



1

World Trends and Korea's Foreign Policy in 2008

Chapter 1 Introduction

Chapter 2 Korea's Foreign Policy in 2008

Chapter 1. Introduction

1. World Politics

❖ Overview ❖

In the midst of changes in the dynamics of relations among the major powers, the year 2008 saw signs of shifts in the global order. In 2008, while traditional political and security conflicts continued, there was renewed recognition of the gravity of non-traditional security issues such as terrorism, large-scale natural disasters and food and energy security. A whole range of pending issues calling for multilateral cooperation also came to the fore, including the need to jointly respond to the global financial crisis that started in the U.S.

With the unabated political insecurity in Iraq and Afghanistan and the turbulence in the global financial markets, there was a continued trend toward the reshaping of the system of global governance in 2008. In the U.S., the Democratic Party took power with the election of Barack Obama as the 44th President. Since taking office, President Obama has placed emphasis on restoring America's leadership in the world in cooperation with its allies and the international community, leading to expectations of changes in major U.S. foreign policies and in the international relations.

Moreover, various events in the field of non-traditional security also had an impact on the international situation. Regarding the war on terror, the situation deteriorated not only in Iraq but also in the South Asian countries such as

Afghanistan and India¹⁾. Countries such as China and Myanmar suffered large-scale natural disasters, and there were also increased concerns with respect to the food and energy crises. Consequently, the international community stepped up diplomatic efforts to address these non-traditional security threats.



| G-20 Leaders' Summit on Financial Markets and the World Economy (Washington, D.C., November 15, 2008)

Lastly, climate change and the global financial crisis brought into focus the need for international cooperation. Since the launch of the Bali Roadmap in December 2007, the international community has engaged in active discussions on ways to shape a post-2012 system. As the repercussions of the global financial crisis that started in the U.S. in September 2008 permeated even into the real economy, governments around the world strived to come up with concrete steps to cooperate in responding to the crisis and managing the situation. What is more, as demonstrated by the G-20 Leaders' Summit on Financial Markets and the World Economy, a spirit of international cooperation was forged for the establishment of a new international economic order.

¹⁾ Examples include the serial bomb blasts in Jaipur, India in May, serial bombings targeting a Hindu temple in Ahmedabad, India in July, a suicide truck bombing in Islamabad, Pakistan and a series of synchronized bomb blasts in New Delhi, India in September

Efforts toward regional integration continued in Europe, Latin America, Southeast Asia and Africa. The 'Treaty of Lisbon,' which the European Union (EU) had intended to bring into effect in January 2009, failed to be ratified²⁾ due to its rejection in the Irish referendum in June. The terms for the treaty's entry into force required that all member states ratify the document. Hence, the EU's plan to put the treaty into effect in 2009 was set back. Irrespective of the treaty's ratification, however, the EU continued to strive for integration from a mid to long-term perspective, and the EU enlargement policy has been hailed internally as the epitome of the Union's foreign policy.³⁾ The EU made multifaceted efforts to map out a common security policy by, for example, reviewing the status of or revising the reform of the Union for the Mediterranean (UM), the Eastern Partnership (EaP), and the European Security and Defense Policy (ESDP). At the same time, it sought ways to strengthen security cooperation with key players from various regions such as the U.S., China and Russia. In the sectors of economy, trade and financial markets the EU also continued to host discussions to come up with unified policies for financial supervision and improvement in the existing system to ensure financial stability.

In Latin America, a new regional integration organization was launched in 2008 under the name of the Union of South American Nations (Unión de Naciones Sudamericanas: UNASUR), which has had an impact on the international political and economic situation.⁴⁾ High on the UNASUR agenda are issues such as market integration, infrastructure cooperation, visa waiver programs, the South American Energy Ring, economic cooperation through the Bank of the South and common defense policy, which have hitherto been

²⁾ The EU Summit in December 2007 revised the European Constitution, which failed to be ratified due to its rejection in the French and Dutch referenda, and was replaced by a treaty (the 'Treaty of Lisbon,' also known as the 'Reform Treaty').

³⁾ The EU Summit in December 2006 adopted the '3Cs' - Consolidation, Conditionality, and Communication - as the basis of the EU enlargement policy.

⁴⁾ In May, 12 member states of Mercosur, also known as the Common Market of the South, and the Andean Community of Nations (Comunidad Andina: CAN) held an inaugural meeting in the Brazilian capital of Brasilia with the goal of creating an EU-type union of nations.

addressed only on an ad hoc basis. Thus, the development of this union is expected to draw a great attention.

The movement towards regional integration in Southeast Asia has continued to progress. In 2007, the Association of Southeast Asian Nations (ASEAN) adopted the 'ASEAN Charter' with the ultimate goal of establishing a legitimate regional community. In 2008, all ten member states completed the ratification process. With the Charter officially taking effect in December, ASEAN is expected to rise above its traditional boundaries as a forum for regional dialogue and transform into a regional organization with a 'legal personality' similar to the EU. Moreover, ASEAN is projected to further step up its regional cooperation by, for example, incorporating its member states into a single free trade area by 2015.⁵⁾

There was continued instability in the political and security situations in Africa throughout the year 2008. Internally, the Darfur conflict raged on and civil wars broke out, causing massive waves of refugees. Internationally, Somali pirate attacks have been the cause of maritime security issues. Despite these problems, it was clear that the continent was making every effort to build a regional community aimed at revitalizing inter-regional trade and accelerating economic growth. The leading three regional organizations of Africa, in particular, convened in Uganda in October and agreed on the principle of establishing a free trade area.⁶⁾

The Middle East was plagued by unabated instability, with little progress being made in the situations in Iraq and Afghanistan due to persistent terrorist threats. When armed clashes broke out between Israel and Hamas, the United Nations Security Council convened an emergency meeting, and the international community made concerted efforts to address this issue.

⁵⁾ The ASEAN Economic Community (AEC) will enable the free movements of goods, services, investment, and capital in the region. However, it will not launch a single currency comparable to the EU's euro.

⁶⁾ The top three regional organizations in Africa - the Southern African Development Community (SADC), East African Community (EAC), and Common Market for Eastern and Southern Africa (COMESA) - held a meeting and agreed to launch a free trade area. Should it be realized, such an initiative is expected to establish a large single market with a total of 26 member states, population of 527 million and combined gross domestic product (GDP) of \$ 624 billion.

2. World Economy

There was a rapid slowdown in the global economy in 2008, when the global credit crunch rooted in ‘subprime mortgage defaults (hereinafter referred to as the ‘subprime mortgage crisis’)’ took its toll on the real economy. The global economic growth rate stalled at 3.4 percent, a meager figure compared to the 5.2 percent achieved in the previous year.⁷⁾ The world entered a period of recession. Advanced economies, namely the U.S., Japan and the eurozone, fell into recessions. Even most of the newly emerging markets such as China and India, which had track records of solid development, saw their growth rates plunging in the latter half of the year.

A continued slowdown in the U.S. housing market, coupled with a host of other issues such as the deepening credit crunch, falling asset prices and shrinking job market, pushed the U.S. economy into negative GDP growth in the latter half of 2008. The country’s overall economic growth remained low, falling from 2.2 percent in 2007 to 1.1 percent in 2008.

The Chinese economy also slowed down as a result of the global economic downturn. China had maintained a rapid economic development of over 10 percent growth rate for years. Yet in 2008, it posted 9 percent GDP growth - the first single-digit rate in five years. Japan, too, has recorded negative growth since the second quarter of 2008. This is due to the aggravating internal and external conditions such as the slowdown in exports deriving from the global economic slump, the comparatively strong yen and increasingly weakening equipment investment.

Russia was faced with economic difficulties such as sluggish exports due to the economic downturn in the eurozone and rising unemployment rates resulting from the decrease in private spending and fixed investments. Furthermore, a massive outflow of foreign investment has led to a decrease in Russia’s foreign currency reserves and fall in the ruble and stock prices. Russia posted a 6.2 percent economic growth rate in 2008 - its record low since 2002.

Owing to contracting job markets and a lackluster housing market, the euro area recorded negative GDP growth for the first time in its history during the

⁷⁾ Refer to the International Monetary Fund’s (IMF) World Economic Outlook, dated 19 January 2009.

second quarter of 2008, and continued to post negative growth in the third quarter. With consecutive negative rates in the second and third quarters, the euro area descended into a recession.

The European countries outside the eurozone and the Asian and Central American countries also experienced clear slowdowns in their economic growth during the latter half of the year due to domestic and international circumstances. These situations were aggravated by credit crunches, outflow of foreign investment and stagnant exports, which were triggered by unstable global financial markets and the economic slumps of the advanced countries. The financial crisis showed signs of spreading worldwide from mid-October when the stock markets of the majority of Asian countries teetered on the verge of collapse.

Against this backdrop, the international community forged cooperation in economic policy as it sought to find solutions to the global financial crisis. The G-20 Leaders' Summit on Financial Markets and the World Economy held in Washington, D.C. in November, in particular, served to revitalize the multilateral efforts to overcome the global economic crisis. In Asia, the 11th ASEAN+3 Finance Ministers' Meeting produced a concrete set of measures to expand the 'Chiang Mai Initiative (CMI).'

Moreover, the international prices for raw materials, including oil, which were on a constant climb since 2007, plummeted in the second half of 2008 due to the slowdown in demand, investment flights, and the strengthening of the U.S. dollar - all outcomes of the recessions in the advanced economies.

With respect to global trade liberalization led by the World Trade Organization (WTO), namely, the Doha Development Agenda (DDA) negotiations, the year 2008 saw much progress as a considerable number of outstanding issues were settled. However, WTO members failed to reach a final agreement on modalities in a Mini-Ministerial meeting convened in



| Global Financial Crisis

July because of disagreement among the major countries over key issues including the Special Safeguard Mechanism (SSM) that is intended to shield developing countries from import surges of agricultural products. It is likely that the DDA negotiations will inevitably be deferred for a period of time as the U.S. and other WTO members review their negotiating positions. Yet trade liberalization received a boost from regional trade agreement (RTA) and a total of 26 new RTAs were notified to the WTO in 2008.

3. Situation On and Around the Korea Peninsula

The North Korean nuclear issue, as well as differing perceptions of history and territorial disputes between different countries continued to characterize the situation in Northeast Asia in 2008. However, the region also witnessed greater cooperation in the non-military fields such as the environment, economy and energy.

As for the North Korean nuclear issue, progress has been made with regard to North Korea's declaration of its nuclear program through the April U.S.-North Korea meeting in Singapore. In June, North Korea submitted its nuclear declaration and destroyed the cooling tower of the 5MWe nuclear reactor. Correspondingly, the U.S. removed the trade sanctions applied to North Korea under the 'Trading with the Enemy Act' and in October, removed North Korea from the list of 'state sponsors of terrorism.' However, the Six-Party Heads of Delegation meeting in Beijing in December failed to reach an agreement on verification including sampling, and entry into the third phase of denuclearization for resolving the North Korean nuclear issue is still pending.



| Meeting of the Heads of Delegation to the Six-Party Talks (Beijing, July 10, 2008)

The election of Obama is expected to bring about a number of changes in the tenets of U.S. foreign policy directions and its policies toward Asia. In the Asia-Pacific region, Washington strived to maintain and strengthen the existing bonds with major allies namely South Korea, Japan and Australia, while making efforts to construct a more effective multilateral security framework transcending bilateral relations. Moreover, the U.S. has been deepening cooperation with nations in the region in the field of non-traditional security such as the economy and the environment. In fact, in April 2008, the U.S. exerted efforts to forge cooperative relations among countries in the Asia-Pacific region in the military arena by holding U.S.-Japan-Australia Working-level Talks, which were attended by Director General-level officials from the foreign and defense ministries of the three countries. At the same time, Washington agreed to cooperate with Beijing in the energy and environmental sectors, and also to promote its investment in China in a U.S.-China Strategic Economic Dialogue (SED) Meeting in June.

China formed a new leadership at the 11th National People's Congress (NPC) and Hu Jintao embarked on a second term as President. At the NPC, the Communist Party of China's Xi Jinping of the Central Committee (CC) and Li Keqiang of the Standing Committee of the Political Bureau of the CPC Central Committee were elected as Vice President and Executive Vice-Premier respectively. Also during the Congress, China's existing foreign policy tenet of creating a stable international environment for domestic economic development was emphasized once again. When the Great Sichuan Earthquake occurred in May, the Chinese Government demonstrated the ability to respond quickly to large-scale disasters by, for example, committing a total of 140,000 troops to the scene and fully accepting the international community's aid and support. Furthermore, China further enhanced its national image through the successful hosting of the 2008 Beijing Olympics.

In Japan, Prime Minister Yasuo Fukuda's unexpected resignation was followed by a special Diet Session in September, where Liberal Democratic Party (LDP) President Taro Aso was named Prime Minister. At the cabinet meeting in December, the Japanese Government presented a bleak economic outlook in the aftermath of the global financial crisis, projecting the country's economic growth for 2009 to be zero percent. The Japanese Government

therefore is faced with a set of difficult tasks in stimulating the economy and achieving a recovery in private demand. On the foreign policy front, Tokyo continued to strengthen U.S.-Japan relations and conduct an Asia-focused diplomacy. On the other hand, Japan continued to raise the abduction issue to North Korea and maintains its position that it would not participate in the energy assistance to North Korea until the right environment is in place.

Since taking office, the Medvedev administration has maintained the national development strategy and foreign policy direction that was initiated by Prime Minister Putin during his second presidential term. Moscow succeeded in test-firing of the nuclear missile in September and intercontinental ballistic missile (ICBM) in October, which are considered as some of the largest strategic maneuvers of Russia in the recent 20 years.

In a New Year's Joint Editorial issued in January 2008, North Korea set out its goal of 'building a powerful state by 2012'. Nonetheless, its economic conditions continued to deteriorate due to factors such as the rise in international grain and oil prices. National Defense Commission (NDC) Chairman Kim Jong Il's failure to attend the commemoration events for the 60th anniversary of the founding of North Korea on September 9 fueled speculations over his ill health. Rumors surrounding the status of Chairman Kim's health generated concerns that the rising instability within North Korea could have a significant impact on the North Korean nuclear issue and inter-Korean relations.

Ma Ying-jiu, candidate of the Kuomintang won Taiwan's 12th presidential election in March, heralding the first regime change in eight years. Since Ma's taking office on May 20, an amicable atmosphere has prevailed across the Taiwan Strait, as illustrated by the two cross-strait meetings in June and November. As a result of these meetings, the Chinese mainland and Taiwan have established direct weekend flights since July. Furthermore the cross-strait 'three direct links,' namely mail, air and shipping, came into effect as of December.

In terms of bilateral relations, China-Japan relations developed into a 'Strategic, Mutually Beneficial Relationship' during Japan's Fukuda and Aso cabinets. The atmosphere has been favorable following the China-Japan Summit in May and the subsequent agreement on the joint development of a

gas field in the East China Sea, Japan's dispatch of a rescue team to the site of the Sichuan earthquake, and Japan's support for the Beijing Olympic Games. As for Japan-Russia relations, a bilateral summit was held following the summit talks of the Group of Eight (G-8) and the Asia-Pacific Economic Cooperation (APEC). The two countries also strived to resolve the issue of the four southernmost Kuril Islands, only to fail in reaching an agreement. China-Russia relations expanded and strengthened across a broad range of areas, including the military, diplomatic and economic fields, as well as people-to-people exchanges, based on their 'Strategic Cooperative Partnership.' In particular, Russia's return of part of the Heixiazi Island to China in October bolstered the friendship between the two countries.

As for trilateral relations, the Korea-U.S.-Japan tripartite cooperation was the focus of heightened interest in 2008. Deputy Minister-level discussions were held among the three countries in Washington, D.C. At a Korea-U.S.-Japan Trilateral Summit held on the sidelines of the APEC Leaders' Meeting in Peru in November, the three countries agreed to hold trilateral summits regularly on the occasion of the annual APEC Leaders' Meeting. A new chapter was opened also in the Korea-China-Japan cooperation. A Korea-China-Japan Summit was held for the first time in Fukuoka, Japan, on 13 December 2008, following Korea's proposal that Korea, China and Japan host the trilateral summit in turn. At the summit, the three Leaders set out the fundamental principles and basic directions for the tripartite cooperation, which had been long delayed. In particular, the three Leaders concurred that trilateral cooperation was crucial in effectively responding to the financial crisis.

Chapter 2. Korea's Foreign Policy in 2008

Since 2008, Lee Myung-bak administration has been undertaking a ‘creative pragmatic’ approach in its diplomatic efforts to develop the ROK into a truly ‘Global Korea’, in order to realize the nation’s vision of an ‘advanced and prestigious country’.

1. Maintaining Peace and Stability on the Korean Peninsula

The ROK government has strengthened cooperation with neighboring countries and pursued a North Korea policy of Mutual Benefits and Common Prosperity with a view to consolidating peace and stability on the Korean Peninsula. In particular, it has further upgraded and elevated the relations with the U.S., Japan, China and Russia through active summit diplomacy. The ROK has laid the groundwork for a ‘21st Century Strategic Alliance’ with the U.S., a ‘Future-oriented Mature Partnership’ with Japan and a ‘Strategic Cooperative Partnership’ with China and Russia respectively, which will serve as a cornerstone to deepen and widen bilateral cooperation and for discussions on measures to address global challenges.

Seeking substantial progress in the North Korean nuclear issue, the Korean government maintained close cooperation with related countries during the Six-Party Heads of Delegation meetings in July and December and the Six-Party Ministerial Meeting in July, where efforts have been made to complete the second phase of denuclearization and enter into the third phase.

2. Global Network Diplomacy

The Ministry has been exerting efforts to build a global network, through which the ROK can widen the diplomatic horizons from Northeast Asia from Northeast Asia to encompass the whole of Asia including Southeast Asia, Southwest Asia and Central Asia, as well as the Middle East, Latin America and Africa. During the year 2008, high-ranking figures including prime ministers from more than 18 countries such as New Zealand, Australia, Poland, Finland, Uruguay, Rumania, Mongolia, Laos, Turkmenistan, Kuwait, Jordan, Sudan and Djibouti visited the ROK and engaged in discussions on ways to enhance mutual cooperation. Furthermore, MOFAT has been promoting even more substantial cooperation through inter-regional channels including the Korea-ASEAN Center, Korea-Arab Society and Korea-Central Asia Cooperation Forum.

3. Diplomatic Support to Create New Engines for Growth

The Ministry has been striving to provide diplomatic support to create new engines for continued growth and to achieve an advanced economy. In this regard, the ROK has been pursuing efforts to build up a global FTA network with such great economic powers and countries rich in natural resources as the EU, India and the Gulf Cooperation Council and to actively participate in the DDA negotiations with the aim of expanding overseas markets for Korean companies. Not only has it been seeking to strengthen the energy cooperation with Central Asia, Africa and Latin America, it has also endeavored to forge consensus in the international community on the vision of 'Low Carbon, Green Growth', which has been embraced as a new global paradigm both for tackling climate change and achieving economic growth. In this vein, the Korean government suggested the launch of 'East Asia Climate Partnership.' Additionally, the ROK has taken active part in the international discussions on overcoming the global financial crisis and preventing a global economic recession on various occasions including the G-20 Leaders' Summit on Financial Markets and the World Economy in November.

4. Enhancing our Role and Prestige in the International Community

The ROK has been exerting efforts to enhance its role and prestige in the international community commensurate with its current global status. To this end, the Ministry has been making every effort to upgrade Korea's image, to play its part in the international community and 'open interactive diplomacy'. As part of these efforts, the ROK has been seeking to join the OECD Development Assistance Committee (DAC) and to further enhance Korea's ODA system. Moreover, the ROK has made great efforts to increase its participation in the UN peace keeping operations (PKO) by prolonging the deployment of the Dongmyong Unit, part of the United Nations Interim Force in Lebanon (UNIFIL). In addition, the Korean government has been striving to enhance its role in the global nonproliferation and counter-terrorism.

5. Further Improving the Quality of Consular Services

The Ministry has continuously improved its consular policies including the Consular Call Center, the Rapid Response Teams and the Consular Assistant System, all of which are designed to secure the safety of Koreans traveling abroad and to ensure greater convenience in their activities. Furthermore, it has set up a well-integrated system for protecting Korean nationals abroad, comprising the full-scale issuance of electronic passports and the establishment of the Situation Control Center, which have contributed to the enhancement of our capability to respond to emergencies and accidents. In addition, in order to facilitate Koreans' travel overseas and provide more opportunities for young people to work and study abroad, the ROK has joined the Visa Waiver Program and the WEST Program with the U.S.

6. Strengthening Diplomatic Capabilities

MOFAT has continued to exert efforts to build a more efficient personnel system well equipped to cope with the rapidly changing diplomatic environment in the 21st century. In particular, it has established more embassies and realigned human resources in order to expand and improve the basic infrastructure for energy cooperation and to strengthen the protection of Korean nationals overseas. Furthermore, MOFAT has been exerting efforts to cultivate

diplomatic human resources with great expertise and competitiveness through a variety of diplomatic capability development, training and assessment programs.

■■■ Korea's Foreign Policy in 2008

