

Enlargement: make or break for the EU?

by John Quigley

The enlargement of the EU, on 1st May, from fifteen Member States to twenty-five, represents the largest accession of new members in the history of the European project. The increase will affect the direction and outlook of the EU for the next generation of leaders. Admitting States with a short history of democracy is nothing new for the EU - witness Spain, Portugal and Greece. However, the scale of the enlargement will put a severe strain on the institutional structure, financial resources and political outlook of the EU. It is not at all clear that Europe's leaders, old and new, are ready for the challenge that lies ahead, over the next 10 years.

With so much change to the institutional structures of the EU and the need for the ratification of a new Constitutional Treaty, failure is not really an option for the EU. Failure could mean the end of the EU as we know it, with break-away groups cherry picking policy areas and setting up rival administrative structures. Some eight countries have promised to hold referendums on the adoption of the new Constitution. Other countries foresee only parliamentary votes. It is a regrettable feature of all national politics that plebiscites on European issues tend to have less to do with Europe and more to do with taking governments to task on their national performance. The changes resulting from enlargement and those foreseen in the new Constitution are far reaching.

The European Commission

From the fifteen EU Member States, in the Romano Prodi Commission, there were 20 Commissioners. From 1st May, following enlargement, a further 10 Commissioners from the accession States were appointed with a corresponding increase in the number of portfolios. When the term of the present Prodi Commission expires, at the end of October 2004, this will drop to 25, with Germany, France, Spain, Italy and

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the UK losing the right to appoint a second Commissioner. The Presidency of the Commission will then pass to the former Prime Minister of Portugal, José Manuel Barroso, who was selected by the June European Council. On 12th August, Barroso announced his new team of 24 Commissioners who, after ratification by the European Parliament, will take up office on 1st November. Barroso has selected the Austrian, Benita Ferrero-Waldner, for External Relations and the European Neighbourhood Policy, the Belgian, Louis Michel, for Development and Humanitarian Aid and the Briton, Peter Mandelson, for Trade. While there was concern that, if the Constitution had been enacted on time, the existing Commission Directorate General for Development might be abolished, in line with a similar move in the Council of Ministers, under Barroso the threat has clearly receded, for the moment. One of the most remarked results of his allocation of portfolios to the national nominees is the suggestion that the once-dominant driving force for EU integration, the Franco-German alliance, will be weakened in the newly enlarged EU.

The Council of Ministers

The re-organisation of the Council, which began over the past several years under the terms of the Nice Treaty, is substantially complete. The number of sectoral Councils has decreased. Of particular note is the abolition of the Development Council whose mandate has been subsumed into the refashioned General Affairs and External Relations Council (GAERC). The voting rights and weight of the Member States at Council level has also been modified leaving a bitter taste for some smaller Member States. The persistent drive by the bigger Member States, such as France, Germany, the United Kingdom and, to a lesser extent, by Italy and Spain, to ensure that between them, they constitute a majority, did not sit well with the smaller Member States. The trade-off on votes they accepted was a compromise whereby small countries preferred to keep one Commissioner each in return for less votes in Council.

The mandate of the High Representative for Common Foreign and Security Policy (CFSP), Javier Solana, will end in October 2004. The June European Council decided to re-appoint Solana to this position until such time as the new Constitution enters into legal force. Solana will then assume the newly-created post of the EU's first "Foreign Minister". In an attempt to co-ordinate the development and implementation of EU foreign policy, the Foreign Minister will have one foot in the European Commission, as a Vice President, and one foot in the Council (as the legislative body), reporting to GAERC. In part, this is an attempt to answer America's long standing criticism of the European project that it is not clear who they should call if there is a problem in the trans-Atlantic relationship. However, there can be few more specious

grounds upon which to alter the institutional make-up of the EU than trying to second-guess misplaced criticism. In fact, many observers believe the current system, which reflects the historical division in competence between the institutions, operates quite effectively. It is hard to see how the Commission will be able to perform properly its role as guardian of the Treaties when the Council will have a representative amongst them. As several of the larger Member States can, at times, embarrassingly make clear, the EU does not have a huge degree of competence in the foreign affairs field. Giving Solana the cabinet-sounding title of Foreign Minister and a role in both the European Commission and the Council, will not improve matters. The underlying problems of the lack of resources, the lack of political will and embarrassing grand-standing will remain.

The European Parliament

The new Parliament, elected under the terms of the Nice Treaty, took office on 1st July 2004. The number of MEPs has risen from 626 for the EU15 to 732, with the Czech Republic electing 24, Estonia 6, Cyprus 6, Latvia 9, Lithuania 13, Hungary 24, Malta 5, Poland 54, Slovenia 7 and the Slovak Republic 14 representatives each. For the old EU15 Member States, this compares with, 18 representatives for Austria, 24 for Belgium, 14 for Denmark, 99 for Germany, 24 for Greece, 54 for Spain, 78 for France, 13 for Ireland, 78 for Italy, 6 for Luxembourg, 27 for the Netherlands, 24 for Portugal, 14 for Finland, 19 for Sweden and 78 for the United Kingdom.

According to its internal rules, Parliament has used the change-over to re-organise its committee and inter-parliamentary delegation system. The mandates of the committees have been divided into 'internal policies' and 'external policies'. The new system includes a Foreign Affairs Committee with two sub-committees focussing, firstly, on Human Rights and, secondly, on Security and Defence. There is a new committee on International Trade, while the old Development Committee continues much as before. Regarding Asia, there are two significant developments in the inter-parliamentary delegations with, for the first time, a separate delegation for relations with the Korean Peninsula and a new delegation for relations with Iran. The other delegations for relations with Japan, China, ASEAN and SAARC will continue. Although this bodes well for improving the profile of Asia and addressing issues of common concern, Parliament still does not have any specific competence in foreign affairs. Rather, Parliament has made quite effective use of its legislative competence in areas including trade, development and budgetary matters, to make itself heard in external relations matters.

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Europe's "strategic relationship" with India?

by Malcolm Subhan

All European Commission documents first have to be de-coded, if they are to make sense to the wider public. As a very respected UK journal pointed out recently, the phrase "the Commission's sole right of initiative" is "crystal-clear to insiders," but "completely meaningless to all ordinary Europeans." The phrase in fact describes a key feature of the institutional machinery set up some four decades ago to guide and manage the process of European integration – the division of powers between the European Commission, the Council (of Ministers) and the European Parliament. As the old slogan has it, "The Commission proposes, the Council disposes."

This de-coding process is especially necessary when the Commission document in question covers the European Union's relations with "third" (i.e. non-member) countries, such as its modestly entitled "Communication" of 16th June 2004 to the Council, MEPs and civil society on the subject of "An EU-India Strategic Partnership." What is a "strategic partnership?" My dictionary defines "strategic" as "of or serving the ends of strategy;" its preferred definition of "strategy" is "the art of war." However, this year's "strategic partnership" can be seen as a follow-up to the Commission's 1996 Communication, which set the stage for an "EU-India Enhanced Partnership." Some might view this as verbal inflation; for the European Commission a "strategic partnership" has become necessary given that India's relationship with the EU in particular "has developed exponentially in scope and intensity in recent years."

If the Commission's latest Communication is important for a number of reasons; it also has serious shortcomings: it is essentially an extended wish list. Its great merit is to provide, within 47 pages, exhaustive coverage of all the possible and imaginable areas of co-operation between the 25-nation European Union and India, as well as a series of specific proposals for action by Brussels and New Delhi in every one of these areas. The Communication can be seen, therefore, as a short but comprehensive introduction to every facet of the relationship between the EU and India. It makes an excellent primer, in short, for Mrs Benita Ferrero-Waldner, Chris Patten's successor as the EU's External Relations Commissioner from 1st November 2004.

As a former Austrian foreign minister, Mrs Ferrero-Waldner will be able to take the EU's political relationship with India in her stride, especially as the focus of this relationship "has shifted from trade to

wider political issues." Some of the authors of the Commission's June Communication clearly favour such a development but concede that "trade and investment is a cornerstone of the EU-India relationship." The fact that trade issues are as important today as they were in 1973, when the then EEC and India concluded a Trade Co-operation Agreement, is important for the development of EU-India relations under Mrs Ferrero-Waldner. This is because her mandate as Commissioner covers not only the EU's external relations with distant countries in Asia and Latin America, but also the creation of a wider Europe, consisting of a "ring of friends" surrounding the 25-nation EU. Her responsibilities therefore include the implementation of the EU's European Neighbourhood Policy (ENP), which covers four East European countries immediately to its east and the eight countries lying just across the Mediterranean from it, plus the Palestinian Authority.

The European Commission set out a new framework for a wider Europe in a Communication it adopted some 15 months before enlargement on 1st May 2004. It followed this up with a strategy paper and country reports on May 12th, setting out the principles and guidelines for the implementation of the European Neighbourhood Policy. The aim is to create a "zone of prosperity," by offering to share the benefits of enlargement with its East European and southern Mediterranean countries. This will involve further integration and liberalisation, to promote the free movement of persons, goods, services and capital (the four freedoms) between the 25-nation EU and its immediate neighbours.

The implementation of the European Neighbourhood Policy will make it easier for manufacturers in the high-cost EU countries to shift production to countries with lower production costs, even while remaining within the "ring of friends" making up the wider Europe. Producers in the southern Mediterranean countries will have even greater access, on preferential terms, to the enlarged EU market. It will be an exaggeration to say that Indian garment manufacturers, for example, will find themselves shut out of the EU market as the European Neighbourhood Policy is translated into reality. But, it is clear that as the new External Relations Commissioner Mrs Ferrero-Waldner will have to balance the EU's commitments to India with its commitments under its European neighbourhood policy and to decide where the EU's priorities lie.

The fact is that the new Commissioner has been dealt a very strong hand when it comes to building the wider Europe and a relatively poor one when it comes to implementing the strategic partnership with India. The 25 member governments have given the European Neighbourhood Policy their blessing. Meeting in Brussels on 14th June 2004 their foreign ministers



“confirmed that the objective of the ENP is to share the benefits of an enlarged EU with neighbouring countries in order to contribute to increased stability, security and prosperity of the European Union and its neighbours.” They held that the “ENP offers the prospect of an increasingly close relationship...involving a significant degree of economic integration and a deepening of political co-operation, with the aim of preventing the emergence of new dividing lines between the enlarged EU and its neighbours.” The European Neighbourhood Policy not only has the necessary political support but also the financial resources – funding amounting to some €255 million is foreseen under the external assistance programme for 2004-2006.

The EU Council is expected to endorse the broad thrust of the European Commission’s Communication on an EU-India strategic partnership, possibly before the fifth EU-India summit, to be held in The Hague on 14th October 2004. If so, the main lines of the strategy could be presented for discussion and consideration at the summit by the Dutch Presidency. The European Commission itself is more prudent, however. In its June 16th Communication, it sees the new strategy as taking the form of an Action Plan and a new Joint EU-India Political Declaration (the last one was concluded in December 1993), to be endorsed at the sixth EU-India summit in India in 2005. And the Commission accepts that the success of the new strategy will depend on the political will displayed by the member states and the resources made available for its implementation.

When the new External Relations Commissioner takes up office on 1st November, she will find herself caught up in the whirl of activities involving the implementation of the ENP. Turning her attention to India, Mrs Ferrero-Waldner will have to make do with two, perhaps three, documents: the Communication prepared by her Directorate-General and adopted by the full Commission on 16th June; the conclusions, if any, of the EU Council, and the statement issued at the EU-India Summit. As mentioned earlier, the new Commissioner will find the June Communication to be an excellent introduction to EU-India relations, identifying challenges and opportunities across the entire range of their activities, and specifying the actions to be taken to meet the challenges and seize the opportunities.

But the new Commissioner will not be able to see the wood for the trees. The Communication states that “a new strategy should be guided by the following objectives:

to promote peace, stability, democracy, human rights, the rule of law and good governance, *inter alia* by fighting terrorism and illicit trafficking; to co-operate on fighting poverty, inequality and social

exclusion, and on sustainable development, environmental protection, and climate change; and to enhance economic interaction and secure a strengthened international economic order.”

This welter of subjects is reflected in the proposals contained in the June Communication. They cover everything from improving international co-operation, through multi-lateralism, conflict prevention, non-proliferation of weapons of mass destruction, democracy and human rights, to strengthening the economic partnership through strategic sectoral dialogues (on the information society, transport, energy, biotechnology and space), boosting trade and investment, building on synergies in science and technology, finance and monetary affairs and development co-operation. The list contained in the working document of the European Commission’s various departments, which is annexed to the Communication, is even more exhaustive: the environment, academic exchanges, culture and visibility are thrown in for good measure.

The new External Relations Commissioner will obviously want to focus on the most important proposals, and to see that they are implemented as quickly and effectively as possible. The aim, after all, is to establish urgently an EU-India strategic partnership so that India, too, can benefit from the EU’s enlargement and the creation of a wider Europe. But Mrs Ferrero-Waldner will search the June Communication in vain for a list of the proposals to be implemented on a basis of priority – or even for the criteria needed to draw up such a list. On the contrary, the Commission appears so diffident, or perhaps even undecided, about the merits of its numerous proposals that it confines itself to indicating what the EU should or could do, even though the activity to be undertaken is often limited to a dialogue at the level of civil servants.

Now, this is partly because even where the European Commission has the sole right of initiative, it still requires the go-ahead from the EU Council and European Parliament. This accounts for its wide-ranging proposals, with their promise of something for everyone, to make it easier for foreign ministers and MEPs “to endorse the main thrust of the document.” The Commission would also like the Indian government to respond constructively to its Communication with a policy paper of its own. It has therefore cast its net widely in order to ensure that Indian interests, especially in trade and investment, are properly covered.

The European Commission believes a “strategic partnership” with India will bring about a breakthrough in EU-India relations. It identifies the “challenges, opportunities and expectations” that await such a partnership; but it does so with its collective feet



planted firmly on the ground. The result is a Communication full of proposals the Commission considers acceptable to both sides because (1) they are based on the current state of EU-India relations and (2) they provide for an incremental increase in these relations. But the evidence of the last ten years makes clear that such an approach is unlikely to generate the political will needed to bring about the breakthrough the Commission is looking for.

The fact is that the 15-nation EU and India could have implemented virtually all the proposals listed in the European Commission's latest communication at any time during the last 10 years. Many of them could have been implemented under the 1994 EU-India Co-operation Agreement. A wide-ranging agreement, going well beyond matters of trade and economic co-operation, it is still in force, if largely neglected. The necessary political impetus could have been provided under the 1993 Joint Political Statement and through the regular meetings of the Indian and EU foreign ministers. And since the Lisbon summit in June 2000, the annual EU-India summit meetings have adopted a broad-based Agenda for Action, listing activities very similar to those set out in the June Communication.

Only an absence of political will – on both sides – can explain this failure to add substance to EU-India relations, despite the dramatic changes that are taking place in both the EU and India. Whether the Commission's communication can generate this much-needed political will is open to question. What is missing from this document is a vision of relations between the EU and India, say a decade from now. A vision is more than a forecast by economists of the rise in the two-way trade between India and the EU by 2015, or an estimate by political scientists of the number of resolutions jointly sponsored by India and the EU in the UN Security Council by the end of the decade – or by scientific institutions of the number of patents awarded to Indian and European scientists working together on projects funded by the EU under its next Framework Programme.

A vision includes not only what is possible or foreseeable but also what may well be unattainable, perhaps because it flies in the face of logic. It therefore is a roadmap for getting from A to B as well as a guide to uncharted waters. Because it draws on the intellect as well as the imagination, because it touches both heart and head, a vision can motivate and mobilise, thus generating political will far more effectively than any list of proposals; at the same time it can also make meaningful and coherent a list of proposals.

The European Commission's paper covers numerous areas that would be part of a vision of EU-India relations in 2015. It proposes a 9-point dialogue on migration; a strategic policy dialogue on regulatory and industrial policy to improve business competitiveness

on both sides; a joint working group on the environment; strategic sectoral dialogues on the Information Society, transport, energy, biotechnology and space; better business-to-business co-operation; collaboration in science and technology and consultations on financial and monetary affairs.

A global rather than a piecemeal approach would involve conducting these dialogues within a framework acceptable to both the EU and India. The starting point for such an approach could be one of the findings of the independent high-level group set up by the Commission President, and chaired by Professor André Sapir. In its report, issued in July 2003, the group pointed to “three profound and interconnected changes in the socio-economic environment taking place across Europe and the world: demographic patterns, technological breakthroughs and globalisation.” Europe itself was “confronted with population ageing, the information technology revolution and globalisation.”

The EU had already set itself a “new strategic goal” in Lisbon, in March 2000. The goal is to transform the EU into “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.” Now India, too, is facing problems arising from technological breakthroughs and globalisation; it, too, is seeking to develop a knowledge-based economy, to carry out far-reaching and ambitious economic reforms and modernise its educational systems. The June Communication recognises the similarities in the European and Indian reform programme; hence its proposals for a series of dialogues.

Suppose these dialogues are conducted within the framework of a Lisbon strategy which embraces not only the 25-nation EU but also India, which draws on their respective strengths to reach common goals. Granting visas to Indian IT professionals or outsourcing labour-intensive services presents Europeans with a host of problems if viewed within a purely national or regional context and from a short-term perspective; but it is just possible that these problems may become easier to resolve if seen as part of a vision and within a global time frame of, say, 10 to 15 years. What is important is not the time frame within which the vision is to be realised, but the vision itself. The EU's European Neighbourhood Policy rests on the vision of a wider Europe, uniting some 40 countries in a common venture; the European Commission's Communication of 16th June simply points to areas in which the EU and India may find it profitable to work together, for limited ends. It is not difficult to see which of the two approaches the new External Relations Commissioner will find the more rewarding. ■



The end of Hindutva? A Reflection on the General Election in India

by Dr John Zavos

How did the National Democratic Alliance (NDA) lose the 2004 elections? We can begin to answer this by pointing out the spectacular fall of some of the key members of the alliance: the All India Anna Dravida Munnetra Kazhagam (AIADMK) was obliterated in Tamil Nadu; the Telugu Desam Party was decimated in Andhra Pradesh; as was the Trinamul Congress in West Bengal. In contrast, the Bharatiya Janata Party (BJP) still emerged as the second largest party in the Lok Sabha; nevertheless it too suffered some serious reversals in key areas. For example, in Gujarat, where in 1999 the party had gained 21 seats out of 26, they gained just 14 seats. In contrast, the Congress doubled its 1999 tally in Gujarat. In Uttar Pradesh, where one senior party worker had predicted 50 seats for the BJP before the election, they were reduced to 10. Not only that, some major figures in the party and the government such as Murli Manohar Joshi (Allahabad) and Swami Chinmayananda (Jaunpur) lost their seats, and in the three constituencies which include the towns of Ayodhya, Benaras and Mathura the BJP also lost.

These losses have a symbolic significance. Gujarat is known as the 'laboratory' State – a testing ground, so it has been said, for the implementation of Hindutva. Ayodhya, Benaras, Mathura are the sacred sites of Hindu nationalism, places around which they have conducted major campaigns. Joshi and Chinmayananda - amongst others - have been key advocates of hardline Hindutva policies

In addition to such symbolically significant losses, on a general level the NDA's focus on Sonia Gandhi's foreign origins as a major campaign issue appears to have flopped, with voters decisively rejecting it as significant. Indeed, in the aftermath of the election, as Sonia made her decision to step aside, the most vociferous campaigners on this issue, especially Sushma Swaraj and Uma Bharati, have been strongly criticised for their stance.

All this has been framed by the idea, most strongly advocated by the Communist Party (Marxist) leader Harkishen Singh Surjeet, that this was a mandate for secularism and tolerance, delivered by a discerning electorate. As the Chief Minister of Assam, Tarun Gogoi, noted, 'voters rejected both Ram Janmbhoomi and Sonia Janmbhoomi'. In the context of these observations, it is legitimate to ask: is this the end of Hindutva? Can we see these developments as an

indication that the significance of Hindu nationalism is waning in Indian national politics?

Of course, on one level this is an easy question to answer. The BJP, as the party of Hindu nationalism, is a party with a significant profile in national politics and a firm infrastructure which cannot be eradicated by one bad election result. It still has plenty of clout in central parliament and is in power in several key States. Indeed, in the same round of elections, it won control of the Orissa State Assembly in collaboration with its local coalition partner, the Biju Janata Dal, and made significant gains in Karnataka. Just 6 months ago it also made significant gains in three assembly elections, Madhya Pradesh, Rajasthan and Chhattisgarh, a result which indeed is said to have been a major factor in persuading the government to head for early national polls. Clearly, then, as a political force, the BJP will be back.

Yet, even in those assembly polls at the end of November 2003, questions were being asked about the BJP's shifting strategy, after campaigns structured principally around issues of development and governance, rather than any overt 'Hindutva agenda'. This trend appeared to be confirmed by the NDA's general election manifesto, and the tenor of its campaign over the past couple of months. In the manifesto, key Hindutva themes such as the temple at Ayodhya, Article 370 of the Constitution, and the Uniform Civil Code do not feature very highly, if at all. The apparently low profile of Hindu nationalist themes was confirmed by the campaigning style of deputy Prime Minister L.K. Advani. Advani is notoriously linked to the idea of the *yatra* – which may be translated as 'pilgrimage' – as a political campaign strategy. In 1990, he undertook the famous *Rath Yatra*: a procession from Somnath to Ayodhya in a bus decorated to resemble the chariot (*rath*) of Ram, advancing inexorably on Ram's kingdom of Ayodhya in order to 'reclaim' his birthplace. The *rath yatra* became a grand symbol of the trajectory of Hindu nationalism as a political force aiming to fashion national culture in its own image. In this most recent campaign Advani again embarked on a *yatra* (*Bharat Uday Yatra*). This time, however, Advani proclaimed – 'this is not a *rath yatra* like the one I undertook last time. This is only a *yatra* in a bus'. Advani's 2004 *yatra* was still about the regeneration of the nation – but the emphasis was on economic issues and governance rather than cultural regeneration.

These points seem to suggest that, although the BJP may have a future, perhaps its core ideology – a grand, all-encompassing, national ideology, with a vision based on the transformation of society – has been displaced. It no longer has the potential to become a hegemonic ideology in India. Instead, the BJP will continue to operate as a party with significance in particular regions and elements of Hindutva will be



implemented on the basis of local conditions and local judgements (as, for example, in Gujarat), rather than as part of a grand scheme to develop the national character. In this scenario, the BJP may be seen as a regional party, a party with aspirations to gain power in particular areas of the country.

This is an interesting scenario to consider, in particular because it is supported by the argument put forward by several analysts that Indian politics is becoming increasingly regionalised or fragmented. Coalitions, it appears, are now an integral ingredient in the national political scene. The Congress Party has belatedly acknowledged this and its success in 2004 is built precisely on its ability to forge winning alliances based on a genuine coalition strategy. For example, a post election analysis by Alistair McMillan for the Centre for the Study of Developing Societies in Delhi argues that the Congress was able to make gains partly because it contested less seats overall, thus leaving more seats to be contested by its allies. The BJP, on the other hand, decided to contest more seats than it had in 1999. The suggestion is that the BJP had begun to lose sight of its position as part of a coalition, just as the Congress had finally come to the conclusion that solid coalitions form the path to power.

The emergence of coalition politics as the standard model of political practice is, I would suggest, indicative of the foregrounding of a particular, fragmented idea of national identity in India – a kind of non-homogeneous idea of the Indian, which is able not just to accommodate, but actively to participate in and engender the plethora of regional, caste, linguistic, class and religious identities which have always been a feature of developing political identities in modern India. This kind of fractured or decentred identity is antithetical to the broad project of Hindu nationalism, in that it denies the idea of homogeneity at the heart of Indian cultural and social life. If this really is the trajectory of modern Indian politics, then, we might again consider the conclusion that yes, this is the end of Hindutva as a political force.

The resonance of this conclusion, however, depends partly on how one conceives of politics. In the context of Hindu nationalism, I would suggest, formal politics – that is, politics focused on the State, on the winning of elections and the gaining of power - has a rather limited significance. To understand this, we need to focus briefly on a couple of the key concepts which underpin this set of ideas known as Hindu nationalism. Firstly, we need to understand the concept of '*sangathan*', or organisation. A Hindu nationalist vision of the nation is intimately bound up with the progressive realisation of a society which operates harmoniously, in an integrated and organised fashion. Most generally, this vision has been articulated as a kind of organicist approach: society operates like a body, each component part having its own valuable

function. As the second Rashtriya Swayamsevak Sangh (RSS) leader M.S. Golwalkar wrote in 1966:

“All the organs though apparently of diverse forms, work for the welfare of the body and thus subscribe to its strength and growth. Likewise is the case with society. An evolved society, for the proper functioning of various duties, develops a multitude of diverse functional groups. Our old social order laid down a specific duty for each group and guided all the individuals and groups in their natural line of evolution just as the intellect directs the activities of the innumerable parts of the body”.

The ideal Hindu, then, knows his place in this organism. Fulfilling one's function in the organism, in a disciplined and orderly manner, is each individual's *dharmic* duty, and leads to *sangathan*, a society which is perfectly organised.

The second, related, key concept to understand is integral humanism. This idea was developed by Deendayal Upadhyay in the 1950s and 1960s, and today features as a clearly marked 'guiding philosophy' on the BJP website (www.bjp.org). Integral humanism again revolves around the organisation of society on the basis of knowledge of *dharmic* duty. Upadhyaya interprets *dharma* as a kind of dynamic network of interrelated regulations by which life should be led. It is these regulations which govern social relations. When *dharma* is strong and recognised as such, there is no need for the 'worldly' control of society. Thus in the *kritayuga*, or perfect era, 'there was no state or king. Society was sustained and protected mutually by practicing *dharma*'. In subsequent eras, he explains, 'dis-organisation came into existence', and as a result the State was introduced as an additional form of regulation. So, the State functions primarily as one means of regulating society during an era in which consciousness of *dharma* amongst social groups is relatively weak. In this sense, a Hindu nationalist approach to the State and formal politics is as one means, amongst others, of producing organisation in society.

By understanding these concepts we can see that Hindu nationalism is primarily focused on the development of society, through the realisation of correct *dharma* amongst various 'functional groups'. Formal politics and the control of the State is significant, then, but it needs to be placed within the context of this broader focus, which conceptualises society as a range of segmented areas and functional groups. This point is graphically demonstrated by the fact that the BJP is really a part of a much broader set of organisations known as the Sangh Parivar. These organisations focus, in a segmented fashion, on particular issues: one organisation focuses on tribal welfare, one on education, one on labour relations, and so on - an



interrelated and expanding network of organisations stretching across areas of social and cultural life.

A couple of brief examples will demonstrate this approach. In tribal areas of States such as Rajasthan, Madhya Pradesh and especially Orissa, Sangh organisations such as the Vanvasi Kalyan Parishad have been increasingly active in recent years, persuading tribals to eschew tribal religious practices in favour of Ram and especially Hanuman puja, and confronting Christianity aggressively. Indeed, a recent report noted that some villages in Gajapati district in Orissa were physically split down the middle, with a fence separating Christian communities from Hindu communities.

A further example is seen in education. The Sangh now has an extensive network of schools, many run by the Vidya Bharati Akhil Bharatiya Shiksha Sansthan. The Vidya Bharati system supervises over 18,000 schools across India, with 1.8 million students and 80,000 teachers. The network focuses on Sanskrit, moral and spiritual education, yoga and physical development. It aims at the “evolution of an alternative model of school education which is more in tune with Indian culture and ethos” (<http://www.vidyabharati.org/Activities-org.asp>).

These examples demonstrate the range and trajectory of Sangh activities across India. My contention is that almost regardless of the fortunes of the BJP at the polls Hindutva is nevertheless a set of ideas, an approach to society, with a growing significance in India, because of the proliferation of ostensibly non-political organisations like the Vanvasi Kalyan Parishad and the Vidya Bharati. It is organisations like these which Hindu nationalists themselves see as the critical sites of social transformation over the next few decades. A recent, post-election ‘quote of the day’ on the RSS website sums up the approach: ‘The remedy for weakness is not brooding over weakness, but thinking of strength. Teach men of the strength that is already within them’ (www.rss.org). This quotation from the late nineteenth century reformer Swami Vivekananda demonstrates the Sangh’s defiant post-election stance. The emphasis is on teaching, transforming society by helping Hindus to understand the implications of their identity as Hindus.

Unless the newly formed United Progressive Alliance engages with politics on this level, we are unlikely to see the ‘end of Hindutva’ and its influence on Indian political life. ■

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Enlargement: make or break for the EU?

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Solana’s Security Strategy

In June 2003, Javier Solana published a draft report called “A secure Europe in a better world” outlining the role of the EU in the world and the nature of the threats facing Europe. The report, which is now over one year old, included a reference to Japan, China and India as strategic partners of the EU. However, little has been done to flesh out what, in practice, this would mean for Europe’s relationship with Asia. The June 2004 European Council reaffirmed the choice of strategic partners but failed to provide any direction for EU policy.

The changes which the EU has undergone and the profound implications arising from them mask an even greater problem. The enlargement of the EU, in all likelihood, will not stop here. Countries including Turkey and the Ukraine are actively seeking membership and although the EU seems content for the moment to develop ties with North African countries outside of discussions on accession, a time may come when the governments of Algeria, Tunisia or Libya may follow the request made by Morocco in 1986 and demand to join. With 25 Member States, the task of securing deeper integration, in both political terms, such as the Common Foreign and Security Policy (CFSP) and in economic terms, such as the Stability and Growth Pact, seems enormous. The prospect of Europe meeting these stated goals with a possible 30 States or more, would seem highly unlikely.

Politically, Europe is in very interesting times. The last five years have seen the fall of the Santer Commission, the Nice Treaty, the Convention on the Future of Europe, enlargement, a Constitution and the appointment of a new 25 member Commission under Barroso. Poor political leadership at times, hampered the drive to prepare the EU for life with 25 States, before enlargement actually took place. A price for that failure will have to be paid. The support of France and Germany for their candidate, the Belgian Prime Minister Guy Verhofstadt, to head the European Commission, was couched in terms as bizarre as the necessity of having a fluent French language speaker in charge. In the end, a representative of another ‘small’ Member State, Barroso of Portugal, was appointed. Make or break for the EU? It remains to be seen whether France and Germany will use his appointment as an excuse in the future for the domestic political problems they will surely face in trying to ratify the new Constitution. ■



Combating AIDS in India

by Sanjay Mukhopadhyay

India, a country of a billion people, has about 4.6 million people who are HIV positive. If the problem is left unchecked, that number could reach to between 20-25 million by the end of the decade. This means that a single country could have an HIV-positive population larger than the total populations of London, New York, and Tokyo combined. Some believe India's epidemic can be stopped before it approaches the proportions seen today in sub-Saharan Africa - but only by building a vast network of public-private alliances on a scale rarely attempted previously. With each partner bringing distinct skills and assets to bear on the crisis, careful co-ordination is essential.

Conditions in India could promote the rapid spread of AIDS in the coming years. According to the National Aids Control Organisation of India, the prevalence of AIDS is only 0.8% of the population compared with almost 39% in Botswana and 33% in Zimbabwe, the two most heavily stricken countries where overpopulation and widespread poverty are already straining the government's resources. The public-health infrastructure, facing a variety of gigantic health challenges finds itself unable to cope. Public and private attitudes continue to stigmatise people with HIV/AIDS and obstruct efforts to combat it. Already, it is spreading beyond the high-risk populations.

So far, India's response has been fragmented. The government spent about 9 cents a person on AIDS-related programmes in 2003, compared with past expenditures of about €1.65 in Uganda and 46 cents in Thailand, two countries that have had some success in fighting the pandemic. Non-governmental organisations (NGOs) often lack the scale or management capabilities to face such a Herculean task and generally work in isolation from one another.

The Gates Foundation Avahan Initiative

Against this background, the Bill and Melinda Gates Foundation is helping to lower the prevalence of HIV/AIDS in India's high-risk populations and to stabilise the overall prevalence by 2008. Armed with a five-year, €184m budget, the Foundation's India AIDS Initiative focuses on high-risk groups, particularly the country's two to three million commercial sex workers, as well as the five million truck drivers and their crews along the nation's highways. To mount a co-ordinated campaign, the Foundation is forging alliances with dozens of public, corporate and non-profit organisations.

The Director of the India AIDS Initiative, Ashok Alexander, a former Senior Partner with McKinsey and Company, brings 25 years of experience in corporate management to the task of tackling HIV and AIDS in India. By 2008, he wants to halt the spread of the virus that leads to AIDS. It's a huge and very complicated epidemic. There are 600 districts in India, each with a population roughly similar to Botswana, so in effect we have 600 Botswanas. And there is a lot of diversity and movement among risk groups. The core initiatives are centred on prevention programmes. They are focusing on the highest-risk groups in the highest-risk geographies: commercial sex workers and truck drivers in six States, Tamil Nadu, Karnataka, Andhra Pradesh, Maharashtra, Manipur and Nagaland where some 100 "hot spots" have been identified in approximately 55 districts.

In the first core element of the plan, the India AIDS Initiative or *Avahan* (which is Sanskrit for 'call to action'), will focus on helping sex workers by enlisting some of their peers - that is, other sex workers - to work on outreach and advocacy programmes that promote protected sex. They are also establishing clinics to help those with HIV/AIDS or Sexually Transmitted Infections (STIs).

The second core initiative targets truck drivers and aims to reduce the transmission of AIDS and STIs along key national highways where, it is estimated, some 100,000 to 200,000 sex workers are active. This initiative will work with their partners to establish STI clinics, both fixed and mobile, at 40 to 50 truck stops. Because STIs greatly increase the chances of passing on HIV, in some respects, *Avahan* really has an STI programme here. Transmission rates for HIV can go up by as much as one hundredfold in the presence of certain ulcerative STIs, such as syphilis. *Avahan* is working with STI specialists because you can stop several types of STIs with one simple injection of penicillin or one dose of antibiotics. It is clear that tackling the rate of STIs can have a huge effect on cutting HIV transmission rates.

But those two initiatives alone would not be enough unless they were integrated with the four other elements of their strategy. The first is consistent communications architecture: the different partners must be aware of the India AIDS Initiative message and be aware of what other NGOs are doing. *Avahan* can present their partners with broad communications guidelines. The creativity in implementing the actions to the people at the grass roots.

Secondly, their advocacy programme, which raises awareness and supports prevention programmes, is extremely important. It might well be the most important thing, because there is a huge stigma attached to HIV/AIDS that has acted as a barrier to



prevention with many people avoiding testing and treatment, for example.

The third element is building knowledge and evaluating the impact of their programmes. Knowledge is needed to support the prevention programme. For instance, there is not much research on the mobility of populations in India and there is a lot of epidemiological evidence linked to that mobility. Good evaluation is needed to identify what works, both for us and for others who might want to use our initiatives as models.

The final element is building capacity. This includes technical capacity, such as effective communication with high-risk individuals, mobilising community involvement, and providing quality STI services, and it includes grassroots capabilities, such as putting people with project-management skills into those 55 districts.

If you don't have even one element of the six, everything will fail. Unfortunately in most countries the efforts have come too late, so a prevention programme never truly happened. Two countries are often cited for their successes: Uganda and Thailand. However, Thailand has little in common with India. It is smaller than an Indian State, it is fairly homogeneous and more than 90% of the commercial sex takes place in brothels, compared with only 5% in India. So the scope for genuine pattern recognition is limited and, in effect, the feeling is that India is only really undertaking a series of considered experiments.

I would say that it is practically impossible to tackle a problem of this scale without a large set of alliances. The private sector brings the last-mile link to the beneficiary. NGOs have grassroots organisations that can reach the people we are trying to help, while corporations have assets and infrastructure that can be used to fight the epidemic. Companies can also play an advocacy role. In India, business leaders have huge clout. Someone like Narayana Murthy, the Chairman of Infosys Technologies, can pick up the phone and talk to the Prime Minister on an issue that matters. For such business leaders to stand up and speak out against the stigma or apathy is a huge step. If we couldn't bring these partners together, I couldn't conceive how you would even think of doing something like this.

Key factors to the solution

Education is key. In India, we are surprisingly poorly informed about HIV/AIDS. That includes businesses, the elites and ordinary people. Also, I think that if you get several widely respected leaders of the business community to take on this challenge, other business leaders will follow. Without question, the financial and human resources to solve these problems are lacking. Given the magnitude and the speed with which the disease can spread, it is now clear that no lasting

solution will come without creative partnerships between corporations, on the one hand, with NGOs and the public sector, on the other. Another critical benefit of this kind of partnership is the access it provides to employees in the workplace - and, by extension, their families.

Some companies have lent distribution and marketing assets. South Africa's national LoveLife AIDS-awareness campaign, for example, is supported by the South African Broadcasting Corporation, the Independent Newspaper Group and Times Media, which have donated print and broadcast resources as well as marketing expertise to the effort.

Companies in the private sector can also take direct action to fill gaps in the public-health infrastructure by delivering health services to their employees and, sometimes, to the local community. India's Tata Iron & Steel has extended its AIDS-awareness programme beyond its roughly 40,000 employees, reaching thousands more people. And in nine African countries, Heineken Breweries has partnered with PharmAccess to spend about US\$2 million a year to offer anti-retroviral treatments to Heineken employees and their dependants. Furthermore, businesses that recognise their privileged position have become effective advocates for improved public-health programs. In 1998, Nestlé's operations in Brazil, for instance, teamed up with that country's Department of Health to create the National Enterprise Council for the Prevention of HIV/AIDS.

Among the unique resources the private sector can provide are intellectual property, marketing skills and public-relations channels, as well as expertise in pharmaceutical development, distribution, and project management. Finally, the general public, the politicians, Government officials and doctors all share a moral responsibility in combating the spread of this deadly disease before it becomes an epidemic out of control. ■

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EU strengthening its economic ties with China

by Duncan Freeman

Journalist & Consultant

The visit of Chinese Premier Wen Jiabao to several European capitals including Brussels in May represented an opportunity for the Chinese dual leadership of Wen and President Hu Jintao, installed in 2003, to deepen their relationship with Europe. The visit of Wen to the European Commission while in Brussels offered the opportunity to review and affirm the existing broad relationship and to set the tone for future efforts to deepen it, especially in the economic sector. It followed generally positive developments over the previous year, when both sides had issued policy papers on their bilateral relationship in which they each sought to set out views on how it could be strengthened even further.

On the political level, both sides made positive noises during the visit about how good a relationship they have developed on a broad range of matters and their agreement to work together on a number of major regional and international questions. These include the Asia-Europe Meeting (ASEM), the Korean Peninsula, Burma, non-proliferation, arms control and terrorism. These of course are issues where the European Commission generally is a minor, if occasionally influential, player. Nevertheless, it was noticeable that the delegation which accompanied Wen had a strong economic focus, including as it did the Minister of Commerce, Bo Xilai, and the head of the State Reform and Development Commission, Ma Kai, and the head of the General Administration of Customs, Mou Xinzheng. Without question, at present, this is where the real substance of the relationship between China and Europe lies.

On a broad economic front the Commission has established a close working relationship with the Chinese government. This no doubt, to a large extent, stems from the many years of work by the Commission related to China's WTO accession and the continuing process of ensuring that China complies with its membership obligations. It is also a result of the importance of the Commission in the EU's external trade competence, dealing for instance with difficult issues such as anti-dumping actions against Chinese exporters. But, it also increasingly results from a recognition of the importance of the Commission's work in the broad range of economic policy in Europe, which gives it experience and expertise that both sides believe China may be able to benefit from. It can be suggested that China and Europe in some respects face similar problems of economic development and

integration encompassing large and very diverse economies.

One of the few new developments to emerge from the Summit was the initialling of the EC-China Agreement on Customs and Mutual Administrative Assistance, designed to smooth bilateral trade flows. Other recent initiatives include a new China-EU Trade Policy Dialogue which will cover multilateral, regional and bilateral trade issues. This will be matched by a more narrow Textiles Trade Dialogue, which will assume considerable importance when the last quotas on textile trade under the WTO are finally removed in 2005 and China will be able to exploit its comparative advantage in this sector to the full. A new Dialogue on Intellectual Property Rights has also been established. This, of course, is an area of vital concern to many European companies who argue that the Chinese authorities still fail to act effectively against infringement.

On a less positive note for the Chinese leadership, subsequent to the visit of Wen, the Commission declined to grant Market Economy Status (MES) to China. Although this is something that Beijing had been pressing strongly for, the decision probably came as little surprise. Indeed the reaction of the Chinese government has been relatively muted. Although Beijing evidently attached some symbolic significance to MES, the reality is that it is essentially a technical issue that only affects Chinese exporters subject to anti-dumping actions in the EU. Beijing, it seems, has wisely decided that China's failure to be given the status should not become the focus of a major dispute that would sour an otherwise positive relationship.

One of the more positive symbolic and also substantive developments as far as China is concerned is its investment in the Galileo project, the European Satellite Navigation System, which had already been agreed before Wen's visit. Less high profile, but probably more important for the long term economic relationship between Europe and China is the signing of the agreement granting easier access to Europe for Chinese tourists. Given the worldwide importance of the tourism industry, and the enormous potential growth for Chinese outward-bound tourism, the agreement is likely to have a real impact on a sector that has great importance in the European economy. As any visitor to the major tourist attractions in Europe will find, tourists from China are already arriving in significant numbers. Based on the experience of other destinations open to Chinese tourists under similar arrangements, such as Hong Kong and a number of countries in South-East Asia, the agreement is likely to lead to a dramatic growth in the market. Contrary to what one might assume given the China's overall level of development, Chinese tourists to other destinations have proved themselves to be relatively high spenders.



Statistics from the EU show that the strong growth of bilateral trade over recent years is being maintained. Both exports and imports continue their rapid growth, although according to EU figures, which include Hong Kong, Chinese exports to Europe continue to considerably outweigh trade in the opposite direction. The performance of individual countries continues to vary enormously.

In 2003, exports by the 15 members of the EU (EU15) to China grew by 17.4% to €41.2 billion, at a time when the EU15 total exports fell by 1.9%, compared to 2002. The growth continued into 2004 when, during the first quarter of the year, exports to China increased by 15.8% over the previous year. Once again far outstripping the overall growth rate of 6%. In 2003, EU15 imports from China grew by 16.7% to €95.5 billion, at a time when total imports were stagnant. In the first three months of 2004, imports from China continued to grow at almost the same pace, by 14.8% over the same period for 2003, while overall imports grew by only 1%.

As the accompanying table shows, there are considerable divergences in the trade performance of the various EU members.

Germany continues to dominate as the leading trade partner with China. Both in 2003 and the first four months of this year, its export growth has well outstripped import growth. Of all the major European trading partners with China, Germany comes closest to balancing its trade. Most of the other major trade partners registered strong export growth in 2003. French exports to China grew by 26%, the UK exports by 18%, Belgian exports by 22% and Spanish by 39%. However, other major exporters performed less well. The Netherlands only recorded an increase of 7%, while Italy recorded a decline of 4%.

The growth has continued in 2004 as both imports and exports have expanded rapidly, although once again there have been great variations in national performance as the table shows. The figures tend to show that despite a number of problem areas and variations in performance of the Member States, the EU and Chinese leaders were undoubtedly right to hail the positive aspects of the relationship, as trade and investment between the two are booming, generally to the benefit of both. The task for both sides now is to build upon these successes, as the visit of Wen Jiabao stressed, at the level of both the EU and its member nations. ■

EU 15 trade with China in 2003

			Change		Balance
	Import	Export	Import	Export	
			year on year %		
Austria	1570,7	894,3	35%	-24%	-676,4
Belgium	5442,9	2209,6	20%	18%	-3233,3
Denmark	1816,3	628,9	23%	16%	-1187,4
Finland	1134,6	1293,7	19%	7%	159,1
France	9585,1	4684,1	12%	26%	-4901,0
Germany	22443,5	18200,8	18%	26%	-4242,8
Greece	1215,9	53,4	19%	-11%	-1162,4
Ireland	1099,5	583,2	45%	6%	-516,3
Italy	9547,0	3852,6	15%	-4%	-5694,4
Luxembourg	1548,9	127,0	1982%	116%	-1421,9
Netherlands	14579,2	1673,5	23%	7%	-12905,8
Portugal	371,4	149,8	8%	86%	-221,6
Spain	5627,4	1089,2	18%	39%	-4538,3
Sweden	2211,0	1920,7	24%	28%	-290,3
UK	17280,3	2785,8	3%	18%	-14494,5
EU15	95473,8	40146,5	17%	18%	-55327,2

Source: Eurostat. Unit: EUR m

Asylum, Immigration, Justice and Home Affairs

ARGO Programme

The European Commission adopted, on 19th May 2004, a proposal for a Council Decision amending Decision EC/463/2002 adopting an action programme for administrative co-operation in the fields of external borders, visas, asylum and immigration (ARGO Programme). The background to this proposal can be found in the results of the Seville European Council of June 2002 where the Commission was asked to develop a plan for the burden sharing of costs related to the administrative co-operation between national governments in the management of the EU's external borders. In light of the reluctance of national authorities to co-ordinate with either other EU countries or third countries, the Commission proposes revising the ARGO Programme to take effect until the end of the current EU Financial Perspective, which ends in December 2006. In the new Financial Perspective, which will last from 2007 until 2013, the issue of burden sharing will have to be re-examined.

In this proposal for a Council Decision, the Commission seems to admit that the plan of having national authorities co-ordinate among themselves, has not succeeded. The proposal therefore seeks to establish a mechanism to provide financial support, between 2004-2006, to national immigration authorities for national-level projects concerning the management of external EU borders. This measure is somewhat delayed in spite of the fact that the Council allocated a substantial increase to this budget line for 2004, back in December 2003. This political signal to the Commission is not matched by a willingness of national authorities to develop joint projects, examples of which include, joint shore-patrol operations, workshops for officials, developing guidelines for border guards and standardising controls at airports in the Schengen zone.

The first Annual Report on the implementation of ARGO was published in February 2004. This report, prepared by the European Commission, identified a number of failings in the system, namely, poor publicity for the Programme and poor take-up of EU funds by the national authorities. The proposal for a Council Decision is an attempt to deal with some of the problems highlighted in the Annual Report, although as an interim measure. The budget for 2003 of €8m was divided up between €6.55m for Member States and €0.65m for the Commission with the remainder in a reserve for urgent actions. The proposal will be debated in the European Parliament, before becoming law, under the Consultation procedure.

European Refugee Fund

The Justice and Home Affairs Council, on 8th June 2004, reached "political agreement" to adopt a Council Decision establishing the European Refugee Fund for the period 2005 to 2010. Political agreement is one step short of formal adoption and is common in Justice and Home Affairs issues, where some Member States must refer to their national parliaments. The European Refugee Fund (ERF) for 2005-2010 will be the successor to the ERF that was launched in January 2000 with a budget of €216m and that will finish in December 2004. The ERF seeks to promote a balance between Member States in receiving and providing for refugees and displaced persons. Through the Fund, those Member States most affected by the reception of refugees would be eligible for EU financial assistance for measures related to the hosting of the refugees, their possible integration into the Member State or their repatriation to the country of origin. One of the European Parliament's concerns included the demand that the ERF would not be used to support the forced return of failed asylum seekers. The new ERF will be launched in January 2005 in two three-year programming cycles covering 2005-2007 and 2008-2010. The ERF will have a budget until December 2006 of €114m, bringing the operation of the Fund into line with the EU's Financial Perspective. The budget for ERF 2005-2010 has been increased substantially mostly, it seems, to take account of the enlargement of the EU on 1st May 2004. A European Commission study from February 2004 suggests that applications for asylum have fallen over the lifetime of the first ERF. The second ERF provides a greater share of the budget for cross-border operations, up from 5% to 7%, that promote exchange of best practice, measures on the implementation of EU law and awareness-raising campaigns on EU asylum policy. The ERF can also be used to provide emergency assistance to any Member State that suffers a sudden "mass influx" of displaced persons.

Common European Asylum System

On 15th July, the European Commission adopted a Communication to the Council and European Parliament on a more efficient common European asylum system: the single procedure as the next step. According to the terms of the Amsterdam Treaty, when the EU has adopted the Council Directive on "minimum standards for the qualification and status of third country nationals and stateless persons as refugees or as persons who otherwise need international protection" and the Council Directive on "minimum standards on procedures in Member States for granting and withdrawing refugee status", the first stage of a Common European Asylum System will be in place. The purpose of the new Communication is to assess the impact of these two Directives and to suggest what might constitute the "second stage" in the



EU system. The Commission is proposing that the EU Member States should move towards a single procedure for granting asylum status in order to speed up the process by which economic migrants can be processed, rather than have them apply for protection status in order to get around immigration restrictions.

In light of a study produced in January 2003, the Commission believes there is a potential gap in EU legislation for those who might qualify for subsidiary protection versus those requesting asylum status. With the two Directives mentioned above and the wide variety of national legislation on the issue, the Commission proposes moving towards a single procedure in two phases. The first phase would see the Commission consult with Member States on possible measures to unify the procedures which lead to the two types of status, as defined in the Directive on the qualification and status of third country nationals and stateless persons, that of refugee or international protection. According to the Communication, the Commission intends commencing consultations with the Member States in January 2005 with the launch of a paper for a "One stop shop Action Plan". Member States will submit their proposals to the Committee on Immigration and Asylum, which will provide the background for the Commission to draw up a legislative proposal.

The second phase would see the introduction of EU legislation to harmonise the procedures between asylum applicants and those seeking subsidiary protection. In an area such as Justice and Home Affairs, the introduction of proposals for legislation would be viewed as extremely sensitive by the Member States. However, if the Commission can propose a series of rules that would prevent the secondary movement of asylum seekers, once they are within the territory of one Member State, solely to try and benefit from better reception conditions, then the national governments could well be very supportive.

Trade

EU-China customs co-operation

The European Commission adopted a proposal for a Council Decision on an agreement between the government of the People's Republic of China and the European Community on co-operation and mutual assistance in customs matters. The draft Council Decision follows a meeting in Beijing in February 2004 that agreed on a basic text. The objective of the Agreement will be to regulate the operation of customs legislation that targets infringements of intellectual property rights, promote accurate valuations of customs duties and ensure improved tariff classification and statement of origin. Under the terms of the Agreement, China and the EU will be able to exchange personnel, develop joint training and share

administrative data on customs laws and procedures. In particular, this should help with establishing the authenticity of official documents and the customs procedure applied to particular batches of goods. The Agreement would establish a Joint Customs Co-operation Committee to regulate the sharing of information, which is deemed to be confidential and restricted unless declared otherwise. The Committee would report to the Joint Commission established by the EU-China Agreement of Economic Co-operation. Similar customs agreements are intended for India, which is expected to be adopted by the EU Council of Ministers in Autumn 2004, and for Japan, although negotiations are still at a technical level.

RBM Imports from Vietnam

The European Commission adopted a proposal for a Council Regulation, on 1st June 2004, extending the definitive anti-dumping measures imposed by Council Regulation EC/119/97, as last amended by Regulation EC/2100/00, on imports of certain ring binder mechanisms (RBM) originating in the People's Republic of China to imports of the same product consigned from the Socialist Republic of Vietnam. As a result of the EU imposing anti-dumping duties on imports of RBM from China, exports of RBM from Vietnam to the EU increased substantially. These exports were found to be related to the producer in China.

In 1997, following an investigation, the EU imposed anti-dumping duties between 32.5% to 39.4% on exports from China to the EU of certain RBM. These duties were subsequently increased during 2000 to between 51.2% to 78.8%. In August 2003, two EU manufacturers alleged that Chinese producers were circumventing the anti-dumping duties by shipping the RBM through Vietnam and that the Vietnamese prices to the EU also constituted dumping. An investigation of trading practices between the EU and China/Vietnam for the period July 2002 to June 2003 showed a substantial drop in exports from China and an increase in exports from Vietnam of zero tonnes in 2001 to over 1100 tonnes by 2002. The investigation also established that machinery and equipment had been imported from plants in China accompanied by half completed RBM parts. Thus, the Commission proposes extending the same anti-dumping duties as imposed on Chinese goods to Vietnamese goods.

Political and Institutional Relations

EU-Iran Human Rights Dialogue

On 14th-15th June 2004, an EU delegation went to Tehran for a meeting of the EU-Iran Human Rights Dialogue. This is the fourth such meeting since the European Commission adopted its Communication on relations with Iran in February 2001. The meetings



started in December 2002 and the Dialogue is not known for any obvious success. A statement issued at the end of the meeting by the Irish Presidency of the Council declared that an improvement in the human rights situation in Iran is “indispensable for the development of wider and eventually closer relations”. The Dialogue opened the possibility of the EU sending human rights experts and members of the judiciary to Tehran later this year to help Iran address questions related to United Nations human rights conventions. The Presidency statement also suggested that the European Commission would begin an evaluation of the value of the human rights dialogue process.

The Dialogue was followed several days later by the European Council meeting on 17th-18th June, which adopted Conclusions on Iran, albeit primarily referring to Tehran’s nuclear programme. The Conclusions state under what conditions the EU is prepared to move towards a “closer relationship” with Iran. These include the demand that Tehran addresses EU concerns on its nuclear programme, the fight against terrorism, human rights and Iran’s role in the Middle East Peace Process. Except for the nuclear issue, the Conclusions do not spell out what conditions Iran must meet or undertake. The Conclusions do not refer to trade matters, although the EU has opened discussions with Iran about signing a Trade and Co-operation Agreement, although such talks are currently stalled. Commissioner for External Affairs, Chris Patten, has said that the issues of politics, nuclear, trade and human rights are “umbilically linked”. He told the European Parliament in February of this year that “we cannot simply ignore problems in one area and think that we can move forward rapidly in all the others”.

The question of Iran-EU relations is receiving a higher profile in the European Parliament. In July, Parliament decided to establish a new “Delegation for relations with Iran”. Although under the chairmanship of a German Green, Angelika Beer, the Delegation itself is dominated by Christian Democrats. In a Resolution adopted in February 2004, Parliament called for greater participation by Iran in the human rights dialogue with the EU. Parliament suggested that representatives of the Iranian judiciary and the Guardian Council should be involved. On the EU side, members of Parliament should have a role. Parliament also criticised the “limited scope of the dialogue” and the lack of obvious results. In the first week of May, Commission President, Romano Prodi, Commissioner Chris Patten and the High Representative for CFSP, Javier Solana, all had meetings in Tehran with Iran’s Foreign Minister Dr Kamal Kharrazi, a privilege not extended to the human rights delegation.

EU-Japan Summit

The European Union held its thirteenth Summit with Japan on 22nd June, in Tokyo. According to the

Conclusions adopted at the 12th Summit from May 2003, Japan and the EU share a “strategic partnership”. This concept was underlined in Javier Solana’s EU Security Strategy “A secure Europe in a better world” which identified Japan, China and India as strategic partners for the EU. The Conclusions adopted in Tokyo in June 2004 do not refer to the EU Security Strategy but the extensive Joint Press Statement highlights many of the common interests the EU and Japan share including multi-lateralism, support for UN reform, the fight against terrorism and the proliferation of weapons of mass destruction. The European Council of EU heads of State and government met in Brussels several days before the Summit and reiterated the EU’s view of Japan as a strategic partner but did not elaborate on any details.

The Joint Press Statement issued in Tokyo on 22nd June addressed three main themes. First, on peace and stability in the international community, reference was made to the situation in North Korea and the ongoing nuclear weapons crisis. Japan supports efforts leading to a nuclear free North Korea through the six-party talks, a process which does not include the EU. On Afghanistan, the Statement confirmed EU and Japanese support for the Afghan Transitional Authority, the reconstruction and rehabilitation of the country and the requirement to hold elections. By July, the United Nations calculated that nearly 4 out of 5 eligible Afghan voters had registered, representing some 8m people, including an estimated 40% of women. The Presidential election is due to take place on 9th October.

The second theme looked at prosperity in the world economy, noting the significant trading links between the two partners. The Statement referred to the Doha Development Agenda, regulatory reform dialogue, progress towards concluding an agreement on customs co-operation, promoting enforcement of intellectual property rights in Asia and the need for progress with the Johannesburg Plan of Implementation that was agreed at the World Summit on Sustainable Development.

The third theme made two proposals for strengthening EU-Japan ties. Next year has been designated the Japan-EU year of People-to-People exchanges, as part of an effort to bring together the two peoples and cultures. The second proposal saw the opening of the first EU Institute in Japan, with the objective of developing a centre of academic excellence in Japanese universities, with an EU budget contribution of €1m over three years. The Summit also adopted four papers on a Japan-EU Joint Declaration on Disarmament and Non-proliferation, a Co-operation Framework for Promotion of Japan-EU Two-Way Investment, a Japan-EU Joint Initiative for the Enforcement of Intellectual Property Rights in Asia and, lastly, a Joint



Statement on Co-operation on Information and Communication Technology.

Hong Kong Annual Report

On 28th June 2004, the European Commission adopted its sixth Annual Report, covering the year 2003, on the Hong Kong Special Administrative Region (SAR). The Commission began publishing these reports after the hand-over of the SAR to China in 1997 following the Communication on “The EU and Hong Kong: beyond 1997”. The report is meant to provide an overview of events in a given year monitoring political, economic and social developments under the one-country two-systems formula operated by China. The report does not offer recommendations for future EU action.

The Annual Report identifies three main developments in Hong Kong in 2003 including health, political relations and trade. On the political front, some of the main developments in 2003 included the draft national security legislation and district elections. Under the terms of Article 23 of Hong Kong’s Basic Law, in February 2003 the government published a draft bill on national security taking account of criticisms aired by the general public and internationally. The main issues in the bill related to possession of seditious publications, unauthorised access to protected information and links between SAR and mainland organisation that may be proscribed in China. Developments in the SAR legislature provoked the large public demonstration when, on 1st July 2003, some 500,000 people marched in the streets. This eventually led to the resignation of the Secretary of Security, Regina Ip. In September, the SAR Chief Executive withdrew the draft bill.

In November, Hong Kong held its district council elections to decide 326 seats in 18 districts. There was a record turnout of over 1m voters, although this represents only 44% of those eligible to vote. The Chief Executive appoints a further 102 seats. In proportion to the number of seats they contested and gained, it is suggested that the pro-democracy parties “won” the election. The outbreak of Severe Acute Respiratory Syndrome (SARS) in February affected Hong Kong both in health terms and trade performance. The report suggests that the outbreak highlighted deficiencies in the health services but also showed how the authorities reacted to the epidemic by drawing up an agreement with Macao and Guangdong officials to improve communication. The SAR government also created a trust fund for SARS-affected families of HK\$155m. A Legislative Council committee investigating the response to the crisis is due to report sometime in Summer 2004. The Commission’s report is normally examined by the European Parliament Foreign Affairs Committee culminating in a non-legislative Resolution.

External Assistance

Multi-country Programmes in Asia

In May, the European Commission adopted a Strategy Paper and Indicative Programme for Multi-country programmes in Asia for 2005-2006. The Strategy Paper has no document number and is undated. It establishes three priorities for promoting EU co-operation with countries in Asia and over the two year timeframe has a total budget of €85-100m. The Commission explains the short timeframe in terms of ensuring that the multi-country programmes will end at the same time as current bilateral programmes, in 2006. Bilateral programmes are covered by individual Country Strategy Papers. The year 2006 also represents the end of the current financial perspective for the EU.

The three themes in the Strategy Paper cover multi-country programmes in, firstly, trade and investment, higher education and the environment, secondly, actions to support the Association of South-East Asian Nations (ASEAN) and, thirdly, actions with the South Asian Association for Regional Co-operation (SAARC). The most significant gap in this Strategy Paper is the absence of the Regional Indicative Programme for ASEAN, possibly due to the EU’s position on Burma. Since the failure of the military junta to abide by the results of the 1990 elections, Burma is excluded from EU development co-operation initiatives, including the Regulation on financial and technical assistance to developing countries in Asia-Latin America (ALA). In this Strategy Paper, the Commission identifies the Asia-Europe Meeting (ASEM) as eligible to secure funding, on a case by case basis. The question of Burma’s participation in ASEM is being addressed at the forthcoming ASEM Summit in Hanoi in October 2004.

The Commission is proposing extending the range and number of region-wide programmes in Asia for several reasons. As many of the less well off countries in Asia have benefited least from EU funding, the Commission hopes that a region-wide approach might assist aid beneficiary countries and foster regional integration. For ASEAN and SAARC, trans-boundary problems, such as trade, the environment and migration flows might best be addressed through multi-country approaches.

The Strategy Paper identifies closer economic integration between SAARC members, co-operation on trade issues including technical barriers and trade facilitation, phyto-sanitary standards, investment and monetary issues as measures which will be eligible to receive funding. Primarily, the SAARC programme will finance technical assistance, training, studies and communication in these areas. This element of the new Strategy will have a budget of between €2-5m over the two years. ■

John Quigley

Chinese workers under privatisation

by Haina Lu

The newly-amended Chinese Constitution protects private property as a basic right of its citizens and paved the way for China's further privatisation of State-owned enterprises (SOEs), which has accelerated since the 16th Chinese Communist Party's (CCP) National Congress. The privatisation of SOEs can be divided into two phases. The first, almost completed, is the privatisation of SOEs at the municipal and county level. The second phase, occurring at the provincial level, has just begun, but not without difficulties. Throughout this process, the most affected population remains workers in privatised SOEs. This article identifies the main problems regarding labour, which have appeared during the first stage of privatisation and examines their impact on Chinese society and its economy.

Problems with standards

Like many other issues in China, problems caused by privatisation can be largely attributed to the lack of rule of law. Standards to deal with labour issues are inadequate, incoherent, excessively complicated and lack transparency. The three key issues concerning workers in a privatised SOE are employment settlement, financial compensation and social security. What a worker finally receives can be of great uncertainty and depends on many factors: the type of enterprise and its economic situation, the local economy, local policies, the worker's own situation and, not un-importantly, his luck.

First, although the Chinese Labour Law has been in force since 1995, this law is vague in many respects and cannot solve all of the problems which have appeared with privatisation. Labour issues in privatisation are thus regulated by policies rather than by law. Equally, the 1986 Bankruptcy Law does not cover collective enterprises and thus leaves an important element in company privatisation outside of the judicial process. In addition, the policies are often immature, not proactive and lack integrity. When a new policy is issued to deal with one situation, other problems occur and require new policies. As a result, official documents are issued one after another to continuously regulate emerging situations, but they still often lag behind the practical needs and cannot effectively solve problems. Moreover, too many policies issued at different times and from different levels of government generate the problem of duplication and inconsistency between them.

Second, given the wide regional disparity in terms of the level of development and employment situation, central government policies provide general rules rather than detailed instructions. National policies are therefore supplemented by local regulations - especially where financial aspects are concerned - such as standards for compensation. As a consequence, local authorities enjoy wide discretionary power in policy-making and standard-setting. This has both advantages and disadvantages. On the one hand, it leaves flexibility to local authorities and officials to handle the situation, on the other, it strengthens the shift of power from central to local authorities. This decentralisation means that the central government has less ability to control corruption and local protectionism.

Third, such standards, targeted at the various situations of enterprises and workers, and woven of national and local regulations and policies, are extremely complicated and not always clear and coherent. Even a professional often experiences difficulty when trying to apply the policy properly. Moreover, workers are often not adequately aware of these policies. Many lawsuits arising from privatisation concern issues such as the method used to calculate financial compensation and the terms of new labour contracts. Some cases show that both enterprises and workers are confused about which policy should be applied. Other cases show that companies take advantage of deficiencies in policy or workers lack of sound knowledge of policies, to offer workers fewer benefits than they are entitled to.

Due process, inequality and corruption

According to the relevant law and policies issued by the central government, the privatisation of an SOE should be approved by the State Council and go through a series of legal procedures. The detailed plan of privatisation must be adopted by the conference of workers or workers' representatives and trade unions should be consulted. However, the required due process often turns out to be simply a "rubber stamp," or is even just ignored altogether.

The situation differs according to the type of enterprise. In industrial enterprises where the majority of workers are "permanent," due process can be formally respected in most cases. However, among the four major players: government (more importantly, local authorities), enterprises, banks and workers - each of whom have their own concerns in privatisation - the workers are the weakest and do not have much bargaining power. Without independent trade unions and a well-functioning legal system, it is questionable to what extent the workers' conference can protect their interests. In commercial enterprises where more workers are on temporary contracts, privatisation is often processed more abruptly and due process respected less.

Encouraged by government policies, many enterprises are sold to their former managers, who are often officials and members of the Chinese Communist Party (CCP). Such people can easily get loans from banks. When they cannot afford their shares, the policy allows them to obtain the shares first, pay for them by the profits made afterwards. In this way, these former members of the worker class turn into “new capitalists” overnight. Apart from this unequal treatment of normal workers and managers at the policy level, privatisation also involves rampant corruption and other illegal practices. A number of lawsuits have been filed concerning huge losses of State assets and corruption of local officials. These losses and corruption also explain a large number of workers’ protests around the country.

Plight of laid-off workers

Problems during privatisation are only the start of the plight of laid-off workers. In the increasingly-liberalised economy of a post-WTO China, more serious challenges await them including long-term unemployment and deteriorating living conditions.

Although optimists believe that WTO accession will bring China more employment opportunities in the long-run, more serious structural unemployment is an undeniable reality in the short- and mid-term. Many laid-off workers from SOEs are poorly educated, middle-aged and low-skilled labourers. Newly created jobs, however, require either highly educated and skilled workers, such as those with an MBA degree, or cheaper, younger labourers from rural areas, who can work hard on assembly lines.

The newly-issued State Council regulation eliminated the long-lasting restriction on the movement of rural labour. This is good news for rural labour and an important step toward eliminating institutional discrimination on the grounds of *hukou* (household registration). It also means, however, that laid-off urban workers from SOEs now have to compete with the enormous amount of redundant rural labourers on an equal footing. Jobs in non-state sectors often come with much-less-favourable working conditions, are badly-paid and have poor job security. Without effective legal protection for labour rights, many private employers do not pay social security contributions and do not sign labour contracts with workers or use only short-term contracts.

The government has issued a series of policies aimed at helping workers from SOEs become re-employed. For instance, some employment service institutions provide laid-off workers with job information and training and laid-off workers may get a small loan to start a business. These policies, however, cover only a small number of workers and have not proved to be very effective, as evidenced by the low re-employment rate.

Pervasive employment discrimination further worsens the prospect of laid-off workers in becoming re-employed. Due to a huge redundant labour pool and lack of effective judicial protection against discrimination, the Chinese labour market is highly selective and discriminatory. It is common to see, for example, job advertisements - including that of government - openly claim to be recruiting only male persons under the age of 35 years. Several lawsuits have arisen to challenge such discrimination and ask for the protection of the constitutional rights. Little progress, however, has been made so far.

The social security system, the last resort of laid-off workers, is still developing and is far from adequate in providing the unemployed with security. After registering as “unemployed”, workers can get a living allowance for up to 24 months, according to their years employed. Social security funds receive contributions from three parties: the government, employers and the workers. Unemployed workers have to pay not only their own part but the employer’s part also. After paying social security contributions, such as those for pensions and medical care - which occupy a significant amount of the allowance - unemployed workers have only very little left over for living expenses.

More seriously, the current plight of laid-off workers can affect future generations. Due to the privatisation of the educational system, school has become a significant financial burden for Chinese families. Many children from families of laid-off workers must give up their opportunity to receive higher education and are forced to enter the labour market.

Laid-off workers and their families, who occupy a large part of the Chinese population, are being further marginalised and can suffer from psychological frustration and financial insecurity. This is a significant threat to social stability, which is considered by the government as the most important condition for economic development.

The second phase of privatisation has begun, which is targeted at large SOEs at the provincial level. If previous trends continue, more workers will lose their jobs and more managers will become “new capitalists.” Irrespective, many of the above-mentioned problems are likely to remain and will have an increasingly significant impact on the Chinese economy and society. These problems and the procedures for dealing with them will continue to pose a serious challenge for the Chinese government. ■

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Bay of Bengal group holds inaugural summit

by John Quigley

In July 2004, heads of government from seven South Asian and South-East Asian countries gathered in Bangkok, Thailand for the first-ever Summit of the regional group located around the Bay of Bengal. The group, which was established in December 1997, under the name Bangladesh-India-Myanmar-Sri Lanka-Thailand: Economic Co-operation (BIMST-EC), has evolved slowly from meetings of senior officials and government ministers, towards a fully-fledged trade group linking two diverse parts of Asia. The regional group has the potential to promote a significant increase in trade between its members, not least because of the extremely low levels of intra-trade volumes the Bay region currently enjoys.

The Summit meeting represents a significant success for the trade group, coming seven years after its founding, amid concern that the initiative was being derailed through lack of political will. Following a ministerial meeting in Phuket, Thailand, in February, the BIMST group witnessed its second enlargement, to include both Nepal and Bhutan. Although neither country has access to the Bay of Bengal, Nepal, in particular, has long sought to upgrade its observer status to full membership in light of the delays in building a credible trading arrangement through the South Asian Association for Regional Co-operation.

Marking the biggest success of BIMST to date, the inaugural Summit adopted a Framework Agreement on the creation of a free trade area, to be known as the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Co-operation, to take account of the two new members. Under the terms of the Agreement, the seven governments pledged to promote economic, trade and investment co-operation by liberalising the trade in goods and services in the region and assisting the integration of the least developed economies of the group. In the negotiations that are due to follow the Summit, talks will aim at progressively eliminating most tariffs and non-tariff barriers. This will be on the basis of tariff reductions or elimination by either a fast track between July 2006 and June 2009, or June 2011 in the case of Bhutan, Burma and Nepal. Or, a normal track would see this extended until between 2012 and 2017. Products not subject to tariff reduction will be recorded in a Negative List.

Shortly after the group was founded, the then five members settled upon six areas of co-operation, including trade and investment, technology, information and communication, tourism, energy and

fisheries. However, over the years, not a lot of progress has been made in implementing action plans in these areas. Each sector is the responsibility of one country but without a central administrative service to help co-ordinate co-operation, not a lot was achieved. The July Summit has agreed to explore expanding the range of issues BIMST covers, without conducting an evaluation either of progress to date on existing sectors or the available resources to assist governments. The BIMST-EC Centre established following the decision of the February Ministerial meeting in Phuket, at the insistence of Thailand, will only have funding for two years and will not be initially called a Secretariat. Similar to ASEAN, the group has agreed to take decisions by consensus.

To date, there has been no official response from the EU to the Summit Declaration. In fact, BIMST-EC may well pose a particular problem for the EU over the membership of Burma. Just as ASEAN has refused to interfere too much in Burma's internal affairs, the EU would not tolerate high-level political contact until the ruling military junta begins to involve the National League for Democracy in government. If the problem of Burma could be overcome, the EU could assist the new BIMST-EC Centre in Thailand, with training and secondment of experts to ensure that it becomes a permanent secretariat. Otherwise, the EU already runs development co-operation initiatives with SAARC and ASEAN bar Burma. Something similar could be envisaged for BIMST. One of the issues the EU is concerned about in the region is the flow of drugs from Burma. A report prepared by the UK Foreign And Commonwealth Office, in June 2004, for the EU Council of Ministers Working Group on Drugs, stated that heroin from Burma could be making its way to Europe through Bangladesh. Unfortunately, the list of priorities identified in the BIMST Summit Declaration do not include proposals for measures against drugs production or trafficking.

What success the group has enjoyed to date owes much to the 'Look West' policy of Thailand and the 'Look East' policy of India. The July Summit set out an ambitious programme of action and a long list of priorities, culminating in the launch of the free trade area sometime, in 2006. By attempting to make progress in so many areas so quickly, within the six sectors of co-operation set out in 1997, the group may have planted the seeds of its own downfall. Equally, many of the members of BIMST face domestic political problems such as, Islamic terrorism in Bangladesh, international trade sanctions against Burma and the Maoist rebellion in Nepal which can provide plenty of distraction from making a success of the initiative. The potential for developing intra-regional trade certainly exists but it is not clear that the political will exists at government level to take advantage of the opportunity. ■

Islam and democracy: Indonesia's 2004 elections

by John Quigley

On 6th May 2004, the European Institute for Asian Studies, in association with the Embassy of the Republic of Indonesia, held a meeting on "Islam and Democracy: Indonesia's 2004 elections and beyond". Dr Salim Said of the Graduate School of the Department of Social and Political Science, University of Indonesia, spoke on Islam and the democratisation of Indonesia. In 2001, he said, the State Islamic University conducted a survey on the issue of *Sharia* Law. An estimated 58% of people surveyed favoured the introduction of *Sharia Law* and, in a repeat survey in 2002, some 71% of people suggested they would welcome its introduction. However, if these results were compared to the results of the voting in the three generally free elections that have taken place in Indonesia, in 1955, 1999 and 2004 votes for parties advocating the introduction of *Sharia* fell from, 43%, 37% to 17% respectively.

The question of the role of Islam in the State has undergone a long journey, Dr Said suggested. The debate which began in the early days following independence, between a secular or Islamic Indonesia, was never completely finished. Under General Soeharto, no particular ideology was allowed as he favoured a secular State. The absence of an avowedly Muslim society forced Islamic intellectuals to study how the secular State could be overturned. However, the intellectuals could find no basis for this in the Koran, forcing young Muslims towards participating in elections, but with the proviso that they would only vote for Islamic political parties. Thus, some 80% of members of President Megawati's party say they are devout Muslims.

With over 87% of the population of Indonesia being Muslim, the largest such population worldwide, the State, Dr Said indicated, did not want to antagonise followers of Islam. Indeed, General Soeharto built numerous Mosques in order to placate the population. However, despite the decrease in political support from 1995 to 1999, an assumption can not be made that the State is less Islamic. The evolution in the thinking of intellectuals suggests that they believe that the demand for an Islamic State is not the only way an ordinary Muslim can express himself.

In contrast, radical Muslims, who make up a small proportion of the total, have a long history in Indonesia and continue to demand the introduction of *Sharia* as the basis for the State. In their interpretation of Islamic theology, *Sharia* can offer guidance for every aspect of

daily life. They point to the large Muslim population in Indonesia and demand that the majority will should rule. Radical Muslims like to suggest that the secular State has not brought about social, political or economic progress for Muslims and that, therefore, *Sharia* should be introduced. However, even among devout Indonesian Muslims, there is little support for the introduction of capital punishment, according to the terms of *Sharia Law*. According to Indonesia's regional autonomy, there are different interpretations of the requirements of *Sharia*, in terms of the rituals versus the penal code.

From amongst the ranks of the radical Muslims, come the terrorists, who constitute an even smaller proportion of the total, Dr Said noted. Historically, the terrorists were only active inside Indonesia. The crises in Afghanistan, from the time of the Soviet invasion onwards, proved to be an Open University-like education for them. Where previously, Muslim terrorists were kept apart by distance and language, Afghanistan proved to be a training ground blending all nationalities. Once the Soviets left, the terrorists were free to return home and establish the local branches that we see today including, for example, *Jemaah Islamiyah*, but the international links were maintained.

Questions and Answers

Responding to questions, Dr Said noted that the Indonesian Constitution does not make any formal mention of Islam and does not favour one religion over another. While Islamic courts do exist, normally dealing with marriage or civil matters, they are balanced by the provision of secular courts. He would not class the Prosperous Justice Party (PKS), led by Hidayat Nur Wahid, as pro-*Sharia*, remarking they do not seem to be fighting for its introduction. Certainly, in Jakarta, the PKS is not seen as dangerous. It has been suggested that people are voting for the PKS because they are tired of the corruption and PKS has never been in government, so they are believed to be 'clean'.

While a majority of people, Dr Said agreed, might favour the introduction of *Sharia Law*, they see this as the requirement for being a good Muslim, but do not favour the introduction of its harsher demands. Certainly, a terrorist group such as *Jemaah Islamiyah* would like to see the introduction of *Sharia* as one step towards a regional Islamic State, but this is just fantasy. No political party will find it easy to turn Indonesia into an Islamic State. After all, the PKS will, in turn, have to maintain the trust of the people.

Even though Indonesia is the largest Muslim country in the world, its scholars do not contribute anything to Islam's intellectual discourse. This is partly due to the lack of English speakers. ■



Indonesia's 2004 general election and beyond

by Dr François Raillon

According to the final results of the Indonesian election, the Golkar Party, the former electoral machine of General Soeharto, won the election (with the same percentage as in the 1999 general election when it came second). It was followed by Indonesian Democratic Party of Struggle (PDI-P) which lost almost half of its voters and by the National Awakening Party (PKB), with the United Development party (PPP) coming in fourth place. Then the surprise comes from two newcomers: in fifth place was General Susilo's Democratic Party (PD), which did not exist in 1999, while in sixth place came the Prosperous Justice Party (PKS), which in 1999 was a small party with less than 2% of the vote.

on poverty. By placing Golkar back at the first place, voters conveyed a sense of nostalgia for the Soeharto years, which are now perceived as stable and prosperous.

Despite Soeharto's cronyism, public opinion now wants to believe that corruption under the New Order was more limited in scope than under the current regime. And, above all, so goes the general feeling about that in the not so distant past, security was guaranteed. Megawati's aloofness has become a handicap for PDIP. She has not succeeded in convincing the public that her government and her party are different or any better than other political elites and parties.

Secondly, an assessment shows the distance between Jakarta and the rest of Indonesia. Middle class Jakarta believes both in General Susilo Bambang Yudhoyono of the Democratic Party and Hidayat Nur Wahid of the Prosperous Justice Party (PKS):

2004 Legislative Election: final results, 5th May 2004

Place	Party	Major figure	Votes	%	1999 %
1.	Golkar Party	General Wiranto	24.480.757	21.58	22.43
2.	Indonesian Democratic Party of Struggle (PDI-P)	Megawati Soekarnoputri	21.026.629	18.53	33.73
3.	National Awakening Party (PKB)	Abdurrahman Wahid	11.989.564	10.57	12.60

(source: Electoral Commission <http://tnp.kpu.go.id>)

Compared to the overall result, the situation was very different in the Jakarta constituency (DKI), where the Prosperous Justice Party (PKS) won the election (22%), followed in second place by General Susilo's Democratic Party (21%). This indicates a huge discrepancy with the rest of Indonesia. In Jakarta, the Golkar Party was only in fourth place.

the former is wishfully seen as a *ksatria piningit* or "hidden knight", while the latter is perceived as clean Islamic party. Both are unconventional political actors, the one being a democratic general preordained to save the nation, while the other is expected to generate an alternate Islamic government and society. While Jakarta voters gave more than 40% of their vote to these two political phenomena, the rest of the country reacted in a more traditional way, continuing to support conventional parties like Golkar, PDIP, PKB, amongst others.

This discrepancy reflects a fragmentation of the political elite. At the national level, no political party has received a clear mandate to govern the country. No one party commands an absolute majority. The top-most party, Golkar, has not even reached a quarter of the electorate.

The emergence of military candidates raises some questions regarding the sustainability of the current democratic transition. Indeed, retired generals dutifully dressed as civilian politicians have apparently subscribed to democratic politics via the election process. However, *Reformasi* supporters accuse the military of having "managed" the election in the regions through their powerful territorial commands.

An interpretation of the April election

Several aspects can be considered here. Firstly, this highlights a negative assessment for Megawati. The election returns reflect a negative assessment by voters of the *reformasi* period and of the Megawati government. It appears as a rejection based on extreme disappointment and unfulfilled expectations. Discontent may also have been fed by too naive anticipations: people believed Megawati Soekarnoputri would improve the lot of simple folk by waging a war

The third element to the assessment shows that, in general, political Islam made no progress, except for the spectacular gains of PKS. A comparison of the performance of Muslim and secular parties in 1999 and 2004 shows a relative stability, except for the take-off of the PKS. Even if the gains of PKS are included,



political Islam remains a minority on the Indonesian scene, with only some 20% of the total vote. Nationalist and secular (Pancasila-based) parties still garner more than two-thirds of the vote. It is interesting to note that despite *santrinisasi* or re-Islamisation, Islam in the largest Muslim country does not translate into a powerful political force. It has not even managed to recover the 43% of the total vote gained in the 1955 general election. It may be that violence exerted under the name of Islam by terrorists has not helped.

Its programme (a 50-odd page booklet) when it was still the Partai Keadilan (the Justice Party) in 1999 reveals a thinly veiled Islamist agenda. PKS is probably the only party to have a substantial political platform. Basically, it aims at placing the *Ulama*, the intellectuals and the “government apparatus” in a system of co-operating State institutions; it intends to make use of a “*syari*” or Council within the structure of the party itself; it plans to diminish the influence of “Western law” on the Indonesian legislation (p52); it wants to achieve Islamic solidarity and to re-establish the Caliphate (p19); and it regards *dakwah* (the propagation of faith) as all-important. The PKS programme also contains fierce criticism of rampant capitalism. It is pro-Masyumi, the former major Islamic party, banned by Soekarno in 1960. It regards itself as a *hizbullah*, a party of God. In many respects, including its style, it appears to have been inspired by the Egyptian Muslim brothers (*al-Ihwanul Muslimun*).

Towards the Presidential election

As the country faces its first-ever direct presidential election, uncertainties still hamper the workings of the new system. While the political elites have tried to preserve their monopoly on power, a direct election has never been tried before, and it may induce surprises caused by a volatile electorate. Still the political establishment has worked hard to secure its control of the presidential electoral process. Two major rules have been endorsed to regulate the future election. First, only parties or coalitions getting 3% of the seats in the House or 5% of the popular vote may field candidates (in pairs) in the Presidential election on 5th July. Secondly, the Presidential election is won by the pair of candidates that secures more than 50% of the vote with at least 20% of votes in more than half of the country's 32 provinces. If no one achieves such a qualified majority in the first round, then the best two tickets compete again in a second round that is scheduled to take place on 20th September.

In this context, politicians have had to build coalitions in order to face the Presidential race. Until mid-May 2004 when the registration of presidential candidates was ended, intense political horse-trading developed among party leaders. The general strategy for the major parties was to combine candidates bridging the basic

dichotomies in Indonesian politics: Civilian-Military, nationalist-Islamist and Java-outer islands.

Given the fragmentation of the voters and the number of candidates, 30% of the votes in the first round will probably be enough to guarantee participation in the second round. Consequently, if the larger parties (Golkar and PDIP) do not enter into any alliance with each other, they will require the support of a party able to bring some 10% of the total votes: this could be PKB or PPP.

Major candidates and allies

At the mid-May deadline, five pairs eventually emerged, including two military dominated ones. For the time being, the two retired generals, Susilo Bambang Yudhoyono and Wiranto, even appear to be the leading contenders for the Presidency. Megawati, by enrolling Hasyim Muzadi as her Presidential partner, is also counting on *Nahdatul Ulama* votes. But Wahid still refuses to renounce the Presidential race and, in any case, is not ready to support Megawati. Could Wahid, again, be the key in the future election? This leaves the following scenarios. Three Presidential tickets should be able to approach the 30% threshold necessary to stand a chance to run in the second round: Megawati's, Susilo's and Wiranto's.

The drift of a weak state

Jakarta and its political elite seem isolated from the rest of the country. State institutions (government and administration) weakened by the reformation process and the infighting of the oligarchs remain in a fragile condition. The national body politics is still disempowered by anarchic tendencies and seemingly unable to lead the country toward a sustainable recovery. Whoever wins the Presidential competition will face the heavy task of putting the house in order. However, no candidate has a clear and exhaustive programme of what should be done to improve Indonesia's lot; the only parameters that can be counted on are the personality and diverse administrative skills of each candidate.

The good news, however, is the healthy reaction of the Indonesian people that remain committed to major democratic gains such as free elections and decentralisation. The local brand of Islam remains moderate in its vast majority, with a preference for pluralism as shown by the scattering of the vote among numerous parties in the recent election. ■

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Privatisation and stock market development in China

by John Quigley

On 25th June 2004, Dr Stephen Green, Head of the Asia Programme, Royal Institute for International Affairs, London, addressed a lunch briefing of the European Institute for Asian Studies on the development of the stock market in China and the privatisation of formerly State-owned companies. Dr Green suggested that privatisation was proceeding on a wide scale and that the stock market had expanded its listings to encompass both State-owned and private companies.

According to figures for 2001, the Chinese banking sector far outstrips even an established market such as the United States, with bank assets of 160% of Gross Domestic Product (GDP) compared to 62% of GDP in the USA. In contrast, the level of stock market capitalisation in the US reached 158% of GDP compared to just 15% of GDP for China. In the case of China, this suggests that, in future, companies will probably continue to try to raise money through the stock market rather than approach banks, within a five year timeframe. Several analyses point to a dramatic and continued increase in the non-performing loan business of Chinese banks. Figures for 2002, which are tentative, suggest that 45% of bank portfolios are non-performing loans. Over the recent short term, this actually represents an improvement year-on-year but the forecast is for a deterioration in the figures.

The performance of the stock market, after doubling in value between 1999 and 2000, has stagnated, falling slightly from a value of RMB1609m in 2000 to RMB1318m in 2003. At these levels, the Chinese stock market is small compared to the United States, Russia, Poland or, indeed, other developing countries in proportion to GDP. On the upside, this leaves significant room for improvement in the capitalisation of the stock market from its current level. The market is currently characterised by the high number of former State-owned enterprises (SOEs) that choose to list, exceeding 90% of companies listed. For Chinese citizens, there are different classes of shareholdings than for foreigners or banks, for example. In a typical case, individual shareholders may invest in a shareholding firm with SOE productive assets. However, this company has a parent firm, which tends to engage in asset stripping and, nominally reports to local government authorities, which may be the ultimate shareholder.

Dr Green presented an example of a Shanghai company, formerly a State-owned enterprise "Shanghai Yongjiu", a bicycle manufacturer, which listed on the stock exchange but, subsequently, became loss making.

After new management was brought into the company and privatised the operation, the company was rescued and eventually restored to profit. One of the motivating factors for the buyer was the intangible asset of the former company's brand name, an asset that was not included in official valuation.

In 1995, the China Securities Regulatory Commission (CSRC) instituted a ban on foreign purchases of non-tradable shares. Since the ban was revoked in 2001, several such deals have taken place. The first such case concerned Newbridge and Shenzhen Development Bank (SDB). The US-based Newbridge equity firm agreed to buy 20% of the SDB in 2001 from the government for US\$150m, although the deal only went ahead in 2003. Although the number of purchases by Western companies is increasing, foreign investors face several problems in buying shares in China. The calculation of the price has proven controversial, with local government often worried about the possible loss of State-owned assets and public discontent. In buying into an SOE, foreign firms must also assume responsibility for old bank debts and the firm's workers.

In February 2004, the State Council issued a report on "Nine Articles" of the development of China's capital market. This, Dr Green suggested, signalled the commitment of China's senior leadership towards tackling the State-share issue. In April, the China Securities Regulatory Commission was reported to be advocating a sell-off scheme that would affect both tradable and non-tradable shareholders. By timing the liquidation of SOEs, the State can ensure that prices are driven down and that profitable firms can be sold first. In GDP terms, between 1993 and 2002, the value of SOEs decreased only slightly from 60% to 50%. The value of foreign owned companies rose from 10% to almost 30%, by 2002.

In March 2003, China established the State-owned Assets Supervision and Administration Commission (SASAC) attached to the State Council with the objective of improving the performance of some 190 large enterprise groups. The State seems to be concerned that too rapid a sell-off of State assets could lead to a situation similar to Russia where several oligarchs end up controlling vast swathes of the economy. It seems inevitable that SASAC will recommend the disposal of some SOEs that continue to under-perform and, with World Trade Organisation (WTO), China can no longer depend upon protected markets to support loss-making SOEs. In the early months of 2004, SASAC suggested that the development of China's property rights market would have to be regulated through Property Rights Transaction Centres. Some one hundred of these centres have been established with the task of selling local assets by listing State assets for sale within a specific timeframe. ■