Presidency of the European Union. The outcomes and recommendations of Network research and seminars are intended as input for the academic Dialogue Seminars, with a view to giving the dialogue process a more practical and concrete focus. In this way, it is hoped that "the Network will contribute to the success of the Dialogue by ensuring continuity and institutional memory in the process, and by publishing the reports and findings of such events."

In order to make the dialogue more effective, the EU has also funded practical co-operation programmes, focusing on basic and advanced training for the legal profession, and on the promotion of democratisation strategies aimed at improving the human rights situation in China.

During the period covered by the dialogue, violation of fundamental human rights and freedom in China continued to be noticed by people around the world. Human rights violations, such as restrictions on freedom of assembly, expression and association; extensive recourse to the death penalty; lack of due process of trial, and institutional discrimination against rural residents continued. Some NGOs working on human rights in China have levelled the criticism that "no positive and effective results have been noted on the ground." While not denying the lack of progress in these areas, the EU noted that positive changes had been made in certain areas, such as reform of the penal code and of the code of criminal procedure along the right lines, the ratification of the International Covenant on Economic, Social and Cultural Rights (ICESCR) in early 2001, the signature of the International Covenant on Civil and Political Rights (ICCPR), and accepting visits by the Working Group on Arbitrary Detention and the Rapporteur on Religious Tolerance.

Some NGOs also criticised the EU-China Network for being conducted in an "ivory tower," limited to academics and experts, and without adequate involvement of civil society. They also complained that the political dialogue was too diplomatic and lacking in transparency, given that normally the results of the dialogue do not give rise to a public report.

Criticism has also come from within the EU. Dr. Elly Plooij-Van Gorsel, a member of the European Parliament and chair of the European Parliament's Delegation for Relations with China, characterised the progress of the EU-China human rights dialogue as "very slow." She is "not convinced that the will to change the situation is big enough." She believes that there is a need to put more pressure on the Chinese government, in order to make progress.

Dr. Plooij nevertheless is convinced that China must not be excluded from world organisations. Instead of isolating China, it is better to engage it in a dialogue, and to witness a gradual change. She believes that China's accession to the WTO will have a positive influence on democratisation, and will eventually contribute to improving human rights protection in China. She also pointed out that a new leadership has recently taken over, giving grounds for optimism about the future.

The situation in China has seen many changes since 1997. The most significant among them includes China's accession to the WTO at the end of 2001; the advanced restructuring of State-owned enterprises (SOEs), which resulted in massive lay-off and a series of workers' protests across the country and, most recently, the coming to power of the new leadership. The accession to the WTO forces China to adapt its judicial system to the requirements of the rules of free trade. It requires China to undertake significant transparency reforms, including publishing laws and regulations, establishing a system of judicial review, modifying existing laws and regulations, as well as the decision-making norms of China's economic regulatory bureaucracy.

It can be expected that this reform will eventually contribute to the promotion of the rule of law in China. However, enormous social costs appear to be inevitable in the short-term in the very least. Regional discrepancies, rural-urban disparities and other social inequalities are widening. Other factors, such as the reform of SOEs, an idea emphasising efficiency and flexibility over equity, and devolution of power from the central government to local authorities are leading to a further deterioration in the situation of disadvantaged groups. Among the hardest-hit of these groups are women, rural residents, ethnic minorities and persons with disabilities. The EU-China human rights dialogue is expected to respond adequately to these negative effects and their victims.

These disadvantaged groups should also attract the attention of the EU's technical assistance programmes for China. The current assistance programmes focus on training legal professionals and law enforcement officials who are directly concerned with the protection of civil and political rights, rather than with training professionals who work actively to promote economic

and social rights, such as trade union workers, social security personnel, people working for the employment services, etc. While the first type of assistance is certainly necessary, the latter is no less important. Moreover, focusing more on economic and social rights may have a more obvious and significant outcome in terms of improving the situation on the ground, given the fact that China is still claiming to be a socialist state, and has recently ratified the ICESCR, instead of the ICCPR, which shows that China is more prepared to improve the situation in social, economic and cultural areas.

The EU's approach continues more or less to reflect the traditional Western position, which emphasises the importance of civil and political rights over economic, social and cultural rights, although this bifurcated approach has long been widely criticised. It is laudable that the European Commission's recently approved Country Strategy Paper for China (2002-2006), pays attention to some of these challenges, up to a point. Specific projects have been designed to support the reform of social security in China, and to strengthen civil society through support of NGOs. However, it remains to be seen how effective these projects will be.

The cause of human rights is a long-term struggle for every country in the world. Things cannot be changed overnight. The EU's "policy of dialogue" on human rights issues seems to have little significance in terms of changing the current human rights situation in China in the short- or even medium-term. However, given the unique characteristics of China's political regime, social and economic status, and cultural tradition, it is reasonable to hold that this policy of co-operation through dialogue and assistance is more realistic and practical than the so-called "big stick" policy. Positive steps *are* in fact being taken, although very slowly. This policy will eventually prove its effectiveness, especially in terms of preparing future human rights practitioners and raising public awareness.

This certainly does not mean that no improvement can be made in terms of the methodology and substance of this co-operation. If the dialogue is more focused on the right areas, if the process of the dialogue is more transparent and genuinely involves civil society, if assistance programmes are run in a more effective way and cover a wider range of beneficiaries--in particular people at the grassroots level and disadvantaged groups, then things are likely to move faster. Most importantly, a stronger political will from the EU, urging China to take positive steps, is essential for making this dialogue an "acceptable option". ■

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Bridging Differences: five issues on the WTO Agenda

This article is not a book review; rather, it is a brief summary of the main findings of research papers to be published shortly in book form. Entitled “*Bridging the Differences: Analyses of Five Issues on the WTO Agenda*,” the book contains research papers written jointly by Indian and European economists and lawyers*. The five issues are investment, competition, antidumping, textiles and clothing and mobility of labour.

The book is an attempt to feed the results of research into these five WTO issues into the Cancún Ministerial Conference in September. The authors have tried to identify similarities and differences in developed (European Union) and developing (India) country interests, and to help bridge the differences by providing a sound analytical basis for thinking about them.

The book is the outcome of a programme known as the EU-India Network on Trade and Development (EINTAD). It was launched in Brussels in May 2002, by CUTS Centre for Trade, Economics and Environment, based in Jaipur, India, with the University of Sussex and the European Institute for Asian Studies as partners. ■

Malcolm Subhan

Introduction

The Cancún meeting was always going to be important, but in the last few months it has assumed a broader and more critical significance. At the minimum Cancún must demonstrate clear progress on the precursor issues – medicines and Special and Differential Treatment (SDT); on agriculture, which has (rightly) become the touchstone of developed country willingness to use trade policy as a tool for reducing global poverty; on services, which offer the greatest scope for mutual gains from trade liberalisation; on barriers to manufacturing trade, where the issue is developing countries’ own trade barriers, which penalise their consumers and prevent the emergence of profitable trades between developing countries; and on the Singapore issues – investment, competition policy, trade facilitation and government procurement - which have become a focus of intense developed-developing country debate. Among the other areas on which one might hope to see progress are anti-dumping duties and dispute settlement, which are major concerns in parts of the developing world.

A Multilateral Agreement on Investment

For Peter Nunnenkamp (Kiel Institute for World Economics) and Manoj Pant (Jawaharlal Nehru University, Delhi) the case for a multilateral agreement on investment is not compelling:

- ◆ Investment regulations have been progressively liberalised via unilateral measures in the complete absence of multilateral obligations to do so. Moreover, the protection of foreign investors against political risk is frequently achieved via the large number of bilateral and pluri-lateral investment treaties.
- ◆ A multilateral agreement could reduce FDI-related transaction costs significantly only in the unlikely event that it replaced the complex net of 2000-plus existing bilateral arrangements. A “WTO plus” framework appears to be the more realistic outcome of negotiations, with a multilateral agreement defining the lowest common denominator and WTO members continuing to maintain more substantive agreements with limited membership.
- ◆ The empirical evidence suggests that WTO negotiations on investment are neither sufficient nor necessary to induce higher FDI flows to developing countries. Transaction-cost-related impediments to FDI have played a minor role in driving FDI, and the absence of a multilateral agreement has not prevented the recent boom of FDI in developing countries.

The authors note that wishful thinking also pervades the position of the developing countries. The latter want to insist on preferential treatment with regard to their own obligations as host countries, but on binding obligations on foreign investors and their home countries. It is highly questionable whether developing countries could derive more benefits from FDI if a multilateral agreement were to include a “development clause” allowing for flexible and selective approval procedures and performance requirements such as local-content rules. The call for binding rules on the behaviour of foreign investors may very well discourage multinational enterprises from investing in developing countries altogether, instead of fostering transfers of technology and improving the quality of FDI. By insisting on preferential treatment with regard to FDI incentives, developing countries tend to ignore the fact that incentives-based competition for FDI is mainly between themselves. Nunnenkamp and Pant argue that an agreement to limit investment incentives by developing country governments would be very desirable, but equally, very unlikely in the present climate.

Unless developing countries are prepared to tie their own hands, they cannot reasonably expect significant concessions from industrialised countries. Developing

countries will become relevant negotiation partners in the WTO only by offering something of their own. Rather than engaging in a futile attempt to block multilateral negotiations on investment altogether, therefore, Nunnenkamp and Pant argue that developing countries should commit themselves to rule-based FDI policies as a negotiating chip. In addition they say, the pressure on industrialised countries to engage in negotiations on labour mobility would mount if developing countries refrained from performance requirements and granted national treatment to foreign investors.

Competition Policy

If investment is the most sensitive of the Singapore Issues, competition policy is the second. T. C. Anant (Delhi School of Economics), Simon Everett (World Trade Institute, Berne), Peter Holmes (University of Sussex) and James Mathis (University of Amsterdam) analyse several of the issues at stake in the discussions surrounding the creation of a competition policy agreement at the WTO.

They begin by surveying the formal submissions of India and the EC to the WTO Working Group on Trade and Competition, and try to identify the exact location and nature of the differences between them. Despite the very strong reservations expressed by India about the EC's proposals, they nevertheless find that the Indian position is actually not particularly far removed from them. India has expressed support for the UNCTAD "Set of Multilaterally Agreed Equitable Principles and Rules for the Control Of Restrictive Business Practices", and, once one gets below the rhetoric and legalese, the EC's current proposals differ little from this Set.

The authors next look in more depth at the EC's current proposals, and suggest that these proposals involve surprisingly limited additional obligations for signatories to a multilateral agreement. Indeed, in some important respects the EC's proposal would actually reduce the extent of WTO obligations in competition policy, by confining GATT Article III National Treatment obligations in competition law to *de jure* discrimination (i.e. implicitly permitting *de facto* discrimination which is currently disciplined if it disadvantages imports) and by making further provision for special exceptions. However, if there were no *further exclusions*, an agreement along the lines of the EC's proposals would extend the scope of the *de jure* national treatment requirement beyond its present application to include non-traded goods and to non-scheduled services.

The authors finally take an in-depth look at the costs and benefits of the EC's proposed provisions on *hard core cartels*. They argue that recent evidence makes it hard to sustain the view that free trade alone guarantees

contestable markets. In particular, private international cartels have been active in both industrial and developing countries. Moreover, recent evidence suggests that the deterrent effect of effective anti-cartel enforcement measures is considerable. They also cast doubt on the often-heard claim that the enforcement of competition law is an unjustifiably expensive activity. The authors explore a number of specific issues on cartel enforcement, including the Indian concern about the withholding of "confidential" information, and related concerns about the viability of amnesty provisions. They believe that developing economies' interests might be best served by exploring arrangements in which the amnesty provisions in industrialised countries' competition laws could be used to provide incentives for cartel conspirators to willingly reveal the extent of their activity to enforcement officials in developing as well as developed countries.

The authors conclude that, from India's point of view, the weakness of the EC proposals at the time of writing is not so much that they would be invasive of India's sovereignty as that they would deliver relatively little of what India seeks.

The Temporary Movement of Workers – GATS' Mode 4

Christine Breining (University of Zurich), Rajesh Chadha (National Council of Applied Economic Research, Delhi) and L. Alan Winters (University of Sussex) begin by observing that arguably the least liberal and most inequitable areas of the General Agreement on Trade in Services (GATS) is the Temporary Movement of Natural Persons (TMNP - Mode 4). Developing countries are replete with labour willing to move temporarily to work, and yet TMNP accounts for less than 2 per cent of services trade and even less of GATS concessions. This neglect of TMNP as a route to market liberalisation almost certainly stems from the extreme political sensitivity of migration within developed countries, coupled with the current tendency to equate temporary mobility with migration in both popular perception and bureaucratic treatment.

The authors argue, however, that the issue will become unavoidable in the developed countries as economic pressures build up. The need for inflows of labour is already high and is certainly growing, as developed countries' work forces age and their relative skill levels and job aspirations rise above those needed for many important services. TMNP offers a way out of this impasse: whereas the direct economic consequences of TMNP are similar to those of migration, TMNP is not the same as international migration, for it does not entail commitments to social welfare or shifts in residence of the workers concerned.



It might thus appear surprising that the GATS' Mode 4 has met with little enthusiasm. The authors suggest a number of possible reasons, including the lack of flexibility of GATS bindings and the Most Favoured Nation (MFN) requirement. The behaviour of developed Member government suggests that they prefer restricted or regional arrangements for recruiting specific service providers. This tendency is further strengthened by fears that labour mobility under the GATS could serve as a tool to establish permanent residence, and thus conflict with existing immigration policies, which allow for more flexibility by granting more room for discretion. This flexibility contrasts with the need for transparency and predictability, as required by the GATS. The authors suggest that the introduction of a GATS visa should be further examined as a way of generating additional mobility without having to change immigration policies fundamentally.

There is a detailed discussion of the movement of doctors from India to the UK, based on new data. This is a major flow and a critical one for the UK's National Health Service; it takes place outside any GATS provisions. The flows are ostensibly temporary, but, in fact, rates of staying are quite significant, and the data raise at least the possibility of brain-drain losses to India. One interpretation of the situation is that the movements of doctors reflect comparative advantage in the production of fully qualified doctors. India's comparative advantage might lie in providing basic education and first degrees in medicine, while the UK's might lie in high-level practical training with modern technology.

Obviously, the movement of health workers from Asia to Europe takes place at present despite the absence of commitments under GATS. Three arguments are put forward for extending the commitments under Mode 4 of the GATS: First, such commitments would benefit the sending countries by providing a more predictable and transparent framework that is based on non-discrimination. This would encourage the flow to developed countries, which are coming to depend more heavily on them. Second, by making the inflow more secure, a GATS commitment will give employers more confidence in its continuation and thus allow greater adjustment in the direction of comparative advantage. Third, expanding Mode 4 commitments could be used as a tool to overcome the bias in favour of highly qualified labour. Since the evidence suggests that the brain drain may be a problem for countries with extensive export of health workers, a GATS framework could serve as a safeguard because it encourages explicitly *temporary* movement of persons rather than pseudo-permanent moves.

Anti-dumping

Krista Lucenti (World Trade Institute, Berne) and Sharad Bhansali (Strategic Law Group, Delhi) consider anti-dumping duties (ADD). They document the recent evolution in ADDs – especially the growth in their use by large developing countries – consider the case for their existence and make some suggestions for their reform. While ADDs are very sensitive, there appears to be a little willingness to consider their administration, even by the USA. The authors draw a number of strong conclusions from their study. They argue – uncontroversially – that despite the widespread agreement about the welfare-reducing effects of ADDs, governments will continue to view them as a politically easier alternative to promoting efficient and competitive domestic industries. That is, the Doha Development Agenda (DDA) will not abolish ADDs.

Anti-dumping cases accounted for 86% of all types of contingent protection measures (anti-dumping, countervailing duty, safeguards) used by WTO members between 1987 and 2001. At the same time, developing economies surpassed the traditional users (U.S., EC, Canada, Australia), accounting for over half of the anti-dumping complaints, measured by the number of cases filed. The major new users are the large developing countries, such as South Africa, Brazil and India. Small economies are mostly still small users. Within this growth there has been an increase in “South-South” anti-dumping cases: India has levied over 50% of its measures against other developing countries; Argentina levied 50% of its measures against Brazil and China; and South Africa, though its targets were more dispersed, still levied 25% of its measures against China and Korea.

Turning to the other side of the ledger, developing countries are significantly more vulnerable to anti-dumping measures than they were 10 years ago. Not surprisingly, their increasing production of the industrialised products most subject to ADDs has made them more vulnerable to anti-dumping actions. Least developed countries have not experienced such a significant increase, however, because of their low and static share of exports in the sectors most hit by anti-dumping measures.

With this in mind, the authors suggest several ways in which the Anti-Dumping Agreement may be tightened. While no one expects a revolution in ADD, policymakers in Cancun should aim to amend and improve some provisions of the agreement to reduce existing distortions and prevent its gross misuse. From a legal perspective, this would help tighten the agreement and reduce the ambiguities from which it currently suffers. Among the critical issues the authors identify are: changes in the calculation of the dumping margin and the determination of normal value – e.g. procedural improvements involving transactions



between related parties and the prohibition of zeroing; using a broader definition of 'domestic industry' in the determination of injury; the mandatory analysis of all 15 of the WTO's recommended injury parameters; calculating injury margins for the most efficient producer not the least; the mandatory use of the 'lesser-duty rule'; taking the public interest criterion seriously; and provisions for relief to small enterprises in the agreement.

Textiles and Clothing

Implicit in much of the development debate is concern about the future of the textile and clothing (T&C) market in the face of Chinese accession to the WTO and the imminent abolition of the MFA. This subject is taken up by Dean Spinanger (Kiel Institute for World Economics) and Samar Verma (Oxfam GB in India). They start from the growing concern that China's WTO membership will massively impact global T&C exports and the more specific concern that India will suffer. They argue that there is no consensus at present on the likely impact of the elimination of T&C quotas in 2005.

After examining the additional impact of China's accession to the WTO, the authors claim that there is little doubt that the elimination of the quotas under the 1994 Agreement on Textiles and Clothing (ATC), and any liberalisation of tariffs in the Doha Development Agenda (DDA), will imply a massive shift of resources. The accession of China to the WTO will certainly give China's exports an additional boost, but the calculations presented by the authors suggest that India in fact will be one of the few countries with the potential to profit from the net effects of this and the abolition of T&C quotas. This applies not only to clothing exports, but also to exports as a whole.

However, surveys carried out for the authors with major T&C companies in Hong Kong reveal the key factors that are essential to attract investments and generate demand in T&C; in other words what is necessary to become more competitive in the sector. In the critical areas – such as transportation and communications infrastructure and labour market flexibility – India has long failed to perform adequately. Upgrading will be essential, should Indian manufacturers want to profit from the potential created by the quota liberalisation and, at the very least, retain market share vis-à-vis China. If the authors' analysis is correct, taking such issues seriously is truly a win-win path that India should follow as quickly as possible.

Given that India is less competitive because of the absence of an efficient physical and bureaucratic infrastructure, the policy message is clear: it is simply to open up these sectors to private companies, that can quickly design and construct state-of-the-art facilities to cut down the delays. The authors want this move to

be backed up with sweeping reforms of labour markets as well as of the financial sector, coupled with a major elimination of tariff and non-tariff measures. The recent attempts to jump-start industrial and service sector developments by setting up special zones should also be intensified. Finally, MM. Spinanger and Verma suggest that India should not wait for the next WTO round to bargain through the suggested tariff and non-tariff changes. China is in the WTO now and T&C quotas are being eliminated in less than 600 days. There is no time to wait. India has already waited too long already. ■

* *Bridging the Differences: Analysis of Five Issues of the WTO Agenda*. Edited by L. Alan Winters and Pradeep Mehta. CUTS Centre for Trade, Economics and Environment, Jaipur. 2003.

For a successful Cancún

by T. K. Bhaumik*

The author, who heads the WTO Division of the Confederation of Indian Industries (CII), New Delhi, maintains that the 2005 deadline for the conclusion of the Doha development round must be extended by a year.

Trade ministers of the 146 member states of the World Trade Organisation (WTO) will be meeting in Cancún (Mexico) for their fifth ministerial conference this September. They are expected to review the progress achieved on the Doha round of negotiations. Thus far, however, the Doha agenda has been a non-starter; there has been practically no progress. Given such a situation, the question that naturally comes to mind is: what will the ministers do at Cancún?

Progress on negotiation on the Doha agenda is now faced with many deadlocks. If deadlines on issues such as agriculture negotiations, trade and development and market access modalities have been missed, it is largely because of the deadlock on TRIPS and Public Health that has encouraged a toughening of positions on other issues. This single issue has vitiated the atmosphere for negotiations on other more important issues, such as market access (industrial goods), agriculture, etc. All attempts to resolve this issue have failed, and fresh attempts will be made only at the Cancún ministerial conference. It is lamentable that just one country and, what is worse, one single industry in that country, could inflict so much of damage to the Doha round of negotiations – which, incidentally, is called the Doha Development Round.

This word "development" is now a mockery. There has been a total disregard for development concerns of the



developing countries. Developed countries have, so far, shown little interest in discussing issues such as “special and differential treatment” and implementation, though those issues are of primary concern for developing countries. On market access, developed countries are trying to pursue their ambitious agenda and ignoring the interests of developing countries. All that they seem to have for the latter is a piece of advice: do more South-South trade and reduce intra-South trade barriers. What a unique way to skirt the real issues!

WTO is a victim today of the sky-high ambitions of developed countries, who are evidently bent upon using the trading body to serve their needs. Developed countries have succeeded in doing that ever since the days of the Uruguay Round, but they have become very aggressive about it now, apart from showing their impatience towards the views of developing countries. At the same time, the latter group is no longer weak and cannot be easily subdued. As a result, trade frictions are growing. Not surprisingly, trade negotiations are now highly vulnerable to deadlocks. This explains the current situation with respect to the Doha agenda. However, the WTO is running the risk of credibility erosion in the process.

The ministers will do well to reflect on the current status and state of play in WTO. How to make this into a more effective institution? The success of the Doha development round will depend a lot on how this issue is addressed. It essentially boils down to improving the image of the WTO. Much of that will, in turn, depend on ensuring transparency in the function of WTO.

The ministers may need to undertake a comprehensive review of the weaknesses from which the WTO suffers, and identify the forces that threaten its credibility. This last aspect needs much greater attention, and cannot be addressed merely by throwing some crumbs to the least developed countries. There is a need for much greater emphasis on capacity building in the developing countries and more especially in the least developed countries, with a thrust on effective partnership between developed and developing countries.

The Doha development agenda, everyone will agree, is a highly ambitious one, both in scope as well as timetable. But we need to respect it. There is no point in saying that the deadline of 2005 cannot be achieved. Perhaps, it may not be, but that is where the challenge is. If the ministers succeed in meeting this huge challenge, it will be a great success for multilateralism. I think the immediate challenge before the members of WTO is to strengthen the basis of multilateralism. If multilateralism fails, the forces behind regionalism will be unshackled and, needless to say, the world trade regime will suffer a big blow. It is in this context that there is a need for a serious attempt to resolve the

existing deadlocks in a spirit of mutual accommodation of interests.

Trade frictions are proliferating. Often the dispute settlement mechanism (DSM) itself is found to be acting as an encouragement to disputes. Some countries are grossly violating the rules and discipline. A new mindset is at work: if I am doing something wrong, let the DSM decide. Realistically speaking, WTO is getting weaker from within. There has been no attempt to protect this institution from the rot that is fast spreading.

This apart, many developed countries are also projecting WTO as a slow-moving vehicle for trade liberalisation and promoting regionalism, bilateralism and other advantageous trade arrangements in the name of faster liberalisation. Developing countries are being told, in no uncertain terms, that if they don't fall in line, regionalism will overtake multilateralism (as if that is not happening already!). Quite naturally, anti-WTO voices are becoming stronger in developing countries. This cannot be overlooked, and should be addressed at the Cancún ministerial.

At Cancún the ministers should agree to undertake a comprehensive review of the impact of WTO, the weaknesses it is suffering from, its actual working, the necessity for further disciplining and the identification of forces threatening its credibility. The issue of credibility cannot be addressed by merely handing out some sops to the least developed countries, as is the case today. Credibility is about effective partnership between developed and developing countries that must be ensured.

Similarly, the ministers should also agree to curtail the ambitious character of the Doha agenda. By now it is amply clear that the 2005 deadline is not achievable. Let us acknowledge that reality and agree to extend it by a year or so. This will ease tensions. The ministers in Cancún may like to give it a thought. ■

* Reprinted from the *Economic Times* (India) of 7 June 2003, with the author's permission.

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Trade issues and developing Commonwealth countries

The Commonwealth Secretary-General was in Brussels on June 11 at the invitation of the European Trade Commissioner, Pascal Lamy. On the eve of his meeting with the Trade Commissioner, the Secretary-General addressed a meeting specially convened by the Australian Ambassador to the EU at his residence. His speech dealt with the “three key areas in which the EU and the Commonwealth can develop and strengthen their co-operation: the promotion of democracy, trade issues and development.” We publish below the section of his speech devoted to trade issues.

by Donald C. McKinnon

I am here because, for the majority of developing countries in the Commonwealth, trade access is a question of life or death. I am here because the views of our members need to be heard, and because their interests need to be taken seriously.

The Commonwealth is not only committed to multilateralism as a valuable mechanism for consensus at political and diplomatic levels. It is also an effective tool for tackling economic disparities and deprivation.

If we are serious about eradicating poverty, fighting disease, opening the doors of learning and providing economic opportunities to everyone on the planet, we must ensure that every voice is heard in global economic forums, and that the interests of the vulnerable are not excluded from discussions affecting their future. In the trade area, the “Quad” – the United States, Europe, Canada and Japan – have, until now, dominated multilateral trade negotiations.

I remember the many commitments made at the end of the Uruguay Round. To quote the Ministerial Declaration adopted in Geneva in May, 1998: “We remain deeply concerned over the marginalisation of least developed countries and certain small economies, and recognise the urgent need to address this issue...We commit ourselves to continue to improve market access conditions for products exported by the least developed countries on as broad and liberal a basis as possible.”

Noble commitments, but not much has changed over the last five years. There were encouraging signs that the round of negotiations initiated in Doha would mark a sea change by incorporating a “development agenda.” But I am increasingly worried that developing countries – and among them, many Commonwealth states – will, in fact, be sidelined, and that their

concerns about the current imbalances in the international trading system will not be addressed.

The role of the Commonwealth here is to support the interests of its developing member countries in the face of the overwhelming political influence of the United States and European countries in international trade. Developing countries could be smothered in the dust of conflict between the two blocs, especially over agriculture, if the Commonwealth and others did not stand up for them.

For many years, developing countries have been told that the only way to prosperity was through trade liberalisation. But while poor countries have heeded this advice and remove many of their trade barriers unilaterally, developed countries have not allowed a more level playing field for them. In precisely those sectors where developing countries have a comparative advantage, such as agriculture and textiles, developed countries have protected themselves through both tariff and non-tariff barriers, and extensive systems of domestic subsidies resulting in dumped exports.

The World Bank and the IMF have estimated that liberalisation of trade in agricultural products would increase developing country exports by at least US\$30 billion per annum, and possibly by as much as US\$100 billion. In Africa, this would translate into nearly 1% incremental annual growth.

The simple truth is that developed countries have not lived up to their commitments, although they can easily afford to do so. Everyone agrees that no significant progress can be made in the fight against poverty until developed countries accept a radical reform of agricultural subsidies.

The facts are well known. OECD countries spend US\$1 billion a day on trade subsidies – six times more than what they spend on aid to poor countries. As many leaders have pointed out, the way to tackle the problem of poverty and hunger in the world is to improve trade access for developing countries. It is absurd that farmers in the developed world continue to receive subsidies to generate goods that farmers in poor countries can produce more cheaply and more efficiently.

Governments in developing countries are not allowed to subsidise the assembly of microwave ovens to sell in Europe at half the local price, but Americans can sell cotton and the Europeans sugar in developing countries at half the cost of production. This, to me, defies logic. As long as developing countries are cut off from markets in the rich world, they stand no real chance of lifting themselves out of poverty. For them, trade access is, quite literally, a matter of life or death.



Today, the Doha Trade Round is one of the most important single issues facing Commonwealth countries. The livelihoods of many of our member countries are at stake, and their economies threatened as never before. A successful Round could add more than US\$400 billion to global income and boost developing countries income by US\$150 billion a year (three times the current global amount spent on development assistance).

Developing countries are against the wall. Their capacity to cope with the volume of demands from the negotiations is overwhelming. They are faced at the same time with European and OECD requirements on harmful tax competition, which will ruin some economies if no alternatives are on offer.

The pressure for the negotiation of Economic Partnership Agreements with the regions comes at a time when many government departments are struggling to survive the ravages of the HIV/AIDS pandemic on their staff complement. Their intellectual capability has been drained and governance itself is at risk in many countries. I do not know how many people in the industrialised world realise the true nature of this crisis. And the time has passed when charitable intentions have any remaining real meaning, even though the EU has a world-class development assistance record.

What is needed today is some indication of movement on the most fundamental policy area affecting the Doha Round: agriculture. This issue is close to my heart. Indeed, before entering politics and government I was a farmer. I therefore know first hand how the policies of Europe, the US and Japan have created a global paradox: huge agricultural subsidies in the rich countries effectively undermining each and every attempt by the developing countries to add value to their primary agricultural products.

I can, to some extent, understand why it has taken so long to reform agriculture. But sure the common agricultural policy (CAP) has done its work – years ago – by keeping people on the land in Europe until the post-war industrial base was strong enough for jobs to be created outside agriculture. That time has long passed and, indeed, left its mark on countries in other parts of the world whose economies were threatened by what was happening in Europe and America.

That is why tonight in Brussels I am calling for action from Europeans. I am asking the European Union and its member states, without exception, to pledge the beginning of a process of agricultural subsidy reform, to allow the Cancun meeting in September to save the Round from collapse.

Such a pledge would give heart to those countries which are living in dreadful conditions. They are trying

to do their best but they need real movement on the one agenda item which above all others can give them hope. If Europe can muster the political will to reform agriculture it can create the confidence that delivering a “development round,” which gives voice to developing country concerns, is, indeed, possible.

Today, Europe, the US and Japan have the opportunity to make a decision that will improve the lives of millions of people in developing countries. I sincerely hope they will seize this opportunity. Some countries continue to oppose efforts to bring about genuine reform in agricultural trade and the provision of affordable drugs for the poor. The stark truth is that if they do not change their stand, they will have blood on their hands.

The EU, the US and Japan must realise that opening their markets to the developing world and lowering trade subsidies is in everyone’s interest:

1. Phasing out trade-distorting subsidies would reduce the real cost of products to consumers in the developed world.
2. The money governments would save on subsidies could be invested in health, education and public services, and could also translate in lower levels of taxation.
3. Opening markets in the rich world would allow poor countries to develop their economy and provide new, untapped markets to the industrialised world.

A related problem is the gap that exists between trade policy and development co-operation. Trade policy decisions are taken separately, with hardly any consideration being given to their impact on the developing world. So a decision by the Overseas Development Minister to provide aid for trade capacity building in a developing country is cancelled out by the Trade Minister’s decision to block exports from that country through high trade barriers.

This exemplifies the dyslexic attitude of rich countries towards the developing world: they continue to provide aid, but they refuse to do the one thing that would really help poor countries trade their way out of poverty: cut down their trade subsidies and reduce their tariff and non-tariff barriers. This behaviour is not only inconsistent; it is plain absurd. It amounts to pushing a drowning man’s head down with one hand while trying to pull him out of the water with the other. Leaders should therefore call for greater harmonisation between trade policy and development co-operation. This would ensure greater coherence in assistance to developing countries and greater progress in the fight against global poverty. ■

H.E. Rt Hon Donald C. McKinnon is the
Commonwealth Secretary-General



Trade in Services

Introduction

Services are the most dynamic sector of the economy of the 15-nation European Union (EU). They account for two thirds of GDP (around €6,000 billion) and two thirds of jobs (over 110 million). The EU is the biggest exporter and importer of services, accounting for 24% of world trade in services (as against 19% of world merchandise trade). Services in fact account for 25% of total EU exports, and for over half of all foreign direct investment (FDI) flows from and to the EU. It clearly is in the EU's interest to improve access to foreign markets for companies in the services sector.

Developing countries also have an important stake in the WTO negotiations on trade in services. Of the 40 largest service exporters in the world, 15 are in developing countries. By end April some 25 developing countries had sent in requests to the EU, including China, Hong Kong, India, South Korea, Malaysia, Pakistan, Singapore, Sri Lanka, Taiwan and Thailand. The fact is that services now account for over half the GDP of developing countries on average, as compared to 60% for OECD countries.

Trade in services is covered by the General Agreement on Trade in Services (GATS), which came into force in 1995 and is part of the WTO agreement. GATS is in two parts: (1) the framework agreement, which sets out rules and general disciplines, and (2) the country schedules, which list the specific commitments of each country as regards access of foreign service providers to its domestic market. Under Article II, each Member must grant any other Member "treatment no less favourable than that it accords to like services and service suppliers in any other country."

GATS lists four ways in which services can be traded, known as "modes of supply." Mode 1 covers services supplied from one country to another (e.g. international telephone calls). Under Mode 2 consumers from one country use services, such as tourism, in another country. Mode 3 deals with "commercial presence" – such as a bank from one country setting up operations in another country. Mode 4 covers the "temporary movement of natural persons" – such as computer specialists travelling from their own country to supply services in another country. ■

Malcolm Subhan

The following text consists of extracts from an article setting out the Chinese viewpoint on Mode 4 negotiations, with specific reference to the EU. The article was published by Intertrade (Ministry of Commerce). The English translation is by a former member of the staff of the European Institute for Asian Studies.

Cross-border mobility of persons in the WTO services negotiations

by Zhou Ruo'en

By now, the main developed countries including the USA, the EU Japan and Canada have all submitted their initial offers in the area of mobility of persons in trade in services to the WTO. At the same time as it submitted its own initial offer, India, a developing country which has all along been paying close attention to the question of mobility of persons within trade in services, made market access requests to other members, in particular developed countries. However, the new round of negotiations does not mean there will necessarily be new topics under discussion, not to mention new results being achieved.

The EU is the largest importer and exporter in trade in services, accounting for 26% of total world trade in services, and is thus one of the main players in WTO negotiations on trade in services. The EU is strongly competitive in technology and knowledge-intensive service sectors such as specialist services, telecommunications services, financial services, business services, and environmental services. At the same time, many member states of the EU are confronted more and more with problems of immigration and unemployment. It is against this backdrop that the EU has submitted its proposals on trade in services in the Doha round. Among these, as concerns mobility of persons, there has been no substantial change in the EU position, with efforts focused only on improvements on the basis of the existing offer.

The EU has clearly stated that the mobility of service providers must not affect immigration policies, but should be of necessity and temporary. The EU therefore has made only a slight improvement to its offer on mobility of persons. The additions include: (1) Foreign service companies will be able to train management personnel at their branches within the territory of the EU, in which case the duration of stay within the EU of those undergoing training will be maximum one year. (2) Foreign companies which have signed service provision contracts with EU customers will be able to station technically-skilled personnel in the EU in order to carry out the contracts, but the maximum duration of these persons within the EU will be six months. (3) Independent foreign personnel proficient in their field may provide services within the EU, with their maximum stay also fixed at six months.



Despite the addition of these offers, the EU has reiterated that its rules on working conditions and minimum salaries, as well as collective wage agreements, will continue to apply to foreign service providers, and furthermore the EU may refuse entry to personnel constituting a security threat. In reality, the EU has already imposed stricter controls on the entry of foreigners with a view to improving its security.

There are no new commitments on mobility of persons from other major players, such as Japan and Canada. Japan, similar to EU, insists that service trade agreements must not affect long-term immigration policy and management; mobility must thus be restricted to high-level expert personnel. Canada is comparatively reliant on immigration, and thus considers that mobility of persons should not be linked to setting up businesses, but should extend also to contract-based business visitors and expert personnel. But Canada has also clearly stated that the provision of services by natural persons is a key question in service trade negotiations, affecting not only trade policy but also immigration and labour market management. Furthermore, Japan and Canada, like the US, want other members to commit to transparency and predictability of immigration procedures.

Developing countries, especially large ones such as India, have submitted numerous requests to developed members. They have requested the EU, for example, to extend the maximum stay of foreign service providers to three years, to allow companies in EU member states to hire foreigners directly, to allow foreign after-sales service providers to enter the EU services market directly without need for a permit, and to open up the market for low-skilled services.

India's offer on services reflects developing countries' views. Linking personnel mobility to setting up businesses is of very limited interest to developing countries, whose main interest is in mobility of independent persons. Current offers restricting movement of persons to high-level personnel, while requiring conformity with visa, work permit, salary, working conditions, and social security requirements, places a great burden on service providers' competitiveness. Even with mobility of high-level personnel, developing countries are at a disadvantage, as it is very hard to get diplomas, specialist qualifications and professional experience from a developing country recognised by a developed one.

The criterion of "economic necessity" is an artificial barrier to human mobility of service providers, and the arbitrariness of its implementation means that offers of developed countries that propose it lack predictability and stability. Indian proposals thus include: (1) abolish the artificial link between human mobility and establishing businesses; (2) expand the scope of human mobility of service providers to include medium and

low-skilled persons; (3) reduce the opacity of the "economic necessity" criterion; (4) treat short-term resident service providers differently in administrative procedures to immigrants or long-term workers, creating a multilateral framework, to make it easier for them to obtain work permits and visas, by issuing a special "GATS visa," for example, and (5) create a multilateral framework for academic and professional qualifications plus work experience, to give service providers from developing countries more opportunities to enter markets of developed countries.

It can be seen from the above that the problem of cross-border human mobility in trade in services is easy to understand but hard to solve. The fact that it stands to become a problem is due to the fact that countries at different levels of economic development have different interests and requirements in the field of labour import and export, and thus express different views on cross-border human mobility as far as trade in services is concerned. The fact that cross-border human mobility in trade in services is hard to solve is due to the fact that it involves many different factors over and above trade, such as immigration, social stability, and employment and social security policies. The reasons that this problem is coming ever more into focus are that the interests of developing countries in trade in services lie mainly in exporting labour-intensive services, and thus rely to a large extent on developed countries opening access to their services markets.

While developed countries are entrenched supporters of liberalisation of trade in services, they are unwilling to suffer the consequences of relaxing their controls on immigration and foreign labour. They thus strictly circumscribe the provision of services by natural persons, a form of trade dependent on cross-border human mobility. Given that developed countries have universally tightened their limits on immigrants and entry of foreigners over recent years on grounds of national security, the prospects for expanding human cross-border mobility in trade in services, in the new round of negotiations in the WTO framework, are not such as to give grounds for optimism. ■

Hong Kong's political crisis

by Duncan Freeman

Hong Kong is in the midst of its most severe political crisis since it became a Special Administrative Region (SAR) of the People's Republic of China in 1997. This crisis has the potential to be a defining moment for Hong Kong, as it has a greater magnitude than any other since 1997 and poses greater challenges. The crisis has already inflicted unprecedented damage on the Hong Kong government, and brought into question in a more profound way than ever before the ability of its Chief Executive, Tung Chee-hwa, to manage the complex problems that the SAR faces.

The current crisis has its origins in the genesis of the SAR. The immediate cause has been the efforts of the administration to pass legislation under Article 23 of the Basic Law, which is in effect the Constitution of the SAR. This article requires that Hong Kong enact legislation on national security, covering matters such as subversion, separatism, the theft of state secrets and similar matters. Article 23 is an expression of the Beijing government's fundamental concern with internal security and the territorial integrity of the People's Republic of China, with Hong Kong, as part of China, required to take measures to counter any such threat.

Most people, even in Hong Kong, would accept in principle that legislation on national security is a necessity. There has been great concern, nevertheless, that the new legislation would pose a threat to freedom to conduct activities in realms such as politics, religion and journalism that have traditionally been acceptable in Hong Kong, and circumscribe its traditionally relatively tolerant view of such activities. It was the Hong Kong government's efforts to push through its legislation that led to the huge demonstrations of July 1, after the normal period of public consultation on new legislation produced some minor revisions, but failed to allay concerns among large sections of the public.

However, the crisis has other, more general, causes also. One of the most important of these is the political institutions bequeathed to the SAR by the British colonial government, and the way in which they were reconstituted after 1997. While there are elements of democracy in the system - a minority of members of the Legislative Council (Legco) are popularly elected - the reality is that the government, in effect the Chief Executive, has overwhelming legislative power through its exclusive right to introduce legislation, and its more or less in-built majority in Legco. Real power lies with unelected officials rather than elected politicians.

The effect of this has been to freeze Hong Kong's political system in an institutional set up that has created a series of divides which are difficult to bridge. The government, like its colonial predecessor, can stand loftily above public opinion and ignore opposition, which can achieve little through formal political processes even when it has overwhelming popular support. On the other hand, the political opposition can attack the government, knowing that it has no chance of coming into office at any time in the foreseeable future.

A timetable was set down at the time of the hand-over in 1997 for the development of democracy, leading eventually to full popular election of the Legislative Council and the Chief Executive. The Tung administration has refused, however, to bring forward the timetable, despite calls for it to do so. These political fissures between the rulers and ruled have heightened the simmering frustrations that have built up in recent years. The broader question is the failure of the government to recognise and respond to the concerns of various sectors of society, and its failure to deal adequately with a series of problems that Hong Kong has faced.

The Article 23 issue, while of great importance, is only one of a series of problems that demonstrated the gulf between the Tung administration and large sections of the Hong Kong public. Democratic development has been another of the issues. Economic drift, rising unemployment, falling property prices, SARS, have all created an environment where the Tung administration is seen as being incapable of providing the positive leadership that Hong Kong needs, reacting only belatedly once problems have already got out of hand.

Tung is in many ways a transitional figure. Cautious and conservative, or, less charitably, rigid and unimaginative, his most useful function would have been to consolidate after the hand-over in 1997, when stability and continuity were essential, before stepping aside for a more dynamic figure. Unfortunately, Hong Kong had little time to enjoy a honeymoon after 1997, before it was caught up in the Asian financial crisis. Even without many of the difficulties it has faced, Hong Kong needed imaginative and positive leadership. But this is precisely where Tung and his administration have failed. Now in his second five-year term of office, he has stuck rigidly to the same script since 1997.

One of the biggest questions being asked in Hong Kong is whether he wrote this script himself, or whether it was written for him in Beijing. In the case of Article 23, there are essentially two schools of thought on Beijing's role. One is that the Chinese Communist Party leadership, concerned about threats to its rule in Mainland China rather than in Hong Kong itself, has pushed Tung into enacting tough legislation to prevent



the SAR being used as a base for subversion on the Mainland. The other is that it is Tung himself who has been the main force behind the legislation, largely because he sees it as a way of pleasing Beijing and fulfilling the role expected of him. The perception that the legislation is Beijing-inspired, rather than being in Hong Kong's own interest, has certainly not helped gain acceptance among those sections of the Hong Kong populace fearful of Mainland interference.

It is certainly the case that even if its aims are acceptable, the proposed law was a poorly drafted piece of legislation. Even many of those who are willing to accept the need for legislation could not support the legislation presented to them. The government managed the feat of uniting in opposition widely differing groups, including churches and business organisations as well as the government's usual political critics. The mistake was compounded by the government's apparent unwillingness to show real flexibility during the consultation process before the law was enacted, and its dismissive attitude to opposition right up to the eve of the demonstrations. Poor drafting of legislation and a dismissive attitude to critical opinion are nothing new in Hong Kong, where the weight of public opinion has usually counted for little in the scales of the political process: the British colonial government was just as guilty of this as its successor. This time the scales have tipped.

Government casualties in the crisis have been numerous. First to go was James Tien, a member of the Executive Council, the equivalent of a cabinet, and the leader of the Liberal Party, one of the pro-government parties in Legco and, despite its name, a conservative, pro-business party. He resigned after the demonstrations, criticising the government's handling of the Article 23 issue and claiming that his party would no longer support the Bill when it came before Legco. This in effect denied the government a majority in Legco, forcing Tung first to offer consideration of some revisions to the Bill, and then later to withdraw it completely, pending further consultations.

The crisis also encompassed two of the most important figures in the administration, both of whom resigned after the Bill was withdrawn. Most directly implicated was Regina Ip, the Secretary for Security, who had been the main public advocate of the Bill, and was generally perceived as a strong and hard-line supporter of the legislation as it stood. Although she claimed to have resigned for personal reasons, having offered her resignation several weeks previously, few believed that the timing was mere coincidence. The same day that Ip resigned, it was announced that Anthony Leung, the Financial Secretary, had also resigned.

Leung had become a key target of the public's anger against the government, after it emerged that he had bought a luxury car shortly before he raised the

registration tax on them in his annual budget earlier this year. His resignation came on the same day that the Independent Commission Against Corruption passed a file on his case to the Department of Justice, to consider whether prosecution was warranted. That a number of such senior government members should resign is unprecedented in Hong Kong.

The question now facing Hong Kong is whether this marks a temporary shift in the balance of power, or whether it represents a more fundamental change. Tung has rejected the idea of his own resignation, even though his public approval ratings are at their lowest ever. Tung has said that he will listen more sincerely to public opinion in the future, although he has refused to budge on the idea of accelerating the process of democratic reform. There is no clear mechanism by which the Chief Executive can be removed from office, and it would therefore be difficult to envisage a situation whereby Tung could be forced from office by Hong Kong public opinion alone.

The critical factor will be the attitude of Beijing. It was Beijing that anointed Tung as Hong Kong's Chief Executive, and it has continued to voice support for him, most notably when he was re-appointed for a second term. Tung has consulted with Beijing on the crisis. The results of those consultations are a matter for speculation, and Beijing is unlikely to move hastily. There is a new leadership in Beijing that has generally acted cautiously to the demonstrations and their fallout. Were Tung to lose Beijing's confidence, then the dynamics would change.

However, any withdrawal of support would be fraught with risks. If Beijing decides that its purposes are no longer served by Tung remaining in office, it will then appear to have given in to the type of public protest that it has always rejected. What would be more dangerous for Beijing – to continue with a Chief Executive no longer able to assert his authority or to manage it in a way that suits Beijing's interests, or to risk a complete loss of authority by allowing public opinion, as expressed on the street, to rule?

For the moment the long-term effects of the crisis are unclear. The situation has to some extent been defused. Hong Kong is still required to enact legislation under Article 23. There is no sign that democratic development will be accelerated, and public discontent with government performance remains. The political system remains fissured between the power of the government and the weakness of elected representatives. A critical question will be whether the Tung administration manages to regain the trust of the people of Hong Kong. For Tung to listen sincerely to public opinion may be a first step, but it may not be enough. ■

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Japan's Defence Policy

by Dr Axel Berkofsky

Troops in the Indian Ocean, requests to revise the Japanese Constitution, launching spy satellites over East Asia and getting more or less ready to deploy Japanese soldiers in Iraq – clearly there are quite a few issues are on Japan's security-policy agenda. This is reason enough for some to believe that Japan is throwing overboard what is left of its pacifist principles and the reputation of being one of the few remaining "peace-loving" nations of the globe.

Far from it, counter Japan's armed forces, who maintain that the country is merely giving the United States a helping hand in fighting international terrorism as well as evil-doers in Japan's own neighbourhood. The Japanese government, too, finds nothing dramatic about Japan doing what all "normal" nations do, thus assuring overly alarmist newspaper columnists and concerned neighbours that it is not transforming its "defence-oriented" security policy to an "expansive" one – not just yet.

Unsustainable Activism

By beginning to take care of its own defence, preparing for the worst with regards to North Korea and buying US military hardware just like everybody else will hardly turn Japan into a military threat, according to the government. Prime Minister Junichiro Koizumi, for his part, seems prepared to put up with some exaggeration about his country's armed forces, provided he can still make newspaper front pages for something other than the usual bad news about the Japanese economy.

Not for very much longer, though, in the view of Brad Glosserman, research director at the Honolulu-based Pacific Forum CSIS. He maintains that Japan's enthusiasm for defence and security issues can only be temporary. "Japan's current activism is unsustainable. The country has neither the interest nor the resources to continue on its current trajectory," Glosserman wrote in the *Japan Times* in July. Japan in fact didn't have much of a choice, in his view. "The government has had to focus on security policies because it had no other accomplishments of note. Its economic agenda is dead in the water."

Keeping the Peace all over the Globe?

The Japanese media recently reported that the government is planning to set up an office within the Cabinet Secretariat to file a Bill for legislation permanently authorising the deployment of troops overseas. The military could then be sent off to keep or

enforce the peace globally, without the need, as at present, to vote fresh legislation, as at present, every time Japan is requested to contribute blue helmets.

The idea of legislation authorising Japanese troops to go wherever the United Nations (or United States) wants them to go has been around for some time. The Chief Cabinet Secretary, Yasuo Fukuda, met with some like-minded colleagues some time ago and drafted an outline of the Bill, which he plans to submit during the next ordinary parliamentary session. If it goes through parliament, the result will be to exclude parliament from the decision whether or not to dispatch troops, while the armed forces will be officially charged with "global contributions to maintain international peace." For Fukuda, "the law is necessary for Japan to continue to be part of the international community."

However, back to more realistic scenarios. The Defence Agency is planning to establish a standing unit of troops exclusively in charge of peacekeeping and other "overseas operations". To make it official, the Defence Agency wants Japan to sign up to the UN Standby Arrangement System, thus joining those nations ready to keep the peace upon request.

"Real" Armed Forces

And Japan wants "real" armed forces, too. For those who thought that a US\$50 billion military is not a real army just because it is officially known as "Self-Defence Forces", the government has found the answer. The ruling Liberal Democratic Party's (LDP) panel on constitutional reform recently suggested rewriting the Constitution to stipulate that Japan maintains full-fledged armed forces to defend its territory and beyond.

The panel held that here, too, there was no reason for anyone to worry about reversing the country's basic security-policy principles. Besides, the government has insisted that such a proposal has been more or less on the agenda ever since Japan gave itself a democratic constitution back in 1947.

And There is More

New, however, are the government's plans to establish a permanent security advisory body along the lines of the US National Security Council (NSC). This body, composed of officials from various ministries, would report directly to the Prime Minister, complementing Japan's Security Council. Whereas the Security Council's session time is limited, the advisory body would be able to advise and update the Prime Minister on international security whenever terrorists, North Koreans or other evildoers were preparing to strike.



Deputy Cabinet Secretary Shinzo Abe, is in the forefront as usual of those "concerned" with national security issues, wanting more decision-making powers for the prime minister and his cabinet. For Shinzo Abe there must be someone with direct access to Mr. Koizumi. He is leaving it open for now whether this is a job he wants for himself.

No standing ovations just yet

Prime Minister Koizumi, it seems, could do with some good advice as he finds himself under pressure to fulfil the (conditional) promise, to dispatch troops to Iraq, which he gave his allies in Washington. Although a Bill authorising this was expected to become law very shortly, the government has already announced that troops will be sent to Iraq later than the initial announcement, which envisaged their dispatch "as early as possible". Just when the United States urged the Japanese government (yet again) to send troops to Balad, some 90 kilometers north of Baghdad, the Prime Minister announced that they would not be leaving for Iraq before November at the earliest.

Mr. Koizumi then proposed sending troops to Baghdad airport to provide drinking water for US troops instead. After the US declined that offer, the Japanese military stepped in, in an effort to ensure that it at least would be welcome in Iraq. The Prime Minister unlikely, therefore, to receive an invitation to the US Congress any time soon. Which is unfortunate, because Mr. Koizumi could do with a standing ovation in Congress before facing the LDP presidential elections on 20th September.

Winning Iraqi Hearts and Minds

Before deploying troops, the Defence Agency is planning to distribute fliers in Arabic, pointing out that Japan's military mission is for the "benefit" of the Iraqi population. With this public relations exercise, the officials hope to win the "hearts and minds" of the Iraqi people, and by the same token sparing their troops from ambushes.

The military, it turns out, also has a backup plan should its psychological warfare tactics fail. Defence Agency officials and high-ranking officers are proposing to train Japanese troops to fight guerrillas and terrorists as preparation for their mission in Iraq. In a few weeks, the military announced, elite soldiers would be able to deal with Iraqi suicide bombers and with guerrilla attacks. ■

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Sino-Indian Summit: dispute settlement or trade partnership?

by Roberta Zavoretti

India's Prime Minister, Atal Bihari Vajpayee, met his Chinese counterpart, Wen Jia Bao, as well as several top Communist Party officials in Beijing in late June. Vajpayee's 5-day visit has been described as heralding closer co-operation between the two most populated countries of Asia, coming as it does after many years of chilly relations between them.

The June talks were followed by the "India-China Joint Declaration" (JD), which stated that "the Indian side recognises that the Tibet Autonomous Region is part of the territory of the People's Republic of China (PRC)". This extraordinary statement should be seen as the first-ever explicit recognition by the Indian Government of China's authority over Tibet.

The two Prime Ministers signed a Memorandum of Understanding (MOU) on border trade that, according to Vajpayee's comments in the Lok Sabha, may include the opening up of the border region of Sikkim to trade. This small province in the Himalayas enjoys a strategic position, nestling as it does between Nepal and Bhutan. Although under Indian administration since 1975, Sikkim has never been recognised by Beijing as part of India.

Sikkim was open for cross-border trade until 1954, when the Chinese occupation of Tibet led to a 50-year long dispute between India and the PRC. This dispute now seems closer to resolution for the sake of trade and the market economy. The Tibetans, who are administered by the Beijing government, have their spiritual leader, the Dalai Lama, in Dharamsala, India. Speaking to *EurAsia Bulletin*, the deputy envoy of the Dalai Lama to the European Union (EU), Mr Migyur Dorjee, explained the Dalai Lama's position on the outcome of the China-India Summit.

Mr Dorjee stressed the fact that the Prime Minister Vajpayee's visit to Beijing had received extensive media coverage, unlike earlier missions by his predecessors (Narashima Rao in 1993, Rajiv Gandhi in 1988). He thought, however, that the Chinese media had over-emphasised India's position in the Joint Declaration. In his view the Declaration did not mark a major change in the official Indian position on Tibet. No one, unfortunately, today disputes the fact that Tibet is now part of the territory of the PRC.



For Mr. Dorjee, the statement that “the Indian side does not allow Tibetans to engage in anti-China political activities in India,” contained in the Joint Declaration, will not come as news to the Tibetan refugees in India. In his view the activities of the Dalai Lama and his entourage in Dharamsala do not fall under this definition.

Mr. Dorjee believes that China will be the main beneficiary of the re-opening of trade through Sikkim, although it will make life easier for the inhabitants of the region. Chinese goods will finally have direct access to South Asia, and will be able to reach the Indian Ocean through ports such as Calcutta, or even through the more friendly state of Bangladesh.

It is difficult to believe that India will not benefit also, given that the re-opening of border trade through Sikkim may be the first step towards the resolution of another territorial dispute, that over the Aksai Chin. This remote border area in the region of Kashmir was the object of the 1962 Sino-Indian war, and is today under Chinese administration. It is of great strategic importance to the Chinese, for the road they have built to connect Kashgar to Lhasa runs through it. India, however, considers the Aksai Chin to be a part of Kashmir, and so far has refused to recognise China’s claim to the territory. This issue may not be of immediate concern to Dharamsala, but it certainly is a key element in the Indian stand on Sikkim.

Referring to the varied comments that the JD provoked among Tibetans living in India, Mr Dorjee pointed to the two schools of thought among Tibetan academic circles. One school holds that the Summit did not benefit India in any way. On the contrary, “India gave away too much, without getting anything in return”. The second school of thought is less pessimistic; it sees the June Sino-Indian talks as a first step towards the settlement of the Tibet dispute or, at the very least, towards the opening of a broader, and most welcome, academic debate on the issue.

The Dalai Lama’s own views are closer to the second position, according to Mr Dorjee. He stressed that after the JD had been issued, the Indian Foreign Minister, Yashwant Sinha, declared in Beijing that “there was no question of the Dalai Lama leaving Dharamsala”, and that “our Tibetan friends had been consulted”. For Mr Dorjee, the JD reflected the pragmatic approach of the Dharamsala government, and only further clarified the Indian government’s earlier position. He added that “independence for Tibet as a State is not what the Dalai Lama is asking for, but genuine autonomy for all the three provinces of Tibet”.

This is not the position of all Tibetans in exile, of course. The Tibetan Youth Congress, a non-governmental organisation (NGO) that gives voice to the younger Tibetans in exile, is deeply unsatisfied with the outcome of the Summit. The same can be said of many Indians who, in spite of their Prime Minister’s friendly statements, still see China as a threat, and hold that Tibet should not be under Chinese administration. In 1993, Narasimha Rao and Jiang Zemin had signed the “Agreement on Peace and Tranquillity in Border Areas”, which established that “the two sides are of the view that the China-India boundary question shall be resolved through peaceful and friendly consultations”. The recent JD clearly is a further step in that direction. This trend reflects the feeling that India needs to build closer ties with its stronger neighbour, in spite of territorial disputes and of PRC’s partnership with Pakistan.

China’s rapid economic development may make it the most important trading partner for India in the future. “Tibet welcomes any step toward a more peaceful world”, the Dalai Lama’s representative declared. A closer Sino-Indian partnership would certainly work in that direction. But would it also work for Tibet’s autonomy? ■

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New EIAS Briefing Paper

EU-DPRK relations, by Dr Axel Berkofsky, (Forthcoming September 2003)

EXTRACT: As far the EU’s influence on security on the Korean Peninsula is concerned, the EU is not considered to be a major player and hardly gets mentioned at all. When reporting on North Korea these days, the international media usually refers to Washington’s efforts continuing to seek a diplomatic solution with the help of South Korea, Japan and China. Initial hopes that the EU’s engagement course could facilitate and encourage a reunification of the two Koreas turned out to be overly optimistic. The prospects for a peaceful German-style reunification too seem non-existent as far as South Korea is concerned. Other commentators are more optimistic suggesting that the costs of Korean unification are relatively low compared to the costs that a nuclear-armed North Korea could cause. However, as North Korea’s current socio-economic indicators show, its economy is in a significantly worse state than Eastern Germany’s a decade ago, taking a reunification with the North off the agenda as far as South Korea is concerned.

How the proposed ALA Regulation matters to Asia

by Willem van der Geest

After ten years of the application of the Regulation on Co-operation with Asia and Latin America (ALA Regulation) of 1992, the European Commission assessed the impact and results of this legal instrument in the two regions. On July 2, 2002 the European Commission presented, after an internal review with its Delegations and a comprehensive evaluation, a proposal for a new ALA Regulation to the European Parliament and the Council (Com(2002) 340 final).

With the ALA Regulation of 1992, the EU had demonstrated its intention to establish a comprehensive framework for co-operation with the developing countries of Asia and Latin America (hence ALA). These countries had thus far been somewhat marginalised from EU co-operation, mainly because they were not included in the ACP or Mediterranean agreements. The 1992 Regulation represented an important advance compared to the 1981 in several respects – first, perhaps most significantly, because of its strong emphasis on economic co-operation, but second also because of its endorsement of values which the EU cherishes such as democracy, human rights, good governance and the promotion of the rule of law.

The 1992 Regulation was adopted just after the height of the political crises of Latin America in the 1980s. Perhaps for this reason, it gave special emphasis to the EU support for the restoration of democracy and the respect of human rights (articles. 1, 5, 6 and 12). Especially, article 5 refers in detail to this as well as the beneficiaries to be considered: community support to rural sector, environment protection, cultural and human dimension, women, children and ethnic groups, etc.

New Aspects of the proposed Regulation

Certainly, the same European spirit of respect for human rights and support for democracy system is reflected in the new Regulation (art. 2 b) but just in a brief mention, within a broader set of objectives, including sustainable economic and social development, promoting economic and trade co-operation, supporting the fight against transnational crime, support for regional integration and rehabilitation, reconstruction and development.

The ALA 92 had sought to clearly distinguish between *technical and financial aid* on the one hand and

economic co-operation on the other, the latter based on the concept of mutual interest (art. 7). The analysis of this strategic distinction was very detailed throughout the whole text of the Regulation (arts. 3 to 9, 11 and 12 and 15). In contrast, the proposed 2002 Regulation does not insist on this distinction between ‘technical and financial aid’ and ‘economic co-operation’. The focus is squarely placed on the concept of “*Community Co-operation*”. The 2002 proposal also gives particular importance to the promotion of the *global integration* of Asia and Latin America, as well as *regional integration processes* in the regions (articles 2:c and 2:e).

Not only the scope of the objectives, but also the *geographical* coverage of the proposed Regulation is wider. The list of eligible countries annexed to the 2002 proposal includes the infamous trio referred to by President Bush as the ‘axis of evil’, in effect Iran, Iraq and the Democratic People’s Republic of Korea (as well as all countries included in the ALA 1992 Regulation).

Both legal texts define a ceiling above which the approval decision project is submitted to a special process. In ALA 92 this ceiling is 1 million ECU (art. 14) but in the 2002 proposal, the ceiling is increased to 5 million Euro (article 11:2). Programmes and projects exceeding this amount shall be scrutinised by the Commission but ‘assisted by a Committee, referred to as “the ALA Committee”, composed of representatives of the Member States and chaired by a representative of the Commission’ (article 12:1).

Another very important change is the attention given to *mechanisms and instruments* to be used in the EC co-operation framework. The new policy strategy mechanisms and instruments represent a great leap forward compared with the legal text of 1992. These are as follows (article 4):

- Country or Regional Strategy Framework Papers (5-7 years)
- Multi-annual Indicative Programs, with the description of priorities, objectives and results (usually 3 years)
- Annual action plans including a detailed list of co-operation activities to be financed by the Community with details of the relevant amounts.

Finally, the regulation states that a sector-wide approach will be used where possible; this may include support for economic reform through, *inter alia*, budgetary support.

All in all, the text of the 2002 proposal is more simple, clear and concise, than that of the 92 ALA Regulation. This suffered from a complicated style with long articles and many detailed explanations quite unnecessary for this type of regulation.



The Debate about Two Regulations

The Commission proposes a single Regulation for both Latin America and Asia, as has been the case for the earlier regulations adopted in 1981 and 1992. Opponents of this have emphasised the differences and diversities between Asia and Latin America – a feeling also expressed by representatives of the beneficiary countries – therefore requesting two separate regulations. They point to the growing EU co-operation with each of the regions and the different needs for each of these regions.

Indeed, there are major differences between the two regions, as indeed between EU-Asia and EU-Latin American relations. Whereas EU-Latin America trade yields a surplus for the EU, there is a deficit between EU and Asia; 21 per cent of EU imports now originate from Asia. Of a total of \$ 304 billion EU outward foreign direct investment the lion's share of 48 per cent goes to the US, but MERCOSUR, in particular Brazil, was the second destination with 8 per cent of the total. The much-heralded EU investment in China, despite spectacular increases, amounted to less than 1.5 per cent of the total.

Commissioner Patten has resolutely refused to 'split' the Regulation into two separate ones, stating clearly that he would rather withdraw the Commission proposal. However, he indicated to the European Parliament his support for amendments emphasising the different needs and objectives for Asia and Latin America (See *EurAsia Bulletin*, May 2003).

Asia is home for 56 per cent of the world's population and is characterised by enormous diversity: it has the world's two most populous nations China and India, projected to have 2.6 billion people by 2015, but also tiny states such as Bhutan, Maldives or Singapore.

The Asian Development Bank reports that for 2001 per capita GNP ranges from a mere \$ 170 in conflict-ridden Afghanistan or in LDCs such as Nepal (\$ 250) or Lao PDR (\$310), to levels vastly superior to EU averages such as in Hong Kong (\$ 25,920) or Singapore (\$ 24,740).

Undoubtedly, inequality, social indicators and poverty incidence are vastly different between the Asia and Latin America. The Gini-indices, measuring inequality of income distribution, average 0.53 for Latin America, whereas these stood at 0.36 for Asia. Per capita health expenditures, measured in purchasing power terms, in Latin America were nearly double those of Asia. Educational expenditures, in per cent of GNP, were 6.6 per cent in Latin America, as compared with 3.3 per cent across Asia. Poverty incidence in Asia, with nearly 1 billion people not realising a-dollar-per-day income, afflicts many more lives in Asia than in Latin America. Moreover, whereas poverty is mostly urban in Latin America, it affects vast numbers of rural residents in Asia.

Financial Reasons for Rejecting the Commission's Proposal?

However, it must be considered that these inter-regional contrasts are perhaps not the only concern of those seeking to reject the Commission's proposal in favour of two regulations. The new ALA proposal refers in its Article 7 to a financial envelope for the period 2003-2006 of Euro 2,523 million for Asia and Euro 1,270 million for Latin America – a ratio of 2 to 1. This would serve to redress the regional imbalance that had characterised the implementation of the ALA Regulation during 1993-2000.

ALA Implementation 1993-2000

(Euro Millions)

	ASIA	LATIN AMERICA
A: Allocations Economic Co-operation and Technical & Financial Assistance	3,025	1,771
B: Budgetary Assistance for pre-assigned Objectives*	770	1,664
Global Allocations (A+B)	3,795	3,435
Per capita per year allocations of Econ. Co-op and Tech&Fin only	11 Euro cents	42 Euro cents
Per capita per year Global Allocations	13.3 Euro cents	81.5 Euro cents
Ratio Asia – Latin America	100	613

* Co-operation Agreements, Uprooted People, Refugees, Rehabilitation, Disaster Prevention, Democracy and Human Right, Environment, Tropical Forest, Drugs, Food Aid, Emergency Aid, NGO co-financing.

Source: *Synthesis Report, Evaluation of ALA Regulation, May 2002, Europe-Aid website*



The comprehensive 'Evaluation of ALA Regulation 443/92' had found that per capita annual global allocations for Latin America had been *more than six times those for Asia*. Indeed, the global allocations for the two regions, once due account of the so-called 'horizontal' budget lines had been made, had been pretty much the same at respectively 3.8 and 3.4 billion Euro.

Conclusion

In summary, the proposed ALA regulation addresses some of the weaknesses of the 92 Regulation by elaborating a wider set of objectives, streamlining the approval procedures and developing greater consistency in strategy formulation and programme implementation. Most importantly its financial paragraph addresses, albeit only to a limited degree, the present financial imbalance between Asia and Latin America.

Hence, at this stage to 'force' the European Commission to withdraw its proposal would mean that these much needed improvements will not materialise. Mr Patten's successor would have to spend a great deal of political and administrative energy to formulate a revised proposal that meets the approval of all the various interest groups and lobbies. In the meantime, the improved financial envelope for Asia might be lost because the required legal base for its implementation lacks the needed endorsement from Council and Parliament. ■

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The *Evaluation of ALA Regulation 443/92* (May 2002) was prepared by a team formed by EVA-EU Association including Enzo Caputo, Jesus Corral Fuentes, Paola Gosparini and Willem van der Geest. The 'Synthesis Report' is available from the Europe-Aid website.

Solana proposes EU security doctrine

Ahead of the meeting of European heads of State and government in Thessaloniki in mid June, the EU's High Representative for Common Foreign and Security Policy (CFSP), Javier Solana, published a paper attempting to define, for the first time, a security doctrine for the EU. At times forceful and controversial, the report comes nine months after the United States adopted a new National Security doctrine. The Solana report, "A secure Europe in a better world," puts the EU-US relationship at its core, calling it "irreplaceable." However, Solana recommends that, in the years ahead, the EU should also pursue strategic partnerships with "Russia, Japan, China, Canada and India".

This first attempt to define the threats and strategic objectives of EU security and defence policy was drawn up in a relatively short period of time. Meeting in Rhodes on 2nd May, during the Greek Presidency, the foreign ministers requested Solana to draw up "specific proposals" for developing Europe's security and defence policy. Setting out some parameters for the draft report, the Greek Foreign Minister, George Papandreou, said that it should assess the threats to Europe's security, assess the EU's capabilities and then "draw up an appropriate policy to deal with these considerations".

Calling for a "more active, more coherent and more capable" Europe, Javier Solana told the fifteen leaders in Thessaloniki that the EU, "like it or not, is a global actor," and must be ready to share responsibility for global security. The report details the changes to the international security environment since the end of the Cold War. The major change that Solana identifies is the growth of globalisation in the form of freedom of movement, investment, trade and technology, allowing "non-State groups" to play an increased role in international affairs. Controversially, the report suggests that Europe might have to abandon the principle of deterrence in some cases.

The threats to Europe, according to Solana, are threefold. Terrorism, the proliferation of weapons of mass destruction (WMD) and failed States are threats that are "more diverse, less visible and less predictable" for the European Union in the 21st century. This reflects the analysis made in the US National Security Strategy, adopted in September 2002, that failing States and "catastrophic technologies in the hands of the embittered few" are the main menaces facing America. In Europe, Solana concludes that the presence of *Al Qa'ida* cells in five Member States highlights the international character of a new kind of



terrorism that is well resourced and is prepared to cause mass civilian casualties. The report also links the wave of terror in recent times to “violent religious fundamentalism”.

For the EU, the proliferation of weapons of mass destruction (WMD) is the second major threat. The possibility of a WMD arms race “especially in the Middle East” means that Europe faces a “new and dangerous period” of increasing risk to its security. Should a terrorist group succeed in acquiring WMD, Solana says, then “(the principle of) deterrence would fail”. The report does not suggest what principle the EU should pursue, but leaves open the possibility that EU Member States may have to consider a policy of pre-emption. The United States was heavily criticised for adopting this principle in September 2002. The leader of the Liberal Democrats in the European Parliament, Graham Watson, called the EU draft doctrine a “fitting response to the doctrine of the United States”. Europe’s security doctrine must rest, he said, upon the principles of “multilateralism and prevention, rather than pre-emption”. While Solana’s report did not name specific countries regarding WMD, the EU-US Summit that took place in Washington in late June identified North Korea and Iran as “specific proliferation challenges” facing both continents and the “wider international system”.

The final major threat to the European Union, Solana outlines, is the link between failed and failing States and organised crime. Bad governance, civil conflict and the abundance of small arms allow criminal elements to exploit the weakness of the State. Afghanistan is one such example. The collapse of State institutions provides criminals with the opportunity to organise the supply of drugs and migrants into Europe.

The Solana report clearly rejects the US idea, adopted after the events of September 11, 2001, that terrorism and proliferation can be eradicated solely through military means. Echoing comments made by the Commissioner for External Relations Chris Patten, the report states that “none of the new threats is purely military, nor can they be tackled by purely military means”. Patten and his colleague, the Commissioner for Development, Poul Nielson, both argue that the long term strategy to eradicate terrorism is best achieved by ending poverty and promoting education.

The report contains a series of recommendations for action that will prove controversial with development NGOs. Solana is clearly echoing the views of some Member States who want to ensure that all external actions follow similar principles, as outlined in the common foreign and security policy (CFSP). The report calls security the “first condition for development”. Therefore, to strengthen the CFSP, diplomacy, development, trade and environmental policies should all “follow the same agenda”. This idea

also surfaced in the Convention on the Future of Europe, which delivered a draft EU Constitution to the European Council in Thessaloniki. However, many NGOs and politicians in the European Parliament feel that by including development as just one of many elements in the EU’s foreign policy actions, EU aid risks becoming politicised and losing its independent character.

In addition to making EU foreign policy “more coherent”, the draft doctrine states that the EU needs to be “more capable”. Solana calls for greater defence spending and the pooling of defence assets to enable “more flexible mobile forces” intervene on Europe’s behalf. The report’s third policy recommendation suggests that the EU needs to be “more active” in pursuing Europe’s strategic objectives. In an enlarged EU of 25 States, defence forces should be able to “sustain several operations simultaneously”. With adequate defence spending and the pooling of resources, the EU would be in a position to offer “early, rapid and robust interventions”. Solana may be thinking about the extension of the Petersberg tasks to include joint disarmament operations, conflict prevention, support for combating terrorism and post-conflict stabilisation.

The reaction of the outgoing President in Office to the draft doctrine was positive. Addressing the European Parliament on 1st July, Greek Prime Minister Costas Simitas said the report “constitutes an important step in clarifying common goals and the capabilities to achieve them”. The following day, Silvio Berlusconi, who takes over the leadership of the European Council from Simitas for the second half of the year, called the draft document “very valuable”. Europe, he said, has the opportunity to “become a wholehearted and active player on the world stage”. The European Union must acquire the necessary diplomatic, economic and military means to “perform that role convincingly”.

However, the crisis that the EU tumbled into over its failure to adopt a common position on Iraq shows just how far European leaders are from turning the rhetoric into reality. Despite developing new structures to improve the EU’s ability to respond to international crises, the lack of political will or the perceived dominance of national interests, at crucial periods, continues to undermine serious attempts to develop common policies that would give Europe the clout appropriate to its economic and diplomatic size. Solana has, it appears, successfully outlined the security and defence issues facing the EU. It is now up to the Member States to provide the solutions to match his analysis. The meeting in Thessaloniki in June broadly welcomed Solana’s paper as an interim document. The final “EU Security Strategy” should be adopted at the next European Council meeting in December in Brussels, after consultations between the Member States. ■

John Quigley



EU budget for 2004 raises questions for Asia

Uncertainty for the EU's future political priority for Asia surrounds the preliminary draft budget (PDB) proposed by the European Commission for 2004. Excluding Afghanistan, which is a political priority, funding for the rest of Asia remains barely stable. The clear message is that the EU will focus its priorities for 2004 on "wider Europe" with the coming enlargement to 25 Member States and, consequently, Europe's new neighbours further east. The controversy has also reached the European Parliament, where representatives are expressing concern about the nature of the budget chapter dealing with external actions (Heading 4).

In the draft 2004 budget section concerning External Actions, the Commission has proposed funding totalling €4,996m up from €4,807m for 2003. This represents an increase of 3.9% year on year. With the cap on spending in this area set at €5,082m, this leaves a margin for unforeseen expenditure of €86m. In practice, three major policy areas account for the vast majority of the funding in external action, namely, external relations, development and humanitarian aid. This sector includes, for example, Asia, Latin America, the Balkans, Central Asia and the Mediterranean.

Dividing up the figures for 2004, the Commission is proposing allocating €610m for geographic and thematic programmes for Asia (compared to €310m for Latin America). While this nominally represents an increase of 8.4% compared to 2003, much of the increase is due to greater funding for Afghanistan, in line with the EU's Tokyo Conference commitments. Thus, it is proposed that Afghanistan will receive €184m in 2004 up from €124m in 2003, not including humanitarian aid. Taking Afghanistan and technical and administrative expenditure (the so-called BA lines) out of the total means that the €401m for the Asia geographical programme in 2004 is lower by €12.5m compared to 2003. This represents a reduction in the budget for Asia (excluding Afghanistan) of 3.12%.

The draft figures for the main development co-operation policies remain largely constant year on year with €427m allocated for food aid, co-financing for NGOs at €201m and slight increases for measures tackling poverty diseases and reproductive health. The Commission has proposed a substantial increase in the humanitarian aid budget for 2004 which, at €490m, enjoys a 10.9% increase on 2003. This reflects growing EU interventions and the problem of sustained disasters worldwide. The thematic programme "European Initiative for Democracy and Human

Rights" (EIDHR) will receive €106m, the same as for 2003. EIDHR funds election observation missions and projects to promote democracy and human rights awareness. With regard to Asia, this initiative is currently funding projects in Indonesia, Nepal, Pakistan and Cambodia.

As proposed, the PDB for 2004 is important because with the entry into force, in January, of the new Financial Regulation, a new system of presenting budget expenditure can be fully implemented. This system, called Activity-Based Budgeting (ABB), groups budget titles (such as food aid or co-operation with developing countries) into specific policy areas, the most important of which is "External Action". ABB presents the total amount of resources proposed, while also distinguishing between operational and administrative expenditure. The Finnish Liberal, Kyösti Tapio Virrankoski, called the ABB reforms an "excellent idea" that will clearly separate operational expenditure, administrative costs and responsibility for implementation.

Many of the Parliament representatives involved in the 2003 and 2004 budget reports have expressed concern at the broad range of titles being grouped together in the External Action chapter. The man in charge of preparing Parliament's response to the Commission PDB, Jan Mulder, has indicated that the chapter contains a "significant level of uncertainty". The lack of clarity would be reflected in Parliament's ability to scrutinise the budget procedure, making it uncertain whether the Foreign Affairs or Development Committee should be responsible for a particular budget issue. His comments were echoed by Glenys Kinnock, British Socialist, at a meeting of the Development Committee on 8th July. She expressed concern over the perceived weakening of Parliament's control over development policy.

Joaquim Miranda, the chair of the Development Committee expressed concern that placing geographic lines under the External Action chapter, is not just a simple change in nomenclature, but could represent a bigger political effect. Marieke Sanders-ten Holte, a Dutuch Liberal, has also noted problems with the Commission's assertion that the various budget titles now better reflect the division of tasks between DG RELEX and EuropeAid. The internal administrative structures of the Commission can be "subject to periodic changes", she said, and even more so in 2004, when enlargement takes place. Making a specific reference to Asia, Latin America and MEDA, Sanders-ten Holte suggests that the EU's priorities in these regions are clearly development oriented and, thus, "have no place in the external actions title".

The distribution of some budget lines to the External Actions chapter, rather than the seemingly more relevant Development Co-operation, brings to the fore



once again, concerns about the long-term survival of an independent development policy, freed from the constraints of operating as part of the common foreign policy. Development NGOs have been particularly critical of the Commission's apparent disregard of these concerns. The Convention of the Future of Europe, which between February 2002 and June 2003 drew up a draft Constitution for the EU, also recommended subordinating development co-operation policies to the newly emerging common foreign and security policy. After the abolition of the separate Development Council in the Council of Ministers, there is alarm that the European Parliament's Committee on Development may be subsumed into the Foreign Affairs Committee, in the next round of re-organisation. Marieke Sanders-ten Holte raised this point in her working document saying it is a "cause for concern".

In response, the Commission has said that the lumping together of spending in development and humanitarian aid under the general heading of External Action, reflects the division of the Commission departments that plan and oversee the expenditure. One plank of the Commission drive to reform the management of external aid is devolving management structures from headquarters in Brussels to delegations in third countries. The PDB proposes money to enable this process to continue and to extend it from the geographical programmes, such as Asia Link, Asia ProEco, Asia Invest, to thematic programmes which include the European Initiative for Democracy and Human Rights (EIDHR), co-financing with NGOs (to help reduce poverty) and food aid and food security. Deconcentration operates under the principle that "anything that can be better managed and decided on the spot, close to what is happening on the ground, should not be managed or decided in Brussels" and is scheduled to be completed by the end of this year. The Commission has been pursuing deconcentration since 2001 as a measure to improve the effectiveness of external aid.

The Parliament representative responsible for drawing up the report on the 2003 budget, Göran Färm, prepared a working document in June for the Budgets Committee. The conclusions are startling. According to figures Färm received from the Commission, by April of this year, only 2% or €12.8m of the total budget of €562.9m for EU co-operation with developing countries in Asia, had been spent. Two months later, only another €13.3m had been spent. Indeed, according to his forecasts, it will not be until October that the bulk of the money will begin to be disbursed. He said that commitment implementation in January-April 2003 is "significantly lower for many geographical and sectoral co-operation programmes". The situation is "particularly worrying" for Asia and Latin America with implementation at 2% for Asia comparing to 28% in 2002. This low level of dispersing funds could have

a significant impact on project continuity. Joaquim Miranda, chair of the Development Committee, has remarked that the PDB for 2004 is the smallest in relative terms since 1987 representing just 1% of the combined gross domestic income of the 15 Member States. This, he suggested, could not be compatible with the EU's pronounced political ambitions. ■

John Quigley

EU pressure on Burma's rulers increases

Burma, Myanmar. What's in a name? Well, the fate of an estimated 51 million people for starters. The current military regime seized governing control of the country in 1988, from another military dictator, and has been running the economy into the ground ever since, while extracting whatever wealth they can for themselves. In response, the EU has steadily entered the names of some 270 officials connected to the regime on to a sanctions list. In practice however, this gesture means little. Following the events in Burma in late May and early June, the EU has imposed "tougher" sanctions against the ruling military junta. For the first time, these sanctions will include measures against businesses and banks connected to the regime.

Also for the first time, the EU has made a direct appeal to the Association of South-East Asian Nations (ASEAN), of which Burma is a member, to take a more substantial interest in the domestic affairs of the country. Long known for its reluctance to become involved in the internal affairs of a member state, ASEAN on 18th June broke its self-imposed silence at its meeting in Phnom Penh, Cambodia, during the ASEAN Regional Forum. In a dramatic statement, ASEAN leaders called for a "peaceful transition to democracy" and said they "looked forward to the early lifting of restrictions placed on Daw Aung San Suu Kyi and the National League for Democracy (NLD) members".

A series of more focussed sanctions were imposed by the EU and the United States following an event on May 30th in which the leader of the NLD, Daw Aung Suu Kyi, was detained along with many colleagues ahead of an NLD rally, in the town of Ye-u in the north of Burma. Subsequently, the military rulers began closing NLD offices and the country's universities. It appears that her travelling group was violently attacked by the Union Solidarity Development Association (USDA), a group with close links to the military. In a statement, Human Rights Watch Brussels reported that the series of events



“looked like a deliberate attempt by the government to provoke violence to justify a crackdown”.

While the response of the EU was immediate, the threat laid down by the European Union’s foreign ministers to the military regime in April proved to be worthless. Meeting in the External Relations Council, EU ministers promised to implement, later this year, a broader range of sanctions if the ruling junta did not co-operate with the United Nations Special Envoy, Tan Sri Razali Ismail, and engage in substantive talks with the NLD. Whatever is motivating the Burmese leadership, it does not appear to be concerned about possible punitive measures imposed by the EU. Nevertheless, the EU held out an olive branch to the military emphasising the “natural role that the armed forces will play in a future democracy”.

Pressure from the EU also came from the High Representative for Common Foreign and Security Policy (CFSP), Javier Solana, whose message was hard-hitting. The actions of the regime, he said, confirmed the military’s “lack of interest in a return to democracy”. There was a veiled reference to Burma in his draft EU Security Doctrine, published on 20th June, when he declared that those countries that violate international norms should realise that there is a “price to be paid in their relationship with the EU”. The European Commission called the detention of Aung Suu Kyi a “significant step backwards for the national reconciliation process” and urged the military to restore democracy. Subsequent developments in mid June saw the EU take an important step forwards towards resolving the impasse, when EU foreign ministers called on the Association of South-East Asian Nations (ASEAN) to use their influence, in alliance with China, India and Japan, to promote the necessary “political change” in Burma. This was a step up from its request back in April to these countries to help support “progress on the issues of good governance and economic reform”.

The USDA group, which co-ordinated the attack on the NLD, is for the first time, subject to EU sanctions that were implemented on 20th June. This series of “strengthened” measures means that the spouses and family members of named military officials are also included on the list that are prevented from travelling to or through the EU. Current and former members of the ruling State Peace and Development Council (SPDC) are now included. In addition, members of the state-appointed tourism body and “persons who benefit from government economic policies” are specifically named. This includes military officials from the Myanmar Economic Corporation, and the directors of trading, land and development, cement and advertising companies. Allied to the travel visa ban are measures to freeze the economic assets of all those named individuals.

There is an existing arms embargo and a ban on the sale of equipment that might be used for “internal repression”. However, only now is the EU getting around to banning the provision of technical assistance or training related to arms and military equipment. Indeed, in its annual report on the control of arms exports from 2002, the Council recorded the approval by Britain of a licence to sell arms to Burma, in 2001, to the possible value of £250,000.

In contrast to the EU, the United States adopted a comprehensive series of sanctions, on 11th June, that simply proscribes any member or family member of the SPDC or any related ministry. The imports of goods from the USDA, the Union of Myanmar Economic Holdings, the Myanmar Economic Corporation and any related company or successor are prohibited and their assets in the US are frozen. Crucially, the US Act clearly outlines what actions the SPCD must undertake to end the sanctions. These conditions include ending violations of human rights, ending forced labour, the conscription of child soldiers, releasing political prisoners and concluding an agreement with the NLD on the transfer of power to a civilian government.

The EU and the United States will be able to gauge just how seriously ASEAN is prepared to take a stand, when the 10 ASEAN government leaders meet for their 9th Summit in Bali, Indonesia, in early October. A firm message to the military junta from Rangoon’s close neighbours may do far more to make the military realise the precariousness of their situation, than statements and sanctions issued in the West. Although it would be a truly significant step, maybe the time has come for ASEAN to demonstrate its value as a regional organisation and apply sanctions against Burma. In turn, the European Union needs to look carefully at the value of its policy of engaging Burma, through the CFSP, on the one hand trying to promote talks, while holding the threat of economic sanctions in the other. In the face of such sustained defiance from Rangoon, Europe’s “constructive engagement” policy has not fared well. ■

John Quigley



ITER receives boost with admission of South Korea

Following discussions in Vienna in mid June, South Korea has been admitted to the International Thermonuclear Experimental Reactor (ITER) project as a full participant. Seoul joins the European Union, Canada, Russia, Japan, China and the United States in trying to develop the technology for a safe fusion energy supply. On 15th July, EU Commissioner for Research Philippe Busquin announced that the ITER project will be one of his priorities for the second half of 2003. The ITER partners have set the end of this year as a deadline to conclude an international agreement that will pave the way for the construction and operation of the fusion reactor.

The admission of South Korea is a significant boost to the ITER project both in technical and financial terms. Within the remit of the Minister for Science and Technology, Ho-Koon Park, the Koreans have a long running nuclear fusion research programme under the name of Korea Superconducting Tokamak Advanced Research (KSTAR). The KSTAR project is an attempt to establish the “scientific and technological bases for a fusion reactor as a future energy source”. This complements the aims of ITER, which is trying to identify the necessary circumstances to “create and maintain the conditions for controlled fusion reactions”. The first six months of 2003 has dramatically boosted the chances for the overall success of ITER, following the return of the United States to the project and the admission of China, at a meeting in Russia in February.

At European level, several important issues are coming to the fore, which will determine where the ITER project will be permanently based and in what measure the costs associated with the project will be shared. There are rival estimates, among the partners, about the cost of construction, but the European Commission has suggested a figure of €4,570m. Over the possible 30 year lifetime of the reactor, Commissioner for Research Philippe Busquin has estimated the total cost, including operation and decommissioning to be in the region of €10bn. The question of the location of ITER and the burden sharing of costs were raised in a Communication from the Commission, adopted in April, on the “state of progress of the negotiations concerning the ITER nuclear fusion energy research project”.

From among the partners, four sites have been proposed. Japan and Canada have put forward bids, with one bid each from France and Spain. Between September and December last year, all four sites were

evaluated by an expert group, the Joint Assessment of Specific Sites (JASS). This report was published in January 2003 and concluded that all four sites had the necessary infrastructure and technical requirements to host ITER. However, JASS did suggest that there were differences between the sites, but did not make any preferred recommendation. The viability of the Canadian bid suffered when, Ottawa announced its was reviewing its offer. This is due to financial differences between the federal government and the province of Ontario, where the reactor might be built. Initially, it was expected that a revised offer would be available by March but, to date, no offer has been forthcoming. The Commission Communication stressed that Europe’s chance of hosting ITER would be significantly improved, if one site could be selected from the two bids. Within the Council of Ministers, while France accepted the Commission position, Spain continued to argue that European interests would be better served by maintaining two bids.

The discussion on the choice of a single European site reached the EU Competitiveness Council in May, which declared that a single EU site would “maximise the benefits for Europe’s research activities” and strengthen the EU’s negotiating position. To help make a choice between either the French or Spanish site, the EU has asked the Chief Scientific Adviser to the UK government, Sir Paul King, to undertake a study analysing the merits of each bid. King heads a six member panel that took submissions from both sides in early July. The European Commission has made clear that this report, which is due by the start of September, will not recommend a preferred site. The final choice will be made in the Competitiveness Council, as a political decision, later in September.

However, a press report in the weekly science journal *Nature* suggested that the King group would identify Spain as the better site, for largely financial reasons. Although the remit of the King panel does not extend to issuing recommendations, Spain’s Minister of Economy, Rodrigo Rato, said that the cost of constructing ITER in Spain would be 10% lower than the other sites. Rato was speaking in the presence of US Secretary of Energy, Spencer Abraham, and the Spanish member of the European Commission with responsibility for energy, Loyola de Palacio, in Madrid on May 1st. Abraham said that America “will be taking very serious consideration” to Spain’s proposal, drawing criticism that the US was interfering in the EU’s decision making process.

The other major issue raised in the Commission Communication was the question of cost sharing. The admission of South Korea as a full participant ensures that, at a minimum, Seoul will have to bear 10% of the cost. However, the bulk of the costs will be borne by the host country, perhaps as much as 50%. As part of its admission, China will also bear 10% of the costs.

A follow up to the June meeting is scheduled to take place in Vienna in October. By then, a single EU site should have been selected. The battle may well be fought between the EU site and Japan's bid. Already, Japan's Minister for Foreign Affairs, Yoriko Kawaguchi, in a visit to Russia in late June, has been canvassing Moscow's support for Tokyo's bid. If all seven partners can conclude the terms of the Joint Implementation Agreement by the end of this year, then construction of the ITER plant could begin as soon as 2005. ■

EU-Iran Update

Speaking in Brussels on 17th June, the Chair of Iran's Committee on National Security and Foreign Policy, Dr Mohsen Mirdamadi, pledged that Tehran was not building its nuclear programme with military uses in mind. Addressing the European Parliament's Committee on Foreign Affairs, Dr Mirdamadi said that under the United Nations Non-Proliferation Treaty, Iran had every right to pursue nuclear technology for peaceful, energy related purposes. His presentation is the third such visit this year by a senior Iranian politician reflecting the importance Tehran places in developing its relations with the European Union as a counterweight to US hegemony.

However, Dr Mirdamadi's comments did not appear to reassure EU leaders sufficiently. At the European Council meeting in Thessaloniki just several days later, Europe's heads of State and government declared themselves "seriously concerned" about some aspects of Tehran's nuclear programme. The EU urged Iran to sign and implement unconditionally the Additional Protocols to its Safeguards Agreement with the International Atomic Energy Agency (IAEA).

The issue of violations of human rights also surfaced in Thessaloniki and in discussions in the European Parliament in early July. EU leaders stressed that respect for human rights and strengthened co-operation were "interdependent" and an "essential element" of EU-Iran relations. Italy's Foreign Affairs Minister, Carlo Frattini told MEPs that the EU's human rights requirements are "extremely serious" but that dialogue should be maintained.

Europe is, of course, very interested in pursuing a policy of what it calls constructive engagement. The EU highlights its concerns about human rights but also wants to maximise its influence in the region and highlight its opposition to the US notion of the axis of evil. Although perhaps unpalatable, if Tehran could make encouraging noises about respect for human rights and nuclear safeguards then, the EU might be very well inclined to proceed to formalising a Trade and Co-operation Agreement, for which the mandate for negotiations already exists. ■

The Paradox of Plenty

Why is it that oil-rich developing countries still suffer from extreme poverty, widespread illiteracy, political instability, and low levels of human and economic development in general? Can such indigence-related plagues be avoided with the proper management of their income from oil exports and, if so, what are the necessary steps?

Svetlana Tsalik asks these questions of Azerbaijan and Kazakhstan, Central Asian countries on the cusp of a new oil boom, and presents her analysis and recommendations in *Caspian Oil Windfalls: Who Will Benefit?* Until now much of the discussion about oil has focused on which market, company, or national interest stands to benefit most from exports. But this book looks at the even more fundamental questions of who will control the wealth generated by oil and how it will be used. Ms. Tsalik addresses these issues in the specific context of Azerbaijan and Kazakhstan, and in language readily accessible to the lay reader, without shirking a discussion of the complex nature of oil revenue distribution.

In his foreword the Nobel Laureate, Joseph E. Stiglitz, states that to ensure proper management of oil revenue, leaders need to regard their country's national resources as the nation's endowment. "These resources," he maintains, "do not belong exclusively to the current government or generation, but to all citizens and generations. The current government and generation are simply trustees. To use these resources for one's own benefit, leaving future generations impoverished, is to steal their patrimony."

Mismanagement of revenue, however, has been widely observed in other natural resource-rich developing countries. Commonly known as the "resource curse," countries as diverse as Nigeria, Iran, and Venezuela have fallen victims to their own prosperity. Many, even those as rich as Saudi Arabia, are heavily in debt, with the majority of the population impoverished and dependent on government handouts. Oil-rich developing countries have consistently underperformed, as compared to resource-poor developing countries, in the field of human development, economic growth, human rights, democratic governance, and conflict prevention.

Azerbaijan and Kazakhstan can learn a lot from the failures and successes of other countries. The most notable feature of Ms. Tsalik's book is her use of more than 10 case studies of other resource-rich countries. These cases present the full spectrum of tried and tested programs, ranging from Norway to Nigeria, and show the nuances involved in developing a program that ensures long-term prosperity. The careful analysis of these cases provides a solid basis for recommending



guidelines for revenue distribution in Azerbaijan and Kazakhstan.

Ms. Tsalik points out that countries such as Azerbaijan and Kazakhstan need to develop good governance – accountability, transparency, and public oversight, to ensure the effective management of such unprecedented amounts of wealth. In her recommendations she also urges foreign oil and natural gas companies, foreign governments, and international financial institutions and aid donors to disclose payments made to governments, and use their influence to push for positive change. This is also in their interest, as open transactions and display of corporate social responsibility not only promote greater transparency and accountability, but also protects them from future liabilities and criticisms.

Almost all the countries suffering from the “resource curse” were starting out on the road to development when oil was first discovered. After ten years of post-Soviet decline, Azerbaijan and Kazakhstan find themselves in a similar situation; both countries urgently need to develop their judicial systems, public administration, and budgetary regulations. The two countries are also far from economic liberalisation and multi-party democratisation. Their influx of wealth can only be used positively if the money is protected from the numerous economic and political pitfalls to which resource-rich countries are victims.

The case studies show that while oil industries provide substantial revenues, they do not create employment and drain investment from other non-oil sectors, so that oil-rich countries are often faced with massive unemployment. Another major economic problem, commonly termed the “Dutch disease”, occurs when an influx of foreign currency makes imports appear cheaper. As a result, domestic companies have to compete harder for smaller markets, furthering unemployment and a dependence on oil revenues.

The fundamental problem, however, is the political instability engendered by rising oil revenues. Ms. Tsalik points to the link between the mismanagement of oil revenues and civil unrest and political feuds. State officials become accustomed to “buying” public support through spending, rather than proper practices. Extravagant and superfluous government projects are created to generate jobs and maintain political support. When oil prices fall, governments habitually borrow against future earnings to sustain the projects – pushing otherwise rich countries further into debt. Corruption and nepotism further exploit the public purse.

Many countries also stop the taxation of citizens and businesses. Taxation is the most direct link between a government and its citizens – and with that link broken,

governments often feel little responsibility towards their people. While one would expect the income from oil to be devoted to poverty reduction, education, and public health, more often than not government investment in these areas is marginalised. Without the trickle down of revenue, those at the bottom continue to suffer low levels of human development.

Transparency and accountability at every stage in the sale and transport of oil is necessary. Ms. Tsalik believes that the active engagement of local and international civil society groups, governments, companies, and development agencies will create a necessary system of checks and balances. Azerbaijan and Kazakhstan are ruled by a heavy executive hand, so that the pressure of foreign parties and civil society is crucial towards democratic reform. Such reforms would also contribute to the healthy development of an informed and active public, open political debate, guaranteed rights, and a strong economic portfolio.

Ms. Tsalik also recommends the establishment of national revenue funds (NRFs). These are extra-budgetary funds, used to smooth out government spending and to control the economic imbalances caused by the “Dutch Disease.” Most importantly, however, they can protect revenue from the whims of the governments in power. Control of the NRFs has to be widely distributed, however, in order to protect the funds.

While Ms. Tsalik’s book focuses on Azerbaijan and Kazakhstan, the lessons and recommendations it provides have wider relevance. As industrial countries seek to diversify their energy supplies, the countries they turn to often suffer from poverty, corruption, authoritarian rule, and a legacy of civil war. The importing countries need to use their influence towards productive reform. This is especially important in wake of the recent war against Iraq, where prospects of economic growth should ensure that the country’s considerable oil revenues are used to improve the lives of the Iraqi people.

Ms. Tsalik’s book is to be commended for its analysis of how the distribution of oil revenue impacts on democracy and civil society, and for its resolution of the paradox of poverty in the midst of plenty. Governments as well as oil companies and financial institutions would do well to study her recommendations. ■

Caspian Oil Windfalls: Who will benefit? Svetlana Tsalik. The Open Society Institute. 2003. 211 pages. Ms. Tsalik is Director of the “Caspian Review Watch,” sponsored by the Soros Foundation.

Book review by Ms Sumeet Kaur Atul,
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