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Prospects for EU-Asia Relations

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EU AND ASIA



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List of Acronyms

AEC	ASEAN Economic Community
AFTA	Asian Free Trade Agreement
APEC	Asia Pacific Economic Forum
ARF	ASEAN Regional Forum
ASEM	Asia Europe Meeting
ASEAN	Association of South East Asian Nations
CBM	Confidence Building Measures
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GDP	Gross Domestic Product
KEDO	Korean Peninsula Energy Development Organisation
LDC	Least Developed Country
MES	Market Economy Status
PD	Preventive Diplomacy
SAARC	South Asia Association for Regional Cooperation
US	United States
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

Introduction

As the European Union (EU) seeks to expand its influence on the global stage it has struggled to find a balanced relationship with Asia. Only in the past few years, with the launching of the ASEM process in 1996, has the EU sought to deal with Asia as a region. Otherwise, it has laid more emphasis on bilateral relationships with Japan, China, Korea and India. The EU, partly because of the hopes that it might develop closer political and economic integration along European lines, has always treated ASEAN slightly differently. Today the emphasis remains on deepening bilateral relations. EU-China ties, for example, have enjoyed a major boom in the past few years. But there is also a recognition that the EU and Asia have to deepen their region-to-region dialogue, not least to balance the respective dialogues between the EU and the US and Asia and the US.

Asia is a crucial partner for the EU in many key areas. Asia has been the cradle of several of the world's major religions and has an unparalleled cultural richness. Asia accounts for over half the world's population, more than a quarter of world GDP and just under a quarter of international trade. Asia accounts for 21% of EU exports and a steadily increasing share of FDI. Much more than Europe, Asia is tremendously diverse, economically and politically, socially and culturally and also in terms of scale. The region includes the two most populous countries in the world (China and India) and some of the smallest (Brunei and Bhutan). It includes some of the richest countries in the world (Japan and Singapore) and some of the poorest (eight Asian countries are on the UN list of LDCs). India is the world's largest democracy while there are several countries in the region under non-democratic forms of government. East Timor, a subject of EU-Asian disputes in the past, is one of the world's newest sovereign countries. Europe also has a very diverse background but a number of important differences stand out. There are only democratic states in the EU and the spread of wealth between countries is much more even in Europe than Asia. Despite the recent increase from 15 to 25 members, the EU is more homogeneous than Asia. It had achieved a far higher degree of political and economic integration than Asia and has further ambitions both to deepen integration and to become a more important global actor.

1. The EU, Asia and the US

In the second half of the 20th century there was a fundamental realignment of European and American relations with Asia. For almost 200 years the Europeans were the main colonial powers in Asia. After the second world war, the US became the main military power in Asia and Europe faded in terms of security provision and interests. The US became the dominant external power in security affairs, politics and economics. Washington formed alliances with Japan, Korea and the Philippines; and provided a de facto guarantee to Taiwan. Many Asians studied in the US and many emigrated there. Asian affairs, thanks to strong ethnic lobbies, were thus given greater prominence in America than Europe. As the EU consolidated there was much talk in the early 1990s of a new trilateral world based on the emerging EU, the US and Asia (mainly East Asia). It was recognized that the European relationship with Asia was much weaker than either the EU-US relationship or the US-Asia relationship. But elite opinion in all three continents considered that this triangular relationship was a key building block for the future of the world. There was much talk of the “Pacific Century” and Americans mused first about the challenge from Japan, and later, about the challenge from China. The financial crisis of 1997-98 buried any dreams of the “Pacific Century” and talk of a trilateral world faded. Now is perhaps time to resurrect the idea.

2. The EU and Asia in a Changing World

Both the EU and Asia are undergoing rapid changes in an increasingly globalised world with just one remaining superpower – the US. The EU has recently enlarged from 15 to 25 Member States, with more queuing at the door. Turkey is the largest candidate and a decision on opening accession negotiations is expected in December. The introduction of the single currency (euro) is widely regarded as a success even though not all Member States have joined the eurozone. In June European leaders agreed a new constitution for the EU that will significantly increase its ability to operate and maintain a profile on the world stage. For example, there will be a new EU foreign minister supported by an EU diplomatic service. It remains to be seen whether this “new Europe” will continue to take an active interest in relations with Asia. The new Member States, for example, have few ties with Asia and are more interested in their immediate neighbourhood. But Asia is too important to ignore and providing the current problems over Burma are overcome, then the two regions are likely to resume their engagement on a number of fronts.

Regardless of Europe, Asia is also moving forward rapidly, powered by China’s remarkable economic growth, the economic recovery in Japan and a new found confidence in India and ASEAN. The financial crisis of the late 1990s (to which the European response was largely passive) seems to have galvanized Asians into renewed efforts at regional cooperation on economic and trade issues, and more slowly, on political and security issues. The renewed efforts to promote ASEAN are being mirrored in East Asia and South Asia. Europeans watch these developments

with great interest, and stand ready to offer advice based on their own successful efforts at integration. However, Asian diversity and the differences in political cultures and political systems as well as Asian reluctance to share sovereignty will continue to hinder political integration in Asia.

A key question is the future of China. Although it has begun to exercise a new and more positive role in the region there remain considerable uncertainties about its future internal development and its external goals. There are major concerns about the impact of its high growth rates on the environment and the world markets for energy and natural resources. There are also concerns about its future relations with the US, Japan, India and above all, with Taiwan.

3. EU and Asia - Shared Interests

There are many shared interests between the EU and Asia covering political, security, economic and social issues. On the political side, the triangle formed by the US, EU and Asia is increasingly important in world affairs. Strengthening the EU-Asia side of that triangle would also strengthen the prospects for global governance based on multilateral institutions to which both Asia and the EU are strongly committed. Both the EU and Asia have a vital interest in ensuring Washington lends its support to strengthening multilateral institutions rather than pursuing a unilateralist approach. At the same time the EU and Asia must recognize the shortcomings of the multilateral system and seek to promote "effective multilateralism." This means more serious reflection on how to strengthen the UN, the WTO and the Bretton Woods institutions; and also how to tackle the new security threats caused by "failed states." It requires a frank debate on when to use force to resolve international problems. The differences over Iraq demonstrate the urgency of such a dialogue.

Asia and Europe also share the same security concerns with regard to terrorism, drugs and illegal immigration. Combating religious extremism is another growing shared interest. Asia is home to many trouble spots (N Korea, Afghanistan, Taiwan, Kashmir) that impact on Europe, as well as the US. Given the unilateral tendency in US foreign policy, one can detect a growing willingness on the Asian side to discuss security issues with the EU. The EU's "soft power" and its ability to promote peace and security through development aid, economic assistance and non-military security cooperation is increasingly welcome in Asia. For example, in Afghanistan the EU is the largest donor in terms of humanitarian aid and assistance for reconstruction with over one billion euro pledged for 2002-2006. The EU also provides the lion's share of peacekeepers in Afghanistan. The EU contributes over 60% of the UN budget and 70% of official development assistance.

On the economic side, Asia is the fastest growing market for European goods and there has been a boom in European FDI in the region. The prospect of using the euro more in financial markets and for trade has enormous potential. Together, the EU and

East Asia account for nearly half the world's GDP. Close coordination between the two continents on economic, trade (WTO/Doha) and financial matters is therefore a necessity. Asia's trade relations with the EU have increased ten fold since the early 1990s. The value of EU imports from Asia is now over 230 billion euro and EU exports to Asia are worth more than 140 billion euro annually. Asia is now the EU's third most important trading partner and its fourth most important investment destination. However, there are marked regional variations within this overall booming relationship. EU trade with South Asia lags far behind East Asia although India's impressive economic growth rates are beginning to attract the EU's attention. Political changes in India after its general election and the country's willingness to intensify the dialogue with Pakistan over the Kashmir problem have not gone unnoticed in Europe either.

Concern for the environment is a further issue shared by Europe and Asia. Cooperation on Kyoto has been good but there are many other problem areas to be tackled together, such as sustainable natural resource management (e.g. forestry), the management of urban development, and energy security. European experience and technology is advanced in this area and could be of interest to Asian partners. However, many Asian countries, above all China, still seem too concerned with economic growth to accept European advice on sustainable natural resource management. China has recently turned into a net importer of crude oil and the country's ever-growing need to import oil and other raw materials gives rise to concern in Europe and Asia respectively. Only the US consumes more crude oil than China (China has recently overtaken Japan as the second biggest consumer of crude oil) and China is only at the early stages of its economic development.

Migration is an increasingly sensitive issue and Asia is the source of potentially significant migratory flows to Europe. The EU and Asian countries have started a dialogue on this common challenge in the context of ASEM and are beginning to develop common approaches. The EU is also a significant contributor (30%) in terms of development assistance to Asia.

Despite considerable progress in recent years, the level of mutual awareness between Europe and Asia is still less than one would expect given the existing level of contact. Clearly there is considerable scope to promote greater inter-regional exchanges in the fields of education, culture and tourism. A positive step was the recent opening of European Commission delegations in Singapore and Malaysia.

Many of the above points were noted in a communication from the Commission in 2001 that discussed the framework for a strategic partnership between the EU and Asia. Regrettably there has not been a consistent follow-up to the Commission proposals.¹ This EU strategy towards Asia nevertheless marked something of a breakthrough as hitherto relations were primarily on a bilateral basis. The Union, however, was keen to maintain and deepen its relations with ASEM, ASEAN and other sub-regions (South Asia and North East Asia).

4. Asia Europe Meeting (ASEM)

As the name implies, ASEM is an informal forum for European and Asian leaders to meet and discuss common challenges. Meetings are held at the level of heads of government, foreign ministers and senior officials. The first ASEM summit was held in Bangkok in 1996; the second in London in 1998; the third in Seoul in 2000 and the fourth in Copenhagen in 2002. Singapore was the driving force in the early days, with France perhaps the most enthusiastic on the European side. In the early years of ASEM there was a feeling on both sides that Asia-Europe relations could be developed from trade and economic issues to cover political and security issues as well. The Copenhagen meeting, for example, issued a strong declaration on fighting terrorism. Some also thought ASEM could be a useful counter to the US dominated Asia Pacific Economic Forum (APEC). Remarkably ASEM is the only major forum involving key countries where the US is absent.

Despite the initial fanfare, ASEM has not become an EU priority. This may have been because its objectives were rather vague such as “addressing political, economic and cultural issues, with the objective of strengthening the relationship between Asia and Europe, in a spirit of mutual respect and equal partnership.”² ASEM thus remains an informal EU-Asia forum lacking the instruments and capabilities to implement joint EU-Asia initiatives. Despite ASEM’s successes in bringing European and Asian politicians, academics and others together, some still refer to the forum as a “talking shop” lacking the political will to move beyond an informal dialogue. ASEM still has no real secretariat (not even its own website) and the information available on ASEM’s work is still very limited. It has established a number of task forces (e.g. an EU-Asia economic task force), but both the EU and the Asian side still seem reluctant to implement the task forces’ recommendations. The absence of European ministers at recent ASEM meetings has led to irritations on the Asian side and accusations that the ASEM is not receiving enough attention on the European side. If the ASEM process is to remain significant, the Europeans need to show more dedication to the process.

Relations are currently clouded by the long-running dispute over how to treat Burma/Myanmar. This dispute led to the cancellation of two ASEM ministerial meetings in July 2004 and threatened the holding of the fifth ASEM summit in Hanoi in October 2004. Asians argue that the EU should not endanger the entire relationship because of problems in one country and charge the EU with hypocrisy in singling out Burma. The EU says that it is not prepared to sit at the same table as a military dictatorship and wants to see the military regime replaced with a democratically elected government and an improvement in Burma’s human rights record (including the release of Aung San Suu Kyi) before accepting Burma as part of ASEAN and ASEM. While only last year ASEAN nations strongly urged the military regime in Burma to live up to its promise to introduce democratic change, some ASEAN countries have since amended their viewpoints saying that Burma should be engaged using the “ASEAN way.” This was then interpreted in the EU as a retreat from

previous commitments on human rights and a signal from ASEAN not to interfere in their internal affairs. Despite the deepening of EU-ASEAN relations, the principle of non-interference into internal affairs of Member States formulated in the ASEAN Charter is proving a stumbling block to closer ties. The “ASEAN way” of political decision-making will continue to clash with the EU policy-making style of intervention and willingness to share sovereignty.

Given the importance of the global challenges facing Europe and Asia, and their common approach on many issues, it is vitally important that the two sides overcome their differences on Burma. The ASEM summit in Hanoi went ahead with a face-saving formula acceptable to both sides but the problem is far from resolved. The majority view of all members is that the ASEM process is too important to let the Burmese military dictatorship hijack the process. Nevertheless, the Burma issue will leave a sour taste in the mouth and it will be important to reflect on how to develop ASEM more productively in the future.

The Chairman’s statement following the Hanoi summit did indeed reveal a willingness to try and inject new life into ASEM. The dispute over Burma was papered over while leaders agreed to intensify political and economic cooperation. The emphasis on the political side was on terrorism, WMD and strengthening the multilateral system. On the economic side the focus was on Doha, energy, IT, transport, tourism and intellectual property.

5. Growing Asian Regionalism

ASEM is perhaps more important for the Asian side because there is no other forum that encompasses all Asian countries. Increasingly, South East Asia and North East Asia cooperate with each other through ASEM or ASEAN “plus 3” (i.e. China, Japan, South Korea). India is also linked to ASEAN via the ASEAN Regional Forum ARF. The EU is a full member of the ASEAN Regional Forum and is actively contributing to peace and security in Asia through the forum. The ARF, however, is still confronted with the criticism of being a regional security “talking shop” lacking the instruments to implement policies and security initiatives. The ARF 1995 Concept Paper formulates three stages of conflict management: a) confidence-building measures (CBMs) b) preventive diplomacy (PD) and c) conflict resolution. The ARF, however, has yet to move beyond the stage of CBMs and the EU (as well as other non-Asian ARF Member States) has become concerned that the ARF is unlikely to engage in preventive diplomacy any time soon, despite the various troublespots in the region. Despite the ARF’s shortcomings, however, Asian nations acknowledge that the EU as a “distant power” with limited strategic interests in Asia can play a meaningful role in the region’s security through a forum whose character is still mainly consultative and not designed to implement legally-binding policies.

APEC is another body that embraces the US, Canada and even Chile. But the prominence given to APEC by the Clinton administration has waned and few hold out much prospect for it developing into a coherent and important body. Given the lack of common institutions and the diversity of the continent, there is very little in terms of explicit common policy objectives agreed among all Asian countries. However, there are common types of challenges shared by all Asian countries. On trade and investment, all countries are linked by the common challenges and opportunities of globalisation and progressive trade liberalisation. Almost all countries in the region are members of the WTO or are in the process of acceding to it. Many Asian countries also face the task of adapting their regulatory environments, for example in order to improve corporate governance and the stability of financial systems. At the same time, Asian exporters face yet another common challenge – how to adapt their products to meet changing EU regulatory requirements, notably in the areas of health and environmental protection.

6. East Asia

East Asia is by far the most important region for the EU in terms of politics and economics. Japan is the EU's top trading partner in Asia although China is catching up fast. Relations with Korea lag some way behind. The EU is, however, committed to a peaceful solution to the nuclear crisis on the Korean peninsula.

EU-China relations have increased dramatically in the past few years with several EU heads of government, plus EU Commission President Romano Prodi, visiting Beijing and the Chinese Prime Minister visiting Europe. Relations are driven primarily by mutual economic interest but also by the desire of each side to play a bigger global role. Unlike the US, China does not view the EU as a threat to achieving its eventual goal of unification with Taiwan. Indeed Beijing seems to see the EU as a possible counterweight to the US. Significantly, China produced its first-ever strategy paper focussing on the EU in October 2003. It coincided with a Commission communication that highlighted the "shared interests and challenges in EU-China relations." The paper talked of China as a "strategic partner" and looked to a "beneficial relationship of equals." The EU aim was to assist China in its transition to a stable, prosperous and open country that fully embraces democracy, market economy and the rule of law.³

The astonishing economic growth in China has led to a boom in trade and European FDI. Total trade in 2003 was estimated at 130 billion euro making China the EU's second biggest trading partner after the US, just ahead of Japan. By 2005, China should take over the top spot. China has also become the economic engine for Asia accounting for more than half of total regional trade compared to just 11% in 1999. EU-China relations have also expanded to cover many other areas. The EU was supportive of China's bid to join the WTO but problems remain in at least two sensitive areas. The EU continues to maintain an arms embargo against China following Beijing's use of military force to crush peaceful pro-democracy demonstrations in Tiananmen

Square in June 1989. Despite strong pressure from China to lift the embargo, the EU has decided to keep the embargo in place until Beijing improves the human rights situation in China. The decision to keep the embargo in place, at least for the time being, was made despite French and German pressure urging the EU to open the Chinese market for European weapons manufacturers. China is very likely to keep up the pressure on the EU to lift the embargo, but no EU decision on the weapons embargo is expected until the end of 2004 (if at all).

The other contentious issue is the EU's refusal to grant China market economy status (MES) because of lack of transparency and accountability of Chinese enterprises. This issue will remain on the EU-China agenda until the Chinese achieve the recognition they desire.

Meanwhile cooperation has intensified on many other fronts. At the 6th EU-China Summit in Beijing in October 2003, the EU and China agreed to jointly develop the EU's Galileo radio satellite navigation system, despite US concerns that China is mainly interested in the military use of the system. China has also supported the EU candidate (France) over Japan as the site for the world's first large-scale nuclear fusion plant, a \$12 billion project known as the International Thermal Nuclear Reactor. Apart from science and technology, other fruitful areas for cooperation include the fight against terrorism, proliferation, tackling failed states and health (SARS).

The future direction of China will have important repercussions for Europe and Asia. Will the present moderate policies in external relations continue or will China be tempted to use its growing military power to achieve its goals? What will the environmental impact of China's voracious appetite for natural resources be? What will happen when the economic bubble bursts? How long can an authoritarian leadership maintain power faced with such rapid social and economic changes? The EU can be a moderating influence on China but ultimately the Chinese will have to decide their own path. China could develop into a constructive and influential global actor with a reformed political system; or it could fail to meet its many domestic challenges, including high and rising inequality and unemployment, massively indebted and unreformed companies in key sectors, emergent social unrest and an unsettled leadership transition. There is also the potential for differences over China's emphasis on multi-polarity and the EU's emphasis on multilateralism.

Relations between the **EU and Japan** are highly developed and generally trouble-free. For many years it was a trade-dominated relationship but more recently, since the signing of the 2001 EU-Japan Action Plan, there has been an emphasis on political and security cooperation. The Action Plan calls for closer co-operation to promote global peace and security through the strengthening of the UN system, continued co-operation to achieve the elimination of weapons of mass destruction, joint efforts to promote concepts of human security including human rights, humanitarian assistance and development assistance to the most vulnerable populations. This EU-Japan cooperation, however, has been limited so far and it will be important to assess how areas for common action can be deepened.

The EU and Japan are both perceived as “soft powers” on the international stage, promoting peace and security through economic assistance, development aid and non-military security co-operation. Contrary to the US under the Bush administration, the EU and Japan are both active in promoting alternative concepts of security as well as concepts of preventive diplomacy and conflict prevention. Again, in contrast to the US, the EU and Japan share common concepts and visions of global governance. Both the EU and Japan are strong supporters of multilateralism and have a shared interest in promoting Kyoto and the International Criminal Court (ICC). But relations were strained a little in 2003 when Japanese Prime Minister Junichiro Koizumi fully backed the US-led invasion of Iraq and later sent Japanese troops to assist in the stabilization of that country. Japan’s new found assertiveness in international security has also raised some suspicions among its neighbours, notably China and South Korea.

The scope for EU-Japan cooperation is thus wide but there must be greater efforts on both sides to achieve the goals set out in the Action Plan.⁴ The 2005 ‘People to People’ programme should see a welcome increase in academic, social and cultural contacts between the two sides.

EU-South Korea relations are largely dominated by trade issues. While trade has boomed there remain some difficulties concerning Korean subsidies to its shipbuilding industry and semiconductors. The EU-South Korea trade frictions will be settled at the WTO in Geneva and both the EU and South Korea are optimistic that the problem will be resolved at an early stage. Despite trade friction, the EU and South Korea have been able to expand their bilateral relations significantly over the last years and EU FDI is growing every year.

EU-South Korea relations are based on the 2001 EU-South Korea Framework Agreement and in 2003 the EU and South Korea celebrated 40 years of diplomatic relations. The EU is committed to supporting South Korea’s policy of “Peace and Prosperity” (formerly “Sunshine Policy”), South Korea-North Korea reconciliation and South Korea’s efforts to find a peaceful solution to the nuclear crisis on the Korean peninsula.

The EU is also involved directly in North Korea via the Korean Peninsula Energy Development Organization (KEDO). The EU has a seat on KEDO’s Executive Committee and has made significant contributions (money and manpower) to KEDO in recent years. Given North Korea’s refusal, however, to verifiably dismantle its nuclear weapons programme, the KEDO process is on hold and it remains unclear as to when (or indeed if) KEDO will continue its work providing North Korea with non-nuclear energy through the construction of two light-water reactors in North Korea. The political will on the US and Japanese side to continue work on KEDO any time soon remains limited at best.

In the absence of US and, until recently, Japanese food and humanitarian aid, the EU remains, at least for the time being, the largest donor of food and humanitarian aid to North Korea and will continue its efforts to contribute to the resolution of the

humanitarian and food crisis. The EU is deliberately separating security and nuclear issues on the Korean peninsula from humanitarian issues, but does nevertheless urge the North Korean regime to dismantle its nuclear weapons programme to enable the EU to implement its technical assistance programmes for North Korea. Since the nuclear revelations in North Korea in October 2003 the EU's technical assistance projects (significant in number and scope) are on hold and the EU will only resume the execution of the programme when North Korea complies with its international obligations to dismantle its nuclear weapons programme.

7. South East Asia/ASEAN

The EU shares many common features and interests with South East Asia. Both are seeking to deepen regional cooperation and integration between highly diverse Member States through the EU and ASEAN respectively. Countries from both regions cherish the respect for their cultural, religious and linguistic identity. Both regions are committed to a multipolar world based on strong multilateral international institutions. These common interests and values should form the basis of a new partnership between the two regions. The two regions also enjoy very strong commercial links. On trade, the EU is now ASEAN's third largest trading partner, accounting for 14% of ASEAN trade. Significantly, the EU is ASEAN's second largest export market after the US. On investment, EU investors put nearly 2 billion euro into the ASEAN region in 2001, which although high is lower than in previous years reflecting the attraction that China is now exerting. ASEAN countries are again displaying impressive growth figures and are set to become one of the most dynamic growth engines for the world economy. With its growing export-led economies and a fast developing domestic market of 530 million people, ASEAN is a region of global economic importance that the EU cannot afford to neglect.

Established in 1967, ASEAN has made relatively little progress in achieving its own proclaimed goals. There has been some limited progress on the reduction of customs barriers and the abolition of tariffs. In 2003 the ASEAN Summit agreed to set up an Economic Community (AEC) with the aim of achieving an ASEAN internal market by 2020. ASEAN has indicated that it sees the EU as a role model for its economic integration and is interested in learning from EU experience. However, ASEAN's "principle of non-interference into the internal affairs of Member States" formulated in the ASEAN Charter still stands in the way of Asian regional integration. The recent initiative to implement free trade agreements (FTAs) in Asia is, however, an indication that Asian nations are increasingly committed to regional economic integration. The goal of establishing an Asian Free Agreement (AFTA) within a decade confirms this. Most recently ASEAN agreed to work towards a customs union for most industrial products by 2012.

In its turn, the EU sees a stable and prosperous ASEAN as a fundamental ingredient for the promotion of stability in the wider Asia region. For more than two decades relations were governed by the 1980 ASEAN-EC Cooperation Agreement "between equal partners." The failure of the ASEAN side to meet its declared goals as well as

disputes over East Timor and Burma meant that relations did not develop as had been hoped. This led to a re-think on the European side and in July 2003 the Commission launched its communication on 'A new partnership with South East Asia' with the aim of reinvigorating relations with the region and ASEAN.

The communication identified the following main priorities⁵:

- (1) Supporting regional stability and the fight against terrorism*
- (2) Promoting human rights, democratic principles and good governance*
- (3) Mainstreaming Justice and Home Affairs issues*
- (4) Injecting a new dynamism into regional trade and investment relations*
- (5) Supporting the development of less prosperous countries*
- (6) Intensifying dialogue and co-operation in specific policy areas*

It also intends to engage ASEAN on a wider and modern policy agenda. It offers regional dialogues on trade matters (TREATI initiative) and non-trade matters (READI initiative). The dialogue process will be closely coordinated with the ASEAN Secretariat and will be organised around ASEAN's own policy and expert meetings and agenda. A fundamental issue in this respect will be to increase mutual awareness and the EU's profile in South East Asia.

South East Asia's political agenda is driven by both regional and international concerns. The terrorist attack carried out in October 2002 in Bali demonstrated the threat to the South East Asian region. It has spurred a reinforcement of efforts to develop cooperation on security issues both within ASEAN and with the international community. The EU-ASEAN Ministerial Meeting in January 2003 issued a Joint Declaration on Cooperation to Combat Terrorism. The dramatic rise in the political and economic significance of China has underlined the importance of achieving cohesion within ASEAN. Significant progress towards economic integration has been made in recent years. As ASEAN advances it is increasingly challenged to take more political responsibility. The critical statement on Burma/Myanmar, the creation of a Security Community and the setting up of a Dispute Settlement mechanism all in 2003, are signs of a maturing political will within ASEAN.

For ASEAN, a key priority remains how it should deal with the development gap between its richer and poorer members following the enlargement with Vietnam, Cambodia, Laos and Burma/Myanmar in the nineties. Average per capita income in South East Asia is 1,217 euro: ranging from 215 euro in Cambodia to 3,900 euro in Malaysia and 23,500 euro in Singapore. The enormous disparity between the poorest and the richest ASEAN members places a direct restraint on economic and social integration. The substantial differences between the EU and ASEAN in terms of political and economic integration as well as GDP also sets parameters to the relationship.

8. South Asia (SAARC)

The South Asian Association for Regional Cooperation (SAARC) was set up in 1985 by seven countries: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. It is much less developed than ASEAN, a situation that reflects underlying tensions between its members (e.g. India/Pakistan). It has had very few concrete achievements, even in the areas of its eleven action programmes (i.e. agriculture, communications, education, culture and sport, environment and meteorology, health and demography, prevention of drug trafficking and drug abuse, rural development, science and technology, tourism, transport, women's position in society).

South Asia and SAARC has been accorded a lower priority by the EU and the focus has largely been on trade matters and development assistance.⁶ South Asia has significant development potential, but also faces profound political and economic challenges. The region is home to some of the world's most difficult political crises: the ongoing tensions between India and Pakistan, the Maoist armed insurgency in Nepal and the civil war in Sri Lanka. There have, however, been positive developments in all these situations. Developments in Afghanistan also influence the political situation in SAARC, even though Afghanistan is not member of the organisation. The EU takes an active interest in supporting the resolution of these tensions, recognizing that a stable South Asia is important for global security. Most of these problems require national level solutions. SAARC can, however, make a contribution to conflict solution and prevention, in particular by promoting intra-regional economic links. The cooling of tensions between India and Pakistan led to a more productive summit in Islamabad in January 2004 when SAARC adopted three important documents on free trade, the financing of terrorism and social affairs. With the results of the summit SAARC has given itself a clear economic integration agenda, which could provide the basis for closer cooperation with the EU. One possible idea could be an EU-South Asia summit in the near future that would signal the EU's interest in a region that is home to the world's largest democracy and counter the previous EU concentration on other parts of Asia.

In economic terms, South Asia has an enormous resource in its population of some 1.4 billion people. Although it only represents 1,6% of world exports and imports, it has significant growth potential. For example, India, the region's largest country grew by 8% in 2003 and its GDP is expected to match Italy's within a decade. India, however, remains far behind China in both trade and FDI. In 1978 the merchandise exports of China and India were similar but by 2004 Chinese exports had jumped to over \$400 billion while India was just over \$60 billion. Inter-regional trade is ten times higher in East Asia than South Asia. The EU plays a significant economic role for the region. Over the last few years, the EU was on average the destination or origin for 20-25% of SAARC exports and imports. The EU is the largest trading partner for all South Asian countries except Nepal, accounting for up to 30% of their exports.

Despite progress, South Asia still has a significant trade liberalization agenda to address. Most countries continue to have a high anti-export bias in their trade regimes and in general national economies remain highly protected. While South Asia's intra-regional trade has doubled since 1990, it remains far below its potential. The recent agreement to establish a South Asian Free Trade Area is major step in boosting regional trade and integration. On investment, India is now a growing destination for investors, especially in the modern high-tech sector, but other countries in the region attract relatively little FDI. South Asia needs to dismantle further its trade barriers, improve its human skills and technological base, and engage fully in regional and multilateral trade arrangements.

Chronic and pervasive levels of poverty, with more than a third of its citizens living on less than one dollar a day, severely restrain the region from realising its potential. Despite significant growth over the last decade, mostly in India, it is no surprise that Bangladesh, Bhutan and Nepal remain classified by the UN as least developed countries (LDCs).

Hitherto the EU has paid most, albeit still modest, attention to India, which ranks only 18th among the EU's trading partners. In June 2004 the Commission proposed a strategic partnership with India that covered cooperation on conflict prevention, the fight against terrorism, non-proliferation and human rights; strengthening economic ties through sectoral and regulatory policy dialogues; cooperation in development policies in order to help India meet the Millennium Development Goals; increasing intellectual and cultural exchanges.⁷

9. EU Technical and Development Assistance

The EU has many development and technical assistance programmes for Asia. At present, the EU is operating eighteen multi-country programmes including Asia-wide programmes, and sub-regional programmes for ASEAN and SAARC. There is a 380 million euro budget for these programmes covering specific themes such as trade, energy, the environment, health, transport and agriculture. The most important Asia-wide programmes include:

- *Asia Invest*, which aims to support economic co-operation between the EU and Asia through business to business match-making opportunities, partnership-building and capacity strengthening activities;
- *Asia Urbs*, which aims to promote local government partnerships to undertake urban development projects;
- *Asia Pro Eco*, which aims to improve environmental performance through EU-Asia technology partnerships that promote more sustainable products, processes and services;

- *Asia IT & C*, which aims to improve the quality of Europe-Asia partnerships and to link the two regions in the search for innovative and compatible solutions and standards in information technology and communications;
- *Asia-Link*, which aims to promote sustainable partnerships between higher education institutions in Europe and Asia.

In general, the Asia-wide programmes benefit from a high visibility in Asia and Europe and are unique in that they directly address key target groups of civil society. The EU-Asia-wide programmes provide added value to Member States' initiatives in that they promote multilateral partnerships involving typically institutions from at least two different European countries, thus encouraging a 'European dimension.'

Conclusion

Given the diversity of states in Asia it is impossible to construct a monolithic EU-Asia relationship, a single policy or approach, equally valid across the whole region. With this caveat in mind and having regard to the changes within both regions as well as changes in international affairs it is important that the two regions seek to deepen their relations. Both regions face similar political and economic challenges ranging from terrorism and failed states to health scares and the challenges posed by globalisation. Both share a commitment to multilateralism and a desire to strengthen the institutions of global governance. Both have to deal with an American hyperpower that pursues its own and often different agenda from that of Asia and Europe.

But Asia's rising political and economic importance is too often ignored by an EU focused on its own internal affairs, enlargement, its problematic neighbourhood and transatlantic relations. The EU's efforts to play a more active global role require closer engagement, cooperation and dialogue with the rapidly changing and increasingly dynamic countries of Asia. At the same time it is necessary for Asians to pay more attention to developments within the EU, to support efforts to improve educational and cultural exchanges and to try and overcome differences on human rights and other issues. A meeting of minds between Europe and Asia, not least on fundamental values, would be of enormous benefit for the future of the world.

- ¹ See the 2001 Commission Communication *'Europe and Asia: A Strategic Framework for Enhanced Partnerships.'*
- ² ASEM partners are all EU Member States, the European Commission and the following Asian countries: Brunei Darussalam, China, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, Vietnam.
- ³ "A maturing partnership: shared interest and challenges in EU-China relations" COM(03) 533, Brussels, 10 September 2003.
- ⁴ Joint Press Statement (including annexes on EU-Japan Action Plan objectives and achievements)
- ⁵ A new partnership with South East Asia, COM (2003) 399 final, 9 July 2003.
- ⁶ 11 Members of SAARC are: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
- ⁷ Commission Communication on "EU-India Strategic Partnership" of June 2004.

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Mission Statement

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