

EIAS Work Programme 2006



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**The Brussels-based research and policy think tank analysing
political, economic, security and socio-cultural dimensions
of the relations between the European Union and Asia**

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I. Geo-economic and geo-political contexts

EIAS research, publication and meeting activities are selected taking note of geo-economic and geo-political developments, and their impact on the European Union, as well as within Asia. The 2006 EIAS programme will reflect the anticipated institutional development of the EU and the work programmes of the EU-institutions in particular.

a) Geo-economic Context

'The Ministers will discuss the international economic situation and focus on current challenges such as the situation on oil markets and the continuously great global imbalances. Specific initiatives to deepen cooperation between Europe and Asia will be a further subject on the agenda. The main topic in this context will be to review the results of implementing the action program (Tianjin Initiative), adopted at the [previous] year's Finance Ministers' Meeting, and to plan the further implementation of the program. It is also envisaged to tackle the specific priority area of the emerging structural changes in the international division of labour, as well as the resulting challenges in economic policies for Europe and Asia'

In view of above quote from the website of the 2006 Austrian Presidency about the forthcoming ASEM Finance Ministers meeting (scheduled for April 2006 in Vienna), it is to be expected that the US deficits will remain prominent on the global agenda. Global macro-economic developments in 2006 will be characterised by several main factors:

- The continued large 'twin' deficits of the US (on trade as well as on the current accounts) and its implications for the international exchange rate of the dollar vis-à-vis the euro, the yen and sterling. Although the large deficits could arguably boost demand for European and Asian goods in the short run, the likely impact on the medium and long terms are bound to be negative for the EU. US consumers are likely to turn away from European goods and services. Although during 2005 the US interest rates moved upwards, ahead of Euro interest rates, the Euro remained relatively strong.¹

- Moreover, the Asian exchange rate regimes (including China) are likely to remain closely linked to the US dollar, even though some marginal shift was made through the move from a 'pegged' regime to a 'currency-basket regime' in China during 2005. Hence, the trading of goods and services from European platforms will remain comparatively costly and further *decrease* the EU's international competitiveness.

¹ As a further consequence, the value of international dollar denominated assets (including official reserves) held by EU and Asian investors has been decreasing.

- These geo-economic developments will have significant implications for trade, investment and financial flows between the EU and Asia, in general leading to an increase in EU imports but making EU exports more expensive than those from the US. The ‘closer EU-Asia economic partnership’ which Asian governments have repeatedly called for may be perceived as adding to EU-Asia trade deficits, while threatening an increase in unemployment within the EU.

- Despite the Lisbon Strategy, the EU continues to suffer from slow growth, imperfect competition and failing economic dynamism. The impressive growth performance of emerging economies, such as China and India, further illustrates that the EU is at risk of seriously falling behind. EU research and development (R&D) and innovation are crucial prerequisites towards getting its economy back on the right track. In this light, the scope for collaboration with the EU's emerging Asian partners should be analysed. Indeed, Asian countries such as India, Singapore and Taiwan have mastered the research and innovation skills the EU seeks. Can the EU gain from such Asian partners in building up its technological capability? Could EU-Asia science and technology partnerships improve the EU's comparative advantages?

In the short and medium term, Asia is likely to remain the world's highest growth and profitability zone, affording opportunities to EU- and US-based corporations. Therefore, EU companies will be experiencing export *disadvantages*, but outward investment advantages. Outsourcing and increased commercial presence of EU companies in Asia are likely to continue to increase during 2006. The debate within the EU about the (presumed) negative employment effects of outsourcing to India, China, Thailand, Malaysia, Pakistan and Vietnam is bound to intensify.

The 6th Ministerial Meeting of the World Trade Organisation, scheduled to take place in Hong Kong in December 2005, will fail to conclude the Doha Development Round. Amongst the issues of special interest to developing countries will remain the need for deep reduction of agricultural subsidies in the US and the EU, perhaps beyond the terms of the Geneva accord of 31 July 2004.² The EU Commissioner for Trade, Mr Peter Mandelson, has argued in the EIAS's *EurAsia Bulletin* that ‘...Asia has a key role to play in moving the Round forward and ensuring a balanced final outcome’. Brussels-based intellectual exchange will be called for to ensure that the EU's interest are clearly articulated and well-understood. The EU position is that progress in the reduction of agricultural trade barriers should be reciprocated by tangible progress in the negotiations on industrial goods and services. As Mr Mandelson commented:

‘Getting the balance right in the Doha Round means working together and engaging every part of the WTO membership, especially Asia.’ (quoted from the *EurAsia Bulletin*, Vol. 9, #9&10, pp.5-6).

Hence, the geo-economic context will mean that European responses to closer economic partnership with Asia will remain one of multiple objectives, informed by different and sometimes opposing interests.

² Issues to be addressed include (i) IPR-regimes for life-enhancing or life-saving drugs related to AIDS and other pandemics; (ii) implementation of proposals on the ‘temporary movement of natural persons’ of particular interest to the high-skill, low-earning professionals across Asia.

b) Geo-political Context

East Asia is emerging as the world's fastest growing region and a high-profitability zone with strong demands for European trade, investment and technology. It is imperative for the EU that the emerging East Asian regionalism is an 'open and inclusive' one, where cooperation within does not limit engagement with the outside world. Avoiding a 'fortress Asia' and promoting a secure and stable region would be key long-term EU interests in the region.

The interests and concerns of individual Asian states, be they convergent or divergent, will shape the form and function of future regional structures. Current negotiations undertaken by East Asian governments will, at the very least, lead to a more autonomous East Asia; in which regional partners know each other better, coordinate their actions more widely, determine common goals and form common positions. Tremendous progress has been achieved in this direction over the past few years. New rules are being discussed in East Asia and even if the outcome remains an open process, external actors will find it more difficult to capitalise on regional divisions in the future through a 'divide and rule' strategy.

The prospects for advanced military security cooperation seem distant for the moment; however, voices within China would like to see Asian countries 'focus on cooperation and co-ordination across borders and in different spheres of security to strive for 'comprehensive security''. However, 'hard' security stumbling blocks do exist on the path to a dynamic East Asian region, most notably the dilemma of North Korean nuclear proliferation and tensions in the Taiwan Strait.

Deepening and widening regional integration initiatives throughout Asia, through the enlargement of SAARC, the proposed ASEAN FTA, the upcoming East Asia Summit etc., will impress upon the Europe the need to formulate policies which encompass changing regional dynamics and address the effects they might have on the EU. The much discussed 'Rise of China' will remain on agendas for some time to come – with particular reference to the its growing role in regional and global governance.

The 13th SAARC Summit, held in Dhaka on November 11-13, was of crucial importance with regards to the development of regional and global integration in South Asia. Amongst the outcomes was an agreement for Afghanistan to become a member with effect of the next summit meeting, an agreement that both China and Japan will be granted observer status to the SAARC, firm commitment to the realisation of a South Asian economic union and SAFTA, and an agreement of India to invest \$100 million in the South Asia Development Fund. The integration and enlargement of SAARC's activities in 2006 will put South Asia back on track to realising its full potential. Coupled with this, will be the growing importance of India, both within the Region and on a global scale.

The increase in global demand for energy – greatly fuelled by Asian nations' (China and India in particular) growing consumption of fossil fuels – will not only influence the global markets and economic agendas, but also the way in which nations behave in a strategic geo-political context. The Central Asian states will become more integral to the strategic supply of energy – and as such are becoming more important for external players.

The US-led 'war on terrorism' will remain prominent on the global agenda, with far-reaching implications for Afghanistan, Pakistan, Iraq, and possibly other geopolitical flashpoints within Asia (for example Indonesia, Iran). With the increasingly controversial statements of newly elected President Mahmoud Ahmadinejad, Iran may well emerge to become a focus of international geopolitical concern in 2006.

As the sole global superpower, the US remains a dominant and key player within Asia, both in economic and security contexts. With EU interests increasing in the region, it is necessary that Europe pursue its comparative advantages in areas of soft diplomacy whilst maintaining a good working relationship with the US. The newly launched EU-US Strategic Dialogue on East Asia will go a long way towards improving communication and avoid misconceptions such as those witnessed during the China Arms Embargo debacle.

Fractionous divisions within the Council of the European Union, as witnessed over support for the US-led invasion of Iraq, will only limit the extent to which the EU is perceived as a serious actor. Given the importance of the EU's engagement with Asia, there is a definite need for Brussels-based intellectual exchange on the possible synergy and convergence between the EU and individual member states with regard to their respective Asia policies and strategies.

c) EU-Institutional Context

The European Union's enlargement has brought in ten new Member States, with Romania and Bulgaria expected to join in 2007-08, but their engagement in the EU's external relations with Asia has yet to reach its full potential. Representatives of the new Member States will need to be offered more information and analysis about the aims, objectives, ideas and practices of the EU's relations with Asian countries through a Brussels-based intellectual exchange on EU-Asia relations.³ At the same time, competence and experience which may exist in the new Member States will need to be brought into play at the European level. Introducing several new Member States as participants to the 7th EU-East Asia Think Tank dialogue was an important step forward, but more will need to be done. EIAS will accept to make presentations or engage in dialogues in the new Member States (for example in Lithuania in March 2006). Further to this, EIAS will also endeavour to invite suitable interlocutors to Brussels in order to brief about the state of play of new EU Member States' competencies, strengths and weaknesses on Asian issues (for example Amb. Ksawery Burski, formerly Poland's Ambassador to Singapore, Indonesia and China will address a lunch briefing at EIAS on this subject).

The strengthening of the EU Common Foreign and Security Policy (CFSP) has been halted by the failure of the EU Draft Constitution to win endorsement in the French and Dutch referenda. EIAS will contribute to the process of explaining the need for a well-defined CFSP as a pre-condition for effective multilateralism.

³ Moreover, EU enlargement is likely to affect EU-Asia relations in several other ways: Asian countries are concerned about the possible loss of markets in the new Member States as technical, sanitary, phyto-sanitary and food safety regulations and, for some products, higher Common European Tariffs, may increase entry barriers to these markets. Secondly, EU investment flows to Asian countries may be affected, with diversion in favour of the newly acceding Member States possibly taking place. Appropriate policy responses to EU enlargement by Asian governments and non-state actors will remain an important area of studies and analysis during 2005-06.

Working closely with Commission and the Council Secretariat, EIAS will seek to inform the public debate about the scope and role of the EU in Asian political and security developments.

In view of the above political, economic and institutional contexts, *four* major themes are identified for the 2006 EIAS work programme:

- I. EU-Asia Inter-Regionalism and ‘New’ Regionalism in Asia**
- II. Political and Security Developments in Asia**
- III. EU-Asia International Political Economy**
- IV. Socio-Cultural Dimensions of EU-Asia relations**