

## The coming generation: Education and EU-Asia co-operation

by John Quigley

The Lisbon Strategy, adopted in March 2000 and revised in March 2005, includes a focus on education emphasising that, by 2010, European universities should be a reference standard for quality, at an international level. One element of that focus is trying to attract the “brightest international students” according to the EU Commissioner for Education, the Slovakian Ján Figel’. The Commissioner has also previously said that dialogue should be at the core of international relations but for this to work you would need a genuine understanding “of the other”.

Education and educational exchanges could play an important role in helping to deliver this objective. However, a study\* prepared for the European Commission shows that the EU is trailing far behind the USA and Australia when it comes to attracting foreign students into the EU and that, in particular, the EU has difficulty in attracting students from Asia. The EU response has been to establish a mechanism to help foreign students enter EU universities at tertiary level - Erasmus Mundus (EM). This mechanism was launched in July 2002 and became operational in January 2004. Later, beginning in the 2005/06 academic year, five “Asia Windows” were added, one each for China, India, Thailand and Malaysia and with a fifth Window grouping together another 15 countries, all with combined funding of €57.3m.

For the 2006/07 academic year, under the general EM scheme and the specific Asian windows (in brackets), applicants have been selected as follows: China 81 students (99 students), India 31(288), Thailand 14 (53), Malaysia 25 (32) and out of the fifth Window Afghanistan 1 (1), Bangladesh 11 (16), Bhutan 1 (1), Cambodia 2 (5), East Timor none, Indonesia 11 (10), Laos 2 (1), the Maldives none, Mongolia 1 (2), Nepal 9 (26), North Korea none, Pakistan 21 (42), the Philippines 9 (22), Sri Lanka 1 (7) and Vietnam 16 (29). Other Asian students have come from Uzbekistan 9, Tajikistan 1, Kyrgyzstan 3, Hong Kong 1, Japan 3, Taiwan 14, Singapore 7, South Korea 4 and Iran 14.

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There is also an Erasmus Mundus Scholars scheme which, for 2006/07, has attracted a further 43 students from Asian countries (out of a total of 231). Thus, the total indicative number of Asian students in the EU at tertiary level for the current academic year is approximately 969.

Additionally, the EU has another mechanism to help respond to the need to attract Asian students and scholars to the EU and *vice versa*. Operational since 2002, the Asia Link programme has the objective of promoting co-operation between European and certain Asian tertiary-level institutions by establishing joint projects relating to either staff/administrator/post-graduate skills training, the development of curricula or the sharing of experience in management. The 2006 Call for Proposals for co-operation closed in October and offers €12.6m in funding for those projects that will be successful. One current project links Swedish and Italian universities with a Chinese university to develop a curriculum for energy and the environment addressing the sustainable use of energy within the context of economic globalisation. The joint project has a budget of €0.55m running over 3 years.

To put the EU response in perspective it will be instructive to examine the pattern of Asian students' choices for third level education. In October, the UN Educational, Scientific and Cultural Organisation (UNESCO) published statistics, for the 2003/04 academic year, of the top five destinations of choice for third level students, on a worldwide basis (See the Annex on Page 31). The figures reveal a fascinating insight into tertiary-level students' behaviour on a regional and international level. It shows that approximately 169,000 Asian students choose to study in an EU country. In comparison, just two Asian countries, China and India, sent almost 168,000 students to the USA.

The figures provide a heart-stopping and sobering wake-up call to the EU's efforts to attract foreign students and should provide the rationale for a massive investment in and prolongation of the Erasmus Mundus Asia Windows and the wider Asia Link programme.

Among the 31 countries featured in the four tables, only seven EU Member States are represented. Excluding the Member States that feature only once (CYP, IT, and NL) or twice (PT) this leaves France, Germany and the United Kingdom as the major European players. Apparently, the success of the EU in attracting Asian students owes something to historical or colonial experience. Thus, the UK is very strong in South Asia, in Malaysia, Singapore and Hong Kong. France features only in South-East Asia in Cambodia, Laos and Vietnam. And Portugal attracts students from Macau and East Timor.

The other interesting observation is the differing levels of regional integration among students' choices. In South Asia, neither India, Pakistan, Bangladesh nor Afghanistan exchange students amongst the top five. In contrast, in Central Asia, exchange is very high, particularly in Turkmenistan and Uzbekistan. Also, the predominance of Russia shows the continued influence of the former imperial master. In South-East Asia, the destination choice does not seem to be affected significantly by religious considerations. Predominantly Muslim Indonesia only has one Muslim country in its top five - Malaysia. However, Malaysia, as the next most populous Muslim country in South-East Asia, does not send any students within ASEAN and, even then, to a Muslim country at all. And, perhaps, the EU can take heart from the fact that China did not feature as a destination of choice within the top five.

The gap for European countries in attracting Asian students must not be allowed to become wider. The utter dominance of the US and Australia across the tables must be a lesson for the EU. And, the significant numbers of students choosing to go to anywhere but Europe must call into question the value of Erasmus Mundus in their eyes. The numbers gap is all too apparent when EU and US levels of Gross Domestic Product (GDP) expenditure are compared. Thus, in 2002, EU countries spent 1.15% of combined GDP on higher education. In contrast, the USA spent 2.59%.

So, what can be done? Well, when all else fails, it might be useful to learn what the opposition are up to. In response to a perceived slowing in the choice of international students arriving in the US, the American Council on Education has sought the support of the US Assistant Secretary of State to lead a delegation of college and university presidents to travel worldwide to promote the USA. Their first stop will be Japan, South Korea and China this November. So far this year, Mr Figel' has been to the USA and Canada.

If the EU is waiting for a boost in numbers of Asian students arising from stiffer visa entry requirements to the USA after the attacks of 11<sup>th</sup> September 2001, the UNESCO figures do not bear this out. And, EU countries might do better than learn from Germany, which is represented across all of the four regions. The Lisbon Strategy targets 2010 as the goal for world-class universities in Europe. By failing to attract higher numbers of Asian students, the EU is cutting itself off from the next generation of political leaders, academics, business leaders, civil servants etc. The implications for understanding "the other" are profound. ■

\*Perceptions of European higher education in third countries, from the Academic Co-operation Association 2006

## Giving substance to EU-India relations

by Josep Borrell

It is thirteen years since a President of my Parliament visited India and much has changed, both here and in Europe. In today's interdependent world, there are many reasons why India and the European Union should act jointly on the international stage. Only a multipolar world will provide a balanced response to globalisation.

Yet, how many poles? Some say that there will be three by 2030: The USA, China and India. They forget the EU and ignore Latin America, Africa and the rest of Asia. They are wrong to do so. I believe, instead, that the EU and India can and must work together towards the establishment of this multipolar world. We share the same democratic values and we have more in common than we might imagine at first sight.

There are misunderstandings on both sides. For too long, our Euro-centric approach prevented us from giving enough attention to Asia and to India in particular. At the same time, I realised during my trip that many in India do not see the EU as a global actor.

We all know what separates the EU and India, in reality as well as in perceptions. However, we are not sufficiently aware of what we have in common and what we could be doing together. The European Parliament believes that we need to give our relations a new impetus by giving our Strategic Partnership, identified in December 2003 by the European Council, more substance. The Partnership should be a comprehensive one. This means that there should be no taboo issues in discussions. Decisions should be followed up with action.

First, every possible effort should be made to reach agreement on the Doha Round. This is an aim which we share. Parliament is calling on the G20:

*'to realise that the European offer on agriculture must be followed by a reasonable offer by the G20 on non-agricultural market access (NAMA) and services'.*

And, at the same time, we have to face the reality that the round may not be completed. The European Parliament also supported the proposal of the high level trade group to start negotiations for a bilateral free trade agreement. We must not let the best be the enemy of the good. If Doha fails, we must be prepared to strengthen our relationship anyway.

I do not wish to open up a philosophical discussion on the respective merits of multilateralism and

bilateralism. The two co-exist in today's world. What we need to do is to ensure that they are complementary. The EU, like India, believes that fair and representative multilateral institutions are the best guarantee of a successful world order. India is calling for a reordering of the top table of the international institutions. India can rely on our Parliament's support on this matter. We have called on the EU and India to work together to 'redress such imbalances' and ensure that 'voting shares' are readjusted.

In Parliament's resolution in September, we also raised some areas of difference. First, Parliament is calling on India to sign the Treaty on the Non-Proliferation of Nuclear Weapons. Parliament views this Treaty as the indispensable multilateral instrument for maintaining international security and stability. Signing it, would open the way to civil nuclear co-operation with Europe.

Secondly, on social standards, Parliament welcomes the fact that India has become a party to a number of international programmes to combat child labour. In the interests of the balance between open trade and social cohesion, Parliament also calls on India to ratify the International Labour Organisation (ILO) Conventions on Minimum Age and the Worst Forms of Child Labour. In our view, it is vital that the EU plays a leading role on social standards in international bodies. European companies established in third countries have to comply with ILO standards.

In other areas we need to develop the potential of a stronger relationship. For example, India's trade has doubled over the last decade but it still represents less than 1% of EU trade. While the EU invests more in India than Japan and the United States combined, it represents less than 1% of total FDI outflows from the EU. So the potential for growth of trade and investment is enormous.

This potential can only grow because India has the world's youngest population. In 2020, the average age in India will be 29, as against 45 in the EU and 37 in China. However we need to work together on how to exploit this potential in such a way that it does not damage the efforts, in India and in Europe, to promote social cohesion and to eradicate poverty.

Secondly, we can do more in the area of education and access to knowledge. In Kerala, I was impressed by the level of 'human development', similar to that of some European countries. Life expectancy is 73 years, the schooling rate is over 90%. Kerala is making a major contribution to India's becoming the world's leading producer of scientific publications. However, despite these results, companies are not investing enough in the area and the result is a brain drain of educated Keralans to other States in India and to other countries.



In today's world, if investment does not get to where the people are, the people will go to where the investment is. We need to work on this situation together. The European economy benefits from the migration to Europe of skilled people from India. But Europeans and Indians would both benefit more if the commercial investment in those same people took place here.

Finally, India and Europe can work together to promote international political stability. First, we must fight terrorism together because we are all victims. Most recently, on 11<sup>th</sup> July this year, India again suffered heavily from its madness and barbarism. Secondly, we must work to avoid the clash of civilisations that feeds so much of today's terrorist activity. We must fight terrorism in full respect of the rule of law and democracy. To abolish democratic principles in the name of anti-terrorist action is to play into the hands of the terrorists.

The EU and India are both countries that have thought deeply about where the balance should be struck between fighting terrorism and the defence of civil liberties. In Iraq and Guantanamo, the balance has moved so far away from defending civil liberties that the policies have strengthened the terrorist apparatus. This is not a personal view, or even just the view of my Parliament. It has also been expressed recently in the US' own 'National Intelligence Estimate'.

The EU and India must do everything within their power to change this balance. We must seek a balance between the rights to the defence and protection of individual freedoms, upholding public freedoms and fighting terrorism.

We can also fight terrorism by ensuring that the dialogue between cultures and religions remains open. India, perhaps more than any other country, has succeeded in taking up this challenge despite the attempts to destabilise it. Mahatma Gandhi put it well when he said:

*'I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all the lands to be blown about my house as freely as possible'.*

In 60 years of democracy, India has successfully preserved coexistence and pluralism among its many religions and cultures. She has drawn a wealth of benefits from it and, despite the violence of extremists of every hue, remains an example from which we can all learn. ■

Josep Borrell is President of the European Parliament. He sits with the Socialist Group representing Spain. Speaking in India, on 6<sup>th</sup> October, President Borrell presented an earlier version of this article.

## China's Exchange Rate: Lessons from Post-War Germany's Experience

by Dr Lorenzo Bini Smaghi\*

After years of strong growth and ballooning trade surpluses, foreign exchange reserves are piling up. The risk of overheating raises calls - both from within the country and from the rest of the world - for an appreciation of the exchange rate. Large capital inflows reduce the room for tightening domestic monetary conditions with a view to countering inflationary pressures: an interest rate increase would only increase capital inflows. The fixed exchange rate system does not allow monetary policy to be adequately tailored to domestic requirements and forces the country to "import" the monetary conditions of the "anchor" country, which are not necessarily optimal.

The policy debate focuses on how to respond to the economic boom and the consequent inflationary pressures. The desire to tighten monetary conditions in order to cool down the economy is counterbalanced by the fear of an excessive exchange rate appreciation that could undermine exports, an important source of economic growth. Academics are split between the two sides of the heated debate.

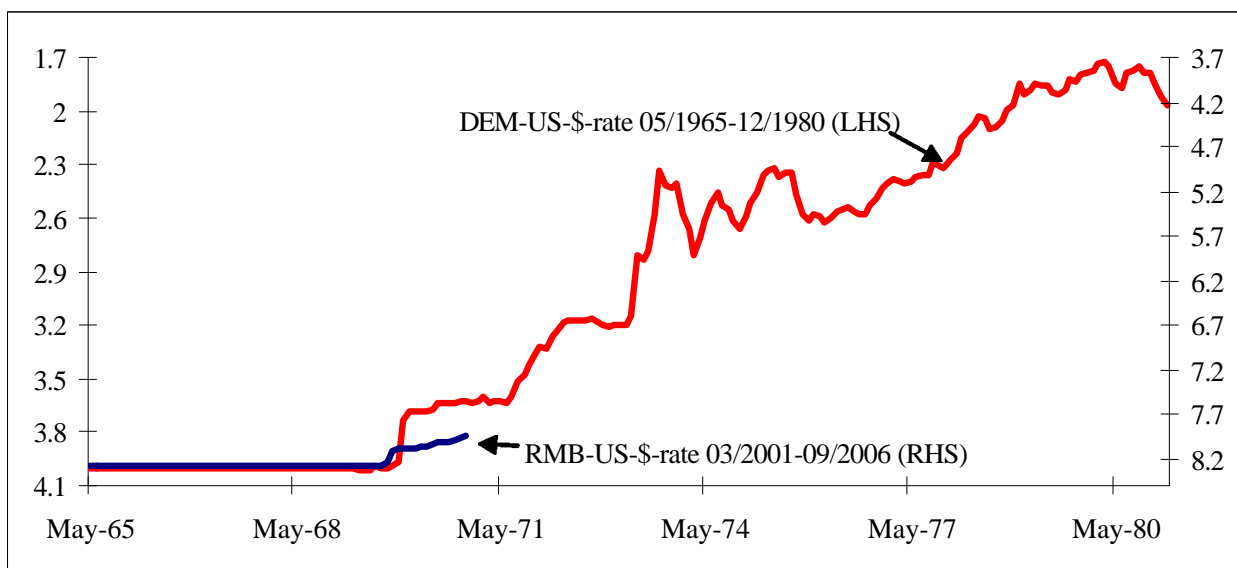
After long discussions, the decision is taken to slightly appreciate the currency. However, the measure serves only to gain time: after a short while the same problems arise again, with large capital inflows, huge reserve accumulation, overheating of the economy.

Which country are we looking at? It may sound like a fair description of the current Chinese economic situation. In fact, it is a recollection of Germany in the late 1960s and early 1970s.

The increasing inflationary pressures raised concern, in particular by the Bundesbank, about the prospects for maintaining monetary stability. Chancellor Kiesinger, who was keen to prevent an appreciation of the Deutsche Mark, was replaced by Willy Brandt in October 1969 following a general election. The new government immediately decided to appreciate the Deutsche Mark/US dollar exchange rate from 4.0 to 3.66, putting an end to the strong speculative currency inflows of around DM 24 billion in the previous year, which was a large amount compared with the Bundesbank's foreign exchange reserves of DM 30 billion at the time. It was the beginning of the end of the Bretton Woods system.



## The Deutsche Mark and the Chinese RMB: two tales of appreciation?



Note: Graph scaled such that percentage changes on both axes are comparable. Source: Thomson Data-stream.

The appreciation helped to reduce the current account surplus, but inflation began to accelerate in 1970, as it did in other economies, to a pace which was not acceptable in Germany. In the following years the world economy underwent periods of speculative attacks on the exchange rate parities, followed by periods of floating and the final collapse of the Bretton Woods system in March 1973. This collapse can to some degree be interpreted as a decision by the German authorities to give up exchange rate stability in return for domestic monetary stability. Indeed, it had become impossible to achieve the two objectives together, a dilemma often described as the impossible trinity.

In the following decades the Bundesbank successfully kept inflation under control and thereby supported ongoing economic growth while at the same time not inhibiting the performance of its export sector. Between 1974 and 1989 the average annual inflation rate among OECD countries exceeded that of Germany by 6.2 percentage points. The annual growth of the German exports-to-GDP ratio grew faster between 1974 and 1989 (2.6%) than between 1961 and 1973 (1.7%).

The Deutsche Mark became the central currency in Europe. A broad consensus emerged in the whole continent about the desirability of price stability as the central goal of monetary policy. This, in combination with the political integration of Europe, fostered the introduction of the euro. Then, joint monetary independence became crucial to economic policy within Europe in order to avoid a forced reintroduction of capital controls.

To what extent can the above developments be compared with current developments in China? There are many similarities. Chinese GDP growth has been very strong, averaging 9% since 1996, the current account surplus exceeded 7% of GDP last year, and foreign exchange reserves have reached USD 1 trillion. Inflation, averaging 1.6% between 1996 and 2005, does not seem currently to be a problem in China owing to rapidly increasing productivity and globally low inflation, an ample supply of labour and some administrative price controls.

However, it is extremely unlikely that this can continue; inflationary pressures will increase sooner or later. Risks to monetary stability may originate in non-performing loans and asset price bubbles, two urgent challenges at present. If it wants to open up its capital markets, China may then face the same trilemma as Germany. The monetary policy set by the Federal Reserve is not necessarily appropriate for China. Gaining greater independence for the People's Bank of China to implement monetary policy would improve the conditions for long-term growth.

As a result of its high and increasing degree of regional trade integration, Asia needs a common nominal anchor. The size and growth of the Chinese economy make the Renminbi one of the natural candidates. However, some important preconditions need to be met if other countries are to accept a central role for the People's Bank of China.

First, its monetary policy needs to be credibly geared towards price stability objectives, just as the Bundesbank contributed to price stability in Europe.

Second, a minimum political consensus on the desirability of monetary co-operation and, potentially, integration needs to prevail.

Hence, whether the Renminbi could take on a similar role to the Deutsche Mark in Europe depends on both domestic stability in China and the degree of political support for exchange rate stability in other Asian countries.

The forces that are changing the environment in which Chinese decision-makers conduct economic policy resemble to some extent those that the German policy-makers faced a few decades ago. The choice of the appropriate policy tools is of major importance for the prospects for long-term economic growth, and the positive example of Germany and its European trading (and political) partners may be informative and potentially a good model for the Chinese economic regime. Regional integration, together with a monetary policy that targets domestic and regional variables while keeping a floating exchange rate vis-à-vis the rest of the world, has served the European countries well and should serve China and its Asian trading partners in a similar manner.

To conclude, China's economic emergence, or rather "re-emergence", over the past two decades is in many ways unprecedented. This holds true not only for the speed at which this emergence is occurring, but also for the importance that China has come to play in the world. To understand the process, its causes and its consequences, it may be useful to look to history for similar developments in the past. In fact, as the re-emergence of many European economies, in particular that of Germany, after the Second World War followed a similar path, there may be interesting lessons to be drawn for China.

To be sure, one lesson that can be drawn from Germany's post-war economic success, which may have a bearing on China's economic policy looking ahead, is that currency flexibility is not an impediment to high export growth and is the best way to ensure monetary stability over time. ■

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## Indonesia-EU higher education co-operation

by Gunaryadi

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Based on particular standards, the international competitiveness of Indonesia's higher education is quite grim. From the 'Academic Ranking of World Universities 2005' prepared by the Shanghai-based Jiao Tong University, no Indonesian university is listed in the top 100. During 2000, *Asiaweek* placed Bandung Institute of Technology only in 21<sup>st</sup> place and the University of Indonesia in 61<sup>st</sup> place. And in a list drawn up by Webometric, the Bandung Institute only attained 49<sup>th</sup> place in Asia or 707<sup>th</sup> place worldwide.

It is rather unfair to expect that Indonesia's universities would score high internationally because it is developing and recovering from the economic, social and political morass. Without regard for the "unfairness" and the contentious methodology used in constructing the matrixes, those rankings at least inform us that the collective competitiveness of Indonesian universities is lagging behind. To survive in this globalised and competitive world of higher education networking and co-operation with international partners is inevitable. Indonesia's higher education institutions and research centres should develop a strategic partnership with the EU's higher education institutes and comparable counterparts.

Why should the supranational EU matters in tertiary level education? Avoiding the controversial category of the EU as an international "actor", it is a fact that it has been the world's largest and the most advanced regional bloc. The quality of higher education and research has been a crucial pillar that supports the sustainability of European economic competitiveness. According to a ranking made by *Newsweek* (2006), 27 EU universities were placed in the top 100 global universities.

Furthermore, in 2007, the EU will welcome two new Member States. This implies a growing opportunity for higher education partnerships. Meanwhile, European countries have also become an appealing choice for many Indonesian parents and students, and a more preferable destination for some students from other countries due to the more draconian immigration regime after 11<sup>th</sup> September 2001.

### ***Context & co-operation opportunities***

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The EU recognises the importance of maintaining its long-term and comprehensive strategic relations with Asia for its economic, political, and security interests. These partnerships include collaborations in higher



education and training sectors. Indonesia-EU higher education co-operation could be placed in the framework of inter-regional and multilateral relations. Heiner Hänggi (2000) classified those into three types: (1) inter-regional relations; (2) bi-regional and trans-regional relations; and (3) relations between a regional bloc with a single State.

To assess the opportunities, Hänggi's typologies must be modified into Model 2 (ASEM initiatives), and Model 1+3 (European Commission, Asian countries). In these contexts, the co-operation is concentrated on Indonesia's participation in the Asia-Europe Hubs—Education and Research Network (AEH-EARN) agreed through ASEM and managed by ASEF (Model 2); and Jean Monnet Chair Projects, Asia-Link and Erasmus Mundus (Model 1+3).

In Model 2, from 15 Asian institutions that managed to register, provide scholarships and facilities for students' exchanges through AEH-EARN, up until 2004 no Indonesian universities had participated. In Model 1+3, virtually comparable to the case of the AEH-EARN, up to 2002 the Jean Monnet Projects had equally not involved any Indonesian universities. Only through the Asia-Link scheme has Indonesia been well represented. With 22 projects during 2002-2005, it quantitatively occupied the 5<sup>th</sup> place out of 16 participating countries.

Meanwhile, Indonesia's involvement since 2004 in the Erasmus Mundus scheme has been less than substantial. During the 2005-2006 academic year, 14 Indonesian students participated, along with one Indonesian from among 133 scientists. In the same period, 10 Indonesian students and scientists were also selected under the specific 'Asian Window' of Erasmus Mundus out of a total of 353.

### ***Sources of discrepancy***

From the three partnership contexts above, there was a gap between the opportunities available and Indonesia's ability to gain optimum benefits. The sources of the discrepancies were cultural and structural. The cultural ones comprised the attitude, motivation, network, access to information and the ability to respond to bids of collaboration from the EU. In contrast, the structural impediments were related to national higher education policy, timeworn infrastructures and budget allocations as most of the projects were subsidiary in terms of funding.

They can be perceived from two levels of analysis, at the "first level" (individual, institution) and "second level" or State level (system, national higher education policy, bureaucracy). At the individual level, the extent of individual and institutional optimum readiness and capacity to initiate and organise such co-operation is still questionable. At the State level, the significant

structural factors are nearly identical with that of the individual level although it can be regarded as more established in terms of system and policy.

From legal aspect, for instance, the basis for co-operation with the EU has been supportive. Indonesia has enacted Government Regulation No. 60 (1999) on higher education and adopted the 1998 Decision of the Minister of National Education concerning co-operation between higher education institutions. Even the 'Framework for Long-term Higher Education Development 2003-2010' also explicitly stated the urgency to co-operate with international partners.

### ***Some suggestions***

It is undeniable that maintaining co-operation with international counterparts, in this case with EU's universities and institutions is very useful, urgent and strategic in the context of globalisation in education. The networks yielded through such collaborations will push the improvement of human resources quality, building infrastructures, improving regional and global competitiveness and could help relieve the burden of Indonesia's education budgets.

From the funding perspective, through the Asia-Link alone, the collaborative projects involving Indonesian institutions in 2002-2005 was valued at over €10 million, with about 68% funding from the European Commission. It did not include the economic and non-economic values of AEH-EARN, Jean Monnet or other Erasmus Mundus projects.

Indonesian universities' graduates who aspire to penetrate the global markets should acquire international competency. Therefore, it is urgent for Indonesian universities to establish compatibility with EU partners such as through credit transfers to ease recognition. To bridge the gap, the opportunities should be maximised with synergy. First, the visibility of the EU in Indonesia should be improved at both individual and State levels.

Second, Indonesia should focus on capacity-building to intensify and harmonise the co-operation opportunities with EU partners. At individual level, Indonesian universities should be more outward-looking preparing a robust team with sound competence and autonomy to design and execute the collaborations. Third, parallel with the spirit of autonomy in the education sector, *Dikti* (DG for Higher Education) should establish a focal point which specifically provides services and assistance to Indonesian universities by distributing information, intensifying communication and building the universities' capacity to enlarge their chance to win a collaboration bid.

**- Continued on Page 13 -**



## Other voices, other viewpoints: Development and emerging nations

by Malcolm Subhan

Now here's a question that is seldom asked: Why is it that after 50 years of development aid and development projects much of the developing world remains largely undeveloped? The answer, quite simply, is because development has never been on the agenda; the focus has been on economic growth. And the global agenda, both economic and political, is still being set by the West, after objective analysis, based on facts and driven by logic

But let me begin with the European UNESCO official in Paris, who answered the question in his own way, when he asked colleagues, "Do we want them to develop?" In other words, what would become of the tiny handful of countries on the fringes of the EurAsian continent if developing countries across the globe achieved growth rates of, say, eight percent, year after year? You have only to look at European and American reactions to the recent renaissance of two ancient civilisations – the Chinese and Indian – to understand the concern expressed by that UNESCO official some 30 years ago. Today "emerging" nations like China and India represent an opportunity for some, but for many more they represent a threat, both economic and political.

The aid provided by the OECD countries, and the international financial institutions that they control, was never entirely disinterested. Some of it was politically motivated, especially during the Cold War years. Nearly all bilateral aid was "tied" to the purchase of goods from the donor country. The EEC helped developing countries to export more, until it felt that some of them posed a threat to European producers. The 9-nation EEC then turned down a plan, put forward by the External Relations Commissioner, Wilhelm Haferkamp, to set up an autonomous unit to encourage imports from developing countries. Although the EU was first off the mark in 1971 with its scheme for allowing imports from developing countries on favourable terms, products for which developing countries had a competitive advantage were classified as "sensitive" and their import was restricted under this scheme.

Development, in other words, was early on defined in economic terms; it was even equated with economic growth. At the very least, there was a widespread belief among developed countries that development *sans* economic prosperity was a non-starter. A chapter on development was therefore added to the 1948 General Agreement on Tariffs and Trade (GATT). The United Nations Conference on Trade and Development

(UNCTAD) was set up in 1964, largely because developing countries wanted an organisation that focused on development from their standpoint. Its main achievement, however, was the 1968 recommendation to set up, with the accord of GATT, a scheme granting developing countries preferential access to the markets of developed countries (the EEC duly complied in 1971, as mentioned earlier). An attempt by UNCTAD to set up an international fund for commodities, that would intervene on commodity markets to stabilise, even raise, commodity prices was shot down by developed countries that wanted the market to set commodity prices.

This identification of development with economic growth was inevitable. The economic reconstruction of war-torn Europe would promote its economic development; hence the Marshall Plan and the creation of the International Bank for Reconstruction and Development (IBRD). Reconstruction completed, the IBRD transformed itself into the World Bank and turned its attention to developing countries. As in the developed countries, economic growth in developing countries required a healthy, educated workforce; hence the focus on projects in education and health, alongside projects designed initially to promote export-led growth.

The identification of development with economic growth is responsible for the absence of development, which is much more than material prosperity. The task of developing policies that favoured economic growth was turned over to economists, working in universities, think tanks and, once their reputations made, as independent consultants. Now economists, unlike most other social scientists, see themselves as closer to natural scientists than to their colleagues in such fields as sociology or anthropology. Hence their determination to apply the (natural) laws of economic behaviour to the economic problems of developing countries.

Not surprisingly, therefore, governments and government agencies turn to universities and think tanks for advice on how to ensure economic growth, even development. Think tanks probably consider themselves as the better placed to give such advice, as they interact regularly with policy makers and are closer to the "real" world. It is clear, however, that economists working in university research centres have forsaken their ivory towers, and are indeed co-operating with think tanks.

One of the most well known think tanks is the RAND Corporation in the US, which separated from the Douglas Aircraft Company as an independent, non-profit organisation in 1948. (RAND stands for Research and Development.) While still active in the military field, the Corporation also looks today for solutions to social problems, including poverty, using



sophisticated analytical tools for this purpose. Its slogan in fact is “Objective analysis. Effective solutions.”

This focus on objective analysis is the hallmark of both university research centres and think tanks in both developed and developing countries. It reflects the emphasis in the West on logic, analysis, structure and speech; hence the importance the educational system in Europe, for example, attaches to mathematics and science. Now this emphasis on the left brain, often to the exclusion of the right brain, results in a grasp of development problems which is incomplete, and therefore to solutions which are inadequate. This is because the neglected right brain favours imagination, creativity and a holistic approach. As Einstein remarked, “Logic will get you from A to B, imagination will take you everywhere.” The American philosopher, John Dewey, noted that “every great advance in science has issued from a new audacity of the imagination.”

Development issues must be approached with imagination and creativity. Because development is more than material prosperity, it must be viewed in a holistic manner. It is necessary, in other words, to look beyond the statistics, which underpin our objective analysis. Even the human development index, calculated with mathematical precision each year by the UNDP, as befits something so objective, is based only on what can be measured. The human development index ignores so important a factor in human development as a people’s religious beliefs and practices – simply because they cannot be measured. The index in fact is so obviously based on a purely Western definition of what constitutes human development that 24 of the 25 countries with the highest scores are Western, with Japan the outsider.

The problems arising from the nature and execution of development projects are further compounded by the fact that most of the influential university research centres and think tanks are located in donor countries. Of course many of them do employ researchers from developing countries, but preference is usually given to those with Ph.D.’s from American and European universities. And such is the attraction of these universities and think tanks for their counterparts in developing countries that they tend, not surprisingly therefore, to favour a similar mind set, with a similar concern for objective analysis.

Imagination is needed in order to escape from this Western bias, to approach development issues from the viewpoint of people in developing countries. However, in order to empathise with the people who have been reduced to statistics (many of which are probably wildly inaccurate!), development experts must be able to put themselves in the sandals, as it were, of these people. The problem is that research

centres and think tanks are so dominated by Western beliefs and values, even in developing countries, that they find it difficult to look upon people in developing countries as quite capable of bringing their creativity and imagination to bear on their own development.

The most striking example of how ordinary people, given the opportunity, can display an abundance of creativity and imagination is to be found in the rapid emergence of the Internet as a global meeting place, in which to assert one’s individual identity. The Internet is witnessing the astonishing growth of blogs and of sites dedicated to the exchange of music, the display of personal videos and plain gossip. The most successful of these sites, such as Google, YouTube and Myspace – not forgetting that software giant, Microsoft, and its rival, Linux, which pioneered open-source software – are the fruits, not of logic and objective analysis, but of flights of creativity and imagination. Development should be turned over, perhaps, to brash young university students, in both developed and developing countries, rather than to their professors!

It is easier to put down the failure of development projects to corruption, misgovernment and conflict in the developing countries in question. The fact, however, is that while projects are drawn up on the basis of objective analysis and left brain thinking, they are implemented by people who are responding to the project with both right and left brain. Even corruption is the result of right brain activity, since it is very largely influenced by the irrational desire on the part of people in positions of authority to achieve material prosperity by the shortest possible route! (There are economists who believe that corruption, provided that it is kept at a low level, keeps files moving in large, unwieldy bureaucracies).

I have tried to indicate why, after 50 years of development aid and development projects, very little development is taking place in the developing world. Development can only be approached in a holistic manner: it can not be reduced to rising living standards, defined in terms of more jobs in order that people can consume more and thus ensure continued economic growth. But this requires that our objective analysis take into account factors which cannot be measured – such as the very notion of “well being” and a “good life” – which each culture interprets in its own way. As a first step we must accept that objective analysis – left brain thinking – can only result in inadequate solutions. It also means abandoning the top down approach, which favours university research centres and think tanks, and looking literally to the grassroots for solutions. ■



# International Co-operation on Energy and Climate Security: Implications for China

by Denis Schrey

Climate change is an urgent and huge challenge for the 21<sup>st</sup> Century. To reduce the external effects of human-induced climate change on socio-economic sectors, human health and ecological systems, a significant reduction in greenhouse gases emissions is required globally. The World Bank estimates in a recently published report "Clean Energy and Development: Towards an Investment Framework" that emissions will be 1.6 to 3.5 times higher than present levels by 2050. The incremental costs of mitigating greenhouse gas emissions are estimated to range from less than US\$10 billion per year to about US\$200 billion per year, depending on the stabilisation target, the pathway to stabilisation and the underlying development pathways of developing countries.

As climate change is a global issue and industrialised countries are responsible for most of the greenhouse gases currently in the atmosphere, developing countries like China are not expected to bear the additional costs of a low-carbon economy.

As a developing nation, China is not so far bound by the carbon dioxide emission reduction targets laid out in the Kyoto Agreement. There is no real incentive in the Kyoto Agreement for the Chinese government to invest in environmental friendly policies. Nevertheless, increasing environmental degradation in China is contributing to global warming and is considerably affecting domestic economic and social development. Therefore, the international community together with China must find additional creative and common financial solutions to address this problem.

## **Costs of economic development**

Rapid industrialisation and social change have raised the standard of living for millions of China's people, mainly in the East and South-Eastern coastal provinces, who can now afford washing machines, televisions, and, increasingly, cars. Car sales during the first five months of 2002, for example, were up nearly 40% compared to 2001. The process of industrialisation is often linked to deteriorating environmental quality and is rarely turned around until a country has increased its standard of living.

It will be decisive whether trade liberalisation in transition countries like China or India can be rapidly integrated into comprehensive, implementation-oriented national and international environmental

regulation policy frameworks. It will also be crucial in this respect to find sustainable energy efficiency solutions for the fast rising middle income class, who are adopting Western patterns of consumption.

The social and economic costs of environmental pollution in China are considerable. The World Bank estimates that air and water pollution costs China US\$54 billion per year, or about 8% of GDP. The World Bank further estimates that, every year, air pollution exceeding China's own air quality standards leads to 6.8 million accident and emergency room visits, some 346,000 hospital admissions and 178,000 premature deaths. In addition, air pollution causes some 7.4 million work-years to be lost annually.

As coal use is still frequent, the associated adverse health, social and ecological impacts will continue to be considerable unless special measures are taken to mitigate them. Air pollution is especially severe in many cities in China. In Beijing, the health effects and social costs of air pollution caused by the burning of coal are estimated to be approximately equal to the cost of the coal itself. In addition, at the local level, there are concerns about the potentially heavy social costs associated with coal mining. Of international concern is China's contribution to global warming. At current rates of increase, global atmospheric concentrations of carbon dioxide could double by 2050. China's rising greenhouse gas emissions are a major contributor to this global growth rate.

China is the second-largest source of carbon dioxide emissions behind the United States. It will take first place after 2025. China produces 36% of the world's coal and is dependent on coal for 69% of its primary energy demand. To reduce the internal and external environmental costs caused by rapid economic development in China, national and international efforts to achieve substantial improvements have to be well-targeted and better-co-ordinated.

## **National efforts since the 1980's**

The Chinese government has displayed a high level of awareness of the social and economic costs of pollution. It has made a number of major policy announcements concerning environmental issues since the beginning of the reform era in 1978. In 1983, the government declared environmental protection a basic national policy. In 1990, the government established the inter-ministerial National Climate Change Co-ordinating Committee, making it responsible for policies and measures to address climate change activities.

In 1994, with Chapter Eighteen of China's Agenda 21, the government set out a broad plan to achieve sustainable development which was viewed in Agenda 21 as a "limitation to the scale and pace of China's



economic development". In March 1999, the Director of the State Environmental Protection Agency (SEPA), Xie Zhenhua, made the (perhaps too) bold prediction that "China plans to stop environmental degradation by 2010". This, and the government's other numerous policy pronouncements on the environment, however, have been more than just lip-service. For example, in 1998, China's National Environmental Protection Agency (NEPA) was elevated to ministry status. Also in 1998, China devoted a greater percentage of GDP (nearly 1%) to the environment than it had ever before, and more, according to the head of SEPA, than any other developing country in the world. As recently as this year, three major government plans and documents related to energy security and climate change has been published.

In January 2006, the Chinese Government launched the new Law on Renewable Energy, which took immediate effect. The new law seeks to promote cleaner energy technologies with a stated goal of increasing the use of renewable energy to 10% of the country's electricity consumption by 2010. By 2050, the renewable energy proportion should rise to 21.6%. Coal consumption in primary energy structures will decrease to 53.7% in 2020 and to below 40% in 2050. The primary energy structures mainly depending on coal will be radically changed.

In March 2006, the 11<sup>th</sup> Five Year Plan mentioned for the first time that economic growth during the 10<sup>th</sup> Five Year Plan period had been achieved at the expense of resources and the environment. The Plan underlined the importance of making timely changes to this growth mode because sustainable development could hardly be achieved by heavy reliance on resource consumption. This clear criticism of unsustainable economic activity within the government is new and might be a sign of real change.

In the Plan, China has clearly set out its main goals for environmental protection for the next five years. By 2010, until when the national economy will maintain relatively stable and fast growth, the environmental quality of key regions and cities shall be improved, and the trend toward ecological deterioration shall be brought under control. Energy consumption per unit of GDP shall decline by 20% compared with the end of the 10<sup>th</sup> Five Year Plan period. The total amount of major pollutants discharged shall be reduced by 10%, and forest coverage shall be increased from 18.2% to 20%.

In June 2006, the Chinese government published a report\* with the title "Environmental Protection in China 1995-2005". This report systematically introduces the unremitting efforts made by China in environmental protection over the past ten years in the fields of Environmental Protection Legislation and System, Prevention and Control of Industrial Pollution,

Pollution Control in Key Regions, Protection of the Urban and Rural Environment, Ecological Protection and Construction, Economic Policy and Investment Concerning the Environment, Environmental Impact Assessment, Environmental Science and Technology, Industry and Public Participation, and International Cooperation in Environmental Protection.

When reading and citing these policy documents one could get the impression that China is making significant progress in tackling environmental degradation in an efficient manner, and it should not be denied that some concrete results have been achieved.

### **Concrete results**

China's energy intensity - the amount of energy needed to fuel economic growth - declined by approximately 60% between 1977 and 1997. One major consequence of China's energy and economic reforms has been a sharp reduction in the share of coal in total Chinese primary energy consumption. A significant factor was the shutting down by the government of some 47,000 mines. Fuel switching and improved coal quality also contributed to the steep decline in coal consumption.

However, there has been considerable debate over the precise reduction in coal consumption, the degree to which it can be sustained and its impact on carbon emissions. Reduced consumption does not translate directly to reduced carbon emissions. Improved coal quality means less ash is burned, so less coal by weight is consumed, but net emissions may be unchanged.

Renewable energy accounted for less than 10% of China's primary energy consumption in 2002. With respect to renewable sources of electricity, China is one of the most well-endowed countries in the world. Its resources are estimated to include 160GW of wind power, over 75GW of commercially exploitable small hydropower, about 125GW of biomass energy and 6.7GW of known geothermal energy. Analyses indicate that the greatest potential for displacing coal by renewable energy is in the power sector. Even so renewable sources accounted for only 7.8% of primary energy in 2002, with large hydropower plants the dominant source.

As renewable energy in China is mainly produced through large hydropower plants, the proportion of renewables in the overall energy mix is still small. One major obstacle to a sustainable environmental policy in China is the institutional weakness to implement environmental policy on regional and local levels.

### **Weak law implementation capacity**

China has not had a tradition of using so-called "positive" law to address societal problems. The primary purpose of legal reform was to support China's



radical economic reform and expansion. The Chinese government was well aware that it would not be able to attract foreign investment or develop a market economy without a more stable and transparent legal infrastructure. Legal reform has included the creation of a large body of environmental law. This legal regime includes at least six laws addressing pollution prevention and nine laws concerning natural resources protection, 29 sets of environmental protection regulations, more than 70 statutes and over 900 local regulations.

While the volume of environmental legislative activity may seem impressive, it says nothing of the efficacy of these laws in protecting the environment. To date, China's environmental law regime has suffered from the same weaknesses as Chinese laws in general: vague statutory language, weak institutions and infrastructure, and poor enforcement. The weakness of environmental law, in particular, is not surprising considering the dampening effect environmental protection often has on economic development. Moreover, the fact that environmental benefits often only manifest themselves in the long-term reduces the political imperative to address environmental problems today.

Many provisions of important Chinese environmental laws are more policy pronouncements than law. This vagueness suggests that government still perceives the law as primarily a means of disseminating policy. However, even for such a broader policy function, the imprecise nature of many of the laws creates obvious problems in determining what behaviours are required or prohibited, and which entities have duties to follow or enforce the law. The efficacy of environmental law is further hampered by systemic weaknesses in the Chinese legal system. These include the absence of a strong and independent judiciary and poor enforcement of laws and judgements.

### ***A weak judiciary***

Though the Chinese Constitution calls for an independent judiciary, in reality, Chinese courts are affected by a variety of outside influences, including the legislative and executive departments, the Communist Party and commercial interests. Local government officials can also exercise significant control over the judiciary because judicial salaries, resources and funding are provided by the local government. Chinese judges have traditionally lacked adequate legal education and are held in low societal regard. Chinese judges also lack the inherent power to make law or interpret the law. The power to interpret the law is generally delegated by the National Congress to the executive bodies responsible for enforcement. The courts will generally not overturn agency interpretation of laws.

### ***Weak law enforcement***

The lack of enforcement of Chinese environmental laws can be attributed to a number of factors. Enforcement of environmental laws is largely in the hands of local officials, who are often poorly trained, ill-equipped or unmotivated to enforce environmental regulations. Chinese environmental laws view citizen participation mainly as the right to report infractions to authorities.

Even with its many weaknesses, Chinese environmental law does further environmental protection along a limited number of avenues. First, it sends a message to lower level administrations and the Chinese citizenry that the environment is a government priority; this is a view of law as a political resolution of sorts. Second, environmental legislation shifts bureaucratic power to environmental government entities that have traditionally been weaker than industry- and economy-related government bodies.

### ***International co-operation***

The volume effects of rising global consumption leads to demand growing faster than eco-efficiency gains. International co-operation with China to support eco-efficiency and technology transfer will be decisive in the next few years. Financing provided by international financial institutions coupled with carbon finance can create the right positive incentives for investors and companies in both developing and developed countries to meet increasing energy needs in a climate-friendly manner. A long-term energy and carbon agreement could generate up to US\$100 billion in investment and would leverage a much larger overall investment in clean energy. The following conditions are key in order to facilitate this investment: 1) a long-term energy and climate policy perspective, 2) good energy governance, 3) a good return on investment and 4) sufficient market size.

If China wants to comply with the extremely ambitious targets of the 11<sup>th</sup> Five Year Plan of a 20% improvement in energy efficiency/conservation, it will have to attract major international investment. The first steps in this direction have already been taken. With extensive World Bank and Global environmental Facility (GEF) support in the development of a renewable energy strategy, the government has decided to adopt a policy aimed at building demand by mandating electricity suppliers to meet some of their needs from renewable resources, known as a mandated market policy. Four pilot provinces have agreed to adopt the law and to take the actions necessary to comply with it over the next four years. Other international and bilateral programmes have similar objectives.



Further energy intensity reduction will be heavily influenced by the speed at which China's major energy consuming industries move closer to international standards. If China maximises the use of sustainable renewable energy like solar power, wind, biofuel and biogas, as the 11<sup>th</sup> Five Year Plan proposes, it can drive down the price and the cost of producing solar or wind energy and other renewable energy costs could diminish considerably.

## **Role of the EU**

During the eighth China-EU Summit in Beijing on 5<sup>th</sup> September 2005, a Joint Declaration on Climate Change was issued, which confirmed the establishment of an EU-China Partnership on Climate Change. Six key areas for technical co-operation were identified including (1) energy efficiency, energy conservation, and new renewable energy (2) clean coal (3) methane recovery and use (4) carbon capture and storage (5) Hydrogen and fuel cells and (6) -Power generation and transmission.

This agreed Partnership on Climate Change includes two major co-operation goals to be achieved by 2020. The first is to develop and demonstrate, in China and the EU, advanced zero-emission coal technology. The second goal is to reduce significantly the cost of key energy technologies and to promote their deployment and dissemination.

Now, more than a year later, the European Commission proposed, in a Communication in early October 2006, a €100m risk capital fund for developing countries to boost energy efficiency and renewables. The Global Energy Efficiency and Renewable Energy Fund (GEREF) has been designed to accelerate the transfer, development and deployment of environmentally sound technologies. These projects will also combat climate change and pollution. As energy efficiency and renewable energy projects face significant difficulties in raising commercial funding, GEREF aims to help overcome these barriers by providing new risk-sharing and co-financing options to mobilise international and domestic commercial investments. The Council and the European Parliament still have to comment on the GEREF initiative and to endorse the Commission's aim of reaching the initial funding target by mid-2007.

## **Conclusion**

The latest Chinese and international initiatives show an important trend towards an increasing willingness and awareness of Chinese and international policy decision-makers to tackle environmental problems in a proactive manner. If the Chinese government takes the right decisions with strong financial support from the international community, it can be regarded as part of the solution to climate change. But there is still a long way to go.

Partnerships to pursue this global energy agenda are decisive. There is an enormous opportunity through learning curves to bring down costs for all kinds of new energy sources. China provides an enormous opportunity for this. With regard to the latest policy statements from China and Europe, one can be rather optimistic. Yet, Europeans and industrialised countries in general have to keep in mind that they were able to modernise their economies by benefiting from very cheap oil for decades and did not have to think about CO<sub>2</sub> emissions. Market-pull approaches for companies (like the EU's Emission Trading Scheme) must be sustained through external technology-pull approaches to mobilise public finance towards global access to climate-friendly, affordable and secure energy services. The EU and other donors with a long history as CO<sub>2</sub> emitters have to assist financially the developing countries to take on the additional costs of adapting themselves to climate friendly technologies. ■

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\*For details of the Report see <http://www.china.org.cn/english/2006/Jun/170355.htm>

## **Indonesia-EU higher education co-operation**

**- Continued from Page 7 -**

Next, without overlooking the importance of other countries, region, or bilateral co-operation with EU Member States, Indonesian universities and *Dikti* should intensify their lobbying and communications with the Delegation of the European Commission to Indonesia in Jakarta. It should include exploring the opportunities to diversify the contexts and scope of co-operation e.g. within the new 7<sup>th</sup> Research Framework Programme. While good governance and sustainable management of natural resources became the main policies in the EU's Country Strategy Paper 2002-2006 on Indonesia, for the 2007-2013 Strategy, the area of education will be one of the main policy focuses.

Finally, Indonesia should increase the number of students, lecturers and researchers destined to study in EU countries. The quantitative growth of those human resources is important and strategic in order to establish better networks, nurturing the "facilitators" for future equal-footing partnerships in the framework to accelerate achieving the goals of Indonesia's national education. ■

Gunaryadi is currently the (Acting) Principal of the Indonesian Embassy School in the Netherlands.

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

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### *Freedom, Security and Justice*

On 19<sup>th</sup> October, the European Commission announced that it would be initiating a new mechanism, in 2007, for an evaluation of EU policies in the area of freedom, security and justice - policies areas that generally fall under the Hague Programme, which was adopted in November 2004. In September, the European Parliament announced that a mid-term review of the Hague Programme would be undertaken by the end of 2006. The Commissioner responsible for FSJ, Mr Franco Frattini, said that the Commission's evaluation mechanism would be launched, most likely, in the first quarter of 2007.

The Commission mechanism would involve three elements, based on a Communication adopted in June 2006 that addressed how any such evaluation might be performed. The first element would consist of establishing a "system of information gathering and sharing", the second element would present the results of the analysis of this information and the third element would propose improvements to policy instruments, if necessary.

The Commission's announcement followed a discussion in the Council on Justice and Home Affairs, on 5<sup>th</sup> October, on the status of the Hague Programme. Chaired by Finland's Minister of the Interior, Mr Kari Rajamäki, the Council stated that despite the absence of the EU Constitutional Treaty (rejected in popular votes in France and the Netherlands), the EU still needed a "first political assessment" of the progress made in addressing the priorities established in the 2004 Hague Programme and that this evaluation might, if necessary, "propose necessary adjustments".

### *Member State Information Mechanism*

The Council of the EU adopted a Council Decision, on 5<sup>th</sup> October, on the establishment of a mutual information mechanism concerning Member States' measures in the areas of asylum and immigration, which will apply in all countries except Denmark. The Decision forms part of the Council response to the priorities established in November 2004 in the Hague Programme on improving Justice and Home Affairs issues in the EU, now known as Freedom, Security and Justice. The decision to begin preparations for a Member State level mechanism to exchange information was made by the Council in April 2005.

The 2005 decision specified that the proposed mechanism should allow for the exchange of information on national asylum and immigration measures. Member States would be obliged to exchange information likely to affect one or more

Member States with a "significant impact" or that would affect the EU as a whole and would provide for an exchange of views either at the request of a government or by the European Commission. The new Decision specifies that "significant impact" includes measures that will affect policy intentions, long-term programming, draft legislation and court decisions that interpret national legal provisions. Unfortunately, the Decision only encourages Member States to exchange such information "as soon as possible" without actually delineating a specific timeframe. Then, on an annual basis, the Commission will present a Report on the measures transmitted between governments.

### *Third country visa waiver*

The European Commission published a Report, on 3<sup>rd</sup> October, on cases where visa waiver non-reciprocity is maintained by certain third countries. The Report was compiled in accordance with a 2001 Council Regulation listing those third countries whose nationals must possess a visa when crossing the external borders of the EU under the European reciprocity mechanism. In June 2005, the reciprocity mechanism was updated and is divided into a negative list, those foreign nationals who require a visa for stays of less than 90 days, and a positive list identifying those nationals who are exempt. The new Report updates a January 2006 Report that identified several countries as requiring time to adopt measures to ensure that EU citizens benefited equally from such visa measures.

The new Report states that Malaysia had pledged, in February, to resolve issues of non-reciprocity with seven EU Member States where the waiver applied only for periods of 30 days. In August, Malaysia indicated that the full waiver would be applied in two stages, firstly to Greece, Portugal, Cyprus Latvia and Malta but that the second stage would only apply once Estonia, Lithuania and Slovenia equally offer Malaysian citizens 90 days waivers. Addressing Singapore, the Report notes that 30 day visa are readily available for EU citizens which, in turn, can be extended twice when staying in the country. However, since the January Report, the Commission learned that US and Australia benefited from a 90 day visa and is now awaiting further information from Singapore.

Regarding Brunei, the Report states that full visas are required for several EU Member States, waivers are granted up to 14 days for twelve Member States and a waiver up to 30 days applies to four Member States. After some negotiations, Brunei offered to apply an equal visa regime for all EU Member States of up to 30 days, the same system as is applicable to regional neighbours. Other countries addressed in the Report include Australia, the United States and Canada. The Commission believes that the process of negotiations has borne fruit even if some countries are lagging behind equal treatment of full reciprocity. The



Commission will review progress in the negotiations in a further Report, due to be presented to the European Parliament and Council of Ministers in March 2007.

### *Immigration Policy*

The European Parliament adopted a Resolution, on 28<sup>th</sup> September, on a common EU immigration policy. Based upon a Joint Motion for a Resolution including the Socialists, Liberals and Green Groups, the Resolution, as adopted, notes the continued absence of a common EU policy, seven years after EU governments agreed, in Tampere, Finland, to adopt a programme on immigration. The continued absence of a common approach for legal migration puts pressure on illegal channels and the asylum system.

The pressure on alternative methods of entry into the EU in turn affects policies related to employment, demography, forced labour and Member States' humanitarian services. In particular, the Resolution stresses the massive influx in Southern European countries in recent years and the deaths of "thousands of migrants in the Mediterranean Sea". Where migrants have been able to access the asylum system, governments have come under criticism for the slow and cumbersome nature of application procedures and processing mechanisms.

Another aspect of developing appropriate procedures is to pre-empt the arrival of migrants by co-ordinating more effectively the EU's external assistance to countries of origin and transit. This should not mean, however, that the EU should pursue a policy of "externalising the management of its external borders" by establishing reception and processing centres in third countries. The Resolution calls on Member States and the EU to develop "clear plans" for development and investment in such countries and to co-ordinate EU trade and agricultural policies. It is suggested that by helping to avoid a brain drain in developing countries, the economic development of such countries can be enhanced. The responsibility of governments of developing countries to address political instability, corruption, human rights violations and failing economies is also stressed.

Bearing in mind Spain's decision to grant residency papers to one million illegal immigrants, the Resolution suggests that Member States considering "loosening rules on immigration", which will affect other Member States, should "consult and inform" these Member States - as Spain did not do. Any such decision would have enormous effects on the integration of immigrant policies of national governments in terms of access to education and health services and their participation in social, cultural or political activities.

## **Trade Relations**

### *Anti-dumping, Anti-Subsidy*

The European Parliament adopted, on 25<sup>th</sup> October, a Resolution on the European Commission's Annual Report on third country anti-dumping, anti-subsidy and safeguard actions against the European Community. The Annual Report was published in 2005 and covered 2004 activities. Based upon the Report prepared by Christina Muscardini for the Committee on International Trade, the Resolution notes that the international competitiveness of EU firms can be damaged by trade liberalisation when this encourages third countries to subject EU exports to trade defence measures.

The emphasis of the Resolution is strongly on the side of the EU and of requiring third countries to behave more responsibly in the international trading system including the World Trade Organisation (WTO). Expressing concern at the rising number of trade defence cases, from both older WTO members and those who joined since the turn of the Century, the Resolution suggest these third countries should respect WTO rules more fully. The EU is called a "moderate user" of trade defence instruments. The suggestion is that third countries use these instruments as a form of economic protectionism and that the European Commission's assistance is needed in order to ensure that trade defence cases brought by third countries are "appropriate and fair".

The Resolution also addresses reforms to the WTO system and the implementation of Dispute Settlement Body decisions. The settlement system has led to more consistent application of multilateral trade rules but the decisions are not implemented promptly and efficiently. The Resolution suggests that this could be seen as a delaying tactic by some third countries. Otherwise, it is noted that some third countries may lack the technical capacity and Parliament suggests the European Commission should establish training programmes on anti-dumping and anti-subsidy for developing countries.

Two important proposals are contained within the Resolution. Firstly, Parliament suggests that the Commission should make an analysis of an idea to "radically revise" trade defence rules at WTO level. This idea would see the incorporation of the requirement to comply with international agreements on social and environmental issues into WTO trade defence rules if such non-compliance could be seen to constitute dumping or subsidy. The second proposal calls on the Commission to consider whether to withdraw the application of preferential trade treatment to those third countries that do not "act in accordance with WTO rules".

## *EU-Kazakhstan*

The European Commission adopted a proposal for a Council Decision, on 24<sup>th</sup> October, on the conclusion of a Protocol to the Partnership and co-operation between the European Community and its Member States and Kazakhstan. The Protocol related to extending the Agreement, which entered into force in 1999, to include bilateral trade in textiles taking into account the expiry of an earlier textiles agreement. The earlier agreement was in force between November 2003 and December 2004 but had expired while awaiting re-negotiation. This prevented Kazakhstan from applying most-favoured nation status to its textile exports to the EU, although this status was available for other goods exported under the remit of the Co-operation Agreement. The proposal will have to be adopted by the Council before entering into force.

Also on 24<sup>th</sup> October, the European Commission adopted a Recommendation to the Council to conclude a Co-operation Agreement with Kazakhstan on the peaceful use of nuclear energy. The Commissioner for Energy, Andris Piebalgs, said that the Agreement would help the EU improve its supply of uranium imports. The EU and Kazakhstan already co-operate in nuclear safety and in nuclear fusion. The proposed Agreement would operate for a period of 10 years and, according to Commission estimates, would be worth €0.5bn to the EU in terms of imports and the development of joint projects. After Australia and Canada, Kazakhstan is the third largest producer of uranium.

## *Strawberries from China*

The European Commission, on 17<sup>th</sup> October, adopted a Commission Regulation EC/2006/1551 imposing a provisional anti-dumping duty on imports of certain frozen strawberries originating in the People's Republic of China. The anti-dumping duty will apply for a six month period.

The duty was imposed following an investigation by the Commission into alleged dumping from China. The complaint was made by the Polish Freezing Industry Union and the Commission investigation covered the period from January to December 2005. Five exporting producers in China requested Market Economy Treatment (MET) during the investigation, which would indicate that they did not depend on the State or other subsidies.

Out of the five companies, the Commission identified one, Yantai Yongchang Foodstuff, as meeting all of the five criteria for MET. One other company met four of the criteria, only failing to keep a set of accounts audited to international standards. For the other companies, there were "significant distortions carried over from the former non-market economy system".

The investigation showed that between 2002 and 2005 the estimated market share for Chinese exporters to the EU increased from 4% to 20% reflecting a rise in Chinese exports of 381%. This caused a drop in prices of 38% over the four years. During this period, exports of other third country producers to the EU declined by 20% reflecting their loss of market share. The Commission decided to impose provisional anti-dumping duties of 0% on the company that met MET conditions, 12.6% on a company that had requested Individual Treatment and 34.2% on all other exporting Chinese producers.

## ***Political Relations***

### *Uzbekistan*

On 26<sup>th</sup> October, the European Parliament adopted an Urgency Resolution on EU-Uzbekistan relations and examining domestic political and security events inside the country. The Resolution was adopted in advance of a scheduled meeting of the EU-Uzbekistan Co-operation Council due for early November. This would be the first Co-operation Council meeting since the adoption of EU sanctions imposed following the May 2005 massacre in Andijan, Uzbekistan. Co-operation Council meetings take place at political level and operate under the 1999 Partnership and Co-operation Agreement.

While recognising Uzbekistan's importance within the Central Asian region and of the value of EU-Uzbekistan relations, the Resolution calls on the EU Council of Ministers to renew and expand the range of sanctions currently in place for another one year period. Parliament notes that the Uzbek government has not provided for an "independent inquiry" into the massacre and, thus, has not met an important criterion established by the EU for the lifting of sanctions. The sanctions regime should be expanded to include senior political figures in the government in the list if those prevented from travelling to the EU and to freeze the assets they hold within the EU banking and financial system. It is a noted difficulty of EU sanctions policy that it can be hard to actually affect the senior government and political figures targeted by restrictive measures. Parliament tries to get around this by suggesting that the EU should identify new ways to improve the efficacy of sanctions and their political objectives without actually proposing any solution. EU Foreign Ministers are due to meet several days after the EU-Uzbekistan Co-operation Council and it is considered likely that the sanctions regime will be ameliorated in some way.

### *Tibet*

Addressing the situation in Tibet, the European Parliament adopted an Urgency Resolution, on 26<sup>th</sup> October, examining the movement of refugees into



Nepal and the general human rights situation in China. According to reports from China's official news agency and from Tibetan refugees, on 30<sup>th</sup> September a group moving from Tibet in the direction of Nepal were fired upon by Chinese police. The group of 70 Tibetans was intent on seeking refugee status in Nepal and, reportedly, one Tibetan was killed and others were arrested.

The Resolution condemns China's excessive use of force of firing on unarmed civilians leading to at least one death, who was aged 17 years. At least nine of those detained are also children and this raises questions about China's respect of international human rights standards. Parliament asks the EU Council and the European Commission to establish contact with those refugees who did make it to Nepal and to address the issue in the next round of the EU-China Human Rights Dialogue. Such meetings typically take place twice per year. At a domestic level, Beijing should continue its practice of engaging in dialogue with representative of the Dalai Lama, in order to reach a "peaceful and sustainable settlement" of the Tibet question.

#### *EU-South Korea Summit*

On 9<sup>th</sup> September, the EU represented by Finland as the Presidency of the European Council, and the Republic of Korea held their heads of government Summit, only the third such meeting since the Summit process began in September 2002. South Korea was not mentioned as a potential "Strategic Partner" of the EU in the 2003 EU Security Strategy.

The Summit Conclusions addressed a range of regional and multilateral political and security issues and extensively reviewed the state of bilateral trade and economic links. Regarding regional concerns, the Summit focussed on the Korean peninsula and the six-party talks process.

With the September 2005 Joint Statement as the template, the Summit said the talks process should resume "as soon as possible" apparently subordinating concerns over the North's nuclear weapon test to the South's desire for engagement. Despite this, it is expected that the EU will impose sanctions against the North. Also at the regional level, the Summit called both Korea's a "strategic area" within North-East Asia and commended efforts to promote economic exchanges in the region. This could be complemented by political level exchanges, the Summit suggested.

At a multilateral level, the Summit reviewed progress in the regional security initiative - the ASEAN Regional Forum (ARF). It was noted that the EU was keenly involved in the ARF and in the efforts to build the wider East Asian Community, the first meeting of which was held in December 2005 and where the EU

was not invited. Also at the multilateral level, the EU and South Korea reviewed the work of the Asia-Europe Meeting (ASEM) declaring it a valuable framework for "informal dialogue and co-operation".

Speaking in the European Parliament, on 4<sup>th</sup> October, a European Commission official stressed that although the Summit addressed some difficult issues, this was a good reflection of the strength of the bilateral relationship. Regarding EU-South Korea trade, it was suggested that the full potential of the trade agreement could not be realised until Seoul addresses some trade irritants. During the Summit, President Roh agreed to examine EU concerns. Equally, he said that South Korea would welcome EU participation in the six-party talks process but that this would require the agreement of the United States.

#### *Hong Kong Annual Report*

On 7<sup>th</sup> September 2006, the European Commission adopted its Annual Report on the situation in the Hong Kong Special Administrative Region (SAR). Covering events during the year 2005, the Report examines political and constitutional issues, the economy and EU-Hong Kong links post-hand-over.

During 2005, Donald Tsang replaced Tung Chee-Wha as the SAR Chief Executive, opting to serve out the remaining two years of Mr Tung's term, rather than deciding to begin a new five-year cycle. Arising out of the 'consultation' of the National People's Congress, in China, there were suggestions that the autonomy of Hong Kong was open to question. Also in 2005, the constitutionally-mandated progress towards universal suffrage suffered somewhat, with no clear timetable for its introduction. Instead, the practice of appointing District Councillors continued, which has been considered inappropriate as they are involved in the election of the Chief Executive.

Typically, the Commission's Report is reviewed in the European Parliament, which also keeps track of political and economic developments in the SAR.

### ***Security and Defence Policy***

#### *Arms Exports Annual Report*

On 16<sup>th</sup> October, the Council of Ministers published the 8<sup>th</sup> Annual Report on the EU Code of Conduct on Arms Exports relating to figures for 2005. The Report details the numbers of licences for the sale of arms and military equipment to third countries, the value of those licences and the value of actual arms sales. For example, regarding Afghanistan, in 2005, the EU issued 60 licences across nine Member States with a value of €12.5m and with actual sales of just under €0.6m.



For all the countries of the South Asian Association for Regional Co-operation (SAARC), the EU issued 2270 licences, worth €1.6bn and with actual exports of €0.5bn. For the countries of the Association of South-East Asian Nations (ASEAN), the EU issued 1437 licences, worth €1.47bn and with sales of €426m. Despite an EU arms embargo in place against Burma, Poland issued three licences in 2005, worth €2.5m and had actual sales of €37,300. For North-East Asia, the EU issued 1376 licences, worth €1.1bn and has exports to the region valued at €503m. For the five countries of Central Asia, the EU issued 125 licences, worth €30.5m and had exports of €2.3m. This includes Uzbekistan, which had an arms embargo beginning in November 2005 but which witnessed France issue 2 licences worth €1.45m although no actual sales were recorded.

### *Aceh Monitoring Mission*

The Council of Ministers, meeting in the Foreign Affairs format, adopted a CFSP Joint Action, on 7<sup>th</sup> September, extending the authority of the Aceh Monitoring Mission, for another three months until mid December 2006. The Monitoring Mission was established in September 2005 to help monitor the implementation of the peace agreement signed between the rebel Free Aceh Movement (GAM) and the central government in Jakarta. The agreement provided for political autonomy for the province of Aceh within Indonesia and permitted an international civilian force, representing the EU and five Member States of the Association of South-East Asian Nations (ASEAN) to destroy rebel-held weapons and witness the withdrawal of government military and police forces.

The extension of the mission, which has essentially completed this mandate and has reduced its number of personnel accordingly, will provide a structure for the EU to monitor the forthcoming local elections in Aceh, which are due on 11<sup>th</sup> December. The EU has announced that it will send an Election Observation Mission to the province. The principle of holding elections was established in the peace agreement and will represent the final stage in the transfer of local autonomy from Jakarta to a provincial government and, thus, the end of the Aceh Monitoring Mission.

## ***External Assistance and Development***

### *Development Co-operation Instrument*

On 17<sup>th</sup> October, the Council of Ministers agreed, in principle, the content of a proposed Regulation covering the expenditure for development assistance for the period 2007-13. The separation of development co-operation from economic co-operation represents a victory for the European Parliament which had derided the European Commission's original proposal which had sought to link these two objectives in EU external

assistance spending, under the guise of reform to the system of expenditure into third countries.

The new Development Co-operation Instrument (DCI), if agreed in the European Parliament, would replace the existing Asia-Latin America Regulation, which governs EU expenditure in a range of least-developed and developing countries, including in Asia, and which is due to expire in January 2007. The DCI would have funding up to €17bn over the following seven years until 2013.

The DCI would have two characteristics, firstly at the geographic level targeting Asia, Central Asia, Latin America, the Middle East and South Africa and, secondly, at a thematic level targeting region-wide programmes such as health, education or migration issues. The €17bn is put in perspective by the separate funding for African, Caribbean and Pacific (ACP) countries of €22.7bn for the years 2008-13.

### *EIB External Lending Mandate*

The Council on Economic and Financial Affairs, on 10<sup>th</sup> October, discussed the external lending mandate of the European Investment Bank (EIB). Although primarily established to provide long-term loans to EU Member States for business and infrastructure projects, the EIB does lend money externally, including to Asia. In 2005, the EIB lend €5.1bn externally, approximately 10% of total lending, although the bulk of that lending is to Africa and the near abroad. The Council discussion is aimed at agreeing a political decision on the external remit of the Bank's operations and at agreeing a mandate for the 2007-13 period, which coincides with the EU's Financial Perspectives timeframe.

The European Commission has proposed to the Council that the Bank's lending by region should be €9bn for EU pre-accession countries, €15bn for the European neighbourhood, €7.5bn for development and economic co-operation and a reserve mandate of €1.5bn. Within the €7.5bn, the Commission is suggesting that €2bn be earmarked for lending in Asia. During the October meeting, the Council was unable to reach agreement on the figures and has referred the issue back down to technical and political level. However, as the current mandate is due to expire at the end of December, the Council must reach agreement by then in order to launch the revised mandate for 2007.

In a Report, issued on 17<sup>th</sup> October, on Borrowing and Lending Activities of the European Community in 2005, the EIB recorded lending in 2005 to three Asian countries including €50m to Indonesia for small and medium sized enterprises, €30m to Vietnam and €42m to Laos for energy production. ■

*John Quigley*

## India: Fighting global terrorism, building security

by John Quigley

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The European Institute for Asian Studies (EIAS) held a lunch meeting, on 11<sup>th</sup> September, with an address by Mr Sachin Pilot, Member of Parliament of India representing the Congress Party. Mr Pilot said that India and the EU had a valuable Strategic Partnership but the relationship must focus on delivering tangible results rather than endless dialogue. The meeting was chaired by Mr Malcolm Subhan, Vice-Chairman EIAS.

Mr Pilot said the old definition of a terrorist being another man's freedom fighter would no longer do in the 21<sup>st</sup> Century. The pace of globalisation has changed everything and terrorism has responded by becoming more sophisticated and penetrating every continent every life. India, he said, is no exception and has suffered particularly in the last 15-16 years. Terrorism may be called an acting of causing death and destruction but its magnitude is greater than the act itself. By hoping to cause and spread fear, the terrorist hopes to influence government policy.

Especially in the West, terrorism is now viewed as a fundamentalist Islamic movement. Governments are then forced to try and relate to this movement. India is home to the world's second largest Muslim population estimated at around 135m people. Out of all the global acts of terror, there has never been a case where the people or the organisations who perpetrate terrorists acts are traced back to India. This is in stark contrast to some other countries and we must ask, why?

India, Mr Pilot said, has been able to absorb minorities into civil society thereby simultaneously giving these people a freedom of expression and exposure to democratic principles. The policy of integration has been largely successful. In contrast, it is hard to think of any large Muslim country worldwide that is truly democratic. Every practising religion is found in India, with over one billion people and twenty two different languages. People are viewed as individuals first and then as Muslim or Christian. India's model could offer some lessons to the West and perhaps some international mechanism could be established to share best practice examples. There may be some relevance for the EU as it expands its membership and seeks to integrate new cultures and peoples.

Until the 1960's, the West was somewhat sceptical that democracy would really take root in India. The integration of 485 princely provinces into the Union of India has demonstrated that democracy in India works. Governments have tried to empower ordinary people at the village and district levels to help direct their own

destinies. Over time, the international perception of India has changed. As India has assumed a greater role in shouldering its geo-political duties, the world thinks less of yoga and more of India's vibrant economy and the responsibility India must discharge over nuclear proliferation, for example.

Historically, India and Iran have had good relations but, when it came to a crunch issues, such as a sovereign State not respecting the rules outlined in the Non-proliferation Treaty, then, India voted against Iran at the International Atomic Energy Agency (IAEA). It was important to demonstrate to the world that India would do the right thing. Our Prime Minister, Mr Manmohan Singh, has stated that Iran should not acquire a nuclear weapon.

In tackling terrorism worldwide, India is a committed partner of the United States. The attacks on 11<sup>th</sup> September 2001 brought home to America the reality of destruction and suffering that other countries have been through. There are groups seeking to destabilise India but, in partnership with other countries, India has made political commitments to combat terrorism on a worldwide basis. Countries must ensure that they do not threaten civil liberties and must ensure the primacy of political decision making.

At a strategic level, the response to terrorism must address the terrorists but also issues of security and of trade and development. The EU and India have a Strategic Partnership but much work remains to be done to give it some substance. Remarkably, the EU and India have not yet got to the full potential of the relationship. One of the essential requirements of the bilateral relationship must be to tackle the low level of awareness in the EU about India.

### **Questions and Comments**

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Bernard Jarzynka, EuropeAid, European Commission, asked what would India's position be regarding the demand by Tamils in Sri Lanka for an independent homeland. Another questioner raised the issue of Iran asking what role could India play now that Tehran has indicated that it wishes to acquire full nuclear technology, short of a weapon.

David Cooper, Director, Manfred Werner Circle, NATO, said NATO had a problem appreciating the qualitative difference between the terrorism of today with that of 50 years ago - which generally was a political programme to overthrow a State. Regarding the current threat, States are still have difficulties understanding what the non-military programme is. While the present threat is not a inter-religious conflict there is a conflict of ideas underway. India, for example, may have more experience of religious conflicts but NATO's role in a conflict that needs a non-military response is unclear.



Nawab Khan, India News in Europe, stated that the West must be very careful with the labels it uses regarding conflict; for example, the occupation of Iraq or Afghanistan or the destruction of Lebanon are not described as Christian terrorism. On Iran's nuclear programme, would India should consent to play a more active role in regional and international security issues.

Dick Gupwell, Secretary General, EIAS, noted that, the response of the West since the events of 11<sup>th</sup> September 2001 have been with military policies. The bulk of NATO's response to terrorism has been military in nature. What would be India's assessment of the UK-USA response to *Al Qa'ida* and to what extent have the attack on Lebanon and support for Israel been counter-productive in tackling terrorism.

One participant stated that terrorism is the by-product of socio-economic policies in a particular time and place - Kashmir. To tackle terrorism effectively, the attention of policy makers must be diverted to tackling its root causes. Jeffrey Russell, European Commission, noted that India has been very vocal as a player on the international scene. Thus, was it likely that India might become more involved in the Middle East, possibly by being invited to join the Quartet.

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

Mr Pilot said that, ultimately, the Tamil Tiger issue in Sri Lanka is an internal problem although if India was asked for assistance it would surely provide it, as it has done in the past. India has had a clear stance on possession of nuclear technology and a clear rationale for nuclear weapons. Significantly, India has not proliferated the technology and all nuclear weapons are under civilian control, not that of the military. Although India has not signed the Non-proliferation Treaty (NPT), India does abide by its principles.

India and the EU share common concerns and a common outlook on Iran. India would prefer dialogue rather than sanctions and there might be an opportunity of a compromise by undertaking the processing in Russia. Iran should open its nuclear sites for inspection in order to allay suspicions. India has worked with the EU and USA trying to resolve the problem.

The ultimate objectives of terrorists today is not really clear although it is clear that many terrorists are soiling the good name of Islam. Countries will have to find solutions including by focussing on young people and dispelling the notion that it is 'us' versus 'them'. The response to terrorism has to be stern and sustained. Regarding Kashmir, there probably will not be a redrawing of political boundaries, however, both sides should work to make the existing borders irrelevant. India has vital security and energy concerns in having a stable Middle East, not least with over 3.5m Indians resident there. ■

## **The European Union & India - Pluralism and Diversity**

by Dick Gupwell

India and the European Union share the same fundamental values of liberty, democracy, tolerance and the rule of law and this gives them a similar world view, which fashions their responses to the main challenges facing the world today, including terrorism. This was the message given to the European Institute for Asian Studies at a Briefing on 19<sup>th</sup> September 2006 by Mr Ghulam Nabi Azad, Chief Minister of the Indian State of Jammu and Kashmir. The discussion quickly turned from the topic to the ongoing dispute between India and Pakistan over the divided territory of Kashmir.

### ***The Briefing***

Ghulam Nabi Azad has been active in Congress Party politics since 1973, both at the State and Union level. He was President of the All-India Muslim Youth Conference, from 1978 to 1981, and a Union Minister in Dr Manmohan Singh's present government before becoming Chief Minister of Jammu and Kashmir. He began by saying that pluralism, diversity and democracy were of profound importance to the world today. With the EU's expansion to 25 countries, in 2004, the EU was now almost as diverse as India. India and the EU, the two largest democracies in the world, were "two of the foremost examples of multi-cultural, multi-religious, multi-ethnic and multi-lingual societies".

The success of both as plural societies, committed to respecting diversity, was "critical to preserving the fabric of international society and preventing the so-called 'clash of civilisations' becoming a tragic reality". Their shared values and beliefs in democracy, human rights, pluralism, civil society, an independent media and a strong judiciary made India and the EU "natural partners, as well as factors of stability, in the present world order".

This, and their long-standing co-operation, had been the background to the conclusion of their Strategic Partnership at the 5<sup>th</sup> EU-India Summit in The Hague, in 2004, which had been an acknowledgement of India's successful economic growth and political stability in a region marked by conflict.

Since independence in 1947, India had developed a national culture based on a commitment to secularism. India's Constitution had enshrined the objectives of banishing poverty, illiteracy and backwardness and building an integrated society out of the existing



heterogeneous and fragmented socio-political structure, which had been dramatised by Partition. The people had not swerved from this commitment to a composite culture expressed in a secular Constitution, which reflected the traditional Indian values of tolerance, equality and justice and which recognised India's religious pluralism.

Unlike many new nations, India had not fallen under military dictatorship or one-party authoritarian rule. There had been regular changes of government. Within this democratic framework, the State of Jammu and Kashmir enjoyed a large measure of autonomy and was the only state of the Indian Union to have its own constitution. All Indian legislation had to be ratified by the Jammu and Kashmir State Assembly, in order to be applicable in the State. While the people of Jammu and Kashmir, like those of other Indian states, took part in regular local, state and national elections, the same could not be said for those parts of the State "under the illegal occupation of Pakistan".

All the major religions were represented in India, which had the second largest Muslim population of any country. Jammu and Kashmir itself was a microcosm of India's diversity and contained Sunni and Shia Muslims, Hindus and Sikhs, Buddhists and Christians, which represented "a co-existence of faiths, a celebration of diversity and Sufi mysticism that transcends religious barriers". He said, "This is a precious legacy that must be preserved. We must not allow it to fall prey to the forces of extremism". Jammu and Kashmir's problems, over the past 17 years, were largely the result of cross-border terrorism.

India much admired the EU for its achievements over the past 49 years. From being a region of wars and revolutions, the EU had become a cradle of democracy, spreading its values not only within its own expanding family but to the whole world. India shared these fundamental values and both regions had an enormous responsibility to promote peace and stability in the face of terrorism, nuclear proliferation, energy insecurity, HIV-AIDS and poverty. Both had suffered from terrorism and both were working to combat it.

He hoped India's European friends would show understanding of India's efforts to deal effectively with the threat of terrorism to civilised secular society. India and the EU co-operated over a wide range of issues, which included trade, investment and technology. The EU was India's largest trading partner and second largest source of foreign direct investment. Indian firms, in turn, were increasingly investing in Europe. This reflected the priority and importance, which India attached to its Strategic Partnership with the EU, which the Chief Minister hoped would be intensified as a result of the Seventh EU-India Summit taking place in Helsinki in October 2006.

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## **The Discussion**

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Nawab Khan (Editor-in-Chief, India News in Europe Programme) asked whether President Musharraf's recent visit to Brussels and the Chief Minister's own visit indicated that India and Pakistan foresaw a role for the EU in helping to resolve the Kashmir dispute. Tito Tejinder Singh (Editor-in-Chief, New Europe) asked what might constitute a solution. Willem van der Geest (Director, EIAS) asked to what extent the involvement of Pakistan implicated only individuals or the Government of Pakistan itself.

Ghulam Nabi Azad said that India's position remained that the question of Jammu and Kashmir had to be settled bilaterally between India and Pakistan and that there was no question of any third party intervention. If Pakistani leaders had come to Europe more often than Indian leaders, this was because they had "a lot to explain". Terrorism, which had affected Jammu and Kashmir for 17 years, had now overflowed to other parts of India, including the attacks on the Indian Parliament and on trains in Bombay (Mumbai).

During this time, around 19,000 militants had been killed. 4,000 of these had been foreigners (all except 200 from Pakistan), while Pakistani agencies or militant groups had trained the other 15,000. There were also 144 clearly identified Pakistani terrorists in Indian goals. Although India had been on the receiving end of this terrorism, the international community usually held India responsible for human rights violations. However, around 5,000 members of the Indian security forces and 16,000 civilians, including women and children, had been killed by the militants. Civilians would also fall victim to anti-terrorist operations but that should not be construed as high-handedness by the Indian security forces.

The process towards a solution was already going on in terms of confidence-building measures and bilateral talks between India and Pakistan, which had borne dividends. In 1999, Indian and Pakistani forces had stood eyeball to eyeball after the Kargil confrontation but, for the last eighteen months, a bus service had been operating between the Indian and Pakistani parts of Kashmir. Since June 2006, another bus service had been initiated between Jammu and the Pakistani district of Poonch. Customs and immigration posts were being set up so that trade between Indian Kashmir and Pakistan-occupied Kashmir could develop.

Moreover, a first Round-Table Conference had taken place in March 2006, in Delhi, between the Government of India and a wide variety of political representatives from Jammu and Kashmir, including all national and regional parties and all ethnic and religious groups, except for the All Parties Hurriyat Conference (APHC). A second Round Table Conference later took place in Kashmir, again with



wide participation. Now, five working groups had been set up to examine solutions to the main issues and report back to the third Conference at the end of the year. However, there were those in Pakistan, as well as in Kashmir, who were not interested in finding a solution but only in promoting terrorism. Pakistan's army had a vested interest in prolonging the dispute.

Dick Gupwell (Secretary General, EIAS), who chaired the meeting, said that Pakistan had always tried to internationalise the issue, whereas India had tried to keep it as a bilateral dispute, according to the Simla Agreement of 1972. He asked whether General Musharraf himself supported the militants or only certain sections of the Army and the Inter-Services Intelligence (ISI). Were elements, both governmental and non-governmental, allowed to give succour to the militant groups to help them cross the frontier? He also asked why the APHC had not agreed to participate in the Round Table Conferences, given that any agreement reached would be firmer with their support.

The Chief Minister said that the militants had been supported and trained, first, by militant organisations based in Pakistan, second, by the Pakistani Army and, third, by the ISI. After the cease-fire between India and Pakistan, in 2003, there had been a substantial reduction of cross-border infiltration because the Army and the ISI had stopped supporting this. Unfortunately, since March 2006, there were signs that the Army and the ISI were again supporting the militants.

The Round-Table Conferences, of course, had involved Dr Farook Abdullah's National Conference. The APHC had given three reasons for not attending the first Conference in Delhi. They said that they had been given insufficient time to prepare (only one week); that the Indian Prime Minister should have held discussions exclusively with them prior to the Conference and not with other Kashmiri groups; and that only the leaders of political parties should take part. Thus, the second Round Table Conference, held in May in Srinagar, had been announced three months ahead, the Prime Minister had only met representatives of the APHC beforehand and had refused the requests of other groups for meetings, and the number of participants had been reduced from 75 at the first Conference to only 26 at the second. Nevertheless, the APHC had still not taken part fearing the prospect of elections.

The Chief Minister said he had offered to organise fresh State elections if the APHC wanted them. Recent State elections had been very clean and fair. The 1996 elections had been won by the National Conference with a three-quarters majority and the Congress was routed. However, in the 2002 elections, a five-party alliance, which included Congress, had won. Moreover, in four by-elections held in April 2006, there had been an average 73% turnout, which was 18% higher than the national average for India.

Malcolm Subhan (Vice-Chairman, EIAS) said that a middle-ranking government official from Pakistan had volunteered the view that the Pakistani Army would never agree to a peaceful settlement in Kashmir. Arnold Thomas (representing the States of the East Caribbean) asked if the notion of the "clash of civilisations" contributed to instability in India. The Chief Minister said that there was no clash of civilisations within India. Bo Jonsson (Member of the EIAS Administrative Board) asked if quiet third party assistance might help in finding a solution. The Chief Minister felt that a third party role might help to influence international opinion.

Dick Gupwell said that, when General Zia-ul-Haq, who was a strict orthodox Muslim, had been military dictator of Pakistan (1979-1986), many young officers sharing his religious views had been promoted in the Pakistani armed forces. By comparison, General Musharraf was a much more moderate Muslim. Did support for the militants come from General Musharraf and the High Command or rather from some renegade officers, who surreptitiously supplied assistance? If so, did General Musharraf oppose this or was he unable to control it? Neither Nawaz Sharif nor Benazir Bhutto had been able to control the army when they were Prime Minister. Another questioner asked how the Chief Minister approached the problem of the many insurgents who came from the Vale of Kashmir. Patrick Costello (Diplomatic Adviser to the President of the European Parliament) asked about the various assassination attempts, which had been made against President Musharraf.

The Chief Minister said that President Musharraf's rhetoric was on the right lines and in India he was considered to be the right person with whom to do business. It could not be said how far Mr Musharraf was himself involved in supporting the militants but there was no doubt that some in the government were not in tune with the President's thinking. In particular, some officers had said openly that they were against a peaceful solution for Kashmir. The Army had thrived on the dispute and the moment that it would be settled, its role would be diminished.

In the late 1980's and early 1990's many boys from the Vale of Kashmir had been lured over the border and trained in camps in Pakistani-occupied Kashmir, where many were still being trained. When they were infiltrated back, many were killed in battles with the Indian security forces, which also suffered casualties. However, the State Government also followed a "surrender policy" and advertisements were placed continually in the newspapers urging militants to give up their weapons. Those who did so received 3,000 rupees per month as compensation.

Dick Gupwell asked whether it was politically difficult for President Musharraf to close the camps and that, if



he went too far in offending powerful elements within the Government, the military or the intelligence services, he would put his own position at risk. Neil Campbell (International Crisis Group) asked how local grievances in Jammu and Kashmir were dealt with by Delhi and Srinagar. The Chief Minister replied that, whereas in the rest of India the number of people living below the poverty line was between 30 and 40%, the figure for Jammu and Kashmir was the lowest for the whole of India, being less than 4%. The national government provided 90% of the funds for the State budget. In addition, there was a reconstruction programme worth 2.5 billion rupees underway to repair the damage sustained over the past 17 years to infrastructure, schools, hospitals and bridges.

Sunil Prasad (Secretary General, Europe-India Chamber of Commerce) asked if many of the boys, who had been lured over the border to become militants, had been suffering from unemployment and if measures were being taken to stimulate employment among young people. The Chief Minister replied that unemployment had probably been a factor leading some of the youth into militancy. Since 1991, India had become a centre of the information technology industry, which was based in Bangalore and Hyderabad. Had this sector been established in Jammu and Kashmir, a more suitable location, it would have absorbed many of the unemployed youth but the sector had been put off by the militants. Likewise, tourism was a traditional industry in Kashmir but the militants attacked tourists to deter others. The militant leaders were opposed to economic development, as this would hamper further recruitment among the youth.

Karishma Bhansali (INEP) felt that it had been established that terrorism was harboured in Pakistan, that the Pakistani Army had a vested interest in continuing the Kashmir dispute and that President Musharraf's freedom of action might be limited. Should there be scepticism, therefore, about the possibilities of a successful outcome to the India-Pakistan dialogue? The Chief Minister replied that the recent meeting between Prime Minister Manmohan Singh and President Musharraf, at the Non-Aligned Movement's summit in Havana, was very encouraging, after the strains produced by the Bombay bombings. They had agreed that further meetings would take place at Foreign Secretary level, that the Prime Minister accepted President Musharraf's invitation to visit Pakistan and that a joint mechanism would be evolved to oversee the problem of militancy. Nawab Khan asked that, if the Pakistani Army had a vested interest in continuing the Kashmir dispute, could a solution be envisaged as long as the Army held power in Pakistan? The Chief Minister replied that the Army had been ruling Pakistan for the last 59 years and, even when there had been a civilian Prime Minister, he or she could not take any decision without consulting the Army Chief of Staff. ■

## East Timor - Recent political developments

by John Quigley

On 3<sup>rd</sup> October, Harold Moucho, Political Advisor to East Timor's President of the National Parliament, told a meeting of the European Institute for Asian Studies (EIAS) that an international peace mission, with police and military elements, is probably necessary to help East Timor overcome the current political insecurity. The meeting was chaired by Dr Willem van der Geest, Director of EIAS.

Mr Moucho said East Timor had come through 24 years of brutal occupation that, in recent times, had cost the lives of almost one third of the total population and left an estimated 80% of the country's infrastructure destroyed. With historic elections in 1999, East Timor had four years of a United Nations presence becoming officially independent in May 2002. Probably, in hindsight, the UN withdrew too hastily. The current political and security crisis has nothing to do with the role of the then Prime Minister, Mr Mari Alkatiri.

The decision to sack 600 soldiers was purely a military decision and the Prime Minister had no role in that process. Subsequently, those soldiers participated in a series of public demonstrations which, in turn, were hijacked by others with less clear motives. It seems that this was an attempt to overthrow the governing Fretilin party, which rules with an absolute majority. Possibly, many prominent people in East Timor are involved in the plot and may be operating with assistance of external forces. As these demonstrations ran out of control, mobs began burning offices of the Fretilin party, although this provocation was not returned.

In an effort to restore order, Australia, Malaysia, Portugal and New Zealand sent a military mission to East Timor. This has generally succeeded in ensuring peace but, clearly, some kind of international police mission will be needed. In June, Prime Minister Mari Alkatiri resigned and did not come under any pressure from the President Mr Xanana Gusmao. Indeed, there will be a new general election in 2007 and it seems likely that the governing party will again be returned to power with a large majority. A Report into the violence and the attempted coup is due to be published this October. This may show that unidentified English-speaking foreigners approached elements within the military in an effort to spark a coup and that the military insisted on the primacy of civilian rule.

East Timor has excellent relations with Australia and Indonesia. However, there have been some frictions due to Prime Minister John Howard calling for the



resignation of East Timor's Prime Minister, the only government leader to have made such a statement. Australian troops should probably come under a UN mandate if they are to remain in East Timor but, so far, Canberra has refused. Ideally, East Timor would benefit from an international police mission with a small military component and this would not be Australian-led. With the recent turmoil, over 100,000 people have been displaced and with the onset of the rainy season there could well be a humanitarian crisis. The EU has a role to play and the European Commission has supported mechanisms for national dialogue. Shortly, the Prime Minister of Latvia will travel to East Timor.

As Discussant, Mr Manuel Schmitz, Chairman of the German-Timor Leste Society, said he would like to offer a different perspective. Fretilin is the dominant political party and is the dominant mass organisation only succeeded by the Roman Catholic Church. The Prime Minister has to have the support of Fretilin and Mari Alkatiri was elected Secretary General of the Party, again, with 97% of votes cast. Fretilin have a huge majority in Parliament, approaching two thirds of seats. In village level elections in 2005 they won 80% of votes. This indicates that the Prime Minister has huge support with Fretilin and that the Party has huge support nationally. However, this mass-level support does not translate in acceptance by the wider political elite.

As Prime Minister, Mari Alkatiri was criticised for his top-down approach to his administration but he secured a valuable deal with Australia on sharing oil and gas deposits around East Timor. Regarding the sacking of 600 soldiers, some observers note that while the chief of the military announced the decision, it had the full support of Mr Alkatiri who publicly gave his backing to the move. Already in 2004, there were rumours of discontent within the army and some soldiers petitioned the President in January 2006 voicing their concerns. These soldiers left their barracks in February, for the first time, to engage in political protests, but many actually returned. The role of outside influences was noted but Mr Schmitz wondered whether this could be elaborated upon, particularly as relations with Indonesia and Australia were described as excellent. The civil and political unrest is indicative of the political divide apparent in East Timorese society and between Fretilin and the opposition political parties.

### **Questions and Comments**

David Fouquet, Director, Asia Europe Project, wondered about the role of other political parties in East Timor and whether other major elements in society, such as the Catholic Church, at least tacitly supported Fretilin. If there is not a counter force to Fretilin then there is the risk of a one party dictatorship. What is the outlook for the 2007 general

election. Dr Willem van der Geest wondered whether the speaker could elaborate on the suspected role of third parties in the unrest. Also, from where do the current political opposition receive their funding. Was the recent unrest connected to factors crossing over the border from West Timor.

Julang Pujianto, Political Counsellor, Embassy of Indonesia, emphasised that Indonesia and East Timor have a good bilateral relationship. Both sides are concerned about moving on from the past and developing common future. Both sides have established, in August, a Truth and Friendship Commission which will investigate the events of 1999. At regional level, there are regular trilateral meetings between East Timor, Indonesia and Australia, a process which started in Bali in 2002. The third meeting in the series took place in Dili in September. Indonesia's objective is to ensure a stable East Timor and that the government will be able to build a future for its people.

Norbert Probst, Desk Officer East Timor, DG Development, European Commission, noted that East Timor needs international assistance to help develop its administrative and institutional capacity. However, with a lack of qualified personnel in government ministries, how will it be possible for the ruling administration to implement reforms and spend development aid. Kevin Villanueva, Programme Manager, *Universidad de Deusto*, Spain, wondered who was responsible in the government or donor community for institutional development and whether the government had a road-map for reform.

### **The Speakers in Reply**

Mr Moucho indicated that the decision to dismiss 600 soldiers was legally taken and the Prime Minister had to recognise it. Mr Alkatiri asked the army chief to convene a Commission to investigate the complaints raised in the petition and it had been agreed that the soldiers would not return to barracks. There is not an East - West divide in the army. Fretilin commands a party membership base of 270,000 people out of a voting population of 450-60,000 people. The lowest ranked vote in support of Fretilin was in the West of the country at 69%. Fretilin has 55 out of 88 seats in Parliament, whereas the next largest party has 7 seats.

If the Prime Minister is taking hard decisions it is because he wants to move East Timor out of a donor dependency culture and into a viable State. In four years, the government has opened 900 health clinics, repaired 400 schools and carefully uses the Petroleum Fund, worth US\$800m, to help develop the country. There is a problem with administration and capacity building in trying to implement the agreed budget. There were allegations that the Prime Minister, during the unrest, distributed arms, thereby fuelling the conflict. This is ridiculous, Mr Moucho said. Arms



were distributed to civilians in order to support the police, in accordance with prevailing law. The Court will decide whether this was correct and if any crime has taken place it should be prosecuted.

The Catholic Church is not against the ruling Fretilin party but only against the Prime Minister as Secretary General of the Party. The Church would like him replaced and have demonised him as a Communist and a bad Muslim. East Timor has close diplomatic relations with Cuba, who has sent 300 doctors to boost the healthcare system, and receives development assistance from China.

Fretilin expects to win the 2007 election with an even bigger majority, partly in response to the current crisis. People will remember that the Party headquarters was burned and of the 2400 houses destroyed in Dili an estimated 90% were of Fretilin supporters. The political opposition consists of 16 parties, 12 of whom are represented in Parliament.

In March 2006, two English speaking foreigners approached elements within the military urging the launching of a coup against the government. It is not known if these people were Australian or American. Mr Moucho recalled that the only government leader to have called for the Prime Minister's resignation was John Howard. Negotiations with Australia on the oil and gas deal were tough and a pipeline route has yet to be agreed. If it comes with East Timor's territory there could be up to 5000 jobs created. There are also some unresolved border issues with Australia.

The value Indonesia places on good bilateral relations is demonstrated by the fact that one of the first visits by their President after the election was to East Timor. The old UN mission was responsible for creating security institutions and guaranteeing the functioning of the State. The withdrawal in 2002 was probably too early. The government has now asked for a 2000 man strong police mission which will help with security and to train the existing police force. In contrast to the past, this training should be undertaken by one lead country. This might well be Portugal.

Manuel Schmitz said other countries have been supportive of East Timor's opposition political parties in order to try and foster some sense of contestable democracy. This should not be equated with interference in other areas of society. Indeed, with electoral support for Fretilin so strong then it hardly matters who is actually the Prime Minister of the day. One of the side effects of the UN presence in the past was the creation of a bubble economy around international aid workers and staff which led to high prices and high inflation. This collapsed immediately after the UN departed. The government should put in place some mechanism to prevent this from happening again. ■

## Coming to terms with new security challenges: Eurasian intra & inter-regionalism

by Dr Xiaokun Song

On 14<sup>th</sup> September, the European Institute for Asian Studies (EIAS) and the Friedrich Ebert Stiftung (FES Brussels) co-organised a workshop on "EU-Asia Relations: Perspectives of Political and Security Policy in a Global Context". By comparing regionalism both between and inside Asia and Europe, the workshop assessed how intra- and inter-regional integration and co-operation in the two continents can enhance multilateral responses to new security challenges in a globalised world. More specifically, in the context of the new security environment and the rapid emergence of regionalisation in Asia, the workshop examined the perceptions of two emerging powers, China and India, with regard to regionalism, and identified the EU's role in Asian regionalism.

The pace of regional integration in East Asia has quickened remarkably since the 1990's and, in particular, after the 1997 financial crisis. The workshop noted that this process was different from the European experience where integration had unfolded mainly in the terms of Europe-the-project. In contrast, in East Asia, regionalism was characterised by a vast array of groupings and founding characteristics or principles. Although East Asian regionalism has regarded the EU as a source of inspiration and a point of reference, the Asian process has remained different in many respects from the European model. This can be seen most notably with regard to the principle of sovereignty. Whereas the highly institutionalised process of European integration has gradually transformed the EU into a post-Westphalian hybrid type of international player, East Asian regionalism has attached great importance to the principle of non-interference in the internal affairs of a sovereign State.

Welcoming guests from Asia and Europe, Dr Ernst Stetter of FES Brussels said the workshop was indeed a timely event, offering a forum for open dialogue and discussions on the key themes of the recent Helsinki Summit. As an observer to the Helsinki ASEM Summit, Dr Sebastian Bersick, Senior Research Fellow, EIAS, said he noted an increased dynamism within the present process of EU-Asia inter-regional co-operation. To a large extent, such dynamism had developed out of the rapid expansion and deepening of East Asian regionalism. With its success, the EU has provided East Asian regionalism with a point of reference and a source of inspiration. This, in turn, increased the EU's involvement in Asia mainly as a



soft power through inter-regional co-operation, via mechanisms such as ASEM.

Mr Hervé Jouanjean, Deputy Director General, DG RELEX, European Commission, noted that with its increasing soft power role, the EU had indeed attracted partners worldwide. The EU model was now regarded by the outside world as a recipe for success, despite occasional difficulties and setbacks, as evidenced by the immense demand for co-operation with the EU from across the world. As Mr Jouanjean saw it, ASEM was a unique type of regionalism at the inter-regional level, capable of addressing a wide range of security issues ranging from fighting terrorism, organised crime, epidemics to natural disasters. With the likelihood of both India and Pakistan joining the club in the new future, ASEM will cover an even larger portion of the world population and will have even greater potential to shape the international world order.

Over recent years, the EU's strategic interests in East Asia were noted to have expanded significantly, primarily due to historical and geopolitical reasons but, also, as a result of specific economic and political issues that underlie the EU's engagement in the region. However, through the introduction of the concept of Strategic Partnerships with particular countries, the EU was expected to play a bigger role in promoting peace and stability in the region. Recent developments such as the Aceh Monitoring Mission signified the EU's potential to contribute in a substantial and meaningful way to conflict resolution and peace-building in the region. Although for the foreseeable future, the EU would still remain a second-line player in hard security matters in East Asia, there was nevertheless a need for the EU to express more explicitly its interests in the region. It was also essential for the two sides to develop common perspectives through more transparent and institutionalised strategic dialogues.

Presenting an overview of the development of regionalism in East Asia since the 1960's, Dr Zhang Pei, Senior Research Fellow, Shanghai Institute for International Studies, argued that China has played a big role in the acceleration of Asian regionalism. Over time, Beijing had changed its perceptions of regionalism, shifting from alienation to active participation. In line with the 'peaceful rise' doctrine in its foreign policy, China today stresses the importance of multilateralism at both a regional and global level. The rationale behind its good neighbourhood policy went beyond any simple rationalistic calculation of using regional partnerships to check the US hegemony. Instead, it was embedded in a firm conviction that given the wide range of common challenges and the intertwined interests in the globalised world, multilateral co-operation rather than zero-sum competition was the only way to ensure China's sustainable development in a peaceful way. Since the 1990's, China has not only joined and participated

actively in existing regional organisations such as APEC and ASEAN but it also undertook initiatives to establish a new regional organisation such as the Shanghai Co-operation Organisation.

Dr Christian Wagner, Senior Research Fellow, German Institute for International and Security Affairs, examined how another rising Asian power, India, changed its approaches to regionalism in its quest for great power status. In contrast to China, India's economic takeoff after 1991 did not grow out of a government-led initiative. While India's development lately had tailed behind that of China, India had the comparative advantage of having developed the various institutional mechanisms and practices within its constitutional democratic system to deal with problems such as social disparity and ethnic diversity. India had expanded its engagement in regionalism from South Asia to include East Asia. In contrast to the EU's adherence to effective multilateralism, India had been selective and instrumental in its multilateral co-operation undertakings.

Professor K.S. Nathan from the Institute for South-East Asian Studies, Singapore, identified a number of factors that might account for an overall acceleration in the regional integration process. These include the relative decline of the predominance of the United States, the showcase success of European integration and the failure of global governance, such as the WTO Doha Round. While ASEAN was created as a meso-level problem solving forum, its huge intra-regional divergences meant that there was not yet a common ASEAN security policy. Arising out of historical problems and ongoing territorial disputes, Asian regionalism still lagged behind compared to Europe. However, drawing upon lessons from the EU, ASEAN countries opted for an incremental integration, stressing the spill-over effect from functional integration over formal integration at the institutional level. Professor Nathan also stressed the continued importance of the US to regional development in Asia.

Reflecting upon post-Cold War Europe, Dr Ummu Salma Bava from Jawaharlal Nehru University, India, raised a number of interesting questions. She wondered whether there was an over-emphasis on security issues in the EU-Asia relationship. While the EU had adopted its Security Strategy in December 2003, there could be a role for an expanded notion of security that includes hard and soft security and concepts related to human security. Perhaps there should be an effort to try and define the EU's security objectives with this in mind and ultimately the EU's security identity. The workshop was concluded with a public forum presenting the just-published book *Multiregionalism and Multilateralism: Asian-European Relations in a Global Context* edited by Dr Bersick and Dr Paul van der Velde of the International Institute for Asian Studies, Leiden. ■



# Development strategies in Asia: Opportunities and challenges for European business

by John Quigley

Mr Rodolfo Severino, the former Secretary General of the Association of South-East Asian Nations (ASEAN) addressed a joint meeting of the European Institute for Asian Studies (EIAS), the Hanns Seidel Stiftung and the Office of the Representation of Baden-Württemberg in Brussels, on 17<sup>th</sup> October. Mr Severino said ASEAN is the hub of a growing range of political and economic arrangements in South-East Asia and that a potential ASEAN-EU Free Trade Agreement (FTA) could have enormous value for both regions.

Addressing the theme of integration in East and South-East Asia, Mr Severino suggested that many European countries tended to view the entire region not as a whole but, rather, as a mixture of individual countries. This was previously understandable, he said, as the East Asia region had been fragmented and the Western tendency had been to concentrate on larger and rising markets such as China or India. Of course, in the background, Japan, as the world's second largest economy was always looming large. However, European business should instead look at the South-East and North-East Asian region as one unit.

East Asia is integrating for trade and commercial reasons into a regional economy although perhaps not precisely along the model outlined by the European Union. The ASEAN model is expressed in terms of intra-regional trade and investment and personal and financial networks that cover the entire region. This would have implications for supply chain management and location strategies for international business. Figures for the share of intra-regional trade in East Asia highlight substantial changes in East Asia compared to either NAFTA or the EU, where the figures have remained fairly constant over time. It also indicates that East Asian barriers to trade are falling.

There are efforts underway to conclude FTA's and Closer Economic Partnership Agreements (CEP's) to encourage integration and the liberalisation of trade in goods and services. ASEAN reached an Agreement in 1992 to steadily reduce tariffs on trade to 5% and hence towards 0%. Implementation of the Agreement is on track, Mr Severino said, and is paralleled with agreements on services, goods, customs, standards, transport, tourism, communications, investment and on institutional strengthening. Equally, the countries in the region have established the ASEAN Industrial Co-operation (AICO) facility to help facilitate trade without tariffs and this has had some success.

Across South-East Asia there are extensive commercial and industrial networks including the Japanese, Chinese, South Koreans, Taiwanese and Hong Kong businessmen. These countries share some cultural affinities and are geographically close that should help enable companies to take advantage of lower wage rates, for example in Vietnam from China and Indonesia-Australia of the Philippines-Taiwan. The integration of the region is closer than is perhaps thought. Thus, the countries do not have to wait for formal integration, similar to the EU, but can take advantage of synergies already now in place.

The investment of EU firms in East Asia is at substantial levels, although the share of EU trade in percentage terms is actually declining. Also, the evidence highlights that the investment is taking place at the national level rather than trying to take advantage of cross-border synergies. This trend of market driven integration is underpinned by deliberate political decisions to bring the region closer. ASEAN, it should be noted, has served as a hub for broader regional arrangements including the ASEAN Regional Forum (ARF), ASEAN+3 (South Korea, China and Japan), the Asia-Europe Meeting (ASEM), the East Asia Summit and through FTA's.

These broader arrangements represent the political level schemes that underpin the trend towards integration. Nevertheless, there are some political obstacles to further integration. While ASEAN and China have a good economic relationship, the political dimension is still under construction. The Taiwan Strait issue and the relationship between China-Japan-USA can be a source of tension.

For ASEAN-EU, there are significant links, reflecting ASEAN's role as the hub of expanding political and economic ties in East Asia. This means that ASEAN can be a gateway for companies to engage in the region. However, within the AICO facility, only one EU company has been involved - Volvo! Nestle, the Swiss company, was also involved. As the nature of the EU-ASEAN relationship evolved, to include political and security issues, both groups created new structures to reflect the more complex nature of links. The EU has been an important source of ODA, not just for the least developed countries but also for Indonesia.

Recently, the EU has indicated that it might be interested in signing up to the Treaty of Amity and Co-operation. This could help pave the way for EU participation in the East Asia Summit, reflecting the EU's long history of providing support to the region through financial and technical assistance. The EU could be more active commercially in developing integration and could push for further governance reforms. The value of the EU model should be explored further for East Asian integration and a role for interaction with ASEAN economic policy makers.



Thus, the potential for an ASEAN-EU FTA should perhaps be examined. It might have enormous value helping to identify further opportunities for trade and investment and would clarify where the constraints to further links might lie. Clearly, East and South-East Asia are integrating and, yet, at the same time remain open to global trade. This is a dynamic process where business networks exist which EU firms could take advantage of. Indeed, while ASEAN continues to integrate, it can learn much from the EU model and should continue to receive EU help to do so.

### **Panel Discussion**

Following the presentation of Mr Severino, Dr Willem van der Geest, Director, EIAS, opened the panel discussion noting that there was a need to link the development strategies of countries in the region to the business strategies of companies operating in East and South-East Asia. However, these strategies seem to be running in parallel, without ever converging. One example could be the role played by the Grameen bank system in Bangladesh which replaced the system of money lenders with the social innovation of small-scale lending without the need for collateral. This allowed every villager to explore the potential of becoming an entrepreneur thus requiring a link between development and economic strategies.

Dr Sebastian Bersick, Senior Research Fellow, EIAS, remarked that EU-East co-operation should be brought more clearly into focus, moving beyond the current fascination with China and India towards the ASEAN regional grouping, of which the EU was its first dialogue partner. The influence of the EU on regional co-operation mechanisms in East Asia has been extensive. The future of co-operation in East Asia will depend on ASEAN's ability to build institutions in order to manage the dependencies arising through links with India and China. While new leaderships may bring about some measure of change, the linking of economies alone will not resolve the danger that interdependencies might create conflict. Giving itself a legal entity and enforcing political co-operation will be important developments in the evolution of ASEAN.

Wolfgang Niedermark, Director, Asia-Pacific Affairs, BASF, said business already sees Asia as one whole region, rather than as fragmented individual countries. If ASEAN is in the background of the media's perception the same is not true of business. For example, BASF has four production sites in India, thirteen in ASEAN and others in China, Japan and South Korea. This is part of an integrated strategy.

There seems to have been a recovery in EU foreign direct investment in 2005, when it reached US\$38bn. BASF is part of the intra- and inter-regional processes in Asia helping to deliver integration - 50% of production in South Korea is exported to other Asian

countries. BASF Germany will receive a delegation of Ambassadors from ASEAN countries to discuss corporate social responsibility issues. Regarding FTA's, there is a feeling in business that for sector-wide agreements there may not be any reason to wait if companies can decide on appropriate tariff levels. Although the WTO process might be preferable, business can not wait indefinitely. Bilateral agreements could be a stepping stone to the multilateral level.

### **Questions and Comments**

Ralph Kamphöner, EuroCommerce, noted that a reference to the WTO seemed to be missing from Mr Severino's presentation. Would any prospective ASEAN-EU FTA have an added value under the WTO, or would this be too optimistic. Bo Jonsson, EIAS, questioned the strong emphasis given to FTA's when one study had shown, for Thailand, that domestic investment had been hampered. What could be done to ensure this would not happen elsewhere. George Antonio, European Commission, wondered whether the initiative of Japan for a 16-nation FTA in Asia was considered realistic. Sylvain Plasschaert, University of Leuven, suggested that the AICO facility had some added-value to try and reduce tariffs but this must be seen against the protection offered to agriculture. Hanns Glatz, Daimler-Chrysler, asked whether ASEAN should first develop fully its internal market before proceeding to FTA's or just let the top four nations do their own thing.

### **The Speakers in Reply**

Mr Severino said negotiations for the Doha Round are stuck. A global multilateral trade regime would be the preferable option but it is unlikely to happen in the short term. The next best option would be regional trade agreements as these can have positive political implications. Such agreements should help make the Doha Round move forward and not conflict with WTO rules. A Vision Group Report suggested that East Asia should conclude a region-wide FTA but the time for such an Agreement may not be right.

Dr van der Geest said that in contrast to ASEAN there was a problem of balance in trading within SAARC. However, by enlarging and building external links with China, Japan and South Korea the grouping may be able to make progress. Dr Bersick said market-led integration has occurred because governments were not leading the process. The EU must commit itself strongly to assisting Asia to integrate further. Mr Niedermark said the Asia-Europe Business Forum existed to help companies but this could not take the place of a proper Asia-Pacific-wide strategy. The last ASEM Summit, in Helsinki in October, was unable to deliver a strong business message to governments. As long as the WTO stands still, sector-specific agreements will be necessary. ■

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# Outlook and perspectives for Taiwan

by John Quigley

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On 26<sup>th</sup> October, the European Institute for Asian Studies (EIAS) hosted a lunch briefing with two American scholars addressing the current political and security-related situation in Taiwan. It was suggested that the language of diplomacy in East Asia is extremely important and that public perceptions in Chinese mainland society are important factors in determining the future role and status of Taiwan. The meeting was chaired by Dr Willem van der Geest, Director, EIAS.

Professor June Teufel-Dreyer, Department of Political Science, University of Miami, told the meeting that Taiwan society demonstrated a multi-layer influence ranging from the original inhabitants of the island to the Portuguese, Dutch and Japanese arrivals. The Dutch were responsible for the arrival of large numbers of Chinese plantation workers, while Japan occupied Taiwan for ten years. Subsequently, the Americans arrived.

This could be considered the background to the claims by China over the island. However, it should be borne in mind that. Echoing Robert Zoellick's statement, China must become a responsible stakeholder on the Taiwan Strait issue. While Henry Kissinger developed the notion of a 'one China' formula this was under the belief that that both sides would agree to it and that the United States would not object. However, the view of the Taiwanese was not considered and this has had implications for contemporary diplomacy.

Two examples from two different American administrations provide clear evidence of the greater resources and skill of Chinese diplomacy. During the Clinton administration, in September 1994 a Department of State Spokesman stated that Taiwan was 'absolutely' a part of China and that this fact was a consistent factor in US policy. Of course, the statement was later retracted. Then, in November 2004, US Secretary of State, Colin Powell, said Taiwan did not have sovereignty and the US hoped for eventual re-unification. Equally, this statement was later replaced with something more innocuous. However, in both instances China is happy to use the statements as evidence of US thinking without referring to the official retractions, making the impact of these statements extremely dangerous. China is happy to refer to such positions as the official US outlook.

Equally, the US-China recognition agreement places Taiwan in a diplomatic limbo. America had never agreed that Taiwan was part of China or that Taiwan

lacked sovereignty. This kind of limbo impacts on the stability of the wider East Asia region. Remarkably, only Taiwan is ever criticised for making changes that affect the '*status quo*'. Despite enacting the 'anti-secession law', China does not suffer this kind of criticism, with comments only stating that the 'original draft was worse'. The European Commission's recent Communication on EU-China relations is artfully crafted but contains some ambiguous statements. It suggests there should be no change in the *status quo*, however, unless this condition is applied equally to both sides then China will be given a free hand. The one China policy is silly when you consider the position of two sovereign States, on either side of the Taiwan Strait, collecting their own taxes, holding elections and enacting separate laws.

Dr Gary J Schmitt, Director, Programme on Advanced Strategic Studies, America Enterprise Institute, referring to China's military budget, noted that the spending across the last fifteen years has seen double digit increases. Indeed, according to a Pentagon assessment, China's budget is twice what Japan is spending. Across the whole defence equipment spectrum, China is surging ahead. For example, in the last six years, China has added an estimated 300 4<sup>th</sup> generation fighter jets to its airforce, bought from Russia. China has full scale production of the J10 fighter, which utilises British technology, which is comparable to the US F16 jet. This means that the balance of airpower in the region is becoming problematic, not just for Taiwan but also for the US.

China has added 13 submarines to its fleet, whereas the US can only add one per year. These are major changes from even just 10 years ago. According to Pentagon estimates, the US would have a 50% chance of containing this kind of threat. While military expenditure in most other countries was falling, it has actually risen substantially in China actually outpacing domestic growth rates. This creates problems of transparency about China's military and its military rationale. It seems clear that the build-up is designed to coerce Taiwan into unification. In the last 7 years, China has conducted some fifteen military exercises based around a sea-borne invasion scenario.

Although the US defence budget is substantially higher, US forces are spread out around the world and are not directed at one niche issue. Costs are mainly related to personnel and on specific operations. China seems to be trying to match US power projection making it difficult to protect US aircraft carriers in the event of a conflict. The build-up ensures that if China was interested in a conflict it would be hard to persuade China towards another option.

In part, in terms of domestic political considerations, China's legitimacy rests on recovering 'lost' territories. The government has built up expectations amongst the



public to the extent that any failure to reclaim Taiwan could be perceived as a failure of the regime. While it might be stressed that the pattern of US military alliances in the region could help prevent any conflict, it should be noted that much of Chinese military literature refers to the concept of the weaker force overcoming a stronger attacking enemy.

In terms of implications of the one China policy, Dr Schmitt said essentially the policy rests upon an ambiguity, which has become more complicated following the adoption of the policy in 1972 and the official recognition of China in 1978. There is a growing sense of strident Chinese nationalism, on the mainland, particularly amongst students. While Taiwan may not accept the policy definition, the West continues to accept China's version.

### **Questions and Comments**

Malcolm Subhan, Vice-Chairman, EIAS, remarked that there appeared to be some resonance in the Taiwan Strait issue with kinds of colonial thinking prevalent between Britain and India, before independence. There was a strong sense that the 'natives' were not capable of governing themselves and lacked the appropriate economic or military power to organise the country. Dr Sebastian Bersick, Senior Research Fellow, EIAS, recalled the statement of one speaker that economic interdependence would not solve problems evident across the Strait. Actually, at EU level, Member States have found the price of preventing conflict has been to pool sovereignty at a regional level. What action could the West undertake to help prevent China from choosing military action. Should it be considered dangerous that Taiwan is not part of any regional political mechanism in East or North-East Asia.

Wen-shin Lee, Taiwan Association in Belgium, said he thought China's motives towards Taiwan could be described as imperialist. Chinese policy seemed to be that if Taiwan does not acquiesce then it may be attacked. Thus, Taiwan becoming part of China can not be compared to EU integration processes. Dick Gupwell, Secretary General, EIAS, noted that China had governed the island of Taiwan for only a ten year period, which seemed surprising given China's diplomatic reach elsewhere. The concept of sovereignty could be considered a 17<sup>th</sup> Century concept so how applicable would it be to the cross-Strait issue. Is China capable of maintaining the *status quo*.

Dr Geritt van der Wees, Ministry of Economic Affairs, Netherlands, raised the content of the Commission Communication on the need to maintain the *status quo*, wondering whether this principle would be applied equally to both sides of the Strait. The continuous build-up of missile on the mainland would seem to represent a fundamental change in the *status quo*, which continues despite protests from both the EU and

US. Errol Levy, DG Research, European Commission, wondered what kind of incentive would China need in order to take Taiwan off the table. Would Taiwan ever consider joining China if the mainland became more democratic and, in the event of an invasion, is it possible that China might just get away with it.

### **The Speakers in Reply**

Professor Teufel-Dreyer wondered whether the implication of the colonial feeling, as demonstrated by India, would be for Taiwan to seek a nuclear weapon in order to force the world to take its concerns more seriously. It does not seem that other governments have to put up with China's irrationality on this issue. The difficulty of managing interdependence arises when one partner is much larger than the other. Thus, there is dissatisfaction in Latin America following China's diplomatic and economic interventions there recently. The same may happen in Africa if China continues to play one country off another for economic gain.

As a Western concept, sovereignty was enunciated in the Treaty of Westphalia. China seems happy to apply it on occasion. China did not have much interest in the island of Taiwan because of Taiwan's failure to perform tributes to ruling emperors. Only after the arrival of the Dutch, who encouraged migration to Taiwan did the mainland take more interest. It would be hard to envisage what might be a sufficient incentive to China to deter its objective of taking over Taiwan. Even if China did democratise, any formal relationship would place Taiwan as a small minority inside a large country. Indeed, EU external relations practice suggests that if China did invade, after an initial interruption in the relationship the EU would continue to seek economic links with the mainland.

Dr Schmitt stated that China's military build exceeds whatever might be considered appropriate for self-defence. Without any apparent external threat, the motive for the build-up is even more worrying. At critical moments, it would be hard to rely on interdependence to resolve a crisis. With China's rising power and ambition, a policy of interdependence may not be enough to contain Beijing. The West needs to make clear that it values a democratic regime in East Asia, such as Taiwan, and that threats are not welcome. The USA has done a poor job in the region in terms of extending its influence and building a region of stability. The Western response to Tiananmen Square shows that, eventually, the West would forgive Chinese behaviour, including an invasion. In light of the Chinese military build-up, in retrospect, the US should have insisted that Beijing rescind the anti-secession law. The West should hold China to internationally agreed standards of behaviour and until such time as China undertakes greater political reform, it is hard to envisage the US abandoning East Asia and allowing China to become the dominant influence. ■



UNESCO Report: Educational Exchanges, Top five destinations for outbound students in 2003/2004

South Asia							
Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Germ (787)	USA (3198)	India (227)	USA (79736)	Malay (542)	USA (4384)	USA (7325)	UK (2267)
Iran (786)	Austral (2950)	Austral (118)	Austral (15742)	Austral (232)	India (801)	UK (4378)	Austral (2117)
Turkey (210)	UK (1721)	Malay (105)	UK (14625)	UK (115)	Austral (616)	Germ (1186)	USA (1964)
Saudi A (184)	Cyprus (1633)	USA (63)	Germ (4237)	New Z (42)	UK (394)	Austral (1100)	Japan (615)
Nether (169)	Japan (958)	Thai (28)	New Z (1205)	India (34)	Japan (343)	Malay (613)	India (391)

Central Asia				
Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Russia (20098)	Turkey (784)	Russia (708)	Russia (1385)	Kyrgyz (9856)
Kyrgyz (3635)	Russia (715)	Kyrgyz (641)	Turkey (1293)	Russia (2430)
Germany (876)	Kazakh (544)	Turkey (265)	Kazakh (719)	Kazakh (1783)
Turkey (781)	Germany (386)	Kazakh (132)	Kyrgyz (418)	Tajik (1277)
USA (538)	USA (179)	USA (117)	Tajik (303)	Germany (520)

South-East Asia									
Brunei	Burma	Cambodia	Indonesia	Laos	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Austral (753)	USA (691)	France (715)	Austral (10184)	Viet N (700)	Austral (16094)	USA (3467)	Austral (11200)	USA (8937)	USA (3165)
UK (744)	Japan (492)	USA (330)	USA (8880)	Japan (231)	UK (11806)	UK (777)	USA (3955)	Austral (5449)	France (2950)
Malay (287)	Malay (348)	Viet N (303)	Malay (4731)	France (168)	USA (6483)	Austral (674)	UK (3905)	UK (3754)	Austral (2619)
New Z (25)	Thai (255)	Japan (260)	Germ (2572)	Austral (117)	Japan (1841)	Japan (526)	Malay (486)	Japan (1604)	Germ (2006)
Canada (22)	Austral (211)	Austral (177)	Japan (1474)	USA (65)	New Z (831)	Germ (229)	Canada (348)	Germ (958)	Japan (1340)

East Asia and Pacific							
China	North Korea	South Korea	Hong Kong	Macau	Papua N Guinea	East Timor	Japan
USA (87943)	Italy (255)	USA (52484)	Australia (13165)	USA (374)	Australia (648)	Portugal (229)	USA (40835)
Japan (76130)	Germany (244)	Japan (23280)	UK (10577)	Australia (282)	New Z (105)	Cuba (20)	UK (6395)
UK (47738)	Canada (174)	Germany (5488)	USA (7353)	UK (107)	UK (56)	Macau (6)	Australia (3172)
Australia (28309)	UK (156)	Australia (3915)	Canada (1852)	Canada (45)	USA (32)	Japan (3)	Germany (2547)
Germany (25284)	---	UK (3482)	Macau (746)	Portugal (20)	Japan (31)	---	France (2337)

Source: UNESCO Global Education Digest 2006 (Extracted by the author)