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## **Beware of Asias political shock, not Arab oil shock**

### **French economist warns clash of nationalism can shatter Asian growth**

By Cho Jin-seo

The earthquake in the northeastern Japan continues to show that a regional crisis can affect a much wider economy. The electronics, auto and aviation industries in Asia and North America are still suffering production disruption as their Japanese suppliers have formed a critical link in their supply chain.

It is not surprising that from now on non-Japanese firms will think twice before building factories or depending solely on subcontractors on the east coast of the earthquake-ridden island country.

Are other Asian nations such as Taiwan, Korea, China and India safe from such risks? As for the earthquake they probably are. But the answer is definitely no for Thierry de Montbrial. The real danger to these Asian economies is not natural disasters, but rather man-made ones ?they cannot avoid political or economic shocks. "I reject the naive idea that the expansion of East Asia will continue for decades without any major accidents," he said.

Montbrial is the head of the Institut Francais des Relation Internationals, a major think tank in France. He talked to BusinessFocus during Global Korea 2011 conference.

In his view, despite China's remarkable yet stable economic growth in the recent years, the region is still more vulnerable to external and internal struggles — whether one may call it a crisis, shock, or an internal upheaval.

"Of course, it will be ridiculous not to see the enormous investment opportunities that exist in East Asia," he says. "But the problem is inside Asia. The security situation within the region is very fragile."

Montbrial pointed to the clashes of national interests and nationalism between China and Japan, as well as the precarious power balance over the Taiwan Strait and between North and South Korea.



Thierry de Montbrial speaks during Global Korea 2011 conference held in Seoul on Feb. 24.

/ Courtesy of Fleishman-Hillard

The situation in East Asia is like predicting an earthquake, he says. Geologists know that someday an earthquake will hit Tokyo. They know where the fault line lies. And they also know the tectonic plates will someday collide. What they do not know is exactly when this is going to happen and how much damage it will cause.

### **Koreas and bomb**

Montbrial said that North Korea is "the most important spot of fragility," and it is more likely to have a sudden, eruptive regime change, not a gradual change as its neighbors hope.

But he ruled out any possibility of a U.S. attack on North Korea, as feared by the North Koreans since the U.S. invasion on Iraq.

"The situation is very different from Saddam Hussein. In the case of Saddam Hussein, the scenario of preventive attack was publicly discussed at major think tanks for months and for years. I've never seen any serious proposal comparable to that in the case of Korea."

Furthermore, in a debatable claim, Montbrial says that it is the North Korea's nuclear program that is deterring the threat of war from the U.S. side.

"Even if there is a very small probability for North Korea to have an operational nuclear weapon, nobody can take the risk. To bomb Seoul from North Korea, you don't need missiles. You don't even need modern planes. You can almost (throw)."

Eventually, this fragility of the Asian security will make businesses rediscover the stability of the old economies in Europe, he says.

"The West, despite differences and conflicts of interests, is quite united. This is a consequence of the two world wars. We have learned to develop a security alliance. War is no longer possible within Europe. The West is a very safe place, even if our growth rate is lower than Asia."

### **Peak oil a fragile theory**

If East Asia is a fault line of a global political economy, another crack may lie underneath the Middle East. After all, more than a half of the world's oil reserves are concentrated in this desert region. Oil price has already risen to the degree that this year it alone is expected to push up this year's world inflation by 1.8 percentage points and dampen economic output by 1.4 percentage points, according to estimates by Samsung Economic Research Institute.

But Montbrial says that the revolutions have little to do with oil production and oil prices will not rise so much as to hurt the global economy seriously.

"As far as oil is concerned, I do not believe the 'peak oil theory' at all. It is the kind of theory that traces an extremely fragile hypothesis," he said. "In the first oil shock of the 1970s, all the pessimists were saying exactly what they are repeating now. Historically, we have observed the price of oil is extremely volatile. Each time the price goes up, we say that it is for some structural, long term reasons. But for most of them it is because of short term reasons, such as fear of short-term cuts and political difficulties."  
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