

## Dispelling notions of an EU protectionist trade agenda?

by John Quigley

At a time when the WTO Doha Round talks are stalled and progress seems uncertain, the European Commission has requested negotiating mandates from the Council of Ministers to begin talks on a series of new free trade agreements. These agreements will target, amongst others, India, South Korea and the regional grouping of the Association of South-East Asian Nations (ASEAN). As the Presidency of the EU Council changes from Finland to Germany (for the first half of 2007), the notion of what constitutes fair competition in international trade is emerging as key background concept for these EU free trade talks.

In Brussels, fair competition means many things but two elements crucial to the EU's trade agenda in Asia seem to include the notion of decent work and the regime of trade defence. The first, the principle of core labour standards or decent work, has been around for a long time. As the EU prepares to negotiate new trade agreements with countries in Asia, there is a ripe opportunity to include systematically declaratory clauses on the need for adherence to internationally agreed standards on basic labour conditions.

While developing countries rightly state that labour standards must not be used as a protectionist trade measure, equally, the EU should have the right to expect that developing countries should not facilitate a 'race to the bottom' to seek comparative advantage. The *quid pro quo* is that the EU should offer technical assistance through working groups established in the trade agreements to help countries meet these targets.

Efforts to link trade agreements with clauses on labour or environmental standards should not be construed as the EU trying to impose European-style values onto Asians. In its foreign relations, the EU does not ask Asian nations to hold to a higher standard than it asks of itself. Equally, the values the EU espouses are international ideals found in, for example, the Covenant on Civil and Political Rights or through the International Labour Organisation (ILO).

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By drawing attention to the low labour and environmental standards, *inter alia*, in Asia, the EU is asking these governments to abide by the commitments the signatory countries have agreed to at the multilateral level. There is no imposing. Including such clauses in agreements with third countries would give the EU a legal mechanism to help third countries meet these standards, in co-operation with European assistance.

The suggestion that the EU has no business trying to improve labour standards in developing countries is quite wrong. To extend such a principle would mean the EU has no business in trying to improve governance, social rights, human rights or end child labour practices. Do European consumers really want to buy cheap products at the cost of buying something that is made by a six-year old working 14 hours days in indentured conditions with no prospect of an education? The success of 'fair trade' initiatives suggests otherwise.

India's efforts in tackling child labour may be hampered by its reluctance to ratify the two ILO Conventions on child labour, both of which have been ratified by South Korea. Within ASEAN, 8 States have ratified both Conventions, with only Burma refusing and Brunei not an ILO Member State at all. While the principles may be in place, these countries clearly need further assistance in ending the scourge of child labour. According to ILO estimates, the Asia-Pacific region has the highest number of working children in the world, totalling 122m children. And, most of the worst forms of child labour are found in Asia including trafficking, sexual exploitation, bonded labour, child soldiers and drug trafficking.

Faced with this situation, the EU is right to try and improve labour and social standards in third countries, especially developing countries. However, if the efforts to improve, for example, human rights standards in third countries is any sort of example then improving respect for internationally agreed standards must be done in partnership with them rather than allowing the perception to reign that this is just another EU attempt to block access to the European market.

The second element that has emerged in EU-Asia trade relations is the practice of imposing anti-dumping and anti-subsidy duties on imports from third countries. The EU has a long history of imposing such duties and has regularly taken cases to the World Trade Organisation level. In particular, this has been a source of frustration for China, who has lamented the EU's refusal to grant market economy status, despite having joined the WTO in 2001. Both sides are preparing to negotiate a new Partnership and Co-operation Agreement, partly to take account of China's re-emergence as a trade and political power.

The perception in Europe is that the EU is a "moderate user" of trade defence instruments (TDI), actually coming third behind India and the United States between 1995- 2006. And, reflecting a time when many European companies now manufacture globally, the European Commission, on 6<sup>th</sup> December, published a Green Paper on the role of EU trade defence in the changing global economy. The origins of the Paper lie in the fallout of the debacle from Chinese exports of leather shoes to the EU in March. This crisis helped lead to the realisation that the EU was often imposing duties on imports from China, and elsewhere, that invariably had been manufactured by subsidiaries of European companies based abroad. Equally, the Paper acknowledges that the economic justification for TDI is hard to quantify. However, the Commission may have unfairly skewed the review by not giving adequate weight to the interests of consumers, and not just producers or employees.

The rapid development of the Chinese and Indian economies challenges the notion of what actually constitutes a developing country. The imposition of EU anti-dumping duties has become politically charged, out of proportion to their actual value to the economy. And, the practice of some Asian countries trying to subvert EU measures by exporting through a neighbouring country undermines their argument that the EU is being protectionist. The EU's Trade Commissioner, Peter Mandelson, speaking in Beijing in early November said Europe has no interest in "challenging the exercise of legitimate comparative advantage in labour or production costs".

The political and economic significance of free trade agreements with the rapidly growing Asian economies is not lost on EU Member States. There is a division apparent between those EU Member States that favour more open trade by facilitating importers with those that favour maintaining the current regime. This review of EU trade defence instruments is expected to be concluded by early Summer 2007, long before the free trade agreements will be agreed.

Issues including decent work and the review of the anti-dumping regime are just two of many issues the EU is focussing upon while the Doha Round gets back on track. The ILO has had limited success in tackling problems of core labour standards, particularly in developing countries. So, if lessons can be learned with the agreements with India, China, and the Member States of ASEAN, then this would represent a significant message to other countries that the EU is prepared to act decisively in defence of internationally agreed standards. Whatever becomes of the trade defence review, the least it should do is help clarify the economic and political rationale for their use thereby ending the perception in Asia that these are all just protectionist measures employed to restrict access to the EU market. ■

## Timor Leste - Facing a domestic and regional crisis

by Ana Gomes, MEP

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I was in Timor Leste in May 2006 when the political crisis broke out and foreign troops were called in. I returned in mid-July and, most recently, in early November, this last time with a Delegation of the European Parliament. This time I left with the reinforced impression that this crisis, though stimulated by external actors (who, as always, aim to profit from internal divisions), is mostly of Timorese responsibility.

And most of this responsibility lies with the ruling FRETILIN party- which led the historic resistance of the Timorese against Indonesian occupation - due to the totalitarian and autocratic style of its leaders, as if the sectarian infighting since 1974 did not serve them as a lesson. Especially those coming from exile, such as former Prime Minister Mari Alkatiri, should have made greater efforts to listen to and understand the feelings of their long-suffering people.

Of course, building a State from scratch is a daunting endeavour. Mr Alkatiri has focussed on that and on securing the financial resources vital for the sustainability of the country. This he achieved by displaying some hard-nosed negotiating skills during talks with Australia on oil. What, though, is the use of making detailed plans for the 20 years ahead, if the immediate needs of a population where 60% are under 18 years and 80% are unemployed are blatantly neglected? What is the point in investing in State building if, in the meantime, the people who that State is meant to support and protect, are actually living under far worse economic conditions than during the Indonesian occupation?

FRETILIN did not understand that, in the face of the Herculean task of building State institutions, it needed to use its double legitimacy - the historic one and the one acquired at the 2001 elections - to reinforce national unity. FRETILIN needed to promote dialogue and compromises with all political stakeholders, including not just the opposition parties, no matter how small and inarticulate, but also with President Xanana Gusmão and the powerful Catholic Church – which was also a crucial pillar of the Resistance. Yet, following the UN scale-down after independence in 2002, the Alkatiri government sidelined the National Parliament, alienated the President of the Republic and affronted the Church. Indeed, this should have been the last thing he, as a Muslim with poor communication skills, could afford to do, in a country where the main media are, to this day, the priests' homilies.

The undemocratic self-sufficiency of the government widened the gap between the rulers and the people. Prime Minister Alkatiri bears heavy responsibilities in allowing the artificial *lorosae/loromunu* (East and West) divide to deepen, by underestimating the complaints against discrimination within the FDTL (Timor Leste Defence Force) and by allowing the ex-Minister of Home Affairs (who is now facing charges in Court) to foster rivalries between the Police and the FDTL. The right decisions following the first incidents with the so-called FDTL “petitioners” in May could have cut short the crisis. Instead, the government chose the path of confrontation, by dismissing ... a third of the military. This showed much more than a lack of common sense – it showed that the connection to the grassroots had weakened dramatically.

The east/west divide, coupled with the gang culture of the unemployed youth, provoked a spiral of terror attacks and revenge in the capital, Dili, leading more than one hundred thousand citizens to seek refuge at improvised camps under the protection of the UN and the Church. Months later, in November, with the Ramos Horta government already in charge, FRETILIN supporters hardly dared to speak up in the western and most populated districts of the country.

Yet, to this day, FRETILIN continues to spread conspiracy theories to blame others, namely Australia, for its own main responsibility for the crisis and, in fact, for the return of foreign military forces to the country. An armed incident between the Police and the Army on 25<sup>th</sup> May left the situation so much out of control that foreign forces were called in. Had the Prime Minister resigned immediately, the crisis could have been diffused and the need for foreign military avoided. However, Mr Alkatiri held on for another month before he yielded to calls for his resignation by the President, the Church and the opposition.

Australia, with so much oil at stake, was notoriously itching, for months, to come in. The others (Portugal, New-Zealand and Malaysia) were mostly called in to give the operation a multilateral flavour (although Portugal was also sought because of the respect enjoyed by its forces among the Timorese population). Fortunately, the crisis was not made even worse, because Indonesia wisely refrained from interfering and tried to reign in disgruntled pro-integrationists who will never give up trying to destabilise Dili.

Despite the different style of the new Prime Minister, José Ramos Horta, who is not a FRETILIN member and is open to dialogue with all parties and closer to the people, FRETILIN, as the majority party, continues to rule. And since the ministers are the same, the new Prime Minister takes care to assiduously consult with his predecessor (understandably so, in order to make him still co-responsible).



At the peak of the crisis, Kofi Annan admitted the UN downgraded its presence in Timor Leste too hastily in 2002 (the real blame belongs to US and UK eagerness to defer policing to Australia and to shift resources for the Iraq invasion). Therefore the UN should now invest heavily in repairing mistakes made. And a crucial opportunity is approaching fast: in May 2007 Timor Leste will have to hold Presidential and its first real legislative elections. And nothing can happen without the UN's vigorous political prodding and organisational support.

These May elections should be the real turning point of this political crisis. But the electoral campaign might as well exacerbate divisions and spark a new wave of violence and revenge. And the fact is that the youth continues unemployed and restless.

The irony is that Timor Leste now does not lack financial resources any longer, thanks to the yearly oil proceeds extracted from Canberra - the main reason why Alkatiri did not endear himself there (also thanks to Alkatiri, an oil revenue trust fund, inspired by Norway's model, has been set up to ensure that future generations benefit from those resources; a fund which should be inscribed in the Timorese Constitution, once the time to review it comes, so that no government dares to change and abuse it).

But the fact is that the Timorese administration lacks human and technical capacities to plan, properly implement and invest the US\$300 million of the approved 2006-2007 budget for the benefit of its starving and unemployed people.

This is where the UN, the World Bank and the friends of Timor Leste can make a difference. The EU, chief among all Timor Leste's partners after it became the newest ACP member in January 2006, must make a difference, helping the Government spend the money fast and well. Then the people of Timor can start to see some tangible benefits and regain confidence in the country's leadership.

The 2007 elections must take place in an orderly and stable environment. Only if a legitimised political solution emerges out of these elections, coupled with sustained long-term technical assistance to help develop human resources, justice and democratic governance, will Timor Leste be able to grow out of the crisis. Perhaps then the country will reclaim the title of a "success story" as the 21<sup>st</sup> Century's first new-born country. ■

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## Security and defence policy: Developments in EU military capabilities since 2004

by Lt. Gen. Jean-Paul Perruche

In the early months of 2004, the European Security and Defence Policy (ESDP) was starting to gather momentum. The European Security Strategy had just been adopted, in December 2003, and a new Headline Goal with a target date of 2010 was being set to succeed that of 2003. Two EU military missions, ARTEMIS and CONCORDIA, had been completed but the larger scale missions such as ALTHEA and EUFOR in the Democratic Republic of Congo had yet to be undertaken. Most of the EU civilian missions had also not happened at this stage.

The development of the mechanisms for EU Rapid Response (and specifically the BattleGroup concept) was in its infancy. The establishment of the Civilian-Military Cell would not be officially proposed until December 2004 and co-operation with partners such as the UN, NATO, Mediterranean countries and other third States had not been fully developed.

### **Operations**

In the last few years, the spectrum of tasks to address conflict prevention, crisis management and post-conflict situations within the ESDP has widened considerably. The missions that fall under the ESDP are described in Article 17.2 of the Treaty on European Union namely "humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management, including peacemaking".

To make Europe more capable in the management of crises, the European Security Strategy widened the spectrum of missions to include ones such as joint disarmament operations, support for third countries in combating terrorism and security sector reform. The last of these would be part of broader institution building measures.

Within the last few years, operational activity in the field of crisis management has expanded exponentially. The EU is now undertaking its fourth military operation, among sixteen missions in total, on three continents, with tasks ranging from peacekeeping and monitoring implementation of a peace process to advice and assistance in military, police, border monitoring and rule of law sectors. Further missions are under active preparation and the EU Military Staff (EUMS), which I head, has been involved in the preparation of many of these missions.



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## ***Developing EU military capabilities***

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At the Cologne European Council in June 1999, government leaders stated their determination that the European Union should play a full role on the international stage. In a Declaration annexed to the Conclusions, it was stressed that the EU should have “the necessary means and capabilities to assume its responsibilities regarding common European policy on security and defence”. If the EU is to have the capacity for autonomous action then, according to the Declaration, this must be “backed by credible military forces, the means to decide to use them, and the readiness to do so” with the goal of being able to respond to international crises without prejudice to actions by NATO.

Six months later, at the Helsinki European Council in December 1999, the EU set a military target known as the Helsinki Headline Goal. The MS agreed to put at the Union’s disposal, by 2003, on a voluntary basis, forces capable of carrying out the tasks as set out in Article 17.2 of the Treaty, in operations up to army corps level (50-60,000 troops). These forces would have the necessary command, control and intelligence capabilities, logistics, other combat support services and additionally, as appropriate, air and naval elements. It was envisaged that this force should be able to deploy in full within 60 days and be sustainable in theatre for up to one year.

In a significant announcement, the European Council in Laeken at the end of 2001 stated that the EU was now capable of conducting some crisis-management operations. This position was confirmed at the meeting of EU Foreign Ministers in May 2003 which declared “the EU now has operational capability across the full range of Petersberg tasks, limited and constrained by recognised shortfalls”.

Following the adoption of the EU Security Strategy, it was decided to set a new Headline Goal to be based on the original 2003 target. The new Goal envisions that the Military Staff, by 2010, should be able to “respond with rapid and decisive action applying a fully coherent approach to the whole spectrum of crisis management operations”. This priority was endorsed by the June 2004 European Council.

The process of developing EU Military Capabilities towards the Headline Goal of 2010 is deliberate and thorough. The first step was to identify Strategic Planning Assumptions and five illustrative scenarios were prepared, which encompassed a wide spectrum of military operations. These included separation of parties by force; stabilisation, reconstruction and military advice to third countries; conflict prevention; an evacuation operation (in a non-permissive environment) and, lastly, assistance to humanitarian operations.

From these, Focused Military Options were developed, as to how best to deal with the relevant crises. It was then the task of the EU to ask the Member States to what extent they could offer assets and resources to fill the Total Force Requirement. As these offers were received, the contributions were compiled into the Force Catalogue. This Catalogue provides a view of the military capabilities available by 2010 and it will also be the basis for the EU Shortfall Identification. By the end of 2007, the identified shortfalls and the possible operational risks because of these shortfalls will be reflected in a Progress Catalogue. The remaining tasks for the achievement of the 2010 Headline Goal will be to solve the identified shortfalls, while maintaining a credible EU operational capability.

Throughout the whole process, the EUMS has co-operated and will continue to co-operate with the European Defence Agency (EDA), particularly in the Integrated Development Teams (IDT’s) and the Project Teams (PT’s), which are intended to support and enhance Member States’ efforts in solving the identified shortfalls. In addition, the EUMS will supply all necessary support to the EDA in order to continue the progress towards the objective of shaping the EU’s Long Term Vision, and the follow-on work involved.

With regard to Rapid Response, during the last BattleGroup co-ordination conference, Member States have committed the required number of BattleGroup packages for 2007, 2008 and 2009. Indications have been given that the first half of 2010 will be completely filled. The Member States providing BattleGroups in the first half of 2007 have decided to provide naval enablers for these BattleGroups. From January 2007 onwards, the EU will have the full operational capability to undertake two BattleGroup-sized rapid response operations nearly simultaneously.

Regarding the Global Approach on Deployability, it was recognised that improving strategic mobility was crucial, in order to enable Headline Goal 2010, and specifically the Full Operational Capability of the EU Battlegroups in 2007, to be realised. In view of the known shortfalls in strategic lift assets (both in NATO and the EU), focussing on the more effective use of all available means for transport co-ordination, was seen as the key to improving strategic transport capability.

Five tasks were identified, concerning the co-ordination, interaction, roles and responsibilities of transportation enablers, and these tasks were undertaken by the EUMS under the auspices of the EUMC and PSC. Most of the remaining tasks within the framework of the Global Approach on Deployability have been completed. Work has continued with regard to the maritime dimension in ESDP, on investigating the contribution of EU maritime forces in ESDP missions or operations and their use in a rapid response capacity.



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## **Civil-Military Co-ordination**

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The European Council of December 2004 endorsed detailed proposals from the Presidency for the implementation of a document titled “European Defence: NATO-EU consultation, planning and operations”. This paved the way for the establishment of a Civilian-Military Cell (Civ-Mil Cell) within the EUMS and the creation of an EU Operation Centre in Brussels, as a means for improving the EU’s capacity to plan and run autonomous EU crisis management operations.

The Civ-Mil Cell is composed of both civilian and military components and can perform tasks in Strategic Contingency Planning at the initiative of either Javier Solana or the PSC. The Cell may also provide assistance to crisis response strategic planning for military, civilian or joint civilian-military operations. It contributes to the development of doctrine, learning lessons from civilian-military operations and exercises; On a temporary basis, the Cell may reinforce a national headquarters that has been designated to conduct an EU autonomous operation and can assist, when requested, in the planning and support of civilian operations carried out under the responsibility of DGE. Finally, the Civ-Mil Cell generates the capacity to plan and run an autonomous EU-led operation.

For such autonomous EU military operations, the principal option will be to conduct any operation from national headquarters. However, in certain circumstances, in particular where a civil-military response is required and where no national headquarters is identified, the Council may decide, upon the advice of the EU Military Committee, to draw on the collective capacity of the OPS Centre.

In such a case the Civ-Mil Cell would have the responsibility for generating the capacity to plan and run the operation. This would not be a standing OHQ. Rather it would have the capacity rapidly to set up an operations centre for leading a particular operation. The OpsCen should operate under a designated Operation Commander separately from the EUMS, which will remain at the political-military level. The Civ-Mil Cell through a small OpsCen permanent staff will provide the key nucleus of the OpsCen, which would be reinforced with ‘double hatted’ officers from the EUMS and with other CGS structures and MS as appropriate.

The Civil-Military Cell has reached its full strength. It has contributed to the setting up of ESDP civilian and military operations in Aceh, Rafah and the DR Congo. In addition, it has also contributed to work on military support for disaster relief. In order to be operational in the coming months, work on the Operations Centre was focused on manning, infrastructure including communications, training and on the development of

procedures and concepts. OPS Centre facilities will be accommodated in the EUMS building, and will be operational as of December 2006.

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## **ESDP training and exercises**

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In view of the expanding role and activity of ESDP, proper training is becoming an increasingly important element of ESDP. The European Security and Defence College (ESDC) successfully continued its work on establishing a network between national institutes, and providing attendees with a comprehensive background on ESDP. The first official ESDP High Level Course was concluded in March, and the second one is underway. Nationals of Candidate States, Third States as well as representatives of International Organisations were invited for the first time to participate in three ESDP Orientation Courses.

The EU Military Exercise “MILEX 2005” was the first exercise concentrating on the military aspects of crisis management to be organised and planned by the EU through the Military Staff. The exercise was pitched at the highest military levels, to facilitate the practice and verification of planning procedures for staff officers at an EU Operation Headquarters in Paris, France, and an EU Force Headquarters in Ulm, Germany. The fictitious scenario envisaged a deteriorating political, military and paramilitary situation on the imaginary island of Atlantia. Some 450 “players” and supporting personnel took part in what was a major progression in the European Union’s Military Staff’s involvement in the planning and conduct of large-scale crisis management exercises. MILEX 07 is being planned at present, and MILEX 08 is scheduled for the first semester of 2008.

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## **Co-operation with partners**

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A cornerstone for ESDP in the field of crisis management is the Strategic Partnership between the EU and NATO. The so-called ‘Berlin Plus’ arrangement allows the EU to conduct operations with recourse to NATO assets and capabilities. This capability was applied for the first time in Operation CONCORDIA in 2003 and thereafter in Operation ALTHEA, which was launched in 2004.

The EU and NATO have moreover continued to co-operate through a joint cell in Addis Ababa to ensure effective support to AMIS in the Darfur Mission. Co-operation and transparency between the EU and NATO have been further enhanced through the setting up of a permanent EU cell at SHAPE and a permanent NATO liaison team at the EU Military Staff.

In the field of capability development, the EU-NATO Capability Group has continued to exchange information discussing, *inter alia*, BattleGroups and the NATO Response Force as well as some specific



capability areas of common interest such as Software Defined Radio and Unmanned Aerial Vehicles.

EU co-operation with the United Nations in ESDP continues to develop, notably through the preparation and conduct of the EU operation in the DR Congo in support of MONUC. Co-ordination was also focussed on the transition from AMIS to a UN operation in Sudan-Darfur as well as on ensuring a smooth transition between UNMIK and a possible civilian ESDP mission in Kosovo. Staff-to-staff meetings, supported by the EUMS liaison officer to the UN, proved helpful. Representatives of the UN participated in preparatory meetings for CME 06 as well as in CIVIL 06. Meetings between representatives of both the EU and the UN continued to take place, *inter alia* through the consultative mechanism known as the EU-UN Steering Committee which took place in New York on 8<sup>th</sup>-9<sup>th</sup> June 2006.

### ***The way ahead in 2007***

The EU Military Staff have a long list of priorities we look ahead to 2007. Within the Council structures, the EUMS will prepare and ensure the effective implementation of the decisions related to present and future operations and missions. Ongoing work on military capabilities and, in particular, the finalisation of the Force Catalogue and the preparation of the Progress Catalogue on the basis of the agreed Headline Goal 2010 will continue. By the end of 2006, the Council will have available the option of activating the EU Operations Centre in the event of an operation requiring a joint civil and military response.

Work on rapid response will continue particularly with the BattleGroups initiative with a view to achieving full operational capability from January 2007. We want to take forward work on aspects of the ESDP related to reinforcing the EU's emergency and crisis response capacities and to take forward work on the improvement of civil-military co-ordination in the planning and conduct of operations.

Other initiatives will focus on security sector reform including through region or country specific approaches and to develop an EU approach to contribute to disarmament, demobilisation and reintegration. Regarding relations with partners and third countries, the Military Staff intends to pursue dialogue and co-operation with the UN and the OSCE, to continue to develop the EU-NATO Strategic Partnership in crisis management and develop co-operation with the European non-EU NATO members, Canada, Russia and the Ukraine. The ESDP agenda for 2007 clearly is an ambitious agenda but one increasingly within the EU's means and priorities. ■

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## **Pakistan: Plundering taxpayers' money & advocating democracy!**

by Huzaima Bukhari & Dr Ikramul Haq

The quote from Aristotle's *The Politics*, "when laws do not rule, there is no constitution" fits most aptly to Pakistan's political evolution and constitutional history. Our military and civilian rulers have always acted in identical manner in violating all the established norms of the rule of law and the result as predicted by Aristotle is before us.

Putting it mildly, since 1973, every ruler has mutilated the Constitution to suit his or her needs and to perpetuate a dictatorial regime. Blatant violations of the rule of law have negated the establishment of a sound democratic structure in the country. The latest example is the unprecedented expense 18-days tour of General-President Musharraf with larger-than-ever entourage of people who have no official business in USA.

Colossal money from the national exchequer was expended to boost up Musharraf's personal image by launching his autobiography, *In the Line of Fire*. Personal projection has been made at the expense of taxpayers' money and yet rulers want people to pay their taxes honestly and diligently. This nation has a right to know how much tax General-President Musharraf will pay on substantial royalties he has received from the American publisher. Will he be willing to pay back (out of royalty) the money expended by him in USA for purely personal gains, i.e. launching and promoting his book?

Year after year, we face a question from our students, "Why do Pakistanis not pay their taxes and how come the tax-to-GDP ratio of the country is only 9%?" We try to explain through a host of reasons for this perplexing situation, but they rebut us by asking, "Do you know how rulers play havoc with taxpayers' money?" Their response makes us taciturn, as reality is too loud and obvious.

In the budget for 2006-07, the current expenditure demand for the Prime Minister's Secretariat is Rs538.751 million, and its Inspection Commission Rs20.250 million, Staff Household and Allowances of the President Rs290.244 million, for NAB alone Rs797 million and National Assembly: Rs1005.933 million, just to mention a few. It is shocking to note that for servicing of domestic debt the government requires the colossal sum of Rs190,785,072,000. For servicing foreign debt Rs48,720,712,000 is required and for foreign loan repayments Rs56,335,998,000 in financial year 2006-2007.



Do we still need any proof to show that our rulers are wasting national revenues and resources on non-development and wasteful expenditures? They have yet not learned to live within means. The figures relating to domestic debt and its servicing and new loans of billion of dollars are simply horrifying. Due to wasteful expenditure on current account and deficit financing, there emerges an artificial lack of funds for investing in social welfare projects benefiting the poor. This is the reality of our great economic success (sic) projected by the official quarters. In the face of tall claims, they need more and more loans for development and social sector spending.

People of this 'Land of Pure' are now facing death by consuming contaminated water. Our rulers cannot provide clean drinking water to poor people, but seem very keen to amass millions of dollars from the CIA to hand over many innocent people dubbing them as *Al-Qaeda* terrorists. For them, it is more important to assure the United States and its allies that "war on terror cannot be won without them" but, at home, they are losing the war against poverty and impoverishment.

Earthquake victims are still struggling for homes and are forced to spend this Winter in tents too, whereas ERRA officials are spending huge money on cars or renovations for their offices. Pakistan's rulers are more than eager to spend huge sums on witch-hunting of political opponents, buying luxury cars for cabinet ministers and wasting taxpayers' money on "white elephant" projects, but funds are not available for health, education and the dispensation of justice. It is highly deplorable that poor people are committing suicide and dying of hunger and the government claims to have billions in foreign exchange reserves. There could not be a bigger joke with the nation!

Our so-called popular representatives (MNAs & MPAs) keep on reminding us about the fruits of democracy and justify spending taxpayers' money for their privileges and perquisites (although they are divided on every issue yet all of them unanimously enhanced their salaries and allowances manifold during the last four years). But when it comes to paying taxes on their enormous incomes and assets (most of them are agriculturists or owners of big industrial and trading houses), they introduce all kinds of exemptions or lower rate of taxes. CBR, being their handmaid, always extends hidden support through the nefarious system of SROs, issues concessionary statutory regulatory orders depriving the nation of millions of rupees.

Do they ever ponder that democracy as understood in the classical theory and practised in the West embodies the following vital elements:

- +Fair and just electoral process
- +Sovereignty of parliament
- +Separation of powers

- +Independence of judiciary
- +Public accountability
- +Rule of law

At the heart of the concept of democracy is the assurance for the citizens that their affairs are going to be managed by 'Responsible Government'. If we analyse the Pakistani scenario in the light of the above basic principles, there will be utter disappointment and frustration. Since the death of the Father of the Nation, no government in the country can be said to qualify as 'Responsible'. The conduct of each government since 1948 was to waste or plunder public money, forcing the people into international debt enslavement and mercilessly flouting all rules and laws. So if we failed to have true democracy or a responsible Government it is not surprising.

The three Constitutions we framed were merely pieces of paper having no sanctity as even the framers of these documents violated them. The constitution of a country is a living and vibrant document that determines the future direction of the nation, provided there is respect for the document and for Rule of Law. In a country where a single person is authorised (by self-acclaimed decree or through an authority itself lacking competence under the law) to amend the supreme law of the land, there can neither be democracy nor constitution. The President has portrayed himself *In the Line of Fire* as a great saviour of the nation, whereas the reality is that under his despotic rule, with the support and connivance of USA and its allies, poor and helpless people of this country have been deprived of their fundamental rights of access to free health, educational facilities and dispensation of justice, things which are only possible under a true democratic structure.

In a democratic set-up, the electoral process ensures the dominance of the people over those who hold political offices. Here in Pakistan we want to determine it through a self-imposed president cum-what-not, who has almost veto power over everything. This brand of 'sustainable democracy' and 'responsible government' is unknown to the students of constitutional law anywhere in the world.

The electoral process is tainted with disqualifications, in some cases on purely political considerations to keep certain actors outside the process. One wonders what useful purpose this unjust process can yield. It is only bound to frustrate franchise, forcing them to believe that the entire electoral process is a selection exercise to ensure that men from the King's party reach the corridors of power to join the bandwagon of the rulers of the day.

The World Bank, in a report published in October 2002 on 'Poverty in Pakistan: Vulnerabilities, Social Gaps and Rural Dynamics', made some startling revelations

about violations of the rule of law in Pakistan. These violations have destroyed not the only climate for foreign direct investment but also peoples' faith in government, democracy and transparency. Both individuals and firms, poor micro-enterprise entrepreneurs and multinationals, have borne the brunt of weak governance when they attempt to deal with the police or judicial institutions, or during times of civil unrest that have precipitated a serious deterioration in the rule of law.

Just as the poor are forced to compete for targeted infrastructure investments, firms are forced to compete for exemption from onerous regulation or, more commonly, from the arbitrary imposition of unjustified regulatory requirements. Firms see their own labour costs rise and competitiveness decline when their workers lack the educational basics. Companies, like the poor, are exposed to the tremendous insecurities of crime or to abusive behaviour by public officials.

Like the poor, entrepreneurs understand that success (or, in the case of the poor, to avoid catastrophe) requires strong personal relationships with government officials who can protect their interests. This is the antithesis of the rule of law, and lies at the root of poor service delivery, the vulnerability of the poor, and the reluctance of investors to enter the country, even during more tranquil times in which the pressures of international conflict are absent. In view of its uncertain governance environment, it is less surprising that Pakistan has failed to reap substantial private investment from its significant liberalisation efforts.

The governance uncertainties have a strong negative impact on growth. The International Country Risk Guide, published by Political Risk Services (Syracuse, New York), rates countries according to bureaucratic quality, rule of law and corruption; three key ratings, on a scale of 1 to 18, is associated with a one percentage point increase in the yearly rate of per capita income growth in the countries surveyed. It shows that if Pakistan had exhibited similar performance with respect to the rule of law, bureaucratic quality and corruption as Singapore did way back in the 1990s, *per capita* income of Pakistanis in the year 2005 would have been US\$300 higher.

Even achieving the Indian governance indicators during the 1990s would have raised *per capita* incomes in Pakistan by US\$100 by the year 2005. The latest report by Transparency International, published in August 2006, shows that the government of General-President Musharraf is even more corrupt than that of his predecessors Benazir Bhutto or Nawaz Sharif. Surely, this is a slap in the face of those who claim to be the saviours of this nation.

If the forthcoming electoral process (hopefully in 2007) has to be successful, it must ensure that:

- +there is full freedom of franchise;
- +all the candidates get equal chance of reaching their voters;
- +the conduct of election campaign is regulated to ensure legality and fairness; and
- +the voting system is such that it produces both a legislative body representative of the electorate and a government with sufficient democratic support to be able to govern effectively.

There appear to be clear signs that the main purpose behind the recent constitutional and other legislative changes by the rulers is to ensure their perpetuation and not to guarantee election of a government with sufficient democratic support to be able to govern effectively and independently. The main idea is to create a subordinate legislative body, a showpiece of democracy but in reality restricted to act only on the commands and dictates of the powerful and the mighty.

This is again a bleak scenario for Pakistan. The dream of establishment of a true democratic government and institutions is still a far cry. The polity like the nation is divided. There is no consensus even on fundamental issues, like protection of women's rights, national security *vis-à-vis* the role of the USA or even on Kashmir. The growing subservience to American interests is a major cause of concern for all the citizens, who otherwise are also deadly against making the society captive to forces like the Taliban and so-called *Jihadis*.

The country is again faced with an important moment of its existence and people are standing at a sensitive juncture of history. Crucial times are ahead in which some fundamentally important choices and decisions are to be made. Primarily the forthcoming elections are not just about the selection of democratic representatives. These will determine the course of the fate of the nation – whether the forces of *status quo* succeed in perpetuating their rule or whether people reject them forever and establish a true democratic polity.

It is time that all political parties show maturity and make a resolve, notwithstanding the outcome of the elections, to overthrow those who want to act against the will of the masses, who are interested to rule unilaterally, who want to make the people of this land slaves of today's imperialist powers and who hold self-interest supreme to national interest. ■

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## The uneasy India-EU relationship

by Dr Harish Kapur

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Looking ahead to 2007, India will celebrate 60 years of independence. However, for almost half of that time, India and the European Union lived in mutual indifference. Though India had taken the initiative of establishing diplomatic relations with the European Community as early as the 1960's, it was really a formal act without any great significance. It had passed unnoticed by everyone, including the media.

This long phase of detachment or disinterest can be attributed to the fact both of them had other concerns and preoccupations that were perceived as more important and urgent. India's interest lay elsewhere, with the region where problems had emerged with Pakistan and China, with the Soviet Union with whom a strategic partnership was forged, and with the newly independent nations of Asia and Africa.

The EU was equally disinterested. Concerned and preoccupied, as it was, with problems of integration, with the confrontations of the Cold War, and with redefining its trans-Atlantic relations with Washington. Only with the demise of the Cold War, and the dramatic disappearance of the Soviet Union, did India and the EU begin to show signs of some mutual interest; but even this was minimal, since the new post-cold war picture of the international configuration of forces was a time-consuming task of reflection and deliberation before any decisions could be taken.

The real process of India-EU interaction started with the conclusion of the 1994 Co-operation Agreement and the first bilateral summit meeting in Lisbon in the year 2000. It was then that the relations took an active turn expanding in all directions: from economic to political and from political to strategic. Much has indeed happened since then: the inauguration of a Strategic Partnership, the holding of annual summit meetings with densely packed agendas, the establishment of a wide-ranging EU-India Economic Cross-Cultural Programme, amongst others.

However, notwithstanding all the ongoing progress that is now visible, it must be admitted that there are a host of dissenting elements that have generated some degree of uneasiness in their relationship; in growing contrast with the new emergence of greater Indian affability and understanding with the United States. While India also has problematic relations with the United States that do tend to get exacerbated by its traditionally ingrained anti-Americanism, it has less problems with the United States than with the EU. The EU's known bias, for example, for China is still very robust, even though most European leaders continue to insist that it is no longer the case, China has generally been perceived as

a major diplomatic object to be cultivated. In any event, the Indians perceive it this way.

The US administration, on the other hand, while maintaining even keel relations with Beijing, has diplomatically opted for India on the ground that India is more important to long-term US strategic interests. Though the Indians themselves are striving to develop friendly relations with China, the new US orientations in favour of India are naturally perceived positively. In this respect, the EU thus remains a minus for India.

Another negative dimension for India is the EU squabbles over human rights, over policies towards Kashmir and over a large-scale presence of child labour in Indian economic activities. How often the EU has questioned India's human rights record and how often has it shown signs of some understanding with the Pakistani position over its dispute with India over Kashmir. The US has avoided criticising India over human rights and is now, under the Bush Administration, showing signs of neutrality over Kashmir. It seems the US is going out of its way to cultivate India.

India also has difficulties with the EU regarding multilateral negotiations within the WTO framework. It is not only on trade, agriculture and textiles that they disagree but also on a number of other issues that are being discussed within the organisation. While the EU defends its Common Agricultural Policy, making European markets inaccessible, other differences include core labour standards, multilateral agreements on investments and competition and on the environment. Here again the US attitude is not as firm as that of the EU, at least that is the Indian perception.

Equally, EU policy regarding Indians studying and working in Europe is making it increasingly difficult for Indians to enter the EU. And, once they have finished their studies, they must leave. Labour and immigration standards are indeed very strict. In contrast students and professionals going to the US appear to have an easier possibility of prolonging their residence in the country. This can partly be explained by the fact that US laws on immigration, at least so far as the Indians are concerned, are liberal and partly because of Indians attraction to the English language.

India-EU relations still have a long way to go. Potentially, of course, there are a large number of issues that should bring them closer: combating terrorism, maintaining a balanced environment, and seeking alternative sources of energy to meet the growing energetic needs of the Indians and the Europeans. But then even on these issues, the Indian position is probably closer to that of the United States than the EU, with the possible exception of energy. ■

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## **Asylum, Immigration, Justice & Home Affairs**

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### *Freedom, Security and Justice*

The European Council meeting in Brussels, on 14<sup>th</sup>-15<sup>th</sup> December, adopted Presidency Conclusions on the Area of Freedom, Security and Justice (FSJ), in accordance with the Hague Programme. The Area of FSJ was proposed in the Hague Programme adopted in November 2004, which was based on the requirements for an EU asylum, immigration, justice and home affairs policy set out in the Tampere European Council in October 1999. The European Council substantively discussed migration, in terms of the implementation of the Hague Programme.

The European Council stated that a European policy on migration would require the closer co-ordination of existing external policies and a “genuine partnership” with third countries. Primarily, the sense of a European comprehensive migration policy refers to international co-operation with the EU’s immediate neighbours and Africa. Mindful of the large numbers of migrants coming from the near abroad, the EU recognises the need to use its external finance instruments to tackle the root causes of migration. However, the Hague Programme is relevant to Asian countries in terms of EU migration policy and development co-operation. In July 2007, the inaugural meeting of the Global Forum on International Migration and Development will be held in Belgium and might address issues of concern to Asia including return policy, re-admission agreements, migratory routes and trafficking.

Some weeks previously, the European Parliament had adopted a Resolution on progress made in the EU towards the Area of Freedom, Security and Justice. The Resolution, adopted on 30<sup>th</sup> November, asked the European Council to issue a series of political guidelines to direct the work of the Council of Ministers and the European Commission in particular towards ensuring the protection of fundamental rights for EU citizens. Thus, the interference of the public authorities in the exercise of individual liberties should be strictly limited and that Europe should not move towards a “surveillance State”.

Parliament asks that the Commission come forward with a proposal for a draft Decision which would improve the Community powers in the areas of justice and home affairs. Currently, some asylum and immigration issues and judicial co-operation in civil cases come under Community competence. The intent of the draft Decision would be to bring police and judicial co-operation in criminal matters under the same competence. The Resolution therefore suggests that as the powers of the Community would increase, then Parliament’s powers of scrutiny should improve also. The co-decision legislative procedure, where

Parliament and Council have equal powers should be extended to include policy sectors such as legal immigration and the integration of third country nationals. Parliament also suggests that, within the Council, decision making should move from unanimity towards qualified majority voting.

## **Political Relations**

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### *East Timor*

Ana Gomes (PT-PSE) briefed the European Parliament’s Committee on Development, on 19<sup>th</sup> December, on her recent visit to East Timor, as part of a Parliament delegation monitoring the fallout from the Summer disturbances. Ms Gomes said the visit had been very successful and that the delegation had met a wide range of people including visiting the camps of internally displaced people (IDP), the representation of the European Commission and the Commission’s office in Jakarta, Indonesia.

Following the collapse of the police and armed forces, the distribution of weapons to civilians by elements of the government and the eventual resignation of the Prime Minister, Portuguese, Australian, New Zealand and Malaysian troops were needed to help restore order. Despite the presence of a new government, the former Prime Minister was still pulling the strings behind the scenes. Both the former Prime Minister and the former Interior Minister are still under investigation for the policy of providing government weapons to civilians.

The supposed East-West division, touted as an element in the crisis, is artificial and certainly has no basis in any ethnic division. Part of the crisis has stemmed from the very large proportion of young people in the population, estimated at 60%, when gangs of young unemployed youths, some with guns, roamed around Dili, the capital. Another element to the crisis was said to be anti-democratic forces in FRETILIN, although others see it as inspired by outside elements. In any event, FRETILIN needs to reconsider its attitude to the other political parties in the country and the judicial system needs to be strengthened.

Despite the crisis, East Timor is not a failed State. The World Bank has highlighted the government’s sound record on management of the economy. The EU could help boost their human resources and institutional capabilities. In hindsight, perhaps the United Nations terminated their mission in East Timor too early but this should be blamed on individual Member States of the UN Security Council. East Timor clearly needs a more long-term engagement from the international community, including the EU.

Speaking in the Committee on Development, an official of the European Commission stated that the



East Timorese government recognised that a reinforced EU presence could be a useful foil against wider and competing regional interests. The Commission has promised to upgrade the status of its Delegation there. The Commission believes that the presence of the international community forces should come under a single unified command and that the most appropriate body to lead an international group would be the United Nations.

#### *Kazakhstan energy deal*

On 4<sup>th</sup> November, the EU and Kazakhstan signed a Memorandum of Understanding on energy co-operation. Describing Kazakhstan as “one of the most important energy players in the Caspian region”, European Commission President, José Manuel Barroso, and Kazakhstan President, Nursultán Nazarbaev, signed the Memorandum in Brussels which proposes two avenues of co-operation. Firstly, both sides will promote energy security and, secondly, facilitate industrial co-operation. A key concern for the EU would be guaranteed access to energy transport pipelines whereas Kazakhstan may be more interested in securing access to superior EU processes in environmentally clean technology.

Speaking after the signed of the memorandum of Understanding, Commission President Barroso said he appreciated the enhancement to Europe’s energy security that the deal represented and Kazakhstan’s economic co-operation and pragmatic consideration of the EU’s needs. The EU, he said, attaches importance to the bilateral political dialogue and welcomes progress on further democratisation in Kazakhstan, although there is need for further reforms. The EU would support Kazakhstan’s bid to join the World Trade Organisation “on commercially viable terms”.

President Nazarbaev described the energy deal as a “good development” in bilateral relations. The EU’s interest in Kazakhstan and the region is natural and obvious and will be good for Kazakhstan’s internal reforms. Kazakhstan’s role as a reliable energy supplier to the EU will increase in the coming years as the EU will receive 25% of its energy supplies from Kazakhstan. President Nazarbaev said he had proposed upgrading the 1995 bilateral Co-operation Agreement to a Strategic Partnership Agreement, to move the agenda beyond just trade and energy co-operation.

Both sides had discussed the EU’s forthcoming strategy for Central Asia for 2007 and Kazakhstan appreciated the EU’s support for its bid to chair the Organisation for Security and Co-operation in Europe (OSCE) in 2009. Mr Barroso clarified this comment by stating that the Commission had no official position as such and that it was up to the OSCE to decide who would chair the group.

#### *Kashmir*

The Committee on Foreign Affairs of the European Parliament has published a draft report on the situation in Kashmir, on 23<sup>rd</sup> November. Describing the present situation in Kashmir and future prospects for the territory, the draft report, by Emma Nicholson (UK-ALDE), has proved controversial with allegations that it overly favours India’s role in the region. With the background of the earthquake that took place in early October 2005, the draft report states that the humanitarian situation has completely changed the political conditions in Azad Jammu and Kashmir. While political progress may be possible, ordinary people are more focused on day to day survival, as a consequence of the devastation caused by the earthquake.

The criticism of Musharraf regime extends to the use of Pakistani territory by organised crime and terrorist networks by those seeking to undermine “fundamental institutions” of governance in Kashmir and provoking instability in the wider region. Baroness Nicholson suggests that Pakistan should adhere to human rights principles adopted by the international community, particularly for those internally displaced people (IDP) inside Kashmir following the earthquake. As part of the EU response to this situation, the draft report recommends that the EU should focus on issues of democracy, justice and human rights in Pakistan.

This could include the EU reconsidering the implementation of the EU-Pakistan Co-operation Agreement, signed in 2004. Such Agreements include commitments to respect human rights and the rule of law and Nicholson makes a very untypical and very clear condemnation of Pakistan’s record in implementing what it has agreed with the EU.

The draft report states that it is “pre-eminently clear” that Pakistan is not living up to its commitments to respect human rights, in terms of the Co-operation Agreement, and particularly so in Azad Jammu and Kashmir. Despite this strong criticism of Pakistan’s record, India does not escape lightly. The role of India’s armed forces in human rights violations is clearly stated and that there are “deficiencies” in Indian administered Kashmir in terms of direct democracy and human rights violations.

A role for the EU in the Kashmir dispute has long been promoted by some elements within the EU institutions and by Pakistan, in the face of Indian reluctance for international involvement. The draft report suggests that the EU’s experiences of conflict resolution could be of value to any mechanism seeking to resolve the Kashmir dispute. Apart from reconsidering the implementation of the Co-operation Agreement, it is suggested that the EU could utilise the Strategic Partnership with India to launch job creation



programmes or that tourism could help boost the local Kashmir economy. Whatever role the EU adopts, Nicholson states that it should have a long-term focus and should make institution building a priority. It is suggested that the draft report would enjoy substantial amendment before it is adopted by the Foreign Affairs Committee and sent to plenary to be adopted as a Parliament Resolution. As an own-initiative report, the text has no legal status binding the EU to a particular course of action.

### *Iran*

The European Council, meeting for the last time under the Presidency of Finland on 14<sup>th</sup>-15<sup>th</sup> December, adopted a Declaration on relations with Iran. The Declaration deals with two main issues including Iran's role in the region and the nuclear issue. The EU outlined its concern that Iranian policies were having a negative effect on regional stability. Calling on Iran to play a more responsible role, the Declaration notes the government's statements threatening Israel and the development of Tehran's nuclear industry were counter-productive to stability and security in the Middle East.

Also, by failing to engage with the EU on the basis of the proposals put forward by Javier Solana, the High Representative for CFSP, in June 2006, Iran is failing to meet its obligations to the International Atomic Energy Agency (IAEA). Therefore, the Declaration offers EU support to UN Security Council sanctions against Iran. The June 2006 proposals would have allowed Iran to develop a civilian nuclear capability, under the supervision of the IAEA and the UN Security Council. The European Council also condemned Iran's cancellation of the scheduled Human Rights Dialogue meeting, which should have taken place in December.

On 16<sup>th</sup> November, the European Parliament adopted a Resolution on Iran focussing almost exclusively on the human rights situation. Since President Ahmadinejad took office, in June 2005, the human rights situation inside Iran has deteriorated, Parliament states. The Resolution condemns the use of the death penalty and, in particular, the execution of minors, including the use of stoning.

The Resolution also suggests that the EU should clearly link progress on human rights, in particular through the formal Human Rights Dialogue mechanism, to progress in bilateral economic and trade relations. The European Commission could promote human rights and democracy in Iran through the European Instrument for Democracy and Human Rights (EIDHR) specifically by supporting projects to promote free Iranian media.

## **Security and Defence Policy**

### *European Defence Agency*

On 10<sup>th</sup> November, the Chief Executive of the European Defence Agency (EDA), Nick Whitney, spoke in the Council of Ministers addressing the development of the European Security and Defence Policy (ESDP) and the activities of the EDA. Mr Whitney said that a forthcoming meeting of EU Foreign Ministers, in association with Defence Ministers, taking place in mid November, would be responsible for establishing the EDA's work guidelines for 2007 and a three year financial framework. All EU Member States are members of the EDA except Denmark.

During 2007, the EDA Steering Committee will launch the first joint investment projects in force protection namely an initiative on software defined radio. This project would represent the culmination of EDA work achieved during 2006, which started in early 2006 with the Hampton Court agenda, where EU leaders pledged to spend more on defence research. The membership of the project is set to rise from 16 participating EU Member States to 17, when Austria joins. The radio project comes under a general framework of a Joint Investment Programme on Force Protection which looks at collective protection (of troop units), individual protection (of a soldier), data analysis, tactical wireless communications in an urban environment and mission planning and training. The Force Protection element to the work of the EDA is expected to cost approximately €52m, with France Germany and Poland the biggest contributors to date.

Software defined radio (SDR), Mr Whitney said, represents a revolution in communications and would have both military and civilian implications. The EDA has a broad range of projects underway and SDR represents just one such initiative. To co-ordinate with NATO, the EDA makes use of the EU-NATO Capabilities Group although, to some extent, progress can depend on which Member State holds the Presidency of the EU Council. EU Foreign Ministers, on 13<sup>th</sup> November, welcomed the Annual Report for 2006 activities submitted by Javier Solana, as head of the EDA. However, while the general budget for 2007 was adopted, the Council was unable to agree on the three year framework budget.

## **External Assistance and Development**

### *Development and Economic Co-operation Instruments*

The debate on the long-running saga to end the inter-institutional contest on a successor legislative instrument for external aid spending came to a conclusion, on 12<sup>th</sup> December, when the European Parliament adopted two separate legislative instruments, on each for co-operation with developing



countries and one for co-operation with industrialised countries. The debate started in 2004 when the European Commission published its proposal for a single instrument on external aid spending arousing the ire of Parliament which suggested it was inappropriate to link developing and industrialised countries.

Speaking in the European Parliament, on 12<sup>th</sup> December, the author of the report on the development co-operation instrument, Gay Mitchell (IRL-PPE/ED), said the pressure to cave in to the Commission's demands had, at times, been "barely tolerable". The original proposal would have taken away Parliament's ability to co-decide on expenditure in development co-operation. Mr Mitchell said he supported the final agreed text with one reservation; regrettably, his proposal on the availability of health services for women in developing countries had not been accepted. In contrast to previous legislation, the new Development Co-operation Instrument will follow the time length of the EU financial perspectives, which runs between January 2007 and December 2013. For the first time, the legislative instrument will include specific targets on expenditure on certain sectors namely 20% for education and health aid.

David Martin (UK-PSE), the author of Parliament's report on the Economic Co-operation Instrument, which was agreed under the consultation legislative procedure, agreed that the two instruments clearly needed to be separated in order to protect the development objectives of the EU. The external economic co-operation policies of the EU, Mr Martin said, was a significant tool covering a range of 17 countries and the new Instrument would have a significantly expanded budget. Examples of the initiatives that have been financed in the past include executive training programmes in Japan and South Korea and a Gateway to Japan project. Under the new Instrument, the EU will be able to promote human rights and the rule of law in any new initiative, a change from previous practice which has won the support of the Council and the Commission.

Speaking during the debate, the Commissioner for External Relations, Benita Ferrero-Waldner, said the adoption of the two instruments was an important milestone for effective and streamlined external aid spending. The trilateral efforts, in June 2006, of the Council Presidency, the Commission and Parliament found "constructive solutions" to the challenges of "innovative proposals". Representing a complete *volte face* on the original Commission proposal, Commissioner Ferrero-Waldner indicated that it was the Commission's fruitful co-operation with Parliament that had helped bring the debate to a successful conclusion and that the compromise negotiated during the legislative procedure was a "finely balanced solution"; hardly a ringing endorsement!

The agreed text will include provisions for a mid-term review of the performance of the Instruments, probably some time during 2009. Mrs Ferrero-Waldner said that Parliament's view of the implementation would be "considered" by the Commission during its evaluation of the various external aid instruments. One of the problems hindering the development of poorer countries, despite the large volume of EU aid, was the continuing lack of good governance, she said.

#### *Instrument for Democracy and Human Rights*

At the same time that the EU institutions were debating the need to separate the development and economic co-operation legislative instruments (see above), the need to create a separate instrument for the promotion of democracy and human rights became clear. This would be the successor to the European Initiative for Democracy and Human Rights programme run by the European Commission, which was due to expire by the end of December 2006.

On 12<sup>th</sup> December, the European Parliament adopted a legislative Resolution establishing a new Instrument for Democracy and Human Rights (EIDHR) amending substantially the text proposed by the Commission. Apart from funding projects related to democracy and human rights, EIDHR is also used to finance Election Observation Missions to third countries including, for example, the one to Bangladesh in Autumn 2006 - which has since been postponed.

The new EIDHR will have funding throughout the 2007-13 period of €1.1bn, which coincides with the timeframe of the EU Financial Perspectives. The Instrument will have two primary objectives including promoting participatory and representative democracy including civil society organisations and, secondly, the promotion and protection of human rights as defined in the Universal Declaration on Human Rights.

Projects financed from the EIDHR will be governed by a framework of Strategy Papers and Annual Action Programmes. The Strategy Papers would identify priority areas for EU assistance and must specify the funding necessary to achieve the stated objectives. Parliament has insisted that the Commission and Member States should consult each other in order to ensure the consistency of external policy. The Annual Action Programmes will implement the objectives established in the Strategy Papers.

Speaking during a debate on human rights, the representative of Finland's Presidency of the EU Council, Paula Lehtomäki, said the Instrument would help reinforce the conduct of the EU's human rights policy with third countries and that the EU needs to have a long-term focus in order to achieve its objectives. ■

*John Quigley*

## GAM victory in Aceh's elections

by John Quigley

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The former rebel movement that had advocated independence for the Indonesian province of Aceh has emerged victorious in the election for the position of Governor. After a short campaign, but one which exposed divisions within the emerging political movement, the election on 11<sup>th</sup> December witnessed over 2m people voting under the terms of a Special Autonomy Law for Aceh, based on a peace agreement signed in Helsinki in August 2005.

Governor-elect Irwandi Yusuf, and his running mate Mohammad Nazar, were the surprise winners, emerging victorious in the poll. Their win was confirmed by the Aceh Independent Election Committee which, in a statement, said Yusuf-Nazar won 38.2% of the vote. Yusuf ran his campaign as an Independent despite his strong background with the former rebels in the Free Aceh Movement (GAM).

Nevertheless, the result of the contest for the positions of Governor and Deputy Governor and the wider result throughout the 21 electoral districts demonstrated categorically the strong political backing the GAM was able to mobilise throughout the province after securing a high degree of autonomy for the province of Aceh from the central government in Jakarta.

Glyn Ford MEP led the EU Election Observation Mission to Aceh with an 80-member team. Speaking to *EurAsia Bulletin* he said that a second round would probably be necessary in some 4-6 different districts. Describing the elections as "competitive, transparent and well-administered" Ford said although the vote count was laborious it seemed to be completely fair.

Both the elections for the position of Governor and the local district polls were conducted on the basis of a first-past-the-post system, with a 25% minimum vote for the winner. Below that threshold, the election would proceed to a second round. A total of eight teams of candidates were in the running for the Governorship and the position of Deputy, mainly with a background in GAM or the United Development Party (PPP) but including one Golkar candidate.

The Yusuf-Nazar victory highlights a divide in GAM that only seriously emerged in the months preceding the election. Irwandi Yusuf, a veterinary sciences graduate, had been arrested in 2003 and was serving a seven year prison sentence for sedition before he escaped as a result of the destruction wrought by the *tsunami*. His running mate, Muhammad Nazar, was the head of the Information Centre for a Referendum on Aceh (SIRA) and had also been jailed. Nazar joined the GAM National Council in October 2005.

If Yusuf and Nazar represented the local GAM faction, their closest competitors Humam Hamid and Hasbi Abdullah represented the interests of the exiled GAM leadership based in Sweden. Hamid, described as a 'moderate' and a civil society leader, had the backing of Zakaria Saman, a former GAM 'Defence Minister'. Hasbi Abdullah, an economics lecturer, is the brother of Zaini Abdullah the GAM 'Foreign Minister'. During the election, the Humam-Hasbi team received 16.6% of the popular vote, far short of the 25% needed to force a run off and reflecting the lack of support at the local level for the leadership in exile.

The leader of the European Parliament's separate observation mission to the elections, Jürgen Schröder MEP, said that the unofficial result would most likely be confirmed, during January 2007. Speaking in Parliament, on 19<sup>th</sup> December, Schröder confirmed that the government in Jakarta had already indicated its acceptance of the Yusuf victory. The unofficial tally awarded 39%, later refined to 38.2%, of the vote to Yusuf granting him outright victory without the need for a second round.

The elections, held on 11<sup>th</sup> December, had been delayed for more than 8 months due to complications with the adoption of the Law on Aceh in the national parliament based in Jakarta. The Law was promised as part of the Helsinki Agreement granting the province of Aceh a high degree of autonomy from Jakarta.

In some respects the GAM were lucky to gain control of the governorship. By splitting their support, between the old guard and the young leadership, the GAM risked allowing an outside candidate, possibly even one with Jakarta support, win the election. This would have placed the GAM leadership in a very difficult position ahead of the 2009 provincial elections, especially when many aspects of the peace process still need consolidating.

In the aftermath of the elections, the Governor and the GAM leadership in general will face demands to create employment, sort out the demobilisation and re-integration of former combatants and convince international donors that development aid can be spent appropriately. Yusuf will also have to develop a working relationship with the Provincial Assembly in Aceh, which is dominated by representatives of the national parties. And, according to a report prepared by Oxfam International, by November, only one third of the houses promised for those affected by the December 2004 *tsunami* had been built.

In the early days of January, it was announced that the second round run-off elections at district level would take place in February. Irwandi Yusuf is due to take over from the Jakarta-appointed Interim Governor, Mustafa Abubakar, during an inauguration ceremony scheduled for 10<sup>th</sup> February 2007. ■



# The technology economy in Taiwan builds on IT award

by Martin Banks

The New York-based Taipei Economic and Cultural Office (TECO) hosted a meeting, in mid November, deciding the list of twenty-one cities and regions eligible for the 2007 Intelligent Community of the Year award. Following Taiwan's victory in the 2006 award, the Intelligent Community Forum (ICF) announced that Kabul, Afghanistan; Seoul, South Korea; Hong Kong; and Jia Ding, China, would compete with seventeen others for the industry-led prize that recognises the emergence of a digital-age economy.

Taiwan's success in 2006 was the culmination of a long-term strategy by the Taipei Metropolitan Government to foster the introduction and development of IT broadband infrastructure including job creation, improvements in the delivery of public services and promoting innovation in business. Taipei's business innovation, as recognised by the ICF, nowadays reaches beyond the traditional basic electrical and electronic goods. In recent years, many multinationals, notably those in the information-technology field, have set up R&D centres in Taiwan to focus not only on technological applications but also fundamental technological research.

Figures released by the Ministry of Economic Affairs show that in the first seven months of 2006, twenty-seven multinationals had established 30 R&D centres in Taiwan. Newcomers in the past couple of years have included major international mobile-phone brand vendors and integrated-circuit design houses. Such companies are attracted by quality high-tech talent and the government's promotional and incentive efforts including the 88 'technology incubators' cited by the ICF in the award as essential to "stimulating small business and entrepreneurial growth".

One area where high-tech manufacturers have been successful is with the popular Global Positioning System (GPS). Taiwan's Garmin, currently produces about 1.2 million GPS units per year for use in marine and outdoor recreation applications. A domestic industry magazine - *Business Weekly* - has reported that Garmin commands about 90% of the global non-military market share for aviation GPS receivers, 70% for handheld receivers and 40% for onboard marine receivers.

Typically, such gadgets can include voice prompts in a variety of Asian languages, including Mandarin, Chinese, Japanese, Korean, Thai and Holo Chinese, which is popularly spoken in Taiwan. This fast growing market has prompted several other domestic

companies to come out with competing models and thus forcing growth through exports. In the younger sector of car navigation systems, Garmin has a 45% share of the highly lucrative US market. It appears that success in the US will eventually be dependant upon continued technological innovation including integrating GPS devices into existing products.

The focus on this type of innovation has drawn benefits in another lucrative automotive market, that of car electronics. Yulon, the largest carmaker, adopted a telemetric platform that transmits data through the Global System for Mobile (GSM) communications technology and provides anti-theft and call-centre services.

Nevertheless, the emphasis on technology-driven growth both domestically and in the wider region has raised some problems, particularly concern about violations of intellectual property rights (IPR) in East Asia. Wolfgang Pech, Senior Vice President of Deutsche Messe AG, which had organised a high-tech industrial trade show in Hanover, Germany, in mid 2006, stated many Europeans were becoming wary about doing business in China because of the ongoing problem of the violation of IP rights.

Other German and US business representatives at the show felt that Taiwan had a better IPR regime in place than China, although this is changing slowly. The EU is assisting China to update its IPR regime and, on 8<sup>th</sup> November, signed a Memorandum of Understanding with the mainland Ministry of Commerce to provide technical assistance to 50 IP Complaints Centres.

In a more traditional manufacturing sector, bicycle production, Taiwan used to export up to 10m bikes annually. However, regional competition from China and India forced Taiwan to change its business strategy. The industry responded by ending its competition with China in the low-end bicycle sector turning instead to the lower-volume higher-margin high-specification market. In the last several years the sector has witnessed some return to growth.

The ICF meeting in mid November in New York selected twenty-one applicants from cities and regions across the world. Upon receiving the award in 2006, Taipei's Deputy Mayor, Pu-tung King, talked about the progress the city had made in IT innovation and the role that science parks had made in creating a knowledge-based workforce. In January 2007, the 21 candidates will be whittled down to seven, with a winner being announced in May. The example of the Taipei Metropolitan Government, emphasising a long-term strategy for growth, might be a useful lesson to the other Asian candidates, for 2007. ■

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## EU-Asia Corporate Responsibility Research Agenda

by Bo Jonsson

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On 8<sup>th</sup> November 2006, the European Institute for Asian Studies (EIAS), the Friedrich Ebert Stiftung (FES) and the European Trade Union Institute (ETUI) jointly organised a conference in Brussels with the aim of promoting a research agenda for EU-Asia corporate responsibility.

The conference sought to address several questions including; firstly, which strategies on outsourcing and relocation should be followed with a view to enhancing national sustainable development; secondly, how would the thinking of trade unions and business on relocation and outsourcing evolve; and, thirdly, what would be the research needs of business with respect to outsourcing and relocation, including the perspective of their stakeholders (employees, consumers and shareholders).

### **Session One: The McKinsey research**

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Wim Ilsbroux, McKinsey Brussels, defined *outsourcing* as “unbundling vertically integrated processes and purchasing them back as services to leverage superior capabilities and/or lower costs” and *offshoring* as locating IT-services and other business processes offshore to leverage differences in wage levels and the availability of skilled labour globally.

It has been estimated that US\$300-400bn worth of services from the United States could be moved offshore. This would consist of approximately 40-50% of jobs in packaged software and IT services, 1/4 of retail banking jobs, 1/5 of insurance, 13% of pharma and 10% of auto, but less than 10% of health care and only a few percent of jobs in the retail industry. Elements that might hinder offshoring include physical presence or where local knowledge was required. The quality of management’s cost benefit analysis also mattered. In Europe, the UK is a major exporter of jobs, with nearly 100,000 gone offshore by 2005 and, across Europe as a whole, about 140,000. This could to more than one million by 2015.

The necessity of management adhering to a structured process when deciding on offshoring was addressed. Elements within this process could include assessing the value in offshoring versus increasing gains in labour productivity, assessing what benefits can be made through offshoring, defining the operational model and defining the location strategy. Out of all these aspects, too often only the location is considered fully. Mr Ilsbroux presented a framework to map trade-

offs including, for example, whether certain aspects of customer service capability were important, concerns about product lifecycle, sensitivity to supply interruption, intellectual property rights or national security concerns.

The Discussant, Prof (Emeritus) Sylvain Plasschaert, University of Leuven, stated that it was important to differentiate between investments made abroad by companies in order to exploit natural resources or to capture market outlets and between primarily investing in offshoring or outsourcing with a view to re-exporting to the home or onto the world market. Generally, foreign direct investment remains overwhelmingly aimed at the market potential of the host countries and not at lower-cost production in the host country or offshoring proper. Indeed, offshoring is not a new phenomenon but the entry of such giants as China and India will probably create large waves of outsourcing. Even if wages are unavoidably much lower in countries that receive outsourcing, there is a need for securing decent working conditions, according to internationally accepted norms.

### **Session Two: Winding up or developing businesses**

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Christian Berggren, Professor of Industrial Management, Linköping University, Sweden, noted that although Scandinavian countries were ranked among the highest by the World Economic Forum in respect of competitiveness, there were reasons for worry. He referred to the “supply shock” with millions of new workers are entering the world market. He cautioned against outsourcing manufacturing, believing it would be sufficient to upgrade to more “advanced” activities such as media, design and R&D. The low investment level in Swedish industries is worrying. The short term demands for dividends from profits (shareholder value) stand in sharp contrast to trade unions’ demands for ploughing back the currently high profits into new investments.

The integration of R&D and manufacturing is a must, Berggren stressed and noted that key operational functions in companies are closely linked to each other. Relocation of manufacturing leads to outsourcing of product adaptation, then to engineering and so to R&D in a sequence. To forestall the transfer of enterprises out of Sweden, management will have to ensure “collaboration in cross-functional clusters, for continual development of advanced industrial competences”. The integration of key competencies seems to be crucial for innovation capabilities.

Yet there are few systematic studies about the effects of outsourcing manufacturing on overall firm performance. Further research is certainly needed in businesses and industrial sectors. Because of constantly increasing pressure to bring new products to market



and ever more rapidly the importance of locating R&D next to manufacturing is well understood by management and employees. It has been suggested that union influence over pension fund investments should be actively used to put pressure on management decision to invest and promote innovations.

Christian Berggren presented three case studies. Firstly, SSAB Oxelösund, which went from bulk production and bulk sales of steel in the 1980s to specialisation and mass customisation of quenched heavy plates. These developments required massive investments and foresight by management. Secondly, Micronic Laser Systems which has 50% of its employees based in R&D. The company is now a world leader in laser-based pattern generators for photomasks, used to produce flat-screens. All customers are either Korean, Japanese or Taiwanese firms. The machines are so technologically complex and constantly improved that constant interaction between R&D and assembly is necessary.

And, finally, Scania heavy trucks. Consistently, over business cycles, Scania has been the most profitable heavy truck producer in the world developing and manufacturing all key components (except injection systems). Ten years ago the decision was taken not to move the final chassis assembly, the reason being the need for extended and intensive interaction between development and manufacturing.

The telecom sector may be different. Both Nortel and Ericsson have been able to completely outsource manufacturing. However, Ericsson never fully implemented that policy, keeping industrialisation (innovation combined with manufacturing) in-house, now insourcing instead to the surprise of competitors.

Bela Galgoczi European Trade Union Institute for Research, Education and Health and Safety (ETUI-REHS), said there were problems of measuring the effects of managerial decisions on relocation, especially for the purpose of formulating an adequate response from trade unions. There is pressure on management to take decisions that in the short term deliver shareholder value, but do not take sustainability or effects on society as a whole sufficiently into account. This issue merits more research and exposure.

Against the background of the challenges of globalisation and difficulties in measuring relocation and its consequences, Mr Galgoczi clarified that within the EU, the new Member States are in head-on competition with countries including Brazil, Russia, India and China. Relocation from the EU15 may offset global comparative disadvantages for those countries and EU integration is a protecting shield in globalisation. Apart from explicit cases of closures, the substitution effect on domestic operations is implicit, with the most important effect being job transfers.

A driving force of relocation is labour costs. Though wages in Germany are 6 times those in Estonia, wage increases in the Baltics are accelerating, mostly due to migration. Mr Galgoczi described the changing patterns in relocation, from buyer-driven to supply chain-driven networks. Though there are different supply chain management strategies in automobile and ICT manufacturing sectors, there is a clear win-win situation: both horizontal and vertical integration of production chains had a “stabilising and positive employment effect on source countries.

He stated that although “the challenge of relocation is serious, the situation should not be over-dramatised”. Employment effects include quantitative (net employment loss) and qualitative (from the structural pressures on the labour markets) factors. There is evidence of two-tier labour markets in EU15 emerging, with growing income gaps. It is not known if relocation will speed up in the future and many employers now threaten to relocate and demand downward adjustments of wages and working conditions. This is a major challenge for trade unions.

What should unions themselves do? Since there is a strong relationship between relocation, restructuring, collective bargaining and worker participation, trade unions must themselves take initiatives and combine policies in several areas. There has to be better information and consultations through the European Works Councils. Unions need to intensify co-ordination of collective bargaining and start capacity building especially in the new Member States.

Trade unions will have to initiate a dialogue at industry and enterprise levels and, as Berggren emphasised, put pressure on management to invest in innovation, technology and training. As Prof Plasschaert pointed out, public resources must be in place for an active labour market policy and for what is called flexicurity. The great freedom management has within a free market economy also demands more corporate responsibility from management for the decisions that affect society as a whole, not just the company.

Andrew Watt, Senior Researcher, ETUI-REHS, noted that since 1980, China’s economy has seen growth in real terms of between 8-10% annually. However, un- and under-employment is high especially in the countryside. There are skill shortages in certain areas and employment has declined dramatically in the state-owned industries. The urban population has more than doubled and the share overall is now about 40%. Productivity has more than doubled during the last 10 years, although there are uncertainties about the data, and so have wages, almost, but certainly not evenly over the entire economy. External trade has increased six fold over the last decade and Chinese foreign currency reserves amount now to US\$1trn.



EU trade with China is as unbalanced as it is with the US. EU exports to China were worth US\$50 in 2004 and imports US\$125bn; thus the EU had a trade deficit in 2004 of about US\$75bn with China, which is about the same as the trade surplus with the US. Imports from China are to 95% in manufactures. Turning to FDI, Watt showed that the inflows of FDI to China was now at the level of US\$75bn, up from US\$30bn in the early 1990s – in comparison, FDI to India in 2005 was less than US\$10bn. FDI as percentage of gross investment was about 9% in China, and in India only slightly above 3%. However, the flows to China are small in comparison to those to the EU and to the US.

Looking to the future, Mr Watt showed different forecasts for growth for the next 10-15 years where Deutsche Bank forecasts were lower than what the IMF had presented, concluding the growth would be rapid but slowing somewhat. He thought that “growth would be sustainable” due to the large internal market, high investment and slow population growth. However, he also saw several risks to a smooth development including political (challenge to party authority and openness); social risks (inequalities, rural/urban, migration, accidents, working conditions) and, not least, ecological (huge environmental problems, energy, water).

What are the implications for Europe? The export-led, mercantilist Chinese model is probably by now dysfunctional. Wage rates are increasing and the exchange rate is rising which entails reduced competitive advantages. Yet, there is an increasingly interesting consumer market and the EU has a competitive advantages in key areas, such as large scale investments and environmental technologies.

For trade unions, the challenges for European labour are to avoid a political demonisation strategy: economic growth is not a zero-sum game. The EU should support workers interest in China, campaign on human rights issues and use multinational levers or forums such as OECD, ILO and WTO. Also, the EU could strengthen links with NGOs and pressure groups and awareness campaigns on working conditions in China. Within Europe, the challenges are to campaign for a full employment macro economic strategy, establish a trade adjustment support initiative, launch retraining for displaced workers, develop human capital and use industrial policy to stress innovation.

The Discussant, Joern Keck, former Deputy Director General, DG Enterprise, European Commission, expressed his satisfaction with the balanced view the two researchers from the ETUI had presented. He drew attention to the Lisbon Strategy with the same and similar goals as presented by the speakers, that is, the ‘high road’ to job creation. Regarding the first session, Mr Keck stressed the need for a strong industrial policy that supports innovation, research and development of

the manufacturing sector. The productivity increase in the manufacturing sector is the key component in the EU’s development strategy. He referred to his own experiences as trade negotiator, especially in textiles, and the need for a clear insight into the consequences for the global division of labour and how to handle social issues. He also addressed the CSR activities of companies and the verification of standards, for example, on labour rights or on the environment.

### **Session Three: Proposals for future research**

In the final session, EIAS Chairman, Professor Ludo Cuyvers, University of Antwerp Management School, stressed the need for both macro economic and micro enterprise related research. Looking at the effects of trade on jobs and incomes, there was no general depression of wages from trade developments, though unskilled occupations were experiencing lower relative wages. He also stressed, as Sylvain Plasschaert and Joern Keck had done earlier, that decision making could be looked into at company and industry level.

In the discussion that followed, several issues were discussed and some areas for further research were identified including macro economic and social developments in Asia and EU. Also identified was how business strategies and investments relate to national or regional development strategies, integrating issues of migration, ageing populations and flexicurity. Bilateral FTAs could relate better to national development strategies of Asian countries and investments could be more efficient if bilateral and/or regional FTAs addressed intra-regional trade as well.

The role of employees and trade unions at industry and company level in decisions regarding relocation, outsourcing and offshoring was stressed. ETUI has conducted research on the experiences of employees and unions in a social dialogue. Future activities could include benchmarking enterprises’ CSR activities and reporting from the SRI point of view. This would be based on better verification possibilities involving stakeholders (employees, consumers and shareholders), review of best practices and the development of public services capability.

Extending EU-based companies’ CSR activities beyond Europe, especially since these multinational companies have worldwide. EU and other databases need constant updating and upgrading and could include CR/CSR issues. It was mentioned in this respect that several Departments of the European Commission including Enterprise, Employment and Research have an interest in research and development of the EU’s CSR policy. ■

Bo Jonsson is a Member of the EIAS Administrative Board.



# Cross-Strait business co-operation and integration

by John Quigley

The European Institute for Asian Studies, on 15<sup>th</sup> November, held a lunch briefing on developments in Taiwan's economy. Mr Guy Wittich, Chief Executive Officer, European Chamber of Commerce Taipei (ECCT), and Mr Ralf Scheller, Chairman ECCT and Managing Director of TUV Rheinland Taiwan presented an analysis of the state of Taiwan's economy and addressed prospects for cross-Strait economic interaction. The meeting was chaired by Dr Sebastian Bersick, Senior Research Fellow, EIAS.

Mr Wittich told the meeting that the ECCT had held its 10<sup>th</sup> annual Open Door meeting with the European Commission addressing business issues. The ECCT also works with the various trade offices of the EU Member States and is active through a network under the auspices of the Commission's Directorate general for Enterprise. The Chamber represents some 800-1000 EU companies active in Taiwan including in high-tech manufacturing, retail and distribution, financial services, luxury goods, medical care, transport (where EU firms could do better), telecommunications and in energy. Taiwan, Mr Wittich said, is in need of an affordable and secure energy supply mechanism.

The last two years have seen sluggish growth in Taiwan's domestic economy, with an emphasis on exports to the USA and China. The political situation has had an effect on consumer confidence with less spending and growing levels of consumer debt. There has been increasing market penetration by foreign banks seeking to consolidate the domestic banking scene, a feature of the economy that should be analysed in a wider regional setting. Presidential elections are due by 2008 and there is speculation that should there be a change of leadership, the restrictions on trade with China would be lifted.

The key message from the Chamber would be that the impact of political developments on the business community is real and is reflected in the anti-corruption wave going through the country. This wave has promoted unrest in society, affecting consumer confidence and, in the end, does nothing to promote the economic reforms Taiwan's economy needs.

Regarding cross-Strait relations, the Chamber would not be optimistic of any positive change before the March 2008 elections. The majority of Taiwan's population seem to be in favour of maintaining the *status quo* and business needs stability in order to promote investment. There are several threats to Taiwan's competitiveness including restrictions on

cross-Strait trade, political turmoil, an increasing shortage of qualified human resources, over regulation (particularly in the services sector) and inadequate protection of intellectual property patents. Nevertheless, Taiwanese companies have invested an estimated US\$100-150bn in China and the mainland is Taiwan's largest export market (28% of total in 2005). The top 1000 Taiwanese companies in China employ 1.5m people.

It might be possible, in the future, for Taiwan to serve as a greater China business hub. This would open up opportunities for EU firms, particularly those outsourcing manufacturing to China. The Chamber would foresee continued slow domestic growth in Taiwan over the next 12-14 years making the economy ever more reliant on exports, mainly to the USA and less so to the EU.

Mr Scheller addressed the potential impact of the lifting of the restrictions on cross-Strait trade. Taiwan, he said, had been worried that the abolition of restrictions would mean a substantial amount of companies would relocate to the mainland. The ECCT had commissioned a study which concluded that the domestic economy would actually benefit from a fall in barriers to open trade. Currently, there are no direct transportation links to the mainland for freight or transport cargo. Chinese businessmen have difficulty getting visas to visit Taiwan and there are limits to the amount of investment in either economy. There are also restrictions on the import of goods from China.

In terms of two-way trade, China is Taiwan's largest export market. Imports from China have grown by 17.6% since 1991 even though Taiwan has maintained a prohibition of 18 categories of goods from China amounting to 2200 items. Agricultural products account for 70% of that list of banned goods.

The ECCT study calculated that if the trade restrictions were lifted then an extra US\$1bn in Taiwan-China trade might be generated. Taiwan would stand to save US\$2bn in costs, in part through been able to source goods closer to home. In the tourism sector, with revenue of US\$11bn in 2005 which could be considered small for a country the size of Taiwan, a lifting of entry restrictions could generate an extra US\$2.5bn equivalent to 0.7% of GDP. In the services sector, the headquarters of European and Taiwanese companies are increasingly leaving the island for elsewhere in the region. However, if Taiwan was prepared to open up, companies moving back would create a demand for services and boost the property market.

In terms of transport links, Taiwan could have geographic superiority if restrictions on travel were lifted. Taiwan would be the hub of the region including Australasia. Taiwan could take advantage of capacity



problems of Hong Kong and mainland airports and has more than adequate numbers of trained personnel available to operate a viable regional logistics sector. Shipping companies would generate savings through better route planning.

Putting it a different way, the world economy is globalising around China's manufacturing sector and the costs to Taiwan of trying to avoid this are rising. The removal of restrictions on investment would enhance Taiwan's attractiveness to foreign investors. In the end, the gains from normalising relations across the Strait would outweigh the losses.

### Questions and Comments

Mr Lott, Directorate General for Trade, European Commission, wondered what the reaction of Taiwan's political parties had been to the analysis presented by the ECCT. Another Commission official noted that the Democratic Progressive Party (DPP) of President Chen Shui-bien appealed to voters through identity politics, emphasising the difference between Taiwanese and Chinese. If the allegations of corruption continue prior to the 2008 Presidential election then the opposition KMT look certain to win. What kind of policy strategy has the DPP developed for the 2008 election in order to respond to this situation.

Jan Willem Blankert, European Commission, stated that he thought the DPP overplayed the nature of the threat from the mainland. While a certain level of threat exists this should not mean that either side should refrain from talking to the other. Had the study made a final total assessment of the gain to Taiwan. The fact that Taiwan is a democracy should be considered a plus point and the corruption scandals demonstrate that the rule of law applies, which is not always the case on the mainland. Sigrid Winkler, Institute for European Studies, VUB, raised the link between political life and the business community and the impact of the relationship of costs to trade.

Xavier Liao, EU Correspondent, Association of Taiwan Journalists, noted the regime of restrictions in place in Taiwan against imports of agricultural goods from China. Probably, domestic consumers are more interested in quality and safety standards than a cheaper price, which China could offer through volume production. Would there be a role for European businesses in Taiwan's digital creative industry.

Dr Sebastian Bersick, Senior Research Fellow, EIAS, noted that the Asia-Pacific Economic Co-operation (APEC) forum would meet in Hanoi, Vietnam, later in November. While the European Union was not a member, APEC was an interesting example of Taiwan's membership of a regional grouping in East Asia. What kind of co-operation did the ECCT have with APEC.

### The Speakers in Reply

Ralf Scheller said there had been a big debate in Taiwan whether further opening up would be possible and even within the various political parties the issue is controversial. The current administration is conscious of the need to maintain electoral votes and this drives their cross-Strait policy. Neither party has come up with a clear economic strategy with both focussing on the forthcoming mayoral and legislative elections and the anti-corruption issue.

From the DPP point of view, the threat from the mainland is increasing, particularly with growing numbers of missiles targeting Taiwan and China's 2005 anti-secession law. This could drive the DPP further down the independence path. The ECCT has close links with the European Commission's trade representation, uses an internal system of committees to gather economic intelligence and develop strategies that will help make European businesses in Taiwan, and Taiwan itself, prosper. The ECCT does discuss cross-Strait economic relations with the administration and obviously this has political ramifications.

Regarding food safety standards in China, when produce quality is the same, the consumer will invariably choose the cheaper goods. As China's adherence to hygiene and quality standards increases, this will end some of Taiwan's rationale for restricting imports from the mainland. Economically, Taiwan should not be left out of the wider regional integration picture and it certainly is an EU interest that Taiwan should play a part in regional co-operation processes. This possibly could be achieved through some variant of the ASEAN+3 mechanism.

Guy Wittich said the majority blue would like to see further normalisation while the majority green would like to see a slow gradual opening up. Current speculation in the property market can be seen to be linked to the possibility that the majority blue might be in power in the future. The sense of Taiwanese identity is strong but amongst younger people there is a feeling that identity politics should not be abused and the issue will probably have less emphasis in future elections.

Regarding the role of identity politics in Taiwan, ordinary people make an assessment of the presence of 800 missiles across the Strait and China's efforts at economic *rapprochement*. China's military-style rhetoric is now new and there may be a sense among young people on the island that questions of identity should not play a role in political life. Probably, the strategy of identity politics will be less prevalent in future elections. Mr Wittich remarked that the government in Taiwan is promoting heavy investment in the digital content sector and this kind of high-technology platform would offer a high degree of profitability for European companies. ■



# Mongolia: From Chinggis Khaan to ASEM

by Dr Sebastian Bersick

On 23<sup>rd</sup> November, the European Institute for Asian Studies (EIAS) hosted a unique opportunity to reflect upon EU-Mongolia relations. The meeting discussed Mongolia's recent development and its membership of the Asia-Europe Meeting (ASEM). Drawing lessons from Chinggis Khaan's approach to integration, the meeting stressed the importance of bilateral co-operation between the EU and Mongolia as well as the value of multilateral co-operation within ASEM.

Professor Jigjid Boldbataar, National University of Mongolia, presented the background to Mongolia's role in the world emphasising that Chinggis Khaan had been the "creator and maker of the modern world" who "connected the Orient and the Occident with a myriad of political, economic and cultural ties". Mr Dorjjugder Munkh-Ochir, Senior Research Fellow, Institute for Strategic Studies, Ulaanbaatar, noted that a contemporary assessment of Chinggis Khaan would stress the role national pride and values will play during Mongolia's participation in ASEM.

Mr Munkh-Ochir outlined four main findings of Prof Boldbataar's research. Firstly, the deep impact that the Great Mongolian Empire has left on the political scene of the medieval world has been carried into modernity. Secondly, the Mongol Empire had a pioneering impact on international relations and the balance of power. Thirdly, by linking the East with the West *via* trade and commercial ties, the Mongol Empire gave an important impetus to the world economy. Fourthly, the Mongol Empire contributed to the emerging global culture because it pioneered cultural interaction and exchange between the West and the East.

H.E. (Ret'd) Ishtsog Ochirbal, highlighted the historical context that had helped shape contemporary Mongolian internal and external political relations. In 1992, Mongolia adopted a new Constitution, democratic reforms and introduced a pluralistic multi-party system. As a result Mongolia's foreign policy underwent fundamental changes, particularly regarding China and Russia. In this new strategic set-up, Mongolia has a particular interest to "strengthen its position in Asia and secure a constructive role in the political and economic integration process in the region". Mongolia's relations with the EU were of "strategically vital significance". Mongolia's interest in ASEM seeks to promote Euro-Asian integration and co-operation, to promote multilateral co-operation processes in the Asia-Pacific region and to provide Mongolia with more opportunities to engage in global affairs.

Dr Frank Schmiedel, Desk Officer Mongolia, European Commission, pointed out that when the EU established diplomatic relations with Mongolia in 1989, the focus of the relationship was mainly on development co-operation and humanitarian assistance. Since then, economic and investment opportunities have become more important to both sides. In 2005, Mongolia became eligible for almost duty free access for most of its exports and in 2006 the European Bank for Reconstruction and Development opened an office in Ulaanbaatar. Currently, the EU is working on a €9m project for the Mongolian meat sector to help increase the quality of its products and make them more competitive internationally. A new Country Strategy for Mongolia that will cover the years from 2007-2013 is under preparation.

H.E. Sodov Onon, Head of Mission of Mongolia to the EU, emphasised the importance of the recent opening of the EU Technical Co-operation Office in Ulaanbaatar and of the June 2006 EU Troika visit. She pointed out that from the view of the Mongolian government, the future development of EU-Mongolia relations would hopefully bring about a new Resolution of the European Parliament on Mongolia, the granting of market economy status to Mongolia and the start of negotiations on a Partnership and Co-operation Agreement.

H.E. Hanna Lehtinen, Finnish Foreign Ministry and representative of the Presidency of the Council of the EU, presented an overview of the recent ASEM Summit in Helsinki and stressed the inter-regional nature of the process. ASEM has the potential to "make a quite substantial impact" on the global level. At Helsinki, Declarations were adopted on Climate Change and on the Future of ASEM. The summit also agreed to invite Mongolia, India, Pakistan and the ASEAN Secretariat to become members in 2008. The ASEM Summit has deepened and widened the overall process, she said, making it "more powerful and stronger than ever". Consequently, ASEM will not only provide an opportunity to strengthen the trade links between Europe and Asia but it will also facilitate identity building processes in Asia.

Mr Geoffrey Barrett, ASEM Advisor, European Commission, noted that Mongolia's membership of ASEM represents an "important development in Mongolia's external relations options". The government needs to appoint a representative to the ASEM Senior Officials Meeting due to take place at the end of January 2007 in Berlin. ASEM has an important capacity to "really steer the international agenda". If the member governments of ASEM chose to push a particular agenda, be it climate change, the social dimension of globalisation or the promotion of inter-cultural and inter-faith dialogue, ASEM could make a vital difference. However, this potential remains an opportunity "waiting to be taken".



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## Question and Answers

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Dr Willem van der Geest, EIAS Director, wondered what significance Mongolia attached to the Shanghai Co-operation Organisation (SCO) and the chances for a diversification of Mongolia's trade away from its dependence on China. H.E. Ochirbal noted Mongolia's role as an Observer to the SCO and the expectation that the grouping will play a "vital role maintaining peace and stability". Mongolia would not "rush" to become a member due to its "difficult position" between China and Russia. As regards diversification of its trade, Ambassador Onon replied that there is a great potential in diversifying export products, for example with the help of the new EU's project on livestock.

Daniel Guyader, European Commission, asked for an assessment of the future of the bilateral relations with China and Russia and the role of Europe as a counterbalance. In reply, Ambassador Ochirbal called both bilateral relationships the "most vital questions for Mongolia" and stressed that the foreign policy strategy has developed a special concept that allows Mongolia to keep "balanced good neighbourly relations" with both Russia and China. The "Third Neighbour" concept is very important because it can provide help "in case of a crisis situation" in the region.

Mr Munkh-Ochir pointed out that Europe is "politically" important to Mongolia because the EU can provide expertise and help diversify Mongolia's trade. Within this strategic framework "Europe is essential" as a further component of Mongolia's Western orientation and the Third Neighbour concept. Ambassador Ochirbal noted that some analysts view the USA as "the only solid guarantee of Mongolia's independence" while others conceive that "all developed Eastern and Western countries would support Mongolia if a crisis occurred. President Bush, during his visit to Mongolia this year, stated that the America will be a Third Neighbour of Mongolia.

Replying to Dick Gupwell, EIAS Secretary General, regarding relations between those living in Inner and Outer Mongolia, Professor Boldbataar stated that the population of Mongolia today constitutes 2.7m people. An estimated 3m ethnic Mongols live in China. If those people of ethnic origin in Russia, in Afghanistan and in Northern India are added "the Mongol world might be around 9-10m people". Professor Boldbataar referred to a concern that the increasing cultural exchange between Inner Mongolia and (Outer) Mongolia "allows for more opportunity for Chinese penetration and an attempt to gain influence in Mongolia" possibly challenging "demographic security". Closing the meeting, H.E. Onon stated Mongolia wanted to be involved in economic and political co-operation and integration processes in the Asia-Pacific region as well as in the inter-regional link to Europe that ASEM will provide. ■

## The challenge of corporate social responsibility in India

by John Quigley

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The European Institute for Asian Studies (EIAS), on 29<sup>th</sup> November, held a lunch briefing with Dr C. S. Venkata Ratnam on the challenges of corporate social responsibility (CSR) in India. Dr Ratnam is the Director of the International Management Institute (IMI) in New Delhi and told the meeting that contrary to widespread perceptions, CSR benefits a company more than it costs. The meeting was chaired by Joern Keck, Administrative Board, EIAS.

Dr Ratnam said the concept of CSR had different meanings depending on the stakeholder and that depending on the specific situation of the enterprises expectations can also vary. A CSR project can begin in response to a crisis or adverse publicity that a company may suffer. The motive for launching CSR can vary between philanthropy or notions of corporate citizenship. In India, over time, the expectations of the public has grown enormously with demands focussing on poverty alleviation, tackling unemployment, fighting inequality or forcing companies to take affirmative action.

The historical driver of CSR has been philanthropy or a sense of ethics. After the Second World War, a variety of national and international regulations arose through bodies such as the International Labour Organisation (ILO) emphasising the need for an active social policy for transnational companies (TNC's). This additional driver, international institutions, has relevance for India through the work of the ILO, the OECD, Socially Responsible Investment (SRI), the SA8000 Social Accountability scheme and through the work of the UN Commission on Human Rights which tackled the human rights responsibilities of TNC's.

In India, some public sector companies can spend up to 5% of their profits on CSR activities. Pressure groups have been quite successful in inducing companies to fund CSR schemes, even to the point of using kidnapping as a tactic! Forms of CSR differ according to the country or region. In Europe, for example, notions of CSR probably developed out of the Church and a sense of ethics. In India, CSR has evolved to encompass employees, customers, stakeholders and notions of sustainable development or corporate citizenship. In transnational companies, the approach to CSR typically emerges from one of three elements including a decentralised strategy (which might examine human rights), a centralised strategy (which would be company-wide) or a globally integrated strategy (which would include Coca Cola or oil companies - where local actions can impinge globally).



Many large companies enter into CSR through acts of philanthropy including, for example, Bill Gates or Warren Buffet. Often, for such companies, the tax advantages are attractive or it may merely be a clever way to retain control of resources. India has been a major beneficiary from the Gates Foundation, particularly in health care. One of the fall outs from the Enron scandal has been that in India individuals have been reluctant to accept directorships of companies.

From the perspective of the employee, CSR has been hugely important in India. For example, after 1945, TATA implemented social welfare provisions for its employees that have since become the legislative norm. Equally, when companies announce they will reduce the number of employees, the workers can be fearful that they benefits they have accrued will be lost. While India has a large comparative demographic advantage with substantial numbers of graduate engineers, for example, probably only one third are actually employable. There is also concern from employees who wonder what would happen to the welfare ethos if an Indian company took control of a European firm.

From the perspective of the customer, CSR initiatives can relate to issues of product quality. For example, Sony recently recalled, on a global basis, batteries it used in Dell computers. In Japan, allegations that a particular form of packaging promoted cancer equally led to huge product safety concerns. The last 15 years has witnessed substantial developments in the area of consumer rights. The Indian Supreme Court has declared that it would be better to lose 1000's of jobs in order to protect the health of millions through cleaner air and a better environment.

From the perspective of stakeholders in the community, the bigger the company the greater the effort should be to protect the employees or the environment. There is some recognition that it would be hard for smaller companies to undertake CSR initiatives at that kind of level. Communities can pressure companies to provide and improve civic amenities. One scheme, the Provision of Urban Amenities in Rural Areas (PURA) aims to prevent unnecessary urbanisation and help tackle migration from rural areas. Larger companies might also be interested in providing arts and culture activities as a service to the community as a measure to protect local culture. Some companies have encouraged skilled employees to teach in a local community.

One of the arguments against CSR has been that it lowers company profits but the IMI has shown that many companies say the benefits outweigh the costs. Another argument has come from some employees who have been hesitant to demand more CSR, seeing a trade-off between CSR spending and better employee welfare provision - although these would be in a minority.

Bo Jonsson, Administrative Board, EIAS, acted as Discussant, noting the optimistic view of CSR in India that had been outlined but questioned what concept of CSR had been presented. There can be different concepts between countries or even within a specific business sector. Companies can have a relationship to the local community without necessarily calling it CSR. EIAS, Mr Jonsson said, wants to broaden the research focus between the EU and India on CSR in order to help benefit business.

Case studies examining current practice are important but CSR should also be part of management training. Shareholders will have to be convinced of the value of CSR when management is under pressure to deliver profits. To what extent would the Indian trade union movement be strong enough to protect workers against any aggressive action by companies seeking to divest themselves of their social responsibility to employees. Would unions in India be capable of providing nationwide action at the policy level as the implementation of legislation is severely lacking in India and the inspection regime system is an embarrassment. This failure also lowers public expectations of what can be achieved.

### **Questions and Comments**

David Doyle, Head of EU Parliamentary Affairs, ACCA, said companies are sometimes sceptical about what CSR can actually deliver. CSR activities should always remain voluntary because it can be said to contribute to a decline in profits and increase the burden on business. Nevertheless, the notions of CSR and shareholder value are not incompatible, with some shareholders possibly looking to invest in those companies that promote CSR.

Generally, Mr Doyle said, more research needs to be undertaken to understand the link between investment decisions and CSR policies. No shareholder will invest in a company that might place the share price in jeopardy by unwise commercial decisions or actions. Probably, companies in India will adopt more CSR objectives only when the government liberalises the financial sector to international firms.

Georg Matzner, EuropeAid, European Commission, thought CSR should not be understood as a mere risk mitigation measure. Indeed, while a company may take a long-term view of value, investors typically do not. Where the private sector assumes some of the functions normally associated with the State, such as energy or water provision, what could be the impact if the company pulls out of a district or collapses altogether. There is also the problem of donor co-ordination, if international institutions, companies and the State are all involved in improving the welfare of a particular sector of district.



Tom Dodd, DG Enterprise, European Commission, stated that within the Commission the understanding was that CSR was voluntary and therefore should not be regulated. CSR was something which companies undertook above the minimum legal requirement for their operation. Interestingly, the role of philanthropy seemed higher in India than in Europe. However, it would be better if companies behaved responsibly throughout the business cycle rather than just paying out after a crisis.

Kate Upshon, DG RELEX, European Commission, wondered whether there might be a role for CSR in tackling caste-based discrimination in employment policies in India. Dick Gupwell, Secretary General, EIAS, noted that trade unions in India no longer liked to be closely associated with a particular political party - did this mean that the unions were moving to integrate with one another.

### ***The Speaker in Reply***

Dr Ratnam said a legal obligation on companies to act in a particular way should not be confused with CSR activities. Social responsibility should be about companies having a choice. CSR will need a long-term perspective if it is to have any major beneficial impact in society. The perceptions of the public concerning business is important. The example of the unlawful appropriations of Indian companies in Africa highlighted the belief in the community that the companies were exploiting the local population.

Another example is the lack of development in North-East India. Companies from Bengal make large profits by operating in Assam and repatriating the money. This does nothing for the prosperity of the local community and places into question the long-term viability of such a business model. CSR also demonstrates that there possibly needs to be a control on financial capital and the liberalisation of the financial markets. The ability of foreign companies to close Indian subsidiaries conflicts with the stringent rules imposed on domestic companies. And, State administrations may be very reluctant to tackle problems with foreign companies, as they threaten to pull out.

The problem of the lower castes in India is contentious. In Parliament, 25% of seats are reserved for them. In the private sector, if companies do not act soon to help include them, Parliament may choose to introduce legislation to tackle the employment issue. Trade Unions, in the private sector, are very weak in India. There is growing tension between political parties and the unions, even amongst the traditionally left-leaning parties. CSR activities should be considered tax deductible but there is a potential problem with the distribution of tax revenue, as the government rarely spends tax for what is collected. ■

## Thailand after the coup: Challenges and prospects

by John Quigley

On 5<sup>th</sup> December, Thailand's Deputy Foreign Minister, Mr Sawanit Kongsiri, told a lunch briefing of the European Institute for Asian Studies (EIAS) that Thailand, after the coup, should be classed as an emerging democracy and that a planned Constitution would be put to a popular referendum. The meeting was chaired by Dr Willem van der Geest, Director, EIAS.

Thailand and the EU, Mr Kongsiri said, shared good relations, particularly at the region to region level between the EU and the Association of South-East Asian Nations (ASEAN), including under the *chapeau* of the Asia-Europe Meeting (ASEM). The coup on 19<sup>th</sup> September 2006 probably came as a surprise to many people considering that Thailand's last coup was some 15 years ago. While ordinary people are generally not interested in politics, it was clear that society in Bangkok was divided and that neither side was prepared to make concessions.

The then government of Prime Minister Thaksin was bussing people in from the countryside, his traditional support base, in order to foment trouble with the opposition parties. Matters came to a head when the Prime Minister cancelled a debate in Parliament on the Shin Corporation shares issue and then subsequently dissolved Parliament itself. The coup decision was made, Mr Kongsiri said, on the spur of the moment and thus without more than 2-4 days planning. Indeed, opinion within the military was divided. It was noted that the checks and balances in a parliamentary democracy including, for example, the Election Commission and the Anti-Corruption Commission were stacked with Thaksin appointees, hampering their work.

While personally against the idea of a *coup d'état*, Mr Kongsiri said it had been accepted by the people who came onto the streets in great numbers. A new government has been formed and will work hard to strengthen democracy in Thailand by supporting the rule of law, improving the independent oversight commissions in order that, in the future, democratic rule will become so ingrained that it will be difficult to discard. The new government is in the process of drawing up a new Constitution, convening a forum of 200 people from all sectors of society to help draft it. This new test will then be put to the people in a referendum.

Regarding foreign policy, the government will largely continue with current policies, save that the system



should no longer serve only the few. The economy does not appear to have been affected by the coup at all. Under the Social and Development Plan, for 2006, growth in Gross Domestic Product (GDP) is forecast at 6%. Interest rates are not high and inflation is under control so the government will aim for sustainable growth rather than just high growth. Exports were growing and tourism had recovered since the December 2004 *tsunami*.

In Southern Thailand, three provinces continue to suffer from militancy with reports of killings. Human rights Watxh has criticised the insurgents from their indiscriminate killings. Unfortunately, the previous government did not make sufficient effort to resolve the problem instead using confrontational policies. The new government wants national reconciliation with a consensus solution rather than one imposed from Bangkok. The Southern Border Co-ordination Centre has been restored and will be responsible for the development of the southern provinces and for restoring law and order. The Centre will be assisted by an internal military command aiming to maintain security and provide a safe environment for development work. The government will try to accommodate the views of the rebels, short of independence. By providing better justice, the government hopes to help address their grievances.

### **Questions and Comments**

Thomas Gnocchi, European Commission, wondered about the process of appointing members to an assembly to help draft a new Constitution. The existing 1997 Constitution has been seen as a fairly solid document so how much of it will remain. Why has the government allowed such a long timeframe for the drafting process, especially if the assembly is merely seeking to provide some minor revisions to the existing text. Xavier Nuttin, European Parliament, noted that the new government had pledged to maintain existing foreign policy commitments. The issue of Burma would probably be raised at a future United Nations Security Council meeting. In light of the evolution of ASEAN's policy towards Burma, where did the Thai government now stand.

Susann Mende, GTZ, wondered whether the government was now planning a democratisation programme for rural areas once considered Thaksin's stronghold. Have Thaksin's supporters been convinced that the coup was a good idea. Bo Jonsson, EIAS Administrative Board, wondered what kind of initiatives would the government undertake to help promote corporate social responsibility (CSR) and would the government be interested in exchanges of best practice models. There should be a role for the international trade union movement to help monitor the performance of domestic trade unions regarding distributive justice.

Ray Schonfeld, Single Market Ventures, said Thailand was very active in efforts to develop a new international standard for CSR. The coup seemed to have consequences for press freedom, normally one of the most free countries in South-East Asia, with only the *Straits Times* of Singapore criticising the military. William Seddon Brown, EIAS Administrative Board, wondered what the reaction of the private sector had been to the coup and what steps would the planned Constitution take to help promote business confidence. Dr Sebastian Bersick, EIAS Senior Research Fellow, questioned whether the lack of legitimacy of the new government would affect the process of the proposed ASEAN Charter. Would ASEAN return to the principle of non-interference or develop the notion of flexible interference in the internal affairs of a State.

### **The Speaker in Reply**

Mr Kongsiri said the government had left the working practice in drafting the new Constitution up to the committee of 200 people, which would probably be more democratic than in the past. Perhaps some of the clauses of the 1997 Constitution are not appropriate for a developing country like Thailand. By December 2007, there will be free and fair elections. The government is aware of the importance to Thailand of its neighbours and had tried to develop relations with Myanmar - however there are realities to be addressed. There are 40,000 displaced people on the Thai-Myanmar border and there are over 100,000 Burmese workers inside Thailand. It is unlikely that Bangkok now has an intimate relationship with Myanmar.

Undoubtedly, one of the attractions of the Thai Rak Thai party was its spending in rural areas. The former government had tried to promote development by asking villages and districts to focus on one product. And there is the one district-one scholarship scheme to help promote educational opportunities. The government wants to continue the programme of rural development but will not bankrupt the country.

CSR has been high on the agenda for some time. A certification of company directors was developed with Australian assistance. There is some progress with, for example, reduction in the use of child labour. Regarding press freedom, any controls placed on broadcasting or radio services during the coup are now lifted, Thailand has no political prisoners, there is no censorship and the government has heeded the EU's statement criticising the coup. The government has met with foreign Chambers of Commerce to reassure the business sector that Thailand will maintain an open economy. The principle of non-interference will continue to be important to ASEAN but there is a dilemma between principle and reality, when you consider that Myanmar controls the tap on drugs trafficking and migration - issues that make huge demands on Thailand. ■



## EU-Indonesia Day: Pluralism and Democracy

On 7<sup>th</sup> December 2006, the European Commission together with the European Institute for Asian Studies (EIAS) organised a conference in Brussels aimed at addressing the challenges facing Indonesia as an emerging democracy and the prospects for EU-Indonesia relations in the coming years. The 'EU-Indonesia Day' constituted a valuable opportunity to discuss the issues of protecting and promoting pluralism and democracy.

Opening the conference, Benita Ferrero-Waldner, Commissioner for External Relations said that the day's theme of 'Pluralism and Democracy' went to the 'heart of the debate about what it means to be a State in the 21<sup>st</sup> Century'. Building and sustaining democracy required constant vigilance in order to ensure that fundamental values and rights were protected and promoted. Tolerance and respect were watchwords in a highly multi-cultural and multi-ethnic nation. Democracy provided a mechanism by which differences are resolved peacefully, hence Indonesia was ideally placed to promote virtues of pluralism and democracy. The EU remains committed, in particular through its forthcoming Partnership and Co-operation Agreement, to maintain its support for the Indonesian government's efforts.

In his keynote address, Din Syamsuddin, Chairman of Muhammadiyah, Indonesia's largest Muslim social and educational organisation, explained that democracy was not new to Indonesia – the country adopted a parliamentary democracy at Independence. However, since 1957, democracy had been on a long 'vacation' to 1998, with the Sukarno and Suharto governments imposing authoritarian rule. The 2005 election of President Susilo Bambang Yudhoyono has confirmed the Indonesia people's will to keep the track of *Reformasi* that had progressively been abandoned.

Indonesia's diversity – in terms of religion, ethnicity and ideology – remains its defining feature. Of the population of 250 millions, Muslims serve as a majority with approx. 88%, followed by 7% Protestants, 2,5% Catholics, 1,5% Hinduism, and 1% others. However, Indonesia's 1945 Constitution is not based on *Shari'a* but on *Pancasila*, a form of national ideology established as official State foundation.

### **Religion and politics**

Amongst the most significant achievements of the post-Suharto governments is the amendment of the Constitution aimed at improving human rights provisions, notably a very liberal provision regarding freedom of religion. Whilst the elections of 2004 have

been regarded as the culmination of Indonesia's experiment of democracy and as an enlightening example of the compatibility of Islam with democratic values, the current situation in Indonesia is marred by the rise of Islamic radicalisation. Radical conservative movements project a strict and exclusive *Shari'a* mindset, with an anti-pluralism agenda; facilitating gender inequality and domestication of women. Facing this situation, moderate and progressive Indonesian Muslims, as well as non-Muslim communities, challenge the Islamic resurgence agenda.

Muhammadiyah and Nahdhatul Ulama are the two largest Islamic organisations, both committed to a form of inclusive and modern theology. They play a considerable role as a moderating force, and also as a moral force striving for a betterment of the social situation. The trend in Indonesian Islam towards a stronger spiritual orientation is evinced notably through the rise of religious gatherings like *majelis taklim* or *pengajian* (religious circle) and the emphasis of Islamic symbolism and practice in daily life. The Islamic 'mainstream' aims to strike a balance between spiritualism and political activism on the one hand, and between spiritualism and rationalism on the other.

Following the democratic transition, Indonesia adopted a policy of decentralisation to improve local autonomy. Today, *Shari'a* is at the heart of the politics of autonomy granted by Jakarta. Islamic political groups took advantage of decentralisation to promote the enforcement of *Shari'a* at the level through local bylaws and regulations. From a rule of law perspective, *Shari'a* based regulations and bylaws are extremely problematic. Indonesia has explicitly rejected the formalisation of *Shari'a* Islam in its Constitution.

The inclusion of *Shari'a* within local regulations concern mainly daily life obligations, such as the allocation of time for religious education at school, the collection and distribution of *zakat*, the performance of prayers and recitation of *Qur'an*. However, some regulations are especially directed towards women, violating human rights.

Ms Kusama MP observed that among the local regulations adopted in 2006, 27 were concerned with issues regarding morality and religion, 14 were discriminating against women and only 3 laws – adopted at the village level, not even district level – were supporting women's status. The discrimination ranges from differentiation measures to limitation, exclusion or alienation policies. *Shari'a* police/militia, which often holds more power than the police itself, constitutes a particular source of concern. There is a need for the Indonesian State to firmly use its constitutional authority to re-examine, review or revoke *Shari'a* bylaws and regulations which contradict the Constitution and/or international conventions.



## ***Democracy and conflict resolution***

Mr Morin MP argued that Papua needed to be treated as a 'normal' province. The resolution of the conflict between the central government and the people of West Papua would need to be achieved through dialogue. Stopping a conflict through police and military action was not the same as solving a conflict. Endless violation of human rights had occurred and economic marginalisation had continued, while Papua's natural resource wealth had been exploited ruthlessly. The principle problem was not separatism, but rather one of lawlessness. Resolving the Papua conflict means (i) promoting economic growth; and (ii) reform the military, the police and the judiciary. This should be found through a dialogue process, while a process of truth, justice and reconciliation between the Papuans and Jakarta should take place separately.

John Quigley, Editor, *EurAsia Bulletin*, focused on the institutional aspect of the EU and ASEAN's involvement in the resolution to the Aceh conflict. The basis for EU involvement had been laid by the peace agreement between the Indonesian Government and the Free Aceh Movement, reached through the mediation of a former Finnish President. The EU-ASEAN Aceh Monitoring Mission had performed a reconciliatory role, contributed to the reduction of mistrust between the parties and effected a public role in weapons disarmament. Within the framework of the EU's ESDP, the Mission's experience provided a blue-print of a new instrument for the EU's involvement with security in Asia, consistent with its 2003 Security Strategy. Similar monitoring missions could be deployed elsewhere in South-East Asia, if required.

Dr Gerry van Klinken, Research Fellow, Royal Dutch Institute of South-East Asia and Caribbean Studies, analysed the relationship between communal conflict and decentralisation. Communal conflicts can be explained by grievances and also by mobilisation, with organisations activating people. In Indonesia, urban organisations run by middle class notables including religious leaders, parliamentarians, academics, NGO leaders etc, pursue defensive as well as offensive mobilisation strategies using identity politics. Local and parliamentary elections are key moments, as well as changes in administrative boundaries, splitting up provinces and budget decentralisation. Smaller towns, with high public employment and characterised by ethnic and religious clientelist support networks have become conflict zones. Conflicts need to be addressed through political solutions, better rules and governance, learning citizenship and democratic practices.

Although violence in Aceh had stopped, after 30 years, Mr Hadi Faisal, Executive Director, Aceh Coalition of Human Rights NGOs, observed that peace still had a long way to go. After the completion of the Aceh monitoring mission, who would continue to mediate?

Human right issues had not been dealt with progressively and the new code would deal with new violations only, but what about past abuses? Mr Aguswandi noted that Aceh may be considered a success story, but the present situation was best described as 'a transition towards peace'. The EU could not just leave Aceh, it should continue its support and promote human rights and (re)-integration.

## ***Indonesia in the new East Asia context***

According to Sri Nuryanti, Executive Director, Ridep Institute, Indonesia recovered rather quickly from the East Asian financial crisis of 1997-98, but it is still combating problems of poverty and unemployment. For continued success, Indonesia must set clear priorities and targets for what it wants to accomplish. Indonesia should learn from Japan, Korea, Taiwan and Hong Kong who adopted successful models of development by defining and building on their competitive advantages. China's rapid economic growth holds several lessons for Indonesia in terms of building up infrastructure, reforming bureaucracy, addressing corruption, improving the education system and establishing economic zones.

Georgios Antoniou, European Commission, stated that Asia was at a crossroads. There are two possible scenarios for the region's integration and co-operation: (1) It will become a loosely integrated union influenced and led by one or two dominant powers; or (2) East Asia will follow a model of balanced integration bringing stability and prosperity throughout the region. It was the EU's hope that the latter will prevail.

Dr Sebastian Bersick, EIAS Senior Research Fellow, noted that new patterns of integration and co-operation in East Asia are emerging and being managed by institutions at domestic, intra- and inter-regional levels. Two different broad trends of regionalisation processes can be identified: (1) among Asian countries (ASEAN, ASEAN+3, EAS) and (2) among Asian and non-Asian actors (APEC). The new patterns of interdependences need to be managed and require the building up of institutions at the regional, inter-regional and global levels. The EU response should be to facilitate these trends, in order to perform regional and global governance functions. Ms Kusuma MP noted that Indonesia has the potential to play an important role in regional integration processes. Indonesia can serve as a model of how to transfer an authoritarian regime into a democracy with a flourishing civil society. With the EU, Indonesia can push for democratisation in Myanmar, for example. Furthermore, Indonesia can play a more active role as a mediator in North Korean and/or Iranian talks. ■

This report was prepared by Dr Willem van der Geest, Director & Signe Bruun-Jensen, Researcher, EIAS, and Valérie van Goethem, Consultant, CECOFORMA.



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# China and the Dutch economy

by John Quigley

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The European Institute for Asian Studies (EIAS), on 19<sup>th</sup> December, hosted a lunch briefing on the impact of China's economic growth on the economy of the Netherlands. A study on the impact of globalisation and the emergence of China as a force in the Dutch economy, identified that, in 2002, 9.5% of total European imports came from China and the share to the Netherlands and the EU is rising. The meeting was chaired by EIAS Director, Dr Willem van der Geest.

Dr Henri de Groot, Department of Spatial Economics, Vrije Universiteit Amsterdam, said the study examined the impact of globalisation and the emergence of China to the Dutch economy focussing on restructuring efforts, income distribution and the labour market. Between 1980-2005, China's economic growth has been remarkable, averaging approximately 10% *per annum*. China's share of world gross domestic product (GDP) has risen from 4% in 1980 to 16% in 2005. It is suggested that capital accumulation may account for 50% of China's growth. The other half probably came from improvements in labour productivity and access to better technology.

Netherlands-China trade rates have risen rapidly, particularly since the 1990's. China has emerged as the fourth largest supplier to the Dutch economy, although this is partly explained by re-exports through Rotterdam port. China's rapid development has given rise to some uneasy feelings from some sectors worried about unemployment and restructuring in the economy. Such reactions could perhaps be linked to fears about globalisation and European integration.

Using David Ricardo's theory of comparative advantage, the study questioned the low-skilled worker sector and the level of State subsidy as elements fuelling Chinese growth. Using of revealed comparative advantage (RCA), the study analysed the exports of certain industries of a certain region relative to total exports to try and identify whether a particular sector in the Netherlands is exporting more than the global average. A positive answer would have identified an RCA for Holland.

The study found that, in 2000, the Netherlands had a relatively high RCA in chemicals, agriculture and food products whereas China had a high RCA in textiles and clothing and in primary forms of plastic. Thus, the Dutch and Chinese RCA's are complementary and neither economy should suffer from higher levels of trade. Regarding other EU Member States, the picture seemed to be different. The study concluded that China has a RCA in low skilled labour products such as textiles, shoes and toys and for those consumer

electronics assembled in China. However, the size of China's economy makes it different from the Asian tiger economies of the 1960's or 1970's. However, for the moment, China's exports to the Netherlands are not very important for Dutch producers.

Dr Wim Suyker, Bureau for Economic Policy Analysis, (CPB) Netherlands, said the study revealed that Dutch foreign direct investment (FDI) in China was very limited, reaching only 0.3% of total Dutch FDI in 2005. For those Dutch companies that do invest in China the emphasis is more to be present on the local market than to take advantage of low wage costs.

China's economic growth has had a positive effect for the Dutch economy. Cheaper imports from China have lowered prices in the Netherlands and reduced inflation. Domestically, some 23,000 jobs may be involved in exports to China and the re-export of Chinese goods to Belgium and Germany. This has had no noticeable impact on the speed of the labour market or on income distribution.

The changes in Dutch employment between 1995-2005 have various causes including differences in productivity, in demand, in deregulation and due to international competition. The study revealed that most sectoral differences in employment change are due to changes in productivity. The five sectors recording the greatest fall in employment were textiles, defence, basic chemicals, utilities and in publishing/printing.

Using the WorldScan Model, the study suggests that EU exports to China will rise by 5-10% annually up to 2040, implying a quadrupling of exports. As China's markets open up, there will be increasing opportunities for the Dutch services sector. There would be no reason for major policy shifts by the Dutch government, it should refrain from trying to halt unavoidable adjustments and should not blame China for the harsh decisions that may be necessary.

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## Questions and Comments

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David Fouquet, Asia-Europe Project, stated that the statistics and conclusions from the study did not sound very convincing. Statistics could surely have been more up-to-date and included figures on the balance of trade. The study might also have benefited from examining several of Holland's flagship companies, such as Philips, who actively invest in China. Dr Frank Schmiedel, European Commission, noted the emphasis that suggested that China's growth could be explained by a mixture of capital accumulation and improvements in productivity. However, would this model be sustainable when GDP growth is averaging 10% annually. Discussion of comparative advantage should examine the possibilities for intra-industry trade, where there may be scale advantages to production.

Bo Jonsson, Member of EIAS Administrative Board, said the study did not seem to refer to currency values, which would also be a source of comparative advantage. Regarding company relocation and outsourcing, how would the study recommend the integration of decision making at the company level. Jan Willem Blankert, European Commission, wondered about the rate of job losses and that the role cheap inputs played for certain industries was not mentioned. Regarding the concern about real wage rates in China, the study seemed to suggest that income distribution had not changed; was there evidence that capital benefits the economy more than labour productivity.

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### ***The Speakers in Reply***

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In reply, Dr de Groot stated that the data used for the study referred to 2002, which was the latest available. However, the study looked at the extent to which the nature of comparative advantage had changed over a period of twenty years. The fact that it had changed little over that long period suggested that it would be unlikely to change since 2002. The Netherlands has a significant trade deficit with China reflecting a dynamism in trade relations with Asia countries, whereby the Netherlands now trades less with Japan.

The study did calculate the possible rate of loss of jobs in the Dutch economy due to China's rise, suggesting almost 12,000. Any proposal to regain those particular jobs would have to consider wage rates comparable to China's rates. It would be hard to claim that globalisation was the factor explaining the rate of job loss when Dutch unemployment is 6%, which is basically structural unemployment. In terms of income distribution, it is possible that real wages are decreasing, leaving workers worse off. As China integrates more into the world economy, it will be possible to assess the true level of State support to industry and the nature of this comparative advantage.

Dr Suyker in reply noted that in consideration of stocks of Dutch foreign direct investment in China, the manufacturing and services sectors are almost as equally important, in contrast to the situation of the 1990's. Including flagship industries in any assessment increases the risk that just one company might bias the outcome of the study and, therefore, the analysis examined the macro level. It would also be unfortunate to derive policy analysis based on just one flagship company. At the macro level, it is possible to see that the experiences of all investors are not positive and that several have in fact withdrawn from China. The Renminbi may be undervalued by up to 25% according to the study's assessment. Chinese markets are very flexible, so if domestic costs adjust rapidly because of any appreciation of the currency, the affect on competitiveness would have to consider the rate of inflation. ■

## Rudolfo Severino in search of an ASEAN Community

by Dick Gupwell

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Rudolfo Severino has recently completed a book entitled, *South-East Asia in Search of an ASEAN Community*. He notes that, in the forty years since its inception, ASEAN has not attained a level of integration comparable to that of the European Union, despite the fact that the Bangkok Declaration, of 8<sup>th</sup> August 1967, was signed only ten years after the Treaty of Rome. Nevertheless, the ASEAN partners have made some remarkable achievements, particularly in bringing peace and stability to their region.

Rudolfo Severino was the Secretary General of ASEAN between 1998 and 2002. He was also the Philippines' Ambassador in Malaysia, from 1989 to 1992. He reminds his readers of the situation pertaining in South-East Asia before 1967. Four of the five founding members had recently emerged from colonial rule. Indonesia objected to the establishment of Malaysia, created in 1963 by the federation of Malaya with Sarawak and North Borneo. The Philippines laid claim to North Borneo (Sabah). Singapore had separated from Malaysia in 1965. The Vietnam War was raging and China was being convulsed by the Cultural Revolution and railing against the non-communist regimes of South-East Asia.

The five founder members had widely differing international outlooks. Indonesia had hosted the 1955 Bandung Conference, which established the Non-Aligned Movement. Thailand and the Philippines had become members of the Western-oriented South-East Asia Treaty Organisation (SEATO). Malaysia and Singapore were linked defensively to Britain.

Mr Severino has based his work on interviews with many of the actors, who determined the evolution of ASEAN over the past four decades. The main part of his book consists of an analysis of six main themes: the nature and origins of the "ASEAN Way"; the question of ASEAN membership; the issue of non-interference; ASEAN's role in regional security; integrating the ASEAN regional economy; and ASEAN's relations with the wider world. Each chapter pays scrupulous attention to both detail and chronology and yet is full of interesting anecdote.

For Mr Severino, the motivations of the founding member states were "their determination not to allow their disputes to develop into conflict", their resolve to work together and their "intention to avoid getting dragged into the quarrels of the great powers". It was, he says, "a vision of a region free from involvement in the quarrels of the strong".



The five founders eschewed legally binding commitments on the European model, due to mutual suspicions and their wide diversity. Their institutional arrangements consisted merely of an annual meeting of foreign ministers and a Standing Committee composed of the current presiding Foreign Minister and the ASEAN ambassadors accredited to that country. Indeed, ASEAN's first formal agreement came only in 1976, at the time of ASEAN's first Summit meeting in Bali. This was the Treaty of Amity and Co-operation (TAC), committing its members to respect for national sovereignty and territorial integrity, non-interference in others' internal affairs, the rejection of the use or threat of force and the peaceful settlement of disputes.

Only after the 4<sup>th</sup> Summit, in 1992, did meetings of the ASEAN leaders become regular features. Moreover, the ASEAN Secretariat was set up in 1976, in Jakarta, merely as a channel for communications. It was expanded in 1983 and again in 1989 but it was only in 1992 that it was really strengthened, with the Secretary-General being attributed ministerial status and given a major role in the Standing Committee. ASEAN meetings decide matters by consensus and there is no scheme of majority voting.

As regards membership, Mr Severino stresses that the only real criterion is that a country must be part of South-East Asia. There are no political or ideological criteria. The admission of Brunei in 1984 was uncomplicated, after independence from Britain. Vietnam was admitted in 1995, Laos and Burma (Myanmar) followed in 1997 and Cambodia, after a short delay, in 1999. There remains the question of East Timor (independent in 2002), where a consensus in favour of admission is lacking.

ASEAN's principle of non-interference was enshrined in the 1967 Bangkok Declaration, in the 1971 Declaration on the Zone of Peace, Freedom, and Neutrality and the 1976 TAC. He analyses how this principle has been successfully applied, citing the 2000 Chiangmai Initiative on financial monitoring (after the 1997-8 financial crisis), the 2002 ASEAN Agreement on Trans-boundary Haze Pollution, the comprehensive measures taken against SARS (2002-3) and the contributions made by ASEAN countries in restoring order in East Timor (1999). However, he concedes that peer pressure from other ASEAN members has achieved nothing to advance political reform in Myanmar. Indeed, the situation has "got worse".

ASEAN's decision to admit the four new members was impelled by politico-strategic concerns, to heal the divisions resulting from the long wars involving Vietnam, Cambodia and Laos and to ensure that no part of South-East Asia would be subjected to big-power rivalry. Myanmar's situation, sandwiched between India and China, was very significant but doubts were subsequently expressed about the timing.

Turning to regional security, he explains the success achieved by ASEAN's cohesion in reaching a settlement with Vietnam, after its occupation of Cambodia, and paving the way for ASEAN's subsequent enlargement. He stresses how ASEAN resolve was able to modify China's claims in the South China Sea. Tracing the origins of the ASEAN Regional Forum (ARF), set up in 1994, he feels that the ARF could concentrate on non-traditional security problems, including terrorism. He also refers to the first meeting of ASEAN Defence Ministers, in May 2006.

Regarding the integration of ASEAN's regional economy, it was only in 1991 that consideration was given to setting up an ASEAN Free Trade Area. Progress towards AFTA has been patchy but substantial, mostly relating to tariff reduction, and intra-ASEAN trade has not expanded as hoped. In 2002, the ASEAN leaders agreed to move towards an ASEAN Economic Community, by 2020. He then looks at ASEAN's system of Dialogue Partners, of which the European Economic Community was the first in 1972. He analyses the evolution of the ASEAN+3 system (China, Japan and Korea) and the East Asia Summit, inaugurated in 2005.

Asking if the ASEAN Community is for real, Mr Severino looks at the three pillars of an ASEAN Community set out in 2003. For an Economic Community, he wonders if the short deadlines can be achieved within ASEAN's existing mechanisms. As regards achieving a Security Community, the guidelines have been set but it remains to be seen whether ASEAN Ministers will be able to work out the required implementing measures. For a Socio-Economic Community, this was "a hodge-podge of generalities" without specifics, timelines or focus.

In conclusion, he asks, "What kind of future for ASEAN?" There is praise for ASEAN for becoming a region "in which armed conflict is all but unthinkable" and for extending this principle beyond the region. He also praises what has been achieved by AFTA but stresses that ASEAN's current ability to make a reality of regional economic integration is "suspect" because of its total dependence on national decision-making and a weak sense of region. He calls for a further strengthening of the ASEAN Secretariat, a proper dispute-settlement system, an overhaul of the system of financing and a clearer statement of common values.

Rudolfo Severino's book is such a thorough and well-written analysis of the development of ASEAN and its current strengths and weaknesses that it will surely merit periodic updating. It is a most useful textbook for anyone wishing to study ASEAN. It would be helpful if a chronology of the main events were included among the annexes. Also, some analysis of the work of the ASEAN Inter-Parliamentary Organisation could be added, as this is only mentioned in passing. ■