

THE 7th KOREA-FRANCE FORUM

JANUARY 9-10, 2008
SEOUL



Korea Foundation

한국국제교류재단



The French Institute for International Relations (Ifri) is France's premier centre for independent research, information, and debates on today's most important international issues. Founded in 1979 by Thierry de Montbrial, Ifri is an officially recognized organization (1901 law). It is not beholden to any administrative authority, independently chooses its projects, and regularly publishes its works.

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Contents

| | |
|--|-----------|
| I. OVERVIEW | 4 |
| Overview of the Korea-France Forum | 5 |
| Agenda | 7 |
| Participants List | 8 |
| Opening & Congratulatory Remarks | 10 |
| <i>Yim Sung-Joon</i> | 10 |
| <i>Thierry de Montbrial</i> | 11 |
| <i>Congressman Song Young-Gil</i> | 12 |
| | |
| II. CONFERENCE PAPERS | 15 |
| | |
| SESSION I NATIONAL POLITICS IN KOREA AND FRANCE: REFORM POLICY OF THE NEW GOVERNMENTS | 16 |
| Presentation I The Reform Policy of the Sarkozy Government | 16 |
| <i>Thierry de Montbrial</i> | |
| 1. <i>The Historical Background of the Reform Policy of France</i> | 16 |
| 2. <i>Key reform policies of the Sarkozy government</i> | 17 |
| 3. <i>Relations with the United States</i> | 19 |
| 4. <i>Closing</i> | 19 |
| Presentation II Reform Policies of New Governments | 20 |
| <i>Patrick Beaudouin</i> | |
| 1. <i>An equilibrium, unfortunately broken</i> | 20 |
| 2. <i>The Crisis</i> | 21 |
| 3. <i>The politics of reform as engaged by the government of President Sarkozy</i> | 22 |
| | |
| SESSION II ECONOMIC OUTLOOK OF EUROPE AND ASIA AND KOREA-EU ECONOMIC RELATIONS | 27 |
| Presentation I Economic Outlook for the East Asian Economies in 2008 | 27 |
| <i>Bark Tae-Ho</i> | |
| 1. <i>Economic forecasts for the East Asian region and countries</i> | 27 |
| 2. <i>Risks to the Outlook</i> | 29 |

| | |
|--|-----------|
| 3. Policy issues in the region..... | 30 |
| Presentation II Launching a New Era of Relations between Korea and the EU through a Korea-EU FTA..... | 31 |
| <i>Kim Heung-Jong</i> | |
| 1. Economic relations between Korea and the EU..... | 31 |
| 2. Key issues in the Korea-EU FTA negotiations..... | 32 |
| 3. Considerations for Korea-EU FTA..... | 33 |
| Presentation III The Economic and Financial Outlook for 2008-2009 | 42 |
| <i>Christian de Boissieu</i> | |
| 1. The World Economy 2008-2009..... | 42 |
| 2. Europe: Opportunities and Challenges | 46 |
| Presentation IV Negotiating an FTA between Korea and the EU: Why it is more complicated than initially expected | 48 |
| <i>Francoise Nicolas</i> | |
| 1. Introduction..... | 48 |
| 2. A Brief Overview of the Two Partners' FTA Strategies | 48 |
| 3. Why the negotiations were expected to be easy..... | 50 |
| 4. Why It Turned Out To Be Complex..... | 55 |
| SESSION III THE PAST, PRESENT AND THE FUTURE OF THE KOREA-FRANCE RELATIONS | 58 |
| Presentation I Assessment and Future Outlook of Academic and Cultural Exchange between Korea and France | 58 |
| <i>Ju Chul-Ki</i> | |
| 1. Significance of Korea-France academic and cultural exchange | 58 |
| 2. Current status of academic exchange..... | 58 |
| 3. Current status of cultural exchange | 60 |
| 4. Future directions..... | 61 |
| 5. Policy suggestions..... | 61 |
| Presentation II Ways to Promote Science and Technology Exchange between Korea and France..... | 62 |
| <i>Oh Young-Suk</i> | |
| 1. Increased personal exchange | 64 |
| 2. Approach combining basic and applied science | 65 |
| 3. Interdisciplinary exchange and cooperation..... | 65 |
| Presentation III Korea-France Cooperation in Information and Communication Technology..... | 65 |
| <i>Patrice Martin-Lalande</i> | |
| Presentation IV French-Korean Relations: past, present, future | 66 |
| <i>Pierre Fournier</i> | |
| 1. France and North Korea..... | 67 |
| 2. The French relationship with North Korea is not stuck in a time-warp..... | 67 |
| 3. A common will to boost dynamic relations | 68 |

| | |
|---|-----------|
| SESSION IV PEACE AND SECURITY IN NORTHEAST ASIA | 70 |
| Presentation I Progress in Inter-Korean Relations and Its Prospects | 70 |
| <i>Lee Su-Hoon</i> | |
| 1. North Korean Policy of the Roh Moo-hyun Administration..... | 70 |
| 2. Progress in Inter-Korean Relations | 71 |
| 3. Prospects for Inter-Korean Relations | 72 |
| Presentation II Security of Northeast Asia and Cooperation for Peace in the Region | 74 |
| <i>Chun Chae-Sung</i> | |
| 1. Sole Dominance of the United States and Northeast Asia | 74 |
| 2. Rise of China: Power Transition and New Balance of Power | 75 |
| 3. Revival of Hegemonic War in Northeast Asia | 77 |
| 4. Nationalistic Competition amid Complex Regional Order | 78 |
| 5. Creation of Multi-National Regime and its Obstacles..... | 79 |
| 6. North Korea's Nuclear Program as Continuous Worrying Factor | 79 |
| 7. Conclusion..... | 80 |
| Presentation III Collective security in Northeast Asia and opportunities for the EU | 80 |
| <i>Loic Frouart</i> | |
| 1. Diverse and even antagonistic security concerns and strong reluctance regarding multilateralism | 81 |
| 2. Can Northeast Asia generate a collective security system? | 82 |
| 3. The EU can be the necessary outsider | 83 |
| Presentation IV The Role of Regional Power in the North-Korea Issue | 84 |
| <i>Valerie Niquet</i> | |

I. Overview

Overview of the Korea-France Forum

1. Background

A. The Korea-France Cultural Association (President Cha Young-Koo), consisting of Koreans who had studied in France, and the French Institute of International Relations (IFRI) jointly organized the first Korea-France Forum.

B. Since the second forum in 1997, it has been held alternately in Korea and France, under the joint auspices of the Korea Foundation and the IFRI.

2. Overview of the 7th Korea-France Forum in 2008

A. *Period:* Wednesday, January 9 ~ Thursday, January 10, 2008

B. *Venue:* Seoul Plaza Hotel

C. *Participants:* 29 from Korea and 14 from France

D. *Organizers:*

The Korea Foundation (President Yim Sung-Joon)

The French Institute of International Relations (Director Thierry de Montbrial)

3. History

| Year | Period | Venue | No. of Participants | Agenda |
|---------|------------|-------|---------------------------|---|
| 1st '95 | Nov. 23-24 | Seoul | 47 in total - 28(K)/19(F) | <ul style="list-style-type: none"> - Direction of Korea-France cooperation in the new international order - The outlook for 21st century Korea-France economic cooperation / conflicting and complementary aspects of the two economies - The present and future of Korea-France cooperation in culture and arts/international art exchange and modernity - Korean studies in France, French studies in Korea - Korea-France cooperation and its future in science technology/what is the role of countries in science technology cooperation? - Roundtable: Direction of Korea-France cooperation in the 21st century. |
| 2nd '97 | Apr. 21-22 | Paris | 80 in total - 18(K)/62(F) | <ul style="list-style-type: none"> - Geographic/strategic relationship - Toward economic relations and regional integration, dialogue |

| | | | | |
|---------|------------|-------|---------------------------|---|
| | | | | <ul style="list-style-type: none"> between Asia and Europe, and Seoul ASEM summit meeting - Cultural exchange between Korea and France |
| 3rd '98 | Jun. 25-26 | Seoul | 56 in total - 25(K)/31(F) | <ul style="list-style-type: none"> - The financial crisis in Korea and cooperation between Korea and France - Promotion of cross-investment and cooperation between Korea and France - Promotion of cultural cooperation between Korea and France - Inter-Korean relationship and security in Northeast Asia |
| 4th '00 | Mar. 16-17 | Paris | 72 in total - 20(K)/52(F) | <ul style="list-style-type: none"> - Dialogue between Europe and Asia - Security issues between Korea and France - Measures to advance Korea-France cooperation: Economic and cultural cooperation |
| 5th '02 | Mar. 25-26 | Seoul | 46 in total - 27(K)/19(F) | <ul style="list-style-type: none"> - Political situations in Korea and France - Mechanisms for regional cooperation: Europe and Asia - Bilateral cooperation: Political and economic cooperation - Cooperative relationship in the cultural and social areas |
| 6th '05 | Jun. 27-28 | Paris | 49 in total - 19(K)/30(F) | <ul style="list-style-type: none"> - Promotion of multilateral cooperation to resolve North Korean nuclear issues - Future of security dynamics in the Asia-Pacific region - The current status, directions and challenges of Korea- France economic cooperation - The outlook for integration between the EU and Asia - Evaluation of bilateral relations |

Agenda

The 7th Korea-France Forum

January 9 - 10, 2008 / Korea - Seoul Plaza Hotel

Tuesday, January 8

07:30-09:00 Breakfast lecture

Thierry de Montbrial, Director of IFRI: "Reform Policy of the Sarkozy Government"

18:00 Reception dinner

Wednesday, January 9

09:20-10:00 Opening ceremony

Opening remarks

- Yim Sung-Joon, President of the Korea Foundation

- Thierry de Montbrial, Director of the French Institute of International Relations

Congratulatory remarks

- Song Young-Gil, President of Korea-France Parliamentarians Friendship Association

10:00-12:00 Session 1: National Politics in Korea and France: Reform Policy of the New Governments

Chair: Joo Sub-II, Senior Adviser to Le Monde Korea

Presentations

- Thierry de Montbrial, Director of the French Institute of International Relations

- Patrick Beaudouin, President of the France-Korea Friendship Association of Congressmen

- Kim Byung-Kook, Professor of Political Science and International Studies, Korea University

14:00-16:30 Session 2: Economic Outlook of Europe and Asia and Korea-EU Economic Relations

Chair: Thierry de Montbrial, Director of the French Institute of International Relations

Presentations

- Bark Tae-Ho, Dean of GSIS of Seoul National University

- Kim Heung-Jong, Head of Europe Team of KIEP

- Christian de Boissieu, President of the Council of Economic Analysis for the Prime Minister

- Françoise Nicolas, Researcher of the IFRI

16:45-18:30 Session 3: The Past, Present, and Future of the Korea-France Relations

Chair: Jean-Claude Beaulieu, Member of the France-Korea Friendship Association of Congressmen

Presentations

- Ju Chul-Ki, Former Korean Ambassador to France

- Oh Young-Suk, Head of International Team of KAIST

- Patrice Martin-Lalande, Member of the France-Korea Friendship Association of Congressmen
- Pierre Fournier, Head of the Asia Division of the Ministry of Foreign Affairs

Thursday, January 10

09:00 - 11:30 Session 4: Peace and Security in Northeast Asia

Chair: Cha Young-Koo, Visiting Professor of the Graduate School of Peace Studies, Kyunghee University

Presentations

- Lee Su-Hoon, Chairman of the Presidential Committee on the Northeast Asian Cooperation Initiative
- Chun Chae-Sung, Professor of International Relations of Seoul National University
- Loic Frouart, Head of Asia Desk of the Ministry of Defense
- Valerie Niquet, Asia Center Director of the IFRI

Participants List

o Korean Participants

| | |
|--------------------|---|
| Yim Sung-joon | President, the Korea Foundation |
| Bae Myung-bok | Editorial Writer, Joongang Daily |
| Baik Joo-hyun | Director-General, European Affairs Bureau, Ministry of Foreign Affairs and Trade |
| Bark Tae-ho | Dean, Graduate School of International Studies, Seoul National University |
| Cha Young-koo | Professor, Graduate School of Peace Studies, Kyunghee University |
| Cheong Seong-chang | Director, Inter-Korean Relations Studies Program, Sejong Institute |
| Cho Don-young | Executive Vice President, Renault Samsung Motors |
| Choi Jung-hwa | President, Korea Image Communication Institute Professor, Graduate School of Interpretation and Translation, Hankuk University of Foreign Studies |
| Cho Hong-sik | Professor, Department of Political Science, Soongsil University |
| Chun Jae-sung | Professor of International Studies, Seoul National University |
| Chung Eui-yong | Member of the National Assembly |
| Hahm Chul-ho | Senior Vice President, International Affairs, Koreanair |
| Heo Man-ho | Professor, Department of Political Science, Kyungbook National University |
| Joo Sup-il | Executive Advisor, Le Monde Korea |
| Ju Chul-ki | Former Ambassador to France |
| Kim Byung-kook | Professor, Department of Political Science, Korea University |
| Kim Dal-choong | Professor Emeritus, Yonsei University |
| Kim Heung-jong | Head of Europe Team, Korea Institute for International Economic Policy |
| Kim Myung-sup | Professor, Department of Political Science, Yonsei University |

| | |
|----------------|--|
| Kim Se-won | Professor, Graduate School of Information, Korea University |
| Kwon In-hyuk | Former President, the Korea Foundation |
| Lee Chang-hoon | President, Seoul ASEM Institute for International Studies |
| Lee Jae-seung | Professor, Graduate School of International Studies, Korea University |
| Lee Su-hoon | Chairman, Presidential Committee on Northeast Asian Cooperation Initiative |
| Oh In-je | Director, International Policy Division, Ministry of National Defense |
| Oh Young-seok | Chief, International Cooperation Team, KAIST |
| Song Young-gil | Member of the National Assembly, President, Korea-France Parliamentarians Friendship Association |
| Sung Suk-nam | Director General, Nez-a-Nez, Association of French Korea Cultural Exchange |
| Yoo Jung-hwan | Professor, Department of Political Science, Cheongju University |

o **French Participants**

| | |
|------------------------|--|
| Thierry de Montbrial | Director of the French Institute of International Relations |
| Patrick Beaudouin | President of the France-Korea Friendship Association of Congressmen |
| Jean-Claude Beaulieu | Member of the France-Korea Friendship Association of Congressmen |
| Thierry Berthelot | Political Counsellor, Embassy of France in Korea |
| Christian de Boissieu | President of the Council of Economic Analysis for the Prime Minister |
| Pierre Fournier | Head of the Asia Division of the Ministry of Foreign Affairs |
| Loïc Frouart | Head of Asia Desk of the Ministry of Defense |
| Song-nim Kwon | Researcher of the IFRI |
| Philippe Li | President, French-Korean Chamber of Commerce and Industry |
| Patrice Martin-Lalande | Member of the France-Korea Friendship Association of Congressmen |
| Alain Nass | Military Attaché, Embassy of France in Korea |
| Françoise Nicolas | Researcher of the IFRI |
| Valérie Niquet | Asia Center Director of the IFRI |
| Philippe Thiébaud | French Ambassador to Korea |

Opening & Congratulatory Remarks

■ Opening Remarks

Yim Sung-Joon

President of the Korea Foundation

Honorable Director Thierry de Montbrial of IFRI, President Patrick Beaudouin of the France-Korea Friendship Association of Congressmen, Congressmen Patrice Martin-Lalande and Jean-Claude Beaulieu, French Ambassador to Korea, His Excellency Philippe Thiebaud, President Song Young-Gil of Korea-France Parliamentarians Friendship Association, President Kwon In-hyuk of L'Association France-Corée, Vice President Ju Chul-ki of UN Global Compact Korea Network, Distinguished Guests from Korea and France, Ladies and Gentlemen,

It is a great pleasure to host the 7th Korea-France Forum here in Seoul. I express my deepest gratitude to all of you for taking the time out of your busy schedules to be here. In particular, I sincerely thank the many leaders from France for coming all the way to Korea for this Forum.

Delegates,

Because this Forum is being held for the first time since 2005, I believe you have many questions to ask and issues to discuss with your counterparts from France or Korea. France has undergone many changes over the past eight months since President Sarkozy took office in May last year. As you well know, Korea elected a new President last December and the President-elect Lee Myung-bak will soon be sworn in. The power shift after 10 years of progressive governments is expected to bring many changes, big and small. Since France launched a new government last year and Korea is about to do the same, I believe France's policies and experience will have great implications for Korea. In this sense, national politics of our two countries is surely a very interesting agenda for this Forum.

In addition, Korea and the EU are currently proceeding with FTA negotiations. Soon, the sixth round of negotiations will take place in Korea. Since we have relevant experts here today, I hope we will have an opportunity to discuss in detail the progress, significance, and outlook of the FTA talks. The Korea-U.S. FTA signed last year has yet to be ratified at the National Assembly. I hope that the Korea-EU FTA is successfully concluded and ratified, giving impetus to the stalled ratification of the Korea-U.S. FTA and boost the mutually-enhancing economic exchanges and investments between Korea and the EU.

Distinguished Delegates,

I was recently shocked to learn that there are only 70 French students studying in Korea, which is a hundred times less than the 7,000 Korean students studying in France. However, a closer look reveals a different aspect. Although a far greater number of Korean students go to France to study than French students come to Korea, French universities, especially business schools, are gravely underrated in Korea compared to U.S. schools – even though French schools rank among the highest in various global university rankings. Both Korea and

France have room for improvement in terms of academic exchanges, but this also means that there is great potential for development. Therefore, I'd like to encourage your interest in this area.

Peace and security in Northeast Asia is another important agenda of this Forum. Inter-Korean relations are not issues of North and South Korea only – they are deeply relevant to the peace and stability in Northeast Asia and the peace and security of the world. Recently, there have been great efforts to solve the North Korean nuclear issue and I believe that France and the EU have an important role to play in non-proliferation efforts. As part of the Forum's program, the Korea Foundation has arranged a tour of Gaeseong in North Korea. The Gaeseong tour began in December last year and it is a result of recent progress in inter-Korean relations. The tour will present a great opportunity for you to witness the reality of North-South relations.

Distinguished Guests,

Last year, a French journalist who visited Korea on the Foundation's invitation said that the young French consider Asia as a symbol of dynamic, young culture that may replace the United States. Also, Korean brand value has been highly acclaimed recently. At the forefront are small home electronics and cell phones that appeal well to young people's tastes. Furthermore, Korean pop culture led by films, animated films, and B-boys has been widely introduced to Europe, steadily attracting the interest of young people. This is very encouraging for Korea and therefore expanding young people's exchanges between France and Korea is another excellent agenda for the Forum.

Let me finish by saying that I sincerely hope enthusiastic discussions and individual dialogues take place in the Forum, deepening mutual trust between our two countries and contributing to the development of the bilateral relations. Thank you.

■ Opening Remarks

Thierry de Montbrial
Director of IFRI

First of all, I'd like to thank the President of the Korea Foundation and the Presidents of the two Friendship Associations. It is a great pleasure to be here with you all. France and Korea have many outstanding tasks to resolve. We also share similar political situations. During this Forum, we will discuss important bilateral issues but we must also widen our perspectives to global issues as well. In addition, we also need to discuss culture in general, including religion. Before we begin the Forum, I would like to brief you on the current global economy and politics.

Firstly, the global economy is not doing well. Globally, macroeconomic imbalance and governance are getting worse. A glimpse at the euro, yuan, and yen values against the dollar reveals the exchange rate issues and international mechanism cannot deal with the problem efficiently. The sub-prime debacle triggered in the United States is quite different from the Asian financial crisis that began in Thailand in 1997. In fact, politically, the sub-prime crisis was brushed away as a trivial issue but its spillover effect has been huge, leading to unprecedented liquidity problems. Lack of liquidity in banks was a never-before-seen crisis that left the Central Banks with no other choice than to provide massive amount of funds reaching hundreds of billions of dollars and euros. One question arises at this point: Can central banks efficiently perform the major task of fighting inflation while providing such a tremendous amount of liquidity? This situation is very similar to what we saw immediately prior to the oil shock in the 1970s. Just like now, raw material prices were soaring and

stagflation took over with high unemployment rate and inflation occurring at the same time. The current national politics of France and Korea are very similar. The President-elect Lee Myung-bak is planning a series of reform policies and the French President Sarkozy is also pursuing reform. However, without strong economic growth, reform will become very difficult to implement. President Sarkozy said, "What we lack is one percent of economic growth." I think he made a very important point. In conclusion, the world is currently in a very serious economic state.

Secondly, let us take a look at international politics. The year 2008 is significant in many aspects. In particular, the Bush administration comes to an end and the world is hanging hopes on a new U.S. President. However, there are concerns over Iran. The Iranian issue is very important and taking military action against Iran is undesirable. Iran assumes a very important position in the Gulf and has great diplomatic abilities. It exerts great brinkmanship skills. I think the next U.S. President will launch new negotiations succeeding the Baker-Hamilton report of two years ago. This raises hopes of a general discussion with Iran that deals with issues other than the nuclear issue. Severe instability has been ongoing in Pakistan and the surrounding region since the assassination of former Prime Minister Benazir Bhutto. Al-Qaeda is wielding ever stronger power in western Pakistan and despite international intervention, situations in Afghanistan is getting worse. As you can see, terrorist forces continue to grow. In particular, Asia has played host to many terrorist attacks while Al-Qaeda and Islam are gradually gaining influence in the region. Therefore, I think it is time for the U.S. administration to reconsider its policies toward the Arab-Islam world. What is clear is that we must cooperate with other countries even if they do not share our basic values. With the rise of China and Russia, the world has become truly multi-polar. To effectively respond to non-state violence, we must cooperate with many nations like China and Russia to tide over the current challenges. We have looked at the global economic and political situations. I have high hopes for venues such as this, where countries that share many similarities like Korea and France come together and discuss bilateral and international issues. I look forward to vibrant and deep discussions.

■ Congratulatory Remarks

Congressman Song Young-Gil

President of Korea-France Parliamentarians Friendship Association

Good morning. I am Congressman Song Young-gil. I deeply thank the French delegates for traveling all the way to Seoul for this Forum. It seems like yesterday when President Kwon In-hyuk and French experts in Korea went over to Paris for discussions, but it has already been three years. It is wonderful to see you again. During those three years, as President Yim Sung-joon has said, there have been huge political changes in our two countries. That wave of change is showing signs of reaching the U.S. Presidential election. Amid the changes, I believe this Forum brings many great opportunities to Korea and France to share experiences even in political aspects of bilateral relations. In France, there are conflicts between different values: American and European, competition-based and social security-based. Korea is undergoing similar situations where European, American, and Asian values are mixed together, which leads to both strength and collision. During the Presidential election, many such collisions occurred. But one thing is clear: in Korea, democratic, transparent, fair, and corruption-free election has taken root as the people's means to choose or change the political power.

The Roh Moo-hyun government of the past five years was criticized by the conservatives as a "leftist" administration. However, political transparency was enhanced and corruption

uprooted. In particular, the Korea-U.S. FTA was pushed forward despite opposition from the leftwing groups. The Agreement now awaits parliamentary ratification in both countries. As Chairman of the Special Committee on Korea-U.S. FTA, I supported the successful conclusion of the talks by making preparations with U.S. Senators, Representatives, and USTR delegates on a number of occasions and persuading opponents in Korea. The Korea-U.S. FTA ratification process will begin at the National Assembly after the general elections in April. I believe it will be ratified. If Korea-EU FTA is also concluded and ratified, Korea may become an FTA hub – the first country in the world to present simultaneous access to the EU and the US, the two greatest markets in the world. Therefore, relations between Korea and France, a leading EU member, are becoming ever more important. I believe that our bilateral relations must be strengthened and expanded from economic cooperation to full-scale exchanges that include philosophical, cultural, and scientific areas. There are many Koreans who have studied in France and the Korean society has a very friendly sentiment toward France. Nevertheless, I personally believe that the Korea-France relations have fallen short of people's expectations. I hope our bilateral relations become more vibrant and more people come and go between our two countries. As President Yim pointed out, I hope French students learn more about Korea's presence to understand that besides China and Japan, there is also Korea. I think France needs to pay more attention to Korea's grand history of 5,000 years of never being conquered by China, never succumbing to Japan, and maintaining its beautiful history, philosophy, and tradition. If Korea proactively makes itself known and French students learn of Korea's values and culture, I have no doubt that they will be captivated by Korea's charms. In this sense, I believe new culture and creative flows are produced through harmonious convergence.

I extend my deepest appreciation to President Saint-Denis of France-Korea Friendship Association of the Lower House and Congressman Boulain of the Upper house for their devoted and affectionate efforts for the Friendship Association. I also thank the new President Patrick Beaudouin. Korea's general elections will be held in April, 92 days from now. It is a critical period for Korean congressmen and I apologize for not being able to be here throughout the Forum. If I succeed in winning a third term, I promise to work harder alongside President Patrick Beaudouin for further development of Korea-France relations. I also thank Congressmen Jean-Claude Beaulieu and Patrice Martin-Lalande for being here. To add another point, recently, there has been much unrest in Paris wrought upon by unemployment and marginalization of young Arabs. Korea is likewise pondering on how to solve the low employment rate and bipolarization. As a Catholic, I took to heart the Pope's recent comment in which he stressed restraint and care for other nations amid the process of globalization that impoverish the poor and enrich the wealthy. Globalization is a trend we must accommodate but it will be unsustainable if it becomes a globalization of capital, of irresponsibility to one's community, of exodus of capital, and a force against free responsibility.

When the wonderful tradition and historical experience of France is converged in harmony with the 5,000-year history of Korea, our two countries will achieve a third creative development. I heard you will visit the Gaeseong Industrial Complex today. I hope you experience the reality of North-South relations during your visit. Small and medium-sized enterprises in Korea are relocating their factories to China, Vietnam, and Southeast Asia due to lack of plant site and workforce. This is causing the youth unemployment rate to climb up. However, the lotting-out price per plot (the price for the right to use land for 50 years) in Gaeseong Industrial Complex is just 149,000 won and the monthly wage of North Korean workers is only US\$70. Combined with South Korea's capital and technology, Gaeseong will become the most competitive industrial complex in Northeast Asia. Gaeseong is only 60

kilometers away from Incheon, my constituency. The town of Chulsan in Ganghwa Province and Gaeseong and Gaepoong counties in North Korea are separated by ocean water, which is only 1.4 kilometers wide. Connected by a bridge, the Gaeseong Industrial Complex will be a half-hour drive from the Incheon International Airport. Add in the US\$70 monthly wage and the 149,000 won land. Gaeseong represents the new leaping board for the Korean economy and the door of open-reform for North Korea and I have no doubt that you will have a wonderful experience there. I appreciate France's efforts so far for the peaceful resolution of the North Korean nuclear issue and I ask for further cooperation. I hope you have a wonderful and fruitful stay in Korea. Thank you.

II. Conference Papers

Session I

National Politics in Korea and France: Reform Policy of the New Governments

Presentation I **The Reform Policy of the Sarkozy Government**

*Thierry de Montbrial,
Director of the French Institute of International Relations*

1. The Historical Background of the Reform Policy of France

o The tradition and the historical background of French politics

- France had a long history and tradition of strong monarchy, of which there is still evidence in modern French politics. The president exercises powerful executive authority and sometimes rules the nation in the tradition of an absolute monarchy. In other words, the nation's monarchical heritage and the constitution allow for substantial authority to be wielded by the president. On the other hand, France is a country of revolution where the people overthrew the absolute monarchy regime and now elect their leaders by popular vote. However, it is ironic that the French people tend to be afraid of changes and resist giving up their vested interests, and 54% of the population is found to be against the market economy, even though it is indisputably a modern country.
- The cohabitation period for the past quarter of a century, including 14 years of the Mitterrand government and 12 years of the Chirac government, had limitations, the socialist tendency has been dominant, hampering the dynamic development of society, and a number of reform agendas went up in smoke. As a result, the structural problems of French society have worsened and the country still remains enmeshed in its old traditions.
- France has never been a fully liberal nation. Historically, it was in its most liberal phase immediately after the French revolution in the 19th century, but its road toward a fully liberal nation has been very tumultuous. France achieved visible economic accomplishment, but the economy could have been

more prosperous if it had strengthened its foundation for liberalism. In particular, in a fast aging country with no appropriate measures in place like Korea, it was very appealing to the French population to address the issue of an aging population and come up with a campaign theme of ‘work hard and earn more.’

○ *Propensity of President Sarkozy*

- President elect Lee Myung-Bak and President Sarkozy have many things in common despite their age difference. President Sarkozy is willing to transform the French government into the most dynamic government since Napoleon, and he has energy and courage which had been lacking in his predecessors. He is committed to changing France while working day and night and even without taking any time off.
- What makes his reform agenda possible is closely related to his personal background. He is not a technocrat from the French National School of Administration (ENA), and began his political career when he was young. Therefore, he is less for interventionism and bureaucracy like his predecessors. He is so practical that he can push ahead with his reform policy with a future oriented viewpoint. Moreover, as an eloquent speaker and reasonable and convincing politician, he is capable of leading public opinion and persuading the public.
- Sarkozy has brought change to France, supporting the idea of ‘work harder and earn more,’ a slogan that French politicians of the past found hard to mention publicly in the wave of socialism.

The Sarkozy government now wants to accelerate its reform process and complete as much of its agenda as possible before the election period begins in March, because the local election and the results will impact future policy directions. Besides, many overseas visits are scheduled as France will begin the EU presidency representing the EU area in the second half of 2008 (with a planned visit to Asia in mid-October).

2. Key reform policies of the Sarkozy government

○ *Economic policy*

- The economic reform policy of the Sarkozy government aims at cutting labor costs to boost supply, and spur the economy by strengthening purchasing power. However, the effect thus far has been minimal due to difficulties in implementing reform.

1) Supply side: It was one of the policy mistakes of the Socialist Party that the government lowered the retirement age for workers to 60 and France became the only country that set the weekly working-hour ceiling at 35 hours by law. The psychological resistance against elimination of the provisions remains, so the government plans to save labor costs by not assessing tax for additional working hours.

2) Demand side: Tax cuts are the main target of the policy. The tax-cut policy of the government is intended to lower tax for lending interest and wealth. The past leftist government’s capital tax led to a massive flight of the upper class and some had to face higher tax amounts than their income. President Chirac was also concerned about the

problem and set the tax rate ceiling. President Sarkozy is making efforts to lower the ceiling to under 50%. However, despite the unreasonable aspects of the previous tax system, the government is faced with challenges in reform due to differences in ideological disposition.

3) Direction for reform: The government will not revoke all the policies of the past leftist government, but rather pursue gradual change to resolve conflicts and problems. Compared to Germany, the policy approach does not appear so decisive and straightforward.

○ *Social policy*

- It is notable that since the French revolution France has not had intermediary bodies between the government and the citizens. Unlike the United States, France lacks private foundations, a product of liberalism. The government leads policy implementation, but it is viewed as not determined and clear.

- The labor unions express their opinions in a revolutionary and extreme manner, as they have weak roots. The reason there are many strikes in the public transportation sector is that there is no buffer zone where the government and the citizens communicate.

- The Sarkozy government is working hard to help the labor sector have better representation and require a negotiation process under the law before implementing a labor strike, so that labor strikes will not result in extreme outcomes.

- As France is still affected by laws established in 1884, there are unrealistic legal provisions. Through revision of laws, including the government subsidies provided to labor unions, the French government intends to make funding of labor unions more transparent and reasonable.

- The first-phase reform of the special pension system (allowing a longer benefit period than the length of labor – public sector) has been completed with the support of the citizens.

○ *Government sector reform*

- Traditionally, the French government has been run inefficiently due to the powerful centralization and its bloated bureaucracy. For example, the production cost for Euro currency bills is three times that in Germany. The accounting standards had been inconsistent between each public sector division, and automated accounting processes were introduced only recently to resolve inefficiency and waste of expenditure.

- President Sarkozy plans to cut the public budget by 150 billion euros by pursuing efficient government organization and reduce hiring of public servants to save costs and improve productivity. Nevertheless, the government is faced with opposition to the plan and it is hard to observe positive results yet.

○ *Legal/education/immigration policy reform*

- Legal system: France maintains a legal system from the time of Napoleon. The government seeks to reform the legal system including

integration and closing of courts, but there are many who voice opposition to the plan.

- Education sector: Allowing universities to have more autonomy and focusing on enhancing competitiveness.
- Immigration policy: Reforming the immigration policy by introducing the principle of “selected immigration”.
- Acting resolutely against crimes by strengthening the penal law system.

3. Relations with the United States

President Sarkozy seeks to improve France-U.S. relations as a symbolic gesture, but will probably not side with the United States if President Bush decides to invade Iran.

Sarkozy is a very independent person with a strong will. He will take a different approach from that of former Prime Minister Blair depending on issues.

4. Closing

The reforms by President Sarkozy focus on breaking away from the old traditions and prejudices that still remain in France. However, it is important to remember that changing a country cannot happen overnight. It is hard to predict the outcome of the reforms since the Sarkozy government implements several reform policies at the same time instead of taking a phase-by-phase approach, but it is true that the reform policies are impressive.

It might be possible to determine whether the economic reform will be a success or failure in a year from now, and the outcome of the university reform will be visible at the end of the term of the incumbent government.

Unless a serious problem arises, President Sarkozy is expected to be able to retain his presidency for 10 years (serving a second five-year term).

Presentation II

Reform Policies of New Governments

Patrick Beaudouin,

President of the France-Korea Friendship Association of Congressmen

The question of a deep reform of public institutions' operations and social relations has been on the agenda for some years now.

1. An equilibrium, unfortunately broken

Our country lived, until the late stages of the 20th century, with a political, social and economic system that was born out of the industrial revolution of the 18th century, and its ideological and material consequences.

A state built on the principle of the Nation, whose basis of government is democracy, that is to say in the participation of all citizens in the organisation of the society presiding over the organization of the relationship between individuals and the sharing of the welfare borne out of progress.

The state is the protector and organizer of a social contract which unites the citizens around the principles of liberty, equality and brotherhood, and establishes rules that are common to all: The laws formulated by the entirety of the citizens in the framework of a representative government founded on a parliamentary democracy.

It was Napoleon who gave the modern state its first organic form.

The Napoleonic institution has been, however, incomplete: its reference to democracy was brief; it limited itself to the exercise of political power and left the economy to the private sector.

In the period following the empire, the Napoleonic model was modified, bit by bit, resulting in the system of government that is the characteristic of our country.

This system is based on several principles: the **essential role of the state** in the political, economic and social organisation of the country.

The French political regime has the reputation of being unstable, however, it is behind this instability that is forged the power of a centralised state apparatus which takes care of the life of the society. It decides, and chooses the objectives, and directs the realization, control and action of all economic and social forces. It is the overseer of the country's foreign relations.

Neglected initially, the role of the state in **economic management** has become more dominant, especially with the existence of a strong public economic sector.

This role can also be observed in the development under its legal of **a genuine social status** which governs **labor relations within companies**, and ensures the **protection of the populace in the face of social dangers**: public health, unemployment and old age.

The dialogue between the different social categories takes place, always, **under the aegis of the state**.

The role of the state is furthermore reinforced through the **system of education** which, not only must put each individual on the road to their future, but also integrate the individual in the very design of the future, as decided by the state.

We have, thus, reached what we call, proudly, the ‘French model’, which is a model of efficiency in liberty.

Indeed, France has never been tempted by the model of the totalitarian state. Its evolution has respected the fundamental liberties of the individual, authorised protests and ensured freedom of opinion across a rich intellectual life. It is the type of State centralized around power.

The peak of the system was during the period we call the glorious thirty, the years starting at the end of the Second World War, and finishing at the end of the 1970s.

Everything progressed in one harmonious movement: economic growth, quality of social protection, richness of cultural life.

This situation was brought to a sudden halt, due to the suddenness and the scale of the **new scientific and technological revolution** which shook the entire planet during the late stages of the 20th century. The French model entered a **long crisis period**.

2. The Crisis

The **scientific and technologic revolution** which began in the 1980s, and has reached all corners of the globe, even the most distant. Let us recall a few of its characteristics:

Its scale. It affects all areas. The means of analyzing and mastering of development data concerning production techniques, as well as human health, and the relationships that are formed between them. It concerns states, groups and individuals and their way of thinking in daily life.

Its universal character.

Whereas the classic structures: states, Nations, and populations seem to be unchanging, the new revolution has begun to abolish all differences.

It is truly a “tsunami” which no previously established obstacle can stop, which rolls over rich and poor alike, even those who believe they can harness it.

Questioning of ancient structures

The traditional structures: the state, rights, and social classes have been shaken. Even democracy, the great achievement of the past centuries, has been deeply threatened, paradoxically due to an excess of anarchic democracy permitted by communication on the Internet. Schools of thought are shaken by the direct dialogue. State finances have been burdened by the changing of structures.

Moreover, this change has incited a profound economic crisis.

It manifests itself as a fear of development, which leads the agents of progress to take refuge in the protection of old – even impugned – structures at any cost.

It is almost paradoxical to note, for example, how the internationalist proletariat hangs on to nationalist structures. In France, the unions tend to consider the existing economic and social model untouchable, whereas, in the past they were the ones critiquing it. Even the economic forces were accused in the past of being imperialist, have rediscovered the benefits of national protectionism.

The power of the state has become a sort of tutelary taboo.

This attitude will surely weigh heavily on the planning of the reforms necessary to address the consequences of progress and innovation.

Thus, hesitation is no longer acceptable. It is time to adapt or be resigned to decline.

3. The politics of reform as engaged by the government of President Sarkozy

The principle theme of the 2007 elections in France was the absolute necessity for reform, not only to take into account the immediate impact of the technology revolution, but to create structures capable of controlling its long-term effects, **for the future**.

It is a political project which rests on a new overall conception of our society and all its components. Its realisation will require great dynamism in many areas.

It is a global political conception in the scope of its goals and the means that it aims to put in place.

It is not a matter of questioning the experiences of history. **France wishes to keep the democratic parliamentary institutions** which have allowed the growth of its society for over two centuries.

It is not a question of going back on **all the economic and social advances** that have been created thanks to the democratic regime. Social democracy and political democracy are inseparable. On the contrary, the progress that we are making should allow us to enrich them.

It is not a question of abolishing outdated rights, but rather on the contrary, to make them more accessible to great numbers of people.

Nor is it a question of France either shutting itself away in an ivory tower, guardian of outdated institutions, or drowning in a globalization which imposes its own rules. The nation-state must retain the role of the promoter of change and that of protector of the benefits resulting from it.

Nevertheless, all changes must be the result of permanent dialogue between the citizens and the authorities.

This political conception must be based on the determination of the fundamental means which will guide the change:

A new economic policy in order to return to a level of growth compatible with the new global economic figures.

A financial policy which will provide for the costs of the consequences of technical progress. Cost of work, cost of social progress, etc.

An education and research policy which will allow the country to participate in and anticipate the technical revolution, and allow each individual to participate according to their training.

Foreign policy which will allow France to participate in global changes, and foster global solidarity in the spread of progress.

France must play an important role in the operation of the UN, and European Union and in all its bilateral relations.

A policy of **adaptation for its internal structures** in order to ensure the aid and assistance which every citizen is entitled to, as well as respect for these rights.

A global plan for the future, the methods and the areas of action, are all clearly outlined in the program presented by President Sarkozy, and have been approved by the large majority of the electorate that voted for him.

This was vital, because the hardest task is **overcoming the fear of change**. Sarkozy, who during his campaign adopted the slogan of Pope John Paul II “Do not fear change!” has been able to convince the electorate that reform will be more fruitful than clinging on to outmoded privileges.

The first of the reforms is, indeed, to make the French people accept the very principle of reform.

In order to achieve this, the president of the republic, Nicolas Sarkozy, has introduced the principle of rupture.

At first it will involve opening and preparing minds, of showing that the principle of reform is henceforth shared and accepted by nearly all layers of society and political schools of thought.

It must overcome the barriers of habit, psychological, partisan and individual barriers which, until the recent past, said that reform is acceptable as long as it is for one’s neighbours but not oneself.

Thus, the president is going to multiply the new demands:

He is creating a small government, with some important ministers.

He is opening the government to personalities from different political backgrounds

He is mobilising leaders from all schools of thought, on various economic fronts, institutional, strategic, and social, to reflect on the shape of the reforms that are to be undertaken.

He is involving himself in the choice of policies that are to be put into place.

He is going against habits, alongside the movers and shakers in order to mobilise their energies and explain the logic of reform simply.

This plan of action and program are also that of the parliamentary majority who support the actions of the president. I belong to this majority because I believe that this dynamism is capable of bringing about change which, by its nature, breaks with the past without renouncing it.

Beginning the Program

The president and his majority have five years to fulfil their promises.

It is for this reason that in June 2007, as soon as the government was installed, the first reforms were begun in the following areas:

In the economic sector, boosting the economy based on the principle of “working more to earn more.”

That is to say that it is the revival of the economy which will allow the creation of new wealth and improvement of the workers situation.

A law passed on the August 21, 2007 has reformed the duration of work hours and pay conditions.

It is the government's ambition to return to full employment by 2012.

In the financial sector, the rectification of the budgetary situation will be difficult due to the accumulation of public deficits and a large debt over the previous years.

The limiting of public spending through administrative reorganisation and economic growth should allow us, at the very least, to fit the budgetary criteria of the European Union for 2008 and to increase the paying off of our debt. This will direct the legislation of financial laws for 2008.

One major difficulty is in the financing of progress in the fields of public healthcare and the social protections generated by this progress. Our system of covering the costs of healthcare is without doubt one of the most effective in the world. Progress made in this field, and the resultant costs have direct repercussions on its financing. The prolongation of human life and the quality of care, no longer allows us to meet the expenses by simple financing through contributions by the employees and employers.

Of course, diseases are now better treated, and better prevented. Life spans of individuals are considerably prolonged. However, this all has a cost, and this cost can no longer be met through traditional means of financing. Complimentary methods are needed; this issue is now under study. A study was launched in dialogue with our social partners shortly after the inception of the new government. On the other hand, the government, in full cooperation with the representatives of the citizens, has achieved **an important reform of the retirement system**, founded on the increase of the duration of activities which will allow progress in the quality of work. This law was definitively adopted at the end of 2007.

Teaching and fundamental research reform for the mastering and pursuit of progress. The French system, which is based on a highly centralized network of universities managed and financed solely by the state, rigid in its organization and its research, is no longer capable of dealing with the immense movement of technical progress. In order to adapt teaching to the needs of students, to allow collaboration among educators, researchers and various economic sectors, it was of the utmost importance to give our universities and centers of research an autonomy which would allow them to adapt themselves to their needs, and guarantee the future prospects of their students. As early as 2007, a reform of Higher Education and university autonomy was decided upon, following dialogue with students.

Before concluding, I'd like to discuss three reforms which are innovative, because they are a break from the current situation.

The first is France's decision to include the principle of Sustainable Development in its policies, which protects our country and the planet against the disastrous consequences of unrestrained goods production. With the arrival of emerging powers on the scene (such as China, India, Indonesia ...) whose economies are growing, and whose needs are proportional to the size of their populations, an increase in global production is inescapable.

We know that if this production is not regulated, controlled and surveyed, we risk the destruction of our planet. Through the centuries, man has dominated nature. Today he must exploit it with precaution. For years, France has been at the head of the international environmental movement, and the initiator of the first measures taken to protect nature, be it at the international or national level.

Several months ago, France institutionalized, through constitutional reform, the principle of sustainable development as a governmental obligation. Upon his assumption of office, President Sarkozy, **assembled a conference** calling together political, and scientific authorities, as well as environmental activists, in order to detail the content of his new policy.

Some 20 propositions have been decided on which must be respected in all reforms regardless of their purpose.

I believe that this is a true revolution, which is directly linked to the scientific revolution that we are living through.

Another reform is that of the state, to ensure that it will be capable of realizing the changes to come, and managing this progress which is unstoppable.

We believe that the nation-state remains the framework in which citizens of our country should experience progress and its benefits. By its very nature, it is a unifier of wills, and in an open world, defenders against the excesses of the globalization.

But if the state remains the focal point of reform, it will not be able to undergo the reform alone. It must not be on administrative monolith that rules and decides for all.

Today, it must be the organizer and arbiter of decisions taken through **dialogue** with citizens and their representatives. The normal method of searching for solutions, sanctioned by the state and not imposed by it, must be an exchange between public institution and other state authorities, and at times, formalization by contract. It must also be held more **accountable** before the court of public opinion.

A constitutional reform has been formulated and will, without doubt, be submitted to the parliament. It bases the state on the executive mandate, controlled by an elected parliament, with strengthened powers according to the fundamental principle of responsibility.

The machinery of the state must also be at the service of its citizens and closer to their needs. This implies **a division of the power between the central state and local authorities**, and a deep rationalization of administrative action.

However, the principle that France remains a representative parliamentary democracy based on the **balance between distinct powers** sanctioned by responsibilities of each individual in the exercise of their duties shall remain sacrosanct.

The final reform which I would like to bring to your attention is that of the **international relations of our country**. It is one domain in which globalization has had a positive effect. Indeed, not long ago, our planet was divided into opposed blocs dominated by two superpowers.

The removal of the ideological borders in 1990 reopened the doors of dialogue to all states, and at times, of course, antagonism. However, insofar as great powers such as the United States and Russia see their former superiority challenged and new powers emerge, international relations will evolve in three main directions.

The first is that **international organizations, notably the UN** and its subsidiaries, will be better able to play their role of peacekeeping, increasing the solidarity between all countries, and helping in the development of the less developed nations. Without doubt they are best placed to prevent a return to violent antagonistic ideologies. France continues to lend its full support to these organization and their efforts.

The second is the **full membership of France in the European Union**, which can serve as the model of an organisation allowing countries with a common history, to share their wealth, their brains, and their economic and social models to ensure progress in the quality of life of the citizens of member states.

France has recently had Europe accept an important structural reform. It wants to be able to thus prove that the European Union is neither a Federal State, nor simply a unified economic market, but rather a desire to unite the parties involved, under one model of development, whatever their individual characteristics.

The final positive situation that I can find in globalization is that it has reopened bilateral relations between countries. By mutual agreement, states can pursue common objectives through contracts which, by their nature, exceed simple trade relations and can become, at the same time, economic and cultural links.

That is to say, that association and friendship and heart will give value to common projects. Simply put, to discover again the value of direct links.

In saying this, my thoughts go to the vibrant relations which have been established between South Korea and France. Our businesses work together, and our trade relations continue to develop, but beyond all that, we are entering into active cultural cooperation. And in saying this, I return to what I spoke about at the start. It is not only the technical and economic revolutions which have strengthened our relations. Let us remember the time in history when our two countries were united in the common fight for freedom. It is the fundamental reason of the strength of our relations. And that is coming from the president of the Association of French Veterans in Korea.

Session II

Economic Outlook of Europe and Asia and Korea-EU Economic Relations

Presentation I

Economic Outlook for the East Asian Economies in 2008

*Bark Tae-Ho,
Dean of GSIS of Seoul National University*

1. Economic forecasts for the East Asian region and countries

While much of the region will be affected by the expected slowdown in economic expansion in industrial countries, there remain several mitigating factors that will allow emerging East Asian economies to sustain lower but still robust growth. Despite attempts to cool its economy, China is likely to continue its double-digit expansion. At the same time, growth in the rest of the region has become more broad-based, with strong gains in some larger economies—including Indonesia and the Philippines—and small economies continuing to catch up. GDP growth in the NIEs is expected to ease only modestly in 2008, while GDP growth in ASEAN Plus Four is likely to be, if anything, higher. Also, despite softer external demand and the cyclical downswing in the global IT industry, exports performed strongly and most economies in the region posted solid current account surpluses. As robust growth persists in the region and the global IT industry is expected to recover over the course of 2008, export growth is expected to recover. But rapid economic growth and strengthening domestic demand are likely to compress current account surpluses across the region.

The Chinese economy is expected to post softened growth if measures to cool the economy begin to take hold from 11.5% in the first three quarters to 10.5% in 2008. A series of tightening measures has been introduced to curb rapid investment growth and asset-price inflation since 2006, but the full effect has yet to be seen. Strong exports continue to bolster investment, especially in manufacturing and mining. Increasingly, private consumption growth is contributing to economic strength. Rising incomes and improvements to the social security system underpin rapid consumption growth. A planned increase in fiscal spending

should also support more broad-based expansion, with more public investment slated for education, health care, and rural development.

GDP growth in the NIEs is forecast to average 5.1% next year, just slightly below an estimated 5.3% in 2007. In Korea, growth is gathering pace as strong export earnings and corporate sector balance sheets support reasonably healthy investment growth. In addition, a steady tightening in the labor market is driving a gradual recovery in consumption. In Singapore, despite buoyant industrial activity—driven by the manufacturing and construction sectors—moderation is expected due to a slowing in financial services. The outlook for Hong Kong, which is heavily influenced by China, remains solid. However, the rapidly closing output gap and more subdued financial market conditions imply some easing of growth in 2008.

The four largest ASEAN economies—currently in the upswing phase of their business cycles—are forecast to maintain strong growth in 2008, with Indonesia and Thailand accelerating, Malaysia maintaining this year's pace, and the Philippines slowing somewhat from a strong 2007. Strong domestic demand and resilient exports are likely to keep the four middle-income ASEAN countries in good stead. In Indonesia, GDP growth continues to accelerate, after exceeding 6% in 2007 for the first time since the Asian financial crisis. Buoyant consumption and strong investment on the back of easier monetary policy underpin the robust outlook. In Malaysia, improving electronics exports will support relatively strong growth while the impact of fiscal stimulus on domestic demand gradually fades. In the Philippines, GDP growth will remain high at about 6.4% in 2008—although off the post-crisis peak reached this year—on strong gains in net exports, private consumption, and government spending. Thailand's economy continues to struggle amid ongoing political and policy uncertainties. But there is substantial scope for expansionary policies—which can boost GDP growth in 2008—once the December national elections have reduced political uncertainty.

The smaller ASEAN economies—Cambodia, Laos, and Vietnam—continue to post impressive economic growth. The pace of economic growth in 2008 is expected to quicken further in Vietnam, driven by vigorous industrial activity and strong investment following its January 2007 accession to the World Trade Organization (WTO). Cambodia is working to consolidate output performance by promoting a more balanced expansion among key industries—including agriculture, construction, garments, and tourism. But GDP growth remains narrowly based on garments and tourism. In the short term, increasingly uncertain prospects for garments are hampering the economy. Laos is benefiting from lofty global energy and commodity prices, as strong investment and growth in mining and hydropower sectors support the expansion. GDP is forecast to grow significantly at 7.9% in 2008 from 6.8% in 2007.

Even as growth slows somewhat, inflation is generally picking up in many emerging East Asian economies, largely due to resurgent oil and other commodity prices. In China, inflation was back up to 6.5% in October 2007, with the particularly acute inflation risk riding the back of rapid demand growth and wage increases. Planned pricing reforms of state-controlled sectors—an increase in the prices of public utilities, including power and water, for example—if implemented, may add to existing inflationary pressures. In general, for the rest of the region, robust growth, relatively tight labor markets, and higher energy prices are expected to generally increase inflationary pressures in 2008.

Current accounts are expected to continue to show large surpluses in China, Hong Kong, Malaysia and Singapore, but will likely be close to balance in Indonesia, Korea, and Thailand. After a brief withdrawal of foreign capital during the recent financial turbulence,

capital inflows to the region have resumed the upward trend with a vengeance. Persistent current account surpluses and net capital inflows will continue to place appreciation pressures on regional currencies in 2008. And as authorities intervene in foreign exchange markets to curb the pace, foreign exchange reserves will rise across the region. With heightened volatility threatening financial stability, authorities should closely monitor financial market developments and remain vigilant for any mispricing of risk.

2. Risks to the Outlook

The possibility of a U.S. recession remains a risk—given underlying housing market weakness and growing concern about a spillover onto consumer spending and business activity in general. The persistent housing slump already dragged down private residential investment for the seventh consecutive quarter during July-September 2007. Business and investment activity are also slowing as the outlook becomes cloudier and financial market uncertainty dampens business confidence. Consumers may also come under significant pressure if deteriorating business sentiment affects the labor market. Consumer sentiment affects the labor market. Consumer confidence dropped for a third consecutive month in October, to its lowest

level in a year, as housing market woes and widening credit concerns compounded worries about the economy and future job prospects. Emerging East Asia's trade links with the G3 economies (the United States, Japan, the EU) remain substantial, although in gradual decline. If the U.S. economy slows sharply, its effect on global trade would be significant—it remains an important source of demand for many East Asian exporters. The U.S. subprime turmoil could also spawn a reassessment of housing prices globally. Other countries with significant house-price inflation in the past few years, such as some European countries—particularly the UK—and Australia, also remain vulnerable to a house-price bust. If the US economy enters a recession and the global economy substantially slows in tandem, the impact on emerging East Asian economies will be potent.

Sudden swings in capital flows and abrupt adjustments in exchange rates due to the large global payments imbalances and a potential reversal in investors' risk appetite is another concern for the region's economies. At the height of the recent financial turbulence, global investors retreated from risky assets, including those in emerging East Asia. Most regional currencies have already appreciated substantially, but they remain vulnerable to greater volatility in terms of future directions and magnitude of capital flows. Perceived exchange rate misalignments in emerging East Asian economies continue to draw capital inflows, particularly in the form of short-term portfolio investments, which add appreciation pressure and fuel asset-price inflation in many of these economies. In particular, some countries in the region—including Indonesia, Korea, and the Philippines—have seen rapid increases in capital inflows for portfolio investments over the past few years coupled with higher rates of credit growth. Foreign portfolio and other investments now exceed direct investments in emerging East Asia and this pattern of increasing short-term capital flows makes the region vulnerable to financial volatility and an unexpected reversal of global financial flows. Recent swings in global financial flows and heightened volatility can be exacerbated by vulnerabilities stemming from the persistently large global payments imbalances.

The US current account deficit this year is expected to be 5.6% of GDP, down sharply from 6.2% last year. Still, resulting global imbalances remain extremely large. To the extent that the ongoing correction in global financial markets may reflect the dynamics of underlying market forces to reduce the scale of global imbalances—which entails US dollar depreciation, a U.S. economic slowdown, and reduction of US dollar asset returns—even a

gradual and thus protracted unwinding process would have significant impact on emerging East Asian markets. At the same time, slower U.S. growth could revive protectionist sentiment. Taken together, a disorderly adjustment in global payments imbalances coupled with a sharp contraction in U.S. aggregate demand and a free fall of the US dollar, although very unlikely, cannot be ruled out. This would have a potentially serious impact on the region.

Fresh bouts of inflationary pressures due to sustained increases in food and energy prices pose a threat to maintaining macroeconomic stability in some emerging East Asian economies, with the risks more pronounced in some than others. In particular, in China and Hong Kong, inflation is being fuelled by rising food prices, rapidly growing domestic demand, tightening labor markets, and strong foreign exchange inflows—exacerbated by rigid exchange rate regimes. In the rest of the region, although still manageable, inflationary pressures are quickly resurfacing as well due to narrowing output gaps and rising input prices. The sustained rise in global oil prices is a major concern as markets remain tight and, with little spare capacity, any supply disruption or heightened geopolitical concern could lead to even higher prices. Given talk of recession among the G3 economies and current inflationary pressures in the region, another major oil price shock could contribute to a period of stagflation. If inflation—especially core inflation—heads higher, monetary authorities in the region will have less flexibility to deal with potentially slower economic activity arising from weaker external demand.

3. Policy issues in the region

The region's resilience to recent financial turmoil was in no small part due to strong market confidence derived from a robust growth outlook, sound macroeconomic indicators, current account surpluses, and healthy external positions. The remarkable improvement in the decade since the Asian financial crisis reflects strong macroeconomic prudence in terms of continued fiscal consolidation and measured inflation rates. However, given the uncertain global outlook, heightened financial volatility, and sustained high oil and commodity prices, macroeconomic management remains a major challenge. Policy dilemmas may be particularly acute in countries where rapid credit growth and asset-price inflation—associated with strong foreign capital inflows—limit the scope for monetary responses to external adversity.

Given the specific domestic conditions among the region's economies, monetary authorities will need great care in designing policy responses to the changing external environment. Slowing external demand and the uncertain growth outlook—but rising inflationary pressures—raise the risk of policy mistakes in those economies where monetary policy needs to be fine-tuned to meet both growth and inflation objectives. Because the world's major central banks' key policy rates are expected to fall further or level-off amid below-potential growth expectations, monetary authorities in the region may feel pressure to keep rates on hold or even lower them in line with the global trend.

There may be merit in emerging East Asian economies cooperating to maintain relative stability in intraregional exchange rates, considering the increase in intraregional trade and other economic cooperation within the region. With strong current and capital account surpluses, some economies in the region with more flexible exchange rates have experienced very rapid currency appreciation. These economies may be tempted to introduce some form of capital controls or use administrative measures to curb strong short-term capital inflows and portfolio investments. Hurried administrative measures, however, are potentially disruptive and may only temporarily alleviate the symptoms of underlying structural problems, and they should be used with caution. When any type of capital controls

has to be used as a last resort, these should be carefully defined and precisely targeted to minimize creating distortions. Where possible, drawing up a more coordinated regional approach to exchange rate policy might be a better alternative to take advantage of growing intraregional trade dynamic while helping alleviate the burden of sharp, unilateral appreciation pressures.

Even as economies design the right mix of macroeconomic responses, they will continue to benefit from undertaking deeper and more comprehensive structural reforms. With heightened financial volatility and its potential spillover on the global economy, the region's growth strategy should reinforce efforts to rebalance sources of growth while retaining resilience to external shocks. In this respect, areas of focus could include improvement of the investment climate and business environment, advancing post-crisis financial sector reform agendas, developing deeper financial markets in the region, and promoting energy efficiency and conservation.

Presentation II

Launching a New Era of Relations between Korea and the EU through a Korea-EU FTA

*Kim Heung-Jong,
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1. Economic relations between Korea and the EU

The EU is Korea's second largest export destination and Korea is the EU's eighth largest importer and trading partner.

While the EU's exports to Korea hover around 1.9% of its total exports, its imports from Korea are gradually increasing from 2.2% in 1995 to 2.8% (refer to Table 1.2)

In 2006, Korea's export to the EU amounted to USD 48,450Mn with its import from the EU at USD 30,061Mn. Korea's import and export with the EU for the year to November 2007 are estimated at USD 3,219Mn and USD 3,613Mn, respectively.

IN 2006, the EU became the second biggest trading partner of Korea, just behind China and ahead of Japan and the USA.

High-tech goods and products form a major share of Korea's exports, while the percentage of mid-to-high technology and low technology is relatively high in the EU's exports.

The proportion of Korea's high-technology exports to the EU is higher than that to the world market (refer to Table 4).

In particular, Korea's primary exports to EU 15 are high-technology and mid-to-high technology, while low-to-mid technology comprises a more significant part of Korea's exports to the new EU members.

It is notable that the proportions of audiovisual/communication equipment (EU), automobiles (EU15), ships(EU), information & telecommunications and technology (EU) are relatively high compared to global exports, while those of chemicals, petrochemicals, basic and fabricated metal, and textile/leather/shoes are low in Korea's exports to the EU.

The EU is Korea's largest investor and Korea's investment in the new EU members has been significantly increasing.

The EU's investment in Korea has been substantially growing recently (refer to Table 5). The EU is currently the largest investor in Korea, following Japan (early 1990s) and the USA (1990s) (refer to Table 6).

As of the end of 2004, the four major EU countries – the UK, Germany, France and the Netherlands – accounted for 52% of the EU's total overseas direct investment. In particular, 74% of the EU's investment went to the USA, followed by the UK, Germany, France and the Netherlands (refer to Table 5).

The Netherlands is the largest investor in Korea, followed by Germany, the UK, and France. France's investment in Korea is focused on the agricultural, livestock, fisheries, mining, and manufacturing sectors (refer to Table 7).

As for Korea's investment in the EU, the amount of Korea's investment in the new member countries has exceeded that in the existing member states since 2005, and the trend continues to accelerate (refer to Table 8).

2. Key issues in the Korea-EU FTA negotiations

Tariff concessions, non-trade barriers (especially in automobiles), and rules of origin are the key issues in the Korea-EU FTA talks.

Tariff concessions on goods, non-trade barriers, and rules of origin rules are the most critical issues in the Korea-EU FTA negotiations, of which five rounds have been concluded so far.

In concessions on goods, the two sides differ in the levels of concession.

The EU and Korea took different approaches toward product concessions from the outset. While the proposed concession package of the EU was aggressive initially, Korea, providing a conservative concession package as in its FTA talks with the USA, gradually becomes more open in the negotiations.

In the fifth round of talks on tariff concessions on goods, Korea provided the second revised offer. The EU suggested that the two parties go ahead with their request/offer as the two packages were 'comparable.'

However, Korea submitted a very aggressive request to the EU, and intends to proceed with the second revised offer only if the EU agrees to take Korea's request.

Elimination of non-tariff barriers: EU's main concern

Discussions on non-tariff barriers include wine & spirit, electrical/electronic, pharmaceutical sectors requested by the EU, and the environmental sector requested by Korea as well as the auto sector suggested by the both sides.

One of the most contentious issues is non-tariff measures for automobiles.

In the fifth round of negotiations, Korea proposed auto technical standards similar to those offered in the Korea-US talks, but the EU refused to accept them as the EU demands that Korea applies standards of the UN Economic Commission for Europe.

The EU's stance is that if the auto standard issue is not resolved, it will not give more generous concessions on automobile and auto parts than those EU offered to eliminate tariffs on goods in seven years.

Rules of origin that guarantees substantial market access

If strict rules of origin are applied, it would be difficult for benefits of FTA to be shared by exporters of the two sides even if the level of tariff concessions is high.

Korea depends on mostly change of heading (CTH) rules, whereas the EU applies added value criteria for rules of origin.

It indicates that European exporters would be put at an advantage considering the different structures of international division of labor taking place in Korea and the EU. Products made within the EU economic bloc consisting of 27 countries are still regarded as products of European origin. However, it will be difficult for products made in Korea using semi-processed material produced in China and other Asian countries to be considered as Korean products.

The EU came up with very restrictive rules of origin in the talks. It appears that the EU strategically wants to keep the rules of origin system strict while offering a substantially generous goods concession package.

At the same time, Brussels seeks to keep China or ASEAN countries from enjoying free rider benefits from the Korea-EU FTA in order to encourage them to conclude an FTA with the EU.

Generally, the EU does not provide tariff refund with a grace period in its FTA with non-member countries, and the EU proposed banning of tariff refund in its free trade talks with Korea as well, which is totally unacceptable for Korea.

3. Considerations for Korea-EU FTA

High-level FTA?; KORUS + FTA or KORUS – FTA

KORUS – FTA given tariff concessions on goods only

On the other hand, there are a number of KORUS + FTA factors in the Korea-EU FTA: non-tariff barriers, IPR (GI, proprietary rights over pharmaceutical data, implementation), rules of origin, multilateral environmental agreement (MEA), etc.

Possibility of a comprehensive FTA

Other considerations for FTA – forward linkage effect & backward linkage effect

The EU has to consider implications of the Korea-EU FTA for its policy toward East Asia (refer to Table 9)

Korea: FTA policy taking into account KORUS FTA, Korea-China, Korea-Russia, and Korea-Japan FTAs.

The FTA process is a valuable lesson for future multilateral trade negotiations

The Korea-EU FTA helps Korea be prepared for multilateral trade policy issues that would arise in the future.

Table 1. Export record by major trading partners of EU25

| Trading partner (ranking) | Exports (in millions of euro) | | | Share (%) | | |
|---------------------------|-------------------------------|-------|---------|-----------|-------|-------|
| | 1995 | 2001 | 2006 | 1995 | 2001 | 2006 |
| Extra EU25 | 521.9 | 895.8 | 1,181.7 | 100.0 | 100.0 | 100.0 |
| US (1) | 103.3 | 244.9 | 267.9 | 19.8 | 27.3 | 22.7 |
| Switzerland (2) | 51.0 | 76.4 | 87.3 | 9.8 | 8.5 | 7.4 |
| Russia (3) | 16.1 | 31.4 | 71.8 | 3.1 | 3.5 | 6.1 |
| China (4) | 14.7 | 30.6 | 63.5 | 2.8 | 3.4 | 5.4 |
| Turkey (5) | 13.4 | 20.9 | 46.5 | 2.6 | 2.3 | 3.9 |
| Japan (6) | 32.9 | 45.5 | 44.7 | 6.3 | 5.1 | 3.8 |
| Norway (7) | 17.5 | 27.1 | 38.2 | 3.3 | 3.0 | 3.2 |
| Korea (12) | 12.3 | 15.8 | 22.8 | 2.4 | 1.8 | 1.9 |

Source: Eurostat

Table 2. Import record by major trading partners of EU25

| Trading partner (ranking) | Imports (in millions of euro) | | | Share (%) | | |
|---------------------------|-------------------------------|-------|---------|-----------|-------|-------|
| | 1995 | 2001 | 2006 | 1995 | 2001 | 2006 |
| Extra EU25 | 504.3 | 983.8 | 1,353.8 | 100.0 | 100.0 | 100.0 |
| China (1) | 26.3 | 81.6 | 191.8 | 5.2 | 8.3 | 14.2 |
| US (2) | 103.7 | 202.5 | 176.7 | 20.6 | 20.6 | 13.0 |
| Russia (3) | 21.5 | 63.0 | 137.1 | 4.3 | 6.4 | 10.1 |
| Norway (4) | 25.5 | 46.3 | 79.2 | 5.1 | 4.7 | 5.8 |
| Japan (5) | 54.3 | 80.9 | 76.4 | 10.8 | 8.2 | 5.6 |
| Switzerland (6) | 43.2 | 63.4 | 70.9 | 8.6 | 6.4 | 5.2 |
| Turkey (7) | 9.2 | 21.4 | 38.5 | 1.8 | 2.2 | 2.8 |
| Korea (8) | 10.9 | 23.0 | 38.3 | 2.2 | 2.3 | 2.8 |

Source: Eurostat.

Table 3. Distribution of EU15's export and import sectors by technological level

(In %)

| | Export (percentage) | | | Import (percentage) | | |
|--|---------------------|------|------|---------------------|------|------|
| | 1995 | 2000 | 2004 | 1995 | 2000 | 2004 |
| High technology | 15.6 | 21.6 | 20.0 | 16.7 | 22.1 | 20.5 |
| Mid-to-high technology | 37.9 | 37.4 | 38.7 | 31.7 | 31.0 | 31.5 |
| Mid-to-low technology | 15.9 | 15.0 | 15.5 | 15.2 | 13.7 | 14.3 |
| Low technology | 22.6 | 19.5 | 18.2 | 22.9 | 19.4 | 18.9 |
| Information & communication technology (ICT) | 9.7 | 13.6 | 10.3 | 11.6 | 15.2 | 12.3 |

Note: The ICT sector is included in the high-technology industry in this paper.

Source: Estimated based on the STAN Bilateral Trade Database of OECD (2006)

Table 4. Distribution of Korea's global exports and exports to the EU by technological level

| | Global exports | | Exports to EU15 | | Exports to EU10 | |
|--|----------------|------|-----------------|------|-----------------|------|
| | 1995 | 2004 | 1995 | 2004 | 1995 | 2004 |
| High technology | 28.9 | 35.9 | 32.2 | 43.2 | 15.0 | 39.2 |
| Aerospace | 0.7 | 0.2 | 1.2 | 0.4 | 0.0 | 0.0 |
| Pharmaceutical | 0.4 | 0.3 | 0.6 | 0.5 | 0.2 | 0.2 |
| Computer and office equipment | 3.9 | 8.5 | 8.2 | 11.9 | 1.5 | 7.8 |
| Audiovisual/communication equipment | 22.6 | 24.7 | 20.3 | 28.1 | 12.0 | 30.5 |
| Medical/precision/optical instruments | 1.4 | 2.2 | 1.9 | 2.3 | 1.2 | 0.6 |
| Mid-to-high technology | 28.2 | 33.0 | 40.5 | 36.0 | 40.4 | 18.9 |
| Other electrical equipment | 5.5 | 3.0 | 14.6 | 1.9 | 1.6 | 1.0 |
| Automobile | 7.9 | 12.8 | 14.6 | 20.5 | 29.9 | 10.9 |
| Chemical(exc. Pharmaceutical products) | 8.3 | 9.6 | 5.0 | 4.5 | 1.3 | 2.9 |

| | | | | | | |
|---|------|------|------|------|------|------|
| Railway and transportation equipment | 0.2 | 0.1 | 0.1 | 0.6 | 0.0 | 0.0 |
| Other machinery and equipment | 6.3 | 7.5 | 6.3 | 8.4 | 7.6 | 4.0 |
| Mid-to-low technology | 21.1 | 21.8 | 14.5 | 15.8 | 18.7 | 39.6 |
| Shipbuilding | 4.3 | 6.0 | 5.6 | 9.2 | 15.8 | 37.1 |
| Rubber/plastic | 2.4 | 2.3 | 3.4 | 2.8 | 1.6 | 0.8 |
| Refined petroleum products/radioactive fuel | 1.9 | 4.1 | 0.0 | 0.2 | 0.0 | 0.0 |
| Non-metal mineral | 0.5 | 0.5 | 0.2 | 0.3 | 0.0 | 0.1 |
| Basic and fabricated metal | 11.9 | 8.9 | 5.2 | 3.2 | 1.3 | 1.6 |
| Low technology | 20.8 | 8.8 | 12.7 | 4.9 | 25.9 | 2.4 |
| Other manufacturing | 2.0 | 1.0 | 2.4 | 0.8 | 1.8 | 0.3 |
| Wood and wood products | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Paper/printing/publishing | 1.1 | 1.0 | 0.3 | 0.2 | 0.2 | 0.1 |
| Food/beverage/tobacco | 1.8 | 1.0 | 0.8 | 0.3 | 0.2 | 0.1 |
| Textile/leather/shoes | 15.9 | 5.7 | 9.0 | 3.5 | 23.7 | 1.9 |
| Information & communication technology(ICT) | 27.3 | 33.9 | 29.2 | 40.4 | 15.5 | 38.7 |

Source: Estimated based on the STAN Bilateral Trade Database of OECD(2006)

Table 5. Trend of EU's overseas direct investment

(In billions of euro)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------------|------|------|------|-------|------|
| EFTA | 9.8 | 25.8 | 13.9 | -3.6 | 19.9 |
| Switzerland | 7.1 | 24.2 | 13.3 | -11.3 | 19.7 |
| Central and Eastern Europe | n/a | n/a | 8.4 | 9.4 | 12.4 |
| Russia | 2.5 | 2.5 | 7.7 | 5.9 | 9 |
| Africa | 10.2 | 7.1 | 9.7 | 13.2 | 17.4 |
| North America | 16.4 | 4.1 | 56.8 | 5.8 | 41.4 |

| | | | | | |
|------------------------|-------|-------|-------|-------|-------|
| United States | 15.9 | 2.7 | 51.4 | 8.4 | 29.5 |
| Canada | 5.8 | 1.4 | 5.4 | -2.6 | 11.9 |
| Central America | 22.6 | 40.6 | -6.6 | 35.3 | 10.8 |
| South America | 24 | 3.3 | 2.8 | 7.7 | 4.4 |
| Asia | 58.2 | 31 | 21.4 | 34.5 | 40.2 |
| China (inc. Hong Kong) | 51.4 | 6.4 | 7 | 14.2 | 8.6 |
| Japan | -8.9 | 102 | 5.6 | 6.1 | 10.9 |
| Korea | 1.1 | 1.6 | 2.1 | 1.8 | 4.2 |
| Near and Middle East | 2.3 | 2.6 | 1.2 | 2 | 3.4 |
| Oceania | -1.7 | 11.7 | -2.8 | 1.9 | -5.9 |
| Non-EU | 306.1 | 133.9 | 135.7 | 136.4 | 171.8 |

Note: EU 25 from 2001 to 2005

n/a: data unavailable, -: Withdrawal of investment

Source: Eurostat

Table 6. Major countries' investment in Korea

(Based on reported amount, number of investment deals, in millions of dollars)

| | | EU | US | Japan | Total |
|-------------|--------------|-------|-------|-------|--------|
| 2000 | No. of deals | 360 | 803 | 615 | 4,145 |
| | Amount | 4,437 | 2,921 | 2,452 | 15,256 |
| 2001 | No. of deals | 305 | 657 | 592 | 3,341 |
| | Amount | 3,054 | 3,881 | 776 | 11,286 |
| 2002 | No. of deals | 266 | 495 | 474 | 2,409 |
| | Amount | 1,680 | 4,491 | 1,404 | 9,093 |
| 2003 | No. of deals | 284 | 453 | 497 | 2,568 |
| | Amount | 3,064 | 1,242 | 542 | 6,471 |
| | No. of deals | 370 | 553 | 555 | 3,077 |

| | | | | | | |
|----------------------|--------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| 2004 | No. of deals | 370 | 553 | 555 | 3,077 | |
| 2004 2005 | No. of deals | 4,409 | 4,918 | 6,162 | 32,092 | |
| | Amount | 4,781 | 2,690 | 1,879 | 11,563 | |
| 2006 | No. of deals | 408 | 498 | 584 | 3,111 | |
| | Amount | 4,977 | 1,701 | 2,108 | 11,236 | |
| | | No. of deals | 4,590(12.7%) | 7,540(20.9%) | 9,480(26.2%) | 36,119(100%) |
| | | Amount | 40,476(31.9%) | 36,632(28.9%) | 19,534(15.4%) | 126,748(100%) |

Note: Cumulative total from 1962 to 2006

Source: Ministry of Commerce, Industry, and Energy, Korea

Table 7. EU's investment in Korea

(in thousand of dollars, %)

| | Agriculture/livestock/ fisheries/mining | Manufacturing | Service | Electricity/gas/ water/construction | Total |
|----------------|--|----------------------|----------------|--|--------------|
| Germany | 8,753 | 4,023,320 | 3,137,430 | 110,002 | 7,279,326 |
| United Kingdom | 70 | 1,553,436 | 4,805,936 | 131,047 | 6,490,489 |
| France | 31,900 | 2,111,956 | 2,467,601 | 100,183 | 4,711,640 |
| Belgium | - | 1,108,334 | 1,754,414 | 258,765 | 3,121,513 |
| Netherlands | 1,097 | 7,715,128 | 5,753,677 | 305,528 | 13,775,430 |
| Ireland | 229,548 | 865,091 | 980,893 | - | 2,075,532 |
| Italy | - | 125,104 | 12,840 | 220 | 138,164 |
| Denmark | 262 | 132,740 | 36,122 | 1,389 | 170,513 |
| Luxembourg | - | 56,946 | 846,246 | 1,952 | 905,144 |
| Finland | - | 81,903 | 2,438 | 47 | 83,578 |
| Sweden | 20 | 616,343 | 335,412 | - | 951,775 |

| | | | | | |
|--------------------|---------------------|-------------------------|-------------------------|---------------------|------------------------|
| Austria | - | 24,895 | 12,896 | 535 | 38,326 |
| Spain | - | 41,426 | 81,935 | 4,800 | 128,162 |
| Greece | 2,040 | 100 | 100 | - | 2,240 |
| Portugal | - | 41,134 | 59,322 | 45,789 | 146,246 |
| EU 15 | 273,510(0.7) | 18,497,047(46.2) | 20,287,262(50.7) | 960,257(2.4) | 40,018,076(100) |
| Czech Rep. | - | - | 71 | - | 71 |
| Cyprus | - | 147 | 111,870 | - | 112,017 |
| Hungary | - | 115,254 | 73 | 44 | 115,372 |
| Lithuania | - | 104 | 40 | - | 145 |
| Slovenia | - | 8,300 | 52 | - | 8,352 |
| Poland | - | 329 | 106 | - | 435 |
| Malta | - | 19,199 | 202,011 | - | 221,210 |
| New members | - | 143,334 | 314,222 | 44 | 457,601 |
| Total | 273,510(0.7) | 18,640,381(46.1) | 20,601,484(50.9) | 960,301(2.4) | 40,475,677(100) |

Note: Figures in parentheses indicate percent in total.

Source: Ministry of Commerce, Industry and Energy

Table 8. Trend of Korea's investment in the EU by country

(in thousands of dollars)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Cumulative total |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------------|
| Netherlands | 1,684,594 | 477,191 | 2,149 | 4,213 | 40,987 | 253,563 | 2,971,678 |
| United Kingdom | 323,058 | 66,766 | 125,893 | 313,472 | 92,882 | 130,905 | 2,787,089 |
| Germany | 119,123 | 151,555 | 27,787 | 206,134 | 57,600 | 50,961 | 1,496,940 |
| France | 31,289 | 96,497 | 12,658 | 39,567 | 27,383 | 25,546 | 667,344 |
| Italy | 30 | 186,226 | 817 | 13,319 | 6,067 | 7,764 | 344,383 |
| Portugal | 0 | 11,200 | 16,004 | 12,297 | 1,493 | 4,406 | 221,089 |

| | | | | | | | |
|--------------------|------------------|------------------|----------------|----------------|----------------|------------------|-------------------|
| Spain | 2,075 | 56,776 | 423 | 13,137 | 1,284 | 1,229 | 207,477 |
| Belgium | 35,198 | 9,008 | 31,785 | 0 | 3,104 | 1,230 | 158,026 |
| Austria | 77 | 40,079 | 0 | 0 | 90 | 672 | 83,896 |
| Luxembourg | 0 | 0 | 698 | 4,794 | 45,093 | 19,590 | 70,786 |
| Iceland | 875 | 43 | 0 | 0 | 397 | 408 | 56,095 |
| Sweden | 0 | 1,650 | 9,061 | 30 | 975 | 12,125 | 43,972 |
| Denmark | 5,000 | 0 | 300 | 0 | 0 | 1,398 | 6,804 |
| Greece | 122 | 5,237 | 0 | 0 | 0 | 0 | 5,408 |
| Finland | 158 | 509 | 1,149 | 867 | 400 | 0 | 3,188 |
| EU 15 | 2,201,599 | 1,102,737 | 228,724 | 607,830 | 277,755 | 509,797 | 9,124,175 |
| Poland | 15,216 | 48,725 | 39,104 | 47,013 | 97,883 | 295,582 | 1,628,398 |
| Czech Rep. | 0 | 0 | 5,470 | 0 | 10,600 | 1,043,322 | 1,099,122 |
| Slovakia | 0 | 0 | 10,695 | 104,718 | 291,202 | 311,226 | 732,621 |
| Cyprus | 0 | 0 | 0 | 52 | 136 | 447,575 | 447,827 |
| Romania | 0 | 1,000 | 441 | 6,360 | 2,621 | 20,512 | 332,850 |
| Bulgaria | 0 | 0 | 0 | 0 | 0 | 300 | 81,989 |
| Malta | 13 | 0 | 0 | 1,260 | 9,558 | 9,558 | 25,702 |
| Latvia | 0 | 0 | 0 | 0 | 0 | 5,189 | 5,189 |
| Slovenia | 0 | 4,500 | 0 | 0 | 0 | 0 | 4,650 |
| Lithuania | 0 | 300 | 0 | 180 | 0 | 0 | 2,330 |
| New members | 15,229 | 52,525 | 55,710 | 159,583 | 412,000 | 2,133,264 | 4,360,678 |
| Total | 2,216,828 | 1,157,262 | 284,434 | 767,413 | 689,755 | 2,643,061 | 13,484,853 |

Source: Import-Export Bank of Korea

Table 9. Market potential and major economic indicators of the EU's major trading partners

| | Market potential 2005-2025 (in billions of euro) | GDP 2005 (in billions of euro) | Average annual growth 2005-2025 (%) | Volume and percentage of trading with the EU in 2005 (in billions of euro, %) |
|---------------|---|---|--|--|
| United States | 449 | 10.144 | 3.2 | 412.7 18.5 |
| China | 204 | 1.573 | 6.6 | 209.4 9.4 |
| Japan | 74 | 3.920 | 1.6 | 116.4 5.2 |
| India | 58 | 607 | 5.5 | 40.0 1.8 |
| ASEAN | 57 | 714 | 4.9 | 115.1 5.2 |
| Korea | 45 | 598 | 4.7 | 53.5 2.4 |
| MERCOSUR | 35 | 677 | 3.6 | 51.0 2.3 |
| Canada | 28 | 849 | 2.6 | 40.8 1.8 |
| GCC | 27 | 412 | 4.3 | 87.6 3.9 |
| Russia | 21 | 526 | 3.0 | 163.0 7.3 |

Note: Market potential means economic size multiplied by growth

Source: EU Trade Commission. 2006. Global Europe: Competing in the World

Presentation III

The Economic and Financial Outlook for 2008-2009

*Christian de Boissieu,
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1. The World Economy 2008-2009

1.1. In the midst of the financial crisis

The outbreak of the subprime crisis in August 2007 has opened an area of uncertainty and instability which is going to have an impact not only in 2008 but also in 2009.

The U.S. real estate crisis is not over yet. In 2008 the prices of non-commercial real estate will keep falling. The only uncertainty relates to the magnitude of the drop in those prices: 5 percent? 10 per cent? There exists a two-way causation between housing prices and real growth, generating a vicious circle which will continue to prevail in the U.S. for some time.

The subprime crisis has been inducing a liquidity and confidence crisis in a world where there is much liquidity. In order to dissipate this apparent paradox, it is important to recall that the lack of liquidity since August 2007 has mainly concerned the interbank money market: most banks have been keen to keep their excess liquidity for precautionary motives and very reluctant to lend it to other banks except at very high interest rates. Therefore the G7 central banks particularly the Fed and the ECB have been fulfilling their role of "lenders of last resort" vis-à-vis some specific credit institutions and the interbank money market in general.

The current financial crisis has an impact on economic activity through six main channels:

- (i) the expectations channel. The lack of confidence fuelled by the lack of transparency could have a direct effect on investment, growth, etc.
- (ii) the income channel. The slow-down or perhaps a recession in the United States influences the pace of global growth through its consequences for U.S. imports.
- (iii) the interest rate channel. After a couple of years of abnormally low risk premia (one important aspect of Alan Greenspan's "conundrum"), banks and markets have reassessed credit risk and premia upward since August 2007. Therefore the financial crisis has brought a "normalization" of risk premia.
- (iv) the banking channel. Major international banks (Citigroup, Merrill Lynch, UBS, Crédit Suisse...) have been revealing huge writedowns leading in some cases to net quarterly losses. Capital is becoming scarce whilst global liquidity remains abundant. Several international banks in search of

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recapitalization have been appealing to sovereign wealth funds (such as the Abu Dhabi ADIA, the Chinese CIC, the Singapore Temasek and GIC,...). Must we expect a credit crunch? To be sure banks are becoming more selective in their credit policy given the upward reassessment of credit risk. However, credit growth is going to stay much above zero while decelerating significantly. At the end of 2007, credit to the private sector (firms and households) was still increasing at a 12 percent annual growth rate. We could expect this growth to slow to 7 or 8 per-cent in the course of 2008. Were this to be the case, we could not attribute this transition to a real credit crunch. It is likely that credit rationing by banks is going to be tougher in the U.S. than in Europe or in Japan.

- (v) the exchange rate channel. The US dollar was already fragile before the financial crisis. It is more so since, for at least two reasons : 1) the direct negative impact of the crisis on US growth; 2) the high degree of reactivity of the Fed, which contrasts with the status quo of the ECB regarding its key rates. The exchange rate channel explains why the overvaluation of the euro has been aggravated by the financial crisis and why it has become the main channel of transmission of the financial shock from the United States to the euro zone.
- (vi) the stock exchange channel. The financial crisis has increased the short-run volatility and some downward adjustment of stock markets. Given the dominant position of US financial markets, the most significant causation is still going from US to European and other markets.

1.2. The growth scenarios

The financial shock has already been transmitted to the real economy through the various channels cited above. During the last quarter of 2007 real growth in the U.S. was still positive but very close to zero. If we refer to the canonical definition of a recession (two quarters in a row with a negative growth rate), the probability that the US economy is going to face such a pattern is approximately 50 percent. However, given the uncertainty about the depth of the real estate crisis in the U.S., two main scenarios must be taken into consideration:

- (i) Scenario 1. The United States is facing a marked slow-down (extrapolating the end of 2007 and the beginning of 2008) or a mild recession (such as in 2001). In that case the major emerging economies are going to show a high degree of resilience (namely, the ability to digest smoothly and without much cost adverse shocks such as the current financial shock). China will decline from an 11.5 per cent growth rate in 2007 to 10 percent in 2008 and perhaps 9 percent in 2009. This scenario corresponds to a very soft landing of the Chinese economy and does not jeopardize the buoyant growth of India, Russia, East Asia, and even Latin America...
- Therefore world growth which was close to 5 per cent in 2007 would come back to 4 percent or thereabouts.
- (ii) Scenario 2. The U.S. recession is severe and it extends well beyond the first semester of 2008. Given the trade channel, there is a dramatic impact on China and many other emerging economies. With some lag in-effect,

Chinese growth decelerates to 6 or 7 per cent and world growth drops to 3 per cent.

To be sure intermediate scenarios could be envisaged. For example the March 2008 IMF forecast for 2008 is 3.7 per cent for world growth based on a rather poor U.S. record (average growth equal to 0.5 per cent in 2008).

To come back to our two main scenarios, which is the most likely? Given the available information, I stick to scenario 1. The U.S. could avoid a severe recession owing to three factors: 1) the high degree of the Fed's reactivity; 2) further drops of the dollar generating a rebound (already observed in 2007) in U.S. exports; 3) the tax cuts adopted on a bipartisan basis and which will apply to firms and households.

Therefore U.S. economic policy has some room for manoeuvre in order to contain the risk of a protracted recession. Since growth in major emerging countries is resilient in scenario 1, world growth could be close to 4 per cent in 2008.

1.3. Inflation: a rebound or a real comeback?

Since mid-2007 inflation has accelerated in most countries, both developed and emerging. In China, CPI rose to 8.7 per cent from February 2007 to February 2008. In the euro zone, the average inflation rate was 3.5 percent in March 2008 (annual growth).

Most of the rebound in inflation is due to energy and food prices. "Core inflation" (excluding these prices) has remained globally moderate and under control. The relative stickiness of core inflation could be explained by the lack of "second round effects" (no real wage inflation, as opposed to the 1970s), low inflationary expectations... Moreover, competition generated by globalization acts as a shield against inflation: under the present circumstances all firms including monopolies are "price-takers." Since they are no more "price-makers" they are not able to transmit the oil-price shock to wholesale and retail prices.

To assert that globalization brings strong disinflationary forces is not to deny the changing impact of China on global inflation. Having been a powerful disinflation catalyst, China has contributed to the rebound in CPI through its significant influence on oil, food and other raw material prices. Here it is relevant to separate the average price level from relative prices. Globalization has developed in parallel with a dramatic shift in relative prices (an increase in the relative prices of energy and food prices), and I say "parallel" because correlation is more evident here than causality. Global inflation is likely to slow-down in the course of 2008 provided that the oil price stays close to 100 dollars a barrel and agricultural and food prices increase at a lower pace than in 2007. Under these assumptions average inflation in the euro zone could come back to 2 per cent (the tolerance threshold fixed by the ECB) before the end of 2008. Such a scenario means that the recent rise in CPI corresponds to a transitory rebound rather than a lasting comeback of inflationary pressures.

1.4. Interest rates and asset prices

As regards short-term interest rates, the contrast between the reactivity of the U.S. Federal Reserve and the relative inertia of the other main central banks has characterized the management of the subprime crisis since its outburst in August 2007 and is likely to continue for some time. One major implication has been the acceleration in the fall of the dollar in particular vis-à-vis the euro. The persistent fragility of the dollar has improved the U.S. external deficit by boosting exports. However it creates huge uncertainty concerning the financing of this deficit (still between 5 and 6 per cent of U.S. GDP). Who is going to finance U.S. imbalances and at what prices (in terms of risk premia and interest rates)? Official financing by Asian central banks has reached its monetary and political limit. For private financing to replace it partially (as regards new flows, not for the outstanding U.S. external

debt), some conditions must be fulfilled. Whilst flows of foreign direct investment in the U.S. economy are fuelled by the very cheap dollar, portfolio investments on U.S. financial markets could require higher long-term interest rates.

The subprime crisis has contributed to rising risk premia after a couple of years of abnormally low premia. Excess liquidity and excess savings at the world level have generated Greenspan's "conundrum," namely a configuration of excessively low long-term rates and associated risk premia. The financial crisis has led to an upward reassessment of credit risk whilst risk-free long-term rates remain low. The persistence of this aspect of the "conundrum" must be related to ongoing excess liquidity at the world level (which has not disappeared at all since August 2007 despite the lack of liquidity for some banks) and to the "flight to quality" effect.

The money which is nowhere must be somewhere. Nowadays where is the excess liquidity of the world economy? Real estate has become much too speculative and less attractive (e.g., in the U.S., Spain, the UK...). The real estate bubble has started to burst in the US and some other countries. Therefore the world excess credit and excess money are feeding the development of other bubbles in raw material prices (including oil price), gold, emerging capital markets... To come back to the inflation debate, we could say that today inflation is more embedded in assets prices than in goods and services prices, and that during the past 15 years the world economy has passed from one bubble to another (from the Internet bubble to the real estate bubble, etc.). The dominance of assets prices and of the relevant wealth effects (either positive or negative) will persist. It is rather difficult for central banks to acknowledge such an evolution since they have less control and monitoring facility on assets prices than on goods prices.

1.5. The rise of sovereign wealth funds (SWFs)

The development of SWFs is one important feature of financial globalization. These funds were created a long time before the subprime crisis but they fulfil a greater role due to this crisis. In particular many international banks are short of capital at the very moment of Basel II (the new solvency rules) implementation and they appeal to SWFs (CIC, ADIA, GIC, etc.). As of early 2008 the overall resources of SWFs amounted to about 3 trillion dollars.

For the receiving countries, SWFs represent a short-term solution and a long-term potential challenge. Until now SWFs have brought fresh capital to banks and firms (e.g., "CIC's acquisition of a 1.6 percent stake in Total") without any implications for control or corporate governance. They have favored return and diversification criteria. If in the future they reach a 20 percent stake in a major bank or firm, they will be involved in the management process (through representation on the board of directors) and in corporate governance issues. The geopolitical logic is not going to be replaced at some point but will be added to the financial logic. In order to anticipate potential conflicts, it is crucial that countries issuing and receiving SWFs agree on some common rules. The "code of conduct" approach is the most realistic one. In early 2008 the European Commission and the IMF have converged upon such a code of conduct which underlines three aspects: the transparency of SWFs regarding their investment policy, their governance (in particularly the distance vis-à-vis the owner, namely the state) and reciprocity rules (e.g., if we open the capital of our banks and firms to the Chinese CIC, China will have to allow equal foreign direct investment). After being accepted by all parties, how can such a code of conduct be made effective? This will be a major challenge. The current weakness of the WTO regarding trade agreements and rules means that even if the IMF were transformed into a WFO (World Finance Organization, a WTO-type institution devoted to finance), the enactment of a code of conduct for SWFs (and also for

rating agencies, hedge funds, etc.) will be a test of the general attitude vis-à-vis international cooperation in the field of finance.

2. Europe: Opportunities and Challenges

2.1. *The economic outlook*

Europe has already been hit by the consequences of the subprime crisis. To come back to the taxonomy of effects presented above, the exchange rate channel (i.e., the acceleration in the fall of the dollar and the rise of the euro) is the main transmission mechanism with a huge negative impact on euro zone competitiveness.

In 2007 the average growth in the euro zone was 2.6 percent. If we compare this figure with euro zone potential growth estimated around 2 percent, the positive output gap recorded in 2007 was mainly due to the economic rebound and “catch up” growth in Germany (2.6 percent) and the persistent dynamism of some other member countries (e.g., Spain). The euro zone growth will slow-down in 2008, reaching a figure between 1.5 and 2.0 percent due to the deceleration in world growth and in German growth but also as a consequence of the highly overvalued euro. In comparison with 2007 the output gap will be inverted since actual growth will be slightly under potential growth.

Close to the tenth anniversary of the euro, the euro zone is posting a high degree of heterogeneity as regards inflation, growth and employment records. This is a bequest of the Maastricht Treaty, which favored nominal convergence rather than real convergence. Moreover, reference to external positions highlights a dramatic contrast between member countries such as Germany and France. Whereas Germany registers a huge external surplus, France is posting a significant external deficit. Since both countries are facing the same energy shock and the same exchange rate shock, other factors (e.g., international specialization, the dynamics of unit wage costs, non-price competitiveness...) must be taken into consideration. Since intra-zone exchange rate adjustments are by definition ruled out, other variables have to adjust in order to accommodate the asymmetric reaction to common shocks.

2.2. *ECB policy and the evolution of the euro*

Since the outbreak of the financial crisis, the ECB has been very active in providing liquidity to banks which needed it, while keeping its key rate at 4 percent. With actual inflation much above its tolerance level, the ECB has favored liquidity policy by extending the time horizon and the accepted collateral of its interventions.

The euro is strong, mostly because the dollar is weak and keeps being “their currency, our problem.” Many countries and areas are keen to follow the dollar downward in order not to lose too much price competitiveness. Despite some revaluation against the dollar since 2005 (around 15 per cent), the Chinese yuan is still greatly undervalued. The Japanese authorities are keen to maintain a very cheap monetary policy which limits the current appreciation of the yen. Even the sterling has dropped recently vis-à-vis the euro. Thus, the euro zone is bearing 90 percent (or thereabouts) of the adjustment required by the fragility of the dollar. The monetary challenge that Europe is facing goes much beyond G7/G8 coordination since it must also involve China and other major emerging countries.

The exchange rate and the international role of the euro are not independent dimensions. For example, if the Chinese increase the market share of the euro in their foreign exchange reserves, this will extend the international role of the euro and, in the short-term, generate another exchange-rate shock which will increase the overvaluation of the European currency. Therefore we as European are confronted with a short-term /long-term trade-off: such a

monetary shift in Central banks portfolios would create a negative effect on growth and employment before generating a positive outcome in the medium-and long term.

2.3. How to boost potential growth in Europe?

The main challenge for Europe is to raise its potential growth from 2 to 3 percent. This could be done mainly through supply-side policies, the role of Keynesian demand management policy being to stabilize actual growth around the new potential growth.

In order to augment potential growth, its main determinants have to be considered. First, the demographic component of potential growth means that immigration policy cannot be discarded, being in close interaction with economic, social and political considerations. Second, the quantity of labor input over the life cycle (including the topical debate about the legal retirement age) is crucial. Third, labor productivity gains condition potential growth, and they are themselves conditioned by the pace of investment in general, investment in information and communication technologies in particular. Last but not least structural reforms could boost potential and actual growth. In France in early 2008, the Attali Commission, of which I was a member, has underlined the way to accelerate growth and employment. Many aspects are involved: greater competition in goods and services markets, more “flexisecurity” in the labor market, a significant impetus given to R&D (both public and private), etc.

Structural reforms are costly in the short-term: they require public financing and they generate winners and losers, raising an uneasy “compensation” puzzle. Most of their benefits are for the medium- and long-term. In a country like France, we have to accelerate the pace of structural reforms without deterioration in the public sector deficit and debt. That constraint requires an ambitious reform of the State and tighter control on public expenditure.

2.4. Improving European economic and political governance

The new treaty which was adopted in Lisbon at the end of 2007 has now to be ratified by all member countries. This treaty extends the scope of qualified majority voting (replacing the unanimity rule), but for many important issues unanimity will stay. This will apply to defense and security policy, tax harmonization, etc.

In several member countries fiscal consolidation remains fragile. The stability and growth revised in 2008 is currently the main tool for fiscal coordination in the euro zone but it remains pretty loose. We have to improve the dialogue between the central bank and the Eurogroup (comprising the finance ministers of the zone euro) without questioning the independence of the ECB and its mandate as defined by the Maastricht Treaty. Going beyond the new treaty, we will have to give the Eurogroup real power to improve economic and financial coordination. At some point in the future, the euro zone countries will have to speak as a big and unified area at IMF and G7/G8 meetings.

Presentation IV

Negotiating an FTA between Korea and the EU: Why it is more complicated than initially expected

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1. Introduction

Launched in November 2001 in Doha, the so-called development round of trade negotiations clearly benefited from the positive spirit triggered by the attacks of 9/11. At the time, there was a strong sense of solidarity among the leading nations of the world seeking to demonstrate that they were united and willing to act together. However, renewed difficulties were quick to emerge and the negotiations have been mired in difficulties ever since. As a result, a large number of countries have embarked on regional (or bilateral) trade agreements. Although it had initially distanced itself from such a strategy, Korea has been among the most active promoters of RTAs over the past few years. In contrast, the European Union (EU) has been involved in regional trade agreements for a long time; however, it has recently extended the scope of these deals to encompass a wider diversity of trading partners, including dynamic emerging economies.

It is in this context that Korea and the EU decided in early 2007 to open negotiations for a bilateral FTA, which are due to be concluded in 2008. Although the negotiation was initially expected to be smooth and easy, it has turned out to be rough and relatively difficult. The aim of the present paper is to examine the reasons underlying the initial optimism as well as the eventual difficulties. Before delving into this question, an introductory section provides a succinct account of how the two partners defined their present FTA strategies. This overview will shed light on the two partners' respective objectives.

2. A Brief Overview of the Two Partners' FTA Strategies

A reminder of the EU's FTA policy

The EC has been very early on an active promoter of preferential trade agreements. As recalled by Messerlin (2007), "the EC remains the most important source of bilaterals among the large economies, even if one ignores the intra-European deals."

From 1999 until 2006, however, the EU exercised a de facto moratorium on new FTA negotiations (Woolcock 2007), although it did not abandon any of its preferential agreements. Since 2006, the EU has returned to bilateral or regional FTAs but its policy is characterized by two major developments. The first has to do with the revision of former EU FTAs, and the second with the emergence of what can be called "new age" EU FTAs. With the latter, the EU's geographical focus has tended to change together with its motivations. While the earlier (or traditional) EU FTAs were based on primarily political motivations and focused as a result on former colonies or immediate neighbors (ACP countries, Mediterranean countries or Central and Eastern European Economies), the more recent wave targets dynamic emerging

economies in Latin America and Asia.¹ This implicit shift was made explicit by the Commission in a staff working document published in the fall of 2006 (EC 2006).²

In this document, the EC explains that existing EU FTAs “may deliver on market access commitments” but that they “do not present major progress in areas such as IPR, subsidies, SPS or TBT.” Moreover, it stresses the risk of trade diversion triggered by FTAs negotiated by several EU’s Asian trading partners with competitors such as the US or Japan. As a result, it encourages FTAs with dynamic emerging economies and explains that “the key economic criteria for new FTA partners should be market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non tariff barriers).” It finally insists on the need to take account of potential partners’ negotiations with EU competitors, and of their likely impact on EU markets and economies.”

This change in the EU FTA policy can be seen as the result of a combination of factors: the rise in regionalism worldwide, the persistent difficulties encountered with the Doha round of negotiations, disappointing economic performances in the EU and rising concern with competitiveness, and finally some internal changes within the European Commission.

The major difference between these FTAs and the “traditional” ones is that they are primarily economically motivated, with the importance of market size and growth potential ranking high among the selection criteria for FTA partners. However, next to economic considerations *stricto sensu*, strategic considerations (in the game theory sense of the word) also loom large: such agreements are undoubtedly a response of the United States strategy.

The most promising trading partners (ASEAN, South Korea, India and Mercosur) identified as priority negotiating partners combine high levels of protection with large market potential and they are active in concluding FTAs with EU competitors.

In terms of substance, the general tendency is for EU FTAs to be increasingly comprehensive (that is going beyond tariff concessions). In particular, they tend to include efforts to agree to common disciplines for regulatory regimes covering “new subjects” and other rules and disciplines (so-called Singapore issues: services, investment, intellectual property rights, government procurement, competition, etc). As a result, they can be said to reflect the EU’s willingness to influence the international agenda by extending the scope of negotiations to a number of issues such as labor and environmental regulations.

A reminder of Korea’s FTA policy

Against a backdrop of market driven and rapidly increasing regional interdependence of trade and investment in Northeast Asia (in particular among the core countries China, Japan, and South Korea), Korea has performed a fundamental shift away from an exclusive reliance on multilateral trade negotiations towards parallel bilateral/regional FTA initiatives. Until 2004 when Korea’s first FTA – with Chile – was concluded, Korea was one of the very last countries having no FTAs at all.³ Bilateral/regional FTA initiatives have gathered momentum ever since and have become an established part of Korea’s trade policy.

Korea’s FTA policy has taken a three-stage approach: Korea has initially targeted small countries such as Chile, Singapore or the group of EFTA countries. In these different

¹ Surprisingly enough, Asia had remained a blind spot thus far in EU trade policy, in spite of the region’s economic dynamism.

² This new policy is defined in the European Commission communication *Global Europe: Competing in the World*, issued in October 2006.

³ The last country to join the move was Mongolia.

instances, the importance of bilateral trade did not account for the choice of partners, but the negotiations were deemed to serve as a test for Korean negotiators. As a second step, Korea chose to negotiate with medium-sized economies such as Mexico, India or Mercosur with which the volume of trade is more substantial. The final step includes large countries (the U.S., EU and China) which rank among Korea's major trading partners. At the time of writing, Korea has signed FTAs with Singapore, EFTA, ASEAN and the U.S. Negotiations with Japan have been stalled for about two years and negotiations with Canada and Mexico are about to start. The negotiation with China is still at the feasibility stage.

The major rationale behind Korea's shift in trade policy has to do with the aftermath of the financial crisis. Korea sees FTAs as a means of liberalizing its trade and investment régimes to revitalize its economy, secure foreign markets and promote regional integration. Beyond purely economic motivations, Korea also seeks to participate in the global FTA game. For an economy the size of Korea, the opportunity cost of being left out from the general trend of FTAs has become very high.

However, the motives for pursuing FTAs are not limited to such a defensive mindset. The FTAs can introduce greater competition and higher global standards into the domestic economy. In particular, the FTAs with large industrial countries may be expected to contribute greatly to improving Korea's national and industrial competitiveness by introducing greater competition in the goods and service sectors, and advancing the economic system and institutions by adopting internationally recognized standards. Korea also views FTAs as an effective way of achieving trade liberalization in specific areas, with specific trading partners, and in a manner tailored to the country's economic needs. In this respect, FTAs are expected to bring about larger benefits than larger and less well targeted trading arrangements. In addition, FTAs may also help strengthen political and strategic alliances by promoting deeper economic integration between the parties bounded by the FTAs.

An interesting characteristic of Korea's FTA strategy is that it pursues several FTAs simultaneously, adopting a multi-track, rather than a one-by-one, approach. This multi-track approach is thought to have several advantages. Internationally, it is supposed to allow Korea to catch up with other players in the global arena, while domestically, it is thought to help mitigate political opposition from various interest groups, as several simultaneous deals on the table will help offset and complement the effects of each FTA.⁴

In terms of substance, Korea seeks to conclude FTAs that are consistent with the WTO rules and are also comprehensive in their coverage, encompassing a wide range of areas such as services, investment, government procurement and intellectual property rights, in addition to trade in goods.

3. Why the negotiations were expected to be easy

When the negotiations were launched in May 2007, shortly after the successful conclusion of the KorUS FTA, most commentators expected the negotiation talks to be swift and smooth and some even thought they might come to a conclusion before the end of the year.⁵ Such optimism was predicated on the following reasons: a relatively strong complementarity in the bilateral trade relationship, few trade disputes and the absence of a strong anti-EU sentiment

⁴ See *Infomag* (December 2006).

⁵ "Although no deadline was set for the South Korean-EU free trade talks, South Korean officials say they hope to reach a deal by the end of this year." (Yonhap News, September 29, 2007).

in Korea. Moreover the recently concluded KorUS FTA was also thought to have paved the way for an easier negotiation. These different factors will be examined in turn.

A highly complementary relationship

A number of indicators indeed point to a high degree of complementarity between the two partners' productive and trading structures. Relative differences in trade specialization between any two countries are illustrated by the index of revealed comparative advantage (RCA)⁶. The RCAs for the EU15 and the New Member States (NMS) with respect to Korea (computed at the 4-digit level over the period 1994 – 2005) show that the EU15 has a comparative advantage in a number of sub-sectors of the chemical industry, in different measurement and precision instruments and in pumps, compressors, etc., and finally in auto parts and accessories. The NMS have a strong RCA in meat and meat products, as well as in auto parts and accessories, some machinery equipment and other manufacturing activities. Revealed Comparative *Disadvantages* for all European countries lie in automobiles, in electronic tubes and valves and other electronic components, in radios, TV receivers and transmitters⁷, in office accounting and other data-processing machines, in other electrical apparatus, and finally in commercial ships. The NMS exhibit a further disadvantage in electrical machines and apparatus.

Table 1: EU15 and NMS Revealed Comparative Advantages and Disadvantages with Respect to Korea (4-digit level)

| | |
|--|---------|
| EU15 RCAs | |
| 2411 - Basic chemical products (excl. fertilizers) | 3,931 |
| 2423 - Pharmaceutical products and chemical products for medical use | 3,477 |
| 2912 - Pumps, compressors and other appliances | 3,805 |
| 3312 - Apparatus for checking, measuring, navigation and other uses (excl. industrial control) | 3,950 |
| 3320 - Photographic apparatus and optical instruments | 4,815 |
| 3430 - Parts and accessories for motor vehicles and engines | 3,236 |
| EU15 RCDs | |
| 3000 - Office, accounting and other data-processing machines | -6,888 |
| 3190 - Other electrical appliances, N.E.C.. | -3,608 |
| 3210 - Electronic tubes and valves and other electronic components | -3,516 |
| 3220 - Radio and TV emitters and other telephonic or telegraphic apparatus | -16,908 |
| 3230 - Radio and TV receivers and other video and sound recording or reproducing apparatus | -3,417 |
| 3410 - Motor vehicles | -14,260 |
| 3511 - Commercial ships | -6,181 |
| NMS RCAs | |
| 1511 - Producing, processing and preserving meat and meat products | 2,831 |
| 2913 - Clutches, gears and other transmission shafts | 3,190 |
| 3430 - Parts and accessories for motor vehicles and engines | 2,249 |
| 3800 - Other manufacturing activities, N.E.C. | 3,860 |
| NMS RCDs | |
| 3000 - Office, accounting and other data-processing machines | -1,252 |
| 3190 - Other electrical appliances, N.E.C.. | -1,791 |
| 3200 - Radio, TV and communication equipment and apparatus | -6,053 |
| 3210 - Electronic tubes and valves and other electronic components | -1,243 |
| 3220 - Radio and TV emitters and other telephonic or telegraphic apparatus | -3,534 |
| 3320 - Photographic apparatus and optical instruments | -1,751 |
| 3410 - Motor vehicles | -3,428 |

⁶ The RCA is designed in order to show the contribution of each sector to the country's overall trade balance. The higher the index, the larger the contribution of the sector to net exports, and to the trade balance.

The analysis of intra-industry trade (IIT)⁸ provides a more precise view of the potential complementarities between the two partners as well as the potential contentious sectors.⁹ IIT is relatively high in the machinery and equipment industry as well as in the chemical industry. Moreover it has been on the rise in the machinery and equipment industry as well as in electrical machinery; while it has declined in chemicals and chemical products as well as for radio, TV, and communication equipment. These developments may be indicative of rising competition between the two partners in the former two industries. In the automotive sector, the level of IIT is low overall but much larger in the parts, components and accessories sub-sector, again suggesting that competition prevails.

As shown in Table 2, sectoral IIT indexes (computed for the most intensively traded products at the 4-digit level) further confirm the existence of a fair degree of complementarity between the EU15 and Korea, although there is a limited number of products for which the competition is fierce. These are primarily parts and accessories for motor vehicles, iron and steel products, other machines for general use, machine-tools, plastic and synthetic rubber, other chemical products, clothing, metal products, electrical apparatus, chains, shafts and transmission mechanisms, lifting or handling equipment, and engines and propellers. In the case of the NMS-Korea bilateral trade, the complementarity is much higher – as reflected by a low degree of intra-industry trade in the most intensively traded products. Parts and accessories for motor vehicles, and iron and steel products are the only exceptions.¹⁰

A closer examination at the 5-digit level suggests that there is a fair degree of complementarity between the EU and Korea in the chemical industry, with each partner specializing in specific products (pharmaceuticals and chemical products for medical use for the EU, and synthetic fibers for Korea). Similarly, in the machinery industry Korea tends to specialize in some types of machines (such as mechanical shovels) as well as in domestic appliances (such as refrigerators) for instance, while the EU specializes in pumps and compressors in particular. However, as highlighted earlier, IIT appears to be high in the machine-tools sector and in other types of machinery, suggesting that competition is intense for some specific products.

⁷ In particular color television receivers, (including video monitors and video projectors), whether or not incorporating radio-broadcast receivers or sound- or video-recording or reproducing apparatus.

⁸ The level of intra-industry trade in an industry is usually calculated as follows:

$$IIT_i = \left[1 - \frac{|X_i - M_i|}{(X_i + M_i)} \right] * 100$$

Where X_i and M_i represent exports and imports in the industry respectively. The value of the index ranges from 0 to 100, where 0 indicates complete inter-industry trade and 100 implies complete intra-industry trade.

⁹ Overall the Grubel-Lloyd index of IIT is much lower for NMS-Korea trade than for EU15-Korea trade, suggesting that the former may hinge upon more “traditional” inter-industry trade, while the latter reflects a higher similarity in the two partners’ industrial profiles.

¹⁰ The results for the NMS are not shown in Table 2, for more details see Nicolas (2007).

Table 2. Intra-Trade Industry

| Grubel-Lloyd Intra-industry trade index (EU15 - Korea) | | |
|--|--------------|--------------|
| | GL 2005 | GL 1994 |
| 15 - Food products and beverages | | |
| 1551 - Spirits and distilled alcoholic products | 0,26 | 0,52 |
| 1511 - Meat and meat products | 0,33 | 0,33 |
| 17 - Textiles | | |
| 1730 - Fabrics and hosiery products | 29,99 | 23,65 |
| 1711 - Textile weaving and looming | 88,13 | 90,26 |
| 18 - Clothing | | |
| 1810 - Clothing (excl. fur products) | 78,80 | 57,22 |
| 24 - Chemicals and chemical products | | |
| 2411 - Basic chemical products (excl. Fertilizers) | 43,47 | 55,75 |
| 2413 - Plastic and synthetic rubber | 98,52 | 85,90 |
| 2429 - Other chemical products, N.E.C. | 70,32 | 64,68 |
| 2424 - Soaps, cleaning preparations, perfumes | 11,72 | 6,68 |
| 2430 - Synthetic or artificial fibers | 21,91 | 59,83 |
| 25 - Rubber and plastic products | | |
| 2511 - Tyres and air tubes | 10,61 | 15,73 |
| 2520 - Plastic products | 78,41 | 86,42 |
| 27 - Base metal products | | |
| 2710 - Iron and steel products | 66,17 | 17,76 |
| 2720 - Transformation of precious and non-ferrous metals | 21,66 | 4,07 |
| 28 - Metal products (excl. machinery and equipment) | | |
| 2899 - Metal products, N.E.C. | 99,97 | 72,89 |
| 29 - Machinery and equipment, N.E.C. | | |
| 2911 - Engines and propellers (excl. for planes, automobiles and motorcycles) | 86,72 | 49,23 |
| 2912 - Pumps, compressors and other appliances | 29,17 | 18,30 |
| 2913 - Chains, shafts and transmission mechanisms | 52,91 | 15,53 |
| 2915 - Lifting or handling equipment | 68,27 | 18,14 |
| 2919 - Other machines for general use | 88,25 | 32,04 |
| 2922 - Machine-tools | 67,54 | 14,97 |
| 2924 - Machines for mining, quarrying and construction | 37,28 | 41,76 |
| 2929 - Other machines for specific use | 37,10 | 9,42 |
| 2930 - Domestic appliances, N.E.C. | 31,26 | 43,81 |
| 30 - Office, accounting and computing machinery | | |
| 3000 - Office, accounting and other data-processing machines | 20,21 | 20,20 |
| 31 - Electrical machinery and apparatus, N.E.C. | | |
| 3190 - Other electrical appliances, N.E.C. | 28,79 | 17,26 |
| 3110 - Electrical engines, generators and transformers | 48,16 | 51,55 |
| 3120 - Electrical apparatus | 51,87 | 20,81 |
| 32 - Radio, TV and communication equipment | | |
| 3220 - Radio and TV emitters and other telephonic or telegraphing apparatus | 6,01 | 19,19 |
| 3210 - Electronic tubes and valves and other electronic components | 43,32 | 60,80 |
| 3230 - Radio and TV receivers and other video and sound recording or reproducing apparatus | 6,26 | 6,19 |
| 3200 - Radio, TV and communication equipment and apparatus | 47,73 | 44,12 |
| 33 - Medical, precision and optical instruments | | |
| 3312 - Apparatus for checking, measuring, navigation and other uses (excl. Indus) | 21,26 | 31,15 |
| 3311 - Medical instruments | 57,00 | 20,08 |
| 34 - Motor vehicles, trailers and semi-trailers | | |
| 3410 - Motor vehicles | 21,50 | 27,07 |
| 3430 - Parts and accessories for motor vehicles and engines | 54,57 | 37,95 |
| 35 - Other transport equipment | | |
| 3511 - Commercial ships | 0,64 | 1,26 |
| 3530 - Aircraft and spacecraft construction | 21,91 | 14,28 |

Few trade disputes

Another sign of the relatively peaceful trading relationship between Korea and the EU pertains to the limited number of trade disputes that they have encountered since the WTO

was put in place. The two partners have submitted seven disputes to the WTO Dispute Settlement Body (DSB). Korea was a respondent in four cases and the EU in the other three.

The very first case in which Korea experienced the whole WTO dispute settlement procedure was when the EC contended that the Korean liquor taxes of 100 per cent on whisky and 35 per cent on diluted soju were in breach of the national treatment obligation. The WTO panel and appellate body held that Korean taxes were indeed discriminatory, leading to the amendment of the Korean legislation. Discrimination against foreign suppliers was also the issue in another case when the EC challenged the use of unfair procurement practices in the Korean telecommunications sector. The parties did not have to go through the whole procedure and agreed beforehand on a mutually satisfactory solution. In a further case Korea agreed to lift its safeguard measure on imports of some dairy products. Finally in 2003, the European Union and the U.S. imposed punitive CVDs against Hynix Semiconductor, then the world's third-largest producer of dynamic random access memory (DRAM) semiconductor chips, for allegedly receiving subsidies from the Korean government. Korea challenged the rulings in the WTO, which eventually upheld the duties.

At present there are three pending cases between the EU and South-Korea. Of these three, the EC has launched one case against South-Korea on Korean shipbuilding subsidies. Korea has launched two cases against the EU temporary defense mechanism in the shipbuilding sector and shipbuilding subsidies.

Another indication of trade tensions between the two partners is given by the rising use of trade defense instruments (anti-dumping measures, countervailing duties and safeguards). Over the WTO period 1995 – 2006, the EU initiated 26 AD measures against Korea (out of 345 in total), or 7.5 per cent. 11 AD measures were applied out of 224, or 4.9 per cent. The percentage of AD initiatives and measures must be compared with the share of Korea in the EU's total trade (2.8 per cent for EU imports, 1.9 per cent for EU exports). Obviously AD are to some extent biased against Korea.

Altogether 65 per cent of the initiated procedures are followed by applications, but for Korea the percentage is a mere 42 per cent. This may suggest that AD is used as a threat by the EU.

Today, five AD duties and one CVD are imposed on imports from Korea. In terms of sectors, the main targets are electronic appliances (Horizontal refrigerators, DRAM chips and color TV sets), metal and steel products and textile products.

The EU, an easier partner than the U.S.

In contrast with the KorUS negotiation, the Korea – EU negotiation were also expected to be easy because of the “technical” nature of the relationship, which is unlikely to be “polluted” by strategic or political considerations for instance. It is worth stressing at this stage that the Korean public opinion's reaction to the planned Korea-EU FTA was far less violent than had been the case at the time when the Kor-US negotiations were launched. For instance Trade Minister Kim Hyun-chong, the Seoul's chief negotiator, was quoted as saying “Although the economic effect (of the Korea-EU FTA) might be similar to that of the South Korea-U.S. FTA, I don't think there will be such fierce objections as those driven by so-called anti-Americanism.”¹¹

While the KorUS FTA negotiation elicited a strong political reaction from anti-U.S. protestors, such was not the case with the Korea-EU negotiation. Once the negotiations were launched

¹¹ Quoted in Korea Times Via Thomson Dialog NewsEdge, May 6, 2007.

the press coverage was indeed much more limited than had been the case for the KorUS FTA, suggesting that the stakes were not perceived to be as high and that the negotiations were not perceived to be as sensitive. As stressed in a number of press articles at the time, Korean officials expected the upcoming talks not to be as difficult as the tedious 10-month negotiations with the United States, which often produced violent protests.

In terms of substance of the trade talks, as stressed earlier there are fewer sticking points than with the U.S. In particular, while agricultural products had been a major bone of contention between Korea and the U.S., this was not expected to be the case with the EU, which is neither a beef nor a rice exporter.

The KorUS FTA as a precedent

A final reason why the negotiation could be expected to proceed relatively smoothly lies with the recently concluded Korea – U.S. FTA. With this agreement, a number of delicate issues (relating in particular to the liberalization of service industries) had been addressed and solved through changes in Korean regulations which were to apply to all partners whatever their nationality.

Moreover, because the European stakeholders usually thought that the concessions granted to the U.S. would be automatically transposed to them, they were confident that the negotiation could be completed much more quickly.

4. Why It Turned Out To Be Complex

There is no easy negotiation

First of all, it was certainly a little naive for the commentators and analysts to believe that negotiators would take a conciliatory stance right from the beginning. By definition, negotiators have both defensive and offensive interests which they are committed to push during negotiations. Furthermore, they were probably all the more ready to push their interests more forcefully if they expected little resistance from the other side. The ensuing difficulties were thus the result of a reciprocal misjudgment of the other side's commitment to (and interest in) the negotiations.

Moreover, both Korean and European negotiators have learned from previous negotiations and their respective negotiating skills were probably underestimated.

Finally, it is important for them to show their constituencies that they were defending their interests in the best way they could. In this regard one should not forget that any negotiation of this type is a two-level game, with one game being played with the foreign partner and another one with domestic stakeholders. In some cases, the toughest game is the latter and it reflects upon the ability of the negotiator to make concessions to the former.

The unexpected rise of sensitive issues

Among the few contentious issues highlighted earlier, some turned out to be extremely sensitive. The automobile sector is a case in point. It emerged as a major sticking point in the negotiation, and for good reasons. Despite their small size, Korean car-makers held 3.5 per cent of the Western European market for cars in 2006, up from 2.7 per cent in 2002. In contrast the Korean market for cars appears still extremely closed, with all foreign producers holding 4.2 per cent in 2006¹² (up from 0.4 per cent in 2000, however). With close to 60 per

¹² It is worth stressing that the foreign presence is more important in the segment of large cars over 3000cc (27.4 per cent), which is dominated by German carmakers.

cent of all imported cars to Korea, European producers lead the pack, ahead of Japanese (with 30 per cent) and U.S. carmakers (with 11 per cent).¹³ Among European car-makers, German producers are well ahead of the others with 47 per cent of the passenger car import market. With close to a third of all imported cars, BMW, Mercedes-Benz and Volkswagen top the list. The very unbalanced situation that prevails in this sector between the two partners fuels the presumption of hidden (or non-tariff) barriers to trade in the Korean market and explains why EU negotiators showed some reluctance to accept a symmetric tariff liberalization effort which would necessarily result in an asymmetric liberalization in reality.

The underlying disagreements between the two partners had to a large extent been excessively downplayed simply because they were less obvious than in the case of the KorUS negotiations. However, the absence of any major stumbling blocks did not mean that there was not a single source of disagreement. And a whole range of issues such as non-tariff barriers and geographical indications emerged as major sources of discussion.

Diverging views on what an FTA should bring

More fundamentally, the main lesson to be drawn from the negotiation is that both partners have a very different perception of what an FTA negotiation should bring. While both parties do agree that an FTA is by definition a discriminatory arrangement, the negotiation revealed that they had widely diverging views as to what discrimination might imply. It also proved that the ambitions defended by both partners were widely asymmetrical.

For the EU negotiators, a regional agreement should be a complement to the multilateral approach. As a result it is expected to be WTO+ and to give priority to the so-called Singapore issues. Moreover, it is supposed to take account of the specific characteristics of the bilateral relationship in the sense that a higher degree of commitment can be expected from a country whose level of development is close to that of the EU. In other words, when negotiated with an industrial economy an FTA can be expected to be deep and ambitious. Obviously an FTA with a country like Korea was expected to encompass much deeper commitments than may be the case with India or ASEAN. As recalled earlier, this is what differentiates “new age” EU FTA from the traditional ones, which put a greater emphasis on asymmetric liberalization and differentiated commitments.

Korea certainly also perceives an FTA as a discriminatory arrangement. However, discrimination means that the agreement must be tailored to the specific nature of the bilateral relationship and that it will differ, as a result, from the agreement concluded with any other trading partner. As a result, while the EU expected all the concessions granted by Korea to the U.S. to be automatically transferred in the context of the Korea-EU FTA¹⁴, Korea did not see any reason why such should be the case given the very different stakes involved in the Korea-EU and the Korea-U.S. negotiation. By way of illustration, the concessions granted by Korea to the U.S. in the automobile sector were substantial because U.S. auto-makers were not perceived as major competitors by Korean producers. In the case of the Korea-EU negotiation in contrast, the higher competitiveness of EU car-makers excluded the possibility of similar concessions.

Concluding remarks

Despite the unexpected (or rather badly anticipated) difficulties associated with the Korea – EU FTA, the prospects for a successful outcome of the negotiations before the summer are quite bright for a number of reasons having to do with the global environment as well as with

¹³ Figures provided by KAMA for 2006.

¹⁴ This was referred to as « US parity. »

the specific conditions prevailing in each of the two countries. First of all, because the Doha Round is still in a deadlock, both countries have a high interest in going ahead with bilateral agreements. Moreover, from the EU's perspective, because the agreement with Korea is the first test of the Commission's new FTA policy, the desire to complete the negotiations successfully is certainly strong. Finally, from Korea's perspective, the importance of an agreement with the EU as a complement to the KorUS FTA also suggests that the chances of a successful outcome can be deemed to be high.

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Session III

The Past, Present and the Future of the Korea-France Relations

Presentation I **Assessment and Future Outlook of Academic and Cultural Exchange between Korea and France**

Ju Chul-Ki,
Former Korean Ambassador to France

1. Significance of Korea-France academic and cultural exchange

- The relationship between Korea and France has added a new momentum recently. In 2006, the two countries successfully held the celebration year of their 120-year-old diplomatic ties.
- Korea (the 12th~13th largest economy in the world) is the third largest Asian economic partner of France (5th~6th largest economy in the world). The bilateral relations have been developing in various areas. It means that close Korea-France bilateral ties, which was the aim of the Emperor Gojong of the Daehan Empire 110 years ago, have finally been established as of today.
- As Korea promotes a higher level of democracy and emerges as a cultural nation with an advanced sense of citizenship, there is a greater need for strengthening the bilateral cooperation in the academic and cultural fields, as a way to promote mutual interests and shared values.

2. Current status of academic exchange

- *Studies on France and the EU in Korea*
 - Despite the global importance of France and the EU and the large number of scholars educated in Europe, the basic foundation of French and

European studies in Korea remains weak as Koreans tend to place a greater emphasis on the U.S.-related subjects.

- There is a question over whether the old generation of Korean specialists based in France was successfully followed by new ones. We note that interest in Korea and Korean research in particular is inadequate because of the French public's particular interest in China and Japan.

- The two countries' academic and research exchange has to be commensurate with the level of their strong relations.

○ *Lower status of the French language as a foundation of academic studies*

- The number of high-school and undergraduate students learning French in Korea had been the highest in Asia for a long time, but the advantage was not effectively utilized (due to historical, political, and geographical factors).

- Today's French language education is lagging due to the higher status of English and emergence of an alternative language (Chinese), which calls for renewed efforts for reviving the popularity of the French language.

○ *About 200 agreements for cooperation have been signed between Korean universities and French higher education institutions.*

- There was discussion to implement the MOU for exchange and cooperation concluded in December 2004 between the Association of University Presidents of Korea and the French Conference of University Presidents (CPU)(e.g. establishment of a working group), but as yet, it has not been effectively implemented.

○ *Korea's support of academic exchange*

- The Korea Foundation's projects: Sponsor of Korean studies in seven French universities, fellowship, policy institutes, Korea specialists, scholarship, and research by leading scholars, personal exchange, and invitation of important figures to Korea since 1995.

- The Korea Research Foundation: Exchange program with CNRS.

- The Korea Science and Engineering Foundation: Sponsor of cooperation with CNRS, and the Association for Research with Industrial & Educational Link (ARIEL)

- Cooperation between Seoul National University and ESSEC, and cooperation between KAIST and the École Polytechnique are solid projects. There are good exchange projects such as Korea Foundation's support on a Korea Chair at Sciences-Po.

- Korean studies in Paris VII University (opening of the Korean Garden)

○ *France's support for academic exchange*

- Campus France

- Invitation of scholarship students
 - Need for long term and post-education management or care of French educated students once they return to Korea.
- *Successful implementation of and participation in the ASEM-DUO program (initiative adopted at the ASEM Summit meeting in Seoul in October 2000 by Korea and France)*
- *Challenges for academic exchange*
- Despite the changing global environment and developing bilateral relations, the academic interchange between the two countries is insufficient to support their close relations.
 - Koreans' strong interest in the United States and lack of confidence in future opportunities of studying in France or in Europe prevented young generation leaders from studying in the EU or in France .This is also due to inadequate support for students who want to study in Europe.
 - Korea needs to overcome its protective attitude, which was shown when it did not accept the proposal of Paris IV University (Sorbonne) to open a campus in Korea. Korea should rather open a new academic field by connecting humanity studies in Korea (as a hub of Confucius tradition and East Asian culture) and France (as a home to European humanism). Such an approach will enable Korea to stand strong in its competition with China and Japan (example of Dubai).
 - Only a few French students are studying in Korea. There is certainly a need to increase their numbers.

3. Current status of cultural exchange

○ *Status*

- a. The 120-year anniversary of the diplomatic ties was celebrated successfully through a series of events in 2006.
 - b. Korea held about 130 cultural and academic events in France under the slogan of “Corée au Coeur.”
 - c. France held about 80 events under the slogan of “Aja France.”
- Cinema exchange has been active (Jeon Do-Yeon winning Best Actress award in Cannes, roles of film directors including Im Kwon-Taek, Hong Sang-Soo, Kim Ki-Duk)
- d. The two countries signed an agreement for joint filmmaking (October 2006).
 - e. An increasing number of musicians and artists are working or residing in France.
 - f. French musicals have won particular success in Korea (e.g. Les Dix Commandements and Notre Dame de Paris, etc.)
 - g. Publishing: Korea is one of the countries that translate the most French language books.
 - h. Korean literature has begun to be introduced to France, but there is still a long way to go.

- *Challenges for cultural exchange*

- i. Efforts to introduce Korean literature are insufficient.
- j. Joint filmmaking has to be started.
- k. The two countries have to determine where the cultural exchange should be headed in the future following the 120-year anniversary of their ties.

4. Future directions

- a. Hold a large-scale cultural heritage exhibition in Paris to enable France and the EU to enhance understanding and appreciation of Korean culture (by 2010)
- b. Designate the Year of Korea in the annual Paris Book Fair in order to provide opportunities to introduce Korean literature further.
- c. Address the issue of the return of the Korean royal manuscripts from a broad view point by promoting bilateral cultural and academic exchange.
- d. Expand joint filmmaking on a trial basis (as a way to upgrade the Korean wave, or *Hallyu*)
- e. Explore effective ways to revive the popularity of French language learning (by analyzing the situation, holding related symposium, and discussion solutions)
- f. Analyze Korean language studies in France, and implement measures for improvement (using best practices of Rouen University and La Rochelle University, etc)
- g. Increase support of students in France (e.g. building of dormitories such as Cité universitaire)

5. Policy suggestions

- a. Implement a policy to hold a large-scale Korean cultural heritage exhibitions in Paris in 2010
 - b. Improve recognition of top-level business schools of Europe, such Grandes Écoles as HEC, ESSEC, and INSEAD to develop managers specializing in business in Europe, and facilitate exchange between business schools of Korea and France.
 - c. Increase number of students studying in France and Korea through official joint-degree programs (by implementing plans phase-by-phase, as agreed in the bilateral meeting of university presidents in 2004)
 - d. Participate in the annual book fair held in Paris.
 - e. Hold symposiums on French language and French studies in Korea and implement proposed plans.
 - f. Organize cultural and personal exchange between local communities of the two countries (Nantes-Suncheon, Limoges-Gangin, etc)
- Exchange sisterhood or twin city relations from a practical approach (Busan -Marseille, Lyon-Daegu, etc)
- g. Open overseas campuses between Korean and French universities not only for practical studies such as engineering and business, but also for humanities studies.
 - h. Provide a favorable environment for Korean students who study in France e.g. building a i. Korean Pavilion in Cité Universitaire.

j. Open a channel for constant communication between think tanks and intellectuals of the two countries.

Presentation II

Ways to Promote Science and Technology Exchange between Korea and France

*Oh Young-Suk,
Head of International Team of KAIST (Korea
Advanced Institute of Science and Technology)*

There are many theories about where the Korean people came from. According to biblical archaeologists, Go-chosun, the first ancient dynasty established on the Korean Peninsula in 2333 B.C., was founded by the Sumerians who came eastward after they had been defeated by the Semitic Akkadians.

We all know that one of the major factors that led to the collapse of the Roman Empire was the Hun. The Hun attacked the Ostrogoths (East Goths), and the Ostrogoths invaded the Visigoths (West Goths), who fled to the Roman Empire for protection and eventually overthrew Rome after 100 years.

Recently, historians announced that their research indicated that Attila who once made the entire Europe live in fear, was not unrelated to the ancient Koreans, and ZDF of Germany aired a documentary based on the theory. Attila may be why some French are born with a Mongolian spot like Koreans.

The incredible military force of the Hun was attributable to mobility and archery. A series of victories in battles may have been possible because of the powerful bows and well-trained warriors who could shoot arrows backwards while galloping on horse at full speed. The bows they used were much smaller and more destructive than today's bows and they were fast shoot at up to 15 arrows a minute. Their mounted archery was superior to that of the skilled archers in the Hundred Years' War between France and England who shot 10 arrows a minute.

The ancient Koreans were well known for their skills to make good bows, and they were named the Archers in the East (□□) by China. However, even if they had the skills to make high-quality bows, they did not have materials for bows. One of the good materials for bow-making was water buffalo horns. Because good bows cannot be made without water buffalo horns, they were strategic goods for Ancient China. China exchanged buffalo horns for bows made in Korea. Technology exchange thus already took place between the two countries.

Korea began to be known to Europe from the 7th to 8th century, the early Islam Empire period when the Arabs connected the Far East and Rome through the Silk Road. There were already many records on the Saracens in the Silla Dynasty and the map drawn by Al Idrisi (1099-1166) features Silla as an island.¹⁵ It is assumed that Korea became indirectly known

¹⁵ Muhammad Gansu, quoted from Baik Sung-Hyun, "Historical Inquiry into Korea-France Exchange," from Vol 15, French Studies, pp 143-167. "History of Shilla-West Interchange", Dankook University Publishing Center, 1992 pp 143-167.

to France when the Romans exercised their influence on the Gaullois in Northern France as illustrated in the Adventures of Asterix.

Then the new power of Asia appeared in the 13th century. It was the Mongolian Empire. With the rise of the empire, the role of the Arabs in connecting the East and the West weakened and Europe and Asia began their direct trade and exchange. The existence of Korea was first known to the West by Jean du Plan-Carpin who was dispatched to Mongolia in 1247 and returned to Lyon in 1247, and Guillaume de Rubrouck, who was sent to Mongolia from April to August 1254 in their traveling records.¹⁶

It is not certain when and how Korea became known to France, but we assume that the most accurate account of Korea was made by Jean-Francois de Galaup de La Peruse (1741~1787).

The first encounter between Korea and the Western world, or France to be precise, was made by La Peruse who sailed south of Korea, but it is hard to regard it as a real encounter. His records shows that his ship came across Korean ships sailing across the coast, but the Korean sailors did not respond.¹⁷

While the Dutch were very active in trading with the Asian region, it was France that started exchanges with Korea. The exchanges were more substantial than those with Great Britain which established diplomatic relations with Korea three years before. Bishop Maubant of Missions Etrangères crossed the Yalu River to enter Joseon in 1835, following Imbert and Chastan in 1836 who made the first Catholic priest Kim Dae-Kun possible. Daewon-gun, who wanted to win his power struggle with help of the Catholics, decided to crack down on the Catholics and eventually beheaded about 8,000 Catholic priests and converts when his attempt failed.

Enraged by the news, France launched a campaign to occupy Ganghwa Island in 1866 with three warships led by Admiral Rose that had been stationed in China, but it ended up with a huge number of casualties on the French side.

Ironically, the cannons that led to a tremendous loss of the French fleet were made with techniques learned from the cannons that had been recovered from the two French warships captured in 1847 when they were headed to Korea to claim responsibility of the massacre.¹⁸ Building on the strengthened power of Louis XIV, France challenged Portugal's missionary activities in Asia. As a result, the number of French Jesuit missionaries exceeded that of Portugal. The Cassini calendar introduced by the French Jesuit priests in China helped Korea to make their calendar book in 1744, which can be said to be the first scientific exchange between Korea and France.

If the introduction of the new calendar is the first scientific exchange, the making of the new cannons in 1860 can be seen as a stepping stone for further exchanges.

France which was advanced in science and technology studied Korea in various academic fields. The achievements include "Plants of Korea and Japan(1904)" by H. Leveille in biology,

¹⁶ *idem*

¹⁷ "A Short Biography of Jean-François de Galaup de La Pérouse, 1741-1788", <http://pages.quicksilver.net.nz/jcr/~lap2>

¹⁸ Baik Sung-Hyun, "Historical Inquiry into Korea-France Exchange," from Vol. 15, French Studies, p 442

“Folk Remedies of Korea, Japan, and China (1868)” by J. Cheval in medicine, and “Introduction to Korean Astrology(1897)” by Hong Jong-Woo and H. Chevalier.¹⁹

A look at the history of Korea-France exchange in the field of science technology shows that the process has been led by French that has a long history of advanced civilization. However, from the mid-20th century, Koreans began to leave for France. The first Korean scientist who went to France had a passport number 16. Given that 15 government officials visited France as a delegation to the UN in 1948 immediately after the foundation of the Republic of Korea, he was the first to unofficially leave for a foreign country. He majored in particle physics at Sorbonne University and later taught at Nantes University. Many Koreans followed suit to study in France and contributed to science technology. They founded the Scientists Association in 1987 to promote science technology cooperation between Korea and France.

According to the statistics of the French Embassy in Korea, 1,349 Koreans went to France for study under government sponsorship. And 559 of them engage in science and engineering, and most of the scientists are committed to research and teaching in universities in Korea. In addition, if the number of scientists and engineers who studied in France on their own expense is estimated at three times those who received government scholarships and we add Korean scientists and engineers who cooperated with France in the STAR program and exchange students, the total number of Koreans who have been exposed to French science technology would be around 3,000.

Koreans traditionally place a high value on people, because we think that everything is planned and carried out by people. The science technology exchange between Korea and France has to be understood in the same context. The number 3,000 may sound like many, but French science technology becomes a mere memory in most cases, and the number of scientists who are actually involved in or want exchange with France would be relatively small.

In addition to the history and context of Korea-France exchanges, I would like to make the following suggestions for promotion of science technology interchange between France and Korea by taking into account the two countries’ science technology policies and characteristics.

1. Increased personal exchange

As discussed, just a small number of people take interest in science technology exchange between Korea and Japan.

The number is much smaller compared to that with the US, Japan, Germany, and the UK and it is not sufficient to facilitate effective technological interchange.

Exchange has to be on several levels and two-way. While the estimated number of 3,000 is the case of Korea, unfortunately there will be a fraction of the number in France. The current status makes us hard to pursue effective exchange between the two countries.

¹⁹ *idem*, pp. 144-145

2. Approach combining basic and applied science

In my opinion, Korea has put more emphasis on applied technology that is more practical than fundamental in character for a long time. In the modernization process of the country, more focus was given to applied technology than basic science due to the environment where the economy was heavily dependant on imports and exports. On the other hand, basic science has been more significant than engineering in France. The characteristics and interest of the people may be similar to the situation.

Many people tend to expect the same field and the same level from the counterparty of exchange while interdependent exchange of basic and applied science is relatively neglected. We need to change our approach of science exchange.

Our exchange and cooperation should be in a way that basic science serves a foundation for new applied technology, which in turn helps rediscover and develop basic science.

3. Interdisciplinary exchange and cooperation

Academic disciplines had been specifically distinguished from each other with the complexity of the social development, but now there is a tendency to connect different areas in technology development to develop them into comprehensive technology. The approach, called convergence technology, will be a desirable way to promote exchange between Korea and France. They can cooperate in what they can do best, for example, forming a cluster that combines France's cultural excellence with Korea's information and communication technology.

Presentation III

Korea-France Cooperation in Information and Communication Technology

Patrice Martin-Lalande,

Member of the France-Korea Friendship Association of Congressmen

I was supposed to speak on the past, the present and the future of French-Korean bilateral relations. When we go to a country for the first time, we would rather listen, to try to understand and to ask questions. But, as you know, members of Parliament do not need to be experts to talk on a subject. So I am going to take a risk, albeit limited, by speaking about Information and Communication Technology (ICT), since I am responsible for the working group on the Internet in the French National Assembly.

Stakes are high in terms of ICT. It represents 15% of that of Korea's, and 8% of France's GDP. Unlike others activities, it is a tool to create a truly new society, the so called "information society;" in other words a profound transformation of our social organisation. So the stakes are not only economic, but also social, political and international (This was made clear in Geneva and Tunis during the World Summit on the Information Society – WSIS).

Regarding Korea and France, opportunities arise since the former has become one of the world leaders in the sector within barely 20 years. Strong links have been forged between our countries. A French-Korean Committee for ICT was created with our Ministry of Economy and Finance. So far three sessions have taken place with agenda that illustrate the potential of bilateral cooperation in this sector: Digital TV, Mobile TV (DMB), Internet Protocol TV and WIBRO/WIMAX.

In terms of ICT, Korea and France have an interest in looking for open and shared standards, and not to content themselves with technologically and geographically limited solutions, and resulting barriers to interoperability.

In the near future, there is a French-Korean pilot project which aims to improve the terms of bilateral commercial trade by facilitating the dismantling of international trade formalities (proceedings, time measurements, and costs); in other words, a tool for exchanges.

There is also a project to create links between certain French poles of excellence and Korean enterprises or conglomerates, in order to share resources and optimise synergies between partners in a given geographical zone.

Two important visits took place in 2007. Our telecoms and audiovisual regulators, the ARCEP (*Autorité de Régulation des Communications et de la Poste*) and the CSA (*Conseil Supérieur de l'Audiovisuel*) met their Korean counterparts. The ARCEP evaluated the situation of mobile and Internet telephony; a very useful mission it wants to prolong in order to deepen links between the two telecoms "policemen." The CSA noticed a strong, common preoccupation with content, service quality and use; the digital convergence should not become synonymous with the standardisation of content and the reduction of international diversity and creativity. Korea and France are wedded to the preservation of identity, and of cultural and creative diversity (UNESCO Convention); they promote it at the international level through the agreement on cinematic co-production allowing French-Korean co-productions to benefit from the whole accomplishments of the two countries.

Exchanges again via the group created with André SANTINI, the Global Citizen Dialogue that unites 200 towns. Local use of the Internet foreshadows local democracy, and thus the society of tomorrow. It is important to make progress in this direction and to transcend our national impulses.

Last but not least, the problem of keeping students in touch after a foreign exchange. The Internet is the solution to the investment made during an exchange keeping alive on the long-term by organising a permanent social network.

Finally, being two important countries in ICT, Korea and France should mutualize their leadership to move forward the creation of a world information society that benefits both of us.

Presentation IV

French-Korean Relations: past, present, future

Pierre Fournier,

Head of the Asia Division of the Ministry of Foreign Affairs

Two major events have marked 2007: the coming to power of two new presidents, in Korea and in France, respectively, and a breakthrough in the negotiations with North Korea. Both events have a real impact on relations between Korea and France.

France and Korea have specific goals: for Korea, to develop numerous partnerships, in order to avoid being dominated by three big powers; for France, to develop relations with all the major Asian partners, especially in such a sensitive area as the Korean peninsula.

1. France and North Korea

The situation in North Korea and relations with this country are currently the most important question. I will, therefore, start by saying you some words about the relations between France and North Korea. Indeed, 2007 marked a diplomatic breakthrough: the agreements of 13th February and 3rd October have paved the way for a precise negotiation process toward denuclearization.

First of all, France pays great attention, together with all its European partners, to the positive and rapid developments currently observed in the Six Party Talks, in the inter-Korean dialogue and in the American-Korean dialogue. Two aspects characterize the diplomatic breakthrough that took place in 2007:

- Pyongyang assumes it can strengthen its regime. That's what it is betting on and it expects massive aid as a reward for its new cooperative stance.
- Another aspect, in the long term, is the normalisation of relations with the international community. United States Secretary of State, Ms. Condoleezza Rice has mentioned such an idea, which could be carried out sooner or later. Nevertheless such a move depends on the delivery by the North Korean authorities of the complete and precise list of its nuclear facilities and programs. For now, Pyongyang has not given such a list, in spite of its commitment to do so, according to the 3rd October 2007 agreement.

So, which stance is France taking in relation to the current developments? France supports the current process, which was supposed to lead to the delivery by North Korea of the complete list of all its nuclear facilities and programs, especially in the proliferation field. But we remain vigilant. Past experiences (like KEDO) have proved on the whole frustrating and disappointing.

On the bilateral side, France believes it will not be possible to establish diplomatic relations with North Korea unless three conditions are fulfilled: progress on the nuclear question, in the inter-Korean dialogue and in humanitarian and human rights conditions.

The example provided by the other European states which established diplomatic relations with the DPRK in 2001 is not a strong incentive for France to make such a move, given the fact that diplomats do not have much room for manoeuvre on the ground.
Under such circumstances, what can France do?

2. The French relationship with North Korea is not stuck in a time-warp

In due time, France is ready to take action, if the states involved require it. What kind of action?

- On the European level, France strongly supports the action of the European Union concerning IAEA inspections, especially by contributing to its budget.
- If an international team was formed, France would be ready to take part in the inspections and to share its expertise as an endowed state, if it was required to. If so, France's commitment would be for the long-term.
- The French stance is not stuck in a time-warp. If conditions improve, France will consider, in due time, establishing diplomatic relations with North Korea.

France fully understands Seoul's policy commitment to Pyongyang. But France is not in the same situation.

On many topics, France and South Korea share a common vision.

3. A common will to boost dynamic relations

A. A strong relationship

Our common will to maintain dynamic and productive relations between France and South Korea has already given important results.

- In 2006 the 120th anniversary of the establishment of diplomatic relations between both countries was celebrated with great success. It allowed France and Korea to deepen their dialogue and mutual understanding.
- On the administrative side, exchanges between senior officials are held on a very regular basis.
- Exchanges between government officials regularly take place: the Prime Minister of the Republic of Korea visited France in 2006 and 2007; delegations from the Korean Ministry of Foreign Affairs came to France several times in 2007; the Defense Minister, Mr Kim Jang-soo, visited France just one month ago.
- Cooperation is strong in many fields, even in the judicial one, as the recent examination by the French Parliament of the Extradition Convention between the two countries shows. Not to mention France's ratification of the bilateral agreement on social security (February 26th 2007), the signing of an administrative agreement in the agricultural field that sets up a joint committee on sanitary and phytosanitary regulations, or the current renegotiation of our agreement on the protection of investments.
- More than 13,000 Korean citizens live in France, and each year, tens of thousands of Korean tourists visit France. Similarly, Korea attracts a growing number of French visitors, who discover its unique culture and way of life with great interest. Korean language courses are also extremely popular in France.
- In October 2007 « FranceExpress », a new month-long event designed to make the Korean audience better acquainted with France and its culture was successfully launched in Seoul. The recent tour by the Paris Orchestra also proved to be a great success.
- In business, France also has important stakes in Korea, with 162 companies employing more than 36,000 people.
- South Korea is our third biggest commercial partner in Asia, with 7 € billion in 2006. France is the fourth largest foreign investor in Korea. Our commercial relations have increased strongly (more than 33 percent in the last two years. It must be remembered that when President Roh visited Paris in December 2004, Presidents Roh and Chirac set the goal of doubling the

volume of commercial exchanges between France and Korea in five years. This goal will be reached in 2009.

- The current negotiations between the European Union and Korea on a Free Trade Agreement (FTA) aim to waive the hurdles to a free market between both areas. The first round of the negotiations took place in Seoul last May. Since then, negotiations have continued and some progress is being observed. It is reasonable to think that an agreement will be reached in a few months. Once it is carried out, it will benefit both economies. Here, in Korea, I know that Busan industrialists are waiting for such an agreement impatiently.

B. Enhancing cooperation

- - Korean investments in France could be larger and stronger: they stand at only 7 percent of all the Korean investments in Europe. Only slightly more than 30 Korean companies are currently operating in France. Our country must compete with the Netherlands, the United Kingdom or Germany.
- - Similarly, France is only the 21st provider of the Korean economy – far behind Germany but ahead of the United Kingdom and Italy. France can do better.
- - The bilateral visits are also asymmetrical: six Korean visits to France in 2006 against two French visits (the Ministry of Culture and the Ministry of Trade); in 2007, the Prime Minister of Korea came to France three times (including twice to meet the International Exhibitions Bureau) and the French Minister of Defense, Mrs Alliot-Marie, came to Seoul once. Delegations from the Korean Ministry of Foreign Affairs came to France four times, while the French Ministry of Foreign Affairs did not go to Korea in 2007.

Relations between France and Korea are improving by the day. It involves both governments, but more significantly, both civil societies. While 2008 is in front of us, we are entering a new era with the inauguration in Korea and France of a new President and the arrival of a new government. I am thus personally convinced that both sides are very eager to enhance deeper and stronger cooperation between the two countries for the five years to come.

Session IV

Peace and Security in Northeast Asia

Presentation I

Progress in Inter-Korean Relations and Its Prospects

Lee Su-Hoon,

Chairman of the Presidential Committee on the Northeast Asian Cooperation Initiative

1. North Korean Policy of the Roh Moo-hyun Administration

The Roh Moo-hyun administration was inaugurated under two unfavorable conditions: 1) North Korea's nuclear issue and 2) hostile relations between Pyongyang and Washington as a result of Washington's containment policy against North Korea.

Even if it had to grapple with the North Korean nuclear issue throughout its term, it maintained a policy posture to engage with Pyongyang. It could make progress in its relationship with the North as the Inter-Korean summit could be held as a result of the progress in resolving the nuclear issue.

- The inter-Korean relations based on the engagement policy prevented the tension resulting from the nuke issue from escalating on the Korean Peninsula, and at the same time made a consistent contribution to the progress in resolving the issue.
- The establishment of the Six-Party Talks aimed at resolving the nuclear issue laid the foundation for peaceful management of North Korea's nuclear program and for the resolution of the issue through dialogue and international cooperation.
- As the nuclear crisis persisted because of confrontation between Pyongyang and Washington, however, the South-North relations did not progress and even came to a halt in an extreme confrontation owing to

Pyongyang 's nuclear test and subsequent UN passage of trade sanctions against it as proposed by the Bush Administration.

- As the Roh Moo-Hyun administration took a different policy line toward Pyongyang from America's, South Korea and the United States, which are two long-time allies, witnessed some tension and disharmony in their relations.
- However, consistency in Seoul's engagement policy and the progress made in the nuclear issue at the North Korea-U.S. bilateral talks after Washington decided to recognize Pyongyang as a negotiation partner resulted in Feb 13 Agreements of 2007 and Oct 3 agreements, and the nuclear issue has reached the final stage of "disabling."

The inter-Korean summit of 2007 served as a political leverage to pursue peace and prosperity policy even if Roh Moo-Hyun administration approaches the end of its term.

2. Progress in Inter-Korean Relations

1) Deepening of Reconciliation and Cooperation

Despite ups and downs in the relationship, the policy line toward North Korea that pursues peaceful coexistence and reconciliation and that promotes cooperation by South Korea was consistently maintained.

Not only economic cooperation became more vigorous under the principle of segregating politics and the economy, but social and cultural exchanges and cooperation became more active across different sectors and classes to the extent of irreversibility.

As the inter-Korean trade is growing consistently because of progress in the economic cooperation, a foundation is being laid for an inter-Korean economic community.

- The agreements on creating additional special economic zones after the summit, building the Cooperative Shipbuilding Complex, and vitalization of the Gaeseong Industrial Complex have enhanced the possibility that a new model of inter-Korean economic cooperation can be established.

2) Establishment of Foundation for Peace-building

The inter-Korean summit of 2007 served as a turning point in the relationship between the two Koreas and specific agreements were followed that are to be implemented. As a result, significant efforts are being made to advance the relations with North Korea even if Roh Moo-Hyun administration approaches the end of its term.

- The establishment of a political foundation between the two Koreas for peaceful co-existence and the active dialogue being conducted with neighboring countries have resulted in a political groundwork being laid for a formal end to the Korean War and establishment of a peace regime on the Korean Peninsula. They have set the foundation to move beyond 'reconciliatory cooperation' to enter the phase of 'establishment of peace.'
- They have also laid the foundation to shake off mutual antagonism and distrust and instead move forward to build mutual respect and trust.

A mutual communication framework was established with the creation of various high-ranking dialogue channels such as summit meeting, Prime Ministers' Meeting, Defense Ministers' Meeting, Economy Ministers' Meeting, etc.

3) Challenges to Overcome

South Koreans themselves are divided in their views of North Korea and over the government policy toward it. Actually the engagement policy is recognized both by the ruling and the opposition parties. Thus one can safely conclude that the North Korean policy has become too politicized among the general population.

As the inter-Korean relations make progress but the conflict between North Korea and the United States aggravates, the difference of views between the ROK and the United States in coordinating North Korean policies has emerged as new challenge.

3. Prospects for Inter-Korean Relations

1) Nuclear Issue

The year 2008 will be a critical point for the nuclear issue. Chances are high that inter-Korean relations and the nuclear issue will result in different outcomes depending on what policy the new administration will follow toward North Korea.

- Currently both Pyongyang and Washington stick to their guns over the key issues of disabling nuclear programs and Washington itself is torn between the hawks and the doves. Added to this, now a conservative administration will soon take office in South Korea. Given all that, it is hard to predict what decision will be made by Pyongyang as of now.
- In case the new South Korean administration puts too much emphasis on the principle of "No denuclearization, no support" or strongly demands reciprocity, there is a possibility that this will sour the inter-Korean relations and will ultimately cause negative impacts on the Pyongyang-Washington relations, possibly bringing about disruption in the Six-Party Talks.
- By contrast, if the new administration recognizes the significance of the Six-Party process from the beginning of its term and employs a subtle approach to it based on a judgment that its consistency should be maintained, chances are high that the Six-Party process will run smoothly.
- If this is the case, it is necessary to make diplomatic efforts to prepare for the next step of the nuclear disabling, and dismantlement of nuclear weapons.
- Given that Pyongyang and Washington should overcome mutual mistrust in order to achieve denuclearization, it is necessary for President Bush and Chairman Kim Jong Il to have strong trust in the other party. This is where President Lee Myeong-bak can play an important role.

2) Situation of North Korea

After the summit meeting, Pyongyang wants to advance its relations with Seoul and expand economic cooperation. After the presidential election in the South, however, it is cautiously observing the incoming administration and its North Korean policy.

- The North is now keen on implementing the agreements of the summit and seems a bit desperate to put forward even a single economic cooperation project before the inauguration of the next South Korean administration.
- After the opposition party won the presidential election in the South, North Korea expresses great concern over whether the incoming administration will change its predecessor's policy towards it and, if so, how much the change will be. At the same time, it is struggling to come up with its own policy response.

As Pyongyang could maintain its relations with Washington and some progress was made in the nuclear issue, it is engaging more actively with the outside world and showing more interest in the economy.

- Because of the continuation of the bilateral talks between Pyongyang and Washington and progress on the nuclear issue, the external environment has turned more favorable toward North Korea, which shows greater eagerness toward improving its relations with the United States.
- It is now more actively engaged in economic exchanges and tries to improve its relationship with the external world, making in-depth analyses of not only China's economic reform but also the Vietnamese experience.
- If the current improvement in relations between Pyongyang and Washington continues and the inter-Korean relations advance further, the North could secure from Washington assurance of security and obtain economic support from the South. Then, it is highly likely that the North will push forward with aggressive economic expansion plans and a reform policy.

3) Inter-Korean Relations

Despite its hard-line conservative political stance, the new administration is expected to continue the engagement policy toward the North.

- The reason is that since the engagement policy has its roots in the Inter-Korean Basic Agreement of 1992 and the reconciliation policy is supported by the majority of the population, even a conservative government would have no choice but to maintain the same policy line.

In addition, if bilateral talks continue between Pyongyang and Washington based on mutual trust and the nuclear issue is addressed smoothly in 2008, the conservative President-elect who values the ROK-U.S. alliance most will likely be affected by the friendly atmosphere in the relations between the North and the United States.

- Even if the current policy line is maintained, significant adjustments in pace and priority will be inevitable.

Inter-Korean relations will likely stagnate in the beginning of the new administration because both Pyongyang and the new South Korean government will try to read each other's minds.

- The reason is that the North will try to figure out the new South Korean government's policy line towards it and the South Korean government itself should newly start a relationship with the North without any trust gained from the North.

- Another reason is that the past decade will be assessed in terms of North Korean policy as the incoming administration defines the engagement policy of the past decade as a “failure.” During the course of the assessment, there is a strong possibility of missing out on the current détente atmosphere.

If the denuclearization process does not run smoothly and the nuclear issue causes conflict once again due to a worsened relationship between the North and the United States, inter-Korean relations will either tighten up or aggravate.

- In case of conflict between Pyongyang and Washington and a worsening of the nuclear issue, the conservative government is highly likely to demand reciprocity from the North and this will cause tightening of the relations between two Koreas.
- Since tightened relations between two Koreas translate into tightening-up of on-going economic cooperation or assistance projects, they may cause escalation of tension and conflicts with the North. If the South responds strongly to them, then the relationship between the North and the South will remain cold for a significant period of time.

Presentation II

Security of Northeast Asia and Cooperation for Peace in the Region

Chun Chae-Sung,
Professor of International Relations of Seoul National University

1. Sole Dominance of the United States and Northeast Asia

As the world’s only superpower in the first half of the 21st century, the United States sets the following as its most important global goals: 1) to prevent emergence of another competing superpower and an anti-hegemony alliance and 2) to respond to unconventional security threats by preventing proliferation of Weapons of Mass Destruction and terrorism.

- To this end, the United States is creating a world-class military space and securing military dominance by pursuing “military transformation,” and on the other hand, is building global alliance through “alliance transformation.”
- To overcome the problems with the military unilateralism employed by the Bush administration, the United States puts emphasis on “soft power” in addition to “hard power” and insists on managing world affairs through “smart power” which combines the two powers.
- The United States is employing more expanded global strategies such as 1) increase its attractiveness; 2) vitalize international public diplomacy characterized with transformational diplomacy; 3) strengthen alliance with existing allies; 4) execute economic integration; 5) expand overseas aid, etc.
- Such global strategies are reflected in the U.S. policy toward Northeast Asia.

Under the global strategies, the United States aims to achieve the following goals in Northeast Asia.

1) Establish a regional base that can support the war on terrorism at the global level; 2) Materialize military transformation, transform existing alliances, and create new ones; 3) Prevent production and proliferation of Weapons of Mass Destruction; 4) Deter the terrorism-supporting forces and terminate the environment nurturing terrorism; and 5) Contain possible rival countries that might challenge its hegemony.

As means to achieve the goals, the United States employs different measures such as strengthening of bilateral cooperation, selective execution of multi-national cooperation, and oppression of hostile forces.

- It is revising its allocation plan for the existing armed forces stationed overseas and seeks changes in the nature and the role of existing allies.
- In East Asia, it is building a cooperative network called AJIA (America-Japan-India-Australia) at a tremendous pace. In the process, it is reinforcing its alliances with Japan, Australia, and India respectively.
- The United States is making efforts to selectively utilize various multinational organizations of East Asia. The United States is taking growing interest in the working groups of APEC, ARF, and Six-Party Talks dealing with the peace and security regime of Northeast Asia.
- The United States aims to build a global alliance network by expanding NATO.
- Moreover, it is consistently adding new military strategies such as MD.

2. Rise of China: Power Transition and New Balance of Power

Northeast Asia is a region where world powers compete with each other to claim for leadership, in the absence of effective and competent regional cooperative body.

- The bipolarity of the Cold War came to an end in the region and is replaced by multi-party competition, but the balance of power is in a flexible condition as the hegemonic influence of the United States is strongly projected in the 21st century and at the same time China is growing up at a rapid pace.

According to the IMF's statistical data of 2006, China already owns the fourth biggest economy in terms of GDP.

- China's GDP in 2006 amounted to US\$2,630Bn, which is the fourth biggest following the United States at US\$13,240Bn, Japan at US\$4,460Bn and Germany at US\$2,630Bn.
- In terms of military spending, China spent US\$41Bn in 2005 according to SIPRI. The amount is the fifth largest with a slight gap with Japan's US\$42.1Bn. Meanwhile, the United States spent US\$478.2Bn, the U.K. US\$48.3Bn, and France US\$46.2Bn.

- All things considered, China is growing fast into a superpower which owns the world's fourth and fifth strongest economic and military powers.

The United States sees China as possessing the strongest potential to compete with it militarily.

- Basically, the United States expects that China will play a constructive role in the Asia-Pacific region in dealing with global issues, i.e. non-proliferation, drugs and terrorism.
- At the same time, it tries to demand peaceful economic development and political democratization in China.
- The objective of the United States is to make China both an economic partner and a common interest holder who takes responsibility.
- However, China has been increasing its military budget by more than 10% every year since 1996, and, more importantly, has not clarified its intention behind the increase of military capability. In other words, China lacks transparency in its military intention.
- China is adding high-performance and asymmetric military capabilities and is discussing various battle scenarios.

The United States is in a dilemma where it has to obtain China's support to prevent nuclear terrorism but has to contain it to deter a rise of a competitor over hegemony.

- Such dilemma is reflected in the concepts of mass strategies such as 'engagement', 'hedging' and 'stakeholder'.
- To prevent nuclear terrorism, the United States needs to pursue anti-terrorism and non-proliferation. It needs both diplomatic and economic help from China to deal with post-war matters in Iraq and Afghanistan.
- To resolve the North Korean nuclear issue which is at the core of non-proliferation in the region, it desperately needs China's assistance.
- For this reason, the United States has maintained selective cooperation with China in regard to the Iraqi war, Iran's nuclear program, and the Six-Party Talks to deal with North Korea.

The problem is that there is no guarantee that transition of power as a result of China's growth will be followed by peaceful adjustment of power.

- The United States and Japan are responding to the growth of China by strengthening the U.S.-Japan alliance, demanding transparency in China's intention behind the increase of military capability, and consolidating diplomatic and military cooperative network with China in mind.

China is seeking political stability in the surrounding nations for the sake of its own economic development.

- The major objectives of China are emerging as a superpower through consistent economic growth, management of Taiwanese issues and unification with the country, and maintenance of favorable relations with the United States.
- China also has been actively engaged since the mid-1990s with multi-national cooperation in Northeast Asia and is making significant efforts to secure diplomatic leadership in the region.

3. Revival of Hegemonic War in Northeast Asia

Japan and Russia are also accelerating their efforts to strengthen their roles in the region through growth of their national power.

- Japan has a long-term goal of growing into a leader in the multinational cooperation in the region and of containing the rise of China, by strengthening its relationship with the United States.
- Russia also has overcome post-war confusion and is carrying out a strategy to develop its economy based on its strong leadership, strengthen its diplomatic power in each regional matter, selectively cooperate with Washington, and achieve proper military balance against the United States' check on its military power.

Before the 1990s, Japan put priority on establishing a security framework based on the U.S.-Japan alliance and was passive in building a multi-national security regime in the region.

- From 1990s, however, Japan turned more positive in building a regional security regime for the combination of following reasons: the end of the Cold War and the emergence of economic regionalism, the rise of open nationalism and liberalism that replace realism and closed nationalism, growing interest in regional security regime to complement the U.S.-Japan alliance, and the need to strengthen Japan's identity as a member of the region.
- Underneath it, however, there is still a tendency to argue based on closed nationalism that Japan needs to build its military power against the threat of its neighboring nations, in particular, China.

Japan seeks to expand its influence on those regions which it has recently redefined as having close relationship with its national interests.

- Using the concept of the so-called "Arc of Freedom and Prosperity", Japan has redefined as important regions to its national interest northern European nations and the Baltic states, eastern European states such as Georgia, Ukraine, Azerbaijan and Moldova, states in the Middle East and East Asia, Afghanistan and three nations in Indochina, and the region covering South Korea, Mongolia, Australia and New Zealand.
- It also applies the concepts like "networked Asia" and "thought leader" to East Asia.

Such new concepts seem to be part of Japan's strategy to redefine the regions that may bring important economic benefits in terms of resource and trade, to secure a space where Japan can exert its regional leadership, and, further, to ensure its influence by enveloping China.

- Even if Japan is also building regionalism and multi-national cooperative regime in Northeast Asia and further across Asia, it seems that they have limitations in resolving diverse issues in Northeast Asia.

While the United States makes efforts to create a new alliance network in East Asia, Japan is strengthening its relationship with Australia.

- The two nations have a strengthened alliance with the United States to match the military transformation by the United States and have conducted the "two-plus-two" talks between foreign and security ministers.
- The United States and Japan are closely engaged in military cooperation as they discussed ways to enhance the cooperation with Australia, India and NATO at the U.S.-Japan Foreign and Security Ministers' Meeting held on May 1st, 2007, and technically concluded the General Security of Military Information Agreement, or GSOMIA, which is intended to secure confidential military information, at the same meeting.
- In addition, Japan and Australia adopted the Japan-Australia Joint Declaration on Security Cooperation on March 13th 2007 and formed a quasi-alliance.
- The United States and Japan are expected to prepare themselves for the rise of China not only through military partnership with Australia and India, but by linking the partnership with NATO's so-called "global partnership."

So far, China has not expressed clear opposition to the containment efforts by the United States and Japan, but instead carries out a regional policy based on cooperation under the goal of developing peace and building a harmonious world.

- However, it sometimes takes a strong stance against Japan or takes a hegemonic policy as it showed during the disputes over Goguryeo.
- After the power transition, whether or not China will seek regional hegemony or it will form rivalry with the United States over hegemony are emerging as key issues.

4. Nationalistic Competition amid Complex Regional Order

Northeast Asia still carries the burden of many complex issues since it has not completely implemented a modern international system.

- China and South Korea are still divided states since they did not complete the construction of the state when they implemented modernization, and their unification efforts act as a factor that effects changes in the regional politics.

- Experience of Japan's imperialism and the remaining grievances still make the neighboring nations oppose Japan's normal statehood and any of its efforts to become a superpower, which remains a critical issue in the region along with nationalistic sentiment.
- The territorial disputes, Japan's unwillingness to admit its past wrongdoings, and the dispute over the Japanese Prime Minister's visit to the war shrine are not just individual issues, but are an indication that the region is still living in a nationalistic competition and cannot overcome the hurdles to create a multinational regime or discover a regionally-collective identity.

5. Creation of Multi-National Regime and its Obstacles

Up to date, elementary forms of multi-national regime have emerged in the region such as APEC (Asia-Pacific Economic Cooperation), ARF (ASEAN Regional Forum), Six-Party Talks, and NEACD (Northeast Asian Cooperation Dialogue) amid economic, security and other issues.

- However, the reality is that a multinational regime that can handle regional issues on a solid foundation has not yet taken root.

Even though multinational cooperation is being made at a lower political level in the areas of the environment, the economy, etc, it is difficult to say that a multinational regime that is based on a solid regional identity has been established because of competition over power in the region and nationalistic competition under the complex regional order.

- It is true that Northeast Asian nations are accelerating economic cooperation among each other, but the competition is too severe between them to achieve an economic integration like in Europe, and there is also a tendency that bilateral economic partnerships such as the ROK-US FTA are accomplished first over the multinational partnerships.

On one hand, each nation in the region wants a multinational partnership through the efforts to build a regional community, but on the other, they want to realize their national interests by gaining an edge over others.

It is possible to expect that new partnership culture will take root in the region when dealing with unconventional human security issues in environment, weapons of mass destruction, human rights, women, disaster, and drugs, and that such partnerships may expand into more critical areas such as security and economy.

6. North Korea's Nuclear Program as Continuous Worrying Factor

Amid the international politics of the post-Cold War, North Korea continues to aim for construction of a great power and maintains 'Military-First Politics' to sustain communism and dictatorship.

- In the course of that, it seeks to ensure its survival and development relying on the engagement policies of South Korea and the international community, by taking advantage of its nuclear program.

Currently, as a result of the 2/13 Agreement, multinational efforts are underway among the Six-Party Talks participants in order to resolve the nuclear crisis, but it is hard to expect a positive outcome.

- As long as its nuclear program aims to transform, reform, and open its regime, North Korea is in an absolute dilemma regarding whether it wants to gain economic benefits by abandoning the program and then ultimately having to give up safeguarding its leader.
- While implementing mutually-conflicting strategies of maintaining its regime, obtaining economic assistance, and constructing a great power, North Korea may remain as a consistent threat to the regional order in Northeast Asia.

7. Conclusion

There is high possibility that the U.S. global strategy will be reflected in Northeast Asia's regional order while the United States keeps the world leadership for a significant period of time.

- The United States will strengthen its relations with existing allies in order to prevent the emergence of an anti-hegemony alliance, while, on the other hand, it will try to avoid confrontation with competitors such as China and put the threatening forces such as North Korea under control..

The rise of China amid the traditional power structure of Northeast Asia is causing a power transition, and the uncertainty over China after its rise will define the international politics in the region for a significant period of time.

If efforts for multinational cooperation continue in dealing with newly emerging issues in the economy, environment, and non-proliferation at a time when worrying factors such as the nationalistic competition and North Korea are growing, it will be possible to expect multinational partnerships on the major issues.

Presentation III Collective security in Northeast Asia and opportunities for the EU

*Loic Frouart,
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Whereas it is acknowledged since the end of the Cold War that collective processes are the best response to threats, any reflection on this topic in Northeast Asia most often focuses on obstacles rather than advantages of such architectures. Multilateralism in this region is not a new idea but initiatives never aimed at concrete and lasting results: neither in the 1970s ideas when even a U.S. withdrawal was considered, nor in the 90's. The most achieved experiences were the 4-Party Talks and KEDO (just after the nuclear crisis in 1993/94).

So we have today in the region a double phenomenon of the necessity as well as the impossibility of building collective security architecture. Since the "2007 February 13th agreement," the Six-Party Talks (6PT) are very often mentioned as a "sketch" or a starting point of a regional architecture namely due to the creation of the group dedicated to a lasting

peace in Northeast Asia. After studying the obstacles of a collective security process, we'll see how these obstacles could be cleared while considering what role the EU could play.

1. Diverse and even antagonistic security concerns and strong reluctance regarding multilateralism

If you do not consider North Korea which is a common concern to the region's countries (though not a threat as such to all of them, this difference is important), it is difficult to find common factors in the "security agendas" of the Northeast Asian Nations. And without common points or interests, no collective security seems achievable.

Also, the attitudes of these countries regarding multilateral process diverge hugely.

Let's finish the country analysis begun by Valerie Niquet.

The DPRK lacks partners and motivation to get committed to a collective security mechanism. Its main strategic objective is survival and building an efficient deterrence force.

DPRK is surrounded by enemies or complex partners it doesn't fully trust. Of course the perception differs from a country to the others: the U.S. and Japan are definitely considered threats by the North Korean regime which relies less and less on the protection it could benefit from Russia and China. China changed its mind these years and recently meant that any deterioration of the situation because of North Korea behaviour would have consequences on the possible implementation of the 1961 bilateral treaty. Russia has neither the means, nor the will, to go and protect North Korea.

DPKK is strongly opposed to multilateralism processes in which it loses initiative it can preserve in bilateral relationships (as a reminder, after the first session of the 6PT, in August 2003, the NK delegation came back to Pyongyang with the strong feeling it had to break the "5 vs. 1" proportion of force).

South Korea is a medium power eager to "exist and be recognized" as such in the short term and is looking for regional and global influence in the longer term (after unification turns it into a "big medium power").

As far as security is concerned South Korea wants to preserve a stable regional environment in order not to jeopardize its economic development as well as the status quo with the North.

Besides, Seoul wants to protect its territory integrity (against North Korea but also Japan or China).

The main threat remains the DPRK factor. This word "threat" means the risk linked to the North Korean regime (the conservative point of view) or the threat triggered by instability linked to the current crisis and the hawkish policy of the Bush administration which could provoke unreasonable decisions in Pyongyang and therefore be a destabilizing factor in the Peninsula (a more progressive perspective).

In order to stabilize its environment, Seoul which is aware of the role of all the neighbouring nations tries to develop good security relationship with all of them. In that respect South Korea is the only country not to worry publicly about the Chinese military build-up. That does not prevent Seoul from remaining a strong, though complex, ally of the United States.

This necessary stability would allow South Korea to manage its unification process in a balanced use of bilateral and multilateral processes and strategies depending on the situation.

We notice increasing political will in Seoul to implement a “national interests strategy” and to manage by itself the “Korean issue,” which sooner or later might collide with some multilateral processes. New Korean president should not review this “national interests approach” which has the ambition for Korea to give Seoul a big role in the regional architecture as the country becomes a hub in Northeast Asia.

This “hub” already exists economically and Seoul intends to become a hub also in security and defense issues. This evolution of the South Korean approach reflects a strong will of managing its own future after centuries of foreign influence, invasions and occupation.

Multilateralism is perceived by Koreans with scepticism (Koreans know that a unified Korea in a regional architecture will generate a deep distrust in the neighboring countries) but for the time being, they believe they need to use it sometimes depending on the situation and the benefits they can get..

Russia has no longer great ambitions in the Far-East except maybe, in a limited way, to maintain a presence in its maritime space. Moscow essentially wants not to be definitely out of the picture. Worried by the growing Chinese influence in the region, Russia can by no means prevent it. Its leadership of the group dedicated to lasting peace in Northeast Asia can just let it hope it can limit the ambitions of the parties.

The United States sees the Asia-Pacific region as the very probable focus of crisis in the future, and that analysis drives the choice to structure, man and equip PACOM, which shows how important this region is in the U.S. mind.

Regarding security, the U.S. believes China needs to be counterbalanced and this “checks and balance” factor can only be the U.S.

Ironically, the U.S. perception of the multilateral process is very close of the North Korean one. Americans worry about the dilution of their power and a denial of their leadership and their influence by some of the parties.

After the Clinton administration which was a period of resumption of American multilateral commitment, the two Bush administrations went back to a power-based strategy (generating a loss of soft power). Indeed, American commitment to multilateralism is only driven by national interests and crisis necessity or opportunity.

In that respect, the North Korean crisis process is multilateral only in its name and appearance. In fact it is a bilateral process (Washington eventually accepted) with a third party – ombudsman : China. Finally, for the U.S., multilateralism can’t replace alliances, the more it can do is being a complement to them even if these complementarities are not exclusive of some rivalries (China is a partner of the U.S. in the 6PT but could be the target of the US-Japan alliance).

2. Can Northeast Asia generate a collective security system ?

Beyond sensitive and contradictory security agendas, there are also strong bones of contention and feelings of distrust which make inter-state relations more difficult.

Any collective mechanism needs all the parties to share some common values, common causes, common perceptions of threats or danger and neither of these exist in Northeast Asia.

Terrorism or proliferation are often seen as common causes but these are not enemies, these are “courses of action”; enemies are those which use them. Also, the DPRK is a concern for all the countries in the region but not all of them see Pyongyang as a threat.

In this sceptical landscape, 6PT are often mentioned as the hope to develop a collective security system (all the more since 2007 Feb 13th agreement).

But, it seems that resolution of North Korean crisis will not help developing such a mechanism.

First of all, the 6PT negotiations are too “Korea-centred” and this prevents from having a more regional and comprehensive analysis which imposes to think of the relationships between all the parties and not only with North Korea.

Also, the 6PT could solve a problem but the very resolution would create new ones, among which the future status of the DPRK. Will it become a satellite state of the PRC? Will it become an ally of the US? Any option will see some concerns raised in some countries of the region.

So, the 6PT working group dedicated to the “security and peace mechanism in Northeast Asia” can be a good workshop for parties to get used to deal with security issues regionally but in any way it can be the starting point of regional security architecture. In a provocative way, one could argue that the very fact that this group is headed by Russians shows that it’s not likely to achieve great results.

Beyond the uncertainty of the evolution of the 6PT, and of the group focused on peace and security in the region which is everything but priority (it has a very vague very long term agenda because it is supposed to think of the security after the resolution of the crisis and the post armistice era and not of the regional security right now), this region is characterized by such distrust feelings between the parties that one can hardly see a regional process stemming out of the region itself. Any proposal of any of the parties would be suspected and rejected by other parties and would have no legitimacy or credibility.

The region needs an outsider to help developing a regional architecture.

3. The EU can be the necessary outsider

The UN is out of the game because the UN is a global player which one can hardly see developing a regional organization. Besides the UN in the region would quickly be confused with the United Nations Command in Korea and Japan which is considered as a U.S. Command.

On the opposite, the EU has economic and security interests in Asia (Northeast Asia accounts for one-third of the global GDP and ¾ of EU exchanges are made with Northeast Asia).

Moreover Northeast Asia is a very sensitive region (five major military powers, four nuclear powers).

So any crisis in the region would severely impact the world prosperity and security and consequently Europe’s. So Europe would be well inspired to pay attention to Asia and to commit itself in other areas than economic ones. EU should ask for a much larger role than the one of a “cash and aid provider.”

All the more since the EU has credible assets and experience to act beyond the economic dimension.

First EU has relationship with all the parties, including the DPRK.

Also, the EU has great ambitions for a credible and coherent ESDP (ESDP is precisely meant to pay attention to crisis or issues in the world likely to influence European security and stability, so how not to consider an Asian aspect of ESDP).

EU has a long experience in collective security which is so critically needed in Northeast Asia, and Europe was able to develop security architecture despite diverging interests and values of some parties. EU also has a deep experience in reconciliation process, which is also needed in Northeast Asia.

What I mean is that the EU will never have any ambition as a “hard security provider” (troop deployments etc...) but as a “soft security provider” in fields such as disarmament, CSBM, verification process, joint trainings or joint PKO deployments (PKO are increasingly meaningful in the region’s armed forces missions).

What other initiatives could be implemented?

One could think of launching a “track 2” security dialogue as a complement to the security working group within the 6PT. Such a “track 2” dialogue which could progressively be institutionalized could take over the 6PT workshop after the crisis is over or should the 6PT process fail.

Conclusion

EU and Northeast Asia can work together to develop a regional collective security mechanism provided two conditions are respected.

Asians, who say that they need this kind of process and pay attention to OSCE while emphasizing that they can’t take from it because the Asian context is too different from the European one, should launch bold initiatives and take from OSCE what they can use (concept of “baskets”, minorities rights, CSBM); they also should already think of security beyond the North Korean issue which limits their thinking and ideas.

Europeans must stop complaining that EU is not given the right role and do whatever is possible to impose themselves (as united as possible) in political and security areas in Northeast Asia.

My presentation is half the way between realist analysis (impossibility of building a security process in Northeast Asia) and idealist ideas (a political role for the EU in Asia). Let’s remind that when CSCE was founded, back in 1975, then French President Giscard d’Estaing gave a very ambitious address which made most of the attending experts smile. More than 30 years later we can see all the achievements of the CSCE and its role in the transition from the Cold War to post-Cold War era and collective security in Europe. This are precisely what is critically needed in Northeast Asia: passing to post-Cold War era and developing a collective security system.

Presentation IV

The Role of Regional Power in the North-Korea Issue

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Seen from Europe the security situation in Northeast Asia has made noticeable progress in 2007 after a few years of complete stalemate and the trauma of Pyongyang nuclear testing in October 2006. North Korea agreed on a nuclear deal on February 13, 2007, five working

groups have been established, and on October 3, 2007, the first phase of the denuclearization process has been completed. However, in spite of these positive steps, the situation around North Korea and the Korean peninsula remains volatile with many unresolved issues. If the first phase of the nuclear deal has been completed, the second phase has been delayed with no hope of a quick solution in 2008. North Korea did not publish the full list of its nuclear installations and, perhaps more important yet, complete data concerning its fissile material. On the other side, full delivery of the energy aid program has not been completed neither. In Washington, the presidential election does not play in favor of a quick solution and there is a debate on the degree of latitude permitted regarding the full disclosure of North Korean data regarding its fissile material stockpile, the uranium program etc. Beyond that, the question of existing WMD, nuclear but also biological and chemical will have to be raised in the not too distant future in order to fully abide by the spirit of the nuclear deal.

This status quo also maintains North Korea in a state of economic weakness in which Chinese interest are guaranteed to play a major role. Finally, this status quo objectively limits the influence of South Korea and postpone the rise of a powerful Korea, reunited or not, preventing the emergence of a new significant player on the Asian regional scene.

Support for the status quo exists in Japan also, but to a lesser degree. Tokyo is not opposed to a reunified Korea. The question is rather to see which side this new Korea will lean to. In addition, the question of Japanese financial contribution to the cost of reunification will be raised. Beyond that, the North-Korean issue crystallizes the difficult and unsolved issue of the reemergence of Japan as an independent and normal political actor in Asia and beyond. The North Korean threat, after the ballistic missile test in august 1998 helped to support the principle of constitutional revision and the acquisition of a more consistent - and independent from the US - military capability. Today, nationalist feelings in Japan are focused on the issue of the d citizens kidnapped by the North Korean regime. The capability of Japan's allies to take into account this issue is a test of Japan's ability to impose and defend its own agenda and national interests. On the other hand, any solution to the Korean crisis that does not solve the abduction issue, would give a very negative signal to the most nationalist section of the population. This issue is at the core of the ever-present feeling of isolation in Japan, particularly in the context of Asia and its alliance with the U.S.. Two possible consequences would be for Japan to follow either the isolationist path, a strong temptation in public opinion or to choose the more "affirmative" action of a stronger nation building, a temptation in some political circles.

However, Japan today, after the more flamboyant tenure of Prime Minister Koizumi and the failure of Abe Shinzo, is in the middle of political uncertainties and is apparently in no position to impose its own vision on the North Korean issue. However, the election of Lee Myun Bak in South Korea may free up the game for Tokyo. The new president and Tokyo do share a closer vision on North Korea and possible cooperation. The pragmatism of Lee Myun Bak may play in favor of a less strident nationalist rhetoric, more favorable to Tokyo's position regarding North Korea.

Last but not least, the case of Russia is interesting. Russia needs to play a role in the Korean peninsula in spite of a reduced capability to influence the situation. For Moscow to play a role on this issue is also a way to protect it's own interests in the far East, including it's own far-east, and to confirm it's presence – if not influence – in the region at the strategic level as well as the economic level vis a vis an increasingly assertive China. Moscow and Beijing do share some common interests at the global level, but also have some important strategic divergences, at the regional level, particularly in central Asia.

Russia also forms a physical bridge with the European Union, The big “non-player” in North East Asia. In that sense the role of Russia at the head of the regional security working group established in February 2007, could be interesting.

Regarding the North Korean peninsula, each player in the region is indeed following its own agenda, both in favor of the reunification of the Korean peninsula but also unwilling to see the other partners win the game. As long as this issue of the divergences of interests remains unresolved, the building of a cooperative regional “hub” around the Korean peninsula will remain difficult whatever the status of the two Koreas.