

## INSIDE THIS ISSUE

### EU Enlargement

by Malcolm Subhan

European history will be made in Athens next April, with the signature of the Accession Treaty granting membership of the European Union (EU) to as many as 10 Central and East European countries\*. This eastward enlargement of the EU will be viewed in Asia essentially in terms of its economic repercussions, whereas its significance for Europe itself is, above all, political. The creation of a 25-nation European Union will mark the end of a critical stage in the process begun half a century ago, with the decision "to create...the basis for a broader and deeper community among peoples long divided by bloody conflicts."

These words are taken from the Preamble to the 1951 Treaty establishing the European Coal and Steel Community. The ECSC was set up by six West European states in the belief that it was possible to eliminate the scourge of war from Europe by pooling strategic assets and sharing elements of national sovereignty. In 1957 the Six adopted the Treaty of Rome, "determined to lay the foundations of an ever closer union among the peoples of Europe." This Treaty gave birth to the European Economic Community (EEC), the forerunner to today's 15-nation European Union, and just possibly tomorrow's United States of Europe.

Robert Schuman, the French Foreign Minister who set Europe on the path to integration, declared in 1953, at the start of the Cold War, "We must build Europe in the interest not only of free countries but also in order to be able to integrate the countries of eastern Europe, once they ask us to accept them as members." Eight of the potential new member states were once members of the Soviet bloc. Together with Malta and Cyprus they will join the EU in time to take part in the elections to the European Parliament, set for June 2004.

The EU's eastward enlargement will mark a high point in the profound changes that have been taking place in Europe since the second half of the 20<sup>th</sup> century. The first half of that turbulent century witnessed two world

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wars and the death of millions of Europeans. The second half, although marked by the Cold War, saw the dissolution of colonial empires, on the one hand, and the gradual integration of much of Western Europe on the other. The Danish government in fact has dedicated its 6-month presidency of the EU to the creation of "One Europe."

The arrival of this One Europe on the world stage is in Asia's interest, just as it is in the interest of Africa and Latin America. The collapse of the Soviet Union left the United States as the dominant political and military power; and although Washington has acted responsibly on the whole, the emergence of a 25-nation European Union can only help bring about a multipolar world. Indeed, the network of economic and political relations which the EU has established with Asian regional organisations on the one hand, and individual Asian nations on the other, must also work to this end.

Given that relations between the EU and Asia are still largely driven by economics, Asian business will be trying to determine how enlargement will impact on the EU's trade and investment flows. The fact is that trade diversion has already begun, given that the potential new members already enjoy duty-free and quota-free access to the EU. And EU firms are already investing in these countries, in order to take advantage of labour costs which are some 20% lower on average, and of geographical proximity. On the other hand, full membership will help reduce income disparities between the new and old member states, by stimulating the former to greater economic activity. Their economies grew by 2.4% last year, as against a growth rate of 1.5% for the 15-nation EU.

Enlargement will increase the area of the present EU by 34%, and its population by 105 million to 478 million. Even so, the economic impact of the 10 new member states on the EU as a whole will be relatively small at first. Their combined Gross Domestic Product (GDP), which came to €405 billion in 2001, was equal to just 4.6% of the EU's total GDP. In Asia, South Korea, with a population of 48 million, had a GDP of €380 billion that year. The GDP per head of the 10 potential new member states stood at 10,400 (in purchasing power standards and current prices) in 2001, as compared to 23,200 for the 15-nation EU. Their trade with the EU amounted that year to €217 billion (imports plus exports), as compared to €108 billion for ASEAN.

These global figures conceal wide differences among the 10 countries that are expected to join the EU in 2004. Thus their GDP ranged from €197 billion (Poland) to €4 billion (Malta), and GDP per head (in PPS) from 18,500 (Cyprus) to 7,700 (Latvia) in 2001. In fact just three countries – Poland, the Czech republic and Hungary – together accounted for 55% of the total

population of the 10 countries, 77% of their total GDP and 75% of their total trade (imports plus exports) with the EU in 2001.

The European Commission President, Romano Prodi, recently listed the costs and benefits of enlargement in a speech to the European Parliament. "I shall not hide the fact that the accession of 10 countries will entail a significant financial burden in the next few years," he told MEPs. While enlargement would lead to the creation of the largest single market in the world, it was "not just about economics." Enlargement was "important primarily for political and ethical reasons," because it would ensure "stability in Europe and the unification of an artificially divided continent."

Stability and unification in Europe will not necessarily mean stability and unification elsewhere in the world. But it could provide Asia a more effective counterbalance to the United States. ■

\*The Central and East European countries are: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. They should join the EU in 2004. Bulgaria and Romania are expected to join in 2007. Turkey has some distance to go in meeting the membership criteria.

.....New Publication.....

**Muslims in Britain**

By Humayun Ansari

The situation of Muslims in Britain is one of the most pressing issues facing British society today. The purpose of this report is to explore Muslim experience in Britain and to call for legislative and policy change. The author considers Muslims' access to education, employment and housing, drawing upon new research and existing statistics as well as case studies and interviews. The report gives an outline of how *Sharia* law and English law conflict in some areas, but have been reconciled in others. Islamophobia and the media, and the experience of Muslims within the criminal justice system, particularly post-September 11<sup>th</sup>, are also examined. Finally, the author examines existing human rights legislation in relation to Muslims in Britain and finds that they are, for the most part, unprotected. A set of recommendations proposes some steps that could be taken to tackle religious discrimination, Islamophobia in the media, and other issues of concern.

Humayun Ansari is an academic specialising in the field of ethnic studies, racial equality, and historical and contemporary Islam. For twelve years he has been Director of the Centre for Ethnic Minority Studies, Royal Holloway, University of London.

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# Sino-EU Textiles and Clothing Trade: Embracing Free Trade

by Wan Yitang, Chinese Mission to the EC

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China is the largest exporter and fifth largest importer of textiles and clothing in the world, while the 15-nation European Union (EU) is the 2<sup>nd</sup> largest exporter and 2<sup>nd</sup> largest importer of these products in the world. The expectation for the further development of textiles and clothing trade between China and the EU is still very high among business communities on both sides.

## ***Integrating textiles and clothing products in the EU***

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According to the Agreement on Textiles and Clothing (ATC), the time for the full integration of textiles and clothing products is set at the beginning of 2005. The EU virtually followed the integration process within the framework of the ATC in the previous three stages of liberalisation. As a result, a substantial part of the quota restrictions by the EU in the textiles and clothing sector has been eliminated, although there is still much left to be done in some sensitive categories.

The Decision on *Implementation-related Issues and Concerns*, adopted at the WTO Doha Ministerial meeting last November, injected new impetus into the integration process of textiles and clothing products, by reaffirming the commitment to full and faithful implementation of the ATC, and agreeing that its provisions relating to the early integration of products and the elimination of quota restrictions should be effectively utilised. The Ministerial meeting also requested the Council for Trade in Goods to examine the proposals concerning the acceleration of the integration process by favourably utilising the growth-on-growth provisions.

## ***China's accession to the WTO***

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China's accession to the WTO evidently demonstrated the commitments of the Chinese Government to further reform and opening up of its economy. Since accession to the WTO, the Chinese government has done its best to implement its commitments. China has bound its tariff rates of textiles and clothing and, at the beginning of the year 2002, it substantially lowered the tariff rates in the sector, offering enormous opportunities to foreign exporters of textiles and clothing products with comparative advantages.

With the gradual liberalisation, according to China's commitments, of sectors for foreign investment in capital-intensive chemical fibre industry and others where Chinese technology still lags behind, there exists a huge potential for foreign investment. Moreover, foreign investment in the distribution sector might also join hands with the Chinese textiles and clothing industry to achieve a win-win outcome.

After China's accession to the WTO, it will be able to enjoy the systematic resolution of trade conflicts with the EU in the textiles and clothing sector within the framework of the Textiles Monitoring Body (TMB) and the Dispute Settlement Body (DSB), which will ensure legal certainty and predictability.

As a member of the WTO, China is also entitled to enjoy the benefits brought by the previous three stages of integration of textiles and clothing products within the meaning of ATC. China therefore is now subject to fewer EU quotas and is enjoying the growth-on-growth provisions of the ATC. In the coming years, China will be able to benefit from the further liberalization of the sector. EU downstream producers, at the same time, may benefit from less expensive raw materials or fabrics from China to enhance their competitiveness.

All these elements will surely contribute to the further development of Sino-EU textiles and clothing trade, and the key is how the business communities on both sides tap the potentiality.

## ***Existing and potential barriers to Sino-EU textiles and clothing trade***

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China is currently second only to North Korea in the textiles and clothing sector in terms of the numbers of categories restricted by quotas by the EU. China also is the only third country which is still subject to quota restrictions in non-MFA products.

Currently, there are flexibility provisions in the Sino-EU Textiles and Clothing Agreement notified to the WTO. However, the approval procedure for the Chinese request of using flexibility provisions is still quite lengthy, reducing the effectiveness of the provisions.

Answering to the internal request from its producers in the textiles and clothing sector, the EU has negotiated a number of preferential trade agreements in textiles and clothing with some third countries, like Croatia, Sri Lanka, Pakistan, Ukraine and Bosnia-Herzegovina. The EU is contacting the Philippines, Thailand, Brazil and Peru for the negotiation of similar agreements.

In addition to this, the EU has substantially lowered, or even eliminated, tariff rates in the textiles and clothing sector with regard to those EFTA, Central and East European, Mediterranean and ACP countries, as well



as Mexico and South Africa, which have free trade agreements (FTAs) with the EU. There are also quite a number of least-developed countries and developing countries which enjoy non-tariff, or very low, tariff rates on their exports of textiles and clothing products to the EU under its Generalised Scheme of Tariff Preferences (GSP). Compared to these countries, China benefits from the GSP scheme in the textile sector alone; Chinese clothing products have already been graduated out of that scheme and are therefore disadvantaged in this regard.

With the ongoing dismantling of tariff and quota restrictions in the global textiles and clothing trade, some countries are frequently tempted to use other instruments to protect their own industry, such as anti-dumping and technical barriers. The EU has initiated anti-dumping investigations against Chinese cotton fabrics three times, but without succeeding in imposing anti-dumping duties. The threshold for the initiation of anti-dumping investigations by the EU should obviously be questioned by other WTO members. This safeguard measure is perhaps more dangerous since it can more easily be used or abused. As for technical barriers, the adoption of over-strict ecological regulations might severely influence the healthy flow of bilateral trade in the sector.

### ***Embracing free trade in textiles and clothing***

To conclude, both China and the EU need to embrace free trade in the textiles and clothing sector, both bilaterally and multilaterally. It is advisable that China makes its textiles and clothing products more environmentally friendly, based on current achievements, and encourages its producers to apply for international and/or EU eco-labels. The research institutes on both sides will have a very important role to play in the exchange of information concerning testing methods, etc.

After the final integration in 2005, there will be no quotas by the EU against Chinese textiles and clothing products and, as a result, it might become more attractive for EU entrepreneurs to invest in China, due to the low labour costs and sound environment for investment. The high technology, advanced equipment, design and fashion of EU enterprises could come to blossom in China if they are well integrated with Chinese competitive advantages.

Both sides should make efforts to prevent trade defensive measures, such as anti-dumping, countervailing and safeguard, from interrupting the healthy, developing momentum of their bilateral textiles and clothing trade. The EU is highly recommended to strengthen the disciplines with regard to the initiation of anti-dumping cases. At the Doha Ministerial meeting, the members rightly agreed that

they will “exercise particular consideration before initiating investigations in the context of anti-dumping remedies on textile and clothing exports from developing countries previously subject to quantitative restrictions under the Agreement, for a period of two years following full integration of this Agreement into the WTO.”

Electronic licensing might be another way to facilitate bilateral textiles and clothing trade, although both sides should study whether it will be worthwhile, since there will be only about two years before the final elimination of all quotas in the WTO. Last but not least, both China and the EU could explore the possibility of negotiating a free trade agreement on textiles and clothing products. That will surely inject a new impetus into their bilateral textiles and clothing trade. Embracing free trade, we have reasons to believe that Sino-EU textiles and clothing trade will score a new high in the years to come. ■

### **.....New Publication.....**

#### **Religious Minorities in Pakistan**

By Dr. Iftikhar H. Malik

Pakistan has been ruled by the military for much of its existence. The political use of religion by governments and a weak civil society pose enormous challenges for minorities in Pakistan. Non-Muslim minorities and women in Pakistan are subject to harsh religious laws. Besides five ethno-regional groups (Baloch, Mhajir, Pathan, Punjabi and Sindhi), there are the Ahmadi, Christian and Hindu religious groups, and several minority Islamic groups. The system of separate electorates has confined non-Muslims and some Muslim groups to second-class citizenship. Constitutional amendments and the Blasphemy Law have deprived minorities of religious freedom and violated their rights as citizens. In addition, the decision of the current military regime to join the US-led coalition against terrorism has provoked popular resentment and an internal backlash by extremist groups with renewed violence against minorities.

This report aims to enhance understanding of religious minorities in Pakistan and increase awareness of the need for the protection of minority and gender-based rights across communities. With a general election due this year, this report is timely and of direct relevance to both the international community and agencies concerned with Pakistan and South Asia in general.

Dr. Iftikhar H. Malik is a Senior Lecturer of International History at Bath Spa University College and has delivered various courses on Asian history, imperialism and the contemporary Muslim world.

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## The EU clothing industry goes hi-tech

The race is to those armed with the latest technology. This was the clear message of the one-day conference organized by the European Union Commissioner for Enterprise Policy and the Information Society, Erkki Liikanen, in Brussels, under the title, *The EU apparel business goes high-tech*. "Enterprises which want to succeed in today's competitive markets cannot stand still," he told the 200 participants, who included representatives of trade associations, unions, research institutes and individual companies. Innovation isn't simply a matter of inventing new products, he warned them. Rather, it means using technology to transform and extend product ranges and services, adapt production and delivery methods, and constantly upgrade management methods.

The European garment industry was being written off some two decades ago as a sunset industry, both within the European Union (EU) and outside it. Many claimed that it was sure to be submerged by a rising tide of cheap imports from Asia. Defensive measures included import quotas under the GATT Multifibres Arrangement (MFA); anti-dumping action; relocation in low-wage countries and, more recently, a vigorous demand that developing exporting countries open up their markets to European textiles and garments, under the terms of the 1994 Agreement on Textiles and Clothing (ATC).

The European Trade Commissioner, Pascal Lamy, has tried a variant of the above. With the approval of the 15 member states he has offered to conclude bilateral agreements with exporting countries, under which the latter are offered improved access to the EU market, provided they reduce their import duties and bind them in the WTO, for example. Sri Lanka and Pakistan are among the countries that have accepted the offer. But Mr. Lamy's colleague, Commissioner Liikanen, clearly believes that a more pro-active strategy for the European garment industry is to use technology, information technology in particular, to strengthen its competitive position, both at home and globally.

The Brussels conference in fact highlighted the results of the 3-year e-Tailor project, co-funded by the European Commission under the Information Societies Technology Programme. The project brought together research organisations and companies from across Europe, in order to promote the European fashion industry through the integration of 3D-body measurement, advanced CAD and E-commerce technologies. The e-Tailor project allowed the firm C&A, for example, to test the new technologies in its flagship store in Hamburg.

Working with some of the technology institutes involved in the e-Tailor project and a German-based supplier, the company was able to develop the full supply chain for made-to-measure suits, jackets and trousers.

The presentations made during the Brussels conference included one by Human Solutions GmbH, which worked with C&A. The measurement software developed by it allows the fully automatic extraction of all measurements needed for the made-to-measure chain. With the morphological editor software, developed by Human Solutions and Paris-based Lectra, it is possible to drape a virtual garment on a human "avatar," in order to design new collections without recourse to models.

A new approach to online visualization, that allows any standard web browser to display interactive 3D dressed virtual bodies, was demonstrated by the University of Geneva's MIRALab. The e-Tailor Virtual Store developed by the Athens Technology Centre aims to introduce the vital element of virtual realism into Internet shopping by presenting animated dressed models, wearing simulations of garments constructed from real patterns. Investronica and Sistemas and Industrias y Confecciones, both from Madrid, have developed a system for capturing Web made-to-measure orders, automatically processing them and integrating the whole operation with the administrative ERP.

Will e-Tailor become a reality? This in fact was the title of the talk given by the R&D manager, Walter Lutz, at Euratex, the European textile and clothing industry's Brussels-based lobby. Given the future trends in the European fashion business – mass-customisation, industrial made-to-measure and personalised on-line shopping, according to Mr. Lutz – the answer must be, Yes. E-Tailor puts the customer, with his specific needs, at the centre of things. At the same time it offers the manufacturer higher customer satisfaction, therefore more pricing power, as well as reduced stock and reduced dependence on dominant wholesalers or retailers, and therefore better margins.

This was demonstrated by the director of a Belgian shirtmaking firm, Bivolino. She explained that the 50-year old family firm is now offering men customized shirts at affordable prices, thanks to the development of a range of enabling technologies. The company's core customers are men in the 35- to 44-year age group, who care about their appearance but hate traditional shopping. Each shirt is cut according to the exact body shape, on the basis of age, weight, height and collar size. The shirts are made in a factory some 2,000 kms from Belgium, but delivered to the customer within 14 days. And because the customer is a co-creator of the



garment, less than 1% of shirts are returned and the customer repeat rate is over 50%.

**B**ivolino's success is due to its ability to take advantage of a growing market segment between the small, niche market of bespoke clothing for the very rich, and the standard garments sold through mail order houses, for example. It is a segment which requires personalised products, quick response to demand changes and direct customer communication and feedback. The fact that the technology which makes this possible is both available and can be used by small and medium-sized enterprises is very important, given that most of the 113,000 EU textile and clothing companies are SMEs.

The companies that made presentations at the Brussels conference included some that are busy inventing new products. Designers at the Italian company *Corpo Nove* are using optical fibres to create a luminescent fabric, aimed both at fashion designers and manufacturers of clothing for workmen who must be visible at night. Working with the European Space Agency, *Corpo Nove* is also using thermal shape memory metals as a fabric from which it has made shirts whose sleeves shorten as the room temperature rises.

**E**urope's ageing population and increasingly health-conscious customers seem to have inspired a division of Philips electronics to conduct research into biomedical clothing. These smart and communicative clothes will make possible the continuous monitoring and treatment of diabetes, for example, thanks to the development of wearable sensors and actuators. In other words, some 200 years after Jacquard revolutionised patterned textile weaving, 21<sup>st</sup> century technology in the form of miniaturised, smart bio-sensors will be integrated into clothing design.

"A breakthrough in clothing technology can achieve the same positive results as those we have seen in textiles," the Euratex Director-General told the Brussels conference. As he pointed out, the EU has a growing surplus in its trade in textiles, but the trade deficit in clothing is substantial and rising. EU clothing exports came to €16.4 billion last year, against imports of €50.8 billion. Part of the explanation is that textiles technology is recent, whereas the labour-intensive processes in use in the clothing industry are hampering the EU's ability to compete. But Mr. Lakin was confident that the EU's sixth Research Framework Programme (FP6) offered "a real opportunity to put together integrated projects aimed at achieving breakthroughs."

FP6 in EU jargon was to be launched in Brussels on November 11 by the Research Commissioner, Philippe Busquin. With a budget of €17.5 billion, it will fund research programmes over the period 2003 to 2006 in

not only aeronautics, space and nano-technology, but also new materials and information society technology. Given that both the Americans and Japanese failed to automate handling processes and sewing systems a decade ago, there are those who doubt whether the EU can succeed. But Mr. Lakin was confident that "our expertise in Europe and our combined knowledge put us well ahead of both those nations in the textiles and clothing arena. Europe is so much better placed to succeed," he told the representatives of research institutes and textile and clothing companies.

"The first fundamental," the Euratex Director-General maintained, "is to remove from our minds the thought that all we need to do in order to make a breakthrough is merely to improve on what we are already doing." He went on to list some of the "major questions that need to be answered." Is sewing the only way of putting together the various components of, say, men's suits? Can the traditional method of adding linings and interlinings to suits and jackets be improved on? In other words, do tomorrow's clothing have to resemble today's clothing? And the "final heresy," isn't it time to make garments other than by cutting pieces from woven fabric, by re-inventing the fabrics themselves?

**T**he Euratex Director-General was less optimistic than the representatives of research institutes and some companies. He expected a substantial increase in imports, especially of clothing, after the expiry of the WTO Agreement on Textiles and Clothing (ATC) on 1 January 2005. He also envisaged job losses as the clothing industry went high-tech. But the industry ran "the serious risk of losing substantial numbers of jobs in Europe as low-cost labour in Asia produces low-cost products in unrestrained quantities."

Against this background, was "it not far better to retain a lesser number of skilled, stable jobs than to lose even greater numbers?" Going high-tech therefore was the challenge which the EU clothing industry had to meet, according to the Euratex Director-General. However, China, Hong Kong and South Korea are already moving in this direction also, as one of the participants pointed out. ■

*Malcolm Subhan*



# Anti-dumping and China - an ongoing controversy

by Duncan Freeman, Consultant

The issue of dumping is one of the most contentious and complex in international trade. This is especially the case for China and the EU, two of the most important actors in the international trade system, as was shown at a recent forum in Brussels. China is currently the target of a high proportion of the anti-dumping actions initiated worldwide, with the EU accounting for a significant share. While the EU will argue that use of the anti-dumping instrument is a legitimate defence against unfair trade practices, China and many other developing countries attack its use as being protectionist and inherently unfair. On the other hand, industries in Europe that see their home markets eroded may argue that the EU is not rigorous enough in protecting their interests. To add a further complication, China has begun to make use of its own anti-dumping regime, and has recently taken action to strengthen and improve the regulations and system under which actions are carried out.

China has been one of the main targets for anti-dumping actions for a number of years. This is of course no coincidence, as China has emerged over the last 20 years to play an increasing role in world trade. When China's exports were almost non-existent they had little impact on industries in other countries. Since the 1980s this has changed, and as China has become a powerful exporter, so it has been targeted with anti-dumping actions. In this it appears to follow a trend, in that historically anti-dumping actions by industrialised countries have tended to focus on newly emerging industrial economies, such as Japan and South Korea in the past, and now China.

Although China has acceded to the WTO and is therefore increasingly bound by the same trade rules and a system of dispute resolution procedures which are backed by sanctions as the other major economies, it is clear that anti-dumping, and the related anti-subsidy and safeguard measures, will continue to be a significant point of contention. For the present, it seems that the EU's anti-dumping instrument will remain the focus of contention as China's exports continue to grow and expand into new markets and sectors, and European industries seek to protect themselves. Nevertheless, the application of the anti-dumping instrument by China has the potential to create increasing problems if its use becomes more common as existing barriers are removed as envisaged following China's WTO accession, and Chinese

industries face a surge of competition to which they are unable to respond effectively in the market.

Aside from individual anti-dumping actions, it seems that at the moment China's main point of attack on the EU anti-dumping regime is the issue of Market Economy Status. The crux of this issue affects how the costs of alleged dumpers should be assessed and ultimately the level of any dumping duty imposed. Traditionally, the costs of exporters from non-market economies such as the Soviet Union and China have been assessed on the basis of producers in an analogue third country, on the grounds that in a non-market economy costs do not reflect true market values and therefore cannot be used as the grounds for assessing the existence of dumping.

The rigid application of this principle was modified by the EU in 1998 when it recognised the existence of transitional economies which had moved away from traditional socialist state planning, but were not deemed to be full market economies. In these transitional economies it is possible for an exporter subject to a dumping investigation to apply for and, if the appropriate conditions are met, in essence if they can show that their costs are determined by the market and that they are free from state control, to receive treatment as if they operated under market conditions. Thus, they will be assessed on their own costs, and not those of an analogue. The first two countries to receive this status were Russia and China, with Ukraine, Vietnam and Kazakhstan subsequently being added to the list.

The ire of China has been incurred however, by EU moves to go a step further in the case of Russia and give it full market economy status on the grounds that it has completed its transition. While the advantage that this will give Russian exporters in anti-dumping cases may be a cause of the Chinese irritation, it is also likely that this is to some extent a question of face. The Chinese government has in its view pursued a policy of reform and opening to the world economy, culminating in its accession to the WTO, which has delivered enormous successes in terms of growth and transformed the socialist planning system. On the other hand, Russia, even after the fall of the Soviet Union, failed to tackle fundamental economic problems, and has faced severe economic difficulties. It is perhaps difficult for the Chinese government to learn, especially given the widely divergent perceptions most investors have of investment conditions in the two countries, that the Russians have moved one jump ahead, at least in the eyes of the European Commission.

Leaving aside the merits of the Russian case, it is probably difficult for China to make a convincing argument that it has a market economy, despite the vast changes of the last 20 years. Measuring the complex



realities of the Chinese economy against the criteria set out by the European Commission will be a challenging task, but on most measures it would be difficult to objectively demonstrate that the Chinese economy is truly a market, even after WTO accession. Nevertheless, it seems clear that Beijing sees the issue as being one where it can achieve some leverage to improve its position in trade disputes with Brussels. The EU, on other hand, would appear to have little to offer Beijing in the way of hope that there will be any change in status, unless China can clearly show, rather than merely asserting, that it has a market economy.

**C**hina has recently upgraded its own anti-dumping regime by issuing a whole series of new regulations. This move has come in large part in response to its accession to the WTO, which has required China's anti-dumping regulations be brought into line with WTO rules. China's original anti-dumping regulations introduced in 1997 were a relatively primitive affair. The regulations were ambiguous, lacked detail and in a number of areas clearly failed to meet the standards required of WTO members. The new regulations issued this year are generally considered a great improvement in terms of their detail and the standards they set.

China is only one of many developing economies that have introduced anti-dumping measures in recent years. As yet relatively few cases have been brought in China. A total of 12 actions were initiated under the old regulations between 1997 and 2001, with other Asian countries most frequently targeted. Although several other developing countries have anti-dumping legislation, the rapidly growing importance of China in the world trading system may give its rules a greater importance than those of other countries. While little used so far, it remains to be seen the extent to which Chinese industries threatened by increasing competition as a result of WTO membership will resort to the legal weapon of anti-dumping procedures to fight imports, and the extent to which the authorities in Beijing encourage them to do so.

**T**here will certainly be strong lobbies in China arguing that every weapon available should be used in the event that serious damage is incurred by Chinese industry. It may be noteworthy that in the first five months of 2002, seven actions were initiated in China. However, the freedom to use anti-dumping actions will itself be constrained by membership of the WTO, since any use for merely protectionist purposes will itself be open to challenge and countermeasures. The reality of course is that the anti-dumping instrument is an imperfect means of treating market imperfections, and is likely to remain inherently controversial. That the EU and China may increasingly stand on both sides of the fence and are bound by common rules and interests, means that the controversy does not disrupt their growing trade relationship. ■

## Anti-dumping - is China unfairly treated?

If it's trade that makes the world go round, then Chinese exporters have certainly set it spinning on its axis. Their exports to the 15-nation European Union (EU) have soared in the last 20 years, from just €2 billion in 1980 to €10 billion in 1990 and €76 billion in 2001. Over this same period their share of the EU market has risen from 0.8% to 7.4%, so that the People's Republic of China now ranks second among EU suppliers, after the United States.

**A**nd yet Beijing feels it is being unfairly treated by the EU on one crucial matter. "The EU's general trade policy towards China is positive. But when it comes to anti-dumping...my view is that the current EU anti-dumping rules and practices towards China do not objectively and truly reflect the reality in China." These words were pronounced, more in sorrow than in anger, by a senior Chinese trade official, Mr. Wang Shi-Chun, at the recent Europe-China Anti-dumping Forum, held in Brussels on October 7.

The one-day Forum was organised by a French trade magazine, with the support of the Euro-China Business Association and the Belgian-Chinese Economic and Commercial Council. The co-organisers included the China Guangdong Provincial Economists' and Entrepreneurs' Association. Deng Xiaoping had claimed a decade ago that Guangdong province was destined to become Asia's "fifth tiger," and just Guangzhou, no doubt because of its proximity to Hong Kong, now accounts for one-third of China's total exports.

**T**he EU sees its anti-dumping policy in relation to Chinese exports very differently. The Trade Commissioner, Pascal Lamy, speaking to university students in Guangzhou on October 18, told them that "despite Chinese concerns about EU anti-dumping policy, only 0.5% of total EU imports are subject to trade defence measures, such as anti-dumping. So we effectively have our own version of the 'Open Door' policy, launched by Deng back in 1978. The EU really is open to trade with China."

Mr. Lamy pointed out that the EU's trade deficit with China had more than doubled in the last five years; it stood at "the rather substantial figure of €45 billion in 2001," and represented "our largest single bilateral trade deficit." But "unlike some, we never complain about trade deficits," he added. EU exports to China have also risen, of course, from just under €2 billion in 1980 to nearly €30 billion in 2001. They represented



1% of total EU exports in 1980, and had risen to 3.1% in 2001.

China's concerns about the EU's anti-dumping policy are related to another issue, the status of the country's economy. China's economy, as Mr. Wang Shi-Chun emphasised in his address to the Europe-China Anti-dumping Forum, "has been transformed from a centrally planned economy to an open market economy." If proof were needed, he cited the "great success" that companies such as Siemens, Alcatel, Nokia and Philips have achieved on the Chinese market. "They are witnesses," Mr. Wang declared, "of the development of China's market economy."

For the EU, China remains a non-market economy, however. Mr. Wang explained the direct consequences of this to the Forum. After noting that "many countries have been using anti-dumping excessively as a principal means of trade defence," he went on: "One of the major manifestations is that the estimation of the dumping margin has been artificially exaggerated, especially for those countries labelled with 'non-market economies.'"

This is because dumping margins are measured, in the case of non-market economies, "by the price or cost of a surrogate or a third country," as Mr. Wang points out. However, "this has granted the countries investigating these cases considerable discretionary power," and, as a result, "the rulings on anti-dumping cases are often arbitrary and unfair." While the points at issue are highly technical, and involve the definition of a market economy, the dispute between China and the EU is political as much as economic.

Its political nature may be said to have moved centre stage with the EU's decision of November 7 to recognise Russia as a market economy in the context of its trade defence measures. The decision follows European Commission President Romano Prodi's declaration during the EC-Russia Summit in May, and is an acknowledgement, according to the Commission itself, "of the important progress achieved in Russia in respecting market economy principles." Russia is now to be treated on an equal footing with all other market economies in anti-dumping cases. The consequences, in practical terms, have been set out by the Commission: instead of using proxy costs and prices from a third country, Russian companies' own costs and prices will be used for the purpose of calculating dumping margins. But recognition also implies that Russia will be subject to anti-subsidy provisions applicable to market economy countries.

The EU had been treating both Russia and China as non-market economies. On 1 July 1998 it had introduced a case-by-case approach, under which Russian and Chinese exporters could claim market economy status. Where this status was granted, normal

value was determined as for market economy countries. But while Russia has been formally recognised by the EU as a market economy country, China remains subject to the case-by-case approach. (Market economy treatment was extended by the EU to the Ukraine, Vietnam and Kazakhstan in October, 2000.)

As Mr. Wang pointed out, China's "non-market economy status has been a long outstanding issue, and the Chinese government, as well as business circles, have spared no efforts in looking for an early settlement of this matter." Much of his speech at the anti-dumping forum was devoted, in fact, to describing the measures taken by the government to implement "the fundamental reform of the planned economic system launched in 1978." For Mr. Wang, there has been a great breakthrough in the form of his country's economic system. He referred to three areas in particular. To begin with, "enterprises are becoming the main players of the market." Labour mobility is being encouraged, and salaries are being set in relation to supply and demand. Non-state-owned are operating fully on market principles, while private and individual businesses have developed considerably. Moreover, as a result of the measures taken by the Chinese government to encourage foreign direct investment, "FDI enterprises account for about 50% of the total imports and exports of China."

Mr. Wang also pointed out that the central and local governments are "streamlining government institutions in real earnest, downsizing administrative departments while preserving and strengthening the comprehensive macro-control and market regulatory departments." But the government is also "perfecting the market system." As a result, "the marketisation of the price of factors of production is pacing up," and "the financial market and labour force market are growing rapidly," while "a legal system adopted to a market economy has been built up."

The fact that China is not being granted market economy treatment implies that it is not meeting all five of the EU's criteria for market economy treatment. Under the first of these criteria, decisions regarding prices, costs and inputs must be made by firms in response to market signals reflecting supply and demand, and without significant State interference. The second criterion requires firms to have one clear set of basic accounting records, which are independently audited in line with international accounting standards.

A firm's production costs and its financial situation must not be subject to significant distortions carried over from the former non-market economy system, particularly as regards depreciation of assets, barter trade and payment via compensation of debts, under the terms of the third criterion. The fourth criterion

subjects firms to bankruptcy and property laws which guarantee legal certainty and stability for their operations. Finally, exchange rate conversions must be carried out at the market rate.

The European Commission representative at the Anti-dumping Forum rejected the charge that the EU is abusing its anti-dumping regulation. Tongue in cheek, he noted that China had launched 18 anti-dumping cases against friendly countries in two years. He suggested that perhaps they were both on the same side, and accusations of unfairness were outdated. He urged China to fight for market economy status, pointing out that all evidence submitted by Beijing would be looked at objectively.

By granting in 1998 individual firms the possibility of obtaining market economy status for themselves, the EU recognised the progress China had made in its efforts to move from a centrally planned to a market economy. During his recent visit to China, his fifth since he became the European Trade Commissioner, Pascal Lamy, announced the launch of “a major bilateral dialogue with China on the new Round.” The EU was “particularly keen to work on a number of areas of interest, such as trade defence instruments and safeguards, where I think we can both agree that the rules need updating, technical barriers to trade and agriculture.”

EU trade policy towards China is strongly influenced by its substantial trade deficit. Hence Commissioner Lamy’s determination to work closely with China to ensure that it implements the terms of its accession to the WTO, on the one hand, and joins forces with the EU to bring the trade negotiations under the Doha Development Agenda to a successful conclusion. But Mr. Lamy has been the first to recognise that China may well be reluctant to open its own market further in terms of classical market access, on the grounds that it should not have to pay twice.

For Mr. Wang Shi-Chun, seminars like the EU-China Anti-dumping Forum have their place but are “far from enough.” In order to address Chinese concerns, particularly as regards market economy status, “a face-to-face dialogue at regular intervals, between the relevant government departments from China and the EU, is strongly called for.” Mr. Wang reiterated his “full confidence that the complete resolution of China’s market economy status at an early date is not only in the interest of China but also in the interest of the EU,” and of all countries and entrepreneurs seeking “to develop a long-term economic and trade co-operation of mutual benefit with China.” ■

*Malcolm Subhan*

## Promised EU sanctions shake-up postponed

The review and shake-up of EU sanctions, promised by the European Commission for the end of this year, has been delayed over the medium term. The Commission had expected to present a Communication on EU sanctions, examining the various problems associated with their implementation and application that have come to light over several years. The Community currently applies sanctions, *inter alia*, to Burma and with regard to Afghanistan, the Taleban and *Al Qa’ida*.

The Commission confirmed in a reply to a parliamentary question from Niall Andrews (UEN), in December 2001, that it was considering drafting a Communication on the European Union’s sanctions policy. This policy document should have been ready “in the course of 2002”. Work on the document has not actually started and no date has been proposed for its publication. It has been established that this initiative will not feature in the Commission’s Work Plan for 2003 either. The prospect of a general review was further diminished when it emerged that the promised informal debate with the Council has not commenced.

While it is thus unclear what exactly the Communication would address, some basic assumptions are possible. Currently, the Community imposes travel bans, freezes financial assets and places embargoes on arms sales. In some cases the Community has suspended non-humanitarian aid and development programmes. The Commission is on record as saying that thanks to “poor design” the impact of sanctions “has been somewhat disappointing”. Thus, the range and status of the existing sanctions instruments might be examined. At the other end of the scale, the impact of sanctions has suffered because of “poor enforcement”. The Commission might propose strengthening sanctions so that measures can be imposed “swiftly and unambiguously”. The Commission highlighted these issues in a Communication on Conflict Prevention in April 2001 raising the possible use that “smart sanctions” could have in preventing conflicts emerging or getting worse.

On 21<sup>st</sup> October, the General Affairs Council renewed for another six months the Common Position on Burma continuing the embargo on arms sales, the freeze of funds, the ban on travel to the EU for high-level junta officials and the suspension of bilateral high-level government contacts. The renewal followed a meeting between the junta and an EU delegation led by representatives of the Danish Presidency. That meeting concluded that there had



been insufficient progress in improving human rights. The Common Position also included an amendment to the list of persons subject to restrictive measures, following some changes in the composition of the regime.

**N**otably, however, the sanctions on Burma do not include a ban on investment by EU companies. In Burma's case, the Community is hampered in the nature of sanctions it can impose due to Rangoon's membership of the WTO. Equally, it is clear that, Burma's membership of ASEAN complicates what exactly the EU can do. EU-ASEAN co-operation dates back to the 1980's but following Burma's membership in July 1997, ASEAN's leaders, who pursue a policy of "constructive engagement" with Burma, began to take a hard-line with the EU and withheld contact with the EU over Brussels' refusal to accept Burma's participation in official meetings. The EU subsequently had to back down.

There has never been a consensus at EU level that a sanction as severe as an investment ban should be imposed. Primarily, two Member States have companies that have invested in Burma, the United Kingdom and France. The British company, Premier Oil, decided this September to pull out, selling its stake in gas concessions to its former partner, the Malaysian company, Petronas. The French company, TotalElfFina still operates in Burma. Premier Oil's withdrawal has nothing to do with EU sanctions but, apparently, was the result of a Presidential Order, signed by Bill Clinton, in April 1997. That order established an investment ban for American companies. A US oil company, Amerada Hess, had taken a stake in Premier Oil with two directors sitting on the British board. The diversion of US funds to support Premier Oil's operation in Burma violated US law.

**H**owever, the Confederation of British Industry had defended Premier Oil's presence saying that without clear EU or UN sanctions, then businesses should be free to invest where they saw fit. In the absence of clear political direction from the EU, European companies continued to invest in Burma over the years. While few remain, those that pulled out did so because of public pressure, in particular, from the organisation Burma Campaign UK (BCUK).

Today, the prospects for the introduction of an investment ban remain very weak. The support pledged at the Council of Ministers, in October 2001, for Burma's membership of the International Hydrographic Organisation was seemingly part of an EU policy of encouraging dialogue with the military regime. If Burma does become a member, then the junta will have access to and assistance with mapping the sea floor off its coast. This information would, of course, be of interest to oil and gas off-shore drilling companies. The exploitation of natural resources

remains Burma's major source of foreign earnings. The leader of the National League for Democracy, Aung San Suu Kyi, for many years approved of the sanctions imposed by the international community but, in September, said that development aid would be welcome if the aid could be delivered outside the control of the regime.

The imposition of an investment ban now by the EU, could strike a decisive blow against the military regime. Investment from other ASEAN countries for the first six months of this year was reported to have fallen to zero. Despite some initial progress earlier this year, the junta has stalled fresh talks with the NLD. Where inaction from the European Union has hampered progress towards democracy, it seems that there are activist groups who are prepared to make up for the shortfall in leadership. ■

*John Quigley*

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# Prospects for Economic Co-operation between the EU and North Korea

by Ruediger Frank

The Korean peninsula remains one of the most risky places in the world in terms of regional and global security, which in turn influences the options for economic co-operation and exchange. There are three possible scenarios for the future of Korea's external relations: Conflict, Status quo, or Co-operation. Economic exchange between states is a part of their external relations.

A good way to prevent an open **conflict** in external relations is dialogue. It is especially important since the Democratic People's Republic of Korea (DPRK) and the 15-nation European Union (EU) have different political systems, ideas and values and accordingly different approaches to some basic questions. After a constant dialogue has been established and institutionalised, a system of interdependence and common interests must be created, binding the partners closer to each other. Without interdependence - which must not run counter to national independence - there cannot be any substantial and long-term co-operation.

The **status quo** can only be a temporary solution. A passive policy would reduce, among other things, the prospects for economic co-operation and subsequently the chances for an improved relationship in other spheres. Evidence from North Korean media clearly speaks for an active policy. The series of recent economic reforms in North Korea are not the expression of a new approach, but rather constitute a consequent continuation and upgrading of established policies. The first law on Joint Ventures is now about 18 years old. The North Korean media repeatedly stresses "the needs of the new century." It is in this context that we must understand the adjustment of farmers' market prices, the construction of medium-sized hydroelectric plants, the discussion about socialist banking, the exchange rate adjustment, wage increases, the set-up of the Special Economic Zones, etc.

The most desirable scenario is **co-operation**. The basic precondition for good and mutually beneficial co-operation is trust. It is no coincidence that mutual trust is explicitly stressed in the very first paragraph of the DPRK-Japan Pyongyang Declaration of September this year. Trust or credibility can not be created overnight; it requires time and constant efforts on both sides. Trust lives not only from words. In this regard, temporary help in cases of natural disasters is a good

occasion to show commitment, as Germany did when it sent 6,000 tons of frozen beef to North Korea last November.

There are British professionals in North Korea to teach English. An agreement on co-operation in Science and Technology was signed between Sweden and the DPRK in April 2002. The EU has provided, within the framework of KEDO, about Euro 115 million so far. It decided in 2001 to increase the textile import quota for North Korea, thus improving market access. However, in order to be able to trust each other, partners also need to know each other. Concerning transparency, a number of issues should be integrated into a framework for the future relations between the two countries. Economists and potential investors painfully feel the lack of reliable statistical data on the North Korean economy.

In Europe, there is no large company that would accept a trade-off between its own economic losses and its home-country's political gains. To make European investors come to North Korea they, and not their governments, have to be embraced. These investors, in turn, could then convince their governments to expand political co-operation. Data is a sensitive issue for the DPRK since it directly touches the question of national security. However, I suggest the careful discussion of possible solutions which are acceptable to both sides. A certain level of transparency is inevitable to build trust. A clear determination to co-operate on both sides is indispensable for success.

As the history of the EU itself suggests, there is a close correlation between political and economic co-operation. Economic co-operation is easier, since its effects can be limited to certain regions or projects. Single economic projects are a good way to test co-operation and to identify and resolve problems. This would lead to increased expertise on both sides, eventually providing a list of best practices and a critical number of trained experts. Subsequently, project-based co-operation can be gradually expanded according to the needs of both partners.

There are some important political implications of economic co-operation. First, investments of all kinds create fixed costs and therefore produce a commitment by the investor. However, for a sustainable development of bilateral relations, such commitment must be obtained from all involved parties. Since large-scale North Korean foreign direct invest (FDI) in Europe is unlikely, adjusting the output structure of the DPRK's export industry to meet the demands of European customers could be one such move.

Second, once a stable and productive co-operative relationship is established between Europe and the

DPRK, other international actors might be ready to follow. There will be a strong message to the world that the DPRK is a reliable partner. For North Korea, having such partnerships may reduce the need for costly military deterrence, freeing financial resources for other purposes. If the DPRK succeeds with its own 'sunshine policy', upholding embargoes against this country will become difficult.

A number of reasons make the European Union a perfect partner for this model relationship:

- ♦ It has **no strong and direct geopolitical interest** in the region and can therefore concentrate on the economic nature of the co-operation.
- ♦ There already is a **long history of good relations** between Europe and Korea. There are no abnormal relations. European leaders do not divide the world into good and evil, and military pre-emption is not a policy option for Europe.
- ♦ Europe has well established relations to all other countries and international institutions and could therefore serve as a **neutral mediator and broker**.
- ♦ **It is in Europe's interest** to improve the economic relations with North Korea. The EU has a large trade deficit with North East Asia.
- ♦ **Europe is very diverse**. The EU is no Great Power. It consists of many independent states and is therefore somewhat slow, but also more balanced, stable and reliable in its co-operation with other countries. Europe protects its markets passively, but is usually not actively engaged in using its political power to support single companies.
- ♦ **Europe is ready to share technology**. It has shown a remarkable commitment to do so. The high-speed railway project in South Korea is just one example.
- ♦ **Both sides stress independence in foreign policy** and therefore share a common concern.

There are implications for a closer partnership between the EU and the DPRK for regional economic co-operation. A diversification of economic relations is a good way to retain economic independence and stability. Having good and close relations with many partners means both political and economic risk diversification and increased opportunities. Due to cultural and geographical proximity, an integration of the DPRK into existing or future forums of regional co-operation in Asia would be highly desirable. Consider the high potential of the EU as a neutral mediator for economic and political relations between the DPRK and other countries in the region, for example in the context of the ASEM process. EU-DPRK relations would be strengthened by such an integration, and vice versa. It would make it easier for the EU to co-operate with North Korea in the context of a multilateral partnership.

Despite the Asian financial crisis, the region is still the one with the highest dynamics in the world. A more

active integration of the DPRK in the regional political and economic co-operative framework would substantially benefit all parties. One example is the "iron silkroad" railway project for linking Europe with the region. Talks are currently under way about an undersea tunnel linking Japan and South Korea; this would significantly enhance the economic relevance of the mentioned connection. Even in times of electronic commerce, goods still need to be shipped to the customer. That makes logistics a crucial component of all market transactions, and places Korea in a very favourable position as a land transportation hub between the booming East Asian region and Europe.

**M**aking full use of its rich natural resources, a highly qualified workforce and its geographic position, North Korea has a lot to offer to partners in Europe and elsewhere. In exchange, there are many fields of potential support for North Korea. The country crucially needs to improve its energy supply and transportation networks. Co-operation would be mutually beneficial in telecommunications, natural resources and in developing the special Economic Zones.

The DPRK currently embarks on a number of important projects like training of IT specialists at Kim Chaek University of Technology and the Korea Computer Centre. The Ministry of Posts and Telecommunications is working out ways for international co-operation on standards in mobile communications, the Ministry of Electronic Industry engages in computer manufacturing and the expansion of data networks. These are just some of the many potential areas of economic co-operation. ■

### Editor's Note:

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# After the nuclear bombshell: whither 'sunshine' now?

by Aidan Foster-Carter

What a difference a day makes. On 15<sup>th</sup> October, I was privileged to be part of what seemed a successful day of dialogue in Brussels with a senior DPRK delegation. Although other speakers and I did not pull our punches, the North Koreans heard us out courteously. For their part, they stressed that their commitment to outreach and reform, including nuclear inspections in due time, was irreversible. The bonhomie continued outside the formal sessions, over lunch and dinner. Overall I was encouraged that the DPRK really was coming in from the cold. The engagement approach, pioneered in Kim Dae-jung's 'sunshine' policy and pursued too by the EU, was clearly a better bet than the Bush administration's cold-shouldering of Pyongyang.

That was then. A day later, the US revealed that North Korea had admitted pursuing a new covert nuclear weapons programme. This shocking, if somehow unsurprising, news recasts the task of summarising my talk at the seminar for *EurAsia Bulletin*. With a heavy heart, one must now try to digest this baleful bombshell and reflect on where we can go from here.

Uppermost is a feeling of betrayal. Did our DPRK dialogue partners know this? Possibly not. North Korea's secretive policy process has been compared to a bicycle wheel, with Kim Jong-il the hub but little lateral contact among the spokes. But vice-minister Choe, still in Brussels, had to take the flak at what must have been icy meetings with the European Commission. The *Financial Times* quoted him parroting the new line: the DPRK has the right to defend itself.

True; and mutual mistrust between it and the Bush administration, with its unilateralism and now a doctrine of pre-emption, is no surprise. But that is not the point. A fixation on bilateral US-DPRK ties alone – a Pyongyang bad habit, echoed by some in Washington – ignores the rest of us, and the small matter of international law and keeping promises. My talk addressed this, starting from North Korea's earlier account of the visit by the US assistant secretary for Asia, James Kelly. The DPRK Foreign Ministry had called Kelly's attitude "high handed and arrogant", in making "unilateral demand such as nuclear and missile and conventional armed forces and 'human right' issue"; all of which is "nothing but a product of [the US'] hostile policy towards the DPRK". It concluded

that this "compels the DPRK to take all necessary countermeasures, pursuant to the army-based policy whose validity has been proven."

On this, my comment was: "While I can well understand the DPRK's frustration with an interlocutor who moves the goalposts, widens the agenda, and offers nothing in return, with respect this tone of injured innocence is not convincing. The concerns listed, and many more, are not unilateral, nor confined to the US, nor the product of mere hostility. On the contrary they are shared by others, including the EU and its member states. Some are matters of international law, surely our only defence against unilateralism. As a signatory to the NPT and the Biological Weapons Convention, the DPRK has obligations. It is not hostile, but just, to press the DPRK to come into full compliance with the IAEA as a matter of some urgency.

"As for missiles: while as a non-member of the Missile Technology Control Regime the DPRK breaks no law, it is perfectly fair for a neighbour like Japan to worry about a reckless act like the 1998 Taepodong rocket launch – also a boon to US hawks pushing for missile defence. It is disingenuous for *Rodong Sinmun* [the daily paper of the DPRK's ruling Korean Workers' Party] to say (26<sup>th</sup> September) that 'If a country is friendly to the DPRK...there is no need to worry about the DPRK's increased national defence power.' Friendship needs trust, and trust means CBMs (confidence building measures) – not ICBMs – and negotiated mutual arms reductions. The DPRK's reluctance to go down this road, and suspicion even of 'track two' security forums, are anachronistic and frankly perilous attitudes...."

"*Rodong Sinmun's* claim (5<sup>th</sup> October ) that 'it is the trend of the times... to give priority to the army' is simply false. True security for small nations lies not in going it alone, armed to the teeth, but in co-operation. Witness the queue from the east to join the EU. Also, this resource allocation is ironically self-defeating: economic growth that would enable higher defence spending in future is lost. (The ROK's defence budget is nearly as big now as the DPRK's GNP.) Today, the only way to build a powerful state is by economic growth...."

It is hard now not to feel that I was wasting my breath. As ever, the DPRK's motives are hard to read. In the plethora of op-eds that followed the nuclear revelation, one of many debates was whether this surprise confession was an act of cunning – catching a busy Bush off guard, – or a dire failure to grasp how the world works. That initial US reactions have stressed a peaceful resolution – in stark contrast to Iraq, a lesser evil at least as regards what weapons of mass destruction it now has – may seem to support the former view.



Yet did Pyongyang not know, or care, how its insouciant admission of cheating undermines all those – Kim Dae-jung, or the EU, or most recently Japan since Junichiro Koizumi's 17<sup>th</sup> September summit with Kim Jong-il – who have fought its corner by advocating engagement rather than confrontation? This leaves hawks vindicated, and doves feeling duped. Not that it is the first time the DPRK has spat in the face of those who have gone out on a limb to insist that, *malgre tout*, dialogue is possible. This too was a theme in my Brussels seminar paper, which noted that such backtracking, and slowness to trust and deal, are also self-defeating:

“**D**espite the Korean proverb *sijaki banida*, ‘the first step is half the journey’, we have had too many first steps and too few second and third ones. Kim Dae-jung's sunshine policy was not the first attempt to end the division imposed by outside powers on Korea in 1945, but it was the most serious and hopeful so far ....What did dismay is the DPRK reaction to its best ever chance. Why was the North so slow to trust Kim? His stand was hardly unknown, but two years were lost. And why, after raising hopes at the Pyongyang summit, was Bush's election made an excuse to choke all the new initiatives – family reunions, rail links, the Kaesong zone – when just begun? Two more years were lost. All this not only wasted precious time, but fatally weakened Kim Dae-jung at home. That was both ungrateful and unwise.

**I**n democratic societies, regime change is crucial. The conjuncture of Kim Dae-jung and Bill Clinton, both committed to engaging the DPRK, was unprecedented: it will not return. Yet with Clinton, too, DPRK diplomacy did not move at *Chollima* speed [Chollima is a winged horse in Korean mythology, like Pegasus in Greece. ‘Chollima speed’ was an early slogan of North Korea's initially rapid economic take-off; there is a Chollima statue in Pyongyang.]. Why, after Perry's visit to Pyongyang, did it take 18 months before Jo Myong Rok came to Washington? By then it was too late to wrap up a missile deal. Time ran out. ...Now we face regime change again, this time in Korea. As in the US, a swing to the right is likely. Instead of calling Lee Hoi-chang a ‘traitor’ ... the DPRK should prepare to deal with him: he will be there till 2008. Whose fault is it that most South Koreans grew disillusioned with sunshine? In July 2000, Kim Jong Il might have won an election in Seoul. What a pity to throw it away.”

With Europe specifically, I mulled an issue which now seems distinctly less hypothetical:

“Naturally I welcome the DPRK's diplomatic outreach of the past three years, to the EU and others. Yet one has to ask what drove this from the European side. The timing ... suggests that many were swayed by Kim Dae-jung and the Seoul ASEM summit in November

2000. All past ROK leaders frowned on their allies getting close to the DPRK..... If the next South Korean government discourages contacts with the North, how many EU states will resist?”

Except that now it is not a question of arm-twisting by Seoul, but of how the EU itself feels about being kicked in the teeth. As widely noted, the future of KEDO is now wholly unclear. As a board member of KEDO, the EU cannot blithely go on rewarding a self-confessed serial nuclear violator. On the aid front, it will be very hard now to build political support for further grants on top of the 270m-plus euros already given; or to move as had been hoped from mere wound-dressing to bolstering the structural changes which are needed, if the DPRK is ever to recover from its present largely self-induced catastrophe into self-sustaining development.

**T**hat is now a big if. In principle engagement is still better than confrontation, with its dangers of either a horrendous second Korean War or a risky and expensive German-style collapse. A soft landing, with gradually easing tensions, remains the best option. Yet in practice, who can now trust North Korea not to break any future agreements as it has past ones? What does Kim Jong-il expect the world to think of him, and do about him? Unlike in Iraq, regime change has hardly been contemplated for North Korea hitherto. Amid signs that a previously tight ship is losing its grip, few will now feel moved to rush to the rescue. The Sinuiju special zone fiasco showed that even China has lost patience; it has signaled as much on the nuclear front, too.

Yet if China withdraws its support, the DPRK will collapse. With other interlocutors, militant mendicancy cuts no ice now. Time is running out. Unless North Korea does what it has never done before, moving rapidly and unambiguously to allay global concerns on its nuclear and other suspected WMD activities, then the world's view of a regime so incorrigibly recidivist will surely shift towards the Victorian poet A H Clough's sardonic gloss on the biblical commandment: “Thou shalt not kill; but need'st not strive / Officiously to keep alive”. ■

### Editor's Note:

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# Indo-US and Sino-Indian Maritime Triangulate

by Mihir Roy

The shift in emphasis from Euro-Atlantic to Asia-Pacific, from geo-strategy to geo-economics and from conflict to commerce has been accelerated by ocean trading blocs, such as ASEAN, AFTA and APEC. The security and safety of the sea-lanes of communications (SLOCs), particularly for the movement of oil from the Gulf, is therefore vital for the sustained economic growth of East Asia, including China. Oil consumption in the Asia-Pacific region currently accounts for nearly 75% of total imports. Some 80,000 tankers, container ships and LNG/LPG carriers traverse the Indian Ocean annually, passing through the Malacca, Sunda and Lombok Straits to negotiate the Spratly/Paracel waters in the South China Seas, in order to reach their destinations in Japan and the Korean Peninsula. The unhindered use of sea lanes and the maintenance of good order on the high seas is a major challenge for the stability and security of Asia-Pacific.

## ***China's quest for energy security***

In the present scenario, 96% of India's foreign trade and 90% of China's external trade is by sea, which makes these two large continental neighbours virtually 'island nations' when it comes to trade. Moreover, China supplies 20 % of Asia's coal requirements, with Indonesia and Australia being the other major coal exporters. It is not surprising therefore that the maritime economy of China has grown by 17% in the 1980s and 20% in the 1990s. China is also the third largest shipbuilding nation, and her navy is numerically the biggest in Asia, with Japan and India being the other credible regional maritime powers.

China upgraded her coastal force to a Blue Water Navy during the successive leadership of Admiral Liu Huaqing, who had studied under Admiral Gorshkov, Zhang Lianzhong, a submariner and Shi Yunsheng an aviator. There are reports that China is building naval facilities in Marao, in the Maldives, which is expected to be operational by 2010, following the visit of the Chinese Prime Minister to Male on 17 May 2001. This requires confirmation, however. The Beijing-assisted development of the Pakistan port of Gwadar on the Makran coast appears to have slowed down, owing to the recent US military presence at Pasni in Baluchistan as a result of the terrorist attacks of 11 September 2001. However, neither the Peoples Liberation Army Navy (PLAN), nor, for that matter, any other Asian navy, can by itself ensure the stability of energy supplies at all times from

the Gulf. The link between SLOCs and geography, in the context of the current maritime strategy, is therefore emerging as the single most important requirement in peacetime. Good fences make good neighbours, and therefore choke points such as Hormuz and Malacca are realistic dividends for ensuring the co-operation and understanding of the user nations for the comprehensive security, stability and safety of trade routes.

The other option for China is the ancient silk route across Central Asia, which has become a political and economic possibility after the creation of the new Central Asian states. The Shanghai Co-operation Organisation (SCO), consisting of Russia, China, Kyrgyzstan, Tajikistan, Kazakhstan and Uzbekistan, have declared their cooperation in promoting and deepening mutual trust, good neighbourliness and friendly relations for ensuring regional security and stability. Yet another alternative is the ESCAP-sanctioned Trans-Asian Railway (TAR), between Kunming in Yunnan province of China to Bangkok, through a salient of almost 100 miles in Myanmar.

The remaining option for the movement of limited quantities of oil and commodities is the 'New Silk Route,' connecting the states of Yunnan and Sichuan to the Andaman Seas, via Myanmar, by rail, road and waterways. The wartime 'Burma Road' from Mandalay to Muse on the Chinese border has been reopened and the Yangon-Mandalay railroad upgraded. Moreover, the road linking Yangon to Sittwe will be the shortest route to the Indian ocean from Southern China. A major port facility is also under construction at Thilawa in the Arakan, with storage facilities at Bhano. These facilities are in addition to the naval infrastructure on Hainggyi island, at the mouth of the Bassein river, and the surveillance facilities at Great Coco Islands in the North Andamans, as well as the PRC earth satellite station at Zadetky Kyun, off the Tenasserim coast in south-eastern Myanmar. The listening posts at Manaug and Mergui Island near the Straits of Malacca also merit mention. The Irrawaddy river and land transport has been improved, in order to provide alternatives to the major sea route through the Indian ocean and the choke points of Malacca and South China Seas.

## ***India, Myanmar and the Thailand Triangle***

India, meanwhile, has incorporated berthing and dry docking facilities in the recently created Andaman & Nicobar Command, with air surveillance facilities located at the air stations of Port Blair and Car Nicobar, which is only 90 miles from the choke point of the Malacca Straits. A road corridor of 1,400 kms is planned to connect Moreh in Manipur to the ancient city of Bagan in Central Myanmar, and joining Thailand at Mae Sot. This road corridor through



Myanmar, linking India and Thailand, is expected to bring substance and synergy to India's "look East" and Thailand's "look West" policies. This incipient co-operation between the three countries will involve other projects, such as a deep seaport at Dawei in Myanmar, that could serve all the three countries.

**T**he Indian Coastguard has enlarged its anti-piracy operations, oil spill response and measures to combat human trafficking, poaching and the movement of drugs from the Golden Triangle and Golden Crescent located, on the shoulders of India and Pakistan, which fund narco terrorism for several insurgent groups in Afghanistan, Pakistan, north-east India, Myanmar, Philippines and Sri Lanka.

However, these alternatives to the recognised Indian ocean trade routes can carry only a very small proportion of the energy requirements of industrial nations in East Asia. China, which is globalising at a fast pace and is already the largest consumer of oil outside the United States, will inevitably be interested in the stability of SLOCs. Moreover, it will be interesting to analyse the long-term implications of the developing contest for energy dominance by the world's two largest oil exporters - OPEC and Russia.

### ***Significance of the Sea Lanes of Communications***

SLOC is the route taken by a ship to transit from A to B. In maritime and commercial parlance, it should be the shortest distance for the economic and timely delivery of cargo. SLOCs are therefore the arteries of a region, and serve as the umbilical cord for the country's economy. But during a confrontation a SLOC translates itself as the strategic path, varying in course and distance, depending on the geography of the landmass, reefs and shallows as well as the location of ports and harbours. To the military, therefore, SLOCs are an instrument of maritime power, with geography being the determinant for the forces being deployed to support friends or deter adversaries.

However, to a politician it is the state of relations with countries located along the sea route that will determine the strategy for the security of SLOCs. There is a significant link between SLOCs and geography, therefore, in the context of maritime strategy. The subject of SLOC security is hence closely linked to the maritime competitive mechanism leading to the expansion of navies, which inevitably leads to an arms race, followed by a tortuous and contested arms control regime.

India's security concerns stretch across a broad spectrum of factors. They are at global, regional and local levels, with no clear distinction or division between them, given that sea-lanes in the region are proximate to the Asian landmass, and pass through

narrow choke points, which promote interference. The threats to SLOCs can be classified into two distinct security groups. The first consists of external factors, such as piracy, mine laying, military and territorial conflicts, and disputes over some islets. The second security group is made up of non-traditional threats, such as narco-terrorism, drug trafficking and illegal migration. Global recession is another factor, as lower prices will adversely effect the welfare economies of the Gulf states, leading to popular dissatisfaction and the emergence of dissident factions.

**T**he internal factors, on the other hand, are the making of the maritime communities themselves, because of poor seamanship, crew incompetence and unsatisfactory ship husbandry. Thus 60 of the 77 tankers lost at sea during the 1980s were over 20 years old. Moreover, according to the ILO, there are approximately seven million Asians working abroad, 50% of whom are illegal migrants. Human trafficking to the US and Europe nets profits of approximately \$30,000 per person. The IMO has adopted a set of interim measures for combating unsafe practices associated with the trafficking or transport of migrants by sea. These are all sensitive factors affecting the maritime security of the region.

The ongoing naval build-up by regional countries would be yet another threat to SLOC security. The simmering down of bi-polar deterrence, and the expansion of national sovereignty notified by UNCLOS III, have become significant motives for smaller regional powers to modernise and expand their navies. It is estimated that 200 to 250 major warships were originally planned for procurement by the end of the new century. Furthermore, analysts claim that more than 30 modern submarines have been ordered by Asian countries. The region will therefore continue to be one of the most lucrative markets for defence manufacturers. But it can be said with little exaggeration that the real arms race in Asia is among the suppliers, rather than the recipients.

### ***Indo-US Maritime Co-operation - A Watershed for SLOC Security***

Closer co-operation between the Indian and US navies was initiated, interestingly enough, by the farsighted US Secretary of State, Colin Powell. He saw the need for meaningful co-operation with India's regional navy to ensure a steady flow of oil from the Gulf, and at reasonable prices. In his Senate nomination statement he pointed out that "India has the potential to help keep the peace in the vast Indian Ocean area and its periphery. We need to work harder and more consistently to help them in this endeavour." India and the US are now actively building new relationships to ensure the stability and security of SLOCs in the Indian ocean. This is being translated into action by a dozen separate groups, which are mapping and implementing

a purposeful path for Indo-US co-operation. Joint patrols by US and Indian warships in the Malacca Straits, as well as combined exercises by the two navies, termed "Malabar," have been carried out, even during the Indo-Pakistan stand-off, when a Task Force of over 20 Indian warships, including the Delhi class missile destroyer, Krivak III, missile frigates and the Indian-built Kora class guided missile corvettes, were stationed in their operational locations in the north Arabian sea, along with an aircraft carrier and submarines of the Western Fleet. Admiral Blair, C-in-C Pacific, pertinently observed during the planning of naval exercises that "intervention among regional armed forces are more like commercial transactions, where the participants gain better security as a result of individual transaction."

### ***US-India Defence Policy Group (DPG)***

The US-India Defence Policy Group (DPG) was set up and held its first meeting in December, 2001. After the stipulated six months, the second meeting was promptly held in May, 2002, in Washington. The DPG joint statement attaches importance to continued bilateral exchanges, in order to co-ordinate "approaches to security issues in Asia and beyond," and recommends:

- (a) combined naval patrols and air surveillance of the Straits of Malacca;
- (b) the strengthening of counter terrorism research, and the development of technologies, including classified equipment for enhancing mutual capabilities for combating terrorism;
- (c) the signature of a general security of Military Information Agreement to facilitate co-operation in defence technology;
- (d) technical co-operation in defence research, development and production;
- (e) the resumption of defence trade, beginning with the 'fire finder' radar sales;
- (f) combined special forces airborne exercises to strengthen interoperability;
- (g) continued co-operation in, and support of, UN peace keeping operations;
- (h) the establishment of a US-India Ballistic Missile Defence Workshop; and
- (i) co-operation in additional areas, such as consequence management, in response to weapons of mass destruction, humanitarian relief, cyber-terrorism and environmental security.

### ***The Way Ahead***

India needs to counter the 'containment syndrome' by initiating a dialogue with Beijing on energy security which is not confined to oil and gas infrastructure but includes joint ventures, safety of pipelines, security of shipping, particularly oil tanker traffic, and other regulatory non-military co-operation between their sea transport departments.

Thirty IMO Conventions for safer and cleaner seas have been enacted, covering disaster management, oil spill response, vessel traffic management and hydrographic assistance. Furthermore, UNCLOS' creeping jurisdiction, impinging as it does on innocent passage through territorial waters, transit passages utilising international straits and archipelagos, naval activities such as seeding anti submarine devices in the EEZ, and the legal issues relating to the shipment of nuclear waste through territorial waters and straits, could result in misunderstanding among nations, and therefore also merits co-operation and harmonisation in order to ensure the safety of innocent passage at sea.

India therefore needs to take the initiative in fostering co-operative approaches with regional Asian navies, particularly the Chinese, by highlighting the following:

- (a) An understanding of the interpretation of UNCLOS stipulations relating to SLOC safety and their implementation.
- (b) Agreements regarding co-operation in law enforcement for guaranteeing the norms of international navigation.
- (c) The security of oil and gas transportation.
- (d) The establishment of joint patrol areas and joint development zones, particularly in the choke points for ensuring the sanctity of the common heritage of mankind.
- (e) A co-operative approach for the protection of SLOCs, especially the non-military aspects in peace time, e.g. piracy, humanitarian assistance, search & rescue, human trafficking.
- (f) Bilateral and multilateral maritime co-operation for Confidence Building Measures, Conflict Avoidance Measures, Trust-Building Measures, Conflict Resolution Measures and Tension Reduction Measures for reducing uncertainty.
- (g) Ship visits, joint naval exercises and naval reviews, which will bring in more transparency and increase co-operation between maritime nations utilising the seas, the "common heritage of mankind."

### ***Navies as Bridges of Friendship***

The Indian Navy, which has been the Cinderella of the Indian Armed Forces, has grown in stature over the years, to mature into a flexible instrument for diplomacy and peacekeeping, as well as for strengthening the "brotherhood of the seas." India's modest navy is eminently suited, both professionally and technologically, to operate and co-operate with other navies in the Indian ocean on equal terms. This will in turn ensure stability on the high seas and on the shipping routes, and provide a better understanding of maritime affairs between littoral states in an ocean which that evangelist of sea power, Alfred Thayer Mahan, had uncannily predicted would be the "Ocean of Destiny" in the 21<sup>st</sup> century. ■

### **Editor's Note:**

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## Climbing Mount Everest in Copenhagen - Half way to the top

The Indian and Danish prime ministers did not make it to the top when they met in Copenhagen on October 10 for the third EU-India Summit. Nor could they be expected to, even with the help of their *sherpas*, given the ground rules for political summiting with the European Union (EU). The prime minister of the EU country holding the presidency and his counterpart meet for a few hours only, so that they cannot get very high up the mountain (i.e. really do justice to the agenda put before them).

The EU-India Summit served its main purpose, however, which was to allow the two sides to send a message, through their prime ministers, re-affirming the political importance they attach to their relationship. The message, now contained in a joint press statement, expressed their “satisfaction with the positive results of the Summit and its contribution to consolidate our firm and comprehensive relationship.” The two sides affirmed “our shared values of democracy and pluralism,” and reiterated “their determination to continue to combat terrorism.”

India and the EU also affirmed that the developments of the European common foreign and security policy “would further strengthen relations between them.” They also “reviewed the Middle East situation.” They did not discuss either Pakistan or Kashmir; at any rate, neither of these two proper nouns appears in their message. On the other hand, they agreed “to reflect on the need for consultations between Europol and Indian agencies” in the context of the fight against terrorism.

Annexed to the message was the traditional Agenda for Action. The Summit’s main aim is to send a strong political signal to everyone, and not least of all the *sherpas*. Their role is to “develop further our regular bilateral dialogue on democracy and human rights,” with a view to promoting “democracy, development, fundamental freedoms and the rule of law.” They will also “assess the opportunity for co-operation between Europol and Indian agencies.”

The first EU-India Summit, held in Lisbon in 2000, broke new ground by recognising the important part that civil society can play in strengthening EU-India relations. It provided for the creation of a Round Table, representing Indian and European civil society, and a think tank network made up of universities, research institutes, etc. The Round Table was even granted the privilege of submitting recommendations to the future

Summits. The Copenhagen Agenda for Action calls for a joint report on the “appropriate follow-up” to these recommendations and, what is more, undertakes to mobilise “the resources needed to promote autonomous civil society interaction and activate the think tank network programme.”

What the message of the two prime ministers makes clear is that, 40 years after India established diplomatic relations with the then 6-nation EEC, EU-India relations continue to be driven by economics. Then, as now, India is primarily concerned to develop its exports. Half their message, and two-thirds of the Agenda for Action, are devoted to economic matters. Although the EU is India’s main trading partner, India’s share of EU imports is just 1.2% of the total.

Surprising as it may seem, the political summit runs the risk of being overshadowed by the EU-India Business Summit. In Copenhagen, the Business Summit last nearly two days, and was addressed by the Indian Prime Minister, his Foreign Minister and the European Commissioner for Enterprise and the Information Society, Erkki Liikanen. Those in the audience included both the Danish Prime Minister and his Foreign Minister. The European Trade Commissioner, Pascal Lamy, would have attended had his Indian counterpart, Murasoli Maran, not fallen ill.

An insider’s account of the Business Summit follows. Here is how the Indian Prime Minister described his country:

“It has become the fashion these days to liken economies to real and mythical creatures, like elephants, tigers and dragons. The Indian economy is often identified with the elephant...Once elephants start moving, the momentum is very difficult to divert, slow down, stop or reverse. And when they move, the forest shakes.” ■

*Malcolm Subhan*



# EU-India Business Summit - A maturing dialogue

by Ms. Prajnaparamita, Consultant

If the number of participants who attended the EU-India Business Summit is any indication of the success of this event, which brought together CEOs and businesspeople from India and the European Union in Copenhagen on the 8<sup>th</sup> and 9<sup>th</sup> of October, then the total of some 220, seventy of them from India and the rest from the EU, is certainly quite impressive.

Hosted by Dansk Industri, and co-organised by the Confederation of Indian Industry, the Federation of Indian Chambers of Commerce and Industry, in partnership with UNICE and relevant government departments in Denmark and India, the two-day summit kept a steady pace.

The inaugural session gave the participants the opportunity to hear both the Minister of Foreign Affairs of Denmark, Mr. Per Stig Moller, and Mr. Yashwant Sinha, the External Affairs Minister of India.

The points made during the first plenary session included the fact that India accounts for only 1.3% of EU trade, and only a fraction of the EU's foreign direct investment (FDI), a poor record for a sixth of the world's population. On the EU side, both the obstacles and the opportunities for bilateral trade were mentioned, as well as the role of business in enhancing dialogue, certainly an essential aim of such a summit. Particular mention was made of the joint working group on information society, deemed as being of the highest importance, a point emphasised by Mr. Erkki Liikanen, the Commissioner for Enterprise and Information Society, when he addressed the special plenary session.

Indian speakers described the investment opportunities India offers, citing foreign direct investment as a priority. EU business leaders were reminded of the soundness of India's economic fundamentals, that it still is one of the fastest growing economies, and it offers investors among the highest returns on their investments.

EU speakers cited India as being at the top of the list of strategic partners. They placed importance on enhancing trade and investment as a framework for progress. Attention was also drawn to the need to translate into reality the recommendations made since the last business summit at Delhi in 2001. The hope was expressed that this could happen before the next summit in Delhi in 2003.

Among the useful ideas that emerged during the business summit was the importance of small and medium-sized enterprises (SMEs), in both the EU and India, and the vital need therefore to disseminate information on Indian SMEs in Europe. Websites linking SMEs on both sides will do much to stimulate data exchange between them, and indicate to potential partners the synergies that are possible. It was reiterated that outsourcing to Indian SMEs in particular would help EU SMEs become more competitive.

India's Minister for Dis-investment, Mr. Arun Shourie, put forward another concrete and easily applicable idea. He suggested that if country-specific standards could be put on the Internet, every Indian exporter would benefit, and this would remove one of the obstacles to trade.

Participants later divided into four groups to examine the sectors that have been the subject of recommendations by European and Indian business persons: financial services and insurance; biotechnology and applications; textiles and garments, and infrastructure and manufacturing.

Concerns were expressed about EU competitiveness in the biotechnology and applications sector. While material well-being is unparalleled in the history of Europe, its citizens are disappointed as regards their aspirations in the important areas of health, pensions, education and social protection. The EU model defines itself as capitalism with a human face, more bearable than raw capitalism. Such a model depends on a two-way process that is provided in the economic space. Here the confidence of the user, the final consumer or intermediate user, is particularly relevant in the case of biotechnology. Governments consider it their duty to protect their citizens; they give entrepreneurs the widest possible freedom, but within public policy constraints. Hence devising clear and simple frameworks are the real challenge.

Mention was also made of the emergence of a crucial skills shortage in the EU within the field of biotechnology. The vital need for clustering was pointed out, as well as the necessity for creating an environment conducive to developing and retaining talent, given that scientific personnel are highly mobile in an increasingly globalised environment. The need for cheap and effective Intellectual Property Rights (IPR), and the training of customs staff to handle complicated products, was also highlighted.

In biotechnology lies, perhaps, a real opportunity for interaction between researchers in the EU and India, drawing upon obvious synergies, given India's large pool of scientific personnel. It was pointed out that 15% of the scientists working in pharmaceuticals and



biotechnology in the US are of Indian origin. The fact that the Indian government had created a separate department of biotech as early as 1986 is an indication of the importance given to this sector. A key official from this department stated that the way forward was the creation of time-bound mission programmes. India's strength in bio-informatics is held to be the greatest in Asia today. Other such areas include the conducting of clinical trials, contract research and enzyme technology. A young Indian biotech entrepreneur gave an idea of cost-effectiveness when she pointed out that she had started up an 80-person company with a capital of \$3 million only, and that a comparative company in Europe would require something like \$50 million.

Some Indian success stories that were cited as examples included the greening of former mining areas and the successful transfer of some 40 technologies from laboratory to industry. An Indian official claimed that the "stakeholders meeting," held four to eight times annually with farming communities, to explain the ends and means of new technologies, have created a consensus for moving forward in this direction.

Mention was made, in connection with IPR, of a dedicated course in India's premier law school in Bangalore, where a 2-year specialisation in Biotech IPR is already available.

**M**ost striking perhaps was the frank and forthright tone of the speakers from both sides, a clear indication of the maturing of the dialogue between them. The Indian Foreign Minister, Jaswant Sinha, stated that India is looking for partnerships, indicating that this is seen to be the way forward. "Indian companies today want to make investments, and indeed have made investments," he declared. "We want to share technology. I am not talking of a one-way street where we take your technology and then compete with you. We are looking for a two-way street where we will also give you technology, we will invest our capital. With our reserves at \$63 billion, India today is in a position to invest in the countries in the North, and Indian companies are interested in making investments in Europe. They want to set up manufacturing facilities here. Please welcome them just as we welcome you and let's build up this partnership on the basis of equality and mutual advantage." ■

## EU close to agreement on Afghan return plan

**T**he plight of the large number of Afghan refugees in the European Union is set to continue well into 2003, despite the Council approaching agreement on a common repatriation plan. The plan, which is to be adopted at the Justice and Home Affairs Council meeting at the end of November, will contain elements of both voluntary and forced repatriation measures. Following its presentation by the Danish Presidency, on 14<sup>th</sup> October, the draft plan was discussed by EU Justice and Home Affairs Ministers. However, two Member States have already agreed bilateral repatriation plans with the Afghan authorities, so much work remains to be done to secure a common EU approach.

At the mid-October meeting, the Presidency proposal provided an outline structure leaving many of the key details to be agreed at COREPER and working group level. While the Presidency has been somewhat slow in initiating discussion at EU Minister-level, the Commission began discussions with international refugee organisations back in February. The government of Anders Fogh Rasmussen was tasked with the responsibility of agreeing both a general common repatriation programme and a specific Afghan plan, by the end of this year. Rasmussen inherited the task from the Spanish Presidency following the European Council meeting in Seville in July.

**H**owever, despite the good prospects for an agreement, no refugees based in the EU can be forcibly returned during the Afghan winter period. Equally, given the large numbers returning from Pakistan and Iran, the EU can not begin forcible repatriation without substantial capacity building throughout Afghanistan. Thus, EU Foreign Affairs Ministers back in July were already concerned that the large scale return and integration of Afghan refugees must be sustainable. The facilities in Afghanistan and, in particular, Kabul, have been overwhelmed by the rate of return of refugees, primarily from Pakistan but also from Iran. This concern for capacity building was echoed by Parliament, in early September, when MEPs called for "long-term support for the social and economic reconstruction" of Afghanistan to facilitate the "orderly return and re-integration" of refugees and displaced persons.

Although the main elements of the Danish plan have yet to be formally agreed, the Presidency has stated that it will focus mainly on voluntary return but, with an element on forced return, if the take-up rate is not sufficient. The Presidency has stressed that the EU plan is not a harmonisation of current Member State



practices but will seek to promote a common European approach. Thus, whereas France and Britain have already agreed bilateral plans with Kabul, the EU plan will address both the departure and arrival situation of refugees. Unlike the French plan, it is unlikely that the EU initiative will provide financial assistance to individual refugees but, will seek instead, to focus financial aid on integration and rehabilitation programmes within Afghanistan. The aid already provided by the Community has gone to the building and refurbishment of housing, schools, hospitals, farming and mine clearing operations. A further EUR17m was allocated to Kabul on 30<sup>th</sup> October, for existing refugees, returnees and internally displaced persons.

**A**lthough negotiations on the draft Danish plan are ongoing within the Council of Ministers, to date, it does not appear that the final EU plan will have a specific deadline for all refugees to return home. In comparison, an agreement brokered between Islamabad, the UN and Kabul has set a three year deadline for the voluntary return of all refugees based in Pakistan. Thereafter, Pakistan will reserve the right to start forcibly returning refugees. At any rate, the Commission believes that refugees based in the EU can not safely start to return until Spring 2003, at the earliest. Under the terms of the plan, the Commission would chair a Co-ordination Group composed of Member States representatives with input from the United Nations High Commission for Refugees and the International Organisation for Migration. The Group will have the task of controlling the flow of refugees into Afghanistan from the EU, according to the capacity of the various regions to receive them.

**T**he plan for returning EU-based Afghan refugees is part of a larger programme being discussed following the Commission's April Green Paper and the more recent Communication, adopted on 14<sup>th</sup> October, both examining a Community Return Policy on Illegal Immigrants. Like the Afghan return plan, this wider programme will be adopted according to the terms of the Seville European Council conclusions, this December. The return of legal residents, the Commission has stated, will be dealt with in a separate Communication on migration and development. Although the Afghan return plan is country specific, it will, the Presidency has said, draw upon elements of the Commission's approach.

The Commission approach is such that, while Member States should have full responsibility for their national return plans, the plans should be part of a co-ordinated framework. Thus, the Communication calls on the Member States to increase their operational co-operation through the exchange of information particularly relating to the identification and documentation of illegal residents. The inter-government co-operation should have a legal basis to

ensure the full mutual recognition of removal decisions between Member States. A common framework of return, at EU level, would have to cover the different stages of return. This would include the preparation, travel and follow-up combined with conditions to ensure the sustainability of return. Lastly, the Communication examines the need for co-operation with third countries at administrative and operational levels. Third countries would be required to sign re-admission agreements, although this is increasingly being dealt with in Trade and Co-operation Agreements. ■

*John Quigley*

## No EU role foreseen for Nepal

Over several years, the European Parliament has continuously adopted Resolutions on the increasingly desperate situation in Nepal. Many of these Resolutions, which are not legally binding, have called for the appointment of an EU Special Representative to the country. This initiative has been pushed mainly by Parliament's Green Group but has garnered consistent cross-party support. The latest Resolution, adopted on 24<sup>th</sup> October, which was the result of a series of compromises, also contained the demand that the Council establish a Special Representative position. However, the weight of this cross-party support does not seem to have been translated into a serious political force.

**T**he primary purpose of sending an EU Special Representative to Nepal would be to lend international support to the attempts by the Nepalese government to negotiate a solution to the six year old Maoist rebellion that plagues all parts of the country but, particularly, the western regions. The Maoists are battling to overthrow the constitutional monarchy and have inflicted severe losses on a badly underfunded police force and, more recently, the military. The government, however, has been reluctant to seek wider international support, apart from military equipment and specialist training.

Thus, Parliament, in the latest Resolution, called for the Special Representative (SR) to "offer mediation between the conflicting parties", but seemed to miss the opportunity to call for the SR's use in Nepal's other longer running saga, the situation of 100,000 Bhutanese refugees in Eastern Nepal. The refugees, most of whom are of Nepalese origin fled Bhutan in 1990, travelled through India and reached Nepal. They have been maintained in seven camps run by the



United Nations High Commission for Refugees, ever since. Again, the Nepalese government has resisted calls for international mediation, preferring to engage the Bhutanese monarchy in a series of Joint Ministerial meetings. The last such meeting took place in December 2001. No progress has been made on the issue since then.

One of the leading proponents of international intervention to assist a democratically elected Nepalese government, is the German Christian Democrat MEP, Thomas Mann. His draft Resolution did not make a specific reference to the appointment of an EU SR but, Mann has made clear that he would like the Council to make a nomination as soon as possible. Unfortunately, the Council does not participate in debates in plenary on Resolutions drafted under the urgency procedure. It has been suggested, however, that the Council is not in favour of creating another Special Representative position, at any time in the near future.

Apparently, despite Parliament's keen interest, the issue is not even under discussion in Council working groups, a basic precursor to gaining acceptance at Member State level. However, Mann has called for the "support of the international community" to find a sustainable long term solution for Nepal. This demand was reflected in the compromise Resolution that was formally adopted by Parliament. Yet, the Nepalese authorities have not taken an official position on Parliament's initiative significantly hampering prospects for an EU SR. The current political position in Nepal makes any immediate decision unlikely.

Throughout successive debates, the Commission, in the guise of several Commissioners, has never directly addressed the issue of appointing an EU SR either. Instead, the official position has been to support the democratic parties and elections and to focus on development projects and providing humanitarian aid to the Bhutanese refugees. Given the failure of the Nepalese authorities to deal decisively with either the Maoist threat or with the Bhutanese refugees then, international intervention in the form of a Special Representative, might be just the fillip that Nepal needs to finding long term solutions to both problems.

The Commission, in a Communication on Conflict Prevention, in April 2001, acknowledged that, to date, Special Representatives have been appointed to areas already in conflict. Nepal would seem to meet this criteria. However, the Communication also outlines that an EU SR could "also be useful in defusing potential crises". The SR would undertake missions of "preventive diplomacy" defusing tension or, perhaps, preventing an existing conflict from getting worse. The Commission, therefore, has called for greater powers for EU SR's saying that the person would require a "clear mandate

from the Council" and the ability to act as "full mediators" on behalf of the EU. If this last condition was supported by the Council, the EU's diplomatic efforts would be significantly enhanced.

Behind the scenes, the Commission may be hedging its bets waiting for a political signal from the Council. While focussed on delivering humanitarian aid and instigating development projects, the Commission would support the appointment of an EU SR for Nepal if the representative had a clear mandate, with the support of the Council and the Nepalese government. The representative's main task would be to mediate between the government and the Maoist rebels. Any EU intervention in Nepal's other problem, the refugee issue, would require at least the tacit support of the Bhutanese monarchy. Although it has never surfaced in EU-Indian contacts, pressure from India, on its Himalayan neighbours and, in particular Bhutan, would significantly increase the chances of an EU representative being appointed.

With one of the largest development and humanitarian aid budgets worldwide, the EU, as Mann points out, has a reputation as an honest broker. Equally, the EU has no strategic interests at stake but would require Indian approval to operate in its political backyard. Nepal's future keeps getting bleaker. The EU has the opportunity and the means to act decisively to support a democratic regime and to assist the government to solve the two biggest thorns in Nepal's side in its effort to move away from least developed country status. Unfortunately, I don't think Nepal should hold its breath. ■

*John Quigley*

## Self-Sufficiency in Developing Countries

In February 2001, the International Fund for Agricultural Development (IFAD), a UN agency, published a report on Rural Poverty, which stated that three quarters of the 1.2 billion people who live on less than one US dollar per day, live in rural areas. The report predicted that the goal of halving the numbers in poverty, by the year 2015, would not be met. In part, IFAD felt this was due to the failure of donors to support rural development projects aimed at creating employment and delivering fair prices for agricultural produce. The report provides a backdrop to the adoption in the European Parliament, on 24<sup>th</sup> October, of a Resolution on sustainable agricultural policy, agrarian reform and rural development for self-reliance in developing countries. The Resolution is based upon



an own initiative report, drawn up by Bashir Khanbhai, a British member of the Conservative group.

**T**he Resolution makes a plea of the elimination of trade and tariff barriers coupled with increased access to markets for developing countries. However, this should not be done by weakening Europe's food safety standards or veterinary and phytosanitary standards. Some developing countries had claimed that the EU used these requirements to restrict access to the Community market. To overcome this obstacle, Parliament wants the EU to offer developing countries "financial and technical assistance" to help them meet Europe's standards. To combat the "devastating effects" of uncontrolled free world trade on food production in developing countries, each country or group of countries should have the right to protect their producers through regional agreements that offer tariff barriers.

Khanbhai, in his report, noted that countries such as China, India and Bangladesh were food-deficient and net importers less than twenty years ago. Rural investments that focussed upon subsidies to farmers, promoting food co-operatives, micro-finance and irrigation projects transformed their agricultural systems. This turnaround must be a lesson, he said, that these countries can now feed themselves and have surpluses for export. The Resolution makes clear that the EU policy of giving priority to the export of basic commodities, has not allowed developing countries to benefit from added value, either through processing or product diversification.

**T**hinking of the Everything but Arms initiative, which grants duty-free and quota-free access to the Community, the Resolution urges other industrialised countries to open up their markets to imports from poor countries. Developing countries themselves must increase their food production, maintain and create jobs in rural areas and promote the sustainable management of natural resources. Another key issue examined in the Resolution is the question of fair access to land and water. The EU, Parliament states, should make this a key priority both of its development policy and conflict prevention policy.

Speaking in the debate in plenary, before the vote, Commissioner for the Environment, Margot Wallström, said she shared fully the "main thrust" of the Khanbhai report on the importance of rural and agricultural development for poor people in developing countries. The Commission recognised that trading opportunities for the rural poor must be improved. This principle was confirmed in the Doha Development Agenda and means that the European Union will take account of the needs of developing countries in trade negotiations and will develop programmes to improve their capacity building. It also means providing trade-related technical assistance. Wallström supported

Parliament's call on other industrialised countries to open up their markets.

The Commissioner was less welcoming of Khanbhai's criticism of the EU's dumping of subsidised produce into the markets of developing countries. In fact, Wallström said, technically, the Community provides an export refund to reduce the difference between a higher Community price and the world price. This could not be called dumping, she said.

For the Commission, rural poverty must be tackled through interventions at different levels. At the national level, the Commission should help to improve incomes, reduce inequality in access to productive assets and combat the degradation of natural resources. However, at the international level, the Commission must be active in improving the coherence of developed countries domestic policies and development objective, with regard to trade and agriculture.

**G**lenys Kinnock (PSE) called it "sheer hypocrisy" for the EU to protect its agricultural competitive position with higher resources while, at the same time, "forcing developing countries to liberalise". The rapid opening of their markets "threatens food security" and "sustainable livelihoods". The EU has an opportunity to show that its leaders understand the link between trade, market access and tariff levels and the requirement to meet the millennium goal of poverty reduction. The protectionist policies of the developed countries continue to force farmers off the land, as they cannot compete with "heavily subsidised food flooding and being dumped" on their domestic markets. The 900m people living on less than one dollar per day is certainly, she said, a "call to action". ■

*John Quigley*

## EU-North Korea aid

**T**he allocation of European humanitarian aid and the plight of North Korean refugees in China were two issues raised by MEPs in written questions to the Commission. Marco Cappato, an Italian independent, highlighted allegations that the North Korean regime was mis-appropriating European Community humanitarian aid for use in "strengthening the military and police forces". Cappato wanted to know whether the Commission had any agreement with Pyongyang that ensured that EC aid went specifically to civilians. Otherwise, how did the Commission know that aid was not being used to prop up the military regime. Cappato called for the creation of a committee of inquiry to investigate the allocation



of EC aid. The committee should assess the “effectiveness and validity” of the aid and, possibly, even consider suspending it. Robert Evans, a UK Socialist, raised the plight of North Korean refugees who had fled to China but faced “imminent repatriation” by the Chinese authorities. What level of dialogue, he asked, was the Commission involved in with Beijing to assist the refugees or to improve the human rights situation in North Korea itself.

The Commissioner for Development and Humanitarian Aid, Poul Nielson, in reply, indicated that the Commission would not consider establishing a Committee of Inquiry to investigate media reports of aid mis-appropriation. Community aid, Nielson stated, was channelled through European Non-governmental Organisations (NGO’s) with a permanent presence in North Korea or through international organisations such as the United Nations. The procedures for the allocation and supply of European aid are governed by a 1996 Council Regulation concerning humanitarian aid (EC/1257/1996). The EU has signed an informal Letter of Understanding with Pyongyang establishing “specific requirements” for the implementation of ECHO funded operations. The Letter was signed between the North Korean organisation Flood Damage Rehabilitation Committee (FDRC) and ECHO. The FDRC is the organisation designated by the North Korean authorities to deal with NGO’s from Europe.

The issues of working and access conditions for European NGO’s is also raised, Nielson indicated, in EU troika meetings with Pyongyang. There are some signs that access “is improving”, he said. Of North Korea’s 211 counties, 173 are officially open to international agencies. ECHO has a comprehensive system of assessment and monitoring for projects in the DPRK. One such project, in the health sector, was the subject of an audit by the European Court of Auditors in April 2002. This check did not find any “anomaly” regarding the mis-use of humanitarian aid by military officials. In these circumstances a Committee of Inquiry would not be “appropriate”.

In response to Robert Evans, the Commissioner for External Relations, Chris Patten, said that the human rights situation in North Korea “is a major concern for the Commission”. In June 2002, the Commission met with the DPRK government to express concern at the treatment handed out to North Korean citizens who are forcibly returned from China. The Commission used the opportunity to urge North Korea to “respect the citizens fundamental rights”. Equally, in EU-China contacts, the Commission has urged Beijing to “respect international humanitarian norms” and to grant the UN High Commissioner for Refugees, access to the border area “to assess the situation”. ■

## Human rights abuses in China

John Cushnahan, an Irish Christian Democrat, who has served as Chief Election Observer in Pakistan and Sri Lanka, in a written question, asked the Council about the motivation and consequences of China’s Strike Hard campaign against criminality and corruption. The campaign, in 2001, was responsible, Cushnahan said, for “half of the executions worldwide”. Other human rights abuses continued unabated in China including arbitrary detention, unfair trials and allegations of torture. The pressure on police and local authorities to demonstrate “effective results” ahead of the 16<sup>th</sup> Party Congress could lead to a worsening situation. What action would the Council undertake to ensure that these arrests and trials were not “politically motivated”.

In reply, the Council noted that the most recent discussion of the human rights situation in China was during its meeting in March 2002 (see *EurAsia Bulletin* Vol. 6 No. 3&4 p56 for details). The Council expresses its “deepest concern” over the Strike Hard campaign, which has included the use of torture and has resulted in an “extremely high number of death sentences and executions”. At the 58<sup>th</sup> Session of the UN Human Rights Commission, the EU urged China to limit the use of the death sentence, move towards its abolition and reform the system of administrative detention. The Council acknowledged that it had received information that the authorities would possibly broaden the Strike Hard campaign ahead of the 16<sup>th</sup> Congress, which is due to start on 8<sup>th</sup> November. ■

## Persecution of Christians in Indonesia

Graham Watson, the Liberal Group leader in the European Parliament, in a written question to the Commission, raised the attacks upon Christian communities in Central Sulawesi. The attacks were being perpetrated by “extremist Islamic elements of the *Laskar Jihad*”, he said. Rather than defending Christians, local police had begun arresting key church leaders. In reply, Commissioner for External Relations, Chris Patten, said that the EU encourages Indonesia to resolve its internal conflicts peacefully. The EU provided humanitarian aid to the victims in Sulawesi worth €1m for this year. A further €0.5m is available for conflict resolution under the EU Rapid Reaction Mechanism. Human rights concerns were raised with Indonesia in the margins of the Asia-Europe Meeting, in September, in Copenhagen. ■

John Quigley



## Parliament proposes EU standards for refugees

Parliament adopted a legislative Resolution, on 22<sup>nd</sup> October, proposing minimum standards for refugee status for third country nationals and stateless people. The Resolution draws on the report prepared by Jean Lambert, a British Green MEP in the Committee on Citizens' Freedoms and Rights, Justice and Home Affairs. Lambert's report is based upon a Commission proposal for a Council Directive on "minimum standards for the qualification and status of third country nationals and stateless persons as refugees or as persons who otherwise need international protection", which was adopted in September 2001. The proposal identified a minimum level of protection for refugees in EU Member States and sought to iron out discrepancies in national legislation, a move which Lambert believes, will lead to the creation of a common European asylum policy.

The Resolution was heavily amended at plenary and was only adopted by a slim majority of 36 votes. Parliament examined the Commission proposal under the consultation procedure, which means that its amendments to the text are non-binding on the Council. In the voting, the Christian Democrat group, the European Peoples Party (PPE-ED), was outvoted by a combined Socialist and Liberal alliance. This proposal is one a series adopted by the Commission since 2000, in accordance with the Conclusions of the Tampere European Council, in October 1999. The Commission has stated that this proposal "completes the set of building blocks" towards a common system, as called for in Tampere, under the Finnish Presidency. In a sign of the importance the Commission attached to the initiative, the proposal for a Directive is subtitled "creating the heart of the common European asylum system."

One of Parliament's major concerns was that the forthcoming Directive should respect international norms on refugees. An amendment proposed by the Citizens' Freedoms Committee established that the actions of the EU Member States taken under the Directive would respect the Geneva Convention, the European Convention on the Protection of Human Rights and Fundamental Freedoms, the UN Convention against Torture and, lastly, the International covenant on Civil and Political Rights. Then, to the criteria for the granting of refugee status of persecution on grounds of race, religion, nationality, political opinion or membership of a particular social group Parliament added the grounds of gender, sexual orientation or membership of an ethnic group.

Speaking during the debate in plenary on 21<sup>st</sup> October, Commissioner for Justice and Home Affairs, Antonio Vitorino, said that the proposal aimed to eliminate the incidence of "asylum shopping" by refugees by eliminating differences in Member States' national legislation that effected the flow of asylum applicants and to ensure that a minimum level of protection is available in all EU countries. The Commission proposal established two forms of protection, those who qualify for refugee status and those who qualify for subsidiary status. It subsequently became clear that, the proposal would not apply to those third country nationals present in Member States on humanitarian grounds nor would it cover EU citizens seeking asylum in the territory of another Member State. This latter restriction worried Parliament's *rapporteur*, Jean Lambert, who pointed out that, considering the pending enlargement of the EU, some of the candidate countries are still the source of asylum applications.

Against Commission wishes, Parliament extended the definition of what constitutes a family member. Moving away from the traditional nuclear definition Parliament included unmarried spouses, irrespective of gender in a stable relationship. The children of either partner would be included irrespective of whether they were born in or out of wedlock, were adopted or fostered. Lambert wanted the definition of a family member to be "as wide as possible", as children from conflict zones may not have surviving parents, she said.

Another major issue addressed by Parliament was a rejection of the Commission idea that State protection could be variously offered by international organisations and "stable quasi-State organisations". Either organisation would have to control a clearly defined territory of "significant size and stability". Lambert had stated that providing such organisations with a "legal duty" when their legal status was possibly unclear, was unwise. She recommended deleting the provision from the text as presented by the Commission. The two institutions also clashed over the suggestion that some refugees could seek protection in another area of the country of origin, unless the agent of persecution was of was associated with the national government. Parliament choose to opt in favour of international protection.

Finally, Parliament would like the draft Directive to enter into force ten months earlier than the Commission had originally proposed. If accepted by the Council, Member States would have until June 2003 instead of April 2004 to transpose the Directive into national law. It is expected that the Council will adopt the proposal for a Directive before the end of the year. ■

John Quigley

## EU Development Policy makes slow progress

Since April 2000, the European Community's development policy has undergone a series of important changes. That process of evolution is still continuing with the recent abolition of the Development Council of Ministers and the publication, in September, of a Communication on Trade and Development. This lengthy and ongoing process has re-invigorated the EU's development policy by concentrating minds on the scale of the task and through the recognition that recipient countries will have to take greater ownership of their poverty reduction strategies. However, the constant adoption of initiatives at national, EU and international level offers a significant problem of implementation. The benefits to the 49 least developed countries, eight of whom are in Asia, have been decreasing steadily, while their numbers have grown rather than reduced. Increasingly, the EU's focus is placed on urging beneficiary countries to take greater national responsibility in poverty reduction strategies and to exploit fully market access initiatives that are already in place.

### ***Progress of Reforms***

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The process of reform of the Community's development policy began, in April 2000, with the publication of a Commission Communication. Developing countries and NGO's for years had criticised the Commission for the "slow and chaotic" delivery of development aid. The Communication established the aim of poverty eradication as the goal of EU policy. The Commission pledged to being forward Country and Regional Strategy Papers to promote greater coherence, in Brussels, of what the Community should be doing abroad. One major element of the reform process would be to devolve greater powers and responsibilities to the Community's offices in third countries. This has happened on a very large scale. In response to the Commission's Communication, the Council of Development Ministers adopted Conclusions, in November 2000, calling for a focus on six areas namely, trade and development, regional integration and co-operation, transport, support for macro-economic policies, food security and sustainable rural development and, lastly, institutional capacity building.

### ***Recent Developments***

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When Poul Nielson warned against the politicisation of humanitarian assistance, in December 2001, this was a full six months before EU Heads of State and Government decided in Seville, in June, to subsume the Development Council into a reformed General Affairs

and External Relations Council (GAERC). This, the Council has declared, was to "enhance the coherence between the components on the EU's external policies". However, giving development responsibilities to the new Council, runs the risk that both development and humanitarian assistance will become just extra tools in the EU's external policies. The Director of EuroStep, a network of 19 development NGOs, Simon Stocker, said that the abolition of the Council would mean that development policy would become an instrument of the Common Foreign and Security Policy (CFSP). While recognising the need for coherence between the EU's external policies, development co-operation can not be subordinated to political foreign policy interests, Stocker said. It also risked marginalising development policy at a critical time in the evolution of the EU. The first meeting of Member State development ministers will take place, under the new structure, in November.

On 12<sup>th</sup> September, the Commission published its Annual Report, for 2001, on the Community's development policy and the implementation of external assistance. The creation of the EuropeAid Co-operation Office, in January 2001, was the single biggest achievement in a year of "fundamental reforms". Responsibility for the process of identification to evaluation of projects would be transferred to the new office while responsibility for programming would remain with DG RELEX. With regard to Asia, in financial terms, the two biggest events of the year would be the earthquake in Gujarat and the situation in Afghanistan.

One week later, the Commission adopted a Communication on "Trade and Development – assisting developing countries to benefit from trade". In the Communication, the Commission sets out how the Community can fulfil its global commitments of reducing the numbers in poverty, by helping developing countries to exploit more successfully, the benefits of trade and investment. The EU must address the commitments it made in Doha, Monterrey and in Johannesburg on building capacity, removing constraints to trade and promoting sustainable development.

The Communication proposes three concrete ideas for action. These include intensifying dialogue with partner countries within the context of the Poverty Reduction Strategy Papers and in funding trade related technical assistance. Secondly, the effectiveness of EU support must be enhanced by paying particular attention to LDC's and low income countries, examine funding possibilities for bilateral, regional and multilateral initiatives on trade related assistance and delivering better training programmes. Lastly, the Communication examines how trade and development can contribute to international effectiveness by reviewing mechanisms for co-



ordination between Member States, co-operating with international organisations more efficiently, supporting trade capacity building and supporting the WTO Secretariat on Technical Assistance.

The Danish Presidency, on 8<sup>th</sup> October in Geneva said that the EU hoped that, by fostering trade with developing countries, 320m people could be lifted out of poverty by 2015. Since 1995, developing countries exports to the EU have increased by an average of 15% *per annum*. In 1999, their trade balance with the EU went into surplus. However, this “impressive performance” hides the fact that developing country exports are mostly concentrated on a “limited range of products” that are derived from natural resources and that generally make use of unskilled labour. Equally, the number of LDC’s is increasing as some developing countries pursue “inappropriate national policies” that result in very low levels of domestic or foreign investment. Bertel Haarder, Denmark’s Minister for European Affairs, has stated that increasing the export earnings of developing countries would contribute substantially to securing the “necessary economic foundation for sustainable development”.

### **Prospects for the future**

The meeting of EU Development Ministers, under the new General Affairs Council format, in late November is expected to be crucial both in how future Council meetings will perform and in giving direction to EU policy. Following publication of the Trade and Development Communication, the Council is understood to be ready to adopt Council Conclusions on the Commission document. The November meeting will also see the various other Council formations make interim reports to GAERC on how they expect to implement the commitments the EU made at Johannesburg on sustainable development. The November Council should then adopt an “implementation plan” outlining what actions each Council needs to undertake. These interim reports will be collated and subsequently considered by EU heads of State and government at the European Council in Spring 2003, under the Greek Presidency. A major policy statement can be expected.

The European Commission is a key part of the implementation of the Johannesburg outcome. The Trade and Development Communication proposes that a total review of EU trade related assistance should take place by the end of 2005. This review would take place under a new College of Commissioners and it is uncertain whether Nielson would stand again. In September 2002, the Council adopted Conclusions on the requirements for the implementation of the Johannesburg Summit. These Conclusions requested the Commission to prepare a “synthesis report” by the first Greek European Council,

with the objective of “identifying key measures to implement the Johannesburg outcome”. Finally, the November Council will also review the outcome of the Monterrey conference on Financing for Development. In Monterrey, the EU Member States pledged to reach an average for official development assistance of 0.39 by 2006.

Asia, in development and political terms, seems likely to increase in importance for the European Union. The Commissioner for External Relations, Chris Patten, speaking in London in September said, the Commission has been working closely with Asia on the Doha Development Round to reduce non-tariff trade barriers and encourage investment. In 2000, 205 of the EU’s exports went to Asia. Asia is Europe’s third largest trading partner ahead of Central and South America, the Gulf and ACP countries combined. Apart from being a “moral duty” to tackle poverty in Asia, it was in the EU’s “enlightened self interest” to do so. As part of the EU development policy, this means boosting market access for the poorest developing countries. However, it means that middle income Asian countries must increase their contribution to poverty reduction also. Together, the EU and its Member States account for 30% of overseas development aid going to Asia. As new co-operation programmes enter into force, this figure will surely grow.

The three principles that Poul Nielson elucidated almost one year ago still remain valid today. Speaking to the Committee on Development Co-operation in the German Bundestag, Nielson said that the *quality* of Europe’s development co-operation matters through improved co-ordination and effectiveness. Equally, the *volume* of assistance matters towards targeting poverty. Lastly, Nielson said, *values* matter. The world needs a dialogue between civilisations that should promote inclusiveness and respect for cultural diversity. With an annual budget of €9bn, the European Union has a lot of money and expertise to contribute. What the Commission calls “global commitments” and EuroStep “global responsibilities” must remain focussed upon the poor. While the target of halving the numbers in poverty by 2015 remains elusive, the EU, and its Member States, must contribute more and not less to the global fight against poverty. ■

*John Quigley*

## Exploring Federalism and Integration – the EU, Taiwan, China and Korea

Key players in the most intractable geopolitical divisions in East Asia appear to be pursuing policies that preclude the immediate unity needed to overcome the disputes across the Taiwan Straits and between North and South Korea, an international conference concluded recently.

Mainland China and South Korea, some experts suggested, seem to be favouring the *status quo* for the time being, in the belief that time is on their side, while Taiwan and North Korea were regarded as trying to escape from the confines of past isolation. Unity across the Taiwan Straits or the 48<sup>th</sup> parallel in Korea, both signs of division for over half a century, probably will not come about in the immediate future, political figures, academics and independent analysts generally agreed in Berlin at their October 26-27 meeting.

But while agreeing that existing political tensions made bold moves toward greater unity unlikely, they also suggested that economic relations and confidence-building measures could continue between China and Taiwan, on the one hand, and the two Koreas on the other. Although considerable risks remain in both these flashpoint regions, the recent emphasis, in both cases, on forging new economic links between them was seen as a promising basis on which to create an improved political and security environment in the two regions.

The two-day Berlin conference, entitled "Exploring Federalism and Integration – the European Union, Taiwan, China and Korea," was organised by the European Strategic Alliance for Asian Studies (SAAS), a consortium of think tanks based in five EU countries\*. The gathering of policymakers, academics, analysts and journalists from both Europe and Asia took place at the Japan-German Centre on the campus of the Free University of Berlin, which was chosen as a symbolic example of another half-century division, which had been overcome in this case.

Speakers came from Beijing University and various Taiwan institutions; Kyung Hee University in South Korea, and some of the Alliance institutes. Among the key officials who addressed the meeting were the former Taiwanese Prime Minister, Vincent Siew, and Bi-Khim Hsiao, a member of the Legislative Yuan in Taiwan. Graham Watson, the president of the Liberal

Democratic and Reform Group in the European Parliament, also spoke at the session.

David W.F. Huang, of the Institute for European and American Studies at the *Academia Sinica* in Taipei, contrasted the European Union's "highly-structured, legalistic" type of "closed regionalism," to the "open regionalism" of the Asia Pacific Economic Cooperation Council (APEC), although both shared the same regional logic. The former, however, aimed at political integration while the latter pursued economic objectives only, although there was some peer pressure for collaboration in other political areas, such as terrorism. Commenting on the Prof. Huang's paper, Prof. Elke Thiel of the *Stiftung Wissenschaft und Politik* in Berlin, noted that while the EU governments and ministers retained control of a process that remained voluntary, APEC continued to deal with areas that remained exclusively in national competence.

She also stressed ASEAN was following a different approach in Asia. Graham Watson, MEP, suggested that while the EU was undergoing a dramatic enlargement, the increase in numbers did not guarantee improved democratic control and decision making. Dr Willem van der Geest, of EIAS, also noted that the EU's initial aims had been largely economic and industrial in nature.

Following this theoretical introduction to the central theme of federalism and regionalism, Prof. Jia Qing Guo, of the School of International Studies at Beijing University, focused on the evolving system of multiparty democracy which, under the control of the Chinese Communist Party, was moving towards and programming profound changes. Prof. Jia pointed out that he belonged to the Democratic League, and spoke of the numerous meetings between such parties, on the one hand, and the Communist Party and central, regional and municipal authorities on the other. He added that China was seeking more effective governance, and had a system which was between a one-party dictatorship and an open system, with its strengths and weaknesses.

It had the advantage that the leadership could focus on long-term goals, but its weaknesses included a possible failure to provide adequate checks and balances, difficulty in changing policy when in power, and a certain indifference to peoples' wishes and needs. Responding to a journalist's question on how the Party knew it had public support, Prof. Jia noted that surveys reported on the public's desires to combat corruption, for example, and suggested that one-party rule could be as effective in China as in Singapore. Dr Werner Pfennig, of the Free University of Berlin, wondered whether the term "multiparty" was an accurate description of the Chinese system, since other parties



had such a small role, while the central party was probably more of a "conglomerate of factions."

Vincent Siew, who is currently the Chairman of the Cross-Straits Common Market Foundation, underlined the importance of trade and economic relations between the Mainland and Taiwan, by pointing out that the PRC had just surpassed the US to become Taiwan's biggest export market and its second largest source of imports. Mr. Siew noted that in addition to this growing trade dependence, Taiwanese investment in China amounted to some \$21 billion, making it the third largest investor after Hong Kong and the US. All this activity with Taiwan was credited with generating some 5 to 10 million jobs in the PRC.

Their participation in the World Trade Organisation (WTO) could also lead to greater convergence, and perhaps to even a common market or free trade area, according to Mr. Siew. But he also accepted that some of this growing involvement could undermine Taiwan's political resolve and identity.

Commenting on Mr. Siew's presentation, Dr Rudiger Machetzki, senior research fellow at the *Institut für Asienkunde* in Hamburg, noted that the trade in question, like much trade in Asia, was in components rather than finished products. He also pointed to the growing number of research centres in China, which meant an upgrading of the Chinese economy, perhaps to the detriment of the Taiwanese economy.

Two other speakers addressed the issue of the significance of nationalisms, tensions and perceptions of security in the PRC and Taiwan. Bi-Khim Hsiao, of the Taiwan Parliament, spoke of the development of Taiwanese identity. She and Dr Greg Austin, of the International Crisis Group and Visiting Senior Research Fellow at EIAS, both dwelt at some length on the arms competition between the PRC and Taiwan, and noted the need for confidence-building measures. Dr Austin remarked that Cross-Strait relations were "dynamic, volatile and complex," and at the same time affected other countries, including Japan and the US. He also noted the significance of "winning symbolic politics," which he termed dangerous. But Dr. Austin believed that a measure of demilitarisation has taken place in China, and described its military forces as less of a threat than was claimed in some circles. But he noted that the US was reconstituting a military alliance with Taiwan.

In the open discussion, Prof. Jia Qing Guo stressed that that mainland China believed that time was on its side, and was prepared, therefore, to concentrate on internal economic issues rather than on Taiwan and the one-China problem.

The second day was largely devoted to the related division of the Korean Peninsula, which also has persisted for more than a half a century. Prof. Kwon Man Hok, of Kyung Hee University in South Korea, underlined the division and hostility that developed, following the end of the Second World War. He noted that it was based on rivalry between anti-Japanese Communist camps in the North and a capitalist-oriented system in the South, which had compromised with Japanese collaborators. But Prof. Kwon also spoke at length of the complex dynamics involving the two Koreas and the US. He focused on the Bush Administration's policies, which proclaimed North Korea as the reason for the installation of a Ballistic Missile Defence system which, in reality, was probably directed more at China. Prof. Kwon thought that the other players in the region would increasingly find themselves at odds with the US, if Washington were to opt for delaying tactics or confrontation in dealing with Pyongyang.

David Fouquet, of EIAS, focused on the recent dramatic upheavals in international diplomatic efforts to end North Korea's isolation, following the announcement by Washington in October of North Korea's new nuclear development programme. Although there was considerable opposition to the idea of compensating North Korea for dismantling its nuclear programmes, Mr. Fouquet noted that the West has engaged in similar high-cost "threat reduction" financing of Soviet and Russian nuclear and chemical stockpiles. He also suggested the need for a fresh look at the relationships with Pyongyang based on the flawed US-DPRK Agreed Framework and the KEDO programmes, and possible recourse to the comprehensive recommendations drawn up by the former US Secretary of Defence, William Perry under the Clinton Administration.

Dr. Willem van der Geest reported on the emphasis on economic reforms and foreign investments placed by a delegation from North Korea, which had taken part in a conference in Brussels in early October. He noted that recent reforms were designed to "give full play to the creative initiative of the working people." The DPRK was putting emphasis on power, food production and information technology, as well as the reconnection of the TransKorean Railway, which could radically alter trade relations with China, other parts of Asia, Russia and Europe. ■

\*The Alliance partners are: the European Institute for Asian Studies, Brussels; the International Institute for Asian Studies, Leiden; the Nordic Institute for Asian Studies, Copenhagen; *Asienkunde*, Hamburg, and the Asia Centre at *Science Po*, Paris.

David Fouquet

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- BP 02/01 ASEM, APEC and East Asian Economic Integration  
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