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Speech by Herman Van Rompuy, President of the European Council to the Korean Business Community

The European Union and the international community as a whole are currently confronted with serious economic and fiscal challenges. According to the European Commission's interim forecast of February 2012, growth in the EU is expected to stagnate in 2012.

For the EU, there are signs of stabilisation and a gradual pick-up of growth is foreseen for the second half of this year. Interest rates in a lot of countries (spreads) have come down. We reached a turning point in the crisis.

While the global economy, EU excluded, is expected to grow by 4.5 % in 2012, there are large regional differences with, compared to autumn last year, a more upbeat US outlook combined with an unchanged forecast for China and downward revisions, for example in Japan, Latin America and the Middle East/North Africa.

The EU remains concerned about the medium term fiscal consolidation in the US and Japan. Other major economies will have to reorient their economic models.

Threats to global stabilisation come not only from the Euro area. And the biggest external danger for world growth stems from the rise of oil prices. The performance of the Korean economy is comparatively positive matching the world average with a forecast of 4.4 % after a growth of 4.0 % in 2011. However, despite these rather positive figures, Korea has been affected by a number of shocks coming from within Asia (eg Japan earthquake), but also originating in other parts of the world, including Europe. Korean exports to the EU declined by 8% in the second semester 2011, year on year.

P R E S S

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Against this background the common challenge for the EU and South Korea is therefore to rebound in a sustainable manner.

As regards the global level, South-Korea and the European Union have a common interest to send a strong signal of unity implementing the Action Plan for Growth and delivering on the G20 Cannes Summit conclusions in line with the conclusions of the G20 Summit in Seoul (2010). We have to work together to make the upcoming G20 Summit in Mexico a success.

As regards its internal situation, the EU is in the midst of ambitious reforms to overcome the debt crisis and to boost a sustainable and green growth, create jobs and attract investment.

Let me turn to the EU's growth and investment agenda and to the public debt crisis, starting with the latter. The excessive debt levels of some European countries has been the source of much preoccupation over the last two years, and in particular its implications for our common currency, the euro.

Let me first say that the macroeconomic fundamentals in the Eurozone as a whole are sound. The euro remains a solid currency. Overall, the euro zone enjoys a balanced current account and the level of public debt and deficit is far below those of, for instance, the USA or Japan.

But the internal macroeconomic imbalances within the euro zone need to be addressed in order to guarantee financial stability and ensure sustainable growth. We have had to address this both in its short term dimension and its longer term dimension.

The short run has involved tough corrective measures in the countries under threat or market pressure. At the same time, the countries most under pressure have been supported by loans from their fellow Euro zone countries. We have set up new instruments to do so: the EFSF and ESM, which will be a permanent crisis mechanism. We have launched a process of recapitalisation of the EU banks to raise confidence.

At the same time, the European Central Bank has also intervened mainly by providing ample liquidity to the banking sector. We strengthened economic governance both at EU level and at national level by imposing the ‘golden rule of a balanced budget’ to countries. Financial markets have taken note: Bond “spreads” for sovereigns under pressure have decreased significantly,. We reached a turning point in the sovereign debt crisis in the eurozone.

At the same time, we have not ignored the long-term. It is important to reassure everyone that the short term measures are not just short term band-aid. That is why we have introduced reforms to our economic governance which include changes to our treaties bringing in a debt break or balanced-budget rule for all Eurozone Members. This will reinforce responsibility and compliance, but it also represents an important step forward towards greater fiscal and economic integration in the eurozone, making our monetary union even more irreversible. Investors in Europe can be reassured that we have not just navigated a difficult bend, we have turned a corner.

My second point is that we recognise that financial and fiscal stability is a necessary, but not a sufficient condition for economic recovery. We must do more, in particular on economic growth and employment - issues that were at the forefront of our summits in January and March. We embarked on a short term and long term strategy.

For the short term, a return of confidence in the Eurozone will restore confidence of consumers and companies and thus economic. We foresee a modest return to growth by the end of the year.

We focussed on "growth-friendly" fiscal consolidation and job-friendly economic growth": that is: reducing deficits, but not by cutting our investments for the future, investments in education, training, R&D, green infrastructure; increasing the competitiveness of our companies also on the non-EU markets, by reforming labour markets and by liberalising services, making it more attractive to hire people.

We focused on different priorities, but the most important: is our single market, the biggest in the world. We are determined to get even more out of it - for instance by finalising the digital market and the energy market. Priority must go to the measures which do most to stimulate sustainable growth and jobs, especially in the service sector.

An enhanced trust in the future of our currency and thus by enhancing consumers confidence, make people save less and this will create economic growth and jobs. That is why re-establishing confidence in our currency is absolutely key for growth in Europe and also in the world. We will see the effects of this approach already in the course of 2012.

To create new jobs, we also want to improve the EU's trade performance and attract more foreign investment. Simply put, if Europe wants to grow faster it needs to enhance trade and investment relations with regions that have a strong growth potential.

Here the relations of Korea and the EU are exemplary. The new EU-Korea Free Trade Agreement, in operation since 1 July last year, provides us with just an additional chance to strengthen our bilateral trade and investment relationship even further.

Let me just underline that once fully implemented, the agreement will lead to new trade opportunities of nearly 20 billion euro of additional EU goods and services exports.

Also with other partners having a strong growth potential the EU is broadening its ambitious agenda to enhance trade and investment relations and to attract foreign investment. Negotiations with further Free Trade Agreements are either close to finalisation or progressing well with India, Canada Mercosur, Ukraine, Moldova, and Georgia. We are also in the midst of considering an ambitious framework for our trade relations with the US, and developing trade relations with Japan, the Philippines, Vietnam and Indonesia.

This EU policy is about bringing Europe closer to its economic partners and the economic partners closer to Europe. So the European Union does a lot more than advocating an austerity strategy! It provides great opportunities for Korean businesses to invest.

Let me conclude: today more than ever interdependence is the key word in economic relations. Our stagnation is your export decline. Your success is our success. Common interest is a new name for solidarity.

We have problems in the eurozone but we are solving them. Once this crisis is behind, Europe will stand ready to promote world wide growth, being still the biggest economy of the world with 20 percent of the worlds GDP

The Union is a vital community of nations and it will continue to play its role on the world stage.