

Chapter 2

Latin America and Asia

The most vociferous criticism of the Lomé regime was its unbalanced and exclusive nature. Some would even argue that the EU has never had a genuine Third World policy and that the motivations driving Europe's development policy have always been Afro-centric. All 48 sub-Saharan African states were party to Lomé IV, whereas the island states of the Pacific and the Caribbean were not uniformly covered. Overall, some 90 per cent of the ACP population are African. As one commentator has argued:

Concentration on Africa means the relative neglect of other regions of 'more' interest to the EC, however 'interest' may be defined: if in terms of poverty, the exclusion of India and Bangladesh is hard to justify; if in terms of commercial importance, the absence of South America and South-East Asia is odd; and if in terms of international politics and military strategy then, again, Africa plus some islands in the Caribbean and the Pacific is not an obvious focus. (Stevens, 1983, p. 144)

As we have seen the Convention was originally designed to place the ACP at the top of the 'pyramid of privilege' by providing a more favourable trading regime than that offered to any other developing country. Whilst the ACP's position has declined, those directly disadvantaged have not been the ACP, but the developing countries of Asia and South America, all of which were excluded from the Convention.

Latin America

Despite the formalized relations with the Caribbean, Latin America has always been on the fringes and marginal to

Europe's mainstream development. This distant relationship is somewhat puzzling given the cultural, religious, historical and trading ties that exist. As was shown in Table 1.1 during the EC's first decade, Latin America was an equally important trading partner compared with Africa as a whole (and far more important than the Yaoundé states). Many of the products that Europe sourced from Africa were available from Latin America and supplies arguably more secure. Further, Latin America seemed to provide a wealthier potential market for European exports policy (Grilli, 1993, pp. 226-7). Why, then, the apparent neglect?

An explanation can be found in the historical context of the 1950s when the Community's policies and interests were defined – not in dispassionate economic analysis. Despite significant German and Italian migrant populations, the absence of a direct member state colonial heritage mitigated against creating a preferential-type framework. Consequently, largely on French insistence only, Africa received initial preferential treatment. EU external relations in these formative years reflected, if on a larger scale, individual bilateral interests. A separate collective European perspective had not been established and in foreign relations priority was given to francophone concerns. As Chapter 1 outlined, the metamorphosis to wider ACP interests was, again, principally the result of a new bilateral concern, this time British. Similarly, the accession of Spain and Portugal to the Community in 1985 provided a new bilateral pressure, finally, this time for a more inclusive and formalized approach to European-Latin American relations.

Given the modest concession originally given to the Yaoundé states the absence of a formalized cooperation agreement with Latin America should not be surprising. The first priority of fledgling European Community was to generate internal economic cohesion and growth; external relations were very much of secondary importance and only given prominence if advocated by a leading member state – such as France. Italian attempts to promote relations with Latin America did not carry the same weight. For all third countries, the combination of a common EC external tariff and specific preferences for African states posed a real trading challenge. It has only been with the expanding ambitions of the EU to play an international role that

a comprehensive approach to external relations has become evident. The 'neglect' of relations with Latin America – as well as with other regional groupings – was very much a consequence of the internal dynamics of European integration.

Furthermore, Europe's commercial intervention within the region was always confronted with the geopolitical reality of the USA. Even where South American states have sought to reduce their trade dependency on the USA, this reorientation has met with countervailing pressure from Washington. Consequently, asymmetry has typically characterized EU–Latin American relations: economic links have been underdeveloped compared to the greater importance given to political aspects of the relationship. Consequently, during the 1980s Latin America was at the very bottom of the pyramid of privileges, outranked by the preferences offered to the ACP, the Mediterranean states, the Gulf and even ASEAN. In contrast, the 1980s process of democratization provided Europe with a platform on which to enhance a political relationship.

One reason why the EU was able to conduct a dialogue with the Yaoundé states was because they already had an institutional framework within which cooperation could be developed. In contrast, no such common institutional framework linked the various Latin American states together: a group-to-group dialogue did not exist. 'Latin America' as a term is not analytically that helpful, incorporating as it does, some 20 states (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela). As the following discussion shows, the pan-continental approach is too unwieldy with distinctions necessarily drawn between Central America, Southern America, the Rio Group and latterly MERCOSUR, which is discussed below. Whilst a number of initiatives have succeeded in establishing a framework for relations between the EU and regional sub-groupings over the past two decades, almost all have failed to transform the relationship significantly. The inability of the Latin American countries themselves to agree on the principle of an FTA until the late 1990s was also an important impediment to institutionalizing relations. The following brief history focuses on the key developments.

Early relations

Italy was instrumental in initiating the EC's dialogue with Latin America. In 1969 the Commission issued its first-ever report on the relationship; and the so-called 'Brussels dialogue' began soon after (establishing regular meetings between the Latin American Ambassadors and EU officials in Brussels). The introduction of GSP provisions in 1971 also opened up the prospect of a fairer trading regime with Europe. More generally, 'The GSPs also marked the beginning of a rebalancing of the positions of Latin America and Asia in the hierarchy of trade privileges granted by the Community to developing countries' (Grilli, 1993, p. 235). In contrast with this collective approach, bilateral relations with three Latin American countries – Argentina, Uruguay and Brazil – were also established in the early 1970s. The mid-1970s also witnessed the introduction of Community aid to the region (although historically this has mainly gone to Central American countries). However, these initiatives proved to be Pyrrhic victories in the face of the signing of the first Lomé Convention in 1975. Whether rightly or wrongly, Europe gave the clear impression that Latin America was not party to its development strategy and could not expect preferential concessions. The accession of the UK reinforced Africa's privileged status, and by extending this favouritism to Latin America's Caribbean neighbours, added insult to perceived injury.

A decade had elapsed before a dialogue was effectively re-established and sub-regional frameworks created. This signalled a renewed political interest in regional democratization as well as, obviously, the 1985 accession of Spain and Portugal. An initial cooperation agreement between the Community and the five Andean Pact countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) was signed in 1983 and extend into a more focused Framework Agreement of Cooperation a decade later. Similarly, a Cooperation Agreement with partner countries of the General Central American Economic Integration Treaty was signed in 1985, and subsequently followed by a cooperation framework agreement with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama in 1993. Of greatest regional significance was the 1992 Inter-institutional Cooperation Agree-

ment and the 1995 Inter-regional Framework Agreement signed with MERCOSUR (Mercado Común del Sur), both of which were designed to strengthen regional political cooperation and lead to the progressive liberalization of trade. Cumulatively, these developments symbolized Europe's 'rediscovery' of Latin America and underlined the region's efforts to liberalize, consolidate democratic institutions and embrace regional integration.

Regional integration was particularly marked during the 1990s. MERCOSUR brought together Argentina, Brazil, Paraguay and Uruguay (with Chile an associate member). The Andean Pact transformed in 1996 into the Andean Community. Free trade agreements link Colombia, Venezuela, Mexico and Chile and in 1998 the Andean Community and MERCOSUR completed a framework agreement with a view to creating a continental-wide free trade area. To supplement this, the EU concluded an FTA with Mexico in 2000. This consistent and progressive regional trend has helped to raise the profile and priority of Latin America from the EU's developing country perspective. However, MERCOSUR has increasingly become the EU's preferred framework for relations arguably at the expense of the other Latin American cooperation agreements signed with the EU. MERCOSUR now comprises roughly 50 per cent of total EU exports to Latin America. Indeed, the region's overall economic relationship at the end of the 1990s was comparatively fragile. Between 1990 and 1998, the percentage of Latin America's total exports going to the EU has fallen from 24 per cent to 14 per cent and the EU share of Latin America's total imports decreased from 21 per cent to 18 per cent. One consequence of this has been the reversal of a trade surplus (US\$12.4 bn) favouring Latin America in 1990 to a large trade deficit (US\$15.7 bn) with the EU by 1998 (Grisanti, 2000, p. 6).

MERCOSUR

The delayed nature of the relationship with Latin America has meant that the debate on non-reciprocity that characterized Lomé has been bypassed in favour of adopting free trade as the starting point for discussion. The idea of establishing an EU-MERCOSUR FTA was first floated in 1994. The resultant 1995 Framework Agreement paved the way, if cautiously and

at a measured pace, for the debate on gradual and reciprocal trade liberalization with a view to creating an eventual free trade zone. This is envisaged as a relative long-term process with implementation commencing in perhaps 2005 at the earliest, with the prospect of 10–15 year transition periods for selected products (in line with WTO practice). This prolonged transition would also allow MERCOSUR to mature institutionally and for other frameworks for South American regional integration to emerge, as well as provide the EU with a further breathing-space before implementing the required CAP reforms (Dauster, 1998, p. 448). More generally, relations with MERCOSUR provide the EU with another venue through which it can begin to extend and define a coherent global external policy (Bessa-Rodrigues, 1999, p. 85). Relations with Latin America (as well as those with Asia) constitute the remaining missing elements in the EU's international actor profile.

The next significant impetus came at the joint Heads of Government meeting in June 1999. However, agreement on a timetable or the scope of tariff reductions proved impossible at this stage. This prevarication meant that before any such negotiations commenced, the post-Lomé discussions would be largely concluded and several years' experience of the prototype EU–South African FTA gained. The delay was largely due to French reticence stemming from the possible agricultural implications of any such free trade agreement for Europe's farmers. As the protracted discussions over a South African FTA had shown, the CAP constitutes a negotiating impediment that often makes the EU an inflexible negotiating partner.

Typically, agriculture already composes half of MERCOSUR's exports to the EU. Intentionally, no timetable deadline has been set other than that implied by the parallel WTO discussions: a new WTO round of global liberalization is a precondition for the FTA proposal – and the so-called Millennium Round may take up to 2005 to conclude successfully. The Chirac–Jospin French Government seems likely to weigh any global concessions made in the WTO context against any further special concessions towards South American free trade. As conjectured in the Introduction and in Chapter 9, only an understanding of the multi-level complexity of EU policy-making provides the necessary theoretical context within which to understand this process.

The EU's prospective FTA partner states comprise the four MERCOSUR members plus, since 1996, two associate members – Bolivia and Chile. These six have a combined population of some 200 million. The economic arguments had been building throughout the previous decade during which time the EU had become MERCOSUR's largest trading partner and supplier of foreign direct investment supplanting the USA's economic dominance everywhere else in the Americas (except, of course, Cuba). For example, in 1997 MERCOSUR's largest export market was the EU (at 31 per cent, with the USA second on 19 per cent); similarly, the EU provided the highest proportion of imports (33 per cent compared with 27 per cent for the USA). Projections based on these figures suggest that such a proposed FTA would create a market of 575 million consumers (with existing trade worth US\$140 bn). The EU's economic importance to Chile mirrors this MERCOSUR pattern. However, as noted above, the 1990s have also been a decade of deficits for South America. Whilst the EU has increased its exports to the region by 164 per cent, Latin America's exports to the EU have only grown by 29 per cent (*The Economist*, 26 June 1999, p. 69). However, whilst trade with Latin America has rapidly overtaken that of the ACP states, it still remains marginal for the EU, equivalent to roughly just 6 per cent of the EU's overall foreign trade. In contrast, Europe remains the region's largest foreign aid donor. (See Chapter 5 for additional economic commentary.)

For the EU, the proposed Latin American FTA does not signify any departure from the dominant economic philosophy of the 1990: free trade is consistent with its global approach and international rivalry with the United States for trading dominance. Indeed, the prospect of a USA-led Free Trade Area of the Americas (FTAA) composed of a 34-country group from north to south proposed for the year 2005 was an additional motivation for the Europeans. Such a grouping could result in trade with the EU declining significantly.

For the five Latin American states, arguably the FTA has a number of advantages. First, it provides a new economic option to the historical dependency on trade with the USA. Second, and consequentially, balance and diversity in the region's external relations may be enhanced. Third, such cooperation provides a further incentive towards the longer-term objective of South

American intra-regional integration. And fourth, the competing options of an EU–FTA or an American FTAA provides at least the possibility for MERCOSUR to extract a better preferential arrangement by playing Europe off against the USA as the negotiations develop. Such a strategic advantage is normally absent when third countries are confronted with EU proposals.

In summary, interregional cooperation between the EU and Latin America remains a long-term objective reflecting both a desire for liberalized market access and a degree of 'parity' with the USA regionally (Allen and Smith, 1999, p. 102). While there is now an established cycle of formal meetings (with the San José Group, the Rio Group and Andean countries for example), one cannot but be struck by the comparative limitations of the relationship rather than its substantive impact. In contrast with the architectural clarity of the EU–ACP relationship, the multiplicity of institutional frameworks also distracts from the coherence of EU–Latin American relations. This dilemma, however, is not unique to South America but is also reflected in Europe's relations with Asia – as discussed in the following section.

Asia: beginning a dialogue

In keeping with the EU's peculiar segmentation of the developing world, it is revealing that the Asia–Europe Meeting (ASEM), which established a regular forum for dialogue, was only established as late as 1996. In comparison with the ACP states and even Latin America, prior to this Asian development was not a policy priority and accorded little recognition. This peripheral relationship was all the more puzzling given that Asia in many ways has a shared colonial history with other parts of the developing world. France, Great Britain, Portugal and the Netherlands all had post-colonial links in the region, creating a triangle of interests that encompassed India, Indochina and Indonesia. In addition to the shared cultural aspects of language, much of Asia could also provide a similar range of agricultural and tropical goods that were originally supplied by the Yaoundé and latterly ACP states. Contrary to the evidence of hindsight, from the perspective of the 1950s, Asia seemed a less appealing partner than Africa or Latin America. It was geographically remote, generally poor, comparatively diverse, and regarded as

a less reliable source of supplies for raw materials needed by Europe (if largely because of the Cold-War context of Soviet and Chinese regional influence). The original six members of the 1957 European Economic Community considered the influence of the UK in the region as a further disincentive. Commonwealth ties and a pervasive influence of the English language served to convey the impression that many parts of Asia remained essentially British domains. At the simplest level, it came down to a question of priorities. The fledgling Community had modest resources and limited external ambition. The importance of francophone Africa initially precluded all other options, including ties with Asia. By the time of UK membership, the Asian context had changed considerably and it was already becoming apparent that Asia had become an export competitor for Europe rather than a dependent partner in need of assistance. Thus despite the strong ties between the UK and the Indian sub-continent in particular, no Asian country was permitted to join the Lomé Convention. This missed opportunity essentially confined Asian-EU relations to the lowest of priorities for the next two decades.

During this period European policy became fragmented and lacked any clearly articulated overall Asian strategy other than a rationale based around a particular economic advantage. In a sense, this was an inevitable and appropriate response and reflected the increasingly disparate nature of Asia as an economic grouping. Europe's relations could be located along a continuum running from benevolent humanitarianism to competitive disinterest along which three distinct groups could be identified. To the one extreme, South Asia (including India, Pakistan and Bangladesh) remained economically underdeveloped and eligible for European humanitarian aid although not for preferential trade arrangements. Towards the middle of the continuum were those countries (largely the then ASEAN group of Indonesia, Malaysia, Thailand and the Philippines) that began to develop complementary economies to Europe and who shared a broad political (anti-communist) agenda. To the other extreme the Newly Industrialized Countries (NICs) of East Asia (such as Taiwan, Hong Kong, Singapore and South Korea) began to pose a real and increasingly competitive threat to key areas of European production. This economic growth made the NICs incompatible with the non-reciprocal philosophy that

shaped Lomé in the early 1970s (Grilli, 1993, pp. 271-2). During the 1970s and 1980s this continuum became polarized as a larger number of countries progressed to the NIC camp. Consequently, these states were largely excluded by definition from Europe's development perspective and without any issues or strong advocates to promote their cause, Europe-Asian relations continued in the form of benign neglect.

Although pragmatism was a common link in European attitudes towards these three Asian groups, there were policy differences in Europe's relations with South Asia, ASEAN and the NICs. Grilli has characterized Europe's posture towards South Asia as 'mildly sympathetic . . . with minimal effective involvement in terms of economic assistance' (1993, p. 276). Under the 1971 GSP regime three South Asian states were categorized as least developed and gained the best market access - even if their export potential meant that they could take little advantage of the concessions. Other bilateral commercial cooperation agreements were subsequently signed during the 1970s with India, Sri Lanka, Pakistan and Bangladesh but only on the MFN basis giving no special preferences. Of course, direct aid was provided outside these agreements for rural development to promote both food supply and food security. The bulk of European aid to Asia was concentrated on South Asia within which India increasingly dominated. However, aid to South Asia only represented around 7 per cent of Europe's total aid budget, and in absolute and relative terms bilateral aid from member states was more important. As Grilli has noted, 'with more than two and a half times the population of sub-Saharan Africa and a substantially lower per capita income, South Asia received five times less financial aid from the Community during 1976-88' (p. 280). Given the concentration of the world's poor in South Asia it remains to be seen how the EU's new priority of poverty alleviation can be directed towards the region without diminishing efforts made elsewhere, especially in Africa. However, unless poverty eradication in Asia is prioritized, the EU will be unable to meet its self-imposed treaty obligations or persuade many that its policy framework is either appropriate or effective.

In 1980 relations with ASEAN became structured through a region-to-region agreement, the EC-ASEAN Economic and Commercial Cooperation Agreement. Launched in 1967, ASEAN has grown from its 5 original members now to include

all 10 South East Asian countries (Cambodia was the last to join in 1999). The formalization of the Agreement disguised the fact that little substantive change was initially implemented and normal GSP levels remained the extent of preferential treatment (McMahon, 1998, p. 235). A number of ASEAN countries began to lose even this advantage for specific products and they were 'graduated' out of the system during the 1990s. Singapore, for example, no longer receives GSP from the EU. For most tropical agricultural products, however, ASEAN exports remained disadvantaged by pre-existing Lomé preferences. The signing of a series of bilateral trade and cooperation agreements between 1982 and 1987 with Indonesia, China, Thailand, Singapore, Malaysia, Korea and the Philippines, and with Vietnam in 1994, largely served to confirm the status quo (van Reisen, 1999, p. 138). However, the value of EU-ASEAN two-way trade has increased annually, from a low of 22.4 billion ecus in 1988 to almost three times this figure at 65.7 billion ecus by 1996. The EU has become ASEAN's second largest export market and third largest trading partner (after Japan and the USA). The late 1990s Asian financial crisis distorted the normal pattern of EU-ASEAN balance of trade and since 1998 Europe has experienced a significant trade deficit (see Chapter 5 for more detailed trade figures analysis). In terms of institutional structure, Joint Co-operation Committee meetings are held every 18 months and there is an annual political dialogue held at ministerial level. The major contemporary focus of the political dialogue is through the ASEAN Regional Forum that was established in 1994 to promote regional peace and stability. It remains Asia's only collective security arrangement and the EU participates as a full member. The accession of Myanmar to ASEAN has, however, affected the expansion of the political dialogue since 1997.

The attitude towards ASEAN countries will change, of course, as they continue to develop and mirror the NICs economies more closely. Unlike other parts of Asia, the NICs were best placed to gain advantage from the GSP regime. Beyond this formal trading arrangement, up until the 1990s protectionism and hostility rather than benign intent were more typical of European responses to the NICs. Across a wide range of manufactured and industrial products the NICs became a major threat to domestic European producers. Consequently,

tariff and non-tariff barriers were applied and general agreements (such as the Multi-fibre Agreement – MFA) were promoted. The NICs have also attracted a particularly high number of anti-dumping actions by the Commission.

This history of European indifference ended with the 1994 Commission document *Towards a New Asia Strategy*. The motivation was both internal and external. Clearly, Asia represented a striking omission in the EU's profile as the world's leading trading power. There was also a 'credibility gap' in EU relations with Asia that the *Strategy* document sought to address. The economic opportunities that Asia presented, especially in the post-1989 context, were consistent with the EU's global economic agenda and newfound devotion to trade liberalization. A more coherent and regionally sophisticated European response to Asia was long overdue. The policy objectives were to increase the EU's economic presence in the region, develop and extend the political dialogue and to assist in reducing Asian poverty levels. In keeping with the tone of the mid-1990s, Europe's role in promoting democracy, good governance and the rule of law was given equal importance with economic gains (van Reisen, 1999, p. 139).

For the purposes of the Commission document Asia was recategorized into three regions (South Asia, East Asia and South-West Asia). Direct bilateral partnership agreements with individual countries were concluded where possible (with India and Bangladesh for example). However, the geography of Asian regional integration presented the EU with some initial institutional problems. The Asia-Europe Meeting (ASEM) involving 10 states became the chosen format for dialogue with South East Asia. This new grouping brought together Brunei, China, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Thailand and Vietnam. In terms of economic development the 10 were diverse (Singapore and Vietnam for example) and three of them (China, Japan and South Korea) were not members of the region's most established political and economic grouping – ASEAN. Further, both Myanmar and Laos were members of ASEAN but excluded from the ASEM process. In contrast to the newness of ASEM, formalized relations with ASEAN were comparatively developed: as noted already, as early as 1980 an ASEAN-EC cooperation agreement had been signed. EU-ASEAN relations were given a new stimulus by the

1997 so-called 'New Dynamic' initiative designed to consolidate and deepen economic relations. The durability of this accord was underlined in July 2000 when the EU agreed to extend the Agreement to both Laos and Cambodia (the latter having acceded to ASEAN in 1999). Of more importance perhaps was a strong emphasis on political dialogue and EU support for greater Asian regional integration and security issues. Efforts in the 1990s to deepen the political relationship were thwarted by conflicts over human rights conditionality (see Chapter 4). The accession of Myanmar to ASEAN in 1997 has further complicated this situation. Consequently, while the EU-ASEAN relationship has endured, it has failed to mature sufficiently and the economic and political aspirations remain largely unfulfilled. Whilst the prospect of an ASEAN free trade area by 2009 provided some incentive for the EU to persevere with the relationship, a new, wider framework for EU-Asian relations (ASEM) was simultaneously developed during the mid-1990s. The question is whether this new institutional framework can be more successful in reconciling political concerns and promoting economic relations (McMahon, 1998, pp. 236-41).

The trade dimension: ASEM I, II, III

The inaugural 1996 ASEM Heads of Government meeting in Bangkok, brought together the Fifteen plus the Commission and 10 regional states – Brunei, China, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Clearly, three of these (Brunei, Japan and Singapore) do not fit even the most generous definition of development and a further three states (Japan, China and South Korea) were not part of ASEAN. To an extent ASEM mirrors a European constructed reality (in the same way that the ACP only exist within an EU context). Thus although ASEM is an important part of the EU's overall development approach, it provides neither an exclusive nor comprehensive approach to Asian development issues. However, the EU's broader global economic interests beyond simply development policy may be better served by the ASEM process rather than by ASEAN, as it encompasses the Japanese economy as well as the potential benefits of access to China's market. Consequently, the parallel ASEM and ASEAN

tracks can jointly provide a more balanced regional approach (with the exception of the countries of South Asia). ASEM appears more adept at addressing the 'big picture' issues (such as the Asian economic crisis) whilst relations through ASEAN provides for more detailed specific focus and a vehicle where political issue can be raised (albeit without dramatic effect) (Allen and Smith, 1999, p. 101).

Economically, EU-ASEM relations are of significance, particularly in comparison with the declining economic importance of the ACP states. Tables 2.1 and 2.2 provide import and export data for the 1995-99 period (Lee, 2000, pp. 4-6). During these five years the overall volume of EU-ASEM trade increased by around 30 per cent. All 10 ASEM countries saw the value of their exports to the EU increase annually: whilst Japan remained the single largest exporter, China provided the most significant increase during the period (from €26 366 m. to €49 169 m.). Conversely, EU exports to ASEM countries have stagnated, reflecting the reduced demand caused by the Asian economic crisis of the late 1990s. In only two ASEM markets (Japan and China) did EU exports marginally increase: elsewhere there was a general decline. Consequently, the balance of trade has increasingly grown in favour of the ASEM partners (see Table 2.3): the EU has been a much more important export market for ASEM than East Asia is for the EU. Prior to the Asian financial crisis the balance of trade favouring ASEM was generally stable at around €30 billion, with this level tripling by the end of the 1990s. Correcting this imbalance will certainly be a priority if the ASEM process is to be maintained and developed.

The picture for Foreign Direct Investment (FDI) is somewhat different and in part compensates for the imbalance in trade flows. Globally, the EU is considered to be the world's largest investor – both for outward investment and as a FDI recipient. However, the developing countries of Asia rank well below the USA and Latin America in terms of their share of the EU's FDI (with intra-EU FDI by far the most important market). Despite this lower priority, the EU's share of FDI within the ASEM region has grown: by 1996 it represented 12.3 per cent of FDI and had overtaken the USA and was on a par with the FDI levels of Japan. Conversely, with the exception of Japan and South Korea, the ASEM countries have traditionally exhibited lower levels of FDI outside of Asia. This tendency was again

TABLE 2.1 *EU imports from ASEM, 1995-99 (€m.)*

	1995	1996	1997	1998	1999
South Korea	10922	11095	13068	15952	17889
Japan	54282	52326	59548	65663	69872
China	26366	29981	37366	41800	49269
ASEAN 7	34475	37677	44666	50459	51757
TOTAL	126045	131079	154648	173874	188787

TABLE 2.2 *EU exports to ASEM, 1995-99 (€m.)*

	1995	1996	1997	1998	1999
South Korea	12276	14029	13827	8735	11061
Japan	32604	34991	35040	30909	34511
China	14662	14487	16014	17139	19049
ASEAN 7	36753	40294	44462	29830	30104
TOTAL	96295	103801	109343	86613	94725

TABLE 2.3 *EU-ASEM balance of trade, 1995-99 (€m.)*

	1995	1996	1997	1998	1999
South Korea	1354	2934	759	-7217	-6827
Japan	-21678	-17334	-24507	-34754	-35361
China	-11674	-15495	-21351	-24661	-30221
ASEAN 7	2280	2618	-206	-20628	-21654
TOTAL	-29718	-27277	-45305	-87260	-94063

Source (all three Tables): Eurostat, External and Intra-European Union Trade, monthly statistics, 2000.4, cited in Lee (2000).

exacerbated by the Asian financial crisis (Chirathivat, 2000, pp. 2-4).

The initiative for an EU-Asia meeting came from Singapore and the ASEAN group in response to the 1994 Commission document. ASEM was originally conceived as a comprehensive platform for dialogue and cooperation reflecting the emergent role of Asian economic 'Tigers' and Europe's somewhat

marginal involvement in the region. The 10 Asian members have a total population of 1834 million, almost five times that of the EU but with a combined GDP per capita figure of US\$6232 compared with US\$8174 for the EU. Several factors have been used to explain the motivations behind the ASEM process. First, economics played a mutually attractive role. From the EU perspective, clearly the trade imbalance had to be addressed; from the ASEM perspective the expansion of the EU Single Market and the lingering suspicions about 'fortress Europe' suggested the necessity for dialogue. Second, the global context of accelerated regionalization served further to underline the vacuous nature of EU-Asian relations and provided added incentive to create at least a dialogue, if not a set of institutions. ASEM, in many ways, appeared to provide the 'missing link' in the global economic triad. Third, the EU sought an alternative to the APEC process that the USA had engineered in 1993, fearing Europe's further marginalization by its exclusion from APEC membership or even observer status. ASEM was the EU's answer to this perceived American unilateralism and special relationship with Asia (Köllner, 2000, p. 7). It also provided a format through which ASEAN states could begin to re-establish strong relations with Europe based on an equal footing.

The inaugural 1996 ASEM I meeting in Bangkok brought together 25 Asian and European countries and the Commission. Twenty states were represented by their Heads of Government: four EU states chose to send their Foreign or Home Affairs Ministers, whilst China was represented by their Prime Minister rather than Chairman Jiang Zemin. The Commission had triple representation - President Santer and Vice-Presidents Brittan and Marin (Tanaka, 1999, p. 37). The objectives of the meeting were intentionally modest: its value was less to do with producing groundbreaking initiatives than establishing mutual confidence in, and the purpose of, the process. The general conclusion - from both the European and Asian participants - was that ASEM I more than achieved its goals and a more substantive expectation for future cooperation was established (Dent, 1997). This first meeting shaped the key characteristics of ASEM: these have been defined as informality, multidimensionality, partnership and a high-level focus. And, as explained by the then external trade Commissioner Sir Leon Brittan, the contrast with APEC was an important motivation:

Unlike APEC, ASEM is not confined to economic and commercial matters – although they do play an important part, as is inevitable given that the European Union and its Asian partners in ASEM together make up around half of world GDP – ASEM also includes a cultural and people-to-people dimension and a substantive political dialogue. One of its key features is its informality. (Quoted by Schmit in Fangchuan and Niemann, 2000, p. 106)

Thus, the basis of cooperation was to be primarily informal rather than institutionalized, although biennial summits and meetings for foreign, economic and finance ministers in the intervening years are convened. This approach is seen as complementary to the other formal structures for dialogue (such as ASEAN) that already existed. Theoretically at such meetings there is no official agenda (conforming with an Asian rather than Eurocentric style) with participants free to discuss whatever issues they choose (provided that there is no strong opposition to a specific topic). The 1996 Summit reflected this multidimensionality and set itself wide-ranging tasks including a new Asian–EU partnership to promote growth, as well as joint action to support global peace, stability and prosperity. Areas for practical collaboration were also outlined. These covered environmental issues, international crime and drugs, as well as less sensitive initiatives covering economic, scientific and cultural collaboration and an enhanced level of political dialogue. The two sides did not necessarily share the same expectations from ASEM I. Human rights were a European concern whereas the Asian participants preferred an exclusive focus on trade. Remarkably, and perhaps revealingly, the ASEM agenda does not envisage any meetings for Development Ministers. Reminiscent of Europe's relations with the ACP, the notion of partnership rather than dependency was the motivating factor: however, in contrast to the Lomé experience, Asia appears to have been more successful in asserting the equality of the partnership. And finally, and as outlined above, the process is focused intentionally at the level of the political elite. However, it would be hard to characterize the ASEM process as intense since personal relationships at the Heads of Government level are difficult to sustain. On the EU side, the period covering ASEM I–III (1996–2000) has seen major changes at the politi-

cal elite level in the three key states of UK, France and Germany further compounding the difficulties faced by the biennial gatherings.

The degree of informality is, of course, underpinned by regular bureaucratic contact. The responsibility for coordination is with the Foreign Ministries, with two representatives for ASEM and two for the EU (the presidency and the Commission). The Senior Officials' Meeting plays a role similar to that of COREPER, bringing together foreign affairs officials from both sides to discuss the political dialogue informally. It performs an essential function in ensuring that the actual ASEM Summit can be productive. A similar role in preparing the economic agenda is played by the senior officials' meeting on trade and investment and to a lesser extent that of the meeting of finance officials. Less regular contacts are maintained in the area of customs and science and technology. ASEM has also undertaken a number of initiatives to promote business, cultural, trade and investment contacts outside government. Among these are the Asia–Europe Business Forum; the Asia–Europe Foundation; and the Asia–Europe Environmental Technology Centre.

The second ASEM meeting held in London under the British presidency was overshadowed by the 1997 Asian economic crisis that effectively stalled many of these joint proposals and posed new challenges for the EU–Asia relationship. By way of illustration, in 1998 the growth in GDP was 2.9 per cent for the EU, but shrank to –2.5 per cent for the Asian ASEM countries. At the political level areas of potential future policy difficulties began to be informally raised. This included both human rights and labour practices, arms control and non-proliferation issues in particular. The question of Myanmar/Burma and its possible inclusion in the Asia–Europe dialogue was to prove intractable with the EU adamantly opposed to its formal participation in any form – including observer status. This issue saw a series of lower level ASEM meetings postponed during 1999. Political discussions were wide-ranging covering subjects pertinent to the EU (the Euro, enlargement), to Asia (Cambodia, the Korean peninsula) as well as international issues of common interest (Kosovo, non-proliferation, drug trafficking and organized crime) and aspects of economic and financial cooperation. The issue of human rights was again raised by the EU, albeit with

only limited success. Human rights questions remained particularly sensitive for Indonesia (East Timor) and China (internal affairs) and the position of Myanmar continued to divide the EU from its ASEM partners.

Practical progress was made in cultural, educational and scientific cooperation with support for several joint Asia–Europe centres and foundations. These included the Asia–Europe Foundation in Singapore, the Asia–Europe Centre in Malaysia, and the Asia–Europe Centre for environmental technologies in Bangkok. Two potentially substantive joint plans were also launched – the ‘Trade Facilitation Action Plan’ and the ‘Investment Promotion Action Plan’. The focus of the trade plan – only non-tariff barriers were to be examined – symbolized the modest, cautious and non-controversial nature of the ASEM agenda. Challenging and divisive economic issues (let alone political ones) were avoided. The most significant of these is the EU’s application of anti-dumping regulations against particular Asian exports. Six ASEM countries are among the top 10 countries for violating the EU regulation, with China being the worst offender with 34 violations from 1990–98 (van Reisen, 1999, p. 147). One can seriously question the real motivations behind the EU actions. After all, it is the low labour costs that give China, India and other Asian countries one of the few areas of comparative advantage in the global economy. Rather than supporting these countries by providing broad access, the EU appears more concerned with defending its domestic industries in these areas that find it hard to compete by applying anti-dumping regulations. In such circumstances, the tension between the demands of a benevolent external development policy and aspects of internal EU economic policy cannot be reconciled. Another difficult issue that remained unresolved was the membership of ASEM. From the ‘Asian’ side India, Pakistan, Laos, Cambodia, Myanmar, Australia and even New Zealand have all expressed either formal or informal interest in participating in ASEM: from Europe the CEECs and Russia have also indicated their interest. However, a consensus on enlargement among the current Asian ASEM members proved illusive and a decision was deferred until ASEM III. Lastly, the 1998 meeting surveyed the future of the ASEM process and the next summits scheduled for October 2000 in Seoul, Korea (to be followed by a fourth summit in Denmark in 2002).

Safeguarding the momentum created at ASEM I and II was defined as the major challenge given the often intangible benefits that ASEM claims. Did the process provide comparative advantages that other linkages could not? Europe’s enthusiasm for a new ‘Millennium’ WTO Round also remained controversial despite a recognition that development aid needed to be better incorporated within their approach to global trade liberalization (something the ACP states were to also raise within the context of renegotiating of Lomé). In 1999 the outgoing European Vice-President and Commissioner for external trade (Sir Leon Brittan) outlined several reforms designed to improve the position of ASEM and the developing world within the WTO (*Agence Europe*, no.7481, 1999). In particular, trading priorities – as defined by the Third World – had to be included on the WTO agenda. This included providing free access to all industrialized countries’ markets for the world’s 48 Least Developed Countries; WTO assistance to overcome the technical expertise and skilled human resource problems; and, enhanced cooperation between the World Bank, IMF, the UN and the EU to ensure policy consistency and effectiveness. However, these sentiments and the existence of both the ASEAN and ASEM fora should not be taken to mean that an automatic consensus exists among the EU on all aspects of relations with Asia. Evidence of internal fragmentation – or at least of continuing spheres of sovereignty – within Europe’s approach to Asia was publicly exposed by their failure to forge a consensus among the Fifteen during 1999, in support of the Thai candidate, Deputy Prime Minister Supachai Panichpakdi, for the Directorship of the WTO. European opposition to an ASEM candidate questioned the purpose and sincerity of the dialogue. Furthermore, this failure to act with a single voice can hardly improve Asia’s appreciation of the integration process or the EU’s ability to be either a single or an influential international actor comparable to the USA.

The London ASEM Summit also adopted an Asia–Europe Cooperation Framework and created an Asia–Europe Vision Group with a mandate to look at long-term perspectives and directions. The 1999 ASEM Foreign Ministers’ meeting received their recommendations and in the following year the Commission issued its own response, ‘Perspectives and Priorities for the ASEM Process into the new decade’ (COM/2000/241) designed

to shape the EU's approach to ASEM III. Clearly, there was some concern that after five years the dialogue had to graduate to a more substantive level or risk the loss of momentum and purpose. As the Commission document warned 'Seoul will have the task of confirming and enhancing the importance of this partnership between our two regions, and indeed of maintaining its momentum and relevance, to counter any sentiments of 'fatigue' in the ASEM process' (Commission, 2000a, p. 2). Building on the original three pillars of activity that defined ASEM (political, economic, cultural and intellectual), a range of general priorities were identified. In the political sphere an emphasis was placed on focusing on issues of common interest and improving mutual understanding in areas where EU and Asian views differed. Implied moral hierarchies were explicitly eschewed in favour of equality of partnership: consequently, issues of aid and 'good governance' were taboo within ASEM, a choice that would have been unthinkable in the ACP context. Practical initiatives included intensifying existing high-level and informal dialogues, networking and a greater use of collaborative action in other international forums. In the economic sphere, whilst the Commission priorities were not antagonistic to development issues, the emphasis was very much on the role of business and trade. A common approach to strengthening the rules-based multilateral trading agenda of the WTO in the wake of Seattle was seen as a high-level priority. Public and private linkages as well as business dialogues between the two regions were similarly singled out. In the cultural and intellectual sphere the roles of research, civil society and in particular educational exchanges were identified as areas where ASEM could demonstrate a distinct role and comparative advantage.

The Commission also suggested five specific priorities for which concrete outcomes at Seoul could be expected. These focused on:

- *Regional and Global security.* Here ASEM's informality was seen as an effective mechanism for developing closer mutual understanding on traditional 'soft' issues (conflict prevention, peace-keeping and humanitarian assistance) as well as so-called 'new security issues' (such as international crime, terrorism and cyber warfare).

- *Trade, investment and regional macroeconomic cooperation.* The WTO was the most effective agent for realizing these goals and building a consensus through ASEM's informal process was identified as pivotal.
- *Consumers' dialogue.* This was proposed as a new area where common interests could be usefully combined, especially in food safety.
- *Educational exchanges.* Building on the work of ASEM I and II a fivefold increase in educational exchanges was proposed over a 10-year period. The sponsorship of a prestigious scholarship programme was also floated.
- *Enlargement.* Although the question of increasing the Asian side of ASEM was probably too contentious, the issue is one that will not go away. For the EU, the inclusion of Myanmar – currently an ASEAN member state – is highly problematic; conversely, the inclusion of India or Australia present radically different but equally challenging issues for the Asian states. Such an enlargement would fundamentally change the context of ASEM.

Without demeaning the importance of such issues, the question has to be asked how far the ASEM framework is necessary for their discussion and resolution. If the over-riding strength of ASEM is informality, then why not address these topics on a purely *ad hoc* bilateral basis. Is the region-to-region process either warranted or indispensable?

ASEM III was held on 20–21 October 2000 in Seoul. Again, 25 states were represented by their Prime Ministers or Presidents and Foreign Ministers: President Prodi and External Relations Commissioner Patten represented the Commission. The outcome of the meeting differed only marginally from the Commission's indicative agenda – although as was the case for ASEM II unanticipated international events dominated the political focus. In Seoul, the Korean Peninsula provided this context with the meeting issuing a 'Declaration for Peace'. ASEM partners offered to facilitate confidence-building measures, enhance regional stability with a view to the eventual reunification of North and South Korea – but embarrassingly, the EU was unable to take a common response to the question of establishing diplomatic relations with North Korea. Also

within the political pillar, an important beginning, however modest, was made on the question of human rights – a topic that had been vetoed at the previous two summits. New ASEM priorities were also identified including disarmament, non-proliferation, international crime, drugs and migration. Unspectacular statements were issued on East Timor, Kosovo and the Middle East. In the economic pillar, intensification of ASEM I and II measures on trade and investment were called for; agreement was attained on support for a new WTO round; bridging the ‘digital divide’ was identified; and mechanisms to address the negative effects of globalization called for. And under the cultural cooperation pillar, educational exchanges became the priority. Agreement was reached on a ‘Trans-Euroasia Information network’, the development of ASEM tertiary exchanges and a range of other networks. No progress was made on extending membership beyond the existing principle of each side determining its own composition. Thus the EU’s wish to see India included was thwarted and Asia’s (specifically Malaysia) response to incorporating Australia or New Zealand was that membership would have to be through the EU half of ASEM! The only concession was that ASEM non-members were allowed to participate in common ASEM projects.

Future challenges

Clearly, ASEM has increased the profile of Asia within the EU’s policy priorities. Whilst this was necessary, is it a sufficient reason for maintaining the ASEM framework as the principal mechanism for EU–Asian dialogue? To what extent has rhetoric masqueraded as progress? Among some EU member states initial commitment to ASEM was somewhat reluctant largely because of their already heavy summit obligations. The challenge for ASEM is to counter the growing general perception of ‘forum fatigue’ by graduating ASEM from its symbolic origins to a more substantive policy output level – without jeopardizing the informal, multidimensional and high-level advantages associated with the current dialogue (Yeo, 2000). Others have been more critical of the elitism of the process, seeing the lack of public involvement as a fundamental problem. The future

legitimacy and viability of ASEM appears to depend on a greater role for civil society in the process – both in Europe and Asia (Köllner, 2000, p. 11). At both a practical and symbolic level, the establishment of a permanent secretariat could contribute to this development.

The non-contentious nature of the political dialogue also potentially threatens the future development of ASEM. Whilst a gentleman’s agreement to avoid political topics that were divisive may have been the necessary price to pay in order to instigate the dialogue, ASEM runs the obvious risk of becoming effectively vacuous if ‘sensitive’ issues continue to remain taboo. Obviously, the problem of human rights and labour practices present major obstacles. In more general terms, the basic premise of ASEM – two regions coming together for dialogue – is arguably flawed. While the EU can justifiably be described as a region that speaks with a ‘single voice’ (whether vocal or timorous) in a variety of forums, the ten Asian states associated with ASEM do not function as a similarly cohesive group – or even exist collectively outside the ASEM context. There can be distinct and diverse positions within the Asian side of the process. This can lead to inconsistent expectations and, in part, explains the minimalist outcomes from the biennial summit. The evolving position of Japan is particularly important in this respect. Japan has only reluctantly been drawn into the ASEM framework. It has involved (from Japan’s perspective) a sensitive if subtle downgrading of its special trilateral relationship with the EU and the USA as the Asian corner of the global economic triad (Tanaka, 1999).

ASEM has been considered a defensive response to the challenges presented by Europe’s main economic rival, the USA. The promise of APEC within the region produced a European counter-weight. It was also defensive in the sense of applying a cautious approach to tariff reduction and liberalization – whatever the popular rhetoric of ASEM declarations might say. However, it was anticipated that the launch of the ASEM process would be a significant watershed and provide the missing link between Europe and Asia. The experience of the early years of ASEM suggests that these ambitions remain optimistic and little of substance had emerged from the process by the end of 2000. No significant new relationships have been established beyond the status quo or provided through the

WTO and many of the issues that frustrated the EU–ASEAN dialogue remain unresolved at ASEM. Quite how ASEM relates to the EU–ASEAN framework also requires greater clarification if duplication is to be avoided. Mirroring the general question posed in the introduction to this book – does the EU have a distinctive Third World function – perhaps the greatest challenge is what, if any, distinct role does ASEM provide? Again, the informal application of the principle of subsidiarity is useful in focusing attention (Segal, 1997). Simply, what can be done best at the ASEM level, what at the ASEAN-level and what should remain the legitimate sphere for bilateral member state policy? Despite the expression of early satisfaction, this crucial question remains fudged – perhaps by necessity. The limited institutional and policy formulations of ASEM to date make it difficult to define a substantive distinct and superior character beyond informality. The prospect of the ‘re-nationalization’ of relations between Asia and Europe should not be discounted. Perhaps bilateral relations are in many ways ‘better’.

The heterogeneity within the ASEM membership can reduce the cohesion and effectiveness of the group. On the Asian side, the tensions between Japan and the other members, the inclusion of China, as well as the parallel expectations of ASEAN membership cumulatively suggest limited scope for a common agenda among Asian ASEM states. Diversity also characterises the EU’s ASEM perspectives: different views on what constitutes the Asian cornerstone of the relationship (China, Japan or ASEAN) are evident and clearly the member states will – to a degree – have diverging interests within Asia separate from any common EU multilateral position. Lastly, the imbalance within the so-called three pillars of ASEM remains a concern. As one critic has observed, there is a tendency whereby ‘political dialogue and cultural and civic relations are treated merely as functional prerequisites for successful economic relations’ (Schmit, 2000, p. 120). Under these circumstances, public awareness and support by civil society will remain marginal – a scenario that may well undermine the continued viability of ASEM.

More positively, the EU does seem to have discovered a deeper appreciation of the growing importance of the region and the need for an enhanced relationship. The long list of meetings agreed to at both ASEM I and ASEM II at least institu-

tionalize an ongoing dialogue, a necessary precondition for greater cooperation. The current stage of the EU–Asia relationship could be viewed as being about building bridges that might – in years to come – lead to more fruitful outcomes. But such a scenario ignores the two decades of EU–ASEAN dialogue that has failed to deliver substantive agreements. Without a concrete economic objective, ASEM III and beyond is in danger of becoming rapidly insignificant and irrelevant within the Asia–Pacific region (McMahon, 1998, p. 247). APEC and intra-regional FTA agreements are already more advanced than ASEM. But at present there seems little prospect of a consensus emerging to raise the ASEM agenda to a more productive level, comparable say, to the transatlantic agreement between the EU and the USA (Dent, 1999, p. 6) or in matching the APEC objective of an Asia–Pacific FTA by 2020. Indeed, the commonly held greatest virtue of ASEM – its informality – makes such a development almost inconceivable. An example of where a substantive ASEM role could emerge is in a joint approach to development cooperation that incorporates Asian solutions rather than simply applies European past practice. In this way, policies that are more culturally sensitive might be possible and ‘conditionality’ seen as less of an inappropriate demand. Thus ASEM could provide a suitable vehicle to combine EU and Asian experiences leading to a more effective and applicable synthesis.

In conclusion, how does ASEM compare with the EU’s general pattern of relations with the developing world? First, it clearly further compounds the problem of defining what constitutes the Third World. ASEM includes advanced industrial and technological societies such as Japan, Korea and Singapore as well as underdeveloped countries such as Thailand, Vietnam and Indonesia. Once again, geography creates at least as many problems as it solves. Second, ASEM indicates to some degree that institutionalized relations are not always necessary – or effective – in generating dialogue. Third, it also suggests that economic parity is essential if political conditionality is to be excluded: good governance and human rights have not played a universal role in shaping the EU’s dialogue partners. Fourth, the history of EU relations with ASEAN and ASEM also underline the limited role that trade preferences can play in development. Despite receiving no preferential concessions, Asian trade

with the EU has grown over the past decades whilst that with Europe's privileged partners has virtually collapsed. And fifth, the EU's motives for re-establishing a dialogue with Asia illustrate Europe's wider agenda to become an effective international actor and its activism in confronting American unilateralism. In the post-Cold War context there are no longer any *domaine reserves* that the EU is obliged to respect.

The Aid Dimension

A unique peculiarity of the EU's policy structure is the ALA (Asia-Latin America) Committee. The ALA Committee is composed of member state representatives who meet monthly to review and approve all Asian and Latin American programmes that exceed €2 million. Consequently, the ALA Committee is jointly responsible for EU aid to 34 countries across both these continents. This approach appears to defy logic by grouping together a wide range of geographically and economically diverse recipients in Asia and Latin America under a single category – for example, Brazil and Argentina with Yemen, Cuba and India. For the very worst reasons pertaining to Eurocentric administrative compartmentalization, it combines eight Central American states, ten from South America, six from South East Asia, six from South Asia and four from the Middle East, Central and East Asia! This bureaucratic invention was initiated in 1974 in response to the acknowledged gap in European relations with non-ACP developing countries. As a group, the ALA states have been dealt with on an *ad hoc* basis with financial support coming directly from the Community budget and with programmes largely confined to humanitarian and emergency aid. The Maastricht Treaty and subsequent Council Resolutions have sought to prioritize and expand ALA aid in line with other EU development activities. In particular, the 1992 Council Regulation 443/92 broadened aid objectives to include human rights, gender, democratization, good governance and environmental issues in the main policy objective of poverty eradication. During the 1990s ambitious 'third generation' agreements were signed with many Latin American countries that incorpo-

rated democratic principles as well as development cooperation procedures, although this does not include any uniform policy on structural adjustment conditionality.

If EU-Asia trading relations have been comparatively modest, then Asia has been similarly treated in the deployment of European aid. To compound matters, prior to the 1990s aid did not necessarily go to those in the greatest need: political considerations have weighed heavily in the choice of recipient countries. For example, China only began to receive aid in 1985 and similar patterns can be found for the states of Indochina (Vietnam, Cambodia, Laos and Myanmar). Typically, the very poorest Asian countries were not the main aid recipients – these were primarily the ASEAN countries, such as Thailand and Indonesia. The only exception to this was the Indian sub-continent that received aid irrespective of implied conditionality. The scale of the aid problem distorts even the most generous of programmes when examined on a per capita basis. Nonetheless, the EU contribution remains small. For example, between 1976 and 1988 aid to Indochina totalled just 151.1 million ecus, or the equivalent of 1.33 ecus per capita. Even South Asia, the most favoured of the Asian regions, received only 2.17 ecus per capita (representing 2367 million ecus) (Grilli, 1993, p. 288). With the exception of South Asia, EU aid has not been a major Asian development factor and for many states bilateral member state aid remains more important. Of course, if taken cumulatively Europe's presence is enhanced and the Commission claims that the EU does practice a comprehensive global aid programme. Conversely, critics have described the presence of EU aid as 'paper thin, not only in China and Indochina, but also in the Indian sub-continent' (*ibid.*, p. 289). The aid that does exist is almost totally for agriculture and food aid. In contrast to the ASEM initiative that was designed to rejuvenate the lethargic EU-Asia relationship, no equivalent relaunch of aid to Asia has been developed. The obligatory political conditionalities that now shape the EU's external relations in general can be seen as one of the disincentives to revising the EU's aid distribution.

Table 2.4 describes more recent Asian aid distribution for the decade 1986–1995. The value of aid has grown over the period. More significantly, these SCR figures underline the problem of

TABLE 2.4 EU aid to Asian countries, 1986-95 (m. ecus)

Rank order by value	Country	Value of commitments	D/C ratio* %	Rank order by D/C ratio
1	India	932	54	9
2	Bangladesh	686	67	7
3	Philippines	271	40	14
4	China	264	70	5
5	Pakistan	260	67	6
6	Indonesia	172	55	8
7	Cambodia	152	41	13
8	Vietnam	147	54	10
9	Thailand	139	116	2
10	Afghanistan	137	na	na
11	Laos	70	39	15
12	Nepal	62	45	11
13	Sri Lanka	60	91	3
14	Yemen	40	119	1
15	Bhutan	21	85	4
16	Mongolia	9	42	12

Note: * D/C disbursement/commitments ratio.

TABLE 2.5 EU aid to Latin American countries, 1986-95 (m. ecus)

Rank order by value	Country	Value of commitments	D/C ratio* %	Rank order by D/C ratio
1	Peru	327	57	7
2	Nicaragua	253	54	9
3	Bolivia	246	68	4
4	Guatemala	188	44	14
5	El Salvador	188	62	6
6	Brazil	137	64	5
7	Chile	135	70	3
8	Colombia	106	48	12
9	Ecuador	100	50	11
10	Cuba	90	55	8
11	Honduras	89	48	13
12	Mexico	63	73	2
13	Paraguay	46	50	10
14	Venezuela	44	18	16
15	Argentina	44	0	18
16	Panama	34	26	15
17	Uruguay	30	13	17
18	Costa Rica	29	127	1

Note: * D/C disbursement/commitments ratio.

Source for both tables: Commission (1999).

actually disbursing those limited funds that were allocated for aid. Only seven states had a disbursement rate of over two-thirds and the ratio for the largest programme (India) was only just above 50 per cent. As is discussed in Chapter 3 this pattern has become a generalized problem for the EU – irrespective of the geographical location of aid the actual delivery and expenditure of funds can be frustratingly slow and often remains incomplete. The necessity for transparent accounting and the individual conditions associated with each project make time lags almost inevitable. Table 2.5 provides similar data for Latin America. Here, only four states achieved a disbursement rate of over two-thirds and eight could manage no better than 50 per cent rates. Of the seven states to receive the greatest levels of aid, only two reached the two-thirds level.

Table 2.6 looks at the changing pattern of aid over a decade. During the first half of the 1990s EU aid to Asia increased by 82 per cent, and to Latin America by 68 per cent. However, as a percentage of the EU's overall aid, the ALA share declined over this five-year period due to the shifting aid priority towards the CEECs (to 13.6 per cent of EU total aid). This was reversed in 1995 when EU aid commitments to both Asia and Latin America reached a record level of €1.2 billion). This represented 17 per cent of the EU's overall aid budget and was close to half the level of aid provided to the ACP states. Except for 1986, Asia has always been the greater recipient of EU aid and over the 1986-95 period consumed 58 per cent of the ALA aid budget. However, on a per capita basis greater funds have gone to Latin America. In both Asia and Latin America EU support has been predominantly targeted for food aid, humanitarian projects and NGOs. The longer-term sustainability of this aid remains an area where the EU contribution could undoubtedly be improved.

A recent addition to the EU's ALA policy has been a specific focus on 'uprooted people' and refugees. The 1997 Council Regulation 443/97 created the legal base for this EU action to counter the effects of civil wars. This has generally taken two forms: in post-conflict situations where resettlement and rehabilitation initiatives act to consolidate peace processes; and where conflict continues, the financing of operations designed to increase stability. During the 1990s Asia rather than Latin America has exhibited a greater degree of conflict and need for

TABLE 2.6 EU aid to ALA countries, 1986-95 (€m.)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1986-1995
Asia	140	257	226	426	317	383	470	504	451	696	3870
Latin America	160	156	159	210	222	286	338	401	390	486	2808
ALA Total	300	413	385	636	539	669	808	905	841	1182	6678
% change		38	-7	65	-15	24	21	12	-7	41	

Source: Commission (1999).

TABLE 2.7 EU ALA aid for uprooted people, 1997-99 (€m.)

	Asia			Latin America			TOTAL
	1997	1998	1999	1997	1998	1999	
Total Budget	38	38	37.95	21.35	21.35	21.24	177.89
Actual commitment	36.12	37.62	29.55	20.86	15.22	20.72	159.1
% of budget allocation	95	99	77.9	97.7	71.3	99.9	89.7

Source: Commission (2000b).

refugee assistance. However, as was the case for aid in general, while Asia attracted a larger total sum, Latin America has received higher per capita help. The raw totals are given Table 2.7. These funds financed a total of 111 individual operations - 67 in Asia and 44 in Latin America. In Asia, two-thirds of commitments went on resettlement aid whereas aid in Latin America was channelled to refugees, displaced persons, returnees and supporting reconciliation processes (Commission, 2000(b), p. 14).

Lastly, one specific, if untypical 'aid' contribution was the EU's response to the Asian financial crisis. EU member states provide around 30 per cent of funding for the IMF, 27 per cent for the World Bank and 14 per cent of the Asian Development Bank. Cumulatively, Europe is the greatest provider of financial support to Asia providing some 18 per cent of the total value at €27 billion. In comparison with the USA, in 1998 the EU's development and humanitarian aid to Asia was twice that of America and the funding for three-quarters of the then existing debt-relief schemes came from Europe (Schmit, 2000, p. 109).

Conclusion

To summarize, there are both general as well as specific criticisms that can be levelled at the EU's aid regime towards Asia and Latin America. First, an area of significant general criticism invokes the theme of the three 'Cs' outlined earlier in the book. Historically there has been a weakness in coordinating EU and member state policies towards Asia and Latin America, as well as in increasing the coherence and complementarity between different Commission DGs and policy objectives. Whilst coordination can involve complex administrative structures and tasks, clearly the greatest impediment remains an absence of political will (either through disinterest or by intent). Second, the heterogeneity of countries with Asia and Latin America - let alone between the two regions - in terms of needs, patterns of income distribution and relative poverty levels, has resulted in a sub-optimal use of scarce aid resources. There are no comparative advantages of using the same administrative structure to deal

with countries as economically diverse as India and China and Argentina, for example (Commission, 1999, p. 31). If the ALA grouping is maintained, at a minimum reform should differentiate between several categories of country based on income levels, poverty ratios or some other regional criteria. Third, the distribution of aid seems clearly to disadvantage Asia.

Chapter 3

Decision-making and Reforming Institutional Structures

This chapter focuses on the administration of the EU's development policy. It begins by examining the internal reforms to the EU Commission structure and responsibilities, contrasting the 1995–99 Santer administrative organization with that of the Prodi Commission after 2000. Here, the review of the management of the EU's external assistance programme as well as the reorganization of DG responsibilities is discussed. The chapter concludes with an analysis of ECHO and the degree to which humanitarian aid operates administrative autonomy free from questions of conditionality. This emphasis reflects the growing public and institutional concern that the EU's ability to deliver its development agenda has been largely frustrated by poor administrative structures. The backlog of financial commitments and the delays in implementing projects reached an unacceptable level and too often practices did not adequately respect the EU's legal obligations. Consequently, administrative structural reform became the precondition for a more effective EU development policy without which future policy initiatives on poverty reduction were bound to fail.

The structure of the Santer Commission, 1995–9

The first full post-TEU Commission led by President Santer complicated the distribution of administrative responsibility for development issues. Whilst DGVIII remained the focus for Lomé relations, three other DGs plus the autonomous European Community Humanitarian Office (ECHO) were involved in aspects of development work. The friction with DGI (external economic relations) was particularly sensitive and much of the impetus for the Green Paper initiatives towards free trade for the ACP can be traced to this division. This fragmentation saw