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Don't know! Don't care!

by Malcolm Subhan

This certainly sums up the attitude of the vast majority of Asians towards the European Union (EU). Of course those who have a professional interest in the EU – businessmen, traders, foreign ministry and foreign trade officials, academics – try to keep up with developments in their particular field. Their task is made more difficult, however, because of the virtual absence of media interest in the EU. The EU does make headlines in Asian countries, but for reasons which do not necessarily generate goodwill – a restrictive visa policy in a member state or anti-dumping action by one or other European economic interest group, for example.

The Asians are not alone in their indifference to the EU. Until the war in Iraq alerted them to the perfidious French and Germans, most Americans were just as indifferent. More surprising, however, is the level of European indifference to the EU. Of course it is not as high as that displayed by the citizens of distant lands – which makes its very existence all the more surprising.

Evidence of this "don't know" attitude is to be found in a long-established European Commission publication, which bears the rather intriguing title, "Eurobarometer." It is a twice-yearly survey of public opinion in the EU, conducted on behalf of the European Commission by the European Opinion Research Group. The latest issue reflects the views of 16,410 people who were interviewed face-to-face in all 15 EU countries this spring. The replies mentioned below relate to the EU as a whole, and not any one member state.

A key development in the life of the EU has been the work of the European Convention, under the patrician Valéry Giscard d'Estaing. The proportion of "Don't knows" to seven questions on the work of the Convention ranged between 53% and 74% of the EU's adult population. Thus 53% didn't know whether their own government was represented on the Convention, and 62% whether EU citizens will have the opportunity to accept or to reject the Convention's final proposals.

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Take support for EU membership. To the question whether they thought that EU membership was a good/bad thing for their country, just over half felt it was "a good thing," against the 11% for whom it was "a bad thing." But a further 27% felt membership to be "neither good nor bad" – in other words, were indifferent to the whole thing, while the "Don't knows" amounted to 7% of those polled. In short, well over a third of EU citizens view their country's membership of the EU with indifference.

To the question whether their country had on balance benefited from EU membership, half of those polled thought it had. But 29% thought it had not, while 21% didn't know. In other words, the level of satisfaction with the EU is…well, unsatisfactory for an institution that is held up as a model of its kind. Which may well explain the low level of trust in EU institutions, the most important of which have been around for more than 50 years now.

Thus two of five Europeans tend not to trust the Council of Ministers, which represents the member states. The Council is made up of the 15 foreign ministers and is the centre of political power in the EU. The European Commission came out better, with half of EU citizens tending to trust it. Trust in the European Parliament, of which both Council and Commission tend to be dismissive, was even higher, at 57%. But it was the Convention on the Future of Europe, which has been busy drafting the EU's Constitution, which came off badly, with just 26% of Europeans claiming that they tend to trust it.

The bad news is that a high proportion of the EU's 370 million citizens either have no opinion about it or don't know much about it – and perhaps don't care. The good news is that a high proportion of the EU's citizens, having grown up within its borders, take the EU for granted. Only when pestered by a Eurobarometer pollster do they spare a thought for it – and then dismiss it with a shrug. This is reflected in support for the euro. Some 66% of the population of the 15-nation EU are for it, rising to 75% in the 12-nation eurozone. For those who handle euros and cents on a daily basis, it's a fact of life.

Why should Asians take an interest in the EU, and why should Asian media help them by expanding its coverage of the EU? The answer is that the EU counts. Its impact on world trade in textiles and clothing is dealt with at length, elsewhere in this issue. But the EU counts in numerous areas of high technology, in scientific research, in industrial development. In other words, the EU is a good partner in many areas of economic and scientific activity. Increased knowledge of the EU would uncover other areas of co-operation and partnership. ■

M.S.HODA – *IN MEMORIAM*

With the death of Mohammed Surur Hoda, the European Institute for Asian Studies has lost a loyal member, a colleague and a good friend. His association with the Institute was almost as old as the Institute itself, for he was admitted to membership in 1989. He was elected to the Administrative Board in 1996. He was very active, particularly on issues relating to South Asia. He took the initiative in convening a meeting on the fate of the Bihari refugees in Bangladesh, and at a conference in the European Parliament discussed the impact on the lives of ordinary Muslims of the events of September 11.

Surur Hoda was a lifelong supporter of the ideals of Mahatma Gandhi. He was the Chairman of the Gandhi Foundation in London, whose President is Lord Richard Attenborough. A committed socialist, Surur Hoda was a young associate of Jai Prakash Narayan, who founded the Indian Socialist Party shortly after independence. He was appointed the Party's European representative by George Fernandes, leader of the Party in the early 1970s.

With his brother, Mansur, Surur Hoda collaborated with Dr. E. F. Schumacher, author of the book "Small is Beautiful," to set up the Appropriate Technology Development Association in India, together with George McRobie. This led, in turn, to the creation of the Schumacher Institute for Appropriate Technology and Rural Development near Lucknow, India. Surur worked as the Chief Executive of the India Development Group in London, which both raised funds for the Schumacher Institute and promoted the ideas of Fritz Schumacher on sustainable intermediate technology.

Surur Hoda was born in May, 1928, into a Muslim family in North India. He worked in the railway workshops in Bihar, and soon became active in trade union affairs. He rose to the position of Vice-President of the All India Railway Men's Federation, of which George Fernandes was President at one time.

Surur Hoda moved to London in the early 1960s, and was employed with the International Transport Workers Federation (ITF), initially in the railways section and later as the officer responsible for civil aviation.

It was typical of him that he went on working to the end. He attended the Institute's Annual General Meeting on April 30. He was admitted to a hospital near Brussels the next day, where he was diagnosed with double pneumonia. He was transferred to St. Thomas' Hospital in London on May 28, where he died on June 2. He is survived by his wife, Elizabeth, and their son, Mark. ■

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Some thoughts in the run-up to Cancún

by Dato' Deva Mohd. Ridzam

If the members of the World Trade Organisation (WTO) are truly committed to creating wealth and jobs – and contributing to peace and security – their trade ministers will have to pull together at Cancun as they have never done before. The major players in particular will have to do better. The status quo is not only unacceptable but also highly dangerous.

Global peace, finance, trade and jobs depend on the stability of the world's monetary and trading systems, underpinned by the UN, the IMF and the WTO. But as we have seen in recent months, a lot of damage has been done to the security pillar of the trinity – and, indeed, to the very concept of multilateralism.

Similar 'anarchy' in the international trading system, which has contributed so much to global co-operation and prosperity, would be totally unacceptable to the global community. The continued health of the multilateral trading system will depend to a large measure, however, on whether significant milestones can be reached in September, when the WTO meets at Ministerial level in Cancún, Mexico.

Cancún will be a major test, therefore, of the international community's commitment to preserving an open multilateral trading system. In thinking about its prospects, we would do well to bear in mind four things. The first is the remark made by Mr Arthur Dunkel, the former Director-General of GATT, on the eve of the Uruguay Round. He compared the global trading system to riding a bicycle: "*If you don't keep moving, you fall over*".

Secondly, the concerns of developing countries must be fully taken on board. In today's world, the 'Quad' (the US, EU, Canada and Japan) can no longer determine the outcome of multilateral trade negotiations. Unlike previous rounds, developing countries have increasingly come to the fore and assumed an important role in the decision making process at the WTO, where consensus reigns. Indeed, it was not the Quad, but rather the demonstration of solidarity between rich and poor that helped launch the Doha Development Agenda.

Thirdly, as major trading countries the US, European Union (EU) and Japan nevertheless have a responsibility to ensure that the global trading system, as a whole, is seen to be working fairly. The pre-World War II beggar-my-neighbour protectionism has no place in the 21st century. We have seen how strengthening the multilateral trading system has benefited the world beyond measure since 1945.

Fourthly, the acrimony now prevailing in relations between the US and the EU should not spill over into the global market place. Unilateral actions have no place whatsoever in today's world. This is because an increasingly interdependent and integrated global economy will be a persuasive check on the use of trade as a weapon by governments.

Predatory Subsidisation Schemes

For the Cancun Ministerial meeting to succeed, it is essential that the major players keep pedalling vigorously on the bicycle, thus coming to grips with a number of issues on which agreement has eluded them so far. One of the principal issues is, of course, the subsidisation of agricultural exports – an extraordinary, four-decade long, inward looking preoccupation of the major trading nations.

Over the last 40 years, policies originally conceived to protect and promote farmers in the European Community, and to a lesser extent in the US and Japan, have increasingly brought misery (as well as poverty and disease) to farmers everywhere. This beggar-my-neighbour attitude continues to ravage most of the developing world. Don McKinnon, the Commonwealth Secretary General, has pointed out that while Americans can sell cotton and the Europeans sugar to developing countries at half the cost of production, developing countries are not allowed to subsidise the assembly of microwave ovens, for sale in Europe at half the local price.

Developing countries can pay their own way only if they are able to produce and sell their goods in other markets. If they do, it is quite natural that the developed world would lose some market share, but the world as a whole would stand to gain from the overall growth which increased production and trade helps bring about. Trade is not a one-way street, nor is it a zero-sum game. In addition to practising "prosper-my-neighbour" policies, farmers in OECD countries should also adapt to the cut and thrust of international competitiveness by modernising and expanding into other areas.

With the negotiations on agriculture stalled; with no agreement on the licensing of essential drugs in sight; with no movement towards resolving the implementation-related concerns of developing countries – not to mention the demands for so-called 'new issues' to be put on the agenda – developing countries might as well walk away from Cancun, than continue with hypocrisy and double standards.

Old arguments do not wash any more, nor are cosmetic changes deemed acceptable. Developing countries are not seeking charity. What they want is trade, not aid. With many deadlines already missed, the question is whether the journey to Cancún is really necessary. If there is no unity of purpose, as was shown at Doha 19 months ago, and a genuine determination to regain the lost momentum, trade ministers may feel the long journey to be unnecessary.

These Are Not Normal Times

While the Doha Round was launched in the aftermath of September 11, the forthcoming Cancun Ministerial will take place in the continuing fog of the so-called "Operation Iraqi Freedom." The war's global ramifications for political and economic decision-making are still very much with us. Against this backdrop, how will the global trading system emerge at, or after, Cancún?

The current global economic system will be endangered if the transatlantic political rift is transferred to the global economic stage. In other words, the question is whether unilateralism in foreign policy can fit into an increasingly integrated global economy. Will the US be able to pursue a multilateral approach to trade negotiations, even while being unilateralist in its foreign policy? Can one have a unilateral, pre-emptive foreign policy in a multilateral economic world? Can they go together? The jury is out on this subject. We will have to await the outcome of Cancún to see where the global trading system is headed.

Economic and political uncertainties lie ahead, until the world returns to a multilateral international system. The hope is that the US and the EU will remain wedded to the WTO, which is needed for the brighter future the world witnessed during the prosperous 1990s.

However, the current climate of uncertainty has a dampening effect on innovation (the development of new companies and technologies), risk taking (investment in the stock market) and other business initiatives which were critical in bringing about prosperity in the 1990s. The question is whether the world that we find today is a safe one for governments and business alike. In short, innovation and risk taking and, by extension, economic growth, depend decisively on confidence and certainty.

The absence of co-operation among the major players will mean the absence of the positive side of globalisation. The result, in other words, will be disintegration on the basis of political conflict, rather than integration on the basis of efficiency.

Needed: a bicycle built for three!

To achieve success at Cancún, WTO member states would do well to seek inspiration from Arthur Dunkel's bicycle theory. The US and the EU must pedal vigorously in the area of the WTO's core competence - market access. The global economy is so integrated, however, that they must be joined by the developing countries, on a bicycle built for three! This will ensure that they are all headed in the same direction.

Only by cycling together can we take account of each other's difficulties. Only by pedalling together can we begin to acknowledge that we have mutual interests – an interest in job creation and economic growth and in peace and security for all. This is the essence of multilateralism, which is the opposite of imperialism and/or mercantilism. Trade is a two-way street and a positive sum game.

Individually, neither the US nor the EU – or for that matter developing countries – is powerful enough to impose a preferred solution. It is only through international co-operation that we can all advance our respective interests, as well as ensure our collective future. Our respective interests would be better served in a world that works together. This ought to be uppermost in the minds of trade ministers as they prepare for Cancún. ■

Dato' Deva Mohd. Ridzam is the Ambassador of Malaysia to Belgium, Luxembourg and the EU. The views expressed here are his personal views.

The hidden charms and dangers of PTAs

by P. K. M. Tharakan

The rapid proliferation of Preferential Trade Arrangements (PTAs), often of a regional nature, and usually with the backing of powerful governments, has rekindled the debate about the effect of such Arrangements on world welfare, and about the impact which they will have on multilateral trade liberalisation.

The phenomenon of a multiplication of PTAs is easy to verify, although the count varies somewhat, depending on the definition and source. A total of at least 245 PTAs are believed to be in force at present, and around half of them came into existence after the setting up of the World Trade Organisation (WTO) in 1995! By definition, Preferential Trade Arrangements are agreements by which some countries eliminate barriers to trade among themselves, while maintaining such barriers against the rest of the world. This means that, while multilateral trade liberalisation has been making slow, but steady progress, another form of selective liberalisation has been outflanking it. What makes PTAs so popular?

In trying to answer this question, one has to keep in mind that PTAs can take various forms. They might take the form of Free Trade Areas (FTAs), in which there is free trade among members. Customs Unions (CUs) have free trade between members and a Common External Tariff (CET). A Common Market (CM) consists of a customs union which allows for free movement of factors of production among member countries. An Economic Union (EU) requires a common market plus the harmonisation of all (or most) economic policies. In addition, there are other forms of preferential trade arrangements such as the Generalised System of Preferences (GSP) in favour of developing countries, Partnership and Co-operation Agreements, etc.

The driving force behind PTAs between countries is rarely economics alone. It was the profound wish to end the cycle of armed conflict between European nations that prompted the creation of the European Coal and Steel Community, which was the forerunner of the European Union. It has been also argued that the move towards the next phase of the enlargement of the European Union forms part of an effort to forestall a return to a cold war-type division of Europe. Similarly, the currently talked about plans for a PTA between the U.S. and some of the West Asian countries cannot be ascribed to economic considerations alone.

Some PTAs tend to be formed among neighbouring countries (examples are the EU, NAFTA and MERCOSUR). This regional dimension of important PTAs has introduced an intriguing and controversial element in the discussion. This is the so-called ‘natural partners argument’. The starting point of this reasoning is the observation that even without preferential trading arrangements, countries tend to trade more with their neighbours than with distant lands. This is usually due to transaction costs, especially transport costs.

The argument then follows the line that if neighbouring countries make ‘natural trading blocs’ due to their high trade intensity, the formation of regional trade blocs among them cannot lead to much harmful trade ‘diversion’. But this argument has faced strong criticism. Some economists have stressed the point that the benefit from trade in general, and particularly of preferential trade between trading partners, depends on the differences in costs, *irrespective of the sources of these differences*. Further, it is difficult to argue that most of the members of the 245 odd PTAs in existence consist of neighbouring countries. Often they straddle the world.

Possibly one of the most important reasons behind the proliferation of PTAs during the last decades is the change of policy of the United States of America, which largely avoided PTAs till the early 1980s. In recent years, the U.S. has been planning or concluding preferential trade arrangements with a number of countries in Asia, Africa and the Americas. This has clearly had a bandwagon effect. Some other economic superpowers also have changed their position. For example, Japan, which steered clear of PTAs, has changed its course. Many of the smaller participants probably see PTAs as a fall back option if the Doha Round negotiations fail.

This brings us back to the questions about the economic welfare effect of PTAs and the problem of the possible tension between PTA forming and multilateral trade liberalisation. Traditionally, the static welfare effects of PTAs were appraised in terms of ‘trade creation’ and ‘trade diversion’. Specifically, the point of interest is to ascertain whether the formation of a PTA will lead to a net change in the purchases in favour of the lower-, or higher-cost sources of supply. The former would indicate a movement in the direction of a more efficient use of resources, while the latter suggests the opposite. In spite of the fragility of the assumptions underlying these concepts, and the substantial world-wide reduction of tariffs brought about through multilateral negotiations, the above notions have been useful in ascertaining the net welfare effects of specific PTAs. Such calculations are usually supplemented by estimates of dynamic effects such as economies of scale, efficiency improvement and investment creation (diversion).

Even when trade creation effects dominate, outsiders will be hurt due to whatever trade diversion does take place. Secondly, as internal trade competition within the PTA increases, the injured domestic firms may seek protection against outsiders, either through increased tariffs, or through other instruments such as anti-dumping measures. There is also what is known as ‘the Spaghetti Bowl Effect’ of PTAs, which might arise due to the fact that each PTA has a different timetable, and its own rules of origin to determine whether the product was actually manufactured within the union before giving it preferential status.

In some cases, policy makers are attempting to devise tools to deal with some of the problems mentioned above. Writing in a recent issue of the *The World Economy* (Vol. 25, no. 10) EU Trade Commissioner Pascal Lamy reveals that since 1999, the approach adopted within the general framework provided by the EU Council, has been to pursue all existing mandates and ongoing negotiations on PTAs, but in general terms not to begin any new negotiations. The principal reason is the priority given to the multilateral agenda within the Doha negotiations. He also points out that as a step towards solving the problem caused by the overlapping rules of origin, the EU favours allowing 'regional cumulation', i.e. extending the preferential treatment for goods transformed from primary products to finished articles within a succession of different countries. To what extent such as step will effectively contain the 'Spaghetti Bowl phenomenon' is a question that can be answered only after careful empirical investigation.

As the EU's example shows, successful PTAs tend to enlarge with time. According to Professor Richard Baldwin's 'domino effect theory', while geopolitical and ideological motives might be the primary reason for starting a PTA, once it is successful, political economy factors enter into action. Any 'shock' which disturbs the equilibrium increasing the relative profitability of the firms within the bloc will encourage the firms located outside the PTA to lobby their governments harder for entry. It can be argued that once the bloc reaches a certain size, insiders may have incentives to prevent the entry of additional members. Before the present decade is over, this scenario is likely to be put to the test in Europe.

In the realm of the relationship between preferential trade liberalisation and multilateral trade liberalisation, one of the crucial questions, in Professor Jagdish Bhagwati's memorable words, is whether PTAs are 'building blocs' or 'stumbling blocs' to global trade liberalisation. Interestingly, even the most ardent supporters of PTAs are often ready to pay lip service at least to multilateral trade liberalisation. Yet some dangers must be kept in mind.

If PTAs are available as a realistic option, loyalty to multilateralism might diminish. Bureaucrats might prefer negotiations among small, well-knit groups rather than going through the difficult task of negotiating within a larger community of nations. The political economy forces working through sector-specific lobbies pushing for protection might become more powerful within important regional groups. Increased focus on negotiating PTAs might divert attention from multilateral trade negotiation efforts, and use up the scarce negotiating resources available in a number of countries.

As Professor Alan Winters pointed out some time back, it is possible to build models which favour, or dispute the view that PTAs encourage or discourage the evolution toward multilateral liberalisation of trade. His own view is: 'We don't know yet'. ■

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Does economic integration stand a chance in Central Asia?

by Dominik Meier

Central Asia became the focus of international attention, following the events of September 11. Their geographical proximity to Afghanistan turned the Central Asian countries into strategically important partners in the anti-terror alliance. However, the geopolitical upgrading of Central Asia was not automatically accompanied by an improvement in their democratic and economic development.

Only rarely has the democratic transformation of the Central Asian countries succeeded since their independence. Authoritarian presidential systems, with strong dependency relationships, remain, while democratic structures are poorly developed throughout Central Asia. The development of democratic institutions and market economies are being hampered by inefficiencies and lack of transparency in government leadership. Widespread corruption is holding back an improvement in the political, social and economic situation across Central Asia. With power concentrated in the hands of their respective presidents, the political elites have little influence and limited room for manoeuvre. Often they have little choice but to join the opposition.

The course of democratic reform, and even of economic transformation, is proving to be slower and more complicated than had been hoped for at the time of the independence of the countries of Central Asian. These countries have failed so far to overcome the consequences of their history as planned economies, during the Soviet regime. They find themselves confronted with outdated technologies and poorly developed infrastructures, resulting in the inefficient utilisation and exploitation of their existing resources.

The lack of capital, combined with an end to the significant subsidies from Russia, have led to a dramatic increase in the level of debt of the Central Asian countries. At the same time, these countries are characterised by low productivity, poor product quality and high unemployment. Their concentration on a few export products has impeded the development of manufacturing industry and led to strong dependence on imports.

The level of reform in Central Asia in 2001
(rated on a scale of 1 to 4.3, with 4.3 being the highest level of reform):

	Prices	FX and Trade	Privatisation Small	Privatisation Large	Enter-prise reform	Banking Sector reform	Infra-structure reform
Kazakhstan	3	3,3	4	3	2	2,7	2
Kyrgyz Rep.	3	4	4	3	2	2,3	1,3
Tajikistan	3	3,3	3,7	2,3	1,7	1	1
Turkmenistan	2	1	2	1	1	1	1
Uzbekistan	2	1,7	3	2,7	1,7	1,7	1,7

Source: EBRD, Transition Report 2002.

Viewed from a long-term perspective, the general trend of economic development has not improved since the Central Asian countries became independent. Indeed, its substantial reversal does not appear to have taken place, despite increased financial aid from the international community and greater international attention following the events of September 11. With the exception of Uzbekistan, the gross domestic product (GDP) of the Central Asian countries is currently below the level reached in 1989. GDP growth in all Central Asian countries was weaker in 2002 than in 2001, according to the European Bank for Reconstruction and Development (EBRD). Except for Turkmenistan and the Kyrgyz Republic, the EBRD forecast for 2003 is for a continuation of this downward trend.

While the formation of the Eurasian Economic Community (EEC) and the Economic Co-operation Organisation (ECO) was motivated primarily by economics, the foundation of the Shanghai Co-operation Organisation (SCO) was due to security considerations. In comparison, the Central Asia Co-operation Organisation (CACO), the GUUAM-Group and the CIS have a broader integration approach that combines economic, political, military and cultural aims. The thematic focus shifted over the years because of changes in political interests. While the primary objective of creating free trade areas remains, security has become the focus of attention with the appearance of radical Islamist movements in the region, and especially after September 11.

GDP growth in 2001-2003 (in percent):

	2001	2002 (estimate)	2003 (projection)
Kazakhstan	13.2	9.5	7.5
Kyrgyz Republic	5.3	-0.5	5.2
Tajikistan	10.3	9.1	6.0
Turkmenistan	12.0	5.1	5.3
Uzbekistan	4.5	4.2	2.5

Source: EBRD, Transition Report 2002 Update

Even hopes for an accelerated political and economic transformation of Central Asia through regional co-operation remain unfulfilled. While all the countries recognise the central importance of transnational co-operation, there is a wide gulf between the political demand for regional co-operation and its realisation. The contribution to the economic and political integration of Central Asia of the various initiatives and formal unions has proved insignificant. Although economic co-operation and integration are important goals of all the regional unions of Central Asian countries, they are being pursued with varying degrees of intensity and effectiveness.

Central Asian countries are members of several regional organisations at one and the same time. As a result, country-specific economic aims, as well as matters of security policy, may coincide or clash, resulting in their eventual obstruction or neutralisation. Regional integration receives the necessary political support mainly when national and regional interests, viewed from a country-specific perspective, can be combined with each other. In regional unions, the larger and economically stronger countries easily assume the leading role. Effective co-operation takes place on a bilateral rather than on a multilateral level.

Membership of the Central Asian countries in regional organisations:

	Uzbekistan	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan
CACO	X	X	X	X *since 98*	X *Observer*
EEC		X	X	X	
GUUAM	X *99-02*				
CIS	X	X	X	X	X
SCO	X 01-02	X	X	X	
ECO	X	X	X	X	X

Despite these shortcomings, the numerous initiatives in support of regional economic integration in Central Asia have generated mutual confidence and a knowledge potential which may form the basis for new regional activities. The greater willingness of Central Asian governments to proceed with reforms, and to enhance regional co-operation, are contributing to a positive situation at the outset. The region's presidents and political elites increasingly regard regional economic co-operation and integration as in the interest of their own countries and the region as a whole.

The better general conditions for regional co-operation in Central Asia are reflected in the increased international support for regional economic development. Members of the donor community, while largely sticking to a country-specific approach, are increasingly supplementing them with regional programmes. Moreover, regional strategies designed to support actively economic co-operation and integration are being developed. Such strategies include the development of comprehensive concepts which allow for the identification and realisation of international projects and programmes.

In its "Central Asia Strategy Paper, 2002-2006, and Indicative Programme 2002-2004", officially adopted in December, 2002, the European Union (EU) stressed the importance of regional co-operation for Central Asia. It plans to offer the Central Asian countries a perspective for political and economic integration, based on its own history of integration.

The process of political and economic transformation in Central Asia cannot succeed without increased regional co-operation. If initiatives in support of the economic integration of Central Asia are to succeed, the presidents of the various countries need to be involved in the process from the very beginning, with their claims to sovereignty duly respected. Giving them sufficient room for manoeuvre will allow them to decide on sector-specific regional co-operation, on the basis of country-specific and objective criteria. Where national and regional interests are in competition, it may be that only individual countries participate in regional initiatives. In the last analysis, the future of Central Asia hinges on the will to co-operate of the individual countries and on the international community's staying power in actively accompanying this process. ■

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European Parliament - Written Question

The British Green, Ms Jean Lambert, raised the issue of the *Afghanistan Co-ordination Return Group* (ACRG) meetings in a written question to the European Commission. Despite attending previous meetings of the Group, the President of the UK Afghan Association was not invited to the latest meeting, which took place on April 30th. Lambert wondered, therefore, exactly which Afghan organisations the Commission was consulting in deciding return policy for Afghanistan. The Commissioner for Justice and Home Affairs, Antonio Vitorino, gave the reply. The April meeting consisted, he said, of EU government representatives, Amnesty International, the European Council of Refugees and Exiles (ECRE) and the International Organisation for Migration (IOM). All of these organisations had made submissions on the practicalities of the EU return policy for Afghan refugees in Europe. The Commission relied on Afghan representatives based in the EU Member States only for informal contacts. Formal contacts were solely made with the representatives of the Kabul government. ■

Trade in Textiles and Clothing after 2005

Overview: The facts speak for themselves. World trade in textiles and clothing was worth a cool €342 billion in 2001, and represented nearly 6% of world exports. Exports of clothing, a major source of export earnings for many developing countries, amounted to €195 billion, or 57% of the total. The 15-nation European Union (EU) was the world's largest textile exporter, and the second largest exporter of textiles and clothing, just behind China, with an 11% share of the total.

Textiles and clothing are the mainstay of the export sector of several developing countries. They account for some 80% of the total exports of Bangladesh, the largest of the least developed countries; nearly 70% of the exports of Pakistan, and over one-third of the exports of India. Looked at another way, the Indian textile industry employs 65 million people in all, many of them women. The retail and wholesale trade in Europe, which handles both domestically produced textiles and clothing as well as imports, is made up of 4.5 million firms and has 22 million employees.

It was hardly surprising, therefore, that the 2-day conference on the future of textiles and clothing after 2005, which had been convened by the EU's chief trade negotiator, Pascal Lamy, should have attracted around 800 participants, from more than 70 countries scattered across the globe. Although most were from Europe and Asia, North America was also represented, as were Mexico and Brazil, Turkey and Morocco, Vanuatu and Mauritius. Their numbers included trade ministers and their senior civil servants; representatives of international organisations, including the WTO; senior company executives and directors of trade organisations; representatives of trade union and consumer organisations, and academics. Even so, two key participants were thwarted by the SARS epidemic and failed to make it – China's Minister of Foreign Trade, Lu Fuyuan, and Hong Kong's Commerce Secretary, Henry Ying-Yen Tang.

The aim of the conference, held in Brussels on May 5 and 6, was to encourage a discussion among decision shapers and makers on how "the elimination of quotas will change the landscape as we have known it during these last year, and with what consequences," in the words of Mr. Lamy. In principle, all developing countries could be expected to welcome the elimination of quotas as from 1 January 2005. After all, the 1994 Agreement on Textiles and Clothing, had postponed the complete liberalisation of world trade in textiles and clothing by another 10 years, against their wishes.

Developing countries could be expected to regard 1 January 2005 as a red letter day, given that their exports to their two major markets – the European Union and the United States – will become quota-free on that date, some 40 years after the first international agreement authorising industrialised countries to restrict imports, while their textile and clothing industry restructured itself. Paradoxically, many developing countries now view 1 January 2005 with apprehension, even alarm, because it is now clear that there will be winners and losers after that date.

"We all know that in trade liberalisation there is hardly a situation in which all countries benefit equally, because trade is based on comparative advantage," the UUCTAD Secretary-General, Rubens Ricupero, told the Brussels conference. Serge Vohor, Vice Prime Minister of Vanuatu, speaking on behalf of the 72 African, Caribbean and Pacific (ACP) countries linked to the European Union (EU) through the Cotonu Agreement, "expected developing countries in general to maintain their comparative advantage…although this may not hold true of ACP countries." "The integration of the textile trade may ultimately prove to be a mixed blessing for some developing countries," he concluded.

But will the industrialised countries accept the disappearance of quotas in 18 months' time with *sang froid*? The Chairman of the Geneva-based International Textiles and Clothing Bureau, K. M. Chandrasekhar, noted that the textiles and clothing sector had been singled out "for targeted policy intervention by major developed countries to provide protection to their domestic industries." They had achieved this through quotas and, "more recently, imaginative use of rules of origin." The ITCB Chairman referred to "short-term future fears about anti-dumping, safeguards and so on becoming the instrument of choice." Pakistan's Trade Minister, H. A. Khan, hoped that "importing countries will resist the temptation of continuing protectionism through other imaginative measures."

But quotas are not the only obstacles to trade in textiles and clothing. For the EU's Trade Commissioner, Pascal Lamy, it was clear that "the disappearance of quotas will increase the importance of other obstacles to trade," including tariffs, non-tariff barriers and trade defence instruments. He therefore wanted to know, "How do we tackle the remaining obstacles to trade in textiles and clothing in the Doha Development round of negotiations?" Developing countries agreed that these negotiations do provide for tariff negotiations, but many of them believe that they had already made "significant concessions in return for complete integration on 1 January 2005 as part of the Uruguay Round single undertaking," as the Secretary to the Indian Ministry of Textiles put it.

The coming enlargement of the 15-nation European Union, by the addition of 10 Central European and Mediterranean countries, was another of the challenges facing Asian countries. The ITCB Chairman noted that the share of "restrained" suppliers (i.e. those countries subject to quota restrictions) in the EU's total imports had fallen from 42% in 1990 to 41.4% in 2001, while the share of the 10 new countries had risen from 21% to 34% over the same period. What is more, when these 10 countries effectively join the EU next May, they will begin to enforce the quotas currently imposed by the EU for the remaining eight months of 2004.

Another issue that was debated during the 2-day conference related to preferential arrangements and regional integration. All developing countries are beneficiaries of the EU's generalised system of preferences, if not to the same extent in every case. The least developed countries, such as Bangladesh and Nepal, for example, have been granted duty-free and quota-free access to the EU market under the "Everything But Arms" scheme introduced by Commissioner Lamy. The 72 ACP countries enjoy duty-free access to the EU market under the Cotonu Agreement.

The EU meanwhile is working on a new generalised system of preferences (GSP) scheme, which will come into force for a 10-year period from 1 January 2005. But only a handful of developing countries will benefit from it, given the multiplication of free trade arrangements. The EU has already concluded a bilateral free trade agreement with Mexico, and is negotiating a regional free trade agreement with the Mercosur countries in Latin America. The EU's Trade Commissioner has ruled out a regional free trade agreement with ASEAN, however, pending the conclusion of the Doha Development round of negotiations.

Finally, the conference agenda also included a debate on the part that trade in textiles and clothing can play in promoting sustainable development, through respect for basic labour rights. Sri Lanka's Commerce Minister, Ravi Karunanayaka, referred to the fear developing countries have "that linking labour standards to trade may lead to possible restrictions…through the imposition of unfair labour standards." He nevertheless accepted the need to "move towards a more balanced stance, by separating legitimate concerns" from the "unacceptable use of labour standards in order to deny developing countries their comparative advantage in industries such as textiles and clothing." The Commerce Minister noted how complying with international labour standards, and banning child labour, had made it possible for Sri Lankan factories to sell to major European and American department stores.

It is clear from even so brief a survey of the conference agenda that the discussions ranged widely over issues of importance to both developing and developed countries. For the EU's chief trade negotiator, Pascal Lamy, the two days of discussions were "a success, and an occasion for numerous fruitful and frank exchanges." The aim "was not to draw firm conclusions on the future of the textiles sector but to identify problems." But it was also clear from the two days of discussions that the elimination of quotas will probably result in a very small number of winners, and many losers – unless measures are put in place to ensure that the least developed countries and small economies do not lose out.

The conference was left in no doubt that the country that will benefit most from the end to import quotas is China. As Parks Shackelford, President of the American Textile Manufacturers Institute put it, "after 1 January 2005 US imports of textiles and clothing will be dominated by China, with Vietnam, India, Pakistan, plus some countries enjoying preferential access to our market, playing secondary roles." Mexico's Trade Minister, Fernando Canales, noted that his country lost its place as the top supplier to the US in 2002, having lost market share, "especially to China."

Mexico was fighting back, however, by adopting a "complete package" approach – i.e. by developing locally all stages of the production chain, including fashion and design. Pakistan's Trade Minister thought that the benefits of quota elimination "may not be spread evenly," because the main beneficiaries would be countries with "indigenously integrated textile industries," notably China, India and Pakistan itself. They would be well placed to meet price and quality requirements and at the same time offer delivery on time. But the Trade Minister made it clear that Pakistan had benefited greatly from the EU's GSP scheme, particularly since it was granted additional benefits as a country combating drug trafficking.

A country which could well be numbered among the losers after 2005 is Bangladesh. The possibility was raised by the Chairman of the Bangladesh Textile Mills Association, M. A. Awal, in his address to the conference. Virtually all Bangladesh's garment exports are to the EU and the U.S., thanks to duty-free access to the European market under GSP and generous quotas in the American market. Exports to the EU, for example, increased fourfold in value terms between 1998 and 2001, rising from €333 million to €1.3 billion. For Mr. Awal, the MFA quotas have enabled Bangladesh to retain market share, while the GSP has allowed it to increase its market share. Hence his plea to the EU, on behalf of the industry, to give preferences to least developed rather than developing countries, and to maintain the GSP's 2-stage transformation rule.

Given that Bangladesh is not a cotton producer, you would have thought that it would welcome regional cumulation within SAARC. On the contrary, Mr. Awal insisted that the major beneficiaries of SAARC regional cumulation will be India and Pakistan, which are major cotton producers, with well developed textile industries. Mr. Awal's position contrasted sharply, however, with that taken by the Trade Minister of Morocco, Rachid talbi El Alami,, on the one hand, and Guillaume Sarkozy, President of the Union of French Textile Industries on the other.

Morocco's textile and clothing exports accounted for 36% of its total exports in 2001, up from 9% in 1980. The EU is the country's principal export market and supplier. The situation is very similar as regards Turkey, Tunisia and a number of the 10 countries that will be joining the EU in May 2004. The obvious solution for these countries, therefore, is the creation of a Pan-Euro-Mediterranean zone, covering the enlarged EU, Turkey, and the countries of North Africa. For Morocco's Trade Minister, trade in textiles and clothing is being conducted on a regional basis; indeed, each developed zone, such as the EU, "has an especial duty towards its neighbouring countries."

For Mr. Sarkozy, the majority of European textile and clothing companies employ between 30 and 150 people. He, too, is a fervent supporter of the "Pan-euromed" zone, covering the 25-nation EU, Bulgaria, Romania, Turkey and North Africa. Like the Moroccan Trade Minister, Mr. Sarkozy sees world trade in textiles and clothing as organised on a regional basis. Indeed, homogenous regional blocs are a necessity, in his view. In addition to Pan-euromed, there would be a bloc covering the Americas and another covering Asia. The three blocs would be linked to each other through regional trade agreements (RTAs).

How did the EU Trade Commission, Pascal Lamy, respond to the variety of problems – and solutions – thrown up by his very lively 2-day conference? The elimination of quotas clearly is not expected to pose any problems for the major players, notably China and India. But Mr. Lamy obviously wants to protect the more vulnerable developing countries, against the fierce competition from the majors. The solution, he believes, is to maintain preferential access for the least developed countries, like Bangladesh, and small exporting countries, like Sri Lanka. At the same time, the integration process within the Euro-Mediterranean area must be accelerated, and the cumulation of rules of origin completed in 2004.

The chief aim of the Doha Development round, as regards textiles and clothing, must be access to a convergent market, which includes not only the industrialised countries but also the most competitive exporters (such as China and India). In other words, during the Doha Development round all countries must take steps to provide greater access to their markets. Developing countries would reduce their current high levels of protection, although they would try to strike a balance between their current levels of protection and zero duties, in order to avoid a sudden shock in 2005.

The EU's Trade Commissioner also wants to encourage greater trade between developing countries themselves. At present, the industrialised countries – the EU, U.S. and Japan – account for over 80% of world textile and clothing imports. Rather than have developing countries fighting over the "cake" represented by the markets of the industrialised countries, it would be preferable to produce additional "cakes." In other words, the conference participants left Commissioner Lamy with the impression that there is no justification for allowing countries which are not among the most competitive in textiles and clothing to continue to protect this sector.

Textile and clothing quotas will disappear in 2005 as provided for in the Agreement on Textiles and Clothing (ATC). For the EU's chief trade negotiator there can be no doubt on this point. However, their elimination will bring to the surface tariff and non-tariff obstacles, which will have to be dealt with, either through the Doha Development round or bilaterally, through agreements similar to those which the EU has concluded with Pakistan, Sri Lanka and Brazil. It remains to be seen, however, just how the conflicting requirements of countries such as China and India, on the one hand, and Bangladesh and Sri Lanka on the other, can be met, not to mention the demands of the southern Mediterranean countries. ■

Malcolm Subhan

Strengthening the multilateral trading system

by Dr Supachai Panitchpakdi

This conference comes at a time of profound change and huge opportunity for international trade in the textiles and clothing sector. At the end of December 2004, the Agreement on Textiles and clothing will be terminated. All textiles and clothing products will be fully integrated into WTO rules, and bilateral quotas removed. Full application of WTO rules to international trade in textiles and clothing will be a very positive and long-awaited development for the industries and millions of consumers who will benefit from a more open, non-discriminatory and transparent trading environment in this sector.

The end of December 2004 is also the deadline for another parallel and independent process which may have a significant bearing on international trade in textiles and clothing. This is the Doha Development Agenda: a broad round of trade negotiations, launched in September 2001. Both market access and rule-making issues are on the table. As part of these negotiations, we hope to see tariff reductions in the area of textiles and clothing. Changes to existing WTO rules or new WTO disciplines which might be agreed may also have an impact on international trade in this sector. It is crucial that both of these processes complement each other in building a more open and dynamic world trading regime.

ATC implementation

The implementation of the Agreement on Textiles and Clothing is technically on track. The ATC is a ten year transition process which was divided into four distinct phases. It began in 1995 and will end on 31 December 2004. The first three of these phases have been completed. Members carrying over quotas into the ATC - Canada, the European Union and the United States - were required to integrate 51 per cent of their textile and clothing imports into WTO rules by the end of the third stage in December 2001, removing any quotas applied. This target has been met.

The fourth and final phase will result in product integration and quota removal of the remaining 49 per cent of imports. The impact of this phase in terms of real liberalisation will be very significant. Since the elimination of restrictions in the more sensitive products has largely been left until the final phase, the adjustment will be abrupt in these areas. The countries required to make this effort, have all expressed their commitment to stick by their WTO obligations. This is important, but also expected.

The post ATC Trading Environment

There is no question that the multilateral trading system will be strengthened by full implementation of the ATC. Textiles and clothing is the only sector of traded manufactured goods which was exempted from WTO disciplines. Indeed, since the end of the Uruguay Round it has been the only sector in the universe of traded goods and services to which a special transitional framework has been applied, as liberalisation is undertaken.

The impact of implementing the ATC will have several dimensions. First, there is the political gain related to the credibility of the multilateral trading system, at a time when it faces considerable pressures. The system will be strengthened by the visible sign of commitment by Members to make good on the WTO commitments that they have undertaken. It will reaffirm the seriousness with which they take the obligations of WTO Membership. Secondly, there are the efficiency gains from eliminating highly distorting quotas that have led to an inefficient global allocation of textile and clothing production. Hopefully this will extend to increased production and trade. Thirdly, there is the loss of quota rents on the part of ATC exporters. Finally, there is the gain to consumers in importing countries.

There has been some difficulty in determining the exact quantitative gains of the elimination of bilateral quotas — as the estimates of studies range from gains of 6.5 billion US dollars per annum to 324 billion US dollars per annum. However, the message is clear — in that all studies foresee very significant increases in global welfare as a result of the conclusion of the ATC.

At the same time, however, there has been a great deal of discussion about the impact of quota removal on individual countries. I notice that this is one of the key themes in this conference. And in this opening session, in particular, we will be addressing the issue of who will gain from the elimination of quotas and whether the benefits will be spread equally.

I think we should be cautious about how we approach this debate in order not to undermine the principle of comparative advantage. If the proposition is that liberalisation, in textiles and clothing, should not be undertaken if it results in an unequal distribution of benefits, we would need to consider what would be the impact of applying this approach to other sectors in which for example Europe, or indeed any other region or country, may be competitive. If we conclude that textiles and clothing liberalisation may result in unequal benefits and hence may require special treatment, would this imply movement back to the sector specific regime in textiles that we have been striving for so long to move away from? What about other sectors?

Having said this, it also seems to me that we need to show understanding for the situation of any countries that have been able to participate in the rather distorted markets we have had up to now, but that may experience difficulty in a more open market. Practical ways need to be identified and financed to aid any process of adjustment. But the solution is not to invent new distortions.

Let me now turn to the opportunity presented by the Doha Development Agenda to strengthen WTO rules and create a fairer and more open playing field in textiles and clothing trade. Unlike the ATC, the Doha Development Agenda is the subject of negotiation.

The Doha Development Agenda

Market access: Negotiations on market access in manufactured goods are part of the Doha Development Agenda. The Doha mandate specifies that "no sector" will be *a priori* excluded from the negotiations.

Liberalisation of textiles and clothing is on the table. The mandate directs Members to reduce or eliminate tariff peaks, high tariffs and tariff escalation. "Modalities" for cutting tariffs should be agreed by 31 May 2003. If the modalities do address tariff peaks and escalation, then this will likely have a bearing on further market opening of textiles and clothing, as it is in areas of labour intensive manufacturing, such as textiles/clothing as well as agriculture, where these features tend to be concentrated.

Rules: The DDA negotiations on strengthening of WTO rules may also have an impact on trade in textiles and clothing as in other goods. One area for negotiation is anti-dumping. This instrument permits the levying of special duties if products are exported at less than their so called "normal value", where such dumped exports cause injury to the industry in the importing country. Many WTO Members have become concerned at the increased use of anti-dumping worldwide. There is one point I need to make clear in the present context. This is that anti-dumping duties are to counter injurious dumping, not to provide a general safeguard against increased imports or a substitute for quotas.

Another area of the rules negotiations, concerns clarification and improvement of disciplines and procedures relating to regional trade agreements (RTAs). There can be little doubt that the combination of quotas, high tariffs and so-called "preferential rules of origin" under RTAs has had some distorting effects on trade in textiles and clothing. While the quotas and tariffs are already being addressed in other ways, it remains at this stage to be seen whether the negotiations on WTO rules relating to RTAs will have an impact on the textiles and clothing sector.

Conclusion

It is clear that trade in textiles and clothing will take place in the next few years in a changing policy environment. Change is always a challenge and some will be adversely affected by it. But the newly emerging environment should be one which will, in general, offer new opportunities and expanding trade to industries in both developing and developed countries and allow the more efficient allocation of resources. Furthermore consumers worldwide stand to benefit from the more liberal trading environment. It would be naïve to think that the protectionist tendencies which have blighted the trade for so long will disappear overnight. Clearly they will not. Things are now at last moving in the right direction. Policy-makers worldwide must ensure that this direction is steadily maintained and not be diverted by any short term difficulties in adjustment which may emerge. ■

Dr Supachai Panitchpakdi is the Director General of the WTO.

Eliminating quotas: An Indian viewpoint

by Samar Ballav Mohapatra

Textiles in many ways constitutes the life blood of the economic life of our nation, with a total employment of about 65 million of our people. The sector is dominated by small scale, labour intensive units, and the future of textile trade is, therefore, an issue of great concern to us.

While the Agreement on Textiles and Clothing (ATC) envisaged progressive integration of the trade in this sector during various stages, the manner in which the restraining countries have gone about the process of integration would leave the bulk of restrictions to be removed on 1st January 2005. For instance, 92% of the quotas in the case of the US and 76% of the quotas in the case of EU are still in place, although the third stage of integration is already over, and all these quotas will have to be removed on 1.1.2005. The process of integration undertaken by the restraining countries may have conformed to the legal requirements, but 80% of restrained volumes would be integrated only in 2005.

The Doha Development Agenda (DDA) provides for tariff negotiations, including on textile products. Discussions are currently under way in the WTO with a view to reaching agreement on modalities. Although successive rounds of earlier multilateral trade negotiations under the GATT focused on tariffs and brought about great reductions in tariffs on industrial products, textiles and clothing did not receive the same treatment. In the Uruguay Round, too, textile tariff reductions turned out to be significantly lower. Thus, for example, whereas the US achieved an overall reduction of 35%, its reduction in textiles was only 13%. The comparable percentages in the EU were 37% overall but only 17% for textiles. On top of this, the developed countries decided to stage their textile tariff reductions over ten yearly instalments, rather than 5 instalments, which was otherwise agreed to for industrial products.

Liberalisation of tariffs by India

Since the start of the Uruguay round negotiations, India has offered tariff reductions and bindings in respect of fibres, yarns, fabrics and apparel in pursuance of its multilateral commitments.

+There has been a progressive reduction in the applied Indian tariffs over the years. The peak rates have been slashed from 75% in 1998 to the peak applied rates of 25% in 2003. The present applied tariffs for textile products are between 5 to 25%.

+Local fiscal levies, which are countervailed, should not be mixed up with import tariffs. It is a universal practice in all countries (including the EU) and India is no exception. In our case the excise duty is called Countervailing Duty (CVD) or additional duty locally. Importers in the EU not only pay the import tariff but also pay the local VAT.

Impact of Regional Trading Arrangements (RTA's)

A key element in some of these regional and preferential trading arrangements is the Preferential Rules of Origin, which cover the entire value chain in the textile sector with a view to prohibiting imports of inputs (intermediates and raw materials) from outside suppliers for conversion in the member countries of these arrangements. Arguments are now being advanced that benefits under these arrangements should not be eroded or changed. It is important that we do not undermine the multilateral trading system in the process. Developed countries should not find an easy way by seeking to divert the market access of one WTO member to another rather than taking positive initiatives to help affected countries.

Trade defence measures

The textiles and clothing sector has witnessed high incidence of trade defence action. Some of these include back-to-back anti-dumping action. In many cases the investigations were subsequently terminated. Nevertheless, damage to trade did occur due to the chilling effect caused by initiation of such investigations. We need to ensure that this integration is not nullified by abuse of trade defence measures.

Fears have been expressed in certain quarters that the persistent demand from major trading countries for preserving the remedial effects of trade defence measures could be used as a tool for enforcing anti-dumping and countervailing duties on a range of products not included in the original investigation. This could have an adverse impact on global trade in the textiles and clothing sector. Negotiations in this regard would need to carefully consider the potential for misuse of trade defence instruments.

Link between trade and labour standards

The phasing out of the quotas has not been achieved without struggle and sacrifice on the part of developing countries. It is essential to ensure that the ends of protectionism in this sector are not served through the introduction of other forms of trade restrictions. The demand for linking core labour standards with trade would need to be viewed in this context. Developing countries feel that the attempt by the developed countries to link access to their markets with adherence to higher labour standards as a form of protectionism goes against the concept of free trade being promoted by the WTO. This is not to deny the crucial importance of labour standards. The ILO is the appropriate body to study this issue and to enforce them. We oppose any linkage of labour standards to trade and we do not consider that this is well beyond the remit of the WTO.

Conclusion

Trade protective measures do not serve the cause of trade, they serve only vested interests. A study conducted by Joseph F Francois and Dean Spinanger measures the cost to EU consumers of maintaining quotas. It concludes that had the complete integration taken place by 31st December 1997, EU consumers would have gained over €25 billion every year, which means a yearly saving of 270 Euro for an EU family of four. It further establishes that carrying cost of saving each job in the textiles and clothing sector, by delayed implementation, is €28,000 in the textile industry and €41,000 in the clothing industry every year. I believe that it would be in everybody's interest if these costs are ploughed back into the economy to generate more productivity and welfare gains for the consumers. ■

Mr Samar Ballav Mohapatra is the Secretary at the Ministry of Textiles, India.

A true integration after 2005?

by Humayun Akhtar Khan

Like many developing countries, Pakistan's current situation typifies the problems in the textiles and clothing sector. It provides a story of how the new international trade order has been holding back the fruits of liberalisation for some countries while protecting the interests of the others. It also highlights that the continuation of the present inequitable system cannot spread the benefits of liberalization evenly. We must therefore, move quickly towards removing inequities to provide equal opportunities for all to benefit from true liberalization.

The conclusion of the Uruguay Round had at last raised the hope for bringing textile and clothing sector under the same set of rules and disciplines of the multilateral trading system as other sectors. Like others, we too, had put our faith in the outcome of the Uruguay Round. We were sanguine that the new dispensation under the Agreement on Textiles and

Clothing would usher in a new era of opportunities for our exports.

Fortunately the quota system would be behind us from 2005 when the textile and clothing sector will be re-integrated into the normal rules of the multilateral trading system embodied in the WTO. We hope that it will be a true integration, in every sense of the term. We also hope that every effort will be made by all the members of the WTO particularly the major importers of Textiles and Clothing to resist the temptation of continuing the protection through other imaginative measures. We hope that the developed countries will ensure that such an eventuality does not arise and that the WTO rules based system reins supreme ensuring free, fair and level playing field.

We are aware of the argument by some that developing country markets are closed to imports. Let me say candidly that this might have been the case in the past but the situation has changed significantly in recent years. Developing countries continue to implement far-reaching reforms to liberalize their trading regime. Pakistan has already significantly lowered its tariffs on textiles and clothing and also bound them under the WTO. A country where exports of textiles and clothing constitute almost 67% of our total exports, high tariffs and tariff peaks on textiles were prevalent in the earlier decades. So much so that for some time textile and clothing items were not even allowed to be imported. But our commitment to the WTO and our faith in liberalization can be gauged from the fact that we have brought down our tariffs to around 1/3rd of their earlier rates and all textiles and apparel are now freely importable.

Though elimination of textile quotas in 2005 will open textile trade to fierce competition, it will simultaneously open many windows of opportunity for all the countries that rely heavily on this particular sector. The benefits, nevertheless, for developing countries may not be spread evenly. Countries that are more competitive may be able to exploit more opportunities, and being competitive would mean having an indigenously integrated Textile industry. Basic raw materials being supplied at home would be an important factor for greater exports of value added products, but above all, developing countries will need to put their own houses in order, improve productivity and competitiveness and gear up for increased emphases on quality and in-time delivery requirements of the buyers.

The role of concessional tariff regimes under GSP schemes currently offered by some developed countries in particular the EU cannot be over emphasised. In the short to medium run the removal of quotas will leave a lot of developing countries with heavy reliance on textiles, highly vulnerable to risk unless some support-measures are retained and strengthened in order to allow them to maintain their competitiveness.

Special Incentives such as those provided by the EU in their Generalised System of Preferences (GSP) are not only added incentives for export but also help the country's development as a whole. Pakistan can be taken as a particular example where the special incentives for drug combating provided by the EU in its GSP have not only helped increase our exports to the region but have also had a trickle down effect in the whole economy, in terms of reduction of poverty, elimination of drugs from the society and generation of employment. The retention of the EU's GSP, and all the arrangements/benefits that fall under it, for the decade following the abolition of quotas, hence, becomes a matter of critical importance.

An important consideration in the buyer's mind would be to select a supplier country on the basis of its degree of indigenised vertical processing. Pakistan is luckily, among the few countries that are well placed in this respect. Pakistan has an established industry, which adds value at all levels from cotton onwards to made-ups. A broad policy framework Textile Vision 2005 aims at making Pakistan a more viable, stronger and much more competitive textile industry, especially at the value added stages. For this over US$ 2 billion have been invested over last 3 years for restructuring of the textile industry as a whole. Emphasis is being laid on increasing the share of the downstream industry in the overall textile exports of the country, meaning greater value addition and taking advantage of the high 'Integrated Textile Indigenisation Index'. Integrated factory-mode production has greater chances in mass market for clothing which demands consistent quality across huge volumes of single item of clothing. ■

Humayun Akhtar Khan is the
Minster for Trade, Pakistan.

Benefits of Quota Elimination?

by M. A. Awal

I would like to address the special strategies required to service the needs of textile companies in the least developing countries (LDCs) over the next few years as the Multi-Fibres Arrangement (MFA) is phased out. In short, a case for assistance in the coming years must be made.

Bangladesh garment exports have increased very significantly in the last few years, mainly on the back of imported finished fabrics. During this time investments in the country's textile sectors have enabled them to increase production of export quality yarns and fabrics, so that our self-sufficiency in the raw materials for garment production has increased. Bangladesh investors have plans ready to make further investments in this textile sector.

Bangladesh textiles and clothing

Bangladesh's garment exports have grown on the back of the Generalised System of Preferences (GSP), with duty-free access to the European Union (EU) markets and generous US quotas. The industry has also benefited from the Everything But Arms Agreement (EBA) with the EU. Today 97.5% of our exports are to the EU and the US.

The GSP scheme provided by the EU some years ago has enabled us to build a successful partnership between the EU and the Bangladesh textile and garment industry. As an LDC Bangladesh definitely needs to develop its own raw material for sustainable development. The development objective of the EU GSP Policy has helped our country in its prime need for the eradication of poverty and to promote a sustainable development of our country's economy.

The EU's GSP scheme

The EU scheme specifies 'Rules of Origin' with the aim to increase the use of local fabric. While it is important to have sustainable developments across the developing world, this is especially imperative for the LDCs. We therefore request that the EU would continue with this policy, because the LDCs in particular need selective support in order to grow.

I now turn to the issue of regional cumulation within SAARC. India and Pakistan are major cotton growing countries with mature textile industries, although they clearly remain developing country economies. Therefore they stand to benefit most from SAARC regional cumulation. In contrast, Bangladesh has no cotton crop, and has only an embryonic textile Industry in a least developed country context. Bangladesh will not benefit from SAARC regional cumulation. However, the dependency of our garment industry on imports of finished fabric has been falling, to the benefit of our own production.

In 1998 our export under GSP to EU was only €333 million, but by the year 2001 it had grown more than 4 times to a level of €1,333 million.

Year	Export to EU under GSP
1998	€333m
1999	€575m
2000	€1048m
2001	€1333m

GSP assistance has been a benefit in the following ways:

- The production of export quality woven and knit fabric has doubled since 1998;
- we have been able to reduce our lead times so that our garment manufacturing customers can be more competitive in the export markets;
- the value addition of our garment exports has increased;
- our fabrics match international prices and quality requirement;
- we now have an in-built flexibility for fashion changes;
- the number of jobs in the Bangladesh textile industry has increased significantly, and
- finally, the two-stage EU GSP Transformation Rules of Origin has also worked miracles for EU-Bangladesh trade.

Quota Elimination under the MFA

We naturally are very concerned about the elimination of quotas at the end of 2004. The LDCs could be the losers because we are at an early the stage of economic development as compared to more established developing countries.

The Multi-Fibre Agreement (MFA) has been beneficial to LDCs. It has introduced quotas for other suppliers, while LDCs such as Bangladesh have enjoyed some quantitative protection. We have also enjoyed benefits in terms of lower duties and taxes. However, as quotas are eliminated globally and import duties are reduced through the WTO negotiations, we believe it would be beneficial and desirable from a development perspective if LDCs could have some compensatory mechanism, to help them maintain their present market share in the expanding global market for garments.

We are concerned that garment exports and market shares will increase for the more mature developing countries, at the expense of LDCs. They should therefore be offered some additional safeguards to make the essential investments facilitating the country's development.

The EU is requested to continue the preferences it gives to LDCs rather than to developing countries. Such support is needed to assist us in addressing our productivity, social and environmental compliance issues. We need to make major investments in the development of skills and human resources as well as in our management systems. Soft loans will be essential for capital investments. May I request the European Union, as a leading player, to throw its weight behind its successful partnership with LDCs such as Bangladesh? ■

M. A. Awal is Chairman, Bangladesh Textile Mills Association.

Promoting labour rights: Sri Lanka's experience

by Ravi Karunanayaka

The inexorable process of globalisation, with its rapid integration and restructuring of the global economy and its domestic components, has resulted in an increasing universalisation of rights and obligations. Just as much as the denial of market access would negate the benefits of globalisation, so too would the continued use of lower labour or social standards to retain cost and investment advantages, be inimical to the full realisation of the benefits of globalisation.

Sri Lanka appreciates as to why in this context, the promotion of ethical trade has now become an important part of the trade policy of our major trading partners. In today's global village, international buyers are increasingly influenced by consumer expectations that producers should adhere to sound international norms, of labour rights and worker welfare. 'Compliance' with labour laws and regulations has now evolved into obligatory business practices, and are on occasion even built into the national policies of governments, the recent trade policy pronouncements of the US being one such example.

The debate over the relationship and forming of linkages between trade and labour, has waxed long and hard over many decades, even to the point of assuming the contours of a North vs. South divide. Some attempts to operationalise these linkages have met with growing resistance and controversy. Developing countries fear that linking labour to trade may lead to possible restriction of import access for their products, through the imposition of unfair labour standards.

On the other hand, it must be pragmatically understood that transparent and equitable linkages can help to raise the living standards of nations. I think there is a need to move towards a more balanced and practical stance, by clearly separating legitimate concerns as to the upholding of basic labour rights and standards, from unacceptable attempts to use labour standards in order to deny developing countries their comparative advantage in certain industries such as textiles and clothing. I think this is where we as producers must draw a distinction and eschew a merely defensive policy stance.

More recently, in spite of the protracted debate on this subject of linkages, in the WTO Doha Declaration of 1999, Ministers affirmed their "declaration made at the Singapore Ministerial Conference regarding internationally recognised core labour standards" and further "took note of work underway in the International Labour Organisation (ILO) on the social dimension of globalisation". These international initiatives can however have the maximum impact, only when they are complemented by the role of national governments in ensuring that basic labour rights and issues concerning the use of child labour, are truthfully and sincerely addressed.

Sri Lanka has always been most responsive to the need for compliance with international labour norms. The stringent labour laws in the island, strict policing by the Labour Department, the absence of child labour in industry, the freedom of association and the high ethical standards, have all contributed to many large buyers purchasing from Sri Lankan factories. These include the Mast Group, Play Knits, Kellwoods of USA, Sara Lee, Courtaulds, Coats Viella, Martin Emprex, and Triumph to mention a few. Several suppliers to Marks & Spencer in the UK and Desmond in Northern Ireland have also factories on the island. A five year strategic plan for the Sri Lanka apparel industry to transform itself from a mere manufacturer, to a fully integrated service provider, is presently under implementation.

All of this made it natural, that Sri Lanka should view with great interest, the use by the EU of the instrument of the Generalised System of Preferences, to encourage higher labour standards in developing countries, by the EU. We observed how revision of its GSP concessions by the EU in 2002 has enhanced the attractiveness of this Scheme, while the complying measures needed to obtain the concessions, have been clearly spelt out. We therefore took the step of applying last year for admission to this Scheme, and our application is we understand, among the first such to be received by the European Commission.

The progressive success of the EU's labour related GSP Scheme in establishing itself as an impartial bench-marking mechanism would undoubtedly contribute to resolving what remains a potentially contentious issue in international trade related discussions. The beneficial impact of such a development, even *vis-a-vis* the Doha Round, which has unfortunately at the present run into manifest problems, cannot be discounted. On the other hand, if the EU's labour related GSP Scheme remains a remote and inaccessible instrument, such a situation will only enhance the suspicions of ulterior motives and will serve to poison and not progress, our multilateral endeavours. ■

Ravi Karunanayaka is the Minister of Commerce and Consumer Affairs in Sri Lanka.

Meeting the challenge of 2005

by Filiep Libeert

In the first two sessions of today's Conference we have heard of the enormous benefits which can be derived from EU enlargement in the textiles and clothing sphere, especially when properly linked to the Pan Euro Mediterranean concept and to the early membership of Turkey. We have also heard informed comment upon the challenges facing us in volume and price terms when the ATC comes to an end on December 31st 2005. I make no excuse for repeating with some force that by then we will have the lowest tariffs in the world, but we will still be facing often insuperable barriers for our own exports. This means that the result of the EU's trade policy over the past ten years will have been a fully open EU market, but that many of the large export markets have yet to open to or products. The policy then has not been entirely successful.

It is in this context that one might well ask whether it would not have been more appropriate for the EU and for national and regional authorities to view trade policy issues in the round, rather than as simply one expendable part of a wider multilateral bargaining process. It is only in fact in the last two or three years that some embryonic attempts have been made in this direction through what we know as Sustainable Impact Assessment studies. They seek to determine the impact of policy proposals or decisions in the social, economic and environmental spheres, and our industry is very supportive of the concept. Here it would seem appropriate to make use of those instruments to gain a better insight into the potential implications of future policy decisions, and not just limit them to an analysis of past decisions.

Today, in 2003 and in terms of textile and clothing trade the question is breathtakingly clear; in less than two years the quotas will be history. Our authorities, just like industry, are faced with a new situation arising from a ten-year old decision, which they know in advance will cost jobs. This is not a dot.com, bubble and bust; this is a result of a Council decision with which all member-states at the time concurred. But that decision was taken against an unfulfilled background – third country markets have not opened up to our exports, because our EU authorities and those of the USA were unable to achieve this on our behalf. The only breakthroughs of any note, other than Chinese accession to WTO, have been through bilateral agreements where European industry itself has agreed to pay, a second time, to obtain market access on the part of countries who should have given that access as a part of the ATC process.

It is of course fashionable to ask how many jobs we can expect to lose, and it would be crazy of us to attempt to answer. The pessimists talk of up to million job losses after 2005. But to what extent can we realistically make an assessment. There are far too many imponderables. What is the size of the EU market, and will Europe's economy return to steady growth? To what extent are certain product markets already saturated, or will become so at an early date? What technological and end-use developments will stimulate manufacture in Europe? What job losses will occur anyway as a result of greater productivity - which as improved by an average of 5% per year since 1995? What limited relief will we obtain as a result of the Doha Round and our export ambitions there? How much of Chinese and Indian production will be turned to the satisfaction of domestic needs in those countries, leading to reduced supply at higher prices on world markets? And, last but not least, will large retailers and distributors finally understand that in the medium-term they are cutting themselves to pieces whilst at the same time putting out of a job many of their own customers? The prophets of doom of the past have always been wrong, starting with De Bandt and ending with Silberston. The EU textile and clothing industry will not fall off the cliff, but it must brace itself for storm damage, and we will inevitably lose many thousands of jobs.

But let us jointly and objectively examine the consequences of the decisions which have been made on our behalf and on behalf of the workers we employ, and draw the objective conclusions from them. Textiles and Clothing were among the first industries in the developed world to face low-cost and not always fair-priced competition from the developing world. A number of other industries are now facing similar competition, be it in respect of toys, footwear, mobile phones, radios, televisions, and all kinds of other gadgetry. In some cases those products are manufactured on a subcontracting basis in Asia and commercialised by European or American companies who have decided to totally de-localise their production. In other cases, foreign manufactured parts are assembled here, and in yet other cases all commercials control is in the hands of the large retailers and distributors.

Consumers' Associations often criticise us as protectionists; some trade unionists suggest that we seek only to de-localise; others suggest that our market access pleas are simply an alibi. In all these areas they are totally wrong. Textiles and clothing stand out among manufacturing industry which faces tough foreign competition as an example of an industry which is bending every sinew to retain as much manufacturing as possible, and hence jobs, in the EU. We should be proud to be involved in it, and he authorities should feel privileged to co-operate in the search for the most appropriate solutions. ■

Filiep Libeert is President of Euratex, the EU Textiles and Clothing Industry Association.

After 2005:
A return to normalcy

by Jaqueline Peltier

We are addressing an event of crucial importance, which will take place just over a year and half from now. But is this forthcoming event actually so important? After all, what we shall experience after 31 December 2004 is essentially a return to normalcy, following a 30-year period of regulatory constraints on world trade in textiles. Indeed, if we trace back the beginning of regulation to the 1962 agreement on cotton textiles, we should speak of 40 rather than 30 years!

Depending on the viewpoint of the observer, a return to normalcy may be a reason either for concern or for jubilation. With 4.5 million companies and 22 million employees, the commerce sector represents the European Union’s second largest employer. Its aim is to purchase quality products at the best price, while at the same time striving to ensure respect for human dignity and to protect the environment. If these conditions are fulfilled, it feels entitled to buy those products anywhere in the world.

The opponents of trade liberalisation often ignore the positive economic impact of imports. To begin with, imports favourably affect price levels since imported goods are often much cheaper than products manufactured in the European Union, and today this applies to high-quality goods too. Therefore imports contribute to price stability. Furthermore, the savings this entails for consumers also benefit European manufacturers and service providers.

What’s more, the import of mass consumer products and the European export economy are closely interdependent. In fact, European industries can only increase their exports if their clients have enough money to buy European products, bearing in mind that these are relatively expensive for them.

Finally, it should be pointed out that, in theory, neither the commerce sector nor industry in general is responsible for development policy. However, in the age of “corporate social responsibility” it is undeniable that textile and clothing imports do have a role to play in development policies. Purchases made in developing countries significantly contribute to improving the economic situation – and, in the medium term, the social situation – in those countries. This is particularly true when the import businesses concerned recognise they have a responsibility to developing countries and take the necessary measures to fulfil it.

Clearly, many European industries have anticipated developments after 2004, and many even manufacture a large proportion of their goods outside Europe. Nevertheless, there is a danger that some players, in order to defend real or imaginary interests, may strive to activate increased protective measures, particularly vis-à-vis the People’s Republic of China. This risk will become more serious with the accession of the Central and Eastern European countries to the EU, given that they have a relatively well-developed textile industry.

Such protective measures have undoubtedly been included in the Protocol on the Accession of the People’s Republic of China to the WTO, but I believe there was no need to echo these measures, point by point, in European legislation. After all, we had the general safeguard regulations which hold for all WTO members, as well as the possibility of introducing an antidumping procedure. These possibilities should have been considered enough, particularly since anti-dumping procedures already entail the danger of a drift towards protectionism. Furthermore, we should not forget that any unjustified use of the antidumping instrument by the European Union could encourage textile-exporting developing countries to put in place strengthened antidumping measures on their side, and this could adversely affect our own exports.

Also, even though the need to keep track of textile quotas, as well as their attendant costs and documentation problems, was extremely onerous for importers in the EU, it was still possible to manage and plan purchases in advance taking these factors into account. What will happen, though, if more or less draconian protective measures are introduced which risk dis-organising the import market completely? What is a legitimate move on an exceptional basis should not become the rule. I mentioned, in my introductory remarks that we were going to deal in the next couple of days with the issue of the return to normalcy in world trade in textiles. I do not believe that normalcy should be regarded as a threat. Rather, normalcy offers an opportunity to benefit from the advantages of the global division of labour and its positive impact on consumers and national economies alike. ■

Ms Peltier is President of Foreign Trade Association.

An uneven distribution of benefits

by H.E. K. M. Chandrasekhar

The importance of trade in textiles and clothing for developing countries cannot be over-emphasised. Manufacture of clothing is a labour intensive activity, with a strong gender dimension. The sector is therefore particularly important for the creation of employment opportunities in these economies.

The subject matter for discussion in this session is rather interesting, although it begs the central issue that has long been, and continues to be, the cause of inquiry in trade in textiles and clothing, i.e., the singling out of this sector for targeted policy interventions by major developed countries to provide protection to domestic industries.

It is useful to recall that developing countries have mostly been at the receiving end of these policy interventions, and have been striving to secure the application of multilateral rules to the sector. They offered significant concessions in the Uruguay Round to secure an end to the quota system over a ten-year period even though quotas were never GATT-consistent. The central purpose behind such a long transition period was to facilitate a gradual process, with a smooth landing at the end.

Due to preoccupation with the quota regime, however, little attention was devoted to the issue of tariffs in the previous rounds of multilateral negotiations. In the meanwhile, policy developments of the recent past, alluded to earlier, have had a profound impact on the competitive landscape.

The evolution in trade patterns since the Uruguay Rounds attests to the effect of these policy interventions, not just the quotas. Taking ATC as the product coverage and measured in US dollars, the share of restrained suppliers in extra-EC imports declined from 42% in 1990 to 41.4% in 2001. On the other hand, quota and duty free access made available to ten countries that joined the EU through regional arrangements enabled them to increase their share from 20.6% to 34% in the same period. The ten are: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Malta, Morocco, Tunisia and Turkey. Seen differently, while extra-EC imports from these ten countries over the ATC period (1995 to 2001) grew by 4.2% annually, those from restrained economies could advance by only 2% per year.

The uneven distribution of benefits caused by the changing scene of policy interventions is thus obvious.

Little wonder then that study after study finds that liberalisation of trade in the sector could bring immense benefits, especially to developing countries.

It goes without saying that, for these gains to materialise, a fundamental shift in policy stance by developed countries is imperative. Fortunately, the elimination of quota restrictions is just 600 days away. Regrettably, however, some recent signals are clouding the picture.

As part of its enlargement from May 2004, the EC plans to expand the scope of quota restrictions to include the ten newly acceding states. It is unfortunate that this should happen barely 8 months from the termination of all quotas anyway. It sends an awkward signal about EC commitment to multilateral obligations.

In a similar case of imposition of quotas by Turkey following the formation of EC-Turkey customs union, the Appellate Body of the WTO has ruled that these quotas were justified neither by the ATC, nor by Article XXIV of the GATT. Moreover, the acceding states have long had Free Trade Agreements with the EU. If they did not have to apply any quotas so far, when they have already been joined with the EU through FTAs, it is surprising that they should have to do so while joining the EU customs union. It should be hoped that the EU would avoid such a negative move.

Another cause for worry for exporters is the increasing spectre of trade remedy actions, such as anti-dumping and similar other measures.

The initiation of investigations into allegations of dumping in itself produces profound trade-chilling effects on businesses. The experience with a spate of investigations by EC Commission over the last years has proven that these investigations are often prompted by interested parties to preserve their corner of the market. Many of these investigations were, or have since been, found to be unjustified.

Moreover, under the quota regime, trade transactions were not driven by normal commercial considerations alone. Quota considerations have been at the centre of pricing arrangements. It will be some time before trade finds its normal course after the abolition of all quotas.

Also, the disappearance of quota premiums would exert downward pressure on prices, encouraging protection seeking interests to cry dumping and to demand anti-dumping actions.

In view of the distortion of pricing decisions under the quota regime, allegations about dumping in the immediate aftermath of the abolition of quotas could not be reasonably evaluated unless there was sufficient opportunity for trade to find its normal course.

In the event, is it not fair that exporters are provided with an appropriate period of time to compete in the market on a secure basis, free of the threat of uncertainty of protectionist actions in the name of trade remedy measures?

In short, trade in textiles and clothing has had a long and continuing legacy of targeted policy intervention. We believe it is this intervention that should be central to the discussion about the post-2004 period.

The developed world owes it to the developing countries to correct the situation, including by effective assistance particularly to least developed countries and small suppliers such as financial help, capacity building and other development tools. For this to happen, there is a need for a fundamental shift away from treating the sector differently from all others, and to address it within the common integrated framework for multilateral rules and disciplines. Such an approach would best secure effective liberalisation and, spread the benefits deep and wide. ■

K. M. Chandrasekhar is Permanent Representative of India to the WTO and is Chairman of the International Textiles and Clothing Bureau.

The way forward

by Dr K.A.A. Rana

The debate at this Conference has been rich in concepts and illuminating in its depth. The large number of participants, and the variety of speakers from all kinds of stakeholders in textiles and clothing trade, have made it a unique event. At the outset, some observers may have been tempted to characterise this as a European event. But the participation of Asian, African, Latin American Ministers and American key players make it clearly global in content; and beyond any confining European interests.

Clearly, the final words have not been said. Rather, the issues raised provide food for thought, and suggest approaches that we need to closely examine in the foreseeable future. Let me try to highlight some of the more salient points, in my personal capacity.

+First and foremost, I have been able to detect the firm conviction of all concerned, in government as in the private sector, that normalisation of trade relations in the sector of textiles and clothing firmly under the umbrella of the rules and disciplines of the WTO will constitute a positive signal for the world economy. The importance of textiles and clothing for the trade development of developing countries was also recognised. On the other hand, not everything has been smooth sailing. Voices of dissent have also been expressed with candour and openness. This has indeed been an open and transparent forum. They remain important inputs into the debate.

+Whereas concern and scepticism have been expressed that the quotas under the ATC may be replaced with new barriers, the overall thrust has been that fulfilment of the commitments undertaken in 1995 will strengthen and consolidate the multilateral trading system. To be sure, major restructuring challenges have been identified.

*The impact on industrialised and developing countries was thoroughly examined; the determination of both to face up to the consequences of their commitments, to work harder on their competitive levels, and to improve the conditions of access to their markets on a most-favoured-nation basis through the Doha negotiations was also quite clear.

*The potential problems for small suppliers and least-developed countries were frankly discussed; the resolve to find ways and means, including through preferential arrangements, financial assistance and capacity-building efforts, to assist these countries in their efforts was clearly evident. The Ministers from Bangladesh, Mauritius and Sri Lanka have made detailed comments and explanations of the problems faced by least-developed and low-income countries from different perspectives. They received important expressions of understanding and support.

*The emergence of China as an export powerhouse was analysed; its enormous potential as an import market was also highlighted. China's export growth in 2002 was clearly accompanied by equally, if not more, robust growth in imports. China also called attention to the fact that the textiles and clothing industries are some of the most globalised ones, with different operations being spread around different locations around the world. China's will to integrate responsibly and holistically into the multilateral trading system was also manifest. The determination of all actors to rise above these challenges has been clear to everyone.

*We have, in this Conference, explored practically all potential aspects of a trading world without the distorting effects of quantitative restrictions.

*The potential of the Doha Development Agenda to provide further liberalising momentum in the sector of textiles and clothing was carefully examined. Many EU participants, however, kept mentioning the need for reciprocity in this exercise, in particular, from those developing countries that had achieved an important competitive advantage in the sector. At the same time, the flexibility embedded in the multilateral trading

system through special and differential treatment in favour of developing countries and LDCs, and its potential to cover the issues and concerns of those in weaker competitive positions, within the multilateral framework of the WTO, have also been clearly recognised. Analysis presented by speakers showed strong inter-linkages between the elimination of quotas under the ATC and the DDA negotiations on market access for non-agricultural products.
*Sustainable development and ethical trade in textiles and clothing have been discussed, with inputs from Ministers, academics, private sector, trade unions and civil society representatives. Sustainability issues are inescapable in considering the ATC process, and pose challenges as important to Africa, for instance, as to Europe. Sustainable development requires us to think about a different future. Private sector participants, both from importers, retailers and industry, described in detail their efforts to uphold and promote social standards and basic human rights. The importance of respect for labour rights and the environment was emphasised. Questions posed included how to build trust, to guarantee that measures related to these issues are not protectionist The challenges and opportunities of preferential arrangements and regional integration were discussed, along with the prospects for multilateral market openings. The Ministers of Tunisia and Turkey made forceful arguments on the close partnership that binds EU and Mediterranean industries together. It was recognised that these arrangements will remain in place as one important and continuing feature of the international trading system, within the framework of the WTO's rules and provisions.

I have observed that each and every one of us, government, private sector, trade unions and civil society are more than willing to work within the multilateral trading system embodied in the WTO. The challenges are large and multifaceted. They will certainly test the political will and commitment of all the stakeholders in the system. And they will put on trial the resilience of the system and its capacity to respond to the needs of all its Members. ■

Dr K.A.A. Rana is the Deputy Director-General of the World Trade Organisation.

Summing up the results

by Pascal Lamy

Now that the proceedings are drawing to a close, I think I can say that these two days of discussions have been a success. They have given us the opportunity for numerous exchanges, which have been fruitful and frank. The aim of the discussions was not to draw definitive conclusions about the future of the textile sector, but to pinpoint the problems. They have thrown up new avenues to be explored which may eventually lead us to sound solutions.

The conference was attended by some 800 people from more than 70 countries all over the world. Its success shows, if proof were needed, how important the future of the textile industry is to the economies of many countries around the world.

The purpose of the conference was to consider together with the various interested parties (industry, governments, NGOs, unions, academics) the consequences of abolishing textile quotas by 2005. It has been a collaborative, exploratory exercise.

When we began the discussions we were certain of three things:

- Firstly, quotas will definitely and definitively be abolished in 2005.
- Secondly, this will prompt other obstacles to be raised (tariff and non-tariff barriers), which will have to be dealt with through multilateral and bilateral negotiations. Quotas must not be replaced by other non-tariff restrictions or barriers.
- Thirdly, the precise impact of abolishing quotas cannot be assessed but will be considerable. It will depend on how industry and the national and regional public authorities respond with policies to make their textile industry competitive.

We organised our discussions around four fundamental issues:

1. How can we ensure that the abolition of quotas in 2005 works to benefit all countries, and particularly the most vulnerable, i.e. the least developed countries and those with small economies?

For developing countries, one thing is clear: while they will on the whole benefit from the abolition of quotas (in industrialised countries it is mainly consumers who will gain, but there will be adjustment costs), developing countries depend most on textile and clothing exports, which makes them most vulnerable. The least developed countries are a case in point: their fragile economies lack diversification in terms of products and exports.

The same applies to countries which have preferential agreements with the EU, such as Southern and Eastern Mediterranean countries and the ACP countries. The export earnings of most of these countries are heavily dependent on textiles and clothing (which account for up to 90% of their manufacturing exports), as is employment (in the case of Bangladesh, the figure is 60%), or they depend on certain markets, mainly the

US and EU, which, with Japan, account for more than 80% of world clothing imports.

Following our discussions, it was clear that:

- Preferential access must be maintained for the most vulnerable countries (the LDCs and small exporting countries), especially in Africa. There are many valid reasons for focusing preference on such countries. There are also good grounds for considering measures to facilitate the use of such preferences, for example in terms of rules of origin.
- In the EU's case, the process of integration within the Euro-Mediterranean area must be speeded up and cumulation of origin must be completed in 2004.

2. How should textile sector liberalisation be handled in negotiations on the Doha Development Agenda? How does liberalisation of multilateral and regional markets fit together?

- Convergent market access is an essential objective to be achieved in the Doha negotiations. We expect all countries to participate in this process, and in particular the most competitive exporters (while providing for particular support measures for least developed countries). One topic which preoccupies us is the need to find a fair and balanced position between the current high levels of protection and zero duty so as to avoid a sudden shock in 2005 caused by rapid and steep reductions in customs duty, while at the same time providing genuine global market access.
- I think that the EU's current proposal represents a middle way, calling on all members of the WTO to harmonise their customs duties towards a common level set as low as possible, and to eliminate all non-tariff barriers, which many countries fear will replace quotas and which are a worry to all textile and clothing exporters. We can make use of the time we have to achieve a greater degree of effective adjustment when quotas are abolished in 2005.

3. How can we promote South-South trade at the same time as north-South trade?

- In 2005, we should experience increased opportunities for trade, but their success will depend on a balanced market access situation. The current framework of trade is one-way: from developing countries to industrialised countries, the EU, US and Japan which account for more than 80% of world imports of textiles. This has to do with comparative advantage and purchasing power, obviously, but high trade barriers also play a role (for example, customs duties, which can often be as high as 25 to 30%, and sometimes more). If convergent market access is not guaranteed globally, competition will be focused on markets which are already mature, reaching saturation point, and growing only slowly. We would then have an unhealthy situation. Rather than have everyone fight for a slice of the same cake in 2005 (and sharing it out differently) it would obviously be better if "other cakes" were on offer, or at least a bigger cake, which comes back to expanding the textile and clothing market by increasing trading opportunities to all countries. The conference participants indicated that there is no real justification for countries which are not the most competitive globally in this industry to continue to protect it.

4. How can we ensure sustainable trade in textiles?

- The question of sustainable development proved to be a sensitive issue: development, social issues, labour rights, the environment… While there is no single universally acceptable solution, it is clear that private programmes to promote sustainable development must be encouraged, and that we must continue to consider how Governments and public action can ensure that liberalisation benefits the greatest number, and especially the most vulnerable.
- In every case, the textile and clothing industry needs a predictable and consistent trade policy if it is to plan investment and make business plans.

Where do we go from here? This conference marked the start, a promising start, of an important debate, and not the end. The hardest part is yet to come: firstly, agreeing on an assessment, then discussing the policy options around which we may find a convergence of views, and finally agreeing on the best ways of meeting the challenges posed by liberalisation of the industry. Many contacts were made on the margins of the conference, and that will help us to progress. We will certainly need to build on the foundations of what was said, and to analyse it in more detail, and we will have to continue the discussion, in smaller forums bringing together key actors, in order to go forward.

The textile industry is a textbook example of the problem of globalisation: it highlights the clear advantages but also the concerns that people have. It is up to us to deal with the reality and we have only one option: to do it together.

It is a global problem to which we must find global solutions, in addition to the individual efforts which each of us must make. We have 20 months left. Good luck. ■

Pascal Lamy is EU Commissioner for Trade.

Patten delivers ALA ultimatum to Parliament

Speaking before the Development Committee on 20th May, Commissioner for External Relations, Chris Patten, delivered a strong warning to the European Parliament that he would not tolerate divisive attempts to delay the introduction of the new Asia-Latin America (ALA) Regulation. The tone of the whole debate in Parliament increased strongly with key supporters of Asia speaking in favour of keeping the ALA procedure on track and getting the new Regulation adopted before the end of the current parliamentary term in June 2004.

Prior to this decisive meeting, development non-governmental organisations (NGOs) had expressed concern that the possible delay in adopting the new Regulation would have serious consequences for the EU's ability to deliver development assistance to Asia and Latin America. Apart from dealing with the old ALA Regulation, the new proposal includes a replacement for the 'aid to uprooted people' Regulation and also the 'reconstruction and rehabilitation operations' Regulation for Asia and Latin America. Some diplomatic staff of the Asian embassies in Brussels have echoed this view.

Chris Patten spoke in very clear terms. If Parliament radically changes the Commission proposal by adopting a separate Regulation for each region, the Commissioner promised to withdraw the proposal, thus depriving Parliament of the right to proceed. There would be no prospect of the proposal being re-introduced within the lifetime of the Prodi Commission. Parliament, Patten bluntly said, "could wait for a new Commissioner for External Relations".

The early stages of the debate in the Development Committee were marked by the almost complete absence of politicians willing to speak out on behalf Asian interests. The political debate and the likely timetable appeared to be dominated by those defending the interests of Latin America. This dramatically changed on 20th May. Both sides demanded decisive action from Parliament to send a 'political signal' to the two regions re-affirming their importance to Europe.

The Spanish members appear to have been caught wrong-footed. A major plank of their argument for demanding two Regulations rested on a Parliament own-initiative report, prepared by the Spanish Christian Democrat José Ignacio Salafranca in November 2001, that called for the division of the ALA regulation into separate financial instruments for Asia and for Latin America. This report, other than highlighting the mood of Parliament, has no legal standing. Speaking on 20th May, Mr Salafranca called on the Commission to respect the wishes of Parliament from 2001 and the recommendation now of the Foreign Affairs Committee.

These arguments did not sway many in the Development Committee. The British Socialist Glenys Kinnock said a single Regulation with individual chapters for each region would be a compromise that should "suit Parliament and the beneficiary countries". Opting for two separate Regulations would "intentionally jeopardise our development objectives" and cause considerable funding delays. The mature way to deal with the issue, she suggested, would be to focus on those in poverty and not political point scoring. She was backed by Nirj Deva, a British Tory, who called for greater responsibility about the issue. Demanding two Regulations, he said, would "slow down the delivery of EU aid and make the EU an even bigger joke" among beneficiary countries.

After several months of debate in Parliament, Mrs Sander-Ten Holte in her May report to Parliament, proposed three options. She suggests that one option could be to send the proposal back to the Commission and request two new separate Regulations. This was the recommendation of the Foreign Affairs Committee. However, Commissioner Patten made his position very clear on this option when he said that, "it is my very strong view that there is no justification for proposing two Regulations". A second option would be for Parliament, through a legal mechanism to amend the Commission proposal and split the draft regulation into two. Referring to his efforts to reform the management of the external service, Patten similarly rejected this approach saying that "splitting the proposal into two separate regions would negate everything I have been trying to do over the last four years".

The third and final option proposed by Sanders-Ten Holte would keep the text of original proposal where it refers to decision making and implementation procedures. However, in an effort to reflect the differing levels of development and needs of the two regions, two new chapters would be added outlining separate development objectives. This idea proved more acceptable to Mr Patten, who said that it would be a "totally acceptable way to proceed". His support for this option flies in the face of the assertions by Spanish members of the Development Committee that the Commission would never accept one Regulation with a separate chapter per region.

The Sanders-Ten Holte report is scheduled to be adopted in the Development Committee in mid June. The sheer number of amendments that are being tabled coupled with the tight timeframe may make this difficult. Any delay in June could lead to a situation whereby the Committee might convene an extra meeting in Strasbourg in early July. It would then be exactly one year since the Commission adopted its original proposal. The demands for political signals are a misnomer. To the beneficiary countries, how Europe decides its internal procedures to administer the aid is not really important. What is of much greater significance is how quickly the EU can deliver the aid it promises and how the EU can reduce the backlog between allocating money and it actually being spent on the ground. ■

John Quigley

EU Humanitarian Aid Report raises questions

Commissioner for Development and Humanitarian Aid, Poul Nielson, presented the 2002 Annual Report of the EU's Humanitarian Aid Office (ECHO), on 15th May. As one of the largest donors worldwide of relief aid, Mr Nielson said ECHO played a "vital role in easing the suffering of vulnerable people living in desperate situations". The report is subtitled "Responding to new needs" reflecting the main focus of ECHO's work, which continues to take place in Africa. The report also dwells upon one of the major concerns of non-governmental organisations (NGOs) who are worried about the future independence of EU aid to third countries. This concern has surfaced repeatedly at the Convention on the Future of Europe, which is meeting to draft a new constitutional text for the EU.

During 2002, the European Union allocated some €538m for relief aid, spread across 60 countries and aimed at helping approximately 40m people. On a regional basis, this was divided up into €211m for the Africa, Caribbean and Pacific (ACP) nations (39% of the total), €138m for Asia (26%), €83.5m for Eastern Europe (15.5%), €64m for the Middle East/North Africa (12%) and €19.5m for Latin America (4% of the total). Out of the remaining allocation, some €8m went to the EU's Disaster Preparedness and Prevention Programme (DIPECHO). Countries in South-East Asia benefited mostly from this budget, which trains local people about the risks of natural disasters through early-warning projects and capacity building.

Within Asia, the lions-share of the relief budget, €73m, was spent in the Afghanistan-Pakistan-Iran region dealing with the refugee crisis. The next most substantial portion went to North Korea which, over the course of the year, received €21m. This large outflow reflects the situation where the EU, for political reasons, does not fund development programmes in North Korea, making it very difficult to find a lasting solution to the food problem.

Comparing 2002 with the projected budget for Asia for 2003, the percentage share is almost identical but the volume of aid is down considerably to €104m, compared to the €138m spent in 2002. This comparison at such an early stage in the year is slightly unrealistic, as the European Commission can not predict funding needs for humanitarian crises and relief for countries afflicted with seasons of heavy flooding or droughts, which has not yet begun.

Commissioner Nielson addressed the concerns about the neutrality of humanitarian aid both in the Annual Report and when speaking to journalists in Brussels during the launch of the publication. The distinction between military and humanitarian operations can be blurred quite quickly. Soldiers may be fighting one day but delivering aid thereafter. This was certainly the case in Afghanistan when American and British military personnel out of uniform, accompanied civilian aid workers distributing relief supplies. NGOs expressed alarm that, in the eyes of the local population, the two were inextricably linked. In the Report, Nielson recognises this when he says, "the lives of non-combatant aid workers can be jeopardised when the impartiality of humanitarian operations is compromised".

Development and humanitarian NGOs, such as CONCORD, which is based in Brussels, have called for clear separation between trade, foreign and security policies and both development and humanitarian operations. Relief aid should have a totally "separate structure to ensure that EU aid reflects the principles of neutrality and independence". Such organisations have been lobbying quite strongly to members of the Convention on the Future of Europe. In an early report on instruments available to the EU for External Action, relief aid was not even mentioned. It took a letter from the Chairman of Parliament's Development Committee to ensure that humanitarian aid was included in the draft constitutional treaty text. Now, EU aid has, for the first time, been proposed a legal base for humanitarian operations, which, to date have been governed by a 1996 Council Regulation.

Responding to a question from Niall Andrews MEP, the European Commission explained that under this Regulation, relief aid is offered under the principles of "impartiality, non-discrimination and independence". However, the future is more uncertain. NGOs are unhappy with the text of the draft Article in the proposed Treaty because it established that humanitarian operations should be conducted within the framework of the external action objectives of the EU. One of the less useful proposals in the draft Treaty calls for a volunteer Aid Corps of young Europeans. Sending young citizens into potentially hostile countries may not be the best use of Europe's youth.

Speaking in 2002, at the annual ECHO partners conference, Commissioner Nielson was already making clear his opposition to a strong relationship between humanitarian aid and EU conflict resolution/prevention or crisis management measures. However, there was a risk, he said, of relief aid "being pulled into a situation of becoming another instrument in the handling of foreign policy interests". He offered two reasons why they should remain separate; firstly, EU aid must operate under the principle of protecting basic human rights and, secondly, the need for accountability - this would be under threat if operations came under the common foreign and security policy (CFSP). The 2002 Annual Report will be discussed in the European Parliament, most likely in the second half of 2003. The constitution text will be forwarded to the European Council in June, to help EU leaders prepared for an inter-governmental conference, that is tasked with preparing the EU for enlargement to 25 member states. ■

John Quigley

EU-DPRK relations - Engagement or standstill?

by Dr Axel Berkofsky

Relations between the European Union (EU) and the Democratic People's Republic of Korea (DPRK) no longer make headlines. If the EU's role in re-establishing peace and stability on the Korean peninsula was marginal before last year's nuclear revelations by North Korea, its influence will continue to be minimal while security and nuclear issues dominate the agenda.

Even so, the EU insists that it remains a strong supporter of South Korea's so-called "sunshine policy", seeking North Korea's engagement through economic assistance, even while displaying the ability to ignore North Korean propaganda and its belligerent rhetoric. South Korea itself, however, following US advice, has recently shown only very limited enthusiasm for continuing its sunshine policy at all costs, confirming EU policy-makers in their belief that a wait-and-see-attitude is the right one for the time being.

Indeed, EU policy initiatives that would qualify as "independent", or even "path-breaking", are not in the offing as far as EU policy-makers are concerned. EU officials, seemingly practising "quiet diplomacy", make it a point to stress that the EU's policies and initiatives will remain "complementary" to South Korea's DPRK policy. The critics of this "overly quiet diplomacy" claim that EU policies and initiatives going beyond the hard-line approach of the US towards North Korea go largely unnoticed.

North Korea's concerns that it might be the next victim of a pre-emptive attack by the US aside, policy-makers in Brussels (and Washington) seem to agree that Pyongyang is to blame for the current diplomatic deadlock. Indeed, EU policy-makers claim that whether the EU can continue to seek to engage the DPRK depends on Pyongyang, and its willingness to negotiate security and nuclear issues multilaterally.

A Test Case for the CFSP?

The EU's policy of engagement could become a "test case" for its Common Foreign and Security Policy (CFSP). If the EU was unable to formulate anything resembling a common position during the US-led invasion of Iraq, agreeing on official declarations condemning North Korea's nuclear weapons programme has seemed feasible. The hope in Brussels is that formulating a common foreign and security policy centred on humanitarian assistance, food aid and technical assistance should present relatively few problems.

North Korea, however, is very unlikely to become a test case for the EU's CFSP as long as the EU is excluded from negotiations on security and nuclear issues. Still, being excluded from these negotiations seems almost reasonable in the EU context, given that its member states have different strategies for dealing with nations in possession (or allegedly in possession) of weapons of mass destruction.

The EU as a "distant" observer

EU policy-makers hoped that the advantage of being a "distant power", with no strategic interests and colonial legacy on the Korean peninsula, would encourage the leadership in Pyongyang to accept, and even welcome, the EU's presence at the negotiating table. As a "soft power", the argument went, the EU could act as a mediator between the U.S. and Japan, on the one hand, and the DPRK on the other. This has proved to be a case of wishful thinking, however. North Korea remains as reluctant as ever to discuss security issues with anyone other than the US, although the Bush Administration announced recently that multilateral talks will take place "very soon."

A recent initiative of the EU Parliament, to set up 7-nation meeting in Brussels to discuss nuclear issues relating to the Korean peninsula, seems to reflect such optimism. The initiative, however, still needs the EU Commission's go-ahead, and it remains to be seen whether the Parliament's efforts will bring North Korea to the multilateral negotiating table. Pyongyang's strategy of snubbing the EU (as well as South Korea and Japan) on security issues does suggest that it is mainly interested, for the present at least, in securing humanitarian assistance and food aid from the EU.

Anything Left to Talk About?

That there is nothing of substance left to talk about would indeed be a very sobering conclusion, after five years of political dialogue between the EU and the DPRK. There have been five rounds of political dialogue since 1998, the last of which was held in Pyongyang in June 2002. The EU, however, is usually very guarded as to the contents and outcome of these meetings, simply describing them as "useful" and "constructive."

Except when the subject of human rights in the DPRK is on the agenda. The EU and the DPRK started discussing human rights in June 2001, only to see the talks break down after only one session. Despite this setback, and despite Pyongyang's refusal to put the issue back on the agenda, the EU still insists that subject remains a "natural topic" for discussion. It has admitted, however, that its talks with North Korea on human rights "do not yet match", in quality and substance, its human rights dialogue with China. Given the poor quality of the EU-China dialogue, this assessment is hardly encouraging.

The EU has since presented a resolution on human rights in the DPRK to the 53-member UN Commission on Human Rights in Geneva, with the support of the US and Japan. The resolution, the first formal UN assessment of human rights in North Korea, expressed "deep concern" over the situation in the DPRK, which the EU claimed is marked by "widespread abuses, such as torture and public executions, as well as all-pervasive and severe restrictions on freedom of thought and expression."

Pyongyang reacted immediately as usual, complaining that the EU had fallen in line with the US and was pursuing a confrontational course. The Korean Central News Agency (KCNA), the government's official mouthpiece, called the resolution a "provocation," and announced that it "will have an impact on EU-DPRK co-operation." Progress on the talks on human rights and democratisation remains very unlikely in the near future, given North Korea's reluctance to discuss the issue at all. Indeed, such talks are considered to be "regime threatening" in Pyongyang, and are therefore off the agenda.

An uninterested DPRK?

North Korea, observers fear, will only turn to the EU for political and diplomatic support if its bilateral negotiations with the US were to end in a permanent deadlock. Indeed, Pyongyang is accused of maintaining political and diplomatic relations with the EU for the sake of playing it off against the US – and *vice versa*. However, its relations with the EU have hardly developed into a "trump card" for squeezing concessions and cash out of the EU or US. The reverse is the case. Humanitarian assistance and food aid aside, the EU clearly is in no mood to make any concessions that would anger policy-makers in Washington or Tokyo.

North Korea's seemingly limited enthusiasm to expand its relations with the EU comes as a surprise, given the level of bilateral trade between them. Although EU-DPRK trade saw better days in the late 1990s, the EU accounted for 13.7% of North Korea's overall trade in 2000 (24.3% in 1998). North Korea, on the other hand, accounted only for 0.015% of the EU's overall foreign trade (0.022% in 1998). Their total 2-way trade amounted to US $270 million in 2000.

In other words, whereas its trade with the DPRK is almost irrelevant for the EU, North Korean exports to the EU are playing a part in keeping North Korea's economy from total collapse. Given the current nuclear crisis, and the uncertain outcome of the US-DPRK confrontation, the prospects for increased EU-DPRK trade, or even further EU foreign direct investments in North Korea, are bleak.

EU puts technical assistance on hold

The EC-DPRK Country Strategy Paper (CSP), and the EU's National Indicative Programme (NIP) for the DPRK, set out the framework and objectives for technical assistance projects in North Korea. If implemented, these projects could be the most important instrument for engaging the DPRK economically, and providing incentives for badly-needed foreign direct investment. €35 million have been set aside for EU technical assistance projects until 2006.

The CSP and NIP provide for training in market economic principles and projects designed to support and promote sustainable management, and the efficient use of natural resources in the DPRK, as well as institutional support and capacity-building. The NIP also provides for a number of pilot projects in the DPRK, with a view to promote and support the rehabilitation of rural electricity grids and power stations, encourage sustainable development in transport and rural sectors, and raise agricultural production.

Given the current political situation in the Korean peninsula, the EU has chosen, for the time being at least, to put its technical assistance projects in North Korea, which were scheduled to be launched this summer, on hold. In view of the importance of technical assistance within EU policy towards North

Korea, this could lead to the conclusion that the EU's engagement course is on hold too. Failure to implement the technical assistance projects would indeed make the CSP and NIP virtually obsolete, reducing the EU's role to providing humanitarian assistance and food aid for the foreseeable future. However, the recent reintroduction by North Korea of its infamous 'military-first-ideology' will ensure that the EU remains very reluctant to provide the DPRK with any support beyond humanitarian assistance and food.

On March 21, 2003 the North Korean government published an official government document with the worrying title "Military-First Ideology Is an Ever-Victorious, Invincible Banner for Our Era's Cause of Independence." After the recovery of the country's economy and economic reforms moved to the top of North Korea's agenda only a year ago, this belligerent strategy once again gives priority to military issues over everything else.

While North Korea seems to stick with megaphone diplomacy tactics, EU Commission officials maintain that technical assistance projects will be restarted as soon as the situation on the Korean peninsula "stabilises." What this means is that the badly-needed technical assistance projects will be implemented only if North Korea gets rid of its nuclear (weapons) programme once and for all. North Korean observers and the EU itself agree that technical assistance is crucial to the implementation of the economic reforms Pyongyang embarked on in July 2002. These reforms already face numerous problems, and are bound to fail without outside support and technical assistance.

Even before the nuclear revelations of last October, the EU was the only substantial donor of technical assistance to the DPRK. It remains to be seen, however, whether the bait of technical assistance can help convince Pyongyang to give up its nuclear programme once and for all. More pessimistic commentators believe that the EU has decided to put its technical assistance projects on hold because, like the US, South Korea and Japan, it is unwilling to spend money on the economic development of a country which could either turn into a threat to global security, or whose regime and economy could collapse.

Humanitarian Assistance & Food Aid

The EU has provided food aid and structural food security assistance to North Korea worth more than €220 million since 1997. In January 2003, the EU Commission undertook to distribute 40,000 tonnes of cereals, mainly to children and mothers of new-born babies. The extra food was shipped to North Korea after the World Food Programme (WFP) warned that it would run out of food and medicines as early as May 2003.

Despite the WFP's own assessment that the food situation in North Korea has improved in recent years, more than 40% of the children are reportedly still malnourished. Other WFP assessments that the food situation has improved from "catastrophic" to "grave" in recent years is hardly good news either.

On May 14 the EU Commission approved a €7.5 million humanitarian aid programme in support of the health sector in the DPRK. The Commission's Humanitarian Aid Office, ECHO, in collaboration with NGOs stationed in North Korea, will provide medicines and medical equipment to health centres and hospitals. Despite widespread criticism that the food and medicine very often do not reach those in need, Echo claims that its ability to assess needs has improved significantly over the last years. More facilities in North Korea, ECHO officials state, are accessible to NGOs and the WFP is improving the monitoring and distribution process.

Despite the progress made, the suspicion remains that North Korea's armed forces and other privileged groups are the main beneficiaries of international humanitarian assistance and food aid. The EU's food aid contribution will remain important, although the budget allocated to humanitarian assistance and food aid to North Korea remains relatively small. ECHO's assistance to the DPRK was less than 1% of ECHO's overall budget in recent years.

What's next?

The EU seems reduced to hoping that diplomacy will prevail over the more bellicose solutions favoured by the US to "solve" the crisis through pre-emptive military strikes on North Korean nuclear facilities. Although the EU stresses that its role with regard to security and nuclear issues will remain secondary, its efforts at engaging the DPRK will have to be measured by its success in helping defuse the nuclear crisis.

The EU appears to have shifted from "engagement" to "conditional engagement" (some would say "reluctant engagement"). Humanitarian assistance and food aid remains central to it, however. Whether EU policy makers are about to join the hard-liners in Washington and Tokyo in hoping for an early collapse of the North Korean economy and regime, remains to be seen. However, this wait-and-see-mode is hardly suitable for an EU in the process of implementing its Common Foreign and Security Policy. ■

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Bhutan-Nepal refugee crisis takes step forward

The festering sore in Bhutan-Nepal relations that is the refugee crisis issue took a significant step towards resolution in May. The 14th Ministerial-level Joint Committee meeting finally met in Kathmandu for 4 days starting on 19th May. The result has been variously characterised as "meagre" and mere "window dressing" but nevertheless, the principle behind the outcome is important. For the first time, Bhutan has accepted that there are Bhutanese citizens living in camps in Nepal and that these refugees have the right to return home.

The Joint Committee meeting brought together Bhutan's Minster for Foreign Affairs, Mr Lyonpo Jigmi Y Thinley and his Nepalese counterpart Mr Nerandra Bikram Shah. The talks in Kathmandu were the third time the two sides have met already this year. In a Joint Statement, Thinley and Bikram, reported that the Joint Committee had adopted the report prepared by the Joint Verification Team (JVT). This report had been compiled back in December 2001. One of the major stumbling blocks between the two nations was the failure to reach agreement on the number of categories that the refugees could be divided into. The May meeting decided upon four such categories. These include; *bonafide* Bhutanese who have been forcibly evicted, Bhutanese who emigrated, non-Bhutanese and, lastly, Bhutanese who have committed criminal acts.

Eventually, in the early days of June, the results of the verification and categorisation of the Khudunabari camp refugees was released unofficially. Out of a total camp population of 12183, 293 people were adjudicated to be *bonafide* Bhutanese, a mere 2.5%. This means that they had acceptable proof of being Bhutanese, such as identity documents, property deeds or tax certificates. The vast majority was comprised of Bhutanese who had 'voluntarily' emigrated, representing 8595 people or 70%. Just under a quarter are non-Bhutanese representing 2948 people with the remaining 3%, or 347 people, being Bhutanese who have committed criminal acts.

Far from being a solution, the division of the Khudunabari camp into the various categories presents many problems for Nepal. Refugee campaigners had suggested that Kathmandu should only accept two categories - Bhutanese and non-Bhutanese - rather than the four proposed by Thimphu. The joint statement establishes the condition that those from the 70% of people in the camp, who do not wish to return to Bhutan, can apply for Nepalese citizenship. However, those 'Bhutanese' who do want to return will be "given the option to *re-apply* for citizenship".

The joint statement likewise makes no mention of what repatriation procedure will be followed. No date has been set for when the process might actually begin or by when it should be finished. By accepting the principle that there are Bhutanese citizens who were forcibly evicted and those who left 'voluntarily', Thimphu must recognise that upon their return, some citizens will want their land back. However, Thimphu has been pursuing a policy of resettling ethnic Bhutanese from the North and East into the South, the lands traditionally occupied by the ethnic Nepalese who came to Bhutan.

After over twelve years of protracted negotiations between Bhutan and Nepal, the level of engagement developed dramatically in 2003. This was due, in no small part, to substantial pressure from elements in the international donor community. Under the auspices of the United Nations-sponsored Bhutan Aid Group, donors met in Geneva on 18th-19th February 2003. Bhutan was represented by its Finance Minister, Lyonpo Yeshey Zimba. Days earlier, representatives of Bhutan and Nepal had met for the 12th Joint Committee meeting. If Thimphu was calculating that this might placate its major donors, they were mistaken. In Geneva, it was made clear that, international aid would not last forever and that the UN itself would not automatically continue to run the seven camps in Nepal.

As the February meeting of the Bhutan Aid Group established, Bhutan's major donors are suffering from donor-fatigue. Although countries such as Denmark and Japan provide the lion's share of aid, the European Union through its Humanitarian Aid Office (ECHO) has also contributed significant amounts. In November 2002, ECHO announced the allocation of €2m for food aid for the refugees. The money would be channelled through the UN World Food Programme.

However, the European Commission warned at the time that the WFP was having difficulty in "obtaining funding to ensure an adequate flow of food". Now it seems that due to contractual difficulties with the WFP, the €2m has never been drawn down. In 2001, the EU provided €1.9m in food aid. Any large scale movement of refugees between Nepal and Bhutan would create a massive food crisis. The European Commission has therefore, not ruled out allocating more money in 2004, should the humanitarian situation warrant it.

The European Parliament's South Asia Delegation plans to visit Bhutan later this year in November. The visit had originally been tentatively planned for February. The refugee issue will certainly be on the agenda, along with topics, such as, the drafting of the constitution and Bhutan's application to the WTO. The chair of the South Asia delegation, the Portuguese Socialist María Carrilho, told *EurAsia Bulletin* that while Parliament was very concerned about the plight of those refugees in Nepal, some thought would have to be given to the practicalities of integrating perhaps thousands of people back into Bhutan.

It is too early to speculate when verification could begin in the six other refugee encampments. These camps house approximately 88,000 people. It is clear that the process will be long and complicated. The Centre for the Protection of Minorities and Discrimination in Bhutan (CEMARD) has insisted that two verification teams should be appointed to each camp, in order to speed up the process. Even then, the Executive Director of CEMARD, Rakesh Chhetri, admits that this could take up to one year to complete. There is clearly not going to any quick resolution to the issue. Much depends on the willingness of the international community to continue exerting pressure on Bhutan and the speed with which Thimphu allows repatriation to begin. ■

John Quigley

LDC group adopts Declaration in Dhaka

After a 3-day meeting in Dhaka, Bangladesh, at the end of May, the Ministers for Trade of the Least Developed Countries (LDCs) adopted a 17-point Declaration. The *Dhaka Declaration* attempts to co-ordinate the positions of the LDCs ahead of the 5th WTO Ministerial Conference, which is due to take place in Cancún, Mexico, in mid September. The concern most commonly expressed at the meeting was on market access for LDCs to the economies of the developed countries.

The meeting was only the second time LDC Trade Ministers met since 2001. Their first meeting took place in Zanzibar before the 4th WTO Ministerial Conference that met in Doha, Qatar, in November 2001. With Cancún less than four months away, LDC Ministers have expressed the worry that not enough attention is being paid to their concerns. The deadline for the successful conclusion of the Doha Development Agenda (DDA) trade negotiation talks is also fast approaching.

The Declaration outlines a broad range of issues of concern for LDCs building on the results of the first meeting. LDC Trade Ministers had some harsh words for the developed countries of the WTO saying that the failure to meet development goals is a "setback to the development dimensions of the Doha Development Agenda (DDA)". The demands of LDCs for more meaningful integration into the multi-lateral trading system are well known. The Dhaka meeting listed them as improved market access, diversification of production and export, trade-related technical assistance and, lastly, capacity building.

The Declaration makes fourteen specific demands on the WTO and its developed countries members in the run up to Cancún. Two of them are specifically contentious for developed countries. The LDCs have called for free access to developed country markets for the "temporary movement of unskilled and semi-skilled service providers". This access should mean easier visa procedures, recognition of professional qualifications and doing away with the requirement for an economic needs test. The other significant demand referred to the exemption for exports from the LDCs from anti-dumping, countervailing and safeguard measures.

Thirty nine countries from the UN list of 49 LDCs attended the meeting, although not all were represented at Ministerial level. Of the 49, only thirty are actual members of the WTO. With regard to Asia, this includes Bangladesh, the Maldives and Myanmar. Accession negotiations for several other Asian LDCs have been progressing slowly. To date, the WTO has opened negotiations with Bhutan, Cambodia, Laos and Nepal. It is a strong criticism of the Dhaka group that no LDC has been admitted to the WTO since its foundation in 1995. LDC Ministers demanded the "expeditious and full implementation" of the recently adopted WTO guidelines on LDC accession.

These guidelines, targeting the needs of LDCs, were adopted in December 2002. However, as far back as May 2001, the third UN conference on LDCs had been calling for faster accession procedures and assistance for LDCs. And, several months later, the Doha Declaration called accession for LDCs a "priority for the WTO membership". The WTO guidelines address four areas including market access, rules, processes and, lastly, technical assistance and capacity building.

In April, the General Council of the WTO agreed to try to complete Cambodia's accession working party negotiations by July. Cambodia still has to conclude bilateral negotiations, most notably with the EU, but also a final multilateral package. In an attempt to be the first LDC to join the WTO since its foundation, all of Cambodia's membership procedures may be ready to be signed by Cancún in September.

Another Asian developing country, Vietnam, is also making good progress towards membership. A tentative goal of December 2004 has been indicated but, on 12th May, Vietnam's Minister for Trade of State, Mr Luong van Tu, was told that success "will depend on a quantum jump" in commitments if the goal is to be met. Members of the working party which is considering Vietnam's application, expressed concerns about Hanoi's offer of market access, the low level of information, unclear trading rights for foreign companies and some technical barriers to trade.

Speaking recently, the Director General of the WTO, Supachai Panitchpakdi, said that he could see several reasons for greater urgency in the DDA negotiations, which are meant to be completed by January 2005. Referring to developing and least developed countries, the need for greater market access was, he said, essential to helping such countries meet the Millennium Development Goals.

LDCs are pursuing membership of the WTO and the international financial institutions in an effort to climb out of the poverty trap where the number of people living on less than a dollar per day has doubled in the last thirty years. A major element of escaping the poverty trap is more and faster debt relief. According to the UN Committee on Trade and Development (UNCTAD), the LDCs owed a total of $143bn with annual debt repayments approaching $5bn.

EURODAD, the Brussels-based network of development NGOs working to combat poverty and debt, in a statement said that "excessively high debt burdens have a direct effect on economic and social development". The Doha Declaration called for a "full report" by the WTO Director General by the time of the Cancún Ministerial meeting in September on "all issues affecting LDCs". The agricultural sector is a major issue for both many developing countries and some developed economies. Without substantial reform by the European Union to its Common Agricultural Policy (CAP) then other elements of the negotiations could be held hostage. Supachai noted the concerns of LDCs about finding the money to implement WTO commitments and the capacity to undertake reforms. All members, he said, will have to find the political will to "move towards the final process". This means that, if Cancún is to deliver on the development goals for LDCs then developed countries must take care not to overload the agenda and cause the deadline to be missed. ■ *John Quigley*

MAPPING MUSLIM POLITICS IN SOUTH-EAST ASIA AFTER SEPTEMBER 11

by Dr Suzaina Kadir, EIAS Briefing Paper 02/05 December 2002

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

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

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

by Dr Greg Austin, EIAS Briefing Paper 02/02 December 2002

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

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