

**ASEAN – KOREA DIALOGUE PARTNERSHIP,
1992 -2005**

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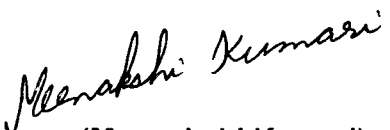
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DECLARATION

This is to certify that this dissertation entitled "**ASEAN - Korea Dialogue Partnership, 1992 - 2005**" submitted by me in partial fulfillment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY** is my own work and has not been previously submitted for the award of any other degree of this or any other University.


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CERTIFICATE

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Dedicated to ...

my loving parents

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PREFACE

The ASEAN-Korea relationship offers a good platform to test different variables in international politics. It covers several areas of bilateralism, multilateralism, domestic as well as regional political situation and moreover, the complex dynamics of trade and economic development.

ASEAN and Korea formalised "Sectoral Dialogue" relationship in 1989. Korea became a Full Dialogue partner of the ASEAN in 1991. Since then, ASEAN-Korea relationship has consistently grown. This burgeoning of relationship has been made possible by their regular dialogue and exchange of views in the existing network of institutional mechanisms such as Summit meetings, Ministerial meetings, Post-Ministerial Meetings, ASEAN + Three, and ASEAN Regional Forum (ARF) etc.

The strengthening of Korea's relationship with ASEAN is not a coincidence but has roots in common values and interests. Korea and ASEAN share many common values and have a common perspective on several issues of regional and international concern, which provides the foundation of their bilateral relationship.

ASEAN and Korea share a multifaceted relationship. However, the trade and investment relations are the most outstanding components of their cooperation and have been driving their partnership to greater heights. Although political, strategic and security cooperation between them is at initial stages, it is poised to grow in the years to come.

Since embarking upon FTA negotiations with ASEAN in 2004, Korea signed a commodity trade agreement with ASEAN in August 2006, which has made Korea second country after China to be successful in finalizing Free Trade Area with ASEAN. Korea and ASEAN are scheduled to create a Free Trade Area by 2010, just as China and ASEAN have planned. ASEAN-Korea FTA in the service and investment area is underway and when finalised, it will further boost bilateral trade and investment relations. It is expected that ASEAN-Korea FTA could eventually expand into an FTA encompassing all of East Asia in the future.

The new architecture of the 'East Asian Order' is in the process of being defined with ASEAN on the driver seat. Korea is constructively working with ASEAN to shape the new architecture of a long-term 'East Asian Community' through its participation in the ASEAN Plus Three Process and East Asia Summit. The possibility of ASEAN Plus Three and East Asia Summit eventually leading to building of an East Asian Community, consisting of all the nations which have functional relationship with the ASEAN region, is becoming increasingly clear as the 21st century progresses. It is an issue that needs further study. It is in this context that the present study is of considerable significance.

The main objective of this study is to trace the genesis of the ASEAN-Korea relationship in the areas of economy and politics; to find out areas where the two sides have commonality of interest and have constructed a comprehensive relationship. The study also looks at the relationship between Korea and ASEAN in the light of the multifaceted challenges of globalisation and regional integration. It tries to analyse whether economic ties between Korea and ASEAN have increased over the last decades and whether the strengthening of Korea's relationship with ASEAN has brought positive changes in the

economies of the individual countries of ASEAN on one side and East Asia on the other. It looks at the areas of constraints and bottlenecks in the relationship and at the effect of the rise of China on Korean investment in ASEAN. Lastly, it highlights the areas which need to be focussed by the two sides to strengthen bilateral and multilateral cooperation at individual, regional and global levels.

The study is divided into six chapters. The first chapter analyses the emergence of ASEAN in the backdrop of regionalism in East Asian region and Korean perspective on regional integration. This chapter also examines the meaning and scope of dialogue partnership and background of relations between Korea and ASEAN. The second chapter focusses on the political and strategic cooperation between Korea and ASEAN. The third chapter evaluates trade relations between the two sides and the existing problems. The fourth chapter looks at the Korean investments in ASEAN and what makes ASEAN such an attractive investment destination for Korea. The fifth chapter analyses the future potential and opportunities of the ASEAN-Korea dialogue relationship. Major conclusions and findings have been summarised in the last chapter.

The study uses historical, descriptive and analytical methods of research. The materials used in the study include both primary and secondary sources. Besides, internet sources, particularly the official website of ASEAN, ASEAN countries and Korea have also been used.

CHAPTER -1

INTRODUCTION

South Korea, officially called as the Republic of Korea, is an East Asian state on the southern half of the Korean Peninsula. To the north, it is bordered by North Korea (Democratic People's Republic of Korea), with which it was a single country called Korea until 1945. To the west, across the Yellow Sea, lies China, and to the southeast, across the Korea Strait, lies Japan. Over the past half century, Korea has achieved the fastest economic growth in the world, rising from one of the world's poorest countries into a state-of-the-art industrial economy and is now the 10th largest economy in the world. Its GDP which was \$8 billion in 1970 has registered a 100-fold increase and reached \$790 billion in 2005. Per capita GDP which was \$250 in 1970 has registered a 66-fold increase and stands at \$16,400 in 2005. Its trade volume which stood at \$2.8 billion in 1970 has witnessed a 200-fold growth and reached \$550 billion in 2005. The country now has a globally competitive edge in major industries such as automobiles, electronics, shipbuilding and steel production. Located in the heart of Northeast Asia, which has long been experiencing dynamic growth, Korea is making extraordinary developments by maintaining close ties with China, the world's largest emerging market; and Japan, the world's second largest economy. The economies of Japan, South Korea, and China and ASEAN countries are heavily dependent on each other and exploring the possibilities of closer economic integration and community building.

With the rapid development of regional integration worldwide led by the US and the EU, the Korean Government changed its traditional policy orientation based on Multilateralism toward regionalism. This is mainly due to its worrying about the possibility that Korea might be left out from the world-wide trends of regional integration. Based on the understanding that the regional integration is an inescapable reality, Korean government began to pursue policy to integrate closely with ASEAN regionalism.

Korean partnership with ASEAN has steadily evolved through these years. Korea and ASEAN first established Sectoral Dialogue relations in November 1989. Korea was accorded Full Dialogue Partnership status by ASEAN in 1991. The year 2004 marked the 15th Anniversary of the ASEAN-Republic of Korea dialogue partnership. Since the establishment of the Full Dialogue Partnership between Korea and ASEAN, ROK-ASEAN relations have made great stride forward in a short span of time. This rapid progress has been possible due to various factors. The geographical proximity, cultural affinity and most importantly, willingness of the peoples of ASEAN and Korea to work together for a common future have all contributed to burgeoning of ASEAN-Korea relations. The surge of globalism and regionalism in today's world has also helped to the strengthening of relations. Korea's Free Trade Agreement (FTA) with ASEAN has already come into effect in certain categories of goods since May 2006 and it is expected to cover the remaining categories by 2010. The FTA is a natural extension of their existing relations as well as a stepping stone to elevate their relationship to a higher and more comprehensive level. The ASEAN-Korea FTA will connect Northeast Asian and Southeast Asian markets centering in Korea and create a foundation for the establishment of the East Asian Community. The FTA will contribute to Korea's rise as the hub of regional cooperation in Asia.

But before examining issues in ASEAN-Korea partnership, it is important to understand the concept, dynamics of regionalism or regional integration and evolution of ASEAN integration.

Regionalism is defined as the growth of societal integration within a region and the undirected processes of social and economic interaction associated with it.¹ Regionalism gives considerable importance to autonomous economic processes which lead to further levels of economic interdependence within a particular geographic area than between that area and the rest of the world. Joseph Nye defines regionalism as 'the formation of interstate groupings on the basis of regions.'² There has been a revival of regionalism in world politics since late 1990s. This revival can be attributed to a number of developments like; the end of the Cold War and the erosion of the Cold War alliance system; the fears over the stability of the GATT and the multilateral trading order during the negotiation of the Uruguay Round; the impact of increasing economic integration and globalisation; changed attitudes towards economic

¹ Louise Fawcett (ed.) (1995), *Regionalism in World Politics*, OUP: Oxford, p.39.

² Joseph Nye (ed.) (1968), *International Regionalism*, Little Brown and Company: Boston, p.12.

development in many parts of the developing world; and the impact of democracy and democratisation.³ In fact, one can say that the dominant trend in world politics today is towards regionalisation rather than globalisation, towards fragmentation rather than unification.⁴ The role of regionalism is to help construct a new equilibrium in politics that balances the protection of the vulnerable and the interests of humanity as a whole against the integrative, technological dynamic related to globalism.⁵ Regional organisation can be defined as a segment of the world bound together by a common set of objectives based on geographical, social, cultural, economic or political ties and possessing a formal structure provided for in formal intergovernmental agreements.⁶

ASEAN was founded on 8th August, 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand for regional cooperation and partnership. It was formed after a time of turmoil and conflict in the region. The states of the region had just gone through the three-year period of *Konfrontasi* (confrontation), wherein Indonesia had politically (and occasionally militarily) challenged the legitimacy of the Malaysian state (and, by extension, Singapore).⁷ The Philippines, locked in a territorial dispute with Malaysia, also questioned Malaysia's legitimacy. The confrontation ended with a change of government in Indonesia, but it left lasting tensions and uncertainties within the region. By the late 1960s and early 1970s, forces in favour of regional cooperation became powerful, compelling the countries of Southeast Asia to form a regional association to protect their interests. As expressed by the Malaysian Deputy Prime Minister in 1971:

“Regional cooperation is now widely recognised... as an important instrument, if not an imperative in the development of nations particularly those that are small. That way only

³ Louise Fawcett (ed.) (1995), *Regionalism in World Politics*, OUP: Oxford,

⁴ Aaron L. Friedberg (1993-94), “Right for Rivalry: Prospects for Peace in a Multipolar Asia”, *International Security*, 18(3): 5.

⁵ Bjorn Hettne (1994), *The New Regionalism: Implications for Development and Peace*, United Nations University, Helsinki, p.5.

⁶ A. Leroy Bennett (1994), *International Organisations: Principles and Issues*, Prentice Hall: Englewood Cliffs, NJ, p.230.

⁷ Shaun Narine (1998), “ASEAN and the Management of Regional Security”, *Pacific Affairs*, 71(2), p. 196.

can we rise effectively to challenge and provide an alternative to the threat of domination by the big countries with their powerful economies.’⁸

ASEAN is essentially an extension and amalgamation of many past attempts to create regional institutions. After World War II, a number of regional organisations were established in Asia by external powers. These organisations mostly worked in the economic sphere like the UN Economic and Social Commission for Asia and the Pacific (ESCAP) and the Colombo plan or were security organisations like the South East Asia Treaty Organisation (SEATO) and the Anglo-Malayan Defence Agreement. These associations introduced the states of Southeast Asia to various forms of cooperation. In the 1960s, the states in the region made several attempts to create organisations. The Association of Southeast Asia (ASA) established in 1961 by Thailand, the Philippines and Malaysia foreshadowed in many respects the later structure and purpose of ASEAN.⁹ The Asian and Pacific Council (ASPAC) and the greater “Malayan configuration” were other organisations to emerge during this period. Though none of these organisations survived in Southeast Asia, their formation clearly indicated the desire for increased regional interaction among Southeast Asian states in political and economic affairs by the formation of associations. This quest for a regional grouping led to the foundation of ASEAN in 1967 for accelerating economic growth, social progress and cultural development in the region; promoting regional peace and stability in the long-run through abiding respect for justice and the rule of law in the relationship among countries in the region. However, ASEAN had two immediate fundamental purposes when it was founded. The first and most immediate was to alleviate tensions among member states and the second was to provide the small states of Southeast Asia with some level of influence over regional events. The founding members of ASEAN were Indonesia, Malaysia, Philippines, Singapore and Thailand. Over the years, Brunei, Vietnam, Laos, Myanmar and Cambodia joined it; increasing its membership to ten.

The ASEAN institutional structure is a decentralised one; with the national secretariats being the major centres of activity and initiative. National sovereignty has been reinforced through this decentralised structure. The Secretary General of the ASEAN Secretariat is selected and appointed by the ASEAN Heads of Government. He or she enjoys ministerial

⁸ Quoted in Donald K. Crone (1983), *The ASEAN States: Copying with Dependence*, Praeger Publishers: New York, p.39.

⁹ Ibid, p.36.

status. The Secretary General has a five-year term and is responsible for initiating, advising, coordinating, and implementing ASEAN activities. This post is circulated among the member states and is usually a member of the national bureaucracy of one of the member states. The Secretary General does not serve as a channel of communication with non-member countries. The fact that both the Secretariat and the Secretary General enjoy a subordinate place within the institutional structure of the Association is indicated by the fact that its head carries the title of Secretary General of the ASEAN Secretariat and not of ASEAN.

The Secretary General is assisted by the ASEAN Secretariat, which is stationed in Jakarta, Indonesia. The Secretariat has four bureaus which take care of: 1) trade, investments, industry, tourism and infrastructure; 2) economic and functional cooperation; 3) finance; and 4) program coordination and external relations.¹⁰ The Secretariat has professional staff members recruited from the ASEAN Member Countries. The members of the secretariat are recruited through open and competitive recruitment. Each Member Country of ASEAN is supported by an ASEAN National Secretariat under the Ministry of Foreign Affairs in order to coordinate ASEAN-related activities at the national level. Each National Secretariat is headed by a Director-General. The national secretariats have played a prime role in servicing the principal meetings and committees within the ASEAN Secretariat have been relegated to a subordinate position.

The highest decision-making body of ASEAN is the Meeting of ASEAN Heads of Government (also known as the ASEAN Summit), which is convened annually. The ASEAN Ministerial Meeting (Foreign Ministers) and the ASEAN Economic Ministers' Meeting are also held annually. The ASEAN Ministerial Meeting (AMM) is supported by the ASEAN Standing Committee (ASC), and the Senior Officials' Meeting (SOM), while the ASEAN Economic Ministers' Meeting is assisted by the Senior Economic Officials' Meeting (SEOM) and several *ad hoc* economic working groups. Apart from the AMM and the AEM, there are fifteen ministerial-level meetings on agriculture, development planning, education, energy, environment, finance, health, information, labour, law, science and technology, social welfare, transportation and communication, tourism and youth. The Chair of the ASEAN Ministerial Meeting (AMM) rotates alphabetically between ASEAN Member Countries. It is also habitual for the AMM host to take on the duty of hosting the other key ASEAN events for that year like

¹⁰ Donald K. Crone (1983), *The ASEAN States: Coping with Dependence*, Praeger Publishers: New York, p.36.

the ASEAN Summit, the ASEAN Post Ministerial Conference (PMC) and the ASEAN Regional Forum (ARF). Thus, the functional activities of ASEAN have expanded considerably since its formation.

ASEAN is one of the most successful regional organisations in the contemporary world in terms of economic and political integration. With the exception of the European Union (EU), it is today the most integrated of all the regional organisations in the world. It is home to over half a billion people, the world's largest Muslim population, and some of the fastest growing economies in the world.

In fact, ASEAN's achievements have been quite remarkable. In a region previously beleaguered by confrontation, no armed conflict has erupted between the ASEAN members, although bilateral tensions have arisen on several occasions. However, its success in the field of economy has been the most outstanding. The six oldest ASEAN nations i.e. Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand agreed in 1992 to create the ASEAN Free Trade Area (AFTA), a regional common market, which became effective in 1993. Subsequently, over a period of time, Vietnam, Laos, Cambodia and Myanmar joined AFTA. All the four later members were required to sign the AFTA agreement in order to join ASEAN, but were given longer time frames in which to meet AFTA's tariff reduction obligations. Tariffs among the oldest members are to be phased out by 2007. The rest of ASEAN will complete the process in 2012. The Common Effective Preferential Tariff (CEPT) scheme for AFTA covers all manufactured and agricultural products, although the timetables for reducing tariffs and removing quantitative and other non-tariff barriers (NTBs) differ. At the same time, under a 2004 agreement with China, tariffs on many goods will be eliminated by 2010 with the ASEAN six and by 2015 with the rest. The primary goals of AFTA are to increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers; and to attract more foreign direct investment to ASEAN.¹¹

¹¹ Soesastro, Hadi (1997), "Challenges to AFTA in the 21st Century", in Hadi Soesastro (ed.), *One Southeast Asia in a New Regional and International Setting* (Jakarta: Centre for Strategic and International Studies), p. 86.

Recognizing the importance of economic integration, in 2003, the ASEAN leaders agreed to establish the ASEAN Economic Community (AEC) to create a single market by 2020. This objective has now been accelerated to 2015. The AEC would help ASEAN countries maintain economic cohesion, deepen intra-regional integration, and enhance their competitiveness.¹² Accordingly, it would turn ASEAN into a *de facto* regional hub. All the major economies in Asia; namely China, India, Japan, and Korea, have signed economic framework agreements with ASEAN. One of the outcomes of these agreements has been the establishment of ASEAN+ 1 Free Trade Areas (FTAs) between ASEAN and each one of these countries.

In an effort to build on these gains and to extend the benefits to more countries, in 2005, ASEAN launched the East Asia Summit consisting of current 16 members including China, South Korea, Japan, India, Australia and New Zealand. There have also been suggestions for the formation of an East Asian Free Trade Area, a common Asian currency and of giving attention to areas of security cooperation to handle trans-boundary issues. ASEAN has managed to attain a high profile in the international arena and the regional grouping has acted in unison in the economic as well as in the diplomatic spheres. It has also succeeded in creating an incipient sense of regional identity amongst its members. ASEAN laid the foundation stone for regional integration in the Asia Pacific region:

“The economic and geopolitical factors had pulled the countries of the Western Pacific into a close, if not fully integrated network of economic relations with each other and across the Pacific with North America.”¹³

The success of ASEAN can be attributed to its internal cohesion, international effectiveness and emergence as an important economic bloc on the international scenario. Moreover, the ASEAN members share common concerns regarding threats to their independence, stability and security- both internal and external. Another reason could be that the forces of globalisation require closer regional integration if Southeast Asian countries and Southeast Asian firms are to hope to be competitive in the global economy especially in the

¹² Stubbs Richard (1998), 'Asia-Pacific regionalism versus globalization: competing forms of capitalism', in Coleman William and Underhill Geoffrey (eds) *Regionalism & Global Economic Integration. Europe, Asia and the Americas*, London: Routledge, p. 137.

¹³ Peter Drysdale (1988), *International Economic Pluralism: Economic Policy in Asia and the Pacific*, Allen and Unwin: Sydney, p.61.

context of growing protectionism and trade distortion in the developed world. ASEAN is often cited as an inspiration and role model for regional and sub regional cooperation among developing countries.

ASEAN's success has historically been attributed by its leaders to the 'ASEAN Way' of cooperation based on the principles of consensus, informality and non- interference.¹⁴ In fact, the former Malaysian Prime Minister Mahatir Mohammed described the ASEAN way as a "winning formula" which 'more than anything else has held ASEAN together'.¹⁵ ASEAN's norms can be traced to its institutional predecessor, the Association of Southeast Asia (ASA).¹⁶ In 1961, the founders of the ASA said that problems in the region should be resolved using Asian solutions containing Asian values. Most important of these values was the use of low profile diplomacy which avoided fanfare before an agreement was reached and non - interference in the domestic affairs of others. Another element of the ASEAN Way is the use of consensus in the decision making processes. This essentially means working to avoid the discussion of contentious and controversial matters. Divisive issues are passed over for later resolution-or until they have been made irrelevant or innocuous by time or events.¹⁷ Another norm is the preference for informality and avoidance of excessive institutionalisation. The ASEAN Way has had the effect of preserving the sovereignty of members of the association by giving each member considerable influence over the pace and shape of Southeast Asian regionalism. Power in ASEAN is decentralised with most of the important decisions in the association still being made in the respective national capitals.¹⁸ In fact, the ASEAN secretariat does not have much power.

However, ASEAN's consensus building and confidence building approach in managing regional conflicts has been bringing results and is, hence, relevant for other regions around the world. Some scholars feel that the ASEAN states were stimulated to make the

¹⁴David Capie, "Globalization, Norms and Sovereignty: ASEAN's Changing Identity and its Implications for Development and Security" in David D. Dewitt and Carolina G. Hernandez (eds.) (2003), *Development and Security in Southeast Asia*, Ashgate: Aldershot, p.87.

¹⁵ Quoted in Ibid.

¹⁶ Estrella Solidum (1981), "The Role of Certain Sectors in Shaping and Articulating the ASEN Way", in R. P. Anand and P. V. Quisumbing (eds.), *ASEAN Identity, Development and Culture*, University of Philippines Law Centre: Manila, p.136.

¹⁷ J. Almonte (1997-98), "Ensuring Security the 'ASEAN way'", *Survival*, vol. 39, no.4, Winter, p.90.

¹⁸ Capie, n.11, p.91.

ASEAN process succeed because they perceived themselves to be weak states in a threatening regional environment.¹⁹

ASEAN defined “security” in inclusive terms. Securities, according to ASEAN, consisted of political, military, economic and social factors interacting at all levels of analysis. Therefore, the ASEAN members hoped that ASEAN would serve three mutually reinforcing security functions.²⁰ Firstly, by building political and economic associations, ASEAN would lessen latent tensions between its members left over from *Konfrontasi*. Secondly, it would benefit economic development in the member states and, in addition, contribute to political stability by helping to assuage the domestic social conditions nurturing Communist insurgency. This was because at that time, the ASEAN states considered internal Communist insurgencies to be their most immediate sources of threat. Thirdly, by promoting internal security, ASEAN would make its members less vulnerable to the intrigues of outside powers. ASEAN could be the instrument by which the member states managed their own security environment, to the exclusion of great powers. The ASEAN states generally agreed that external intervention in regional affairs was a major source of conflict. In practice, ASEAN was most concerned about Chinese support for internal insurgencies. ASEAN’s major security initiatives, since its formation, have reflected these three basic concerns to differing degrees.

Five key initiatives form the foundation of ASEAN’s vision of regional security. These are the ASEAN, or Bangkok, Declaration of 1967; the Zone of Peace, Freedom and Neutrality (ZOPFAN), or Kuala Lumpur, Declaration of 1971; the associated ZOPFAN Blueprint; and the Declaration of ASEAN Concord and ASEAN Treaty of Amity and Cooperation, both ratified at the Bali Conference of 1976. These initiatives articulate a distinct vision of regional security in Southeast Asia. However, ASEAN’s ability to manage regional security in Southeast Asia has been limited by two factors i.e. the interests and actions of the great powers, which have defined the parameters of ASEAN’s security policies; and the differing security perceptions and interests within ASEAN. ASEAN has never tried to challenge or supplant existing balance of power structures, or bilateral relationships. Thus, security is a key pillar for ASEAN, though not in the form of a military alliance directed against anyone but as

¹⁹ Shaun Narine (1997), “ASEAN and the ARF: The Limits of the ASEAN Way,” *Asian Survey*, 37(10), pp. 962.

²⁰ Narine, n.16, p.196.

a vision in which conflict and violence are no longer used or threatened among community members.

The ARF is a group of twenty five countries that are part of Asia-Pacific. The ARF has been cited by many scholars as an example of multipolarity and interdependence in the post-Cold War world. In 1990, in the aftermath of the end of the Cold War, Australia and Canada separately put forward a proposal that the states of the Asia-Pacific should create a security forum, similar to the Conference on Security and Cooperation in Europe to address Asian security issues in the post-Cold War environment. Japan and the US also supported calls for a multilateral security forum. ASEAN, however, did not want to be part of a regional security dialogue and was initially cool to the Canadian and Australian proposals, saying that what worked in Europe would not be necessarily be successful if transplanted to Asia. But the end of the Cold War had transformed the configuration of international relations in East Asia. The new environment presented historic opportunities for the relaxation of tensions in the region through multilateral consultations, confidence building, and eventually the prevention of conflict. ASEAN also realised that the efforts to establish a multilateral security structure was on track and that it risked being marginalized and replaced as the pre-eminent international organization in Asia if it did not act. Therefore, the ASEAN states shifted their position and planned to “claim the (ARF) process in the hope that they could channel rather than resist the momentum.”²¹ Thus, the first meeting of the ASEAN Regional Forum was held in July 1994. It was attended by the six ASEAN states and their dialogue partners. China, Russia, Laos, Papua New Guinea, and Vietnam were also present. India became a participant on becoming a dialogue partner in 1996. Mongolia and the Democratic People’s Republic of Korea were admitted in 1999 and 2000 respectively. This forum is currently based on dialogues among the foreign ministers of the participating countries and seeks to address security issues in the Asia-Pacific region. The ARF Chair rotates annually among the ten ASEAN foreign ministers. Snitwongse evaluates ASEAN’s relationship to the ARF in the following terms:

“The challenge for ASEAN is to effectively expand its sub-regional order to include powers whose objectives are often in conflict and whose relations are often contentious. ASEAN’s success as a “security community” can be attributed to the common political will to avoid and manage conflicts among them, and implies the acceptance of

²¹ Michael Antolik (1994), “The ASEAN Regional Forum: The Spirit of Constructive Engagement,” *Contemporary South East Asia*, p. 119.

the status quo. The same cannot be assumed of all ARF members. Another challenge for ASEAN is how to transplant its process of dialogue and consultation, “the ASEAN way,” into a broader and more diversified Asia-Pacific region.”²²

The ARF provides a multilateral framework for ASEAN to manage relationships between regional and extra-regional powers. ARF has two main objectives: to foster constructive dialogue and consultation on political and security issues of common interest and concern; and to contribute to efforts towards confidence building and preventive diplomacy in the Asia-Pacific region. The ARF has helped to institutionalise security dialogue among the region’s most significant powers. It has allowed China, the United States and Japan to engage with each other.

Structurally, the ARF is an outgrowth of the ASEAN Post Ministerial Conference with Dialogue Partners. The ARF Summit is a meeting of Foreign Ministers who meet annually in July or August. This meeting coincides with the ASEAN Post-Ministerial Conference (PMC). The Chairmanship of the ARF, is controlled by ASEAN, and revolves in line with the annual Chairmanship of ASEAN. The ARF is supported by the ARF Senior Officials Meeting (ARF. SOM) which meets every year in May.

The ARF is guided by the ASEAN approach to security management. The ASEAN states address security issues and disputes through consultation and dialogue rather than through conventional collective security arrangements and formal mechanisms for settling disputes.²³ This approach is practical, steady and collegial. Cooperation is constructed by consensus and compromise brokered at times through third party mediation. Emphasis is placed on building comfort levels. Success is measured in terms of the quality of the atmospherics between the political leadership of Association states. The better the atmospherics, better the prospects of avoiding conflict.²⁴ Under ASEAN leadership, the ARF has succeeded in creating an open and frank forum for the discussion of regional security issues. The ARF helps defuse tensions between members and improves regional atmospherics. Topics raised for discussion in the ARF cover the full agenda of contemporary security

²² Kusumu Snitwongse (1995), “ASEAN’s Security Cooperation: Searching for a Regional Order,” *Pacific Review*, no.8, p. 528.

²³ Michael Leifer, *The ASEAN Regional Forum*, Adelphi Paper 302, London, International Institute for Strategic Studies, 1996. pp. 58-59.

²⁴ *Ibid.*

concerns from the Taiwan issue to North Korea's nuclear weapons programme. The ARF has also played a role in defusing the conflicts caused by power balancing practices between China and the United States.²⁵

Thus, although ARF is comparatively a new initiative, it has become an important contributor to the maintenance of harmony and stability in the Asia-Pacific region. The ARF uses both Track I and Track II diplomacy to attain its objectives. While Track I diplomacy is carried out by the governments of the members of the ARF, Track II diplomacy is carried out by strategic institutes and non-governmental organizations. The strategic think tanks have been at the forefront of building a constituency of Southeast Asian regionalism and community and have also participated actively in the processes of conflict management. Civil society organisations have also established regional alliances to present a common front on issues that concern them.

Dialogue Partnership

The ASEAN Declaration or Bangkok Declaration of 1967 itself suggested that one of the aims of the newly-founded organisation was to maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes. ASEAN Leaders had declared the readiness of ASEAN to develop fruitful relations and mutually beneficial cooperation with other countries in the region at the First Summit in Bali in 1976. In the early years of the 1970s, ASEAN decided to engage Japan in a dialogue initially on synthetic rubber and engage the European Economic Community (now the European Union) on tariff preferences for ASEAN products. This led to the institution of an informal dialogue relationship between ASEAN and the European Economic Community (EEC) in 1972.²⁶ The first formal ASEAN Dialogue relationship was established with Australia in 1974, followed by New Zealand in 1975. Many other countries including the Republic of Korea in 1991 became dialogue partners of ASEAN over the years.

²⁵Yuen Foong Khong "ASEAN and the Southeast Asian Security Complex" in David Lake and Patrick Morgan (ed) *Regional Orders: Building Security in a New World*, University Park, Pennsylvania State University Press, 1997, p 220.

²⁶ M.C. Abad, "Re-engineering ASEAN", *Contemporary South East Asia*, 18(3), December 1996, p.54.

During the Kuala Lumpur Summit Meeting of 1977, the ASEAN Heads of Government agreed that ASEAN economic relations with third countries or groups of countries should be expanded and intensified. During this summit, the Heads of Government of non-member states from outside the region participated in post-conference dialogue sessions with the ASEAN Leaders for the first time. Every year since then, the Foreign Ministers of Dialogue Partners have held dialogue sessions with the ASEAN Foreign Ministers at the Post-Ministerial Conferences that followed every ASEAN Ministerial Meeting. The ASEAN Post-Ministerial Conferences as well as the regular meetings between ASEAN and each of its Dialogue Partners have become a model for mutually beneficial North-South dialogue.

To assist in the process of consultation between ASEAN and its Dialogue Partners, ASEAN Committees in Third Countries have been established to engage their host governments in consultations. The heads of the diplomatic missions of ASEAN Member countries in the capitals of the Dialogue countries make up the membership of these Committees. The meetings which they hold with the authorities of the Dialogue countries supplement the formal dialogues held during the Post-Ministerial Conferences and the meetings between Senior Officials of ASEAN and those of the Dialogue Partners. However, ASEAN's Dialogue relationships are not solely concentrated on economic matters; although during the early Post-Ministerial Conferences, only economic concerns were taken up. Post-Ministerial Conferences have discussed matters of common concern in the field of global security and other transnational issues after the Fourth Summit in Singapore. The Dialogue or Third Country partners of ASEAN have proved to be beneficial for ASEAN, as they have given support to ASEAN members in many collaborative projects in the field of culture and information. Thus, ASEAN's Dialogue Partnerships with third countries and other international and regional organizations have been exceptionally successful.

ASEAN has been able to expand its social and economic development efforts and secure greater access to foreign markets, technology and capital due to the cooperation extended by its Dialogue Partners. Besides, ASEAN has been able to present its views and positions on regional and global issues with considerable impact and has received support from major countries for its stance on various issues. In fact, ever since its formation, ASEAN has evolved a distinct identity of its own and is becoming more assertive of its Asian values.

Dialogue Partnership with Korea

Outside its own membership, ASEAN began establishing special consultative relationships called “dialogue partnerships” with other selected countries in 1976. Sectoral dialogue relations between ASEAN and the Republic of Korea were formalised in 1989 following an exchange of letters between the Indonesian Foreign Minister Ali Alatas, Chairman of the 23rd ASEAN Standing Committee, and Korean Foreign Minister Choi Ho-Joong. A joint sectoral cooperation committee met in Jakarta in 1990 and in Seoul in 1991. In 1991, the Republic of Korea became a full Dialogue Partner of ASEAN at the 24th Ministerial Meeting in Kuala Lumpur. Relations between ASEAN and South Korea have kept on broadening and deepening in various spheres, particularly in economic areas since then. ASEAN and Korea share many common fundamental interests. The relations between Korea and ASEAN have, therefore, grown consistently over the years; with ever deepening economic cooperation at its heart. As a Dialogue Partner, the Republic of Korea has been taking part in ASEAN’s yearly Post-Ministerial Conferences as well as the ASEAN Regional Forum (ARF) and ASEAN Summits. Korea has also supported ASEAN’s efforts to create a Zone of Peace, Freedom and Neutrality (ZOPFAN) and a Nuclear-Weapon-Free Zone in Southeast Asia. It has also supported ASEAN as the primary driving force of the ARF, even while showing interest in strengthening cooperation with ASEAN on the issue of global disarmament and promoting shared interests via consultations.²⁷ Vibrant ASEAN-Korea relations are vital for peace, stability and prosperity of the Asia-Pacific region. On the economic front, since establishing sectoral ties with ASEAN, the Republic of Korea’s trade with the region has increased rapidly.

As a Dialogue Partner, the Republic of Korea has been taking part in ASEAN’s annual Post-Ministerial Conferences as well as the ASEAN Regional Forum (ARF) and ASEAN Summits. This regular dialogue and exchange of views on regional and international issues has strengthened cooperation in the political field. Between 2000 and 2001, the Republic of Korea co-chaired the ARF’s Inter-Sessional Support Group on Confidence Building Measures with Malaysia. South Korea supports ASEAN’s efforts to establish a Zone of Peace, Freedom and Neutrality and a Nuclear-Weapon-Free Zone in Southeast Asia. On its part, ASEAN has also supported President Kim’s “sunshine” policy towards the Democratic People’s Republic of

²⁷ Amitav Acharya (1993), “A New Regional Order in South East Asia: ASEAN in the post Cold War Era, *Adelphi Papers* no.279, p.47.

Korea which joined the ARF in 2000. Development Cooperation and trade between ASEAN and the Republic of Korea has expanded significantly over the years. After South Korea gained full dialogue status in 1991, cooperation expanded to include science and technology as well as human resource development. Environment, transport, science and technology, tourism and strengthening the ASEAN secretariat in Jakarta are other areas which have emerged as top priorities for cooperation. Korea also cooperates with ASEAN in trade, investment, tourism, science and technology, development cooperation and human resources development. In the field of security, South Korea signed a Southeast Asian anti-terror agreement, joining a host of nations which have pledged to work with the ten nation ASEAN grouping to strengthen defences against attacks in 2005. In combating terrorism and trans-national crimes, ASEAN and Korea are cooperating through the ASEAN Plus Three process, namely, ASEAN Plus Three Ministerial Meeting on Transnational Crime and Senior Officials Meeting on Transnational Crime Plus Three consultations and under the ARF framework. Korea has also acceded to the Treaty of Amity and Cooperation in Southeast Asia to achieve peace and stability in the region. Moreover, given the political tensions in Northeast Asia where Japan and China compete with each other for regional hegemony and with US suspicions about China's rise; South Korea and ASEAN are uniquely positioned to act as a bridge for major powers in East and Southeast Asia.

Korea has set up a Special Cooperation Fund (SCF) for ASEAN-ROK projects as well. South Korea and ASEAN are into a continuous process of negotiations for a Free Trade Agreement (FTA) for the creation of close economic relations. The government of South Korea and the Association of Southeast Asia Nations (ASEAN) (except for Thailand, which continues to negotiate due to internal disagreements and objections to South Korea's barriers on farm products) signed an FTA together in May 2006, which took effect in July 2006. Thus, ASEAN-South Korea relations have broadened and strengthened rapidly, since the establishment of the Dialogue Partnership between ASEAN and the ROK in 1991, as they share many common fundamental interests.

Apart from its dialogue partnership with ASEAN, Korea is also part of the "ASEAN Plus Three" (APT) Initiative comprising ASEAN, South Korea, China and Japan. The first formal ASEAN+ 3 Summit was held in 1997, immediately after the outbreak of the Asian financial crisis, when, recognizing the importance of links with Northeast Asia, the leaders of China, Japan and the Republic of Korea were invited to ASEAN's Second Informal Summit in

Kuala Lumpur. It was decided to deepen and broaden the partnership with these three countries. Initially, the emphasis was more on strengthening co-operation between ASEAN-China, ASEAN-Japan and ASEAN-Republic of Korea, building on their existing dialogue mechanisms. The ASEAN-Republic of Korea Joint Statement issued after the Summit stated that:

“(leaders) agreed that the stability and prosperity of Northeast and Southeast Asia were inter-linked and it was essential for both sides to work closely together for the mutual benefit of both regions.”²⁸

To achieve greater integration of Northeast Asia with ASEAN, former South Korean President Kim Dae-Jung, suggested the formation of the East Asia Vision Group (EAVG). The EAVG was set up in 1998 to study medium and longer term plans for East Asian cooperation. The East Asia Study Group (EASG) was also set up in 2000 to promote the idea of East Asian Community. The Vision Group submitted a report titled “Toward an East Asian Community: a Region of Peace, Prosperity and Progress” to the “ASEAN plus three” summit in 2001, making the establishment of the East Asian Community a long-term goal. The report pointed out that economic cooperation is the basis for the East Asian Community and therefore, the East Asian Economic Community should be set up first. In addition, the East Asia Study Group presented a report to the “ASEAN plus three” summit in 2002. The report pointed out that the East Asian Community would serve the interests and wishes of all countries, but it would be a long and gradual process. The “ASEAN plus three” summit approved the report in principle and decided to hold the first East Asia Summit in Kuala Lumpur in December 2005.

ASEAN-Korea officially signed the Framework Agreement for Comprehensive Economic Agreement between Korea and ASEAN on December 2005. The framework agreement provided legal basis for the establishment of an ASEAN-Korea Free Trade Agreement. It was the comprehensive contract that covered the trade in goods agreement, trade in services agreement and the investments agreement, which were expected to be concluded in the future. The FTA in certain categories has come into force since May 2006

²⁸ Quoted in Sara Vettori (2003), “Economic Regionalism in East Asia: An Empirical Analysis of the ASEAN Case”.

and it is expected that by 2010 it will cover the remaining category of goods. In addition, Korea is pursuing negotiation in services and investment with the goal of concluding ASEAN-Korea FTA negotiations by the next ASEAN-Korea Summit Meeting to be held at the end of 2006.

Thus, ASEAN-Korea relationship provides an excellent platform to test different variables in international politics. It covers several areas of bilateralism, multilateralism, regional security, regional integration and the complex dynamics of trade and development in an era of globalization. The following chapters have examined political and strategic cooperation between ASEAN and Korea in detail, trade relations and investment between Korea and ASEAN and the future potential and opportunities in the ASEAN-Korea dialogue partnership.

CHAPTER -2

ASEAN- KOREA: POLITICAL AND STRATEGIC COOPERATION

The ASEAN declaration of 1967 exhorts the association to attain its economic, social and cultural aims through joint endeavours and active collaboration and mutual assistance. The Declaration contains no equivalent exhortation concerning its political objective of regional peace and stability. It speaks only of respect for justice and the rule of law and adherence to the principles of the United Nations Charter. While the formation of ASEAN was motivated by political and security considerations, these aims were downplayed in the Declaration. The restraint with which ASEAN's founders expressed the political aim of the organisation is understandable. They did not want their intentions to be misunderstood. They did not want ASEAN to be mistaken for a military grouping among political allies-as some of its predecessors had been. However, over the years, since its inception in 1967, its development has been influenced by the internal dynamics of Southeast Asia as well as by developments in the wider regional and international environments.¹ Today, ASEAN is playing an important role in maintaining and enhancing peace and stability in the region and to organize itself into a cohesive group in the international arena. After the U.S. withdrawal from Vietnam, ASEAN has increasingly become a vehicle for the Southeast Asian nations to resolve territorial and other problems through consensual and informal community building efforts.

¹ Michael Leifer, "The Limits to ASEAN's Expanding Role", in Chin Kin Wah and Leo Suryadinata (ed.) *Michael Leifer: Selected Works on Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 2005),p. 180.

ASEAN has forged major political accords and institutions that have contributed greatly to regional peace and stability, and to its relations with other countries, regions and organisations. Foremost among these are Zone of Peace, Freedom and Neutrality (ZOPFAN), Treaty of Amity and Cooperation (TAC), Southeast Asian Nuclear Weapon-Free Zone (SEANWFZ) and dialogue forum like ARF.

ASEAN signed the ZOPFAN Declaration in November 1971. It commits all ASEAN members to exert efforts to secure the recognition of and respect for Southeast Asia as a zone of peace, freedom and neutrality, free from any manner of interference by outside powers and to make concerted efforts to broaden the areas of cooperation, which would contribute to their strength, solidarity and closer relationship. It recognizes the right of every state, large or small, to lead its national existence free from outside interference in its internal affairs; as this interference will adversely affect its freedom, independence and integrity.

Declaration of ASEAN Peace Concord, another milestone political document, stated for the first time that the member countries would expand political cooperation. It also adopted principles for regional stability and a programme of action for political cooperation. The programme called for holding ASEAN summits among the heads of government; signing the Treaty of Amity and Cooperation in Southeast Asia; settling intraregional disputes “by peaceful means as soon as possible”; improving the ASEAN machinery to strengthen political cooperation; studying how to develop judicial cooperation including the possibility of an ASEAN extradition treaty; and strengthening political solidarity by promoting the harmonisation of views, coordinating positions and, where possible and desirable, taking common action.

The ASEAN member countries signed the Treaty of Amity and Cooperation (TAC) in Southeast Asia in 1976, which was later extended to include other members. The treaty enshrines the principles of mutual respect for one another’s sovereignty, non-interference in internal affairs, the peaceful settlement of intraregional disputes, and effective cooperation. The treaty also provides for a code of conduct for the peaceful settlement of disputes. Following the principles and guidelines of TAC, Southeast Asia has embarked on a journey

towards regional solidarity that has been steady and sure. Through political dialogue and confidence building, ASEAN has prevented occasional bilateral tensions from escalating into confrontation among its members. Till date, TAC remains the only indigenous regional diplomatic instrument providing a mechanism and processes for the peaceful settlement of disputes.

ASEAN signed the Treaty on the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ) in December 1995 as its determination to contribute towards general and complete nuclear disarmament and the promotion of international peace and security. ASEAN is now negotiating with the five nuclear-weapon states on the terms of their accession to the protocol which lays down their commitments under the treaty.

In 1994, ASEAN and its dialogue partners decided to create the ASEAN Regional Forum (ARF) for the relaxation of tensions in the region through multilateral consultations, confidence building, and eventually the prevention of conflict. As a major forum for carrying out ASEAN's objectives of regional harmony and stability, ARF adopted two main objectives: first, to foster constructive dialogue and consultation on political and security issues of common interest and concern and, second, to contribute to efforts towards confidence building and preventive diplomacy in the Asia-Pacific region. Since its inauguration, ARF has been playing an active role in the promotion of confidence building among participants; the development of preventive diplomacy; and the elaboration of approaches to conflicts. This has enabled the ARF participants to deal constructively with political and security issues that bear on regional peace and stability.

In examining the current relationship between ASEAN and South Korea, it is important to define the relationship's current context and environment. With the commencement of the new millennium, the world has truly entered the post Cold War era; increasingly characterized by the domination of the United States as the world's sole superpower. Yet, this emergence of a single hegemony has not resulted in greater global harmony but greater uncertainty. The lingering effects of the Asian financial crisis of 1997 still dragged on into the new century. The terrorist attacks in New York and Washington, D.C. on September 11, 2000 and

the bombing in Bali in October 2002 ushered in a new international climate dominated by a sense of vulnerability at perils that could strike without regards for national frontiers. This was reinforced by the pre-emptive actions of the United States and allies in Afghanistan and Iraq. The SARS outbreak in Asia in 2003 further exacerbated the global sense of vulnerability. This is the current context for the ASEAN-South Korea relationship.

The Security Situation in Northeast Asia and Southeast Asia

Some scholars believe that geography and geopolitics are no longer relevant in the post - Cold War strategic environment. This is demonstrably untrue in Asia, where great distances, enormous variations in culture and civilisation, and the struggle for power and influence among the region's great powers fundamentally define Asia's strategic outlook.² Asia is one of the most heavily armed regions in the world. There are still many unresolved territorial and ideological disputes in this region. The strategic ambitions of the three great powers in the continent, India, China and Russia overlap in Southeast Asia. It is this which makes this region strategically so important.

Both Northeast Asia and Southeast Asia have relevant security concerns in their environments but both regions have markedly different outlooks on their respective security situations. While traditional security concerns such as strategic power rivalry and alliance politics still dominate Northeast Asia; the Southeast Asian region is increasingly characterised by non-traditional security threats such as terrorism, piracy, illegal trafficking of drugs and humans, as well as the spread of pandemic diseases. In addition, despite low-intensity conflicts, the Southeast Asian region is considered generally stable and inter-state relations more cooperative. This stands in contradiction to the Northeast Asian region, which is relatively more unstable, given the volatile Sino-Japan relations, the Sino-US rivalry and the North Korean nuclear issue.

² Paul Dibb, "The Strategic Environment in the Asia-Pacific Region", in Robert D. Blackwill and Paul Dibb (eds), *America's Asian Alliances* (Massachusetts: MIT Press, 2000), p.3.



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Even though the Southeast Asian region is comparatively peaceful today, several non-traditional security threats like piracy, terrorism, trans-national crime, illegal trafficking in drugs and human beings, small arms smuggling, pandemic diseases like SARS, AIDS, and possibly Avian flu, environmental degradation, and natural disasters have emerged in recent years. The rising number of acts of piracy in the Malacca Straits is especially a cause for worry to the region. Illegal trafficking in drugs and human beings has also risen in the region where there were several key trans-shipment points for drugs like Thailand and Myanmar. Although the Cold War has ended, there has been a significant arms build-up in the region. This is proved by the rise in defence expenditure and the enhancement of strike warfare capabilities through the acquisition of advanced missiles by some countries in the region. One reason for the arms build-up could be the uncertainty and fear caused by a resurgent and militarily powerful China.

East Asia can be called a Hobbesian world in which a security dilemma exists and is compounded by nationalist sentiment and historical enmity as the major powers and other actors compete for security and prosperity, mainly through bilateral relations.³ The prospects for East Asian security depend on the future of the North Korean nuclear issue in the short run, and on the future of China and Taiwan in the long run.

Other than the North Korean nuclear issue, there are four issues likely to affect regional peace and security in Northeast Asia. First is the rise of nationalism in the region. An instance of this is China's recent attempt to re-map its frontiers by including Korea's ancient Goguryeo Kingdom in its historical annals. The second important challenge is the military build-up throughout the region, similar to the situation in Southeast Asia. Not only have regional states increased spending to upgrade existing equipment, many have also developed new capabilities that sought to increase mobility, precision and the ability to project power. There has also been a noteworthy non-conventional dimension to military programs, including the development and deployment of weapons of

³ Ahn Byung-joon, "The Strategic Environment: U.S. Power and Asian Regionalism", in Jim Rolfe (ed.), *The Asia Pacific: A Region in Transition*, (Honolulu, Asia-Pacific Centre for Security Studies, 2004), p.286

mass destruction and the associated delivery systems. The third challenge is the emergence of competition among the four major powers, namely China, Japan, Russia, and the US. Even though the four powers have made persistent efforts at bilateral and multilateral levels to increase cooperation across broad areas, significant tensions have belied the relationships. This is especially so as the US and Japan are still cautious about Russia and China. The US and Japan issued a joint statement in February 2004 in which both countries referred to Taiwan as their mutual security concern. This had provoked a firm response from China. Later in July 2004, China had adopted a joint declaration on the 21st century world order with Russia and engaged in joint military exercises. The last challenge and perhaps most important challenge in the region, given the recent nuclear tests by North Korea, is the North Korean nuclear issue. This issue can probably be resolved only when North Korea emerges from its self-imposed isolation and becomes interdependent with other countries in the region. One of the most dangerous parts in Northeast Asia, however, is the Taiwan Strait. The tensions between China and the US over this issue pose a potential threat to peace in the region.

South ASEAN – Korea Relations

Korea was the first developing country to become a Dialogue Partner of ASEAN. The full dialogue partnership was established in 1991. Since then, the ASEAN – Korea relationship has prospered very rapidly. This is because the relationship is complementary rather than competitive in nature. The two sides are close to each other both psychologically and culturally, and this has reinforced their mutual affinity, understanding and cooperation.⁴ South ASEAN – Korea relations are characterised as economic at first hand. However, with the end of the Cold War, South ASEAN – Korea relations has been strengthened by regular dialogue and exchange of views on regional and international issues through existing mechanisms such as Summit. Ministerial meeting, South

⁴ Heo Mane, "The New Foreign Policy of the Korean Civil Government: An Accommodation to the post-Cold War Order," *Korea Observer*, vol.26, no.3, Autumn 1995, p.448.

ASEAN – Korea Dialogue, ASEAN Plus Three cooperation, Post Ministerial Conference (PMC) and ASEAN Regional Forum (ARF).

South Korea, although retaining a realist bias in its foreign policy for historical reasons, is increasingly disposed to see security problems with a comprehensive approach as it has realized that it is just as vulnerable to non-traditional security threats such as bird flu. However, in view of the North Korean nuclear weapons, it is unavoidable that South Korea's focus would be on traditional security threats in the near future.

Through its participation in various dialogue mechanisms, South Korea is playing an important role in maintaining stability and peace in the region as well as in non-proliferation of missiles and nuclear weapons in the region. South Korea and ASEAN are actively cooperating in areas like piracies, terrorism, smuggling, money laundering, non-proliferation of missiles and nuclear weapons.

South Korea has affirmed that it would respect and support the efforts of ASEAN to establish a Zone of Peace, Freedom and Neutrality in Southeast Asia. South Korea has also welcomed the Southeast Asia Nuclear Weapon-Free Zone (SEANWFZ) Treaty, which represents an important effort of ASEAN towards strengthening security in the region and establishing nuclear-weapon-free zones globally.⁵ In this connection, South Korea also welcomed the ongoing consultations between the State Parties to the Treaty and the Nuclear Weapon States to facilitate accession by the latter to the Protocol of the SEANWFZ Treaty. South Korea has further welcomed the adoption of the ASEAN Vision 2020, reflecting ASEAN's dynamism and determination to meet the challenges of the future. The two sides are also working together to try to find a peaceful solution to the North Korean nuclear issue.

South Korean-ASEAN relations have also been influenced by a rising China and by efforts for greater East Asian integration. China's rise as a military and economic power has been viewed apprehensively by both the ASEAN countries and South Korea. Situated between China and Japan, the giants of East

⁵ Bilveer Singh, *ZOPFAN and the New Security Order in the Asia –Pacific* (Selangor Darul Ehsan, Malaysia: Pandaluk Publishers, 1992), p.112.

Asia, Korea is capable of serving as an mediator to bring the two together for the betterment of everyone's interests. At the same time, Korea can take advantage of its middle-power status, as well as ASEAN's innate concerns with what its members see as political, military, economic, and psychological threats from China and Japan, to strengthen its strategic cooperation with ASEAN.

ASEAN also has much to gain from its relationship with Korea. Strategically, Korea can act as an intermediary between China and Japan. Neither China nor Japan has demonstrated the kind of capable leadership required to push forward with regional cooperation.⁶ Seoul can endeavour to devise strategies to take advantage of this vacuum, in which it can market itself to ASEAN nations as a buffer state for promoting their mutual interests. It is highly likely that ASEAN itself will seek out strategic collaboration with Korea as a means of avoiding and easing the acute rivalry between China and Japan and creating a new balancing point for the region.

While traditionally adhering to a non-aligned foreign policy, the majority of ASEAN member states are seeking to strike a balance or equilibrium of power among the extra-regional powers that are vying to increase their weight within ASEAN. In response to changing interregional dynamics, ASEAN has sought to reassess its strategic relationship with Korea. Increasing tension between China and Japan has also forced various ASEAN countries to reinforce their bilateral ties with Korea.

ASEAN has been concerned about North Korean nuclear issues which can potentially destabilize the region. ASEAN recognizes that the situation in Korean peninsula has a direct bearing on peace and stability in Asia-Pacific region has always urged the two Koreas to resume their often stalemated Six-Party dialogue mainly concerned with dismantling of North Korean nuclear programme.

At the 7th ARF meeting in July 2000, North Korea's participation was welcomed as a significant step in the rapid evolution of situation in the Korean peninsula and thus in the security environment of the Asia-Pacific region. North

⁶ Bae Geung Chan, "Moving Forward with Korea's Northeast Asia Cooperation Initiative", *Korea Focus*, 13(3), May-June 2005, p.95.

Korea's ARF membership has provided additional opportunities for dialogue and exchanges between North Korea and ARF with key roles in the Korean situation. South Korean government introduced the "Republic of Korea's Paper on Northeast Asia Security Cooperation" at the ASEAN Regional Forum Senior Officials Meeting (ARF-SOM) held in Bangkok in May 1994. The report recommended that security cooperation in Northeast Asia, as a form of preventive diplomacy, should be pursued on the basis of the following principles: 1) respect for sovereignty and territorial integrity; 2) non-aggression and no threat or use of force; 3) non-intervention in internal affairs; 4) peaceful settlement of disputes; 5) peaceful coexistence; and 6) democracy and respect for human rights. Thus far, this concept has not moved forward due to North Korea's lack of cooperation. Between 2000 and 2001, the Republic of Korea co-chaired the ARF's Inter-Sessional Support Group on Confidence Building Measures with Malaysia.

ASEAN expressed deep concern on North Korea's nuclear test on October 9, 2006. ASEAN said that the test threatened the peace and security of East Asia and was inconsistent with North Korea's commitment under a joint statement issued during six-party talks in Beijing in September 2005, when Pyongyang promised to give up its nuclear weapons program for economic assistance and security assurances. ASEAN called on North Korea to abide by the provisions of the U.N. Security Council Resolution 1695, which seeks the country's return to the six-party talks and to return at any early date to the 1968 NPT, from which North Korea withdrew in 2003.

The ASEAN-Korea Joint Declaration on Comprehensive Cooperation Partnership

The Joint Declaration on Comprehensive Cooperation Partnership between ASEAN and South Korea concluded in Vientiane on November 30, 2004 is an important testimony to the fact that the bilateral relationship between ASEAN and South Korea has garnered critical momentum and is the result of a mature process of mutual cooperation. It has helped to consolidate the partnership and chart the future direction of the ASEAN-ROK relations.

In the Joint Declaration, they agreed to strengthen political and security cooperation through high-level contacts and people-to-people exchanges at the officials' level and by intensifying dialogue using existing mechanisms; to promote closer cooperation at regional and multilateral levels through fora such as the ASEAN Regional Forum (ARF) and ASEAN Plus Three process to enhance regional security, mutual cooperation and confidence-building measures, to cooperate in disarmament and non-proliferation of Weapons of Mass Destruction (WMDs) and to enhance cooperation in combating trans-national crimes such as terrorism, trafficking in drugs and human trafficking through existing mechanisms, to cooperate on environmental issues, food security, food safety and sustainable agricultural development etc.⁷ They further agreed to enhance cooperation in international fora, such as the UN, World Trade Organisation (WTO) etc., to promote and maintain regional and international peace, stability and development, and to ensure greater benefits for everyone from the globalisation process. Korea, in support of the purposes, principles and spirit of the Treaty of Amity and Cooperation in Southeast Asia, had acceded to the Treaty with a view to strengthening the existing trust and friendship between ASEAN and the ROK; thereby contributing to regional peace and stability. Signatories to the treaty agree to mutually respect each others' independence, sovereignty and territorial integrity and not to interfere in each others affairs. The Treaty of Amity and Cooperation has also set in place norms to moderate great-power rivalry within the ASEAN region.⁸ South Korea has further welcomed the adoption of the ASEAN Vision 2020, reflecting ASEAN's dynamism and determination to meet the challenges of the coming century.

ASEAN, on its part, declared its support for the efforts of Korea and concerned parties towards the maintenance of peace and security on the Korean Peninsula and the region, and hoped for the early resumption of the Six-Party Talks to achieve denuclearisation on the Korean Peninsula peacefully through dialogue. ASEAN countries also rendered support for South Korea's candidature

⁷ Ibid.

⁸ Donald E. Weatherbee, Ralf Emmers et al (eds), *International Relations of Southeast Asia: The Struggle for Autonomy* (Lanham: Rowman and Littlefield Publishers, 2005, p.126.

for the non-permanent seat of the United Nations Security Council for the 1996-1997 term, which Korea has withdrawn following the announcement of its candidature for the post of UN Secretary General to succeed the outgoing Secretary General Kofi Annan.

Role of ASEAN and South Korea in East Asian Integration

Given the political tensions in Northeast Asia where Japan and China have perpetually competed with each other for regional hegemony, and with US suspicions about China's rise, South Korea and ASEAN are uniquely positioned to act as a bridge for the major powers in East and Southeast Asia. The biggest obstacle in the establishment of an East Asian Community is that neither Japan nor China is prepared to accept the other as leader with a view to achieving regional cooperation.

ASEAN has been active in enhancing security interactions among East Asian countries through various mechanisms, giving it an advantageous geopolitical position in Northeast Asia as a trusted broker. South Korea should emulate ASEAN in this and help East Asia maintain a balance of power in the region between Japan and China. Riding on the back of ASEAN would also help to counterbalance concerns China's part that South Korea acts for US interests. South Korea would also be able to show Japan that it has no reason to suspect Seoul's initiatives on regional cooperation, particularly East Asia integration.

Korea's Initiatives to build an East Asian Community through ASEAN

The ARF has proven its worth as a venue for confidence building, for multilateral consultations and dialogue, for the clarifications of strategic outlooks in a multilateral setting and for the conduct of discussions in smaller groups for bilaterally. The ASEAN Plus Three has also made credible contribution in achieving the same goals at various levels from the summit level to the Working Groups. While there is no denying the fact that ASEAN has served the region

well, a general consensus is emerging within Southeast Asia (and Korea also supports it) that ASEAN should lead the formation of a long-term vision of an East Asian Community which will be based on three pillars: East Asian Economic Community, East Asian Political and Security Community and East Asian Socio-Cultural Community. There have been many efforts in the recent past to establish an East Asian community. What are the reasons for this? Several considerations have made East Asian cooperation quite compelling.⁹ Firstly, economic interdependence and complementarity - especially in the areas of trade, investments and transfer of technology - are already facts of life in the region. Secondly, there has always been a strong political will to enhance mutually beneficial cooperation in East Asia. Thirdly, the new challenges posed by globalization, including the risk of contagion in times of financial and economic crisis, have made the necessity of closer cooperation vital.

ASEAN member countries are bound by the reasonably high level of confidence that they have built during the past thirty years. However, confidence building among the three Northeast Asian countries is still only at a beginning stage and confidence building between Northeast and Southeast Asian countries still remains at an elementary stage. Japan, which has the economic capability with which it can take the lead in regional integration, lacks political leadership. Similarly, China, which seeks to expand its influence in the Asian region, does not yet have the capability to lead the integration process. It is against this backdrop that these two countries are showing signs of all-out competition for hegemony in this region.¹⁰

Therefore, it is ASEAN which is perceived as neutral and non-interfering and enjoys the confidence of all countries in the region can play a central role in East Asian regional cooperation. Korea supports the ASEAN leadership role in the evolution of an East Asian Community. The ASEAN, a venue for cooperation among East Asian countries, provides the hardware called ASEAN+3, and Korea has proposed methodological software for regional cooperation in East Asia,

⁹ Landry Haryo Subianto, "ASEAN and the East Asian Cooperation: Searching for a Balanced Relationship," *Indonesian Quarterly*, vol.31, no.1, 2003, p.8.

¹⁰ Kusnanto Anggoro, "Northeast Asia and ASEAN: Security Linkages, implications and Arrangement," *Indonesian Quarterly*, vol. 24, no. 1, 1996, p.92.

including the EAVG and the EASG.¹¹ Korea, in particular, has the conditions needed to play the intermediary role in East Asian regional cooperation, which derive from its exceptional geopolitical location in Northeast Asia and its important strategic position as the sole middle power in East Asia. Korea, located as it is between the two major pillars of East Asia-Japan and China, can link these two countries and thus play the role of an intermediary in regional cooperation in Northeast Asia. Korea can also play the role of the main axis in maintaining an intra-regional strategic balance by forging a strategic coalition with the ASEAN countries, who perceive China and Japan as a potential threat. Although Korea does not have the capability to match Japan and China politically, militarily, or economically, it will be difficult for China or Japan, who are engaged in a fierce fight for regional hegemony, to take on a leading role in regional cooperation in East Asia. This leaves room for Korea's increased role in the region.

The Korean government has taken two important initiatives in the direction towards establishing an East Asian Community. On the initiative of then South Korean President Kim Dae-Jung, an East Asia Vision Group (EAVG) was set up in 1998 to study medium and longer term plan for East Asian Cooperation. In 2000, the former Korean President proposed an East Asia Study Group (EASG) to promote the idea of East Asian Community. The EAVG was to submit its report to EASG which, in turn, was assigned to present a final report. The Vision Group submitted a report titled "Toward an East Asian Community: a Region of Peace, Prosperity and Progress" to the "ASEAN plus three" summit in 2001, making the establishment of the East Asian Community a long-term goal. The report pointed out that economic cooperation is the basis for the East Asian Community and therefore the East Asian Economic Community should be set up first. In addition, the East Asia Study Group presented a report to the "ASEAN plus three" summit in 2002. The report pointed out that the East Asian Community would serve the interests and wishes of all countries, but it would be a long and gradual process. During the fifth ASEAN+3 summit, President Kim Dae-Jung proposed the transition of the present ASEAN+3 summit meetings into an East Asia summit system and the creation of an EAFTA as the key research foci for the EASG.

¹¹Chan, n.7, p.93.

Korea raised the issue of transforming ASEAN+3 summit meetings into an East Asia summit system with the hope of moving away from a loose cooperation structure of the current ASEAN+3 to craft a more systematic cooperative structure in East Asia and establish an identity as a regional community. Also, amidst the trend of global economic regionalization, which is growing stronger, making a distinction between Northeast Asia and Southeast Asia within the East Asian region is gradually becoming futile.

The “ASEAN + three” summit approved the report in principle and decided to hold the first East Asia Summit in Kuala Lumpur in December 2005.

The first East Asia Summit was held in Kuala Lumpur in December 2005 along with the eleventh ASEAN Summit. The participating countries were the ten members of the Association of Southeast Asian Nations and China, Japan, the Republic of Korea, India, Australia and New Zealand. ASEAN’s landmark initiative of launching the first East Asia Summit (EAS) by embracing non-member economies such as India, Australia and New Zealand is expected to provide an opportunity to structure our cooperation with broader constituents.¹²

South Korea view is that East Asia is not a geographic concept but a functional concept. The scope of geographical extent of East Asian Community would differ depending on whether we focus on geographical or functional linkages. Korea view is that in considering an East Asian Community, greater emphasis has been placed on functional linkage. So, the countries which have functional ties with the region have been considered part of the East Asian region. The dynamics of the economic, political and security interdependence is constantly changing the extent of East Asia. The countries like India, Australia and New Zealand are participating in various types of cooperative endeavors in East Asia, which make them part of the functional concept of East Asia.

South Korea is of the opinion that in the efforts towards building an East Asia Community we must build upon existing regional experiences. Frameworks

¹² “Korea and ASEAN - A Partnership for Peace and Prosperity”, Keynote Address by H.E. Hyun-chong Kim, Minister for Trade, The Republic of Korea December 12, 2005.

such as the ASEAN + 3 and the EAS are invaluable fora for dialogue, understanding and community building. Rather than discussing which of the two frameworks should lead the community building, we should be thinking how we can make these two processes function in a complementary way towards the common goal which is ultimately to build foundations for an East Asian Community.

South Korea's considered view is that building up of East Asian should proceed from the easy and less contentious areas to political and security areas. First, an East Asia Economic Community should be created by combining the emerging web of FTAs in the region. The East Asian Economic Community in turn may be expanded to political and security areas. To create a political and security community, efforts should be made to enhance trust and confidence among the regional governments especially by increasing contacts and interaction at different levels. Political and security dialogue should be conducted to evolve a common perception on political issues and security challenges in the region before developing a comprehensive cooperation mechanism.

ASEAN - Korea cooperation in the political and security areas is now burgeoning. ASEAN and Korea share many common fundamental interests and there is great potential for further cooperation. Flourishing ASEAN- ROK relations would promote peace, stability and prosperity of the Asia- Pacific region.

There are several ways to improve ASEAN-South Korea relations. Firstly, in the area of non-traditional security issues, South Korea could set up a centralised aid agency like Japan's International Cooperation Agency (JICA), where all South Korean aid to the ASEAN region could be concentrated. This would help to coordinate aid efforts better and allow South Korea to make a greater impact with its overseas development assistance (ODA). Secondly, South Korea could also help in the rehabilitation of the victims of tsunami in Southeast Asian. This again would help emphasize South Korea's interest in the region. Thirdly, a longer-term endeavour would be for the East Asian states to consider a project in which the countries write a common East Asian history together, as Europe has done through the European Union.

Based on the existing initiatives such as the EAVG and the EASG, Korea needs to seek various ways to retain a central role in laying the institutional framework for East Asian regional cooperation, which is becoming more concretized. On the transition of ASEAN+3 summit talks to East Asian Summit (EAS) talks, Korea which is the country that proposed the transition must continue to persuade ASEAN countries who, while acknowledging the legitimacy and need for a transition, fear a possible loss of regional identity. This is an issue that basically requires political decision at the summit level. A complete transformation of the current ASEAN+3 system into an East Asian summit meeting system would be optimal. Considering Southeast Asian countries' concern, however, a transitory provisional compromise could be to continue the ASEAN+3 summit talks but hold an East Asian summit every three years in Korea, China, and Japan by turns. Thus, South Korea –ASEAN relations are poised to grow in the political, economic and strategic fields in the future.

CHAPTER -3

ASEAN- KOREA TRADE (EXPORT AND IMPORT) CO-OPERATION

The 1990s witnessed a global wave towards regional trading arrangements and subsequent regional integration phenomenon. In the post- globalisation era, trade has become very important in international relations. Nations seek alliances for promoting their economic interests. In fact, many a time, economic interests prompt countries to forget their political differences. The success of ASEAN and European Union are examples of this. International trade helps economic development when a country's exports drive its economic growth.¹ Opening up to international trade has helped many countries, especially in East Asia, grow far more quickly than they would otherwise have done.

Korea views that the regional integration with ASEAN will provide the economy with trade creation effects and also investment effects, in addition to market access chances. Korea's trade policy aims at promoting free and open trade at home and abroad. Korea's economic growth for the past four decades owes much to the open world economy. Korea cannot afford to be left out of the prevailing trend of growing global economic integration. Since the 1960s, Korea has considered the global community as its main partner for economic cooperation. However, recently, trade and investment have been concentrating in a regional context.

Korea realises that despite diverse difficulties and challenges, multilateral and regional economic cooperation between countries will continue as a sustained trend; that there will be a continued transformation towards a knowledge-based

¹ Joseph E. Stiglitz (2002), *Globalisation and its Discontents*, Allen Lane, London, p.4.

economy and that the process of globalisation will continue.² The primary objective of Korea's international economic and trade policy, therefore, is to build an advanced, free and open economy keeping in mind these global and domestic realities. Under this objective, Korea has set four general policy goals.³ The first is active participation in the global efforts to build a freer and more open world economic order. The second is strengthening of regional and bilateral economic and trade cooperation in the ways that meet the new demands of the global age. The third is helping to build a freer and fairer market environment at home. The fourth is fostering domestic bases for more effective international economic and trade policy actions. Korea has joined international efforts to build a freer and more open world economy and stepped up regional and bilateral cooperation in an effort to achieve these goals. Korea, is thus, dedicated to maintaining and further promoting openness at home and abroad. Moreover, Korea's industries are heavily export-oriented. As much of Korea's GDP depends on international trade, its economic prosperity and its survival depend vitally on its active participation in the world economy.

One of the trade policy goals of the Korean government is to become the business hub of Northeast Asia and to position Korea into a business hub and commercial gateway to Asia, as well as to the Pacific Rim. Korea has many existing qualities that make it suitable as a location for a regional business hub; its ideal geographic location, world-class infrastructure and human capital. It is towards this end that the Korean government concluded a FTA with ASEAN in December 2005. The region's attractiveness as an investment location for Korean companies has consolidated the economic relationship between ASEAN and Korea.⁴

² Hwang Doo-yun (2001), "Korea's International Trade Policy in the Global Age", *East Asian Review*, Vol.13, No.3, Autumn 2001, pp. 7-8.

³ *Ibid*, p.9.

⁴ Kwon Yul, Cheong Inkyo, and Park Inwon (2003), *ASEAN's Economic Integration: Recent Development and Policy Implications*, Korea Institute for International Economics (KIEP) Policy Analysis. Seoul, p. 11.

An overview of ASEAN-Korea Trade

In the 1980s and 1990s, both Korea and ASEAN achieved high growth rates in international trade. In fact, the export of raw materials from this region during the 1960s and the 1970s contributed significantly to Korea's initial economic surge. As Korea joined the ranks of the Newly Industrialized Economies in the 1980s, ASEAN – Korea economic cooperation continued to prosper, based on a reciprocally reinforcing relationship. Consecutively, as ASEAN began to channel its efforts towards rapid industrialization together with large-scale infrastructure modernization programmes throughout the 1980s, Korean firms increased their investments in ASEAN. However, the key impetus for closer cooperation was realized in the aftermath of the establishment of an official dialogue relationship in 1989 and after Korea became a full dialogue partner of ASEAN.

ASEAN and Korea established a full dialogue partnership in 1991. Since then, both sides have consistently and gradually deepened their overall relations in trade, investment and economic cooperation. The relationship between ASEAN and Korea has been one of constant growth. Both ASEAN and Korea have set closer economic partnership between the two economies as their top trade agenda, to enhance economic cooperation and respond actively to the recent trend of regionalism. The economy has been the area where the greatest cooperation between Korea and ASEAN has been realized. This success has largely been due to the complementarities between the economies of both sides.

Corresponding to ASEAN's potential as one of the largest emerging markets, Korea's trade with ASEAN has been growing remarkably. ASEAN and Korea are currently the fifth largest trading partners for each other and ASEAN is the third-largest destination for FDI from Korea. ASEAN is also a major supplier of energy and raw materials to Korea. ASEAN and Korea have become important economic partners due to the complementarities between the two parties. Bilateral trade and investment between Korea and ASEAN has been steadily increasing in recent decades, though it still falls short of potential. Although bilateral trade and investment between ASEAN and Korea decreased sharply

during the East Asian financial crisis of 1997, economic relations between the two sides have rapidly recovered since then.

Korean exports to ASEAN increased to hit US\$15.05 billion in 2003 while imports from ASEAN, which included electronics, crude oil and liquefied natural gas reached US\$17.09 billion. Korea recorded a constant trade surplus in 1997. However, since then, ASEAN's deficit has been decreasing and the balance of trade between the two economies is moving toward equilibrium. Trade flows between ASEAN and Korea stood at more than US\$50 billion in 2005, registering a 15 percent increase compared to the 2004 trade flows. Korea remains as one of the top ten investors in ASEAN. In 2005, Korea's Foreign Direct Investment (FDI) to ASEAN was at US\$628 million.⁵

The structure of trade between Korea and ASEAN has seen a spectacular change during the last ten years.⁶ In 1993, mineral products, such as coal and natural gas, occupied the biggest share of ASEAN's exports to Korea. In 2004, machinery and electrical appliances replaced mineral products as ASEAN's most important export items to Korea, indicating deepening intra-industry trade between the two sides. Other ASEAN exports include fats and oil, cosmetics, lubricants, organic chemicals, fertilizers etc. Important Korean exports to ASEAN include fish, sugar, fruits and nuts and plastics etc.

The ASEAN-Korea Free Trade Area

FTAs are essentially "international economic institutions that promote economic benefits to participating countries".⁷ A Free Trade Area is a selected group of countries that have agreed to eliminate tariffs, quotas and preferences on most, if not all, goods between them. It is the second phase of economic integration. Nations opt for this kind of economic integration form, if their

⁵ "The Fourth Consultations between the ASEAN Economic Ministers and the Minister for Trade of the Republic of Korea (AEM-ROK)", 24 August 2006, Kuala Lumpur, Malaysia, Joint Media Statement.

⁶ "Korea and ASEAN-A Partnership for Peace and Prosperity", Keynote Address by H.E. Hyun-Chong Kim, Minister for Trade, the Republic of Korea, at the 11th ASEAN Summit, 12-14 December 2005..

⁷ Choong-Yong Ahn and Lee Chang-Jae (ed.) (2002), *Northeast Asian Economic Cooperation: The First Steps toward Integration*, Park-Young Publishing House, Seoul, p.i.

economical structures are complementary. If they are competitive rather than complementary, they choose to form customs unions.

In the post Cold War era, Free Trade Arrangements (FTAs) have proliferated at an unprecedented rate. The principal objective of Free Trade Agreements is to secure trade liberalisation. FTAs and regional agreements have been effective in encouraging wider trade liberalisation. Another advantage of FTAs is that they are quicker and easier to negotiate than multilateral agreements because fewer parties are at the table. Parties can secure gains that are harder to achieve in bigger fora. There are several disadvantages too. If FTAs are not set up within the right framework of policies, they can diminish rather than enhance economic welfare. The second disadvantage is that they are not good vehicles for liberalising trade in sectors on which parties outside the agreement have a major influence. Moreover, FTAs only confer economic advantages when they are negotiated with countries which are significant trading partners. Another disadvantage is that FTAs increase the complexity of the international trading system and can raise transaction costs for business. For example, complicated rules of origin are required to prevent third country products from entering through the other party. The negotiation of FTAs is resource intensive and there can be an 'opportunity cost' in devoting resources to bilateral or regional, as opposed to multilateral negotiations.⁸

ASEAN Free Trade Area (AFTA)

In 1992, the ASEAN countries decided to implement a tariff reduction mechanism, known as the Common Effective Preferential Tariff scheme, with the goal of ultimately eliminating tariffs and creating a Free Trade Area. At that time, the then six ASEAN countries were at the height of their extraordinary economic surge. The ASEAN economies were looked upon as the model for developing countries-development-minded, export-oriented, open to foreign investment, private sector-driven. Nevertheless, with incredible foresight, ASEAN's leaders

⁸ Jagdish Bhagwati (1993), "Regionalism and Multilateralism: an Overview" in De Melo and Panagariya (eds), *New Dimensions in Regional Integration*, Cambridge University Press, Cambridge, p.68.

decided that they should integrate their economies into a regional economy if they were to face and survive the expected fierce competition by creating the ASEAN Free Trade Area. Over the next decade, tariffs on nearly all imported goods were significantly reduced and on January 1, 2003 the ASEAN Free Trade Area (AFTA) became operational in all six of the original AFTA signatories. The newer ASEAN member states Vietnam, Laos, Myanmar and Cambodia, were granted an extension depending on which year they signed the agreement and all ASEAN countries have agreed to enact a zero tariff policy by 2015. The main advantages of the ASEAN Free Trade Area are expected to be:⁹

- (1) An increase in ASEAN's competitiveness in the world market through the elimination of tariffs and non-tariff barriers that exist within ASEAN. The elimination of tariffs will also lead to a significant increase in intra-regional trade.
- (2) An increase in the ability of ASEAN member states to attract foreign direct investment. The integrated market will reduce risk and uncertainty and provide better investment opportunities for the US, European, Chinese and Japanese companies.

ASEAN-Korea Free Trade Agreement

Fear of isolation is a major reason why countries pursue FTAs and this trend has been expanding into a domino effect. This effect is common in East Asia and Korea is not an exception to this trend. FTA agreements reduce the average import tariffs of the participating parties, and also serve as a tool to ensure the continuation of reforms. In selecting prospective FTA partners, countries carefully take into account all key factors such as economic benefits, political and diplomatic considerations, and domestic constraints.

⁹ Rodolfo C. Severino Jr. (2002), *ASEAN Today and Tomorrow*, The ASEAN Secretariat, Jakarta, p.327.

Due to the rapid proliferation of regionalism throughout the world, both ASEAN and Korea felt the necessity to pursue FTAs to secure foreign markets as well as to improve structural efficiencies in their economic systems. In fact, compared to other regions, East Asia manifested little interest in regional economic integration until the financial crisis of 1997. However, in the wake of the financial crisis, East Asian countries recognized the need for closer intra-region economic cooperation and began to push forward their FTA policies as their major trade agenda. ASEAN has been taking the initiative for regional integration within East Asia. Its most important initiative toward regional integration within South East Asia has been the establishment of the ASEAN Free Trade Area (AFTA).

In 2003, the Korean government designed a road map to pursue FTAs. The Korean government's FTA plan was divided into two main categories: a short-term plan and a mid-and long-term one targeting certain countries or regions.¹⁰ In the 1-2 years short-term plan, the target countries were Japan and Singapore. The target countries in the next stage were ASEAN, Mexico, and the European Free Trade Association (EFTA), while the countries to be targeted in longer-term were the United States, China, and the EU etc. Korea has actively pursued FTAs with its major trading partners in response to the worldwide spread of regionalism. Korea's first FTA was signed with Chile and this agreement came into force on April 1, 2004. Considering Korea's high trade dependence, ASEAN is one of the most feasible partners for Korea. ASEAN and Korea have a combined population of 584 million and a combined GDP of US\$1.07 trillion. The South FTA aims to liberalize 90 percent of traded goods by 2010. The liberalization of trade in services will contribute to the deepening of economic integration between ASEAN and Korea. The services sector is becoming one of the largest and most important sectors for both economies. One of the most flourishing sectors in trade in services between the two sides is tourism. Since 1999, the number of Koreans who visited ASEAN has doubled to approximately 12.9 million in 2003 and around 0.58 million tourists from ASEAN visited Korea in 2003.

¹⁰ Choong-Yong Ahn (2004), "FTA Should Not be Postponed Any Longer", *Munhwa Daily*, Seoul, February 6, 2004, p.6.

The initial steps Moves towards establishing a FTA between ASEAN and Korea were taken when Korea proposed an East Asian Free Trade Area (EAFTA) among the ASEAN+3 countries as one of the main suggestions in the 2002 East Asia Study Group Report. In the meantime, ASEAN proposed several times to launch official FTA negotiations with Korea. Accordingly, at the ASEAN-ROK Summit held in Bali, Indonesia in October 2003, the Korean President Roh Moo Hyun proposed that ASEAN and Korea should deepen relations by developing a comprehensive partnership between ASEAN and Korea for the 21st century, with the possibility of establishing a Free Trade Area. An ASEAN-Korea Experts Group (AKEG) was formed and was asked to submit its report and recommendations for an ASEAN-Korea FTA at the AEM+ROK Summit in November 2004. The AKEG recommended that both ASEAN and Korea undertake the necessary steps towards the realization of the ASEAN-Korea FTA at the earliest possible time. The AKEG also recommended that the following guiding principles shall be taken into account during the negotiations for the ASEAN-Korea FTA:¹¹

- (i) The FTA shall work to promote and liberalise trade in goods, services and investment, through the elimination of tariffs and non-tariff barriers. The FTA shall also include cooperation elements with a view to strengthening the economic partnership between ASEAN and Korea;
- (ii) The FTA shall be pursued based on the principle of reciprocity and mutual benefits;
- (iii) In order to ensure the development of ASEAN as a region, due consideration shall be given to the different levels of economic development among the countries within the region. Thus, technical assistance and capacity building are essential elements of the FTA. Additionally, the principle of flexibility and special and differential

¹¹ "ASEAN-Korea Experts Group (AKEG) Inputs to the Ministers on the ASEAN-Korea Free Trade Area".

(S&D) treatment shall be extended to the less-developed ASEAN members for implementation of the liberalization measures for the FTA; and

- (iv) For countries which are not members of the WTO, Korea will continue to accord them the Most-Favoured Nation (MFN) treatment.

With evolving developments in the multilateral trading environment and other growing global challenges, both ASEAN and Korea agreed that there was a need for both sides to forge a comprehensive economic partnership to provide impetus for even stronger dialogue relations and trading relationship. This partnership could not only bring substantial economic benefits to the peoples of ASEAN and Korea but would also provide an important mechanism for continued mutual engagement and understanding. The AKFTA is all-inclusive in scope, covering trade in goods, services and investment. The establishment of the AKFTA can be seen as a natural extension of the existing relations between ASEAN and the ROK, as well as a stepping stone for elevating the ASEAN-Korea relations to a higher and more comprehensive level. Further liberalisation and integration of the markets of both sides through the elimination of tariffs and non tariff barriers would create a more business-friendly environment that would be mutually beneficial. The Free Trade Agreement with ASEAN is yet another step forward by Korea in its pursuit of extensive trade ties in strategic markets. Moreover, the ASEAN-Korea FTA is expected to expand ASEAN-Korea trade and investment through the elimination of tariffs and non-tariff barriers, increased market access, and the liberalization of domestic regulations. It is hoped that a Free Trade Area (FTA) between Korea and ASEAN would promote growth and development, increase living standards of the people throughout the region and would provide further dynamic benefits to the region in the long term. The FTA would also bring economic benefits through (a) economies of scale, (b) increase of efficiency through the introduction of intensified competition, and (c) the use of integrated production factors such as capital and labour.¹² Given Korea's dependence on exports, it is important for it to have free trade

¹² Ibid

agreements with ASEAN and other major economies like the United States, Japan, China and the European Union. This is doubly important because multilateral free trade talks are too complicated, too time-consuming and too inflexible to serve interests of individual countries, as demonstrated by the Doha round of negotiations. The FTA with ASEAN is especially important for Korea, as the agreement reaches far beyond a technical accord and gives an opportunity for Korea to make a major contribution towards forming an Asian economic community. Further, in the long term, the bilateral accord may help in expanding the East Asia network to include non-Asian nations such as India and Australia as well.¹³ The purpose of the AKFTA is to move towards deeper economic integration between the two regions through progressive elimination of all forms of barriers to trade in goods, services and investment; and through trade and investment facilitation and economic cooperation measures. The AKFTA includes provision for flexibility, including special and differential treatment, such as technical assistance and capacity building programmes, especially for the newer ASEAN members to address the different levels of development among the member countries and enable them to participate fully and to obtain full benefits from the AKFTA.¹⁴ Members of ASEAN have also agreed to South Korea's request to recognize some products from a North Korean industrial park as South Korean as part of plans for the Free Trade Agreement, in an effort to integrate North Korea into the international community.

Both Korea and ASEAN have much to gain from the Free Trade Agreement between them. ASEAN accounts for about one-tenth of Korea's exports. The entry into ASEAN will enhance the competitiveness of Korean products tremendously. Moreover, ASEAN being a huge market, with a population of 540 million people, an agreement with it will undoubtedly boost Korean exports significantly. The agreement will also help Korea to compete with China and Japan on a level playing field. As the Korean Commerce, Industry and Energy Minister Hee- Beom Lee said, the agreement "...could be an opportunity for us to emerge as a pillar of economic integration in Asia, linking

¹³ Massita Ahmad (2005), "FTA with ASEAN Provides Level Playing Field for South Korea".

¹⁴ "Joint Declaration on Comprehensive Cooperation Partnership between the Association of Southeast Asian Nations and the Republic of Korea".

China, India and Southeast Asia.”¹⁵ While Korea could export key parts and components in the field of the state-of-the-art technology to the ASEAN markets, ASEAN countries could export resources and labour-intensive products. This will help create a division of labour within the region and contribute to the advancement of Korea’s industrial structure. According to Korea Institute for International Economic Policy (KIEP) estimates, the ASEAN-Korea FTA is expected to boost ASEAN’s GDP by 0.41 percent and Korea’s GDP by 0.13 percent. The accord is expected to improve access of ASEAN countries’ goods to the Korean market.

Finally after prolonged negotiations, the government of South Korea and ASEAN (except for Thailand, which continues to negotiate due to its concerns about agriculture) signed an FTA together in May 2006, which came into effect in July 2006. Under the terms of the agreement, South Korea and ASEAN countries will start cutting tariffs on merchandise trade by January 1, 2007. The members of ASEAN other than Thailand signed an agreement with Korea in May 2005 to start freeing up trade in goods as part of plans to create a Free Trade Area by 2012. Thailand, the world’s top rice exporter, refused to join to register its protest regarding South Korea’s resistance to opening up its rice market. Agriculture is a very sensitive issue in South Korea. South Korean rice farmers are an important political lobby in the country and they had earlier protested violently against market-opening deals concluded in the past with China, the US and other countries. Further talks between the two sides have also been stalled by the political crisis in Thailand. However, it is expected that negotiations with Thailand will resume before the ASEAN Summit in Cebu in December, 2006.

Meanwhile, the other nine ASEAN countries are in the process of ratifying the trade in goods agreement and both sides are expected to implement the agreement by January, 2007. Negotiations to liberalize trade in services and investment are continuing and are expected to be concluded by the end of 2006. The nine ASEAN countries and Korea will steadily cut tariffs on merchandize goods starting next year and eliminate all duties completely by 2010. By 2012,

¹⁵ Massita Ahmad (2005), “FTA with ASEAN Provides Level Playing Field for South Korea”.

the two sides expect to remove obstacles to services and investment to create a broad free trade area. Under the deal, South Korea has designated 200 agricultural products that will be exempt from tariff reductions due to their effect on local farmers. Most ASEAN countries agreed to allow Seoul to hold onto tariffs on forty "super sensitive" products, while gradually reducing duties on others in the coming years.

ASEAN-Korea relations have become increasingly complementary and their areas of cooperation have increased. There is growing economic interdependence between Korea and ASEAN. Both Korea and ASEAN have put economic integration between their economies as their top agenda in order to enhance economic cooperation and to overcome recent global regionalism trend. As ASEAN and Korea continue to develop their economies, not only the potential but the need to increase economic partnership will grow. Creation of the ASEAN-Korea FTA will contribute to the harmonious development and expansion of world trade and provide a catalyst to broader international cooperation, in particular within East Asia. It is, therefore, important that the two sides should focus not only on promoting economic activities but also providing a broad understanding for a new framework for ASEAN-Korea co-operation in the 21st century. In this context, it would be imperative if both sides establish a "Vision 21st Century ASEAN-Korea Consultative Conference" to discuss and make recommendations for ASEAN-Korea cooperation into the 21st century while fully respecting ASEAN's own initiative.

Table 1: Korean Exports to and Imports from ASEAN

(Values in US \$ Million)

Year	Total Exports	Exports to ASEAN	Share (%)	Total Imports	Imports from ASEAN	Share (%)
1996	129,715	20,311	15.7	150,339	12,074	8.0
1997	136,164	20,365	15.0	144,616	12,549	8.7
1998	132,313	15,328	11.6	93,282	9,135	9.8
1999	143,685	17,708	12.3	119,752	12,250	10.2
2000	172,268	20,134	11.7	160,481	18,173	11.3
2001	150,439	16,459	10.9	141,098	15,916	11.3
2002	162,471	18,400	11.3	152,126	16,757	11.0
2003	193,817	20,253	10.4	178,827	18,459	10.3
2004	80,865	7,713	9.5	71,440	7,401	10.4

Source: Korea International Trade Association

Table 2: ASEAN Exports to Republic of Korea by Country (1993-2003)

(Values in Million US \$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei Darussalam	-	229,144.7	427,833.1	512,812.4	685,685.3	371,624.0	268,606.4	162,365.4	371,572.6	373,750.1	410,361.7
Cambodia	-	-	-	-	-	-	-	777.5	984.1	1,449.3	1,465.2
Indonesia	2,220,457.8	2,523,260.5	2,916,749.4	2,612,247.9	3,293,716.7	2,567,798.7	3,319,821.1	4,317,875.2	3,772,463.0	4,107,221.4	4,323,757.3
Malaysia	1,623,518.9	1,546,547.5	1,919,594.8	2,160,841.4	2,134,866.8	1,539,081.9	2,056,855.5	2,599,150.5	3,609,424.5	3,297,054.2	3,197,448.0
Myanmar	-	-	-	-	-	-	12,539.8	18,380.5	22,689.6	24,155.9	198,321.2
Philippines	221,007.6	291,803.1	443,181.1	370,561.9	473,731.1	508,771.6	1,031,501.4	1,172,527.2	1,044,382.1	1,338,787.7	1,313,534.8
Singapore	2,060,954.7	2,414,378.7	2,867,043.7	3,571,666.0	3,804,751.4	2,563,983.0	3,555,908.7	4,918,453.8	4,683,668.8	5,203,024.5	6,055,657.4
Thailand	-	-	-	218,552.4	275,022.1	261,770.1	645,588.3	1,339,084.8	1,229,091.8	1,357,098.8	1,589,833.0
TOTAL	6,125,939.0	7,005,134.5	8,574,402.1	9,446,682.0	10,667,773.4	7,813,029.3	10,890,821.2	14,528,614.9	14,734,276.5	15,702,542.1	17,090,378.5

Source: aseansec.org

Table 3: ASEAN Imports from Republic of Korea by Country (1993-2003)

(Values in Million US \$)

COUNTRY	Import										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei Darussalam	-	18,416.1	30,120.4	45,258.7	40,314.9	14,490.2	16,331.8	12,860.6	17,743.5	31,557.7	31,275.6
Cambodia	-	-	-	-	-	-	-	76,255.4	49,594.4	94,743.5	80,908.9
Indonesia	2,103,064.3	2,360,930.6	2,451,302.4	1,945,149.7	2,321,793.0	1,527,753.4	1,330,052.9	2,082,573.8	2,209,316.7	1,646,759.2	1,527,878.9
Malaysia	1,401,670.9	1,815,692.0	2,963,848.0	3,282,567.7	2,604,498.3	1,732,757.8	2,457,649.3	3,362,094.7	2,939,542.8	3,579,143.5	3,022,976.2
Myanmar	-	-	-	-	-	-	168,026.0	311,519.4	350,842.9	149,111.5	120,628.3
Philippines	897,632.0	1,107,079.3	1,120,855.4	1,671,095.5	2,182,023.7	2,188,724.2	2,723,390.0	2,350,787.0	1,950,084.8	2,581,142.9	2,400,661.7
Singapore	2,745,707.1	3,733,391.4	4,779,437.4	4,223,578.3	4,183,741.8	3,039,854.0	4,167,224.7	4,819,723.5	3,819,086.0	4,295,014.2	4,957,743.8
Thailand	-	-	-	2,126,734.5	3,525,038.5	763,811.6	1,415,275.6	2,442,445.7	2,121,307.4	2,453,179.4	2,916,654.5
TOTAL	7,148,074.3	9,035,509.4	11,345,563.6	13,294,384.4	14,857,410.2	9,267,391.2	12,277,950.3	15,458,260.1	13,457,518.5	14,830,651.8	15,058,727.8

Source: aseansec.org

**Table 4: ASEAN Exports to Republic of Korea by Product Section
(1993-2003)**

(Values in Million US \$)

Section	1993	1994	1995	1996	1997	1998
Live Animal	28,572.4	43,383.9	50,111.0	67,483.8	58,957.3	18,696.8
Vegetable Products	54,936.2	89,264.4	83,198.8	136,669.3	60,275.8	86,753.2
Fats and Oils	128,586.4	153,321.2	172,083.0	125,803.6	148,526.5	122,176.2
Prepared Foodstuffs	330,102.7	406,091.4	302,349.2	234,681.9	283,241.3	291,590.3
Mineral Products	2,290,726.6	2,553,100.6	2,866,987.5	3,423,857.9	4,474,739.2	3,185,930.2
Chemicals	321,040.6	399,759.6	609,755.8	628,649.9	559,287.2	445,264.0
Plastics	192,305.0	226,229.5	331,364.5	337,640.0	355,205.4	186,315.5
Hides and Leather	7,429.9	8,563.2	8,863.4	19,095.1	12,567.6	7,902.9
Wood and Wood articles	1,056,470.5	813,919.8	879,928.6	654,125.2	415,018.5	132,118.5
Pulp and paper	39,493.8	64,080.9	213,313.5	120,561.7	128,142.9	122,210.1
Textiles and apparel	142,462.7	159,368.8	154,506.5	165,792.1	223,523.1	168,188.3
Footwear	9,107.6	11,568.8	21,429.5	19,813.5	18,742.5	5,998.0
Stone/Cement/Ceramics	48,190.8	56,417.3	82,964.2	70,566.4	73,304.6	48,402.6
Gems	2,745.4	2,238.2	2,414.2	36,469.5	122,919.1	8,849.4
Base metal and Metal articles	192,283.4	222,980.5	472,293.4	416,082.7	447,123.9	278,308.1
Machinery and Electrical Appliances	1,089,371.8	1,488,319.0	2,055,780.9	2,667,556.1	2,792,270.7	2,332,969.6
Vehicles	28,174.4	109,313.4	54,169.8	65,029.9	87,626.8	91,722.8
Optical, precision & musical instruments	74,745.4	95,252.0	109,656.5	101,843.1	120,988.3	62,378.0
Arms	610.5	25.8	0.0	109.6	2.0	57.2
Miscellaneous Manufactured articles	46,042.9	53,204.6	60,547.5	82,564.9	75,816.8	19,659.9
Antiques and works of art	42,540.0	48,731.6	42,672.1	64,859.9	202,045.6	167,817.6
Other	0.0	0.0	12.2	7,425.9	7,448.3	29,720.1
Total	6,125,939.0	7,005,134.5	8,574,402.1	9,446,682.0	10,667,773.4	7,813,029.3

Table 4 Continued

Section	1999	2000	2001	2002	2003
Live Animal	43,698.8	83,931.8	134,249.8	146,517.3	179,407.6
Vegetable Products	80,805.6	104,553.9	76,958.9	67,377.6	76,259.8
Fats and Oils	120,700.9	97,451.6	92,357.0	108,080.1	126,873.9
Prepared Foodstuffs	205,960.9	140,101.8	202,585.0	191,065.6	250,754.3
Mineral Products	3,685,760.2	4,636,446.3	4,396,493.8	5,408,228.5	5,619,588.1
Chemicals	582,194.3	729,763.9	762,217.6	891,812.3	976,712.7
Plastics	284,064.7	347,106.8	369,796.7	404,976.3	555,989.9
Hides and Leather	9,360.4	10,330.7	19,884.2	16,566.9	12,458.6
Wood and Wood articles	287,310.0	302,903.7	340,267.8	434,092.9	320,154.6
Pulp and paper	179,339.5	228,514.7	215,189.0	315,657.6	339,100.3
Textiles and apparel	349,976.2	330,368.2	320,478.7	372,595.0	356,513.9
Footwear	13,021.6	16,345.4	20,282.7	25,256.7	33,724.4
Stone/Cement/Ceramics	90,124.3	101,134.3	121,971.3	161,080.0	141,058.3
Gems	17,083.1	49,186.0	10,946.8	10,725.9	26,944.5
Base metal and Metal articles	348,459.8	435,040.6	364,241.8	372,132.4	652,878.9
Machinery and Electrical Appliances	4,286,472.5	6,312,205.7	6,844,552.2	6,247,840.5	6,860,913.1
Vehicles	78,318.8	69,083.0	55,903.2	87,935.2	75,381.1
Optical, precision & musical instruments	89,712.5	147,431.2	172,009.9	247,801.8	303,052.3
Arms	22.3	2.7	7.7	21.8	6.7
Miscellaneous Manufactured articles	45,140.2	66,614.7	73,872.1	88,201.7	83,345.8
Antiques and works of art	74,910.9	86,724.2	119,567.0	90,355.3	82,723.7
Other	18,383.6	233,373.9	20,443.3	14,220.7	16,535.9
Total	10,890,821.2	14,528,615.1	14,734,276.5	15,702,542.1	17,090,378.5
Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993-1998) Figures cover only Brunei Darussalam, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (1999) Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000-2003)					

Source: aseansec.org

Table 5: ASEAN Imports from Republic of Korea by Country (1993-2003)**(All Values in Million US \$)**

Section	1993	1994	1995	1996	1997	1998
Live Animal	18,788.5	15,598.5	31,762.8	28,443.9	57,426.3	15,145.7
Vegetable Products	12,496.9	10,146.1	12,972.0	14,147.7	14,495.5	13,491.5
Fats and Oils	309.0	841.4	851.4	1,948.5	3,845.9	4,514.7
Prepared Foodstuffs	23,867.4	33,103.3	41,635.7	77,252.4	68,169.8	53,250.4
Mineral Products	391,624.4	323,615.4	183,497.1	1,448,376.1	2,175,089.8	630,790.3
Chemicals	330,236.3	432,216.2	584,354.8	580,218.9	790,069.8	666,914.8
Plastics	510,130.2	624,015.2	605,532.1	637,333.7	767,143.8	510,228.5
Hides and Leather	305,579.7	326,985.2	271,218.5	197,052.7	178,743.5	130,615.7
Wood and Wood articles	2,095.5	1,924.6	3,189.7	3,263.4	2,738.7	2,512.9
Pulp and paper	43,174.3	91,647.9	101,053.3	88,192.4	104,871.9	99,826.4
Textiles and apparel	949,667.3	1,000,077.4	957,147.6	912,870.8	1,003,097.4	693,479.7
Footwear	78,361.9	82,506.9	55,703.9	65,893.4	80,271.2	36,037.9
Stone/Cement/Ceramics	38,590.0	52,177.1	61,128.0	45,050.9	48,114.6	34,789.0
Gems	112,310.7	116,374.0	218,744.5	474,375.9	505,372.4	38,154.2
Base metal and Metal articles	978,444.9	866,993.0	1,093,492.4	1,202,112.1	1,430,722.7	1,122,403.7
Machinery and Electrical Appliances	3,027,343.9	4,540,582.9	6,321,620.0	6,190,667.1	6,056,613.2	4,103,524.9
Vehicles	142,337.4	292,597.0	560,112.2	1,008,826.2	983,527.7	850,498.8
Optical, precision & musical instruments	97,382.7	129,027.0	144,074.4	208,098.8	285,530.2	175,323.3
Arms	4,274.6	2,978.9	3,214.4	1,877.1	4,039.8	2,265.4
Miscellaneous Manufactured articles	55,775.6	54,584.5	55,228.5	59,412.4	62,179.6	50,845.1
Antiques and works of art	25,282.1	37,511.6	34,948.5	36,218.0	50,834.9	32,474.5
Other	1.0	5.3	4,081.8	12,752.0	184,511.5	303.9
Total	7,148,074.3	9,035,509.4	11,345,563.6	13,294,384.4	14,857,410.2	9,267,391.2

Table 5 continued

Section	1999	2000	2001	2002	2003
Live Animal	89,283.0	88,024.9	47,602.6	36,035.2	47,810.5
Vegetable Products	24,749.9	25,511.0	30,973.7	41,266.4	27,267.9
Fats and Oils	1,232.5	3,241.7	2,330.4	2,651.2	3,811.9
Prepared Foodstuffs	61,067.2	66,271.9	95,812.4	99,338.8	70,777.7
Mineral Products	686,983.7	1,038,954.2	1,070,121.0	1,270,935.9	589,499.9
Chemicals	734,943.8	1,153,300.4	981,195.0	936,726.0	940,346.1
Plastics	604,681.2	820,478.3	745,617.4	787,458.2	866,760.1
Hides and Leather	103,893.5	125,553.1	120,634.8	86,359.6	69,535.9
Wood and Wood articles	17,241.8	4,718.4	4,305.9	4,137.5	4,377.4
Pulp and paper	153,604.2	185,206.1	200,335.0	128,197.5	127,846.5
Textiles and apparel	793,745.4	1,039,727.5	917,459.8	866,221.9	702,715.9
Footwear	18,818.1	31,463.0	21,855.3	16,863.0	13,554.5
Stone/Cement/Ceramics	46,925.2	73,582.6	76,952.0	87,161.6	53,605.3
Gems	68,186.6	56,050.9	68,150.1	102,652.6	124,202.1
Base metal and Metal articles	1,076,970.5	1,460,412.2	1,396,229.9	1,375,861.0	1,498,283.8
Machinery and Electrical Appliances	6,374,256.8	8,295,406.0	6,897,929.2	8,230,687.1	8,905,657.7
Vehicles	1,060,456.4	687,820.3	470,638.8	463,103.1	701,568.4
Optical, precision & musical instruments	247,470.7	181,268.7	189,665.2	156,626.9	163,580.4
Arms	2,672.8	3,029.5	3,885.2	3,395.2	648.1
Miscellaneous Manufactured articles	62,511.7	75,126.2	62,707.4	61,563.3	69,325.9
Antiques and works of art	42,253.9	41,920.8	52,000.7	71,421.1	77,639.4
Other	6,001.4	1,192.1	1,116.8	1,988.5	3,993.3
Total	12,277,950.3	15,458,260.1	13,457,518.5	14,830,651.8	15,062,808.7
<p>Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993-1998) Figures cover only Brunei Darussalam, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (1999) Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000-2003)</p>					

Source: aseansec.org

CHAPTER -4

ASEAN- KOREA PARTNERSHIP: THE INVESTMENT PORTFOLIO

International trade and foreign direct investment (FDI) are two of the most important forces driving global economic growth today. Foreign investment, particularly Foreign Direct Investment (FDI), is considered to be an important driver of economic growth in most countries around the world, particularly in the post globalisation era. There is keen competition among developed and developing countries to attract foreign investment in the post-globalisation world. This is because the internationalisation of production helps to improve the exploiting of the advantages of enterprises and countries, increase competitive pressures in markets and stimulate technology transfer and innovative activity. Therefore, there is a wide consensus in ASEAN that policies should be aimed at reducing or eliminating hindrances to foreign direct investment as long as this does not conflict with other legitimate policy objectives.

International trade and FDI have become major contributors to deepening interdependence among countries. However, economic theory does not provide clear conclusions on the relationship between them. Does FDI facilitate or restrict international trade? To what extent does FDI replace or increase exports to the same market? A study by June-Dong Kim-the first paper that seriously examined the relationship between Korea's FDI and trade at the industry level- found that:¹

- (1) The larger the amount of overseas Foreign Direct Investment of Korean electronics firms, the larger the exports of the firms;

¹ June-Dong Kim (1994), *Exports and FDI in the Period of Globalization*, Seoul: Korea Institute for International Economic Policy, p.98.

- (2) When cross-section data is employed, results show that outward FDI has a positive effect on exports in the industry-level analysis;
- (3) Time-series data shows that outward FDI causes positive effects on exports in most industries except food and beverages.

Another study by Kim and Kang (1997) arrives at similar conclusions using the Korean and Japanese cross-section data. The findings of this study indicate that:²

- (1) Outward FDI does not substitute exports from the investing country;
- (2) As a determinant of outward FDI, retaining foreign export markets is more important in Japan than in Korea. The second conclusion implies that outward FDI in Korea is more of a cost-oriented type, while Japanese outward FDI is more of a market-oriented type.

Trade and investment integration in East Asia have continued since the 1980s. Accumulation of Foreign Direct Investment inflows has been a force driving the intensification of intra-regional trade in East Asia, as well as multiple engines of the economic growth. Multinational firms have extended their activities throughout Asia by means of FDI and have played an important role in development of intra-regional production and procurement networks and the vertical economic integration. As we see today, the region is experiencing market-driven trade and investment integration.

ASEAN's dialogue relations have promoted trade and investment, facilitated the transfer of technology and know-how and improved the access of ASEAN products to the markets of the dialogue partners. They have also served as opportunities for ASEAN to engage major players in discussions on regional and global issues and to secure development cooperation and technical assistance. ASEAN economic cooperation with its dialogue partners extends to industrial

² June-Dong Kim and In-Soo Kang (1997), "Outward FDI and Exports: The Case of South Korea and Japan," *Journal of Asian Economics*, 8(3), p.49.

development, transfer of technology, energy, communications, transport and tourism apart from trade and investment. Progressively, mutual economic interest has resulted in development cooperation projects being designed to achieve economic objectives.

It has been 15 years since ASEAN and Korea established a full dialogue partnership. Over these 15 years, both sides have consistently and gradually deepened their overall investment relations. ASEAN has been one of the most important investment destinations for Korean companies. Today ASEAN is third largest destination for FDI from Korea. As for ASEAN, there had been no significant investments to Korea before 1994. However, since 1995, ASEAN (especially Malaysia and Singapore) has expanded investments to Korea, which peaked in 2000 with its portion of FDI accounting for about 14.3% of inbound FDI to Korea. After that, ASEAN's investments to Korea have been steadily decreasing.

ASEAN's Initiatives for Attracting Investment

The ASEAN region has become one of the attractive investment locations in the developing world and has attracted a sizable FDI. In fact, Foreign Direct Investment into ASEAN rose to \$38 billion in 2005. The manufacturing sector has been the top recipient of FDI over the years. ASEAN has been heavily dependent on FDI as an instrument of export-led growth. It adopted relatively a free market, free trade, open capital account and liberalized policies to attract FDI. The success of ASEAN countries in attracting FDI may be attributed to a combination of factors that include political, social, economic stability, buoyant economies with capacity, growing domestic markets, favourable factor endowments, particularly natural resources and labour supply. The incentives given by ASEAN countries range from tax holidays, accelerated depreciation allowance, export incentives, import duty exemption and concession and low-cost credit facilities to subsidized infrastructure facilities such as industrial estate. The main vehicle of FDI inflows to ASEAN has been through Mergers and

Acquisitions. Intra-ASEAN inflows have only accounted for a small share of ASEAN's total FDI inflows.

FDI has played an important role in the economic development of ASEAN countries by acting as a source of capital and technological expertise. It has helped in the spectacular economic growth of these countries by establishing trade linkages between foreign subsidiaries, local regional suppliers and parent companies through an efficient international division of labour.³

Since the 1980s, ASEAN countries have embarked on significant reforms of their investment regimes. These investment liberalisation initiatives were undertaken unilaterally. The reforms were implemented due to the recognition of the benefits of a degree of liberalisation and competition in response to change in the international climate, rather than due to the requirements of regional or international agreements. However, by 1995, ASEAN countries were conforming to the Agreement on Trade-Related Investment Measures (TRIMs) to eliminate trade-related performance requirements.

APEC Bogor Goals were committed in the 1994 APEC Leaders' meeting, which declared that developed economies would fulfil trade and investment liberalisation and facilitation by 2010 and developing economies by 2020. After implementing Individual Action Plans (IAPs) and Collective Action Plans (CAPs) with the principle of concerted unilateralism, the degree of trade liberalization has been improved significantly in the APEC region. Ever since the Bogor goals were committed, investment flows to the region have grown significantly.

Both ASEAN and Korea have become increasingly aware of the necessity of further strengthening their comprehensive economic partnership in order to sustain dynamic growth and enhance their status in the world economy. Trade and economic interests span the world but the scope and scale of the movement

³ Tobias S. Blattner (2006), "What Drives Foreign Direct Investment in Southeast Asia? A Dynamic Panel Approach."

of goods, services, investment, people and ideas between Korea and ASEAN make this a unique partnership. Trade between Korea and ASEAN contributes to making both sides more internationally competitive, provides consumers and producers with a greater variety of goods and services at lower prices and generally improves the standard of living on both sides. The trade balance with the region has been improving during recent years. Co-operation has, thus, produced tremendous benefits to both sides.

Korean Investment in ASEAN

In the 1980s, Korea and other newly industrialized economies (NIEs) emerged as major FDI exporting countries in East Asia. The Korean won appreciated after a sharp appreciation of the Japanese yen in the 1985-88 periods. This encouraged outflows of FDI from Korea to other developing East Asian countries, particularly in export-oriented manufacturing industries. The globalization of business activities, particularly in large conglomerates, was a major factor behind the surge of Korea's FDI in the mid-1990s. Trends over the years suggest that the motivation behind Korea's FDI was to seek low cost labour in declining industries. Institutional and policy-related variables such as transparency and pro-FDI policy have also helped in making some countries more attractive for Korean investors.⁴

ASEAN and Korea has been mutually important economic partners. Bilateral trade and investment between Korea and ASEAN has been steadily increasing in recent decades. Korea's trade and investment links in ASEAN are giving ASEAN economies a major boost. ASEAN countries are benefiting from increasing Korean investment and will benefit more in the future with more technological transfers from Korea. Many factors have influenced Korean FDI in ASEAN. Changes in Korean macroeconomic variables, such as currency appreciation and wage increases, have been cited as reasons for Korean FDI in this region. Liberalisation of host country investment policy is also important in

⁴ Seong-Bong Lee (2000), "Korea's Overseas Direct Investment: Evaluation of Performances and Future Challenges," *Working Paper* No. 10, Seoul: Korea Institute for International Economic Policy, p.35.

attracting Korean FDI. However, Korean FDI in ASEAN can also be explained by the desire of Korean companies to keep up with their Japanese and Chinese counterparts by investing in similar areas. Though ASEAN is a regional group of countries, there are vast differences among its members in terms of per capita GDP and level of industrialization. This explains why Korean FDI in one country might be less than its FDI in another country.

The investment relationship between ASEAN and Korea has a long history compared to other regions. The first Korean overseas direct investment to the region was established by the Korea South Development Corporation to develop forests in Indonesia in 1968. Since Korea's first direct investment in the ASEAN region to develop forests in Indonesia, three thousand seven hundred eighty one (3,781) cases of Korea's investment amounting to 12.3 billion dollars had been registered till December 2005.⁵ Korean FDI increased in the 1980s, and since the mid-1980s, Korean firms have looked at Southeast Asian countries as a source of inexpensive labour as well as abundant natural resources. Korean firms also exported manufactured goods produced in Southeast Asia to developed countries. This strategy allowed these firms to bypass the trade barriers to Korean products in third country markets.⁶ Consequently, Korean investment to ASEAN began to increase in the late 1980s, concentrated mostly in labour-intensive industries like footwear, textiles and electronics. As the purchasing power of ASEAN member countries diversified, Korean firms also began to shift their investment patterns to market-oriented investment after the mid-1990s. The total amount of investment to ASEAN reached to 30 percent in 1991. However, due to investment in China after the normalization of diplomatic relations between Korea and China, Korea's investment in Southeast Asia declined in 1993 and 1994 because many Korean companies were investing heavily in China. It increased again when large Korean corporations began directing investments towards ASEAN countries again. However, Korean investment in ASEAN countries greatly declined in the late 1990s due to the financial crisis of 1997 and due to the emergence of China.

⁵ "Korea and ASEAN – A Partnership for Peace and Prosperity", Keynote Address by H.E. Hyun-Chong Kim, Minister for Trade, The Republic of Korea at the 11th ASEAN Summit, December 2005.

⁶ Kwon Yul (2001), *Industrial Development and Trade Patterns in Southeast Asia*, Seoul: KIEP, p. 180.

ASEAN's share in Korea's total Investment decreased to 7.4 percent in 2001 due to stagnation of the ASEAN economy and the rapid increase of investment in China. Nonetheless, investment in Southeast Asia climbed upwards again with the recovery of the ASEAN economy. In 2003, Korea's total investment to ASEAN reached US\$508 million.⁷

The current trend of Korean investment towards ASEAN by industry shows that the manufacturing sector encompasses nearly all industries, comprising 61.5 percent of the total investment and 59.5 percent of the net investment. Based on the total investment, whole and retail sales, mining, real-estate and services, telecommunications and construction industries follow the manufacturing industry. Investment towards ASEAN in the tele-communication sector is on an upward trend.

With regard to the scale of investment of Korea to ASEAN member countries, Indonesia is the most significant FDI destination for Korea among ASEAN nations followed by Vietnam. Among the ASEAN 10 members, 98 percent of total investments are concentrated in the ASEAN six, which includes Indonesia, Vietnam, Thailand, Philippines, and Singapore, while only 2 percent are focused on Myanmar, Cambodia, Laos, and Brunei.⁸

Korean investment in ASEAN has generally accounted for about 3 percent of the total foreign direct investment flows into ASEAN over the period of 1995-2003. However, Korea's cumulative investments in ASEAN amount to US\$ 11 billion, which accounts for 15.2 percent of Korea's total FDI outflow, making ASEAN the third largest investment destination for Korean firms.⁹

⁷ Ibid, p.181.

⁸ Kwon Yul, "ASEAN on the Road to Closer Integration in East Asia", *The Southeast Asian Review*, Vol. 14, No. 1 (2004), p.36.

⁹ "ASEAN-Republic of Korea Dialogue Relations."

The ASEAN-Korea Free Trade Agreement

An FTA may offer advantages to all member countries. An FTA is likely to increase intraregional trade and enhance competitiveness, productivity and efficiency. Free Trade Agreements allow the partners to give each other preferential market access. Thus, FTAs help to foster and facilitate the flow of trade and investment between the signatories to the agreement.

There are many factors which have motivated ASEAN to form Free Trade Areas with other countries like Korea. One reason could be that the rapid expansion of regionalism in other parts of the world motivated the surge of FTAs in the ASEAN region in order to maintain and expand market access for their exports. Another reason is the perceived economic efficiency gains from trade liberalisation. The greater the size of the combined market, the more likely that economies of scale (from market size, market growth and tax discrimination) will be realised, and that the market will be more attractive to foreign direct investment. The new regionalism in Southeast Asia is also spurred by the need to reduce the risks of financial contagion and unusual exchange rate instability, the damaging effects of which were demonstrated by the Asian financial crisis. The crisis showed that rapid depreciation of one country's currency could have a negative impact on the export competitiveness of other countries, especially neighbours producing similar products for the same export markets. All these reasons contribute to ASEAN members' fears that they will be disadvantaged in global competition unless they form their own free trade area (AFTA) or extend it (ASEAN + China or ASEAN + Korea etc) to secure a bigger market within their own region. Finally, as these agreements facilitate trade and investment, promote the harmonisation of rules and provide dispute resolution mechanisms, they are ipso facto deepening integration, which is essential for the formal institution building for trade and investment.

Korea has been resolutely committed to continuous trade and investment liberalisation and has been open to any means promoting freer trade and creating more open, transparent economies. Korea attaches great importance to the

complementary nature of FTAs in promoting global trade liberalisation and the multilateral trading system as a whole. It is true that Korea was not a forerunner in the global trend of FTAs. But by regarding FTAs as an important vehicle in carrying out its respective trade policies, Korea is now making great efforts to conclude FTAs. The ASEAN-Korea FTA is one of the most important of these FTAs. Both Korea and ASEAN have much to gain from an FTA between them. Factors such as geographic proximity, corresponding endowments of production factors and growing economic ties after the Asian financial crisis will help increase economic benefits for both sides from the FTA. Further, the creation of a huge free market covering eleven countries will bring dynamic benefits to the region, since the region will attract more foreign direct investment, which will in turn create more jobs and facilitate the transfer of advanced technology. The formation of the AKFTA is certain to improve trade relations between ASEAN countries and Korea and remove any remaining barriers to investment from Korea, thereby increasing Korea's investment in ASEAN countries.

FDI involves the engagement of considerable resources and assets and satisfies the requirements of investment in the host country. It provides the much needed foreign exchange to help bridge trade deficits. It raises the technology standards, levels of efficiency and competitiveness of the host country. It helps to improve its export performance by providing the host country better access to foreign markets. ASEAN's attractiveness as an investment location for Korean companies has strengthened the economic relationship between the two sides.

The continuous expansion of Korean FDI inflows into ASEAN countries has greatly stimulated increases in the overall trade between the two sides. FDI thus seems to have had a strongly positive effect on trade between ASEAN and Korea. FDI has expanded trade opportunities for exports between Korea and ASEAN. Korea's ASEAN-bound investments also promote international trade between Korea and the rest of the world, increasing Korea's trade volume and trade surplus with third countries such as Japan and the United States. Korean FDI has become the major driving force of ASEAN's import and export growth. East Asian integration has been largely market driven. Trade and investment, particularly FDI, have been the main drivers of this integration. Thus, Korean

investment in ASEAN countries has implications in the whole region and for regional integration.

In short, trade and investment are not zero sum games and it is possible for Korea and the member countries of ASEAN to mutually benefit if closer economic relations are fostered among them. If these countries can enhance their economic linkages through deeper integration, in the long term they would become more competitive as a region and attract foreign investment to their integrated market. This would further promote economic growth and welfare, and more importantly, augur well for the peace and stability of the region.

To this end, Korea and ASEAN need to accelerate their efforts to expand dialogue and collaboration. The ASEAN – Korea FTA negotiations in the service and investment areas are now underway. Once these materialise, bilateral trade and investment will get a further boost.

Table 1: Korea's FDI Inflows to ASEAN (Country – wise)

(Unit: US\$ thousand)

Countries	2001	2002	2003	Total (Remaining Amount)
Malaysia	19,872	6,189	6,428	334,284 (8.4%)
Thailand	30,777	31,480	26,496	528,458 (13.3%)
Indonesia	169,480	64,728	78,528	1,237,984 (31.1%)
Singapore	40,918	48,166	234,343	422,798 (10.6%)
Philippines	56,9333	26,732	16,363	500,374 (12.6)
Vietnam	46,280	135,403	136,512	880,822 (22.1%)
Cambodia	5,540	3,877	9,219	34,618 (0.9%)
Myanmar	2,948	660	0	29,678 (0.7%)
Laos	35	50	115	7,090 (0.2%)
Brunei	0	0	0	1,937 (0%)

Source: The Export-Import Bank of Korea Database

Table 2: Korea's Investment to ASEAN by Industry**(Unit: US\$ thousand)**

Industry	2001	2002	2003	Total (Total Investment)	Total (Net Investment)
Agriculture*	772	592	1,247	72,018 (1.2%)	46,294 (1.1%)
Mining	11,013	23,334	114,130	584,507 (9.7%)	531,046 (13.1%)
Manufacturing	267,681	205,752	132,944	3,687,594 (61.5%)	2,404,675 (59.5%)
Construction	33,032	11,519	10,833	231,644 (3.9%)	160,208 (4.0%)
Whole/Retail sales	27,774	14,789	200,581	657,416(10.9%)	228,614 (5.7%)
Storage	954	2,573	1,594	21,744 (0.4%)	18,724 (0.5%)
Telecommunication	274	11,328	37,283	247,051 (4.1%)	229,161(5.7%)
Finance/Insurance	5	0	0	455 (0%)	455(0%)
Hotels/Restaurants	1,135	719	640	72,716 (6.9%)	45,513(1.1%)
Real estate/service	30,143	46,621	8,752	415,716 (6.9%)	378,778(9.4%)
Others	0	54	0	54 (0%)	54(0%)

*Note: Forestry and Fishery are included in the sector of agriculture.

Source: *The Export-Import Bank of Korea Database*

**Table 3: Foreign Direct Investments in ASEAN by Source Country/ Region
(as of 31 December 2005)**

(All figures in US \$ Million)

Source Country/Region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
ASEAN	4,654.4	4,271.8	5,235.7	2,730.8	1,789.3	763.1	2,495.4	3,634.4	2,301.8	2,432.7
Rest of the World	23,425.4	25,643.1	28,694.7	19,432.6	25,461.2	21,909.1	16,088.7	10,070.3	16,145.2	19,371.1
Asian Newly Industrialised Economies	2,845.2	2,242.0	3,520.6	1,930.4	1,629.0	1,459.8	1,828.0	567.6	1,558.9	2,427.9
Hong Kong	1,271.1	927.5	1,884.8	1,162.2	697.6	1,128.9	(431.9)	204.5	100.1	344.9
South Korea	660.2	504.2	721.8	90.8	528.9	(45.0)	(264.8)	92.4	632.0	896.5
Taiwan (ROC)	914.0	810.3	914.0	677.5	402.5	375.9	2,524.7	270.7	826.9	1,186.6
China	136.7	117.9	62.1	291.3	62.5	(133.4)	147.3	(80.9)	188.7	225.9
India	108.1	68.8	90.2	92.6	41.7	79.5	32.3	96.0	81.2	46.3
Japan	5,649.3	5,283.3	5,229.5	3,937.6	1,688.2	455.0	1,606.3	3,366.2	2,317.7	2,538.2
European Union	6,221.4	9,483.1	8,326.5	6,861.1	12,048.0	13,840.1	6,053.6	5,087.5	6,674.7	6,357.7
EU 15	5,049.6	7,362.0	6,333.6	5,553.3	9,806.0	13,479.6	6,006.5	4,235.9	5,230.4	5,420.5
Other EU	1,171.7	2,121.1	1,992.9	1,307.9	2,242.0	360.6	47.1	851.5	1,444.4	937.2
Canada	609.2	204.7	1,110.9	(207.0)	(14.2)	(397.6)	(555.4)	(191.7)	(10.7)	92.1
USA	4,318.4	5,177.2	4,950.1	3,222.3	5,931.7	7,311.6	4,569.4	357.6	1,395.3	5,051.9
Australia	534.9	325.1	245.6	(302.2)	(935.0)	(302.8)	(95.1)	202.6	181.1	392.5
New Zealand	35.4	31.2	29.1	25.3	80.2	43.1	14.7	53.7	88.5	(1.9)
All other countries	2,966.8	2,709.8	5,130.1	3,581.1	4,929.2	(446.1)	2,487.5	611.7	3,669.6	2,240.5
Subtotal II/	28,079.9	29,914.9	33,930.5	22,163.4	27,250.5	22,672.2	18,584.1	13,704.7	18,447.0	21,803.9
Total FDI in Cambodia	150.7	293.7	168.1	242.9	232.3	148.5	-	-	-	-
Reinvested earnings in the Philippines	-	-	-	-	370.0	(174.0)	(127.0)	120.0	-	2.0
Inter-company loans in the Philippines	-	-	-	-	-	-	-	-	-	(278.0)
Reinvested earnings in Singapore	-	-	-	-	-	-	-	-	-	3,833.8
Inter-company loans in Singapore	-	-	-	-	-	-	-	-	-	292.5
Total	28,230.6	30,208.6	34,098.6	22,406.3	27,852.8	22,646.7	18,457.1	13,824.7	18,447.0	25,654.2

Source: www.aseansec.org

Table 4: Trend of Korean FDI to ASEAN**(Value in Thousand US \$, %)**

Year	Total Investment			Net Investment		
	Case	Amount	Share*,%	Case	Amount	Share*,%
1988	32	31.9	14.8	26	27.6	17.7
1989	69	91.6	16.0	67	90.1	22.8
1990	119	238.7	24.9	115	235.4	28.9
1991	137	330.5	29.6	132	326.2	31.7
1992	106	271.3	22.3	90	255.9	23.5
1993	106	168.3	13.3	97	150.1	14.7
1994	275	257.2	11.2	260	200.6	9.8
1995	183	605.5	19.3	155	496.6	17.5
1996	219	445.5	10.1	188	372.7	9.9
1997	173	616.3	17.1	151	531.8	15.8
1998	62	501.1	10.6	46	393.7	10.6
1999	114	464.1	14.2	99	357.1	15.5
2000	183	463.6	9.5	170	259.9	7.4
2001	191	372.7	7.4	172	-562.1	-31.1
2002	261	317.2	10.4	245	166.7	7.8
2003	222	508.0	14.4	210	463.3	15.3

Note: *ASEAN's share in Korea's outward FDI (total and net invested).

Source: Korean Export and Import Bank database.

CHAPTER -5

ASEAN- KOREA DIALOGUE RELATIONSHIP: FUTURE POTENTIAL AND OPPORTUNITIES

The new millennium has seen the emergence of several important trends. The most noteworthy of these is the phenomenon of globalization, which is shaping all aspects of interaction and communications. The concept has gained considerable significance to the extent that it described almost any and every aspect of contemporary life; from the complicated machinations of contemporary capitalism, to the erosion of the nation-state system and the rise of transnational organizations and corporations, to the threat posed by global culture to local cultures and traditions.¹ Second, the threat of the Cold War has been replaced by new types of threat posed by terrorism, proliferation of weapons of mass destruction, rouge states with possible weapons of mass destruction, competition for energy and security resources, ethnic and religious conflicts. Today, dangers mainly originate from areas of the world without security arrangement and disconnected from the process of globalization. The rise of globalization and security threats emanating from terrorism and proliferation of weapons of mass destruction, to name a few, is propelling nations towards greater interdependence, cooperation, regional integration and alliances.

¹ John Hawley, (ed.), *Encyclopedia of Postcolonial Studies*, Westport, CT: Greenwood Press, 2001, p.209.

No nation can truly remain an “island” any longer, and there is now an unprecedented rush by nations around the world to form cooperative “alliances” and “strategic partnerships”. This has been exemplified by the realization of regional groupings and trends towards community building and the current movement across the globe towards regional and bilateral Free Trade Areas and Economic Partnerships. In the ASEAN-Korea context, this includes the establishment of regional ASEAN-Korea Comprehensive Cooperation Partnership and bilateral Economic Partnerships between Korea and countries such as Thailand, the Philippines and Korea-Singapore FTA for which negotiations are underway as well as in the efforts towards East Asian Community building.

What are the reasons for the popularity of regional and bilateral Free Trade Areas and Economic Partnerships? One reason is the growing disillusionment with the current progress of negotiations under the Doha Round of the World Trade Organization (WTO). As negotiations bogged down in various sectors due to the impasse among developed countries and between developed and developing countries, bilateral and regional alternatives that could be realized more quickly have become increasingly attractive. There is also the sense that countries will not succeed in getting benefits if they fail to get onto the integration or FTA bandwagon. Proponents cite the success of NAFTA and the integration under the European Union (EU) as prime examples of the benefits of integration and inter-linkages. Smaller countries also feel the need to link up among themselves or with major powers to avoid being marginalized by major markets and players such as the United States, China and the EU. The growing security concerns is also an important factor promoting greater cooperation to address issues such as terrorism, transnational crime, human security and resources and energy security. Finally, there is the feeling that integration efforts at the bilateral and regional levels could act as a driving force and impetus to spur on progress within the framework of the WTO. In short, integrative efforts are now extremely popular among the nations of the world.

Prospects and Challenges

Since the 1990s, Korea and the Association of Southeast Asian Nations (ASEAN) have developed a growing partnership in economic and trade areas, in security cooperation and in the development and sharing of “Asian values.” Due to their geographic proximity, ASEAN and Korea have found in each other a vast market for their respective exports. Private sectors from both parties have also taken further efforts to promote trade and economic cooperation leading to further expansion of commercial relations. ASEAN and Korea are currently the fifth largest trading partners for each other and ASEAN is the third-largest destination for FDI from Korea. In 2003, ASEAN exported to Korea US\$ 17.1 billion or 4% of ASEAN total exports to the world, while Korean exports to ASEAN increased to hit US\$15.05 billion. Investment in ASEAN countries by Korean businesses has also steadily been on rise. Korea’s cumulative investment in ASEAN was to the tune of US \$ 11 billion in 2003, which accounted for 15.2% of Korea’s total FDI outflow. On the political front, the two sides have declared a Comprehensive Cooperation Partnership between ASEAN and South Korea which commits the two sides to strengthen political and security cooperation through high-level contacts and by intensifying dialogue using existing mechanisms at regional and multilateral levels through fora such as the ASEAN Regional Forum (ARF) and ASEAN Plus Three process. ASEAN has been active in enhancing security interactions among East Asian countries through various mechanisms, giving it an advantageous geopolitical position in Northeast Asia as a trusted broker.

This type of cooperation will continue in the future. Seoul realizes that ASEAN countries have slowly become a trading power and regional markets. The countries of Southeast Asia are home of 500 million people and have combined GDP of more than \$700 billion.² With large numbers of young, educated and hard working people, the ASEAN region is one of the fastest

² “Southeast Asia,” *The Economist*, February 12th-18th, 2000, p.3.

growing in the world. This would provide the basis for Korea to further strengthen its economic growth. .

Korea gave a push to ASEAN regionalism when it first proposed an FTA with ASEAN. In November 2004, ASEAN and Korea signed a Joint Declaration on Comprehensive Cooperation Partnership that commits both parties to an FTA covering trade in goods and services, investments liberalization and facilitation, and other areas of cooperation. Korea signed a commodity trade agreement with ASEAN in August 2006 within the framework of ASEAN-Korea FTA, which made Korea the second country after China to succeed in finalizing a Free Trade Agreement with ASEAN. There is a growing realization that ASEAN could form with Korea a large and dynamic economic bloc, able to harness regional resources to resolve regional problems and to seek a more effective voice in the global arena.³ Economically, the ASEAN-Korea FTA has effectively linked Korea closer to ASEAN. The FTA will enhance a sense of community within East Asia and lay the foundation for broader regional economic cooperation and ensuring peace and stability.

Korea wants to forge economic partnerships and Free Trade Areas with other countries and regions. However, it also faces domestic pressure and a dilemma whether to open up the agricultural sector: a necessity for the forging of truly comprehensive partnerships. This was made obvious when it refused to open up its rice market during negotiations on AKFTA. Subsequently, Thailand decided not to join the FTA in protest against this stance of Korea, though negotiations are continuing. Under the deal with the other nine ASEAN countries, South Korea has designated 200 agricultural products that will be exempt from tariff reductions due to their effect on local farmers. Korea must thus resolve the major question of the role of agriculture in society, whether it

³ Chia Siow Yue, "Economic Cooperation and Integration in East Asia," *Asia Pacific Review*, 11(1), May 2004, p.11.

can remove all trade barriers in agricultural products and a broader question of self-sufficiency and food security in the years to come as AKFTA becomes fully operational.

Apart from the current internal difficulties that Korea faces in opening up and forging integrative ties with other countries, another challenge to achieving integration in the ASEAN-Korea context lies with ASEAN itself. ASEAN has come a long way since its founding in 1967. Yet it could be said that ASEAN is currently at a crossroad. A product of the Cold War, ASEAN's initial formation helped to bind together the "free" economies of Southeast Asia at a time in which the "domino theory" was in vogue. With the end of the Cold War, ASEAN has evolved into a grouping that encompassed all ten countries of Southeast Asia with the major goal of promoting greater economic integration through the ASEAN Free Trade Area (AFTA). Economically, ASEAN now faces challenges in fully implementing AFTA, which includes doing away with state control, promoting real open markets among its disparate members and bridging development gaps between older and newer members. Politically, the ongoing Myanmar issue must be resolved. This calls for the ability of ASEAN members to be able to talk among them. This in turn means that ASEAN can no longer dogmatically adhere to its principle of non-interference among members. Furthermore, there is a need for the members of ASEAN to develop greater common denominators in political beliefs in order to promote cohesiveness and cooperation.

ASEAN and Korea agenda for future cooperation is clear. The two sides are favorably inclined to promote and strengthen security dialogue for better appreciation of their respective positions on various issues concerning the region and the world to forge common positions in order to foster greater political and security cooperation to help achieve peace and security in the region. The two sides acknowledge and appreciate the need to promote high-level interactions for better understanding and to enhance the comfort levels among government

leadership, top policy makers, bureaucrats and technical experts to facilitate candid discussions and identification of concrete cooperative activities.⁴

The Southeast Asian economy has to be integrated more broadly, more deeply and closer with East Asian economy. ASEAN and Korea can do more in strengthening the economic partnership. Both sides are working towards liberalizing not only commodities but also services and investments. Korea can do more in terms of investing in the manufacturing and service sectors of ASEAN, where there are comparative advantages to be tapped so that ASEAN can contribute to Korea's economic growth and at the same time receive economic gains. When the ASEAN-Korea FTA in service and investment sectors, for which negotiations are underway, is realized, it will offer good opportunity to bolster bilateral trade and investment. Korea is ready to increase its assistance to ASEAN, especially for the initiative for ASEAN integration, to narrow the development gaps within ASEAN, as this is important for the closer economic partnership between ASEAN and Korea.

Although ASEAN and Korea have enjoyed healthy trade and investment flows, it is of utmost importance to further promote and expand cooperation in the areas of trade and investment between ASEAN and Korea. ASEAN and Korea are taking active steps to jointly promote the broadening and deepening of investment ties between and among their private enterprises. This would be vital for the promotion of mutual economic growth and development.

Small and medium enterprises (SMEs) consist of 70-80 percent of the manufacturing sector in ASEAN, and contribute significantly in terms of employment. Strengthening the cooperation between ASEAN and Korean SMEs could help enhance the competitiveness of the SMEs and promote new growth

⁴ Jeannie Henderson, "Reassessing ASEAN", *Adelphi Paper No. 328*, London: Brassey's, 1999, p38.

areas through technology transfer, Research and Development (R&D), and human resource development (HRD). In this respect, ASEAN and Korea are exploring effective ways to support business cooperation among the SMEs, so that the SMEs can fully exploit the business opportunities created by the AKFTA.

The ASEAN-Korea Working Group on Economic Cooperation has also been established to further strengthen economic ties between the two sides. The role of this Working Group is to identify and implement economic cooperation programs and activities necessary to facilitate and complement the process of moving towards the AKFTA.

The two sides have several proposals on table to take their existing trade and investment relations to a further high which include the establishment of ASEAN-Korea Centre based in Korea and trade and investment promotion activities, such as trade and investment missions, business seminars and sharing of databases. Cooperation between Customs agencies is an important means of facilitating international trade. In today's increasingly challenging trade environment, it also provides an avenue to secure the flow of goods against terrorist-related activity in a way that can meet the expectations of our international trading partners. Customs-related cooperation can also be improved by simplifying customs procedures but with strict customs enforcements as simplified customs procedures may have the adverse effect of increasing illicit trade. ASEAN and Korea are also exploring the possibility of cooperation in the collection and exchange of information regarding drug smuggling, detecting terrorist equipment and other illicit shipments.

Given Korea's experience in the field of financial services liberalization, Korea is ready to share with ASEAN its best practices on how to better manage

the adverse implications of financial services liberalization. Korea has expressed its intention to participate in capacity building programmes for less-developed ASEAN members in related areas, such as capital market development and liberalization; and regular exchange of views and experiences on market trends and regulatory developments.

Although the agriculture sector is a sensitive sector for both ASEAN and Korea in terms of trade liberalization, there remain opportunities for collaboration and technical cooperation in this sector between ASEAN and Korea. The opportunity for mutual cooperation between ASEAN and Korea exist in the areas of cooperation, such as the food safety and food security, facilitation and promotion of joint ventures in plantation development, livestock development, food and beverage processing, and exports and manufacturing of agriculture machinery. There are some suggestions for the establishment of a Joint Agricultural Cooperation Committee under the framework of AKFTA to expand and deepen cooperation for mutual benefits with a view to contribute to the regional development of agriculture, forestry and fisheries, especially in the areas of technical cooperation, safety of agricultural and food products, quality control and inspection. Given Korea's expertise in fishery management and technologies, processing, and aquaculture technologies, Korea can provide training in this area to ASEAN countries, which have interest in these sectors.

Given the rapid pace of economic development, energy demand in the Asian region will further expand in the future. ASEAN and Korea are working together and making joint efforts to improve the energy security in the whole region as well as promote competitive and efficient energy markets. Tremendous possibility of cooperation exist between ASEAN and Korea in exchanging information on the improvement in energy use effectiveness, promoting the use of alternate energy sources, such as natural gas and cooperation in infrastructure

development, investment promotion, trading arrangements and application of new energy technologies.

Cooperation in human resource management and development is important for sustainable economic growth in both ASEAN and Korea, and would have a positive impact on mutual understanding and interaction between the peoples of ASEAN and Korea. Given Korea's developed economy status and its advanced research institutes, Korea is well-positioned to help the less-developed ASEAN member countries through technical assistance and capacity-building programmes.

ASEAN and Korea realize that facilitating the movement of business people who carry out legitimate business activities in ASEAN and Korea would support economic activities between ASEAN and Korea. In this regard, both countries are taking steps to enhance transparency in the current immigration procedures such as the issuance of visas and residency stay permits, by specifying the required standards for obtaining work and residency stay permits, and simplifying the procedures for entry.

Another institution that is likely to promote closer cooperation between Korea and ASEAN is the ASEAN Regional Forum (ARF). This forum has enabled the participants to discuss security issues and has promoted confidence-building measures amongst its participants. The ARF has developed as a cooperative security type arrangement and today it provides a sort of social capital for security in the region.⁵ The ARF has the potential to develop into an important regional arrangement for peace and stability. As far as South Korea is concerned, the Track II diplomacy generally favoured by the ARF could help resolve its long-standing concern over North Korea's nuclear proliferation.

⁵ Akiko Fukushima, "The ASEAN Regional Forum", in Michael Wesley (ed.), *The Regional Organisations of the Asia Pacific: Exploring Institutional Change*, Houndmills: Palgrave Macmillan, 2003, p.93.

The North Korean nuclear test is threatening to overtake all of the efforts till date to promote regional security cooperation. If the U.S., China, Japan, Russia and South Korea, which are major players in finding peaceful resolution of North Korean nuclear crisis, can align their interests and policies towards North Korea, the Pyongyang can be persuaded to disarm itself. Even though Six-Party Talks remain the main forum to deal with North Korean nuclear, ARF is another venue where all the parties involved in the nuclear talks are represented. As ARF moves from confidence building phase to preventive diplomacy phase, it can serve as an effective forum for the process of resolving the North Korean nuclear issue through dialogue and negotiations.

ASEAN and Korea are actively working together towards the realization of an East Asian community in the long run together with Japan and China. Korea supports ASEAN leadership role in moving the countries of the region towards organizing into cooperative arrangements like an East Asian Community. ASEAN can take lead in building multilateral institutions because it is perceived as more neutral and non-threatening than Japan and China and enjoys the trust and confidence of all the neighbours in the region as well as the broader Asia Pacific. Implementing the 26 measures suggested by the East Asia Study Group and strengthening sectoral cooperation under the ASEAN plus Three processes in the fields of monetary and finance cooperation, energy, public health and others will be vital for the building of an East Asia community for the future. The functional cooperation in various fields such as economy, culture, ethnicity, religion, politics, and security which is progressing well in the region will contribute to the process of the establishment of the East Asian Community in long run. The political leadership and peoples of the countries concerned have expressed their unstinting support for the process of the community building in the region. Political initiative is indispensable for establishing the community and

the leaders of the region are gradually demonstrating their strong will in turn to carry forward this process to the conclusion. In the process of the establishment of a Community, first economic integration will take place, which will in turn, lead to the emergence of an East Asian Economic Community. The establishment of an economic community will gradually expand to include political and security community. Countries in the region are in the process of defining the concept and the desired nature and characteristics of the community that they intend to establish. The East Asia Summit held in December 2005 was the first step towards establishing this community.

Today, the ASEAN-Korea cooperation is at an important juncture. Korea supports the role of ASEAN as a driver of regional cooperation in East Asia. While ASEAN-Korea trade has registered rapid growth over the last decade, both ranks only fifth as each other's trading partner. Future developments and growth in trade will depend on how both could complement, rather than compete, in labour-intensive manufacturing sectors and increase investment in each other. Both Korea and ASEAN recognize that economics is the driving force for development and for closer ties between the two parties. In all probability, future relations between Korea and ASEAN will move towards more cooperation, particularly on the economic front. Moreover, relations between the two sides are likely to be guided more and more by economics.

How can integration be achieved in the ASEAN-Korea context? The two sides are striving hard to overcome the respective inherent difficulties and to identify areas of common interests where the most comprehensive relationship could be build. The main regional trading agreement in the East Asia is AFTA. ASEAN has been actively pursuing the creation of FTA in East Asia. As a part of this effort, ASEAN has already finalized the Commodity Trade Agreement with China and Korea within the framework of the China-ASEAN FTA ASEAN-

Korea FTA respectively and is currently negotiating free trade agreements with Japan, India, Australia and New Zealand. Many of East Asian countries think that East Asia will be integrated in future, and Northeast Asian countries- Korea, China and Japan - are supportive of the establishment of an EAFTA. Although they have different views on how to achieve it, they all agree that China, Japan and Korea, (which represent 90 percent of the East Asian GDP) must play a leading role in forming an EAFTA. This kind of integration would benefit both Korea and the ASEAN countries.

The historical discords and security challenges in the region including North Korean nuclear issue are the major obstacles in actualizing an East Asian Community. However, these old historical problems and threats posed by North Korean nuclear weapons would be difficult to solve in the short-term. Hence, in East Asia, the creation of an “economic community” will probably precede in tandem with the creation of a “socio-cultural community”.⁶ It is likely that the establishment of a “security community” will require a considerable amount of time.⁷ However, closer regional cooperation, not only on economic issues but also on matters of peace and security, is now clearly the preferred way to the common future of both sides since the threats to peace and prosperity are many and can come from all directions. Terrorism, religious extremism, ethnic unrest, trafficking in illicit drugs, arms and persons, piracy, and other transnational crime do not respect borders or jurisdictions. Regional coordination is necessary to fight various new threats, such as bird flu. These threats can be overcome only if all the East Asian nations understand one another more and act as one.

The stage is today set for the ASEAN Economic Community (AEC), which is the realisation of the end-goal of economic integration as outlined in the

⁶ Takeuchi Yukio, “Promoting Functional Approaches”, Paper presented at the 4th Japan-ASEAN Dialogue on “The Prospect for East Asian Community and Regional Cooperation”, June 12-13, 2005, Tokyo.

⁷ Ibid

ASEAN Vision 2020. The AEC is envisioned as a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020. Korea will play an important role in the realisation of the goal of the establishment of an ASEAN Economic Community.

With regard to the AKFTA, the nine ASEAN countries (other than Thailand with which negotiations are continuing) and Korea will steadily cut tariffs on merchandise goods starting from this year and eliminate all duties completely by 2010. The biggest obstacle to achieving the FTA could be Korea's reluctance to completely open up its agricultural sector. But in any case, by 2012, the two sides expect to remove obstacles to services and investment to create a broad free trade area. Thus, by 2012, it is hoped that the AKFTA will be fully functional and the area will become tariff-free in goods, services and investments.

In the future, the evolving structures of the global economy, the technological progress, the demographic changes, and the realignments in the regional power balance will be reflected in more intense cooperation between ASEAN and Korea. As ASEAN and Korea chart their new course to build future relationship, new challenges and problems will emerge in the region that will test the strength of the partnership. ASEAN and Korea are determined to take them in their stride as they forge a strategic partnership to benefit the present and future generations in the region. Korea and ASEAN, as equal partners, are committed to develop "ASEAN-Korea Dialogue" as a forum where the two sides can discuss all issues comprehensively and in depth with an aim to forge an exemplary partnership that could serve as a model for others.

CONCLUSION

The Association of Southeast Asian Nations (ASEAN) is considered to be one of the most successful regional experiments in promoting economic cooperation, conflict management and security cooperation in the developing world. ASEAN was founded primarily out of political and security concerns in Southeast Asian region, however, over the period of time, ASEAN's economic arrangements have arguably become more important than its original political goals. Over the years, ASEAN has developed into one of the most important institutional manifestations of an effort towards collective identity and an institutionalised cooperative vehicle for promoting economic cooperation and intramural conflict avoidance and management. It enables to maintain peaceful relations and address regional security concerns by accommodating the diversity of culture, religion, ethnicity, tradition and political systems as well as the variety of leadership styles and leadership types of its ten member countries. It has also succeeded in creating an incipient sense of regional identity amongst its members.

ASEAN and Korea share substantial historical and cultural affinity. The two sides also share many common fundamental interests. The shared historical experiences, cultural values and fundamental interest are the basis for their partnership. ASEAN and the Republic of Korea formalised their Sectoral Dialogue partnership in 1989. In 1991, the Republic of Korea became a full Dialogue Partner of ASEAN. Since then, overall relations between ASEAN and South Korea have kept on broadening and deepening in various spheres.

ASEAN-Korea relations have become increasingly complementary and their areas of cooperation have increased. The economy has been the area where

the greatest cooperation between Korea and ASEAN has been realized. This success has largely been due to the complementarities between the economies of the two sides. This correlation is revealed in the fact that in machinery and electrical appliances, the division of labour between the two regions has been advancing and deepening, as evidenced by the increasing volume of intra-industry trade.

Since establishing sectoral ties with ASEAN, the Republic of Korea's trade and investment relations with the region has increased rapidly. ASEAN and Korea are currently the fifth largest trading partners for each other and ASEAN is the third-largest destination for FDI from Korea. Korean exports to ASEAN increased to hit US\$15.05 billion in 2003 while imports from ASEAN, which included electronics crude oil and Liquefied Natural Gas reached US\$17.09 billion. Trade flows between ASEAN and Korea stood at more than US\$50 billion in 2005 registering a 15 percent increase compared to the 2004 trade flows. The major items of ASEAN exports to Korea include mineral products, such as coal and natural gas, machinery and electrical appliances, fats and oil, cosmetics, lubricants, organic chemicals, fertilizers etc. Important Korean exports to ASEAN include fish, sugar, fruits and nuts, plastics etc.

While ASEAN-Korea trade has registered rapid growth over the last decade, both ranks only fifth as each other's trading partner. Future developments and growth in trade will depend on how both could complement, rather than compete, in labour-intensive manufacturing sectors and increase investment in each other. Both Korea and ASEAN recognize that economics is the driving force for development and for closer ties between the two parties. In all probability, future relations between Korea and ASEAN will move towards more cooperation, particularly on the economic front. In the future, the evolving structures of the global economy, the technological progress, the demographic changes, and the realignments in the regional power balance will be reflected in more intense cooperation between ASEAN and Korea.

The investment relation between Korea and ASEAN has a very long history as compared to other regions. ASEAN's attractiveness as an investment location for Korean companies has strengthened the economic relationship between the two sides. Korea remains as one of the top ten investors in ASEAN. Korean investment in ASEAN has generally accounted for about 3 percent of the total foreign direct investment flows into ASEAN over the period of 1995-2003. However, Korea's cumulative investments in ASEAN was to the tune of US \$ 11 billion, which accounted for 15.2% of Korea's total FDI outflow, making ASEAN the third largest investment destination for Korean firms. The manufacturing sector alone accounts for 61.5 percent of the total Korean investment and 59.5 percent of the net investment followed by mining, real estate and services, telecommunication and construction industries.

The continuous expansion of Korean FDI inflows into ASEAN countries has greatly stimulated increases in the overall trade between the two sides. FDI thus seems to have had a strongly positive effect on trade between ASEAN and Korea. FDI has expanded trade opportunities for exports between Korea and ASEAN.

Korea's ASEAN-bound investments also promote international trade between Korea and the rest of the world, increasing Korea's trade volume and trade surplus with third countries such as Japan and the United States. Technology transfer is also becoming an important aspect of Korean investment flows to ASEAN. As Korean investments to ASEAN have diversified, there has been a growing transfer of technology. It may be noted that Korean investment is not to the same level in all ASEAN countries- some countries receive more investment while others receive less. Korean FDI has become the major driving force of ASEAN's import and export growth. Thus, Korean investment in ASEAN countries has implications for the whole region and for the regional integration.

In short, trade and investment are not zero sum games and it is possible for both Korea and the member countries of ASEAN to mutually benefit if closer economic relations are fostered among them. If these countries can enhance their economic linkages through deeper integration, in the long term they would become more competitive as a region and attract foreign investment to their integrated market. This would further promote economic growth and welfare, and more importantly, augur well for the peace and stability of the region.

Both Korea and ASEAN have much to gain from the proposed Free Trade Agreement (AKFTA), which is scheduled to come in force by 2010. ASEAN accounts for about one-tenth of Korea's exports. The entry into ASEAN will enhance the competitiveness of Korean products going into their markets tremendously. Moreover, ASEAN being a huge market, with a population of 540 million people, the agreement will undoubtedly boost Korean exports significantly. The agreement will also help Korea to compete with China and Japan on a level playing field. While Korea could export key parts and components in the field of the state-of-the-art technology to the ASEAN markets, ASEAN countries could export resources and labour-intensive products. This will help create a division of labour within the region and contribute to the advancement of Korea's industrial structure. ASEAN countries which are benefiting from increasing Korean investment today will benefit more in the future with more technological transfers from Korea once the FTA comes into effect. Creation of the ASEAN-Korea FTA will contribute to the harmonious development and expansion of world trade and provide a catalyst to broader international cooperation, in particular within East Asia. With regard to the AKFTA, the nine ASEAN countries (other than Thailand with which negotiations are continuing) and Korea will steadily cut tariffs on merchandize goods starting from this year and eliminate all duties completely by 2010. The biggest obstacle to achieving the FTA could be Korea's reluctance to completely open up its agricultural sector. Korea needs time to restructure its domestic agricultural sector. At the same time, Korean agriculture needs to gradually promote its

adaptability or competitiveness through FTAs with other agricultural countries, whose agricultural competitiveness is suitable for Korea to manage to adapt.

In order to strengthen the economic partnership between ASEAN and Korea, both sides should work towards liberalizing not only commodities but also services and investments, thereby strengthening the AKFTA. Korea can do more in terms of investing in the manufacturing and service sectors of ASEAN where there are comparative advantages to be tapped so that ASEAN can contribute to Korea's economic growth and at the same time receive economic gains. By 2012, the two sides are expected to remove obstacles to services and investment to create a broad free trade area. Thus, by 2012, it is hoped that the AKFTA will be fully functional and the area will become tariff-free in goods, services and investments.

Korea is one of ASEAN's largest trading partners and devotes a substantial part of its Overseas Development Assistance (ODA) to the ASEAN countries. The ASEAN-Korea Special Cooperation Fund (SCF) has been another important vehicle in advancing ASEAN-Korea cooperation. Both ASEAN and Korea have established closer economic partnership between the two economies to enhance economic cooperation and respond actively to the recent trend of regionalism.

At present, ASEAN and Korea relationship in politico-strategic and security field is at a nascent stage. However, it is gradually strengthening through their regular dialogue and exchange of views on regional and international issues in existing mechanisms such as Summit meeting, Ministerial meeting, ASEAN-ROK Dialogue, ASEAN Plus Three forum, Post Ministerial Conference +10, ASEAN Regional Forum. South Korea supports ASEAN's efforts to establish a Zone of Peace, Freedom and Neutrality and a Nuclear-Weapon-Free Zone in Southeast Asia. On its part, ASEAN has also supported President Kim's "sunshine" policy of reconciliation towards the Democratic People's Republic of Korea.

South Korean-ASEAN relations have also been influenced by a rising China and by efforts for greater East Asian integration. China's rise as a military and economic power has been viewed apprehensively by both the ASEAN countries and South Korea. Situated between China and Japan, the giants of East Asia, Korea is capable of serving as an mediator to bring the two nations together for the betterment of the whole region's interests. At the same time, Korea can take advantage of its middle-power status, as well as ASEAN's innate concerns with what its members see as political, military, economic, and psychological threats from China and Japan, to strengthen its strategic cooperation with ASEAN. ASEAN also has much to gain from its relationship with Korea. Strategically, Korea can act as an intermediary between China and Japan. Moreover, given the political tensions in Northeast Asia where Japan and China compete with each other for regional hegemony and the US is suspicious about China's rise, South Korea and ASEAN are uniquely positioned to act as a bridge for major powers in East and Southeast Asia. Moreover, Korea supports the role of ASEAN as a driver of regional cooperation in East Asia. In the field of security, South Korea has signed a Southeast Asian anti-terror agreement in 2005, joining a host of nations which have pledged to work with the ten nation ASEAN grouping to strengthen defences against attacks. Both the ASEAN and Korea share an interest in the development and success of the ARF. The ARF has emerged as the only security forum that brings together all the major powers in the region, including the United States, Japan, China and Russia and others which have stakes in the stability of the region. As far as South Korea is concerned, the ARF fully endorses Six Party Talks as the appropriate forum to help resolve long standing concern over North Korea's nuclear proliferation.

There are various other ways to further improve ASEAN-Korea relations. Firstly, in the area of non-traditional security issues, South Korea could set up a centralised aid agency like Japan's Japan International Cooperation Agency (JICA) where all South Korean aid to the ASEAN region could be concentrated.

This would help to coordinate aid efforts better and allow South Korea to make a greater impact with its overseas development assistance (ODA). Secondly, South Korea could also help in the rehabilitation of the victims of tsunami in Southeast Asia. This again would help emphasize South Korea's interest in the region. Thirdly, a longer-term endeavour would be for the East Asian states to consider a project in which the countries write a common East Asian history together, as the Europe has done through the European Union. The two sides also promote greater security dialogue for better appreciation of the positions of ASEAN and Korea on various issues concerning the region and the world so that common positions could be forged in areas of mutual interest. High level interactions should be promoted for better understanding and to enhance the comfort levels among government leadership, top policy makers, bureaucrats and technical experts to facilitate candid discussions and identification of concrete cooperative activities.

Given the rapid pace of economic development, energy demand in the Asian region will further expand in the future. ASEAN and Korea could explore joint efforts to improve energy security as well as promote competitive and efficient energy markets. Towards this end, ASEAN and Korea could consider exchanging information on the improvement in energy use effectiveness, promoting the use of alternate energy sources, such as natural gas and cooperation in infrastructure development, investment promotion, trading arrangements and application of new energy technologies. ASEAN and Korea can further take advantage of various opportunities to develop tourism in the region, which will have mutual economic benefits.

Korea and ASEAN should continue being partners in the task of bringing about East Asian integration. Former South Korean President, Kim Dae Jung has played a pioneering role in the evolution of a long-term vision for East Asian Cooperation. On the issue of building an East Asia Community, Korea, which proposed the idea of the establishment of an East Asia Vision Group and East Asia Study Group, must continue to persuade ASEAN countries to lead the

efforts. ASEAN, while acknowledging the legitimacy and need for a transition, fears a possible loss of regional identity.

Economic interactions have resulted in the East Asian region being rapidly transformed from a geographic concept into an economic region. Korea has had and will most probably continue to have an important role in this transformation. Many of the East Asian countries think that East Asia will be integrated in future, and Northeast Asian countries-China, Japan and Korea- are supportive of the establishment of an EAFTA. Although they hold different views on how to achieve it, they all agree that China, Japan and Korea, which represent 90 percent of the East Asian GDP, must play a leading role in forming an EAFTA. This kind of integration would benefit both Korea and the ASEAN countries. Thus, the sense of East Asia as one organic whole is catching on.

Although economic cooperation and functional cooperation in many fields has been rapidly deepening and advancing in the East Asia, from the security aspect, recognitions of security threats vary to a substantial extent and differences in policy remain among the countries. Hence in East Asia, the creation of an economic community will probably precede in tandem with the creation of a socio-cultural community. It is likely that the establishment of a security community will require a considerable amount of time. However, closer regional cooperation, not only on economic issues but also on matters of peace and security, is now clearly the preferred way to the common future of both sides since the threats to peace and prosperity are many and can come from all directions. Terrorism, religious extremism, ethnic unrest, trafficking in illicit drugs, arms and persons, piracy, and other transnational crime do not respect borders or jurisdictions. Regional coordination is necessary to fight various new threats, such as bird flu. These threats can be overcome only if all the East Asian nations understand one another more and act as one entity.

The stage is now set for the ASEAN Economic Community (AEC), which is the realisation of the end-goal of economic integration as outlined in the

ASEAN Vision 2020. The AEC is envisioned as a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020. Korea will naturally play an important role in the realisation of the goal of the establishment of an ASEAN Economic Community. ASEAN should continue playing the central role in building of the East Asian Community building because it enjoys the trust and confidence of all the neighbours in the region as well as the broader Asia Pacific.

The Joint Declaration on Comprehensive Cooperation Partnership between ASEAN and South Korea, concluded in Vientiane in November, 2004, has helped to consolidate the partnership and chart the future direction of the ASEAN-ROK relations. ASEAN and Korea have today developed a more fruitful partnership. However, new challenges and problems could emerge in the region that will test the strength of the partnership. ASEAN and Korea will have to take them on their stride as they forge a strategic partnership to benefit the present and future generations in the region. ASEAN and Korea share many common fundamental interests and their political and strategic outlook on many regional and global issues also converge. The economies of ASEAN and South Korea are complementary in nature and there is great potential for further cooperation. Given this fact, ASEAN and South Korea's relations are poised to grow in the political, economic and strategic fields in the future. Flourishing ASEAN-ROK relations will promote peace, stability and prosperity in the Asia-Pacific region and the world at large.

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