



Kristiina Korhonen
with Erja Kettunen & Mervi Lipponen

DEVELOPMENT OF FINNO-KOREAN
POLITICO-ECONOMIC RELATIONS

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This book derives from a long-standing interest in South Korea (hereafter Korea), frequent visits to the country, and periods of residence there in the 1990s.

There are no earlier studies on Finno-Korean relations. However, the relations are worth of analysis as they show how two geographically and culturally distant countries can build close and beneficial relations. In addition, the present study shows that the development of Finno-Korean relations reflects clearly the dynamics of the world order.

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The views expressed in the study are our own and do not necessarily represent those of the Finnish government or the Korean government.

Helsinki, December 2005
The Authors

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ABBREVIATIONS

3G	Third generation of mobile communications technology
AEBF	Asia-Europe Business Forum
AFTA	ASEAN Free Trade Area
ASEF	Asia-Europe Foundation
ASEM	Asia-Europe Meeting
ASEAN	Association of Southeast Asian Nations
ASEAN + 3	Annual meetings of leaders and ministers of ASEAN countries, Japan, Korea and China
APEC	Asia-Pacific Economic Co-operation
ARF	ASEAN Regional Forum
CEO	Chief Executive Officer
CDMA	Code-Division Multiple Access
CSCE	Conference on Security and Cooperation in Europe
EC	European Community
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EMU	European Monetary Union
EU	European Union
EUR	Monetary unit of the European Union, Finnish currency since 2002
FDI	Foreign Direct Investment
FIM	Finnish Markka, Finnish currency before 2002
GATT	General Agreement on Tariffs and Trade
GBP	British Pound
GSM	Global System for Mobile communications
GSP	Generalised System of Preferences
ICT	Information and Communication Technology
ILO	International Labour Organisation
IPAP	Investment Promotion Action Plan
IPU	Inter-Parliamentary Union,
KFI	Korean Federation of Industries
KOTRA	Korea Trade-Investment Promotion Agency
MFN	Most Favoured Nation, treatment of non-discrimination in bilateral trade
MTN	Multilateral Trade Negotiations
NIE	Newly Industrialised Economies
NGO	Non-Governmental Organisation
NNSC	Neutral Nations Supervisory Commission
NTB	Non-Tariff Barriers
OECD	Organisation for Economic Co-Operation and Development,
Oy, Oyj	Osakeyhtiö, a Finnish term for incorporated or stock company
R&D	Research and Development
SEZ	Special economic zone
SME	Small and Medium-sized Enterprise

SMIPC	Small and Medium Industry Promotion Corporation
SMS	Short Message Service
SOM	Senior Official's Meeting
SOMATI	Senior Official's Meeting in Trade and Investment
TFAP	Trade Facilitation Action Plan
TNC	Transnational Corporation
TT	Teollisuuden ja Työnantajien keskusliitto, Confederation of Finnish Industry and Employers
UN	United Nations
USD	United States Dollar
WTO	World Trade Organisation

1 INTRODUCTION

In Finland, South Korea (hereafter Korea) is mostly known as a country with problems with North Korea. Older generation of Finns remember the Korean War (1950-53), a conflict between North and South Korea in 1950-1953 in which at least 2.5 million persons lost their lives. Many do also remember Seoul Olympic Games held in 1988 when Finland won gold medal in javelin. Recently, Korea has become known from its products and companies, notably Samsung as a competitor to Finnish Nokia, Hyundai and Kia from their cars, and LG from its home electronics. Altogether, general knowledge of Korea in Finland is, however, limited, sometimes even incorrect and outdated.

Koreanology has been taught and studied in the University of Helsinki for decades, but in order to expand knowledge on Korea in Finland, also other subjects besides the Korean language have to be provided, notably business and economics. Korea's geographical proximity with China and Japan has led to the assumption of similarity, but Korea is certainly a unique country that is worth of separate attention. The present study aims to bring knowledge of those people and institutions that have already realised the potential of the bilateral relationship between Finland and Korea, by studying the development of Finno-Korean politico-economic relationship.

At first sight, Finland and Korea may appear extremely distant from each other both geographically and culturally. Yet from historical perspective, it is possible to state that Finland and Korea have been kind of neighbours during the 19th Century when Finland was part of the Russian Empire that reached the borders of Korea (at that time called Chosun Kingdom). In reality, the countries are separated by 5000 km over the Eurasian landmass, which however is the shortest way from East Asia to Europe.

One of the most well known links between Finland and Korea is the hypothesis concerning the same origin of the Finnish and Korean languages. In 1939, Professor Ramstedt (1873-1950) from Finland was the first to write a scientific Korean grammar in a Western language, in English. He presented an Altaic hypothesis, according to which the Korean language belongs to the Altaic language group, which in turn was supposed to belong to Ural-Altaic languages. Similarly, the Finno-Ugrian language group, including Finnish, was supposed to belong to Ural-Altaic languages.

Later, the Altaic hypothesis created interest and debates among linguists, but finally, Korean has been defined as an isolated language with no relatives, and the whole Altaic hypothesis has been rejected. However, the structural similarities among Ural-Altaic languages still remain (cf. Janhunen's foreword to the reprint of Ramstedt 1939). There exists also an idea of some kind of mental link between Finns and Koreans. For example, the former Ambassador of Korea to Finland, Yang Dong-Chil (2001) suggested an *Ural-Altaic group* linking the nations of Finland, Korea and others along with the new "silkroad", which refers to the planned railway connection from Seoul through Russia and Central Asia to Helsinki, Tallinn, and Budapest¹.

Although the hypothesis on the relation between the Finnish and Korean languages has not received support lately, the two languages share also a similarity in the sense that both are totally different from languages spoken in their surrounding regions. This has hindered the international relations of both Finland and Korea. Throughout the history and up to the beginning of the 20th Century, literati in both countries was educated by using the language of the neighbouring country, Swedish in Finland (up to the end of the 19th Century) and Chinese (up to the end of the 19th Century) or Japanese (1910-1945) in Korea.

Historically, Finland and Korea have many similarities. Both countries have been harmed by their geopolitical positions, as they are small countries threatened by bigger and stronger neighbours. Before gaining independence, both were autonomous parts of the neighbouring superpower, Finland being a part of the Russian empire (1809-1917) and Korea a colony of Japan (1910-1945). They received their independence at the first half of the 20th Century (Finland in 1917, Korea in 1945) after rising up an independence movement, and have later suffered from a civil war (1918 in Finland, 1950-53 in Korea) being also forced to fight for their independence in the Second World War. Both countries also had their paternalistic and long-standing leaders, President Urho Kekkonen stayed in power in 1956-1982 in Finland, and President Park Chung-Hee in 1961-1979 in Korea.

Ethnically both Finland and Korea are homogenous. By religion, Korea is the only East and Southeast Asian country, in addition to Catholic Philippines, which has adopted

¹ In addition to Helsinki, Yang (2001) mentioned also the capitals of Hungary and Estonia, because the Hungarian and Estonian languages are related to Finnish language.

Christianity that is practised by about 25 % of the population. Very recently, Christianity has become the largest religion in Korea, over the Buddhism, but it is diversified in many Christian churches. In Finland, almost 85 % of the population belongs to the Lutheran Christian Church. The basic cultural difference between Finland and Korea is probably the cultural focus, which in Korea is on human relations, a characteristic typical to Confucian civilisations², compared to priority on law in Finland, a characteristic typical to all Lutheran Christian countries (see more in Koivisto 1998).

Difficulties to gain independence have been reflected in the culture of both countries. For example, there has been a national romantic period in arts, which has helped citizens to unburden their hearts. Indeed, Jean Sibelius' composition *Finlandia* and Ahn Eak-Tae's *Korean Fantasy* have distinctive similarities. In Korea, Finland is known precisely from its cultural traditions and history, and *Finlandia* is much played and loved by Koreans, and the Finnish patriotism is recognised as a source of inspiration.

Both countries have experienced a rapid economic development, Finland from 1960s onwards as "the Japan of Europe", and Korea in the footsteps of Japan in the 1980s. In the take-off phase of economic development both benefited by organising the Olympic Games (1952 in Helsinki, 1988 in Seoul). Both countries have also been active in regional and international arenas. Finland is an European Union (EU) member country, while Korea is an active member in regional institutions such as the Asia-Pacific Economic Co-operation³ (APEC) and the ASEAN+3⁴.

Certainly, the two countries have remarkable differences. Finland's population of five million is not comparable to 48 million in Korea. The size of Korean landmass is only one-third of that of Finland resulting in high population density in comparison to sparsely inhabited Finland. Finland's industrial development has relied heavily on natural resources, which has resulted in strong emphasis on forestry and metal industries, while Korea has almost no other resources but labour. Therefore, Finland and Korea are rather

² Confucian civilisation covers China, Korea, Hong Kong, Singapore and Taiwan, as well as other Asian countries that have large overseas Chinese communities.

³ APEC with its 21 member economies promotes greater economic and trade co-operation in the Pacific Rim.

⁴ ASEAN+3 refers to the annual meetings of leaders and ministers of Association of Southeast Asian Nations, Japan, Korea, and China to discuss key political, economic and security issues.

complementary economies as the major differences take place in resource endowments making them ideal trade partners.

Finland has been far ahead of Korea in economic development, as it was able to start industrialisation much earlier than Korea. In Korea, industrialisation was hindered because it was not independent country but a colony of Japan during 1910-1945. Korea served as a raw-material base for Japanese industries and had no opportunities to develop its own industries. After the colonial period, Korea was politically underdeveloped and has to focus on administration of the country. Therefore, after the Korean War (1950-53), Korea started its economic development from the scratch.

In Finno-Korean trade, Finland has basically served as a source of high value-added machinery and equipment needed in industrialising Korea. This has also resulted in Korea being one of the largest Finnish export markets in East Asia. Traditionally, Korea has been a source of competitively priced consumer goods for Finns. As Korea has developed from a developing country to rich and industrialised nation, it has created effective and high-quality local production making Finnish exports less demanded. Instead, direct investment is often required in order for foreign companies to continue business in Korea.

1.1 The aim and the scope of the study

The present study analyses the development of bilateral relations between Finland and Korea. The aim of the study is to recognise the relevant actors that are responsible for the development of bilateral relations, the aims of these actors, and the structures through which the actions are channelled. In addition, the study aims to explain how the Finno-Korean bilateral relations have evolved to their present state with special reference to the economisation of political issues in the post Cold War⁵ new world order. The study is conducted from the Finnish point of view.

The study is positioned to the discipline of economic geography, which aims to understand the spatial organisation of economic activities in time and space. The

⁵ Ideological war with no direct fighting, which took place after the Second World War between USA-led capitalist countries and Soviet Union-led socialist countries

economic perspective is closely incorporated in the economic geographical angle, but as the study is interested in the interplay of economy and politics⁶, the political perspective needs to be added explicitly by use of political economy literature (eg Dent 1999, 2002; McGrew 1992). The study analyses the evolvement of the Finno-Korean relations and thus, it also incorporates some characteristics typical to historical studies.

The starting point for theorising the politico-economic relations of two countries from the geographical perspective is to analyse the research problem through a geographical angle, which, in general, focuses on 1) spatial differences, 2) spatial interaction, and 3) processes in space (Laulajainen 1998). First of all, the spatial differences in the present study refer to the characteristic resources and markets of the two countries resulting in competition in promoting their own economic interests. The more distant countries are from each other, the more they are likely to suffer from the frictions of distance in their co-operation (eg. in the form of time, cost, or convenience). However, the modern technologies of transport and communications have become important ways to overcome these frictions. In the context of Finno-Korean politico-economic relations, the spatial differences take a form of similarities and differences, or complementarities, of the countries as well as their unique foreign policies that can be explained by the circumstances of the historical conjuncture in which the states were created and developed.

Second, spatial economic interaction between two countries takes place through trade, investment and financial flows. However, the present study is also interested in the political interaction that manages the economic flows. The bilateral interaction is traditionally based on international relations, which are understood as the official relationships and diplomatic interactions between nation states. Nowadays, interaction takes increasingly place through transnational relations, which refer to those networks, associations or interaction that cut across national borders and link individuals, groups, organisations and communities from the two countries together. This is especially because the flows of economic interaction have expanded and the participation of various non-state actors is needed to manage the interaction. These kinds of relations do not respect national

⁶ Economy refers to the system or range of economic activity in a country or a region. Politics, in turn, refer to the interaction between individuals, groups, and organisations that govern international economic interaction.

territorial boundaries but operate beyond direct state control. Thus, they also challenge the traditional distinction between the domestic and the international. (McGrew 1992)

Similarly, a distinction between the traditional *high politics* responsible on political diplomacy and military security, and the *low politics* taking care of economic diplomacy and economic security, has become irrelevant (Dent 2002, 2-3). This is because foreign policy has always included purely economic issues, similar to foreign economic policy that in its turn has many non-economic consequences. The attempts to separate foreign economic policy from domestic economic policy are often impossible because the economic interests go beyond the national borders (ibid.). In Finno-Korean context, the increasing role of transnational relations is likely to result in greater number of actors managing the bilateral relations through increasingly complex channels.

Third, the ongoing processes in space refer to the globalisation process, which has been claimed to result in disappearing nation states, homogenising market and cultures, and a number of large global firms controlling the global economy. In globalisation debate, proponents (eg Reich 1991, Ohmae 1995) and opponents (eg Hirst & Thompson 1996) have not agreed on the outcomes of globalisation process. However, it seems obvious that producing processes have transcended national boundaries and are operated on different geographical and organisational scales. The role of transnational companies⁷ (TNCs) has increased, and there is a danger of hollowing out of the nation state. In the Finno-Korean case, the ongoing spatial process requires positioning of the bilateral politico-economic relations within the larger context of the changing world order taking place after the Cold War era.

To sum up, the underlying hypothesis of the present study is that the continuously intensified relations between Finland and Korea have become increasingly complex. This is firstly because the number of influential actors has increased as the nation-states are not the only international actors any more. Secondly, the international relations have been added by transnational relations, which do not respect national territorial boundaries, and thirdly because of a world-wide shift from geopolitics to geoeconomics.

⁷ TNC is a firm that implies operations in at least two countries including the firm's home country.

1.2 Methodology of the study

When studying both historical and contemporary events, as in the current study where the time span extends from 1970 to 2002, historical method overlaps with the case study method. Historical method refers to a situation where no relevant persons are alive to report what occurred. It is based on primary documents, secondary documents, and cultural and physical artefacts as the main sources of evidence. The present study is partly on historical events, but also the case study method is used, which adds direct observation and interviewing to the list of suitable techniques. (Yin 1994)

In the present study, both geographical and historical views are regarded useful as the study is interested in the spatial dynamism related to the development of bilateral politico-economic relations. Geography relates phenomena to place while historical research relates phenomena to time. As such, both disciplines are different from social sciences that basically formulate theories that are not related to time and place. However, the aim of the present study is not to emphasise the particular nature of phenomena, but also to find out some features that are in line with the broader developments of the world politics.

As to earlier literature, studies on international political relations tend to reflect the world order in a given time. Therefore, a vast number of studies have focused on international relations of the United States, which has dominated both the world politics and the world economy. Studies on European countries and their international politico-economic relations were to emerge in larger extent only from the 1970s onwards when the European Community started to take form. Up to 1980s, most of the studies focused on Cold War tensions. More recently, the collapse of the Soviet Union and the rise of the East Asian economies, notably Japan, have produced studies of their international relations. For example, in the context of East Asia, Dent (2002) has established a macro-framework for foreign economic policy analysis that has been tested in Singapore, Korea and Taiwan.

In the Korean context, there is a vast number of studies on Korea's relations with the United States (eg Han 1985; Scalapino & Han 1986; Macdonald 1992; Lee Chae-Jin 1994), Japan (eg Hahn 1985), China (eg Kim 1985; Lee Hong-Jun 1994; Zhao 2000), Soviet Union/Russia (eg Kim 1985, 1994; Bazhanov 2000), and even United Nations (eg Park 1985; Koh 2000; Pak 2000), but only a few on Korea's relations with European

countries, not to speak Nordic countries. This is certainly because the relationship between Korea and the European countries has only very recently intensified and become matured. In the present study, it will be shown that the development of Finno-Korean relations reflect the development of international politics and world economy, as well as the development of Europe - East Asia relations in general.

In the current study, primary data consists of archives of the Ministry for Foreign Affairs of Finland. Therefore, the analysis is basically conducted from the Finnish perspective. However, the data includes also reports and documents on Finno-Korean relations from the Ministry of Foreign Affairs of Korea, and interviews of the relevant actors. These materials have been supplemented and cross-checked by multiple sources of evidence: documents and interviews at the ministries and government offices; academic articles; histories; yearbooks; statistics on foreign trade and investment; articles from periodicals; public reports and brochures; newspapers and magazines; archives of the Finland - Republic of Korea Association; and private archives.

As to romanisation, Korean names are written in their native form starting with the family name (eg Park Chung-Hee) or in the form, which the persons have used themselves (eg Syngman Rhee), if it is known, even if it conflicts with the rules of the revised romanisation system. Names are given in full where authors share a surname and have published in the same year.

With regard to results of the study, the events reflecting the development of Finno-Korean relations are documented chronologically. From the basis of the chronologies, a division of the development of Finno-Korean relations into distinctive periods is attempted. Furthermore, efforts are made to position the formulated periods in their correct place in historical development path.

1.3 Outline of the study

The present study is divided in seven parts. Chapter One introduces the aim and the scope of the study, and discusses the chosen methodology. In Chapter Two, the role of bilateral relations in the new post Cold War world order is discussed in order to form preliminary

hypotheses on the development of Finno-Korean relations. In Chapter Three, written by Erja Kettunen, the bilateral relation between Finland and Korea is positioned in the context of the inter-regional relation between Europe and Asian. Chapters Four and Five present the development of Finno-Korean relations in chronological order, divided to political (Chapter Four) and economic (Chapter Five) issues, and summarised in Appendices 1-3. Chapter Six, written by Mervi Lipponen, turns attention to present day economic relations between Finland and Korea from the perspective of Finnish media. Finally, in the Seventh Chapter, conclusions on the development of bilateral relations between Finland and Korea are drawn with a special emphasis on the evolvement of the relations in the context of the new world order.

2 BILATERAL RELATIONS IN THE POST COLD WAR NEW WORLD ORDER

The present chapter defines first, from the basis of earlier literature, the potential actors that are responsible for the development of bilateral relations, the supposed aims of these actors, and the possible structures through which the actions are channelled. Second, the present chapter aims to identify the proposals as new world order in order to evaluate the role of bilateral relations in the international policy and economy. In addition, attempts will be made to position the case of Finno-Korean relations in the post Cold War world order.

2.1 Actors responsible for the development of bilateral relations

In the neorealist tradition of political economy literature, the state has been understood as the dominant actor in the global politico-economic system. Other actors, such as international organisations are regarded as subservient to states since they are created by states. Accordingly, TNCs are understood to operate under the legal authority of states. In general, the state refers to the state apparatus, or the set of institutions and organisation through which state power is exercised (Johnston et al. 1994). States are often taken to be synonymous with the governments or regimes, which rule them. In the present study, the state, or the central government is regarded as the major actor managing the development of the relations of two countries. However, also other actors have to be studied, as the neorealist approach has been challenged by neoliberal thought that assumes that the state is no longer the primary actor on the world stage (eg McGrew 1992).

According to neoliberal approach, the state's capacities to project power have become limited as some power has been transferred upwards to international bodies, downward to local governments, and outward to regional networks (Jessop 1992, 3). Therefore, emphasis is put also on the non-state actors, for example multilateral organisations such as the Organisation for Economic Co-Operation and Development⁸ (OECD), or international institutions such as the World Bank⁹. The supranational or inter-governmental organisations have gained increasing importance in the era of regional integration,

⁸ OECD is a meeting ground for 30 countries with free market system to discuss and reach even legally binding agreements.

⁹ The World Bank is a source of financial and technical assistance to developing countries.

especially such regional organisations like the EU. Some state capacities have also been transferred downward to local governments or administrations of particular localities, such as the governmental authority at the municipal level (city, country). They exercise a virtue of power delegated to them from the central government of the state.

Among the non-state actor, the non-governmental organisations (NGO) refer to local, national, or international organisations, profit or non-profit, whose members are persons not employed by a government. Usually, NGOs are non-profit agencies. For example, industrial associations are expert organisations promoting the interest of enterprises and business in specific industries. Industrial associations usually have their joint national organisations, which in turn may be members of regional or international organisations. In addition to industrial associations, NGOs may also be civic organisations or pressure groups.

According to neoliberals, TNCs are becoming increasingly powerful in relation to states. The relative bargaining power of a TNC vis-à-vis host government is not static but subject to change in the course of time. In the past, TNCs who exploited the natural resources of their colonies, such as the British and later the Japanese companies in Southeast Asia, were able to use power over the host government by setting the terms of the investment. After the Second World War, however, the governments of developing countries gradually gained capacities to dictate their demands (eg Goodman 1987). Recently, the global economy is likely to become increasingly controlled by TNCs due to the globalisation process, which enables TNCs to threaten their host governments with a choice of an alternative location.

In conclusion, the major actors that are responsible for the development of relations between two countries include not only the national governments, but also the local governments, the regional groups, the international organisations, the TNCs, and various kinds of NGOs. This is because the state that earlier was the dominant actor has lost part of its capacities to other actors since the end of the Cold War and along with the globalisation process.

2.2 Aims of the actors for the development of bilateral relations

The major aim of a national government is to create welfare for the country, a task that is fulfilled by different policies. The local government has similar aims within legislative guidelines determined by the central government. Usually, the local governments engage in certain economic activities, such as in attracting foreign direct investment (FDI), which are more suitable for operating locally than nationally. (Paddison 1983).

Primarily, the national government has to engage in international politics in order to manage relations with other states, notably to ease the existing political tensions and maintain the peace. The second task is to enhance economic activity, which takes place in the form of foreign trade, direct investment, international finance, and foreign aid. Among economic activities, foreign trade has earlier been the priority, but globalisation process has increased the importance of FDI and international financing. The national government may aim to promote collaborative or cooperative outcomes (eg free trade agreement), or to defence national interest against the external pressures.

In its deepest form, a regional group, such as the EU, is comparable with the states in a sense that it has distinctive geographical boundaries and it is represented in the international community by its own representatives like any single state (Dent 1999, 7). This is because the member countries have set up institutions to which they have delegated parts of their sovereignty. However, the aim of the regional group is not to replace the states, but to gain strength that the states could not have without integration. For example, in the case of the EU, the fundamental aim was to make peace in Europe permanent. Later, this aim has been accomplished through economic and social integration. These aims of economic integration make regional groups very different from international organisations that basically aim to promote cooperation among the member countries and are, as institutions, cooperative forums only.

In comparison, the fundamental aim of a TNC is performance. Profitability is the basic indicator of the firm's performance. Other indicators may include external effectiveness that indicates the firm's position in the market in relation to its competitors, internal efficiency that refers to the firm's ability to generate turnover and profit through its existing resources, and flexibility, ie how the firm is able to maintain its profitability in a changing environment.

Certainly, the aims of TNC are not limited to performance, but there are other increasingly important aims that have an impact on the image of the firm and its brands. An example is social responsibility, which refers to TNC's economic (eg ethics), social (eg personnel), and environmental (eg technological solutions) responsibility. Social responsibility is guided by laws and regulations, but it also promotes the firm's image. Altogether, social responsibility may encourage the firm's long-term goals and competitiveness.

The aim of NGOs, in contrast, is to influence regional politics and legislation in favour of their needs. They usually have extensive networks with governmental decision-makers, civil servants, the media, and the opinion builders of the business life, which makes them able to lobby for their aims.

To sum up, the actors that are responsible for the development of bilateral relations between two countries have conflicting aims as they are willing to reach relative gains over the other actors. They meet each other in a bargaining situation in which they have common interest to co-operate but conflicting interests over how to co-operate. In the following, the different structures through which the actors negotiate are discussed.

2.3 Structures through which bilateral activities are channelled

Traditionally, bilateral relations are nurtured through political diplomacy used by central governments. Political diplomacy may include actions such as establishment of diplomatic relations¹⁰, opening of embassies, state visits, other official visits, and signing bilateral agreements. In addition to the bilateral level, political diplomacy is also carried out at the multilateral level involving many states. Examples include the United Nations (UN) that promotes international peace and security or the WTO that encourages trade between member nations. Recently, regional diplomacy has gained importance due to the emergence of regional groups such as the EU.

¹⁰ Dent (2002, 1, 30) reminds about Taiwan who has been isolated without its own will from most of the international organisations due to the pressure of mainland China, and maintains only quasi-diplomatic functions. Despite this, Taiwan has been able to build strong de facto diplomatic relations through informal channels.

Since the end of the Cold War, economic aspects have become a major component of political power and even military power in the international arena. Traditionally, economic diplomacy has referred to the promotion of trade and economic exchanges with foreign countries, but today it covers a variety of issues such as finance, technology, investment, and sustainable development. They are negotiated in bilateral, regional, inter-regional, plurilateral, and multilateral level. Also many domestic policies, such as microeconomic policies (eg industrial, science and technology, human resource development) and macroeconomic policies (eg tax incentives) are implicitly or unintentionally visible in the state's foreign economic policy (Dent 2002).

A large amount of diplomacy is conducted through informal channels. Non-state diplomacies are examples of transnational relations that operate beyond direct state control (Dent 1999, 7-8). NGOs, including civic organisations and international pressure groups, such as Greenpeace, organise public campaigns in order to influence the decision-makers. Due to the vast number of NGOs having different objectives, the transnational relations form a complex web of individuals, groups, organisations and communities.

A useful perspective on economic diplomacies is provided by Stopford et al. (1991) who have introduced the triangular nexus of interactions between firms, between states, and between firms and states. These three kinds of interaction refer to bargaining among states for power and influence, the competition among firms contesting the world market, and the specific bargaining between states and firms for the use or creation of wealth-producing resources. The diplomacies between the states have been already discussed above, while the issue of competition among firms remains out of the main scope of the present study. However, the bargaining relations between the state and the firm calls for further attention.

Transnational companies, which seek to connect with influential politicians or senior civil servants in their host country, tend to enjoy less intervention than other foreign firms operating in the country. Through the established contacts with host government, managers are able to spread out information on their purposes and receive incentives or other benefits. In other words, they can increase their bargaining power vis-à-vis the host government. (Poynter 1985) On the other hand, TNCs may also increase their bargaining power by lobbying help from their home economies (Hayter 1998). Usually, the demand

for help comes from the TNCs, but it is also possible that the initiative comes from the home government that encourages the TNCs to invest in a certain project or in a particular host country (Goodman 1987). Home governments provide various public means to promote internationalisation of domestic industries, including services of the Ministry for Foreign Affairs, high-level business delegations, preferably led by the President or the Foreign Minister, meetings and seminars chaired by the Ambassador or Commercial attaché, and various kinds of supportive measures by trade centres and other public institutions.

In addition to TNCs' negotiations with the home and the host governments, bargaining may also be extended to local level, provided the local government is allowed to take it upon themselves to encourage economic activities (cf. Korhonen 2001, 118). Moreover, Dent (1999, 11) has pointed out that TNCs may also lobby help from a regional organisation. For example, a European company that has production in an East Asian country may request the EU to remove some of its import tariffs that are placed on the products that the TNC exports to the EU market from its production plant in East Asia.

To sum up, the major structures through which the bilateral interactions are channelled include political diplomacy, economic diplomacy, domestic political decision-making, non-state diplomacy, and state-firm diplomacy. Since the end of the Cold War and during the era of globalisation, the role of traditional political diplomacy remains as important as before but it is increasingly complemented with the various transnational relations. This is because the volume of economic interaction has expanded and requires the participation of various non-state actors to manage the interaction.

2.4 Proposals as new post Cold War world order

Since the end of the Cold War in the early 1990s, the world order has undergone a profound shift that has changed the framework for bilateral relations. There have been various attempts to model a new world order, based either on unipolarity, bipolarity, tripolarity, or multipolarity, for example. All different perspectives are useful as reference points for discussion in this study (Table 1).

Table 1 Proposals for new world order

Concept	Unipolar hegemony	Two Worlds	Independent Countries	Three Worlds (Global Triad)	Seven Cultures	One World
Major actor	Superpower	Two superpowers with their blocs	States	Dominators of the world economy	Regional organisation within a culture	Supranational organisation
Aim of the major actor	Superiority over the world	Victory over the rival	Relative gains over the other states	Intra-regional inter-dependence	Intra-regional inter-dependence	Harmony
Structure of the system	Unipolar	Bipolar	Multinuclear	Tripolar	Regional	Multilateral

Sources: Ohmae 1985; Fukuyama 1992; Dent 1999; Huntington 2003.

Starting from the concept of *unipolar hegemony* of one country that has preponderant influence over other countries, it refers to the discussion in political economy by neorealists. In practice, it reminds about the role of the United States as the only superpower in the world. The United States has certainly remained in an important position in the post Cold War period, but the relative strength of other nations and organisation (such as Japan or EU) has also increased. In addition, there are new emerging economic powers, such as China and India, which are expected to become large economies, even comparable to the United States, within the next 15 years only. Sometimes, the hegemony of the United States in the international politics and economy is understood as Americanisation, which might refer to a caricature of globalisation (cf. Dicken et al 1997) and as such, is disliked. Moreover, the military strength of the United States will probably play a less important role in the future if the geoeconomic interests will be continuously emphasised over the geopolitical ones. Altogether, the multipolarisation, rather than unipolarisation, seems to be the prevalent trend of the international politics.

In comparison, the *two worlds* concept refers to the Cold War situation with two superpowers that dominate their allies, and are in fierce competition with each other. Today, the concept might also be related to the North and the South, which refers to rich north in comparison to poor south, or to the East and the West, concepts that are used to point out the cultural difference between Westerners and Asians. Any kind of division into two is certainly artificial and simplifies the reality. Altogether, neither the unipolarity nor

the bipolarity seem fruitful solutions in the light of the Cold War experiences, as they both include the idea of “us” as different from or superior to others.

The concept of *independent countries* refers to a situation in which each country is struggling alone in promoting its economic interests in the world economy. Actually, for hundreds of years, the international system consisted of nation states, the most influential being the Netherlands that led the world economy since the 1650s in the Era of the Discoveries, and Britain that became a trading nation in the beginning of the 16th Century. Together with other Western nations they formed a multinuclear world order. Mercantilism, or national trade policy that took place in 1500-1840, required extremely good bilateral relations with all countries in order to prevent trade war. Neo-mercantilism, in today’s globalised world, may, however, seem an unsustainable proposal, because the state’s capacities to project power are claimed to be limited due to the globalisation process. As a result, the neo-mercantilist policies that took place in the East Asian Newly Industrialised Economies¹¹ (NIE) after the Second World War have been gradually replaced by more market oriented and liberal approaches. Similarly in Europe, France that has been known from its neo-mercantilist efforts has adapted the EU framework. (Dent 1999, 4-5) However, bilateral relations are still valuable as shown for example in the numerous bilateral agreements that have been recently signed compared to the trade negotiations of General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) where it takes more time to reach a multilateral consensus. This has made the bilateral free trade agreements fashionable again in the new millenium.

Tripolarity, or the concept of *three worlds* has been discussed by Ohmae (1985) with reference to the global triad. According to the concept, the world economy is dominated by key players, ie the United States, Japan and the EU. These three powers constitute most of the world’s purchasing power and are becoming an increasingly homogenous market with similar knowledge, education and level of income. Their economic strength is large enough to secure political strength as well. The concept certainly leads to an intra-regional interdependence, but at the same time also the inter-regional links are strongly developed as the three key players are strongly interrelated.

¹¹ In the present study, NIE refers to the group of original Newly Industrialised Economies, notably Korea, Taiwan, Hong Kong and Singapore.

The global triad has not only dominated the world economy since the 1980s, but has also extended in the sense that the core countries have integrated with nearby countries through regional integration. The EU with its traditional core in the “Blue Banana” encompassing London, Frankfurt and Milan, has extended towards east and south, as the former communist countries are accepted as new members. Similarly, the economic power of the United States with its primary core in the old industrial east coast and the new core encompassing California, Oregon and Washington in the west coast, is extending within the framework of North America Free Trade Area (NAFTA). In addition, an East Asian economic area is emerging around Japan and expanding along with the coastline southwards through Korea, Chinese Yellow Sea Rimland, Hong Kong, Singapore and even the Association of Southeast Asian Nations (ASEAN) region. Politically, there are no regional arrangements comparable to the EU, but ASEAN, ASEAN + 3, ASEAN Free Trade Area (AFTA), and ASEAN Regional Forum (ARF) show clearly the tendency.

Instead of searching for the leader of the world policy and economy among the states, Huntington (2003) argues that the new world order is actually based on major cultural areas which are in continuous conflict against each other. Thus, he has proposed a concept of *seven cultures* that refers to the differences between cultural areas. The seven (or eight) major cultures include the Chinese, the Japanese, the Hindu, the Islamic, the Orthodox, the Western, and the Latin American culture and possibly also the African culture. He points out that cultures, which also born, develop, mature, and die, are longer lasting than any political, economic and ideological turns. Thus, cultures are suitable as new basis of world order modelling. However, the danger of the world order based on cultures lies in the similar attitude of xenophobia that is related with the two worlds concept. In addition, Huntington’s proposal is in conflict with ongoing regional integration, notably in ASEAN in Southeast Asia that is the very meeting place of the major cultures of the world incorporating at least Chinese, Islamic, Hindu, and Western cultures.

Finally, in the historical context, the *one world* concept might refer to the era in the beginning of the 20th Century, when there was a kind of one world system in terms of economy and policy. Since the beginning of the 19th Century an actual world economy emerged as the world trade doubled in 1830-1850, and tripled in 1850-1870. In addition, the economic freedom, or liberalism, spread during the period of 1820-1913, and the free trade became the prevailing system since the 1870s although reversed in later decades. In

addition, the establishment of the gold standard (1870-1930) eased the international economic interaction. (Kenwood & Lougheed 1971) The Western culture dominated the world in which the countries were closely linked with each other. The First World War destroyed the existing system.

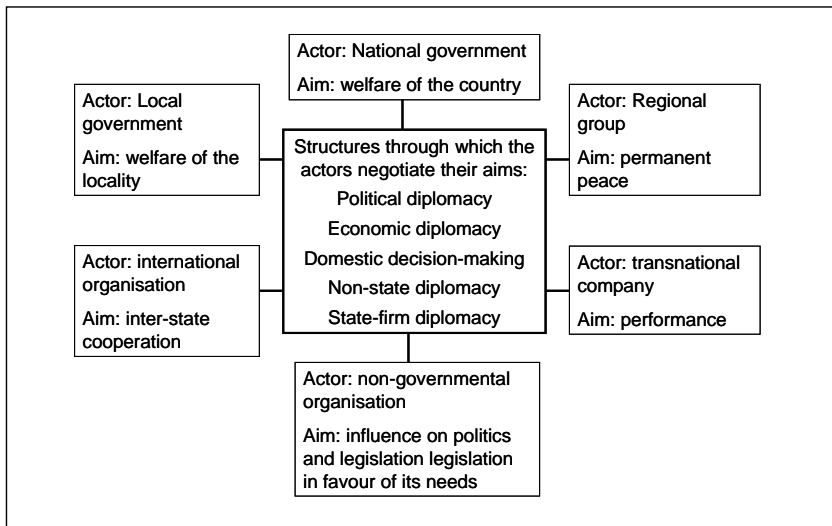
Today, the one world concept refers not only to economic liberalism but also to political harmony as discussed by Fukuyama (1992). He suggests that the Western liberal democracy that enjoys widespread global legitimacy is the end of ideological evolution and that the history has ended in a sense that there is no more room for large ideological battles. Idealistic as it is, Fukuyama's concept has similarities with the arguments proposing globalisation. With regard to the role of the state, and nation state in particular, the liberal school of political economy literature assumes that the state is no longer the primary actor on the world stage (eg McGrew 1992). Instead, the emphasis is put on non-state actors, such as TNCs and various international organisations, and on the bargaining process among a variety of actors. The one world concept requires each single state to be active in international organisations whose power is derived from the members of the organisation, usually the states themselves. As such, the one world concept might not be in conflict with the concepts of global triad or cultural approach given the regional efforts have the same aim as the efforts taken in the multilateral forum. Regional blocs can be seen as building blocks of global integration. Added with Fukuyama's (1992) political perspective, the globalisation process is not only a return to the status quo experienced in the classical gold-standard period, as argued by neorealists (eg Hirst & Thompson 1996).

Based on discussion above, it is suggested in this study that bilateral relations are becoming less important, as the politico-economic decision-making takes increasingly place within the regional or the multilateral level. However, these developments do not mean that states have no role in the globalising world, although they have lost some of their traditional functions and channels to use power. Instead, the states have to be increasingly active in regional and multinational fora in order to maintain their capabilities to project power.

2.5 Conclusions

Based on the discussion in Chapter Two, Figure 1 summarises the relevant actors that are responsible for the development of bilateral relations, the fundamental aims of these actors, and the structures through which the actions are negotiated and channelled. In the end of the study, efforts will be made to return to these factors in order to draw final conclusions with special reference to the changing role of bilateral relations in the post Cold War new world order.

Figure 1 The actors, aims and structures of bilateral relations



3 THE CONTEXT OF EUROPE – ASIA RELATIONS

by Erja Kettunen

In the new post Cold War world order, the bilateral relation between Finland and Korea can be positioned in the context of the inter-regional relation between Europe and Asia. The inter-regional relation comprises various actors and forms of cooperation, such as individual countries, the European Union (EU) and the Asia-Europe Meeting (ASEM). This chapter discusses the evolving inter-regional framework for Finno-Korean bilateral relations from the perspective of cooperation in trade. Particular interest will be put on two topics: firstly, the economic issues discussed at the inter-regional ASEM summits, and secondly, the case of Finland's transformation from bilateralism to multilateralism in its trade policies within the regional EU framework.¹²

3.1 Europe – Asia connections: from past to present

Relations between Europe and East Asia have a long history, and trade was the initial reason for European contacts in Asia. From the 16th century onwards, adventurers and merchants from Europe travelled to East Asia to obtain goods that were regarded as luxurious, such as spices and silk. Trade was often unfavourable for the Europeans as the goods had to be paid in gold and silver (Frank 1998). Along with the trading routes between Europe and East Asia, Southeast Asia developed into a crossing point for interactions of the migrating Indians from the west and the Chinese from the north. Many of the region's coastal kingdoms were dynamic merchant spots, gathering Indian, Arabic and Persian traders who were on their way to China (Pannell 1985). Europeans started to set colonies in East Asia in 1577 when the Portuguese entered Macao. Trading relations developed into a continued colonial presence of European powers, i.e. Spain, Portugal, Great Britain, France, and the Netherlands. Among the European traders, the British were most visible in Asia, but also Sweden, for example, had a trading company with frequent visits to China in the 18th century, where also a few Finnish merchants were involved.

¹² This chapter is partly based on a larger study, a doctoral dissertation (Kettunen 2004a) that dealt with trade relations between the EU and the ASEAN countries.

According to Drakakis-Smith (1992, 18-20), the colonial era can be divided into two periods: 1) mercantile colonialism that lasted from the early 16th century to the early 19th century and was based on the European demands for trade, and 2) industrial colonialism that lasted from the mid-19th century to the Second World War and was based on the European demands for resources. The colonial era broke the endogenous pattern of regional interactions particularly in Southeast Asia. In this context, Korea was located further north outside of the main trade routes. Compared to the interests of Europeans in Southeast Asia and India, Korea had little to attract with its location off the main sea-lanes and apparently poor conditions (Bridges 1999, 10).

Due to the historical links and despite their burdens, trade and cultural contacts between Europe and Asia remained relatively strong after the independence of previously colonised Asian countries following the Second World War and until the 1960s. Trade remained the cornerstone of the inter-regional relations throughout the 1980s and 1990s. However, neither the European nor the East Asian countries regarded each other as the highest priority in trade matters because of the strong economic position of the third node in the 'global triad', the United States. Within East and Southeast Asia, the role of Japan was crucial (Alvstam 2001).

In the early 1990s, the focus of global trade and investments had shifted to the Pacific, and the then European Community (EC) subsequently "found" Asia again and started to seek stronger relations with the region (Kettunen 2003). The EC set up institutions and programs to promote economic and cultural cooperation between Europe and Asia. Regarding emerging economies, the EC had initiated various programs since the 1980s, such as the European Community Investment Partners established to help European companies set up joint ventures with companies from Asia, Latin America and the Mediterranean countries. Also, the European Investment Bank was established in Asia, and the European Business Information Centre was set up in the Philippines in 1993. Similarly, the EC's relations with South Korea were strengthened in 1995 with negotiations for the Framework Agreement on Trade and Cooperation.

The EC's long-standing relations with the Association of Southeast Asian Nations (ASEAN)¹³ apparently formed the basis for a larger-scale inter-regional cooperation scheme between Europe and Asia.¹⁴ In 1994, the European Commission published the 'Towards a New Asia Strategy', emphasising the idea of "partnership with equals" (Strange 1997). In conjunction with meetings between the EC and ASEAN in 1994, Prime Minister Goh Chok Tong of Singapore suggested a summit meeting between countries of Europe and Asia. Yeo (2002, 24) points to the important roles of Singapore and ASEAN in crafting ASEM. After discussions, it was decided to enlarge the meeting on the Asian side to include three East Asian countries - Japan, China and South Korea.

The launch of the Asia-Europe Meeting, or ASEM, in 1996 with representatives from ten Asian countries and 15 EU countries was the most visible implication of the new approach. In 2004, the membership was expanded to 38 countries with the three newest ASEAN members and the ten new EU member countries following the enlargement of the European Union in May 2004. Next, the ASEM process will be discussed in more detail.

3.2 Inter-regional cooperation within ASEM

The Asia-Europe Meeting is an informal process of dialogue and cooperation that addresses political, economic and cultural issues, with the objective of strengthening the relationship between the two regions. The economic relations draw upon a history of disparate bilateral agreements and the ending of the Cold War (Gilson 2002, 173). The ASEM process consists of various levels of cooperation, i.e. summit meetings, ministerial meetings and working-level meetings. The summit meetings are the highest level of decision-making, and are held every other year, the location rotating between Asia and Europe. The Foreign ministers' meetings are held in the intervening years, being responsible for dialogue in political issues, while the Economic ministers' meeting carries the dialogue in economic issues. In addition, the ASEM process includes e.g. the Finance ministers' meeting, the Senior Officials' Meeting (SOM) and the Asia-Europe Business

¹³ ASEAN comprises of five founding members, ie Indonesia, Malaysia, Philippines, Singapore and Thailand (since 1967), and Brunei (since 1984), Vietnam (since 1995), Laos and Myanmar (since 1997), and Cambodia (since 1999).

¹⁴ In 1977, relations between nine member countries of the European Economic Community (EEC) and the five original members of ASEAN had been formalised. This was followed by the first ASEAN-EEC Ministerial Meeting in 1978 and a Cooperation Agreement in 1980.

Forum (AEBF). The work is based on regular meetings, and ASEM does not have a secretariat. (ASEM website) The only ASEM institution is the Asia-Europe Foundation (ASEF) in Singapore which, as a non-profit foundation, promotes the cultural, intellectual and people-to-people contacts between Europe and Asia. According to Yeo (2003), ASEM can be seen as an instrument for diplomacy, regional integration, and regime creation. It is based on “summit diplomacy” being at a higher level than e.g. the ASEAN-EC diplomacy which evolves through ministerial meetings.

The main themes of discussion have been related to the three “pillars” of cooperation, i.e. political dialogue, economic cooperation, and cooperation in other areas. In the next page, Table 2 lists the five ASEM meetings held from 1996 onwards, the main topics of *economic cooperation* and *other issues* that can be situated within the context of *developments at the multilateral and regional levels*. Trends in the multilateral trade negotiations at the World Trade Organisation (WTO) and regional policies in the EU and Asia have had an impact on how cooperation has evolved over the nine years of inter-regional meetings.

The first ASEM summit meeting in Bangkok in 1996 discussed economic cooperation and resulted in several agreements. It was decided that ASEM should complement the WTO work in facilitating trade and investments between the continents, and an agreement was made on improvement of customs procedures and standards conformance. The Asia-Europe Business Forum was established as a forum for the private sector in the ASEM process. Also, the Senior Officials’ Meeting in Trade and Investments was initiated.

In other fields of cooperation, the Asia-Europe Foundation was established in 1997 in Singapore with the aim to foster greater people-to-people relations and to develop institutional linkages between Asia and Europe. As to the organisational form, it was decided to keep ASEM as an informal process and not to be further institutionalised. There was a difference between the way of thinking between the counterparts, however, where the Asians wanted to get know each other, while the Europeans wished to have an agenda and an institutionalised way of working.

Table 2 Agreements in economic cooperation and other issues at ASEM Summit meetings related to developments at the multilateral and regional levels, 1996-2004.

	Economic cooperation	Other issues	Developments at the multilateral and regional levels
ASEM 1 1996 Bangkok	<ul style="list-style-type: none"> ▪ Facilitation of trade and investment, complementing the WTO ▪ Asia-Europe Business Forum (AEBF) ▪ Senior Officials' Meeting in Trade and Investment (SOMTI) 	<ul style="list-style-type: none"> ▪ Asia-Europe Foundation (ASEF) established in Singapore ▪ ASEM as an informal process 	<ul style="list-style-type: none"> ▪ European Single Market, 1993 ▪ GATT Uruguay round ended, 1994 ▪ EU's New Asia Strategy, 1994 ▪ WTO formed, 1995
ASEM 2 1998 London	<ul style="list-style-type: none"> ▪ Trade Facilitation Action Plan (TFAP) ▪ Investment Promotion Action Plan (IPAP) 	<ul style="list-style-type: none"> ▪ Asia-Europe Cooperation Framework 	<ul style="list-style-type: none"> ▪ Asian financial crisis, 1997 ▪ EU's Asia-Invest Program, 1997 ▪ Enlargement of ASEAN, 1997
ASEM 3 2000 Seoul	<ul style="list-style-type: none"> ▪ Commitment to promote the launch of the multilateral trade negotiations (MTN) 	<ul style="list-style-type: none"> ▪ Asia-Europe Cooperation Framework (AECF 2000) for the 21st century 	<ul style="list-style-type: none"> ▪ Gradual recovery from Asian financial crisis ▪ Failure in launching WTO round, 1999
ASEM 4 2002 Copenhagen	<ul style="list-style-type: none"> ▪ Set up a Taskforce for Trade, Investment and Finance 	<ul style="list-style-type: none"> ▪ Declaration against international terrorism ▪ Dialogue on cultures and civilisations 	<ul style="list-style-type: none"> ▪ Launch of WTO Doha round, 2001 ▪ European Monetary Union (EMU), 2002
ASEM 5 2004 Hanoi	<ul style="list-style-type: none"> ▪ Declaration on Closer Economic Partnership for enhancing trade and investment facilitation, cooperation on financial issues and other areas 	<ul style="list-style-type: none"> ▪ Enlargement of ASEM with 13 new members 	<ul style="list-style-type: none"> ▪ Aim to form by 2020 an ASEAN Community, 2003 ▪ Enlargement of the EU, 2004

Source: Chairman's statements of ASEM Summit meetings, 1996-2004.

As to developments at the multilateral and regional levels, the launching of the ASEM coincided with a period of accomplishments. The European Single Market had been established in 1993 and the multilateral trade negotiations had reached a new stage, the establishment of the World Trade Organisation in 1995 as a result of the conclusion of the General Agreement on Tariffs and Trade (GATT) Uruguay Round one year earlier. This could be seen as a success after the prolonged negotiations. The outcome of the GATT

had also included decisions to liberalise trade in sectors important to the Asian countries, such as textiles. The EU had published its new Asia Strategy in 1994, and at the same time, many Asian economies were growing at high rates, adding to the optimism for inter-regional cooperation.

The second ASEM summit held in London in 1998 took place in much different circumstances as most of the Asian countries were in the midst of a severe financial crisis (Cammack & Richards 1999). In late 1997, the financial crisis had developed into an economic crisis and seriously affected the Asian economies. The cooperation process within ASEM faced a downturn alongside the economic difficulties which halted the progress of the inter-regional negotiations and schemes. However, action plans on trade and investment facilitation were adopted by the summit (Table 2). Also the Asia-Europe Cooperation Framework was adopted to guide, focus and coordinate ASEM activities in its fields of cooperation. At the regional level, the EU's Asia-Invest program had been launched in 1997 to encourage trade and investments between EU and Asia. The Asia-Invest program provides various instruments to help companies study new markets, to do business in unfamiliar cultural environments, to meet and evaluate potential business partners and to identify investment opportunities.

Also, the Southeast Asian cooperation forum ASEAN had been enlarged with two new members, Laos and Burma/Myanmar in late 1997. This caused political tension between the EU and the Asian countries, since the EU refused to conduct a high-level meeting with a counterpart which included a state led by a military junta. This resulted in postponing the inclusion of the new ASEAN member countries into the ASEM for several years.

The third ASEM summit held in Seoul in 2000 brought together cooperation attempts especially in economic and financial fields. South Korea's role was central as the host of the meeting. The summit resulted in an Asia-Europe Cooperation Framework 2000 setting out the vision, principles and objectives, priorities and mechanisms for the ASEM process for the first decade of the 21st century. New initiatives were made in information technology, transnational and law enforcement matters, human resources development, environment, and health issues.

At the same time, the Asian economies were gradually recovering from the financial crisis, which also gave some boost for inter-regional cooperation. This coincided with the failure of the WTO ministerial meeting in Seattle in 1999 to launch a new round of multilateral trade negotiations by the beginning of the new millennium. The ASEM summit meeting in Seoul thus announced its commitment to further promote the launch of the multilateral trade negotiations.

The fourth ASEM summit in Copenhagen in 2002 again took place in a new international situation after the shock of the terrorist attacks in the USA one year earlier. The meeting thus issued a declaration on cooperation against international terrorism (Table 2). Also, a retreat session was held on a Dialogue on Cultures and Civilisations. At the economic front, the summit agreed to work towards a closer economic partnership and decided to set up an action-oriented Taskforce that should consider three areas as the focus of cooperation, i.e. trade, investment and finance. The meeting outlined that these could include issues such as creation of a Eurobond market in Asia and the use of the *euro* as an international currency. At the regional level, the European Monetary Union (EMU) was established in 2002 which strengthened the role of the *euro* as an international currency.

Regarding the European Union relations with South Korea, the EU gave full support to President Kim Dae-Jung's sunshine policy¹⁵. While simultaneously the EU and South Korea had a conflict at the WTO over Korea's state aid to the shipbuilding industry, the issue was not discussed at the ASEM meeting (Laursen 2003). At the multilateral level, a new WTO round had been launched finally in Doha in 2001 on an extensive range of topics for discussion and with a focus on development issues. Also, the upturn of the Asian economies had given rise to optimism on the European side for renewed cooperation. The EU Commission had prepared a follow-up for its Asia Strategy from 1994, and had issued a communication on "Europe and Asia: A Strategic Framework for Enhanced Partnership" in 2001. The communication contained proposals to enhance EU-Asia relations in key areas, such as peace and security, trade and investment, poverty reduction, democracy, good governance and the rule of law, human rights, partnerships and alliances on global issues, and promotion of mutual awareness and knowledge.

¹⁵ Sunshine policy refers to South Korean policy toward North Korea since the end of the 1990s. The policy separates the economic and the political issues. It is based on the West German *Ostpolitik* of the 1970s, and the name derives from the Aesop's fable.

However, it turned out that the release of the initiative on September 4, 2001 coincided with the acute global concerns following the incident of September 11.

The fifth ASEM summit in Hanoi in 2004 continued to discuss mechanisms for closer economic partnership and issued a declaration on the subject (Table 2). The main issue of the meeting was, however, the enlargement of the ASEM membership from the original 25 to 38 member countries. This was a result of the EU enlargement by ten new members in 2004 and of the ASEAN enlargement by three new members in the late 1990s. However, it was decided that Burma/Myanmar was represented at a lower level than the head of state/government level. Also, the ASEAN member countries had agreed on an objective to form an ASEAN Community by the year 2020, which, if realised, would intensify regional economic integration within Southeast Asia to a new level.

At the same time, progress on multilateral trade negotiations was very slow. The WTO negotiations in Cancun in 2003 were regarded as a failure since no clear advancement was made concerning the objectives of the ongoing round of trade negotiations. This was mostly due to disagreements in agricultural trade policies. The latest phase of the EU - Asia trade cooperation was thus affected by political fluctuations and regionalisation trends in both Europe and Asia. As to the future, the Hanoi summit accepted Finland's offer to host the next ASEM summit in September 2006.

To sum up, the Asia-Europe Meeting has increased both the number of countries involved and issues discussed in inter-regional cooperation between the two continents. Before ASEM, the original EEC-ASEAN framework had comprised 14 member countries in 1977. The launch of ASEM increased the number of member countries to 25 in 1996, which was further enlarged to 38 members in 2004. Thus the Asia-Europe Meeting has evidently been an important one for the EU. It has extended its inter-regional Asia relations into a framework of 13 countries, including China, Japan, and South Korea. Some analysts have argued that for the EU, the most important Asian partners have been Japan, China, and ASEAN (Algieri 1999, 86), leaving the role of South Korea somewhat dubious. Regarding the issues discussed, ASEM has also coincided with developments at the multilateral and regional levels where the range of issues has increased throughout the years. The process has been intertwined, with political fluctuations affecting the outcome of the ASEM summit meetings. In academic research, the ASEM process has also spurred

new theorising in the post Cold War world order especially among political economy and international relations scholars.¹⁶

It can be argued that with the ASEM process, regionalism is intensifying in both Europe and Asia. A major difference between the EU and the Asian counterparts is, however, the fact that the EU acts as one, while the Asian states act as individual countries in the inter-regional setting. In Asia, only the ASEAN countries have a history of institutional cooperation and, more recently, of cooperation in regional trade liberalisation accompanied by bilateral trade agreements (Kettunen 2004b). Only after the establishment of the ASEM, cooperation within the East Asian region has been further institutionalised in the form of the ASEAN+3 process that includes China, Japan and South Korea. Indeed, it has been argued that ASEM has been crucial in integrating the work of the East Asian countries together in international fora.

In this perspective, Finland and South Korea have been differently positioned in international cooperation. While Korea acts as a single nation within the inter-regional framework, Finland is part of the large EU institution since 1995. The following section will further discuss the case of Finland, particularly its integration into the multilateral framework as well as the European economic sphere.¹⁷

3.3 The case of Finland: from bilateralism to multilateralism

Since its independence in 1917, Finland's foreign trade policy has been guided by the strategic importance of external economic relations. Its location in Northern Europe next to Russia in the east, and the Scandinavian countries in the west, has been a decisive factor in its foreign policies. Being a small, open and trade-dependent economy, Finland has pursued a relatively liberal trade policy both at the bilateral, regional, and multilateral levels.

As to Finland's trade relations, the major trading partners have been - in varying order - Sweden, Great Britain, Russia/Soviet Union and Germany. In bilateral relations, Finland

¹⁶ For example, the special edition of *Journal of Asia Pacific Economy* 4: 1 (1999).

¹⁷ The section is based on Kettunen (2004a), pages 188-193.

had concluded a trade agreement with the then Soviet Union after the war in 1947 to establish most-favoured-nation (MFN) treatment, i.e. non-discrimination in bilateral trade. The impact of the war reparations to the Soviet Union was significant, and until 1952, all Finnish metal industry production was for reparations (Nykopp 1985). In 1960, a customs agreement granted duty-free trade with the country. A special trading relationship existed for 40 years under a bilateral trade and payments agreement based on a clearing system (GATT 1992, 57). In the Nordic setting, Finland had joined the Nordic Council of Ministers in 1955. The Nordic common market comprised of a passport union and free movement of labour (GATT 1992, 54).

Finland's gradual adjustment to the European regional trade policy began in the 1960s and continued with the further integration into the regional trade area in the following decades. It joined the European Free Trade Association (EFTA) as an associate member in 1961 and as a full member in 1986. Regional liberalisation was further achieved in trade of manufactures by the free trade agreement between Finland and the EEC and the Finland-ECSC Agreements in 1974. A decade later, in 1984, the EC and EFTA issued a joint goal of creating the European Economic Area (EEA) for which negotiations were officially launched in 1990 and the Treaty was finalised in 1991 (GATT 1992, 57). The EEA came into force in 1994 between the EU and five EFTA members, i.e. Austria, Finland, Iceland, Norway and Sweden (WTO 1995a, 20). Finland was thus further integrated into the European regional trade area.

Finally, Finland's joining in the European Union in 1995 marked a turning point in the formulation of its trade policy and was the final stage in the process of adjusting to the European internal market.¹⁸ In between Finland's application for the membership in 1992 and the eventual joining, the EU itself had evolved from a customs union to a common market. Furthermore, the EU Council of Ministers granted the European Commission the mandate to represent the whole EU in multilateral negotiations in 1999.

At the multilateral level, Finland had joined the GATT in 1950 and had become a member of the Organisation for Economic Cooperation and Development (OECD) in 1969.

¹⁸ In earlier literature, trade policies of Finland and/or integration in the EU have been discussed by eg Haataja (ed.) (1978), Nykopp (1985), Hämäläinen (1986), Laaksonen (1987) and Hjerpe (1993). EY-kauppapolitiikka (1994), Widgren (1993; 1995; 1997), Alho et al (1996), Alho et al (ed.) (1996), Jalava (1999), Kyläheiko et al (1999) and Mäkelä (1999).

Finland was thus one of the signatories of the GATT 1994 agreement and a founding member of the WTO. At the same time, its foreign trade evolved within the framework of changing global politico-economic relations of the 1990s. The end of the Cold War and therein the collapse of the Soviet Union shifted the bulk of Finnish exports towards Western Europe. Trade relations with East Asia became more important due to the growing market in Asia for Finnish exporters (Kettunen 2002).

In its trade with developing countries, Finland had adopted a system of customs preferences for imports from developing countries within the guidelines of the so-called General Systems of Preferences (GSP) in 1972. For goods included in the scheme, imports were granted zero import duties and levies and no quotas. Originally, the number of beneficiaries was 92 which had been expanded to 138 countries in 1990 (GATT 1992, 60). The major beneficiaries of the Finnish GSP treatment were China and South Korea, and the leading imports were electronics (mainly from Korea), bananas and coffee.

Integration of Finland's trade regime into the EU framework

As Finland harmonised its trade policies with the EU customs union and common market, both the union's import restrictions and export promotion were adopted. In addition to the earlier free trade agreement with the EC, the trade policy formulation and decision-making shifted from the national government to the EU institutions. Finland also adopted the EU's GSP. Furthermore, it became a member in a range of EU trade agreements with several countries and regions. One of these was the ASEAN-EEC cooperation agreement from 1980 (EY-kauppapolitiikka 1994, 3). Since 1995, Finland participated in the ASEAN-EU Ministerial Meetings, and since 1996, the Asia-Europe Meetings.

Up to 1994, Finland's trade policy had been formulated by the national government. Ministries most directly involved in the formulation of trade policies had been the Ministry for Foreign Affairs, which was responsible for preparation of foreign and trade policies and trade negotiations; the Ministry of Trade and Industry which implemented trade policies and was responsible for export promotion; and the Ministry of Finance which dealt with matters relating to customs and tax legislation, anti-dumping and countervailing duties, and subsidies and safeguard measures.

After joining the EU, the final decision-making over trade policy shifted from the national government to the EU institutions, and Finland became one of the decision makers of the union through its committee system. Since then, the Ministry of Trade and Industry of Finland has administered trade policies for industrial products. It brings the Finnish stand on trade policy to the EU's "Committee 133" which collects the member countries' stances for an EU-wide preparation (Ala-Nikkola 2002). The European Commission proposes and initiates policies to the Council of Ministers that has the highest union-wide decision-making power (on majority) on foreign trade matters. The Commission then implements the decisions made by the Council. The member countries thus participate in the formulation of trade policies in the preparation phase and in the final decision-making in the Council of Ministers.

The membership also brought significant changes in the legislative and administrative affairs of trade policy. Before, Finnish foreign trade legislation and implementation had been much narrower than that of the EU which had an extensive and complex customs legislation. Finland's trade law and customs system was expanded accordingly to be more detailed (Jalava 1999, 17). For example, the anti-dumping regulation had been the most important and most used import protection mechanism in the EU, while it had not been significantly used in Finland before 1995. Legislation was also harmonised with the EU pertaining to e.g. food and chemicals, as well as tax and corporate issues.

Finland thus became a member in a regional trade organisation which itself is an actor in international negotiations over trade policies. This had two-sided effects on its position in policy-making. On one hand, Finland lost its earlier sovereignty in decision-making over national trade policies; while on the other hand, it gained significant negotiating power in the multilateral setting being part of a large and powerful grouping.

Change in Finland's import and export policies

After the GATT Uruguay Round had been completed in 1994, Finland's average tariff level for non-agricultural imports was 3.6 %, while the EU's average tariff was 2.9 % (Flam 1995 quoted in Widgrén 1997, 27). Thus the average tariff levels were close to each other. In both Finland and the EU, import restrictions were imposed especially on the agricultural and the textiles and clothing sectors; however, there were differences in specific product groups. Based on data from 1988-90, Finland's import tariffs were clearly

higher for rubber, tobacco, textiles and clothing, footwear, and beverages. In contrast, tariffs were lower for pulp and paper, chemicals, transport equipment, and fish products. There were also differences in other trade measures for some product groups, such as quotas for textiles and clothing.

Finland negotiated a transition provision of three years in certain import duties upon joining the union. These provisions comprised about 190 tariff line items, most of which were in the textiles and clothing sector. According to the agreement, a gradual lowering of tariffs was implemented in these tariff lines (EY-kauppapolitiikka 1994, 53). In 1995, tariffs remained on the level of the previous year, after which duties were gradually reduced in 1996 and in 1997, and the final shift to common EU tariffs took place in 1.1.1998.

Adopting the common external tariff of the EU led to varying outcomes in different sectors. Widgrén (1997) has noted that in general, tariffs rose on raw materials and semi-processed goods, while they fell in some processed products. The impact was smallest on Finnish forest industry, which had been subject to free trade for a long time and where the economies of scale were rather well utilised. In contrast, the impact was biggest on metal and engineering, especially electronics where components were imported from outside of the EU, including the Asian countries. Tariffs on certain electronics components rose from 0 % to 14 %. Also, the Finnish chemical industry which largely imported raw materials from third countries faced a clear disadvantage. In the textile, clothing and footwear industry, the effect depended on the value-added of the product: duties rose in high value-added products, and fell in low value-added ones (ibid.). The average import tariff on clothing fell from 35 % to 14 % after 1995.

The major direct trade policy implication was the EU's system of non-tariff barriers, which affected Finland's trade with some major trade partners such as the United States and Japan. A broader range of imports was regulated in the EU than had been the case in Finland. The EU's considerable use of actions against dumping, as well as various other non-tariff-barriers (NTB), such as import monitoring and bilateral import restriction agreements, were a new feature for Finland.

Anti-dumping actions had been applied sparingly in Finland before the membership. According to data from 1986-1991, there had been nine cases against seven countries, most frequently against Poland and East Germany. After 1995, Finland was involved in the EU anti-dumping system with an increasing number of actions especially towards Asian countries. The number of the EU's anti-dumping actions further increased in the late 1990s. As to prohibitions, licensing and quotas, Finland's overall policies had been relatively similar to that of the EU (GATT 1992). A permit had been required for imports of e.g. firearms and ammunitions, explosive substances, pharmaceuticals and radiation equipment, as well as live animals and most animal products. Licensing had been applied to certain agricultural and energy products. In addition, global quotas had been applied to a number of agricultural and petroleum products and some foodstuffs. After joining the EU, quotas were based on the Community-wide system which had been in place since the same year.

Standards and regulations applied in Finland had been largely harmonised with the Nordic and Western European countries (*ibid.*, 102). Elimination of technical barriers to trade had been the subject of cooperation in EFTA. In addition, Finland had begun unilaterally to align its technical standards to those of the EC, and in 1993, about 95 % of its standards were identical to those of the EC (*ibid.*, 104). Thus there were no major changes in this regard after joining the EU.

As to export policies, the EU did not induce major changes for Finland. In fact, there are relatively few EU-wide policies on exports, and in general, export promotion has remained within the competence of the member countries (GATT 1992). Export promotion has been managed by Finpro, the former Finnish Foreign Trade Association. Finpro is a public organisation that aims to speed up the internationalisation of Finnish businesses. Its services for Finnish companies have included consulting, information on global markets, and various events in Finland and abroad, such as exhibitions and trade fairs. Trade delegations have been an important part of export promotion especially in Asia, Middle East, and Latin America.

To sum up, Finland's joining in the EU customs union had a major impact on its trade policy formulation and institutions, as decision-making shifted from the national level to the EU-wide level. In addition, the membership affected the tariff levels applied on

imports, liberalising in some sectors and restricting in others, such as electronics, temporarily. Finland also became a member in the EU's several trade agreements and arrangements, such as the ASEAN-EC Cooperation framework and the Asia-Europe Meeting. In the new post Cold War world order, Finland's trade was growing with the emerging economies of East Asia. It can be argued that during this process, Finnish trade policies shifted from a framework based on bilateralism to one based on multilateralism.

3.5 Conclusions

In this chapter, the bilateral relation between Finland and Korea has been positioned in the context of the inter-regional relation between Europe and Asia. The inter-regional relation comprises various actors and forms of cooperation, such as the Asia-Europe Meeting and the European Union. The inter-regional framework for Finno-Korean bilateral relations has been discussed from the perspective of cooperation in trade with focus on the economic issues discussed at the inter-regional ASEM summits and Finland's shift from bilateralism to multilateralism within the regional EU framework.

The launch of the Asia-Europe Meeting in 1996 has been the most visible implication of the enhanced relations between Europe and Asia. The main themes of discussion have been related to the three "pillars" of cooperation, i.e. political dialogue, economic cooperation, and cooperation in other areas that have been affected by developments at the multilateral and regional levels. The ASEM had its origins in the EEC-ASEAN relations that had been initiated as early as 1977. The launch of ASEM in 1996 increased the number of participating countries to 25, including China, Japan and South Korea. The ASEM membership was further enlarged to 38 members in 2004.

The main difference between the European and the Asian counterparts is that while the EU acts as one, the Asian states act as individual countries in the inter-regional setting. In this vein, also Finland and South Korea are differently positioned in the ASEM process. While Finland is part of the large EU institution, South Korea acts as a single nation within the ASEM framework. The gradual adjustment of Finland to the European regional trade policy began in the 1960s, as it joined the EFTA as an associate member in 1961 and as a full member in 1986. The final integration occurred in 1995 with the EU membership.

This had a major impact on Finland's trade policy formulation and institutions, as decision-making shifted from the national level to the EU-wide level and Finland became part of a powerful actor in the multilateral setting.

At the same time, the intensifying East Asian cooperation led to the ASEAN+3 process, with China, Japan and South Korea involved. Both the EU and ASEAN have also been occupied with the process of enlargement. Thus, inter-regional trade cooperation within ASEM has been affected by regionalisation trends both in Europe and East Asia.

4 FINNO-KOREAN DIPLOMACY

The present chapter discusses the development of traditional bilateral relations between Finland and Korea with special reference to the negotiations in the political sphere. Thus, the main focus is on the establishment of diplomatic relations, the opening of embassies, the state visits and other official visits, and the bilateral agreements between the two countries. Although attention is paid to traditional, bilateral diplomacy, also multilateral diplomacy is touched in relation to the UN and the EU, which have had an impact on the development of Finno-Korean relations.

4.1 Traditional links of Finland to East Asia

Finland has traditional links to East Asia based on the fact that in the 19th Century it was a part of the Russian Empire which, in its Eastern parts, reaches the Pacific. Russian territorial expansion towards the Pacific was boosted through the search of natural frontiers, which in the absence of mountain barriers justified conquering the entire Eurasian mainland. In conquered areas, assimilation of the original people with the Russian people was seen as a mission. (Hauner 1990, 39)

Expansion was furthered by Russian geographers who explored the vast Eurasian plain. Also Finnish explorers made frequent trips to the region, the most famous being Finnish-born A.E. Nordenskiöld who first managed to sail from Europe to Japan through the Northeast Passage in the end of the 19th Century. However, the first Finns in the region were probably Finnish sailors who reached China already in the 18th Century in the ships by Swedish East India Company. Later, Finnish geographers, linguists and other scientists conducted field studies all over Northeast Asia. Among them, C.G.E. Mannerheim, later the President of Finland, did a horseback journey of 14,000 kilometres in Central and East Asia for military and academic purposes. Finnish workingmen and soldiers served in the Pacific Russia, which became connected to Finland through the Trans-Siberian Railway in the beginning of the 20th Century and where Vladivostok was a commercial centre and a host to large foreign community. Occasionally, Finns in the Pacific Russia had contacts also with Koreans (Peltonen 2005, 16-17).

The first Finnish direct connections with East Asia on a governmental level were established with Japan, as the two countries had common interests during the Russo-Japanese War in 1904-05 when Finland suffered from the Period of Oppression¹⁹. The Japanese contacted the Finnish resistance movement in Russia, and the Finns proposed that victorious Japan could promote Finnish independence in peace negotiations with Russia. Thus, Finno-Japanese cooperation was built to fight against Russification, and it laid ground for positive attitude towards further development of bilateral relations. (Fält s.a., 35)

Finland's traditional links to East Asia broke off when Finland gained independence in 1917 and Russia closed its frontiers after becoming the Soviet Union in 1922. Finland gave its independence declaration in December 1917, and received diplomatic recognition from three major Asian nations - Japan, China and Siam - as early as 1918-1919. Finland started immediately to set up its own administration to handle external relations, and one of its first external representatives abroad was established in Tokyo. (Formin 2004) As a result, in 1919, Finnish scholar G. J. Ramstedt was sent to Tokyo to serve as Finnish *chargé d'affaires* to Japan. At that time, Korea was a part of the Japanese Empire. Beside his diplomatic activities Professor Ramstedt continued his linguistic work that resulted in the first Korean grammar in Western language, in English. This grammar was still used among Westerners during the Korean War in the 1950s (Yang 2001).

The Ambassador of Finland to Japan was accredited also to China, but relations with China did not develop during the first decades of Finland's independence. Finnish missionaries, businessmen and even tourists however visited China in the 1920s and 1930s. (Huotari & Seppälä 1990, 524) Politically, Finland's main focus in East Asia was in Japan, because Japan was still understood as potential supporter of Finland against the Soviet Union. Thus, different from many other Western countries, the Japanese expansion in East Asia was not criticised in Finland, although Finns, already since the end of the 19th Century, had been aware of the tight relations between China and Japan and of the fact that Korea was practically occupied by Japan (eg Aamulehti 12.9.1885; Päivälehti 26.8.1890).

¹⁹ During the years of oppression (1899-1905, 1908-17), Finland was subjected to an intense campaign of Russification. In 1905, Russia's authority however declined due the lost war with Japan.

Undoubtedly, the Soviet Union was suspicious against the development of the Finno-Japanese relations. Japan opened an Embassy in Helsinki in 1936, but soon Finland started to withdraw from Finno-Japanese cooperation because Japan allied with Germany and was engaged in an internationally doomed war in China. Despite this, military contacts between Finland and Japan were continued throughout the Second World War, and in 1941 Finland was one of the few countries to recognise Manchukuo, Japan's nominally independent puppet state in Manchuria. (Fält s.a., 36-41)

After the Second World War, the Ministry for Foreign Affairs of Finland started to rebuild its network of missions abroad, including East Asia. Finland was one of the first countries to recognise the People's Republic of China in 1950 and an embassy was opened there in 1952. Despite this, Finland was not able to develop its relations with China without endangering its relations with the Soviet Union (Eskola 2003, 505). With regard to other countries, the existing relations that had been cut during the war were set again with Thailand, the former Siam, in 1954 and with Japan in 1957.

Finnish interest in Korea started to grow only during the Korean War (1950-53). Some European governments sent troops to fight in the war, and South Korea was assisted in other ways by many countries, such as Sweden, Norway, and Denmark that sent medical equipment teams to South Korea. Finland did not have a role in the Korean War, although there were rumours on Finnish volunteers participating the war. For example, Finnish newspaper *Työkansan Sanomat* claimed in 1951 that even 200 Finnish men had been serving in Korea with American soldiers since 1950 (*Työkansan Sanomat* 13.4.1951). Radical newspapers such as *Vapaa Sana* even argued that recruiting in Finland had been systematic and extensive with an approval of Finnish politicians (*Vapaa Sana* 15.4.1951). However, the Ministry for Foreign Affairs of Finland took up a sceptical attitude towards these rumours (eg UM 7.5.1951). No evidence was found of Finnish participation in the war. It was suggested that there may have been Finnish workingmen otherwise related to war, or Scandinavians that were thought to be Finns. This was probably the correct conclusion as there is evidence at least on a Finnish sailor who worked in the US Navy's tanker m/t *Atalanta* that shipped fuel to Korea in 1952 (Archives of Rauno Korhonen).

After the Korean War, the Finnish Embassy in Tokyo followed carefully the situation in the Korean peninsula and gave frequent and detailed reports on such issues as the

unification of the two Koreas, or South Korea's political and economic development. In April 1959, the Finnish Embassy in Tokyo reported that the Ambassadors of Sweden, Norway and Denmark to Japan were accredited also to South Korea. The South Korean government had hoped for many years to establish diplomatic relations with the Scandinavian countries because the countries were known in South Korea for a hospital they had built in Seoul and for the Scandinavian personnel working there. However, the South Korean government had wished resident Ambassadors, not ones accredited from Tokyo. (UM 11.4.1959)

With regard to Finland, the South Korean government explored the possibilities to establish diplomatic or at least consular relations in 1961, but the Finnish government rejected this because the Finnish policy to divided nations was to restrict itself to set relations with either of the countries. It was also pointed out by the Finnish side that cultural and trade relations were possible, given that practical prerequisites are fulfilled, but diplomatic or consular relations were absolutely out of question. In any case, Finland would treat North and South Korea equally. Hearing this answer, a South Korean goodwill delegation that was visiting Europe decided to skip visiting Finland. (UM 18.4.1962)

Also North Koreans explored the possibilities to establish trade, cultural, or consular relations with Finland in 1962 by sending their Ambassador to Moscow, Li Son Un, to meet the Ambassador of Finland to Moscow, Eero A. Wuori. Ambassador Wuori explained to Ambassador Li that establishing diplomatic relations with North Korea would be a very complex problem for a country in such a situation as Finland was in. (UM 27.3.1962) The Ministry for Foreign Affairs of Finland suggested that the Ambassador Wuori should not make any return visit (UM 18.4.1962). Thus, there was no progress in North Korea's relations with Finland, either.

In 1963, South Korea opened its Embassy in Bern and the Ambassador of South Korea to Switzerland, Lee Hahn-Been visited the Finnish Embassy there. He wished that cordial relations, both personal and official, would be developed in the future between the Finnish and the South Korean Embassies in Bern. Furthermore, he explained that the South Korean government was going to extend its presence in Europe in the near future. Especially, he pointed out the plans to open an Embassy in Stockholm in the beginning of 1964 in order to promote South Korean interests in Scandinavia. (UM 13.5.1963)

Until 1969, South Korea followed the German Hallstein Doctrine according to which it did not hold diplomatic relations with any country that recognised North Korea. Germany gave up the doctrine in 1969 and also South Korea started to consider accepting diplomatic relations with all countries, even in the communist bloc. The actual decision was made in 1973 when the Declaration of Peace and Unification was announced, but at least the Ambassador of Sweden to Japan had seen signs of détente in South Korea already in the beginning of 1969 (UM 16.7.1969). Swedish opinions in this issue were followed carefully in Finland. For example, in 1969, the Finnish Embassy in Stockholm reported that Sweden was not willing to establish relations with the two Koreas (UM 29.1.1969). The Ambassador of Sweden to Japan however argued that after recognising North Vietnam in 1969 as the first Western country, it seemed to be only a question of time when Sweden recognises also North Korea (UM 19.12.1969).

The Finnish Embassy in Tokyo continued to report frequently on South Korean government's efforts to establish diplomatic relations with new countries in the Middle East, Africa and especially in East Europe, starting from Yugoslavia, Romania, and Poland. In 1971, the Finnish Embassy in Tokyo reported that the South Korean government was interested in developing trade relations even with the Soviet Union. (UM 14.7.1971) In 1972, it came to the Finnish government's knowledge unexpectedly that Sweden and Switzerland had planned already earlier to recognise North Korea if Czechoslovakia and Poland recognise South Korea at the same time. However, Czechoslovakia and Poland had not been willing to recognise South Korea even in this case and thus, the plan was dropped. (UM 13.12.1972) Only the next year, the Foreign Minister of South Korea proposed the Swedish government to make a new attempt in order to set relations between the Neutral Nations Supervisory Commission²⁰ countries and the two Koreas (UM 23.3.1973).

In the end of the 1960s, Finland became gradually aware of South Korea's rapid economic development and increasing trade and thus, the Finnish Embassy in Tokyo sent a representative to visit Seoul in June 1971. In discussions that took place at the Ministry of Foreign Affairs of South Korea, the issue of non-existing diplomatic relations between

²⁰ Neutral Nations Supervisory Commission (NNSC) was established in 1953 to inspect for and ensure armistice compliance at locations outside of the demilitarised zone of Korean peninsula. The members of the commission were Sweden, Switzerland, Czechoslovakia and Poland.

Finland and South Korea were not touched. In further discussions at the Economic Planning Board, the director of economic research division did not even know that the two countries did not have diplomatic relations. Instead, he emphasised strongly the need to increase South Korean exports to Finland. He interpreted Finland as a part of Scandinavia that had wide goodwill in South Korea. (UM 23.6.1971)

As mentioned earlier, the Finnish foreign policy emphasised Finland's neutrality and thus, it did not establish diplomatic relations with divided countries. Finland did not set formal relations with either West or East Germany, but instead, established trade offices in Köln and East Berlin. Nor did it establish relations with South and North Korea. In addition, the Finnish policy towards divided countries included a similar treatment of both parties. Therefore, when the South Korean Embassy in Stockholm was informed that North Korea was going to establish a trade office in Helsinki, it was clear that South Korea was allowed to do the same. (UM 23.6.1971). As a result, a South Korean goodwill mission that visited the Scandinavian countries in August 1971, stopped also in Finland on the same journey.

The goodwill mission was the first South Korean delegation in Finland and it was led by Yun Suk-Heun, Deputy Minister for Foreign Affairs. Discussions took place with Foreign Minister of Finland, Väinö Leskinen. (UM 31.8.1971) Minister Yun suggested that Finland could open trade offices in both Koreas if the establishment of diplomatic relations was out of question. Furthermore, he wished that Finnish companies could invest in South Korea, as also Denmark, Sweden and Norway were already present in South Korea in the form of the National Medical Center in Seoul. In Finland, opening of the trade office was however seen purposeless due to the marginal trade flows between Finland and South Korea. (UM 3.9.1971) Despite this, Ministry of Foreign Affairs of South Korea established a Trade Mission in Helsinki already in the following year, in May 1972. Minister Yoon Ho-Gan was appointed as Head of the trade mission. Opening of the trade mission was followed by two other South Korean delegations to Finland in August 1972 and February 1973, both led by Deputy Minister Jang Sang-Moon. The delegations also visited the Scandinavian countries. (Mofat, 2001)

By 1973, South Korean government had started to reevaluate the importance of diplomatic ties with many European countries with which its trade relations had intensified (cf. Lumley 1978, 207). Also the Finnish government started to prepare to recognise the two

Koreas with a special reference to the relaxed tensions between the United States and the Soviet Union. The Finnish government expressed its willingness to establish trade relations with both Koreas, but highlighting the fact that it will treat them in an equal manner. In April 1973, the Finnish government informed both North and South Korea that it will recognise them as independent states. (UM 6.4.1973) Also the Swedish government, which had recognised South Korea already in 1959, recognised North Korea in April 1973 (UM 5.4.1973).

4.2 Establishment of Finno-Korean diplomatic relations

Following the recognition of both Koreas by the Finnish government in April 1973, the diplomatic relations with North Korea were established in June 1973 and with South Korea in August 1973. Ministry of Foreign Affairs of South Korea expressed that their Embassy in Helsinki had an important role in following the situation in the Soviet Union (UM 11.1.1974). Similar conclusions were drawn also at the Ministry for Foreign Affairs of Finland (eg UM 6.5.1976; UM 5.10.1977). Minister Yoon Ho-Gan, who had served as Head of the South Korean Trade Mission in Helsinki, was appointed as the first Ambassador of South Korea to Finland. The Ambassador of Finland to Japan, Osmo Lares, was accredited also to Seoul. The Finnish Embassy in Tokyo continued to observe the developments in Korean peninsula carefully. Especially, intra-Korean tensions as well as South Korea's relations with the United States and Japan were followed with care throughout the years (eg UM 5.12.1973).

In August 1973, South Korean Special Presidential Adviser for foreign affairs, Hahn Pyong-Chun, visited Finland and met with Ahti Karjalainen, Deputy Prime Minister and Minister for Foreign Affairs. Discussions dealt predominantly with the issues of the Korean question at the UN. This was because of the fact that usually countries joined the UN immediately after gaining independence as a symbol of their independent role in the international community. In the case of Korea, South Korea was willing to join the UN but North Korea opposed the membership of a two Koreas because it might hinder the unification. As a result, the problem of Koreas' membership in the UN became one of the most controversial issues between the two Koreas for 43 years. (Pak 2000, 63)

Hahm Pyong-Chun explained that the United States, the Soviet Union, Japan and even China supported the idea of two Koreas at the UN in order to stabilise the situation in Korean peninsula. Therefore Hahm Pyong-Chun expressed his wish that also Finland could support the separate memberships at the UN General Assembly. Finland had stated earlier that both Koreas need to have an opportunity to practice international cooperation at the UN (UM 5.4.1973). Despite, Minister Karjalainen pointed out that Finland should be realistic in terms of its opportunities to have an impact on questions discussed in the UN. (UM 29.8.1973)

Another wish expressed by Hahm Pyong-Chun was that Finland with its good relations with East European socialist countries could help South Korea to open at least cultural relations with these countries, notably Poland. He highlighted that the aim was not to hinder North Korea's international relations but to open own relations also from South Korea, which was considered difficult. (UM 29.8.1973) Finally, Hahm Pyong-Chun invited Foreign Minister of Finland to visit South Korea (UM 8.5.1979).

Ambassador of Finland to Japan, Osmo Lares, visited South Korea from Tokyo for the first time in December 1973 and met both President Park Chung-Hee and Prime Minister Kim Jong-Pil, among others (UM 11.1.1974). Soon after, in January 1974, Finnish Minister of Transportation, Pekka Tarjanne visited South Korea unofficially. During his visit, South Koreans expressed publicly their wish that Finland could help the Korean government to improve relations with the Soviet Union and other socialist countries, but Finland took up an unresponsive attitude (UM 6.5.1976). More positive improvements in the bilateral relations were the signing of the Visa Exemption Agreement and the plans for an aviation agreement between Finland and South Korea (UM 27.1.1974).

In 1975, it was suggested by many countries that Finland could take a role in the UN General Assembly and suggest a compromise in the Korean question. This idea was first suggested to Foreign Minister of Finland, Olavi Mattila, by the Ambassador of Japan and a few days later also by the Ambassador of the United States. Also in Tokyo, Ministry of Foreign Affairs of Japan had stated the same idea to Ambassador of Finland, Osmo Lares. Minister Mattila however pointed out that the Finnish government did not have any plans to take a role in the issue. (UM 19.5.1976)

In 1976, Ambassador Osmo Lares visited South Korea from Tokyo to meet with Deputy Foreign Minister of South Korea, Ha Jong-Yoon. Minister Ha emphasised the role of Finland for South Korea in terms of economic aspects and especially in terms of political aspects, as South Koreans saw Finland as a suitable intermediate between South Korea and the socialist world. (UM 28.6.1976) This view became clear when Yoon Kyung-Do, new Ambassador of South Korea to Finland, visited the Ministry for Foreign Affairs of Finland in order to enquire whether Finnish government could arrange some contact between North and South Koreans in Finland (UM 6.5.1976). According to Ambassador Osmo Lares, this was the most concrete South Korean suggestion so far (UM 19.5.1976).

Ambassador Yoon asked also about the opportunity to open trade office in any socialist country such as Yugoslavia, with the assistance of the excellent foreign relations of Finland. Similarly, he was interested in the opportunities to make use of Finnish contacts in the Soviet Union. (UM 6.5.1976) According to Ambassador Osmo Lares, Finland had no reason to help South Korea to improve its relations with the socialist countries. However, the conflicting relations between the two Koreas formed a security risk and it was certainly in the interest of Finland to reduce the risk. Therefore, Ambassador Lares pointed out that it was important to continue the discussion and that probably, Finland could do a favour for South Korea in some concrete issues. (UM 19.5.1976)

Finland's intermediate role in the Korean question at the UN was again taken up by Kim Kyong-Won, Special Presidential Adviser for Foreign Affairs of South Korea who visited Finland in September 1976 and met with Prime Minister of Finland, Martti Miettunen. Kim Kyong-Won expressed his wish that Finland together with the Scandinavian countries could help in finding a compromise in the Korean question but Prime Minister Miettunen highlighted yet again that the Finnish decision was to stay out of the superpower conflicts. (UM 23.9.1976)

Meanwhile, Finland's relations with North Korea were suddenly hindered by a political crisis as a result of a smuggling case by North Korean diplomats. According to Lankov (2004), North Korean embassies in Nordic countries became involved in illegal activities at a massive scale in the mid-1970s. First, in 1976, North Korean diplomats in Denmark were caught handing hashish to local drug dealers. Soon after, the Norwegian police caught North Korean diplomats selling smuggled liquor and cigarettes. The same network

was discovered also in Finland and Sweden. As a result, Denmark and Norway broke diplomatic relations with North Korea. Differently, Swedish companies were waiting to receive payment for large amount of equipment shipped to Pyongyang and in addition, Sweden was a representative in the Armistice commission, which made it more complicated to break down relations. In Finland, North Korean diplomats were just expelled.

4.3 Establishment of Finnish Embassy in Seoul

In 1977, Ambassador of South Korea, Yoon Kyong-Do, suggested that Finland would place a Commercial Counsellor in Seoul because of the intensified trade relations between Finland and South Korea. (UM 12.1.1977) Finnish Embassy in Tokyo started to study the potential of the South Korean economy for Finnish businesses and as a result, Commercial Secretary, Heikki Latvanen, was sent to Seoul to open and head a Commercial Section of the Embassy. In 1978, the mission was upgraded to an Embassy and Commercial secretary Latvanen was appointed as *charge d'affair a.i.*. (Latvanen 17.4.2002)

Opening of the Embassy in Seoul was preceded with lengthy discussions in Finland, as Finland had only a Commercial Counsellor's office in Pyongyang, and Finns were concerned that North Koreans might complain if they felt loosing their gained advantage. Finns were worried about the North Korean attitude as the political atmosphere in Finland was harmed by what is often called *Finlandisierung*, a limited political freedom of a small country in the shadows of a large neighbouring country. In the case of Finland, the neighbouring country was the superpower of Soviet Union, and North Korea was Soviet Union's ally. Minister Arvo Rytönen, who was the Director General of the Department of Economic Relations at the Ministry for Foreign Affairs of Finland, was a key person to support the development of Finno-South Korean relations, but in the sensitive political atmosphere, a particular decision by the President of Finland, Urho Kekkonen, was needed before the Embassy in Seoul was opened. (Latvanen 17.4.2002) President Kekkonen was especially known from his skills to keep the Russians at bay and maintain Finland's sovereign position. According to Liukkonen (2003, 561), Minister Rytönen was, however, able to guide President Kekkonen's attitude in economic policy questions.

The political atmosphere of Finland hindered also the official visits to South Korea. Therefore, it was significant that Minister Rytkönen flew personally to Seoul in December 1977 when the Embassy was opened, together with a large Finnish business delegation (Latvanen 17.4.2002). Year 1977 was noteworthy also due to the first ministerial level visit by South Koreans in Finland. Chang Yie-Joon, Minister of Trade and Industry of Korea met with Minister Esko Rekola in Helsinki in September 1977.

In April 1978, a Korean Air plane made an emergency landing on a frozen lake near Murmansk, and 110 passengers flew from the Soviet Union to Helsinki to stay overnight and were able to return home with the assistance of Finnish authorities. Both South Korean and Japanese sources praised the Finnish hospitality. (UM 24.4.1978) With regard to aviation in general, South Koreans expressed their wish that Finland could establish flights through the Soviet Union and China to Seoul and further to Japan. The idea included the opportunity to transport Finnish exports to South Korea through Soviet Union and China. Thus, it was once again an attempt to use Finland as a middle-man in establishing relations with the Soviet Union. (UM 5.10.1977)

With regard to the division of the Korean peninsula, Ambassador of South Korea, Yoon Kyong-Do, stated that actually the present status of two Koreas was a most convenient policy. He only wished that the status could be recognised internationally, like the case of two Germans. Ambassador Yoon claimed also that the United States had suggested to China that if China recognised South Korea, the United States would recognise North Korea. (UM 5.10.1977)

Meanwhile, the other Nordic countries had slightly different issues to handle with South Korea. For example, the Norwegian government asked their Ambassador to express the worries on the continuous human rights violations in South Korea. Ambassador of Norway to South Korea was not willing to deliver such a message because the improvements were unlikely. Instead, such a note might harm the relations between Norway and South Korea. When he however presented this message, Director of European section at the Ministry of Foreign Affairs of South Korea was not offended, but gave the usual explanation based on the internal security policy. (UM 22.5.1979)

Year 1979 witnessed several important visits by South Koreans to Helsinki. First of all, Hahm Pyong-Chun, Special Presidential Adviser for Foreign Affairs, who was known as one of the leading specialists in South Korean policy and the former Ambassador of South Korea to United States, visited Finland and met with Foreign Minister of Finland, Paavo Väyrynen. During the visit, Hahm expressed his satisfaction on the development of bilateral relations of Finland and South Korea since his last visit in 1973. He reminded Minister Väyrynen on the earlier invitation to visit South Korea and repeated the wish that Finland could improve South Korea's relations with the Soviet Union and other European socialist countries. Minister Väyrynen answered that the wish had been put forward, but that the countries naturally consider their relations from their own starting points. He also expressed his willingness to visit South Korea later. (UM 8.5.1979)

Also three South Korean cabinet ministers visited Finland in 1979. The first visit took place in June 1979 by Deputy Prime Minister Shin Hyon-Hwack who met with President Kekkonen, among others. In October 1979, Choi Jong-Wan, Minister of Science and Technology visited Finland at the call of the Minister Eero Rantala. In September 1979, Foreign Minister Park Tong-Jin visited Finland to meet with Foreign Minister Paavo Väyrynen and Foreign Trade Minister Esko Rekola, and others. Political discussions covered the deadlocked intra-Korean situation, Korea's UN membership, and South Korea's diplomatic and trade relations. Minister Park explained that South Korea had diplomatic relations already with 109 countries, but not with socialist countries. (UM 16.10.1979) South Korean media illustrated Minister Park's visit and emphasised the role of Finland as a country with good relations with the Soviet Union and European socialist countries. In addition, the use of Finland as a gateway for South Korean trade to socialist countries was seen as the major objective of Minister's visit. (UM 12.9.1979) As to UN membership, Minister Väyrynen emphasised again Finland's neutrality policy as a reason for Finland to stay out of the Korean question at the UN. (UM 16.10.1979)

In November 1979, alarming news spread from Seoul when President Park Chung-Hee was assassinated. In fear of trouble in the country, Finnish Embassy in Seoul contacted all the Finns living in South Korea, about 40 altogether, mostly representatives of companies Ekono and Outokumpu. (UM 30.10.1979) Ambassador of Finland, Henrik Blomstedt, who had been accredited to Japan and South Korea in February 1979, participated the funeral of President Park Chung-Hee.

The first ever visit of Finnish cabinet minister in South Korea took place in April 1980 when Foreign Trade Minister Esko Rekola made an official visit to South Korea at the invitation of Chung Jai-Suk, Minister of Commerce and Industry. Minister Rekola was followed by an eight-man government mission and a 13-man business delegation. He paid courtesy calls on President Choi Kyu-Ha and Prime Minister Shin Hyon-Hwack. In addition, he met with Deputy Premier Economic Planning Minister Lee Hahn-Been and Foreign Minister Park Tong-Jin. (KT 11.4.1980a; UM 15.4.1980) During the visit, South Koreans emphasised the position of Finland within the free world but yet under strong influence of the Soviet Union. Thus, Finland was once again wished to become a gateway for South Korea's market activities in the Eastern European socialist countries. (KT 11.4.1980b)

One year after, in 1981 South Korean Prime Minister Nam Duck-Woo visited Finland in his European tour. He intended to meet with President Kekkonen who two weeks earlier had returned from his visit to Iceland from where the pictures on the exceptionally bad conditioned president had spread to the media. The 81-year old President Kekkonen had fever and doctors suggested him to rest, but President was not willing to do that because he was afraid that South Koreans might misunderstand his illness. However, his condition worsened and the meeting was finally cancelled. According to Blåfield and Vuoristo (1982) South Koreans perceived the President's illness as a political statement, but the contemporaries have explained that South Koreans truly understood the seriousness of President Kekkonen's health (Latvanen 17.4.2002). Four days later, President Kekkonen requested a sick leave and after seven weeks he asked to resign from presidency that he had held for a quarter of century.

The years 1982-1983 were lively in terms of the inter-parliamentary activities between Finland and South Korea. South Korean member of the Inter-Parliamentary Council, Kwon Chong-dal, visited Finland in 1983 and soon after, the Finnish parliamentary delegation participated the 70th Inter-Parliamentary Union²¹ (IPU) conference in Seoul. The delegation of seven Finnish parliament members was led by Juhani Tuomaala, a member of the IPU Council. In addition, South Korean National Assembly Speaker Chae

²¹ IPU is the international organisation of parliaments of sovereign states.

Mun-Chick invited Dr. Johannes Virolainen, former president of IPU Council to observe the conference. (KT 11.10.1983a)

The increasing internationalisation of the Finnish economy and society in the 1980s resulted in establishment of friendship associations to promote the bilateral relations of Finland and South Korea. This was rather late in comparison to other Finnish friendship associations related to Asia, such as the Finno-Japanese Association that had been established already in 1935. The Finland – Republic of Korea Association was founded in 1981 to keep up friendly bilateral relations and to encourage cross-cultural interaction. Later, the Finland – Republic of Korea Trade Association was founded in 1986 to promote trade, investment and economic co-operation. These two associations are based in Helsinki. In Seoul, Korea – Finland Business Council was established in 1989 to promote trade between the two countries and to improve contacts between businessmen.

A new phase in Finno-Korean relations begun in 1986 when Finland appointed the first resident Ambassador to Seoul. The decision of the Finnish government was based on the increased volume of trade between Finland and South Korea, as well as the large international events to be held in Seoul, including the Olympic Games in 1988 (HS 4.5.1985; US 4.5.1985) The appointment still resulted in reassurance on equal attitude toward North Korea. This attitude was visible in the Finnish media (eg HS 4.5.1985), which emphasised the importance of North Korea to Finland besides South Korea. Also the South Korean media pointed out that Finland is “one of the few Free World countries to have a resident embassy in Pyongyang” (KH 31.1.1989). As an answer, the Ambassador of Finland, Juha Puromies, who had moved to Seoul in February 1986, highlighted the equal attitude towards both Koreas, but at the same time reminded that the Finnish embassy in Pyongyang was represented only by a junior official.

The two old topics, namely Finland as a gateway to socialist countries, and an intermediate in Korean questions at the UN, were continuously taken up by South Koreans. The suggested role of Finland was based on Finland’s successful task as an initiator and host of the Conference on Security and Cooperation in Europe (CSCE) in 1975, as well as Finland’s participation in the UN peace keeping operations. South Koreans understood these actions as a sign of Finland’s contribution to the international

peace and security (eg UM 26.10.1992). In addition, South Koreans highlighted Finland's long experience in working with the Soviet Union and other socialist countries.

At the Ministry for Foreign Affairs of Finland, it was known that the suggested intermediate role was not going to be limited in trade, but extended also to political issues, because South Korea did not have any relations with socialist countries (UM 31.8.1981). South Koreans had also proposed that Finland could use its good relations with the Soviet Union in order to press North Korea to treat South Korea in a more positive way. Actually, Finns were aware that also the Soviet Union and the European socialist countries were interested in cooperating with South Korea, but refrained from establishing relations due to the possible strong negative impact on their relations with North Korea. (UM 31.8.1981) As an answer to South Koreans, the Finnish government reminded that South Korea should not forget its old allies of Japan and the United States although there were very attractive economic prospects visible in the socialist countries. (KH 31.1.1989)

4.4 From Cold War diplomacies towards a cooperative relationship

The unification of Germany in 1990 resulted in a need to update Finnish international relations. Also in South Korea, it was pointed out that Finland was now likely to adapt to the post Cold War world order by joining the European Community (EC) although Finland officially claimed that the EC membership was not a current issue. (KT 13.10.1990) With regard to Finland's relations with the Baltic countries who received their independence from the Soviet Union in 1990, the South Korean media explained that Finland was rather careful to change its policy toward the Soviet Union. Instead, Finland was mentioned as a political subservient of Moscow although the Finnish government argued that using the term *Finlandisierung* was an unfair view of the Finnish policy. (KH 30.5.1990; KT 30.5.1990)

With regard to the Korean question at the UN, Finland had not been willing to take an active role because the problem was understood as a superpower conflict. In addition, the discussion had begun in the UN before Finland even became its member of it in 1955. (UM 31.8.1981) Only in 1990, the Finnish government stated that it believes in the principle of universality, by which it referred to the opportunity of all states to become a

member of the UN. (KTT 6.12.1990) Meanwhile, North Korea's requirement for the single-seat membership had become irrelevant and the two Koreas were finally admitted by the General Assembly on September 1991. (Pak 2000, 73-74).

Soon after, the Finnish government had no reason to emphasise the equal importance of North and South Korea any more. During the Foreign Minister of Finland, Paavo Väyrynen's visit to South Korea in October 1992, he highlighted to Foreign Minister of South Korea, Lee Sang-Ock, that the equal treatment of the two Koreas was certainly out of question. Instead, he stressed the close political and economic relations between South Korea and Finland. According to Minister Väyrynen, one implication of this was the fact that Finland had a resident Ambassador in Seoul, but not in Pyongyang any more. (DAI 27.10.1992) Minister Väyrynen emphasised also the new role of Finland in the changing Europe. He pointed out that Finland had for a long time participated in European economic integration in terms of the EFTA and was now applying the membership of the EC. He believed that the European integration process would not result in a Fortress Europe²², instead, it would promote also economic relations between Finland and South Korea. (Väyrynen 26.10.1992)

In the latter half of the 1980s, civil servants of the Finnish and South Korean ministries had visited each other every now and then most visits being economic by nature. There were also some minister level visits, including the visits of the Foreign Trade Minister of Finland, Jermu Laine, in South Korea in 1984, 1986 and 1989; the visit of the Minister for Trade and Industry of Finland, Pertti Salolainen, in South Korea in 1988; and the visit of the Minister for Trade and Industry of South Korea, Han Seung-Soo, in Finland in 1989. Minister level visits continued again in 1991 when Lee Jin-Seol, Construction Minister of South Korea, visited Finland in order to sign the memorandum of understanding in the field of construction.

After South Korea had announced its OECD accession plan, also Finland as a member of the OECD needed to take a stand on South Korean practises and policies. Some of the Finnish industrial associations lobbied the Finnish government not to recommend South Korea's membership in the OECD. This was because of the South Korean practises which

²² "Fortress Europe" refers to an attitude that wants to defend Europe from outside influences.

were claimed to be against the International Labour Organisation's (ILO) agreements on the rights of the labour (HS 9.6.1995). Due to its large shipbuilding industry, Finland announced requirements against South Korean shipbuilding policies that were claimed to harm European shipyards by selling vessels for less than the cost of production.

Political relations between Finland and South Korea in the 1990s were clearly characterised by active minister level visits from Finland to South Korea, including the visit of the Minister for Trade and Industry Kauko Juhantalo and the Foreign Minister Paavo Väyrynen in 1992; the visit of the Minister for Trade and Industry Seppo Kääriäinen in the South Korea's world exhibition in 1993²³; the visit of the Prime Minister Esko Aho and the Minister for Defence Elisabeth Rehn in 1994; the visit of the Minister of Trade and Industries Antti Kalliomäki in 1995; the visit of the Minister of the Finance Sauli Niinistö, the Minister of Education Olli-Pekka Heinonen, and the Minister for Transportation Tuula Linnainmaa in 1996; the visit of the Minister of Trade and Industry Ole Norrback in 1997; and the visit of the Minister of the Environment Pekka Haavisto in 1998. High level visits continued again in 2001 when Kimmo Sasi, Minister for Foreign Trade paid a visit to South Korea.

In 1999, parliamentary friendship groups arranged reciprocal visits as Timo Ihamäki, Chairman of Finland – Republic of Korea Parliamentary Friendship Group visited Seoul and Lee Sang-Hee, Chairman of Korea – Finland Parliamentary Friendship Group, visited Finland. Parliamentary interaction continued in 2001 when Lee Man-sup, National Assembly Speaker, visited Finland in 2001 and met Prime Minister Paavo Lipponen and Speaker of the Parliament, Riitta Uosukainen. On a reciprocal basis, Speaker of the Finnish Parliament, Riitta Uosukainen, visited South Korea in 2002.

In the beginning of the new millenium, development of Finno-Korean relations culminated to the first ever state visit of the President of Finland to South Korea. President Tarja Halonen's visit in 2002 received a relatively large publicity in South Korea especially due to her gender that raised interest but also hesitation among South Koreans (UM 29.1.2003). Already earlier, the South Korean media had noticed the election of Foreign Minister Tarja Halonen as Finland's first female president and pointed out that the

²³ During this visit, the Finno-Korean cultural agreement was signed.

number of countries ruled by female politicians had increased to seven including also Latvia, Ireland, New Zealand, Sri Lanka, Bangladesh, and Panama. The high proportion of women parliamentarians in the Nordic countries was also highlighted as the shares were high in Sweden (42.7 %), Denmark (37.4 %), and Finland (37 %) in comparison to South Korea (3.7 %). (KOIS 8.2.2000)

Before the presidential elections in South Korea in the end of 2002, president candidate of the Grand National Party Lee Hoi-Chang visited Finland. The previous presidential elections in 1998 had marked an end of regionally based rule that had sparked the nation's development for three decades. At that time, Kim Dae-Jung as a representative of Millennium Democratic Party had won the presidential elections. South Korean president can hold the position only during one term and thus, he was going to leave the office in the beginning of 2003. In Finland, president candidate Lee Hoi-Chang probably did not receive much political support as President Halonen gave support for another president candidate representing the party of the President Kim Dae-Jung. President Halonen namely supported President Kim Dae-Jung's sunshine policy of engaging the North Korea (KOIS 10.4.2002), which was also the EU policy towards South Korea (EU 2003).

As Finland had become a member of the EU in 1995, its relations with South Korea were predominantly organised through the EU framework since then, as discussed in Chapter Three. As a member of the EU, Finland has participated in the EU's attempts to encourage peaceful relations of the two Koreas and to integrate North Korea in the international community. The representatives of the Ministry for Foreign Affairs of Finland (eg Feodorow 25.10.2001) have highlighted the longterm relations of Finland with both Koreas, in contrast to most EU member countries that have established the diplomatic relations with North Korea only recently. For example, Belgium, Germany, Greece, Italy, Luxembourg, the Netherlands, Spain, and the United Kingdom established diplomatic relations with North Korea only in 2000-2001. From the North Korean perspective, it was easier to establish relations with European countries than with Japan or the United States, because it already had relations with Finland, Sweden, and Austria. (Nam 2001)

The EU's relations with South Korea have emphasised economic aspects, but increasingly also political questions especially after 1996 when the relations with South Korea were upgraded by the Framework Agreement. With the agreement, the EU wanted to recognise

South Korea's economic importance, but also its strengthened pluralistic democracy. The EU and South Korea have held Ministerial level consultations on economic issues annually, but since signing the Framework Agreement, also separate political meetings have been held, usually on the occasion of the ASEAN Regional Forum (ARF). (EU 2003)

4.5 Conclusions

The highlights of Finno-Korean diplomacies include the founding of the diplomatic relations in 1973, the opening of the South Korean Embassy in Helsinki in 1973, the opening of the Finnish Embassy in Seoul in 1977, the first Finnish cabinet Minister's visit in South Korea in 1980, the first-ever visit of Prime Minister of South Korea in Helsinki 1981, the appointment of the resident Ambassador of Finland to Seoul in 1986, the first-ever visit of Prime Minister of Finland in South Korea in 1994, and the first-ever state visit in South Korea by the President of Finland in 2002.

The Cold War hindered contacts between the two countries for decades. While South Korea followed the Hallstein Doctrine that rejected it to establish diplomatic relations with any country that recognised North Korea, the Finnish policy towards divided countries was to restrict itself to set relations with either of countries. Because of the conflicting policies, Finland and South Korea were not able to set diplomatic relations before South Korea officially gave up its policy in 1973.

The diplomatic relations were established significantly later than the relations between the Scandinavian countries and South Korea that took place already in 1959. Otherwise, Finland rested very much on the Scandinavian opinions on the developments in the Korean peninsula (eg UM 29.1.1969, 16.7.1969, 19.12.1969, 13.12.1972, 23.3.1973, 23.8.1974, 23.5.1979, 31.5.1979). The Finnish caution to develop Finno-Korean relations was also shown in the fact that although South Korea sent its Ambassador to Helsinki immediately in 1973, the Ambassadors of Finland to China and Japan acted as Ambassadors to the Korean states until 1986.

In addition to hindering the establishment of Finno-Korean diplomatic relations, the Cold War had a profound impact on the further development of Finno-Korean relations. Due to the difficult geo-political position of Finland in the neighbourhood of the Soviet Union, Finland was engaged in a neutrality policy according to which it treated divided countries such as South and North Korea equally. Thus, the development of Finnish relations with South Korea was related to Finland's relations with North Korea, and even the Soviet Union. The Finnish government was embarrassed when South Korea frequently expressed its wish that Finland could take the role of a go-between in South Korea's relations with the Soviet Union and the East European socialist countries, although the Finnish government was not willing to take the role. The Finnish government did not want to take an active role in the Korean question at the UN either because it understood the problem as a superpower conflict.

The end of the Cold eased Finnish policies towards South Korea as it did not need to take into account the opinions of the Soviet Union that had collapsed or North Korea that was left without allies in the new post Cold War world order. In terms of South Korea's internal policy, the end of military dictatorship in 1987 and the state led economic planning in the 1990s, further eased the tensions in Finnish diplomacy with South Korea.

The question of unification still remained in the Finno-Korean agenda. Finland had continuously stated that it is willing to promote peace in the Korean peninsula, for example during its presidency of the European Union in 1999. It has been the opinion of the Finnish government since the late 1980s that the political changes in the Korean peninsula can be based only on the accumulated understanding from economic exchanges. (UM 13.7.1999; KH 31.1.1989)

Altogether, Finland's foreign relations have turned to emphasise multilateralism instead of bilateralism since the beginning of 1990s, as discussed in Chapter Three. This tendency has been further strengthened by Finland's membership in the EU in 1995. Therefore, part of Finland's relations with South Korea are nowadays organised through the framework of the EU, and the Finnish trade policies toward South Korea are harmonised with the EU common trade policies. Since the end of the Cold War, Finland and South Korea have been enjoying a sound relationship in the field of diplomacy and there have not been any open political issues between them.

5 FINNO-KOREAN ECONOMIC RELATIONS

Bilateral relations are not built only on political diplomacy, but there are also cross-border relations in business, academy and culture, linking together governments, universities, firms, cities, and citizens. In the case of Finno-Korean relations, business links are strong and South Korea has been one of Finland's most important Asian trade partners since the 1980s. Therefore, in the present chapter, the focus is on inter-governmental and private economic cooperation and exchange between Finland and South Korea, an on trade and investment flows in particular.

The Ministry for Foreign Affairs of Finland has focused on commercial questions besides Finland's foreign policy since its establishment. As soon as Finland had received its independence and started to set up its own administration to handle external relations, it became evident that Finland did not need to open many embassies worldwide but rather consulates to serve shipping and foreign trade. At the Ministry for Foreign Affairs, separate departments for political and trade policy issues were established. Major part of the Ministry's personnel consisted of people from trade and industry but also artists who had experience of working internationally. (Formin 2004)

In the 1950s, the duties of Ministry for Foreign Affairs increased rapidly. This was because of several reasons: new independent states emerged, Finland started to open political and commercial relations beyond the borders of Europe, international cooperation was extended into science, technology, education and social affairs, and multilateral cooperation expanded. As international trade increased and diversified, the Ministry started to promote also trade and the international image of Finland. Thus, commercial counsellors were nominated to create contacts with foreign firms and to promote Finnish exports, and counsellors of science and technology were appointed. Finnish Embassies also hosted press counsellors responsible for raising awareness of Finland, enhancing the image of Finland, and arranging local cultural activities. (Formin 2004)

In the 1970s, the major aim of the trade policy department was to liberalise trade through the integration with Western Europe. For the sake of balance, agreements on reducing trade barriers were signed also with the East European socialist countries, and

technological and commercial cooperation was promoted. A new phenomenon was the opening of trade relations with the developing countries in Asia, Africa, and America. Coming to the 1980s, especially Japan became an interesting target market due to the strong economic development of the country. (Opas 2003)

Altogether, the Finnish trade policy during 1948-1991 was characterised by a large share of trade with Soviet Union. Since the beginning of 1990s however, Finland's trade policy has turned to follow the common trade policy of the European Union (EU), which officially was adopted in 1995 when Finland joined the EU. These policies of Finland within the EU framework have been discussed in more detail in Chapter Three.

5.1 Finnish trade with North Korea: start and end

North Korea was interested in developing trade relations with Finland, although the Ministry of Trade and Industry of Finland pointed out in 1958 that demand for North Korean imports was somewhat small (UM 28.7.1958). In 1962, the Ambassador of North Korea to Soviet Union proposed that bilateral relations between Finland and North Korea could be initiated in the fields of culture and trade. His proposal was rejected for political reasons, as explained in Chapter Four. (UM 27.3.1962) Negotiations with North Korea were however begun two years later, in 1964.

North Korea was eager to open a trade office in Helsinki, but the Finnish government required that the establishment had to be preceded by concrete trade flows. Differently, North Korean representatives insisted that the very opening of the trade office would contribute to new trade flows. As a sign of goodwill, North Koreans bought immediately Finnish metal products with the value of GBP 6000. Trade agreement was finally signed between Finland and North Korea in 1969. At the same time, the establishment of the North Korean trade office in Helsinki was allowed (UM 6.8.1970). On a basis of reciprocity, also Finland opened a commercial office in Pyongyang.

According to Foreign Trade Minister of Finland, Jermu Laine, the public opinion in Finland was against doing business in non-democratic North Korea in the 1970s (Kauppapolitiikka 3/2003). However, business was started both in South and North Korea

according to Finnish neutrality policy. North Koreans were especially interested in buying a Finnish pulp and paper plant. As a result, a Finnish cooperative company, Metex, built a large paper plant in the southern part of North Korea with a value of FIM 150 million, but soon faced difficulties in receiving payment. (HS 5.7.1973; KH 31.1.1989). Finland was not the only country with difficulties as North Korea had started to borrow widely on the international market in the early 1970s. A North Korean delegation had also visited Sweden and attracted Swedish businessmen to build mining industries in North Korea by giving an impression that communist countries made good borrowers. (HS 5.7.1973; Lankov 2004) As Swedish companies shipped a large amount of equipment to Pyongyang, the debt was finally much higher than what North Korea owed to Finland (KH 31.1.1989; Lankov 2004), a fact that gave some consolation for Finns. However, the Finnish economic relations with North Korea became frozen since Finland never received payments for the paper machines.

5.2 The first Finnish business operations in South Korea

Finnish trade flows with South Korea are documented in the Finnish foreign trade statistics²⁴ systematically only since 1964. There had been some trade flows earlier, at least minor exports from Finland to Korea in 1926-1929 consisting of white paperboard. As Korea was a colony of Japan in 1910-1945, it is possible that there have been other trade flows which however are not visible separately from Finno-Japanese trade. An indirect trade effect on Finland was caused by the outbreak of the Korean War in the beginning of the 1950s. The war boosted the world economy as many countries became suppliers of goods needed for the war. Also in Finland, industrial output, exports, and trade through the Finnish harbours boomed.

In 1964, Finnish exports to South Korea included fibres and mechanical pulp with a modest value. Until the late 1970s, there were only a few single trade flows including Finnish exports of mainly some chemicals and imports of wigs. South Korean wigs, together with veneer boards and footwear were the three items made in South Korea that dominated the respective markets internationally in the 1960s. This was because the South

²⁴ All trade figures presented in this chapter are from the Finnish Board of Customs if not otherwise stated.

Korean government supported these labour intensive industries by expanding the manufacturing base and promoting exports.

South Korea started its active search for new trading partners in the beginning of the 1960s as a part of outward-oriented development strategy. The Korean government established diplomatic relations with potential trading partners. The most important was Japan with which diplomatic relations were established in 1965. (Sakong 1993, 39) In 1971, a Korean goodwill mission extended its search for business opportunities to Nordic countries, including Finland. Therefore, initiatives for systematic development of bilateral relations in terms of trade came from the Korean side. However, also the Finnish Embassy in Tokyo had started to explore trade potential in Korea and in June 1971, when the First Secretary of the Finnish Embassy was sent to Seoul for commercial affairs (UM 23.6.1971).

The first Korean delegation visited Finland in August 1971 headed by Deputy Minister of Foreign Affairs, Yun Suk-Heun, who suggested a Korean trade mission to be opened in Helsinki. It was agreed that the possibility of starting negotiations for the conclusion of a Finno-Korean trade agreement would be studied. Minister Yun delivered a draft of trade agreement for his Finnish colleagues and emphasised that Korea had already 23 trade agreements. The Finnish side promised to study the proposal but rejected the establishment of a suggested joint commission. (UM 31.8.1971) Instead, a Korean business delegation was welcomed to Finland, although at the Ministry for Foreign Affairs of Finland, Minister Pentti Uusivirta saw the opening of trade office purposeless due to the marginal Finno-Korean trade flows. (UM 3.9.1971)

Ministry of Foreign Affairs of Korea established a trade mission in Helsinki in 1972 and when the mission was upgraded into an Embassy in the following year, the Korea Trade Promotion Corporation (KOTRA) established an office in Helsinki. In August 1973, Hahn Pyong-Chun, Special Presidential Adviser for foreign affairs, visited Finland for the establishment of diplomatic relations and expressed his wish that Finland and Korea could intensify their economic cooperation. According to Foreign Minister of Finland, Ahti Karjalainen, Finland was ready to discuss the development of trade relations. (UM 29.8.1973) After establishing diplomatic relations, there were no restrictions for economic cooperation any more. It had also become evident that Koreans were in the need of new

European trading partners because they wanted to diminish the dependence on the United States and Japan (UM 11.1.1974).

The Minister of Transportation of Finland, Pekka Tarjanne, visited Korea unofficially in January 1974. He met several Korean ministers with whom he discussed Finno-Korean trade and transportation (UM 27.1.1974). The Finnish government pointed out that Korea's economic and social development was very strong and rapid, a fact that was going to increase the potential of Korea's trade with foreign countries. Therefore, in trade, Korea was recognised as an exceptionally interesting developing country. Moreover, the Finnish Embassy in Tokyo had paid attention to the labour force in Korea that had high working morale and discipline, even in comparison to Japanese labour. (UM 11.1.1974).

In 1976, the Finnish Ambassador to Japan, Osmo Lares, met with the Deputy Foreign Minister of Korea, Ha Jong-Yoon, in Korea. Minister Ha emphasised again strongly Korea's general aim to decrease its overwhelming dependence on the United States and Japan and thus, Korea's interests in Europe in trade and finance. He highlighted also the EC investment in Korea that already had taken place with a value of USD 254 million. The abovementioned orientation naturally enhanced the commercial prospects of Finnish companies. (UM 28.6.1976)

In 1976, the Ambassador of Korea to Finland, Yoon Kyung-Do, suggested to the Ministry for Foreign Affairs of Finland specific means to improve Finno-Korean trade. For example, Koreans were interested in buying a patent from Finnish company Outokumpu. Koreans also expressed their wish to open new trade opportunities in socialist countries through the help of Finnish firms. Finnish contacts were hoped to be used for example for buying copper from the Soviet Union (UM 6.5.1976) and a power plant was suggested to be realised as a joint effort of Finnish, Korean and Czech firms (UM 2.1.1979). A similar suggestion was expressed by the Deputy Prime Minister of Korea, Shin Hyon-Hwak, during his visit in Finland in 1979. His proposals were however rejected by the absence of more concrete commercial initiatives. (UM 16.10.1979)

The fourth five-year plan (1977-81) by the Korean government included plans to build a copper melt and a pulp mill. This was an interesting fact for two Finnish companies, Outokumpu and Ekono, and led to the selling of turn key projects to Korea in 1977 by

both companies. The contracts were preceded by tight negotiations, and the Ministry for Foreign Affairs of Finland did its best to give support. For example, the copper melt project that was a large joint project by British Davy Powergas, Belgian Sybitra and Finnish Outokumpu, was strongly supported by the Ambassador of Finland to Japan and Korea, Osmo Lares, who travelled from Tokyo to Seoul to enhance the project (UM 28.6.1976). Also the other countries involved in the project took similar actions, such as the Foreign Minister of Belgium, who visited Korea in 1976 (UM 6.5.1976).

As a result of successful negotiations, plants of Onsan Copper Refinery with a value of FIM 130 million and Onsan Dong Hee Pulp with a value of FIM 200 million were established in Ulsan in the southeast coast of Korea. The agreements resulted in an increase in Finno-Korean trade as various Finnish companies, such as Ahlstrom and Rauma-Repola, were chosen to deliver equipment to the projects (*ibid.*, Talouselämä 20/1985).

Onsan Dong Hee Pulp was the first Korean production plant project with a Nordic partner and thus, the expectations were high on the Korean side (US 12/1977). Ambassador of Korea, Yoon Kyong-Do, emphasised that no similar projects were realised or even planned with the Scandinavian countries. (UM 5.10.1977) Finnish firms had a good reputation in Korea after doing business together with Koreans in third countries, such as in construction projects in Kuwait (Kauppalehti 11.4.1989). There were also Finnish firms, such as Lohja that had Korean labour in Saudi-Arabia (UM 1.4.1980).

According to the Foreign Trade Minister of Finland, Jermu Laine, Finland soon got a good reputation in Korea in energy and in regional planning thanks to projects by Ekono, and the manufacturing of plastic pipes by Wiik & Höglund. Minister Laine did personal efforts to convince the Mayor of Seoul on the benefits of energy saving district heating and on the quality of Finnish pipes that were able to transfer heat under the Han River all year round. (Kauppapolitiikka 3/2003) Indeed, Finns were also among the forerunners in Korea to introduce the district heating system, as Ekono supplied heating technologies of residential districts of Mokdong, Shinjungdong, Youido, and Banpo in Seoul as well as the industrial complexes of Bonwol and Kumi. Later, as often as Finland had an opportunity to advertise itself in the Korean media, Finnish achievements in energy saving, including district heating system, were mentioned (eg KT 11.10.1983b).

5.3 Finno-Korean trade starts to develop

Due to the successful start in Finno-Korean projects, the Ministry for Foreign Affairs of Finland decided to establish a commercial section of the Finnish Embassy. The task was given to *chargé d'affair* Heikki Latvanen, who, according to Ambassador of Finland, Henrik Blomstedt, managed to create excellent contacts in Seoul both with the Korean officials and the private sector. Ambassador Blomstedt furthermore emphasised the need for minister-led visits to promote Finno-Korean relations. He hoped that the Deputy Prime Minister Johannes Virolainen and Minister of Justice Paavo Nikula could visit Korea at the time of opening ceremonies of the Onsan Copper Refinery and Dong Hee Pulp that were scheduled to open in the beginning of 1980. (UM 3.4.1979)

The newly-established Finnish Embassy in Seoul started immediately to promote Finnish exports to Korea. For example, the *chargé d'affair* Heikki Latvanen introduced Finnish fur trade to Koreans, resulting in a rapid increase in fur exports from Finland to Korea. In 1980, the value of Finnish fur exports to Korea was just EUR 67,000, but after the Finnish Embassy's intervention, it increased over EUR 4 million in 1981, and further to EUR 16 million in 1982, which represents 61 % of total Finnish exports to Korea in that year. (Latvanen 17.4.2002; Finnish Board of Customs)

The Finnish government trusted that the internationalisation of Finnish companies would have economic benefits for Finland and thus adopted a liberal outward investment policy and actively promoted the Finnish business operations abroad. The need for government support was discussed in the Finnish media already in the beginning of the 1980s (eg SK 8.6.1984), when the Korean President's Special Advisor visited Finland with his colleagues in order to discuss the district heating projects. The Finnish journal *Suomen Kuvalehti* compared the visit to the hypothetic case of the Finnish President flying to the other side of the globe to promote a Finnish construction project. Such an action was unprecedented at that time. By this comparison, *Suomen Kuvalehti* implicitly praised the public means of advancing Korean business abroad by the Korean government. However, also the role of the Finnish government in promoting Ekono's projects in Korea was highlighted.

In the same context, Ekono, which had managed to sell large scale projects to Korea, stated that the support of the Finnish government was crucial in the realisation of the projects (SK 8.6.1984). The Foreign Trade Minister of Finland visited Korea in 1984 and promoted Ekono's project with his personal authority. Moreover, the Ambassador of Finland to Japan and Korea kept up close contacts with the Korean authorities thus acting as a spokesman for the firm. (ibid.) The initiation of public support did not always come from the Finnish firms, but it was also the aim of the Finnish government to promote Finnish operations in distant markets. Therefore, also the newly-established Finnish Embassy in Seoul adopted an active role in introducing Finnish firms and products in Korea since 1977 (Latvanen 17.4.2002).

Finnish exports to Korea totalled about EUR 5 million in 1977, and included parts for machines (28 % of total) and motors for machines (27 %), but also wheat flour (17 %) and cigarette papers (8 %). Finland's imports from Korea totalled over EUR 15 million and were composed mainly of cargo vessels (57 % of Finnish imports from Korea). Besides traditional exports, new forms of trade, such as supply of complete projects, technology transfers, and cooperation in third countries became important. In the case of Finnish exports, especially complete projects in fields of ore concentrating, pulp production, and shipyard building were exported. For example, Ambassador of Korea, Yoon Kyong-Do, reminded that large ships had been exported from Korea to Finland and it would be important that Finnish firms could establish joint ventures with Korean partners in order to deliver technically superior Finnish machines and equipment in these ships built in Korea (UM 5.10.1977). Furthermore, future potential for Finno-Korean economic cooperation was found out in the field of infrastructure and forest and agriculture. (UM 4.3.1980)

Due to the opening of the Finnish Embassy in Seoul in 1977, Minister Arvo Rytkönen visited Korea with trade delegation of 32 Finnish businessmen interested in the opportunities opened along with the Korean investment projects (US 12/1977). The visit of Minister Rytkönen's trade delegation was later mentioned in the Korean media as a starting point for the rapidly increasing trade (KH 12.4.1980), and also the Ambassador of Korea, Yoon Kyong-Do, expressed his satisfaction on the outcome of the visit (UM 5.10.1977). In Finland, Minister Rytkönen was generally respected for his pioneering

work on Finnish trade relations (Liukkonen 2003, 557), but contemporaries respect also his work for Finno-Korean relations (Latvanen 17.4.2002).

An initiative for permanent industrial level economic co-operation came from the Korean side during the visit of Minister for Commerce and Industry of Korea, Chang Yie-Joon, in Finland in September 1977. The actual proposal was expressed by the Korean trade delegation headed by Ryun Nam-Koong, chairman of the Korean Federation of Industries (KFI). As a result, the KFI and the Confederation of Finnish Industry established an Economic Co-operation Committee in September 1977, which became a long-standing co-operative forum for them. (UM 2.1.1979) The first meeting of the Economic Co-operation committee took place in Seoul during Minister Rytkönen's visit. The second meeting was held in June 1979 when the Deputy Prime Minister of Korea, Shin Hyon-Hwack, visited Finland.

In 1979, Finnish companies Ekono, Neste, and Tampella competed in Korea for development projects of energy production. The Ministry for Foreign Affairs of Finland supported the Finnish firms by inviting several official Korean Minister-led visits to Finland. For example, the Minister of Energy and Natural Resources, Chang Yie-Joon, who had visited Finland in 1977, was interested in visiting Finland again in 1979. It was expected that his visit might have a positive impact on Finnish firms' efforts to win projects in Korea. (UM 10.5.1979) Finnish delegations to Korea included a visit by the President of SITRA, professor C. E. Carlson who met the Minister of Science and Technology of Korea, Choi Hyung-Sup in Korea in September 1978. Minister Choi showed his interest in Finnish mining industry. Also the President of Finnish Federation of Employers, Stig H. Hästö, led a delegation to Korea in May 1979. (Mofat, 2001) The Ambassador of Finland to Japan and Korea visited Seoul occasionally from Tokyo and his visits were always associated with the meetings of important Ministers related to Finnish trade (UM 14.11.1979).

5.4 Agreement on Economic, Industrial and Technical Cooperation

The Korean Embassy in Helsinki had frequently emphasised the need for a Finno-Korean agreement on Economic, Industrial and Technical Cooperation. Korea had already made similar agreements with several countries, including the United States, France, Canada,

Indonesia, and Paraguay. Also the Finnish industrial associations lobbied for the success of the agreement. As the Finnish Under State Secretary Arvo Rytkönen had met the Minister of Science and Technology of Korea, Choi Hyung-Sup, in December 1977, it was known that Minister Choi was going to visit Europe in September 1979. As a result, it was suggested that Minister Choi should be invited to Finland to sign the agreement. (UM 2.1.1979)

The Agreement on Economic, Industrial and Technical Cooperation between Finland and Korea was signed in 13.9.1979 and it came into force in 23.2.1980. The agreement named the most interesting fields to be jointly developed, namely mining and metallurgy, energy, shipbuilding, pulp and paper, infrastructure, and construction. The agreement was signed by the Foreign Trade Minister of Finland, Esko Rekola and the Foreign Minister of Korea, Park Tong-Jin. By this agreement, an intergovernmental joint commission was established. At the same time also agreements on property rights and taxation were signed. (UM 13.9.1979) As the signing of the agreement had already been preceded by two joint meetings of the Economic Co-operation Committee, practical results were gained rapidly. The Minister of Commerce and Industry of Korea, Chung Jai-Suk, pointed out later that after the committee was formed, the volume of bilateral trade nearly tripled within three years (Newsreview 19.4.1980).

The Foreign Minister of Korea, Park Tong-Jin, promised that all Finnish commercial initiatives would be considered favourably in Korea. In addition, he suggested that Korea and Finland together could explore the possibility of establishing joint projects in third countries, notably socialist countries. Minister Park estimated that Korean trade with the socialist countries was about USD 28 million by value, although exact numbers were not known because trade was conducted through third countries. The Foreign Trade Minister of Finland, Esko Rekola, informed him that the construction industry could be a suitable sector for joint operations, because Finland and Korea had complementarities in this sector: Finnish firms had experience in joint ventures in the construction industry in more than twenty countries, and there were already positive experiences in Finno-Korean cooperation in construction projects in Iran and Saudi-Arabia. The Foreign Minister of Finland, Paavo Väyrynen, in his turn, emphasised that Finland was ready to develop primarily trade relations, but also cultural relations which, however, would be hindered by the long distance between Finland and Korea. (UM 16.10.1979)

Finally, Minister Park invited the Minister of Foreign Trade of Finland to visit Korea. As a response, Minister Rekola told that he was especially interested in participating in the opening ceremonies of the Onsan Copper Refinery, because it was a very significant Finnish project in Korea and the ceremony was going to be attended also by the Korean president. (UM 16.10.1979)

The Director of Confederation of Finnish Industries, B-O Johansson had suggested to the Foreign Minister of Korea, Park Tong-Jin, that the third meeting of the Economic cooperation committee could be held at the same time with the first intergovernmental joint commission meeting in 1980. (UM 16.10.1979) As a result, in April 1980, Minister of Foreign Trade of Finland, Esko Rekola, made an official visit to Korea together with a nine-man government mission and a 13-man business delegation. He took part both in the government level trade meeting, namely the First Session of the Finnish-Korean Joint Commission established under the Agreement on Economic, Industrial and Technical Cooperation, and also the third conference of private Economic Cooperation Committee.

The intergovernmental meeting of the Finnish-Korean Joint Commission was chaired by Carolus Lassila from the Ministry for Foreign Affairs of Finland. The Finnish side suggested that Finnish technical cooperation could be encouraged in Korean projects. This suggestion was based on requests of Finnish firms. Thus, the discussions dealt with projects such as energy production and conservation (by Ekono), heating system (Ekono), copper refining (Outokumpu), pulp and paper production (Tervakoski), crane and elevator manufacturing (Kone), and meteorology (Vaisala) (UM 1.4.1980). The Minister of Foreign Trade promoted the projects of Finnish companies with his personal authority, promoting long-term trade instead of tender procedure that was a more formal and detailed exercise of obtaining sealed bids for goods and services.

On the inter-governmental level, an agreement was reached on the establishment of Finno-Korean investment promotion centres in the near future. The parties also agreed to expedite technical cooperation between research institutes in both countries. (UM 12.4.1980) However, the Finnish side was reluctant to take a role of middleman in selling Korean goods to Soviet Union and the East European socialist countries, despite of the specific wish by the Korean president Choi Kyu-Ha. (UM 15.4.1980) Therefore, it was stated in the minutes of the first meeting of the Finnish-Korean Joint Commission that

cooperation in third markets is considered suitable as taken up by the private sector only. (cf. UM 12.4.1980)

In the subsequent private sector meeting, namely the third meeting of the Economic Cooperation Committee that was held parallel with the intergovernmental meeting, leading businessmen from Finland and Korea met each other. The Korean delegation was led by Kim Ip-Sam, executive deputy chairman of the Federation of Korean Industries, while the Finnish delegation was headed by Gay Ehrnrooth, Chairman of the Confederation of Finnish Industries. The meeting was attended by representatives of Finnish companies such as Kone, Rauma-Repola, Nokia, Salora, Partek, Ekono, and Valmet, and Korean companies such as Samsung Heavy Industries, Hankuk Paper, Daehan Pulp, Ssangyong Paper, Hyundai Corporation, Donghae Pulp, Hanyang Corporation, and Gold Star Electric, among others. Altogether, the committee listed four areas of potential cooperation, notably 1) heavy machinery, transport equipment, and electronics, 2) construction of underground oil storage facilities, 3) development of technology with respect to energy, and 3) forestry. (11.4.1980a) With reference to Finno-Korean cooperation in third markets, joint ventures or subcontracting was seen possible in the Middle East and African countries in the areas of constructions of plants, highways, harbours, housing and public works (UM 11.4.1980a).

5.5 Korea becomes Finland's second largest Asian trading partner

In the 1980s, the Finno-Korean economic relations turned to be more intensive. In addition to the projects of Outokumpu and Ekono (Onsan Copper Refinery and Onsan Dong Hee Pulp) also other Finnish companies had projects in Korea. For example, Kone delivered cranes to Dong Okpo shipyards, Wärtsilä sold diesel engines to Hyundai shipyards, and Tampella delivered mining machines and equipment to Korean coal mines. (UM 1.4.1980) These and other projects were enhanced by frequent annual meetings of the Economic Co-operation Committee that spread out information on the potential of the Korean economy for the Finnish companies through the members of the committee.

Lack of knowledge on Korea was evident in Finland in the 1980s. Indeed, information on foreign countries and cultures on a larger scale had started to spread to Finland as late as

the mid-1970s, mostly as a result of the first oil crisis, but information on East Asia remained scarce until the 1980s. (eg Kho 1990) No wonder that Finnish businessmen visiting Korea in the 1980s were surprised to notice the high technological level and prosperity of Korea (Latvanen 17.4.2002; Yrittäjäsanomats 31.1.1990). Similarly, according to the chairman of the Confederation of Finnish Industries Gay Ehrnrooth in 1980, *“in the promotion of familiarity with each other’s cultures, our joint meetings [of economic cooperation committee] have been of pioneering importance. Without this profound knowledge of cultures and operating environments, no trade – much less cooperation in any form – could succeed.”* (UM 11.4.1980b)

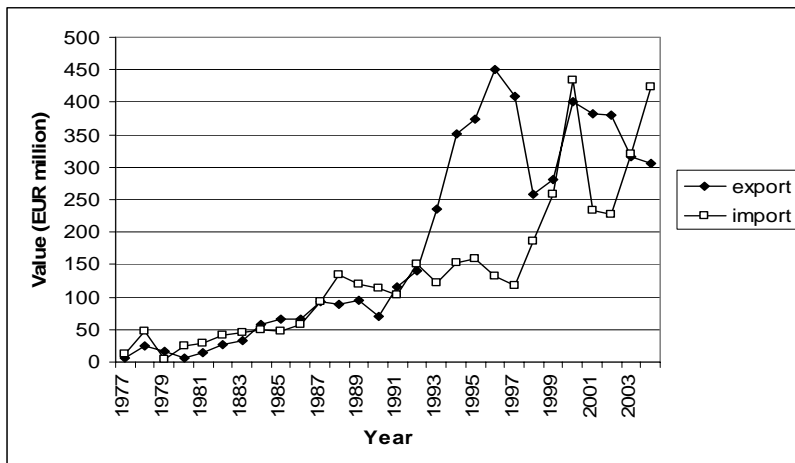
Finno-Korean trade that had started practically from scratch in 1977 suffered from the recession in Korea at the turn of the 1980s. After temporal slowdown, trade however continued its growth. When the fourth meeting of the Economic Cooperation Committee was held in 1981 and the fifth meeting in 1983, both in Helsinki, the participants noticed new records in bilateral trade, especially in the machinery and equipment exports from Finland to Korea. However, there was a further need to transfer Finnish advanced technology and know-how to rapidly industrialising Korea. (KT 11.10.1983c).

Due to the trade balance that had turned to favour Finland in 1979, as shown in Figure 2 in the next page, Koreans wanted to increase their exports of a range of manufactured goods to Finland. Especially, Koreans asked for cooperation in the forthcoming Finno-Korean negotiations on a new textile agreement that was scheduled to come into force in 1982. In February 1980, textile negotiations were held in Helsinki leading to the signing of the memorandum of understanding in March 1980. (UM 12.4.1980) Two months later, Koreans however urged the Finnish government to remove further quota restrictions on textile imports from Korea (KH 12.4.1980). Textile industry was very important for the Korean economy and the textiles had also become to form a large part of Korea’s exports to Finland.

In the mid-1980s, Korea became Finland’s second largest Asian trading partner after Japan. In terms of Finnish exports, Japan and China had always belonged to the group of the most important Asian export destinations, and Korea joined them in the beginning of 1980s. At the same time, the gradual internationalisation of Finnish firms made Finns eager to learn on more distant markets. Companies sent increasing numbers of staff to

establish contacts in Korea, and the direct flights by Finnair from Helsinki to Tokyo since 1983 enabled the business trips faster than earlier.

Figure 2 Development of Finnish trade with Korea, 1977-2004



Source: Finnish Board of Customs

The composition of Finnish export in Korea changed significantly in the late 1970 and early 1980s. For example, in 1984, Finnish exports to Korea were characterised by large share of furs and dressed furs (fox furs in particular), which accounted to over half of the total exports. As explained earlier, Finnish furs were exported to Korea in larger scale only since 1981. Other important categories were sulphate wood pulp (12 %) as well as engines and engine parts for marine propulsions (11 %). Total exports in 1984 accounted EUR 57 million. The corresponding imports totalled EUR 49 million including footwear (30 %) and cotton (22 %).

Since the mid-1980s, Finno-Korean trade volumes grew rapidly. For example, in 1985-88 they doubled. Coming to the end of 1980s, Finnish trade with Korea started to show deficit. Finnish media was asking how Finland can have a trade deficit with a developing country (eg Talouselämä 29/1988). The major reason for the deficit was the decreasing demand and prices of furs that had formed about half of the Finnish exports in Korea. However, the exports of paper, pulp and steel were increasing rapidly. Exports of higher

value-added products, such as exports by Wärtsilä's subsidiary Cimcorp that sold industrial robots to Samsung, or Valmet that sold paper machines in Korea (Etelä-Suomen Sanomat 15.9.1988) were certainly preferable over fur exports. Finnish know-how was also transferred to Korea, such as in the case of Korea Fertilizer Co. that completed its formic acid plant in Ulsan in 1985 under technical cooperation with Kemira of Finland (KT 28.2.1987).

Imports from Korea had concentrated in textiles and clothes, but the structure of trade was rapidly changing in the end of 1980s when the share of Korean electronics and electric products started to increase. For example, the Finnish company Nokia bought reasonably priced components from Korea. However, the Ambassador of Korea, Woo Young-Chung, pointed out that in comparison to Scandinavian countries, Finnish imports from Korea were small (Karjalainen 29.5.1986). The Finnish Commercial Counsellor Martti Ranin expected that the trade deficit would become a permanent phenomenon in Finno-Korean trade, which was furthermore likely to deepen as soon as the car imports from Korea could be started (Etelä-Suomen Sanomat 15.9.1988).

Koreans were interested in exporting to Nordic countries, because the imports were not restricted similar to EEC. In addition, the Western European governments had blamed Korea from protectionism, dumping, and copying. (Etelä-Suomen Sanomat 15.9.1988) Korea had eased its trade barriers since the mid-1980s, but also Finland was worried about the protectionism and argued for free trade. An example was taken from steel industry, where Outokumpu had started to export cold rolled steel to Korea immediately after import prohibitions were abolished in 1988. At the same time, import prohibition of granite was also abolished resulting in the Finnish producers' invitation to potential Korean buyers to Finland. (Talouselämä 29/1988)

It was hoped that the complicated Korean non-tariff barriers and special excise tax on fur items could be abolished or reduced. For example, a special excise tax rate levied on Finnish fur items was 60 % creating a significant barrier. (KH 31.1.1989) Similarly, log houses were considered luxury items and as such, were under heavy duties due to Korean national movement against luxury items (BK 11/1990). In 1991, Korea Economic Daily published a series of articles on Finland, including topics of environmental protection, Finnish forest industry and Finnish technology. However, an article on Honkarakenne log

houses was not allowed to be published due to the Korean government's campaign that opposed the use of foreign luxury products. (UM 29.10.1991)

The first Finnish investment in Korea took place in 1984 when Nokia, nowadays known as the world's leading mobile phone manufacturer, invested in Masan Special Economic Zone²⁵ (SEZ). Due to its location in SEZ, it was not allowed to sell its products in Korea, but to export them to the third markets. In its turn, Samsung was the first Korean company to open an office in Helsinki. The opening took place in 1988 when there were already about 10 Korean companies operating in Stockholm. Samsung was especially interested in selling home electronics to Finnish markets, but it was also suggested that Samsung aimed to explore the Soviet market through Helsinki, because South Korea and Soviet Union did not have diplomatic relations that would allow direct business operations. (Talouselämä 29/1988)

In the end of the 1980s, it was projected that the Finnish forest industry would remain central in the future Finno-Korean economic cooperation (eg KH 31.1.1989; KH 6.12.1989; KH 6.12.1990). Therefore, the associated exchange of expertise and transfer of technology was seen important. Furthermore, the role of national governments was emphasised as a promoter of cooperation by eliminating technological and bureaucratic obstacles. The forest industry had traditionally been a strong sector in Finland and it composed 40 % of Finnish exports in Korea. The exports were further encouraged through the International Pulp and Paper Exhibition that was held in Seoul in 1990 and attended by 160 companies from 18 countries, including twelve Finnish companies (KT 6.12.1990). In practice, at least five paper and paper board machines had been sold to Korea in 1987-1990 (KT 7.12.1989). Realised projects included also the construction of Dong Hee Pulp by Finnish technology and machinery, as well as the realised investment by Ahlstrom that had established Hyun Poong fiber paper fabric outside of Taegu.

Besides forestry, the energy issues had become important since the second oil crisis in 1979, and Finland promoted its energy saving technologies by emphasising the need to reduce oil imports in oil dependent small countries with cold winters. Therefore, the future

²⁵ SEZs are industrial complexes, which are selected within a country for a special policy purpose and designed to induce domestic or foreign companies to engage in business activities by providing series of preferred treatment measures. SEZs are enclaves enjoying a status that does not extend to the whole territory of the country.

potential in the energy sector in Finno-Korean cooperation was emphasised by Finns who were also among the forerunners in Korea to introduce the district heating system. (KT 6.12.1990)

The third potential sector of cooperation was shipbuilding industry as Finnish companies had supplied related equipment and machinery such as diesel engines, propulsion units, winches, galley equipment and automation systems for Korean shipyards. The Finnish company Wärtsilä also invested in Korea in the 1980s. (KT 6.12.1990) As Finland and Korea together with Japan and some European countries were among the major shipbuilders of the world, Finland took a stand against selling ships below the production costs in the keen competition. Finns complained against the hidden and open subsidies provided by the national governments, including the Korean government. Specialisation on certain types of ships was seen as a solution to the cutthroat competition among the producing countries. (KH 31.1.1989)

Finland, in its turn, was seen as a potential target market for Korean cars, a wish that actually was realised only 15 years later when the imports of Korean cars to Finland started to increase rapidly. Initially, imports of Korean Hyundai had been started in the beginning of the 1990s by the Finnish company Helkama-Auto, but the imports were soon cut due to the slump in Finland. From the Finnish perspective, car imports from Korea in the beginning of the 1990s were a two-sided issue, because they were feared to increase the trade deficit. However, multilaterally thinking, it was found possible that car imports from Korea might replace imports from Japan with whom Finland had a more chronic and deeper trade deficit. (Etelä-Suomen Sanomat 15.9.1988; BK 11/1990) Ten years later the car imports from Korea were started again and the available cars included not only Hyundai, but also Kia, Daewoo, and Ssangyong.

5.6 Plans to utilise Finno-Korean cooperation in the Soviet Union

Since the end of 1980s, there had been attempts to utilise Finno-Korean relations beyond the borders of Finland and South Korea. The first effort was made by South Koreans who started actively to develop their relations with Soviet Union, China, and the East European countries. South Koreans had become convinced that the economic potential of the Soviet

Union was located in Viborg-Leningrad-Moscow region close to Finland, rather than Nahodka in Northeast Asia. In addition, the Siberian air corridor was opened to international civil aviation and it shortened the flying time from South Korea to Europe by many hours. In this route, Helsinki was geographically in a central position. Therefore, South Koreans made plans to utilise Finland as a gateway to the Soviet market, which meant that they hoped to utilise the Finnish know-how accumulated in doing business with the Soviet Union. They emphasised the detailed knowledge of Finns on economic and political matters of the Soviet Union, which had been gathered during 45 years of Finno-Soviet cooperation (KED 10.10.1991).

Korean company Hyundai purchased Finnish equipment for its projects in Siberia, as the Finnish equipment were found most suitable for the cold climate and the severe weather conditions (KT 6.12.1990). In order to create more similar projects, a seminar “Doing Business with the USSR-Finnish Experience” was organised by Finnish Foreign Trade Association and KOTRA in Seoul in September 1990. The seminar was attended by 30 Finnish businessmen from 19 companies, including Kaukomarkkinat, Postipankki, Huolintakeskus, and Rauma-Repola. The Ambassador of South Korea, Youn Uk-Sup, reminded that South Korea was especially interested in participating studies on Siberian raw materials, but also to contribute construction projects together with the Finns (Karjalainen 17.9.1991).

In 1990, dozens of ships were built in South Korea for the Soviet market, which earlier had been the major market of Finnish shipbuilding industry. The Finnish Commercial Counsellor Martti Ranin pointed out the newly emerged potential for Finnish companies who knew the business practices and demand in the Soviet Union, as well as the Russian language. As some of the related equipment was manufactured in South Korea only by a few Finnish firms, such as Wärtsilä Diesel and Rauma-Repola Aquamaster (Kauppalehti 20.8.1990), the Finnish companies arranged the *Kormarine* campaign in 1991 for the South Korean shipbuilding industry to promote Finnish exports in this field.

In December 1991, the Construction Minister of South Korea, Lee Jin-Seol, visited Finland in order to promote Finno-Korean cooperation in the field of construction. The South Korean constructions firms were expecting for example exchange of information, cooperation in construction equipment and materials and construction technologies.

Especially, they were interested in entering the Soviet construction business with the help of Finnish knowledge on construction technology in severely cold climates, as well as the know-how to do business with the Soviets. Minister Lee met with Minister of Finance Iiro Viinanen, Housing Minister Pirjo Rusanen, and Minister for Trade and Industry Kauko Juhantalo, among others. In the private sector, meetings were arranged with companies Partek and Haka. (Julin 9.12.1991; Kauppalehti 18.12.1991)

As the world political scene started to change rapidly due to the end of the Cold War at the turn of the 1990s, also Finns started finally show interest in the Finno-Korean joint projects in Russia and the transitional countries of Europe. Therefore, in his visit to South Korea in 1992, the Foreign Minister of Finland, Paavo Väyrynen, suggested that South Korean companies could launch their businesses in Russia through Finland (DAI 27.10.1992). Unfortunately, these plans became a wasted opportunity as South Koreans managed to build up their operations in the transitional economies by themselves without the Finnish know-how.

5.7 Recession in Finland in the beginning of the 1990s

In the beginning of the 1990s, large Finnish companies did business in South Korea, while Finnish small and medium sized enterprises²⁶ (SMEs) were busy to fulfil the expectations of the domestic market, and were not yet ready to internationalise on the global scale. The situation was changed dramatically in 1990 when the recession - the worst peacetime recession since the Great Recession of the 1930s – took place in Finland. The collapse of the domestic demand and the Soviet Union that had been the second largest export destination of Finland accounting almost 13 % of the Finnish exports pushed especially the Finnish SMEs to explore new markets.

During the Finnish recession, Korea suffered from overheated economy with an annual growth of 9 %. In addition, Korean imports grew as much as 20 % in 1991 and there was an urgent need of foreign technology. Therefore, Finnish officials were with reason worried if Finnish firms had realised at all the full potential of Korean economy, as the

²⁶ In Finland, SME is defined as a firm with less than 250 employees and maximum turnover of EUR 40 million and balance sheet of EUR 27 million.

image of Korea in the Finnish companies was old-dated or insufficient. Meanwhile, Swedish exports to Korea were three times larger than the Finnish exports. (Julin 9.12.1991)

At the very right time, Ministry of Trade and Industry of Finland together with the Korean Small and Medium Industry Promotion Corporation (SMIPC) established a joint programme to promote industrial cooperation between Finnish and Korean SMEs (Yrittäjäsanommat 31.1.1990). The idea for cooperation was probably created during the visit of the Minister for Trade and Industry of Finland, Pertti Salolainen, in Korea in 1988. Together, the Ministry for Foreign Affairs of Finland, SMIPC, and KOTRA hosted “*Find Korea*” -seminars both in Helsinki and Seoul in March 1990. The seminar aimed to find Korean partners for Finnish companies, to create direct contacts with Korean officials and organisations, and to provide up-to-date information on Korean industries, markets, and legal issues (Find Korea 1990).

In 1991, Finnish trade with Korea turned to show surplus, which continued during most of the 1990s. At least such Finnish firms as Honkarakenne, Hellas, Kantolan keksitehdas, Tamrock, Ekono, Wärtsilä, Valmet, and Tampella did successful business with the Koreans (Kauppalehti 20.8.1990). One of the most impressive Finnish export operations in Korea was the selling of paper machines. The Korean wood processing industry was namely calling the decade’s largest investments in the world, and this potential was successfully utilised by Finnish companies. In 1994, for example, company Valmet was ordered to deliver five new paper machines for the Korean companies Hankuk Paper and Shin Ho Paper in addition to seven paper machines ordered in 1988-1990. (HS 18.3.1994) There were continuous orders of other products as well. For example, Rautaruukki delivered measurement system for the Korean steel company POSCO with a value of FIM 5 million in 1994. This was the third Korean order from the Rautaruukki New Technology. (HS 17.5.1995)

In March 1992, the Minister for Trade and Industry of Finland, Kauko Juhantalo, visited Korea with business delegation of more than 20 firms. The government mission was chaired by Director Jan Gube and the business delegation was led by Chairman of the Finnish-Korean Trade Association, Nils-Christian Berg. During the trip, a seminar on Finland as an investment target was arranged. In the seminar it was noticed with

satisfaction that the Finnish recession had caused only a short temporary decrease in Finno-Korean trade that now was rapidly increasing.

In 1994, Finnish exports in Korea grew exceptionally fast. Even the most traditional Finnish trade items such as furs were still sold extensively to Koreans. In 1994, Koreans bought 70 % of all available blue foxes with record high prices in the Finnish Fur Sales, the world's leading international fur auction company. This was due to the trend that favoured fur accessories and collars despite of the Korean government's movement against luxury products. As the Korean fur market was protected by a special excise tax, the Korean fur producers trusted domestic demand. (Kauppalehti 1.2.1994)

Finnish exports in Korea boomed in the beginning of the 1990s and enthusiastic attitude towards Finnish businesses in Korea was high. The Prime Minister level North-South meeting in December 1991 raised hopes for unification of Korea, and the Finnish Commercial Counsellor Martti Haani urged Finnish companies to be prepared for joint Korean economic union (Haani 4.2.1992). Intra-Korean trade had already started in the beginning of the 1990s and from the Finnish point of view it was a positive sign in terms of unification, as it was believed that the political changes in the Korean peninsula could be built only on the basis of economic exchanges. (KH 31.1.1989)

5.8 From the Asia boom to the Asian crisis

The internationalisation of Finnish firms in East and Southeast Asia in the 1990s did not take place only due to severe recession, but was a joint-European phenomenon called the "Asia boom". It was related to the first efforts of the EU Commission to strengthen its relations with Asia as the core of the world economy had shifted to the Pacific Rim, as explained in Chapters Two and Three.

In Finland, the importance of Asia in exports had increased gradually during the post war period, as shown in Table 3. However, the "Asia boom" since the mid-1990s resulted in increasing exports especially to Southeast Asia (eg Singapore, Malaysia and the Philippines), which exceeded the importance of Middle-East (eg Saudi Arabia, Iran) as Finnish export destination. Similarly, Finnish exports to Korea grew exceptionally fast

until the Asian financial crisis in 1997 (viz. Figure 2). The imports from Korea decreased only slightly during the Finnish recession, although the total imports of Finland decreased up to 25 % in 1990-93.

Table 3 Share of Asia in Finnish trade

	1949- 1950	1959- 1960	1969- 1970	1979- 1980	1989- 1990	1999- 2000	2003- 2004
Export (%)	2.3	4.6	2.9	6.2	7.0	11.8	14.3
Import (%)	2.4	2.8	5.4	11.8	10.7	13.8	13.9

Source: Pihkala 2001, 63; Finnish Board of Customs December 2003, December 2004.

In 1993, Korea hosted the world Expo in Taejon. It was the first time when the world Expo was arranged in a developing country. The Ambassador of Korea to Finland, Youn Uk-Sup, pointed out the potential of the Taejon Expo especially for Finnish companies that had environmental know-how as the theme of the Expo, energy saving and protection of the environment, reflected the newly emerged environmental consciousness in Korea (Karjalainen 17.9.1991). In the making of the participation decision, political, economic and cultural objectives were to be considered with a special emphasis on the bilateral relations between the participating and the host country. In the case of Taejon Expo, it was expected at the Finnish Foreign Trade Association that the Finnish presence in the Expo might not have any positive impact on Finland's exports but the absence might harm the export opportunities. As a sign of interest, Finland decided to establish its own exhibition in Taejon Expo, and the Minister for Trade and Industry of Finland, Seppo Kääriäinen, visited Expo together with a trade delegation.

The total costs of the Finnish participation in Taejon Expo amounted to about EUR 437 000 of which 75 % was covered by the Finnish government and 25 % by the ten partner companies²⁷ that had business interests in Korea. The Finnish pavilion had about two million visitors, while the total number of visitors in the Expo site was about 14 million. Most visitors were Koreans, as the majority of visitors are from the host country in any world Expo. (Ministry of Trade and Industry of Finland, 2002)

²⁷ Partner companies were Outokumpu, Enso, Tampella, Valmet, Finnload-team, Ekono-Energy, VMK-granit, Honkarakenne, Finnair, Matkailunedistämiskeskus, Partek, Suomen Messut, and the Finland – Republic of Korea Trade Association (Ministry of Trade and Industry 2002, 118).

Basically, Finnish firms have participated world expositions because of the positive impact on their image in the Expo host country (Ministry of Trade and Industry of Finland, 2002). It is not possible to estimate whether the participation has any impact on trade, but following the Taejon Expo, Finnish exports in Korea surged by 67 % in 1994. Finnish exports developed to include, for the most part, value-added products, such as machines, which were needed in building Korea's economy and infrastructure. The enthusiastic atmosphere of the "Asia boom" was probably in its zenith in 1995 when Minister of Trade and Industry, Antti Kalliomäki, visited Korea. He met several Korean ministers and was followed by a delegation of 20 Finnish businessmen interested in doing business in Korea.

Finland and Korea signed a bilateral investment treaty (BIT) in October 1993 and the BIT entered into force in May 1996. In comparison, Denmark had entered BIT with Korea already in 1988, while Sweden signed it only in 1995. This is in line with the fact that Finland signed its first-ever BIT in 1980, late in comparison to Scandinavian countries, among which Sweden started in 1965, Norway in 1966, and Denmark in 1967. (International Centre for Settlement of Investment Disputes 2004)

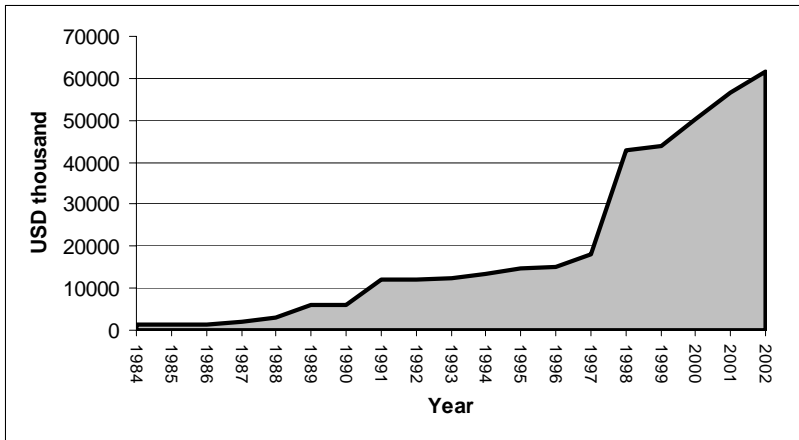
As mentioned earlier, the internationalisation of the Finnish firms had been started in the 1980s by large and traditionally strong export industries. These were also the same firms that started to invest in Korea in the latter half of the 1980s. In the early 1990s, the collapse of the Soviet Union and the following severe recession in Finland pushed also SMEs to invest in distant regions, including Korea. Most Finnish investors entered Korea in order to support their customers in the Asia-Pacific region. Thus, they used Korea as bridgehead to Asia. This is actually what Koreans had suggested for Finnish firms: as early as 1986, the Ambassador of Korea, Woo Young-Chung, marketed Korea for Finnish companies as a gateway to Pacific Asia. By industry, the Finnish investment in Korea followed the overall pattern of Finnish outward investment, which is most active in the metal, forest, and chemical industries. From the Korean perspective, Finnish investments have mostly been directed to industries, where the Korean conglomerates, or chaebols, have traditionally played only minor role, including chemicals and forest products as well as food and consumer packaged goods.

The enthusiastic atmosphere was hit by the Asian crisis that spread out to several Asian economies in the end of 1997. The Asian crisis resulted in temporary slowdown in Finnish exports to Korea, although the trade also continued in many fields. For example, in 1997-99, the installation of a new paper machine in Shinmoorim Paper's Chinju mill was provided by two Finnish firms as the paper machine consisted of components from Valmet, and the conceptual and basic engineering for the project was provided by Jaakko Pöyry Oy.

As to Finnish investment in Korea, the impact of the Asian crisis was, however, positive. Many firms tend to curtail their investments in the heat of recession, but Finnish government with the voice of Minister of Trade and Industry, Ole Norrback, urged Finnish firms to take advantage on relatively advantageous prices in Korea during the crisis. The attractive situation for acquisitions in Korea was recognised thanks to earlier Finnish experiences on severe recession and its consequences in the beginning of the 1990s, but also due to Minister Norrback's visit to Korea in the end of 1997 when the crisis broke out. During the visit, also the role of Finnish SMEs as very specialised and capable firms to global manoeuvres was introduced in contrast to large and diversified Korean conglomerates, or chaebols (eg Diplomacy 12/1998).

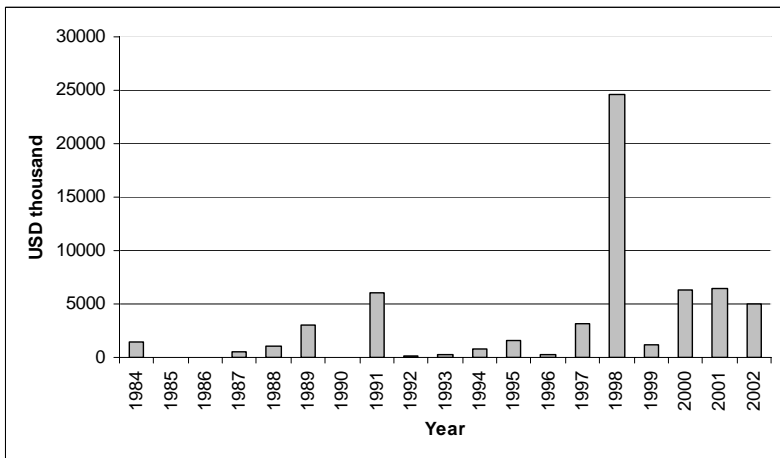
The Korean government responded to Asian crisis by liberalising its investment policy. In addition, the deterioration of the Korean won made the prices of investment targets buyer-friendly, and thus, created an ideal time for Finnish firms to enter the Korean market, or to expand their existing operations there. The record year was 1998, as shown in Figure 3, which shows the development of Finnish investment stock in Korea in 1984-2002. In addition, Figure 4 illustrates the Finnish investment flows in Korea on an annual basis and shows how investment flows vary considerably from year to year due to durability of single investment for several years ahead. In 1998, there is a significant peak, as mentioned above.

Figure 3 Cumulative volume of Finnish direct investment in Korea, 1984-2002



Source: Ministry of Finance and Economy of Korea.

Figure 4 Development of Finnish direct investment annual flows in Korea 1984-2002



Source: Ministry of Finance and Economy of Korea.

5.9 The era of information and communication technology

The turn of the new millennium witnessed the increasing role of information and communication technologies (ICT) both in Finland and Korea but also in Finno-Korean economic interaction. This was visible for example in May 2001 when the Minister for Foreign Trade of Finland, Kimmo Sasi, visited Korea together with business delegation of 50 members in order to promote trade, economic cooperation and investment. Korea's role as the third largest Asian trade partner for Finland, as well as the cooperation in ICT became very much emphasised. Finpro organised an ICT seminar during the visit. Minister Sasi emphasised the idea of totally open markets and urged also Korea to completely open its ICT markets to the world. Minister Sasi explained that in the long run, the government's financial support does not help business sectors, but the role of government is to create a good environment which includes education, commercialisation, and paving the road for foreign investment. (KT 24.5.2001a; UM 25.5.2001)

The 11th joint conference of the Korea-Finland Economic Council was also held in May 2001 in Seoul to discuss ways to enhance bilateral cooperation in the fields of ICT, forestry, pulp, machinery, and logistics. A Finnish economic mission of 50 members met 80 members from the Korean side. (KT 24.5.2001c) Common areas of interest in Finno-Korean bilateral trade, namely paper production, shipbuilding, energy and environment technology, were found as important as ever, but in addition to them, the role of ICT was recognised as the most important field. (KT 24.5.2001b)

In 2002, on the occasion of the Finnish President's visit to Korea, also the Foreign Trade Ministers of Korea and Finland, Hwang Doo-Yun and Jari Vilen, discussed ways to enhance cooperation in trade and economic relations between the two countries that were the leading countries in the ICT field. The expansion of bilateral trade was based on the experiences of successful investments made by Finnish companies in Korea, notably by Nokia, which had been ranked the first among foreign companies investing in Korea in terms of sales. (KOIS 8.4.2002)

President of Korea, Kim Dae-jung, and President of Finland, Tarja Halonen, agreed to enhance bilateral cooperation in the ICT field, including the expansion of human and technical exchanges between Finland and Korea. On the same occasion, the Information

and Communication Minister of Korea, Yang Seung-taik, and the Foreign Trade Minister of Finland, Jari Vilen, signed the ICT pact that included cooperation in the areas of high-speed Internet access, the sharing of ICT human resources, and joint exploration of the North European market for third-generation (3G) mobile telephony and broadband Internet. (KOIS 10.4.2002) In the private sector, the 12th conference of the Economic Cooperation Committee celebrated the 25th anniversary of the committee in Seoul, where President of the Republic of Finland, Tarja Halonen, gave a keynote speech. In her speech, President Halonen pointed out that Finland and Korea should be able to extend their cooperation into third markets, such as China or Russia. (KOIS 10.4.2002)

More recently, Finno-Korean economic co-operation has been extended to a broader European-Asian regional level. This is due to the regionalisation trend both in Europe and East and Southeast Asia. However, Finland is a part of the EU institution, while Korea still acts as a single nation within the inter-regional framework despite of its membership of ASEAN + 3, ARF and APEC, as there is no single regional institution in the region. As a result, Finland and Korea have taken active roles in ASEM by proposing numerous initiatives to facilitate co-operation between Europe and Asia. For example, Finland and Korea have been the co-facilitators in the ASEM e-commerce²⁸ action plan, which is one of the priority themes in ASEM. The first ASEM conference on e-commerce was held in Korea, in October 2001, and the second one in Finland in September 2002. The Korean conference grounded the Asia-Europe Business Forum, which was held in Singapore on October 2001. Consequently, Finnish meeting provided a starting point for the Asia-Europe Business Forum, which was held on September 2002 in Denmark.

The brisk exchange between Korea and Finland in the area of e-commerce was started with the exchange of memorandum of understanding between the Finnish Information Society Development Center (TIEKE) and its Korean counterpart Korea Institute for Electronic Commerce, in October 2001. Three ICT workshops have been held since, alternately in Helsinki and Seoul, participated by both governments and leading private companies. Especially, possible personnel exchanges and cooperation in establishing e-learning standards, has been discussed. (KOIS 10.12.2004)

²⁸ Electronic commerce refers to selling and buying through electronic transactions. In the process of e-commerce, buyers are able to participate in all phases of a purchase decision, while stepping through those processes electronically rather than in a physical store or by phone.

The active role of Finland and Korea in promoting digital economy together in the ASEM process is natural as both countries are leading in the ICT -related fields. In both countries, economic growth since the late 1990s has been based on the growth of the ICT sector. Comparing the contribution of ICT industry to the economic growth, Korea is the leading country among ASEM, followed by Sweden and Finland. In the EU, Finland is the leader in the use of ICT, with one of the highest penetration ratios²⁹ for personal computers, mobile phones and internet connections (Statistics Finland 2003). Finnish service industries have become famous in adapting quickly to the new possibilities; for example, Finnish banks have been very advanced in providing internet services. Korea, in its turn, has created ICT clusters, mainly in Taedok Science Town in Taejon and Teheran Valley in Seoul. The government of Korea has managed to build one of the world's best ICT infrastructures, ranking the first in the world in terms of the number of high-speed internet service subscribers, after completing a nationwide broadband network, which gives nearly all regions access to high-speed internet services. Looking at all kinds of internet services, Korea ranks fifth in the world in the number of internet users after Sweden, Finland, Singapore and Denmark (OECD 2002).

In Finno-Korean joint projects, Finland is likely to possess an advantage in the engineering sector and Korea in the application of technologies. The two countries cooperate in the sectors of information technology policy, broadband internet, manpower exchange, e-commerce and security, mobile communications and wireless internet. This has led to the firm level co-operation, such as between the Finnish Nokia and the Korean Samsung since 2002; but also to the bilateral agreements in the fields of information technology, biotechnology and environmental business, as agreed in 2000; and also to inter-regional cooperation in the form of the ASEM process of two-year e-commerce plan that involves both the policy-makers of the ASEM countries and the business sector.

The increasing trade in ICT and electronics helped Finnish exports to Korea, which were cut by the Asian crisis, to catch up almost the pre-crisis level already in 1999. Finnish companies were active especially in the fields of pulp, paper and fiber products, ICT and electronics, chemicals, energy technology, mining technology, lifting and cargo handling, and industrial components. Also imports from Korea increased, and in 2000, they reached

²⁹ The figures on ICT sector are subject to change considerably even within few months.

the level of exports for the first time since the late 1980s. In the future, there is still potential for new trade due to the complementarities of the countries. However, as the local manufacturing in Korea has strengthened considerably, it is likely that the volume of Finland's exports will not increase as rapidly as earlier. Instead, Finnish firms can now join the local business by transferring operations to Korea.

From 1984 to the end of 2002, the cumulative value of Finnish investment in Korea had become USD 57.1 million, which, by international comparison, is very modest³⁰. The Finnish investment pattern in Korea has followed the general internationalisation pattern of Finnish firms as the first investment took place as soon as Finnish firms had entered the international stage and become familiar with the Korean market through exports.

During the visit by the South Korean National Assembly Speaker, Lee Man-Sup, in Finland in 2001, he proposed officially that Finland could help South Korea to invest in North Korea. As an EU member, Finland confirmed that the EU continues its efforts to improve the intra-Korean relations and thus, also Finland is willing at least to consider whether it could take part in this process by investing in North Korea (KOIS 20.5.2001). However, the Finnish economic relations with North Korea have been frozen since Finland never received payments for the paper machines delivered in North Korea in the 1970s.

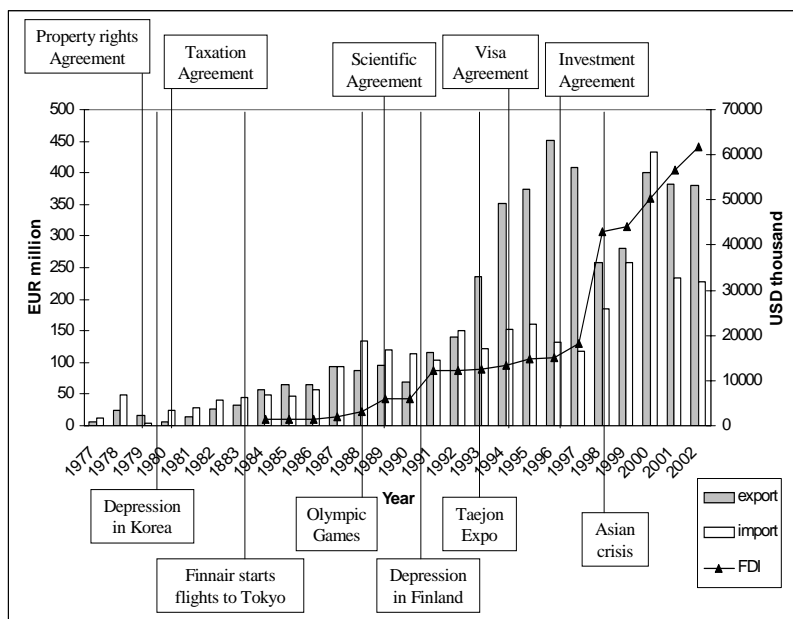
5.9 Conclusions

The highlights of Finno-Korean economic relations that paved way for economic exchange include the establishment of the Korean trade mission in Helsinki in 1972, the opening of the KOTRA office in Helsinki in 1973, the establishment of private Economic Cooperation Committee in 1977, the opening of the Finnish trade mission in Seoul in 1977, and the signing of the Agreement on Economic, Industrial and Technical Cooperation in 1979. In addition to trade policies, economic fluctuations have had a profound impact on the development of Finno-Korean economic relations, notably the recession in Finland in the beginning of the 1990s, and the Asian crisis in Korea in the end of the 1990s.

³⁰ For comparison, there is only one Korean investment case in Finland by company Hyundai.

The major developments since 1977 are illustrated in the time span in Figure 5. Initiatives for systematic development of economic relations came from the Korean side, as a part of their outward-oriented policy including trade delegations to Nordic countries at the turn of the 1970s. Trade between Finland and Korea started practically from scratch in 1977. Since the beginning, Finnish exports have mostly included value-added products needed in the industrialising Korea, while imports have included reasonably priced consumer goods. Trade developed steadily, and by the mid-1980s, Korea had become the second largest Asian trading partner for Finnish firms after Japan.

Figure 5 Development of Finnish economic interaction with Korea 1977-2002



Note: FDI refers to cumulative Finnish direct investment stock in Korea (USD thousand). Sources: Finnish Board of Customs; Ministry of Finance and Economy of Korea.

Since 1977, the private Finno-Korean Economic Co-operation Committee has organised top-level conferences in one to three years intervals to improve both political and economic co-operation between the two countries and to ease the contacts with the authorities. It has had an important impact on delivering information and creating business

contacts between Finland and Korea. Representatives of Finnish firms have continuously emphasised the difference in doing business in Korea in comparison to European countries or the United States. Therefore, the importance of personal relations, which may take years to be developed, have been frequently pointed out. (eg Karjalainen 29.5.1986; Talouselämä 29/1988) In countries, where personal relations in the most high level settings are appreciated, foreign businesses needs to be supported by their home governments. According to the experiences of Finnish businesses, the Finnish government has promoted Finnish business operations in Korea successfully, through high-level business delegations, and others (Korhonen 2005).

In the beginning of the 1990s, the collapse of the Soviet Union together with the consequent recession in Finland forced Finnish firms to discover more distant markets, including Korea. During most of the 1990s, Finno-Korean trade was characterised by rapidly increasing Finnish exports compared with stagnant imports from Korea. The Asian crisis in the late 1990s cut the Finnish exports to Korea temporarily, but in 1999, exports almost caught up the pre-crisis level. As to FDI, the liberalisation of the Korean investment policy in the aftermath of the Asian crisis created an momentum for some Finnish companies to invest in Korea.

During the 1990s, Finno-Korean economic cooperation experienced dynamic development and diversification based on versatile and continuously expanding business relations between the key industries, as well as the many official contacts generating the present framework for Finno-Korean economic cooperation. As the local manufacturing in Korea has strengthened considerably, it is likely that exports will not be directed to Korea in the same extent as earlier, but Finnish firms have to transfer their operations there in order to keep in touch with the local business. Instead of production and marketing, Finnish firms are nowadays increasingly interested in technological co-operation with their Korean partners. However, there is still challenge to convince Finnish businesses on the future opportunities available in East and Southeast Asia, including Korea, although it is obvious that the region remains as a growth centre of the world economy.

As there are no open political issues between Finland and Korea, the main emphasis in bilateral relations is laid on the economic issues. The most central economic issues have included balanced trade, technology transfer and access to the third markets. For a long

time, Finno-Korean trade was based on the complementarities between the two countries, but since Korea has caught up the advanced countries in the 1990s, the Finno-Korean economic relations are increasingly taking a form of cooperation in such fields as the ICT. Today, information and knowledge based society issues are in the forefront of Finno-Korean bilateral relations.

Since the beginning of the 1990s, multilateralism has become emphasised by Finnish government instead of bilateralism. From the time when Finland joined EU in 1995, its trade policy has been harmonised with the EU policies. As soon as Finland joined the EU, it started to promote Finland as a gateway for Korean businesses in the European markets, similar to earlier policy that promoted Finland as a gateway to Russia. For Korea, it was suggested that Finno-Korean cooperation should be extended to cover industrial cooperation and joint ventures with third countries (KT 2.2.1990), but not only in Europe through Finland but also in China through Korea (KOIST 10.4.2002) Thus, the importance of Korea for Finnish companies as a bridgehead to Asia is greater than ever.

6 KOREA IN FINNISH BUSINESS PRESS

by Mervi Lipponen

As discussed in previous chapters, the main focus of bilateral relations between Finland and Korea has shifted from government led political relations to business relationships. In the present chapter, Finnish business articles are reviewed in order to find out issues that have been written about Korea for people interested in business and the economy. The writings in media are assumed to have an effect on how people think; in this case, the image the media conveys may both reflect and shape the way the country is perceived. Also, the articles simply report current issues that are of interest in business and economy about Korea in Finland.

6.1 Description of the material reviewed

The articles reviewed were published in *Talouselämä* magazine³¹ in 2000s. The particular magazine was chosen as the source of the material reviewed, because it is a widely read magazine in workplaces and home by management, employees, students of business, and other people interested in developments in business. In addition, *Talouselämä* is a magazine concerned with all kinds of general phenomena and issues in business and the economy.

The electronic archive of *Talouselämä* (made available by the publisher, Talentum Oyj) states on the front page of the search engine that the archive contains the material published in the magazines of Talentum since 2001, but, nevertheless, the search engine also found articles from years 1999 and 2000. The search was conducted by using “korea*” as the search term, in which the asterisk was included in order to find also the derivatives of Korea and Koreans. The search resulted in 232 articles from May 1999 to June 2005.

³¹ According to the national media study (Kansallinen Mediatutkimus/Reader information 2003; 2004), *Talouselämä* had 220,000 readers in 2004, and 254,000 readers in 2003. The study shows that, in the area of magazines focusing on economic life and business, *Talouselämä* competes of the leading position in terms of the number of readers with *Taloustaito*, which is the magazine of the Taxpayers' Association of Finland.

Since the aim was to find out in what way Korea has recently been presented in the Finnish business magazine, 50 newest articles beginning from the end of June 2005 backwards were reviewed systematically among the total of 232 articles, given they considered Korea. Some of the articles were about North Korea instead of South Korea, or the word “korea” referred to the Finnish word meaning “gorgeous” or “glossy” instead of the country of interest. These articles were not included in the review. The 50th article backwards considering Korea was published in June 2004. The articles are listed in Table 4.

All articles with Korea as a central issue, according to the relevance score for the search term given by the search engine, published in the 2000s were included in the study. The score was presented as a percentage and only those articles with a score of exactly or nearly 100% were included. Three such articles were found, and they were published in 2000 (score of 98 %), 2001 (score of 100 %) and 2005 (score of 100 %). In the archive, there was no explanation on how the score was calculated, but it does, however, cast light to the magnitude in which Korea was discussed in an article.

The texts reviewed represented many styles of journalism. They were not always matter-of-fact articles. Sometimes, the texts contained a discussion of a topic the writer had an opinion about. In the journal, the articles are often under some broader field. These topics are shown in Table 4 in the ‘Broader field’ column. They were considered helpful when finding out the main content of the articles. Table 4 also shows what the article is about and how it is related to Korea.

The material on which the review was based is written material, texts published in the media, more precisely by the press communicating current affairs in business and economy. The purpose was to examine, what has been written about Korea and, to some extent, how the country is presented in the articles of the particular magazine reviewed. This was hoped to describe something about what the ordinary Finnish (business) people know about the current affairs in Korea and what kind of a perception they might gain about the country, if they continuously, regularly and thoroughly read the magazine reviewed here.

6.2 Korea in the articles

In this section, the content of the 50 systematically reviewed articles is introduced (Table 4). The purpose of the table is to give an overview of the issues discussed in the recent articles. Thereafter, the three articles with relevance scores for the search term “korea*” of 98%, 100% and 100% are gone through more thoroughly.

In Table 4, the articles are listed from the oldest to the newest. The consecutive number in the first column of the table was added for convenience; the number does not indicate any ranking among the articles. Next, the date of publishing and the score defined by Talouselämä’s electronic archive (a percentage) about the relevance of the article to the search term is shown. Of the 50 articles, 35 possessed a relevance score of 9%, which was the lowest score among the articles reviewed. Only one article among the 50 articles had a score of 100%.

In the fourth column of Table 4, the broader field under which the article was presented in the magazine is mentioned. Thereafter, the main issue of the article is mentioned, summarised from the content of the article. Finally, the way in which South Korea was related to the article is described. The text in parentheses in the column describing the issues considering South Korea are additive explanations or remarks made about the article and the context where Korea is mentioned.

Table 4 Summary of Talouselämä's 50 recent articles reviewed

No	Date of publishing	Score	Broader field	Short description of issues considered	Issues concerning Korea in the article
1.	June 11, 2004	9%	Metal industry	Recent news of the Finnish company Wärtsilä	The Finnish company Wärtsilä started a new company for its service network in Korea in April 2004.
2.	August 13, 2004	9%	'Name of the Game', a column	Everyone is successful in the Olympic Games if the measures are suitably chosen.	The Finns expect to be good in some sports, but the Koreans would not notice the success of the Finns, since the Koreans think that the most important sports are taekwondo and archery. (Koreans as an example of a phenomenon where every country is successful based on the chosen perspective.)
3.	August 13, 2004	9%	Best funds	Funds (table & comments)	Comparison of funds, among them funds focusing on Korea
4.	August 13, 2004	9%	The Olympic Games in Athens	Sponsorship of the Olympic Games	The Korean company Samsung was strongly present in the Games and its mobile phone was the official phone of the Games. (The Finnish company Nokia was not interested in sponsoring the Games.)
5.	August 20, 2004	9%	Politics	Expert of political science, Francis Fukuyama, and his views on state governance.	According to Fukuyama, the United States has participated in 18 interventions since 1899, in which the target has been to build a nation and the results have not been good. Success has been gained only in Germany, Japan and Korea but in these countries the United States' troops stayed for a long period of time.
6.	August 27, 2004	9%	Images of training companies	A company image survey on Finnish training companies	Joko, the training company owned by the Helsinki School of Economics, reached the position of the best management trainer in Finland, according to a survey made among decision-makers of training services in large companies. Joko operates also in Singapore, Korea, Poland and China.
7.	September 10, 2004	27%	Exotic markets	Investing in emerging markets	A stock portfolio manager of emerging markets invests more to Korea than to China. The Korean mobile phone manufacturer Samsung and operator SK Telecom are among the most important companies in the stock portfolio of a Dutch fund focusing on emerging markets. The Dutch investment company has invested most in Korea, South Africa and Russia, 10% to each.
8.	September 10, 2004	9%	Best funds	Funds (table & comments)	Comparison of funds, among them funds focusing on Korea
9.	September 17, 2004	9%	Now (current issues)	Current issues of Finnish companies	The Finnish company Metsä Paper announced to deliver a fine paper production line for the Korean company Hankuk Paper.
10.	September 24, 2004	9%	Mobile phones	Delay implementation of 3G mobile phone network and the problems of 3G in Finland	Korea, Japan and maybe China will have a long head start in mobile phone business if Finnish engineers cannot be open-minded and innovative enough.
11.	September 24, 2004	9%	Career path	The career and thoughts of the responsible for marine engine sales at Wärtsilä	The emphasis of shipbuilding has moved to Asia: Korea and recently China are grants in shipbuilding.

12.	October 8, 2004	9%	Advertising agencies	A Finnish advertising agency and its plans to open an office in Shanghai to follow its customers the development	The customers of the agency include a Singaporean hygiene service company that operates also in China, Japan, Korea, the Philippines and Australia.
13.	October 15, 2004	9%	An address from a reader	Text messages are slowing down the development	The writer states that one would think the government had at least a will to fund a study analysing why Finland lags Korea and Japan as a 'telecountry'. (The writer discusses the efficiency of complex networks, and he highlights that, for example in Japan, e-mails rather than SMS are used in the mobile networks.)
14.	October 15, 2004	18%	Trade/commerce	Large European retail chains and their penetration to Finland	Examples of large European retail chains: the article lists the international presence of companies Tesco and Carrefour. Korea can be found in both of the lists.
15.	October 22, 2004	36%	Mobile phones	Nokia wins when prices get lower	Nokia is so efficient that Korean companies cannot compete in manufacturing cheap models. Instead they are good in making expensive models (a comment by an analyst). Korea's second largest mobile phone manufacturer LG and the third largest Pantech have been able to grow their market share in CDMA phones in the United States. According to the analyst, a recent development is that the large contract manufacturers, the Korean Pantech and the Taiwanese Benq, have become important mobile phone manufacturers with their own brands.
16.	October 29, 2004	18%	Presidential elections in the United States	An analysis of the differences of two candidates, Bush and Kerry	In the electoral campaign, Eisenhower criticised President Truman's soft measures in the Korean peninsula but as a president, he signed a peace treaty with North Korea. (This was in a separate section in the article named 'the world does not let you isolate', considering the foreign policy of the United States)
17.	October 29, 2004	9%	Data communications	Predictions considering the collapse of the Internet; the security and junk mail problems	In Japan and Korea the prices of broad band connections are low and junk mail is pouring even to mobile phones.
18.	November 5, 2004	9%	'Name of the Game', a column	The effects of globalisation on Finnish exports	Korea and Finland are among the countries where exports grew most in 1993-2002, according to OECD statistics
19.	November 5, 2004	36%	China	Extensive foreign investment in China	Comparison of Korea's real economic growth to that of China in 1990-2002; the article mentions why China is in a different position regarding industrialisation compared to Korea and Taiwan, referring to the large amount of rural population in China.
20.	November 12, 2004	9%	Industry	The Finnish company Ahlstrom and its new CEO	The Finnish company Ahlstrom had just opened a second production line in Korea.
21.	November 12, 2004	27%	China	China and its development in international business	The Chinese mobile phone industry has outsourced production among others in Korea. Korea was one of the Asian countries that mainly account for the foreign investments in China.

22.	November 12, 2004	18%	Economy and man	The enemy of capitalism is capitalism itself	The cheaper cars of Korean companies Hyundai, Kia and Daewoo increased sales by 19-31% at the same time as Western car manufacturers Volkswagen, Opel and Mercedes were suffering. Korean and Japanese cars are popular also in the United States. (This was probably meant to be an example of the decreasing growth of consumers' purchasing power.)
23.	November 19, 2004	9%	Entrepreneur 2004	Some descriptions of Finnish firms and entrepreneurs	Rising areas of X-ray technology applications are for example food security and transportation equipment technology. For instance, noodles produced in the world's largest noodle factory in Korea are scanned by X-ray.
24.	November 26, 2004	9%	Investor	An interview with a Finnish investor	Samsung shares had been a profitable investment.
25.	November 26, 2004	9%	Mobile phones	Nokia is going back to the television manufacturing business since there is a possibility to watch digital TV through mobile phones	In Korea, analogical TV sending is watched through mobile phones.
26.	November 26, 2004	9%	Mobile phones	The Finnish company Elcoteq is the first to establish a production line for mobile phones in India.	LG is planning to open a mobile phone factory to the city of Pune close to Mumbai. (Also Samsung is mentioned to have shown interest to opening a factory, but it is not mentioned that it is a Korean company.)
27.	November 26, 2004	9%	Operators	Is there a need for 3G in Finland?	According to an analyst, the market in Japan and Korea is different compared to the European market: as a European takes a few photos in a month with a mobile phone's camera, an Asian takes 20-30 pictures.
28.	December 3, 2004	9%	Now (current issues)	Nokia had announced that it will start manufacturing mobile phones in India	LG invested in India 60 million dollars in a mobile phone factory and companies Samsung, Alcatel, Ericsson and Siemens contemplate.
29.	December 3, 2004	9%	Mobile phones	Samsung challenging Nokia	In Korea, customers can already pay in stores by mobile phones. Samsung's director of mobile communications is interviewed about the future of the mobile phone industry.
30.	December 10, 2004	9%	Shipbuilding industry	The Finnish company Kone Cargotec bought MacGregor International AB back	MacGregor has a strong market share in Asia, among others in Korea. Through the acquisition of MacGregor, Kone strengthens its service network.
31.	January 28, 2005	9%	Ministerial visit	The Minister for Foreign Trade and Development of Finland and a delegation of Finnish businessmen were going to visit India in the following week	The Korean LG is mentioned as the only mobile phone manufacturer having a factory in the initiation stage in India.
32.	January 28, 2005	9%	China	China's economy and development	A section in the article with the writer's comment discusses phases of Finland's China connections. According to the writer, in the first phase, during the Korean War, China and the Soviet Union allied against the United States and Finland was in the phase of reconstruction.

33.	February 4, 2005	9%	China	China's economic development and characteristics	Shanghai Automotive Industry Corp was interested in the Korean company Saangyong.
34.	February 4, 2005	62%	India	India's mobile phone markets; India becoming a key market for Nokia	In India, Nokia is the challenger only in CDMA standard based phones, of which the LG sells 75 %, according to the company. The proportion of the CDMA phones in the Indian market is about a fifth of all mobile phones. The Korean competitor of Nokia, LG, is also starting to manufacture phones in India. The article also has a separate section about LG having entered the Indian market before Nokia. According to it, LG has been in India since 1997, and it has as dominating a position in the CDMA phone market as Nokia has in the GSM phone market in India. LG is entering the GSM market of India and challenging Nokia. The section discusses some facts and objectives of LG in India. LG is mentioned also in a separate section discussing the Finnish company Elcoteq in India. According to the section, the representative of Nokia's Korean competitor thinks that only early birds have yet entered the Indian mobile phone market. The representative also makes guesses of the location of Nokia's factory in India.
35.	February 11, 2005	9%	Investment fashion	Exchange traded funds	A Finnish investment guru has invested in EEM, an exchange traded fund concentrating on developing markets. In EEM, 'Samsung, Korean, Chinese and Russian companies, South African mining companies - the biggest companies in the developing markets' are well represented.
36.	February 25, 2005	9%	Career path / Fourth generation	The fourth generation of the entrepreneur family taking lead in Finnish companies Helkama Bica and Helkama Velox	Finnish company Helkama Bica will open a marine cable factory in China, since the majority of new ships are made in China, Korea and Japan.
37.	February 25, 2005	18%	Partnership	Three small Finnish textile companies entered Japan with a joint collection; the challenges and success of the partnership	The interest in the fruit of the firms' cooperation has been awakened also in Korea. The collection is going to be a part of the collection of a Korean importer.
38.	March 4, 2005	9%	Internet	Broadband speed development, main focus on Finnish backwardness	Korea is one of the countries way ahead of the Finnish broadband speeds available.
39.	March 18, 2005	100%	Car trade	Car industry, internationalising Korean car manufacturers, a Finnish car importer	Korean car manufacturers and their internationalisation.
40.	April 1, 2005	27%	Acquisitions	Finnish company Fibox was to open a factory in South-China, Guangzhou, in the end of June [2005]	Of its six factories, the most far-away factory of the Finnish company Fibox was located at the time of the article in Incheon, Korea. The factory in Korea produces coverings for the company's own usage. The labor is far cheaper in China than in Korea.

41.	April 8, 2005	9%	Forest industry	The current situation of the paper industry; productivity	According to Svensk Papperstidning (Swedish paper newspaper) the most efficient paper machines are, depending on the paper quality in China, Indonesia, Korea, Germany, Belgium, Italy and Germany.
42.	April 15, 2005	9%	Analyses	Article about current issues of Ahlstrom	The second production line of the Korean factory of Ahlstrom will come into operation just in time for the growing markets of Asia.
43.	April 22, 2005	9%	Sustainable development	Companies manufacturing environmentally friendly technology, for example in producing energy; recycling	At least China's, Korea's and Japan's large cities buy or plan to buy catalysts that have been installed to cars afterwards.
44.	April 22, 2005	18%	Mobile phones	The price competition in mobile phones business; Nokia suffering less than its competitors from the lowering prices	In mobile phones, Samsung and its competitor LG Electronics have chosen a strategy of leading the technical innovation instead of producing mass phones as efficiently as possible. Also, the third largest phone manufacturer in Korea, Pantech, has announced that it will introduce 3G phones under its own label in the end of the year.
45.	May 13, 2005	9%	Analyses	Article about current issues of Kone	Kone's first acquisition in Asia was made in Korea.
46.	May 20, 2005	27%	Mobile services	The development of the mobile services; importance of the customer and marketing aspect in the success of mobile technology	When discussing the developments of mobile services, it is mentioned that the lead in broadband technology know-how moved in the beginning of 2000s to Korea, represented by SK Telecom's services and Samsung's mobile phones. Also, it is mentioned that moving picture and mobile television in mobile phones have been a fact for a few years time in Japan and Korea.
47.	May 27, 2005	9%	Career path	An interview with French entrepreneur in Helsinki	The entrepreneur was with his partners at the time of publishing representing Finland in Korea at the United Nation's sixth global forum.
48.	May 27, 2005	27%	Analyses, car dealers	The elimination of the clause considering location of the EU's block exemption, meaning that after invalidating the clause a car dealer can sell any brand of cars in any sales office	In September 2004, sales of cars of the Kia brand were started in Finland. Before that, Daewoo and Hyundai cars were already sold in Finland. The marketing asset of Korean cars are lower prices compared to similar other cars and a long guarantee.
49.	June 3, 2005	9%	Analyses, car importers	Foreign car companies entering the retail business in Finland	At the moment, the Korean car brands, which are on the upgrade, are sold by two importers in Finland (Kia and Hyundai)
50.	June3, 2005	27%	Investments	Promoting Finland as a destination of research centers	Samsung's cooperation project with University of Joensuu, three years after visiting Finland as Fimpro's guests in 2002.

The three articles with relevance scores for the search term “korea*” of 98%, 100% and 100% are reviewed next. Chronologically from the oldest to the most recent article, the first one discussed the economic development of Korea through the decades (published on September 8, 2000), the second one about East Asia’s current economic development (February 2, 2001) and the third one about the car industry and Korean car exports to Finland (March 18, 2005). The third article can also be found from Table 4, as it belongs to the group of 50 most recent articles on Korea.

The first article discussing the general development of Korea (September 8, 2000) starts with the economic development that began in 1960s. The era is described as an economic miracle made possible by the centralised economic and industrial policy that created the giant multi-industry companies, or chaebols. According to the article, in 2000 Korea’s democratic government was trying to make the local industries more flexible and efficient in order to be able to respond the challenges brought up by globalisation. The challenge of performing the task was increased by, according to the article, the need to recover from the Asian financial crisis that began in summer 1997, and to prepare for the possible reunification of the Koreans.

The article argues that the development of the chaebols into more specialised companies had started by selling industrial branches, nominating outside leaders, and making businesses to match with international standards. In the car industry, the changes made in Korea were part of the new global restructuring of the industry. However, according to the article, the problems of Korea’s economy were not over. The restructuring of the chaebols was not necessarily easy: according to the article, some of the companies had succeeded in the reform policy better than others. Some were said to be unwilling to sell the non-profitable businesses, to have a debt burden and a gradual drying of outside funding, in addition to strong internal cross ownership.

The article describes the growth of the economy, stating that since 1999, the yearly pace of the growth had been 10 % on the average, and the share prices were twice as high as in their lowest level. Also the crisis of 1997 had led to the repayment of short-term loans,

and, therefore, a similar crisis would not be possible in the future. The overlap and inefficiency of the chaebols, the continuing weakness of the bank institution and the problems related to the domestic policy were, according to the article, keeping up a continuous tension.

The positive side, according to the article, had been the rapid, Finland-like moving over to an information society, accelerated by the economic crisis. The article states that, in fact, the mobile phone industry in Korea dominated the production of the newest phones built on CDMA (Code-Division Multiple Access) standard and thus, it challenged fully its North American and European competitors. The country is said to have lived in an 'Internet fever' for the previous year: thousands of new companies had gone public. Because the country has a well-educated and technically competent work force, it is said to have a good chance to gain a strong position in the next generations' communication technologies. However, the article states that until then the Koreans had been more imitators than developers of new.

In the end of the article, the relationship to North Korea is discussed. It is said to be a political, humanitarian and economic key issue. The sunshine policy towards North Korea is said not to be economically profitable, but it is stated also that the policy is not carried out only on economic grounds.

Although there are many challenges described for the future development, also success of the means executed so far was recognised in the article. It seems that the development process was still on its way having some special features that bring about challenges, and a small slip to a wrong direction might be fatal to the development.

To sum up, the first article discussed Korea's situation in 2000 in general from the point of view of the economy. It seems to be a note discussing a country of current interest in the field of business. Also, the comparison to Finland in the development of the information society makes the country of special interest for the Finns in the article.

The second article, published in February 2, 2001, discussed East Asia's strong economic development and the challenges of the not yet fully completed structural reforms. The challenge, according to the article, was also the declining exports to the United States. Even Korea had difficulties although it had had the best economic growth and had been the most active country in making structural reforms. The objectives of the Korean economic reform are listed in the article; some of them, according to an expert interviewed in the article, were still uncompleted at the time.

The article refers to the magazine *Fortune*, which had discussed President Kim Dae-Jung's chances of accomplishing the reforms needed. According to the issue of *Fortune* referred, there were more than a hundred unproductive companies operating with the aid of bank loans. However, according to an expert interviewed in the *Talouselämä* article, many macro economic issues were in a better shape in Korea at the moment than during the Asian crisis. The expert stated also that the dependency of Korea on the United States's economic growth was strong. Japan was said to be on one hand an important country for exports but also a competitor to Korea. The four biggest chaebols, Hyundai, Samsung, LG and SK were said to have accounted for over a half of the country's gross national product, and some of them were facing problems.

To sum up, the second article discussed the economic situation of Asia in general. As such, the focus was not only on Korea, but the perspective was regional. Korea was said to be the country with the strongest economic growth in the area.

The third article reviewed (March 18, 2005) focused on a specific industry, and not on Korea as a country. It is also a more recent article than the previous two. The article focuses on the car industry and is based on interviews done with Finnish car importers that sell Korean cars. According to the article, the price and the quality are the strengths of the Korean vehicles. One of the interviewees stated that the Korean cars forge ahead price first, but the prices are affected by low salary costs and exchange rates, and are therefore not an indication of low quality.

The first of the Korean car brands in Finland was Hyundai, followed by Daewoo (sold under General Motors' Chevrolet brand) and then Kia. One of the interviewees states that the imports of Kia had been even surprisingly strong, leading to long lead times. According to the article, the Korean cars were coming to the Finnish market in the footsteps of the Japanese. The first Korean car brand entered the Finnish market only in mid-1980s, but the launch was not successful because of the soon starting recession. According to another interviewee who was in a central position when the Japanese Toyota brand was launched in Finland, the Korean cars might reach the same strong position in Finland as the Japanese cars, but in half of the time that it took the Japanese.

According to the article, it is an advantage for the Koreans that the Japanese made the groundwork well for the Asian cars to enter. The Korean cars have, according to an interviewee, the same strengths as the Japanese cars had at the time of their launch, namely price and quality. The consumers have, however, changed since the Japanese cars entered the Finnish market: people are more internationally oriented than a generation ago, and they accept new things faster than their parents, according to the interviewee.

All the car models of Hyundai were launched to the Finnish market three years earlier, according to the article. The company car market was entered as well as the consumer market. For companies, Hyundai offers a bigger car model than few other car manufacturers offer in the normal range of prices.

The article also discusses the Korean people compared to the Finns through the opinions of an interviewee. He thinks that the Koreans are more like the Finns when comparing to the Japanese. The Koreans are, according to him, straightforward, even aggressive and state their objectives directly. The determination of the Koreans can be described, according to the article, by the announcement of the Hyundai Automotive Group stating that in 2010, it wants to be among the five biggest car manufacturers in the world. At the time of the article was published, the company is said to have been on the seventh position.

The article also describes the development why Daewoo's cars are sold as Chevrolets in the Western countries. The article points out that if the Korean origin becomes an asset to the car industry, GM has to decide how strongly it promotes the country of origin in its brand.

It is predicted in the article that the Chinese car companies will be the next to enter the Finnish car market. It might be said that the Japanese cars have already integrated in the Finnish car market, the Koreans are well on their way and the next Asian car manufacturing country entering the market through its companies' own brands might be China.

To sum up, the third article draws a positive picture about the future of the Korean cars in Finland. In addition to the issues related to the car industry itself, the Koreans and their attitudes are described. However, the article focuses more on car industry than Korea as a country, different from the first two articles from the beginning of 2000s. In the following section, some interesting aspects emerging in the reviewed articles are discussed.

6.3 Discussion

The themes of the articles in which Korea was mentioned varied. It could be expected that there would be topics related to information technology and data- or telecommunications. The Korean mobile phone companies and operators were discussed and also comments about the prerequisites for Internet usage in Finland and Korea were among the articles. Some of the topics can be seen relating to the broader field of the information society, in which both Finland and Korea are said to be in an advanced position.

Other industries discussed were car manufacturing and trade, shipbuilding and forest industry. With respect to the car industry, the entering of the Korean car brands in the Finnish market and their success was described. There were three articles considering car trade in the fifty recent articles – in March, May and June 2005. One of the articles was

almost only about the imports and the emerging success of the Korea-originated cars in Finland.

There were three articles mentioning Korea in the context of shipbuilding; two of them were career path type of articles (September 24, 2004 and February 25, 2005) and one was under a broader topic referring directly to shipbuilding (December 10, 2004). In these articles, Korea was presented as one of the countries having an emerging or present strong position in shipbuilding or at least implied to have an important role. The forest industry was once indicated as the broader field by *Talouselämä* magazine (April 8, 2005). In the article, Korea was mentioned as being one of the countries where the most efficient paper machines are located, referring to a newspaper focusing on paper industry.

One article in which Korea was mentioned was under the broader topic of the presidential elections in the US (October 29, 2004) and one under the field 'Politics' (August 20, 2004). In both of them, the references to Korea were related to the historical political issues connecting the US and Korea. Some of the articles focused on a company and its current issues, and in one way or the other Korea or Korean companies were involved; there could have been, for example, a factory or other investment made in Korea or business done in Korea or with a Korean company.

Korea was also mentioned in some column type of articles, where the country had been picked up as an illustrative example. It was also once mentioned as a potential customer for environment saving technology (April 22, 2005). A couple of the articles in the material considered funds and listed them. In these listings, there was one fund that had Korea mentioned in its name: Korea Fidelity. One of the articles was about a Dutch fund concentrating on investing in emerging markets (September 10, 2004). The article was implied to consider 'exotic markets'. Thus, in this article Korea was connected to being a far-away and young market, similar to articles published in the 1980s (see more in Chapter Five).

An interesting observation was that in the recent articles, there were reports and descriptions about China and India. Four articles considered China in this way. In these articles Korea was mentioned because of its business relations with China, the history or the comparison of Korea's development to that emerging in China. One article (February 4, 2005) considered India as the main issue, the broader field of the article being India, and there was also, for example, an article about a ministerial visit from Finland to India (January 28, 2005). In these articles, Korea was involved through Korean companies entering India contemporaneously with Finnish companies. Some of the reviewed articles discussed an industry as the main point, and Korea came up as a natural part of the topic.

Another interesting notion was that in article number 29 in Table 4 (from December 3, 2004), the company Samsung and it challenging Nokia was the main topic of the article, but Korea or the Koreans were mentioned only once in the article, and thus the article had gained a low score for its relevance to the search term. Also, in the article number 26 in Table 4 (from November 26, 2004), Samsung is mentioned but not the fact that its Korean. This might be an implication of Samsung being perceived as such a well-known global company that there is no need to even mention its Korean roots – and, looking from another angle, this fact might not be crucial or relevant in the articles considering Samsung. Accordingly, some articles discussing e.g. the company Samsung, despite the fact of being Korean, may not be among the articles reviewed here if they do not mention the search term “korea*”.

When considering the ways that it came forward in the articles, Korea seems to some extent to have matured into a country and market that people know about in Finland. Korea may also often be perceived as any industrialised country. Instead, China and India seem to have become the new unfamiliar markets about which there have recently been special articles and reports as a country.

Among the articles reviewed, only in year 2000 there was an article concentrating in Korea's general development in past decades. In 2001, there was an article focusing on East Asia's current economic development and its challenges. The third article with a

high relevance score to the search term “korea*” was about car trade and published in 2005. Korea was not raised as an issue specifically and artificially but it was naturally connected to a phenomenon in the Finnish economy and consumption. This also speaks for the view that Korea and its companies have, at least to some extent, become a natural part of the Finnish business life and familiar to its actors.

6.4 Conclusions

The present chapter has discussed the recent articles in a Finnish business magazine called *Talouselämä*. Fifty most recent articles mentioning Korea from the end of June 2005 backwards were included in the review, and three articles published in 2000s concentrating on Korea were discussed more thoroughly. Some interesting conclusions were drawn from the articles; however, it should be noted that an extension of the review to other magazines and newspapers discussing business and economy might add new aspects to the analysis.

According to the review done, Korea’s image in the business may have shifted from an unknown far-away country with potential business possibilities to a country from which some internationally known companies are originated. Mobile phones and telecommunications were one common topic of the articles, in addition to other industries and Finnish companies doing business or having investments in Korea. Especially, the comparison of Korea to Finland in the moving over to an information society makes the country of special interest for the Finns. In the articles, the Koreans or Korea as a country were mentioned in varied connections, and mostly only briefly. Although one of the recent articles still defined Korea as an exotic market, it seems that largely the country may not be seen as exotic and unexplored anymore in Finland in the context of economy and business but as a modern, industrialised country.

7 PARADIGM SHIFT IN FINNO-KOREAN RELATIONS

The present study has analysed the development of bilateral relations between Finland and Korea from the Finnish perspective. The aim of the study has been to recognise the relevant actors that are responsible for the development of bilateral relations, the aims of these actors, and the structures through which the actions are channelled. In addition, the study has aimed to explain how the Finno-Korean bilateral relations have evolved to their present state.

Actors responsible for the development of bilateral relations

The Finno-Korean relations have become increasingly intense and they are practised through large number of different actors. In the era of the Cold War, the states monopolised the Finno-Korean diplomacies, but they have gradually given room for other actors. Since the mid-1970s, Finnish firms have operated actively in Korea but they have needed the support of the Finnish government in order to manage in the somewhat authoritarian Korea. Fortunately, the Finnish government has been active in speeding up the internationalisation process of the Finnish firms. Also non-governmental organisations have been active in promoting Finno-Korean joint efforts since the mid-1970s when the Economic Cooperation Committee and the various civic organisations started to spread out the information on both business opportunities and cultures. The European Union became a major player in the Finno-Korean relations in 1995 when Finland became a member of the EU and started to organise its relations with Korea through the EU framework. Later, Finno-Korean relations have been developed also in the inter-regional level within the framework of the Asia-Europe Meeting.

The aims of the actors

Korea did not have the same historical links with the European countries as Hong Kong or Singapore that were former colonies of Europeans, and this fact hindered the early development of Korean relations with European countries (Bridges 1999, 58). In the 1960s, diplomatic relations with the EC countries however became important for Korea who wanted to reduce its dependence on the United States and Japan both in terms of

policy and economy (Cherry 2001 109). This was also suggested as the most important reason for Koreans to set the diplomatic relations with Finland (UM 28.6.1976). Thus, it can be claimed that the Finno-Korean relations have been strongly characterised by economic dimensions since the very beginning, although the Cold War realities postponed and hindered the bilateral cooperation. Due to the Cold War atmosphere, Helsinki certainly had also a political meaning for Koreans as a listening-post towards the Soviet Union. In addition, Korea requested Finland to act as a middleman in Korea's relations with the Soviet Union and East European socialist countries. This is because Korea was under the influence of four big powers, notably China, Japan, the Soviet Union, and the United States, but had economic relations with only two – Japan and the United States – until the end of the Cold War. Normalisation of economic relations with China and the Soviet Union would have greatly strengthened Korea's economic growth in the 1980s. Korea searched also support for the separate memberships of the two Koreas in the UN, but Finland refused, because it to stay out of the superpower conflicts.

As to economic aims, until the beginning of 1990s, foreign trade was the priority form of economic interaction between Finland and Korea, but along with the globalisation process, the role of FDI and international financing became increasingly important. Finnish investment in Korea started as soon as the political relations and intensive trade had paved the way for investment, and mutual trust and co-operation. However, it was only since 1998 that the Korean government started actively to pursue increased inward investment. Altogether, the Korean government has been more active to propose bilateral cooperation than the Finnish government, which remained rather passive until the end of the Cold War.

The structures through which the actions are channelled

The traditional political diplomacy was almost the only channel until the end of the Cold War. In the case of Finno-Korean relations it means that the relations were practically non-existent before the set of diplomatic relations in 1973, and also, the relations were rather reserved in political questions until the end of the 1980s. With regard to economic diplomacy, Finnish policy shifted from bilateral to multilateral level in 1995 when

Finland joined the EU. This was also reasonable for Korea who had organised its relations with Western Europe in 1993 with the drafting and adoption of an EC Communiqué on EC-Korea relations.

Development of Finno-Korean bilateral relations

Based on chronology of Finno-Korean relations, as discussed in Chapters Four and Five, and summarised in Appendix 3, the Finno-Korean politico-economic relations, starting from the end of the Korean War in 1953, can be summarised as shown in Table 5.

Table 5 Summary of the Finno-Korean politico-economic relations

	Political relations	Economic relations
1953-1972	Phase of conflicting policies	Phase of initial contacts
1973-1976	Phase of the Cold War diplomacies	
1977-1978		Take-off phase for bilateral trade
1979-1990		Phase of gradually intensifying bilateral trade
1991-1997	Phase of multilateralism	Phase of Finland's increasing trade surplus
1998-1999		Asian crisis phase
2000 –		Phase of technological cooperation

Putting the political and economic aspects together and taking the Finnish perspective, the following periodisation of the development of Finno-Korean politico-economic relations can be done:

- I Phase of conflicting policies (1953-1972)
- II Phase of formal bilateral relations (1973-1990)
- III Phase of increasing economic interaction (1991-1998)
- IV Phase of technology cooperation (since 1999)

I Phase of conflicting policies (1953-1972)

The Cold War hindered contacts between Finland and Korea for decades. While South Korea followed the Hallstein Doctrine that rejected it to establish diplomatic relations with any country that recognised North Korea, the Finnish policy towards divided countries was to restrict itself to set relations with either of countries. As to economic relations, a search for new trading partners was started in the outward-oriented, industrialising Korea since the beginning of the 1960s. Finland rejected Korea's initiatives due to the Cold War tensions. During the 1960s, Finland however became aware of Korea's rapid economic development and also North Korea showed interest in developing bilateral relations with Finland. As a result, South Korea's good will mission was welcomed to Finland on its Scandinavian tour in 1971. This led to the opening of Korean trade mission in Helsinki in 1972.

II Phase of formal bilateral relations (1973-1990)

Diplomatic relations between Finland and Korea were established in 1973 in the strengthening attitude of détente. According to its neutrality policy, Finland however emphasised the equal treatment of North and South Korea. The initial phase of the Finno-Korean formal relations in 1973-76 set the basis for the development of bilateral economic relations as it included the founding of the diplomatic relations, opening of the Korean Embassy and the KOTRA office in Helsinki, the first official delegations between the countries, and the opening of the Finnish non-resident Embassy in Seoul. Finno-Korean trade was still almost non-existing including only few single trade flows. Korea requested Finland to act as a middleman in Korea's relations with the Soviet Union and East European socialist countries and to support the separate memberships of the two Koreas in the UN, but Finland refused.

Trade between the two countries started practically from scratch in 1977. Since the beginning, Finnish exports included mostly value-added products needed in industrialising Korea, while imports were mostly reasonably priced consumer goods. Trade developed steadily, and by the mid-1980s, Korea had become the second largest Asian trading partner for Finnish firms after Japan. This was possible as Finnish firms started to internationalise

rapidly in the beginning of 1980s. At the same time, information on foreign countries and cultures on a larger scale started to spread to Finland. There were large international events held in Seoul, and direct flights by Finnair from Helsinki to Tokyo enabled faster business trips from Finland to East Asia. The first direct investment by Finnish company in Korea was engaged in 1984. Korea's economic potential and importance to Finland led to the appointment of the first resident Ambassador of Finland to Seoul in 1986.

III Phase of increasing economic interaction (1991-1998)

The end of military dictatorship in Korea, together with gradual weakening of the state led economic planning in the 1990s, eased the tensions in Finnish diplomacy with Korea. In addition, collapse of the Soviet Union in 1991 together with the subsequent economic downturn in Finland forced Finnish firms to discover more distant markets, such as Korea. Within a few years, there emerged an "Asia boom", not only in Finland, but in Europe in general as the countries wanted to strengthen their relations with Asian partners. As to the domestic policy of the Korean government,

During most of the 1990s, Finno-Korean trade was characterised by rapidly increasing Finnish exports and stagnant imports from Korea. The Asian crisis in 1997-1998 cut the Finnish exports to Korea temporarily. As to FDI, Finnish investment in Korea increased gradually in the 1990s. The record year was 1998, when Korean government liberalised its investment policy in the aftermath of the Asian crisis. In addition, the deterioration of the Korean won made the prices of investment targets buyer-friendly, and thus, created an ideal time for Finnish firms to enter the Korean market, or expand the existing operations there.

IV Phase of technological cooperation (1999-)

After the Asian crisis, Finno-Korean trade has fluctuated a lot, and up to now it is not yet possible to state whether exports and imports will become balanced in a long run. As the local manufacturing in Korea has strengthened considerably, it is likely that Finnish exports will not be directed to Korea in a same extent than earlier, but Finnish firms have to join the local business by transferring their operations there. Indeed, Finnish annual

investments in Korea are likely to remain on a permanently higher level than before the Asian crisis. Instead of production and marketing, Finnish firms are nowadays increasingly interested in technological co-operation with their Korean partners. In addition, co-operation does not take place only in firm- or national level, but also in the regional level, as the Finno-Korean joint efforts in ASEM shows.

Altogether, the continuously intensifying interactions that have been evolved through distinct phases in Finno-Korean politico-economic relations as described above, each created different potential for Finnish firms to operate in Korea. Global trends have strongly shaped the development of Finno-Korean relations, namely the end of the Cold War, the dominance of economics in foreign affairs, and regionalism. As such, the case of Finno-Korean relations can be seen as an implication of the paradigm shift in world politico-economic conditions and the new world order. The relations obviously reflect the change from Cold War ideologies that hindered the development of bilateral relations to economic realities that dominate the relations today. In addition, the bilateral relations of Finland and Korea are now clearly embedded within the ASEM framework, being a sign of regionalism.

Suggestions for further studies

The present study has discussed the development of Finno-Korean relations predominantly from the Finnish government's point of view, the primary data consisting of archives of the Ministry for Foreign Affairs of Finland. In further research, a grass-root view and interviews of relevant persons would provide first-hand information on the Finno-Korean relations from the perspective of civic organisations and individual persons dedicated to promote the relationship of two distant countries over the past decades.

During the course of this study, it was found out that many Finnish politicians and businessmen emphasised the similar mentality among Finns and Koreans. They mentioned many connecting factors, such as similar geopolitical position and historical development path, and recently the passionate interest to move towards an information society. Also the relation between Finnish and Korean languages, which does not exist in reality, was

continuously mentioned both by Finns and Koreans. In addition, some socio-cultural characteristics, such as melancholic mentality and similar drinking habits were often mentioned as common characteristics. This kind of “similar feeling” has been reported earlier in the Finno-Japanese context (Koivisto 1998, 267-275).

In the Finno-Korean case, it is possible that both Koreans and Finns share some sensitivity of cross-cultural differences due to their geo-political environment surrounded by powerful neighbours with different culture. It remains to be seen in the future, whether Finns and Koreans are able to further enhance the mutual understanding in order to realise the full potential of their bilateral relationship in the new world order.

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- 44 Steinbock, Dan, ”Kiinassa riittää rahaa”. Talouselämä 5.11.2004, p. 33
- 45 Steinbock, Dan, ”Lenovo näyttää Kiinan tien”. Talouselämä 28.1.2005, p. 45
- 46 Steinbock, Dan, ”Markkinoinnin uudistaja voittaa”. Talouselämä 20.5.2005, p. 38
- 47 Steinbock, Dan, ”Talous erottaa Bushin ja Kerryn”. Talouselämä 29.10.2004, p. 46
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- 49 Toivanen-Visti, Outi, ”Sitra kokoaa suomalaiset Piilaaksoon”. Talouselämä 3.6.2005, p. 21
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- 1 Karttunen, Anu, "Pitäkää silmällä Aasiaa". *Talouselämä* 2.2.2001 p. 20 (score 100%)
- 2 Salo, Irmeli, "Korealaiset kaasuttavat hinta edellä". *Talouselämä* 18.3.2005 p. 22 (score 100%)
(*listed also among the 50 reviewed articles*)
- 3 Väyrynen, Raimo, "Sivullinen: Etelä-Korea viivyttelee tienhaarassa" *Talouselämä* 8.9.2000 p. 57 (score 98%)

APPENDICES

Appendix 1. Presidents of Finland and Korea

Presidents of the Republic of Finland

President Kaarlo Juho Ståhlberg 1919-1925
President Lauri Kristian Relander 1925-1931
President Pehr Evind Svinhufvud 1931-1937
President Kyösti Kallio 1937-1940
President Risto Heikki Ryti 1940-1944
President Carl Gustaf Emil Mannerheim 1944-1946
President Juho Kusti Paasiviki 1946-1956
President Urho Kaleva Kekkonen 1956-1982
President Mauno Henrik Koivisto 1982-1994
President Martti Oiva Kalevi Ahtisaari 1994-2000
President Tarja Kaarina Halonen 2000-

Presidents of the Republic of Korea

President Rhee Syngman 1948-1960
President Yun Po-San 1960-1962
President Park Chung-Hee 1963-1979
President Choi Kyu-Ha 1979-1980
President Chun Doo-Hwan 1980-1988
President Roh Tae-Woo 1988-1993
President Kim Young-Sam 1993-1998
President Kim Dae-Jung 1998-2003
President Roh Moo-Hyun 2003-

Appendix 2: List of Ambassadors

Ambassadors of South Korea to Finland

Yoon Hogan 1973-1975
Yoon Kyong Do 1975-1978
Chi Sung Koo 1978-1980
Kim Dong Kun 1981-1984
Chung Woo Young 1984-1987
Choi Sang-Jin 1987-1990
Youn Uk-Sup 1991-1993
Kim Nai Sung 1993-1996
Lee In-Ho 1996-1998
Lee Hae-Soon 1998-1999
Yang Dong-Chil 1999-2001
Lee Young-Kil 2001-2003
Hong Jung-Pyo 2003-2005
Park Heung-Shin 2005-

Ambassadors of Finland to South Korea

Osmo Lares (Tokyo) 1973-1978
Henrik Blomstedt (Tokyo) 1978-1984
Pauli Opas (Tokyo) 1984-1985
Juha Puromies 1986-1991
Jorma Julin 1991-1996
Unto Turunen 1996-2000
Lauri Korpinen 2000-2004
Kim Luotonen 2004-

Appendix 3: Chronology of Finno-Korean relations (1971-2002)

31.8.1971	The Good-Will Mission headed by Deputy Foreign Minister of Korea, Yun Suk-Heun, visited Finland
26.5.1972	Ministry of Foreign Affairs of Korea established a trade mission in Helsinki
18.7.1972	Minister Yoon Ho-Gan was appointed as Head of the trade mission in Helsinki
8.1972	Deputy Minister Jang Sang-Moon led the Korean delegation in Finland
2.1973	Deputy Minister Jang Sang-Moon led the Korean delegation in Finland
13.4.1973	Finland recognised Republic of Korea
24.8.1973	Diplomatic relations between Finland and Korea were established
28.8.1973	Special Presidential Adviser for foreign affairs, Hahm Pyong-Chun, led the Korean delegation in Finland
23.9.1973	KOTRA established a trade office in Helsinki
16.11.1973	Minister Yoon Ho-Gan was appointed as the first Ambassador of Korea to Finland
11.12.1973	Osmo Lares was accredited as the Ambassador of Finland to Japan and Korea
1.1974	Minister of Transport, Pekka Tarjanne, visited Korea unofficially
18.2.1974	Exchange of Notes between the Government of the Republic of Korea and the Government of the Republic of Finland on Waiver of Visa Requirements was signed
1.3.1974	Exchange of Notes between the Government of the Republic of Korea and the Government of the Republic of Finland on Waiver of Visa Requirements took force
29.8.1975	Yoon Kyung-Do was appointed as the second Ambassador of Korea to Finland
9.1975	Special Presidential Adviser for foreign affairs, Choi Kyu-Hah, led the Korean delegation in Finland
20.9.1976	Special Presidential Adviser for foreign affairs visited Finland, Kim Kyong-Won, led the Korean delegation in Finland
7.-10.9.1977	Minister of Commerce and Industry, Chang Yie-Joon, led the Korean trade delegation in Finland
1977	The first annual joint-meeting of Korean Federation of Industries and the Confederation of Finnish Industry and Employers was held in Finland
1.9.1977	Commercial section of Finnish Embassy was established in Seoul
1.-20.12.1977	Deputy Minister of Foreign Affairs, Arvo Rytkönen, led the Finnish trade delegation of 32 member to Korea
1.9.1978	Chi Sung-Koo was appointed as the third Ambassador of Korea to Finland
21.11.1978	Commercial section of Finnish Embassy in Seoul was upgraded to an Embassy
7.2.1979	Henrik Lennart Blomstedt was accredited as the Ambassador of Finland to Japan and Korea
2.5.1979	Special Presidential Adviser for foreign affairs, Hahm Pyong-Chun, visited Finland
6.-8.6.1979	Member of Civil Defence Committee, Suk Ha-Song, visited Finland
13.-16.6.1979	Deputy Prime Minister & Minister of Economic Planning, Shin Hyon-Hwack, visited Finland and met President Urho Kekkonen
12.-17.6.1979	Chairman of KFI, Ryun Nam-Koung, chaired the second joint meeting of Economic Cooperation Committee in Helsinki
22.-25.8.1979	Minister of Science and Technology, Choi Jong-Wan, visited Finland with a delegation
12.-15.9.1979	Foreign Minister Park Tong-Jin visited Finland
13.9.1979	Signing the Agreement on Economic, Industrial and Technical Cooperation between the Government of the Republic of Korea and the Government of the Republic of Finland
13.9.1979	Signing the Agreement for the Mutual Granting and Protecting of the Rights on Patents of Invention, Utility Models, Designs and Trade Marks between the Government of the Republic of Korea and the Government of the Republic of Finland
13.9.1981	Signing the Convention between the Government of the Republic of Korea and the Government of the Republic of Finland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income
23.2.1980	Agreement on Economic, Industrial and Technical Cooperation took force
8.-12.4.1980	Foreign Trade Minister Esko Rekola visited Korea as the first ever Finnish cabinet

	minister
4.1980	The first inter-governmental meeting of the Finno-Korean Joint Commission for Economic, Industrial and Technical Cooperation was held in Seoul
4.1980	The third meeting of Economic Cooperation Committee was held in Seoul and chaired by Gay Ehmrooth, chairman of TT
9.1.1981	Kim Dong-Kun was appointed as the fourth Ambassador of Korea to Finland
9.1981	Prime Minister of Korea, Nam Douc-Woo, visited Finland
10.1981	Finland – Republic of Korea Association was established in Finland
23.12.1981	Taxation Agreement took force
4.1983	Member of the IPU, Kwon Chong-dal, visited Finland
10.1983	70th Inter-Parliamentary Conference by the IPU in Seoul. Member of Finnish parliament, Mr. Tuomaala, visited Korea as a Finnish representative together with Speaker of the Finnish Parliament, Erkki Pystynen, and former president of IPU Council, Johannes Virolainen.
1.1984	Foreign Trade Minister, Jermu Laine, visited Korea
3.1984	Member of National Assembly, Hwang In-Seong, visited Finland
16.5.1984	Pauli Opas was accredited as Ambassador to Japan and Korea
5-6/1984	Presidential Advisors Lee Ho, Yun Tchi-Young, and Kim Chung-Yul, visited Finland
21.12.1984	Chung Woo-Yeong was appointed as the fifth Ambassador of Korea to Finland
6.1985	Speaker of the National Assembly, Lee Je-Hyung, visited Finland and met Prime Minister Kalevi Sorsa
10.1985	International Monetary Fund/International Bank for Reconstruction and Development, Annual Meeting was held in Korea; Minister of the Finance, Pekka Vennamo, visited Korea
1986	Finland – Republic of Korea Trade Association was established in Finland
6.2.1986	Juha Puromies was appointed as the first resident Ambassador of Finland to Korea
5.1986	Foreign Trade Minister, Jermu Laine, visited Korea
27.11.1987	Choi, Sang-Jin was appointed as the sixth Ambassador of Korea to Finland
4.1988	Minister for Trade and Industry, Pertti Salolainen, visited Korea
8.1988	Member of the National Assembly, Kim Hyun-Uk, led the committee of foreign affairs to Finland
9.1988	National Olympic Committee, including Matti Ahde, member of the Finnish parliament, visited Korea
4.1989	Korean business delegation of 26 members visited Finland
6.7.1989	Agreement on Scientific and Technical Cooperation between the Government of the Republic of Korea and the Government of the Finland (signed in 24.5.1989)
8.1989	Minister for Trade and Industry, Han Seung-Soo, visited Finland with delegation of 15 members
10.1989	Korea – Finland Business Council was established in Korea.
3.1990	Finnish parliament's trade and industry division of the financial committee visited Korea. Delegation was lead by Hannu Tenhiälä, member of the Finnish parliament.
8.2.1991	Youn Uk-Sup was appointed as the seventh Ambassador of Korea to Finland
2.1991	Jorma Julin was appointed as the second Ambassador of Finland to Korea
5.1991	Head of Office of Forestry, Choi Phyeong-Uk, visited Finland
12.1991	Construction Minister, Lee Jin-Seol, visited Finland (signing the memorandum of understanding in the field of construction)
5.1992	Minister for Trade and Industry, Kauko Juhantalo, visited Korea
10.1992	Foreign Minister Paavo Väyrynen visited Korea
1992	Commercial affairs at the Finnish Embassy in Seoul were transferred to the Finnish trade office operated by the Finnish Foreign Trade Association
28.5.1993	Kim Nai-Sung was appointed as the eighth Ambassador of Korea to Finland
7.8.-7.11.1993	Finland participated the Taejon Expo '93
10.1993	Minister for Trade and Industry, Seppo Kääriäinen, visited Taejon Expo'93 world exhibition in Korea

21.10.1993	Agreement between the Republic of Korea and the Government of the Republic of Finland for the Promotion and Protection of Investments and Cultural Agreement between the Government of the Republic of Korea and the Government of the Republic of Finland were signed
19.1.1994	Exchange of Notes between of the Government of the Republic of Korea and the Government of the Republic of Finland on the Amendment of the Exchange of Notes on the Waiver of Visa Requirements was signed
26.1.1994	Cultural Agreement between the Government of the Republic of Korea and the Government of the Republic of Finland took force
18.2.1994	Exchange of Notes between of the Government of the Republic of Korea and the Government of the Republic of Finland on the Amendment of the Exchange of Notes on the Waiver of Visa Requirements took force
7.1994	Minister for Defence, Elisabeth Rehn, visited Korea
8.1994	Chief of Staff to the President of the Republic of Korea, Han Seung-Soo, visited Finland with a delegation of 15 members
10.1994	Prime Minister Esko Aho visited Korea
1995	Minister of Trade and Industry, Antti Kalliomäki, visited Korea
1996	Unto Turunen was appointed as the third Ambassador of Finland to Korea
2.1996	Minister of the Finance, Sauli Niinistö, visited Korea
3.1996	Finnish Parliament's employment committee visited Korea
14.3.1996	Lee In-Ho was appointed as the ninth Ambassador of Korea to Finland
4.1996	Minister of Education, Olli Heinonen, visited Korea
11.5.1996	Agreement between the Republic of Korea and the Government of the Republic of Finland for the Promotion and Protection of Investments took force
8.1996	2 nd Minister of state for political affairs, Kim Jong-Ja, visited Finland
9.1996	Supreme Court Chief Justice, Yoon Kwan, visited Finland
11.1996	Minister for Transport, Tuula Linnainmaa, visited Korea
1.2.1997	Air Services Agreement between the Republic of Korea and the Government of the Republic of Finland took force
10.1997	Minister of Trade and Industry, Ole Norrback, visited Korea
5.1998	Undersecretary of State, Jukka Valtasaari, visited Korea (the first Finno-Korean policy consultative meeting)
28.5.1998	Lee Hae-Soon was appointed as the tenth Ambassador of Korea to Finland
8.1998	Minister of the Environment, Pekka Haavisto, visited Korea
1.1999	Member of Finnish parliament, Chairman of Finland – Republic of Korea Parliamentary Friendship Group, Timo Ihamäki, visited Korea
18.3.1999	Yang Dong-Chil was appointed as the eleventh Ambassador of Korea to Finland
6.1999	Chairman of Korea –Finland Parliamentary Friendship Group, Lee Sang-Hee, visited Finland
8.1999	Commissioner of the National Statistical Office, Yoon Young-Dae, visited the 52 nd session of international statistical institute held in Finland
8.1999	Vice President of the National Assembly, Shin Sang-Woo, visited Finland
10.1999	Vice Minister of Foreign Affairs and Trade, Sun Joun-yung, visited Finland (the second Finno-Korean policy consultative meeting)
17.3.2000	Lauri Korpinen was appointed as the fourth Ambassador of Finland to Korea
5.2000	Member of National Assembly, Kim Dong-Uk, led the National Assembly's financial committee to visit Finland
3.2001	State secretary Jukka Valtasaari visited Korea
5.2001	Foreign Trade Minister Kimmo Sasi led the Finnish business delegation to Korea
5.2001	Speaker of the National Assembly, Lee Man-sup, visited Finland and met Prime Minister Paavo Lipponen and Speaker of the Parliament, Riitta Uosukainen
4.10.2001	Lee Young-Kil was appointed as the twelfth Ambassador of Korea to Finland
10.2001	The first ASEM e-commerce seminar was held in Seoul and participated by Undersecretary of State Pekka Lintu (signing a Memorandum of Understanding in the

	field of e-commerce)
11.2001	Leader of Korean Grand National Party, Lee Hoi-Chang, visited Finland together with journalist delegation
4.2002	State visit of the president of the Republic of Finland Tarja Halonen to Korea with a large-scale trade delegation. Korean President Kim Dae-jung held summit talks with Finnish President Tarja Halonen, during which the two leaders agree to expand bilateral relations and signed an agreement to promote cooperation in the fields of information technology and telecommunications
4.2002	Foreign Trade Minister Jari Vilen visited Korea
9.2002	Director General for Industrial Policies, Kim Jong-Kap, visited Finland
10.2002	Speaker of the Parliament, Riitta Uosukainen, visited Korea

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