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ASEM IV in Copenhagen Seeks to Establish Identity

by David Fouquet

The fourth Asia-Europe Summit (ASEM) meeting, planned for Copenhagen later this month, will again face its permanent challenge of producing convincing results from what was begun as an informal process in 1996.

The summit of 25 Asian and European countries and the EU Commission was originally conceived as a "top-down" approach. It has been struggling ever since not only to widen its base, but also to cope with the host of other economic and political challenges which have arisen since then.

The cumulative aftershocks of the Asian and international economic crises, and the political and security upheavals, will continue to figure prominently in the discussions of the Summit in Denmark on September 22-24, just as they have in the widening rounds of preliminary meetings since the previous summit in Seoul in 2000. ASEM's constant search for credibility and relevance through increased concrete activities and decisions must also be reconciled with its strong preoccupation to avoid formal institutions and its intangible stated goal of "promoting increased understanding and enhanced co-operation."

The 2000 ASEM in Seoul was heavily influenced by the drama and publicity surrounding the historic steps undertaken by its host, President Kim Dae-jung, to move towards reconciliation and ultimate reunification between North and South Korea, steps which earned him the Nobel Peace Prize. A Seoul Declaration was issued by the international gathering welcoming the steps taken by the two countries as beneficial to international peace. A number of European governments announced plans to normalise diplomatic relations with Pyongyang, so as to help speed up an end to the isolation of the country, although others in Europe continued to insist on further engagement from North Korea, to create confidence about its intentions.

INSIDE THIS ISSUE

The Importance of Brussels

by Malcolm Subhan

India's largest news agency recently dispensed with the services of its Brussels correspondent. It claimed that its subscribers, which include the country's major newspapers, are only sporadically interested in news from Brussels. Some newsrooms even tended to confuse Belgium with the Indian town of Belgaum. For Prof. Harish Kapur, founder of the academic quarterly *World Affairs*, published from New Delhi, "there is a clear diminution of international coverage in the Indian media…and less discussion among elite groups and in the Indian Parliament of what is happening in the world."

This is not quite true. The fact is that there is always room in Indian newspapers for any news item, however trivial its contents, with a Washington, or even San José, Cal., dateline. Mind you, this preference for American over European news is not confined to the Indian media. It is evident throughout Asia. Of course news about Asia is at a discount in much of the European media; it took the threat of a nuclear war between India and Pakistan for the two countries to make it to the front page in Europe. As a publication based in Brussels, we find the Asian indifference to Europe – and more precisely to the 15-nation European Union – as much of a challenge as the European indifference to Asia. It's simply shortsighted of the most populous continent to be indifferent to its richest neighbours, especially when they inhabit the same landmass. And *vice versa*, of course. Brussels counts, as does New Delhi or Beijing or Tokyo – or Washington.

Our aim is to demonstrate the importance of the European Union to Asia, and of Asia to the EU. Of course many business people at both ends of the EurAsian landmass, and in the middle, know this. Trade and investment remain among the strongest ties that bind. Silk and spices are still traded, although today's list includes chips and software. The movement of people still continues, although it is mainly from East to West today, and the numbers are much greater. On the one hand, there is the illegal immigrant, on the other, the IT specialist. Immigration, asylum, labour mobility are therefore subjects we shall be exploring in more detail.

Economics continues to drive the EU-Asia relationship, which is why we plan to increase our coverage of economic issues – those which unite the two sides as much as those which divide them. But we also want to highlight the opportunities offered by trade in high-tech products, on the one hand, and co-operation in scientific research, especially in such areas as IT and biotechnology, on the other. And then there is the environment, energy, transport…Is there a subject which does not concern Europeans as much as Asians, including globalisation itself?

There is politics also. It seemingly rules the world, and has always been the driving force behind the moves for European integration. Now that the EU is well on the way to becoming the European single market, with its own single currency, it must logically start forging a political identity also. A politically strong EU would be welcomed by many Asians, who are uneasy in a uni-polar world, even one in which the United States is the megapower. We plan to cover the EU's hesitant, uncertain, even contradictory moves towards political union, as well as the response of individual Asian countries to these moves.

There are enough reasons for Asians and Europeans to shed their mutual indifference, as we hope to make clear, with the help of decision shapers and makers, actors, and experts from both Europe and Asia. With their help we also plan to cover the developments actually taking place between the EU and regional groupings in Asia, on the one hand, and individual Asian countries on the other. All in all, we hope to replace the present indifference with growing interest. To put Brussels on the Asian map, along side Washington. ■

Editor's Note:

This issue of EurAsia Bulletin marks a change in Editorship. Dick Gupwell, who has now stepped down as Editor, launched the Bulletin some seven years ago. It was born out of his personal conviction that it was high time to raise the profile of relations between the European Union and the mosaic of countries stretching from Afghanistan to Japan. He took on the task of editing the magazine in addition to his responsibilities as EIAS Secretary General. Both readers and the Institute officers and staff wish to thank Dick for his efforts. He will remain a contributor to the magazine.

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But the Seoul summit took place at a time when the parties remained hesitant about discussions on "hard" political and security issues, in sharp contrast to the expectations for the forthcoming Copenhagen session. The preoccupations have varied from summit to summit. The initial 1996 Bangkok summit was largely a formative event, held during a period of economic optimism, while the London summit in 1998 was devoted largely to the ongoing Asian financial and economic crisis, which had erupted just a few months earlier. The broad array of topics to be discussed in Copenhagen should span the three economic, political and social "pillars" of the ASEM process, according to a document recently prepared by the European Commission on the subject. It should also contain the cumulative work of previous meetings and confirm security policy as an ongoing priority theme.

The EU Commission paper, entitled "Unity and Strength in Diversity," and other discussions have also repeatedly underlined the desire and need to seek wider involvement of civil society and social concerns. The European Commission, associated with a number of other external bodies, including the European Institute for Asian Studies, organised, in recent months, a number of preliminary meetings with a broad range of participants from Asia and Europe, to discuss and propose the widening of a "social dimension" to ASEM activities. The Commission and others have suggested that meetings of social or employment affairs ministers could be held. The Danish Government in fact indicated its support during the preparations for ASEM. But different national priorities among the ASEM states have been seen as generally limiting such an involvement with those fitting more naturally into economic or other discussions. However, both the Commission paper and a meeting of ASEM Foreign Ministers in Beijing in June stressed the intention to enlarge involvement in the process to of public, parliamentary and other groups.

As in the case of previous ASEM summits, the Copenhagen version will also be marked by associated meetings of the Asia-Europe Business Council, composed of major companies from both regions, and the ASEM Social Forum, which brings together numerous non-governmental organisations actively interested in subjects to be discussed at the summit. A discussion should also take place on the issue of sustainable financing for the Asia-Europe Foundation, created in Singapore after the first ASEM to promote exchanges and understanding between the two regions.

This would supplement the increasing number of official ASEM groups working on economic, trade and policy issues, to which have been added more recently such topics as the environment and human migration. The EU Commission document also notes that by the time of the Copenhagen meeting, the core ministerial meetings in the ASEM process involving Foreign, Economic and Finance Ministers will have been held twice since the previous Seoul Summit recommended an intensification of these bi-regional contacts, which will again probably dominate the Copenhagen summit.

The EU Commission document on the subject also provides a guide to possible decisions and actions in Copenhagen. For example, it lists concrete results in all areas of ASEM activities, including politics, migration and other legal affairs, economics, trade and social matters, finance, the environment, and people-to-people exchanges.

In the field of international politics, the Commission document expresses a hope for the Summit to "engage in a thorough discussion of the underlying root causes for the spread of international terrorism, paying particular attention to the New Security Issues," such as transnational crime. It also proposes an understanding to use the informal ASEM consultation process before major international meetings, or on such issues as world security efforts in air travel and sea transport. Some of these consultations could be issued as political declarations on global or regional issues, such as terrorism or the Korean Peninsula.

The Commission document also calls for a special retreat session at the Summit, and urges that factual records be kept of these and Foreign Ministers meetings to coordinate actions and events with the outcome of discussions. Foreign Ministers are also urged to reflect on the future management and organisation of ASEM, including the difficult issue of its possible enlargement, and make recommendations for the next summit in Hanoi. It also recommends that participants increase their efforts to increase public visibility, including a public competition for an ASEM logo.

In one such specific high-profile area of co-operation, participants are urged to intensify efforts begun at a ministerial conference in Lanzarote on migration, and other related matters of justice and home affairs, including strategic information sharing and the establishment of networks. The Commission paper also underlines the need for continuing work on terrorism and trafficking in women and children.

"A strong political signal" is urged in the field of economics, trade and social matters, to express "the opinion that the transitory shock of September 11 is diminishing, and that because of policy stimuli, through fiscal policies and the loosening of monetary policies, the business community and financial markets are gaining confidence, which has to be bolstered." An appeal is also launched to confirm that social and employment issues are an integral part of ASEM work. Europeans also are hoping for increased collaboration to assure progress and completion of the World Trade Organisation Doha Development Agenda, and of ASEM’s bilateral work on trade facilitation and investment promotion.

In the financial sector, the EU would also encourage continuing policy dialogues, especially financial and corporate sector reform, to encourage Asia to take maximum advantage of the new European common currency, the euro, and develop action plans for capital movements.In the environmental field the Commission suggests a review of the Johannesburg Summit on Sustainable Development, and reinforcing commitments to ratification and early entry of the Kyoto Protocol on climate change and other international accords.

The Commission document also encourages efforts to promote educational exchanges, lifelong learning, human resource development and other people-to-people contacts. This could include the holding of parliamentary meetings. In closing, the EU document comments that the ASEM "has become a more mature process, allowing fruitful discussions among policy-makers at the political and official level." But it recommends that more public participation and interest is desirable. It also notes that "Communicating that a dialogue process among equals is not just a 'talk shop' but a deliverable not easily achieved in other fora…is a daunting task, requiring the active engagement of all ASEM partners at all levels." The Commission suggests that various tools, such as goals and timetables, scorecards, best practices and peer reviews, may help to transform ideas into actions, but nevertheless concludes that "these instruments cannot be a substitute for genuine interest." ■

Textiles: After January 2005, the deluge?

by Malcolm Subhan

The figures speak for themselves. The European Union’s four largest Asian suppliers of textiles and clothing (China, Hong Kong, India and Bangladesh) accounted for nearly two-thirds of its total imports from the MFA countries in value in 2001. The EU’s exports to these four countries amounted to 45% of its total exports to the MFA countries. However, if Hong Kong is excluded, the three remaining countries took just 14% of the EU’s exports.

Both the European Commission and Euratex, the European textile and clothing industry lobby in Brussels, have been pressing developing countries to open up their markets to European products. With China committed to reducing its imports tariffs to generally around 8% to 10%, and Hong Kong already practising an open-door policy, European demands for better market access have focused on India. The Euratex President accused the Indian government in April of having “the gall to continue to press the EU and others to make further unjustified concessions in its favour, whilst continuing to keep its own borders virtually sealed from EU exports.”

Now India is not alone in accusing the EU of protectionism. The WTO’s report on the EU’s trade policy, issued in July in connection with its trade policy review of the EU, noted that “tariffs well above the (EU) average also apply to textiles and clothing products,” and that “the EU has long maintained restrictions on imports of textile and clothing products from a number of developing countries.”

The report also pointed out that “to date the EU has lifted restrictions on 20% of the products restricted in 1990, leaving the elimination of the remaining 80%…for the final stage at the end of 2004.”

Now suppose for a moment that the EU removes all restrictions on its imports from India. Would the EU market be flooded with cheap Indian textiles and clothing? Hardly, according to the Indian economist, Dr. Samar Verma, in the article printed below. While India has a “tremendous potential to become a global leader,” its share of the global market for textiles and clothing has fallen from over 12% in 1951 to under 3% in 2000. Its industry has been held back, both at home and on export markets, by “government policies marked by *ad hocism*, fragmented vision and political opportunism,” in Dr. Verma’s words.

In the absence of quick action by the Indian government, the country’s textile and clothing industry may well be among the losers when quotas are eliminated on 31 December 2004, with the expiry of the 10-year Uruguay Round Agreement on Textiles and Clothing (ATC). But will this “quota removal unleash a wave of cheap Asian textile and clothing imports into the EU?” asks Dr. Philip von Schöppenthau in his article. He bases his answer on a study commissioned by the German Ministry of Economics, and which he co-authored. It is likely to be contested by both Europeans and Asians. ■

The Competitiveness of Indian Textiles and Clothing. Needed: Domestic Policy Reforms

by Samar Verma[1]

The attention that is being paid in India to the issues arising from access to export markets should not minimise the structural impediments that characterise the country's textile and clothing industry at home. There remain few doubts as to the binding nature of quotas on exports from developing countries such as India. It is time, however, that the Indian industry recognised the fundamental incompatibility between the requirements of the global marketplace for modern textiles and clothing, and the extent to which it is constrained by archaic government policies, a legacy of a largely abandoned economic ideology.

Structural Constraints

The Indian textile and clothing industry has tremendous potential to become a global leader. Indeed, Indian entrepreneurs have done a commendable job in the cotton segments that they have chosen to export – mainly low-value cotton casual wear. If they have refrained from exporting high-value regular wear, it is mainly because of the constraints imposed by domestic policies, which range from the reservation of garment manufacturing for small-scale manufacturers to a lopsided fiscal policy, full of exemptions and exceptions.

The essence of the Indian government's interventions since the country's independence has been to freeze capacity in the organised sector and scuttle economic incentives for modernisation. The structure of the textile and clothing industry, as it has evolved in the last half century, is primarily a response to government policies marked by *ad hocism*, fragmented vision and political opportunism. No wonder that India's share of the global market for textiles and clothing declined from over 12% in 1951 to under 3% in 2000.

The Garment Sector

Perhaps of all government policies, one that has scuttled the growth of the garment industry is the policy, which has reserved garment manufacture for the country's small-scale industry[2]. It has not only prevented the expansion and evolution of the domestic retail market, but also impeded the technological upgradation of garment manufacturing units. As a result, these units could neither reach optimal economies of scale nor produce garments of international quality. The productivity of the Indian clothing sector is dismally low.

A recent McKinsey study (2001), using men's shirts produced per hour as the criterion, estimated labour productivity in the Indian apparel industry to be 16% of U.S. levels. Exporters were more productive, at 35% of U.S. levels. The study attributed this low level of productivity to format mix[3], poor "organisation of functions and tasks", and a lack of viable investments, especially in technology.

The average tailoring shop in India has three or four sewing machines in the back room, while firms producing garments for the domestic market have 20 such machines on average, and exporters around 50 machines. China and Sri Lanka, in contrast, often have thousands of workers under one roof. To function effectively, a factory must have a minimum of 500 machines.

The decentralised nature of the garment sector in India is a remarkable entrepreneurial response to government policies that have prevailed in the past. But such decentralisation is grossly unsuited to global competitiveness in such growing segments as regular wear and standardised items of clothing. The disincentive to employ factory methods of production needs to be removed at once, if India is to diversify its products and market portfolio. It is not a particularly wise strategy to be highly dependent on the seasonal demand for cotton garments, for export to countries that are developing self-sufficiency in the entire value chain.

The Textile Sector

The cost of fabrics represents almost 55% of the total cost of a garment, while most of the value addition in garments is made possible by the superior quality of the fabric used in its manufacture. This quality is evident in the feel of the garment, and whether it is wrinkle- or stain-free, for example, and is due to the quality of the fabric itself, because these finishes are built into the fabric, either at the weaving or processing stage. Good quality garment manufacturers, and the leading brands in particular, demand two things of a fabric manufacturer:

1) consistent, fault-free fabrics in long lengths, without any variation in shade, and
2) the availability of a wide range of designs, finishes and weaving textures to choose from.

A look at the present structure of the Indian textile industry (fabric and processing sectors) would reveal the incompatibility between the fabric requirements of garment brands, and the ability of the fabric sector to meet them.

Weaving (fabric) Sector

A major part of the weaving operations take place in India in the unorganised, decentralised sector of the industry. The share of composite mills in total fabric production declined from 36.4% in 1980-81 to a meagre 4% in 1999-2000, while that of powerlooms (including knitting and hosiery) leapfrogged from 38.6% to 81% over the same period. The share of powerlooms alone jumped to almost 59%.

The fact that mills did not create barriers to the entry of the powerloom sector, by choosing product mixes different from those associated with the latter, and difficult for the sector to develop, is another important reason for the decline in the share of mills. Powerlooms in any case enjoy a 20% to 30% cost advantage over mills. By continuing to manufacture products that are also being made by powerlooms, mills are making themselves downright uncompetitive in terms of production costs.

The level of technology in the weaving sector in India is low compared to other countries. Of the 1.6 million powerlooms that have been installed, fewer than 1% are shuttleless looms. In the organised mills sector, shuttleless looms account for only 5.8%, as compared to 80% in the U.S., Taiwan and Korea, and 62% in Pakistan. The rate of modernisation has been very slow. New shuttleless looms installed in India during 1989-98 accounted for only 1.6% of total installed capacity in 1997, with most of the modernisation occurring in the organised mills sector. In comparison, the modernisation rate in Mexico, for example, was 41%.

The modernisation rate has been quite significant in the knitting sector, considering that modern knitting is of very recent origin in India. During 1989-98 India took 5% of global shipments, as compared to 16% for the United States, 10% for China and 5% for Brazil. But modern knitting (as distinct from hosiery manufacture) is of very recent origin in India.

The powerloom sector thrives partly on the basis of legitimate concessions allowed by governments[4], but primarily because of lower overheads, which are due to the low cost of labour (because of exploitation and low wages), power (power theft) and lower capital costs (most powerlooms are bought second-hand from mills, while working capital requirements are very low). Hence the inferior quality of fabric production and finishing in the Indian textile sector, which is in no position, therefore, to supply value added fabrics to the garment sector.

The Processing Sector

The fabric finishing sector consists of 12,596 process houses, including 10,379 independent hand-processing units and 2,066 independent power-processing units. The remaining 133 units are a part of composite mills. Most of the independent units are located close to powerlooms and meet their requirements as regards bleaching, dyeing and the printing of their greige fabrics.

Maximum value addition takes place at this stage the world over. Besides, this is one stage where technological development has been significant at the global level, especially in providing different kinds of finishes to the fabric. In India, however, this sector is the weakest link in the entire value chain and is hardly modernised. This lack of modernisation has adversely affected the competitiveness of Indian textile mills, and effectively limited their ability to supply quality fabrics to domestic garment producers.

The main reason for the low level of modernisation in this sector has been the excise duty structure, on the one hand, and the fragmented nature of the garment industry, which is incapable of placing bulk orders, on the other. The present excise structure is such that the motivation to avoid taxes is very high, so that the independent process houses make their money through tax avoidance and not by quality processing. Why would anyone invest Rs. 800 million to Rs. 1,000 million in a good process house when he can make money by investing in a Rs. 150-200 million process house and engaging in large-scale tax avoidance?

The differential excise duty structure for the fabric sector has wreaked havoc on the sector, with exemptions for grey fabric and hand-processed fabric, and different levy systems for process houses in mills and for independent process houses. Processing houses have not modernised because of the nature of the garment industry and the benefits of excise evasion. The small-scale fragmented garment industry cannot place bulk orders, while technology installation in process houses is a capital-intensive activity, requiring large orders for optimum efficiency. A modern processing house can therefore be set up only in organised composite mills, but not as independent units, since they would then have to source their grey fabrics from powerlooms (composite mills have their own weaving and spinning units), and supply small-scale garment units.

Much-needed Policy Reforms

It is evident that Indian textile and clothing exporters need better access to the European and American markets. It is equally evident, however, that most of the impediments to increased exports are to be found in

India; removing them requires changes to government policies to a large extent. The key role of government policy is to ensure that the country's resources, including labour and capital, are so deployed as to result in high and rising levels of productivity. This is the key to India's export competitiveness.

India has come under very strong pressure, from both its major markets, the 15-nation European Union and the United States, to reduce its own import duties, which are among the highest in the world, ranging as they do between 25% and 40%. The Indian government has announced that import tariffs would be rationalised in a few years' time to just two rates – 10% and 20%. Lower import duties would infuse competition in the domestic market. This would drive up demand for better quality products, including clothing. It would be necessary, at the same time, to allow foreign direct investment (FDI) in garment retailing, so as to encourage the development of large, modern retail showrooms.

The presence of large retailers would create domestic demand for ready-to-wear garments. To meet this demand, retailers would place bulk orders, which would in turn promote large-scale manufacturing facilities, thus raising productivity. The lower tariffs and FDI would not necessarily result in large-scale imports, given the comparative advantages that local manufacturers would enjoy. On the contrary, large-scale production for the domestic market would help Indian exporters diversify into standardised, mass-clothing items.

Having removed woven garments from the list of items reserved for exclusive manufacture by small-scale units, the government should do the same as regards knitwear and knitted fabrics. De-reservation would attract large firms into manufacturing clothing for the domestic market and, by the same token, allow exporters to enter those factory-based market segments which are among the fastest growing in export markets. Investments in technological upgradation would accompany these developments, with garment manufacturers investing also in brands, designs, IT-driven customer services, etc., which are crucial for export growth.

These developments would help Indian exporters meet the increased competition which will come with the expiry of the Agreement on Textiles and Clothing (ATC) at the end of 2004 and the consequent elimination of import quotas. However, the growing number of preferential trade agreements (PTAs) concluded by the European Union and United States will present Indian exporters with a challenge of a different sort.

India can use a reduction in its own import duties as a bargaining tool to secure a reduction in European and American most-favoured-nation (MFN) import tariffs. This would significantly reduce the adverse impact of PTAs on Indian exports to the EU and United States after 2004. Even so, the growing number and scope of PTAs makes strategic alliances crucial in the textile and clothing sectors. Hence the need for the government to make it possible for Indian companies to invest abroad, and thus reduce the adverse impact of PTAs.

Conclusion

The Indian textile and clothing industry has enormous potential, but structural reforms are needed. At present the industry is grossly ill-equipped to cater to the needs of a good quality garment manufacturer and brand owner, even one supplying the domestic market. However, government must promote the necessary structural reforms by undertaking to reform its own policies. Some of the measures it needs to take are outlined above. Once the government provides the right institutional context and investment climate, it can count on the country's entrepreneurs to make the textile and clothing industry globally competitive. ■

Notes:

[1] The author is a Senior Fellow at the Indian Council for Research on International Economic Problems (ICRIER), New Delhi, India.
[2] The Indian government recently removed woven garments from the list of items reserved for exclusive manufacture by small-scale units.
[3] It relates to a shift away from tailors towards manufacturers. In developed countries, tailors produce high-end, made-to-order garments, which constitute a very small share of demand. In India, tailors produce low-end products for the mass market.
[4] One Indian state, for instance, has a lower power tariff for powerlooms than for mills.

Opening the Gates? Textile Trade Liberalisation in 2005

by Dr. Philip von Schöppenthau*

On 1 January 2005 the European Union (EU), the United States and other major importing nations will have to remove their import quotas for textiles from Asia and elsewhere. The WTO Agreement on Textiles and Clothing (ATC) will thereby have achieved its aim to integrate textile trade into normal GATT/WTO rules, ending more than three decades of discriminatory import protection.

Common knowledge has it that this quota removal will unleash a wave of cheap Asian textile and clothing imports into the EU, pushing European producers out of business and leaving thousands of workers jobless. A recent study on the effects of ATC quota liberalisation on the German textile industry[1] suggests, however, that the impact could be less devastating than is often feared. The study's main finding in fact is that while German textile[2] manufacturers are well-prepared for quota removal, clothing manufacturers are expected to come under some pressure, despite the fact that most of them have relocated their production to low-wage countries in Central and Eastern Europe.

Quotas: Protection or Placebo?

Some observers have already questioned the level of protection actually provided by the ATC, and even its predecessor, the Multi-fibre Agreement (MFA). According to them the MFA lost much of its bite during the late 1980s and early 1990s, when the EU adopted a more liberal stance. Quota growth rates were increased at regular intervals, under the terms of the ATC, and in early 2002 quotas for some of the more sensitive product categories were abolished. Exporting countries also gradually moved out of certain products over the past decade, leading to an ever lower utilisation of their quotas. And, finally, the fact that imports from least developed countries – including large exporters such as Bangladesh – are not subject to quotas, has punched big holes in the EU's "quota wall".

The real protection offered by the ATC quota system is much more limited today than is often claimed, according to these observers. While some product categories are still effectively protected, particularly from countries such as China, the ATC acts as a "placebo" for the majority of products, giving the European industry the impression that it is still protected while, in reality, it is not.

Binding Quotas and Import Shares

One way to determine the level of protection is to look at the proportion of textile categories that are actually "binding". (A quota is binding when imports exceed 80% of the quota, and strongly binding when they exceed 95% of it.) The study on the German industry shows[3] that in 2000 the EU maintained 156 *textile* quotas, of which only 27, or 17%, were binding; while just 8% of the quotas were strongly binding. The respective shares were almost the same (17% and 8.6%) in 1995.

The picture is somewhat different for the *clothing* sector. Firstly, the number of quotas is higher – 238 in the year 2000. Secondly, a higher proportion of these quotas is binding: 36% were binding and 20% strongly binding in 2000. Thirdly, the percentage of binding quotas went up considerably between 1995 and 2000, given that only 22% were binding and just 12% strongly binding in 1995. Assuming that only strongly binding quotas have an impact on trade flows, the protection offered by the ATC against imports from quota-bound countries is therefore very small in the case of textiles. Perhaps surprisingly it is much less substantial for clothing than one may have thought.

At first sight, this finding lends support to those who view the ATC largely as a placebo. In fact the effect of eliminating strongly binding quotas will depend on the share of the imports subject to quotas in relation to total EU and German imports. The assumption is that if their share is small, then even a substantial increase in such imports will not cause a major disruption to the German or EU market. The study finds that for Germany only two *textile* categories can be classified as being sensitive to quota removal. They are categories 3 (woven fabrics of synthetic fibres) and 39 (table, toilet, kitchen linen).

The situation is different as regards clothing, in view of the large share of certain restricted categories in relation to total German imports. Eight categories were identified as being sensitive to quota removal for 2000. As quotas on four of them were abolished in early 2002, the impact of quota removal will be felt in only four categories. They are categories 5 (jerseys, pullovers etc); 13 (underwear, knitted or crocheted); 29 (women's and girls suits) and 31 (brassieres). As these categories also account for an important share of Germany's clothing exports to the rest of the EU, German manufacturers could be affected by quota removals.

The study's findings therefore suggest that if the removal of quotas in 2005 does have an impact in Germany, it will be felt most strongly in the clothing sector, with little direct impact on the textile sector. Here the main impact will be of an *indirect* nature – i.e. from changes in demand from clothing producers in Germany and, more particularly, from other EU countries, where the removal of quotas may affect competition more profoundly.

What is more, many German textile producers now specialise in high quality and technical products, where competition from developing countries is low. The situation is different in the clothing sector, however. Here specialisation and product differentiation are less pronounced. Given the higher degree of "substitutability" between German products and those from low-wage countries, the elimination of clothing quotas could be felt more directly.

Cushioning the Effects of Quota Removal

The above findings show that there are several factors that will affect, and possibly cushion, the impact of quota removal not only in Germany but also in other EU countries. Other factors that can be expected to further cushion their impact in 2005 include:

♦Quota removal by itself is unlikely to increase consumption in the EU and to suddenly change consumption patterns. While prices are likely to fall in the lower market segments, these falls will not be large enough to increase sales volumes. Consumption patterns will remain the same, with European consumers increasingly favouring leisure, tourism or communication in their purchasing decisions, rather than clothing.

♦The lower market segment, and parts of the middle segment, are already largely served by imported goods from Bangladesh, for example, which faces neither quotas nor import tariffs. It is unlikely, therefore, that quota removal will cause major changes in these segments. However, changes can be expected in the medium term if imported goods improve their quality and fashion content. The lifting of quotas will have little impact on the upper market segment, as most goods are imported from non-quota countries.

♦European consumers, including very young ones, are increasingly fashion conscious and willing to follow rapidly changing fashion trends. To serve these customers, companies need to be close to the market and quick to respond with the right colours, patterns, designs or sizes. Producers in Asia are far away and rarely flexible enough to serve these customers, unless they use highly modern technologies and can draw on a fully integrated textile chain.

♦Although many countries, including China, Korea, India and Pakistan, have ambitious plans to modernise their textile and clothing industries in order to benefit fully from quota removal, it will take time before these plans are fully implemented and make a difference on the ground. Only China can be expected to push through its ambitious Five-Year Plan, which aims at creating a complete fibre-to-clothing production chain. South Korea also may well succeed in re-focusing its industry from clothing to technical textiles, helped by generous state funds[4].

Instead of a massive increase in textile and, more particularly clothing, imports from Asia into the EU, we are likely to witness a change in the relative market shares of the various supplying countries. Once binding quotas are lifted, European importers, retailers, clothing and knitwear manufacturers will be able to base their buying decisions on market criteria rather than on the availability of quotas and import licenses. They will be free to choose where to buy.

There inevitably will be winners and losers among developing countries. China will be the main winner of quota removals, whereas countries such as Hong Kong, South Korea, Thailand, Taiwan, Malaysia and the Philippines are likely to continue losing market share after 2005 (except for chemical fibres in the case of Korea, Taiwan and Thailand).

Laos, Cambodia, Bangladesh and Indonesia are also likely to lose some market share to China, although Bangladesh is taking promising steps to build up a more integrated textile industry. Vietnam will lose out unless it joins the WTO soon. Among the losers could also be Sri Lanka and Turkey, although few of their products are still in direct competition with China. India and Pakistan are also likely to lose market share to China, but are expected to compensate through shares taken from smaller supplying countries[5].

Changes in the direction of trade flows, and hence in relative market shares in the EU, will not come overnight, however. It will take retailers, importers, clothing and knitwear manufacturers between one and two years to identify suitable new suppliers and to adapt their product lines and sourcing activities accordingly. The expected changes are therefore likely to take place with a certain time-lag. Companies should, however, use the remaining two, maybe three, years to rethink their current business strategies, and to adapt them to what will become an increasingly competitive environment.

Room for Mistakes after 2005

The greatest mistake would be to replace quotas with other types of protective measures. Fears of massive import surges will raise calls for new protection. The obvious target is China, whose exports are likely to increase strongly once its quotas – almost all of which are binding – are lifted. However, China's WTO Accession Protocol provides other WTO members with the possibility of restricting textile and clothing imports from China, after quotas have been removed, under the Protocol's product-specific safeguard clause. Paradoxically, those most likely to have recourse to this clause could well be the United States and the many developing countries that increasingly become the targets for Chinese exports.

Trade diversion towards Europe would make it harder for EU policy makers not to follow suit. Moreover, the EU's enlargement will add to its membership countries with important textile and clothing industries, which will suffer from the removal of quotas, as the study shows. Enlargement could, therefore, bring about a new "protectionist majority" in the EU, with its Council of Ministers more open to pressure from the EU textile and clothing industries.

Many Asian countries fear the increased use of anti-dumping and anti-subsidy measures against their exports. It is by no means certain that these fears will become reality. While there have been many anti-dumping cases against textile imports (particularly yarns and fibres) in the past, there has been no major case against clothing imports. The reason is simple: whereas textile products are relatively homogenous, clothing products are not. This makes it particularly difficult to define the "like product" as required for any anti-dumping investigation. Small changes to a garment can result in a change in product classification ("classification hopping"). In other words, anti-dumping measures on clothing could easily be circumvented.

Free Trade all Round

If import restrictions are short-sighted, then the virtues of free trade apply to both industrialised and developing countries. It is therefore time for Asian policy makers to integrate their industries *both ways* into the world economy, by substantially reducing import barriers. The new WTO round offers the best chance of abolishing trade barriers at the global level, to the benefit of all countries.

While the poorest countries can be given preferential treatment, the textile and clothing industries of most other developing countries are rarely "infant" industries, requiring special protection. While these countries can be granted longer implementation periods for tariff cuts, these should be tailored to the level of development of a given country and sector.

The end of 30 years of discriminatory protectionism will mark a new era in world textile trade, one based on the principle that the same rules apply to all but the weakest players, who will need special attention. With the lifting of quotas in 2005, the gates should open everywhere. ■

Notes:

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[1] The Implications of ATC Liberalisation on the German Textile Industry, Brussels, 2002. The study (in German) was carried out by EPPA and the Centre for European Policy Studies (CEPS) on behalf of the German Ministry of Economics. For a summary of the study see: www.eppa.com or www.ceps.be. A full copy of the 350-page study can be purchased at the CEPS Online Publications Store (www.ceps.be). While the present article draws on the results of the study, it expresses the author's personal views and does not commit either EPPA or CEPS in any way.
[2] The study's main focus is on the textile industry, whereas clothing manufacturers are dealt with only as part of the quota analysis (see below).
[3] The following quota analysis draws directly on the work carried out by Paul Brenton (CEPS) within the context of the study (pages 155-218).
[4] The study contains detailed descriptions and analyses of the policies of the governments of China, India, Pakistan, Indonesia, Bangladesh, Sri Lanka, South Korea, and Taiwan.
[5] A study (Textile-habillement: la fin d'une protection discriminatoire. Paris 2001) prepared by the French CEPII and IFM also concludes that quota removal will lead to substantial shifts in supplying countries' market shares. See: www.cepii.fr

Engaging Civil Society: the India-EU Round Table

by Malcolm Subhan

There is a democratic deficit – in plain language, a lack of democracy – at the heart of the European Union (EU). If so, there is a similar democratic deficit in the way relations between the EU and third countries are managed. Take its relations with India. They are managed by a Joint Commission, first set up under the 1973 co-operation agreement between the EC and India and kept alive by subsequent agreements. The principal objective of the 1994 co-operation agreement on partnership and development is "to enhance and develop, through dialogue and partnership, the various aspects of co-operation." Just listing the areas of co-operation requires 17 Articles. They deal with commercial and economic co-operation; telecommunications and satellite technologies; standards and intellectual property; development; information and culture…and the list goes on and on. The implementation of this manysided agreement is left, as before, to a Joint Commission, "composed of representatives of both sides (i.e. civil servants), at an appropriately high level." And then, nearly 40 years after India established diplomatic relations with the then European Economic Community, an Indian Foreign Minister suggested to the External Relations Commissioner, Chris Patten, that meetings at the official level are incomplete by themselves, given that civil society has an important role to play. The Minister, Jaswant Singh, probably didn't know that some three years earlier, in 1996, the European Commission had expressed its readiness "to help extend the EU-India dialogue to civil society."

Involving civil society in the decision making process clearly is one way of countering the democratic deficit. This was recognized by the six foreign ministers who put their signatures to the 1957 Treaty of Rome, which launched the European integration process. The Treaty established the European Economic and Social Committee (EESC) as a consultative body representing the various economic and social components of organized civil society.

Curiously enough the European Commission makes no reference to the EESC in its definition of "democratic deficit;" and even the term "civil society" is missing from its glossary. However, the Trade Commissioner, Pascal Lamy, is actively pursuing a dialogue with civil society, following the attempts by the anti-globalisation movement and other elements of global civil society to block the attempts by the WTO ministerial meeting in Seattle to launch a new round of trade negotiations.

The role of Indian and European civil society in the decision making process was confirmed in 1999, when the meeting in Helsinki between the Indian Foreign Minister and the EU ministerial "troika" agreed to set up an EU-India Round Table. Under its terms of reference the Round Table is "a high level, preponderantly non-governmental group of eminent personalities from both sides," whose discussions are expected "to reinforce the Civil Society dialogue."

Given its non-governmental nature, the Round Table "is expected to go beyond the scope of discussions associated with intergovernmental negotiating bodies." What is more, it is free to choose the topics to be discussed. The Round Table's minutes and reports form "non-binding inputs, in the form of specific recommendations, for decision making by the Government of India and the European Institutions." Its 15 European members are drawn from the ranks of the EESC, and represent employers' organisations, trade unions and various interest groups, ranging from farmers' organisations, small businesses, and the professions to the academic community and NGOs. The Round Table's Indian members come from well-known organisations, in which they hold high office.

If foreign ministers launched the Round Table, the Indian and Portuguese prime ministers gave the venture their full support, when they met in Lisbon in June, 2000, for the first summit meeting between India and the EU. The Agenda for Action which the summit adopted provided for the launching of the EU-India Round Table. This strong political support (1) ensured that the Round Table was set up in record time and (2) placed it, in the institutional hierarchy, between the "troika"/ministerial meetings and the summit itself.

The fourth meeting of the India-EU Round Table will take place in Cascais, Portugal, on September 12 and 13. The subjects under discussion are (1) trade and investment in the context of the WTO and its Doha Development Agenda; (2) co-operation in food and agribusiness, and (3) the role of the media in building and networking civil society. The four discussion papers on the first two subjects have been drafted by the European and Indian members, from the employers groups in each case, but working independently of each other.

The discussion paper on the role of the media marks a breakthrough, in that it is a joint contribution from an Indian and a European member of the Round Table: Mr. Vir Sanghvi, the editor of one of India's most widely-read English language newspapers, *The Hindustan Times*, and Ms. Anne-Marie Sigmund, the president of the EESC's Various Interests Group. That the first joint contribution should deal with the role of the media is not surprising. The subject had been raised by the European members at the very first meeting of the Round Table, in the context of the media's role in improving mutual understanding between Europeans and Indians.

The European members had been taken aback by a brief presentation by the foreign editor of *The Hindustan Times*, Mr. Chowdhary. He maintained that the European Union was a nonentity as far as the Indian media, whether print or electronic, were concerned. Certainly it ranked far below the United States in terms of media coverage, even though the move to a unipolar world under the U.S. meant that the EU was more important to India than before. At the same time the fact that India gets very little coverage in the European media, except in relation to the conflict with Pakistan over Kashmir, brought home to both the European and Indian members the need to involve the media more effectively.

The discussion paper on the role of the media to be presented at Cascais contains a number of proposals designed to secure increased media involvement in the India-EU civil society dialogue. They include journalist exchange programmes within a civil society framework and meetings between journalists and leading figures from European and Indian civil society. The discussion paper also proposes the creation of a civil society Internet forum, to allow the Round Table to dialogue with civil society organisations in India and the EU, and these organisations between themselves.

Given that some two-thirds of India's population of more than one billion is economically dependent on agriculture, there is scope for co-operation between India and the EU in agriculture, but from the standpoint of rural development. Points for discussion in the paper submitted by the EESC include the role of rural organisations in achieving a balanced development of the countryside and possible strategies to counter the adverse effects of rural exodus, on both the countryside and cities.

In an era of rapid globalisation, civil society clearly has a role to play in bridging the divide between developed and developing countries, so evident in the WTO. In view of the sharp differences between the official Indian and European positions on a wide range of trade and investment issues, the Round Table can help by looking at the issues from a different viewpoint.

The meeting in Cascais will be the fourth since the Round Table held its first meeting in January, 2001, in New Delhi. This is an accomplishment in itself, and is testimony to the importance both sides attach to it. But given the fact that the Round Table is virtually the only non-governmental institution which can make recommendations to the annual EU-India summit, regular meetings, stimulating discussion papers and frank exchanges are not enough in themselves.

Both Commissioner Chris Patten and Jaswant Singh, as foreign minister, set the Round Table very high standards when they opened the New Delhi meeting. "Civil society has a very valuable advantage: it can discuss all issues, including those considered sensitive by politicians," Chris Patten told its members, adding "So I am looking forward to bold and constructive inputs from you." The Foreign Minister urged them to act "free of the confines of officialdom. You're free to tell us where we are limiting our thinking and ought to move forward much faster, in not only economic and political areas but also areas which we ourselves might not even have addressed," he declared.

It is here that the Round Table has failed to live up to expectations. Take the recommendations to the summit of the third meeting, held in Jaipur in February 2002. A bold declaration on "the right to information and access to government records, in order to promote good governance and monitor government action" is followed by a recommendation to the EU and India to "step up the exchange of journalists and individuals active in civil society." The long and detailed recommendations on "human capital and issues of migration of skilled workers" read as if they had been taken from a *note verbale* from the Indian government to EU governments.

This is because the members of the Round Table know from experience where their recommendations will end up if they provide the "bold and constructive inputs" sought by Commissioner Patten, or act "free of the confines of officialdom" as desired by the Foreign Minister. However much the Commissioner and Foreign Minister may welcome fresh, innovative ideas, their civil servants will want to stay with the tried and tested. What is more, in order to be effective, it is better to deal with issues everyone is familiar with, rather than go for those "which we ourselves might not even have addressed," as the Foreign Minister put it.

Does this mean that, to be effective, the Round Table must take up issues on which the EU and India are divided at the official level and point the way to agreement? This is the path it seems to be following at present, particularly as regards two of the subjects to be discussed at Cascais – food and agribusiness and trade and investment. But the Round Table will have to develop its own, unique approach to these subjects, now that the India-EU Business Summit, which is organised by the private sector and held on the eve of the political summit, can also make recommendations to it. What is more, these recommendations, made jointly by European and Indian business and industry, are based on extensive studies carried out by professionals.

The way ahead for the Round Table is to take Commissioner Patten and Jaswant Singh at their word, and develop a vision of EU-India relations for these opening years of the 21st century. So far no one has. The Round Table should go beyond its terms of reference and mobilise civil society organisations in India and the EU for this task. This will ensure its vision a certain credibility, and allow its voice to be heard more clearly at the EU-India summit.

The proposals on the role of the media in building and networking civil society, contained in the discussion paper for the Round Table's fourth meeting, point the way forward. They provide for much greater interaction between the media and civil society organisations; at the same time they call for the creation of a virtual network of Indian and European civil society organisations, engaged in an on-going dialogue with the Round Table. The fact that the proposals are being submitted jointly by a European and an Indian member of the Round Table should ensure their smooth passage at the meeting in Cascais, and their approval by the EU-India summit in Copenhagen in October. ■

EU-China Summit to Maintain Pace of Contacts

by David Fouquet

The third annual EU-China summit meeting scheduled to take place in Copenhagen later in September takes place in what is widely regarded as a period of transition in the emerging Asian power.

The relationship between Europe and China has developed in subdued and workmanlike conditions, in contrast with the rhetorical and almost ritualistic preparations that appear required for the summits involving China and the US.

But the EU-China Summits have become similarly intense activities characterised by large Chinese delegations led by Prime Minister Zhu Rongji and including several Ministers. That was the case in the Brussels Summit of 2001 and the Copenhagen meeting was said by one European source to include 11 Chinese Ministers as well as the Prime Minister.

One Chinese diplomatic commented that the two sides were "drawing closer together, with more and more points in common and always looking toward more areas of co-operation."

This type of high-level EU-China activity has also involved other EU encounters and institutions, which also delved extensively into specific issues. In 2001, about six EU Commissioners have already or were planning visits to China, including President Romano Prodi.

In recent weeks the European Parliament has increased its contacts with China, through visits by two delegations, which included one to Tibet and Xinjiang, and another expected soon by the President of the Parliament Pat Cox. Some of the European Parliament political parties were also in the process of establishing direct relations with members of the Chinese Assembly.

In addition, outside the Summit framework, major visitors from China to Europe in the past year or so have included President Jiang Zemin; the leading candidate to succeed Jiang, Hu Jintao; Assembly President Li Peng; and numerous Ministers and other officials and experts.

A number of major areas of discussion and collaboration have been opened in these previous dialogues covered both bilateral and international issues. The former includes environmental protection and energy efficiency, governance and the rule of law. Global issues have included the Kyoto Protocol on greenhouse gases, adjustments surrounding Chinese entry into the World Trade Organisation and strategic and security issues. Specific technical assistance projects have been established regarding a number of these and discussions continue on other striving for common positions.

The Copenhagen meeting will also take place during a period of intense discussion within China regarding a possible succession in its leadership. The expected departure of President Jiang and Prime Minister Zhu had been under discussion for a long period and had been anticipated for the next Communist Party Congress later this year. But the discussions have recently been clouded by reported uncertainty and the Congress was seen as planned unusually late, leading to speculation about a possible change in the leadership scenario. ■

ASEAN Adopts Plan to Assist New Members

by David Fouquet

The Association of South-East Asian Nations (ASEAN) unveiled an ambitious new set of plans and projects at its Secretariat in Jakarta on August 15-16, aimed at improving regional economic integration and co-operation through a broad series of projects designed to improve conditions in four new members in the Mekong region.

Known as the Initiative for ASEAN Integration Development Co-operation Forum, the objective of the new plan is to narrow what the organisation terms the development gap between ASEAN members by assisting Cambodia, Laos, Myanmar and Vietnam.

Special efforts and resources will be directed to promoting the development of the four countries, with priority given to infrastructure, human resources and information and communications technology (ICT).

The plans were presented at a two-day IAI Development Co-operation Forum at ASEAN Secretariat headquarters in Jakarta on July 15-16. It was attended by numerous representatives from the region and the wider international community. Preliminary missions and planning meetings were said at the Jakarta session to have received considerable financial support from Japan. The plan was conceived by ASEAN leaders at their summit in November 2000 in Singapore.

Proposed projects in the infrastructure sector include studies for a Singapore-Kunming Rail Link in Cambodia, Laos, Myanmar and Vietnam; an integrated strategic regional development plan for an ASEAN highway network in those countries, and institutional and capacity building in the energy sector.

Projects in the field of human resource development include capacity building for the civil service sector; establishing policy frameworks and programmes in the labour and employment sector, and improving higher educational systems.

Planned activities in the information and communication technology (ICT) field include narrowing the digital divide in ASEAN by implementing the e-ASEAN framework agreement.

Regional economic integration will be promoted through building institutional capacity and human resources in such areas as customs, national standards, quality and metrology and investment.

The European Union has also been active in development projects in three of the four countries, and has provided humanitarian assistance to Myanmar. Since the peace accords in Cambodia, the EU has disbursed some €262 million between 1991 and 1999, and individual member states some €590 million, for rehabilitation and development activities.

Addressing the meeting in Jakarta, ASEAN Secretary General Rodolfo Severino noted concerns about a "two-tier" ASEAN. He declared that "ASEAN's response to the 'two-tier' problem is not to keep out the weaker economies of Southeast Asia but to bring them in, seek to integrate them in ASEAN, and help close the development gap between them and the older members."

Speaking on behalf of the four member countries covered by the plan, Cambodian Foreign Minister Hor Namhong assured the international donor community of their "understanding of the need for greater accountability and effectiveness in using the resources provided by them." He also added that the four recipients "have been and will continue to strengthen the legal framework, create an enabling environment for attracting investment, and enhance transparency."

Three of the four ASEAN countries covered by the special effort - Burma-Myanmar, Cambodia and Laos - are considered among the world's least developed countries, according to a UN report on the subject in 2000, issued just prior to the 2001 Brussels conference on the subject. The report put Cambodia's per capita GDP in 1998 at $299 (in 1995 dollars) and the Laotian GDP for the same period at $406. No figures were given in the report for Burma.

These actions can be compared to the European solidarity plans which transferred regional aid to boost rural economies in new member countries as well as the decaying industrial areas of the older EU members.

This latest development is evidence of new positive activism and collective responsibility within the ASEAN group. ■

Nepalese PM In Midst of Crises, Seeks EU Help

by David Fouquet

In the midst of an escalation of difficulties confronting the troubled Himalayan kingdom of Nepal, the country's struggling Prime Minister, Sher Bahadur Deuba, issued another urgent appeal for Western assistance during a visit to European Union institutions and leaders in Brussels in August.

Unenviably already one of the poorest country's on earth, the small state of 22 million has been staggering in the past year under the additional strain of a bloody conflict with Maoist rebels and dramatic tragedies that led to the slaughter of the royal family, floods, aircraft accidents and disease.

As a consequence, the political climate in the fragile democracy has also worsened with the Government in a minority in the Parliament, the Prime Minister rejected by his own party and confronted with national elections in November, and the issue of whether to extend the state of emergency, due to expire during his European trip. During the Prime Minister's visit to Europe, the Government decided to lift the state of emergency which had existed for the past months rather than prolong it.

Prime Minister Sher Bahadur Deuba has intensified his efforts in recent months to obtain additional external assistance in visits to China, India, the US, UK and, most recently, the European Union.

The six-year old conflict, which most evaluations conclude has not reached the stage of a self-perpetuating civil war, has become a test case in conflict prevention and institution building for the international community.

EU Takes an Active Role

Following a meeting between Prime Minister Deuba and the President of the European Commission Romano Prodi on August 27, Prodi remarked that Nepal was a "young and struggling democracy."

An EU declaration on 8 May expressed "deep concern at the worsening security situation in Nepal and the continuing violence and brutal attacks against civilians by the Maoists." The declaration deplored Maoist attacks against civil infrastructure, which severely harm the development of Nepal. It also called upon the Government of Nepal and its security forces "to avoid all action which might lead to innocent civilians becoming victims of human rights abuses by Government agencies or security forces under the present state of emergency".

In anticipation of the visit, the European Commission announced a few days before that it had approved a €615,000 package of assistance to Nepal, aimed at reducing the impact of the current conflict on existing EU assistance programmes. The package is financed under the European Commission's Rapid Reaction Mechanism. The assistance was said to be a response to the growing instability in the country, which has been under a state of emergency since the breakdown of peace talks with Maoist guerrillas in November 2001.

The EU has well-established development programmes in the heartland of the conflict. It added that this presented an opportunity for the EU to play a role in addressing some of the underlying causes of the conflict. But it also underlined that its long-standing assistance programmes risked being jeopardised by the conflict. The latest aid package was said to seek to address this threat by: encouraging local mediation efforts in mid-western Nepal; addressing the needs of marginalised social groups in mid-western Nepal and the Terai, which have in the past been recruiting grounds for Maoist insurgents, and ensuring access to objective information to populations affected by the conflict through broadcast and narrowcast radio.

Conflict Prevention a Priority

The package forms the first stage of a revised strategy for EU assistance that is under discussion with the Nepalese authorities. In future EU assistance will attempt to be more closely focused on addressing the underlying causes of conflict in the country.

Since 1977, The EU has committed more than €130 million in development assistance to Nepal. Focal areas have included irrigation and rural development, as well as programmes in animal health, watershed management, reproductive health, primary education and institution building.

The European Commission in early 2002 also released the findings of an independent survey it had ordered of possible conflict-prevention measures for the EU to support in the country. The external mission concluded that "The root cause of the Nepal conflict is a complex web of interacting factors. These include uneven development within the country; endemic corruption; the politics of the Palace, both internally and externally, and their relationship with the army; ethnic and caste inequalities; intense politicisation; human rights abuse; social exclusion and deprivation, and inadequate infrastructure development. Successful conflict reduction initiatives must take into account and address these underlying factors as well as poverty alleviation, economic development and political mediation."

A similar study was undertaken in late 2001 by the German aid agency, GTZ, which also has an office in Kathmandu and extensive operations in the country.

Through the efforts of such organisations, including Britain's DfID, the international donor community in the country has set up and activated a "Peace Support Group." Part of this effort, according to the GTZ analysis, has included "exerting pressure on national politicians to introduce social reforms, such as land reform, a reform of the inheritance law for women, extending the rights of *kamaiyas* (bonded labourers), and ending discrimination against *dalits* (occupational castes and untouchables)."

While these analyses note that the Government initially sought to negotiate with the rebels, ceasefires were abandoned and both sides were reported to abuse the population and threaten aid projects. The GTZ report notes that "Popular perception is becoming equally disillusioned with the government and the Maoists, since neither is convincingly fulfilling the fundamental demands of the people for good livelihoods and good governance."

PM Seeks Outside Aid

The visit to EU institutions in Brussels in August was the latest in a series of such missions to seek outside understanding or assistance. These have included contacts with the country's giant neighbours, China and India, with Western donors in the US and UK. India has provided security and intelligence assistance and the Bush Administration has sought $20 million in aid from Congress.

When he took office in July 2001, Sher Bahadur Deuba was regarded as conciliatory, and he immediately moved to initiate negotiations with the rebels. The talks and ceasefire broke over rebel demands for a constituent assembly which could put the monarchy's future in question. Shortly afterwards the rebels resumed their deadly attacks and the government moved to crush the uprising. Some reports have put the number of killed on both sides in the past few months as being higher than in the previous five years of relatively low-intensity combat. ■

Arms Sale to Nepal Sparks Storm

Belgium, the EU member playing host to the Nepalese Prime Minister, last month found itself unexpectedly embroiled in a domestic political controversy resulting from a contract awarded by Nepal to one of its defence manufacturers, to supply military equipment to assist the Government in its struggle against guerrilla rebel attacks.

A heated internal political debate in Belgium erupted on the eve of the visit over the order for a reported 5,000 machineguns produced by the old-established Belgian arms firm, FN Herstal, to an initially-undisclosed destination. Green Party members from the Flanders region sparked the crisis when they sought details about the deal, and questioned whether it was in keeping with an EU code of conduct regarding arms sales to zones of tension or for internal repression. A Green Cabinet Minister resigned from the Belgian Government in protest, also citing reports that Germany had previously refused such a contract with Nepal.

Belgian Foreign Minister Louis Michel issued a strongly-worded defence of the export license, which had been approved in July by a Cabinet special committee, after it was disclosed that the detination was Nepal. The cost, terms and other details of the sale were not immediately made public, but the debate was quickly enlarged when it was revealed that the same Cabinet group session had also approved orders for aircraft equipment by other Belgian firms for India and Pakistan in the midst of their tense military standoff over Kashmir. Later it was disclosed that the FN firm had previously contracted arms deliveries to Nepal in 1999, and that the recent export license might actually involve that transaction. ■

Signs of possible change emerging in North Korea

by David Fouquet

Amid indication that the country may be embarking on some profound systemic changes and emerging further from its half-century of isolation, Europe, the West and other key partners have renewed dialogues recently with North Korea.

A major occasion for such contacts was the participation of the DPRK Foreign Minister at the ASEAN Regional Forum gathering in Brunei in late July when he met with EU, American and other counterparts involved in the annual meeting. These encounters were followed by reports that Pyongyang could be open to positive contacts with the US and EU, but were typically mixed with somewhat contradictory signals that led to Western interpretations of a possible division of attitudes there.

But among the signals visible during the period were the ceremony in August to mark the groundbreaking for the long-stalled nuclear power plants to be built as part of the 1994 international agreement that created the Korean Energy Development Organisation (KEDO), statements that the DPRK was ready to resume discussions with the US, and some progress said to have been registered at the most recent meeting with South Korean officials.

The sometimes contradictory nature of signals originating from the country was illustrated in recent weeks when it engaged in a ferocious naval battle in contested sea waters with the Republic of Korea Navy, for which it later expressed regrets. A few weeks later found President Kim Jong Il emerging from isolation to undertake a second train ride to Russia in as many years. Later in the month, it was also announced that Japanese Prime Minister Junichiro Koizumi would visit North Korea for the first time in mid-September, when it was reported that he would propose the creation of a six-nation group, composed of Japan, China, North and South Korea, Russia and the US, to discuss security issues on the Korean Peninsula, a plan first proposed in 1998 when then-Prime Minister Obuchi met Kim Il-Sung.

These developments were taking place approximately a year after the historic North-South Summit meeting and after the first high-level EU-DPRK meeting in Pyongyang during the visit of Swedish Prime Minister Goran Persson. During that visit, the North Korean leader was said to have recognised the need for economic reform and expressed interest in learning more about European economies and restructuring.

However, much of the enthusiasm generated by these key encounters stalled following the American Presidential election in late 2000 and the incoming Bush Administration review of policy which included a stunning reference by President Bush to an "axis of evil" that included Iran, Iraq and North Korea in his State of the Union message to Congress in January 2002.

In the year since the EU-DPRK Summit meeting in Pyongyang in May 2001, a number of EU member countries established diplomatic missions there and a number of initiatives took place, including the signing of a DPRK-Sweden technical co-operation agreement and shipments of 6,000 tonnes of frozen meat from Germany. These activities were part of a European campaign to assume a role in support of the diplomatic initiative by South Korean President Kim Dae-jung that was highlighted by the first-ever Summit between the leaders of the two separated neighbours in 2001, which initiated a series of ambitious but difficult talks on a number of subjects.

EU interest also culminated in 2002 with a specific Country Strategy Paper issued as guidance in shaping development and economic relations with North Korea. It noted that the EU Commission had already provided food and humanitarian assistance worth some €243 million since 1995 and planned in addition to existing assistance programmes a further budget of €15 million for the period 2002-2004.

This document recommended that policy regarding aid to the country of 23 million centre on poverty reduction. It said that "the Community's development co-operation with North Korea will focus on a reversal of the sharp decline in the welfare of the population. Reducing poverty implies addressing a range of economic, political, social, environmental and institutional shortcomings." It added that "the integration of the DPRK into the world economy is a necessary condition for the economic and social development." The three main priorities in this EU strategy revolved around institutional support and capacity building, sustainable management and use of resources and a reliable and sustainable transport sector.

Two major EU projects involving North Korea revolved around aid in increasing energy production and on training government officials and economic managers on the principles of market economics and trade relations.

What followed included an international co-ordination meeting of donors in Brussels on March 16, 2001, and a series of visits by North Korean delegations to Europe aimed at setting in motion these plans.

Hints of economic policy changes in North Korea began emerging in July 2002, with journalistic reports that significant policy changes appeared to have been introduced in the country without being accompanied by formal announcements. Among the changes perceived by European diplomats on the spot included price and salary increases, greater use of currency and apparent opening of free markets in farm produce.

In recent weeks, however, the relationship between the EU and the DPRK has accelerated. One occasion was a meeting involving the Danish and North Korean Foreign Minister and the EU High Representative for Foreign and Security Policy in the margins of the annual ASEAN Regional Forum on security issues. Both the EU and the DPRK are dialogue partners in the ARF. The ARF meeting in Brunei on June 30 and July 1 was also the occasion for the North Korean Foreign Minister Paek Nam-Sun to meet with US Secretary of State Colin Powell and other colleagues in a period during which expectations were heightened for a resumption of high-level meeting between North and South Korea and with the US. Following that meeting, the EU Representative Javier Solana was reported to have expressed the hope that Kim Jong Il visit South Korea before the Presidential elections scheduled in that country in December. Paek Nam-Sun also told journalists that his country remained committed to the North-South dialogue and that the return summit would take place "when the context is appropriate."

Informed European sources said that Solana had argued that it would be wise for North Korea to make a positive sign prior to the Presidential elections in South Korea later this year or risk finding a less-committed leadership in Seoul in the future. However, these European sources indicated that the DPRK Foreign Minister was non-committal on this and all other issues.

Crucial contacts during that period involved similar meetings at the ARF session with the North Korean and American foreign policy chiefs as well as other meetings elsewhere aimed at resuming their bilateral contacts, which were frozen following the American presidential election in late 2000. The Secretary of State for the outgoing Clinton Administration, Madeleine Albright, had made a last desperate voyage late that year in an attempt to conclude an agreement involving inspections, restraints on missile testing and arms shipments on the part of North Korea in return for additional American aid and co-operation. The incoming Bush Administration initially delayed in resuming such talks while conducting a policy review and later associated North Korea as part of an "axis of evil" with Iraq and Iran, raising concern in both North and South Korea of possible coercive action by Washington.

In another highly symbolic event at roughly the same time, foundation-laying ceremonies were held August 7 in Kumho near the North Korean coastline on an international project to construct a nuclear power reactor promised under the terms of the Agreed Framework concluded by North Korea and a number of international partners in 1994. The accord, to which the EU, US, Japan and China are parties, to provide the country with an alternative to its own plans for nuclear power suspected at the time of being capable of producing weapons-capable materials. At the ceremonies for the $4.6 billion project, Western diplomats were reported to have underlined the importance attached to the long-delayed project to prevent nuclear weapons proliferation. The project has been the main task of the Korean Energy Development Agency (KEDO), but would be dependent on agreement for international inspection by the International Atomic Energy Agency in Vienna, which has said it would require some three years to conduct verification of North Korea's facilities.

The EU has contributed €95 million to the KEDO project between 1995 and 2001 and has agreed to provide some €20 million annually until 2005. In addition, in a move timed to coincide with these developments, the European Commission decided August 1 to allocate €4.1 million in humanitarian aid for actions in health and food shipments to the country. The funds from ECHO, the European Community Humanitarian Aid Office, would cover medicine and orthopaedic equipment and transfusions, as well as food rations for a number of patients and malnourished children. The donation brought the total of aid distributed to North Korea by ECHO to €21 million since January 2000.

The momentum of these numerous developments in recent weeks seemed to momentarily unlock deadlocked discussions between North and South Koreas in the process initiated at the June 2001 Summit aimed at normalising relations after more than 50 years since the end of the Korean War. Further moves were awaited by both North Korea and the US to clarify and expand these trends of recent weeks.

The situation on the Korean Peninsula was also recently the subject of an analysis in the London International Institute for Strategic Studies (IISS) quarterly Survival, which suggested that despite the unlikelihood of major systemic changes in Pyongyang in the near future, a realistic policy of engagement should be conducted. Another review of EU-DPRK relations aiming at provide possible policy options for the future will also be conducted under the auspices of the European Institute for Asian Studies in Brussels in October. ■

Burma's Junta Releases Suu Kyi

by Dick Gupwell

Mrs Aung San Suu Kyi, the leader of Burma's National League for Democracy, was finally released from house arrest on 6 May. She had been in detention for nineteen months. Many months of discussions had been undertaken with the ruling military junta, the State Peace and Development Council (SPDC), including numerous meetings involving the Malaysian UN representative, Razali Ismael.

There was speculation as to whether the release of Aung San Suu Kyi had been influenced by the arrest, in March, of the son-in-law and three grandsons of the former military dictator, Ne Win, now 92 years of age. The SPDC claimed that these members of Ne Win´s family had been plotting a coup to seize power with certain military officers and were frustrated at the declining influence of the family of Ne Win, who had ruled Burma from 1962 to 1988.

Suu Kyi, the daughter of the leader of Burma's independence movement, Aung San, had returned to the Burmese capital, Rangoon, to nurse her sick mother when the student uprising took place, in 1988, shortly after Ne Win had stepped aside. She soon found herself the head of the National League for Democracy (NLD). Her party then won a landslide victory in the 1990 elections but the military junta, then called the State Law and Order Restoration Council (SLORC), refused to summon the Parliament. Mrs Suu Kyi spent many years under house arrest but she was released in 1995, although confined to the capital. When she began to try to visit party branches outside the capital, she was again confined by the authorities to her home, in September 2000. The anti-democratic policies of the Burmese military rulers caused the EU to impose limited sanctions, especially over the question of labour standards and the widespread existence of forced labour. Subsequently, the ILO also imposed measures against Burma. When Burma was admitted to membership of ASEAN, this lead to serious strains in the EU's relations with the regional grouping.

However, during 2001, there appeared to be a certain amount of movement in the hitherto inflexible position of the SPDC. A proportion of the many hundreds of NLD political prisoners were released. Confidential talks began involving Aung San Suu Kyi and representatives of the ruling junta. In March 2002, the SPDC also reversed its earlier policy and agreed to allow the ILO to set up a permanent liaison office in Rangoon. Moreover, an NLD spokesman, U Lwin, reported that the party had now been allowed to re-open some of its offices and hold meetings involving small groups of people. Late in April, Razali Ismail, on another mission to Rangoon, met the top SPDC leader, General Than Shwe, and suggested that developments could now unfold "quite quickly".

On her release, on 6 May, Aung San Suu Kyi said, "I hope to be able to carry out all my duties for my party and my country in the best possible way." She said, "My release should not be looked at as a major breakthrough for democracy. For all people in Burma to enjoy basic freedom, that would be a major breakthrough." An SPDC spokesman said, "As of today, she is at liberty to carry out all activities." He said, "We shall recommit ourselves to allowing all of our citizens to participate freely in the life of our political process, while giving priority to national unity, peace and stability." Mrs Suu Kyi stressed the need to continue the dialogue with the military in the hope of finding a resolution to Burma's political crisis. She said, "Both sides agree that the phase of confidence-building is over. We look forward to moving across to a more significant phase in our dealing with each other." On 7 May, Suu Kyi spent the day consulting with foreign diplomats and party supporters. The next few days were spent largely in consultations at home and at party headquarters. Then, on 17 May, she visited the NLD offices in Shwepyitha, some 30km from Rangoon. There were no problems with the authorities. Subsequently, on 14 June, she went on a pilgrimage to Karen State to visit the venerable Buddhist monk, U Winaya, at Thamanya Hill. Again, no trouble was encountered.

Burma, which is a country of 48 million people, was still one of the wealthiest in Asia at the end of the 1940's. Political and economic mismanagement, especially after 1962, has gradually reduced it to one of Asia's poorest. This has been most marked since the end of the 1980's. For example, in the early 1980's, bilateral development aid to Burma was around $530 million per year. Now it has fallen almost to nothing. Manufacturing currently accounts for only 7% of GDP. Government tax revenues, which were only 3.7% of GDP in the mis-1990's, fell further to 2.3% in 1999-2000. Meanwhile, inflation has averaged 27% per year for the past six years and was 50% in 2001. The value of the national currency, the kyat, has been reduced by half since January 2001. Apart from foreign assistance to Burma to develop offshore oil and gas reserves, which, along with profiteering from logging and narcotics, has kept the SPDC's administration (barely) afloat, there has been a complete absence of investor confidence. However, gas revenues have fallen and Burma still has to import oil. Only a political settlement, which involves the recognition of the NLD as a major player in Burmese politics, can reverse this situation. It is notable that, within three days of Suu Kyi's release, the value of the kyat, had risen 30% against the US dollar. ■

THE EUROPEAN PARLIAMENT

by John Quigley

Strasbourg Plenary 1st-4th July

EU-Japan Agreement

Parliament adopted a legislative Resolution, on 3rd July, on a European Union-Japan Agreement concerning co-operation on anti-competitive activities. This Resolution, approving the Agreement, was adopted under the consultation procedure. The Commission proposal (COM(2002)230), which was adopted in May, went before the Committee on Industry, External Trade, Research and Energy, where it was decided to use the procedure without report to send the issue to plenary. The Agreement, when adopted by Council, would establish a method of co-operation between the competition authorities of Japan and the European Union. In an era of very rapid expansion of international trade, the problems encountered by firms often have a global dimension. The agreements made between companies and competition authorities may impact upon the competitive nature of companies in other countries.

The Agreement would promote the effectiveness of anti-trust enforcement, and should reduce the likelihood of conflicting competition decisions by requiring the Competition Authority to notify its partner of any enforcement activities that would affect its "important interests". Once it has been adopted by the Council of Ministers and the Japanese Diet, either party can terminate the Agreement by giving 60 days notice. Both parties would have to undertake a review of the Agreement once it had been in force for 5 years. The Community already has similar agreements with the United States and Canada.

UN World Food Summit

Parliament adopted a Resolution, by emergency procedure, on 4th July, on the conclusions of the United Nations World Food Summit. It described the proceedings "a failure;" despite the fact that food security and sustainable rural development are among the key priorities of the EU's development policy. The Summit, which took place between 10th-13th June, was attended by representatives of 183 nations. Their aim: eliminating hunger world-wide and making substantial progress on the results of the 1996 World Food Summit. The Director General of the Food and Agricultural Organisation (FAO), Jacques Diouf, said that eliminating hunger "was a moral imperative," and the fact that the hungry are as numerous as ever was "a dismal reality". Parliament's Resolution criticised the Summit as having "done little to address the problem" of world hunger, and said that the June Summit merely "repeated promises made in 1996". The 1996 Summit had set a deadline of 2015 to halve the number of 815m people suffering from hunger, but that deadline "had now been declared unrealistic".

The Resolution criticised both the Commission and the Member States in equal measure. The Commission, Parliament believed, should have committed itself to a coherent EU strategy for the EU's agricultural and fisheries policies and the trade policy within the WTO framework. Apart from Silvio Berlusconi, who was hosting the Summit, the only other EU leader to attend was the Spanish Prime Minister, José Aznar López. The EU should ask other industrialised countries to adopt initiatives similar to the Everything but Arms programme, which opened up the EU market for eventual duty- and quota-free access for products from 49 least developed countries. Another element of the Resolution urges the Commission and Council not to use EU food standards to create an artificial barrier to trade with developing countries. The EU should work with the FAO to establish "reasonable derogations," and to give financial support to developing countries to help them meet such criteria.

One of the concrete decisions of the Summit was to set up an Inter-governmental Working Group to evaluate within two years a set of guidelines towards implementing the right to adequate food. The Resolution welcomed this decision, saying that the FAO should have an active role in determining and implementing the international legal instruments required for the management and control of shared resources. Parliament wants the Community to urge the United Nations to establish a conference of the 183 member countries of the FAO to review its structure, management, budget and operations. This review should facilitate greater co-operation between international and bilateral donors, so that development aid can be delivered more effectively. The commitment to food aid must, the Resolution states, be reserved for emergencies and should be granted solely in the form of donations. Preference should be given to the purchase of food locally. Any aid should have the long-term aim of rebuilding the productive capacity of the country or region affected. One way would be to develop micro-finance and low-interest credit schemes in developing countries, which would promote rural economic development, fishing and local food processing centres. Lastly, the Resolution called for a binding international code of conduct on the right to adequate food.

Speaking on behalf of the Council during the debate in plenary, Bertel Haarder, Denmark's Minister for

Europe, said that while the number of starving people in the world had fallen since 1996, the scale was nothing like what had been envisaged and was a far cry from the average annual drop of 22 million that was needed to meet the 2015 target. The EU emphasised two main objectives at the Summit: (1) that the primary responsibility for development rests with developing countries themselves and (2) the international community has a responsibility to assist them. In some developing countries, the problem is only one of securing proper distribution and access to food supplies.

The EU, Haarder said, had shown the way to developing countries on market access with the adoption of the Everything but Arms initiative. The EU is making "substantial efforts" towards combating hunger and poverty, he noted, pointing out that the EU and its Member States contribute over 50% of total global development aid. Haarder emphasised at the Summit that developed countries should strive to reach the 0.7% GDP target. The Commissioner for Development and Humanitarian Aid, Poul Nielson, felt that the Summit Declaration had missed one key element, namely that problems other than agricultural production and productivity are also central to food insecurity. The Summit, he said, failed to "denounce and clarify" the crucial causes of hunger, which are bad governance and man-made disasters. The FAO had placed too much emphasis on securing additional development aid, and on the role of agriculture and rural development. Rather, Neilson indicated, developing countries need to overhaul their national development policies to take account of the rural poor and food insecurity. The Commission will present in the autumn a Communication on "Fighting rural poverty – a European Community policy and approach to rural development and sustainable natural resources management in developing countries".

There are 22 Asian nations represented at the FAO, with 9 Council seats. Europe, in contrast, with 43 countries has only 10 Council seats. The Council is the executive body of the FAO and meets approximately three times within a two-year period. China, India, Japan, South Korea, Pakistan, the Philippines, Sri Lanka and Thailand are currently members of the Council.

India and Pakistan

On 4th July, Parliament adopted a Resolution, by emergency procedure, on the outcome of the European Council meeting, which was held in Seville on 21st-22nd June. The wide-ranging Resolution covered issues including the reform of the Council, enlargement, terrorism, the Johannesburg summit, the Middle East, and the European Security and Defence Policy. Regarding the statement adopted at the Seville Council on India and Pakistan, the Resolution indicates that Islamabad should take action to "prevent terrorist groups operating in and from its territory". Groups infiltrating across the Line of Control in Kashmir should be targeted as part of Pakistan's international obligations. Pakistan should comply with the terms of the United Nations Resolution 1373 (2001) on threats to international peace and security caused by terrorist acts. Parliament's Resolution also examines India's role. It encourages New Delhi to "take further de-escalatory steps" towards creating a lasting solution. These steps should commence with a bilateral dialogue with Pakistan, and could also involve the European Union as a "facilitator for contacts" in bringing the two sides to the negotiating table. To start the process, Parliament would like the High Representative for CFSP, Javier Solana, to visit the region. Referring to the forthcoming elections in Jammu and Kashmir, Parliament states that they should be "free, fair and inclusive". Speaking during the debate in plenary on behalf of the Socialist Group, Max van den Berg, warned of the grave concern of the PSE for the Indo-Pakistan situation. Pakistan, he said, must comply with the UN Resolution 1373 (2001) and end cross-border infiltration. He suggested that the EU should act as a facilitator, acting in a multilateral manner as opposed to the unilateral actions of the United States.

Questions to the Council

Loya Jirga

During the Strasbourg plenary, on 3rd July, Bernd Posselt (PPE-ED) posed a question to the Council querying the Presidency's assessment of the *Loya Jirga* and wanting to know the measures the Council planned to undertake to help stabilise Afghanistan further. Bertel Haarder, a former Member of Parliament, who was appointed by Fogh Rasmussen to the position of Minister for European Affairs, replied on behalf of the Council. The Council, Haarder said, was "generally satisfied" with the outcome of the *Loya Jirga* process that was held in June in Kabul (for details see *EurAsia Bulletin* Vol. 6 No. 5&6). By choosing a Head of State and approving the structure of the transitional administration, the meeting "successfully fulfilled the Bonn Agreement objectives" (for details of the Bonn Agreement see Vol. 5 No. 12 p15). The *Loya Jirga* has had both popular and widespread political support. It has a good ethnic balance and a significant number of women representatives. However, the Council recognised the difficulties in the run up to the *Loya Jirga*, which included attempts to harass, bribe or kill delegates. These difficulties did not affect the political legitimacy of the meeting and will not hinder further reconciliation.

EU reconstruction aid, Haarder said, would be conditional upon "all Afghan parties making a positive contribution to the objectives agreed at Bonn". The Community and the Member States had pledged

€600m for Afghanistan for this year alone, with a total of €2.3bn up until 2006. The Commission would continue to provide humanitarian aid. The Declaration agreed in Seville stated that, following the request from the UN Human Rights Commission, repatriation aid will also be provided. Several Member States are currently involved in training an Afghan army, border guards, a police force and anti-drugs squads. Afghan leaders have had numerous high-level meetings with EU leaders and the Commission, to increase the visibility of the EU and to assist in channelling EU aid.

WTO and LDC's

Liam Hyland (UEN) raised the "Everything but Arms" programme adopted by the EU, in February 2001, which allows duty-free access for imports from the least developed countries (LDCs). Calling the initiative a "world first", Hyland called on other developed countries to follow the EU's lead. He wanted a statement from the Council outlining what progress had been made in implementing the programme. Bertel Haarder, Danish Minister for Europe, replied that the Everything but Arms initiative was designed to first allow preferential access to the European Community but had the ultimate goal of duty-free and quota-free access for all goods from developing countries, except weapons. Ahead of the Doha WTO ministerial meeting, in November 2001, the EU called on other developed countries to adopt similar initiatives. The other countries that have done so – Japan, Canada, the United States and New Zealand – had not opened up their domestic markets to the same extent as the EU had done. An UNCTAD study on the LDCs concluded that the EU initiative will benefit the LDCs but that the benefits would be greater if Japan, Canada and the United States were to adopt similar measures.

Indo-Pakistan Tension

Elizabeth Lynne (ELDR), recognising the "recent deterioration" in Indo-Pakistan relations, asked the Council whether a solution to the Kashmir dispute should be found urgently, given the threat of war. She wondered whether the EU, as a neutral partner, could act as a facilitator in talks. The Council replied that the rise in tension was "extremely worrying" and that it was urgent that a solution to the Kashmir issue be found. Intense diplomatic efforts by the Community are taking place with visits to both countries by Chris Patten the Commissioner for External Relations, Javier Solana the High Representative for CFSP and Jack Straw, Britain's Foreign Minister. In its Declarations, the EU had urged both sides to reduce the level of tension, resume bilateral dialogue and use the Simla Agreement and Lahore Declaration as a basis for solving the dispute. As long as India continues to reject third party involvement, the European Union could have no role in acting as a facilitator, even though the Council would be ready to undertake such a task. ■

THE EUROPEAN COMMISSION

by John Quigley

Sulphanilic Acid from India

Anti-Dumping Measure

The Commission, on 9th July, adopted a proposal (COM(2002)373) for a Council Regulation imposing a definitive anti-dumping duty on imports of sulphanilic acid originating in the People's Republic of China and India, and collecting definitively the provisional duty. The main uses for sulphanilic acid are in optical brighteners, concrete additives, dyes and colours. In April, the Council imposed provisional anti-dumping duties on imports from China and India. Before adopting definitive duty rates, interested parties were invited to submit comments to the Commission.

One Indian exporting producer queried the Commission's methodology in determining the profit margin used in assessing normal value. The Commission rejected the suggestion that the opening and closing stocks of the product should be taken into account, not least because two different costs of manufacturing for the same purpose, could not be accepted. The Commission did not receive any comments concerning the findings of dumping established in the original investigation. The dumping margin for China was confirmed at 21% and for India at 24.6%. Exporting producers questioned the definition of the Community industry and the method how the Commission established figures for imports into the EU, particularly when one major company had an administrator appointed to run its affairs by a French court until January 2003. The Commission stated that as the company will continue, at least until that time, the company could avail of the protection offered by anti-dumping duties.

A Chinese company, Mancheng Gold Star Chemical Industry proposed a joint undertaking with a State-controlled company. However, the Commission rejected the offer because of the high probability of circumvention and due to the fact that Mancheng did not meet the requirements to be granted individual treatment. However, the Commission proposal would accept an undertaking from a co-operating Indian producer, who agreed to sell the product at price levels that would eliminate the injurious effects of dumping. Thus, if adopted, this proposal would impose a definitive anti-dumping duty of 21% on Chinese companies and 18.3% on Indian companies, with an exception for one named exporting producer.

Anti-Subsidy Measure

The Commission adopted a proposal (COM(2002)376) for a Council Regulation imposing a definitive countervailing duty and collecting definitively the provisional countervailing duty on imports of sulphanilic acid originating in India. The proposal was adopted on 11th July. In April, the Council adopted provisional countervailing duties on Indian exports to the Community. Before the introduction of definitive measures, the companies concerned had an opportunity to submit comments to the Commission. During that process, the definition of the product was questioned. The Commission concluded that the technical and purified grades of sulphanilic acid under review, shared the same chemical characteristics, and would therefore be treated as one single product. The Commission analysed comments received relating to several subsidy schemes being operated by the Indian government. These included export processing zones, the duty entitlement passbook scheme, the income tax exemption scheme, the advance licence – advance release orders scheme and the package scheme of incentives offered by the government of the State of Maharashtra.

In the last example, the State government offered subsidies to companies in certain geographical areas. The State claimed that exports from these areas should be duty free to the Community because the subsidies were operated within the terms of Council Regulation EC/2026/1997 on protection against subsidised imports from those countries not members of the European Community. Under that Regulation, if subsidies are operated to promote regional development, then the exported product may not be countervailable (for details of a change to that Regulation see below the section "WTO Agreement on Subsidies"). However, the Commission found that the per capita income in the State was 60% higher than the national average and, thus, denied the State's request.

During the investigation period, Community producers suffered injury in terms of price depression and price suppression. The average selling price declined sharply between 1997 and 1998 as the pressure of increasing import volumes made its impact. Overall, the Commission received a "high level of co-operation" from the Indian companies concerned. This led the Commission to set the residual subsidy margin at the level of the subsidy found for the co-operating producer, at 7.1%. Once the provisional measures had been imposed, one Indian company, Kokan Synthetics & Chemicals Pvt Ltd, gave an undertaking to the Commission that they would only sell in the Community at a price that would eliminate the effects of the subsidisation. Kokan Synthetics would thus not be subject to the duty but all other companies would pay a rate of 7.1%.

Coal and Steel Community

The Commission adopted a proposal (COM(2002)395) for a Council Regulation, on 11th July, amending Council Regulation EC/963/2002 laying down transitional provisions concerning anti-dumping and anti-subsidy measures adopted pursuant to Commission Decisions ECSC/2277/1996 and ECSC/1889/1998, as well as pending anti-dumping and anti-subsidy investigation, complaints and applications pursuant to those Decisions. With the Treaty on the European Coal and Steel Community set to expire on 23rd July, the Commission has published this proposal to absorb outstanding anti-dumping and anti-subsidy measures into the Treaty on the European Union, within the terms of Council Regulations EC384/1996 and EC/2026/1997. These measures concern pending investigations and complaints and, when adopted, would update the Annex to Council Regulation EC/963/2002 on transitional measures for anti-dumping and anti-subsidy proceedings, which was adopted in June. The Annex would include updated information concerning flat rolled products of iron or non-alloy steel (hot rolled coils) from India for both anti-dumping and countervailing duties for several named companies.

WTO Agreement on Subsidies

On 19th August, the Commission adopted a proposal (COM(2002)468) for a Council Regulation amending Council Regulation EC/2026/1997 on protection against subsidised imports from those countries not members of the European Community. In December 1999, a World Trade Organisation (WTO) Agreement on Subsidies and Countervailing Measures, to which the Community was a signatory, expired. That Agreement established that certain subsidies for environmental, research or regional development would not be countervailable. The Council adopted Council Regulation EC/2026/1997 to implement the terms of that Agreement in the Community. Now that the Agreement has expired, the major trading partners of the EU (United States, Japan and Canada) no longer provide the exemption for the three areas. However, by leaving the 1997 Regulation unamended, the Community had placed itself at a disadvantage during countervailing investigations.

Thus, the Commission proposal would repeal the provision in Community law that provides for the exemption for environment, research and regional development subsidies. At the same time, the Commission proposal outlines further amendments to the 1997 Regulation. The Commission would like to amend the guidelines that establish how the level of benefit derived from a subsidy is calculated. Normally, this would be established through a market benchmark. However, such a benchmark would not exist in non-market economy countries. The proposal would provide that a benchmark could be determined by adjusting the terms and conditions prevailing in the country concerned or, if prices of costs are unreliable or do not exist then, a benchmark could be established through a comparison with another country's market or on the world market. (For details of the regional development subsidy in practice, see the section "Sulphanilic Acid from India" above).

International Cocoa Agreement

On 30th July, the Commission adopted a proposal for a Council Decision on the signing and conclusion, on behalf of the European Community, of the International Cocoa Agreement 2001. In September 2000, the Council had authorised the Commission to negotiate, on behalf of the Community, an extension to the Cocoa Agreement. Then, in March 2001, the Commission represented the Community during the negotiations for a successor agreement in Geneva. The negotiations took place under the auspices of the United Nations Conference on Trade and Development (UNTACD). The role of UNCTAD is to promote economic growth in developing countries through employment, income and export earnings. UNCTAD does this by helping commodity-producing countries to improve supply capacity and by promoting product diversification. Once the Council adopts the Commission proposal, the Agreement can be signed and the instrument of approval formally sent to the UN Secretary General, Kofi Annan. The Commission requested that this be done before 1st September 2002. Otherwise, if not enough member countries have acceded to the Agreement, its ratification would be delayed.

In May 2001, the Council adopted a Council Decision advocating the two-year extension of the Agreement, until the end of 2003. For details of the structure and objectives of the ICO see *EurAsia Bulletin* Vol. 5 No. 6&7 p40. The European Commission, which used to be represented on the Executive Committee of the ICO, no longer has any member in the governing structure.

The role of the Community in the Agreement is financed by budget line B7-8211 "Membership fees to the International Organisations of Coffee, Cocoa, Jute and other tropical products". The annual budget of this line is €1,000 million. The Council, in April, adopted a Council Decision facilitating the International Jute Study Group, where Bangladesh, India and Nepal are the main producers. For further details see *EurAsia Bulletin* Vol. 6 No. 3&4 p57.

The International Cocoa Organisation (ICO), as part of its remit, organises projects in member countries. Thus, in September 1993, the ICO launched a project in Japan on Generic Promotion of Cocoa Consumption, with the objective of increasing cocoa consumption by 20,000 tonnes over 4 years. By the time the project ended, in November 1997, while total market share for cocoa had fallen, the ICO nevertheless considered the project a "resounding success" in terms of reaching consumers and in the effectiveness of implementation activities. The decline in consumption was put down to the worsening general economic climate in Japan and the unique and highly crowed market place with a high market share for traditional confectionery. According to the ICO, a similar project for China is at an advanced state of preparation.

Sacks and Bags from India

On 13th August, the Commission adopted a proposal (COM(2002)461) for a Council Regulation amending Council regulation EC/1950/1997, imposing definitive anti-dumping measures on imports of sacks and bags made of polyethylene or polypropylene originating in, *inter alia*, India. Such sacks and bags are used in the packaging of goods. Following a request from the European Association for Textile Polyolefins to the Commission for an interim review of the 1997 Regulation, the Commission launched an investigation in January 2001, examining the levels of dumping in the Community market. This investigation, which covered the period December 2000 to November 2001, showed that the number of exporting producers had increased significantly since the original investigation period under the 1997 Regulation. The data examined by the Commission revealed that 4 exporters, who between them represented the majority of exports to Community, "supplied false and misleading information".

Irregularities were found concerning the incorrect reporting of product types, specifications, export destination, quantities, values, and the omission of transactions. This was an attempt, the Commission believed, to increase the average export price to non-dumped levels. Several companies requested individual dumping rates, but given the scale of the misleading information, the Commission could not rely on the data submitted. It was decided to apply the weighted average of the highest dumping margin found. Under Community law, the level of the duties imposed cannot be higher than the injury levels found in the original investigation. The interim review established that the dumping margins for the period December 2000 to November 2001 were lower than the injury levels found in the original investigation. The Commission proposal therefore would impose anti-dumping duties ranging between 6.7%, 17.2%, 20.6%, 24.3% and 33.5% for 23 named companies. All other Indian companies would be subject to a rate of 33.5%. Subsequently, a number of Indian companies, under the terms of the General Agreement on Tariffs and Trade, 1994, with respect to developing countries, offered price undertakings to the Commission to offset the effects of the dumping. The Commission rejected these offers, stating that the price level proposed would not allow for the removal of injurious dumping. Also, the potential for the circumvention of the duty measures was considered too high.

Chinese Textile Exports

The Commission adopted a proposal (COM(2002)465) for a Council Regulation, on 19th August, amending Council Regulation EC/3030/1993 on common rules for imports of certain textile products from third countries. The 1993 Regulation governs the Community's textile trade with certain third countries by applying quantitative limits, issuing of export and import licenses, surveillance documents and rules concerning proof of origin. A separate Council Regulation adopted in 1983 provided for the exemption of certain goods imported into the Community from customs duties under certain circumstances. Usually the exemption is used to permit the import of goods for commercial samples or consignments of negligible value. The Commission proposal would like to incorporate the rules of the 1983 Regulation into the 1993 Regulation to allow textiles to be imported duty-free in certain circumstances, and to ensure there is no legal insecurity and that the possibility of circumvention is ruled out.

Council Regulation EC/1541/1998 establishes general rules on the proof of origin for certain textile and clothing products listed in an Annex to Council Regulation EC/ 3030/1993. According to that Annex, some textile products require a certificate of origin before being allowed free circulation within the Community, while others require a declaration of origin. However, some agreements that the Community has signed with third countries require a certificate of origin for all textile products or require a specific form of certificate of origin. This contravenes the 1998 Regulation, which outlined only the general conditions with which certificates must comply. The Commission proposal would establish a single regulatory system for proof of origin from all third countries by using the 1998 Regulation as standard.

Following the accession of the China to the World Trade Organisation (WTO), in December 2001, part of the Protocol of Accession sets out a specific safeguard clause, which will apply until December 2008. The clause refers to imports to a WTO member of textile products of Chinese origin covered by the WTO Agreement on Textiles and Clothing (ATC). The safeguard clause allows a country to reintroduce quantitative limits if the volume of imports increases dramatically and threatens domestic industry. The Commission proposal would amend the safeguard provisions of Regulation EC/3030/1993 to bring them into line with China's Accession Protocol.

TV Systems from Japan

The Commission adopted a proposal (COM(2002)478), for a Council Regulation, on 30th August, amending the Annex to Council Regulation EC/2042/2000 imposing a definitive anti-dumping duty on imports of television camera systems originating in Japan. The proposal seeks to include several new types of television camera models in the Annex to a 1994 Regulation that imposed duties on models not listed in the Annex. The proposal also states that the exemption granted to these new models can only apply from the date of application to the Commission for a review, and thus not from the date of the entry of the products into the Community market.

In April and in October 2001, the Commission received requests from Victor Company of Japan (JVC) Ltd and Ikegami Tsushinki Co. Ltd to add new models of professional camera systems to the Annex of Regulation EC/1015/1194, thus excluding the models from the application of an anti-dumping duty. The Commission began an investigation to determine whether these new models conformed to the technical definition required. The investigation showed that the new models should be excluded from the duty, as they could not be classified as broadcast or television camera systems. Ikegami believed that the products exported to the Community should be exempted from the duty retroactively. However, the Commission justified applying the exemption only from the date of the receipt of the company's request, stating that sufficient time was needed to complete a technical examination of the models. Also, the exports from Japan were only brought to the Commission's attention after the process of exporting had begun. ■

THE COUNCIL OF MINISTERS

by John Quigley

General Affairs and External Relations Council 22nd July

International Rubber Study Group

The Council adopted a Council Decision EC/651/2002, on 22nd July, concerning the participation of the European Community in the International Rubber Study Group (IRSG). The IRSG is based in the United Kingdom and provides a forum for the discussion of matters relating to the world rubber industry specifically affecting the supply and demand of natural and synthetic rubber. The forum discusses issues relating to marketing, shipping distribution, trade in raw materials and the manufacture and sale of rubber products. While the membership of the IRSG is usually only open to governments, the Council Decision provides for the participation of the Community, in line with other similar groups, such as the International Tropical Timber Association, the International Grains Council and the Internal Cocoa Organisation. Currently, seven Member States are members of the IRSG. Other members include Indonesia, Japan, Malaysia, Singapore, Sri Lanka and Thailand. India participates as an observer government. The current Chairman of the Group is Mr Natee Khlibtong, Deputy Minister for Agriculture and Co-operatives, Thailand.

The IRSG, which was founded in 1944, is financed 60% by basic equal contributions from the member governments with the remaining 40% paid in proportion to a members' production or consumption. The Council Decision accepts, on behalf of the Community the constitution and rules of procedure of the IRSG. The constitution provides that the Group will meet at least once annually to decide and implement activities that will expand world consumption of rubber. The Group can commission studies on the world rubber situation but would, in any case, be supplied by the member governments with statistics concerning the production, consumption and trade in rubber. At meetings a quorum will require a simple majority of members, which would have to include three natural rubber producers and six consumers. The Group would elect an Executive Committee composed of member governments. It would be the responsibility of the Committee propose an annual budget, provide instruction to the Secretary General and supervise the administrative and financial work of the Secretariat.

The rules of procedure of the IRSG outline voting procedures, the limits to the powers of the Executive Committee, membership contributions and membership or withdrawal procedures. Thus, the Executive Committee would not be entitled to suspend or exclude a member government, amend the constitution or rules of procedure or appoint the Secretary General. The 103rd meeting of the Group took place in February this year. As Chairman of the Group, Mr Natee Khlibtong opened the meeting saying that Thailand was caught in a trap of rising rubber production and various attempts to try to increase rubber consumption. In real terms, the revenue from rubber in 2000 was less than in 1980, despite the increase in rubber production. This is a problem, he said, that rests not just with rubber producing countries but, also with rubber consuming countries. Indonesia, Malaysia and Thailand have joined forces, Mr Natee said, to establish the Tripartite Rubber Co-operation Group with the aim of trying to control supply. This would hopefully rectify the stagnant world rubber price.

Bicycles from Taiwan

The Council adopted a Council Regulation amending Council Regulation EC/397/1999 imposing a definitive anti-dumping duty on imports of bicycles originating in Taiwan. Following the entry into force of the 1999 Regulation, one Exporting producer from Taiwan submitted a request to the Commission claiming that it did not export to the Community during the original investigation period. That period covered November 1996 to October 1997. To be successful, under the terms of the 1999 Regulation, the company, Oyama Industrial Co Ltd, would have to show that it had not exported to the Community and that it had no commercial relationship with other exporting producers in Taiwan, which became subject to anti-dumping duties. The evidence submitted to the Commission proved acceptable. The Council Regulation therefore provides that Oyama will enjoy a duty rate of 5.4%, similar to other co-operating producers from the original investigation. In the 1999 Regulation duty rates ranged between 2.4% for several named companies, while other companies enjoyed a rate up to 18.2%.

Korea, Malaysia Iron or Steel Exports

The Council adopted a Council Regulation EC/1514/2002, on 19th August, imposing a definitive anti-dumping duty and collecting definitively the provisional duty imposed on imports of certain tube and pipe fittings of iron or steel originating in the Czech republic, Malaysia, Russia, the Republic of Korea and Slovakia. Following the imposition of the provisional duties, the companies affected were entitled to submit comments to the Commission. Examining these comments, the Commission decided that in view of the magnitude of the dumping margins found, the correct course of action would be to impose definitive anti-dumping duties. One company affected questioned the Commission method of calculating the price undercutting margin given the conclusion reached by the WTO Appellate Body in the Indian bed linen case. In that case, the practice of zeroing, when establishing the existence of margins of dumping was found to be incompatible with the WTO Anti-Dumping Agreement. However, the Commission saw no similarity between the two cases. The definitive revised weighted average price undercutting margins were found to be between 52% to 72% for Malaysia and 23% for South Korea. Thus, a definitive anti-dumping duty was confirmed for all the countries. A specific duty was imposed on one Malaysian company at 59.2% with other countries enjoying 75%. For Korea, a industry-wide duty was set at 44%. ■

Indonesian Forests: A Burning Issue

by John Quigley

Indonesia's forests are more than a natural resource; they also have an important socio-cultural significance for the local inhabitants, according to Stephanus Djuweng, of the Institut Dayakologi in Indonesia. He was speaking at a meeting organised by the European Institute for Asian Studies (EIAS) on 9th July. A leading environmental activist and anthropologist, Mr. Djuweng noted that smoke haze had re-appeared across Singapore and Malaysia in particular, with the start of the traditional burning season, which runs from July to September.

In the 1950's, oak forests covered approximately 84%, or 162 million hectares, of Indonesia's land-mass, which had a bio-diversity second only to that of Brazil. However, degradation of the forests was increasing, with an estimated 1.6 million to 2.2 million hectares disappearing annually. This was due, in part, to the large number of 'forest concessions' granted and the replacement of trees with oil palm plantations.

For Mr. Djuweng, there was a hidden agenda behind the exploitative policies practised by the government led by President Suharto. It included rewarding key generals and army-owned foundations with both money and land grants. In effect, Indonesia needed the money to finance its bureaucracy of over 3 million civil servants. President Suharto was keen to secure the international support of private investors, for reasons both of legitimacy and to hide the authoritarian nature of his government. Revenue generated from the exploitation of the forests was also used to finance Suharto's system of political patronage through, *inter alia*, the Presidency Aid Fund and scholarship schemes.

Over time, it had emerged that five development sectors affected forest management in Indonesia. These included mining projects, logging, oil palm plantations, tree plantations and transmigration and agriculture. Between 1980 and 1990 over 30 million hectares of forest had been licensed out. One of the largest concessions, amounting to 6 million hectares, was to Berito Pacific. In fact just 10 concessions accounted for a large majority of the 30 million hectares licensed out. It had been suggested that in the province of Kalimantan there would be no primary forest left by 2018.

Most of the degradation had occurred in the lowlands, where the farming of forests was prevalent. The remaining stock of primary forest tended to be in the hill and mountain regions. President Suharto opened up the system of land grants without legislating for either land or environmental assessment. Over the period 1997-98, the granting of concessions increased dramatically. By *coincidence*, the number of forest fires rose at the same time, a practice that helped clear the land for agricultural use.

Government policies have been environmentally destructive, Mr. Djuweng noted. The result of successive years of degradation, and a lack of reforestation, has had a serious impact on Indonesia's forests. The destruction has contributed to global warming, for instance. With a dramatic fall in the quantity and quality of Indonesia's biodiversity, the power of the earth to naturally regulate itself has diminished. These practices have violated the human rights of the indigenous peoples. Escalating government corruption, at all levels, has contributed to the rise in the number of violent conflicts, the result of severe competition for forest resources.

Questions and Comments

David Fouquet, Secretary General, EIAS, noted that a report prepared by the Consultative Group for Indonesia (CGI) for 2001 concluded that the exploitation of forest resources, both legal and illegal, was being pursued regardless of the rights of local communities. Some of the responsibility for this lies with the European Union, which has granted export credit guarantees to European companies operating in Indonesia. Dick Gupwell, Treasurer, EIAS, recalled that EIAS was criticised at the Forests of Asia seminar, some 8 years ago, for raising the issue of the destruction of Indonesia's forests. The problem had now reached crisis proportions. Conflicts in local communities were taking place over such issues as mining, logging, plantations and transmigration. Did the settlement of immigrants from Madura in Kalimantan provoke local Dayaks to kill these immigrants in the war over access to resources? Had the new government, since the fall of President Suharto, made any progress in reform or, was the situation as bad as ever? What was the role of the military in forestry operations?

Willem van der Geest, Director, EIAS, said that the presentation had raised the importance of external factors in promoting increased logging. How did these external influences compare to the role of internal factors? Deny Kurnia, Mission of Indonesia to the EU, agreed that the situation is alarming, with the prediction of total forest destruction by 2018. Although the European Union had been trying to assist the government of Indonesia, the solution to the problem had to be found internally. Given that a vibrant democratic society should have a place for non-governmental organisations (NGOs), what had NGOs based in Indonesia been doing?

Paul Lim, Senior Research Fellow, EIAS, wondered to what extent the various plantations, which resulted from the destruction of primary forest, were locally rather than internationally owned? Why would Indonesia accept foreign ownership, particularly in the oil palm sector, where it competes against Malaysia? The underlying solution to the problem of deforestation is to solve the problems of poverty and education. The role of corruption in Indonesian society is clear, but how far can international assistance really counter its influence?

Hasan Kazmi expressed dismay at the large areas being deforested annually. However, to what extent was re-forestation taking place? Tom Roe, European Commission, said that the EU was a leading donor of forestry issues, together with the World Bank and the UK and Swedish governments. The issue of forest law enforcement and trade was delicate, he said. The Commission is keeping track of developments in Indonesia as regards illegal logging, governance and the role of civil society.

The Speaker in Reply

Mr Djuweng noted that the fall of the Suharto government was expected to bring an immediate improvement but, unfortunately, his policies and practices have continued unchanged. The role of the military is increasing, with the army being granted even more concessions. The 1999 Forestry Law had only made matters worse. Local communities rejected the law because there was no recognition of the rights of indigenous peoples.

Ms. Binny Buchori, Executive Secretary, INFID, supplemented Mr. Djuweng's answer. She endorsed the conclusions of the CGI report on the link between economic development and the rise in the number of conflicts between local people and migrants. The IMF had financed a programme to privatise some State-owned mining companies, a move that probably increased the scale of deforestation. The military had a low legitimacy level in the 1990s. However, while they have adapted their approach to the government, over 75% of their annual budget was still covered independently of the government.

Mr. Djuweng saw poor government policy over many years as an important cause of local conflicts. At the structural level, politics, legislation, education and the economy were reasons for violent conflicts. Non-structural reasons included marginalisation, resource competition, social problems and a cultural gap. A study of Dayak violence had found that a major conflict arose every two and a half years. One of the external factors, which prompted the Indonesian government to sell forest concessions, was pressure from the IMF, in an attempt to promote private sector development. An internal factor that should reduce the scale of logging was the promotion by local communities of non-timber forest products. These included eco-tourism, rubber, fishery, honey and rattan products. However, local communities needed to be supported by the international community, Mr. Djuweng pointed out.

Ms Buchori said that NGOs did recognise that the government's performance had improved. However, a democratic and legitimate government should not shirk its responsibilities, and should be held accountable. While NGOs can push the government further along the path of economic recovery, they can not be forced to take over the central functions of the government. While the government may have changed, changing the mindset of the bureaucracy will take a long time. A more decisive Parliament and stronger leadership from the President would send an important signal.

Mr Djuweng stated that companies operating in Indonesia could legally be 100% foreign owned. Approximately 167 plantation companies operate in West Kalimantan, 17 of which are foreign-owned. Some of these companies are based in Malaysia. They find it profitable to operate in Indonesia, as they can secure additional revenue by selling the trees they have cut down when starting oil palm plantations. Moreover, the cost of labour is cheaper than in Malaysia. Companies engaged in felling trees are obliged by law to pay a tax of US$5 per cubic metre, the revenue from which is meant to go towards re-planting. Many companies circumvent the law but are not pursued. The fact that the tax falls under the jurisdiction of the Department of Forestry, and not that of Finance, created additional problems. ■

There's More to Business than Profit

by Navtej Dhillon

Through socially responsible behaviour, companies can play a vital role in helping the European Union (EU) reach its goal of increased economic growth, competitiveness, social justice and sustainable development, says European Commissioner Anna Diamantopoulou. While these remarks might be appear to be no more than a restatement of EU policy, what is new is that the Commissioner is making her point in her Foreword to a publication which is entirely devoted to corporate social responsibility (CSR) in India. The publication, *Corporate Responsibility: A view from India*, is published by the EU-India CSR Network*.

'Social justice' and 'sustainable development' are values and practices that are important not only for Europe but also for countries with which it has major trade links, especially developing countries. It is vital, therefore, that Europe encourages third countries to participate in the debate on corporate responsibility. The European Commission's recent communications on CSR point to the need to involve countries outside Europe in this debate.

Richard Howitt, MEP, explains why this is important. "Corporate social responsibility, as it has been termed, has been largely targeted at European investors, consumers and activists," he writes in his Introduction to the CSR publication. "Yet where are the examples of abuse that have caused the greatest public concern? They are among the suppliers of European companies in the clothing sweatshops of Southeast Asia; in oil and mineral extraction projects in Africa and Latin America that threaten their indigenous peoples…".

And yet Europeans and Indians seldom come together to exchange ideas and share thoughts on how best to deal with some of the sensitive issues in both the regions. It is in an attempt to start such a dialogue that the EU-India CSR Network has published *Corporate Responsibility: A view from India*. This is a unique collection of 15 opinion pieces from European and Indian business leaders and social activists, and it offers numerous, first-hand insights into the business, social and environmental issues, and how European and Indian companies and organisations can forge stronger partnerships to meet these challenges.

Matthew Cadbury, who until recently was the Managing Director of Cadbury India, explains how multinationals can really make a difference in developing countries. He believes that while corporate responsibility is important, the greater benefits to the people of India will only come through greater trade liberalisation. "Successful discussion on trade liberalisation between the EU and India, for example, would create a market of almost 1.5 billion people. Business are in a position to throw their weight behind such proposals". Harriet Lamb, from The Fair Trade Association in the U.K., puts forward an alternative vision. If small producers like coca farmers are to receive a fair price, there has to be intervention in the free market and consumers have to be willing to pay a higher price for these goods, she argues. "Farmers in developing countries are all too often being dislocated by the systematic market distortions of the same rich country governments that most stridently preach liberalisation," she writes.

Rajashree Birla, one of India's best-known corporate philanthropists, points out that in India corporate responsibility, or community development, as she calls it, is not a choice but a necessity if the nation is to progress further. "For us in the corporate world to expect that the government alone should address welfare issues is both unfair and unrealistic," she maintains. "Unlike European countries which are relatively affluent, India's needs are huge and the resources of the state are limited." Prochie Mukerji from Mahindra and Mahindra, one of the top ten Indian private companies, echoes the message of Rajashree Birla. "Corporate responsibility is intimately connected with the larger social, political and economic picture," she writes.

After looking at the impact of foreign investment and trade liberalisation, Harsh Jaitli, who is from a non-governmental organization (NGO) working in villages, concludes that industrial development takes place to suit the interests of business and government. He claims that "instead of 'the Promised Land', villagers are left facing environmental degradation and loss of traditional livelihoods, in exchange for some low-paid, hazardous casual work." He warns that "if we are the prevent a backlash against liberalisation and globalisation, we must treat the communities most affected by it as equal partners."

Parameswar Sethuram agrees that social and environmental standards are key to protecting the communities in rural India. But these standards should not be used by developed countries as non-tariff barriers, aaccording to Mr. Sethuram, who represents the exporters of Tirupur, the site of India's biggest knitwear industry. "The concept of corporate responsibility must be approached with an appreciation of what can reasonably be asked of the business community, keeping in mind the need to maintain its competitive position in a globalised trading environment." ■

*To obtain a copy of the publication, contact Amita Joshi: 32 2 230 8122 or email: csr@eias.org

BOOK REVIEW

Diplomacy of India: Then and Now. Prof. Harish Kapur. Manas Publications, New Delhi. 399 pp. 2002.

Foreign affairs were never really important for India at the time of its independence. The country gave its first Prime Minister, Jawaharlal Nehru, a free hand when it came to foreign affairs. As much of what he did was not especially controversial, it was generally acceptable to the small elite that took an interest in these matters. Even the conflict with Pakistan was viewed as a domestic issue; it took Indians some time to get used to the idea that Pakistan was indeed another country.

This was the state of affairs until 1962, as described by Prof. Kapur in his detailed and stimulating survey of Indian foreign policy. Everything changed with India's defeat at Chinese hands in 1962. Nehru's successors adopted a more practical, more regional and even more aggressive foreign policy. Indeed, after the 1971 victory over Pakistan in Bangladesh, and military initiatives in Goa and Sri Lanka, India's image in the region was that of a domineering country. Meanwhile, Western nations, which had regarded democratic India as a counterweight to Chinese communism, lost interest in the country.

Prof. Kapur's attempt to look at Indian foreign policy in terms of personalities, notably the succession of prime ministers, and the compulsions of domestic issues, is particularly interesting. Nehru was an internationalist, a well-known figure on the international stage. After him there was "total emptiness so far as foreign affairs were concerned…an area of darkness," in Prof. Kapur's words His successors were either too tied down with domestic politics or too indifferent to foreign affairs, with the exception of Rajiv Gandhi, who sought a great power role for India.

The situation changed with the decision of the present Prime Minister, Atal Behari Vajpayee, to go nuclear, a decision with dramatic consequences. Prof. Kapur attributes the decision to two factors. The first was emotional: the belief that India would be treated as a great power only if it went nuclear. The second was strategic. With China already a full-fledged nuclear power, and Pakistan moving in the same direction, helped by China, India had no option but to follow suit. Prof. Kapur suspects, however, that this was really "a leap in the dark," a step that had to be taken but whose ramifications had not been thought through.

His analysis of the factors that influence the decision making process in India, and therefore its foreign policy, will be challenged by decision makers in New Delhi. He describes the whole process as "difficult to fathom." This is partly because India's religious-cultural background, level of economic development and political system are distinctive. Thus India is largely a Hindu society, "dominated by a religion that is otherworldly, abstract, hierarchical and indifferent to history." In their daily behaviour its people are governed by authoritarian family structures and a hierarchical caste system for the most part.

What effect do these cultural factors have on public opinion? As Prof. Kapur points out, there are no institutional or political impediments to the expression of opinion. There is, however, an absence of real interest in "secular affairs beyond one's own concern," according to an Indian sociologist cited by him. Therefore, while British rule created a Westernised middle class, the majority of Indians have remained bound by tradition. The absence of widespread formal education represents a further obstacle to the emergence of an articulate public interest in foreign affairs. Even so, the opinions of the urban population and educated elite are being incorporated into foreign policy, notably as regards nuclear policy.

For Prof. Kapur, the key element in foreign policy is the bureaucracy. And its members, as he notes, are drawn from the cream of the Indian elite. What is more, when the External Affairs Ministry is run by the Prime Minister, which Prof. Kapur believes "has often been the case," they invariably have access to the highest political echelon. But with India moving to a market economy, and with increasing globalisation, economic diplomacy has emerged as "the fulcrum of India's foreign policy."

Given that economics has been, and remains, the driving force behind India's relations with the European Union, an analysis of this relationship would have been welcome. Prof. Kapur does deal with India-EU trade relations, but he confines himself to a relatively brief description of the country's major exports to the EU. The fact is that meetings between Indian diplomats and officials from the European Commission, which is responsible for implementing the EU's trade policy, are no longer very productive. This is the case as regards bilateral as well as multilateral issues.

Economic diplomacy, as the fulcrum of India's foreign policy, is not working particularly well in either Brussels or Geneva. Prof. Kapur's explanation of this failure would make interesting reading. He has written extensively on first the Soviet Union and later China. He is now concentrating on Indian foreign policy. Prof. Kapur taught foreign policy and international relations at the Graduate Institute of International Studies in Geneva until his retirement. ■

1998

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