

A New Context for EU-Korean Relations

Richard Youngs (ed.)



FRIDE
A EUROPEAN
THINK TANK FOR GLOBAL ACTION

KOREA **KF**
FOUNDATION

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First published in Spain in 2013 by FRIDE.

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Editor: Richard Youngs

Cover photo: Higher/Flickr

Layout: Pilar Seidenschnur

ISBN: 978-84-616-6094-0 (Print)

Legal Deposit: M-27563-2013

ISBN: 978-84-616-6095-7 (Online)

Printed and bound in Spain by Artes Gráficas Villena

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Abbreviations

APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
BRIC	Brazil, Russia, India and China
CSDP	Common Security and Defence Policy
CTBT	Comprehensive Nuclear-Test-Ban Treaty
CWC	Chemical Weapons Convention
DAC	Development Assistance Committee
DPRK	Democratic People's Republic of Korea
EAS	East Asia Summit
EC	European Communities
ECB	European Central Bank
EEAS	European External Action Service
EERP	European Economic Recovery Plan
EFTA	European Free Trade Association
ESCO	Energy Service Companies
ESS	European Security Strategy
ETS	Emissions Trading Scheme
EU	European Union
FA	Framework Agreement
FTA	Free Trade Agreement
GCF	Green Climate Fund

GDP	Gross Domestic Product
GGGI	Global Green Growth Institute
GHG	Greenhouse Gas
GSP	Generalized System of Preferences
IAEA	International Atomic Energy Agency
IMF	International Monetary Fund
ISAF	International Security Assistance Force
LDCs	Least Developed Countries
MKE	Korean Ministry of Knowledge and Economy
NPT	Nuclear Non-Proliferation Treaty
NSTC	Korean National Sciences and Technology Council
NTB	Non-tariff Barriers to Trade
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PCFV	Korean Presidential Council for the Future and Vision
TDI	Trade Defense Instruments
UK	United Kingdom
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
UNSC	United Nations Security Council
US	United States
WMDs	Weapons of Mass Destruction
WTO	World Trade Organization

Acknowledgements

We would like to thank the Korea Foundation for kindly supporting our project on “Next steps in EU-Korea relations”, the results of which are summarized here in this book. We are very grateful for the confidence entrusted to FRIDE to lead this project. We would also like to extend our thanks to all participating organizations – EU-Asia Centre, Hertie School of Governance, Korean Institute for Economic Policy (KIEP), and the Korea University – for their invaluable contributions. Special mention should be made to our Korean partners for hosting the workshop in Seoul, which brought about the ideas for this book.

Preface

Richard Youngs

It is now routinely repeated that the European Union (EU) needs to upgrade its policies in Asia. At the same time, the Eurozone crisis has deepened Asian states' stakes in the European economy. Much of the focus has been on China, and to a lesser extent India's remarkable rise. As the EU has made notable commitments since 2011 to deepen its involvement in Asia, we believed it would be interesting to track trends in the Union's relations with a different kind of Asian partner. The Republic of Korea (hereafter Korea) today stands as a remarkably successful model of economic and political development, medium-sized and arguably somewhat under-remarked, and apparently keen to tap unfilled potential in its relations with Europe.

Against this background, we carried out the project "Next steps in EU-Korea relations", involving several European and Korean partners – FRIDE, EU-Asia Centre, Hertie School of Governance, Korean Institute for Economic Policy (KIEP), and the Korea University – and funded by the Korea Foundation. Our main objectives were to raise awareness in the EU and Korea of the growing importance of EU-Korea relations in the new international order; identify what the next steps could be in deepening EU-Korean relations; and examine what

cooperation between the EU and Korea could offer regarding both partners' strategic and global policy goals.

This volume benefits from the expertise of some of Korea's leading international relations experts, who we have matched with three European counterparts. Our authors chart the remarkable progress made in EU-Korean relations, under the remit of a series of upgraded political agreements and a free trade accord signed in 2011. They point to the encouraging evolution of relations and how these have acted in several positive ways not only for the two partners themselves, but also as catalyst, exemplar and entry-point for broader Asian-European relations. At the same time, the volume identifies new challenges on the horizon. We compare Korean and EU approaches to the economic crisis; to the changing dynamics of international power; and to the search for environmentally sustainable growth. The two parties have much still to coordinate effectively in their relations, in terms of both the successes and failures they should be learning from each other. The volume also unpacks recent developments in Korean democracy, in order to lay out the political context within which EU policies must today act.

The conclusions that emerge from the chapters is that Korea remains a rather understated partner for the European Union; that Korea retains a European orientation even as it builds relations in the Asian region; and that beyond the strictly bilateral relation, Korea and the EU should be sharing experiences on some very big joint policy challenges if they want to embed a truly comprehensive and vanguard partnership.

1. EU-Korea cooperation: a catalyst for strengthening global governance in the post-crisis era?

Fraser Cameron

The European Union (EU) and Korea¹ are both significant global actors based on shared political values (democracy, rule of law, and human rights) and similar market economies. In recent decades, Korea concentrated primarily on developing its economy and was one of the few Asian countries to make the difficult leap from a medium to a high-income country. In the past few years, however, Korea has sought a more active international role. It is involved in the International Security Assistance Force (ISAF) in Afghanistan. It is negotiating a free trade agreement (FTA) with China and Japan, following FTAs with the EU and the United States (US). Its hosting of the G20 summit in November 2010 and of the Nuclear Security Summit in March 2012 are two further signs of its emergence onto the global stage. It has also supplied the current Secretary General of the United Nations, Ban Ki-moon.

The EU is a very different animal from Korea. Comprised of 28 member states, it has signed numerous treaties seeking to enhance its consistency, coherence and visibility on the world stage. The Lisbon treaty was the latest effort to improve the functioning of the EU's external relations.

¹ The term Korea is used throughout the paper to denote South Korea except where there is specific mention of North Korea or the Democratic People's Republic of Korea (DPRK).

But after two years of operation, it cannot be said to have fulfilled expectations.² Much of the EU's attention in Asia has focused on China and other important actors including Korea have been rather neglected. In 2010, Korea and the EU signed a strategic partnership. Korea thus became the fourth Asian country to enjoy this status after China, Japan and India.³

The EU is often referred to as a normative power as it seeks to influence the behavior of third countries with regard to its norms, principally in the fields of democracy, human rights and the rule of law.⁴ The EU's commitment to "effective multilateralism" was enshrined in the 2003 European Security Strategy (ESS) and has become a further EU norm. The EU often uses agreements with third countries to impose conditions linked to these norms. Korea, while sharing these principles, has not tried to export them, nor has it been as active as the EU in multilateral diplomacy.

This chapter considers the record of EU-Korea collaboration in external relations and assesses the prospects for future cooperation serving as a catalyst for strengthening global governance. The conclusion is that there is considerable scope to intensify cooperation in many fields, but there are also significant resource and other constraints on both sides.

EU-Korea relations: a short overview

Diplomatic relations between the EU and Korea were established in 1963. For many years, the relationship was almost exclusively trade-driven with little attention being paid to possible joint approaches or

² Cameron, Fraser [2012] *An Introduction to European Foreign Policy*, second edition, London: Routledge.

³ The EU has ten strategic partners including the United States, Canada, Japan, Brazil, Russia, India, China, South Africa, Mexico and now also South Korea. See Gratius, Susanne (2011) "The EU and the 'special ten': deepening or widening strategic partnerships", *FRIDE Policy Brief 76*, Madrid: Fundación para las Relaciones Internacionales y el Diálogo Exterior.

⁴ Manners, Ian (2002) "Normative power Europe: a contradiction in terms?", *Journal of Common Market Studies* 40(2): 235-58.

initiatives in global affairs. Regular summits have only been held in the past five years.⁵ Meetings at foreign ministers' level take place at least once a year and there is also an annual enhanced political dialogue meeting of senior officials that tends to focus on regional security issues. On the EU side, these discussions have been led by Helga Schmid, the political director in the European External Action Service (EEAS), and on the Korean side by the first deputy foreign minister. At the most recent bilateral talks held in 2013 both sides highlighted a number of issues to deepen cooperation including human rights, development aid, cyber security, proliferation of nuclear weapons and anti-piracy.

Relations between the EU and Korea entered a new phase with the 2010 free trade agreement. This is the most ambitious FTA ever negotiated by the EU with a third country and is expected to bring up to €30 billion in new trade opportunities.⁶ The agreement was accompanied by a parallel new framework agreement (FA). This agreement should provide the basis to work together more closely on a wide range of political issues including in multilateral fora. On the basis of these two accords, the EU and Korea decided at their October 2010 summit to upgrade relations to a strategic partnership. Since then, the stabilization of financial markets and the recovery of the global economy have been the top priorities. Both sides continue to stress the need for a successful conclusion of the Doha Development Agenda, but recognize that with the outcome highly uncertain it is important to negotiate trade deals in other fora.⁷ There is thus a strong shared commitment to multilateralism, which could be developed further for mutual benefit. At the same time, both parties are pursuing bilateral agreements, for example in the trade field, when it best suits their interests.

⁵ The Official website of the European Union Delegation to South Korea provides some background documentation, available at: http://eeas.europa.eu/delegations/south_korea/index_en.htm

⁶ For more information see European Commission Trade (2011) "The EU-Korea free trade agreement in practice", Luxembourg: Publications Office of the European Union, available at: http://trade.ec.europa.eu/doclib/docs/2011/october/tradoc_148303.pdf

⁷ European Union Delegation to South Korea, op. cit.

Despite the significant number of common interests, however, the EU and Korea have not so far been able to demonstrate a close record of cooperation in the external field or in multilateral institutions. Both sides have found it difficult to mobilize the resources necessary to deepen cooperation in external relations due to other priorities, especially the financial crisis of the past few years. On global governance, the EU and Korea are committed to multilateralism as a guiding principle of international relations and cooperate in a wide range of United Nations (UN) fora. The EU, however, is handicapped in any discussion on the reform of the United Nations Security Council (UNSC) as its member states are divided. Italy opposes Germany's ambitions to secure a permanent seat on the UNSC, while France and the UK have refused even to contemplate the idea of an EU seat. Korea has not taken a position on UNSC reform due to the very different positions of its major neighbors, China and Japan. The EU has also been slow to accept the need to change the voting system in the International Monetary Fund (IMF) as a result of Asia's increasing economic and financial strength. Korea has supported Asian demands in favor of achieving greater balance in international institutions without offering any concrete proposals for change.

Future prospects

In theory, there are numerous global and regional issues on which the EU and Korea could cooperate in the future. Many are listed in the new FA, including development assistance and the fight against poverty, human rights, democracy and the rule of law, climate change and environmental sustainability, the fight against terrorism, piracy, drugs, illegal migration and human trafficking, non-proliferation of weapons of mass destruction (WMD), confidence-building, preventive diplomacy and conflict resolution. In addition, the agreement suggests both sides should encourage and support regional integration as an essential means for promoting prosperity, stability and security. While the agreement puts forward a large laundry list of potential areas for cooperation, there are resource constraints on both sides that would

suggest the EU and Korea should seek to promote cooperation in a limited number of areas. The following would seem to be the most fruitful fields for future EU-Korean cooperation.

North Korea. Given the centrality of the North Korean issue for the South, it would be welcomed by Seoul if Brussels were to retain and even increase the attention it gives to the North.⁸ While it is recognized in Seoul that the EU can only play a supporting role as regards Pyongyang, there is nevertheless appreciation both for the EU's unequivocal support for the South and its contacts with the North. At a time of great uncertainty about the future course of the Democratic People's Republic of Korea (DPRK) under a new and untested leader, it is important to keep all channels open. The EU should continue to press for improvements in human rights in North Korea and seek to convince the regime that reform and opening up to the outside world offer the best prospect for a sustainable improvement in the livelihood of the population. The EU could thus act as a catalyst in spurring the North to undertake much-needed reforms. Although not a member of the Six Party Talks, the EU has stressed the importance of the multilateral process and pressed North Korea to return to negotiations. It has demanded that the DPRK should abandon its nuclear weapons program and allow inspectors from the International Atomic Energy Agency (IAEA) to verify all nuclear activities in North Korea. It has also encouraged the DPRK to sign and uphold all major proliferation treaties – Nuclear Non-Proliferation Treaty (NPT), Comprehensive Nuclear-Test-Ban Treaty (CTBT), Chemical Weapons Convention (CWC), among others.⁹

Proliferation and nuclear safety. Based on the cooperation over North Korea, the EU and Korea should collaborate more on preventing

⁸ Private conversations with Korean officials.

⁹ Commission of the European Communities (2013) "Declaration by the High Representative, Catherine Ashton, on behalf of the European Union on the nuclear test by the DPRK", *PRESSE* 52, 6326/1/13 REV1. Brussels: European Commission, February 12, available at: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/cfsp/135424.pdf

the proliferation of WMDs elsewhere. The two sides have discussed concerns about Iran and Korea has been prepared to go along, albeit reluctantly, with the sanctions efforts against Tehran.¹⁰ Both sides also have a strong interest in promoting nuclear safety worldwide and have participated in several programs looking at Next Generation Nuclear Safeguards initiatives.¹¹ The EU and Korea could thus examine more steps to promote their role as a catalyst in dealing with proliferation and nuclear safety.

Conflict prevention and crisis management. The EU has encouraged South Korea to play a bigger role in conflict prevention and crisis management. There is much that could be envisaged in terms of cooperation in this area so that the two sides could play a catalytic role in the international community. Both partners could exchange experiences on counter-piracy, especially in the Gulf of Aden, and on Afghanistan. Korea could be more involved in the EU's Common Security and Defence Policy (CSDP) missions. Korea has not taken a prominent position on the recent escalation of tensions in the South China Sea. While the EU has not taken a position on the disputes, it has drawn attention to the importance of a peaceful resolution of competing claims. Both sides could thus continue to encourage the parties concerned to search for peaceful and cooperative solutions and in accordance with international law, in particular the United Nations Convention on the Law of the Sea (UNCLOS).

Development assistance. Although the EU is the largest donor of development assistance in the world, there are disputes about the effectiveness of this aid. As the Korean economy has strengthened, it has steadily increased its development efforts. In 2009, it hosted the High

¹⁰ Korean officials are doubtful about the efficacy of sanctions – private conversations with the author.

¹¹ Washington Nuclear Security Summit (2010), Work Plan, Washington, D.C., available at: https://www.nss2014.com/sites/default/files/documents/12.work_plan.pdf

Level Forum on Aid Effectiveness in Busan.¹² Korea played a major role in securing agreement on the Seoul G20 Development Consensus, a set of principles established in 2010 in order to narrow the development gap (the Seoul Consensus). It has also played a useful role in building bridges between developing and developed countries. There could, therefore, be scope for discussion and even cooperation in some regions such as South East Asia, Pakistan and Africa, where there are shared interests.

Climate change. Both the EU and Korea are committed to a greener world and agree on the need to tackle climate change. The EU has been at the forefront of international efforts to agree a set of far-reaching climate and energy targets. It plans to cut its emissions to 30 per cent below 1990 levels by 2020 in the context of a comprehensive international agreement, provided other developed countries commit to making comparable reductions. The EU has welcomed Korea's 'Low Carbon, Green Growth' vision and its aim of proposing a quantified greenhouse gas (GHG) emission limitation/reduction target for the medium-term. But EU officials consider that as a prosperous member of the Organization for Economic Cooperation and Development (OECD), Korea has the responsibility, capability and potential to make more ambitious commitments. Nevertheless, one of the 10 core policy tasks within the National Green Growth Strategy is to become a global leader and role model in these policy areas. The EU and Korea could thus develop a strategic approach to strengthen each other's influence and support common goals within the global climate change negotiations. This would be a good example of both sides playing a catalytic role in a major global issue.

Regional integration. The EU has a strong interest in deeper regional integration in Asia as a way to reduce tensions and promote peace, prosperity, security and stability. The embedding of political and

¹² United Nations Development Group (2011) "Fourth High Level Forum on Aid Effectiveness", Busan, November 29 – December 1, available at: <http://www.undg.org/index.cfm?P=1412>

security cooperation among the region's major players will be of great benefit for the region as a whole, and is something that the EU should continue to support actively. Korea, although hitherto reluctant to take the lead on regional integration, has come to recognize the benefits integration could bring and it should be encouraged to play a stronger role. The EU and Korea have cooperated loosely in regional organizations, in particular in the Association of Southeast Asian Nations (ASEAN) Regional Forum (ARF) and in the Asia-Europe Meeting (ASEM) process, which has included promoting economic cooperation, cyber security, confidence-building measures and inter-faith dialogue. The EU should also seek Korea's support for its greater involvement in the region, including through the East Asia Summit (EAS). While the EU model of integration is not transferable, there are some aspects that Korea and East Asia might find of interest, for example reconciliation based on a step-by-step approach and common goals based on a legal regime underpinned by strong institutions.¹³

Global and regional institutions

The EU and Korea have much potential to deepen their cooperation in international institutions. Options include:

United Nations. The EU and Korea should intensify their cooperation in the UN, taking advantage of the desire of the Korean Secretary General to enhance the role of that body.

IMF/World Bank. The EU and Korea should engage more in efforts to reform the Bretton Woods institutions, especially in terms of adjustments of voting rights to reflect the changing balance of economic power in the world.

¹³ Cameron, Fraser (2010) "The European Union as a model for regional integration", *Council on Foreign Relations Press*, New York: Council on Foreign Relations, available at: <http://www.cfr.org/eu/european-union-model-regional-integration/p22935>

World Trade Organization (WTO). Korea and the EU should stick to the principles of free trade, cooperate to reject protectionism, and increase efforts to secure a successful conclusion to the Doha Round.

G20. Both sides have a major interest in pursuing the G20 agenda of greater supervision of the financial sector, closing down tax havens and tackling corruption, and increasing and improving development assistance.

ASEM. The EU and Korea have been strong supporters of ASEM and now could work together on the current reform agenda.

OSCE. Korea has maintained a close cooperative relationship with the OSCE, including a presence in Vienna. It has also been a member of the OSCE Asian Partners for Cooperation since 1994. The EU and Korea could develop further initiatives in this area.

Conclusion

The EU-Korean relationship has developed rapidly in the past decade, expanding from an almost exclusive focus on trade issues to a much broader agenda both on the bilateral and global fronts. Trade and economic issues continue to be the main agenda items but as the list above demonstrates, there is a growing willingness to cooperate on many international policy areas from regional security and development assistance to the environment and climate change. Cooperation is at an early stage but there is considerable potential to work together in a number of key areas so as to demonstrate that both parties can have a catalytic impact on regional and global affairs. It will be important, however, for both sides to maintain the recent momentum even in the face of serious domestic economic and financial constraints.

2. Korea and the European Union: a changing landscape

Heungchong Kim¹

During the 50 years following the establishment of diplomatic relations, Korea and the European Union have witnessed substantial development in their economic relations. This process culminated in the Korea-EU free trade agreement in 2011. The initial period of relations was marked by the EU's non-reciprocal preferentiality; this has now changed to reciprocity, and convergence in such fields as institutional models, regulation and standards, as well as in income level. The changing landscape of Korea-EU economic relations has significant implications for contemporary international global governance.

This is for a number of reasons. First, enhancing the cooperative network between the two partners in trade and investment through the FTA gives European and Asian economies greater opportunities to move closer through already-existing and potentially new production networks, and further progress in deepening regional integration. Second, convergence in standards and regulations could become a model for the rest of the world, which can be benchmarked by other European and Asian economies. Third, deeper cooperation

¹ The views reproduced here are the author's and do not necessarily represent those of the Korea Institute for International Economic Policy (KIEP).

in a variety of development assistance activities could help contribute to overcoming “aid fatigue” and cultivating alternative types of development assistance. Fourth, Korea, which aims to become a more open, more democratic, and more dynamic economic hub of Asia, will represent the portal through which Europe can improve its understanding of the Asian economic and cultural environment, and thus expand its involvement with like-minded countries in Asia.

A long rise

Korea’s diplomatic relations with the then European Communities (EC) were established in 1963, although the country already maintained relations with the main member states individually. The relationship between the two parties initially had little significance, partly because Korea in the early 1960s was one of the poorest countries in the world. It consisted of little more than non-reciprocal external relations like those the EC had established with many other developing countries in the “free world” during the Cold War era.

If after 1989 Cold War political logic was dropped from the equation and the relationship was viewed solely from an economic point of view, there was then even less importance attached to Korea-EC relations. The substantial gap in development and economic size between the two parties gave rise to uncertain prospects for deeper economic cooperation. Another problem lay with the EC, which was limited in representing Europe’s interests in the economic arena. As of the early 1960s, the customs union had yet to be completed, and so the EC did not possess legal competence to implement a variety of economic initiatives, including a Common Commercial Policy.

Notwithstanding this, Korea-EU relations can be said to be a success. As Korea has developed rapidly and become one of the most dynamic economies in the world, economic relations between Korea and the EU

have grown exponentially in both quantitative and qualitative terms. Trade between Korea and the EU increased by 286 times between 1971 and 2008. Korea's exports to the EU increased by 670 times over the same period. The EU is Korea's largest investor and Korea has become one of the major investors in the new member countries of the EU after 2004. The 2011 Korea-EU FTA represents the apex of economic relations between the two partners. The pact, together with the Korea-US free trade agreement, sets the gold standard for FTAs and provides a wide variety of precedents for other accords.

Korea has made full use of the open trade environment facilitated by both the EU and multilateral rules. Furthermore, the EC was the originator of the Generalized System of Preferences (GSP) for developing countries in the early 1970s, and Korea was one of the beneficiaries of the program in the early years of its economic development. Over the years, the economic relations between the two parties have matured steadily, but for a long time they were heavily dependent upon the EC's non-reciprocal preferential treatment.

It was in the late 1980s that relations moved to a higher level. Separate from its Embassy to Belgium, Korea opened its representative office in Brussels in early 1989, charged with handling EU affairs exclusively. In October of the same year, the two parties held the first high-level governmental dialogue, and both agreed to open an EU representative office in Seoul in January 1990. In the meantime, the EU completed the single market project, and entered into the first stage of the monetary union. The Maastricht Treaty subsequently accelerated regional integration in Europe, created the EU, and strengthened the status of the supra-national entity. Since then, the weight of Korea-EU economic relations has surpassed that of relations between Korea and individual EU member states.

In the 1990s, Korea and the EU had a wider range of opportunities to communicate with each other. Korea has been one of the most

active partners in the ASEM process that started in 1996. It was in the OECD that Korea-EU economic relations acquired stronger multi-dimensionality. Korea joined the OECD in 1996; most of the member states of this body are European countries. Through a variety of meetings held in the OECD, the EU and its member states were able to increase areas of contact with Korea. But focusing on the bilateral relations between Korea and the EU, one of the remarkable achievements in the 1990s was that relations were given a solid legal and institutional foundation.

The two sides agreed on a Framework Agreement for Trade and Cooperation and Joint Declaration on Political Dialogue in 1996. A Joint Committee Meeting has been held bi-annually since 2001, based upon the Framework Agreement. Through the Joint Committee Meetings, the two parties have had regularized opportunities to share their views on political and security issues as well as trade, investment and regulatory issues. The EU issued many cases involving Trade Defense Instruments (TDI) from the latter half of the 1990s, indicating that relations between the two parties have gradually moved away from the old regime of non-reciprocal preferentiality.

Although it started relatively slowly, Korea's enthusiasm for establishing FTAs with other countries quickly bore fruit in the form of FTAs with Chile, Singapore, the European Free Trade Association (EFTA), and ASEAN by the mid-2000s. Korea's drive in implementing its FTA policy quickly opened windows of opportunity for talks with the US and the EU in 2004, the same year in which Korea concluded its first FTA with Chile. It is true that the EU had no interest at all in FTA talks with Korea at the time, but Korea did not lose its enthusiasm. As early as 2005, Korea began a series of feasibility studies on a Korea-EU FTA, and proceeded to further sectoral analyses throughout the year. Despite the visible apathy of the EU, Korea considered the Union to be a very important and strategic partner for an FTA.

FTAs implied not only market opening or creating new markets, but also a boost for Korea to enhance its economy through more competition in the domestic market, accommodating its economy to a new environment regarding standards, and increasing productivity of its industries. In this sense, the EU was deemed an ideal partner.

Free trade talks were held between May 2007 and July 2009. The Korea-EU FTA provides the best example of the prototype of new-generation FTAs from an EU viewpoint, and acts as a model for Korea's free trade policy.

The following year, in 2010, the old Framework Agreement was revised. It now addresses a wide range of international issues, including non-proliferation of weapons of mass destruction, human rights, cooperation in the fight against terrorism, climate change, energy security and development assistance.² Current EU-Korea relations stand out as an example where strategic partners share opinions and cooperate with each other in international affairs.

Assessment

The rapidly changing landscape of Korea-EU economic relations has several implications, including for other countries and also for contemporary international global governance.

First, enhancing the cooperative network between the two parties in trade and investment through the FTA provides other European and Asian economies greater opportunities to move closer. The EU has developed the single market, and companies residing in Korea will benefit much as this is gradually widened. As regional integration makes progress in East

² Commission of the European Communities website, European Union External Action, EU relations with the Republic of Korea (South Korea), available at: http://www.eeas.europa.eu/korea_south/

Asia, the Korea-EU FTA can provide a wider window of access to other Asian economies. In short, it will now be easier for European and Asian countries to make further progress toward deeper regional integration.

Second, an incipient convergence in standards and regulations between Korea and the EU could become a model internationally, which can be benchmarked by other European and Asian economies. The Korea-EU FTA, with a high level of product market opening, including in the agricultural sector, a wide variety of harmonization in standards, liberalization of trade in services, and improvements in lifting non-tariff barriers to trade (NTBs) represents a new generation FTA from the EU's viewpoint. It now stands as a role model in line with the EU's new trade policy initiatives. From the Korean point of view, the FTA is a high-level accord, with great potential for gaining preferential access to one of the most prosperous and biggest markets in the world. The FTA is expected to provide Korea with an opportunity to enhance its competitiveness in certain areas of agriculture and services. It has empowered Korea in its negotiations for other FTAs; the country is notably more comfortable in dealing with other powers on trade issues than it was previously.

Third, deeper cooperation in a variety of development assistance activities helps contribute to overcoming the Official Development Assistance (ODA) fatigue and cultivating alternative types of development assistance. While the EU and its member countries have ample experience with ODA to developing countries and Least Developed Countries (LDCs), there has been much criticism of the aid provided by the EU and its member countries. On the other hand, although Korea is new as an ODA provider, it is one of very few countries to have gone from aid recipient to aid provider and member of the OECD Development Assistance Committee (DAC). Korea's experience of remarkable economic development engenders strong interest among developing countries striving to catch up. EU-Korea cooperation in this area can lead to new types of ODA and greater collaboration to enhance aid effectiveness.

Fourth, through improved relations with Korea Europe can gain a better understanding of Asian economics and politics. This will assist its expansion to like-minded countries in Asia. Identifying itself as a small open economy in Asia, Korea has been eager to become a more open, more democratic, and more dynamic economic hub of Asia since the early stages of its economic development. For the EU, it would be very important to have a friend on the other side of Eurasia who shares common values; a friend that will spread the seeds of peace and prosperity all over Asia.

3. Implications of the global economic crisis for Korea

Sung-Hoon Park

The 1997 Asian financial crisis and the 2008 global financial crisis are the two major economic crises that Korea has experienced over the past 15 years. Despite the big impacts and large-scale wounds to the Korean economy, it seems that the country recovered relatively well.¹ In addition, a number of reform measures contributed to strengthening its international standing in the global economic and political arena. More specifically, the global financial crisis provided Korea with an opportunity to emerge as one of the main actors in a series of issues on the regional and global agenda.

Most significant in this aspect is the transformation of global economic governance, which gave Korea a chance to fortify its regional and global profile. Korea became a member of the G20 and hosted the

¹ For a more detailed analysis, see Jones, Randall, S. (2010) "One year after the global financial crisis: how has Korea performed better than expected? A comparison among OECD countries", Paris: Organization for Economic Cooperation and Development (OECD), January 18; and Kim, Hyunwook (2010) "Evaluation of Korea's crisis recovery and future tasks", a paper presented at the seminar on "Two Years of Lee, Myung-Bak Government – Responses to Economic Crisis: Achievements and Tasks", March 23.

fifth G20 summit meeting in November 2010. Having been assigned the role of a “premier forum for international economic cooperation” since 2008 when it was upgraded to a summit meeting, the G20 has provided an expanded room for enhancing Korea’s role as one of the major international players.

This chapter is devoted to the analysis of Korea’s enhanced global profile since the outbreak of the global financial crisis. The chapter scrutinizes Korea’s role as a member of the G20 and the presidency of the Group’s summit.

Korea since the global financial crisis

The emergence of the G20 as a “premier economic forum”. The 2008 global financial crisis has led emerging economies, including Korea, to assume a stronger international role. While the United States and a number of European countries were directly affected by the crisis, many emerging economies were able to stage a strong recovery by the end of 2009 and even expand their shares in both the global Gross Domestic Product (GDP) and trade volume. As a result, the so-called BRICS – Brazil, Russia, India, China and South Africa – and other emerging economies have become more influential players in the world economic and political landscape. Also, it was found that emerging Asian countries such as China, Taiwan, Singapore and Korea, together with Japan, possessed the largest portion of foreign reserves held outside the US, which substantially raised their strategic value and enhanced their role in world efforts to overcome the financial crisis. This new recognition of the increased role and influence of emerging economies had prompted former US President George W. Bush to make a proposal for the G20 to replace the G7 as the “premier economic forum” for global cooperation, thus expanding the room for emerging economies’ participation in shaping the global economic agenda.

The G20 meeting, which was established in 1999 as a response to the 1997 Asian financial crisis, had been convened mainly at the ministerial level, but has since 2008 been upgraded to a summit meeting, to coordinate global economic and financial policies to underpin international economic governance. As the tenth largest trading nation with the fifteenth largest economy in the world, Korea hosted the 2010 G20 summit, and played a decisive role in shaping the agenda by focusing on issues such as green growth, development, and global financial safety nets. In fact, not only Korean think tanks, academics and policy-makers, but also many international observers put extremely high expectations in the role of Korea as the host of the Seoul summit.² In the context of Asia's enhanced role in the G20, Korea's strengthened role within the forum brought with it increased responsibilities that the country needed to fulfill as a member of the globalized world.³

Dealing with the potential threat of trade protectionism. The global financial crisis engendered concerns over potential protectionism as business and industries lobbied to protect sales and jobs in almost every country. As a result, international trade was about to collapse due to the potential breakdown of international supply chains.⁴ Based on the WTO inventory of protectionist measures during the crisis-period, industries such as automobiles, steel and textiles were most

² For Korean think tanks' views, see for example Yoon, Deok-Ryong & Seunghwan Oh (2010) "The results of Seoul G20 summit and future tasks", *World Economy Update*, Seoul: Korea Institute for International Economic Policy, November 23; Korea Development Institute, KDI (2009) "Evaluation of the first year of economic crisis and tasks after the crisis", Seoul: Economic Information and Education Center; and Sohn, Yul, Seungjoo Lee, Jaesung Chun & Hongshik Cho (2010) "Towards a new global governance: Korea and the G20". For a perspective of an international NGO, see Snyder, Scott (2009) "Korea's challenge and opportunity as chair of the G20", in: *In Asia: Weekly Insights and Features from Asia*, San Francisco: Asia Foundation, November 18.

³ Cho, Yoon-Je (2011) "What do Asian countries want the seat at the high table for? G20 as a new global economic governance forum and the role of Asia", ADB Working Paper 73, Manila: Asian Development Bank, February.

⁴ Baldwin, Richard & Simon Evenett (2009) "Introduction and recommendations for the G20", in: Baldwin, Richard and Simon Evenett (eds) (2009) "The collapse of global trade, murky protectionism, and the crisis: recommendations for the G20", *A VoxEU.org Publication*, pp. 1-9.

frequently protected by the governments.⁵ Because major governments had not abstained from providing help to domestic industries, it was unavoidable for them to tolerate other governments' actions in rescuing industries under extreme pressure. Many states have resorted to non-tariff barriers.⁶ As a result there have been tendencies towards wider protectionism in the world economy.

As the world economy was in danger of sinking into a depression similar to that of the 1930s when major trading nations had resorted to competitive depreciation and more protectionism, there had been warnings from liberal academics to policy-makers not to repeat the same mistakes. A number of international meetings were convened to address this issue, and agreements have been reached to not raise the overall level of protection from a certain point of time (the standstill principle). For example, the Korean president, Lee Myung Bak, gave recommendations to the Asia-Pacific Economic Cooperation (APEC) community to adopt the standstill as a code of conduct when trading with other nations. This concept of standstill also became a topic of discussion in the 2009 and 2010 summit meetings of the G20. The WTO played its own part as well, by publishing monitoring reports on a regular basis until the situation was normalized. Fortunately, through this series of concerted actions, trade protectionism did not exert substantive and substantial pressures on the world economy.

Korea's enhanced international role

Korea started making important policy initiatives and contributions in various multilateral fora as soon as the global financial crisis began influencing the policy instruments of many countries. In addition to

⁵ Park, Nohyoung & Sung-Hoon Park (2010) "The current state of WTO's DDA negotiation on rules and policy implications", *Trade and Investment Studies Series* 10-01, Seoul: Korea Institute for International Economic Policy.

⁶ Ibid.

its G20 role, Korea's initiative to explore a "green growth" strategy as one of most compelling sources of future world economic growth and development has been welcomed by the international community. The establishment of the Global Green Growth Institute (GGGI) in Seoul in 2010 and the start of two policy projects focusing on green growth within the OECD have been two of the main positive results of Korea's endeavor in this regard.

Second, since the outbreak of the global financial crisis in 2008, the Korean government has put forward a number of warnings to the international trading community not to be drawn into a war of "competitive protectionism", which would further spread the impact of the crisis into other sectors. The Korean government devoted attention to persuading and mobilizing the world's major trading nations in their pledge "not to raise protectionism", resulting in the adoption of the "standstill agreement" in a number of international meetings, such as APEC, ASEM and the G20. Partly due to the coordinated efforts of all key economic players, the volume of world trade, which had plunged by more than 12 per cent in 2009, started to recover in 2010.⁷

Third, Korea extended its policy efforts to address the development issues facing the Asian region in the global arena, especially by fully exercising the capacity of the nation's 2010 presidency of the G20. Both Korea's emergence as a new donor and the country's new membership of the OECD DAC are factors that helped shape this new policy orientation. A number of representatives of the developing world were also invited to the Seoul G20 summit as observers. In addition, Korea strengthened its public diplomacy towards the less developed countries of Africa and Asia, in order to make the initiative more effective and substantive. Countries ranging from Ethiopia and the People's Republic of Congo in Africa to Myanmar and Cambodia

⁷ World Trade Organization (2010) "Report to the TPRB from the Director-General on trade-related developments", *WT/TPR/OV/W/3*, Geneva: WTO, June 14.

in Asia have received both increased policy attention and ODA funds from Korea. Korea's role as the host of the High-Level Policy Forum in 2011 was also in line with the changed global orientation of the country's development assistance policy.

Evaluating Korea's global roles

Together with Germany in Europe, Korea mastered the challenges of the global financial crisis relatively well. Seoul took this as an opportunity to raise its regional and global profile, making use of a number of different instruments available, such as its new membership to the OECD DAC and its G20 presidency in 2010. How successful have these efforts been?

Korea's role as the host of the 2010 G20 Seoul summit was generally evaluated as positive, especially on development and green growth.⁸ Korea's initiative to adopt a standstill position in protectionism was another success; following the initiative of the Korean President, APEC was the first to adopt the members' pledge not to raise the level of protection. In light of the lingering threat during the first few months that the global financial crisis might result in a great depression similar to that of the 1930s, the quick and bold initiative by a few open economies such as Korea helped maintain after a short period of turmoil a traditional growth path in the global economy based on the liberal and open international trading regime.

In terms of the development agenda, Korea has focused relatively strongly on one area in which the country enjoys a comparative advantage: trade. Promoting export capabilities, providing "aid for trade", and offering least developed countries the possibility of duty- and quota-free access to developed economies' markets have, in fact,

⁸ For the details, see Yoon & Oh, *op. cit.*, pp. 3-4.

provided welcome policy environments for developing and least developed economies to utilize more effectively their development potential.

These series of policy contributions have been received positively by the international trading community, thereby upgrading Korea's global profile both substantively and substantially.

Further observations

The global financial crisis and the consequent leadership vacuum at the global level have provided Korea with an opportunity to strengthen its profile. It is worth noting that the two economic crises suffered by Korea over the past 15 years – the 1997 Asian financial crisis and the 2008 global financial crisis – hit the Korean economy and society directly, thus leading to major domestic reforms. In retrospective evaluation, these reforms were instrumental in upgrading the international competitiveness of Korea's key industrial sectors and making the Korean economy more resilient to external shocks. This, in turn, has prepared the country to assume more important international roles.

Although Korea's regional role has not been directly addressed here, it is worth mentioning that Korea's strengthened global profile was also accompanied by an enhanced role in a number of regional agendas, such as (i) addressing development issues at both the regional and global levels, and (ii) contributing to the strengthening of the crisis prevention mechanism in the Asian region. In contrast, Korea has not been particularly successful in helping the East Asian region consolidate its regional architecture. However, with the most recent shift towards an Asia-focused FTA policy, Korea is now expected to play a more supportive role in discussions in this area. The establishment in Seoul of the Trilateral Cooperation Secretariat in 2011 – which should provide

both administrative and intellectual back-up for the summit meeting among China, Japan and Korea – could provide another impetus in this direction.

Third, regional and global leadership requires certain sacrifices in terms of national interests. If Korea wants to claim a leadership role in the regional architecture, it will need to make such concessions. Two leadership competitions in East Asia's path to regional integration – one between China and Japan, and the other between ASEAN and Korea – need to be channeled in a more constructive direction. As a new aspirant of the regional and global leadership, Korea thus faces a number of hurdles that need to be overcome to place itself as a more welcomed leader in shaping the regional architecture in East Asia.

4. The global economic crisis and implications for social and employment policy in the EU

Stein Kuhnle

It can be said that the global economic and financial crisis that erupted in 2007–8 is the worst since the Great Depression of the 1930s. It was followed by a downturn in economic activity, rising unemployment levels in large parts of Europe and a global recession during 2008–12. It has also contributed to the European sovereign-debt crisis. All of Europe has been affected, but the impact in terms of unemployment, economic development, public finances and social policy reform efforts has not been uniform throughout the EU.

It should also be noted that the crisis came at a time when European countries were on the threshold of a historically unprecedented ageing of society. Low fertility rates in most EU member states and increasing life expectancy, in combination with mature pension systems and the increasing need of old age care services, have increased pressures on welfare state budgets independently of the crisis.

Economic and social indicators

According to Eurostat, in 2009 only one member state – Poland – registered real economic growth. Poland is also the only EU member state that has had real growth every year during the last four years (2009–12), while nine other EU governments had growth in each of the last three years: Germany, Estonia, Lithuania, Luxembourg, Malta, Austria, Slovakia, Sweden and the United Kingdom (UK). At the other end, Greece has witnessed a significant decline in its GDP every year in the last four years, while Spain and Portugal experienced a decline three of the four years. If not clear-cut, a north-south divide in the EU can be discerned. All three Baltic states had the most dramatic decline in the course of *one* year: from 2008 until 2009 their GDP declined between 14.1 and 17.7 per cent. Contrasts across member states have been substantial, and the distance between the countries that have done relatively well and those that have done relatively badly has increased. However, the difference between overall development in the EU-27 and the 17 Eurozone countries has been marginal.

Eurostat data on budgets and public debt show a similar pattern for EU-27 and Eurozone-17. The negative budget balance was in 2012 strikingly high in Ireland, Greece, and the UK, and relatively high in Spain and France, while only Slovenia and Sweden showed a positive budget balance. The level of public debt was fairly high in several countries before the global financial crisis – Greece, Italy, Portugal, France and Belgium. The level of public debt has increased in the likes of Ireland, Greece, Portugal, Latvia, UK and Spain. Sweden was the only country that reduced public debt as percentage of GDP from 2007 to 2012. Bulgaria, Estonia, Lithuania, Malta and Cyprus had very small increases.

The dramatic effects of the crisis can be read from unemployment statistics. The effects on youth employment have been particularly serious in some

countries, in particular Greece and Spain, but also in Sweden.¹ While only one country, Slovakia, had a double-digit unemployment level in 2007, ten countries were in that situation by 2011. Statistics clearly show the impact of the crisis on European labor markets and national welfare states, and help explain why all over Europe there is much political concern with – and efforts of policy reform of – unemployment insurance and assistance schemes, and with active labor market measures.

Comparisons of expenditures for social protection in 2007, the year before the crisis, and in 2010 in general show considerable increase.² Not a single member state spent a lower proportion of GDP on social protection purposes in 2010 than in 2007. This indicates that social problems, risks, needs and entitlements have increased, but also that the GDP has either declined or grown very little during the three years of crisis. France is “the European champion” (or, actually, “world champion”) in terms of having the highest proportion of social expenditure, and in both years above 30 per cent. European countries spend relatively more on welfare than all other countries worldwide.

Independently of the crisis, demographic change has for long represented the major challenge for the future of European welfare states. Fertility rates are low and only France comes close to the necessary rate of reproduction. Germany is the country with the relatively oldest population, and is projected to remain so in 2030 and 2050. Ireland and Cyprus have the youngest population.³ Ageing of European national populations is a general trend. All over Europe, pension reforms have been decided on over the last 15 years. The most common reforms have been so-called parametric reforms, such as raising the retirement age, increasing contribution years for entitlement, eliminating or restricting early retirement options, changing indexation rules from

¹ Eurostat.

² *Ibid.*

³ *Ibid.*

wages to prices, extending the working period for the calculation of benefits for the entire working life, and adjusting benefits to changes in life expectancy, for example in Germany, Finland, Portugal, and Norway.⁴ Several European countries have made reforms to improve adequacy and coverage of minimum protection, such as through increasing minimum benefits (Belgium, France, Spain), and improving or extending coverage in the basic poverty-prevention pillar (Finland, Sweden, Italy, UK). These and other examples of reforms indicate continuous efforts radically to reform or fine-tune pension and income security schemes as a consequence of foreseeable demographic challenges, and have not so much been spurred by the global economic and financial crisis since mid-2007.

Social policy reactions

EU social policy reactions to the crisis are primarily of an indirect nature, given that social policies in general are in the domain of member states. European social policy does exist, however, in the form of regulations (labor law and working conditions, health and safety at the work place, gender equality and anti-discrimination policies); in the form of redistribution (the European Social Fund); and in the form of mutual surveillance among national policy-makers (“the open method of coordination”). The EU has an *indirect* impact on national social policy priorities through a stricter European supervision and control of national economic and fiscal developments, and this is how new instruments developed by the EU can be of importance for social policies and austerity programs. During the first period of the crisis, summer of 2007–end of 2009, many European governments attempted to stabilize the credit and financial markets by means of *ad hoc* programs to save banks

⁴ Kohli, Martin & Camilla Arza [2010] “The political economy of pension reform in Europe”, in Binstock, Robert H. & Linda K. George (eds) [2010], *Handbook of Aging and the Social Sciences*, Burlington: Elsevier Science.

in trouble, and the European Central Bank (ECB) actively helped on this. In December 2008, finance ministers agreed to coordinate their crisis management and economic stimulus programs within the framework of the European Economic Recovery Plan (EERP).⁵ Counter-cyclical measures helped mitigate the economic crisis, but relative shares of social expenditures increased. After 2009, many governments (Germany in particular), the European Commission and the ECB started to work on a transition towards a new fiscal agenda. An outline for a new EU economic governance framework was submitted by the Commission in May 2010,⁶ and formal proposals were set forth in a package organized into six legislative proposals, which were approved by the European Parliament and the Council in September-October 2011.⁷ Proposals included measures to strengthen fiscal surveillance by the Commission, enforcement through semi-automatic sanctions, and a completely new regulation on surveillance and sanctioning of non-fiscal macro-economic imbalances. The new governance structure is anchored in the so-called European Semester, which is the first element in the “six-pack”, and which applies to all EU member states and was initiated in mid-2010 in order to enforce stronger European supervision and control of national economic and fiscal developments. The European Semester is a six-month period each year when member states’ budgetary, macro-economic and structural policies are coordinated effectively so as to allow governments to take EU considerations into account at an early stage of their national budgetary processes and in other aspects of economic policy-making.⁸ The second element in the package is the strengthening of the Stability and Growth Pact,

⁵ Bieling, Hans-Jürgen (2012) “EU facing the crisis: social and employment policies in times of tight budgets”, Transfer: *European Review of Labour and Research* 18, p. 255.

⁶ Commission of the European Communities (2010) “Reinforcing economic policy coordination”, COM (2010) 250, Brussels: European Commission, May 12.

⁷ Bieling, op. cit.

⁸ For an account of the stages of the European Semester, see Commission of the European Communities (2013) Economic and Financial Affairs, Economic Governance, Brussels: European Commission, available at: http://ec.europa.eu/economy_finance/economic_governance/

which sets rules encouraging member states to maintain sound public finances. The third element is a complementary agenda called the Euro Plus Pact, which covers the 17 Eurozone countries plus the six non-euro area countries that have chosen to sign up. The Pact focuses on competitiveness, employment, sustainability of public finances and reinforcing financial stability.

EU leaders endorsed the Pact in March 2011, and all 23 signatories are committed to implementing the reforms. The remaining four member states are free to sign up if they wish.⁹ The Pact was a kind of synthesis of the French demands for a European Economic Government and the German proposal for a European Pact for Competitiveness.¹⁰ It is very likely that “these reforms will have a perceptible impact on the fundamental features of member states’ social and labor policies”.¹¹ It can be expected that national governments will come under stronger pressure to modify national systems of social security provision. Many governments actively attempt to reduce public deficits and, in addition to pension system reforms, there are many examples of increasing labor market flexibility. Some scholars view the European proposal as means to promote national social policy and labor market reforms within an “austerity-based corridor of political options”, and claim that more socially-oriented goals are not part of this European agenda.¹² A study of consequences of austerity programs for domestic labor and social policy comes to the conclusion that most governments focus on spending cuts in areas such as investment, social security provision, pensions and the public sector (jobs and wages), and that most governments are also biased towards raising indirect taxes which by nature are socially-regressive.¹³ The socially-regressive effects of indirect tax increases and the reduced standards of public services

⁹ *Ibid.*

¹⁰ Bieling, *op. cit.*

¹¹ *Ibid.*

¹² *Ibid.*

¹³ *Ibid.*

and social security provision are perceived rather one-sidedly to put the cost of the crisis on the socially-weaker groups in many member states.¹⁴ The lowering of social standards is likely to reduce the socio-economic and political role of trade unions.¹⁵

A general observation is that all member states, often urged by the OECD and global players such as the World Bank, to varying degrees have implemented reforms of old age pension systems in an effort to prepare for population ageing, but also to help consolidate public budgets in a short- and long-term perspective as a response to the economic crisis. According to some experts, the crisis has, in economic terms, moved from being a global financial and economic crisis to a fiscal and social – and even democratic – crisis, which has meant a crucial political watershed in the EU.¹⁶ The crisis has led to, and legitimized, intensified efforts to cut social transfers and services, although overall social expenditure as proportion of GDP has not declined – partly because of increasing social entitlements and no, or little, economic growth. Cutback-efforts, across varieties of national European welfare states, have primarily affected health care, unemployment benefits, and future old age pension benefits, and a “work approach” reflects increased pressure on the unemployed to find work and stronger sanctions on non-compliers. Programs have generally become more socially-regressive¹⁷ and have resulted in an overall increase in inequality of income distribution in member states. Systematic comparisons of austerity measures in relation to the GDP in seven European countries (Germany, Estonia, Latvia, Iceland,

¹⁴ See also Leschke, Janine, Theodoropoulou, Sotiria & Watt, Andrew [2012] “How do economic governance reforms and austerity measures affect inclusive growth as formulated in the Europe 2020 Strategy?”, in Lehndorff, Steffen (ed.) *A Triumph of Failed Ideas: European models of capitalism in crisis*, Brussels: European Trade Union Institute.

¹⁵ Glassner, Vera (2010) “The public sector in the crisis”, *ETUI Working paper 2010/07*, Brussels: European Trade Union Institute.

¹⁶ Bieling, op. cit.

¹⁷ Heise, Arne & Hanna Lierse (2011) “Budget consolidation and the European social model: the effects of European austerity programmes on social security systems”, *Study, International Policy Analysis*, Berlin: Friedrich Ebert Stiftung.

Greece, Romania and the UK) found great national variations, with Romania showing the biggest annual consolidation effect, while Germany showed the least effect.¹⁸ An analysis of austerity programs for the period 2011–14/15 in 13 member states found that the relative importance of programs – as measured as percentage of GDP per year – is/will be by far strongest in Greece, followed by Romania and Latvia, and the importance will be negligible in Denmark, Germany, France, Italy and Austria.¹⁹ The relative significance of *social security or welfare cuts* in austerity measures shows variations across the countries, and is seen as having been most significant in the German case.²⁰

Social and employment policy implications

National and EU-induced efforts of budget consolidation and austerity measures have had socially-regressive effects. Social inequalities have increased the proportion of populations at risk of poverty in many EU member states. The crisis has also increased regional disparities within the Union, with northern and some continental European governments having done considerably better than southern European ones. A study of the effects of austerity programs on social security systems concludes that “social policy remains the Achilles heel of European integration [...] Now the austerity policies of European states are increasing the risk of further social dumping processes”.²¹ A major transfer of social policy competence or responsibility from the national to the European level is problematic for many reasons, such as political legitimacy for example. A rise of nationalist populist parties gaining considerable voter support in many parts of Europe can be observed, movements demanding less European integration and less dependence upon decisions in Brussels. The crisis has not

¹⁸ Ibid.

¹⁹ Bieling, op. cit.

²⁰ Heise & Lierse, op. cit.

²¹ Ibid.

been conducive to strengthening European integration at the level of citizens. “European stabilization measures go along with a deepening of a political legitimacy crisis in which two sets of issues become increasingly linked: on the one hand issues of social distribution and reproduction and on the other issues of democratic participation and control”.²²

One may ask: is it realistic that the EU takes a stronger lead on social issues? Can the EU promote social harmonization or convergence? Is the welfare state part of the problem or part of the solution to the crisis? If less social inequality within and among member states and different regions of Europe is the goal, an initiative to develop a “European Social Governance Framework” promoting a more harmonized, coherent European social model may be needed. Economic and social policies must be coordinated, and within a framework which does not harm the political legitimacy of the EU in the view of European citizens. For the moment, with the generally difficult budgetary situation in most member states, and regional imbalances as to economic development and prospects, it seems unlikely that a unified European political platform for a new vision of “social Europe” can be reached. But with no such vision with work opportunities for all healthy and employable persons and with income security for all citizens, the EU is likely to become a more politically-unstable construction.

²² Bieling, *op. cit.*

5. Korea's green growth policy: current status and the future

Sung Chun Jung

Many advanced countries have faced serious economic crises since the 2008 global economic turmoil. Even though Korea has overcome the crisis well, the country's leaders and economists are deeply concerned about the future of the Korean economy. Korea's conventional export-oriented growth model is likely to lose momentum as the global growth rate falls. Korea's domestic market is also expected to lose dynamism in the long run, because of a decline in the working population, an aging population, a widening income gap, increased household debt and weakened private investment. From an international and environmental perspective, there are strong pressures on Korea to address global environmental problems, in particular climate change. In this sense, the Korean government developed a new growth model – the Green Growth Strategy.

In 2008, the Lee administration launched its Low-carbon Green Growth Strategy.¹ The concept of “green growth” is different from conventional “sustainable development” in that it is aimed

¹ Presidential Committee on Green Growth (2009) *National Strategy and 5-year Plan for Green Growth*, Seoul, Korea.

at reducing resource use and environmental pollution without sacrificing economic growth. In other words, it pursues sustainable economic growth by turning environmental challenges into economic opportunities through green technological innovation and other measures. A set of policies and measures was introduced pursuant to the new green growth vision. The Korean government established the Presidential Committee on Green Growth as headquarters of policy implementation. The Five-Year Green Growth Plan for 2009–13 was released in 2009 and the Framework Act on Low Carbon Green Growth was enacted in 2010.

To implement the strategy, the Korean government planned to spend KRW 107.4 trillion (around \$100 billion) over 2009–13. This means Korea will spend an average of \$20 billion every year, around 2 per cent of the country's GDP. This huge amount of public spending on a specific sector attracted considerable interest domestically and internationally. The concept of green growth has spread internationally and has found its own place in academic discussions.

Government spending on green innovation

The Framework Act on Low Carbon Green Growth states that “green technologies will help minimize emissions of greenhouse gases and other pollutants through the development of greenhouse gas reducing technologies, increasing energy efficiency, developing clean manufacturing processes, clean energy and promoting comprehensive, socio-economic efficient use of energy and resources”. The first purpose of green innovation policy is to strengthen Korea's response capabilities to global environmental issues such as climate change. Another more important objective is to develop a comprehensive series of advanced technologies within several core industrial sectors that could become economic engines for the Korean economy in the future.

In this context, the Presidential Council for the Future and Vision (PCFV) promoted a master plan of 17 New Growth Engines. The National Sciences and Technology Council (NSTC) worked out a master plan of 27 Core Green Technologies. And the Ministry of Knowledge and Economy (MKE) selected 15 Green Energy Technologies, which are expected to help curb climate change.

In 2008, total national R&D investment was \$10.26 billion, of which \$1.29 billion (or 12.6 per cent) was in green technology. In 2012, total national R&D investment was \$15.34 billion, an increase of 50 per cent from 2008, while green technology R&D investment amounted to \$2.59 billion, a 100 per cent increase from 2008. This points to a remarkable change in R&D policy since the launch of the Korean Green Growth Initiative.² Now green technology R&D investment accounts for about 17 per cent of the total national R&D budget. Korea expects to advance its technological abilities and soon catch up with developed countries' green technology.

Green finance

It is important to support green businesses through the establishment of an efficient green financial system. In this respect, the Five-Year Green Growth Plan proposed various policy measures to promote green investment. Public financial institutions are expected to provide financial support to green business sectors. The Korean government asked public financial institutions, such as the Korea Development Bank and the Korea Credit Guarantee Fund to supply public credit to green R&D and businesses. To facilitate this, the government introduced performance evaluations for financial institutions. Green loans are now one of the important evaluation standards.

² Kang, Sang In, et. al. [2012] "Korea's Low-Carbon Green Growth Strategy," *OECD Development Centre Working Paper* 310, Paris: Paris: Organization for Economic Cooperation and Development (OECD).

The Scheme to Promote Green Investment is a more detailed policy than the Five-Year Green Growth Plan.³ First, the Korean government has used a green certification system to identify green projects and clearer standards for green activities. Financial institutions can use the system when they identify suitable firms for their financial support.

Second, the government has tried to focus its financial support on some core green sectors. If limited financial resources are allocated to a large number of sectors, it is less likely to accomplish its intended goals.

Third, the government has promoted private investment in green projects. To facilitate this, the government has increased incentives and benefits for private funds, such as lower value-added tax rates and land use rights.

Finally, the Korean government has expanded its financial support for energy service companies' green businesses. Energy service companies (ESCO) provide energy conservation service to firms with outdated and energy consuming facilities. Financial support through ESCO recorded \$103.0 million in 2008 and \$121.9 million in 2009.

As of February 2010, domestic bank loans for green business were estimated to amount to \$5.27 billion and the total deposit in green accounts was estimated to be \$8.96 billion (1.29 per cent of total savings).⁴

In 2004 the government introduced a green procurement system. The Act on Encouragement of Purchasing Environment-friendly Products requires many public institutions to use eco-friendly products. The Public Procurement System for Minimum Green Standard Products

³ You can see more detailed descriptions on Korea's green financial system in Koo, Junghan (2011) "Financial policy options for green growth, green growth policy options", *NRCS Green Growth Research*, Seoul: National Research Council for Economics, Humanities and Social Sciences.

⁴ Kang et. al., op. cit.

provides environmental standards such as energy consumption efficiency. Only those products that satisfy the minimum standard can be transacted on the Korean On-line E-Procurement System.

Green taxation and emissions trading scheme

Green taxation and emissions trading schemes (ETS) are well-known market-based environmental policy tools. These market-based policies have been adopted and utilized in some advanced countries to address environmental challenges. In Korea, however, these instruments have not been used for environmental purposes.

Korea's energy tax and subsidy system has more negative than positive environmental effects which have not been considered by the government. Energy subsidies are an example of this. Korea's annual subsidies for energy amount to KRW 5.291 billion.⁵ Of these, KRW 4.870 billion represent environmentally-harmful subsidies.

Even though the Korean government has strongly pursued a green growth strategy, green tax reform has not been considered. This is because the Korean energy tax system has mainly aimed to collect public funds for the construction of transport infrastructure.

An increase in environment-friendly subsidies is likely to have positive effects on the Korean economy by strengthening Korea's international competitiveness in green technologies and industries. However, it is worrisome that green tax reform has adverse effects on traditional energy-intensive manufacturing sectors and the low-income sectors of the Korean society.

⁵ Kim, Seung-Rae and Hong, Beom-Gyo (2011) "Green Growth Strategy and Carbon Taxation in Korea", *NRCS Green Growth Research*, Seoul: National Research Council for Economics, Humanities and Social Sciences.

The Korean government has decided to implement an ETS in 2015. In the first phase (2015-17), a 100 per cent of tradable emissions permits will be given to private sectors free of charge. In the second phase (2018-20), 97 per cent of emissions permits will be assigned without charge, which is expected to increase the private sector's cost burden by KRW 4.500 billion. The Korean government plans gradually to reduce the free-of-charge assignment share of emissions permits to less than 90 per cent from 2021.

Target management system

On November 17, 2009, the Korean government released Korea's formal mid-term greenhouse gas reduction target. Korea promised to reduce its GHG emissions by 30 per cent by 2020. The target is not legally-binding because Korea is not an Annex 1 country of the Kyoto Protocol.

Technological innovation is seen as the most promising way to attaining this goal. The government plans the greening of buildings and factories, enlarging the use of public transportation, increasing the ratio of new and renewable energies, expanding nuclear power plants by building 12 new units, and facilitating deployment of new technologies such as smart grids, and carbon capture and storage. Nuclear power plays the most important role in the path to the stated goal. But the Fukushima nuclear accident in 2011 has now rendered the strategy uncertain and unreliable. The Korean government needs to reconsider the present strategy's validity and feasibility from the risk management perspective of nuclear power.

Technological innovation alone is not enough to accomplish this goal. The government needs to provide various incentives and regulations to GHG emitters. The Target Management System is one that is representative of the command and control approach that is standard

in Korea. Large emitters with over 25,000 tons of CO₂ are regulated in the system. Coverage will be expanded to factories emitting over 15,000 tons of CO₂ in 2014. Already 468 companies have been regulated which were responsible for 58 per cent of national GHG emissions in 2007. The regulated companies are assigned their own emissions target and receive financial assistance from the government to accomplish them. The agreed-upon emissions target is compulsory.

Conclusion

Korea has succeeded in promoting a green growth strategy. Climate change was not a main issue in Korea until President Lee announced the country's new green growth strategy in 2008, which emphasized the urgency and importance of climate change and proposed solutions to address the problem. Since 2009, Korea has become an active promoter of green growth and many Koreans have started to take interest in the issue.

The logic of the strategy is that it is possible to make economic growth compatible with the environment through green innovation and socio-economic policy responses. The Korean government believes it can find new growth engines in the green industry. As most advanced countries have experienced in the past, Korea has been facing declining economic growth rates. So, it is urgent to find new growth sources.

Even though the vision and direction the green growth strategy pursues are correct, it has some limits and problems from both a theoretical and practical perspective. Many experts point out that the green growth strategy lacks a comprehensive theoretical framework. The boundary line between green and non-green growth is blurred. Environmentalists are not satisfied with the strategy because it prioritizes economic growth over environmental conservation.

So far, there are few success stories in green business. The Korean government has invested a huge amount of money in green R&D. However, it is hard to find empirical evidence of green R&D's contribution to economic growth. Korea's industrial structure has not shown any signs of a dramatic move from a "brown" to a "green economy". Some experts complain that a large portion of the budget assigned for green growth has been poured into infrastructure construction projects for Korea's four largest rivers, which has become a very controversial political issue.

In the last four years, awareness of the green growth strategy and its related policy issues has grown dramatically. The public now knows the importance of global environmental issues and the urgency of global cooperation to combat them. The Korean government has also succeeded in bringing international institutes such as Global Green Growth Institute and the Green Climate Fund (GCF) to Korea. Korea has been trying to increase its ODA in the green sector to help developing countries develop a greener economy and adapt to climate change.

Nonetheless, there remain challenges to Korea's international cooperation in this area. First, Korea should show some best practices at the national level. Second, the commitment of the new government to the green agenda remains uncertain. Third, Korea must develop an effective and efficient green growth model that could be applied to other developing countries. Finally, Korea should cooperate and collaborate with advanced economies, especially the European Union, in developing a new green growth model and assisting developing countries.

6. Europe 2020: the EU's strategy for smart, sustainable and inclusive growth

Gauri Khandekar

The Lisbon Strategy 2000-10 was the European Union's first growth strategy, aimed at making the EU "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010. By the end of its term, most of the strategy's goals remained unachieved. Against the backdrop of the 2008 global financial and European fiscal crisis, as well as the failure of the Lisbon Agenda, the European Union adopted a new growth strategy – Europe 2020, a ten-year growth strategy aimed at creating "smart growth" within the EU that would be both sustainable and inclusive. The strategy was designed to help the EU exit the crisis and secure macro-economic stability against a backdrop of fiscal tightening and budget cuts. Since its adoption, it has been widely recognized that the pursuit of growth in the EU cannot transpire in the absence of necessary structural governance reforms at the supranational level both within the Eurozone and the Union as a whole. Macro-economic and structural reforms rapidly adapting to an evolving situation have thus become a key companion of the 2020 growth strategy. While achieving smart growth remains a Herculean task for a EU fraught

with institutional challenges at the supranational level and political turmoil in member states saturated with austerity, the potential of the Europe 2020 strategy remains, albeit doubtfully, real.

Growth: the Europe 2020 vision

The Europe 2020 strategy was agreed on March 26, 2010, at a European Council Meeting. It aimed not only to overcome the spiraling crisis that began in 2008, but also to establish a new European growth model and structural reforms.

As a strategy compatible with the European social market economy and a strong environmental dimension, Europe 2020 aims to deliver “smarter, more sustainable and more inclusive” growth through five headline targets:

Employment. Increase aggregate employment from the current 69 per cent to 75 per cent amongst adults (20-64 years).

R&D. 3 per cent of the EU’s GDP to be invested in R&D.

Climate change / energy. 20 per cent reduction in greenhouse gas emissions from 1990 levels (30 per cent if possible under favorable conditions); 20 per cent share of renewable energy in overall energy mix; 20 per cent increase in overall energy efficiency.

Education. Reduce school drop-out rate from current 15 per cent to below 10 per cent; increase the percentage of adults aged 30-34 years having completed third level education from 31 per cent to 40 per cent.

Poverty / social exclusion. Reduce by at least 20 million the number of people in or at risk of poverty and social exclusion.

The Europe 2020 strategy depends much on advancing the European single market. Despite a high level of integration, important bottlenecks persist which reduce the flexibility, connectivity, competitiveness, productivity and innovation capacity of the market. For instance, Eurofound reports that only 4 per cent of EU nationals have immigrated to another EU member state for employment purposes, while hardly 18 per cent have moved outside their region.¹ Improving access to the single market for small and medium enterprises (SMEs) will also determine growth, given that these form the backbone of Europe's economy (the estimated 20.7 million European SMEs form more than 98 per cent of all total enterprises in Europe and employ 67 per cent of total employed; 92.2 per cent are firms with fewer than 10 employees).² This alone demonstrates the type and complexity of action involved.

The strategy as such is framed under a three-pillar structure with seven flagship initiatives and is carried out through action at both the European and member states level:

I. Smart Growth	II. Sustainable Growth	III. Inclusive Growth
1. Digital agenda for Europe	1. Resource efficient Europe	1. An agenda for new skills and jobs
2. Innovation Union	2. An industrial policy for the globalization era	2. European platform against poverty
3. Youth on the move		

¹ Eurofound (2010) "Mobility of workers", available at: <http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/mobilityofworkers.htm>

² Wymenga P., Spanikova V., Barker A., Konings J., and Canton E. (2012) "EU SMEs in 2012: at the crossroads", Annual report on small and medium-sized enterprises in the EU, 2011/12", Amsterdam: Ecorys, September, available at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf

Smart growth

The Europe 2020 strategy aims to achieve smart growth through policies that improve the overall intellectual capacity of Europe and the quality of its workforce by increasing education including skills training, and fostering research and innovation, which not only stimulate the market and generate both growth and jobs, but also help addressing social challenges.

Since the Lisbon Agenda, Europe realized that it invested little in R&D and innovation, and was not making optimum use of the potential of information technology and communication tools, which have revolutionized the past century. Both strategies identified that certain sections of European society still faced difficulties in accessing innovation and communication technologies while slow implementation of high-speed Internet across Europe had an adverse effect on its ability to innovate, spread knowledge and stimulate the goods and services markets. All these factors were resulting in low growth in Europe as compared to principal competitors largely due to a productivity gap. Today, the European share of the €2 trillion market for information or communication technologies is just 25 per cent.

Furthermore, the level and quality of education as well demographics across Europe have been on a downward trend. Basic literacy levels across Europe have been deteriorating: a quarter of children below 15 years of age have poor reading skills, while a recent UNESCO report notes that “75 million Europeans have low qualifications, often lacking basic reading and writing skills”.³ The number of drop-outs has also been on the rise, and just a third of adults in the age group of 25-34 years hold university degrees in Europe as compared to 40 per cent in the US and more than 50 per cent in Japan. There is also a mismatch in

³ UNRIC (2012) “EU: 75 million adults lack basic reading skills”, September 6, available at: <http://www.unric.org/en/literacy/27799-eu-75-million-adults-lack-basic-reading-skills>

minimum qualifications obtained and market requirements. In 2012, just two European (British) universities made it to the world's top 20 universities list according to the Shanghai Index.⁴ In addition, Europe's fast growing demographic mushroom (number of senior citizens over 60 years growing twice as fast than 2007 figures, i.e. 2mn/year instead of 1 mn/year as well as low birth rate) not only requires modernizing its welfare system but also technological reforms and advances to change the structure of Europe's economy.

The EU aims to boost smart growth through three flagship initiatives.

1. Digital Agenda for Europe. Europe's Digital Agenda launched in May 2010 aims to deliver smart growth by digitalizing the European single market based on ultra-fast Internet and interoperable applications. The Digital Agenda contains 13 goals with 101 actions envisaged under 7 priority areas,⁵ aiming to deliver broadband access in the entire Union by 2013, ensure access to Internet at speeds of 30 Mbps or higher by 2020, as well as ensure that at least half of Europe's households have Internet connection above 100 Mbps.

2. Innovation Union. Over 34 action-points under 13 initiatives⁶ are envisaged under the flagship initiative which aims to remove obstacles to innovation (like expensive patenting, market fragmentation, slow standard-setting and skills shortages), improve conditions and access to finance for research and innovation, channel R&D and innovation policy towards areas like climate change, energy and resource efficiency, health and demographic change, while fostering public-private partnerships.

⁴ Academic Ranking of World Universities, ARWU (2012), "Academic Ranking of World Universities - 2012", Shanghai: Shanghai Jiao Tong University, available at: <http://www.shanghairanking.com/ARWU2012.html>

⁵ More information can be found at: Commission of the European Communities, "A Europe 2020 Initiative", Brussels: European Commission, available at: <http://ec.europa.eu/digital-agenda/en>

⁶ Commission of the European Communities website, Welcome to I3S, Innovation Union Information and Intelligence System, available at: <http://i3s.ec.europa.eu/home.html>

3. Youth on the move. A comprehensive package of policies aims to improve education across Europe as well as the employability of Europe's youth by encouraging them to stay in school, pursue higher education and training opportunities in Europe and abroad, enhancing the quality of education offered by European universities as well as sequencing education and training better to what Europe's youth want.

Sustainable growth

Sustainable growth is underscored by the notion of a climate resilient economy. It means harnessing opportunities of green solutions, saving costs on fossil fuel imports (reaching Europe 2020 energy goals could save €60 billion), a boost to productivity (a more developed single market on energy could add 0.6 to 0.8 per cent to GDP while increasing Europe's share of renewables to 20 per cent could add 600,00 jobs to the economy or 100,000 jobs if the 20 per cent energy efficiency targets are met as well).

In order to construct sustainable growth, the strategy aims for a low-carbon economy which is both efficient (better use of resources, higher mix of renewables, smart electricity grids, enhanced environment and international organization-diversity protection) and competitive (leadership in developing green technologies, efficient methods of production, support to SMEs and EU-scare networks, as well as better consumer protection). Europe 2020 aims to deliver sustainable growth by 2020 through a 20:20:20 target of reducing GHG emissions by 20 per cent compared to 1990 or 30 per cent if possible; increasing the share of renewables in the overall energy mix by 20 per cent, and achieving a 20 per cent increase in energy efficiency (Headline Target number 3 Climate/Energy). Given the important progress that has been made under the 20:20:20 targets, there have been calls within Europe to increase the EU's greenhouse gas reduction target to 30 per cent by 2020.

The sustainable growth pillar encompasses two flagship initiatives:

1. Resource efficient Europe. The initiative focuses on resource management and energy and resource efficiency. In order to achieve the target of a low carbon economy, a number of actions under the flagship initiative aim for a decoupling of economic growth and resource and energy use by reducing CO₂ emissions, promoting greater energy security and encouraging sustainable consumption while reducing waste.⁷

2. An industrial policy for the globalization era, like competition policy, trade policy, innovation policy, energy policy, etc. As such, the flagship initiative underpins the need for increased supranational action to support businesses (especially SMEs), encourage entrepreneurship, increase competitiveness and better protect intellectual property rights, aiming also to draw coherence amongst various EU policies that have an impact on industrial competitiveness.

Inclusive growth

Inclusive growth aims to create better social, territorial and economic cohesion in a high employment economy. Europe's workforce is shrinking and with the retirement of the "baby boomers", who constitute 45 per cent of the workforce, a significant fall in the total workforce will be noticed by 2020. The economic crisis has already created a "lost generation" with nearly 14 million unemployed youth (between 15-29 years), generating a total cost of nearly €153 billion

⁷ Commission of the European Communities (2011) "A resource-efficient Europe – Flagship initiative under the Europe 2020 Strategy", Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, *COM(2011) 21*, Brussels: European Commission, available at: http://ec.europa.eu/resource-efficient-europe/pdf/resource_efficient_europe_en.pdf

per year for EU member states in productivity losses and state welfare.⁸ Employability has reduced and the trend of temporary, non-permanent jobs has intensified. Conversely, EU workers work 10 per cent fewer hours than those in the US or Japan.

The need to encourage literacy, better education standards, and skills training has become even more important. The Europe 2020 strategy notes that 80 million Europeans have low to basic skills; by 2020, around 16 million more jobs would necessitate high qualifications, and there would be 12 million fewer low-skilled jobs. The initiative also seeks to boost female employment rates (63 per cent against 76 per cent for men in the age group of 20-64), as well as those for older workers (in the age group 55-64). Through the inclusive growth pillar the EU aims to increase employment especially for women, youth and older workers, boost productivity and employability through skills training, modernize the welfare system and take comprehensive action to reduce poverty.

1. Agenda for new skills and jobs. The Agenda aims to meet the above mentioned headline targets through four concrete actions:

- a) Intensifying “Flexicurity” reforms: the integrated European strategy, which aims to enhance flexibility and security in the labor market through a common set of “Flexicurity” principles.⁹
- b) Focus on skills training which will impart new knowledge, enhance existing skills and raise productivity, and at the same time make adaptation to changing labor markets easier.
- c) Actions to improve the quality of employment and better work conditions.
- d) Increase employment levels.

⁸ Commission of the European Communities website, Inclusive growth – a high-employment economy delivering economic, social and territorial cohesion. 2012. Europe 2020, available at: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/priorities/inclusive-growth/index_en.htm

⁹ Commission of the European Communities website, Flexicurity, Employment, Social Affairs and Inclusion, available at: <http://ec.europa.eu/social/main.jsp?catId=102&langId=en>

2. European platform against poverty. This is a core component of the Europe 2020 strategy that aims to lift nearly 20 million Europeans out of poverty and social exclusion. While combating poverty falls in the remit of national action, the EU has a crucial role in constructing supranational regulation, providing funding as well as creating a platform for the exchange of best practices and challenges. European funds from the European Social Fund (ESF) will be channeled to the benefit of around 5 million unemployed people and 1 million from vulnerable groups (women, migrants, ethnic minorities) annually. The initiative foresees a number of actions which improve access to the labor market, social protection, essential services (such as healthcare, housing) and education; encourage innovations in social policy and test social reforms to develop smart solutions for a post-crisis Europe; and enhance and foster public-private partnerships.¹⁰

Conclusion

Three years into the strategy, results are ambivalent. While it is well too early to project any kind of success or failure, it is important to recognize that significant efforts have been made to drive growth at a continental level and steer a group of national governments with differing priorities and capabilities. For the next few years, it is likely that GDP growth will remain limited within the EU but achievements have been made under various umbrella initiatives of the 2020 strategy, especially within the harsh context of multiple European crises. For instance, eight countries have already met their 2020 national targets on boosting university education.¹¹ More importantly, the strategy has cemented the link between institutional

¹⁰ Commission of the European Communities website, European Platform against poverty and social exclusion, Employment, Social Affairs and Inclusion, available at: <http://ec.europa.eu/social/main.jsp?catId=961&langId=en>

¹¹ EurActiv (2013) "Eight EU countries hit 2020 education goals early: Eurostat", April 12, available at: <http://www.euractiv.com/priorities/eu-countries-hit-2020-education-news-519080>

reforms and growth. Various overwhelming structural reforms at the European and member state levels have been implemented and are underway. Enhanced macroeconomic governance at the European level is assessed as a key factor in achieving smart growth but further bold initiatives will be necessary to prevent the economy from stagnating. Intrepid policy action is needed. Growth for the next half a decade will continue to depend on enhanced productivity, a stronger banking sector, flexible labor markets, credit, and investment.¹² The implementation of the strategy has also highlighted the complexities involved in EU political processes. However, the strategy strongly underscored the fact that a sufficient level of government effectiveness throughout the Union is a critical pre-condition for making the EU as a whole more competitive.

¹² Euromove (2013) "Reforming European Economic Governance", April, available at: <http://www.euromove.org.uk/index.php?id=13973>

7. Challenges to democracy in Korea

Doowon Suh

The democratization that began in South Korea when the authoritarian regime was toppled by a massive, nation-wide civilian uprising in June 1987 has been highly acclaimed as one of the emblematic cases in the third-wave of democratization that began in Southern Europe in 1974. During 1993-2011, Freedom House placed Korea in a group of liberal democracies with an average rating of 2.0 (or below) on a scale of 1 to 7, where 1 was most democratic.¹ With such “miraculous” progress, electoral politics “became the only possible political game in town”² and Korean democracy was fully “consolidated in the maximalist sense”.³

Recently, however, these lofty appraisals of Korean democratization have been eclipsed by worrisome assessments of its present condition and the future prospects for democratic sustainability and legitimacy.

¹ Shin, Doh Chull (2011) “Is democracy the only political game worth playing in Korea? Exploring citizen attitudes toward democratic legitimacy”, Paper presented at the Workshop on East Asian Perspectives on Political Legitimacy, August 18-20.

² Shin, Doh Chull, Chong-Min Park, Ah-Ran Hwang, Hyeon-Woo Lee, and Jiho Jang (2003) “The democratization of mass political orientations in South Korea: ascertaining the cultural dimension of democratic consolidation”, *International Journal of Public Opinion Research* 15:265-84, p. 266.

³ Hahm, Chaibong (2008) “South Korea’s miraculous democracy,” *Journal of Democracy* 19:128-42, p. 129.

The potential for democratic regression or backsliding is great in light of recent trends of increasing authoritarian nostalgia, a conservative voting pattern, growing discontent among the public with the democratic government's poor performance, and resulting declining democratic support and legitimacy. Lest democracy in Korea falter, the government must devise and implement prompt and efficacious measures to counter these ominous signs deleterious for democratic consolidation and quality. Korean democracy may either wax or wane in the near future depending on the efficacy of democratic regime performance – especially *vis-à-vis* the task of alleviating the unprecedented rapid and steady expansion of socioeconomic inequality, insecurity, and poverty that began in earnest after the financial crisis in 1997. The state is the primary agent responsible for ensuring that the hard-won momentum of democratic development is not swamped by a formidable tide of neoliberal globalization.

Authoritarian economic growth with equity

Korea is better-known to the world as one of the most successfully industrializing countries in the post-WWII era than for its political democratization. Export-oriented and state-directed industrialization began in 1961 after the military coup led by Park Chung Hee, at a time when socioeconomic conditions were not much different than they had been after the total devastation of the Korean War (1950–53). Before the industrialization drive under the Park regime (1961–79), average per capita income was a mere \$80 per year; it had risen to \$8,000 by 1989, not long after authoritarianism came to an end.⁴

A less well-known fact than such astounding economic growth, but still a significant economic change attained during the authoritarian

⁴ Feng, Wang (2011) "The end of 'growth with equity'? Economic growth and income inequality in East Asia", *Asia Pacific Issues* 101, Honolulu: East-West Center.

period and related to the subsequent trajectory of political democratization, was the reduction of income inequality. In tandem with an eye-catching economic growth of 9.2 per cent in the 1960s, 10.3 per cent in the 1970s, and 8.6 per cent in the 1980s,⁵ the Gini coefficient index dropped from 0.45 in 1960 to 0.31 in 1991.⁶ Korea's socioeconomic status not only prospered before democratization but also became more equitable. This trend clearly counters the well-received wisdom of Kuznets's (1955) theory of the inverted U-shaped relationship of economic growth and income inequality in advanced industrial societies.⁷ What happened in Korea was an exact opposite concave relationship between them. The paradigmatic growth of the equality model in Korea ended with the beginning of democratization in 1987.⁸ It spawned a new and unfamiliar era (to Koreans) of living with political freedom but under economic poverty and polarization. The inequality increase roughly coincided with the political transition from the authoritarian regime to a civilian democratic government.

Democratic political freedom with socioeconomic inequality

Before the inauguration of the first civilian Kim Young Sam administration (1993–97), an invigorated civil society and empowered labor movements in Korea contributed to decreasing inequality by raising the working-class income level.⁹ But the pursuit of a globalization project and the occurrence of the financial

⁵ Cho, Yun-je, Ch'ang-gwi Pak, and Chong-gu Kang [2012] "Han'guküi kyöngjesöngjanggwa sahoejip'yoüni pyönhwa" [Economic development and change in social indicators in Korea], *Kümyung kyöngje yön'gu Working Paper* 470.

⁶ Kim, Taekyoon, Huck-Ju Kwon, Jooha Lee, and Ilcheong Yi [2011] "'Mixed governance' and welfare in South Korea", *Journal of Democracy* 22:120-34.

⁷ Kuznets, Simon [1955] "Economic growth and income inequality", *The American Economic Review* 45:1-28.

⁸ Feng, op. cit.

⁹ Shin, Kwang-yöng [2008] "Hyöndaë han'guk pulp'yöngdüng kujöüi pyöngghwa: minjuhwa, segyehwawa saeroun sahoejök wihöm" [Changing inequality in contemporary Korea: democratization, globalization, and new social risks], *Hyöndaë sahoewa munhwa* 27:5-32.

crisis during the Kim regime dramatically shifted the socioeconomic landscape. The aftermath of the 1997 financial crisis was a period characterized by class polarization, with the disintegration of the middle class, excessive inequality, and rising pauperization. Korea barely survived a state moratorium and stayed afloat by an IMF bailout financing of \$57 billion. In return for the financial aid, the IMF requested that the Kim Dae Jung administration (1998–2002) implement prompt and austere neoliberal reforms, with a focus on liberalizing the labor market. Subsequent to this foreign pressure, the legalization of layoffs was immediately enacted and the skyrocketing growth of non-regular workers drastically polarized Korea's class structure and decimated the middle class that was a main pillar of democracy. After the crisis, the proportion of non-regular workers exceeded half of all those employed (55.9 per cent in 2001) and never declined thereafter.¹⁰ Labor market flexibilization proceeded unevenly. A higher percentage of workers with lower skills and income turned into non-regular workers, and female workers were a prime target of a layoff and employment status adjustment.¹¹ The unemployment rate in Korea, though still lower than that in other countries, rose from 2.1 per cent in 1995 to 4.4 per cent in 2000 after the financial crisis.¹² The economic growth rate, which had been maintained at near 10 per cent per year, plummeted to -5.7 per cent in 1998 and only recovered to around 5 per cent in the twenty-first century. The income gap between regular and non-regular workers widened astonishingly, to the extent that the average wage of non-regular workers was only half that of regular workers in 2005.¹³

¹⁰ Im, Hyug-Baeg (2011) "Better democracy, better economic growth? South Korea", *International Political Science Review* 32:579-97.

¹¹ Shin, "Changing inequality in contemporary Korea: democratization, globalization, and new social risks", *op. cit.*

¹² Cho et. al., *op. cit.*

¹³ Kim, Sun-yöng (2006) "Pulp'yöngdünggwa han'guküi minjujuüi" [Inequality and democracy in Korea], *Aseayön'gu* 49:37-67.

Class polarization and labor market flexibilization inevitably exacerbated inequality. The Gini index, which was only 0.283 before the 1997 financial crisis, soared to 0.319 in 2001,¹⁴ exceeding the average figure of OECD countries¹⁵ and reaching a “historic high”.¹⁶ Poverty, which was believed to have already been resolved by economic growth, became an acute socioeconomic problem in the post-financial-crisis period. Aggravated by the surge in the youth unemployment rate (8 per cent in 2010) and a rapidly growing aging population (12 per cent in 2013),¹⁷ between 2000 and 2010 nearly 10 per cent of Korea’s population was living in poverty,¹⁸ and in 2008 about 12 per cent of the total labor force fell into the category of the “working poor”.¹⁹ Poor households whose income was less than half the average national income level – a “relative poverty” rate – had declined in number until 1992 but began to increase after Kim Young Sam took office, and accelerated further after the financial crisis, reaching an apex of 14.4 per cent in 2007.²⁰ Not only did this high level of the relative poverty rate exceed the average rate for OECD countries,²¹ but its pace surpassed that of Korea’s growing inequality (a Gini coefficient), thus indicating that poverty had become a much more serious problem than increasing inequality.²²

Amid the total economic chaos ushered in by the financial crisis, the Kim Dae Jung administration and its successive governments launched comprehensive welfare reform policies. State expenditure

¹⁴ Im, op. cit.

¹⁵ Kang, Woojin (2012), “Inequality, welfare system, and satisfaction with democracy in Korean democracy,” Unpublished Manuscript.

¹⁶ Feng, op. cit. p. 7.

¹⁷ Cho et. al., op. cit.

¹⁸ Kim et. al., op. cit.

¹⁹ Kang, “Inequality, welfare system, and satisfaction with democracy in Korean democracy”, op. cit.

²⁰ Yu, Kyōng-jun (2009) “*Urinara pingonbyōnhwa ch’uiwa yoin punsōk*” [Poverty trend and its causes in Korea], *KDChōngch’aekp’orōm* 215:1-13.

²¹ Organization for Economic Cooperation and Development (OECD) (2008) *Growing Unequal*, Paris: OECD.

²² Yu, op. cit.

on social welfare steadily increased: it “doubled in the five years after the crisis, increasing from 1.3 per cent of the state budget in 1997 to 3.3 per cent in 2001”.²³ Its growth rate was the highest among OECD countries, which Korea joined in 1996. But government performance in enhancing welfare fell short of global standards and expectations. In 2008, only 8.3 per cent of GDP was spent on public welfare, which was lower than all other OECD members (among which the average was 20.6 per cent), except Mexico (7.6 per cent).²⁴ The growth of state assistance to welfare made paltry contributions to poverty reduction, only 13.9 per cent (the OECD average was 14.9 per cent), and to income distribution, merely 6.2 per cent (compared to 26-87 per cent in OECD countries).²⁵ The “productive welfare” policy pursued by the Kim Dae Jung administration and the “active welfare” slogan espoused by the Lee Myung-bak government were equally deficient because both were primarily market-oriented and growth-focused. As the governments tried to improve social security through creating jobs and boosting economic growth, the retired and the unemployed were cast out unprotected and inevitably relegated to the poor strata.

Egalitarianism and the paternalistic state

Compared to Western advanced democracies and contiguous democratizing countries in Asia, Korea stands out as a nation where people tend to hold a very strong sense of “substantive” (as opposed to “procedural”) democracy and to prioritize egalitarian welfare and communitarian security as a prime duty of the democratic regime or the state. On the question of the most essential property of a

²³ Kim et. al., op. cit., p.130.

²⁴ Kang, Woojin [2012] “Han’guk minjujuüiesö kyöngjejök pulp’yöngdüngë taehan insiküi chöngch’ijök hyogwa: minjujuüi hyönüngsöngë taehan hyogwarül chungsimüro” [The political consequence of citizens’ perceptions of economic inequality in Korea: focusing on its effect on the efficacy of democracy], *Han’gukkwa kukchejöngch’i* 28:145-75.

²⁵ Korea Institute for Health and Social Affairs [KIHASA] (2011) *Pogön, Pokchi Issue & Focus* 94.

democratic system, 35.7 per cent of Koreans surveyed pointed to economic equality, followed closely by popular elections (35.4 per cent), and then by protecting liberty (14.5 per cent) and economic security (10.1 per cent).²⁶ In examining the trend of a preponderantly socioeconomic conception of democracy in the pre- and post-financial-crisis period, an overwhelming majority of Koreans put most emphasis on economic development over democratization (53.2 versus 8.8 per cent) in 1997, and the disparity extended further in 1998 (65.2 versus 7.8 per cent).²⁷ In sum, 71 per cent of Koreans subscribed to a substantive view of democracy, only 6 per cent to its procedural definition.²⁸

The core of the substantive conception of democracy that is so deep-seated among Koreans lies in the historical and cultural origins of democracy in the country. The devastating consequences of the Korean War (1950–3) and the following long period of economic destitution – combined with the near annihilation of the landed class after the successful land reform implemented immediately after the establishment of the Republic of Korea in 1948 – had the unintended outcome of leveling the playing field, paradoxically rendering a majority of poverty-stricken and war-torn people highly “equal”. In addition, Korea has been known as a paradigmatic case of a Confucian society in Asia.²⁹ One of the distinctive features of traditional Confucian values that still flourished among Koreans was a strong egalitarianism. Koreans valued egalitarianism much more than ideas such as individualism (27.7 per cent), fatalism (5.3 per cent), and hierarchism (16 per cent).³⁰ This firm belief in egalitarianism in Korea originated from a communitarian

²⁶ Shin, Doh Chull [2012] *Confucianism and Democratization in East Asia*, New York: Cambridge University Press.

²⁷ Hong, Jae-u and Söng-dae Cho [2006] “Kyöngje wigiwa minjujuüi: oehwanwigi chönhu taejungüi minjujuüich’eje chijiüi pyönhwa” [Economic crisis and democracy: change in public support for a democracy system in pre- and post-financial crisis], *Sinroeyön gu* 16:109–36.

²⁸ Shin et. al., op. cit.

²⁹ Park, Chong-Min and Doh Chull Shin [2006], “Do Asian values deter popular support for democracy in South Korea?,” *Asian Survey* 46:341–61.

³⁰ Shin, *Confucianism and Democratization in East Asia*, op. cit.

and collectivist welfare tradition in which harmony and cooperation among community members were stressed,³¹ collective welfare was accentuated over individual freedom, and communal responsibilities were given priority over personal rights.³²

Along with strong egalitarian and communitarian values, Koreans perceived the provision of welfare and security (rather than the protection of individual rights) as the primary role of a polity.³³ Through observing authority and order and respecting hierarchy, Koreans considered a benevolent, paternalistic polity a role model of good governance. With this paternalistic and moralistic role of the state, Koreans expected the government to engage in and play a proper function when people suffered from economic recession, to protect them from it and to provide needed help to save them from dire poverty. The lower-income group was more committed to paternalistic meritocracy than the high-income group in Korea.³⁴

Dismal government performance and disenchantment with democracy

Solid legitimization of the democratic regime, authorized by citizens' consensus and their deep satisfaction with democratic government performance, makes nascent democracy durable. The legitimacy and sustainability of the democratic regime are contingent on its performance. Koreans nowadays, especially after the financial crisis, remain principally committed to but in practice disenchanting with democracy. In other words, belief in democracy in principle was strong, while support for democracy in practice was weak. An

³¹ Huntington, Samuel P. (1991) "Democracy's third wave," *Journal of Democracy* 2:12-34.

³² Park and Shin, op. cit.

³³ Huntington, Samuel P. (1997) "After twenty years: the future of the third wave", *Journal of Democracy* 8:3-12.

³⁴ Shin, *Confucianism and Democratization in East Asia*, op. cit.

absolute majority of Koreans (92 per cent) believed democracy was desirable for Korea, and a large majority (74 per cent) considered that democracy was suitable for Korea.³⁵ But less than half of Koreans expressed unconditional support for democracy. By contrast, on the issue of citizens' perception of democratic performance, between the Asian Barometer Survey I (2001–3) and Survey II (2005–8), Koreans' belief in democratic efficacy dropped from 72 to 55 per cent – a 17 per cent decline, which was the second largest among Asian democratizing countries, next to Thailand (24 per cent). Koreans' support for democracy decreased from 61 to 48 per cent in the same period, the second lowest among those countries, next to the Philippines (which decreased to 38 per cent).³⁶

Haunting authoritarian nostalgia

In a series of national surveys conducted by major newspapers and research institutes, Park Chung Hee was repeatedly selected as the most desirable and revered political leader, far ahead of other former presidents, reaching a support level of 55.4 per cent in 2006.³⁷ His support soared to 65.5 per cent in 2012, when the general and presidential elections both saw breathtaking victories for the ruling conservative party. He was chosen as the best president ever in government performance (51.1 per cent), with the late Kim Dae Jung coming in a distant second (19.1 per cent). The so-called Park Chung Hee Syndrome began to escalate after the financial crisis. This syndrome reified “Park as an image of the incarnation of modernization and of a leader of national restoration who saved Koreans from poverty”.³⁸

³⁵ Shin et. al., op. cit.

³⁶ Kang, “Inequality, welfare system, and satisfaction with democracy in Korean democracy”, op. cit.

³⁷ Kang, Won-Taek (2010) “Missing the dictator in a new democracy: analyzing the “Park Chung Hee Syndrome” in South Korea”, *Political and Military Sociology* 38:1–25.

³⁸ Kang, Woojin (2012), “Democratic performance and authoritarian nostalgia in Korean democracy”, Unpublished Manuscript, p.4.

Democratic “failure” in economic performance begot authoritarian nostalgia, rendering Koreans less likely to be tolerant of poor and frustrating performance and more likely to be haunted by the legacy of authoritarian “success” in economic growth. Though a majority of Koreans still preferred the democratic regime to an authoritarian polity,³⁹ this nostalgia for authoritarianism reflected the fact that democratic legitimacy had stagnated and even eroded.⁴⁰ Moreover, such lingering nostalgia could easily turn discontented citizens into “distrustful non-democrats” who could demand less democracy and threaten democratic stability. Ominous signs of the concomitant presence of incomplete devotion to democracy (due to distressing democratic performance) and partial detachment from the disadvantages of authoritarianism (because of the legacy of its “success” in economic growth) began to loom large and have the potential to undermine democratic consolidation in Korea. Increasing political apathy and cynicism were represented in a steadily declining voter turnout rate in major elections after the beginning of democratization in 1987.⁴¹ More worrisome was the ongoing trend of a conservative political propensity among the lower class and the aged.

As expected, the upper class was a passionate advocate of conservative political parties and their candidates and held a strong ideological attachment to conservatism, whereas the middle class was more geared toward progressive ideology and a reformist political propensity. Quite exceptional was the tendency of the lower class to be exceedingly conservative, and the fact that this attitude appeared more apparent in recent elections. In addition, the trend of the lower class being conservatized became strengthened. In the 2002 presidential elections, a conservative party candidate received 34.3 per cent support from the

³⁹Shin, *Confucianism and Democratization in East Asia*, op. cit.

⁴⁰Chang, Yu-tzung, Yun-han Chu, and Chong-Min Park (2007) “Authoritarian nostalgia in Asia”, *Journal of Democracy* 18:66-80.

⁴¹Kim, Ji-Young (2005) “‘Bowling together’ isn’t a cure-all: the relationship between social capital and political trust in South Korea”, *International Political Science Review* 26:193-213.

lower class while his reformist opponent garnered 49 per cent of votes from it. Ten years later, in the 2012 presidential election, 52.4 per cent of the lower class supported a conservative party leader while only 37.3 per cent voted for a progressive candidate. Though the middle class still favored a progressive politician over a conservative one, the support gap shrank to half of what it had been in just 10 years.⁴²

In the 2012 presidential election, conservative and progressive party candidates focused equally on the issues of resolving social polarization and reducing the socioeconomic disparity between classes, and established them as critical public pledges. Compared to the middle and upper class, the lower class was deemed to be more sensitive to welfare issues and more disadvantaged by economic poverty and social polarization, thereby possibly leaning more toward progressive political parties. Contrary to this normative expectation and class voting theory, however, the lower class and the lower middle class as well as the upper class cast a majority vote for Park Chung Hee's daughter, Park Geun-hye, and elected her president. The lower-class voters (whose monthly household incomes are below KRW 2 million) supported her by an overwhelming majority of 65.7 per cent, versus 34.3 per cent for a progressive opposition party candidate. This gap of 31.4 per cent was more than twice the 14.8 per cent margin found among the upper-class voters (whose monthly household incomes are over KRW 7 million), 57.4 per cent of whom voted for the conservative candidate, versus 42.6 per cent for the progressive.⁴³ This implies that, though equally supportive, the lower class was a much more fervent adherent of conservative politics than was the upper class. The relationship between conservative voting and income level had never been linear in Korea, but has recently become U-shaped in a more conspicuous manner.⁴⁴

⁴²Sö, Pok-kyöng (2013) "Sahoegyunyölgwa chöngdangjöngchi" [Social cleavages and party politics: comparison between 16th and 18th presidential elections], Unpublished Manuscript.

⁴³Kang, Won-Taek (2013) "2012daesönesö nat'anana han'gukchöngchi'üi t'üksönggwa pyönhwa" [2012 presidential election and features and changes of Korean politics], Unpublished Manuscript.

⁴⁴Sö, op. cit.

Conclusion

Economic prosperity and equitable economic distribution under authoritarian political repression were upended in Korea beginning in 1987, when democratic freedom replaced autarchy. After the 1997 financial crisis, the economy worsened, leading to increased poverty and job insecurity and to the dismantling of the middle class, a majority of whom experienced downward mobility. Post-crisis government reform policies for welfare were too cumbersome to halt pauperization and polarization, and increasing numbers of lower-class people were left unprotected and remained as social outcasts. The incapacity of the democratic regime to deal with the economic recession and the financial crisis increased the level of public discontent with the performance of the democratic regime enough to attenuate public support for democracy. Dwindling democratic legitimacy obviously imperiled democratic consolidation and sustainability. Though still devoted to democracy in principle, Koreans were disillusioned with democracy in practice and worryingly attracted to a non-democratic mode of government performance. Rising disgruntlement of the public begot nostalgia for Korea's economic success under authoritarianism, which made people miss the good old days of Park Chung Hee's leadership. The coexistence and parallel growth of the adoption of democratic principles and the public's attraction to authoritarian practice not only deterred democratic consolidation but also marred democratic legitimacy.

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