

KOREA COMPASS



TRACING THE IMPACTS OF KOREA'S ENGAGEMENTS AROUND THE WORLD

FORGING A STRONGER TRIANGLE: CAN REGIONALISM AND ECONOMIC INTEGRATION HELP?

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Strengthening economic ties among South Korea, Southeast Asia, and the United States would contribute to shared goals and facilitate growth in the wider Asia-Pacific community. After reviewing Korea-Southeast Asia ties, this paper suggests that a non-exclusive triangle should be forged within the framework of both ASEAN-centered regional organizations and U.S.-backed trans-Pacific initiatives, including the Trans-Pacific Partnership (TPP). It ends with suggestions for the future.

SUMMARY OF MAIN ARGUMENTS:

1. Political and economic relations between South Korea and Southeast Asia have become significantly stronger in the last two decades. This trend brings that leg of the triangle into closer alignment with longstanding U.S.-Korea ties and renewed U.S. attention to Southeast Asia. The goals of the three partners are compatible if not identical.
2. Regional and trans-Pacific organizations provide a convenient, open-ended “roof” under which closer Korea-ASEAN-U.S. triangular relations can be achieved - without exacerbating Chinese fears of “encirclement” (a key condition for everyone in the region). Economic initiatives are the most promising. In the future there may even be room for North Korea.
3. The United States supports East Asian regionalism but is also promoting trans-Pacific initiatives, especially the Trans-Pacific Partnership (TPP). But the TPP poses two challenges: China’s fierce criticism and the risk that non-TPP members will fall further behind, thus widening the rich-poor gap within ASEAN.
4. Now that the Korea-US free-trade agreement (KORUS FTA) is being implemented, Korea should join the TPP and do whatever it takes to conclude a Japan-China-Korea FTA; ASEAN members should speed up the pace of economic reform and trade liberalization; and the United States should get its political and economic house in order.

1. DAWN OF A NEW ERA?

The weakest link in the South Korea-Southeast Asia-United States triangle is the leg connecting South Korea (henceforth “Korea”) and Southeast Asia. But that gap has been steadily closing.

Throughout history, Korea had little contact with Southeast Asia except through middlemen. In the 20th century Korea became a Japanese colony (1910-45), a major battlefield (1950-53), and a divided nation. Preoccupation with economic recovery, combined with the threat from North Koreans, left South Koreans little time and attention to devote to Southeast Asia. Until the late 1980s, contacts between Koreans and Southeast Asians mainly stemmed from U.S. participation in Asian wars.¹

Like their Japanese counterparts, Korean companies began investing in Southeast Asia in the 1980s. But the end of the Cold War opened up a new phase of economic diplomacy. Korea, already an aid donor, became a “Sectoral Dialogue Partner” with ASEAN in 1989 and a full “Dialogue Partner” in 1991. In the following year, Korea normalized relations with Vietnam. In 2003, Korean president Roh Moo Hyun proposed an ASEAN-Korea Free Trade Agreement (AKFTA). Talks began in 2005 and the resulting FTA entered into force in 2007 for goods and 2009 for services.

Meanwhile, stagnation in the Japanese economy opened up new opportunities for Korea to strengthen its economic relationship with Southeast Asia. Between 1991 and 2009, two-way trade between ASEAN and Korea expanded from \$17 billion to \$74.7 billion. But because of correspondingly rapid trade growth with China, Korea still accounts for only four to five percent of ASEAN’s total trade. In many product areas, low-cost Chinese exports have displaced some of ASEAN’s exports to Korea.

Korea’s foreign direct investment (FDI) in ASEAN grew from only \$265 million in 1990 to \$3.1 billion in 2007 (14.8 percent of total FDI).² Vietnam, Singapore, Malaysia, and Indonesia are Korea’s most important investment partners. Koreans

are now the second largest expatriate group in Vietnam, after Taiwanese. Movements in the other direction are uneven; only two ASEAN countries, Malaysia and Singapore, account for almost 100 percent of ASEAN's FDI in Korea. But many Southeast Asian laborers have migrated northward: about thirty percent of foreign workers in Korea are from ASEAN countries.³

Social, cultural, and educational links have also mushroomed. Inter-marriage between Southeast Asian women and Korean men (particularly farmers and fishermen) is common, although the divorce rate for this group is high.⁴ The so-called "Korean Wave" of popular culture – films, soap operas, pop music, and fashion – has made great headway in Southeast Asia. Korean professors report a surge in the number of Southeast Asian students. A growing number of Koreans are sending their children to study in Southeast Asia, where tuition is cheap and where students can learn Chinese and English at the same time. According to the Korean Educational Development Institute, countries popular with South Korean parents include the Philippines, Singapore and Malaysia. The Philippines accounts for fifty percent of Korean students in the region, Singapore twenty-five percent, and Malaysia ten percent. Koreans continue to study in the United States as well.⁵

Today, Koreans command respect and admiration in Southeast Asia. To be sure, complaints arise about harsh conditions in Korean-owned factories and the arrogant behavior of some Korean tourists. But Southeast Asians know that Korea emerged from the ruins of war to possess world-class technology, a global economic presence, and a strong military force. Koreans were victims rather than perpetrators of colonial aggression and evoke little or no distrust. Their country is large and wealthy enough to wield influence but small enough to avoid looking like a threat.

2. WHY REGIONALISM?

The hardship and sense of helplessness stemming from the financial crisis of 1997-98 gave a powerful boost to East Asian regionalism.⁶ In 2001 the "East Asian Vision Group," chaired by a distinguished Korean statesman and diplomat, issued a report that sketched a blueprint for East Asian regionalism resting on three pillars: economic, security, and socio-cultural. For various political and economic reasons, including the need to keep up with trade liberalization in the rest of the world, the economic pillar is by far the most developed.

There are at least three reasons why closer economic ties among Korea, Southeast Asia, and the United States can best be pursued within regional and trans-Pacific frameworks. First, economic integration is the most fully developed and least controversial pillar of both East Asian and trans-Pacific integration; the closer economic ties recommended here fit easily within this framework. Second, these structures offer a convenient space for small, unpublicized meetings on the sidelines. Third, China

is a member of both APEC and the various ASEAN-centered groupings and cannot complain about being excluded. (But see the discussion of TPP, below.)

If Korea, Southeast Asia, and the United States are to take advantage of regional and trans-Pacific frameworks to cooperate more fully, there must be a high degree of convergence in their goals. Fortunately, there is. A discussion of these goals follows.

A. ASEAN

ASEAN leaders believe that they have no choice but to hasten ASEAN integration and to integrate ASEAN markets with larger economies in the region. Accordingly, they have pledged to create a single "ASEAN Economic Community" by 2015. No one believes that this goal will be achieved in its entirety, but the trend is positive. Most intra-ASEAN tariffs are already zero or nearly so.

Since conventional military threats such as foreign invasions and frontal military assault are unlikely, ASEAN leaders have concluded that the real danger is the prospect of grinding pressure by a single dominant outside power. ASEAN members are careful not to specify who such a power might be, but China obviously comes to mind. While often resisting Washington's trade demands, criticizing American self-centeredness, and challenging certain U.S. policies, they want the United States to remain fully engaged in the region.

Rather than ganging up against a potential hegemon, the strategy of ASEAN leaders is to invite all regional players and to encourage diplomatic competition among them. ASEAN governments have taken advantage of the rivalry between Japan, Korea, and China to secure trade-liberalizing agreements; engaged India; and hedged their bets by cultivating closer security ties with the United States, Japan, and Australia, all at the same time. ASEAN members therefore welcome both Korea's presence and U.S. engagement.

B. KOREA

Korea's primary goals are presiding over the slow and peaceful unification of the peninsula and avoiding the need to choose between China and Japan or between North Korea and the United States. Sandwiched between two large powers, South Korean leaders have a strong stake in fostering close ties elsewhere in Asia and have taken advantage of the Asian integration movement to do so. Seoul is active in the game of "competitive cooperation" that ASEAN has established to take advantage of rivalry among the regional powers.⁷ There is a presidential adviser for Asian regionalism. Jeju Island, a conference center and resort, is being promoted as a haven for promoting regional peace.

As a fellow sufferer during the Asian financial crisis, the Korean government supports the multilateralized Chiang Mai Initiative even though the swap funds available in a future currency crisis would add up to only a tiny percentage of Korea's exports. Seoul also favors a Korea-Japan-China FTA, a decade-

old idea for which negotiations are scheduled to begin this year. Such an agreement would round out the geographic scope of intra-Asian FTAs and pave the way toward a possible pan-Asian FTA, such as the Comprehensive Economic Partnership for East Asia (CEPEA) proposed by Japan. Such an expansion would reap far more benefits to Southeast Asia than the existing intra-ASEAN FTA.

From time to time Korean spokesmen imply that Korea, situated as it is between China and Japan, is well qualified to be a leader of the integration movement. Since neither Tokyo nor Beijing will accede to the other's leadership, Korea would seem to be a logical compromise. But the movement is mostly leaderless, and most Southeast Asian governments – committed as they are to low-key, consensus-oriented, and slow-moving meetings – seem to like it that way.

C. UNITED STATES

Washington has long supported regional organizations of which it is not a member, subject to certain conditions.⁸ The United States is not a member of ASEAN and two of its major offshoots, ASEAN + 3 and ASEAN + 6,⁹ but these organizations satisfy U.S. criteria. A long-standing member of the ASEAN Regional Forum, the United States is now a member of another ASEAN creation, the East Asia Summit.

Now that Congress has ratified KORUS, it would seem to make economic and political sense for Washington to follow the example of Japan, China, and Korea and negotiate a free-trade agreement with ASEAN as a whole. In 2010, U.S. exports to ASEAN totaled \$64 billion, while imports were \$107 billion. The U.S. economy needs to export more in order to grow; the potential for expanded U.S. investment and trade with a \$1.8 trillion market and 600 million consumers is significant. A U.S.-ASEAN “Trade and Investment Framework Agreement,” a prerequisite to a free-trade agreement, is in place. But the truth is that a majority of ASEAN governments would not agree to a U.S.-ASEAN free-trade agreement that met the high standards of the U.S. Congress. The Trans-Pacific Partnership (TPP) is a better prospect.

3. THE CHALLENGES OF TPP

Along with co-founders Singapore and Brunei, two other ASEAN countries – Vietnam and Malaysia – are members of TPP. Korea – along with Canada, the Philippines, and Taiwan – has expressed strong interest in signing up.

From both a strategic and a trade policy perspective, the TPP has many attractions. It transcends the stalled Doha Round and raises the standard of trade agreements significantly. It includes twenty-first century issues, ranging from investment, intellectual property protection, and competition policy to labor standards and environmental protection. Membership thus far is small enough to be manageable. From a strategic perspective, the TPP reinforces the U.S. role as a “resident power” in the

Asia Pacific region. Last but by no means least, the TPP enjoys bipartisan U.S. Congressional support.

There are two major challenges associated with the TPP. One is China's hostility. The other is the likelihood that ASEAN members unable to meet the high standards of the TPP will fall further behind, thereby widening the gap between rich and poor ASEAN members.

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China has bitterly criticized the TPP as another example of “containment,” “encirclement,” and a “Cold War mentality.” This volley is unjustified: it is more accurate to say that China is self-excluded. A founding principle of the TPP is “open-door” regionalism, meaning that any country that makes a commitment to achieve its standards may join. The TPP was founded by Singapore, Chile, New Zealand, and Brunei, not the United States; in fact, it took the Obama administration more than a year to embrace it. It is true that neither the Obama administration nor the U.S. Congress would currently support Chinese membership in the TPP, but Beijing does not accept all of the TPP's goals. Chinese leaders have repeatedly pledged to continue with domestic economic reform. If a country like Vietnam could join TPP (which it has), China could at least state its future goals and seek observer status.

If TPP succeeds, non-TPP members of ASEAN risk being left behind. Except for Vietnam, only the richer ASEAN members are willing to commit themselves to the TPP's high standards (or to seriously consider doing so). Since Asian regionalism is flexible and open-ended, this divergence is politically tolerable. But in the absence of further reforms, two-track trans-Pacific integration could widen ASEAN's rich-poor gap. The best outcome would be for non-TPP members of ASEAN to view TPP as a stimulus for accelerated economic reform and closer integration.

4. LOOKING AHEAD

- There are a number of short-term steps that Korea, ASEAN, and the United States could take together or in coordination:
- Korea needs to do everything possible to complete a Japan-Korea-China FTA, or at least bilateral FTAs with Japan and China, so that an ASEAN + 3 FTA or CEPEA becomes possible.
- Korea should also join the TPP, in parallel with a bilateral or trilateral FTA that includes China. All three partners should counter Chinese arguments against TPP and seek ways of reducing Beijing's fears.

- ASEAN members not already in TPP need to accelerate the pace of domestic economic reform so that they will not be left behind.
- In order to restore credibility to U.S. economic leadership, the United States needs to get its political and economic house in order.

And in future years –

- Neither Americans nor Koreans should altogether dismiss the possible application of ASEAN’s diplomatic skills and experience to Northeast Asia. The friction, shrill personal attacks, and diplomatic rigidity that infuse the politics of Northeast Asia are largely absent in Southeast Asia. Indonesia has even offered to mediate disputes in Northeast Asia. Such offers should not be dismissed out of hand, especially since Northeast Asians have

not been able to put aside bitter memories and forge a closer community by themselves.

- A tantalizing question is the evolution of North Korea. If North Korea evolves in a less repressive, more open direction, both Seoul and ASEAN should press for Pyongyang’s inclusion in regional economic groupings, initially as an observer but perhaps eventually as a participant.

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2. Source: Export-Import Bank of Korea, cited in Jong-Kil Kim, “Korea’s Economic Relations with Southeast Asia,” in David I. Steinberg, ed., *Korea’s Changing Roles in Southeast Asia* (Singapore: ISEAS, 2010), p.92.
3. Jong-Kil Kim, *ibid.*, p. 106.
4. In 2006, 41 percent of the marriages of Korean farmers and fishermen were with foreign women, especially Southeast Asian women. See Choong Rai Noh et al., “Trends of Studies on Southeast Asian Women Married to Korean Men,” Nho C_southeast asian women.pdf, <http://www.welfareasia.org>, p. 1.
5. The number of Korean students in the U.S. has almost doubled since 2001. As a source of foreign students, Korea ranks #3; when adjusted for population, it ranks #1. One factor propelling students abroad is the notorious difficulty of gaining admission to first-rate Korean universities. See www.iee.org and www.KoreaMattersForAmerica.org.
6. For other catalysts, see Ellen L. Frost, *Asia’s New Regionalism* (Boulder, CO: Lynne Rienner Publishers, 2008), pp. 110-114.
7. See Min Gyo Koo, “South Korea’s FTAs: Moving from an Emulative to a Competitive Strategy,” in Mireya Solis, Barbara Stallings, and Saori N. Katada, eds., *Competitive Regionalism: FTA Diffusion in the Pacific Rim* (New York: Palgrave Macmillan, 2009), pp. 181-97.
8. For a list of these conditions, see Frost, *op cit.*, p. 243.
9. The “+ 3” are China, Japan, and Korea. The “+ 6” group adds Australia, New Zealand, and India.



March 2012



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