



Ten Foreign Policy Issues for the Next South Korean Administration

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While there has been little debate on foreign policy to date by the presidential candidates in the Republic of Korea (ROK), foreign policy will always loom as a significant issue for any ROK president. As a country dependent upon foreign markets and resources for its own economic livelihood, South Korea cannot be indifferent to the changes taking place beyond its borders and the impact they have on its economic prosperity and national security.

In the last five years we have seen momentous international upheaval. The 2008 financial crisis led to a global recession, changed perceptions of US and Western influence in international affairs, and slowed South Korea's own growth rate to just 0.3 percent in 2009.¹ The political changes taking place in the Middle East as a result of the Arab Spring are reshaping politics and potentially regional stability in a critical region of the world with the potential to disrupt Korea's energy supplies and access to a burgeoning export market. In Europe, the aftershocks of the 2008 financial crisis are still playing out in the Eurozone crisis, leading to declining confidence in the euro and a recession in the Eurozone. Europe's economic difficulties have had a direct impact on South Korea's economy with exports to Europe down nearly 16 percent through July of this year.²

¹ Data from the Bank of Korea.

² Author's calculation from South Korean trade data on the WTO's Trade Map.

Once the next ROK president takes office, the potential for policy change across a range of issues will be grounded in how successfully South Korea is able to navigate these and other external constraints, meaning that there is a significant chance that international issues will consume a considerable amount of the next president's attention. In fact, without effective policies to cope with the international environment, campaign promises of domestic welfare reform could become unattainable. Given the importance of international events to South Korea's prosperity, the following is a look at ten foreign policy issues covering economic, alliance, and global issues that the next administration is likely to face.

The Future Dimensions of South Korea's Trade Policy

Trade is the lifeblood of the ROK economy. When the international economy weakens, so does the domestic ROK economy. This makes international trade policy a key issue for any administration. Over much of the last decade, conservative and progressive administrations in South Korea have developed a fairly robust bilateral free trade agenda. However, while the next administration will inherit the ongoing ROK-China free trade agreement (FTA) talks, South Korea is likely approaching the end of its bilateral efforts as it will have concluded agreements with most of its major trading partners once the talks with China are finalized.

Once the bilateral trade path is largely concluded, South Korea will need to consider how to continue to gain further access to international markets. One of the most significant areas for the next administration to consider will likely be trade agreements on the regional level. At the moment, there are two competing potential architectures when it comes to advancing trade in Asia and shaping the future rules of the road—the Trans-Pacific Partnership (TPP) and the various ASEAN Plus FTAs. While both visions share similarities, one is founded on the principal of an Asia-Pacific free trade area while the other focuses exclusively on free trade within Asia. These and other differences will require the next administration to outline South Korea's vision for the future of trade in the Asia-Pacific region and develop policies to ensure that whatever shape the final regional architecture takes the trade rules that are developed do not disadvantage South Korea.

However, as one of the world's major trading nations, South Korea finds itself in a unique position to continue its recent leadership on trade liberalization in Asia. While much of the FTA proliferation in the region predates South Korea's own move towards free trade

agreements, South Korea's agreements have raised the standard of liberalization. This has largely been an outgrowth of the Korea-US FTA (KORUS), which has already spawned high-standard agreements such as South Korea's own FTA with the European Union (EU), while the TPP has been described as being a KORUS plus agreement.

To date, much of the debate has centered on the economic benefits of the two potential agreements. While an arrangement focused on ASEAN holds greater welfare gains than the TPP, South Korea has the most to gain from linking the two agreements into an Asia-Pacific wide agreement.³

Managing Global Economic Uncertainty

The last five years have seen significant global economic uncertainty, first with the global financial crisis and now with the Eurozone crisis. With structural reforms needed to revive the distressed southern European economies, and the potential for growth in China to slow as it focuses its economy more on domestic consumption, global economic growth could continue to be subdued in the years ahead.

What is clear is that the global economy has not returned to the robust levels of economic growth seen prior to the global financial crisis. During the crisis, South Korea played a key role in successfully encouraging countries to refrain from taking protectionist measures that would inhibit global commerce. However, after experiencing a series of downward revisions for South Korea's own economic growth this year, now only expected to reach 2.5 percent, maintaining policy coordination through the G-20 and other global institutions to address the changes taking place in the system and develop new policies to encourage global economic growth will remain a challenge in the years ahead.

In concert with global coordination, the next administration will need to focus on how to best maximize South Korea's trade during times of economic uncertainty, increased global competition, and consider whether encouraging greater domestic demand would be beneficial to reducing South Korea's dependence on external factors for growth.

³ Petri, Peter A, "Competing Templates in Asia Pacific Economic Integration," *Joint U.S.-Korea Academic Studies* 23 (2012): 227-245.

Regional Architecture and Economic Cooperation

The development of a regional architecture in Asia has often been inconsistent and uncoordinated. While ASEAN has long sought to develop a regional order centered around a Southeast Asia hosted forum, it has been unwilling to take the supranational steps that have occurred in Europe. Its influence on the process has thus not always met its ambitions.

At the same time, the aftermath of the 1997-1998 Asian financial crisis kick-started the development of Asian-centric institutions that could in time be folded into a broader regional architecture. With the global architecture changing with the shift to the G-20 for global economic coordination and the push for regional trade agreements in Asia, the prospect exists for building blocks for a larger regional structure to be put into place.

While the Chiang Mai Initiative and efforts to develop an Asian bond market are important steps, the foundation of a regional architecture is likely to be a regional trade agreement such as the TPP or an agreement centered around ASEAN. This is because trade touches on a far wider range of economic activity and, over time, economic cooperation can be built upon for increased political and security cooperation. However, moving from an economic arrangement to one that also encompasses political and security issues will likely be a slow evolution that involves partner countries linking a forum for security cooperation with a regional economic structure. At the same time, it will need to consist of the same grouping of countries, meaning that once an economic path is chosen it will likely shape the membership of the group on a political and security level.

For South Korea, the consideration on regional architecture is which format most complements its economic and security interests—a purely Asian structure or an Asian-Pacific structure. There is also the question of what partners South Korea would like to be involved with. For example, if the East Asian Summit were to become the forum for security issues, it includes a wide array of partners including China, India, and the United States. However, on the economic front, it is unclear if India would eventually be part of the TPP while all of the versions of an ASEAN agreement would exclude the United States and, in some forms, India as well. For South Korea, it is difficult to imagine a future architecture in Asia that would not include the ROK-US Alliance.

Managing Instability in the Middle East

Because of Korea's dependence on the outside world for resources, the Middle East has become an important source of energy supplies for the South Korean economy. At the same time, the Arab Spring and the standoff over Iran's nuclear program have increased uncertainty in a region of the world that was already one of the most unstable. These changes present both challenges and opportunities for South Korea.

According to the most recent data available from the Korea Energy Economics Institute, South Korea was dependent on imports for 84.3 percent of its energy in 2010, with nearly 40 percent of its primary energy coming from oil. Based on trade statistics from the WTO, the Middle East accounted for 87 percent of the crude oil that South Korea imported last year, including 9.4 percent from Iran. Beyond being a source of crude oil for the South Korean economy, the region is an important supplier of liquefied natural gas, which accounts for 16.4 percent of South Korea's energy consumption.

While the Middle East is known as an important source of energy for Korea, it is increasingly becoming an important export market as well. In 2002, South Korea exported US\$ 7.6 billion worth of goods to the region. By 2011, that had risen to US\$ 35.9 billion, or 64 percent of South Korea's exports to the United States. The growth in exports over the last decade to the Middle East has also been greater than the growth in exports to ASEAN, which is generally regarded as an important growing export market for South Korea.

Because of South Korea's dependence on the Middle East for the energy needed to drive its economy, peace and stability in the region remains a critical interest. While South Korea possesses limited ability to influence the outcome of events in the region that does not mean it should be a passive observer. Instead it needs a comprehensive Middle East strategy that will enable it to aid in the continuation of stability in the region, balance efforts to sanction Iran over its nuclear program, and secure its interests to the highest degree possible. However, any new policy should be coupled with a comprehensive energy plan that reduces dependence on the Middle East for energy.

Next Steps in the ROK-US Alliance

Historically, ROK-US relations tend to function best when both partners are on the same page in regards to key issues in the alliance. The two current administrations which have worked closely to maintain a coordinated policy towards North Korea, move forward with the implementation of the KORUS FTA, put in place necessary adjustments to ensure the smooth transfer of wartime operational control, and to reach an agreement to extend the range of South Korea's ballistic missiles. However, when each of the respective presidents is sworn into office early next year they will find differences exist on key issues and the tone of the relationship changed.

Over the last four years, the United States and South Korea have had an exceptionally close relationship. In part due to the personal chemistry between Presidents Barack Obama and Lee Myung-bak, the alliance is generally considered to be on a high note. The next two presidents, even if President Obama is re-elected, will lack the same natural chemistry at first and find a series of difficult issues heading their agenda.

The two most pressing might be North Korea and the renewal of the 123 civilian nuclear cooperation agreement. While the idea of North Korea heading the list of challenges for the two partners is not new, the prospects for a divergence in policy exists in a way that has not occurred since George W. Bush first came to office. Traditionally, North Korea tends to test new presidents early in their term. However, with the new regime in Pyongyang still establishing itself and holding out the prospect for change, the presidents may face a different type of challenge. In recent years, the United States has largely allowed Seoul to take the lead on North Korea policy by deferring to its concerns in the aftermath of the *Cheonan* and Yeonpyeong Island incidents. That may become difficult in the years ahead if the two new administrations begin to diverge on how best to approach North Korea.

With a consensus growing in Seoul that a new approach is needed towards Pyongyang, the two sides will need to reconcile a US approach that largely places the nuclear issue first and a potentially new approach by Seoul that makes the nuclear issue one among many important issues. This may require Seoul and Washington to reach an understanding where Seoul pursues avenues of economic engagement with Pyongyang, but Washington refrains from direct engagement on economic issues due to its concerns over North Korea's nuclear program. At the same time, while Washington would not directly economically engage North

Korea, it would also refrain from taking actions that would inhibit South Korea's outreach as long as Pyongyang does not take provocative action.

At the same time, the two presidents will need to find a creative way to craft a new civilian nuclear agreement in the first half of next year. The two sides currently find themselves at an impasse in the negotiations with Washington hesitant to agree to Seoul's request to become a full nuclear fuel cycle country due to proliferation concerns. With South Korea emerging as a nuclear power exporter, failure to secure access to the full nuclear fuel cycle in the new agreement could place South Korea at a competitive disadvantage with other nuclear exporters such as France and Japan, which have retained the ability to recycle nuclear fuel, and limit South Korea's own options for dealing with domestic nuclear waste. However, the United States continues to have concerns about the continuing spread of nuclear fuel recycling technology and the viability of new processes such as pyroprocessing. A deal with South Korea poses unique problems in that Pyongyang could point to it as a potential precedent in that the United States would be allowing one of the Koreas to have reprocessing capabilities while trying to convince North Korea to give up its own nuclear program.

Rethinking Relations with North Korea

While relations over the last five years have deteriorated between North and South Korea, there was seemingly no clear path forward in relations under Kim Jong-il. Efforts at both engagement and pressure had failed to bring about a significant change in the regime's behavior, while both policies faced domestic and international constraints that inhibited their likelihood of success over the long term.

However, with the new regime in Pyongyang, it may be time to rethink the approach to North Korea. Over the last few months North Korea has sent signals that it may be open to undertaking some form of economic reform. It has reached out to much of Southeast Asia and Japan as part of its own limited charm offensive.

While there is every reason to be skeptical of North Korea, the change in leadership does present an opportunity to put the regime to the test to see if it is sincere about its recent hints at economic reform or if the failed "Leap Day Agreement" is more reflective of the new regime's evolving policy positions. With fresh leaders in both Koreas there will be less

baggage from prior interactions and an opportunity for a fresh start. How the next ROK president chooses to engage North Korea may be the most important decision of that president's time in office.

With that in mind, the next ROK administration should consider recent Chinese actions. While Jang Song-taek's trip to China was ostensibly an effort by Pyongyang to gain additional aid from China, it has become increasingly unclear whether China was willing to provide the requested aid. What has become clear is that the leadership in Beijing continues to press Pyongyang to allow market reforms to shape the economy.

Rather than embracing an approach of unilateral and unconditional aid, the next president should take China's own approach into consideration and design a plan that would strengthen reform tendencies in North Korea in tandem with projects that would enhance the economy if the regime in Pyongyang embraced genuine reform. This would entail taking steps to enhance industrial cooperation in areas such as the Kaesong Industrial Complex, pushing for the development of infrastructure that would connect South Korea's industrial zones to China's zones in the north, while looking for opportunities to cooperate on projects that would cement reforms North Korea initiates on its own. At the same time, while the reopening of Mount Kumgang may have to be considered for diplomatic reasons, similar ventures that largely provide revenue to the regime but do little to engage the wider populace in economic activities should be eschewed.

Redefining Relations with China

This year marks twenty years of formal relations between China and South Korea. Yet two decades later the only clear thing about relations with China is that they have grown increasingly more complex over the intervening years. On the surface, South Korea and China have developed a burgeoning trade relationship. China passed the United States in 2003 to become South Korea's largest trading partner and today ranks as South Korea's most important export and import market by a wide margin. Total trade between the two countries has ballooned to US\$ 220.6 billion last year, more than the combined total of South Korea's trade with the United States and the EU.⁴

⁴ Trade data from WTO Trade Map.

However, there are uncertainties in the economic relationship as well. That may be due to South Korea's increasing dependence on China, which is also becoming ever more competitive with South Korea in areas such as shipbuilding and electronics. According to the International Monetary Fund, for every percentage that investment growth declines in China, ROK economic growth is slowed by 0.6 percent annually. The Hyundai Research Institute has calculated that for every percentage point drop in Chinese economic growth, South Korea's economic growth slows by 0.4 percent annually. Yet, because of high levels of re-exported goods from China to developed markets, South Korea's dependence remains similar to that of other developed markets such as the United States and Europe.⁵ At the same time, according to the Korea Institute for Industrial Economics and Trade, China's technology gap with South Korea has declined to only 3.7 years from over the last decade.

Yet, despite the booming trade ties, a new survey by the German Marshall Fund and the Asan Institute shows that 53 percent of South Koreans see China as an economic threat. At the same time, only 53 percent of South Koreans see China as sharing common values with South Korea as opposed to the 76 percent who see the United States and South Korea sharing the same values.

Beneath the surface of the relationship lie tensions over historical and territorial issues. While China tries to remain equidistant between the two Koreas, hopes in Seoul that deeper economic trade ties would lead to closer cooperation and a more favorable policy towards Pyongyang have gone largely unfulfilled. When the *Cheonan* was sunk Beijing failed to express condolences for a month, while continuing to provide diplomatic cover for Pyongyang.

In this context, the next ROK administration should consider lessening its dependence on China's relations with North Korea. While China will undoubtedly play a key role in the terms of eventual reunification, placing too much emphasis on utilizing ties with China to impact Pyongyang overburdens the relationship on an issue where there is unlikely to be

⁵ Cheong, Young-rok and Lee Chang-kyu, "Korea-China Economic Partnership: The Third China Rush," *Korea's Economy* 27 (2012): 84-96.

much utility for Seoul and provides Beijing with leverage over other issues of priority for policymakers in South Korea.

Instead, the next administration should focus on trying to diversify its relationship with Beijing beyond bilateral economic ties towards greater regional and global cooperation. One potential area of opportunity for the next administration would be to work with Beijing to put more flesh on the concept of a strategic partnership between the two countries. Increased cooperation with Beijing need not be at the expense of ties with Washington, especially when it is focused on regional and bilateral issues where cooperation between all three nations is beneficial.

Repairing Relations with Japan

Reducing the recent tensions that have arisen in Korea's relationship with Japan might be the most significant challenge the next administration faces, especially if hard-line nationalist Shinzo Abe returns as prime minister. Each of the last three ROK presidents has come into office pledging to improve relations with Japan only to see ties deteriorate towards the end of their term. Knowing that, more modest goals for managing relations with Japan might be called for.

Repairing relations with Japan is a two-way street that requires similar commitments from Seoul and Tokyo. Unfortunately, as long as there is no political cost for inflaming remaining historical and territorial disputes, it may be difficult to avoid future flare-ups in relations between South Korea and Japan. These flare-ups would continue to interfere with the ability of the two governments to work together sensibly on areas of national interest from military cooperation to trade liberalization, while impacting trilateral cooperation between Seoul, Washington, and Tokyo.

At some point early in the next administration the twice-stalled military intelligence sharing agreement between South Korea and Japan is likely to come back to the fore. Not only would the agreement enhance the ability of the three allies to work together more closely, but a third failure to implement the agreement would likely further weaken ties between South Korea and Japan.

While the historical and territorial tensions that have weakened relations today might raise questions about the importance of ties between the two countries, South Korea and Japan share a range of interests as free market democracies. When relations between the two countries sour it reduces Seoul's leverage in its dealings with Beijing relating to North Korea, which is looking to utilize the current discord to its advantage, and reduces Seoul's influence in Tokyo on trade matters that are critical to both countries for economic growth.

What Should South Korea's International Role Be?

For much of its modern history, South Korea's foreign policy has been dominated by the imperatives of the Cold War and the need to focus on the threat from North Korea, which made the peninsula Seoul's primary area of concern. In recent years, however, South Korea's foreign policy has begun to look beyond the Korean Peninsula and Northeast Asia and taken on more of a global dimension. The idea of South Korea as a leader in international affairs is relatively new and still being shaped. What that role will be and whether it will be continued will largely be a legacy issue for the next administration.

Over the last five years, South Korea has played a prominent role in international affairs through its leadership in the G-20, its push during the global financial crisis for states not to resort to protectionist measures, and its role hosting key international summits such as the Nuclear Security Summit, the Fourth High Level Forum on Aid Effectiveness, as well as other international fora. However, there are limits to hosting international summits as the G-20 is shared among its members and other major fora, such as the Nuclear Security Summit, are not regular international meetings.

The question for the next administration is whether to continue or expand South Korea's role in international affairs or to shift policy back to a more limited focus on Northeast Asia and North Korea. As every country faces resource constraints on its policies, the later course may become an attractive proposition. However, should the next administration choose to continue a more globally focused role, it will also have to focus to a greater extent than the current administration on what South Korea's role in international affairs should be.

During the Lee administration a significant effort has been placed on hosting international gatherings, which play an important role in international affairs. Though, because of the

nature of the G-20 it may be a considerable period of time before such a high profile event returns to Korea. This would suggest that South Korea may need to think more broadly about its role. Should South Korea's efforts be focused on remaining an international host and becoming an intermediary for international issues? Or should South Korea focus its efforts on more functional areas of foreign policy?

For example, there has been a push to make South Korea more prominent in international development issues through the expansion of its Official Development Assistance to developing countries and its efforts to help nations learn from its own developmental experiences through the Knowledge Sharing Program. Other potential areas for South Korea to play an international role could be to continue to work through the G-20 in a bridging role on global economic issues, or to look to further develop a role in green growth policies. Or, should South Korea play a greater role in peace keeping or in the protection of international sea lanes along the lines of its current mission in the Gulf of Aden?

Sorting through these types of issues will be one of the challenges the next administration faces should it choose to continue playing a global role. However, South Korea's role in global affairs is still developing, but, should it shy away from that role, the opportunities available now may be more limited in the future.

Developing a Non-Partisan Foreign Policy

Whatever course the next administration chooses to take on foreign policy, it should strive to reduce the politicization of foreign policy. In order for South Korea to successfully build on the nascent global role that has developed under the Lee administration it will need to begin to shape a consistent foreign policy whose core interests and strategies remain largely stable from administration to administration regardless of the political orientation of the administration.

That task may not be as daunting as it may seem. As the issues discussed above demonstrate, ROK foreign policy can be grouped into roughly five concentric areas: (1) North Korea policy; (2) ROK-US Alliance policy; (3) Northeast Asia policy; (4) international economic cooperation policy; and (5) global cooperation policy. The level of political differences is highest over North Korea policy and decreases as one moves across the spectrum of issues.

It is unlikely that there will be policy coherence on North Korea in the near future and conservatives and progressives have placed different emphases on the ROK-US Alliance in the past. However, there are levels of common interest that can be built across the other issue areas as the policy of the current government has demonstrated. South Korea's current trade policy has evolved into its present form from the Kim Dae-jung government into the present administration, but has been fairly consistent in its adoption of free trade agreements as a tool of economic liberalization with each successive administration taking on an increasing number of agreements. On issues such as the Knowledge Sharing Program and South Korea's current plan for increasing Official Development Assistance, the current government has largely adopted policies developed under the Roh Moo-hyun administration.

While trade and development assistance issues represent areas where there are the potential foundations of a consistent, bipartisan foreign policy to build upon, there are also signs that the consensus could fray for domestic political reasons. During the April 2012 National Assembly elections in April, 2012, the Democratic United Party raised objections to the KORUS FTA despite being the successor party to the government that originally negotiated the initial agreement.

If one considers countries of similar size that have exerted international influence over an extended period of time, such as Canada and Australia, there is a large degree of consistency in their foreign policies. Their influence has been built up over time, allowing them to establish credibility. Similarly, South Korea will need to develop a record of reliability that over time shapes how South Korea is viewed by other states. Developing that policy credibility and dedication to a core set of foreign policy goals and objectives will require years of consistency over progressive and conservative governments. The slogans may change from government to government, but the substance needs to remain familiar. Developing international credibility takes time and hard work, but it can be quickly reversed through inaction or significant policy shifts.

* The views expressed herein do not necessarily reflect the views

of the Asan Institute for Policy Studies.



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