

## Embracing Asia, South Korean Style: Preferential Trading Arrangements as Instruments of Foreign Policy

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Why and how is South Korea embracing Asia? Continuity and change are the two governing forces of history. For a long time, the Cold War–based regional order heavily constrained the way in which South Korea perceived and interpreted the idea of the region to which it belongs. Hostile geostrategic circumstances and historical animosities held by the Koreans created a strong “geographical bias” with a mix of weak intra-regional linkages to their Asian neighbors and strong extra-regional ties to the United States, both economically and strategically. During the Cold War period, South Korea’s dominant conception of its region, if any, was the “Asia-Pacific,” in accordance with the hub-and-spokes system centered on the United States and Japan. As the 1990s began, however, the concept of “Northeast Asia” took hold as South Korea’s primary definition of its region, especially as it endured two external shocks: the end of the Cold War and the Asian financial crisis.

Now things are rapidly changing again. Most recently, South Korea has begun to look further west toward the vast “Asian” region consisting of Northeast Asia, Southeast Asia, Central Asia, and South Asia. The main source of this broadened vision is the shifting geostrategic and geoeconomic conditions that have developed with the rise of China as a global power and the fall of America as a regional power broker. During his visit to Indonesia in March 2009, South Korean president Lee Myung-bak launched an ambitious diplomatic initiative, dubbed the “New Asia Initiative,”

that envisions South Korea as a regional leader who speaks for Asian countries in the international community. If successfully implemented, the new initiative will not only expand the state’s foreign policy focus from Northeast Asia to the entire Asian region, but also extend the scope of cooperation from the economic to security, cultural, energy and other sectors.

As a latecomer to the region, South Korea faces gigantic challenges ahead. Seoul might find itself in a more favorable position in implementing its new initiative than Beijing and Tokyo (and, more broadly, Washington as well) would, as Seoul does not have to bear the same degree of historical burdens and political suspicions that its larger counterparts do in the rest of Asia. Yet in many respects, China and Japan (and the United States) are ahead of South Korea in winning the trust and support of the countries in the region. Is South Korea really willing to and capable of providing regional public goods—such as export markets, technical support, and developmental aid—more effectively than its giant neighbors? If so, what kinds of

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value-added contributions can the South Korean way of embracing Asia make?

I propose that South Korea more actively pursue preferential trading arrangements (PTAs) with its Asian neighbors to achieve a variety of strategic and diplomatic goals, from confidence-building among countries with little contact with one another, to winning diplomatic points over regional rivals, to establishing an international legal personality, to locking regional middle powers such as Indonesia and Malaysia into the Korean Peninsula.

### Legacies of Kim Dae-jung and Roh Moo-hyun

To be sure, President Lee is not the first Korean leader with ambitious foreign policy goals *vis-à-vis* Asian neighbors.

President Kim Dae-jung, who served as president from 1998 to 2003, pursued an ambitious initiative to make South Korea a regional hub for transportation and international business. He also undertook a dramatic policy shift as part of his vision and strategic goals for regional cooperation. At the first summit meeting of the Association of Southeast Asian Nations (ASEAN) Plus Three (APT) in Kuala Lumpur in December 1997, he made public South Korea's aspiration to become a hub country of East Asia by playing a balancer role between regional powers.<sup>1</sup> During the 1999 APT summit, Kim also proposed the establishment of an expert panel, the East Asia Vision Group (EAVG), as the first step toward forging a regional cooperation mechanism and developing APT into a more permanent regional institution.<sup>2</sup> As long as both China and Japan were eager for regionalism, President Kim could play the role of visionary for an East Asian community by serving as a bridge between the two enduring rivals. Aided by the relatively warm Sino-Japanese relations at the turn of the new millennium, Kim Dae-jung's Sunshine Policy that culminated in the June 2000 inter-Korean summit created a great deal of

diplomatic capital for South Korea to actively address the delicate issues of peace and stability in the region.

Kim's policy ideas inspired his successor, President Roh Moo-hyun, who served from 2003 to 2008. Upon his inauguration in February 2003, Roh launched an ambitious initiative aimed at creating a peaceful and prosperous Northeast Asia. He created the Presidential Committee on the Northeast Asia Business Hub in order to carry out the initiative, including the creation of financial and logistic hubs and the promotion of cooperation in the areas of business, energy, and transportation. At the same time, Roh launched the "Northeast Asian Cooperation Initiative for Peace and Prosperity," designed to carry out his long-term vision for creating a new regional order based on mutual trust and cooperation.<sup>3</sup> Despite Roh's wishes to serve as a broker between China and Japan and between the United States and China, however, he encountered unfriendly regional geopolitics from the outset as a result of the ever-expanding global war on terrorism launched by America in the wake of 9/11. In addition, the simultaneous political leadership changes in the United States, China, Japan, and South Korea put unpredictable pressure on East Asian regionalism.<sup>4</sup> None of the great powers surrounding the Korean Peninsula seemed supportive of Roh's regionalist ventures, which lacked the same degree of diplomatic and moral attraction that his predecessor Kim had enjoyed.

President Roh was unable to pursue his policy goals in the face of opposition both domestically and internationally; his opponents called him naïve and ideologically driven. President Lee will likely face similar challenges unless he has strong support from the major powers as well as from domestic supporters. At the same time, however, the shifting political-economic dynamic in Asia will create diplomatic space in which Lee can maneuver. If South Korea is to pursue an Asia-first policy, it should strengthen economic and strategic relations in the region in both quantity and quality. In this regard, the PTAs that have been proliferating in the region can be utilized as instru-



ments of foreign policy.

### Shifting Economics-Security Nexus in Asia

Many contemporary Asian PTAs aim to secure wider foreign policy and strategic objectives rather than purely economic goals (Aggarwal and Urata 2006; Solís and Katada 2007; Capling 2008; Dieter 2009). In particular, there is a growing body of literature on “security-embedded” or “securitized” PTAs in Asia.<sup>5</sup> From this perspective, it would indeed be surprising if countries sought such agreements devoid of any political security calculations and if such agreements did not have any strategic consequences. The most obvious example of this can be found in the United States, where PTAs with U.S. Asian trading partners have been used to reinforce strategic relationships. This trend in U.S. trade policy gained momentum in the wake of the September 11 attacks when the George W. Bush administration turned to PTAs as a way to buttress U.S. relations with key friends and allies in the region. In response, Asian countries have also used PTAs to serve wider foreign policy objectives.

In Asia, the economics-security nexus has varied over time. The realist perception was prevalent during the Cold War period; security considerations in that period overshadowed, if not totally supplanted, economic interests. The subordination of economic policy to security policy was the norm of the day under the San Francisco system that has defined postwar East Asian international relations. In the virtual absence of an alternative mechanism at the regional level, trade and security relations in Asia were governed through a combination of U.S.-centric bilateral and multilateral arrangements and informal production networks based on corporate and ethnic connections. In pursuit of security-embedded economic stability, the system offered America’s Asian allies access to the U.S. market in return for a bilateral security alliance with the United States. In a similar vein, alliances in Asia tended to

be bilateral, leaving security coordination at the multilateral level under-institutionalized. Together with large U.S. military forces stationed in Japan, South Korea, the Philippines, South Vietnam, and Guam, these bilateral security treaties became the backbone of the U.S. hub-and-spokes strategy to contain communist forces in Asia. The U.S. also encouraged Asian countries to participate in broad-based multilateral forums in both trade—for example, the General Agreement on Tariffs and Trade (GATT)/the World Trade Organization (WTO)—and security—for example, the United Nations (Aggarwal and Koo 2008).

As Richard Higgott (2004, 158) notes, the United States certainly saw these institutions as beneficial to its national interest and to its view of the world order, but it defined its interests broadly and in a sufficiently inclusive manner that other countries felt able to sign on to a vision that stressed the importance of due process and the rule of law. This system, which proved relatively beneficial for most Asian countries, created few incentives for them to develop exclusively regional economic arrangements until the end of the Cold War. At the same time, bitter memories of Japanese and Western colonialism, heterogeneous policy preferences and strategies, and cultural diversity also reinforced the preference against formalized regional organizations.

Yet, two external shocks in the 1990s—the end of the Cold War and the Asian financial crisis—reversed the trend, placing economic policy at the front of the economics-security nexus. The end of the Cold War saw a diminished U.S. and Russian penetration of the region (and a corresponding rise in the influence of China). Furthermore, America’s strategic goals were subtly redefined in geo-economic terms as opposed to geostrategic terms, largely as a function of the Clinton administration’s concentrated focus on advancing the process of globalization and trade liberalization (Pempel 2008, 5–6). Most notably, the proliferation of Asian PTAs is closely associated with the decline of U.S. economic hegemony in the region. The “trade triangle”



that had linked Japanese and overseas Chinese capital, developing Asian manufacturing capacities, with the U.S. market has deteriorated. With traditional mechanisms within the GATT/WTO and America's global economic leadership offering no salient solutions, Asian countries quickly turned toward PTAs to secure preferential access and create a more diversified export market (Aggarwal and Koo 2008). As a result, the nexus between trade and security became less apparent as the United States began to approach each issue separately.

We have seen another dramatic change in the economics-security nexus in foreign policymaking, in favor of embedding economics in security. Although the linkage has yet to be clearly defined, strategic-security considerations have been a significant factor behind the movement toward regional PTAs in recent years. Post-September 11 America initiated this trend, but more notably, Asian countries are increasingly becoming interested in embedding their trade policy in the fluid geopolitical context of the region as manifested by the rise of China and the decline of U.S. hegemony. More specifically, the public goods aspect of the San Francisco system in security became increasingly fragile, encouraging Asian states to seek security not only through regional security dialogues but also through strategically calculated, multilayered PTAs. Furthermore, Asian countries have over time become disillusioned with the public-goods-provision aspect of the GATT/WTO club, thus seeking club goods more directly on a bilateral and minilateral basis, as seen in the proliferation of PTAs.

In the post-September 11 era, the fissure in the San Francisco system has become increasingly visible, primarily due to changes in America's alliance policy. With its counterterrorism initiatives, the United States reconfigured its traditional security policy in Asia for strategic and logistical reasons while soliciting multilateral cooperation against terrorism and scaling down its forward deployment. These new developments do not necessarily mean that the hub-and-spokes ap-

proach promoted under the San Francisco system will be terminated any time soon. Nevertheless, it has prompted Asian countries to recognize the need for the provision of collective security both directly and indirectly. Equally important is a growing array of challenges to regional security ranging from natural disasters, the spread of epidemics, ethnic strife, the proliferation of weapons of mass destruction, and terrorism. As a result, it is becoming increasingly difficult, if not irrelevant, to define security in purely military terms.

### **South Korea's Multi-Track PTA Strategy and Its Implications for the New Asia Initiative**

Set against this background, the rise of South Korea's PTA initiatives has been remarkable in speed and scope. Since 2003, South Korea has successfully concluded PTAs with Chile (2003), Singapore (2004), the European Free Trade Association (EFTA, 2005), the Association of Southeast Asian Nations (ASEAN, 2006), the United States (2007), India (2009), and the European Union (EU, concluded but yet to be officially signed as of November 2009). Besides PTA negotiations initiated under the Roh government with Canada, Japan, the Gulf Cooperation Council (GCC), and Mexico, the Lee government has begun formal negotiations or will begin informal discussions with Australia, New Zealand, Turkey, and Colombia with an aim to establish South Korea as a hub country for a "global PTA network."

The Lee government recognizes that bilateral and minilateral PTAs with its Asian neighbors might provide a more effective mechanism for realizing its strategic and diplomatic goals. In light of implementing the New Asia Initiative, the Lee government needs to be more focused on Asian countries in its selection of PTA partners. To this end, the presidential office has said that South Korea would seek to conclude PTAs with all the nations in Asia and to increase aid to de-



veloping countries. Yet given South Korea's track record in partner selection, which has been geographically dispersed rather than focused, a more detailed roadmap for PTAs with Asian countries needs to be laid out.

Of course, the diplomatic advantages that South Korea will enjoy from the South Korea-EU FTA cannot be downplayed. Geographically focused partner selection does not mean, either, that the trilateral partnership among the United States, Japan, and South Korea has outlived its utility. As noted earlier, such a partnership has greatly contributed and will continue to contribute to the regional peace and stability, particularly with more pragmatic and forward-looking incumbent leaders in the three countries. Another tripartite partnership among China, Japan, and South Korea is equally important. Thus far, only China has been proactive in pursuing a China-Japan-Korea PTA, while South Korea and Japan have remained reluctant and negative, respectively. Yet the latest trilateral summit meeting in Beijing in October 2009 called for official negotiations for a tripartite PTA. It will be interesting to see whether South Korea and Japan are now willing to become more active. Notwithstanding the latest summit, political realities in Northeast Asia make it difficult to bring the "Northeast Asian three" together. Amid the intense Sino-Japanese rivalry, South Korea's mediating role is inherently limited at best.

Problems for South Korea's diplomatic capital within Northeast Asia can be substantially reduced by engaging the rest of the region more actively. The principal candidates are Southeast Asian countries. Over the past three years, ASEAN has emerged as South Korea's third-largest trading partner after China and the EU, while the country's investment in ASEAN also soared from US\$500 million to US\$3.6 billion, thus making ASEAN South Korea's second-biggest area for investment, after the United States. As the two sides mark the twentieth anniversary of the Korean-ASEAN Dialogue Partnership, ASEAN is hoping for more cooperation through Lee's New Asia Initiative.

South Korea and ASEAN completed their Framework Agreement on Comprehensive Economic Cooperation with the signing of the ASEAN-Korea Investment Agreement in June 2009. It is a positive development that South Korea plans to triple its official development assistance to ASEAN by the year 2015.<sup>6</sup> Yet, South Korea can, and should, do more. South Korea's major trading partners—including the United States, China, and Japan—have already concluded or will conclude PTAs with individual ASEAN member countries.

First, President Lee and his government must deal with the negative perception of South Korea as an "economic animal." Asia can benefit significantly in the short run from South Korean capital and technology exports, but might suffer in the long run if South Korea follows in the footsteps of Japan over the past two decades. Many observers of Japanese business penetration in Southeast Asia have noted that the once benevolent Japan, the "lead goose," has become a "stingier bird," which is only concerned about replicating its domestic system of hierarchical and potentially exploitative *keiretsu* networking in the region as a whole, thus allowing "embraced development" to give way to "captive development" (Hatch and Yamamura 1996).

All ASEAN members except Thailand signed an agreement on trade in goods and agreement on dispute settlement mechanisms in May 2006. Thailand had declined to sign the agreement over differences in Seoul's treatment of some agricultural products, particularly rice and livestock. After almost a year of negotiations, Thailand concluded talks with South Korea under the ASEAN-Korea PTA in December 2007. The agreement came only after Seoul allowed an extension for import tariff reductions on Thai goods from 2010-2012 to 2016-2017. This episode indicates that the issue really comes down to the question of whether South Korea can and will make further concessions, particularly on "agricultural" products, for its Southeast Asian neighbors. Can Seoul put South Korea's geopolitical and diplomatic commitments ahead of its





economic needs? Can Seoul buy Southeast Asian countries' support at the expense of Korean farmers and industries?

South Korea's dream of becoming a leading player on the Asian chess board will not be realized unless the country is more willing to provide public goods. The provision of public goods does not have to involve a direct transfer of resources from South Korea to the rest of Asia. Public goods can be made available through multipurpose PTAs. To conclude, whether the highly ambitious New Asia Initiative will work is uncertain. The path to this new policy initiative is likely to be a bumpy one. Without consolidating domestic and international support, Lee faces an uphill battle to achieve his new foreign policy objective. At the time of writing this conclusion, President Lee visited Southeast Asia to attend the APT Summit as well as the East Asia Summit from October 20 to 25. The presidential office says that President Lee took this opportunity to promote his New Asia Initiative. We will have to see whether and to what extent his efforts are successful.

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### Notes

<sup>1</sup> The APT proposal was first discussed in the mid-1990s in preparation for the inaugural ASEAN-Europe Meeting (ASEM). European countries could coordinate their participation relatively easily through the EU, but their

East Asian counterparts lacked such an institutional arrangement. ASEAN thus asked Japan, South Korea, and China to participate in a preliminary ministerial meeting, which took place in 1995. The ministerial meeting was later supplemented by a summit meeting in Kuala Lumpur on the occasion of the annual ASEAN leaders' meeting in December 1997. After a second leaders' meeting, a year later, the group agreed to make the dialogue an annual affair. Since 1999, the scope of the dialogue has expanded to include separate ministerial meetings under the rubric of APT rather than simply as preparation sessions for the ASEM meeting. For more details, see Stubbs (2002).

<sup>2</sup> The EAVG also studied a joint surveillance mechanism for short-term capital movements and an early financial warning system. The group later proposed the establishment of an East Asian Monetary Fund and a regional exchange rate coordination mechanism, with the long-term goal of creating a common currency area. Other recommendations included upgrading the annual APT meetings to an East Asian Summit and establishment of the East Asian Free Trade Area (Moon 2005).

<sup>3</sup> Presidential Committee on Northeast Asian Cooperation. Seoul. South Korea. December 2004.

<sup>4</sup> The U.S. president George W. Bush and the Japanese prime minister Junichiro Koizumi entered office in 2001. Hu Jintao and Roh Moo-hyun were elected presidents of the People's Republic of China and the Republic of Korea, respectively, in 2003. All these leaders can be characterized as defiant and dogmatic—rather than pragmatic—in their foreign policy orientation, thus often causing diplomatic spats with one another.

<sup>5</sup> Higgott (2004, 3) defines securitization as a process in which “an issue is framed as a security problem.” Rather than existing in two parallel policy areas, economic policy is subsumed or subjugated within the wider context of the U.S. security agenda. According to Buzan et al. (1998, 23), “securitization is the move that takes ... [foreign economic policy] ... beyond the established



rules of the game and frame the issue as either a special kind of politics or as above politics.”

<sup>6</sup> In October 2008, the South Korean government approved a US\$100 million loan to Vietnam, the biggest single loan to any country in South Korea’s Economic Development Cooperation Fund (EDCF) history (Zhu 2009).

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