

**第9回 JIIA-Ifri 定期会合  
21世紀に向けての日欧協力**

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**The JIIA-Ifri 9th Joint Conference**

**Japan-Europe Cooperation toward the 21st Century**

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## はじめに

本報告書は、平成 13 年 9 月にパリにて開催された財団法人日本国際問題研究所 (IIIA) 及びフランス国際関係研究所 (Ifri) との間の第 9 回定期会合「21 世紀に向けての日欧協力」の成果をとりまとめたものである。

当研究所と Ifri との定期会合は、1991 年 11 月にパリにて第 1 回会合が開催されて以来、著しく進捗しており、定期会合の根幹である国際情勢に関する日仏間の知的対話は、混沌とする現在の国際社会の趨勢と相俟って、極めて大きな広がりを見せている。

第 9 回会合では、本報告書に見られるように、朝鮮半島、欧州及びアジアの地域安全保障組織の拡大、エネルギーと安全保障の問題、軍縮プロセスと NMD/TMD に関する問題、そして、アジア通貨金融危機後の経済情勢やユーロの現状などの経済と安全保障の問題などについて、口角泡を飛ばす活発な議論が行われ、日仏の研究機関の関心事が、現在、国際政治及び安全保障問題のみならず、国際経済問題にまで深く関わっていることが示された。

本会合により、日本とフランスの両国を代表する研究所による定期会合を開催することの重要性が再認識されたことを確信する次第である。

平成 13 年 3 月

財団法人 日本国際問題研究所  
理事長 小和田 恆

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## Foreword

This 9th Franco-Japanese Conference shows that the dialogue between experts from both countries on geopolitical, geoeconomic and security matters is now deeply rooted.

We have made significant progress since our first conference in November 1991.

The bilateral dialogue has expanded considerably. The issues on the Korean peninsula, the development of regional security organizations in Europe and Asia, the disarmament process and NMD/TMD as well as issues of economics and security such as the aftermath of the Asian financial crisis and the current state of the euro are now part of the debates to be found in the following contributions.

This meeting brought to light once again the significance of holding annual meetings between the research institutes representing Japan and France.

Hisashi OWADA  
President, JIIA  
March 2001

## 第9回 JIIA Ifri 定期会合 「21世紀に向けての日欧協力」

片岡 貞治

グローバルイシューズ(欧州・アフリカ)研究員

9月25-26日、パリにおいてJIIA Ifri第9回定期会合が行われた。JIIA(日本国際問題研究所)とIfri(フランス国際関係研究所)との定期交流はトラックII外交の一環として91年より始まっており、欧州で行われるのは、今次会合で5度目である。また、小和田恆理事長が日仏定期会合に参加するのは初めてのことである。因みに、小和田が全セッションに亘って議長を務めた。

日仏定期会合の目的は、欧州及びアジアの情勢のみならず、国際情勢の現状認識を踏まえ、安全保障を始めとした種々の外交問題に関して両シンクタンク間で忌憚なき意見交換を行うことにある。

第一セッションの第一部において、倉田秀也客員研究員は92年合意と先般の南北首脳会談の比較、「ペリー報告」の有効性、南北首脳会談の背景、「南北共同宣言」署名以後の南北朝鮮関係の展望等について詳細に述べた。倉田は、南北首脳会談も北朝鮮が米朝協定を放棄した兆候は見られないとし、南北間の軍事的信頼醸成には慎重な見解を示した。フランソワ・ゴドマン主任研究員は、北朝鮮内部の政策決定過程は未だに謎の部分があると指摘した。第二部では、アニタ・ティラポルスキー研究員が日ソ連諸国、カスピ海、中央アジアの石油・天然ガス等のエネルギー情勢に関して、最近の数値を交えて詳細な報告を行った。

第二セッションでは、近藤誠一 OECD 事務次長が、97年のアジア経済危機の原因とその後の処置を分析し、アジア諸国における「ガバナンス」及び透明性の必要性を改めて指摘した。フランソワ・ニコラ首席エコノミストは、アジアのリージョナリズムの特殊性について言及した。欧州通貨統合問題では、アグリエッタ教授は、IT革命によって支えられている米国の好況な経済景気とその更なる潜在性が、ユーロ地域からの大量の資本の流出を引き起こし、それによってユーロがドルに対して下落しつつしていると指摘した。一方、吉国真一日本銀行ロンドン事務所参事は、欧州諸国が各国の経済システムの再構造化に成功すれば、欧州内部での投資が増大し、ユーロは上昇するであろうと述べた。

第三セッションの第一部において、欧州部門で、NATO のエキスパートであるギョーム・パルマ

ンティエ教授が、欧州の安全保障システムの拡大について、NATOの拡大、EUの拡大と独自安保構想とそれぞれ二部に分けて、説明した。いずれの場合においても、全ての諸国には受け入れられないプロセスでなされるであろうし、満足しない諸国を生み出すであろうと指摘した。片岡貞治研究員は、欧州安全保障システムにおいては依然としてNATOが中心でありEUやOSCEはNATOを補完する役目を有しているに過ぎないと述べた。アジア部門では、大村昌弘研究調整部長が、都合で来られなくなった森本敏拓殖大学教授のペーパーを代読したが、森本は欧州及びアジアの安全保障において、米国のプレゼンスは依然として再重要であり、米国のプレゼンスを維持させていくよう努力しなければならないと説いた。第二部の「軍縮プロセス」において、林暘在イタリア大使(前ジュネーブ軍縮会議日本政府代表部大使)は今春のNPT再検討会議は、核軍縮を完全に破綻させなかったという意味においては成功だったと言えるが、向こう10年間で何らかの進展が見出されなければ核軍縮体制は大きく揺ら動かされるであろうと指摘し、またNMD問題との関連で専守防衛に徹する日本にとってTMD共同研究はミサイルの脅威に対する唯一可能な防衛手段として行っている旨説明した。

全体を通じて、研究者、専門家及び実務経験者が、それぞれの立場から、自らの経験を踏まえ、実直に意見を述べ、日仏知的交流に相応しい有意義な意見交換が行われた。

- 第1回日仏会議 於 パリ 91年11月
- 第2回日仏会議 於 ベルリン 92年6月
- 第3回日仏会議 於 東京 93年1月
- 第4回日仏会議 於 東京 94年6月
- 第5回日仏会議 於 パリ 95年12月
- 第6回日仏会議 於 東京 97年6月
- 第7回日仏会議 於 パリ 97年12月
- 第8回日仏会議 於 東京 99年1月

## Outline of the 9th JIIA-Ifri Joint Conference

Sadaharu KATAOKA

Research Fellow, European Studies and African Issues, JIIA

The 9th JIIA-Ifri Joint Conference entitled "Japan-Europe Cooperation toward the 21st Century" was held in Paris on September 25 and 26, 2000. Regular exchange between JIIA and Ifri (Institut Francais des Relations Internationales) began from 1991 as part of Track II diplomacy, and September meeting was the fifth such meeting held in Europe. It was also the first JIIA-Ifri Joint Conference in which Ambassador Owada, President of JIIA, participated, serving as Chairman for all the sessions.

The objective of the JIIA-Ifri Joint Conferences is to have the two think tanks consider current international affairs and to engage in frank exchanges of views on security matters and other foreign policy issues.

In the first part of Session 1: Energy Issues and security; *The Korean peninsula after the summit meeting-Japanese perspective*, Hideya Kurata, JIIA Adjunct Research Fellow, commented in detail on a comparison of the 1992 Accord and the recent North-South Summit Talks, the effectiveness of the Perry Report, the background to the North-South Summit Talks, and the prospects for North-South relations after the signing of the North-South Joint Communiqué. Kurata sees no signs, even after the North-South Summit Talks, that North Korea has abandoned the idea of seeking a bilateral North Korea-US agreement, and he expressed a cautious view towards military confidence-building measures between North and South Korea. Francois Godement, Senior Research Fellow of Ifri, pointed out that there are still opaque areas in the policy- and decision-making processes within North Korea.

In the second part; *The future of energy resources: a sub-regional assessment (Russia, Near and Central Asia)*, Anita Tiraspolsky, Research Fellow, East European and Post-Soviet Economies of Ifri, offered a detailed report and the latest figures on the energy situation in the former Soviet republics, including oil and natural gas production in these republics, the Caspian Sea, and Central Asia.

In Session 2: Economic issues and security; The issue of integration and mutual dependence revisited; in the first part, Seiichi Kondo, Deputy Secretary General of the OECD, in his presentation titled *the aftermath of the financial crisis in Asia* analyzed the causes of the 1997 Asian economic crisis and the measures taken thereafter, and he pointed out the need for improvement of "governance" and transparency in the countries of Asia. Françoise Nicolas, Senior Economist of Ifri, noted the peculiar nature of regionalism in Asia.

On the issue of European currency integration (the second part of Session 2: *European monetary integration and its impact on the international financial system*), Michel Aglietta, Professor of Economics of the Université de Paris 10, explained that firm economic growth in the US supported by the IT revolution and the potential for still more growth have prompted a massive outflow of capital from the euro region, causing the euro to continue to fall versus the dollar. On the other hand, Shinichi Yoshikuni, Chief Representative in Europe of the Bank of Japan, asserted that investment within Europe would expand and the euro likely rise in value if the countries of Europe succeed in restructuring their individual economic systems.

During the first part of Session 3: Security Issues in Asia and Europe (*the Expansion of regional organizations and its implications for regional and global security*), with regard to Europe, Professor Guillaume Parmentier, a NATO expert, discussed the expansion of the European security system, dividing the topic into two parts: on the one hand, NATO expansion, and on the other EU expansion and the concept of an independent security system. Such an expansion would not in any case be carried out in a process acceptable to all countries, and dissatisfied countries would no doubt emerge. Sadaharu Kataoka, Research Fellow of JIIA, stated that NATO remains the central focus of the European security system, and that the EU and the OSCE simply play a supplementary role to NATO. With regard to Asia, Masahiro Omura, Director of Research Coordination of JIIA, presented a paper prepared by Professor Satoshi Morimoto of Takushoku University, who was himself unable to attend. Morimoto asserted that the US presence remains the most important element in the security of Europe and Asia, and that efforts must be made to maintain this US presence.

In the second part of Session 3 (*The disarmament process and NMD/TMD*), Akira Hayashi, Japanese Ambassador to Italy, Former Ambassador of Japan to the Conference on Disarmament, declared that this spring's NPT Review Conference was a success in the sense that it did not allow efforts towards nuclear disarmament to be completely frustrated, but he warned that the nuclear disarmament regime would be greatly undermined if progress is not seen over the next ten years.

He also explained, in connection with the NMD issue, that Japan, given its purely defensive posture, is carrying out joint TMD research as the only possible means of defense against a missile threat.

Throughout the conference, researchers, specialists, and officials offered frank opinions from their respective perspectives and experiences, resulting in a meaningful exchange of views suited to high-level Japanese-French intellectual exchange.

|                                      |                     |
|--------------------------------------|---------------------|
| 1st Japan-France Conference (Paris)  | November 7-8, 1991  |
| 2nd Japan-France Conference (Berlin) | June 4-5, 1992      |
| 3rd Japan-France Conference (Tokyo)  | January 11-12, 1993 |
| 4th Japan-France Conference (Tokyo)  | June 2-3, 1994      |
| 5th Japan-France Conference (Paris)  | December 4-5, 1995  |
| 6th Japan-France Conference (Tokyo)  | June 23-24, 1997    |
| 7th Japan-France Conference (Paris)  | December 1-2, 1997  |
| 8th Japan-France Conference (Tokyo)  | January 11-12, 1999 |

# **The Korean Peninsula after the Summit Meeting :**

## **A Japanese Perspective**

Prof. Hideya KURATA  
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### **1. Preface**

The North-South Summit Meeting on June 13-15 2000 was the second attempt to make a breakthrough in inter-Korean relations after the end of the Cold War in June 1994, both the North and the South had agreed to hold a summit meeting between Presidents Kim Il-sung and Kim Young-sam in Pyongyang, but it was aborted due to the sudden death of President Kim Il-sung on July 8 of that year. The international setting in which Kim Il-sung proposed the summit meeting was extremely unfavorable to the DPRK; the US was about to impose punitive sanctions against the DPRK's efforts to preserve the  $\forall$  nuclear option,<sup>1</sup> and Japan as well as the ROK also had made clear that they would join the collective sanctions unless the DPRK alleviated their suspicions regarding its alleged nuclear program. Neither the resumption of Japan-DPRK talks nor North-South dialogue had seemed likely until Kim Il-sung's unexpected offer of a summit meeting. Kim Il-sung's offer, therefore, was motivated by a wish to make a breakthrough in the unfavorable international environment and to eschew the collective sanctions.

Unlike in 1994, the agreement to hold a summit meeting between Kim Jong-il and Kim Dae-jung was announced while the DPRK was successfully seeking improved relations and widening its diplomatic ties with Western countries. In the US and DPRK relations, the tension had eased since the mid-September agreement the previous year in Berlin stipulating the suspension of the DPRK's missile test-fire in exchange for mitigation of the US economic sanctions imposed on the DPRK. In parallel with the eased US-DPRK relations, Japan lifted sanctions imposed in the wake of the Taepodong test-fire in August 1998 and agreed with the DPRK to resume talks on normalization. The DPRK, furthermore, succeeded in establishing full diplomatic ties with Italy

early 2000 and subsequently resuming ties with Australia.

Bearing the comparison in mind, this paper examines the background of the summit meeting between Kim Jong-il and Kim Dae-jung and the prospects of inter-Korean relations after the signing of the 'North-South Joint Declaration ' at the historic event. The primary concern is placed on whether or not the summit meeting will prove conducive to creating a favorable international environment in Northeast Asia. To this end, this paper will begin with a discussion on the Korean experience in forging a desirable international system favorable for the Korean people striving for peaceful unification and for the people in the surrounding countries hoping for stability on the Korean Peninsula as well.

## 2. 'The 1992 System' Reconsidered

In considering the most stable and desirable international system for the Korean Peninsula, one needs to look back to inter-Korean relations and the relations among the four major powers around the Peninsula in the early 1990s. In the lingering aftermath of the end of the Cold War, North and South Korea had held the High-Level Talks headed by their respective Prime Ministers since September 1990. In the 5th North-South High-Level Talks, both sides adopted the comprehensive and practical framework called the 'Agreement on Reconciliation, Non-aggression, Exchange and Cooperation between the North and the South' (hereafter cited as the 'Basic Accord') on December 13, 1991. The preface of the 'Basic Accord' stipulated that the two sides "recognize their relations, not as a relationship between states, but as constituting a special relationship stemming from the process towards unification"<sup>(1)</sup>, and the 'Basic Accord' was a document pledging confidence-building, non-aggression and economic cooperation on the basis of the national zeal for unification. This document was effectuated at the 6th North-South High Level Talks together with 'The Joint Declaration on the De-nuclearization on the Korean Peninsula; (adopted on December 31, 1991) embracing a pledge on mutual inspections, on February 19, 1992. In addition, in late January of the same year, the DPRK signed the Safeguard Agreement with the International Atomic Energy Agency (IAEA), a legal obligation imposed on every non-nuclear-weapon signatory state to the Nuclear Non-proliferation Treaty (NPT), which the DPRK had long rejected. Subsequently, in April 1992, at the 3rd meeting of the 9th session of the Supreme People's Assembly, the DPRK smoothly ratified the Safeguard Agreement.

In retrospect, the process that the North-South High-Level Talks preceded and highlighted at the adoption and effectuation of the 'Basic Accord' was that of effecting a shift in international relations surrounding the Peninsula to 'cross-recognition'. In September 1990, when the 1st North-South High-Level Talks were held in Seoul, the ROK successfully established diplomatic ties with the former Soviet Union. In the concurrent visit of Shin Kanamaru and Makoto Tanabe to Pyongyang, Japan and the DPRK agreed to initiate talks on normalization, and the two governments held talks from January 1991. A year later, in September 1991, both North and South

joined the United Nations at the 46th UN General Assembly. Also taking a glance at US-DPRK relations, consular-level talks between the two countries in Beijing were upgraded to the first high-level talks between Deputy Secretary of State Arnold Kanter and Secretary Kim Young-sun in New York on January 22, 1992. It was in April 1992 President Kim Il-sung referred to the possible establishment of embassies in the respective capitals of the two countries in an interview with the *Washington Times* <sup>(2)</sup>. In parallel with the DPRK's attempts to normalize its relations with the US, China normalized its relations with the ROK in August 1992. South Korea eventually established ambassador-level diplomatic ties with all the four major countries involved with the Peninsula.

A concentric development of relations had been witnessed since 1991 and was completed in 1992, while an institutional framework emerged with inter-Korean relations at its core <sup>(3)</sup>. In that period, the DPRK not only adjusted to the non-proliferation regime but also widened its diplomatic ties with 'hostile' countries, i.e., the US and Japan, for the sake of its regime's survival. If one might be allowed to call the international system the '1992 System,' then one can say that the '1992 System' is the most desirable system available for lessening the possibilities of armed attack with weapons of mass destruction (WMD) between the North and the South. On the one hand, the international community urged the DPRK to alleviate its suspicions through international nuclear inspections under the NPT/IAEA regime; on the other, North and South Korea implemented a pledge on inter-Korean mutual inspections to lessen distrust.

Regarding the institutional arrangements, it should be noted in particular that Article 5 of the 'Basic Accord' stipulated, "the two sides shall endeavor together to transform the present state of Armistice into a solid state of peace between the South and the North and shall abide by the present Military Armistice Agreement (of July 27, 1953) until such a state of peace is realized." Signing the 'Basic Accord,' the DPRK modified its previous proposal on concluding a peace pact with the US and adjusted its stance toward the ROK's claim that a peace regime had to be built between the North and the South. Certainly, prior to the adoption of the 'Basic Accord,' the delegation of the DPRK's Korean People's Army (KPA) to the Military Armistice Commission (MAC) at Panmunjom had already rejected attendance at a full-dress meeting of the MAC in protest of the appointment of ROK Major General Hwang Wok-tak as the replacement for a US Major General in March 1991. However, the paralyzed MAC was expected to recover its functions as Article 5 of the 'Basic Accord' was implemented, and the United Nations Command (UNC) placed in Seoul after the Armistice was also expected to be dissolved; the Korean War would be legally ended in accordance with the establishment of an inter-Korean peace regime. If this were realized, the US and China, the *de facto* signatories to the Military Armistice Agreement, would play important roles in guaranteeing the inter-Korean peace regime. Though Japan and Russia are not signatories to the Military Armistice Agreement, the economic recovery of the DPRK would be doubtful without Japan's contribution, and the region-wide confidence-building system surrounding the Peninsula would not be real without Russia's cooperation; the two countries are also qualified to help forge a multilateral arrangement concerning the Peninsula.

### 3. 'The 1992 System' Convulsed

The '1992 System' seemed to have provided the basis for the loose multilateral arrangement frequently called the '2+4 System.' However, the DPRK's announcement of its withdrawal from the NPT in March 1993 and its subsequent talks with the US undermined the '1992 System.' For regime survival, the DPRK attempted to forge a more favorable international environment by placing US-DPRK relations at the core. The international environment with US-DPRK relations at the core that the DPRK sought was not compatible with the '1992 System,' which had inter-Korean relations at its core. The DPRK had to seek improved relations with the US at the sacrifice of the '1992 System.' Although the '1992 System' served as a necessity for the DPRK regime's survival, it did not suffice in that it did not tolerate the preservation of the 'nuclear option.' As long as the international community headed by the US prohibited it the 'nuclear option,' the DPRK would attempt to obtain more favorable conditions for regime survival in talks with the US.

Seen from this perspective, the Agreed Framework in October 1994 that promised the provision of technological support for light water reactors (LWRs) in return for the DPRK's pledge on cessation of 'nuclear activities' as well as the promised normalized relations between the US and DPRK must have appeared to be a great achievement for the regime survival of the latter. The international consortium known as the Korean Peninsula Energy Development Organization (KEDO) that provides crude oil annually to the DPRK must also have been an indispensable mechanism for its regime survival. Of more importance is the DPRK's proposal of the 'New Peace Arrangement' that sought to replace the Military Armistice Agreement with a peace pact with the US, excluding the ROK from the peace process. Concurrent with the announcement on April 28, 1994, the DPRK decided to withdraw the KPA delegation from the MAC while establishing the Panmunjom mission of the KPA in the following month. Subsequently in September, the DPRK evicted the delegation of the Chinese People's Volunteer Army from the MAC (completed on December 15, 1993). Furthermore, the DPRK paralyzed the Neutral Nations Supervisory Commission (NNSC), evicting the Czech (May 1993) and Polish (February 1995) delegations from the Communist side of the Commission. These measures were clear violations of Article 5 of the 'Basic Accord,' which pledged the establishment of an inter-Korean peace regime, but they eloquently reveal the DPRK's attempts to forge international relations with US-DPRK relations at the core <sup>(4)</sup>.

The promoted Four-Party Talks, the ultimate aim of which was the establishment of an inter-Korean peace regime, were the mechanism established to counter the DPRK's 'New Peace Arrangement.' As stated earlier, 'the 1992 System' embraced the possible development of a multilateral arrangement to guarantee the inter-Korean peace regime after the Military Armistice Agreement was kept in good faith and the North and South abided by Article 5 of the 'Basic

Accord'. The arrangement was supposed to involve eventually the de facto signatories to the Military Armistice Agreement, the US and China. However, the Four-Party Talks were proposed and convened not on the condition that Article 5 of the 'Basic Accord' be implemented but in light of the fact that the Armistice mechanism had been paralyzed and no measures had been taken concerning Article 5 of the 'Basic Accord.' The Four-Party Talks, therefore, are not at the stage of constructing a multilateral arrangement to guarantee the inter-Korean peace system. Moreover, the Talks have been out of session since the 6th plenary talks (August 5th to 9th, 1999) were closed without agreement on a date for holding the next meeting. This is primarily due to the DPRK's adherence to the 'New Peace Arrangement,' which shows that the DPRK's acceptance of the Four-Party formula does not indicate its compliance with the aims of the formula.

However, it does not necessarily follow that the Four-Party Talks have served no purpose. It is an unprecedented achievement by the ROK that China shared the same view with the ROK and the US regarding the peace regime issue. Insofar as the Four-Party Talks were proposed to establish an inter-Korean peace regime, China's participation in the Talks indicates that China opposes the DPRK's proposal for 'the New Peace Arrangement.' Viewed from a different angle, China seems to be curbing the DPRK's efforts to conclude a peace pact with the US and inducing the DPRK to join the inter-Korean peace regime within a multilateral framework.

#### **4. Revival of 'The 1992 System' ?**

##### **(1) Appraisal of the 'April 8 Agreement'**

There are few doubts that 'the 1992 system' should be revived on the Korean Peninsula and that the North-South Summit Meeting should give an impetus to the revival of the system. However, the 'April 8 Agreement' shows that the DPRK is not necessarily positively inclined toward the implementation of the 'Basic Accord.' The 'April 8 Agreement' refers only to the 'July 4 North-South Joint Communiqué,' saying "the South and the North, reaffirming the three principles of national unification as proclaimed in the historic July 4 Joint Communiqué..."<sup>(5)</sup>.

On the other hand, as stated earlier, the 'Basic Accord' is a comprehensive and practical framework rather than an agreement on principles. President Kim Dae-jung also repeatedly reiterated the significance of the 'Basic Accord' for improving inter-Korean relations while calling for a 'South-North Economic Community' in his New Year's Speech in January and his 'Berlin Declaration' in March this year, both of which are supposed to have opened the way for the summit meeting. It is speculated that the ROK's special envoy, Park Chi-won, must have insisted that the 'Basic Accord' as well as the 'July 4 North-South Joint Communiqué' be referred to in the 'April 8 Agreement' during the secret meeting with his DPRK counterpart, Song Ho-gyong.

However, the actual 'April 8 Agreement' stated that the parties have come together "with a view

to advancing the reconciliation and unity, exchange and cooperation and peace and unification of the people....," failing to insert the formal name of the 'Basic Accord: 'Agreement on Reconciliation, Non-aggression, Exchange and Cooperation between the North and the South'. If this vague expression was due to a refusal by the DPRK to refer to the formal name of the 'Basic Accord,' it is hard to imagine that the North and the South will successfully implement the document after the summit meeting. It is the natural course of events that the DPRK will ignore Article 5 of the 'Basic Accord' the pledge on a inter-Korean peace regime as long as it remains committed to 'the New Peace Arrangement' and its call for a US-DPRK peace pact. Seen from these perspectives, the DPRK is consistent in agreeing to hold a summit meeting with the ROK while insisting on 'the New Peace Arrangement' with the US.

## **(2) 'The Joint Declaration' and 'Basic Accord'**

It seems that North Korea adhered to 'the New Peace Arrangement' at the North-South Summit Talks in June this year. The leaders of both Koreas adopted 'the North-South Joint Declaration' (Hereafter cited as the 'Joint Declaration'), in which the North and the South agreed to resolve the question of reunification independently and through the joint efforts of the Korean people, who are the masters of the country (Item 1), while pledging to resolve humanitarian issues such as exchange visits by separated family members and unswerving Communists who have been given long prison sentences in the South (Item 3). Moreover, both leaders also agreed to consolidate mutual trust by promoting balanced development of the national economy through economic cooperation by stimulating cooperation and civic, cultural, sports and other exchanges (Item 4).

Attention should be paid more to what was not in the document than what was in it. It is supposed that South Korea's President Kim Dae-jung, who frequently stressed the significance of the 'Basic Accord' in the management of North-South relations, asserted that the 'Basic Accord' should be cited in the 'Joint Declaration' at the summit meeting. However, the 'Joint Declaration' failed to cite the 'Basic Accord,' which revealed that the North had adhered to its 'New Peace Arrangement'.

The North's reluctance to revitalize the 'Basic Accord' could be seen in the agreed economic cooperation. There is no doubt that the North hopes for the South's economic cooperation to revive its devastated economy, for which the 'Basic Accord' had provided the practical framework. After the 'Basic Accord' was put into force, the North-South Exchange and Cooperation Joint Commission was set up as the official body to implement the items on economic cooperation in the 'Basic Accord.'

In addition, the annexed protocol on the North-South Exchange and Cooperation Joint Commission embraced a detailed agreement on promoting inter-Korean economic cooperation. Article 1 of the annexed protocol stipulates, "The South and the North shall determine, through mutual consultation, the procedures for guaranteeing investment, avoiding double taxation and

arbitrating disputes and other matters necessary to smoothly carry out economic exchange and cooperation"(Item 12). Concerning social infrastructure, Article 3 also stipulates, "...the South and the North shall open additional sea routes, connect the Seoul-Shinuiju Railroad, the Munsan-Keasung Highway and other land routes and shall open an air route between Kimpo Airport and Sunan Airport"(Item 2)<sup>(6)</sup>. In the aftermath of the summit meeting, the two Koreas held the North-South Ministerial Meeting, not the North-South High-Level Talks that produced the 'Basic Accord,' though both agreed to make efforts to reconnect the railroad<sup>(7)</sup> in accordance with Item 2 of the annexed protocol on the North-South Exchange and Cooperation Joint Commission.

The form of the inter-Korean governmental talks was largely due to the North's reluctance to revitalize the 'Basic Accord.' The North might have been concerned that, if the inter-Korean governmental talks proceeded along the lines of the 'Basic Accord,' it would be seen as complying with the document, eventually losing momentum in pushing for talks with the US.

## **5. Conclusion: Local Structure in the Regional Context**

Even though the immediate achievements after the summit meeting are generally limited to the economic sphere, the military Confidence-Building Measures (CBM) between North and South Korea are still required, and they will have regional implications. For example, the bilateral confidence-building between Japan and the DPRK is limited as long as the North and the South implement no CBMs. In other words, the chances for Japan-DPRK confidence-building will be widened only when North and South Korea implement CBMs, not vice-versa.

In this context, attention should be paid to the DPRK's recent proposal for a 'three-party military organization (or US-DPRK-ROK military body). The Panmunjom mission of the KPA first made this proposal in October 1998<sup>(8)</sup> and subsequently the KPA side submitted this proposal in the General-level Official Talks at Panmunjom. This proposal is unique in that it acknowledges a role for the ROK in the security of Panmunjom, while giving an eye to US-DPRK relations for building a peace regime; in addition to that, it accepts the continuous stationing of US troops in the ROK for the time being. As long as the proposal calls for a US-DPRK peace pact, however, it seems extremely unlikely that the ROK will accept it. However, it is noteworthy that Kim Jong-il showed understanding toward the continued stationing of US troops in South Korea at the Summit Meeting. It is likely that the North will propose a more realistic framework for arms control on the Peninsula, while accepting the presence of US troops.

This does not necessarily mean, though, that North Korea will be willing to revitalize the 'Basic Accord', and it is also hard to imagine it will easily drop its insistence on the 'New Peace Arrangement' in the near future. However, the North seems to have judged that tension reduction is required for the sake of continued visits by South Korean labor resources. The recent agreement to

hold a defense ministers' meeting between the North and South demonstrates the North's judgment.

What the South must do is not to insist that the North revitalize the 'basic Accord in a hasty manner, but instead achieve the de facto implementation of the document. The North-South defense ministers' meeting will be one step in this direction and will be conducive to shifting the North's focus from US-DPRK relations to DPRK-ROK relations in the framework among the DPRK, ROK and US. Should it take place, the North-South defense ministers' meeting is expected to play a role in restoring the MAC mechanism at Panmunjom. That will in turn help region-wide CBMs by involving Russia. Inter-Korean relations and relations among the four major powers would be stabilized in a concentric manner and will be more solid than in the '1992 System.'

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**Note;**

- (1) "Agreement on Reconciliation, Nonaggression and Exchanges and Cooperation between the South and the North," *Intra-Korean Agreements*, Seoul: National Unification Board, October 1992, p.3. Hereafter citations from the 'Basic Accord' will refer to this document.
- (2) *Kim Il-sung Chojakjip (Kim Il-sung Collective Works)*, Pyongyang: Chosun Rodongdang Chulpansa, 1996, p.346.
- (3) See, Hideya Kurata, "Conceptualizing Multilateral Arrangements for the Korean Problem after the Cold War: 'Concentric Multilateralism' and Its Dynamics," *Les Cahier de l'ifri: France and Japan in a Changing Security Environment*, Volume 1, Paris: Institut FranCais des Relations Internationales, 1997.
- (4) See, Hideya Kurata, "The International Context of North Korea's Proposal for a 'New Peace Arrangement': Issues after the US-DPRK Nuclear Accord," *The Korean Journal of Defense Analysis*, Vol. VII, No.1 Seoul: Korean Institute for Defense Analyses, (Summer 1995).
- (5) "South-North Agreement, April 8, 2000" (English Translation).
- (6) "Protocol on the Compliance with and Implementation of Chapter III, South-North Exchanges and Cooperation, of the Agreement on Reconciliation, Nonaggression and Exchanges and Cooperation between the South and the North," *Intra-Korean Agreements*, *op. cit.*, pp.27-28.
- (7) "Joint Press Release of the 1st South-North Ministerial Level Talks," *The 1st South-North Ministerial Talks, 2000. 7. 31*, Ministry of Unification, Republic of Korea, pp. 3-4.
- (8) See, Hideya Kurata, "Chosen-Hanto Heiwa-Taisei-Juritsu-Mondai no Kihan-teki Kozo (The Normative Structure of the Peace-Building Issue on the Korean Peninsula)," *Kokusai Mondai,(International Affairs)*, No.474 (September 1999), p.30.

## The Aftermath of the Financial Crisis in Asia

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1. It is a great honour to be a part of the IFRI - JIIA Annual Joint Conference, which focuses on the co-operation between Japan and Europe. This focus is quite welcome, given that this has been the weakest part of the triangular relationship between the US, Europe and Japan.

### What is the Asian Crisis?

2. It is surprising to note that the outbreak of the Asian Crisis was only three years ago. It seems that it is already becoming a part of history. "History," Jawaharlal Nehru said, "is written by the victors and conquerors." It is very appropriate, therefore, to look back upon the crisis now, and give fresh thought to its implication from a broad perspective, before victors, whoever they are, set the tone.

3. The causes and lessons of the Asian Crisis continue to be much debated, so my remarks today will reflect my personal views, and not those of the OECD Secretariat or OECD Members.

4. The crisis cost three countries - Thailand, Korea, and Indonesia - enormously. In 1998, their economies contracted by between 7 per cent and 13 per cent. Unemployment rates more than doubled, accompanied by social and political turmoil. In the media, admiration for the "Asian model" of growth that had been created over the last two decades suddenly turned to contempt.

5. One could now easily agree that the main common factors that induced the crises were

dollar-pegged currencies, growing dependence on short-term foreign capital, and weak domestic financial sectors.

6. But today, many Asian economies are already back on a strong path toward growth: the latest OECD estimates project real GDP growth this year of 8.5 % in Korea, 6.2 % in Malaysia, 5.5 % in Thailand, and 3 % in Indonesia.

7. Can we then conclude that the lessons of the Asian crisis have been learned, that its problems have been fixed, and that the risk of future crises has largely been diminished? I would not give a clear "yes" on all three accounts. Much remains to be learned and to be done. Recoveries of crisis-hit countries owe much to strong demand, particularly from within the region, including Japan, and from the U.S. While situations differ across countries, reforms in the supply side, such as financial market reforms, are clearly not sufficient. Therefore, continuing efforts will be needed to further reduce risks of future financial instability.

8. But more fundamentally, I would not say "yes" because the lessons from the Asian crisis should not be seen in the context of the Asian crisis alone. These lessons are relevant to a much broader challenge posed by recent events that signal the arrival of a new age in the history of civilisation - the end of the Cold War, the proliferation of the market economy, the unprecedented growth and size of private capital, a power shift from states to markets, and the rise in power of civil society.

### **How to Characterise the New Age?**

9. What characterises the new age that is arriving? It is a world where international order and prosperity will be achieved neither by the hegemony of a superpower nor a balance of power among states in the traditional sense, but by co-operation among four main actors - states, international organisations, markets, and civil society.

10. Markets create wealth, they create jobs, and they allocate resources most efficiently. They are at the heart of the free market system, and the symbol of rationality.

11. Civil society represents citizens in a way that complements the domestic electoral system. Human beings possess two contradictory desires: the tireless wish for free, rational, universal, and open human relations on the one hand; and the yearning for the sense of belonging that comes with stable, special, and closed human relations on the other. Human history is a constant struggle for the realisation of the former by resisting tyrants. That is why Francis Fukuyama introduced the notion of an end to history when democracy and the free market system prevailed over communism.

12. The rapid advance of globalisation, however, plunged many people into anxiety. Globalisation, the exemplar of freedom, rationality, universality, and openness, gave rise to losers in competition, and the fear that anyone could be a loser tomorrow. Financial and information networks bypassed national borders and drove markets rapidly toward uniformity. As a result, everyone began to feel at the mercy of the dictates of a gigantic, inhuman market ruled by rationality alone.

13. This sense of helplessness often took the form of fear of being forced to fight a lonely battle, in the name of self-responsibility, in faceless cyberspace. And the more universal the global standards people needed to acquire in order to survive the battle, the greater their identity crisis. Civil society is instinctively seeking a return to stable, special, closed human relations. Somewhat ironically, it has gained an enormous power through Internet communication.

14. States indeed seem to have yielded much to markets, although retaining unquestioned power in such areas as defence, public security, and taxation. Nevertheless, states play new and strengthened roles: to promote smooth and proper functioning of market forces by ensuring a competitive environment and by introducing a proper regulatory framework; to respond to public concerns over the negative impact of globalisation by building a social safety net to ensure that everyone has an opportunity to lead a dignified life in this new, competitive environment; and to combat the abuses of free markets (to address cartels, tax evasion, money laundering, etc). Susan Strange says that states are retreating.<sup>(1)</sup> She is only right in terms of business operations. States are not retreating. They are shifting roles from player to referee.

15. International organisations not only provide a means of co-ordinating policy and making independent analysis that cannot be accomplished by individual states acting alone, but also serve as autonomous regimes for carrying out the collective will of nations.

### **How do these actors operate?**

16. The characteristics of the interaction among these four actors is that while the relationship keeps evolving, none of them can be a dominant power. And none of them can survive unless co-operating with the others.

17. As the new age approached, markets started to gain power. In the foreign exchange markets alone, \$1.5 trillion of money moves around the world every day. Markets are said to be the best judge of economic performance, but they can become biased once they are locked into a certain mindset. And when markets recognise their mistake, they can turn around abruptly and rush in the opposite direction.

18. This enormous power of markets was demonstrated in Asia in two opposite directions. The notion of an "Asian miracle," backed by fairly sound macroeconomic policies, induced a flood of investment in Asia, as well as increased desire by foreign investors to enjoy the fruits of that miracle. This trend was further encouraged by the perception that governments would effectively guarantee loans. But when the deterioration of the current accounts and the accumulation of short-term, unhedged dollar debt passed a critical level, financial markets decided that the situation was no longer sustainable and would no longer continue to finance the current deficit of Thailand. Once confidence was lost, rushed hedging of foreign currency debt aggravated the situation. This had a contagious effect. The inflow into the emerging economies in East Asia was around US\$ 40 billion in 1994, and doubled to nearly US\$ 100 billion in 1996. In 1997, it reversed to an outflow of around US\$ 12 billion.

19. I do not subscribe to any "conspiracy theory" behind the Asian crisis. Everybody did what they thought was right to protect themselves. It simply turned out that there was no system in place to counter-balance the shortcomings of powerful markets.

20. This reinforces the notion that states have already handed over their power to markets. Susan Strange has argued that in the absence of hegemonic power of states, what we have now is a "ramshackle assembly of conflicting sources of authority," because profit-oriented, powerful markets are not accountable to anyone. However, it did not take long for the other actors to react. States and international organisations started to initiate economic reforms, in some cases in consultation with civil society. The attempt to strengthen the "international financial architecture" by the G7 and the IMF has made some progress so far, in strengthening supervision over lender-side institutions such as hedge funds, and strengthening private sector involvement in crisis prevention and resolution.

21. We also see a growing endeavor to incorporate social elements in business behaviours and decision-making processes. The recent revision of the OECD Guidelines for Multinational Enterprises was one such step forward in expanding business responsibilities in relation to the environment, labour standards, and ethical behaviour, and in enhancing monitoring mechanisms by states and civil society. When I attended the Baltic Development Forum Summit in Malmo, Sweden, last week, I was asked to speak about "socially responsible investment." When the power of one actor becomes too strong, other actors take actions to redress the balance.

### **How can we ensure that order and justice are established?**

22. What is the mechanism to guarantee order and justice, in the absence of hegemonic power? Is it the balance of power among the four actors in the traditional sense? The answer is

"no." Rather, there is a need to institutionalise interdependence, by way of establishing "good governance" among all of the actors. The notion that if someone fails, you will fail too, serves as a basis for the co-operation. Interdependence and systemic risks are two sides of the same coin. And good governance systems in all the institutions, both public and private, will ensure the process of the formation of order. Governments are expected to have proper regulatory regimes, including prudential regulation and insolvency regimes, to have high ethical standards, and to be accountable. International organisations are expected to have their own governance system to ensure compatibility and complementarity of national systems, and to establish global governance for those areas where each country acting alone cannot achieve its objectives. Private companies need to develop a sense of corporate responsibility and to enforce high standards of corporate governance, and financial institutions need to have high credit assessment skills. Citizens need to be equipped with knowledge and skills to understand the complexities of and to compete in the new information age.

23. For this system to work most efficiently, transparency is the key. Transparency helps to avoid misunderstanding, misinterpretation, and undue speculation. It fosters accountability -- the notion that all actors are responsible and answerable for their actions, not just governments -- by allowing for scrutiny and possible challenge. It builds mutual trust, the basis of co-operation. Transparent walls will help prisoners get out of the dilemma.

24. Asia in 1997 lacked many of these elements of governance. Conglomerates linked to large financial institutions and to the state operated under conditions that made effective external monitoring very difficult. Because of their high-level connections and the perception of implicit government guarantees, these conglomerates had easy access to external debt and finance without appropriate controls. At the same time, minority shareholders as well as creditors had neither the information nor the effective means to monitor corporate operations. Lack of transparency and accountability led, in turn, to distorted incentive structures, excessive conglomeration, over-investment and dangerously high corporate indebtedness. Poor disclosure and lack of independent and good quality audit only made the situation worse, by delaying the appearance of warning signs of the deteriorating financial conditions of corporations. Creditors and the international system as a whole lacked governance, too. Citizens were not fully equipped with sufficient levels of knowledge and skills. Therefore, confidence was lost, which led to a downward spiral.

25. The next question is: who creates the governance system, and when will we complete the work? It is states, and international organisations who take the lead, in close consultations with business and civil society. The sovereign power of states in making regulations and collecting taxes plays an important role in establishing good governance systems throughout society, and in financing public goods.

26. The OECD is working to help establish a good governance system, such as through periodic in-depth country reviews, regulatory reform reviews, corporate governance principles, the convention to combat bribery of foreign public officials, and guidelines on investment and multinational enterprises, just to name a few. We are trying to disseminate our norms to non-Members as well. Next month, I am going to Kiev to attend a Corporate Governance Roundtable involving Eurasian countries. This is my fourth presence in this series, following roundtables in Moscow, Sao Paulo, and Hong Kong, which have demonstrated how international standards can be considered and applied on a regional basis. In December, I will go to Seoul for the second Anti-bribery Workshop in Asia.

27. There are two lessons I learned from these trips. First, international standards never complete themselves. They keep evolving, in response to the ever-changing world economy and technology. We shall never reach a stage where all the rules and principles are set, and everybody can live a peaceful and prosperous life by just abiding by existing rules.

### **Internationalism vs. Regionalism**

28. My second lesson is that there is no one-size-fits-all standards. And this relates to the recent rise of regionalism. Europe is integrating further, deeper and wider. So are NAFTA and Mercosur. There is a slow but steady move in Asia toward establishment of a regional monetary co-operative arrangement. If globalisation is a good thing and if we are responding to it by establishing globally applicable standards, why do we need regionalism?

29. The demise of a formidable common enemy, and ever-tightening international competition are making countries vulnerable, and are driving them to form regional alliances to increase their negotiating power. The public supports this as a means to go back, as I stated earlier, towards stable, special, closed human relationships, to counter fears of globalisation, and to maintain identity. Markets go global, but human beings stay local. Being human beings alone does not create identity. Even Europe seems to be too big to give identity to citizens. In Malmö last week, I felt a strong sense of Baltic/Nordic regional identity shared by the people there. The Mayor of the town who hosted a welcoming reception referred to it as a "transnational European region."

30. This regionalism could impede the formation of international standards. But, we should see its positive side, as well. Each country and region has its own history, culture, and social background. Any sets of standards have to be acceptable to all those countries, if they are to be applied universally. But those standards have to be high enough to be a guiding benchmark to many countries. Therefore, we need constant efforts to bridge the international standards and national specificities. International standards evolve over the years, and so do cultures. Our efforts are to bridge two moving targets, to promote the development of good global governance.

31. This points to the positive role regionalism can play. Regional fora can serve as a bridge between international standards and local requirements. They have better knowledge of the local economic situation, and can survey local developments much more closely than an international body, such as the IMF. They could provide more effective measures to respond to crisis, more quickly. They also could make sure that economies in the region abide by the rules and conditionalities set by the IMF. Regional co-operation could supplement global efforts.

32. The Asia-Pacific region responded to the Asian crisis by establishing the Manila Framework. There is also a move toward a network of bilateral exchange and repurchase agreement facilities among ASEAN countries, China, Japan and Korea, using Asian currencies and Asian government bonds, respectively (Chiang Mai Initiative). Asia has inherent difficulty in establishing regional economic or financial fora, due to its diversity, lack of vertical integration, which the Americas have, and lack of strong political will for horizontal integration, which Europe has. However, given the potential role this kind of regional co-operation can play, one should not discourage the emerging efforts in various regions, including Asia, on the condition of compatibility with international standards. Here again transparency is the key word.

## **Conclusions**

33. The end of the Cold War significantly diminished the danger of military conflict. Some felt that the proliferation of democracy and the market economy would lead us towards utopia. But, we soon learned that we are entering into a new age with new security concerns in the economic area.

34. To cope with them, we need to equip ourselves with knowledge and skills to ensure that democracy and the market economy work properly. We need to establish good governance across the earth, both in public and private institutions, and in each citizen. This can be achieved only through co-operation among the four major actors in the international arena - states, international organisations, markets, and civil society, with states taking a leading role.

35. The key to ensure smooth functioning of co-operation is the institutionalisation of interdependence through transparency.

36. Lack of governance can cause financial crises. Why did this occur in Asia? Why in 1997? And why was Asia punished so cruelly? It is not because Asia in 1997 alone lacked governance. Asia lacked it for many years before 1997. Other regions lacked it, too. The virtuous circle of high growth expectation backed by the notion of an "Asian miracle," and enormous inflow of foreign investment created an unsustainable situation under weak national and international systems. It was only in 1997 that markets recognized and fully responded to these

weaknesses. The size and nature of the financial market brought about a huge cost to the Asians. They are still paying the cost.

37. The establishment of international order through co-operation is not easy. It requires constant dialogue among the four actors, and it needs to evolve continuously in response to economic and technological changes. It needs to take into account the specific needs and changing situation of each country. Regional co-operation can play a constructive role in our efforts to bridge these two moving targets. Constant and patient efforts are essential to produce and to keep revising international standards that fit all countries.

38. This may be more difficult than establishing order through hegemony in the traditional sense of the word. But only in this way can one expect the establishment of order with "justice". The attention and energy we spent vis a vis communism during the Cold War should now be spent on these efforts.

39. We can be encouraged in these efforts by the words of Immanuel Kant, who wrote in 1795 that "the spirit of commerce, which is incompatible with war, sooner or later gains the upper hand in every state. As the power of money is perhaps the most dependable of all the powers included under the state power, states see themselves forced ..... to promote honourable peace and ..... to prevent war ....." "In this manner nature guarantees perpetual peace by the mechanism of human passions. Certainly she does not do so with sufficient certainty for us to predict the future in any theoretical sense, but adequately from a practical point of view, making it our duty to work toward this end, which is not just a chimerical one."<sup>(2)</sup>

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**Note;**

<sup>(1)</sup> Susan Strange, *The Retreat of the State: the diffusion of power in the world economy*, Cambridge University Press, 1996, pgs.197-198.

<sup>(2)</sup> Immanuel Kant, *Perpetual Peace: A Philosophical Sketch*, First supplement: Of the Guarantee for Perpetual Peace, 1795.

# **The EURO, the Growth Potential and the Financial Markets in Europe**

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Since the beginning of the ongoing year, the weakness of the Euro has surprised most analysts. Indeed the available models of the equilibrium exchange rate and deviations from equilibrium fail to account for the slump of the Euro against the Dollar below parity. It appears that a possible explanation appeals to determinants which are beyond the usual variables, be they interest rate differentials, net foreign assets or discrepancies in output gaps. The changing pattern of capital flows must be scrutinized according to the growth potential linked to the spread of the "new economy". Moreover the external value of the Euro in future years will depend on the ability to raise the investment rate in new technologies, along with the saving to finance it on internal funds and the efficiency of capital markets to channel them.

The paper will draw lessons from previous attempts in assessing the long run equilibrium value of the Euro and show that a standard B.E.E.R (behavioral equilibrium exchange rate) model was reasonably successful up to the end of 1997. It will then gauge the arguments for solving the conundrum of the atypical recent moves. Finally it will look into the future in trying to assess the balance of forces which will shape developments in equilibrium exchange rates.

## **The Equilibrium Value of the EURO in Retrospect.**

A theoretical Euro can be computed from the beginning of the flexible exchange rate era in March 1973 to the end of 1998 in order to estimate the equilibrium value of the effective or the Dollar exchange rate in the long run. On this basis it is possible to give a rough order of magnitude for the

overvaluation or undervaluation of the currency and to capture part of the gap in short-run dynamics under the assumption of a mean-reverting behavior to the long-run value.

In a nutshell the BEER approach to the equilibrium real exchange rate amounts to estimating an equation of the following type (with all the variables but the interest rates being expressed in logs):

In the long run, the law of motion of the exchange rate is:

$$(1) \quad E(t) = \hat{E}(t) + u(t)$$

$$(2) \quad \hat{E} = f(\text{prod}, z, \text{nfa}).$$

The short-run dynamic of the real exchange is given by the following equation:

$$(3) \quad E(t) - E(t-1) = a[E(t-1) - E(t-2)] + b_1[\text{prod}(t) - \text{prod}(t-1)] + b_2[\text{nfa}(t) - \text{nfa}(t-1)] \\ + b_3[r(t) - r(t-1)] - \mu u(t-1) + v(t)$$

$\hat{E}(t)$  is the real equilibrium exchange rate and  $E(t)$  the current real exchange rate

prod is the labor productivity differential between the home and the foreign country

nfa is the net foreign asset of the country whose currency is measured

z is an index of non-price competitiveness of the home relative to the foreign country

r is the long-run real interest rate differential between home and foreign country.

The model determines  $\hat{E}$  by structural variables at each point of time and a residual  $u$  which feeds the short run equation. The term  $-\mu u$ , whenever statistically significant, points to an adjustment process whereby an overvalued exchange rate relative to the equilibrium exchange rate at time  $t-1$  triggers a depreciation in period  $t$  and conversely if undervalued.

A few papers have applied the BEER methodology to explain exchange rate changes of the Euro against the Dollar, computing a theoretical Euro to the end of 1997 and 1998. On quarterly time series starting in 1973-I, the variables prod and nfa are significant. Prod was proxied by the relative price between wholesale prices and retail prices in a study by Aglietta and alii, by labor productivity differential in a more recent research run in the ECB<sup>(1) (2)</sup>.

The equilibrium real exchange rate of the dollar against the Euro is depicted on figure 1. It is computed from the long-run relationship estimated according to equation (2) here above. The figure shows that the equilibrium value of the dollar depreciated continuously, and thus a trend appreciation occurred for the Euro from the third quarter of 1985 to the first quarter of 1993. The factor contribution to the long-run real exchange rate is depicted on figure 2. Relative prices played an important part in the early 80's and net foreign assets in the 90's up to 1997. The ECB study tells a slightly different story for the latter period. The influence of net foreign assets is found to have been weak and replaced by the impact of long-run real interest rate differential on the equilibrium exchange rate.

All in all it can be said that prior 1998, the long-run equilibrium real exchange rate of the dollar against a basket of European currencies mimicking the Euro was driven by the following fundamentals:

The dollar appreciated whenever the relative price of traded against non-traded goods declined more in the US than in Europe.

The dollar depreciated with the accumulation of foreign debt in the US and with the

building up of a creditor position in Europe.

The dollar appreciated whenever the real interest rate on US Treasury bonds increased relatively to a weighted similar rate in Europe.

In 1997, the estimated real exchange rate amounted to a nominal equilibrium exchange rate for the dollar against the Euro in the range of 1.15 to 1.25 \$ per Euro, taking into account of the huge uncertainty in this type of econometric exercise.

Moreover figure 1 shows how large deviations of the current to the equilibrium exchange rate can be. In the late 70's the dollar was substantially undervalued and in the early 80's of the bubble years it was extravagantly overvalued. But for ten years between the Louvre accord in February 1987 to early 1997 the current exchange rate fluctuated around the equilibrium value in a range of +or-15%.

Everything seemed to fall apart from the time of the Asian crisis onward. The dollar appreciated vigorously relative to the estimated equilibrium value. Worse still, the model underlying the fundamentals is suspected to be no longer relevant.

### **The EURO, the Financial Crises and the New Economy.**

In the course of 1997 the dollar appreciated markedly against the Euro from 1.3 to about 1.1. A short-lived weakness occurred in the wake of the LTCM episode which spurred turmoil in US financial markets, the dollar plummeting from 1.1 to 1.2 Euro. From November 1998 onwards, the Euro has slid almost continuously from 1.2 to 0.9 dollars per Euro, with only a short respite in the summer of 1999. As large as it looks like, this 25% of decline is dwarfed by the 65% rise of the Yen against the Euro and the 45% increase against the dollar from the doomsday of June 16,1998 when the Fed intervened to calm down the market to the second quarter of 2000.

The magnitude of these moves is not unprecedented, but the forces which drove them are not in line with traditional fundamentals and are difficult to disentangle. The main puzzle about the steady slide of the Euro is the following: is it a gross undervaluation of the market exchange rate relative to an equilibrium exchange rate left unchanged in the range 1.15 to 1.25? Is it a drift of the equilibrium exchange rate itself and, if so, what are the factors conducive to this drift? ECB officials tilt obviously toward the first interpretation, never missing an opportunity to emphasize that the Euro has a big potential of appreciation. They may be right, but the upturn of the Euro would not follow the same pattern in either case. If the Euro is excessively depreciated a change in the market mood can be triggered by a favorable event like a successful conclusion of the intergovernmental conference on the reform of the European institutions or the confirmation of a non-inflationary momentum for year 2001. If the Euro is close to its equilibrium value, a recovery would involve the long-run growth potential of the Euro zone, not only the cyclical momentum.

Until the beginning of this year the explanation of the weakness of the Euro by cyclical factors and financial shocks looked relevant. The aftermath of the Asian crisis on world trade had affected two main European countries, namely Germany and Italy. A slowdown for six months in

late 1998 and early 1999 which impinged upon the whole Euro zone, while the long US upswing continued imperviously. A confirmation that the differential in the output gaps on the two sides of the Atlantic was an active factor arose in mid-1999. As soon as surveys pointing out that near-future economic activity regained momentum in Europe had been released, the Euro recovered a bit and stabilized toward 1.1 dollars per Euro.

Meanwhile changes had occurred in the financial markets since the start of the Asian crisis. When the crisis had worsened in October after the devaluation of the Taiwan dollar and the subsequent attack on the Hong Kong dollar which magnified the crisis in Korea and Indonesia (slump of the won by 50% and collapse of the rupiah by 80%), contagion spread all over emerging markets. The correlative flight to quality by foreign investors and international banks triggered huge capital flows denominated in dollars which receded to US bond markets.

Significantly the spread between long run bonds (US-Europe) which was slightly above 100 basis points in the spring of 1997, halved to 50 in November. In the mean time the dollar appreciated from 1.3 to 1.1, as already mentioned. Therefore the safe haven syndrome benefiting US financial markets, directed inflows of capital to the US more than to Europe, engineering a rise in the dollar disconnected from yield differential. The opposite arose in September 1998. Confidence deteriorated in US capital markets across the board, spawning a flight to liquidity. The spread widened to 150 basis points while the dollar waned from 1.1 to 1.2 per Euro.

One can sum up this discussion as follows. For two years between mid-1997 and mid-1999, cyclical factors took the lead in explaining the strength of the dollar. The momentum in US activity was unaffected by the slowdown in world trade. The service sector substituted for manufacturing and the overall supply was highly flexible, partly due to the widening trade account deficit which was itself a consequence of both the speed of US absorption and the strong dollar. Conversely the cyclical recovery in Europe was in its infancy and was affected by the slump in world trade of industrial products. This means that the move of the dollar Euro exchange rate was positively adjusting to the discrepancies between the two big economies. The same cannot be said for the Yen which appreciated hugely despite the deflationary flounder of the Japanese economy. However financial shocks disturbed the relationship between the exchange rate and cyclical factors in the real economy. These shocks underlined the sensitivity of the relative value between international currencies to changes in market sentiment. In crisis conditions interest rate differentials were no longer relevant.

*From cyclical to structural factors*

In year 2000, the Euro has continued its downward drift against the dollar albeit uncertainty has plagued the financial markets about the time and the pattern of adjustment in the US economy to a more sustainable growth path. Meanwhile the robustness of the cyclical upgrade in Europe has been confirmed without any positive apparent effect on the Euro whatsoever. Furthermore the spread between US and European public bonds was reduced to 50 basis points in mid-2000 at the time of the worst weakness of the Euro. Found statistically significant in the studies quoted here above, the interest rate differential was disrupted by the financial crises. More recent regressions run in the research department of the CDC show that the public bond spread

resumed its influence in 1999. A 100 basis point increase in the spread was estimated to entail a 13% appreciation of the dollar against the Euro in the long run. But this impact vanished altogether in 2000.<sup>(3)</sup>

It is not surprising that analysts and forecasters alike have been puzzled by the 10 to 13% stumbling of the Euro in 2000. Most variables singled out in former regressions, be they explaining the long-run exchange rate or the short run adjustment, are no longer working. The dollar is impervious to the piling up of foreign debt and does not react to benchmark interest rate differentials. Its strength is not eroded by excess demand being converted into inflation scare or fear of Fed reaction leading to a recession. In this context some people in the Fed and in the US academy are inclined to comfort market sentiment and declare that the dollar exchange rate of the Euro is at its equilibrium value. One is tempted to concur with this judgement. It fits with the fact that repeated increases in short rates by the ECB got nothing but a negative short impact on the exchange rate. If market sentiment is convinced that the Euro is at its equilibrium value, any attempt to boost it by monetary policy is interpreted as a will to overvalue the Euro in the face of adverse structural forces. Incremental short-term interest rate hikes are simply non credible for that. Indeed the market believes that a more stringent hardening in the stance of monetary policy in Europe will stifle a long overdue effort in productive investment and weaken the long-run value of the Euro further. The relevant question at this point is: what are the fundamentals currently acknowledged by market participants which are not in the continuity of long-run historical relationships? Since this question pertains to ongoing structural change, econometric analysis is obviously powerless to investigate it. Yet useful indications are provided in examining the change in the pattern of capital flows.

The first observation is about the long-run spread in interest rates. As mentioned earlier, the spread on public bonds has declined 100bp against dollar debt this year. But the spread on private debt, as measured by the differential on the fixed leg of swaps respectively in dollar and in Euro, has not declined at all. It is still as high as 150bp. The first and foremost reason for it is the debt redemption policy by the US Treasury, which is contracting the supply of public debt even for benchmark maturities (the 10 year and the 30 year bonds). This supply shock increases the price of US debt against the debt of European countries but does not make it less attractive. It does not work against the dollar. The second reason is the massive foreign investment on corporate bond debt. It points to a change in the structure of foreign investment in the US which fits with the dynamism of the private sector. Indeed when the swap spread replaces the public bond spread in the CDC regressions the anomaly no longer arises. The change in the private spread does not work opposite to the expected direction of correlation with the change in the exchange rate the way the public spread does. But introducing the private debt spread is far from being enough to understand the forces which has moved the exchange rate this year. However it gives the clue for further investigation. If capital inflows into the US are attracted by differences in the profitability of investments relative to perceived risk in the US compared to elsewhere in the world, looking at debt investment is far from being enough.

The latest survey of current business which collects and synthesizes data on foreign direct

investment in the US goes a long way in highlighting the motivations of European investment in the US. Between 1997 and 1999 the value of US businesses acquired by foreign direct investment was multiplied by 4.5. Almost half of this value was supplied by foreign direct investors and half by US affiliates. The structure of this investment by branches of activity underwent a complete overhaul. The share of manufacturing fell from 70 to 26%, the complement going to an aggregate of trade, finance and services. Much more importantly was the impact of new technologies for which the US are much ahead of the rest of the world. The share of computers and electronics products increased from 8.3 to 11.4% despite the very sharp decline in the price of these products. The share of information and communication leapt amazingly forward from 6.2 to 33.0%. Europe was by far the biggest provider of direct investment outlays, its share increasing from 63.1 to 72.5%.<sup>(4)</sup>

Undoubtedly the catching up process of the European business sector to the growth regime called "new economy" fosters huge amounts of capital flows in acquiring the information technology and in restructuring the corporate sector to meet competition on global markets. Traditional macroeconomic models of the fundamentals of the exchange rate are entirely irrelevant to account for this process. On the one hand, much higher capital inflows than usually gauged against debt ratios are sustainable since a large portion does not take the form of debt. On the other hand, interest rates are not the yields that have to be considered to measure the attractiveness of capital inflows and the subsequent impact on the dollar. The yields to be considered are the return on assets of corporations that restructure thanks to their acquisitions in the US, compared to the return they would have got had they not made that direct investments. Conversely, portfolio investments taking the form of equities are sensitive to total return on equities (expected price appreciation included), not directly on interest rates. The BIS, in its 2000 annual report notes that the relationship between the exchange rate and the ex post differential in share prices is unstable. This not surprising since expectations of equity prices are notoriously volatile and subjected to sharp, discontinuous revisions whenever market conventions are changing<sup>(5)</sup>.

For the time being only qualitative results can be reached along these lines. However an alternative model of the fundamentals can be sketched to highlight the present puzzling configuration. For reasons which are exogenous to the exchange rate, the rejuvenating of the sources of growth has given a long lead to the US compared to Europe and Japan. After an intense restructuring and a rise in the rate of investment, the US economy has been achieving a gain in total factor productivity and a faster increase in labor productivity. It is why that, right or wrong, the financial markets are convinced that the high rate of return on capital is sustainable in the long run. On the financial side, the globalization of markets and the revolution in corporate governance have generated a competition for corporate control which has lifted up required financial returns. A heavy constraint, aggravated by absurdly tight monetary policies in the early 90's, has ensued for European businesses. They are late in embodying new information technologies but they are subjected to the same financial standards as US businesses. Because social restraints make the adoption of new technologies and new principles of new organization slower and more protracted, the economic rate of return in Europe is still lower than in the US. Pressured by the same financial

requirements, European businesses have no other immediate means than external growth through the acquisition of productivity-generating assets in the US. Therefore the hard core of capital inflows into the US can be dubbed fundamentally determined, thus reflected in the equilibrium exchange rate. But, even if the present level of the dollar is more economically justified than spelled out by standard macroeconomic models, does it mean that it can be sustained for ever?

### **Looking Into the Future: The EURO and the Pattern of Capital Flows.**

The factors which impinge upon the exchange rate of the Euro against the dollar in the near future are so complex and so intermingled as to defy any pretension to make forecasts. Yet one can carefully expect that real cyclical factors will reassert themselves. A slowdown in the US looks long overdue, even if the US economy has defied standard macroeconomics for the last few years. A downturn in the US coupled with a sustained upswing in Europe, albeit the momentum is not so strong in EMU on the average, will move the relative output gaps against the dollar and push the Euro upward. How much is another matter. The precedent of the early 90's can be misleading. A decade ago the US went into a severe recession magnified by the unwinding of financial imbalances while real estate prices had undergone a slump. The heavy indebtedness had affected bank solvency and a credit crunch ensued. The Fed moved to engineer a precipitous recess in interest rates. Meanwhile the shock of German unification entailed a simultaneous tightening of monetary policy in ERM countries. It ensued that the theoretical Euro appreciated between the fall of 1989 and yearend 1990 from 1.05 to 1.40\$.

It is unlikely but not impossible that the financial imbalances accumulated in the US economy warrant such a dramatic reversal this time. Bank balance sheets are robust, although delinquency rates on credit are creeping upward, admittedly from very low levels. Corporations are much less in debt and households have gone into debt to finance a higher proportion of financial rather than real estate assets. Since financial markets are more efficient than real estate markets and since the central bank will surely not let equity markets go under for a long time, even if there is a Stock market crash, the recession( if any ) will probably not be deep and long enough to warrant a 30% depreciation.

Besides, the conduct of monetary policy by the ECB does not look trustworthy in the eyes of foreign investors. No one knows what its exclusive reliance on its inflation objective really means with regards to its reaction to a temporary spike in primary commodity prices. If market participants are convinced that a strong catching-up effort in productive investment is crucial for European growth, an overreaction to a negative supply shock might be detrimental for the Euro. There is undoubtedly a bias in the way uncertainties in the economic climate are interpreted about Europe versus the US. A likely reason for this market attitude is that the decision making process of economic policy at large is murky, the economic consequences of future institutional changes are impossible to assess, the erroneous belief that Europe is plagued with rigidities is hard to die.

Finally the earlier harbinger of instant portfolio shifts in favor of the Euro was made on

the basis of static models. It was taken for granted in such scenarios that EMU would deliver instantaneously capital markets competitive with US markets. It is simply untrue. It takes time to make a broad and deep corporate bond market with a benchmark and a wide range of investment and non investment grades. It takes more time to integrate equity markets so that prices depend on sectors and businesses rather than on countries. Equity markets for high growth, high risk innovate firms are still especially segmented. The responsibility for managing European-wide market liquidity crises is quite unclear and does not specify an operational role for the ECB.

These financial features play against the Euro but are not to persist in the longer-run. The equilibrium rate of the Euro could be fostered by a change in the pattern of direct investments. The fast increase in the capital- labor ratio in the US is not going to last for ever. The rate of accumulation will decelerate and the profitability of investments will decline. The strong dollar will make foreign investment of US firms cheap and the balance of direct investment will be reversed. A pattern similar to the 60's could occur, leading to a downward pressure on the dollar as much as technology is transferred to other countries at the initiative of global corporations trying to keep their dominance on world markets. The big difference is the destination of those future capital flows. Apart from information and communication services and the biotechnology industries, Europe will not be the main recipient of direct investment. The bulk of them will flow to high growth emerging countries. Therefore an overhaul in exchange rates will arise, depending on the speed of convergence in total factor productivity with a likely rise of Asian currencies. The overall consequences for the Euro is impossible to assess since there will be countervailing forces. For the two coming decades, Europe will be a region with a relatively low potential growth but high saving and will accumulate ownership on foreign assets.

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**Note;**

- (1) Le taux de change d'équilibre de l'Euro, par M.Aglietta, .Baulant,V. Coudert, Revue Economique, mai 1998
- (2) The real effective exchange rate of the Euro and economic fundamentals : a BEER perspective, by S.Makrydakis, P.de Lima, J.Claessens, M.Kramer, ECB, roneo, march 2000.
- (3) CDC's briefs : taux de change et courbes de tau : l'euro ne répond plus aux variations du taux d'intérêt , by A.Sutan and Y. Tampereau, Research Department, Flash n ° 2000-147, August 23, 2000.
- (4) Foreign direct investment in the US , by N Howenstine and R. Troia, Survey of Current Business, June 2000.
- (5) BIS annual Report, chapter V Foreign Exchange Markets : equity marketts and exchange rates (p.97), 70 th report, June 2000.

Figure 1 : Real Exchange Rate of the Dollar Against the Euro

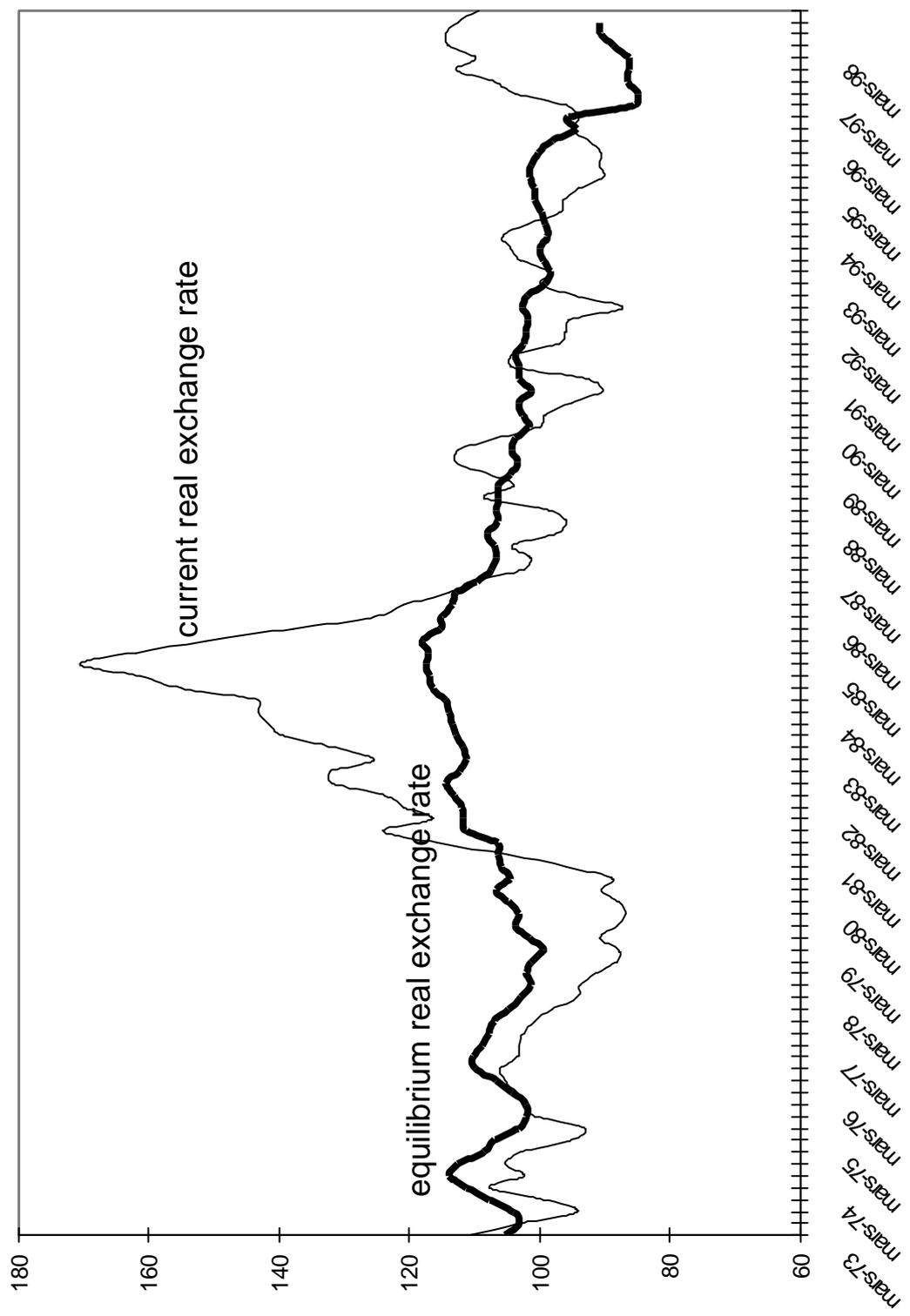
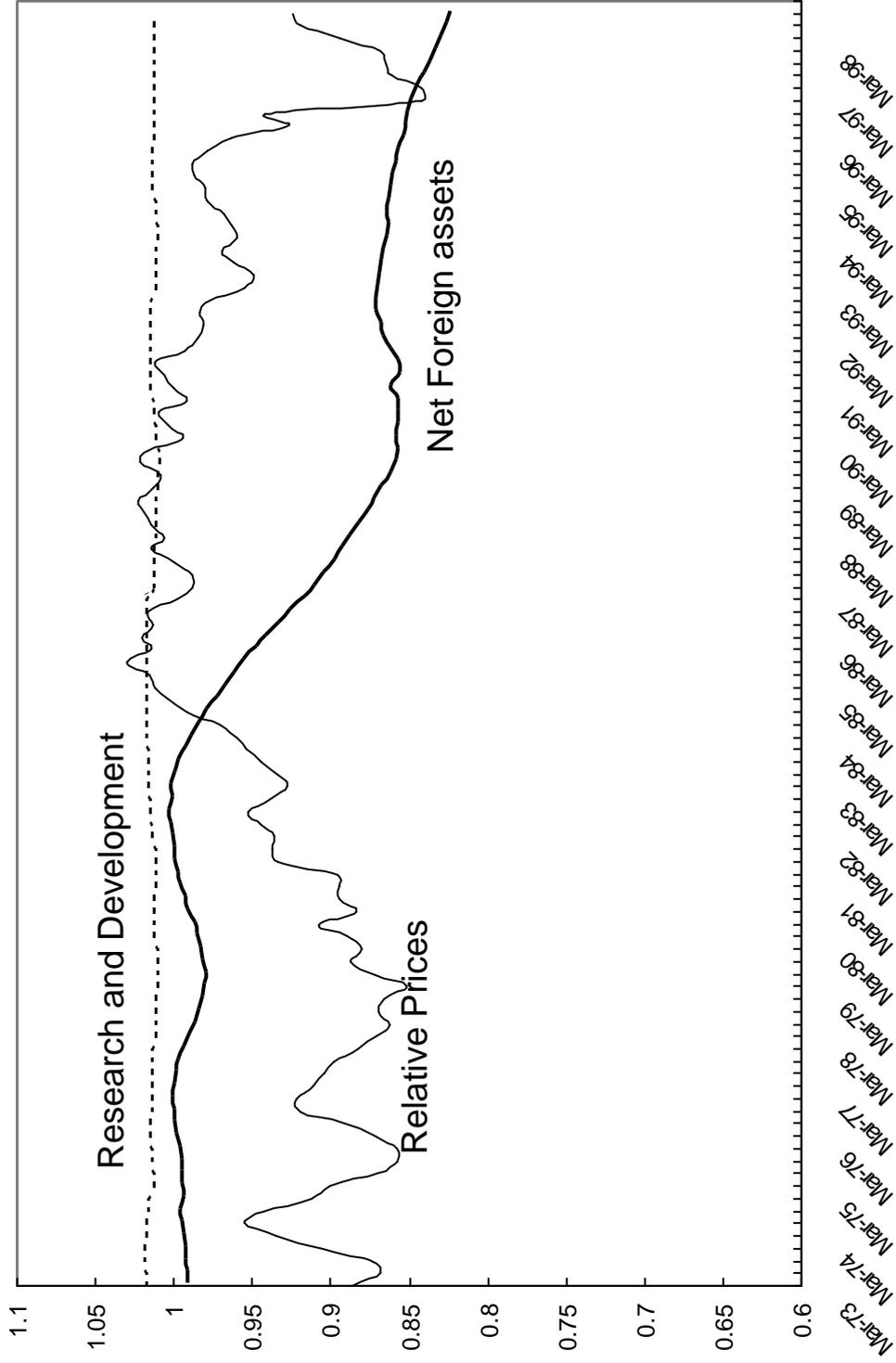


Figure 2: Factors Contribution to the Equilibrium Value of the Real Exchange Rate (Dollar VS Euro)



## The Enlargement of European Security Organizations

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The borders of Europe are ill-defined in the present context of European construction. While during the Cold War, the limits of political Europe were clearly marked, at the expense of the political and economic freedoms of half of our continent, there is no theoretical reason today for the political concept of "Europe" not to coincide with Europe geographically defined, save for the fact that three states, Russia, Turkey and Kazakhstan, are divided between Asia. All European states have a right in principle to participate in European structures.

This is a main reason why enlargement has become such a thorny political issue for Europe and for the Atlantic partners. This is in turn why the problem is there to stay, since it will not in the foreseeable future find a solution which will satisfy all the interested parties.

The paper will examine how **NATO enlargement** was achieved in a limited way, and how this opened new issues, some of which intractable, such as Baltic candidacies. It will define the reasons why NATO nations chose to ignore what could have been deemed to be the principal reason for early enlargement: Balkan security, with clear consequences for the balance of Europe. The role of US domestic politics will be alluded to in some detail. The paper will also underline the hopes of the expansion of 1999 created in Central and Eastern Europe, and the benefits which pertained to US diplomacy from this feeling, at least in the short term. The contention of the paper will be that frustrations are likely to reemerge in the near future. The recent proposals for a "Big Bang" approach to future NATO expansion, as accepted in Vilnius in April 2000, by all the candidates, create the prospect of an indefinite delay in future enlargement, or of a breach between the present applicants, none of which is conducive to maintaining confidence.

**The enlargement of the European Union** is obviously of a profoundly different nature. For Central and Eastern Europe, it has remained a prospect, and a pretty frustrating one at that, with a constant postponement of the entry dates, even for the better-placed candidates. Certainly, there have already been beneficial consequences, as witnessed in the reconciliation between Hungary and Romania, the solution of awkward outstanding issues, such as that of the Danube dam between Slovakia and Hungary, or the assumption of economic responsibility for weak states such as Macedonia and Albania by the European Union. The choice of Estonia as an early applicant to the Union has also had a positive effect, and the decision by Estonia and Latvia to renounce their legislation limiting the rights of Russian-speaking residents can at least partly be ascribed to the beneficial effect of EU attraction.

On the other hand, the development of a European Defense and Security Policy, the "Saint-Malo process", is viewed with apprehension by a number of EU applicants, since it runs the risk of determining a process and creating working habits between members before their accession. Their recent association to some of the deliberations among present members has limited these fears, and the Helsinki choice of a "Big Bang" approach to enlargement, including Turkey, has made matters less difficult than had been the case before. On the other hand, many, if not most applicants feel that progress in this direction creates the danger of building insuperable obstacles to their accession. They already are asked to revisit their legal systems, their economic organisation and their social legislation on the basis of the "acquis communautaire", and are weary of being asked to meet added goals in other dimensions of policy at the same time: inevitably, the impression that the Union is "moving the goalpost" is not popular with them.

Enlargement of both the EU and NATO is therefore of considerable importance to European security, but it will in the nature of things be an unsatisfactory process, in which dissatisfaction will go on. On the degree of frustration felt by applicants, and on the number of unsatisfied countries will the process eventually be judged.

## **The Expansion of Regional Organizations and Implications for Regional and Global Security Comments on Parmentier's presentation**

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The year 1999 was an epoch-making year for the postwar European security system. A series of major events occurred in this year: the 50th anniversary summit meeting was held in Washington; the updated Strategic Concept was adopted; Poland, the Czech Republic and Hungary officially joined NATO; Operation Allied Force was carried out in Yugoslavia over a period of 78 days; the Istanbul Summit of OSCE was held and the Charter for European Security adopted; the CFSP of the EU evolved; and the notion of a common European security and defense policy (ESDP) was launched at the Cologne Council in June and the Helsinki Council in December.

Since the collapse of the Cold War structure, we have already seen much evolution and development in the European security system. In spite of this assessment, we have to also reaffirm that the cornerstone of European security has not changed, which means that it is still nuclear deterrence that provides the *de facto* support for the European security system. Through this nuclear deterrence the balance of conventional force is maintained in Europe.

The great lesson that we have to learn from the crises in Bosnia and Kosovo is that power is needed to handle such situations. The preventive diplomacy efforts of the UN, the OSCE and the EU were powerless after all. (Nevertheless, we have to appreciate the OSCE's efforts, and especially those of the OSCE Mission in Kosovo before and after the NATO raids).

This fact shows that the threat or use of force was more easily carried out in regional conflicts because of the collapse of the Cold War structure. The reason the former state members of the Warsaw Pact want seriously to become members of NATO is that it is the only organization that

possesses this power.

(The mandate of the OSCE KOSOVO Verification Mission, which was withdrawn in early 1999, specifically stated that it should, to the extent possible, assist UNHCR, ICRC and other international organizations in facilitating the return of refugees to their homes and the provision of facilitative humanitarian assistance. In Kosovo, the OSCE developed an innovative and close relationship with the UN, as the OSCEMIK formed an organic part of the overall framework of the UN. On 1 July 1999, the decision was taken to establish an OSCE Mission in Kosovo, as a distinct component within the overall framework of the United Nations Interim Administration Mission in Kosovo (UNMIK). The OSCE Mission, within the overall framework, took the lead role in matters relating to institution- and democracy-building and human rights. It cooperates closely with relevant organizations in the planning and implementation of its tasks. It undertakes a number of tasks that are unprecedented in the context of the OSCE - the training of a new police service and of judicial and administrative personnel, for example. In those tasks, as well as in the promotion of human rights, in the building of a society where power is shared and where the judiciary, the media, non-governmental organizations and political parties play independent roles, the objective is to bring about mutual respect and reconciliation among all ethnic groups in Kosovo and of establishing a viable multi-ethnic society where the rights of each citizen are fully and equally respected. The Mission maintains close links with KFOR, which provides a secure environment for OSCE activities in Kosovo. The Council of Europe offered to provide secondments to OSCE Missions, has contributed seconded staff to the Kosovo Verification Mission and provides experts to the OSCE Mission in Kosovo, on both short-term and long-term bases, in the fields of media affairs, police training, democratization, human rights and the rule of law.)

The European Union also has been playing a growing role in the sphere of security issues. The Maastricht Treaty of 1992 created the Common Foreign and Security Policy. The Amsterdam Treaty of 1997 brought us the High Representative for CFSP - Javier Solana - as well as many other changes to make our external relations more effective.

European heads of government made a number of important decisions at the Cologne and Helsinki European Councils in 1999. The immediate goal is to have the ability by 2003 to deploy 50-60,000 troops, capable of the full range of what are known as the Petersberg tasks - humanitarian and rescue work, crisis management, peace-keeping, and even peace-making.

Europe's ambition requires changes that are both practical and institutional. The greatest is to build up Europe's military capability to act autonomously where NATO as a whole does not wish to be involved. The relationship between the EU and NATO needs to be fleshed out, as does the relationship of those EU countries who are neutral and not NATO members.

Europe will need to tackle on the way a number of difficult issues: reconfiguring forces

for rapid deployment anywhere rather than for a static defensive battle; achieving the necessary transport capability; and reviewing the tradition of conscripted forces. There is a sense of urgency. The Union's experience in Bosnia and Kosovo shows how classic foreign policy is hamstrung if not backed up by a capacity to project force when and where it is needed. The French Presidency has made clear its determination to drive full throttle for that goal in the coming six months.

It is fallacy, though, to imagine the gradual Europeanization of NATO by the EU.

It is important to point out that the notion of the European Security and Defense Identity was always NATO's own military project, essentially designed to solve a number of structural and political problems within the Euro-Atlantic community. Since the crisis of Kosovo, the progressive creation of a stronger and more autonomous European security capability has emerged not just as a NATO military project, but also as an EU political project. As we know, the Cologne Council in June 1999 and the Helsinki Council in December 1999 launched the notion of a Common European Security and Defense Policy as an inherent part of the EU's long-term political agenda.

The idea that Europe should play a role in security more commensurate with its size and resources has been promoted in different forms on both sides of the Atlantic<sup>(1)</sup>. In the United States, the main focus has always been on burden-sharing in the Euro-Atlantic community. In Europe, much of the driving force has been generated by France, who is always advocating the creation of a more balanced alliance structured on two pillars. France always seeks to make the European security system more balanced. The notion of burden-sharing refers primarily to resources, leaving US political and strategic leadership unchanged. At one level, ESDI is merely the latest version of burden-sharing. However, the Franco-European project was predicated on the assumption that balance involved not only resources and military tasks, but also political influence and diplomatic leadership. ESDP therefore goes much further than ESDI in positing not only the necessity but also the legitimacy of some relatively autonomous measure of European security policy<sup>(2)</sup>.

I think that for the best solution for the European security system is for both NATO and the EU to need one another and to work more closely together. NATO is still the center of gravity of European security and it is the OSCE and the EU that supplement it.

On the other hand, the European security system, especially NATO, is facing a series of dilemmas in its relations with Russia and with non-members. How should it manage relations with Russia? This is still the biggest problem for NATO. NATO should also seek to consolidate its relationship with Russia.

**Note;**

<sup>(1)</sup> Stuart Croft, Jolyon Howorth, Terry Terriff and Mark Webber, "NATO's triple challenge", *International Affairs*, Volume 76 Number 3, July 2000, p.503-504.

<sup>(2)</sup> *Ibidem.*, p. 504.

# **The Expansion of Regional Organizations and Implications for Regional and Global Security**

## **- Security Agenda in Asia -**

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### **1. Security Environment and Regional Security Cooperation in Asia**

(1) Ten years after the end of the Cold War, the international community is moving into the 21<sup>st</sup> century. In the past decade, the international community has been trying to catch up with fast changes and to establish a viable theory for a new international world order in the post-Cold War era. However, drastic changes in the world have made it impossible for human wisdom to keep up with reality. The world has seen both competition and coordination, both hegemonic and nationalistic behavior by nations to enhance their individual power and influence, and also multilateral cooperation among nations to enhance political security and economic stability.

The East-West Cold War confrontation started when the Soviet Union sought world hegemony on the basis of communist ideology. During the half-century of the Cold War era, theory stayed ahead of reality. As proposed by U.S. diplomatic expert George Kennan, Western nations pursued a coordinated policy of containing the Soviet Union to win the Cold War. For the past decade, experts have been trying in vain to formulate a theory for a post-Cold War order comparable to Kennan's containment theory. U.S. political scientist Samuel Huntington's theory of "The Clash of Civilizations" attracted wide attention, but most experts agreed that it had many logical flaws and was far from viable. On the other hand, the UN is unlikely to become the exclusive principal base on which a new international order is established, although it is likely to continue to undergo a restructuring that strengthens its role and function. The international order that has emerged so far is built around nations that share common value systems, especially with the United States. Foreign relations seem to be controlled not only by value systems, but also by a

combination of value systems and the national interests of each nation.

(2) Asia is now relatively peaceful and calm, although there is a broad consensus that the potential for uncertainty and instability is significant. There are two aspects to the region's dynamism in the post-Cold War period. The first is the dynamism of challenge, which means destabilizing factors. The challenges to peace and stability in the region consist of two types. One is inherent sub-regional problems such as the situation on the Korean Peninsula, the China-Taiwan relationship, China's future role and direction in Northeast Asia, the East Timor and Indonesia situation, the South China Sea issue in Southeast Asia, and the Kashmir conflict in Southwest Asia. Another type of challenge to peace and stability comes from common regional issues of a transnational nature. These include nationalism, the imbalance in military modernization programs, international organized crime, terrorism, ethnic conflict, narcotics trafficking, territorial issues among nations, the NMD • TMD issue, the proliferation of WMD (especially the development and transfer of nuclear weapons and missiles), the international movement of labor and refugees, instability in areas adjacent to SLOC and piracy incidents, and the widening of the economic gap between post-modern, modern, and pre-modern states. An energy and food crisis due to increased population and economic growth is a potential destabilizing factor in the future.

The regional framework and organization for security cooperation has not been well developed due to the diversity of the security environment, national interests, and the policies of individual nations in Asia. However, since the end of the Cold War, Asia has faced the potential of instability in not only economic but also security aspects; most nations in the region share common concerns about instability and uncertainty and seek to manage them through dialogues and cooperation. The ARF was established in 1994 in order to improve multilateral security dialogues and cooperation among Asian nations and to prevent destabilizing factors from turning into armed conflict. Frameworks for multilateral security cooperation and dialogues for this purpose, such as ARF, ASEAN+3 and ASEM, have been developing significantly in recent years. Unfortunately, they lost momentum to some extent due to the economic crisis in 1997 and the nationalistic approach of some participants. Over the previous decade Asia enjoyed significant economic development and the expansion of democracy, respect for human rights, and common value systems, but since 1997 the economic crisis has severely tested the region's ability to maintain economic growth and development. The momentum and capability of Asian nations to deal with political instability and security disorder in the region has also been diminishing as domestic political turmoil in some countries during the past three years has made other nations more cautious. The possibility of regional consensus and agreement on CBMs and preventive diplomacy is also becoming remote because some nations still adhere to respect for sovereignty and non-interference and are reluctant to agree definitely on implementation of an Asian approach.

(3) The other aspect of dynamism in the region is the positive factors of opportunity and expectation, of which there are three elements. The first element is the presence and commitment of the United States. The Japan-U.S. alliance is unquestionably critical for the peace and stability not only of Japan, but also of the entire Asia region. Japan and the U.S. have made significant efforts to maintain their alliance in the post-Cold War period, putting priority on exploring and promoting common national values and interests. During the Cold War period the Japan-U.S. alliance contributed to deterring Soviet military intervention in Asia and to transferring Soviet forces from Asia to the European front. While continuing to do this, the alliance has expanded its role to managing destabilizing factors in the Far East, including military confrontation and confusion on the Korean Peninsula and in the Taiwan Strait, and other incidents. Both Japan and the United States have made serious efforts to strengthen their bilateral security ties in the areas of Japan-U.S. defense cooperation, the effective use of U.S. bases in Japan, and the BMD joint research program. The Japan-U.S. alliance is the most significant factor for peace and stability in the region as a whole. It contributes to deterring and controlling military action in Northeast Asia by North Korea.

The second element of opportunity is the multilateral cooperation and exchanges among the nations in the region. This was manifested in the dialogues and the cooperative approach that led to the steady strengthening of APEC in matters of economic development and cooperation and of the ARF on political and security issues. In July 2000 the ARF held the seventh ministerial conference since its establishment in 1994, and there has been remarkable progress in dialogues and cooperation on regional security in the past several years.

Two major factors lie behind these developments in the security dialogue in Asia. The first is the region's economic development and growth, which has infused its countries with confidence and sparked moves to seek a collective identity for Asia as a whole. The second is the growing recognition of the many potential elements of instability that exist there and of the need to build a framework for dialogue within the region to prevent escalation of disputes into conflicts. An indication of this recognition was given at the second ARF conference, where agreement was reached on a three-step approach to the pursuit of regional stability through confidence-building measures, preventive diplomacy, and approaches to conflict resolution. Since then, multilateral security cooperation and dialogues have concentrated on CBM. A new focus is now expected to be conflict prevention, or 'preventive diplomacy'. CBM and preventive diplomacy in this region both exhibit some typically Asian characteristics, including a realistic and gradual approach toward consensus. Therefore, development is slow and it is still difficult to reach agreements that include binding obligations to comply. However, regional security cooperation through CBM and preventive diplomacy has played a significant role in promoting mutual understanding and confidence among nations in the region. These measures contribute to peace and stability in order to compensate, not to offset, the roles of the Japan-U.S. alliance.

Third, the improvement in the bilateral relationships among the four major powers in the region—the U.S., Russia, China, and Japan—is also a significant and positive indication. In the post-Cold War period, the relationship among the major powers has been characterized, in general, as a 'concert of power,' in contrast to its balance of power nature during the Cold War era. However, relations among the major powers still exhibit some elements of power sharing and a nationalistic approach, as most major actors put a higher priority on national interests than before. In any case, China's future and the relationship among the four major powers are still key factors in shaping the regional security structure and in securing peace and stability.

In particular, Northeast Asia is the only region in which the complexly interrelated interests of all four major powers overlap. On the other hand, each of the bilateral relationships between major powers has a different aspect and dimension. So far, the U.S.-China relationship has deteriorated due to issues such as Taiwan, the NMD issue, the NATO mishap at the Chinese Embassy in Belgrade, alleged spying on missile and nuclear technology developments, human rights, and the WTO, to name a few.

## **2. The common security agenda for Asia and Europe**

As Europe and Asia continue their development in the post-Cold War period, there are three factors that are of particular relevance with regard to the need for cooperative efforts between these regions in the political, security, and economic spheres.

The first is that in the course of their pursuit of globalism and regionalism, both Europe and Asia will find that they share common ground and are seeking similar interests. As both regions believe in democracy, promotion of the market economy, and the protection of human rights, they already share a sound base on which to promote further cooperative relations.

In particular, it is important to promote further mutual economic relations between these two regions, as this will provide European countries with the means for helping to develop the vast untapped potential of the Asian countries. At present, although the European economy is facing some problems, if it is able to promote mutual relations for economic growth in investment, trade, and joint development projects, such economic cooperation would in turn give a crucial boost to the European economy. As the regional structures of Europe and Asia have many similarities there is no reason for them to be mutually exclusive. Thus, in order to promote world economic growth and growth within the two regions, both Europe and Asia need to strengthen their economic links.

Secondly, they share similar security priorities. Needless to say, Europe and Asia each need to watch very closely developments in Russia, which is as a source of potential instability for

both regions. The future direction of Russia is still the crucial factor for stability and prosperity in Europe, just as China is critical for Asia. Both nations have huge territories and powerful militaries. They share a common border and are suffering political, economic difficulties and domestic problems. Russia and China seem to be coming together to counter the U.S. uni-polar system in recent years. However, both major powers of Russia and China have to coordinate with and get support from the United States and international organizations if they are to ensure their own economic prosperity.

Russia's substantial support to China under the Sino-Russia strategic partnership, such as the transfer of sophisticated military equipment and technology, has serious implications for security in Asia.

Europe and Asia also each need to work to ensure a continued US presence. America's European and Asian policies are closely related and the U.S. presence in each region is mutually dependent. How to maintain this presence continues to be a top priority issue for both regions. In this context, attention must be paid to US security policy under the new us administration with regard to how U.S. will maintain or modify the force structure under new policy guidelines or strategies. Moreover, both Europe and Asia share similar concerns regarding the non-proliferation of Weapons Mass Destructor. Promoting the non-proliferation of WMD is vital to the stability of the region. In addition, both Europe and Asia share the same concerns over how to promote peacekeeping operations within the region by balancing their regional operations with those of international organizations such as the UN. As NATO continues to expand to the east, the European and Asian regional structures are likely to overlap. At that time, Central Asia and the Gulf States will be critical to the stability of both Europe and Asia.

At any rate, there is a need for further cooperation and increased dialogues in the political and security spheres between Europe and Asia. ASEM has been established for this purpose. ASEM has to be improved and reinforced in order to increase mutual cooperation between Europe and Asia not only in the economic area, but also in political and security areas.

Third, in the process of developing a new international order, Europe and Asia need to develop various areas for dealing with issues on a global regional scale and the activities of international organizations such as the UN as well as mutual cooperative arrangements such as those between the United States, Europe, and Japan. In particular, both regions need to address a wide range of problems such as the prevention of internal conflict, population and labor migration, human rights, the environment, energy, the North-South problem, and aid to developing countries. Cooperation in dealing with this wide range of problems is in the interests of each of the two regions. To promote Asian economic development, Asia needs to close the gap between Europe and itself, and this will require increased cooperation. Both Europe and Asia are rich and stable regions and in order for this situation to continue in the future, it is not sufficient to address only

regional problems, and cooperation should be promoted on a global scale. If Europe and Asia can do this successfully, they will help to break new ground, and international relations will be seen as entering a stage of new cooperative relations in the post-Cold War era.

# Introduction and Comments on the Paper

## by Prof. Satoshi Morimoto

Mr Masahiro OMURA  
Director of Research Coordination, JIIA

### Outline of the Paper

The paper consists of two parts: the first half discusses the security environment and regional security cooperation in Asia, and the second half the Common Security Agenda for Asia and Europe.

1 The first half addresses three topics: a new world order in the post-Cold War era, destabilizing factors in Asia, and the positive factors of opportunity and expectation.

a. In the view of Prof. Morimoto, the U.N. is unlikely to become the exclusive principal base on which a new international order is established. The international order that has emerged so far is built around nations that share common value systems, especially with the United States. Foreign relations seem to be controlled by a combination of value systems and the national interests of each nation.

b. Prof. Morimoto then talks about the dynamism of challenge, or destabilizing factors in Asia. There are in Asia numerous sub-regional problems such as the Korean Peninsula, the China-Taiwan relationship, East Timor and Indonesia, the South China Sea and the Kashmir conflict.

There also exist common regional issues of a transnational nature. They include nationalism, the imbalance in military modernization, international organized crime, terrorism, ethnic conflict, narcotics trafficking, territorial issues among nations, the NMD/TMD issue, the proliferation of WMD, the international movement of labor and refugees, instability in areas adjacent to SLOC (sea lanes of communication) and piracy, and the widening economic gap among post-modern, modern and pre-modern states.

Frameworks for multilateral security cooperation and dialogue, such as ARF and ASEM have been developing, but they have lost momentum to some extent due to the economic crisis in 1997 and the nationalistic approach of some participants. Thus the possibility of regional consensus and agreement on CBMs and preventive diplomacy is growing remote.

c. There are positive factors of opportunity and expectation in Asia as well. The first positive factor is the Japan-US alliance. Japan and the US have made significant efforts to maintain their alliance in the post-Cold War period, putting priority on exploring and promoting common values and interests. The alliance has expanded its role to managing destabilizing factors in the Far East.

The second element of opportunity is the multilateral cooperation and exchange among the nations in the region. This is manifested in the dialogues and the cooperative approaches of the APEC and the ARF. Two major factors lie behind these developments in security dialogue in Asia. The first is the region's economic development and growth, which has sparked moves to seek a collective identity for Asia as a whole. The second is the growing recognition of the many potential elements of instability and of the need to build a framework for dialogue within the region.

In this connection, an agreement was reached by ARF nations in 1995 on a three-step approach to the pursuit of regional stability through confidence-building measures, preventive diplomacy, and approaches to conflict resolution. Since then, multilateral security cooperation and dialogues have concentrated on CBMs. A new focus is now expected to be conflict prevention, or 'preventive diplomacy'. CBM and preventive diplomacy in this region have been pursued in a realistic and gradual approach toward consensus.

The third positive indication is the improvement in the bilateral relationships among the four major powers in the region—the U.S., Russia, China, and Japan. In the post-Cold War period, the relationship among the major powers has been characterized, in general, as a 'concert of power,' in contrast to its balance of power nature during the Cold War era. China's future and the relationships among the four major powers are still key factors in shaping the regional security structure and in securing peace and stability.

2 In the latter half Prof. Morimoto discusses the Common Security Agenda for Asia and Europe. He emphasizes three factors of particular relevance with regard to the need for cooperative efforts between the two regions.

a. The first is that in the course of their pursuit of globalism and regionalism, both Europe and Asia will find that they share common ground and are seeking similar interests. As both regions believe in democracy, the promotion of market economies, and the protection of human rights, they already share a sound base on which to promote further cooperative relations. It is important to promote further mutual economic relations between these two regions. In order to promote world economic growth and growth within the two regions, both Europe and Asia need to strengthen their economic links.

b. Secondly, Europe and Asia share similar security priorities. The future direction of

Russia is a source of potential instability for both regions. China is critical for Asia. Russia and China seem to be coming together to counter the U.S. uni-polar system in recent years.

Russia's substantial support to China under the Sino-Russia strategic partnership, such as the transfer of sophisticated military equipment and technology, has serious implications for security in Asia.

Europe and Asia also each need to work to ensure a continued US presence. America's European and Asian policies are closely related and the U.S. forces in both regions are mutually dependent. In this context, attention must be paid to US security policy under the new administration.

Moreover, both Europe and Asia share similar concerns regarding the non-proliferation of weapons of mass destruction. In addition, both Europe and Asia share the same concerns over how to promote peacekeeping operations within their respective regions by balancing their regional operations with those of international organizations such as the UN.

ASEM has to be improved and reinforced in order to increase mutual cooperation between Europe and Asia not only in economic matters, but also in political and security matters.

c. Third, Europe and Asia need to address a wide range of problems such as the prevention of internal conflict, population and labor migration, human rights, the environment, energy, the North-South problem, and aid to developing countries. Cooperation in dealing with this wide range of problems is in the interests of each of the two regions. If Europe and Asia can do this successfully, they will help to break new ground, and international relations will be seen as entering a new stage of cooperative relations in the post-Cold War era.

#### • Comments

Now I would like to add some brief comments of my own.

It seems to me that Prof. Morimoto's thinking is very close to the mainstream thinking on security in Japan after the Second World War. It is a realistic view with an emphasis on military analysis. He talks about Russia and China coming together to counter the U.S. uni-polar system in recent years. This view is clearly oriented on the national interests of Japan, putting emphasis on the bilateral relationship with the United States. As a recent trend the thinking embraces a comprehensive approach to national security.

When we look at the security situation in Asia during the last and next decades, we immediately notice several destabilizing factors, as pointed out by Prof. Morimoto. They include development and deployment of weapons of mass destruction, moves towards military buildup and domestic turmoil frequently associated with the suppression of democratization and human rights. These trends are also observable in other regions of the South. Such factors have serious implications for the peace and stability of the region and require concerted efforts by the

international community to contain the associated risks.

The Government of Japan adopted the ODA Charter in 1992 incorporating four principles that have significant roles to play in dealing with the above-mentioned destabilizing factors. The four principles aim at the following:

- (1) pursuing environmental conservation and development in tandem;
- (2) avoiding the use of ODA for military purposes or for aggravation of international conflicts;
- (3) paying full attention to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms; and
- (4) paying full attention to efforts for promoting democratization and the introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms.

Ten years have passed since the adoption of the charter, and there have been nearly a hundred cases where the charter has been implemented, according to a recent survey. One characteristic of the implementation is that the Government of Japan has taken a tough stance as far as the development and production of mass destruction weapons and missiles are concerned. This is evident in the cases of nuclear tests by India and Pakistan, for example. Japan has maintained a suspension of aid for two years and resumed only part of it this year after confirming a nuclear test moratorium by the two countries.

Japan also took a firm stance when China conducted a nuclear test in 1995. It suspended grant aid until China signed the CTBT in 1996.

There are other cases where Japan has taken a somewhat more flexible stance than other donors, including European countries. It would seem beneficial for both Japan and Europe to exchange views regarding the principles and implementation of development assistance in relation to non-proliferation and disarmament, democratization and human rights, among others. Such exchange might highlight our common efforts to realize a better security environment in Asia and other regions.

## Disarmament Process in Trouble

Amb. Akira HAYASHI  
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former Ambassador of Japan to the Conference on Disarmament

### 1. Recent developments in disarmament

(1) From the years immediately before and after the end of the Cold War until the mid 90s, important progress was made in various fields of disarmament and arms control. The INF Treaty was concluded in the theater missile field, STARTII was agreed upon to reduce strategic arsenals and agreement on further reduction talks was reached between the US and Russia (Soviet Union). The Chemical Weapons Convention was adopted and entered into force shortly thereafter, the NPT was extended indefinitely and the CTBT was adopted.

(2) This encouraging trend started to change rapidly after the adoption of the CTBT in 1996, practically the last achievement in disarmament in the 90s. The deterioration of the global security environment caused by such events as the enlargement of NATO, troubles over UNSCOM, the nuclear tests by India and Pakistan, the Kosovo situation and the missile defense debate are some of the main reasons for this stall of disarmament process.

On the other hand, the approaches and the interrelationships within the disarmament process itself have also made matters worse in recent years. A typical example is the deadlock of the Conference on Disarmament (CD), the sole multilateral negotiating body for disarmament, which has been unable to carry out any substantive work during these past four years.

Winter has come for the disarmament process and no breath of spring can be felt yet. According to the Tokyo Forum, the global regimes to stop the proliferation of nuclear weapons and other weapons of mass destruction are under siege.

(3) When it comes to disarmament, weapons of mass destruction are the main focus, and of these nuclear weapons are overwhelmingly important. Although the bilateral negotiations between the US and Russia are the center of the world's concern because of the size of the nuclear arsenals they have, here I would like to share some thoughts on how nuclear disarmament should be placed in global regimes of disarmament and non-proliferation, especially from the viewpoint of non-nuclear weapon states.

(The views expressed here are my personal views unless specified otherwise.)

## **2. Nuclear disarmament**

(1) At the Conference on Disarmament, nuclear disarmament is the biggest issue of concern. While the CD has not engaged in negotiations on the actual reduction of nuclear weapons, it has concluded successfully treaties such as the PTBT, NPT and CTBT (some argue that these are not treaties of nuclear disarmament, but they contain undeniably disarmament aspects). The next agenda item in the CD for nuclear disarmament and non-proliferation is FMCT. While the CD has agreed to establish an ad hoc Committee to negotiate on FMCT twice in the past, it has not yet been able to start substantive negotiations. The difference of views on how to handle in the CD nuclear negotiations in general has been the principal source of disagreement on the adoption of its work program, but now another issue of conflict has been added: missile defense.

(2) There exist roughly three positions concerning the nuclear disarmament in the CD. It might be more or less the same globally.

First is the position taken by the five nuclear weapon states. They claim that nuclear disarmament is an issue that concerns solely the nuclear weapon states and that it is not appropriate to discuss it multilaterally, let alone negotiate. In other words, "don't poke your nose into our business" is their response to non-nuclear weapon states. They agree to disclose information and to brief on progress (if any) but only to the extent they deem appropriate.

The second position is that there should be negotiations on nuclear weapons with the participation of non-nuclear weapon states in a time-bound framework, because the elimination of nuclear weapons is an obligation under NPT that includes both nuclear and non-nuclear weapon states. This is basically the common position of the non-aligned countries (NAM).

The third position is the one which non-nuclear weapon states of the Western and Eastern groups take, with some differences in nuance. They do not seek to carry out negotiations on nuclear weapons reduction in a multilateral setting, but argue that discussions should be conducted on nuclear disarmament, the most important issue in disarmament today, at the CD, which is the sole multilateral negotiating body for disarmament in the world, and that there exist subjects that can be and should be negotiated multilaterally. Although NAM countries have a common position, many of them do not think it feasible to achieve a time-bound approach and are prepared to join in this third path.

(3) This group of moderates, consisting of countries from the Western and Eastern groups and non-extremist NAM countries, has a majority in number. The frustration of those countries, whether or not it is publicly and loudly voiced, is the inflexibility of nuclear weapon states in sticking to their basic position. Every time the moderates come up with some idea for compromise based upon a middle-of-the road approach, they encounter a negative response from nuclear weapon states, who say that it is a "slippery slope". The moderate countries believe that they are not asking something absolutely impossible for nuclear weapon states, knowing perfectly well the situations and circumstances of the nuclear weapon states. If such outright and categorical responses continue in the future, the *raison d'etre* of global regimes of nuclear disarmament and non-proliferation will be questioned.

(4) The above frustration is closely related to how non-nuclear weapon states perceive the NPT. The essence or the basic structure of NPT is a deal between non-proliferation and disarmament, that is, renouncing the development and possession of nuclear weapons forever by non-nuclear weapon states on the one hand, and possession of nuclear weapons by five countries for the time being and their eventual elimination on the other. The commitment to a future nuclear-free world is the reason why so many countries, a quasi-totality of the countries of the world, have acceded to the Treaty as non-nuclear weapon states. In that sense, the obligation of disarmament for nuclear weapon states is, apart from a meticulous and legalistic interpretation of words, the same as that of non-proliferation for non-nuclear weapon states. Therefore it is natural that accountability is strongly required in its implementation.

(5) It is true that at the beginning the NPT aimed principally at preventing an increase of nuclear weapon states as had been feared by President Kennedy. Since its inception in 1970, Germany and Japan have acceded to it, South Africa has abandoned nuclear weapons and joined, followed by Argentina and Brazil, and the former republics of the Soviet Union have also acceded to it as non-nuclear weapon states. Although four countries are outside the Treaty --and that is not at all unimportant-- it can be said that the goal of non-proliferation has been mainly attained. As a consequence, it is logical that attention is focused on the other commitment, that is, disarmament by five states. Against this background, the non-nuclear weapon states are fully entitled to raise their voice for more efforts toward nuclear disarmament. It should be added that they are more disappointed and frustrated at the fact that nuclear weapon states do not share this basic view of the rules of the game than at the slow progress in the reduction of nuclear weapons. Had nuclear weapon states not conceived when the Treaty was signed that the day would come for them to cash the check? Did they believe the Treaty would linger forever at the stage of pursuing only non-proliferation?

(6) As a result of the accession by almost all the countries that could possibly be expected at present, another aspect of the Treaty has become very relevant: the effective implementation of

the Treaty. When the dynamic phase of enlarging participating states ends, the following phase will be the good administration and implementation of the Treaty. Considering more seriously the implementation, including dealing with problems of non-compliance, will and should become the primary concern for the Treaty. Here again, efforts for that purpose have met strong opposition from the five countries. They are concerned that the disarmament process will be inevitably taken up if the implementation is more thoroughly checked.

(7) The Review and Extension Conference of 1995 offered an opportunity to reexamine the Treaty, especially its implementation. The Conference agreed on, in addition to the decision on indefinite extension, two decisions -one on Strengthening the Review Process and the other on Principles and Objectives for Nuclear Non-Proliferation and Disarmament- and a resolution on the Middle East, as a package. These two decisions are extremely important because the implementation of the Treaty should be checked almost permanently by the strengthened review process which uses the Principles and Objectives as yardsticks. As the President of the Conference, Ambassador Dhanapala, stated at the end of the Conference, "permanence with accountability" was what most of the countries expected from those decisions. However, the newly started Preparatory Committee process 1997-1999 was disappointing and obtained few results.

### **3. NPT Review Conference 2000**

(1) It was anticipated that the RevCon 2000 would be extremely difficult. Some countries tried to lower expectations in order to avoid a failure of the Conference or rather to avoid being blamed for the failure, but low expectations would not help in any way the healthy implementation of the Treaty.

The Conference managed to adopt a final document after overcoming various difficulties.

(2) The Japanese Government's view on the results of the RevCon 2000 is as follows:

"It was the first Review Conference of the Treaty since the indefinite extension of the Treaty in 1995 and it was held at a time when the environment surrounding nuclear disarmament and non-proliferation had been extremely severe since the late 1990s. The achievement of the Conference was produced by the strong will of all the participating countries to make a final agreement possible. The Government of Japan welcomes and appreciates the results as they are very significant for maintaining and strengthening the nuclear non-proliferation regime and for promoting nuclear disarmament in the future". (partial quotation)

Foreign Minister Kono further said in his statement at the UN General Assembly:

"I highly appreciate the final document adopted at the 2000 NPT Review Conference this spring, since it contains practical steps to be taken in the future in the fields of nuclear disarmament and non-proliferation, including an unequivocal undertaking to accomplish the total elimination of nuclear arsenals."

(3) In my view, the Conference was successful in the sense that it did not totally fail by agreeing on the final document. The crisis over the NPT was put off to the future. Therefore, how to put the results into practice is important. From that point of view, it could be said that the danger signal is already blinking. At the resumed session of the CD after the RevCon, an agreement could not be reached on the program of work that included the establishment of an ad hoc Committee on FMCT and the establishment of a subsidiary body on nuclear disarmament, despite the agreement in the final document.

(4) It is very much expected that the international environment will be ameliorated and better and more effective implementation of the Treaty will be achieved in the coming years. If no tangible progress is made during the next five or ten years, meaning that if the RevCons in 2005 or at latest in 2010 does not produce reassuring results, then it would not be too pessimistic to foresee that the global regime for non-proliferation will be tremendously disturbed.

#### **4. Missile defense problems**

(1) The NMD program of the US has important implications for the international security environment and, more specifically, for nuclear disarmament and non-proliferation. Russia and China have reacted very negatively to the prospect of national missile defenses. Several European countries also view them with concern.

Impacts have been seen in such cases as the commencement of START III negotiations, the ratification of the CTBT by the US and China, and the adoption of a work program at the CD, including the start of negotiations on FMCT. The development of the NMD program might affect the entire process of nuclear disarmament between the US and Russia and might also bring about an increase in the nuclear arsenal of China.

The decision by President Clinton to postpone a decision to deploy a National Missile Defense has given us breathing space to consider once again its implications and possible ways to deal with it.

(2) Before stating the position of the Japanese Government on this issue, it might be useful to touch briefly upon the TMD (Japan calls it BMD) on which Japan is conducting joint technological research with the US.

- Japan decided to initiate Japan-US cooperative technological research on NTWD (Navy Theater Wide Defense), a type of TMD. No decision has been taken on its development and deployment, which will be considered separately and subsequently on the basis of its technical feasibility and in accordance with Japan's future defense structure.

- Japan's military capability is exclusively defense-oriented. It does not have offensive capability. For such a country, the only available means to defend itself from possible missile attacks is to have shields against them.

- TMD (BMD) is not a missile defense covered by the ABM Treaty between the US and Russia. It does not affect the strategic stability specified in the ABM Treaty.

(3) The position of the Japanese government could be summarized as follows:

Since the US government has been examining the feasibility of the NMD program, it is difficult for Japan to take a specific position on this issue. With this reservation, Japan understands that the US sees the recent proliferation of ballistic missiles as a new threat, and that it has been exploring the program to respond to this threat. Japan hopes that the consultations between the US and Russia on this issue will be successfully concluded, and that the consultations will be completed in a way that will contribute to ameliorating the international security environment and to strengthening the arms control and disarmament regime.

Foreign Minister Kono said at the 55th session of the UN General Assembly on President Clinton's decision, "I also appreciate the postponement by the US Government of its decision to deploy a National Missile Defense, as a result of prudent consideration with an emphasis on further dialogue on this important issue."

(5) This Japanese view might not be straightforward or very clear. The conflicting circumstances in which Japan is placed do not allow the Government to be very eloquent on this issue.

Japan is committed to the joint research on TMD without, nevertheless, making final decisions on its development and deployment. The difference between TMD and NMD is of a technical and strategic nature and not easily comprehensible to the general public. A critical view on NMD might risk to lead people to question why Japan carries out research on TMD. Being an ally of the US is another consideration. The inhibition to say something that might trouble the US, especially on defense matters, seems to be much stronger in Japan than among US allies in Europe.

On the other hand, Japan is concerned with the possible serious impacts on the achievements in nuclear disarmament to date as well as on future developments, as a country vigorously promoting nuclear disarmament. Furthermore, an eventual increase in China's nuclear arsenal triggered by US NMD would be a direct threat to Japan's security and be a serious concern.

(6) NMD has too many problems to be actually pursued, in my view. First of all, it would inevitably challenge the concept of nuclear deterrence, which was and still is the guiding principle of nuclear strategy, without providing any alternative. The US claims that NMD is not something that would affect nuclear deterrent, but it is undeniable that the nuclear deterrent capability of Russia and China would be affected. In the case of China particularly, their actual deterrent vis-a-vis the US will become almost nil even in the first phase of the program. Furthermore, it is

hard to believe that a missile defense system that costs several tens of billions of dollars or perhaps more is only for the purpose of defending against a few missiles that might or might not be launched from certain countries of concern. It is more natural and logical to think that, if a system is successfully developed, it will be used for more serious threats.

An argument for de-coupling is also raised. Will Americans feel more prepared to come to help in overseas conflicts or become less interested in them once their own land is secured from missile attacks? The answer will depend entirely on the specific situations they face, and either scenario is possible.

(7) Of course, missile proliferation is a serious problem at present. While the necessity to cope with it is keenly recognized by most of the countries in the world, it is unlikely that NMD is the right answer because of various adverse consequences it would produce.

(8) The important part of NMD development relates to American domestic politics. It is hard to imagine that NMD will be renounced totally unless it is deemed technically infeasible.

It is difficult to find a quick answer to cope with this problem during the breathing space, but we cannot remain idle in view of the adverse effects to global disarmament and non-proliferation process.

Making efforts to seek effective means to prevent missile proliferation and encouraging the Americans to conduct further discussions with the Russians and Chinese are among the least that international society should be asked to do.

## **The JIIA-Ifri 9th Joint Conference Japan-Europe Cooperation toward the 21st Century**

25-26 September 2000, Paris

Chaired by Dr Thierry de Montbrial and Amb. Hisashi Owada

### **Agenda**

#### **1. Energy Issues and Security**

##### *The Korean Peninsula after the summit meeting - Japanese perspective*

Presentation Prof. Hideya Kurata, Adjunct Research Fellow, JIIA and Associate  
Professor, Tokoha-Gakuen Fuji Junior College

Discussant Prof. François Godement, Senior Associate, Ifri

##### *The future of energy resources: a sub-regional assessment (Russia, Near and Central Asia) - European perspective*

Presentation Prof. Anita Tiraspolsky, Research Fellow, East European Post-Soviet  
Economies, Ifri

Discussant Mr Seiichi Kondo, Deputy Secretary General, OECD

#### **2. Economic Issues and Security: the issue of integration and mutual dependence revisited**

##### *The aftermath of the financial crisis in Asia*

Presentation Mr Seiichi Kondo, Deputy Secretary General, OECD

Discussant Dr Françoise Nicolas, Senior Economist, Ifri

##### *European monetary integration and its impact on the international financial system*

Presentation Dr Michel Aglietta, Scientific Adviser, Centre d'etudes prospectives et  
d'informations internationales (CEPII)

Discussant Mr Shinichi Yoshikuni, Chief Representative in Europe, London Office,  
Bank of Japan

### 3. Security Issues in Asia and Europe

*The expansion of regional organizations and its implications for regional and global security*

Presentations Dr Guillaume Parmentier, Head of the French Center on the United States, Ifri

Prof. Satoshi Morimoto, Professor, Takushoku University (paper only)

Mr Masahiro Omura, Director of Research Coordination, JIIA

Discussants Dr Sadaharu Kataoka, Research Fellow, European Studies and African Issues, JIIA

Dr Isabelle Cordonnier, Senior Analyst, Delegation for Strategic Issues, French Ministry of Defence

*The disarmament process and NMD/TMD*

Presentation Amb. Akira Hayashi, Ambassador of Japan to Italy and former Ambassador of Japan to the Conference on Disarmament

Discussant Mr Patrick Allard, Policy Planning Staff, French Ministry of Foreign Affairs

## List of participants

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