



KOREA AND EAST ASIA IN A CHANGING REGIONAL AND GLOBAL ENVIRONMENT

Edited by
Heung Chong Kim, Sung-Hoon Park, and Rudiger Frank

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Introduction

After the global financial crisis, it has been getting clearer that the existing world economic system has wider cracks, and the world after the end of the crisis would look much different from what we have seen over the last thirty years. In the changing landscape of the world economy, some conspicuous features have emerged. China stood up as one of the major economic powers in the world, so that we cannot think of the world economy without taking the Chinese economy into consideration. Dealing with as much domestic instabilities and imbalances as many of the fast developing countries, however, China does not seem to think it has the capacity to deal with the world affairs and its domestic ones at the same time. Europe, after the brilliant history of regional integration process, is now faltering from the crisis of its common currency. Reforms in economic and political governance are on demand. The United States, which stood up as the unipolar global power after the collapse of communism some twenty years ago, was the very origin of the global crisis, and it has not demonstrated outstanding leadership in economic recovery since the crisis occurred. We are also confronting many challenges of how to deal with the financial industries within a sustainable global economy.

In a changing world environment like this, East Asia has been asked to solve problems in the region for itself. Considering its growing economic weight and importance, East Asia has sometimes been even asked to share responsibility in world affairs. In connection, Korea, as one of the economies in the region that emerged rapidly, has been asked to display leadership on peace and prosperity in the region and the faltering world as well. All of these changes have given rise to tough tasks for Asians and Koreans.

This book is an outcome of dialogue and exchange of ideas among European and Korean scholars in tackling these issues; at an international conference titled “Korea and East Asia in a Changing Regional and Global Environment” which was held in Vienna, 28-29 April 2011. This book tries

to tackle the issues concerning changes in three areas: changes in economic, security and development/ODA.

The first part covers economic aspects of the changing world environment and challenges for Korea and East Asia. In chapter one, Bark Taeho and Kang Moonsung deal with East Asia's strategy in G20 economic and trade issues. It aims to identify the trade agenda that reflects Asia's concerns regarding the global and regional trading system against the background of G20 summit meetings after the crisis. East Asia has played an important role in the evolution of global production and trade networks. Though the region's production networks in East Asia became the major transmission mechanism of the crisis, resulting in a trade collapse, but Asia experienced a relatively quick turnaround, demonstrating that its network was not derailed. Asian economies have also shifted their policy focus from multilateralism to regionalism, even though several challenges remain such as underuse and a shallowness of their regional trade agreements. Bark and Kang recommend that the Seoul Summit seek tangible results on resolving the stalemate of the Doha Development Agenda to strengthen the credibility of G20, integrate individual free trade agreements into broader regional trade agreements, and link the development agenda to trade.

Chapter two talks about the role of Korea and East Asia under the changing trade environment. First, Professor Song Yoocheul elaborates on his argument by emphasizing the growing weight of East Asia in the world economy. The three northeast Asian countries of Korea, China and Japan accounted for 20% of world GDP and over 40% of foreign reserves after the crisis. During the recovery from the crisis, the role of East Asian countries has been highlighted as a buffer in consumption and production cycles of the world economy with their high economic growth. Their trade performances are particularly worthy of note, as their 52% share of world trade will increase more through very

active regional FTA moves within the region. East Asian countries can contribute to the prosperity of the world by pursuing close economic cooperation between Korea, China and Japan; and could engage in consolidated efforts to boost domestic consumption to reduce global imbalances. Thus the role of Korea can be highlighted in solving the regional issues in trade barriers and historic conundrum.

Professor Park Young-Joon covers financial issues in East Asia in chapter three. He reviews current developments of East Asia's financial cooperation and makes suggestions for enhancing its effectiveness. Recent global financial crisis has raised awareness on the importance of financial safety nets. The Chiang Mai Initiative Multilateralization (CMIM) as a regional financing arrangement plays a role as a regional financial safety net in East Asia, and could be linked with the global financial safety nets such as the IMF's lending facilities. For the CMIM to be more effective, the current pool size of \$120 billion, which would be insufficient in a crisis, should be increased to at least \$250 billion. Efforts by ASEAN+3 along with the Asian Bond Market Initiative (ABMI) should make progress beyond establishing the Credit Guarantee Investment Facility (CGIF); e.g. establishing a Regional Settlement Intermediary, Asian Bond Standards, prudential standards for cross-border transactions in the region. A new surveillance unit, ASEAN+3 Macroeconomic Research Office (AMRO), should also play a key role in the process of East Asia's financial cooperation.

The Second part of the volume deals with political and security environments. Professor Heinz Grtner argues in chapter four that global solution rather than regional or local ones urgently requires overcoming current international financial crisis or terrorism. Transatlantic cooperation between the US and Europe revealed clear limitations for preserving global security. The idea of a "multi-partner world," raised by Hilary Clinton can be one of

the best concepts for global problem-solving. The new type of global security requires building functioning governments based on stable governance, rule of law and democracy. Civil-military coordination and cooperation (CIMIC) for disaster relief; in addition to enhancing nation-states' responsibility to protect citizens from genocide, famine, massive human right violation, etc; and functioning government endowed with legitimate monopoly of the use of force. These represent essential elements in new global security.

Chapter five deals with North Korea's foreign policy and its domestic implications. Professor Rudiger Frank explores North Korea's foreign policy of years 1997-2010 with a certain focus on years 2008 and 2009. He does so based mainly on a quantitative analysis of official North Korean state propaganda through its news agency KCNA. The key hypothesis tested in this chapter is that North Korean foreign policy is very closely linked to domestic developments (and vice versa) and should be understood as such, which has significant implications for the international community's approach towards the DPRK and key areas of concern such as the nuclear program.

In the next chapter, Professor Kim Sung-han introduces Korea's evolving strategic thinking toward East Asia over the last twenty years. The Korea-US alliance has been the first strategic preference for Korea since the end of the cold war, and it was against this background Korea has engaged in comprehensive regional security cooperation including APEC with the rising of Asia-Pacific regionalism. In the future, Korea-US alliance needs to be more comprehensive and much more strategic, to preserve the peace in the Korean Peninsula. The alliance should go beyond simple responses against military threats from North Korea, and contribute to preserving democracy and capitalism as well as enhancing peace in the region. Korea needs to construct a pan-Asian network through its active soft power advocacy, towards protection of human rights. Multilateral security network such as the Northeast Asia

Security Dialogue (NEASAD) should be strongly encouraged.

The third part covers the emerging topics of Overseas Development Assistance in East Asia and Korea's strategy on development issues. In Chapter seven, Dr. Han Baran addresses the role of transnational consumer activism in international development cooperation. As examples of consumer campaigns with development impacts, the international anti-sweatshop campaigns in the 1990s, the Fair Trade coffee industry, and the Product (RED) program supporting HIV/AIDS funds are discussed. In order to increase the effectiveness of transnational consumer activism, Independent Monitoring and Labeling Agencies as well as a framework for active coordination with other development actions need to be encouraged.

Professor Kang Insoo offers an overview of Korea's ODA policy in chapter eight. Korea is ranked 19th among 27 OECD DAC members in 2008 in terms of the size of ODA. Professor Kang argues that Korea needs to increase ODA through Country Partnership Strategies (CPS) in the future. Korea leaves something to be desired in terms of ODA including ambiguous objectives in ODA policy, inefficient and ineffective structure of ODA policy administration, lack of evaluation system, and opaque decision making system in choosing partner countries. In the future, Korea should conduct more actively new programs such as Knowledge Sharing Programs (KSP), while following the global trend of "More Aid, Better Aid, and Changing Aid architecture."

In the last chapter, Professor Park Sung-Hoon and Professor Kim Jung-Ho introduce Korea's ODA policy towards CLMIV countries. The biggest recipient of Korea's ODA has been Asian countries such as Vietnam, Indonesia, Laos, Cambodia, Myanmar, Mongolia and Afghanistan. More than fifty percent of Korea's ODA has gone to the Asian countries. Among them, CLMIV (Cambodia, Laos, Myanmar, Indonesia and Vietnam) countries are among the key countries for Korea's ODA in Asia. Korea can increase ODA elements

such as ‘training of industrial workers,’ ‘encouraging development studies,’ and ‘building socio-economic infrastructure projects,’ which can contribute to the expansion of its counterparts’ development and human resources capacity for their sustainable development.

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Contributors

Dr. Heung Chong Kim is Director of Research Planning and Coordination, KIEP, Korea. He is also an Invited Professor of Korea University, and Adjunct Professors of both Ewha Womans University on European Studies, and Sogang University on the World Economy. Dr. Kim's expertise includes trade policy, economic growth and development, regional integration, and social policy issues. His book, *Harmonization of Social Policy with Economic Policy, and Social Consensus Building* was rewarded as one of the best research of the year by the National Research Council for Economics, Humanities and Social Sciences. His book on feasibility study of a Korea-EU FTA was the first professional research, ever published both in Korea and Europe, and has widely been cited by successive research works of the field. His past position includes member of the advisory group on Korea-EU FTA for Ministry of Foreign Affairs and Trade (MOFAT) of Korea, Advisory Staff to Deputy Prime Minister and Minister of Finance & Economy, member of the advisory board for ESiA, ASEF, IV and Fulbright fellows from the State Department of U.S.A. Before joining KIEP, Dr. Kim was an Honorary Member of High Table from Christ Church, University of Oxford, where he obtained his MPhil in economics. Dr. Kim read economics at Seoul National University, where he studied his economics doctorate.

Dr. Sung-Hoon Park earned his Ph.D. degree from Technical University of Berlin, Germany in 1993, and has been Professor of Economics and International Trade at the Graduate School of International Studies (GSIS), Korea University since 1997. Professor Park has assumed the position of Dean of GSIS and Division of International Studies (DIS) on March 1, 2011. He served Vice President for Planning and Budget of Korea University during the period of March 2007 – January 2008. Professor Park has held research fellowship at Korea Institute for International Economic Policy (KIEP) during

1993-1997, and visiting professorships at Macau Institute of European Studies (2000 – now), Ritsumeikan University (2003) and ASEF University (2000, 2004), etc. For 2003/2004 academic year, he was awarded a Fulbright Visiting Scholarship to the Graduate School of International Relations and Pacific Studies (IR/PS) at University of California, San Diego, United States. In 2010-2011, Professor Park was on a sabbatical leave from Korea University, and has spent three months (July-September 2010) as an Erskine Visiting Fellow at University of Canterbury in Christchurch, New Zealand, and one semester (October 2010 – January 2011) as a Visiting Professor at the Department of East Asian Studies at University of Vienna in Vienna, Austria.

Professor Park has been doing researches primarily but not exclusively on issues of international trade policy, including WTO rules, European and Asian economic integration, and Korea's external economic policies. He also published one book and several academic papers on North Korean economy and unification issues. Professor Park has provided policy advisory services to the Korean government and the APEC secretariat for the past 20 years. He was nominated Expert of APEC's IAP Peer Review Study of the Russian Federation in 2005 and Hong Kong, China in 2007, as well as Viet Nam in 2009 consecutively. Professor Park served President of both Korea Association of Trade and Industry Studies (KATIS) in 2007 and the EU Studies Association of Korea (EUSA-Korea) in 2009. He has been President-elect of Korean-German Economic Association for two years, and has assumed its presidency as of January 2013.

Dr. Rudiger Frank is Chair Professor of East Asian Economy and Society at the University of Vienna, where he serves as Head of the Department of East Asian Studies, and as Vice Director of the Study Program in East Asian Studies.

Prof. Frank holds an M.A. in Korean Studies, Economics and International Relations and a Ph.D. in Economics. In 1991/1992, he spent one semester as a language student at Kim Il Sung University in Pyongyang and has been researching North Korea ever since. Visiting Professorships included Columbia University New York and Korea University Seoul.

In June 2011, he joined the World Economic Forum's Global Agenda Council on Korea. He is also an Adjunct Professor at Korea University and at the University of North Korean Studies (Kyungnam University) in Seoul, as well as an Associate at the Modern East Asian Research Centre in Leiden and the Austrian Institute for International Affairs (OIIP).

In addition to memberships and associations with a number of Korea and East Asia related societies, he is a Council member and for the 2011-2013 period the Secretary of the Association for Korean Studies in Europe. He is also an Executive Board Member and for 2010-2012 a Steering Group member of the European research network "EastAsiaNet," In 2012, he became Vice President of the U.S. and Hong Kong-based Asia Pacific History Association.

Prof. Frank is Deputy Chief Editor of the A-ranked European Journal of East Asian Studies, co-editor of the book "Korea: Politics, Economy and Society" published annually since 2007, Member of the Editorial Board for the book series "Brill's Korean Studies Library", an Associate at "The Asia Pacific Journal," Member of the Editorial Board of "Korea Review of International Studies," Co-Founder and Member of the Editorial Board, "Vienna Graduate Journal of East Asian Studies" and "Vienna Studies on East Asia". He is also the founding editor of a new book series at Brill titled "Security and International Relations in East Asia".



Chapter I

**Korea and East Asia in
a Changing Economic Environment**



1

Asia's Strategic Participation in the Group of 20 for Global Economic Governance Reform: From the Perspective of International Trade^{*}

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1. Introduction

In an era of globalization, the recent global economic and financial crisis, which originated in the United States (US) in 2008, spread to Asian economies. This transmission was partly because Asian economies are heavily dependent on markets of the US and Europe. Most economies in Asia, particularly those in East Asia, had adopted outward-looking trade policies for their industrialization, and

^{*} This paper was first published in *Journal Aussenwirtschaft*, Issue I/2011, pp.33-58 and is reprinted with permission of The Swiss Institute for Research in International Economics and Applied Economic Research.

the key destinations for their exports are the US and Europe; hence, the crisis there significantly reduced their demand for commodities produced in Asia, undermining the export performances of Asian economies.

The global production network was another channel through which the crisis spread to Asian economies, as they have been closely linked to the global value chain since the 1990s (discussed in Section II). When the crisis hit this network, Asia started to be damaged.

In an effort to recover quickly from the crisis, major countries formed the “G20 summit” and made efforts to discuss and set a policy agenda in a sincere and cooperative manner. During the four rounds of the G20 summit meetings,¹⁾ G20 leaders tried to move the global economy beyond the crisis to a path of sustained and balanced growth. These meetings provided mutually agreed outcomes, including identification of key principles for financial market reform;²⁾ commitment to a standstill on protectionism; efforts to restore economic growth and employment recovery (US\$ 5 trillion to be spent to stimulate growth by the end of 2010); reform and reinforcement of financial supervision and regulations; exit strategies to be taken under international collaboration once economic recovery is certain; agreement on principles for fiscal consolidation by advanced economies; and agreement on the direction of reform of the International Monetary Fund (IMF).³⁾

At the G20 Pittsburgh Summit, countries designated the Republic of Korea as the host country for the fifth G20 summit in November 2010. The Seoul Summit

1) Washington, DC, United States (15-16 November 2008); London, United Kingdom (2-3 April 2009); Pittsburgh, United States (24-25 September 2009); and Toronto, Canada (26-27 June 2010).

2) These principles are reinforcement of transparency and a sense of responsibility; improvement of financial supervision and regulations; enhancement of the reliability of financial markets; reinforcement of international cooperation; and reform of international financial organizations. See Declaration: Summit on Financial Markets and the World Economy (15 November 2008) for more information.

3) See Declaration: Summit on Financial Markets and the World Economy (15 November 2008); The Global Plan for Recovery and Reform (2 April 2009); Leaders’ Statement: The Pittsburgh Summit; and The G20 Toronto Summit: Declaration for more information.

is the first G20 summit meeting hosted by an Asian and emerging country, providing opportunities for reflecting Asia's own views on the agenda.

Having outlined the background of the G20 summit meetings, this paper aims to identify the trade agenda that represents Asia's concerns for the global and regional trading system. It aims to design a consistent and concrete regional agenda that G20 Asian members can bring to the global decision-making table. Up to the fourth Summit, member countries had focused on macroeconomic and financial issues, even though some trade issues, such as commitment to a standstill on protectionism⁴⁾ and avoiding protectionism and promoting international trade,⁵⁾ were discussed. However, since most developing countries consider international trade as a vital tool for industrialization and economic development, the G20 Seoul Summit emphasized trade issues.

To meet this aim, this paper evaluates the importance of global and regional production and trade networks, and the concrete steps to link the global and regional trading systems in Section II. Section III discusses the impact of the crisis on regional trade networks and consequently on emerging Asia's economies. Section IV assesses the development status of global and regional trade systems from the Asian perspective. Finally, Section V discusses specific policy suggestions and areas of cooperation that emerging Asia could highlight on the G20 agenda.

2. Recent Developments in Global and Regional Production and Trade Networks in Asia

2.1 Asia's Role in the Global Production and Trade Network

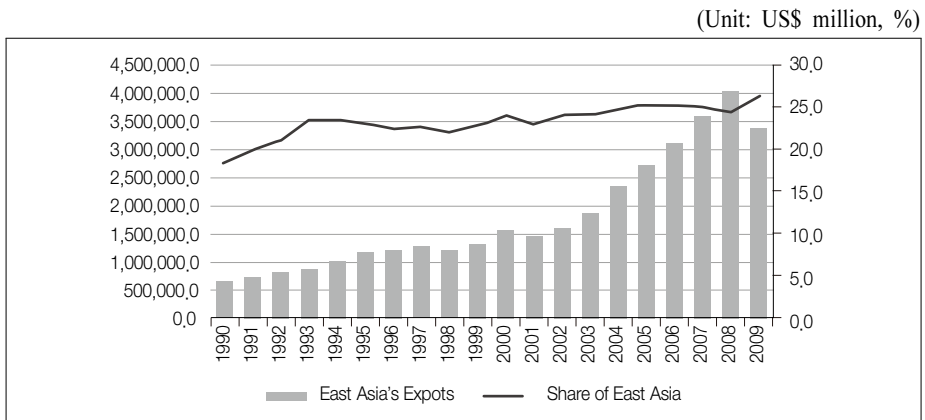
The global production network—which entails fragmenting the production

4) See Declaration: Summit on Financial Markets and the World Economy (15 November 2008) for more information.

5) See The Global Plan for Recovery and Reform (2 April 2009) for more information.

process into geographically separated, low-cost destinations—has kept evolving over the past three decades. It has widened and deepened. Starting from simple electronics and clothing industries, global production networks spread horizontally to, for example, footwear, automobiles, office equipment, cameras, and publishing. This fragmentation also expanded vertically, to include customer services, legal

Figure 1. Recent Trend of East Asian Exports and Share in World Exports



Source: Authors' calculations using Direction of Trade Statistics, International Monetary Fund.

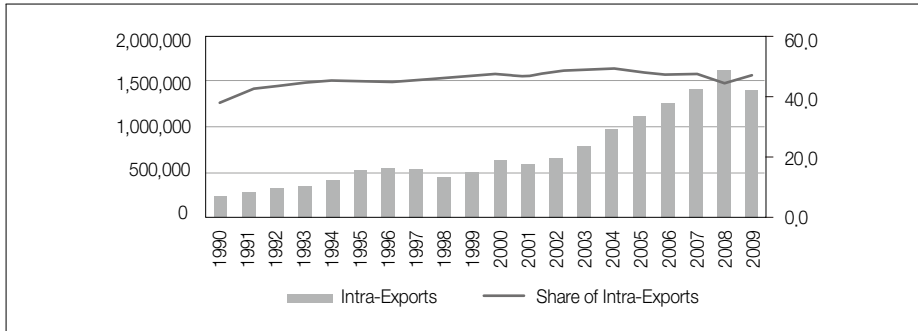
services, R&D activities, and human resources.

The globally integrated production network has led to the formation of a global trade network for countries to trade intermediate and final goods as well as services. Most multinational corporations have tried to establish their own network of supplying intermediate goods and services from their own branches or their partners in various countries.

Given these trends, trade volumes in the “triad” of North America, Europe, and East Asia have significantly increased since the 1990s, via the formations of intra- and interregional trade networks. In 2009, the European Union accounted for 35.1%, East Asia⁶ 26.3%, and North America 12.8% of world exports,

Figure 2. Recent Trend of Intraregional Export in East Asia

(Unit: US\$ million, %)



Source: Authors' calculations using Direction of Trade Statistics, International Monetary Fund.

recording 74.2% in total.

Asia, in particular East Asia, has played an important role in evolving the global production and trade networks. As shown in Figure 1, the volume of East Asian exports increased from 1990, even though it significantly fell in 2009 due to the crisis. Its share of exports also increased, from 18.4% in 1990, even after the crisis, recording 26.3% in 2009.

As shown in Athukorala (2009, 2010), Kang *et al.* (2010), Kim, Lee, and Park (2010), and Wakasugi *et al.* (2008), as part of global production networks, economies in East Asia are linked more closely to one another than economies in any other region. Its intraregional exporting volume increased from 38.2% in 1990 to 46.6% in 2009 (Figure 2).

6) In this paper, East Asia refers to 10 economies in East and Southeast Asia: People's Republic of China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Each of them exported more than US\$ 50 billion in 2009, for a total of US\$ 3.4 trillion. India is also one of Asia's key exporters, but we exclude it to focus on East Asia. Taipei, China is obviously one of the most important players, but is not included because the Direction of Trade Statistics (DOTS) does not cover its data.

2.2. Asia's Regional Production and Trade Network

East Asia's intraregional trade network is different from that of the other triad regions. While both North America and Europe have been developing their networks by forming an institutional framework, such as the North American Free Trade Agreement (NAFTA) and the European Union (EU), East Asia's network is a market-driven or functional economic integration.

Hong Kong, China has the greatest share of intraregional exports (as a proportion of its total exports) among the 10 East Asian economies, at 72.4% in 2009, followed by Indonesia (66.1%), Malaysia (63.2%), Viet Nam (60.5%), the Philippines (59.5%), Thailand (52.7%), Singapore (48.7%), the Republic of Korea (44.0%), Japan (39.4%), and the People's Republic of China (PRC, 34.6%). Using regional trade and production networks in East Asia, these economies produce and export intermediate goods to the PRC—the main “factory” in the region—and then the PRC assembles and exports final goods to countries all over the world. The main destinations of these exports are the US and Europe—as explored in Ando and Kimura (2009) and Kim, Lee, and Park (2010)—implying a vulnerable channel through which the recent crisis spread from these regions. This issue will be discussed in Section III.

The Asian Input-Output Table 2000 from the Institute of Developing Economies and the Japan External Trade Organization (2006) enables us to analyze East Asia's regional production network and services offshoring. Tables 1 and 2 show flows of material and services inputs in selected economies of East Asia and in the US,⁷⁾ in 2000.⁸⁾ As found in Kang et al. (2010), each country has been

7) We included the United States to analyze regional production network and services offshoring in East Asia because it plays an important role in this regional network.

8) Data for 2000 are the most recent from the Institute of Developing Economies and the Japan External Trade Organization. However, after analyzing trends of flows of material and services inputs in this region in 1990, 1995, and 2000, as Kang *et al.* (2010) have already done, one finds that East Asia's regional production and trade networks have deepened and widened. Therefore, these networks are stronger than what these two tables show.

Table 1. Flows of Material Inputs in Selected Economies in East Asia, 2000

(Unit: US\$ million)

| Country | PRC | Indonesia | Japan | KOR | Malaysia | Philippines | Singapore | Thailand |
|--------------------|-----------|-----------|-----------|---------|----------|-------------|-----------|----------|
| PRC | 1,041,693 | 864 | 12,281 | 5,365 | 1,871 | 480 | 2,595 | 2,186 |
| | 88.02% | 1.37% | 0.67% | 1.45% | 2.07% | 1.32% | 3.28% | 2.50% |
| Indonesia | 1,794 | 44,230 | 3,893 | 1,328 | 1,252 | 417 | 1,311 | 861 |
| | 0.15% | 70.17% | 0.21% | 0.36% | 1.39% | 1.15% | 1.66% | 0.99% |
| Japan | 23,718 | 2,800 | 1,693,870 | 18,918 | 10,335 | 4,315 | 10,278 | 9,025 |
| | 2.00% | 4.44% | 92.49% | 5.12% | 11.45% | 11.89% | 13.00% | 10.33% |
| Korea, Republic of | 18,157 | 1,347 | 11,594 | 289,664 | 2,789 | 1,849 | 2,024 | 1,775 |
| | 1.53% | 2.14% | 0.63% | 78.46% | 3.09% | 5.09% | 2.56% | 2.03% |
| Malaysia | 3,693 | 685 | 5,305 | 2,468 | 35,060 | 917 | 6,322 | 2,130 |
| | 0.31% | 1.09% | 0.29% | 0.67% | 38.85% | 2.53% | 8.00% | 2.44% |
| Philippines | 824 | 40 | 2,116 | 838 | 1,210 | 15,695 | 186 | 355 |
| | 0.07% | 0.06% | 0.12% | 0.23% | 1.34% | 43.24% | 0.24% | 0.41% |
| Singapore | 3,444 | 656 | 2,098 | 2,068 | 9,298 | 1,731 | 26,385 | 2,125 |
| | 0.29% | 1.04% | 0.11% | 0.56% | 10.30% | 4.77% | 33.38% | 2.43% |
| Thailand | 2,351 | 450 | 4,784 | 1,023 | 2,774 | 655 | 1,857 | 50,596 |
| | 0.20% | 0.71% | 0.26% | 0.28% | 3.07% | 1.80% | 2.35% | 57.93% |
| US | 11,160 | 1,585 | 25,836 | 16,207 | 8,062 | 2,964 | 6,548 | 3,811 |
| | 0.94% | 2.51% | 1.41% | 4.39% | 8.93% | 8.17% | 8.28% | 4.36% |
| ROW | 59,526 | 9,693 | 60,137 | 28,183 | 14,103 | 6,095 | 19,932 | 12,647 |
| | 5.03% | 15.38% | 3.28% | 7.63% | 15.63% | 16.79% | 25.21% | 14.48% |

Notes: KOR = the Republic of Korea; PRC = the People's Republic of China; ROW = rest of the world; US = United States.

1. Each data point shows the volume of input flows from the country in the column to the country in the row.
2. From the perspective of the country in the rows, the shaded areas are the top three suppliers to that country (excepting the country's own inputs).

Source: Recalculation and reproduction from Kang et al. (2010) using Asian International Input-Output Table, Institute of Developing Economies and Japan External Trade Organization (2006).

supplied with a large share of materials and services from its own economy.

Both Japan and the US have been one of top three providers of material and

Table 2. Flows of Services Inputs in Selected Economies in East Asia, 2000

(Unit: US\$ million)

| Country | PRC | Indonesia | Japan | KOR | Malaysia | Philippines | Singapore | Thailand |
|--------------------|---------|-----------|-----------|---------|----------|-------------|-----------|----------|
| PRC | 372,578 | 101 | 2,073 | 922 | 196 | 61 | 248 | 230 |
| | 96.26% | 0.21% | 0.12% | 0.46% | 0.51% | 0.26% | 0.31% | 0.53% |
| Indonesia | 372 | 41,484 | 835 | 206 | 205 | 62 | 40 | 151 |
| | 0.10% | 86.58% | 0.05% | 0.10% | 0.53% | 0.27% | 0.05% | 0.35% |
| Japan | 3,204 | 348 | 1,642,753 | 2,137 | 2,085 | 366 | 979 | 997 |
| | 0.83% | 0.73% | 96.34% | 1.07% | 5.40% | 1.58% | 1.24% | 2.29% |
| Korea, Republic of | 863 | 60 | 503 | 173,460 | 179 | 69 | 75 | 79 |
| | 0.22% | 0.13% | 0.03% | 86.89% | 0.46% | 0.30% | 0.09% | 0.18% |
| Malaysia | 175 | 37 | 736 | 114 | 26,892 | 44 | 2,396 | 104 |
| | 0.05% | 0.08% | 0.04% | 0.06% | 69.62% | 0.19% | 3.03% | 0.24% |
| Philippines | 205 | 11 | 560 | 188 | 218 | 19,004 | 41 | 98 |
| | 0.05% | 0.02% | 0.03% | 0.09% | 0.56% | 82.09% | 0.05% | 0.23% |
| Singapore | 207 | 129 | 154 | 126 | 568 | 98 | 58,213 | 162 |
| | 0.05% | 0.27% | 0.01% | 0.06% | 1.47% | 0.42% | 73.53% | 0.37% |
| Thailand | 298 | 76 | 498 | 99 | 374 | 58 | 155 | 40,750 |
| | 0.08% | 0.16% | 0.03% | 0.05% | 0.97% | 0.25% | 0.20% | 93.75% |
| US | 1921 | 277 | 7,343 | 2,558 | 1,692 | 450 | 1,084 | 606 |
| | 0.50% | 0.58% | 0.43% | 1.28% | 4.38% | 1.94% | 1.37% | 1.39% |
| ROW | 5,132 | 5,304 | 49,027 | 19,581 | 5,539 | 2,816 | 15,785 | 84 |
| | 1.33% | 11.07% | 2.88% | 9.81% | 14.34% | 12.16% | 19.94% | 0.19% |

Notes: KOR = the Republic of Korea; PRC = the People's Republic of China; ROW = rest of the world; US = United States.

1. Each data point shows the volume of input flows from the country in the column to the country in the row.
2. From the perspective of the country in the rows, the shaded areas are the top three suppliers to the country (excepting the country's own inputs).

Source: Recalculation and reproduction from Kang et al. (2010) using Asian International Input-Output Table, Institute of Developing Economies and Japan External Trade Organization (2006).

services inputs into all economies' supply chain.⁹⁾ As concluded in Kang et al. (2010), Japan, the US, the PRC, and the Republic of Korea are the main suppliers of material and services inputs in East Asia.

Again as shown in Kang *et al.* (2010), firms in East Asia have tried to use the most efficient material and services inputs within the regional production network, rather than in their home country, leading East Asia as a whole to enhance its productivity. Kang *et al.* (2010) also showed that the productivity impact of services offshoring in East Asia was greater than that in the US, suggesting a strong motivation for strengthening and deepening the network.

3. Impact of the Global Economic and Financial Crisis on the Regional Production and Trade Network in Asia

3.1. Trade Collapse after the Crisis

The recent crisis was triggered by a credit crunch in the US, due to the burst of the housing bubble, the subprime mortgage problem, and the collapse of the shadow banking system.¹⁰⁾ It was deepened by consecutive risks in other countries, such as the sovereign debt crisis of some eurozone countries. The impact of the crisis on international trade was very great—a “trade collapse” in the words of the Organisation for Economic Co-operation and Development (OECD) (2010). As shown in Figure 3, global export volume in 2009 fell by 22.0%. This trade collapse triggered concerns for international trade, including worries about protectionism.

The crisis hit the export performance of East Asia (Figure 4). In 2009, the Philippines' exports dropped by 28.0%, followed by Indonesia (23.5%), Japan

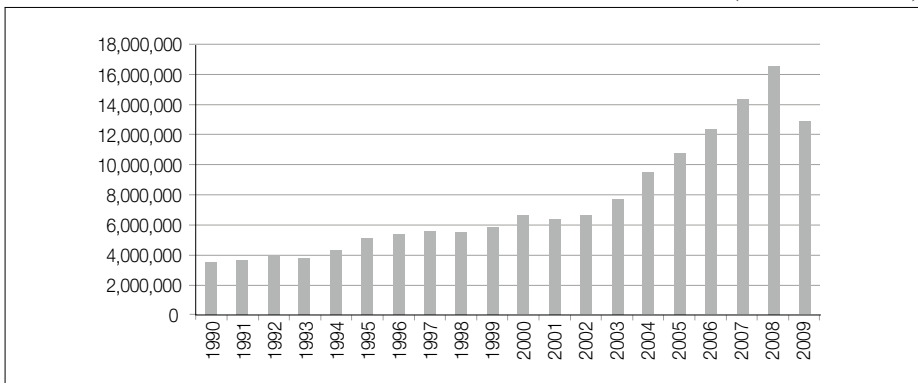
9) Unfortunately, we did not have any relevant data on European countries to determine their roles in East Asia's regional production and trade networks. We leave it for future research.

10) The shadow banking system provides channels of funds from investors to businesses, consisting of nonbank financial institutions. Bear Sterns and Lehman Brothers are good examples.

(22.6%), Malaysia (19.1%), the Republic of Korea (16.2%), the PRC (14.4%), Thailand (12.5%), Viet Nam (12.3%), and Hong Kong, China (8.6%), while Singapore's exports increased by 1.7%.

Figure 3. Recent Trend of World Exports

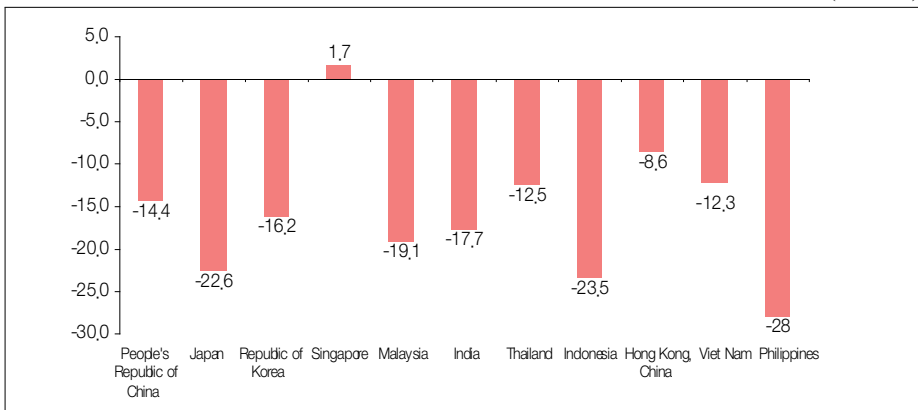
(Unit: US\$ million)



Source: Direction of Trade Statistics, International Monetary Fund.

Figure 4. East Asian Trade Collapse, 2009

(Unit: %)



Source: Authors' calculations using Direction of Trade Statistics, International Monetary Fund.

The OECD (2010) identifies three main reasons for the trade collapse: (1) a collapse in demand; (2) a shortage of short-term trade finance; and (3) compositional factors related to a disproportionate fall in output and trade of goods that make up a larger share of trade than of GDP. The crisis led the global economy to experience a collapse in demand for export goods, which in turn led the exporters to reduce their production and exports. As discussed in Lane and Milesi-Ferretti (2010), since manufactured goods are more cyclical than non-manufactured goods, the uncertainty of future economic prospects and the credit crunch heavily affected demand for them. In addition, the credit crunch also reduced access to trade finance, as discussed in OECD (2010) and Auboin and Meier-Ewert (2003). But there is no evidence that protectionist measures after the crisis were a major factor in the trade collapse, as shown in OECD (2010), even though the risk of protectionism is still a major concern.

Ironically, regional production networks in East Asia—having been at the heart of the growth in trade among East Asian economies—became the major transmission mechanism of the crisis. Since trade in parts and components expanded more rapidly than that in final goods in East Asia, the collapse in demand for the latter damaged demand for the former, hence the trade collapse spread to East Asia through their regional production networks. In addition, they were vulnerable to external shock because they adopted outward-looking trade policies.

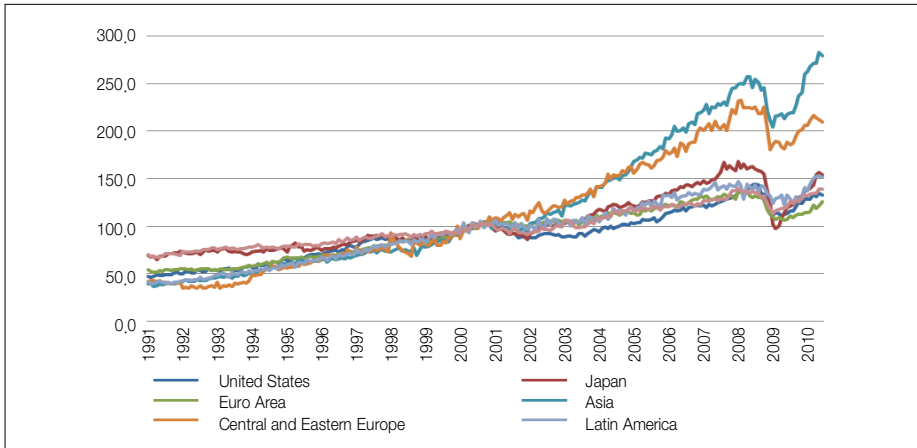
3.2. Impact on Regional Production Network in Asia

The crisis hit international trade hard, as said earlier. However, world exports in 2010 (Figure 5) show diversity of regional experiences. While most regions saw a major decline in exports after the crisis, Asia and Latin America experienced a relatively quick rebound, even surpassing the previous peak of export volumes. It demonstrates that the regional production network in East Asia was not derailed.

Why is the export performance of East Asia different from that in other regions? As discussed in Kim, Lee, and Park (2010) and Kuroiwa and Ozeki (2010),

the major export destinations of East Asia are markets of the US and Europe. However, by September 2010, the US and Europe had not yet made up all the ground lost since the credit crunch began, and were not resilient enough to import more from East Asia. Rather, demand from emerging economies is helping to reestablish and reoperate East Asia's regional production and trade networks. It is also expected to help advanced countries' trade performance. Therefore, the mutually beneficial trade patterns would be helpful for the sustainable growth of the global economy because the growth in one part of the global economy can help stimulate a recovery in other part (if countries are successful in opening their markets).

Figure 5. World Export Trends, 1990-2010 (by region, 2000=100, volumes)



Note: It was hard to find a dataset showing recent trade performance by region, except the CPB dataset of the monthly trade index. However, as CPB's regional classification does not match the one in this paper, the figure reports Asia's trade performance rather than East Asia's.

Source: Authors' calculations using the data of CPB Netherlands Bureau for Economic Policy Analysis (www.cpb.nl).

4. Recent Developments in Trade Systems from the Asian Perspective

4.1. The Global Trade System

Asian economies consider the multilateral trading system the top item on their trade policy agenda. In particular, more Asian economies have been participating in the system since 2000. The PRC and Taipei, China became members of the World Trade Organization (WTO) in 2001, Cambodia and Nepal in 2004, and Viet Nam in 2007. The expansion of Asian membership in the WTO is compatible with the growing Asian share of global trade.

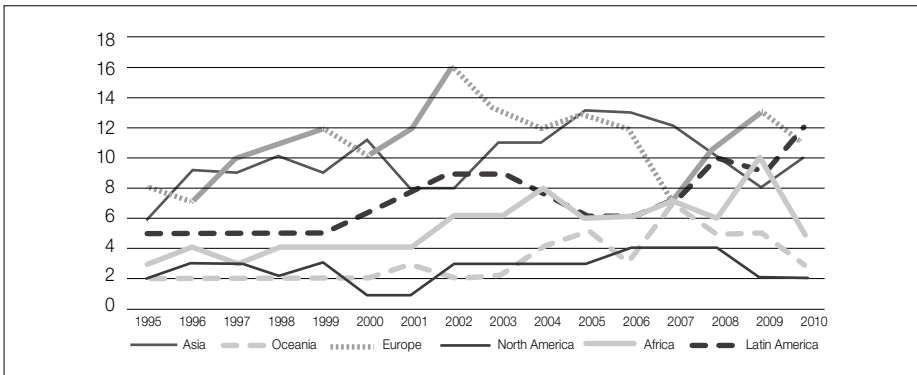
Even though the current Doha Development Agenda (DDA) negotiations¹¹⁾ have had trouble concluding successfully, the multilateral trading system has played an important role in reducing various barriers to trade and strengthening the rule-based trading system. East Asian economies, adopting outward-looking trade policies, have benefited greatly. Several studies, such as those by Felbermayr and Kohler (2006), and Liu (2007), showed that trade among WTO member countries is higher than when one of the trade partners is not a WTO member. While Martin et al. (2008) failed to show that GATT/WTO membership alone was significant to the growth of trade, they verified that membership in the multilateral trading system was important in promoting trade growth in the Asia-Pacific region. In addition, Li and Wu (2004) showed that accessions to the General Agreement on Tariffs and Trade/WTO have a positive impact on the productivity of acceding economies. These findings underline the importance of the multilateral trading system to successful economic and trade performance of East Asia.

In recent years, Asian economies have been involving themselves more in the work of the WTO (Figure 6).

11) The DDA negotiations were launched on November 2001 and the main subjects are agriculture; non-agricultural market access; services; rules (antidumping, subsidies, and regional trade agreements); trade facilitation; trade and development; trade-related intellectual property rights; trade and environment; and dispute settlement understanding.

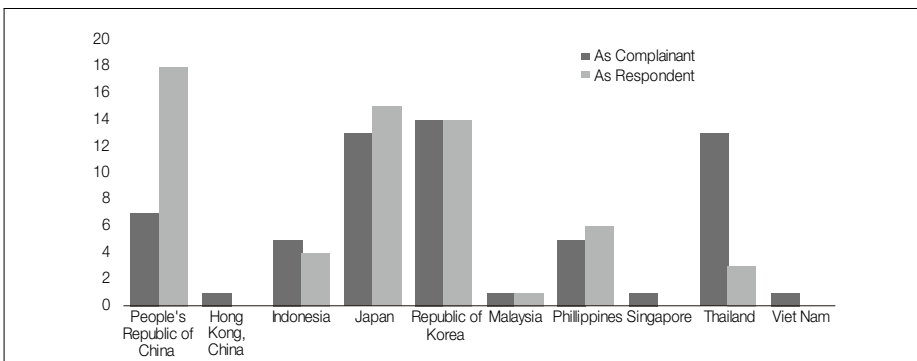
East Asian economies have also become much more active in using the WTO Dispute Settlement Procedure (DSP) to assert their legal rights, as shown in Ahn (2003) and in Figure 7. There were 411 cases under the DSP as of September 2010, with East Asian economies involved in 122 cases (61 cases as complainant and 61 cases as respondent), representing 30.0% of the total cases. While the main

Figure 6. Regional Trends of Chairpersons of World Trade Organization Bodies and Subsidiary Bodies



Source: World Trade Organization (<http://www.wto.org/>).

Figure 7. World Trade Organization Disputes of East Asian Economies, September 2010



Source: World Trade Organization (<http://www.wto.org/>).

target economies in East Asia were the PRC, Japan, and the Republic of Korea, East Asian economies have brought trade disputes to the DSP.

Presumably, East Asia's use of DSP is based on a belief that the WTO can improve the image of globalization, governments of member countries, and the multilateral trading system itself—more specifically, that multilateral trade liberalization can serve their commercial interests. Most Asian economies' traditional policy preference for multilateralism over regionalism could be another factor. Asian economies have expressed their support to the rule-based multilateral trading system and balanced outcomes of the DDA under the WTO, especially using the Asia-Pacific Economic Cooperation (APEC) Summit Meetings,¹²⁾ even though most Asian countries have adopted regional rather than multilateral trade talks since 2000.

In light of what was said above, the DDA negotiations are crucial for East Asian economies, even though they have varied positions on each subject. Presumably, any multilateral agreement to further reduce barriers to trade will be helpful for countries adopting outward-looking trade policies. Particularly, East Asia—having its own regional production and trade networks—will secure real benefits from a balanced and ambitious conclusion of the negotiations.

4.2 The Regional Trade System

Even though East Asia as a whole does not have any institutional regionalism,¹³⁾ many of its economies have been actively engaging in bilateral, intraregional, and

12) APEC has 21 members, including 12 in Asia. However, it would be very unlikely for these members to declare harmonized views on specific areas of the WTO/DDA negotiations. For example, while APEC has countries exporting agricultural goods, such as Thailand, the United States, and Viet Nam, it also has countries importing them, such as Japan, the Republic of Korea, and Taipei, China, whose agriculture sectors are highly sensitive in domestic political terms.

13) Different from institutional (or de jure) integration, East Asia's economic integration using its regional production and trade networks can be called functional, market-driven, or de facto integration.

interregional trade agreements with various economies since 2000. Most of its economies have multiple regional trade agreements with other economies (Table 3). Singapore is the most active regional country in economic integration agreements. The PRC, India, Japan, the Republic of Korea, and Thailand also have been active in regional trade talks while the PRC and Taipei, China signed the Economic Cooperation Framework Agreement in June 2010.

This shift from multilateralism to regionalism is based on several factors: fear of being left out from the global trend of regionalism; a race to be the “hub” of regionalism in East Asia; the strong need for formal cooperation, generated by the crises of the last 15 years. Before 2000, there were roughly 75 regional trade agreements (RTAs) in the world, except those RTAs currently not effective. Among

Table 3. Regional Trade Agreements, Selected Economies in Asia

| Economy | Goods Notifications (RTAs) | Goods Notifications (Accessions) | Services Notifications (EIAs) | Services Notifications (Accessions) |
|--------------------|----------------------------|----------------------------------|-------------------------------|-------------------------------------|
| PRC | 9 | 1 | 7 | 0 |
| Hong Kong, China | 1 | 0 | 1 | 0 |
| India | 12 | 1 | 2 | 0 |
| Indonesia | 7 | 0 | 4 | 0 |
| Japan | 11 | 0 | 10 | 0 |
| Korea, Republic of | 8 | 1 | 5 | 0 |
| Malaysia | 8 | 0 | 5 | 0 |
| Philippines | 8 | 0 | 4 | 0 |
| Singapore | 18 | 0 | 15 | 0 |
| Taipei, China | 3 | 0 | 3 | 0 |
| Thailand | 10 | 0 | 6 | 0 |
| Viet Nam | 7 | 0 | 4 | 0 |

Note: EIA = economic integration agreement; PRC = the People's Republic of China; RTA = regional trade agreement.

Source: World Trade Organization RTA database (<http://rtais.wto.org/>).

them, there were only five effective regional trade agreements in East Asia: the Protocol on Trade Negotiations (PTN),¹⁴⁾ the Asia-Pacific Trade Agreement (APTA),¹⁵⁾ the Global System of Trade Preferences among Developing Countries (GSTP),¹⁶⁾ the Lao People's Democratic Republic (Lao PDR)-Thailand Preferential Trading Arrangement,¹⁷⁾ and the ASEAN Free Trade Agreement (FTA).¹⁸⁾ However, these RTAs are legally covered by the enabling clause under the WTO and their scope of trade liberalization has been negligible. In a practical response to the spread of regionalism throughout the world, East Asia decided to expand regional integration, hoping to secure foreign markets through RTAs with major trading partners, including neighboring countries.

Previous literature on regionalism (De Benedictis et al. 2005; Momani 2007; Park and Park 2009) has taken the hub-and-spoke approach to explain the proliferation of regionalism. This approach postulates that a large country could be a member of several RTAs, but that smaller countries might only belong to one of these RTAs each, implying that the large country would then be the hub and the others would form the spokes in a series of RTAs. As economies in East Asia started to shift their policy focus from multilateralism to regionalism, there has been a race to become the RTA hub in East Asia and then economies have more actively participated in regional trade talks.

In addition, disasters and crises, such as the financial crisis in 1997-98, SARS,

14) This Agreement entered into force in 1973 and East Asian countries among the current signatories are the Republic of Korea and Philippines. It mainly covers trade in goods.

15) This Agreement, known as the Bangkok Agreement, came into play in 1976, and the current signatories are Bangladesh, the PRC, India, the Republic of Korea, Lao PDR, and Sri Lanka. It mainly covers trade in goods.

16) This Agreement became effective in 1989 and East Asian countries among the current signatories are Indonesia, the Republic of Korea, Malaysia, Philippines, Singapore, Thailand, and Viet Nam. It mainly covers trade in goods.

17) This bilateral PTA between the Lao PDR and Thailand entered into force in 1991 and covers mainly trade in goods.

18) This Agreement entered into force in 1992 and all ASEAN members signed this Agreement. It covers trade in goods.

the tsunami, bird flu, and the recent crisis, have exposed the lack of intra-Asian cooperation. To redress this lack, East Asian economies have held regional discussions on economic integration since 2000.

For instance, there have been 286 regional trade agreements, notified to the WTO as of September 2010 (Table 4), and East Asia has participated in 171 such agreements, (Table 3 above). From the late 1990s, East Asia began to use FTAs as a trade policy tool and now this region is at the forefront of regionalism (Kawai and Wingnaraja 2009b). While ASEAN would be the hub of regionalism in East Asia, the race to be the RTA hub is not yet over because other regional economies have become more aggressive in engaging in regional trade talks.

Still, since East Asia has become a major player in international trade, it is quite reasonable for most countries in the world to participate in any regional trade talks and channels to cooperate with East Asia. Various bilateral, intraregional, and interregional trade talks that include East Asia are under way and this approach is expected to keep evolving.

East Asia must overcome several challenges in the near future. The first is how to improve companies' utilization of RTAs, as discussed in Kawai and Wignaraja (2009b) and Baldwin (2006). Various surveys, such as Kawai and

Table 4. All Regional Trade Agreements in Force (by World Trade Organization Legal Coverage, September 2010)

| | Accessions | New RTAs | Total |
|----------------------|------------|----------|-------|
| GATT Art. XXIV (FTA) | 2 | 156 | 158 |
| GATT Art. XXIV (CU) | 6 | 9 | 15 |
| Enabling Clause | 1 | 30 | 31 |
| GATS Art. V | 3 | 79 | 82 |
| Total | 12 | 274 | 286 |

Note: CU = customs union; FTA = free trade agreement; GATT = General Agreement on Tariffs and Trade.

Source: World Trade Organization RTA database (<http://rtais.wto.org/>).

Wignaraja (2009a), report that RTAs are underused in East Asia, even though companies are supposed to fully use RTA preferences. (After conducting more in-depth studies on this issue, scholars can provide policy implications for East Asian economies.)

In addition, compared with the other regions in the triad, East Asian regionalism is relatively shallow, with relatively low coverage of products and services but wide exceptions for sensitive products and sectors. Another challenge is, therefore, how to promote comprehensive trade coverage in goods and services. Other challenges must also be resolved, such as multiple rules of origin, generating spaghetti bowl effects;¹⁹⁾ forming its own region-wide RTA in East Asia; and harmonizing beyond-the-border issues.

5. Policy Recommendation from the Asian Perspective

World trade has been hit hard by the recent global crisis, as discussed. In particular, the emerging Asian economies that depend heavily on trade as their growth engine saw a severe drop in their exports in 2009. Fortunately, the world economy since the beginning of 2010 has shown a modest-paced, yet noticeable recovery, which in turn has been followed by an improvement in the world trading environment. Despite such signs, it is still too early to proclaim the crisis fully over; in fact, there are many obstacles for the world economy to overcome if it is to see robust growth.

Since their inception in November 2008, G20 summit meetings have provided a forum for world leaders to discuss key issues, allowing a concerted effort to overcome the crisis. Their evaluation is relatively positive. Specifically, their contribution in proposing policies to prevent the crisis from spiraling out of control

19) This term is used by Professor Jagdish Bhagwati of Columbia University to describe the complexity of trade rules resulting from a proliferation of RTAs.

to become another Great Depression received much international support. However, despite discussions on policies to overcome the crisis, on financial-regulation reform, and on reforms of international financial institutions that have led to substantial progress, the Summits have not been able to produce binding outcomes on politically sensitive issues such as IMF quota adjustments and governance reforms. For that reason, at the Seoul Summit, countries focused on attaining tangible results on unconcluded items on the agenda. (As the host, the Republic of Korea added a global financial safety net as well as development issues to the agenda.)

On the trade front, since the first Washington Summit, G20 leaders have voiced a unified concern of the global financial crisis reverting world trade to protectionism, and subsequently agreed to a standstill on trade restriction measures. With regard to enforcement, it was agreed that the WTO, OECD, and UNCTAD would lead monitoring efforts and report to the G20 summit meeting on the status. Some scholars are attributing the absence of a substantial increase in protectionist trade measures to this commitment. However, as most G20 countries are resorting to trade remedies such as anti-dumping duties, the concern for increased protectionism still lingers. At the Toronto Summit, the OECD, International Labour Organization, World Bank, and WTO assumed responsibility to study the effect that trade liberalization will have on employment and growth, and report the results at Seoul.

However, the stalemate in the WTO DDA negotiations presents a challenge to the credibility of the G20 as an international governance vehicle; despite being on every Declaration of the G20 summit meetings (Table 5), the DDA negotiations have shown no substantial progress. (They are the first multilateral trade negotiations launched by the WTO since its inception in the mid-1990s. The official negotiations began in 2001 and were originally scheduled to be completed by 2004.) A bigger worry is that it is uncertain when, or whether, they will be concluded at all. From the perspective of global governance, a crisis of multilateral trading system epitomized by the WTO system in a sense preceded the recent crisis.

Compared with the active discussions on reforms in international financial institutions conducted by G20 leaders recently, the effort the G20 is making in strengthening the multilateral trading system through concluding the Doha Round seems insufficient. More disconcerting is a growing opposition to the G20 involvement in DDA discussions based on a concern that G20's continuing issuance of unrealistic promises (such as the early conclusion of the Doha Round) will only damage the credibility of the G20 summit system.

However, this criticism fails to see the full picture of the DDA negotiations

Table 5. Trade-Related Declarations of G20 Summit Meetings

| Place | Contents |
|-------------------------------|---|
| Washington, DC, United States | <ul style="list-style-type: none"> - Refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO-inconsistent measures to stimulate exports. - Strive to reach agreement on modalities that leads to a successful conclusion to the WTO's DDA with an ambitious and balanced outcome. |
| London, United Kingdom | <ul style="list-style-type: none"> - Reaffirm the commitment made in Washington. - Notify promptly the WTO of any such measures. - Take whatever steps possible to promote and facilitate trade and investment. - Ensure availability of at least US\$ 250 billion over the next 2 years to support trade finance. |
| Pittsburgh, United States | <ul style="list-style-type: none"> - Remain committed to further trade liberalization. - Seek an ambitious and balanced conclusion to the DDA in 2010. |
| Toronto, Canada | <ul style="list-style-type: none"> - Renew for a further 3 years, until the end of 2013, commitment to refrain from raising barriers or imposing new barriers. - Reiterate support for bringing the DDA to a balanced and ambitious conclusion. - Commit to maintain momentum for aid for trade. |
| Seoul, Republic of Korea | <ul style="list-style-type: none"> - Re-emphasize the need to promptly conclude the DDA. - Remain committed to the aid for trade levels beyond 2011. - Make progress toward duty-free quota-free market access for least-developed country products - Coordinate a collective multilateral response to support trade facilitation. - Support measures to increase the availability of trade finance in developing countries. |

Note: DDA = Doha Development Agenda; WTO = World Trade Organization.

Sources: Summit declarations.

and the implications for the future of the G20 summit system. The fundamental reason why there is no conclusion of the DDA negotiations is that there is no agreement on the major issues; and the main reason why there is no agreement on the major issues is the disputes among key players, which are core members of the G20. Hence, if the G20 countries avoid the issue of stalemate in the DDA negotiations, at base caused by their disagreements for political reasons, that in and of itself will seriously hurt the credibility of the G20 summit as the premier forum for international economic cooperation.

Leaders at Seoul re-emphasized the need to promptly conclude the DDA negotiations (Table 5). They suggested that 2011 is a critical window of opportunity. Again, they did not discuss specific issues to resolve the disputes among key participants but simply directed negotiators to engage in across-the-board negotiations. However, without compromises among political leaders, negotiators cannot make any breakthrough. This aspect is similar to that found in all previous G20 summit declarations. One positive note from Seoul is that leaders showed their commitment to make progress toward duty-free quota-free market access for least-developed country products (Table 5).

Nevertheless, there is a limit to the impact that multilateral trade negotiations under the WTO can have on global trade liberalization. First, they are a compromise among more than 150 countries; therefore, the depth of the consequent trade liberalization can only be limited. The G20 leaders recognize the importance of regional integration by advancing a commitment in the Seoul Summit Document to support “the regional integration efforts of African leaders, including by helping to realize their vision of a free trade area through the promotion of trade facilitation and regional infrastructure.”²⁰⁾ If the multilateral trading system represented by a robust WTO loses its footing in the world economy, the global trade system will be replaced by regional trade blocs. RTAs have their roots in trade liberalization; however, their negative consequences, such as trade diversion effects

20) The G20 Seoul Summit: Leaders’ Declaration.

and increased maintenance and harmonization costs, preclude their replacing multilateral trading system. From the perspective of global governance, this is why the G20 leaders must strengthen the multilateral trading system under the WTO. In order to find the “framework of strong, sustainable and balanced growth” proposed at Pittsburg, the role of international trade is even more important.

Considering that international trade can create jobs and assist economic growth of developing countries despite the recent global crisis, the DDA negotiations must be concluded as soon as possible. That may boost the world's confidence in the multilateral trading system. And such strengthening of the system will be very important for emerging Asian economies. However, concluding them by the end of 2011 looks very slim (despite the Seoul Summit commitment to do that). In fact, some experts advocate a discussion of exit strategies from the DDA negotiations, deeming them a failure. Hence, the negotiations must fight against time as well. The G20 leaders must consider, on the one hand, costs incurred by the failure of the negotiations and, on the other, results of less than optimal, but binding, negotiations, and evaluate which will be more compatible with the sustainable and balanced growth the world is striving for. What must be stressed again is the need for a tangible solution that is legally binding along with an action plan to implement such solution.

In addition, the G20 leaders should voice their concern over the continuous upward trend of RTAs. Moreover, several bilateral FTAs should be integrated into multilateral RTAs, and it should be stressed by the G20 leaders that such RTAs must meet the requirements put forth by the WTO. Particularly, the RTAs in the Asian region have spread at an accelerated rate recently. Already, the PRC, Japan and the Republic of Korea have each agreed on FTAs not only with ASEAN, but also with many individual ASEAN members. For example, the Republic of Korea and the PRC recently started FTA discussions at the government level, and the Republic of Korea and Japan are now discussing the resumption of their bilateral FTA talks that halted in late 2004. Moreover, at the PRC-Japan-[Republic of] Korea summit meeting of October 2009, the heads of state agreed to pursue studies

regarding a possible trilateral FTA. Even though regionalism took hold of Asia much later than it did other regions, too many separate bilateral FTAs among Asian economies constitute a suboptimal approach.

On that note, as participants in the G20 summit, these three countries must consider possibilities of integrating individual bilateral FTAs not only in Northeast Asia, but also in East Asia more widely, into broader RTAs. There are a few options of RTAs that be nurtured in the region of Northeast Asia and East Asia that the PRC, Japan, and the Republic of Korea can all participate in: APEC evolving into an RTA; a Trans-Pacific Partnership (TPP); an East Asian FTA; and a PRC-Japan-[Republic of] Korea (CJK) FTA. None of the four options has yet seen visible progress, except for the last one (as discussed in the previous paragraph). In this regard, anticipation of a Northeast Asian FTA will rise until reaching its climax at the end of 2012, when the above studies on a possible CJK FTA is completed. The studies' evaluation of a Northeast Asian FTA will likely be more positive and deem it more efficient than separate bilateral FTAs among the three countries.

If the CJK FTA negotiations are initiated, the quality of the FTA will receive much critical attention; in fact, the heads of the three states may be well advised to proclaim that a prospective trilateral FTA should be a high-quality, comprehensive FTA that meets and even goes beyond WTO requirements. If not, CJK FTA will not contribute much to global trade liberalization.

If CJK FTA is agreed on, the next step would be a CJK + ASEAN FTA. This is because, as said, all three countries already have separate FTAs with ASEAN and therefore the addition of ASEAN into a CJK framework will not be too arduous or costly. If the CJK + ASEAN FTA—or East Asian FTA—is signed, leaders need to recognize the importance of keeping it inclusive: more precisely, the East Asian FTA must keep its membership open to any interested party, and countries such as Australia, India, and New Zealand should be free to join.

Considering that numerous development projects have been attempted and have consumed vast resources, and that they have not produced as much success as

hoped for, the G20 Seoul Summit looked to link development with other important issues on the agenda. The government of the Republic of Korea explained that the focus was the advancement of developing countries' capabilities. It also stressed that the projects born out of this discussion would be multiyear rather than one-time projects, and emphasized that this approach is different from that in the past. However, to achieve maximum returns from the limited given resources, development partners must select and focus.

Reflecting on economic development lessons that trade plays a critical role in lifting developing economies, the summit considered linking development with trade. To be precise, trade was already included in the development agenda, since other items such as infrastructure, human resource development, private investment, and job creation, if discussed with a focus on the linkage between them and trade, would benefit developing countries and their efforts to develop even further.

The Seoul Summit dealt with aid for trade in a more comprehensive manner than the previous summit meetings. It presented an explicit commitment by G20 countries of "at least maintaining, beyond 2011, aid for trade levels that reflect the average of the last three years (2006 to 2008)"—a substantial development from the vague commitment made at Toronto (Table 5). But in order to take on such challenge, there must first be a better understanding and a more critical evaluation of the nature and consequences thus far of aid for trade projects. The G20 leaders also noted this necessity in the Multi-Year Action Plan on Development by linking further efforts to collaborate among international organizations to deliver aid for trade with the outcomes of the Global Aid for Trade Review of July 2011, which is being conducted jointly by the OECD and WTO. In addition, the Summit advanced new commitments in duty-free quota-free market access for least-developed countries, coordination of a collective multilateral response to support trade facilitation, and support of measures to increase the availability of trade finance in developing countries. These results committed in the Multi-Year Action Plan on Development from the Seoul Summit should result in practical long-term results geared toward trade promotion and facilitation.

From the perspective of global governance, the G20 leaders should continue their utmost efforts to settle the DDA negotiations by the end of 2011. Such a feat will ultimately serve to enhance the reputation and credibility of the G20 summit as the premier forum for international economic cooperation. Furthermore, the G20 leaders must express their concerns for an undeniable encroachment of regionalism. Related to this point, leaders of the PRC, Japan, the Republic of Korea, and ASEAN should attempt to consolidate and multilateralize the numerous individual bilateral FTAs that are being concluded in Northeast and East Asia into a broader RTA that liberalizes a larger area of the region. They should also ensure that this “East Asian RTA” is a high-quality and comprehensive RTA, meeting the WTO requirements. The Multi-Year Action Plan on Development produced at Seoul should be faithfully implemented. This will contribute to capacity building of developing countries, promoting their economic growth.

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2

The Role of Korea and East Asia under the Changing Trade Environment

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1. Introduction

East Asia plays an important role in the world economy. In 2009, East Asia and Pacific region accounted for about 1/4 of the world's GDP and China, Japan and Korea combined produced 1/5 of the world's GDP. East Asia and the Pacific had 53.6% of total reserves(includes gold) and China, Japan and Korea has 40.2% of total reserves in 2009.¹⁾ The rise of China in the world trade after China's participation in the world economy and strong Japanese industry and emerging East Asian countries such as Korea and Taiwan also make the role of East Asia more important in the world economy in recent years. However, the sub-prime mortgage crisis in the United States, which became apparent in 2007 and intensified towards the end of 2008 brought the world economy to catastrophe. The crisis

1) People's Bank of China announced that China's foreign reserve exceeded 3 trillion U.S.\$ at the end of March of 2011.

in the US financial sector spread to the real economy and the rest of the world and sparked a global economic crisis. The impact of the crisis on trade was further magnified due to the growth of global supply chains in recent decades. There was a dramatic decline in world trade in 2009, -12.2% in volume terms and 22.6% in US dollar terms. World output as measured by gross domestic product (GDP) also fell by 2.3 % in 2009, the first such decline since the end of the Second World War. The world economic crisis also influenced the East Asian economy as GDP growth rates declined and trade volume decreased. Due to the consolidated effort by major countries world economy recovered from the largest decline in more than 70 years, growing 4.9% in 2010. In this recovery, Asian countries did the major role. China grew 10.3% compare to the 2.9% growth in the U.S. and 1.7% growth in the Euro zone. We can say that the role of Asia became more important in the world economy and its importance will become more crucial in the coming years.

Therefore, we will investigate the current status of East Asia in the world economy in Section II and the role of East Asia in this changing world economic environment in Section III. Section IV concludes the paper.

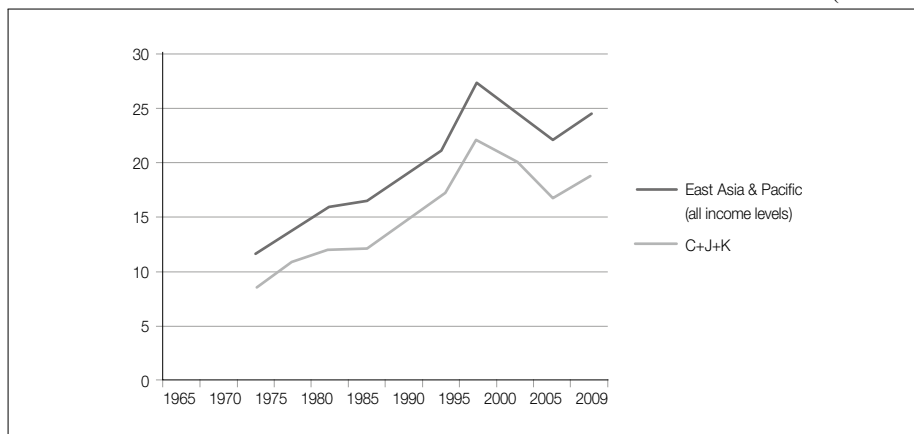
2. The Current Status of East Asian Economy

Because of the world economic crisis, the world GDP declined 2.3% in 2009. In the OECD countries, positive quarter-on-quarter GDP growth resumed in the second quarter of 2009, but year-on-year changes remained negative throughout the year. Even though Japan suffered the largest decline in its GDP (-5.0 %) followed by the European Union (-4.2 %) and the United States (-2.4 %), GDP of China increased by 8.5% and Korea showed a 6.2% increase in its GDP.

After 1970's, East Asia showed rapid growth in the GDP and accounts for 24.3% of the world's GDP. China, Japan and Korea produced 18.7% of world GDP in 2009.

Figure 1. The Share of East Asian Economy in the World Economy

(Unit: %)



Note: C+J+K means China, Japan and Korea.

Source: World Development Indicator, World Bank, www.worldbank.org.

Due to the world economic crisis in 2008, the world export volume in 2009 decreased 12% and import volume decreased 13%. However, Asia showed an 11% decrease in the export and an 8% decrease in import. From <Table 1>, we can say that Asia worked as a buffer to the world economic crisis.

As of December 2009, 457 FTA were notified to the WTO. East Asia also participates in the negotiation of FTA. Since the establishment of the FTA Roadmap in 2003, Korea has actively engaged in FTA negotiations with over 50 countries. FTAs with Chile, Singapore, EFTA, ASEAN, India, EU, and Peru have been entered into force. Korea-US FTA (signed in April 2007) is currently under the process of ratification. Korea is currently negotiating FTAs with GCC, Australia, New Zealand, Columbia, Canada, Mexico and Turkey. Prior to launching official negotiations, Korea is conducting preparation talks or joint research projects with prospective FTA partners including China, Japan, China-Japan, MERCOSUR, Russia, Israel, SACU, Vietnam, Mongolia and Central America(Panama, Costa Rica, Guatemala, Honduras, Dominican Republic). In particular, China and Japan

have agreed to start a joint study on a trilateral FTA among government officials, business members and academics in October 2009. China concludes FTAs with ASEAN, Thailand, Niger, Chile, Pakistan, New Zealand, Peru, Singapore, Costa

Table 1. Growth in the Volume of World Merchandise Trade by Selected Region and Economy
(Annual percentage change)

| Exports | | | | Imports | | |
|---------|------|------|--|---------|------|------|
| 2000-09 | 2008 | 2009 | | 2000-09 | 2008 | 2009 |
| 3 | 2 | -12 | World | 3 | 2 | -13 |
| 1 | 2 | -15 | North America | 1 | -3 | -17 |
| -2 | -6 | -18 | Canada | 1 | 1 | -17 |
| 1 | 1 | -15 | Mexico | 1 | 4 | -20 |
| 2 | 6 | -14 | United States | 1 | -4 | -17 |
| 4 | 1 | -8 | South and Central America | 6 | 13 | -17 |
| 2 | 0 | -15 | Europe | 1 | -1 | -15 |
| 2 | 0 | -15 | European Union (27) | 1 | -1 | -15 |
| 1 | 0 | -3 | Norway | 3 | 3 | -14 |
| 2 | 2 | -15 | Switzerland | 1 | 3 | -10 |
| 6 | 2 | -5 | Commonwealth of Independent States (CIS) | 11 | 17 | -26 |
| 8 | 6 | -11 | Asia | 6 | 5 | -8 |
| 2 | 6 | -5 | Australia | 7 | 10 | -11 |
| 17 | 9 | -11 | China | 15 | 4 | 3 |
| -4 | -11 | -1 | Hong Kong, China | 2 | -2 | -6 |
| 12 | 15 | -3 | India | 13 | 18 | -3 |
| 2 | 3 | -25 | Japan | 1 | -1 | -13 |
| 6 | 4 | -8 | Six East Asian traders a | 3 | 4 | -13 |

Note: a Hong Kong, China; Malaysia; Republic of Korea; Singapore; Taipei and Thailand.

Source: World Development Indicator, World Bank, www.worldbank.org

As we can see in <Table 2>, intra regional merchandise trade of Asia is 51.8% and it is lower than that of Europe (72.2%) but higher than those of other regions. Therefore, if the regional cooperation in the Asia region is deepened through FTA, it will grow to the level of Europe.

Rica and Taiwan. China is currently negotiating FTA with GCC, Australia, Iceland, and Norway. China conducts the joint research with SACU, India, Korea and Korea-Japan. Japan was not actively participating in FTA negotiation until it started negotiation with ASEAN. Japan finished FTA with ASEAN, Chile, India and Mexico and currently negotiating with Australia and Switzerland. Japan is also participating in the joint research with China and Korea.

In <Table 3>, we can find that the share of Asia in the world merchandise export has been increased and that of US and Europe has been decreased. China's share is almost 10%, Japan's share is 5% and Korea's is 3% of the world merchandise export.

In 2009, China was the first leading exporter in the world, Japan was the fourth and Korea was the ninth. China, Japan and Korea works as the factories of the world. China was the second leading importer, Japan was fifth, and Korea was 12th. The current account balance (% of GDP) of China, Japan and Korea are 5.96%, 2.81% and 5.13% in 2009, respectively.

Table 2. Intra- and inter-regional merchandise trade, 2009

(Unit: Billion dollars and percentage)

| Origin | Destination | | | | | | | |
|--|---------------|---------------------------|-------------|------------|------------|-------------|-------------|--------------|
| | North America | South and Central America | Europe | CIS | Africa | Middle East | Asia | World |
| Share of regional trade flows in each region's total merchandise exports | | | | | | | | |
| World | 16.6 | 3.6 | 41.9 | 2.6 | 3.2 | 4.2 | 26.3 | 100.0 |
| North America | 48.0 | 8.0 | 18.2 | 0.6 | 1.8 | 3.1 | 20.2 | 100.0 |
| South and Central America | 25.0 | 26.1 | 19.6 | 1.3 | 2.8 | 2.5 | 20.8 | 100.0 |
| Europe | 7.3 | 1.5 | 72.2 | 2.9 | 3.2 | 3.1 | 8.5 | 100.0 |
| CIS | 5.2 | 1.1 | 52.9 | 19.2 | 1.6 | 3.2 | 13.9 | 100.0 |
| Africa | 17.1 | 2.4 | 38.8 | 0.3 | 11.7 | 3.0 | 22.2 | 100.0 |
| Middle East | 8.7 | 0.7 | 11.0 | 0.5 | 4.9 | 15.5 | 51.8 | 100.0 |
| Asia | 17.5 | 2.7 | 17.9 | 1.6 | 2.8 | 4.6 | 51.6 | 100.0 |

Source: World Development Indicator, World Bank, www.worldbank.org.

Table 3. World Merchandise Exports by Region and Selected Economy

(Unit: Billion dollars and percentage)

| | 1948 | 1953 | 1963 | 1973 | 1983 | 1993 | 2003 | 2009 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| | Value | | | | | | | |
| World | 59 | 84 | 157 | 579 | 1838 | 3676 | 7376 | 12178 |
| | Share | | | | | | | |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| North America | 28.1 | 24.8 | 19.9 | 17.3 | 16.8 | 18.0 | 15.8 | 13.2 |
| United States | 21.7 | 18.8 | 14.9 | 12.3 | 11.2 | 12.6 | 9.8 | 8.7 |
| Canada | 5.5 | 5.2 | 4.3 | 4.6 | 4.2 | 3.9 | 3.7 | 2.6 |
| Mexico | 0.9 | 0.7 | 0.6 | 0.4 | 1.4 | 1.4 | 2.2 | 1.9 |
| South and Central America | 11.3 | 9.7 | 6.4 | 4.3 | 4.4 | 3.0 | 3.0 | 3.8 |
| Brazil | 2.0 | 1.8 | 0.9 | 1.1 | 1.2 | 1.0 | 1.0 | 1.3 |
| Argentina | 2.8 | 1.3 | 0.9 | 0.6 | 0.4 | 0.4 | 0.4 | 0.5 |
| Europe | 35.1 | 39.4 | 47.8 | 50.9 | 43.5 | 45.4 | 45.9 | 41.2 |
| Germany ^a | 1.4 | 5.3 | 9.3 | 11.7 | 9.2 | 10.3 | 10.2 | 9.2 |
| France | 3.4 | 4.8 | 5.2 | 6.3 | 5.2 | 6.0 | 5.3 | 4.0 |
| Italy | 1.8 | 1.8 | 3.2 | 3.8 | 4.0 | 4.6 | 4.1 | 3.3 |
| United Kingdom | 11.3 | 9.0 | 7.8 | 5.1 | 5.0 | 4.9 | 4.1 | 2.9 |
| CIS^b | - | - | - | - | - | 1.5 | 2.6 | 3.7 |
| Africa | 7.3 | 6.5 | 5.6 | 4.8 | 4.5 | 2.5 | 2.4 | 3.2 |
| South Africa ^c | 2.0 | 1.6 | 1.5 | 1.0 | 1.0 | 0.7 | 0.5 | 0.5 |
| Middle East | 1.9 | 2.7 | 3.2 | 4.1 | 6.8 | 3.5 | 4.1 | 5.7 |
| Asia | 14.0 | 13.4 | 12.5 | 14.9 | 19.1 | 26.1 | 26.2 | 29.4 |
| China | 0.9 | 1.2 | 1.3 | 1.0 | 1.2 | 2.5 | 5.9 | 9.9 |
| Japan | 0.4 | 1.5 | 3.5 | 6.4 | 8.0 | 9.9 | 6.4 | 4.8 |
| India | 2.2 | 1.3 | 1.0 | 0.5 | 0.5 | 0.6 | 0.8 | 1.3 |
| Australia and New Zealand | 3.7 | 3.2 | 2.4 | 2.1 | 1.4 | 1.4 | 1.2 | 1.5 |
| Six East Asian Traders | 3.4 | 3.0 | 2.5 | 3.6 | 5.8 | 9.7 | 9.6 | 9.6 |

Table 3. Continued

| | 1948 | 1953 | 1963 | 1973 | 1983 | 1993 | 2003 | 2009 |
|-------------------------------|------|------|------|------|------|------|------|------|
| Memorandum item: | | | | | | | | |
| EU ^d | - | - | 24.5 | 37.0 | 31.3 | 37.4 | 42.4 | 37.7 |
| USSR, Former | 2.2 | 3.5 | 4.6 | 3.7 | 5.0 | - | - | - |
| GATT/WTO Members ^e | 63.4 | 69.6 | 75.0 | 84.1 | 78.4 | 89.3 | 94.3 | 94.5 |

Note: Between 1973 and 1983 and between 1993 and 2003 export shares were significantly influenced by oil price developments.

^a Figures refer to the Fed. Rep. of Germany from 1948 through 1983.

^b Figures are significantly affected by including the mutual trade flows of the Baltic States and the CIS between 1993 and 2003.

^c Beginning with 1998, figures refer to South Africa only and no longer to the Southern African Customs Union.

^d Figures refer to the EEC(6) in 1963, EC(9) in 1973, EC(10) in 1983, EU(12) in 1993, EU(25) in 2003 and EU(27) in 2009.

^e Membership as of the year stated.

Source: World Development Indicator, World Bank, www.worldbank.org.

East Asia has over 50% of the world's total reserves and China, Japan and Korea have over 40% of the world's total reserves. It is possible because of trade surplus in the region and it is often called as the reason of global imbalance. Although the current account deficit of US is not expected to widen substantially in the coming years, deficits will persist. Broad-based recovery is continuing in most Asian economies because of strong export performance, buoyant private domestic demand, and in some cases rapid credit growth. East Asia continues to outpace other regions. Therefore, the total reserves of East Asian countries will increase in the medium-term and limited progress has been made on external rebalancing in emerging Asia.

Table 4. Leading Exporters and Importers in World Merchandise Trade, 2009

(Unit: Billion dollars and percentage)

| Rank | Exporters | Value | Share | Annual percentage change | Rank | Importers | Value | Share | Annual percentage change |
|------|--------------------|-------|-------|--------------------------|------|---------------------|-------|-------|--------------------------|
| 1 | China | 1202 | 9.6 | -16 | 1 | United States | 1605 | 12.7 | -26 |
| 2 | Germany | 1126 | 9.0 | -22 | 2 | China | 1006 | 7.9 | -11 |
| 3 | United States | 1056 | 8.5 | -18 | 3 | Germany | 938 | 7.4 | -21 |
| 4 | Japan | 581 | 4.6 | -26 | 4 | France | 560 | 4.4 | -22 |
| 5 | Netherlands | 498 | 4.0 | -22 | 5 | Japan | 552 | 4.4 | -28 |
| 6 | France | 485 | 3.9 | -21 | 6 | United Kingdom | 482 | 3.8 | -24 |
| 7 | Italy | 406 | 3.2 | -25 | 7 | Netherlands | 445 | 3.5 | -23 |
| 8 | Belgium | 370 | 3.0 | -22 | 8 | Italy | 413 | 3.3 | -27 |
| 9 | Korea, Republic of | 364 | 2.9 | -14 | 9 | Hong Kong, China | 352 | 2.8 | -10 |
| 10 | United Kingdom | 352 | 2.8 | -23 | | retained imports | 91 | 0.7 | -8 |
| 11 | Hong Kong, China | 329 | 2.6 | -11 | 10 | Belgium | 352 | 2.8 | -25 |
| | domestic exports | 17 | 0.1 | -1 | 11 | Canada ^a | 330 | 2.6 | -21 |
| | re-exports | 313 | 2.5 | -12 | | | | | |
| 12 | Canada | 317 | 2.5 | -31 | 12 | Korea, Republic of | 323 | 2.5 | -26 |
| 13 | Russian Federation | 303 | 2.4 | -36 | 13 | Spain | 288 | 2.3 | -32 |
| 14 | Singapore | 270 | 2.2 | -20 | 14 | India | 250 | 2.0 | -22 |
| | domestic exports | 138 | 1.1 | -21 | | | | | |
| | re-exports | 132 | 1.1 | -19 | | | | | |
| 15 | Mexico | 230 | 1.8 | -21 | 15 | Singapore | 246 | 1.9 | -23 |
| | | | | | | retained imports | 114 | 0.9 | -28 |

Table 4. Continued

| Rank | Exporters | Value | Share | Annual percentage change | Rank | Importers | Value | Share | Annual percentage change |
|------|-----------------------------------|--------------|--------------|--------------------------|------|-----------------------------------|--------------|--------------|--------------------------|
| 16 | Spain | 219 | 1.7 | -22 | 16 | Mexico | 242 | 1.9 | -24 |
| 17 | Taipei, Chinese | 204 | 1.6 | -20 | 17 | Russian Federation | 192 | 1.5 | -34 |
| 18 | Saudi Arabia | 192 | 1.5 | -39 | 18 | Taipei, Chinese | 174 | 1.4 | -27 |
| 19 | United Arab Emirates ^b | 175 | 1.4 | -27 | 19 | Australia | 165 | 1.3 | -17 |
| 20 | Switzerland | 173 | 1.4 | -14 | 20 | Switzerland | 156 | 1.2 | -15 |
| 21 | India | 163 | 1.3 | -17 | 21 | Poland | 147 | 1.2 | -30 |
| 22 | Malaysia | 157 | 1.3 | -21 | 22 | Austria | 143 | 1.1 | -22 |
| 23 | Australia | 154 | 1.2 | -18 | 23 | Turkey | 141 | 1.1 | -30 |
| 24 | Brazil | 153 | 1.2 | -23 | 24 | United Arab Emirates ^b | 140 | 1.1 | -21 |
| 25 | Thailand | 152 | 1.2 | -14 | 25 | Thailand | 134 | 1.1 | -25 |
| | Total of above^c | 11588 | 92.8 | - | | Total of above^c | 11539 | 91.0 | - |
| | World^c | 12490 | 100.0 | -23 | | World^c | 12682 | 100.0 | -23 |

Note: ^a Imports are valued f.o.b.

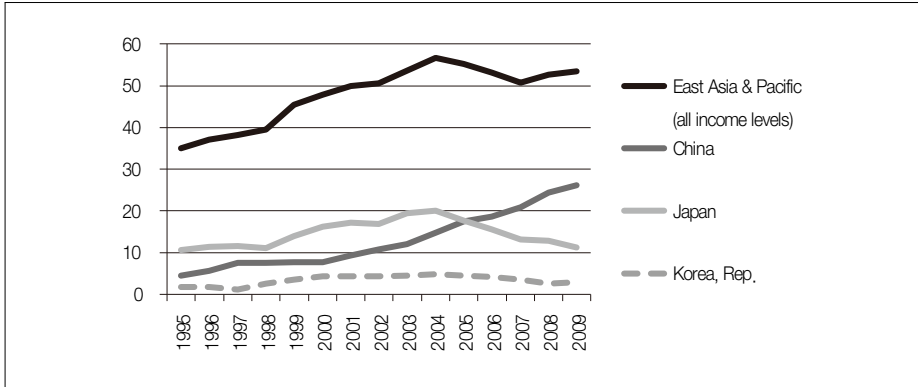
^b Secretariat estimates.

^c Includes significant re-exports or imports for re-export.

Source: World Bank. *World Development Indicator*, www.worldbank.org.

The share of foreign direct investment net inflow of East Asia out of world FDI has been increased from 12.7% in 2001 to 18.1% in 2009. China's share decreased in 2009 compare to its record high of 7.95% in 2008, China is one of the main recipients of FDI. The total amount of FDI net inflow of China in 2009 was 78.2 billion US dollars. It is mainly because of China's comparatively favorable investment conditions. The net inflow of FDI to Japan and Korea are 11.8 billion and 1.5 billion US dollars, respectively.

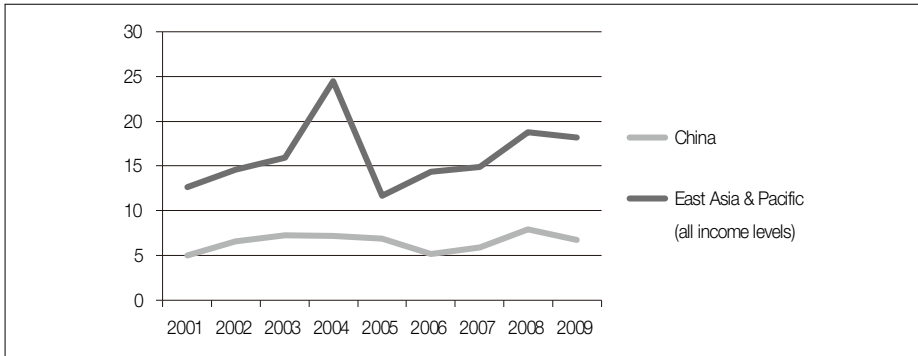
Figure 2. % of Total Reserves of East Asia out of World Total Reserves



Source: www.worldbank.org.

Figure 3. The Share of Foreign Direct Investment net Inflow of East Asia Out of World FDI

(Unit: %)



Source: www.worldbank.org.

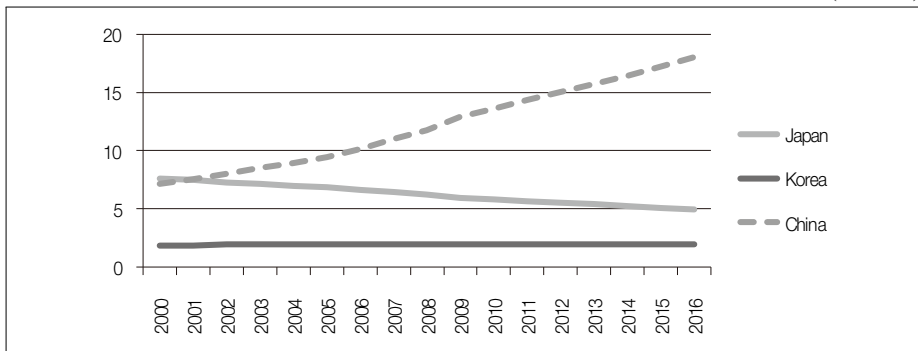
3. The Role of East Asia and Korea

As we can see in Section II, we can say that the importance of East Asia in the world economy has been growing as time passes and it will continue to

grow in the future. Following World Economic Outlook by IMF, GDP based on PPP share of world total of China is estimated to be increased to 18% in 2016 from 7.13% in 2000. Adding up Japan and Korea to China, the share is estimated to be 24.9% of the world's output in 2016. Therefore, we have to find a way for the East Asia to contribute to the world economy.

Figure 4. Gross Domestic Product Based on Purchasing-power-parity Share of World Total

(Unit: %)



Note: Estimation after 2009.

Source: IMF(2011. 4. 24), *World Economic Outlook*. (2011. 04. 24)

China, Japan and Korea play major role in East Asia. Their share of the total population is 72.3% of ASEAN+3. GDP of CJK accounts for 87.4% of ASEAN+3. Imports and exports are more than 70% of ASEAN+3. FDI outflow of CJK accounts for 85.7% and inflow accounts for 70.1% of ASEAN+3.

In China's trade Japan accounts for 8.1% of exports (4th) and 13.0% of imports (1st). Korea accounts for 4.5% of exports (5th) and 10.2% of imports (3rd) in China's trade. In Japan's trade China accounts for 28.9% of exports (1st) and 22.2% of imports (1st). Korea's share of Japan's exports and imports are 8.1% (4th) and 5.0% (6th), respectively. In Korea's trade China accounts for 23.9% of exports (1st) and 16.8% of imports (1st). Japan accounts for 6.0% of exports (4th) and 15.3% of imports (2nd) in Korea's trade. Korea shows trade surplus with China

and trade deficit with Japan. China has trade surplus with Japan.

However, the economic cooperation between China, Japan and Korea has many obstacles. Each country has its own sensitive sectors. China's obstacles are automobile and petrochemical sectors. Japan has difficulties to open the market for agricultural products and textile. Korea's sensitive sectors are agriculture, automobile (with Japan), parts and component industry sector (with Japan) and textile (with China). Even though the joint study of CJK FTA is in progress, it is very limited. Korea-Japan FTA negotiation are broken down after eight round of negotiation talks by 2004. Two government re-opened dialogue since 2008, but only technical level of dialogue has been done until 2011. China and Korea had conducted joint research for 7 years by 2010 and leaders of two countries had announced the start of negotiation on China and Korea in the near future in 2010. But there is no negotiation at this stage. Three countries have non-economic obstacle such as historical issues and territorial disputes. However, to bring economic prosperity in the East Asian region and world-wide, the cooperation of these three countries is essential. Korea can play the major role to bring more concrete cooperation in the region. Korea can perform the bridging role in this respect. There is rivalry between China and Japan to get the hegemony in the region. Korea is regarded as a neutral power in the region. Therefore, Korea can be the major

Table 5. The Share of China, Japan and Korea in East Asia

(Unit: %)

| | China | Japan | Korea | CJK | ASEAN | ASEAN+3 |
|-------------|-------|-------|-------|------|-------|---------|
| Population | 63.8 | 6.2 | 2.3 | 72.3 | 27.7 | 100 |
| GDP | 37.2 | 42.2 | 8.0 | 87.4 | 12.6 | 100 |
| Exports | 39.4 | 21.6 | 11.6 | 72.7 | 27.3 | 100 |
| Imports | 34.7 | 23.3 | 13.3 | 71.3 | 28.7 | 100 |
| FDI outflow | 23.2 | 56.9 | 5.7 | 85.7 | 14.3 | 100 |
| FDI inflow | 54.1 | 12.2 | 3.8 | 70.1 | 29.9 | 100 |

Source: Urata (2011).

contributor for the regional cooperation. Korea is the only country in the world economy to become the member of Development Assistance Committee in the Organization for Economic Cooperation and Development from the one of the recipient countries. This experience can be the important asset for Korea to build a close relation with developing countries.

The sum of trade surplus of China (200 billion) Japan (29.7 billion) and Korea (40.4 billion) in 2009 is over 270 billion US \$. It is almost half of US trade deficit (546.5 billion). Therefore, there are many pressures for CJK to introduce some policy changes to rebalancing the global imbalance which is characterized by huge US and many EU members including UK, Italy, Spain and eastern European countries' current account deficit and offsetting surplus of Asian countries. Some argues that global imbalance has been caused by related savings and consumption pattern of western hemisphere's households. Declined savings rate and increases in consumption caused by continuous monetary policy easing and asset price rising brought the expansion of current account deficit and corresponding borrowing from foreign countries. They insist that large current account balance surplus reflects the competitiveness of their industries. However, others argues that global imbalance is the result of structural problem or policy failure. They insist that the increased saving after Asian financial crisis was major cause of global imbalance. They make suggestion to change exchange rate policy of the Asian countries. In this context, East Asia should make consolidated effort to rebalancing global imbalance to find a way to decrease their trade surplus because the hard landing of the US and global economy is not good for their economy in the long run.

The world economy recovers from the world economic crisis. In advanced economies, the private demand is growing and it reduces the concerns of double-dip recession. The pace of recovery is strengthened, but unemployment rates are remains high in advanced economies. In the emerging market, new macroeconomic risks such as overheating and related inflation are building. Oil price increases since January 2011. Therefore, IMF forecast world real GDP growth about 4.5% in 2011 and 2012, down from 5 percent in 2010. The forecast of real GDP for

advanced economies is expected to expand by about 2.5% and for emerging and developing economies 6.5%. The projection for China, Japan and Korea are shown in <Table 6>. The projection of China and Korea is much higher than US and Europe. Japan's growth of 4 percent in 2010 was one of the fastest among the advanced economies even though there are large uncertainties associated with the Tohoku earthquake.²⁾

However, there are risks to the growth of East Asia which come from both outside and inside the region. Even though there has been a substantial increase in intra-regional trade, two-thirds of the final demand for Asian exports still comes from outside the region, and renewed turbulence in the Euro area would affect Asia primarily through trade linkages. The oil and commodity prices increase is another strong external risk. The overheating pressures of Asian countries are the risk from the inside of the region. The possibility of Chinese credit and property boom-bust cycle is another concern that the whole region has. Asia's external surplus has narrowed substantially from a peak of 5. percent of regional GDP in 2007 to about 3 percent of GDP in 2010. However, that narrowing is not expected

Table 6. Projection of World Real GDP by Region

| | (Unit: %) | | |
|-----------------|-----------|------|------|
| | 2010 | 2011 | 2012 |
| US | 2.8 | 2.8 | 2.9 |
| Advanced Europe | 1.7 | 1.7 | 1.9 |
| Emerging Europe | 4.2 | 3.7 | 4.0 |
| China | 10.3 | 9.6 | 9.5 |
| Japan | 3.9 | 1.4 | 2.1 |
| Korea | 6.1 | 4.5 | 4.2 |

Source: IMF. (April. 2011), *World Economic Outlook*.

2) Official estimates of the damage to the capital stock are about 3 to 5 percent of GDP. It is twice larger than that of the 1995 Kobe earthquake.

to continue. As external demand recovers and fiscal stimulus for domestic demand is done, the region's external surpluses are projected to widen again.

IMF forecasts downside risks surpass upside risks. In advanced economies, weak sovereign balance sheets and real estate markets are regarded as major problems. Financial and fiscal risk in some Euro area economies are major concern for the world economy. The rise of oil and food prices with geopolitical uncertainty and natural disasters as well as overheating and booming asset markets in emerging market are other problems. East Asian countries are not immune to this down side risks. Therefore, along with developed countries, East Asian countries should have well managed monetary policy and fiscal positions. Appropriate action differs across economies, because their cyclical and external conditions are different. In many East Asian countries, tightened macroeconomic policies are needed to keep the inflation pressure under control. IMF recommended appreciation of the exchange rate to economies with current account surplus and tighten fiscal and monetary policies to economies with current account deficit. However, the imperative for action and willingness to cooperate among countries is diminishing because the worst situation of the world economic crisis is over. However, because of supply chain in the East Asian region, more consolidated efforts between East Asian countries are still needed.

4. Conclusion

The importance of East Asia is increasing after the world economic crisis and the expectation for the East Asia to do proper role in the world economy is also increasing. Some stressed the need for external rebalancing in most notably the United States and emerging Asia to reduce global vulnerabilities. From their perspective, East Asia does not do their role. However, it is not the problem for few trade surplus countries in the East Asia. The world supply chain and globalization make this problem more complex. One countries effort is not enough

to solve the global imbalance and harmonized efforts are needed. However, East Asia should find the way for smoothing the global imbalance. Developing Asia's current account balances are substantially higher than fundamentals suggest. The primary challenge for Asian policymakers is to quickly normalize the stance of fiscal and monetary policies in the region to prevent inflation from increasing. Strengthened supervision and prudential measures are also needed. While whether or not the appreciation of major currencies in East Asia is inevitable remains a controversial matter, managing capital inflows is another major policy challenge for East Asia. Exchange rate policy must be complemented by structural reforms. In all of these policy challenges, regional cooperation is needed.

There are many cooperation channels in the East Asian region. They include various bilateral FTAs and dialogue talks we investigated in Section III. East Asian countries made some results. For example, the Chiang Mai Initiative, a multilateral currency swap arrangement among the ten members of ASEAN, the People's Republic of China (including Hong Kong), Japan, and Korea, was made. It draws from a foreign exchange reserves pool worth US\$120 billion and was launched on 24 March 2010 to prevent the reoccurrence of financial crisis which hit many East Asian economies in 1997. However, there are many differences and obstacles for more concrete cooperation in the region. From the experience of European Union, it is reasonable to consider the finalization of tangible results will take more time, but the process should be based on the concept of global understanding. Narrow minded regionalism should be avoided because it will make many problems in the world economy and it will influence East Asian economies in the long run. As the economy of East Asia is developing, we should find the suitable role in the world economy for the East Asian countries. Korea can do the active role in many ways such as a mediator between China and Japan and developed and developing countries.

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3

Financial Regionalism in East Asia and its Efficacy as Financial Safety Nets^{*}

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1. Introduction

The Asian financial crisis in 1997-98 was especially important in highlighting financial risk coming from a premature financial market and its contagion to neighboring countries in the region. In the aftermath of the crisis, not only was there a heightened perception of East Asia's regional exposure to external economic shocks, but there was greater interest in attempting to develop a regional mechanism as self-help measures against the recurrence of similar future crisis.

Recently the global economy has been suffering from financial collapse and economic recessions, triggered by the subprime mortgage crisis. As a consequence of global financial crisis, growing interest to develop a new global financial architecture has become increasingly widespread. The international movements in

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2008-09 resulted in the emergence of new global institutional entity of the Group of Twenty (G20)¹⁾ as a premier forum for international economic cooperation.

This paper is intended to review current development of East Asia's financial cooperation and to make suggestions for both the CMIM and the ABMI to be more effective regional financial safety net and common local currency bond market, respectively. The CMIM, as a regional financing arrangement in East Asia, is discussed in line with global-regional financial safety nets. With the increasing momentum of the CMIM in progress, the ABMI should move toward building common local currency bond market on the existing achievements.

The remainder of this paper is organized in the following way. Section 2 provides a brief review of two initiatives under ASEAN+3 process. Section 3 discusses the global and regional financial safety nets and their possible link. Section 4 makes suggestions to enhance the effectiveness of ASEAN+3 financial cooperation, and Section 5 concludes.

2. Key Initiatives of ASEAN+3 Financial Cooperation

2.1 Chiang Mai Initiative Multilateralization

After a rapid contagion of the 1997-98 Asian currency crisis across East Asian countries, ASEAN+3²⁾ realized the need for a regional financial cooperation as self-help measures against financial crisis. Their recognition of common needs for

1) The G20 was initially designed as a platform to manage global financial crisis and discussed about common systemic problems. At the inception although this process was probably too new to have had much practical impact, the G20 process has the potential to shed light on global economy by revealing important international collective regulatory issues and cooperation.

2) The Association of Southeast Asian Nations (ASEAN), established in 1967, has 10 member countries: Thailand, Malaysia, Singapore, Indonesia, the Philippines, Brunei, Burma, Laos, Vietnam, and Cambodia. The Plus Three countries are the Republic of Korea, Japan, and the People's Republic of China.

regional financial safety nets led to several initiatives to reinforce regional financial cooperation for their own protection against crisis. The key initiatives were undertaken to promote regional financial cooperation: (i) the Chiang Mai Initiative (CMI) comprised of a network of bilateral swap arrangements, and (ii) the Asian Bond Market Initiative (ABMI) to develop local currency bond markets in East Asia.

The CMI was agreed to in May 2000 in Chiang Mai, Thailand, with the objective of establishing a network of bilateral swap arrangements among ASEAN+3 countries to address short-term liquidity difficulties in the region and supplementing existing international financial arrangements. The framework was basically a set of bilateral swap agreements between the central banks involved in each swap arrangement. The ASEAN+3 Finance Ministers took the framework of the existing CMI and moved toward its multilateralization in May 2009, and the CMIM finally came into effect on March 24, 2010.

ASEAN+3 countries have agreed to multilateralize the CMI in such a way that any member country can utilize liquidity support from the total fund of \$120 billion under a single agreement. Because the fund was financed in the form of promissory notes, there is no direct and immediate impact on the member country's foreign reserves. Members have agreed to the two-tier contribution scheme: 20% contribution by ASEAN countries and 80% by the Plus Three countries, as summarized in Table 1. As for the borrowing multiples, 0.5 applies to China and Japan respectively, 2.5 to ASEAN big-five countries, and 5.0 to ASEAN small-five countries. This implies that ASEAN countries can draw the amount larger than their contributions in crisis. In other words, applying larger borrowing multiples to those countries that are more vulnerable to economic crisis increases the effectiveness of the CMIM as a regional financial safety net by providing emergency liquidity support. Despite its somewhat loose structure and relatively small amount of the CMIM fund, the CMI's multilateralization itself is evaluated as a significant move towards improving East Asia's financial stability and regional cooperation.

Table 1. CMIM Contributions and Voting Power

| | Contributions | | | | Purchasing multiple | Voting power (%) |
|-------------|---------------|-----------------|-----------|------|---------------------|------------------|
| | USD (Bil.) | | Share (%) | | | |
| China | 38.4 | Exc. HK 34.2 | 32.0 | 28.5 | 0.5 | 25.43 |
| | | HK 4.2 | | 3.5 | 2.5 | 2.98 |
| Japan | 38.4 | | 32.0 | | 0.5 | 28.41 |
| Korea | 19.2 | | 16.0 | | 1.0 | 14.77 |
| Plus Three | 96.0 | | 80.0 | | - | 71.59 |
| Indonesia | 4.552 | | 3.793 | | 2.5 | 4.369 |
| Thailand | 4.552 | | 3.793 | | 2.5 | 4.369 |
| Malaysia | 4.552 | | 3.793 | | 2.5 | 4.369 |
| Singapore | 4.552 | | 3.793 | | 2.5 | 4.369 |
| Philippines | 4.552 | | 3.793 | | 2.5 | 4.369 |
| Vietnam | 1.00 | | 0.833 | | 5.0 | 1.847 |
| Cambodia | 0.12 | | 0.100 | | 5.0 | 1.222 |
| Myanmar | 0.06 | | 0.050 | | 5.0 | 1.179 |
| Brunei | 0.03 | | 0.025 | | 5.0 | 1.158 |
| Lao PDR | 0.03 | | 0.025 | | 5.0 | 1.158 |
| ASEAN | 24.0 | | 20.00 | | - | 28.41 |
| Total | 120.0 | | 100.0 | | - | 100.0 |

Source: The Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting.

2.2. Asian Bond Market Initiative

The ABMI was endorsed in 2002 to develop the Asian bond market under ASEAN+3 process.³⁾ The ABMI aims to develop efficient and liquid local currency bond markets in Asia through investment of huge savings of East Asian countries.

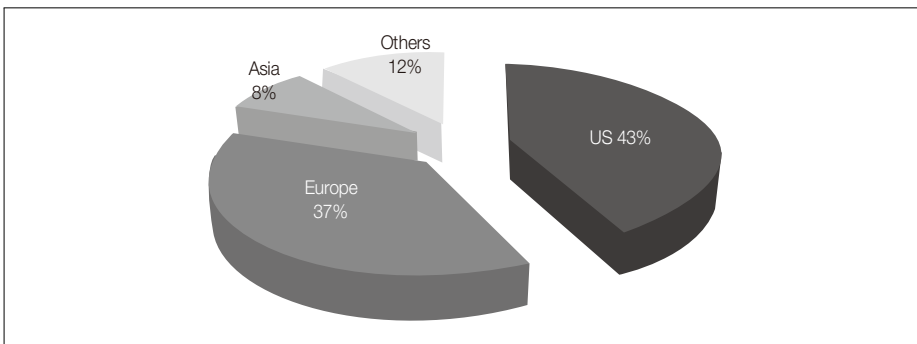
3) Asian bond is understood as a kind of Eurobonds which refer to bonds denominated in specific currencies and issued on markets other than the domestic market of those currencies.

It was also expected to mitigate the chronic double-mismatch problem in East Asia: currency and maturity mismatches.⁴⁾ This came about because of an under-developed regional bond market, and heavy dependence on bank financing without issuing and trading local currency bonds. Thus, the aim of the ABMI emphasizes the creation of regional bond markets where bonds are denominated in regional currencies.

Another feature is that East Asia's capital, including countries' international reserves, has been largely invested in the U.S. and Europe, and then it used to be re-invested in Asia through international investment institutions and hedge funds. As Figure 1 indicates, 80% of Asia's portfolio investment has been made in assets in the U.S. and Europe. ASEAN+3 members' foreign reserves as of March 2009 amount to 52% of the total reserves in the world, but most of them have been invested in assets outside of Asia.

Regarding portfolio investment in Figure 2, excluding Japan, East Asia's

Figure 1. Asia's Portfolio Investment by Region



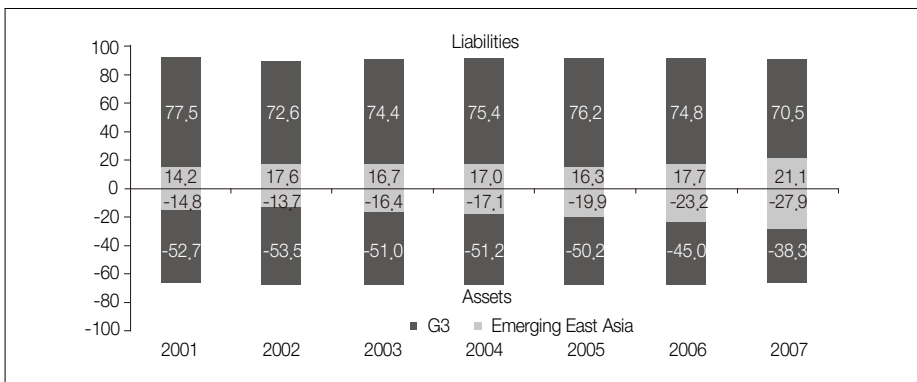
Source: Yoshino (2010).

4) In the 1990s, the East Asian economies borrowed foreign currency to finance domestic investment through heavy bank financing. However, the financing has resulted in discrepancy in the maturity of foreign currency bonds: that is, mismatch between the loans' short maturities and relatively longer-period revenue flows for repayment.

intra-regional portfolio investment shows an increasing trend over time. But its size is still relatively smaller than that of G3 (U.S., Japan, and Europe). Thus the ABMI aims to develop efficient and liquid local currency bond markets in East Asia by better utilization of Asian savings in the region. For this purpose, ASEAN+3 agreed to establish the Credit Guarantee Investment Facility (CGIF) as a trust fund of the ADB with an initial capital of \$700 million. The objective of the CGIF is to support the issuance of corporate bond in the region through credit guarantee scheme.

According to the new ABMI roadmap adopted in May 2008, it is expected that each country will be more motivated to make voluntary efforts toward bond market development based upon the development stage of its financial market and economy. To implement this roadmap, as shown in Figure 3, a Steering Group⁵⁾

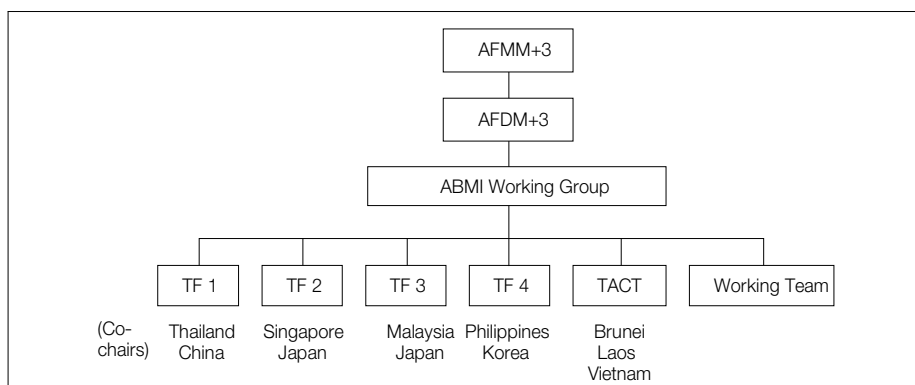
Figure 2. Emerging Asia's Portfolio Investment (% of total)



Source: International Monetary Fund.

5) The main roles of the Steering Group are as follows: (i) to set, review and revise the ABMI Roadmap; (ii) to oversee and provide guidance to the activities of the Task Forces, TACT and Working Team; (iii) to formulate strategies to promote public awareness of the ABMI; (iv) to monitor the progress of studies by the Task Forces; (v) to assign tasks to the appropriate Task Forces or, if necessary, create a Working Team; and (vi) to promote exchanges of information among member countries on the developments of local currency-denominated and regional bond markets. The Steering Group reports to the ASEAN+3 Finance Deputies Meeting (AFDM+3), which in turn reports to the ASEAN+3 Finance Ministers Meeting (AFMM+3).

Figure 3. ASEAN+3 New ABMI Roadmap



Source: ASEAN+3 ABMI New Roadmap (<http://www.asianbondonline.adb.org>).

and four Task Forces have been established. Four Task Forces are charged with identifying and addressing the major issues: (i) promoting the issuance of local currency-denominated bonds, (ii) facilitating the demand for local currency-denominated bonds, (iii) improving the regulatory framework, and (iv) improving the related infrastructure. The Technical Assistance Coordination Team (TACT) provides technical assistance to decreasing the disparities in bond market development levels among member countries. The Working Team can also be set up if necessary to execute a specific Steering Group recommendation.

3. Multi-Layered Structure of Financial Safety Nets

Financial safety nets have a multi-layered structure of different dimensions: bilateral, regional and global. At the bilateral level, a network of swap lines between central banks was effective during the last financial crisis. In a regional dimension, regional arrangements in Europe were established in response to recent European debt crisis. The CMIM would be also a good example in East Asia. In a global

dimension, the IMF's emergency liquidity facilities act as the global financial safety nets.

3.1 Bilateral Swap Arrangements with the FRB

Bilateral currency swap arrangements with the FRB played a significant role to both developed countries and some emerging economies. The FRB's reciprocal currency arrangements have been started with ten central banks and the BIS in 1962-63. This bilateral swap network originally aimed to maintain fixed exchange rate regime by FX market intervention. The swap line also provided short-term liquidity to Mexico in 1980 and 1994, and several countries at the time of 9.11 in 2001. Recently, the Fed's swap arrangement was recommenced with the ECB and Switzerland in December 2007 at the outset of U.S. subprime mortgage crisis.

During recent global financial crisis, the Fed included four emerging market economies, Korea, Singapore, Brazil, and Mexico, as swap counterparties in addition to developed countries. As summarized in Table 2, the swap program with the FRB was selective in both choosing swap counterparties and its size, based on bilateral interests in the swap transaction. However, it was basically temporary reciprocal currency arrangement which had already been terminated, and its future availability is uncertain to the most of emerging economies.

Table 2. FRB's Swap Arrangements Since 2007

| Swap Counterparty | Size (Bil. USD) | Swap Counterparty | Size (Bil. USD) |
|-------------------|-----------------|-------------------|-----------------|
| ECB | 240 / 7 times | Norway | 15 / 2 times |
| Switzerland | 60 / 6 times | Sweden | 30 / 2 times |
| Japan | 120 / 2 times | New Zealand | 15 / 1 time |
| U.K. | 80 / 2 times | Korea | 30 / 1 time |
| Canada | 30 / 2 times | Singapore | 30 / 1 time |
| Australia | 30 / 2 times | Brazil | 30 / 1 time |
| Denmark | 15 / 2 times | Mexico | 30 / 1 time |

Source: The Bank of Korea.

3.2 IMF Lending Facilities

One of the issues of the G20 Seoul Summit was the improved establishment of global financial safety nets (GFSNs).⁶⁾ Recent financial and fiscal crises show the examples of many emerging and developing countries that have experienced urgent short-term USD liquidity shortage and/or balance of payment difficulties. Some countries suffered from financial market turmoil in spite of their sound economic fundamentals, including Korea in 2008. In this regard, establishing global financial safety nets is important to prevent spreading out financial market uncertainty and FX market crisis contagion. This is naturally essential for the strong, sustainable, and balanced growth.

To strengthen global financial safety nets, the IMF has introduced various lending facilities: among other, the Contingent Credit Line (CCL) in the fall 1998 after Asian financial crisis, the Short-Term Liquidity Facility (SLF) in October 2008, and the Flexible Credit Line (FCL) in March 2009 after subprime mortgage crisis to prevent recurrence of currency crisis especially in emerging economies. It was intended to reduce stigma effect of the borrowing from the IMF by replacing the conditionality with ex ante eligibility criteria to mitigate the potential moral hazard problems. That is, it was designed to meet the increased demand for crisis-prevention and crisis-mitigation lending from countries with robust policy frameworks and very strong track records in economic performance. To date, three countries, Poland, Mexico and Colombia, have accessed the FCL in 2009.

During the recent global financial crisis, countries had access to two IMF crisis-prevention facilities: the FCL, with no ex post conditionality, and the High-Access Precautionary Stand-By Arrangement (HAPA).⁷⁾ An objective of the

6) Global financial safety nets refer to the international institutional measures to support the countries who suffer from short-term liquidity shortage due to shocks on the balance of payment and/or from sudden reversal of capital flows.

7) The IMF's Stand-By Arrangement (SBA) was upgraded in 2009 to be more flexible and responsive to member countries' needs. Borrowing limits were doubled with more funds available up front, and conditions were streamlined and simplified. The new SBA framework

ongoing lending reforms is to complement the traditional crisis-resolution function of the IMF with more effective tools for crisis prevention. The facilities meet the precautionary demand of emerging economies without a predefined disbursement scheme. But the facilities played a limited role in this crisis so far because (i) these facilities are selective in the sense that not all emerging market economies are allowed to access them, and (ii) some eligible countries are reluctant to use this facility due to political concerns of stigma effect and high commitment fees. This is the reason that some emerging market economies still want to accumulate large amount of international reserves as a self-insurance against the recurrence of a crisis.

The newly established Precautionary Credit Line (PCL) bridges the gap between the FCL and the HAPA for those countries with sound fundamentals and policy track records, but facing moderate vulnerabilities that may not yet meet the high FCL qualification standards. As a dedicated credit line for crisis-prevention, the PCL is only available to countries that do not face an actual balance of payments need at the time of approval. But the PCL can also play a crisis-resolution role: if a large balance of payments need arises unexpectedly, access to resources can be brought forward.

3.3 Global-Regional Link of Financial Safety Nets

It is essential to strengthen regional financial safety nets (RFSNs) through global and regional cooperation. Since the IMF program cannot be perfect, the CMIM as a regional financial safety net should play its own role as a complement of the IMF lending facilities.

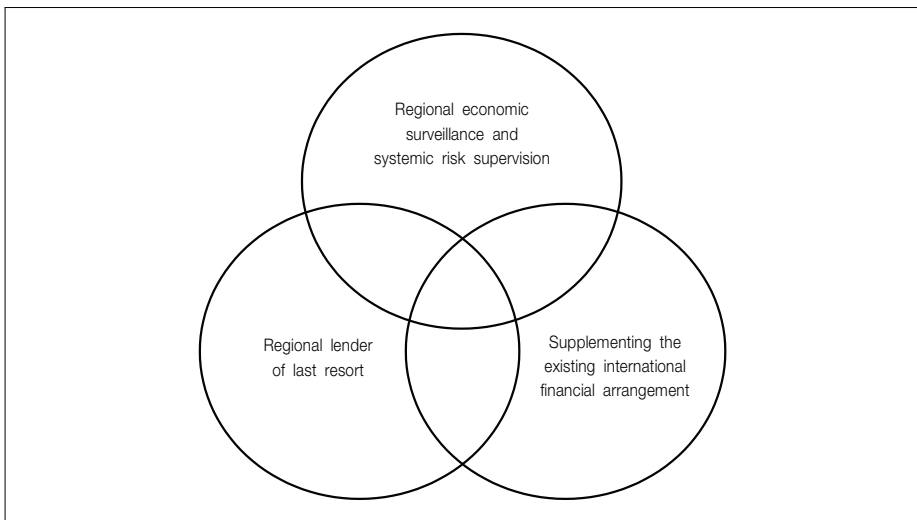
Many countries seek to insure themselves against external liquidity shortage shocks by accumulating large amount of reserves as a self-insurance. Reflecting

has expanded the range of HAPAs, a type of insurance facility against very large financing needs. Precautionary arrangements are used when countries do not intend to draw on approved amounts, but retain the option to do so should they need it. Three HAPAs, with Costa Rica, El Salvador, and Guatemala, were approved during the crisis.(IMF Factsheet)

a wide range of problems, including huge foreign reserve accumulation and uncertainty associated with international bilateral swap arrangements, it is generally agreed that international cooperation between the global and regional financial safety nets is required.

In general, regional financial safety nets should be equipped with three major determinants as in Figure 4: (i) regional economic surveillance activities and supervising systemic risk factors in the region, (ii) acting as a regional lender of last resort, and (iii) supplementing the existing international financial arrangements. The key objective should be to make external liquidity available to countries when they face some symptoms of economic crisis as a result of liquidity shortages. In order to maximize the effect of liquidity support, the global-regional cooperation of the financial safety nets can combine resources from international and regional sources. In so doing, it will blend together the liquidity support currently provided at the global level and the regional dimension.

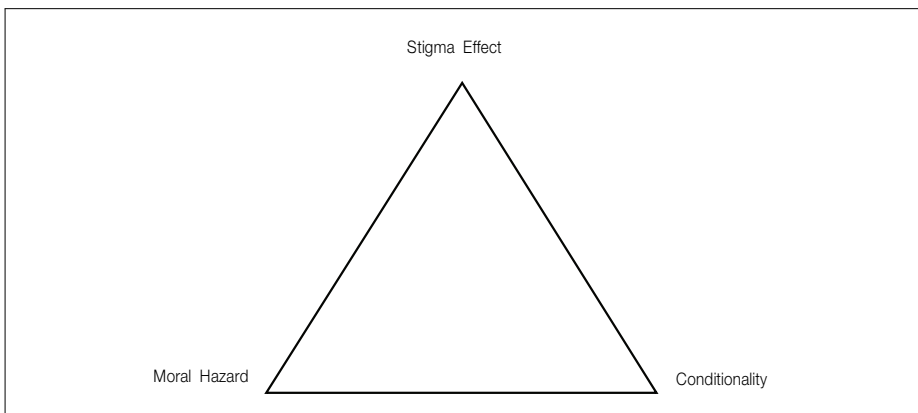
Figure 4. Functions of Regional Financial Safety Nets



Designing effective global-regional financial safety nets is not easy because of its impossible trinity as drawn in Figure 5. We know that the financial safety nets should be designed under the principles: minimizing stigma effect and moral hazard. These principles are important because truly effective financial safety nets must work as a forward-looking crisis prevention mechanism rather than a crisis resolution mechanism. When countries are in need, they have to be assured of access to funds and the amount available has to be sufficient to cover the difficulties. Eliminating or reducing stigma effect is also very important to enable countries in need to access the resource. However, both stigma effect and moral hazard cannot be completely removed at the same time. That is, there exists trade-offs between these two. In addition, minimizing the moral hazard problem is associated with conditionality, coming from the liquidity support by the financial safety nets. If the beneficiary countries have no obligation for the associated conditionality, the potential liquidity-requesting countries are inclined to enjoy moral hazard.

Despite of this limitation, we need a certain mechanism that can be institutionalized by coordinating efficiently the three aspects of the financial safety nets. Global financial safety nets may cope with it by extending funds only to

Figure 5. Impossible Trinity of Financial Safety Nets



countries with a strong track record and sound macroeconomic policies. In doing so, it provides countries an incentive to operate sound macroeconomy.

To address the potential moral hazard concerns that arise under any financial safety net and achieve the appropriate degree of automaticity, the global financial safety nets could make lending against some kinds of collateral instead of relying on ex post conditionality. In this case, certain degree of ex ante requirements to qualify can be applied for the financial safety nets, and the collateral can be provided by the regional financial safety nets: for example, the CMIM in case of East Asia. This proposed scheme may help minimize the burden of both stigma effect and ex post conditionality. Also strengthening ex ante conditionality for qualification may help reduce the potential borrower's moral hazard and contribute to the precautionary purpose of the global-regional financial safety nets.

4. Ways Forward for Effective ASEAN+3 Financial Cooperation

4.1 Shortcomings of the Current CMIM

The CMIM has several shortcomings to be an effective regional financial cooperation mechanism, particularly in its role as a regional financial safety net. Regional financial cooperation is still evolving, as is the CMIM. The current snap-shot of the CMIM shows some limitations that need to be improved for operating better in the future and to enhance its efficacy as a regional safety net.

First, the total amount of swap facilities available under the CMIM may not be enough to support preemptive, short-term liabilities in the region. Second, although the CMIM is a regional financial arrangement, in practice it is heavily linked to the IMF with the conditionality. The 80% IMF-linked portion of the CMIM should be decreased for the CMIM to work effectively as a regional financial safety net.

Third, one of the most important issues is to reduce the problems of stigma and moral hazard for requesting the emergency short-term liability. Both the stigma

and moral hazard problems are commonly revealed in the emergency liquidity support programs, even in the IMF lending facilities. The future phase of the CMIM should be appropriately designed in such a way as to minimize the problems of stigma and moral hazard by the potential beneficiary countries.

During global financial crisis, many East Asian countries suffered from a liquidity shortage; however, no countries have accessed the CMIM. South Korea, for example, was experiencing severe liquidity difficulties in financial markets in 2008, but Korea did not utilize the currency swap program under the CMI at that time. Instead, in 2008 Korea negotiated and drew on a U.S. Federal Reserve swap line that significantly mitigated Korean financial market risks immediately. Korea chose this channel because, among other reasons, the government worried about stigma from borrowing emergency liquidity from emerging countries in East Asia, which can aggravate the market participant's perception on the severity of economic conditions.

Fourth, the leading countries', i.e. the Plus Three countries, leadership and their cooperation with decisive political decisions are essential and strongly required as part of multilateral cooperation. We have witnessed the importance of this type of leadership in the European example. East Asia is a region with strong heterogeneity in the degree of economic development and complex historical backgrounds that lead to rather slow progress in regional financial cooperation.

Finally, the role of the CMIM should be strengthened in the frame of global-regional financial safety nets. The necessity of financial safety nets has been recognized to avoid crisis contagion and to contribute to sustainable and balanced growth by reducing the incentive to accumulate huge international reserves in emerging economies. The CMIM can complement the global financial safety nets, such as the IMF lending facilities, by reinforcing its linkages and appropriate division of labor between the global and the regional safety nets. Moreover, in addition to the current crisis-resolution function of the CMIM, it is necessary to develop a crisis-prevention facility as another strand of regional financial safety nets. To this end, ASEAN+3 can start related discussions on augmenting the

crisis-prevention function to the CMIM and/or creating regional credit lines.

4.2 Increasing the Size of the CMIM

As pointed out in earlier section, the current size of the CMIM, \$120 billion, is insufficient in crisis. For instance, Korea's maximum available amount from the CMIM is \$19.2 billion. However, during the global financial crisis in 2008, the size of Korea-U.S. currency swap was \$30 billion. When considering the 80% of IMF-linked portion of the CMIM, only about \$3.8 billion is available for Korea without IMF conditionality.

The size of the CMI, which was a network of bilateral swap agreements, was \$78 billion in 2004. This was approximately 5% of ASEAN+3 foreign reserves at that time. However, the current CMIM of \$120 billion does not reach 5% of current ASEAN+3 reserves.

This subsection presents the desirable minimum amount of the CMIM by calculating the change in international reserves before and after a crisis.⁸⁾ If the regional financing arrangements could support the deficiency of the country's reserves during crisis, it would play a role as a regional financial safety net by providing emergency liquidity to countries in crisis. In this regard, the desirable size of the CMIM is obtained by calculating the change of ASEAN+3 countries' reserves between 2007 and 2008.

It is increasingly recognized that it is necessary to take into account the importance of capital flows for emerging market economies, and thus the optimal size of reserves should reflect a country's external debt. The Guidotti-Greenspan rule states that reserves should equal short-term external debt. The rationale is that countries should have enough reserves to resist a massive withdrawal of short term foreign capital.⁹⁾

8) The IMF's Balance of Payments Manual defines reserve assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other purposes.

Accordingly, the reserve adequacy measures in our context should include (i) trade-related measures of adequacy, (ii) adequacy measures of liquidity-at-risk, and (iii) potential costs including domestic economic loss and immeasurable costs due to unavailable financial data. In this paper, I calculate the adequate size of the CMIM as the change of international reserves of ASEAN+3 before and after the crisis in 2007-08. In general, international reserves are calculated as the sum of (i), (ii), and (iii). A country's foreign reserves are the sum of three-month imports to allow for sudden trade imbalances, short-term external debt with the maturity of one year or less, foreign portfolio investment outflow in crisis. Also a proxy of GDP reduction under sudden stop is additionally used. This proxy adopts Guidotti et al. (2004)'s estimate that the reduction in GDP relative to the trend after one year is 4.3% for Asia.

Three-month imports are from IMF BOP, short-term gross external debt from World Development Indicators, equity and debt security liabilities of foreign portfolio investment from IFS, and GDP data from World Bank. International reserves for ASEAN+3 are calculated for the year of 2007 and 2008. In calculating foreign reserves, the same contribution shares as the current CMIM are applied and portfolio investment outflow of 15% during crisis is assumed.¹⁰⁾ The calculation gives that ASEAN+3 countries' international reserves have been changed by the amount of \$251.08 billion between 2007 and 2008. Thus, the current CMIM of \$120 billion should be increased to at least \$250 billion. Table 3 presents newly proposed CMIM contributions under the CMIM of \$250 billion.

9) Durdu et al. (2007) focus on potential sudden stops as a motivation for reserve demand. De Beaufort Wijnholds and Kapteyn (2001) point out that the Guidotti-Greenspan proposal seems to focus on an 'external drain' on a country's reserves, disregarding the fact that there is also usually an 'internal drain' by residents.

10) The amount of global portfolio investment was \$2.9 trillion in 2007 and \$1.5 trillion in 2008, which was a 50% decrease. Suttle et al. (2009) reports that net private flows to the emerging Asia hit a low of \$171 billion in 2008, compared to \$422 billion in 2007. Also, the main turnaround has occurred in portfolio equity flows, which have shifted from net inflows of \$30 billion in 2007 to net outflows of \$57 billion in 2008.

Table 3. Proposed CMIM Contributions

| | Contributions | | | | Purchasing multiple |
|-------------|---------------|------------------|-----------|------|---------------------|
| | USD (Bil.) | | Share (%) | | |
| China | 80 | Exc. HK 71.25 | 32.0 | 28.5 | 0.5 |
| | | HK 8.75 | | 3.5 | 2.5 |
| Japan | 80 | | 32.0 | | 0.5 |
| Korea | 40 | | 16.0 | | 1.0 |
| Plus Three | 200 | | 80.0 | | - |
| Indonesia | 9.48 | | 3.793 | | 2.5 |
| Thailand | 9.48 | | 3.793 | | 2.5 |
| Malaysia | 9.48 | | 3.793 | | 2.5 |
| Singapore | 9.48 | | 3.793 | | 2.5 |
| Philippines | 9.48 | | 3.793 | | 2.5 |
| Vietnam | 2.08 | | 0.833 | | 5.0 |
| Cambodia | 0.25 | | 0.100 | | 5.0 |
| Myanmar | 0.13 | | 0.050 | | 5.0 |
| Brunei | 0.06 | | 0.025 | | 5.0 |
| Lao PDR | 0.06 | | 0.025 | | 5.0 |
| ASEAN | 50 | | 20.00 | | - |
| Total | 250 | | 100.0 | | - |

Source: Author's calculation.

4.3 Institutional Progress of the ABMI

Park et al. (2010) conduct quantitative analysis on the macroeconomic effects of credit guarantee scheme in Asian bond market. They modify the original IMF Global Integrated Monetary and Fiscal (GIMF) model¹¹⁾ into a five-country model

11) The GIMF model is a multi-country dynamic stochastic general equilibrium (DSGE) model, developed by the IMF. The model has been used for the IMF background papers during Article IV consultations. For more details of the model, see Kumhof and Laxton (2007).

in which there are Korea, Japan, China, ASEAN, and the rest of the world. Their simulation assumes ASEAN+3 countries' credit rating upgrade in international financial market through the CGIF in Asian bond market. Their findings include that (i) even though East Asian financial cooperation upgrades some countries' credit fundamental, it helps increase both the corresponding countries' real GDP and East Asia's total real GDP, and (ii) this effect become greater as credit rating upgrade happens to more countries in East Asia. These results suggest that ASEAN+3 efforts along with the ABMI should make progress and move toward building local currency bond market on the existing achievements.

Along with research by ASEAN+3 Working Group on Asian Bond Standards¹²⁾ and Regional Settlement Intermediary¹³⁾, there is a need to harmonize transaction rules and regulations governing regional cross-border financial and capital markets and to establish a common foundation of settlement and payment systems for cross-border transactions within Asian countries. Inukai (2008) points out that various market infrastructures must be put in place, including legal and accounting systems, tax treatment, a rating system, a credit insurance system and an international securities clearing and settlement system. For example, the European Union has established common principles governing regulations in financial markets modeled after British laws, and is working to incorporate those regulations into each member states legal system.

Many scholars and market professionals suggest that Asian countries should move toward a single Asian international offshore bond market, just like the Eurobond market, as an ultimate goal of Asian bond market from the long-term

12) It aims harmonizing bond standards and practices to encourage issuers and investors participation in the regional bond market, particularly those relating to issuing procedures, settlement, listing and disclosure, issuing international securities identifying numbers, electronic disclosure, documentation, secondary transactions, syndicate rule, and accounting and auditing.

13) It refers to the settlement system infrastructure located in the region which allows close connectivity among national settlement systems in the region. It will lead to reduction in cross-border securities transaction cost and risk in the region.

view.¹⁴⁾ This international bond market will enable Asian issuers to raise funds under a common bond issuance platform at low cost and will offer Asian investors more opportunities to freely access Asian currency-denominated bonds. However, it seems to take time for establishing a regional integrated bond market or a unified cross-border regulatory system across ASEAN+3 countries because of strong heterogeneity in East Asian economies.

In addition, it is recommended that common bond market supervision or prudential surveillance be strengthened. Each country should make efforts to foster government-driven domestic bond market and harmonization with Asian bond market in the region at the same time. To create a common international Asian bond market, we need regional market infrastructure like the regional settlement intermediary and prudential standards that can provide self-regulating guidelines. The heterogeneous development stage of each country's domestic bond market and prudential regulations show a wide spectrum of mismatches in the region. Following best practices from Hong Kong and Singapore that are relatively close to the global standard, ASEAN+3 countries should discuss about regional prudential supervision depending on the degree of regional market integration. In addition, ASEAN+3 may want to establish a formal organization, say Asian Bond Market Regulatory Committee which is operated by ASEAN+3 countries, and it could handle Asian bond standards of cross-border transactions. It is also expected to cooperate with the AMRO for prudential surveillance activities in the bond markets, especially supervising the cross-border transactions.

The ABMI has been made with a few achievements despite of ASEAN+3 efforts since 2002. One of the reasons is that lots of research agenda, which have been conducted by the ASEAN+3 Task Forces and other research groups under the ABMI, have no explicit deadlines. Related research or discussions have been conducted on and on without member countries' sharing of explicit goals. In this

14) For example, Inukai (2008), Jang and Hyun (2009) emphasize the establishment of a Eurobond-type Asian bond market, as a shared regional offshore market.

regard, ASEAN+3 may need to establish a multilateral entity, akin to Economic and Financial Committee (EFC) of the EU, to facilitate the development of Asian bond market integration.

5. Concluding Remarks

Recent financial crisis shows the examples of emerging and developing countries that have experienced urgent short-term USD liquidity shortage and/or balance of payment difficulties. Some countries experienced financial market turmoil in spite of their sound economic fundamentals, including Korea in 2008. In this sense, establishing global financial safety nets is important to prevent spreading out financial market uncertainties and crisis contagion.

We have pointed out current shortcomings of the CMIM and the ABMI, and made suggestion to move forward an effective East Asia's financial cooperation. The CMIM currently has several limitations to becoming an effective regional financial safety net. First, the total amount of swap facilities available under the CMIM may not be sufficient for supporting preemptive short-term liability in the region. Second, although the CMIM is a regional financial arrangement, in practice it is closely linked to the IMF with conditionality. 80% of the CMIM that is linked to the IMF should be reduced, in order to enhance effectiveness of the CMIM. Also the current size of the CMIM is insufficient in crisis, and it should be increased to at least \$250 billion.

One of the important issues for enhancing the efficacy of the CMIM is to reduce the stigma effect and moral hazard for requesting the emergency short-term liquidity. Both the stigma and moral hazard problem are commonly revealed in the emergency liquidity support programs even in IMF lending facilities. The future phase of the CMIM should be appropriately designed in such a way to minimize its stigma effect and moral hazard problem.

Moreover, the role of the CMIM should be strengthened within the framework

of global-regional financial safety nets. The necessity of financial safety nets has been emphasized to avoid contagion from crises and to contribute to sustainable and balanced growth by reducing incentives to accumulate huge international reserves in emerging economies. The CMIM can play an important role in complementing global financial safety nets, such as IMF lending facilities, by reinforcing its linkages and appropriate division of labor between the global and regional safety nets. In addition to the current crisis-resolution function of the CMIM, it is recommended to develop a crisis-prevention facility as another strand of regional financial safety nets. To this end, ASEAN+3 can start related discussions on augmenting the crisis-prevention function to the CMIM and/or creating new regional credit lines.

ASEAN+3 efforts along with the ABMI should make progress and move toward building local currency bond market on the existing achievements. By linking up East Asian countries' domestic bond markets, it would work in coordination for intra-regional investment and ultimately lead to economic growth in the region. What we currently need is more concentrated efforts to remove a variety of immediate institutional constraints and to harmonize transaction rules on the initiative of the leading countries of the region.

We notice that the Plus Three countries account for about 80% of ASEAN+3 GDP. So the Plus Three countries as leading economies should play key roles as regional leaders and representatives that induce global collective efforts and cooperation to continue its momentum in the future. Their proactive role will ultimately facilitate to establish a regional monetary institution in the long run.

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Chapter 2

**Korea and East Asia in
a Changing Security Environment**



4

Global Responsibility and the Future of Security: America and Europe

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The world requires global solutions. What is the right approach? Are traditional “transatlantic relations” that are based on a common threat, economic interdependence and common values better suited to address global questions, or is Europe’s role in the world, and specifically in relation to the U.S., contingent regarding its contribution to world affairs? Is Obama’s approach of “engaging” partners, competitors, and potential rivals the right approach?

Since the end of the Bush administration there has been an international debate on what kind of world will emerge. The “bipolarity” of the Cold War era is gone. George W. Bush’s “unipolarity” or Charles Krauthammer’s “unipolar moment” is over - if it ever existed.

Multipolarity?

With the absence of a more suitable expression most observers uninventively

speak of a “multipolar world” with a few world actors or players, among them the U.S., Europe, China and Russia (as is mentioned in the report of the National Intelligence Council, *Global Trends 2025*). The term “multipolarity” originates from the realist school and implies polarization, balance of power, zero-sum, win and lose. All actors are potential enemies. Richard Haass rejects the polarization reference. Rather, he sees a “non-polar world” emerging. This highlights the necessity of common, rather than opposing, strategies, in solving global problems. One of the emerging measures to address global issues is the G-20. It began by dealing with economic, financial and climate-related questions but sooner or later it will also include other security topics, as was the case with the G-7/8.

A similar observation of emerging powers has been made by Fareed Zakaria and Parag Khanna. Zakaria sees the “rise of the rest” in a “post-American world.” Khanna observes the “rise of the second world,” i.e. almost all others except the U.S. and Europe. Their analyses are not necessarily as declinist as Paul Kennedy’s “Rise and Fall of Great Powers” of 1987. For both of them the U.S. will remain the dominant power (especially in military terms) but their argument is that the U.S. will not be able to act alone.

The “European Union Institute for Security Studies” is not sure whether it prefers more “multipolarity” with the EU as a confident global actor, or more “interdependence.” Therefore, one author (Grevi 2009) comes up with a mixture, the “inter-polar world.”

Global Challenges - Global Solutions

The “European Council on Foreign Relations” (2009) argues that Europe’s role in the world, and specifically in relation to the U.S., is contingent regarding its contribution to world affairs. This is because the world requires global solutions. These global challenges include: the economic and financial crisis, climate change, nuclear proliferation and disarmament, terrorism, organized crime, pandemics.

Additionally, regional conflicts like in Afghanistan, the Middle East, and Iran's and North Korea's nuclear programs require common global involvement.

The analyses of most of these and other authors are not based on a realist scenario of decline, zero-sum, up and down of powers. A "balance of power system" or a "global network of political and military alliances" (Kagan 2009) aren't effective means to solve global problems. Global solutions are not based solely on military contributions.

After all, more than 60,000 European troops are deployed in various missions abroad. Europeans spend about half of what the U.S. spends on defense. But why should Europe compete with the U.S. regarding defense expenditures? They are not enemies or rivals. The EU military expenditures account for one fifth of total military spending worldwide (20.9 percent compared to 42.6 for the U.S. and 2.6 for Russia in 2006). The EU looks like a real "military heavyweight." (Hellmann 2010) It spends twice as much on defense as Russia, China, India and Brazil together. But the real question is what the focus of security is: "national security" to protect your territory; "human security" to protect individuals all over the world under conditions of regional destabilization, dysfunctional states, poverty, demographic changes and refugee flows, pandemics; or "global security" to meet challenges like global warming, nuclear proliferation, international terrorism? It seems that the U.S. still concentrates more on "national security" and the EU more on "human and global security." The latter, of course, can only be addressed cooperatively and multilaterally.

Economic interdependence

It goes without saying, economic ties can stabilize relations between the U.S. and the EU. Mutual investments of European and American companies in the U.S. and in Europe generate approximately ten million jobs. Both the U.S. and Europe account for 60 percent of the global production and 30 percent of the global trade.

(Neuss 2009) Mutual direct investment (almost 60 percent of the overall investment) did not suffer during Bush's unilateral foreign policy. However, both are also extremely vulnerable to the economic and financial crisis, to climate change, proliferation, and terrorism. Economic interdependence is no guarantee for solving political problems.

Economic interdependence neither necessarily hinders nor helps improve political relations. It is by no means sufficient for achieving political rapprochement to solve common problems. Realists even argue that interdependence is a cause of conflict because it increases vulnerability. Before World War I mutual trade relations among the later war fighting parties were stronger than trade relations between the U.S. and Europe today. On the other hand, the Anglo-American economic relations declined before the war, while critical rapprochement occurred. (Kupchan 2010a, b)

Democracy

Furthermore, while democracy may help political cooperation, it is not sufficient. The commitment to democracy is good for the citizens but no guarantee for improved international problem-solving. (Kupchan 2010 a, b) When it comes to nuclear weapons, terrorism, war and peace, crisis management, the economic crisis, carbon dioxide emissions, pragmatic cooperation is required, rather than ideological finger-pointing and intransigencies.

“Engagement”

Traditional “transatlantic relations” that were based on a common threat are not sufficient to address global questions. President Barack Obama's approach of “engaging” partners, competitors, and potential rivals goes beyond them. It is a

strength rather than a weakness and it is a strategy for problem-solving rather than a goal in itself. In the long run, “engagement” can also contribute to democratization and regime change. Examples are: the improving relations of U.S. - Chili, U.S. - Brazil, U.S. - Argentina, and Brazil - Argentina in the eighties; and also U.S. - Philippine relations under Ferdinand Marcos.

“Multi-partner World”

The best concept for global problem-solving could be Hillary Clinton’s “multi-partner world”, in place of the “multipolar world” concept. This does not mean that competition, polarity, and ideological differences would disappear. But it creates a level of global cooperation. Such attempts emerged after every major crisis: after 1815 with the “Concert of Vienna,” after 1918 with the “League of Nations,” after 1945 with the “United Nations,” after the 1989/90 globalization took place (disrupted by Bush’s unilateralism).

We are moving towards a new world but we do not yet know what it will look like. Of course the U.S. and Europe will be important actors of it but it is equally clear that traditional concepts will not be desirable. The new focus now is on what the U.S. and Europe can achieve in the world rather than the focus on the relationship as an end in itself.

Global Security

What is security? Security exists if there is either no threat or there are sufficient capacities to defend against any threat. It can be achieved by increasing the capacities or abating the threats. Hence, traditional Cold War concepts of security emphasized that lowering one's probability of defeat through increasing one's military power made for more security. Today, ‘threat-abatement’ rather than

‘capacity enhancement’ meets the requirement of the post-Cold War security environment. It is based on a comprehensive concept of security that ranges from military to humanitarian actions.

In philosophical discourse, there are two opposing ideas:

In a *Hobbesian* world, states are enemies. The world is anarchic without any regulating authority above. States build capacities. Security means waging wars or - if successful at all - building a system of a balance of power.

By contrast, in the *Kantian* world states are friends. Rather than building up military capacities, states abate threats as a means of crisis management and to prevent conflicts. Is it not a balance of power that generates stability, but a federation of states. In the 21st century, the real danger is no longer the anarchy of the *Hobbesian* world. It is not an all-out war in the world of states that constitutes a threat, but rather the lack of legitimate governance in many states. Security is about building functioning states.

There are ideas between the *Hobbesian* and the *Kantian* world:

For *John Locke* states are not enemies anymore but not necessarily friends but rivals that renounce the use of forces in times of crisis and conflict unless this necessary. For *Hugo Grotius* states are partners that co-operate on the basis of common rules and norms.

This means that an entirely new concept of security is emerging. It is not a world in which the destruction of state enemies is the primary goal as in previous centuries and in the *Hobbesian* concept where states always have to be prepared to be vanquished or to defeat their enemies.

Human Security

Human security is the opposite. It is about the protection of people and saving lives. It puts the individual at the centre of security and safety. It is about building societies and not destroying them. Security is about protection, reconstruction,

disarmament and state building.

The *human security* concept, first proposed by the Barcelona Report of the Study Group on European Security Capabilities¹⁵⁾ can be regarded as a paradigm shift from traditional national security approaches. In a *human security* operation, the job of the military is to protect and preserve rather than to fight an enemy. The concept of *human security* encompasses conflict prevention, crisis management and civil-military cooperation.¹⁶⁾

The EU *Human Security Doctrine* developed five principles for the EU's new security approach:

(a) the primacy of human rights, (b) clear political authority, (c) effective multilateralism, (d) a bottom-up approach, and (e) a regional focus.

Already the original design of the European Union first autonomous military mission to Africa to support UN peacekeeping troops during the extended electoral process in Congo's and its eventual implementation, was *human security* in action: a normative mission, breaking new ground in the way a military force could be used in the context of protecting a civilian population and treating them as if they were citizens rather than an alien population.¹⁷⁾

New security requirements

Policymakers face two fundamental security alternatives for. On the one hand,

15) A Human Security Doctrine for Europe, *The Barcelona Report of the Study Group on Europe's Security Capabilities*, 2003; presented to EU High Representative for Common Foreign and Security Policy Javier Solana, Barcelona, 15 September 2004; available at: <http://www.lse.ac.uk/Depts/global/5publications3.htm>.

16) Mary Kaldor, Mary Martin and Sabine Selchow Human Security: A European Strategic Narrative, *Internationale Politikanalyse International Policy Analysis* (Friedrich-Ebert Stiftung), February 2008.

17) Mary Martin, Human Security in the Democratic Republic of Congo, The European Union as a Force for Good? *Internationale Politik und Gesellschaft - International Politics and Society* (Friedrich-Ebert Stiftung), 1/2008.

one can identify a capacity-driven security strategy characterized by developing instruments of strength. For states, a capacity-driven strategy leads to interventions, a policeman role, the construction of rapid reaction forces and, ultimately, a doctrine of preemption.

On the other hand, the international community has the *Responsibility to Protect* their citizens in cases of genocide, massive human right violations, famine, poverty and in the long run the consequences of climate change. Such a security strategy emphasizes threat abatement. It regards peacekeeping not as post-conflict battlefield policing, but as armed and unarmed deployments to keep the peace when there's a peace to keep. Of course, robust peacekeeping requires a commitment to early warning mechanisms, ensuring that one can act before violent conflict emerges. And, where peacekeeping fails, a threat abatement strategy relies first on multilateral sanctions and collective means. Strength, while not ignored, is but one tool among many - and not the means of first resort.

Security requires as a minimum the creation of a stable society with good governance and a working administration. The goal should be functioning states with rule of law, civil administration, democracy, and the legitimate monopoly of the use of force (Max Weber).

How can security be achieved? In the 1990s, it became clear that traditional peacekeeping with the consent of the conflicting parties is not sufficient. What is needed in pre- and post-conflict societies is peacebuilding, reconstruction and disarmament. Demobilization, reintegration (DDR) and a security sector reform (SSR) are necessary. These involve both military and civilian means.

What are the means?

1. It starts with disaster relief (as in the cases of the tsunami, hurricane Katrina, earthquakes). New areas of cooperation emerge. Civilian and military personnel have to train and work together in civil-military coordination and cooperation (CIMIC). The EU has developed a civil protection mechanism. People have to be flown out of crisis areas, and food, water, medicine and

shelter brought in.

2. States have the “responsibility to protect” their citizens in cases of genocide, massive human right violations, famine, poverty, and in the long run, from the consequences of climate change. The primary responsibility lies with the state itself. If the state is unwilling or unable to do so, it yields to the international community and international organizations (e.g. UN, OSCE).
3. To build security there has to be a functioning government endowed with the legitimate monopoly of the use of force. It has to be based on the rule of law and good governance with a working administration and ideally with democratic legitimacy. These are the core pillars of state-building.

NATO

NATO is being transformed. It no longer faces a wholesome territorial assault by Soviet and Warsaw Pact forces. Today it deploys its forces in support of peace and stabilization operations out-of-area and continent desirably mandated by the UN. NATO’s new strategic concept will recognize that the most direct threats to the security of their member states are neither military nor territorial in character, like climate change, nuclear proliferation, terrorism, demographic transformation. At the same time NATO has the huge legacy armed forces left over from the Cold War. It still has to figure out what to do with territorial defense, as defined in Article 5 of its treaty, because it does not expect a major onslaught on Alliance territory. Its forces rather have to operate hundreds or even thousands of kilometers distant. NATO and the EU will have to find some division of labour regarding capacities and geographical fields of operation.

European Security

Javier Solana, the High Representative for Foreign Policy of the European Union, presented a *European Security Strategy* (ESS)¹⁸⁾ that was adopted by the European Council in December 2003 and updated 2008. The *European Security Strategy* recognizes that the concept of security is very broad, and by nature indivisible. It is a concept of security that goes beyond the purely military aspects and covers not only the security of states, but also the security of citizens. It gives the Union military options over and above the civil instruments of crisis prevention and management.

The document asserts a need and role for the European Union in global security and in any actions, including military force, deemed necessary to achieve that security. It calls for member nations to increase their military abilities and share military resources. The document defines the proliferation of weapons of mass destruction, terrorism, failed states, uncontrolled immigration as the main new challenges. It asserts a need and role for the European Union in global security and in any actions, including military force, deemed necessary to achieve that security. It calls for member nations to increase their military abilities and share military resources.

First and foremost the main threats in the 21st century are dysfunctional states (e.g. failed or failing) states which often but not always emerge from post-conflict societies.

These states are:

1. The source of humanitarian disaster,
2. breeding ground for organized crime and terrorism,
3. areas for illicit weapons and drugs trafficking and even sources of weapons of mass destructions (WMD),

18) Version adopted by the European Council, Javier Solana, *A Secure Europe In A Better World*, December 2003.

4. lost areas for good investment and trade
5. and they produce large refugee flows which subsequently leads to uncontrolled immigration.

The obvious solution is to assist in building and strengthening state institutions in failed or failing states. State-building encompasses the rule of law; a working administration free of endemic corruption. Military force plays a necessary but not all-inclusive role for the provision for security. It can create the conditions in which state-building can take place, but it cannot replace the civilian expertise needed to set a failing state on the path to lasting stability.¹⁹⁾

The tasks of the Union, which are the extended *Petersberg* missions, include joint disarmament operations, humanitarian and rescue tasks, military advice and assistance tasks, conflict prevention and peacekeeping tasks, tasks of combat forces in crisis management, including peacemaking, and post-conflict stabilization. All of these tasks may also contribute to the fight against terrorism, including by supporting third countries (e.g. the U. S.) in combating terrorism in their territories. Military capabilities mean less and less war fighting alone but more and more have to be organized and trained to project low-intensity power, keep the peace and assist to reconstruct societies after wars and violent conflict, provide humanitarian action, disaster relief. The task of the armed forces is not only defeating an enemy but also - maybe primarily - protecting people. Militaries should be willing to contribute troops for 'constabulary' duties, peacekeeping, and nation building. For post-conflict reconstruction, peacekeeping and state-building and lower intensity capabilities, special equipped and trained armed and police forces are necessary as well.

The *battle group* concept that has been developed outside the Lisbon Treaty might well be the basis for this "structured cooperation." They may include civilian measures, and in grave situations they may also include military action.

19) Zachary Selden, *Stabilization and Democratization: Renewing the Transatlantic Alliance, Parameters*, Winter 2007-2008, 85-98, here 89.

The future of the armed forces

Traditional security thinking dominated the dynamics of the Cold War. Reliance on military capabilities was the primary strategy adopted to achieve greater security. In the post-1989 world, and in particular post- 9/11, by far the largest proportions of the operational efforts of NATO and the European Union (EU) have shifted away from collective defense. Instead, crisis management became the paradigm that forms the cornerstone of the post-Cold War security system. In the 1990ies it became clear that traditional peace-keeping with the consent of the conflicting parties is not sufficient. In pre- and post-conflict societies peace-building and reconstruction and disarmament - demobilization - reintegration (DDR) and the security sector reform (SSR) are necessary. They involve both military and civilian means.

The first task in the field of “hard security” disarmament and demobilization of warring parties is indispensable. In addition ‘constabulary’ duties, peacekeeping, and nation building become more and more important. For conflict prevention, post-conflict rehabilitation, peacekeeping and state-building as well as lower intensity challenges specially equipped and trained armed forces and police forces are needed. In the field of “soft security” post-conflict rehabilitation and reintegration, civilian crisis management efforts, the establishment of the rule of law and a working civilian administration (functional and sustainable security) are the eventual goal.

In many areas like disaster relief and also counterinsurgency (COIN) armed forces will move in soft security areas. The distinctions between war and relief, between domestic and foreign deployments, are breaking down. But if one blurs COIN and reconstruction and stabilization both might fail. Applying classic counterinsurgency doctrine can do harm to stabilizing efforts that are in many ways a precondition to counterinsurgency. A more clear division of labor between counterinsurgency and stabilization is advisable.

All these suggestions try to optimize existing capacities without introducing

the new requirements. In many areas armed forces will move into new security approaches, however. Military capabilities more and more have to be organized and trained to project low-intensity power, keep the peace and assist to reconstruct societies after wars and violent conflict, provide humanitarian action, disaster relief. They are more and more involved in disaster relief after natural catastrophes. Disaster assistance is about logistics - moving people, water, food, medical supplies and heavy equipment to save lives and communities. The distinctions between war and relief, between domestic and foreign deployments, are breaking down.

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North Korean Foreign Policy and its Domestic Connection: A Quantitative Analysis (1997-2010)

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Objective and scope of this paper

In 1994, the acquisition of nuclear weapons by Pyongyang¹⁾ became a possibility - and thereafter a reality. The nuclear issue again escalated in late 2002, to be followed by North Korea's first nuclear test in 2006 and the second test in 2009. This has made the foreign policy of North Korea (Democratic People's Republic of Korea, or DPRK) the subject of keen observation by its neighbors and the international community. It is also the focus of this paper.

The objective of our study is limited; rather than analyzing all aspects and facets of North Korea's foreign policy, we concentrate on relations with only a

1) We have used the McCune-Reischauer system of romanization for Korean terms. Exceptions are names that have established forms, such as Pyongyang instead of P'yŏngyang, Kim Jong Il instead of Kim Chŏngil, terms that are being used frequently in Western media such as "songun" instead of "sŏn'gun" and "juche" instead of "chuch'e", and Korean terms in quotations.

few major partners (China, Japan, South Korea and USA) and by applying a very specific methodology. Based on official reporting by the North Korean news agency KCNA, the paper will test the hypothesis that North Korea's foreign policy can be understood as a function of its domestic developments, and vice versa. We want to find out in how far there is a measurable correlation between major domestic developments and foreign policies.

It is important to note that because of our relatively narrow focus on a quantitative analysis of one outlet of official North Korean state media, the explanatory power of this paper is limited. The contextualization we provide is incomplete, and the expressiveness and correctness of the data on which we base our analysis is debatable. There is the risk of overstating the findings generated by a process that used to be known as "Kremlinology" during the Cold War; "Pyongyangology" might now be an appropriate term. We therefore regard this paper only as a contribution to the debate, not as a comprehensive answer to all questions regarding the DPRK's foreign policy. However, we are convinced that this contribution will help to generate a more realistic and complex picture of a topic that is of great relevance.

Methodology and theoretical considerations

We explore North Korea's foreign policy in its East Asian context through a quantitative content analysis of the DPRK's major news outlet, the Korea Central News Agency KCNA (*Chosŏn Chung'ang T'ongsinsa*, www.kcna.co.jp), covering the years 1997-2010. In addition, we will provide a few details through a qualitative analysis for the years 2008 and 2009. This paper is thus very limited regarding its methodological scope. However, it presents a novel approach and new data that will contribute to an enhancement of our understanding of North Korea's foreign policy.

KCNA publishes, on a daily basis, short articles (on average about 300 words)

in Korean and in English. Many articles found there are selections from the daily Rodong Sinmun, the newspaper of the Korean Worker's Party (KWP), and from Minju Chosŏn, the newspaper of the government. The print issues, to which we have only irregular access, carry more articles than the online edition. However, the latter has the benefit of being searchable, which is useful for a statistical analysis. It is also much better accessible. The Korean language version of single articles is sometimes longer than the English version, especially in the case of Rodong Sinmun editorials. However, we also found that in most cases the main points are correctly reflected in the English edition. It should further be noted that more explicit and detailed means of information and propaganda exist, such as internal documents and oral communication. The messages spread through Rodong Sinmun or KCNA should thus not be misunderstood as taking a monopolistic position. However, they are important enough to justify closer scrutiny.

The online editions published by KCNA are not designed for domestic users but rather for international readers, i.e. mainly the pro-North Korean residents of Japan. South Koreans are also targeted, as frequent calls to topple the government in Seoul indicate, even though direct access to the above mentioned website is blocked by the South Korean authorities under the restrictions of the National Security Law. Nevertheless, many KCNA articles are largely the same that North Koreans would have access to, especially in the case of articles that are explicitly marked as being from Rodong Sinmun or Minju Chosŏn.

The media in any classical socialist country, including North Korea, should not be misunderstood as a means of information; they are a policy tool of the state. Information spread through the media has a number of important functions, which determines the relevance and validity of the information provided in the single articles (Kornai 1992: 45ff.). There is no doubt that the information is manipulated, distorted and highly selective. The official information system does not provide us with a clear picture of what is actually happening in North Korea. Ironically, the value of the KCNA articles is exactly here: they tell us, much more precisely than any official statements, what the policy objectives of the leadership

are; Brian Myers (2009: 73ff.) has called this complex message “the Text”. This is done in at least three respects.

First, there is no unofficial information; every single piece, published either by the major newspaper or any specialized journal, has to be officially sanctioned according to central guidelines. The publications of viewpoints or issues that are not adequate from the central authorities’ point of view will be punished severely, so that the editors will take extra care to anticipate the expectations of their leadership. The selection of articles and their contents often do not reflect the truth on the ground, but rather allow us to understand the view of educated, mid-level North Korean officials about the policy line of their country.

Secondly, media in autocratic socialist systems do not provide information per se; they are a means of political education and propaganda. The selection and content of the articles published by official media in North Korea is less a description of the actual situation in that country, but rather a reflection of the policy priorities of the leadership. Thus the KCNA articles provide us with a surprisingly clear picture of the policies and difficulties of the North Korean state.

Thirdly, in the absence of independent actors in autocratic socialist systems, the media are the mouthpiece of the leadership and an important means of indirect communication with the outside world. The KCNA articles are derived from state media, which are primarily designed to inform/educate the domestic North Korean population. However, the selection of articles is done for outsiders. The reports show us what the North Korean leadership wants foreigners to think about the DPRK.

The official nature of the articles, the lack of diversification of sources and analysis, and the utilization of media as tools of domestic and international propaganda are weaknesses of the socialist media system. If studied and analyzed seriously and against the background of an understanding of socialist systems and North Korea, these publications reveal much more than the DPRK leadership wants to show. While the value of a single article is often low, this changes if put into context. New topics easily stand out of the usual routine; constant repetition helps

understanding priorities; relative changes in terms of numbers help gathering statistics from data that are often very unreliable or even useless from an absolute point of view.

This qualitative approach can be supported quantitatively by a simple statistical analysis of the frequency in which certain key terms appear. We have refined this by weighting the annual number of articles containing a specific key term against the overall number of articles published by KCNA in that year, thus generating comparable numbers that still carry the expressiveness of raw data. Please note, however, that the data used in the single graphs have already been processed that way. As we will show below, the results generated by this method can be misleading if no proper contextualization takes place. Verification by means of qualitative research thus becomes a crucial tool for error-testing.

Domestic Trends

The focus of this paper is on North Korea's foreign policy, which we regard as a dependent variable of the country's domestic politics including developments in ideology, leadership and the economy. We do not have the space to elaborate extensively on these issues. We thus base our analysis on our previous discussion of these factors (e.g. Frank and Burghart 2010; Frank 2003, 2005, 2008a, 2009, 2010a, 2010b) and only briefly summarize our major findings below.

Ideology

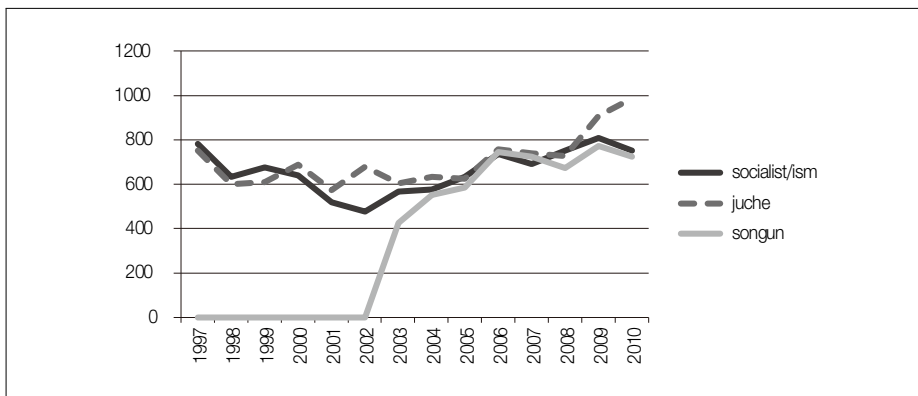
We have created the term "socialist neoconservatism" in 2008 to describe the return of the DPRK to positions that had been held, with only slight adjustments, over decades before the beginning of a cautious reform policy around the year 2000 (Frank 2008b). The traditional North Korean version of classical socialism contains a number of positions that would deserve the label "orthodox". These

include an ideological focus on the terminology and logic of Leninism, in particular the emphasis on the scientific nature of socialism and the inevitability of its victory; an emphasis on people's (state) property and central economic planning in the economic field; a central leading role of the communist party (here: Korean Worker's Party, KWP). Last but not least, it also includes a non-compromising attitude in foreign relations. For the DPRK, we see an added emphasis on collectivism (*chiptanjuui*) and ethnic nationalism (for more details, see Frank 2010b). As these are traditional (North Korean) socialist values and policies, measures and perspectives that are oriented backward and that tend to be critical of any change and progress, we call the return to these positions neoconservative.

To illustrate the above, a look at the use of socialist terminology and, somewhat less intuitive but just as expressive, Kim Jong Il's titles is revealing and offers a very good bird's eye view of a situation that in reality is highly complex in the details of the single fields and subfields of North Korean domestic politics.

As Figure 1 shows, the use of typical North Korean orthodox and conservative terminology, exemplified by the words "socialism" and "juche", has declined after 2000 but picked up since 2005. The new term "songun" has been added in 2003

Figure 1. Use of Key Ideological Terms in KCNA Articles, 1997-2010 (weighted and rounded)



Source: author's own calculations, based on www.kcna.co.jp.

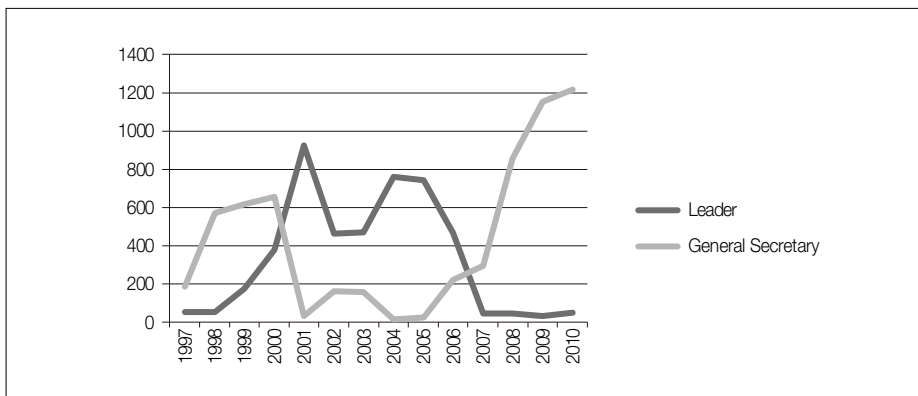
and developed in line with the other terms. All three have developed more or less in parallel throughout most of the observation period, with correlation coefficients ranging from $r=0.7$ to as much as $r=0.9$ for socialism/songun in the 2004-2010 period. In 2010, however, we see a slight drop year-on-year of the use of “socialism” and “songun”, but an increase in the nationalist term “juche.”

Leadership

The issue of leadership is crucial for any political system. The DPRK is no exception in this regards; however, its totalitarian nature and the lack of a process-based legitimization of leadership and leadership transfers make it even more vulnerable and sensitive in this regard.

For the period under review, three developments stand out: the overcoming of the shock of the 1995-1997 famine; the formation of Kim Jong Il’s leadership; and the transfer of power to his successor, most likely his youngest son Kim Jong Un. To illustrate the change of policies in this regards, we have analyzed the use of Kim Jong Il’s various titles in the period 1997-2010. The results are shown in Figure 2.

Figure 2. Use of Key Titles for Kim Jong Il in KCNA Articles, 1997-2010 (weighted and rounded)



Source: author’s own calculations, based on www.kcna.co.jp.

For the complete period, we see an almost perfectly opposing development (a strongly negative correlation, $r = -0.72$)²⁾ in the use of what we could classify as a worldly, management-oriented title (leader, *widaehan ryōngdoja*) and a spiritual, ideologically oriented title (secretary general, *ch'ongbisō*). Two points stand out: the clear identification of the reform period 2001-2006, when the negative correlation gets close to perfect at $r = -0.90$, and the new heights the mentioning of Kim Jong Il in his function as the Party's General Secretary has reached since 2008, the year of his alleged stroke.

This supports our hypothesis as formulated earlier: It seems that the growing tension on the Korean peninsula is only in part a North Korean response to a less friendly and cooperative government in Seoul. Rather, we can assume that insecurity, created through a quasi power vacuum, has contributed to policies that emphasize strength and lack the resolve for risky reform experiments. The latter concerns not only the economy, but also foreign affairs.

Economy

We have observed a drop in orthodox ideological language roughly between 2000 and 2005, and also a radical change in the use of Kim Jong Il's titles in the same period. Can something similar be observed in the economy?

After having remained largely passive despite the collapse of socialist systems in the Soviet Union and Europe, a serious economic shock in the form of a large-scale famine 1995-1997 finally forced North Korea to adopt a series of reforms that culminated in the July 2002 measures. As we argued above, these were stopped and partially reversed in the context of the neoconservative return to orthodox positions of North Korean classical socialism. We would expect an impact on economic performance, assuming that reforms improve the efficiency

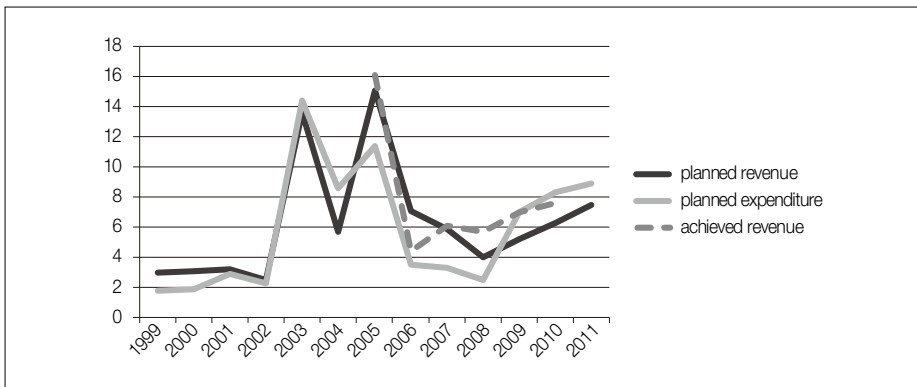
2) We use Pearson's Product Moment Correlation, also known as Person's r . Values for r range from +1 to -1. A correlation of +1 means that there is a perfect positive linear relationship between variables, 0 indicates no correlation, and -1 implies a perfect negative linear relationship.

of the economy, and a reversal of reforms will worsen overall productivity and thus also the output.

To measure these developments, we have applied a relatively unusual method. Rather than using macroeconomic data on North Korea published by the South Korean Bank of Korea or Ministry of Unification, we analyzed official North Korean publications. To be sure, there is no official data on economic growth in the DPRK; however, KCNA annually informs us about state budgets. These are reported by a Vice Premier during the annual session of the Supreme People's Assembly, the North Korean parliament. Since macroeconomic information is regarded as a state secret by North Korea, these numbers must be taken with a good grain of salt. In addition, since 2003 the budget reports contain only relative numbers (percentages). Analysis is further complicated by the fact that information is not provided on the same issues each year.

These limitations notwithstanding, the budgets provide a clue to North Korean estimates of economic growth. In the absence of major private economic activities, the state's budget is comparable to the Gross National Product minus the military sector which is treated separately. The rate of increase of budget revenue would

Figure 3. Economic Growth in North Korea as Measured by the Budget



Source: author's own calculations, based on www.kcna.co.jp.

hence be a rough equivalent of the GNP growth rate. From this perspective, figure 3 shows that the economy has been growing at an extraordinary pace since 2002, but declined sharply in 2006. Growth seems to be picking up speed again since 2009.

Again, we see a clearly distinguishable period, this time starting from 2002 and ranging until about 2006. We also see a newly emerging growth trend as of 2009, albeit with lower rates than during the reform period.

To summarize our perspective on domestic development trends in the DPRK since 1997, we argue that roughly between 2000 and 2005 there was a reform period that included a new, less orthodox attitude in ideology, a changed leadership philosophy, and an improvement of the economy's efficiency and output. This period was replaced by a neoconservative, orthodox turn that intensified in 2008 when Kim Jong Il's health deteriorated to a degree that could not be hidden anymore. The unresolved succession issue adds to an already high level of insecurity among the population, the elite and the leadership. We should also not forget to mention the dramatic food situation and the heavy pressure through international sanctions.

The reasons for the sudden end of the reforms are not the object of this article. While such major switches are rarely mono-causal, at least three factors will have played a role: the War against terror, including U.S. President George Bush's classification of North Korea as a member of the "Axis of Evil" along with Iraq and Iran in January 2002 and the subsequent military operations in Afghanistan and Iraq; the change of government in Seoul that ended the cooperative and forthcoming "sunshine" period of the Kim Dae Jung and Roh Moo Hyun presidencies; and the deteriorating health of Kim Jong Il.

We will stop here with our brief review of internal affairs. Opinions on the details will differ; however, most observers agree that North Korea has been undergoing some major changes in its domestic policy landscape in the first decade of the 21st century. We will now explore whether and how this affected foreign policy.

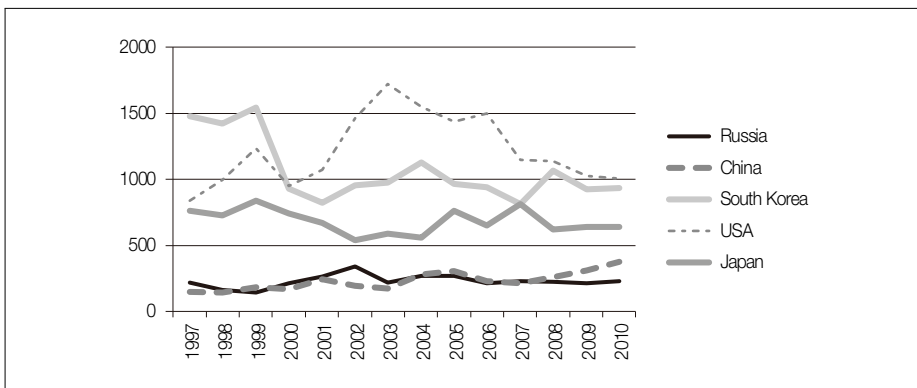
North Korea's foreign relations

Overview

In this part and its subsections, we will look at the KCNA coverage of key North Korean foreign policy partners such as the Republic of Korea, Japan, the People's Republic of China (PRC), and the United States. We will also see which other partners in East Asia have played a role, and how these are seen and displayed by official DPRK media.

The self-perception of North Korea has been shaped by experience. Korea is seen and portrayed by North Koreans as a small country that has historically been threatened, plundered, subjugated, attacked, and exploited by its neighbors who are all much bigger and stronger in almost every respect. This has led to a certain attitude that ranges from distrust, xenophobia and paranoia to excessive demands for apologies and compensation. Selig Harrison (2000) has called this the "siege mentality." As a result, as we will see below, enemies are given more attention than allies, although such terms should be used with much caution. In fact, we believe based on experience and official elaborations that the DPRK

Figure 4. KCNA Articles Mentioning the other Five Parties of the Six Party Talks, 1997-2010 (weighted and rounded)



leadership takes a very realist perspective that leaves little if any room for more than a very limited, strictly pragmatic cooperation in international relations.

Figure 4 provides an overview of the frequency of KCNA reporting about the members of the Six Party Talks. We see that the USA and South Korea receive most of the official attention in DPRK media. But while the low rank of Russia is little surprising, the position of China seems counterintuitive at first glance. However, we should consider what was said above about the function of media in a North Korean context. They reflect political prerogatives rather than providing information. The overrepresentation of “enemies” in KCNA articles can be explained from a perspective of defensive realism (see Taliaferro 2001). It also suggests that there is a positive correlation between the degree to which states are regarded as enemies and the frequency of their mentioning. We could thus argue that the more often a country is mentioned in KCNA reports, the more it is seen as a threat to the DPRK by its leaders.

The empirical evidence seems to correspond with our contextual knowledge. We note that in the years 2000 and 2001 the North Korean propaganda apparatus has shown some restraint. With South Korea and Japan slightly lagging behind the USA, intensity of reporting picked up again. The major observation to be made from figure 4 is an attention shift away from South Korea towards the USA, although the gap between the two has been narrowing again since 2008. Since that year, South Korea and the USA are mentioned almost synchronously. Japan remains a distant third, with (unfriendly) reporting intensifying after the failed attempt at diplomatic normalization after the Kim-Koizumi summit in September 2002. For the years 2001 to 2007, we find a strong correlation ($r = 0.77$) between the data for South Korea and the USA, while at the same time there is a strong negative correlation between data for South Korea and Japan ($r = -0.64$).

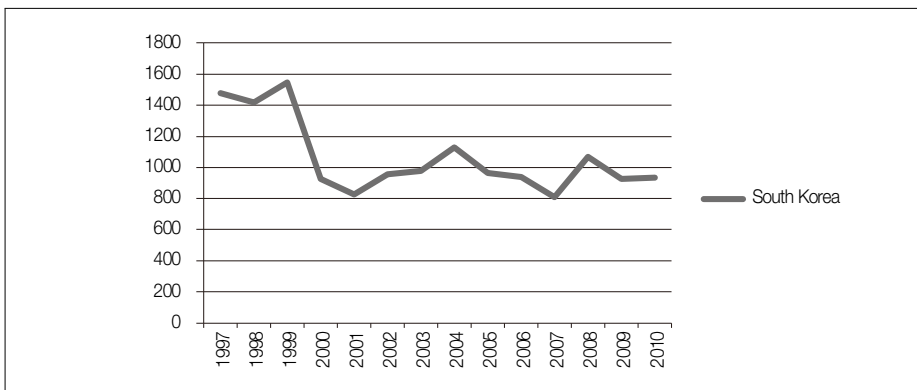
The two allegedly “friendly” states of China and Russia receive much less attention than the “hostile forces”, although the mentioning of China has intensified (in fact, almost doubled) since 2008. In the next sections, we will look at these countries and some of the results of figure 4 in more detail.

Relations with South Korea

Although North Korea undertakes tremendous efforts to sideline and ignore South Korea in the Six Party Talks, its southern neighbor is without doubt the major object of North Korea's foreign policy. Even relations with the United States seem to be only a means to an end. Unification on its own terms is the explicit final goal of North Korean foreign policy. South Korea, through its very existence and its economic and political success, poses the biggest threat to North Korean ideology. Geographic proximity, the same language, and the growing welfare gap make South Korea the preferred destination of tens of thousands of potential defectors. Their number so far is relatively low (a total of 19,000 since 1953; source: Tongilbu 2010) but the example of Germany, where a massive exodus finally brought the system down, is well known and feared in Pyongyang.

Against this background, figure 5 shows a somewhat surprising trend. We can understand the drop in (usually critical) mentioning of South Korea since the year of the first inter-Korean summit in 2000, and we can explain why criticism has not returned to previous heights thereafter despite the increasingly tense situation arising from the War on Terror and the North Korean nuclear program.

figure 5. Frequency of KCNA articles with the term south Korea, 1997-2010 (weighted and rounded)

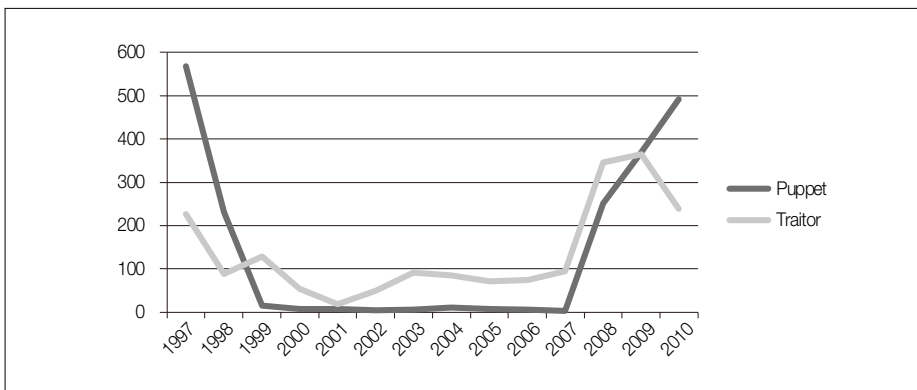


However, we are left wondering why the election of Lee Myung Bak as new President of the Republic of Korea has not led to a much larger quantity of articles denouncing the southern neighbor. We shall therefore look at alternative terms that are used by North Korean propaganda to describe the ROK.

Figure 6 produces a result that is much closer to what we would expect based on our contextual knowledge. The beginning of the Kim Dae Jung presidency, his sunshine policy, and the June 2000 summit have led to a sharp drop in derogatory language; the election of conservative Lee Myung Bak and his policy of reciprocity and conditionality have resulted in a resuscitation of sharp propaganda against the South.

An interesting detail is that “traitor” (*p'aedang*), a term usually reserved for the South Korean president, has decreased in use while the frequency for “puppet” (*koeroe*), referring to the Seoul government, kept rising. Does this indicate a change of strategy in the North’s policy towards South Korea? In the past, it used to clearly differentiate between the “oppressed masses” and the “traitors” that led it into American slavery. A reduction of personal attacks on the South Korean president could also be interpreted as a preparation for a third inter-Korean summit, as

Figure 6. Frequency of KCNA Articles with Typical Pejorative Terms Used for South Korea, 1997-2010 (weighted and rounded)



unlikely this seems at the moment of writing (autumn 2011).

In any case, the ability to find such conspicuous deviations represents a strength of our method; their appropriate interpretation, however, is a matter of serious qualitative research. In particular figure 5 and 6 serve as an example for how careful we should be with interpreting the data generated by our quantitative method. Without proper contextualizing, results can be misleading - a high risk given what is at stake, including nuclear weapons and a humanitarian crisis.

Once more we note how domestic reforms seem to be closely correlated to foreign policy. Most importantly, in hindsight it looks as if North Korean propaganda against South Korea has shown signs of restraint before actual measures including the 2000 summit and its economic components were taken. Our approach thus might be suitable, in a limited way, as a tool of anticipating changes in foreign policy and also on the ground domestically.

A look at single KCNA articles from the period 2008-2009 confirms a dramatically decreased readiness in Pyongyang to cooperatively deal with the new Lee Myung Bak government, as if the latter's return to a quid pro quo policy was secretly welcomed by "socialist neocons" in Pyongyang. By late 2008, the rhetoric had dropped all remaining caution that we could still observe in early 2008. Not only the terminology (fascist, sycophant, puppet, traitor, lackey, running dog) but also the contents of the statements (demand for toppling the Lee Myung Bak government) suggest that North Korea has decided to wait for the next administration in Seoul and meanwhile will try to largely ignore the Republic of Korea. A return to old paradigms is also visible when South Korea and its leaders are accused of siding with the Japanese.

The treatment of the Kaesŏng Industrial Zone is remarkable. Not only is nothing reported by KCNA; despite the harsh defamation of South Korea and its government, the zone has been kept operational and even expanded throughout the Lee Myung Bak presidency. This reflects the conflict between the perceived political necessity of socialist neo-conservatism and the economic pragmatism that has spread in the past years. The typical strategy of North Korea would be to

balance the Kaesŏng Industrial Zone with similar projects developed in cooperation with other partners, so that the zones can be played against each other. The creation of the Hwanggŭmp'yŏng Island zone with China and the planned resuscitation of the Rasŏn zone with China and Russia point into that direction.

Relations with Japan

Anti-Japanism has been a mainstay of North Korea's ideology and foreign policy ever since its foundation in 1948. As emphasized above, Kim Il Sung derived his legitimacy from his alleged leading role in the anti-Japanese liberation war; Japan was regarded as the arch enemy of the Korean people. However, new pragmatism opened the way to the long overdue normalization with the eastern neighbor. A first attempt was made in 1984, when the first North Korean Joint Venture law aimed at increasing economic cooperation with Japan, although its target group was mostly ethnic Koreans. After secret talks, in September 2002 Prime Minister Koizumi visited Pyongyang, held the first-ever summit with a North Korean leader, and achieved what can only be termed as highly unusual, showing the readiness of North Korea to be pragmatic and risk-taking at that time. Kim Jong Il not only admitted that Japanese citizens had indeed been abducted in the 1970s but also allowed five survivors to return to Japan. For quite some time before, there were rumors of compensation by economic aid in the range of US\$10 billion (Manyin 2001).

However, the reaction of the Japanese public was not as positive as expected, assistance did not materialize, and the DPRK's foreign policy focus shifted towards other partners. As figure 7 shows, this has led to a moderate increase in media coverage of Japan since the low in 2002.

There are two factors that help us explaining this phenomenon. One is the already mentioned tendency of North Korean media to report more about enemies than about allies, and to increase the frequency of reporting if relations deteriorate. Another way to explain the increase in reporting about Japan is based on domestic

politics. The anti-Japanese guerilla fight serves as a key justification and source of legitimacy for the rule of the Kim family in North Korea. Along with a double leadership crisis (Kim Jong Il's health and the unresolved succession question), it seems understandable that these key issues for legitimacy are being promoted.

This hypothesis is particularly supported by figure 8. Anti-Japanism has returned as a major foreign policy line.

Figure 7. Frequency of KCNA articles with the term Japan, 1997-2010 (weighted and rounded)

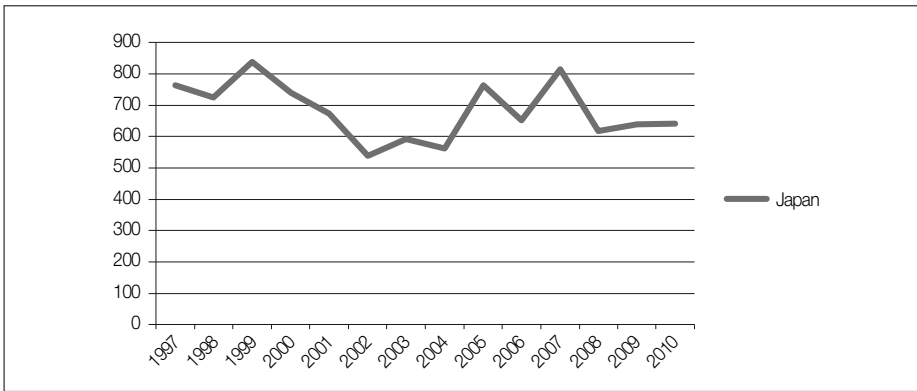
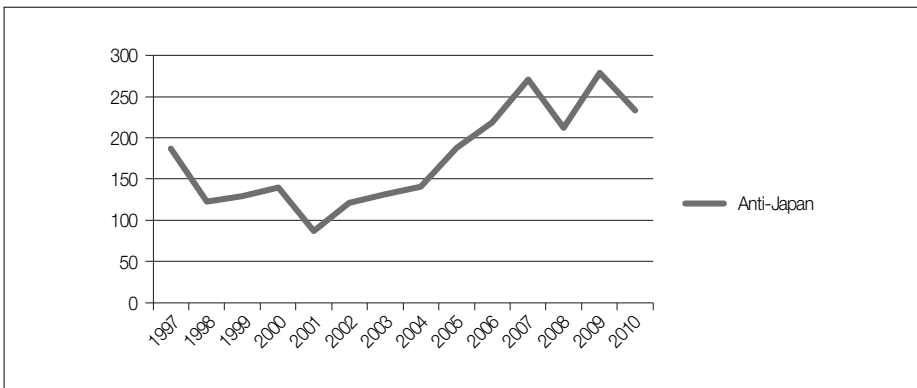


Figure 8. Frequency of KCNA articles with the term anti-Japan(ese), 1997-2010 (weighted and rounded)



A qualitative analysis of North Korean media reveals that Lee Myung Bak is being harshly attacked for his Japanese background (born in Japan), just as Kim Il Sung attacked Park Chung Hee (1961-1979) over the latter's military rank in the Japanese army. The use of the term anti-Japanese (usually referring to the heroic struggle of Koreans and in particular the Kim family) in KCNA articles almost tripled from 2001 to 2007 and remained on a high level ever since.

By 2009, the rhetoric had become even heavier than in the years before. The main arguments of the North Korean side can be summarized as follows: (1) Japan has no right to demand anything from North Korea (including clarification of the abduction issue) unless Japan shows sincere efforts to redress its own past, involving not only political steps such as apologies but also economic compensation following the German example; (2) Japan is the sworn enemy of the Korean people; (3) Japan prepares for a military attack and hence upgrades its military and sends its SDF troops outside its own territory.

In early 2009, Rodong Sinmun drew parallels with the situation around the 1919 uprising against the Japanese on March 1. As at that time, it argued, today too there is a lot of pent-up resentment among Koreans. Now it is the U.S. imperialists who occupied South Korea in place of the Japanese imperialists, and who pursue the strategy for dominating Korea. Japan is accused of "whetting their sword for reinvasion" and trying to grab Tokdo instead of making an honest apology. In a rare disclosure of strategic objectives, Rodong Sinmun urges that the tripartite alliance between Washington, Tokyo, and Seoul must be prevented and checked.

On April 7, 2009, Rodong Sinmun called on all Koreans at home and abroad for a joint anti-Japanese struggle. Japan, it argued, was standing in the way of the Six-party Talks under the pretext of the abduction issue. Two weeks later, Rodong Sinmun commented on Japan's demands in the abduction issue. On April 20, 2009, it stated that "Japan is the arch abductor," referring to the "forcible drafting and abduction of Koreans committed by the Japanese imperialists." On April 28, Minju Chosŏn explained that Japan is responsible for the collapse of

the Six Party Talks. In connection with its sharp reaction against the North Korean satellite/missile launch of 2009, Japan was accused of hypocrisy since it has launched sixteen satellites of its own between 2004 and 2008. The wording of the related criticism is extremely heavy (shameless, brigandish, blackhearted, cunning, and crafty).

Relations with the United States

If Japan is Pyongyang's arch enemy, then the United States is its nemesis. Most experts agree that North Korea's expressions of fear of the U.S. military power are real. Accordingly, there is reason to believe that the nuclear program is in part motivated by a classical neorealist calculation of deterrence. Since the collapse of the Soviet Union it also became clear that the USA has a strong potential influence on North Korea's economic wellbeing - in either direction.

As of 2011, it seems that North Korea has returned to its long-standing goal of having direct bilateral talks with the United States instead of a multilateral forum such as the Six-Party Talks, thereby sidelining South Korea. The financial sanctions around Banco Delta Asia of Macao in late 2005 had also demonstrated that, without at least silent consent by the United States, North Korea would have no chance to actively and regularly participate in global economic exchange, including trade and access to finance.

We have shown above that in particular for the years 2001 to 2007, we find a strong correlation ($r = 0.77$) between the data for South Korea and the USA. At the same time there is a strong negative correlation between data for the USA and Japan ($r = -0.59$).

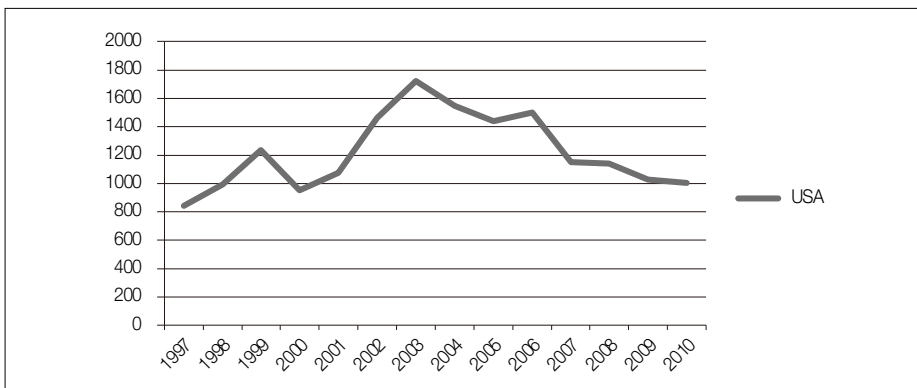
As we see in figure 9, KCNA interest in the USA was higher during the reform period and has now again dropped, although the overall frequency remains high. We have no difficulty explaining the peak in 2003, the year of the attack on Iraq. But why the steady decline ever since? Two possible explanations come to mind: in the hope for a negotiated solution, criticism of the USA has been

reduced; and/or other issues have become more important, thus replacing the usual reporting about U.S. wrongdoings. And if we assume that the attack on Iraq has prompted the increase in reporting in 2003, it would make sense that the withdrawal under President Obama has eased North Korea's fears to be next.

A qualitative analysis of the contents of the related articles seems to confirm the KCNA's focus on security matters in reporting about the USA. The most frequently cited issue of criticism against the United States in KCNA articles in the period under review was the military presence in South Korea, including the upgrading of troops and equipment and military exercises. North Korean media also aggressively pushed the human rights question, stating that the United States is the biggest violator of human rights (Guantanamo) and hence has no right to criticize others (including the DPRK). This can be interpreted as an attempt to defend against further sanctions.

Indicating that this is a sensitive issue, reports by the United States on a serious situation of health care in North Korea and its consequences for North Korea's combat readiness were mentioned and rejected as fabrications. Other major points of North Korean criticism of the United States in 2008/2009 include the establishment of a global missile defense system, setting up a new nuclear operation

Figure 9. Frequency of KCNA Articles with the Term USA, 1997-2010 (weighted and rounded)

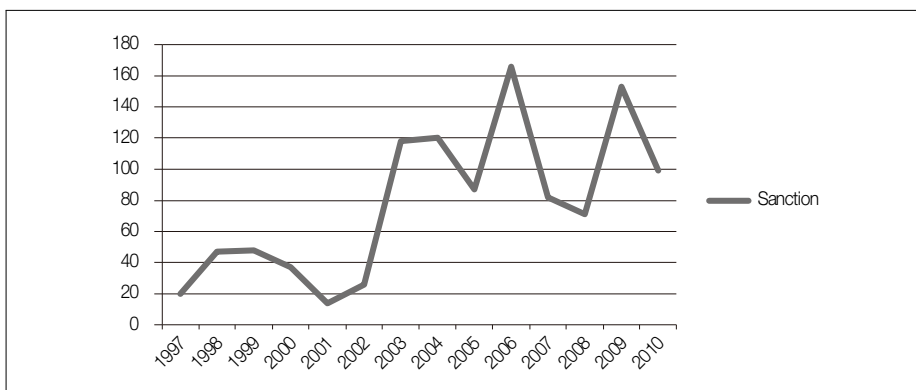


command in the Asia Pacific, and trying to put the Asian region under their control. Aerial espionage over North Korea and the application of double-standards to the nuclear activities of North Korea/Iran and Israel were other frequently criticized points.

There were a few times in 2008/2009 when North Korean media referred to the case of Iraq, arguing that giving in to demands for disarmament will lead to destruction and hence cannot be accepted. This is not a new argument, as North Korea has repeatedly stated earlier that unilateral disarmament was short of committing suicide. However, a new turn in this regard was the statement of January 21, 2009, when KCNA declared, pointing at the Iraq experience, that the explicit attention that Washington was placing on the alleged DPRK missile threat had to be understood as a prelude for a preemptive attack by the United States. In hindsight, the reaction to the events in Libya in early 2011 thus seems consequential (see Frank 2011).

A hint on a possible connection to domestic issues is provided by figure 10, showing the KCNA frequency of mentioning sanctions. These are mostly associated with the United States. We note the sharp increase in 2003 which was a result of the Bush administration's hard line against the "axis of evil." We also understand

Figure 10. Frequency of KCNA Articles with the Term Sanction(s), 1997-2010 (weighted and rounded)



the spike in 2006, the year of the first nuclear test.

But how do we explain the drops in 2008 and in 2010? As we have set out to test our hypothesis on the influence of domestic developments on the DPRKs foreign policy, we ask what had happened inside North Korea in these years. There were two major events: the deteriorating health (possibly a stroke) of Kim Jong Il, and the Worker's Party Conference (as a step towards a succession model). We can now speculate that these events have temporarily shifted attention away from the main external policy threat. However, this is a very vague conclusion that needs to be tested in much more detail. Alternatively, rather than regarding the years 2007 and 2008 as the exception, the spikes in 2006 and 2009 could have been motivated by extraordinary events - such as the two nuclear tests, to which the USA reacted with sanctions, thus triggering an angry response from North Korea. In any case, we find that our approach is not necessarily suited to provide full explanations; however, it is useful for highlighting further areas of research.

Relations with China

China is North Korea's main, if not only, ally. Is this real friendship or a marriage of convenience, and will it stand the test of times? An answer depends on which position we take towards international relations in general. But even if we would accept the possibility of friendship beyond the pursuit of national interest, it would be difficult to detect such a relationship in the case of China and North Korea. During a field trip to North Korea in October 2010, the author discovered a high level of mistrust on both sides, but also witnessed an increasing economic dominance of China. The latter is confirmed by trade data: in 2009, 78.5% of North Korean trade was with China (KOTRA 2010). Anecdotal evidence suggests that this is not entirely voluntary; international sanctions leave the DPRK almost no other choice.

This is reflected in our quantitative analysis. As shown in figure 4, reports on China are much less frequent than those on South Korea or the United States.

They are also much less detailed than we would expect, given the dominant role of the big neighbor for the economy and security of North Korea. In particular, a discussion of the Chinese reform policy is missing. However, our KCNA analysis in Figure 11 shows a clear increase in the frequency of reporting about China, especially in the first years of the neoconservative reversal in 2004 and 2005, and since 2009.

This growth is unique if compared to the other neighbors and parties of the Six Party Talks. How do we explain this phenomenon with regard to domestic developments? The drop after 2001 indicates a decreasing need to rely on China as new partnerships became available for a short period of time. The peak in 2004-2005 could be seen as a reaction to the deteriorating relationship with the other neighbors in a typical North Korean balancing game (see Frank 2008c for a previous example). However, we would then expect an increase in 2006 after the first nuclear test and resulting international pressure - but this was not the case. Here we are left to speculate; one possible explanation would be China's reluctance to side with North Korea against the international condemnation resulting from the nuclear test, as well as China's own concerns about the prospect of Pyongyang

Figure 11. Frequency of KCNA Articles with the Terms China and Friendship, 1997-2010 (weighted and rounded)



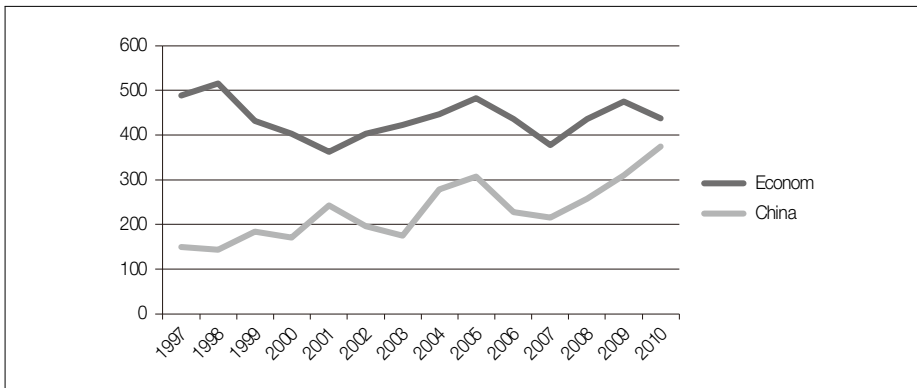
going nuclear. The renewed increase since 2008 could be connected to South Korea's new policy, or to developments such as the succession process from Kim Jong Il to his son, for which China would be needed as a strong guarantor and supporter.

As figure 11 indicates, we can verify that mentioning of China shows a strong positive correlation ($r = 0.77$) with friendly language. This is supported by qualitative research, for example on the contents of the Arirang Festival which in 2010, unlike the 2004 and 2005 versions, contained a whole chapter on Korean-Chinese friendship.

Is North Korea's foreign policy towards China directly connected with economic interest? Common sense and qualitative knowledge would suggest so. However, as figure 12 shows, this only holds true for the period since 2003 ($r = 0.56$). For the full period 1997-2010, the correlation coefficient is only 0.009.

To conclude our brief analysis of the DPRK media coverage of China, we note a generally lower level if compared to states regarded as hostile. Since North Korean media are tools of propaganda, the discrepancy between the importance of China for North Korea and its frequency of appearance in the media is not

Figure 12. Frequency of KCNA Articles with the Term Econom(y/ic), 1997-2010 (weighted and rounded)



surprising. KCNA primarily publishes praise of North Korea or criticism of its enemies. Praise of friends is rare. The overall trend, however, is growing as opposed to a dropping or stagnation for the USA and South Korea. If looking at domestic developments in the DPRK, we could construct a connection between this growth and the need for a strong ally to support economic regime stability and the succession scheme, in particular since 2003.

Nuclear Weapons

Finally, we leave the realm of country studies and look at a key topic of multilateral relevance - the North Korean nuclear program. As was the case with the bilateral cases above, we do not intend to discuss the nuclear issue in all its details. Rather, the aim of this short section is to show how the nuclear program is reflected in state media publications, and to connect this to the domestic, in particular the ideological, developments we have outlined above in the context of the socialist neoconservative trend.

We would argue that, despite the obvious relevance of nuclear weapons for defense, a main purpose of the program must be sought in domestic motives. These include the poor leadership record of Kim Jong Il, and the need to provide some performance-based justification and legitimacy for his rule. Ever since he took power, North Korea experienced one catastrophe after the other, beginning with the 1995-1997 famine, natural disasters, and a failed economic reform policy. The successful development of nuclear devices is about the only success Kim Jong Il can present to his people. If we consider the high status that independence and nationalism have for decades been assigned to in North Korea's propaganda, this is a powerful argument to bolster his legitimacy not only among the ordinary people but also among the much more crucial elite.

As our quantitative analysis indicates, the nuclear issue and socialist neoconservatism are interrelated. Figure 13 shows a dramatic nine-fold increase in the use of the term "nuclear" in 2002. Obviously, this is related to the visit

to Pyongyang by U.S. Assistant Secretary of State James Kelly and the public revelation that North Korea had “confessed” to running a clandestine nuclear program on October 15, 2002. It is also, however, the time when, one year after 9/11, the United States was intensifying its War on Terror, and President Bush’s National Security Strategy (including the right to preemptive attacks) was published

Figure 13. Frequency of KCNA articles with the term nuclear, 1997-2010 (weighted and rounded)

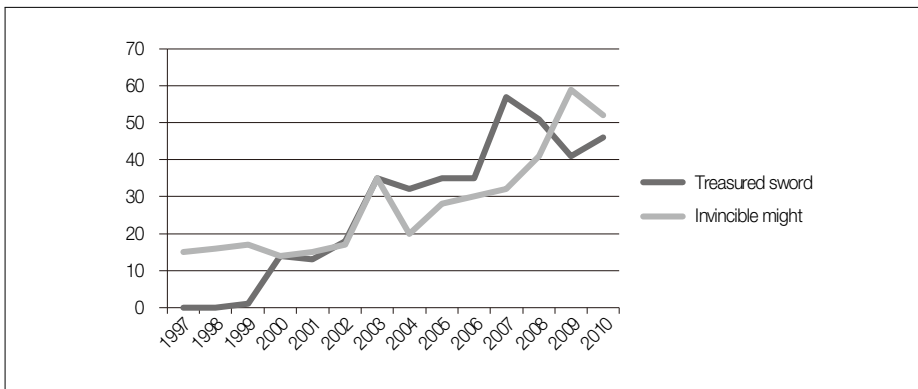
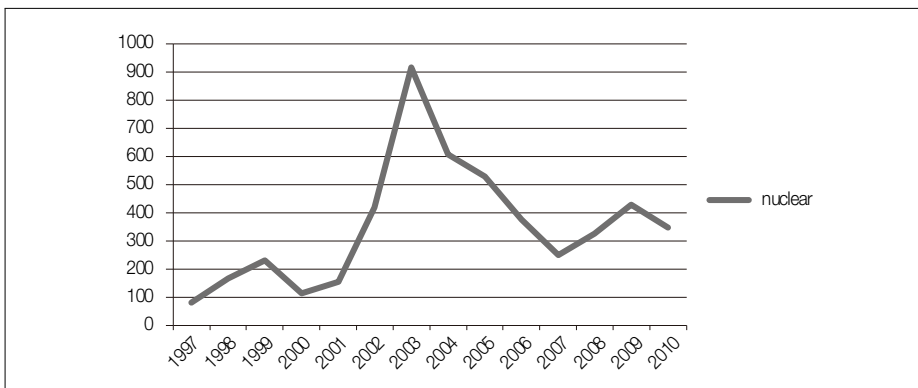


Figure 14. Frequency of KCNA articles with synonyms for “nuclear”, 1997-2010 (weighted and rounded)



on September 4, 2002. In the first quarter of 2003, that is, the time of the attack on Iraq (March 20), the number of KCNA articles with the term “nuclear” rose to almost 300 (!).

What is striking, however, is the absence of any peak in 2006 and only a slight increase in 2009, the years of the so far two nuclear tests. Has North Korean propaganda’s interest in the nuclear issue decreased? This would be very surprising. Rather, we suspect a switch to codewords that function as synonyms. A quick test shows that indeed, there was an increase in language that could be interpreted in such a way, such as treasured sword (*wiryŏkhan pogŏm*) and invincible might (*paeksŭngŭi wiryŏk*).

Figure 14 shows the frequency of KCNA reporting on these synonyms. The picture is now much closer to what we would expect. After a peak in 2003, we see a continuously growing importance of the nuclear weapons program in North Korean propaganda. The fact that a terminology is used that appeals to domestic readers indicates that the domestic relevance of the nuclear issue is increasing - thus adding proof to our hypothesis of the importance of domestic considerations for the DPRK’s foreign policy.

Conclusion

We set out with the goal of shedding some light on recent North Korean foreign policy behavior, especially against the background of domestic developments and the ideological foundation of legitimacy. In particular, we identified a socialist neoconservative trend, a return to hard-line and inflexible socialist values that has increasingly been replacing the pragmatic policy of the reform era. We combined a qualitative assessment of the situation with a quantitative analysis of North Korean media and applied this method to domestic policy and foreign affairs.

We have found that since around 2004-2005, and even more so since 2008, North Korea is returning to orthodoxy as it was created in the late 1950s and early

1960s, resembling a strongly Koreanized version of the Stalinist Soviet model. This refers to an emphasis on classical socialism with a strong nationalist component, values such as collectivism and self-sacrifice, militarism, political repression, xenophobia, and the prospect of a rosy future in exchange for enduring the temporary hardships of leading a front-line life.

External economic relations, too, are returning to orthodox positions. International economic cooperation is regarded as a necessary evil again, with consequences for politically risky projects such as the Kaesŏng Industrial Complex and inter-Korean tourism. The Six Party Talks are pushed into the background in favor of bilateral talks with Washington, probably under the silent participation of Beijing. However, we also argued that it would be unrealistic to expect a complete end to all international economic exchanges. Rather, we have to expect a redefinition and adjustment to the more risk-averse (in terms of ideological infection and preservation of independence) neoconservative policy. This trend has been reflected in the North Korean state media's view on their external affairs.

We could confirm our hypothesis that domestic affairs play a significant role for the DPRK's foreign policy, although they are not the only determinant. In particular regarding the impact of the U.S.-led War on terror, we could actually suspect a reverse relationship - that foreign affairs define the maneuvering room for domestic policies, in particular reforms.

In any case, there seems to be a strong correlation between the DPRK's domestic and foreign policies. This is an important insight as the proper understanding of the underlying interrelationship and mechanisms provides the foundation for an assessment of the interest constellation of the North Korean side in negotiations about its nuclear program and other points of concern, and thus also for the development of appropriate strategies and solutions.

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6

Korea's Evolving Strategic Thought Toward East Asia*

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1. Introduction

East Asia is characterized by different political and economic systems, disparate levels of economic development and historical remnants. In particular, Northeast Asia has featured a distinct paradox that economic integration was growing but political cooperation remained sluggish for over three decades. Indeed, the region's political cooperation has traditionally lacked formal, multilateral, and regionally exclusive institutions, producing a pronounced "organization gap"¹⁾ compared with Europe, the Americas, Africa, and even the Gulf.

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1) On the concept of organization gap, see Kent Calder and Min Ye (2004), "Regionalism and Critical Junctures: Explaining the 'Organization Gap' in Northeast Asia," *Journal of East Asian Studies*, pp.191-226. (Spring)

Peter Katzenstein argues that two institutional features of Asian countries have contributed to the lack of formal regional institutions: (1) hierarchical state-society relationships; and (2) distinctive state structures that are unfamiliar with the western concept of community.²⁾ It is not the purpose of this research to discover the political, cultural, and/or economic features that had contributed to the lack of formal regional institutions in Northeast Asia. This research rather aims at explaining how Korea's strategic thought toward East Asia, including Northeast Asia, has evolved for the last two decades since the end of the Cold War.

At present, the Lee Myung-bak government basically puts bilateralism before multilateralism, but it explores the ways to construct a peace and security mechanism in Northeast Asia from an eclectic perspective that takes both "realism" and "historical institutionalism" as its epistemological basic. This comprehensive approach is premised upon the assumption that intraregional multilateralism is important in dealing with potential financial difficulties and/or possible North Korean contingencies.

Most of all, we should be armed with the sense of realism in tackling the issue of multilateral institutionalization. The precondition for formal institutions is great power balance.³⁾ Such balance has never been enduringly present in Northeast Asia, due to the complicated geopolitical relationships among Russia, China, Japan, and the United States, making it difficult for regional organizations to emerge. Here we need to recognize, however, the importance of the role of a "balancer" to maintain great power balance. In this light, it is necessary to pay keen attention to the fact that who will play the role of a power balancer, which is most likely to be the United States in terms of its geopolitical power and geographical distance from the Northeast Asian region. The existence of a credible balancer provides a foundation for the emergence and endurance of regional

2) Peter J. Katzenstein and Takashi Shiraishi, eds., (1997), *Network Power: Japan and Asia*, pp.1-45. (Ithaca: Cornell University Press)

3) Gilbert Rozman, "Flawed Regionalism: Reconceptualizing Northeast Asia in the 1990s," *Pacific Review*, Vol. 11, No.1, pp. 1-27. (Spring)

organizations. This means that the “U.S. factor” should be considered so that the path of searching for a Northeast Asian peace and security mechanism may not be “spoiled” by the United States who feels unhappy with the process of exploring institutionalization.⁴⁾

Historical institutionalism, on the other hand, highlights the determining role of preexisting organizational structures. It focuses on self-reinforcing dynamics in building regional institutions while stressing the determining effect of institutionalized norms and ideas.⁵⁾ Their key message is that new institutions are a function of prior institutional settings.⁶⁾ If we follow the suggestion from historical institutionalism, it is necessary to keep such institution as SPT (Six Party Talks) moving forward so that its setting may become the foundation of a Northeast Asian peace and security mechanism. A continuing leitmotif of the SPT is the prospect that a resolution of the nuclear problem could set the stage for more institutionalized and enduring multilateral cooperation in Northeast Asia. The Joint Statement of September 19, 2005, which outlined the principles governing subsequent negotiations, referenced new “ways and means for promoting security cooperation in Northeast Asia,” and the February 13, 2007 Joint Statement created a Working Group on a Northeast Asia Peace and Security Mechanism (NEAPSM).

Under the eclectic perspective combining both realism and historical institutionalism, this research will try to answer three questions: (1) how has Korea's strategic thought toward Northeast Asia and East Asian regionalism been evolving

4) Kim Sung-han (2008), “Searching for a Northeast Asian Peace and Security Mechanism,” *Asian Perspective*, Vol. 32, No. 4, pp. 127-156.

5) See Paul Pierson and Theda Skocpol (2002), “Historical Institutionalism in Contemporary Political Science,” in Ira Katznelson and Helen Milner, eds., *Political Science: The State of the Discipline*, pp.693-721. Washington, D.C.: American Political Science Association.

6) An international institutionalist approach suggests that NATO members will: (1) utilize existing norms and procedures within NATO to deal with new problems rather than create new ones; (2) modify NATO as necessary, possibly including cuts and downsizing, to deal with problems that existing structures cannot; and (3) use the regime as the basis for ties to other actors, state and non-state, in pursuit of regime goals. Robert B. McCalla (1996), “NATO's Persistence After the Cold War,” *International Organization*, Vol. 50, No. 3, p. 464. (Summer)

since the end the Cold War?; (2) What kinds of elements constitute Korea's Northeast Asian strategy?; and (3) how does Korea think of the relationship among bilateralism, trilateralism, and multilateral institutionalization in East Asia? An effort to answer these questions may aid the search for peace and prosperity in East Asia.

2. East Asian Regionalism and Korea's Evolving Strategic Thought

2.1 Change in Strategic Picture since the End of the Cold War

The end of the Cold War changed the overall strategic picture in Northeast Asia, bringing an end to the bloc-to-bloc ideological confrontation of the past. Nevertheless, the Korean Peninsula was often described as "the last bastion of the Cold War" due to the persisting confrontation between the two Koreas. Moreover, considerable uncertainties lay ahead as the states in the region were constantly redefining their existing relations and seeking new strategies. Under these circumstances, South Korea has come to face a more complex and sensitive strategic agenda than it did in the Cold War era.

Different states have different strategic preferences that are rooted in the early or formative experiences of the state, and are influenced to some degree by the philosophical, political, cultural, and cognitive characteristics of the state and its elites.⁷⁾ It is hard to deny that South Korea's strategic thought has been influenced by the bitter memories of territorial division that has lasted for more than half a century, particularly by the Korean War in 1950-53. South Korea is aware that the post-Cold War international system has produced new issues and dimensions it must tackle. The continued division of the Korean Peninsula, however, sometimes

7) Alastair I. Johnston (1995), "Thinking About Strategic Culture," *International Security*, Vol. 19, No. 4, p. 34.

constrains South Korea's top decision-makers' ability to respond to the changes in the “objective” strategic environment surrounding the Korean Peninsula, thus affecting their strategic choices in unique ways. Hence, South Korea's security policies sometimes show a lack of rationality, being far away from realpolitik. Despite fluctuating circumstances, the ROK governments since the end of the Cold War basically put its alliance relationship with the United States before multilateral cooperation or regionalism in Northeast Asia.⁸⁾

2.2 Regional Cooperation and Korea's Strategic Thought in the Post-Cold War Era

The Kim Young-sam government (1993-1998) was not an exception in the sense that the ROK-U.S. alliance was located at the top of its strategic priorities. While maintaining its alliance relationship with the United States in a robust manner, the Kim Young-sam government raised the awareness for broader regional security cooperation. Broader regional cooperation indicated “Asia Pacific regionalism” that included not just ASEAN Plus Three, but also Pacific countries like the United States, Australia, New Zealand, and Canada. President Kim recognized such cooperation as an important channel for advancing regional peace and stability and alleviating tensions on the Korean peninsula. Therefore, he actively participated in global and regional organizations such as APEC, the ASEAN Regional Forum (ARF), and the government officials, in their private capacity, participated in the Northeast Asian Cooperation Dialogue (NEACD) and the Council for Security Cooperation in the Asia-Pacific (CSCAP) at the track-II level, while seeking ways to have North Korea join them.

The Kim Dae-jung government (1998-2003) had a similar logic, although it emphasized the vision of an East Asian community rather than trying to realize

8) Regarding South Korea's strategic thought, see Gilbert Rozman, In-Taek Hyun, and Shin-wha Lee, eds.(2008), *South Korean Strategic Thought Toward Asia*, Basingstoke: Palgrave Macmillan.

a Northeast Asian security dialogue. That was because President Kim Dae-jung wanted to be the “king,” or the leader of an East Asian community, if any, rather than strengthening the alliance with the United States. He defined the geographical boundary of East Asia as being based upon ASEAN Plus Three (APT), excluding the United States as well as other Pacific countries such as Australia and New Zealand.

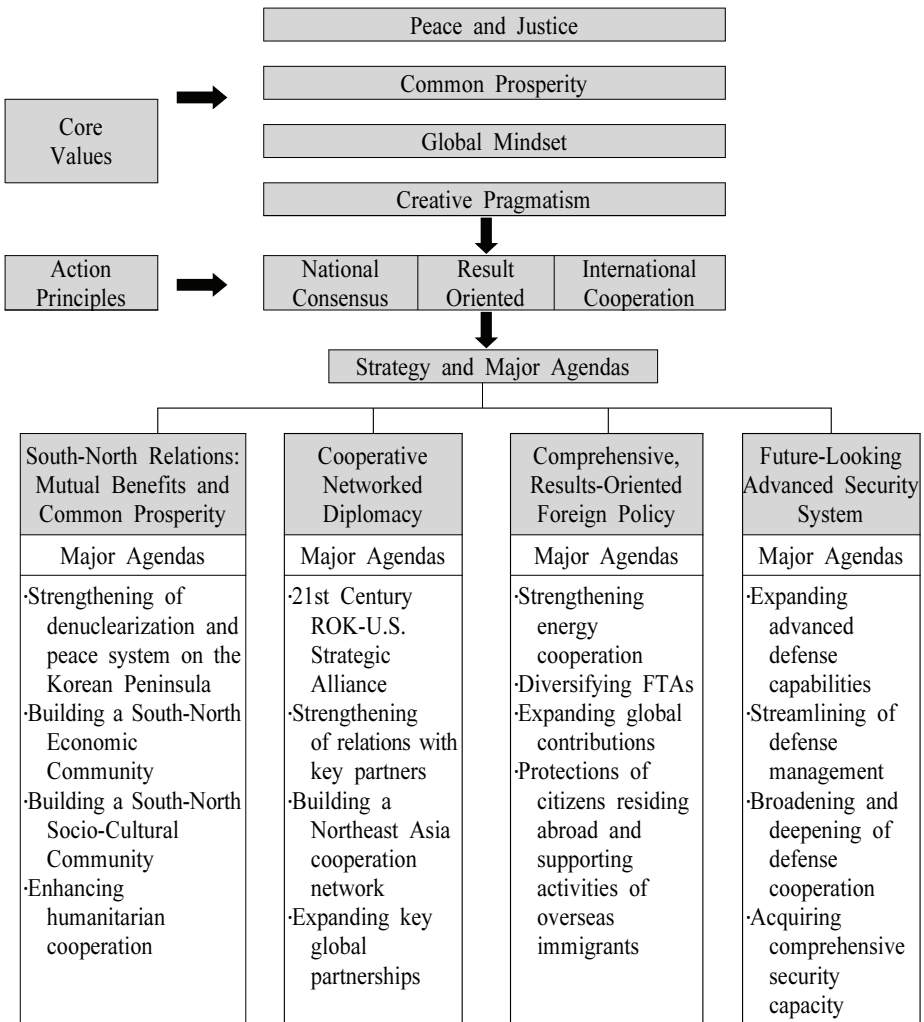
The Roh Moo-hyun government (2003-2008) dwindled from East Asia to Northeast Asia in terms of its geographical scope of regional cooperation. President Roh declared the “Northeast Asian Cooperation Initiative for Peace and Prosperity” upon his inauguration, and he emphasized “Korea as a hub of Northeast Asia.” The Roh government highlighted a strategic message that Korea should be a “bridge” linking continental and maritime powers, a hub of ideas and inter-regional networks, and a cooperator catalyzing a regional community of peace and prosperity.

Since it took power in 2008, the Lee Myung-bak government appears to believe that the United States has been “detached” from East Asia since it was preoccupied with the Middle East during the George W Bush administration. At the same time, the United States lost its deep-rooted trust in its traditional allies who had been rather reluctant to send troops to Iraq. The Lee Myung-bak government, as a traditional ally of the United States, would like to help the United States to restore its trust in a traditional alliance and it has been trying to expand and revitalize the pan-Pacific regional cooperation under the leadership of the United States.⁹⁾ It seems that the Lee Myung-bak government believes in the synergistic effect between Asia Pacific regionalism and U.S.-led bilateral alliances.

9) Interview with an anonymous high ranking official at the Blue House, September 18, 2009.

3. Alliance and Northeast Asian Regionalism of the Lee Myung-bak Government

Table1. Birds-Eye-View of a Global Korea



Source: The Blue House(2009. 3), *Global Korea: The National Security Strategy of the Republic of Korea*.

3.1 Envisioning Global Korea

Coincident with the 60th anniversary of the founding of the Republic, the Lee Myung-bak government was inaugurated in February 2008 and announced its vision of building a “Global Korea.” A Global Korea signifies a country that cooperates actively in the world stage but also proffers solutions to common issues facing the global village. Global Korea also refers to a Korea which contributes vitally to world peace and development based on wider perspectives and more engaging exchanges with the international community. On the basis of such core values as peace and justice, common prosperity, global mindset, and creative pragmatism, the Lee government has set out four strategic agendas: 1) inter-Korean relations centered on mutual benefits and common prosperity; 2) cooperative networked diplomacy; 3) comprehensive and results-oriented foreign policy; and 4) future-looking and advanced security system.

As seen at Table 1, Korea’s cooperative networked diplomacy reflects the diplomatic priorities of the Lee government. As Korea seeks to further develop its alliance relationship with the United States, it will also work towards ensuring that this alliance will serve as a positive reinforcement for the strengthening of Korea’s good neighbor policy with key regional partners. On that basis, Korea is well poised to contribute to the construction of a Northeast Asia cooperative network, or the institutionalization of multilateral cooperation in Northeast Asia. In addition, Korea will strengthen cooperative partnerships with Southeast Asia, Central Asia, India, Australia and New Zealand as a way of opening a new “Asian Era.” A Global Korea will contribute and participate actively on issues of mutual concern confronting East Asia and the global village. As the Republic of Korea’s global cooperative network expands in tandem with a greater emphasis on engagement and persuasion, its soft power capabilities will also increase.

3.2 Moving Toward a Strategic ROK-U.S. Alliance

If we assume Table 1 reflects policy priorities of the Lee Myung-bak

government, a Northeast Asian peace and security mechanism is premised upon viable bilateralism and workable trilateralism. If the United States excludes Korea from its strategic perimeter for one reason or another after the North Korean threat disappears, it could produce unintended consequences in Northeast Asia. The U.S. presence in both Japan and Korea plays an important role in dampening the potential for tension arising between the two countries. Thus the withdrawal of U.S. forces in Korea will increase the potential for tension between Korea and Japan.¹⁰⁾ Some scholars argue that should the United States leave Korea without sufficient reassurance, Korea might try to play Japan and China against each other to ensure its own independence and survival.¹¹⁾ But if Korea is left alone with the United States-Japan alliance remaining, Korea will seriously consider the strategic choice between being neutral and aligning with China.

Against this backdrop, the ROK and the United States have designed a vision for the bilateral alliance based on the premise that the North Korean nuclear problem is resolved. Only when these two allies have a blueprint for the bilateral alliance will the United States have an attitude of positive cooperation toward building a peace system on the Korean Peninsula. From now on, the ROK and the United States should seek the final resolution of the North Korean nuclear issue in the context of a bigger strategic picture.

In order to make the peace regime on the Korean Peninsula and the ROK-U.S. alliance more compatible, the two allies have developed a vision of transforming the current alliance into a comprehensive strategic alliance. This is another way to realize a Northeast Asian peace and security mechanism. As long as North Korea continues to pose a tangible threat, South Korea should push ahead with the

10) Michael H. Armacost and Kenneth B. Pyle (1999), "Japan and the Unification of Korea: Challenges for US Policy Coordination, NBR Analysis, Vol. 10 No. 1, Seattle: The National Bureau of Asian Research, pp. 7-8 (March) and Michael O'Hanlon (1998), "Keep US Forces in Korea after Reunification," *The Korean Journal of Defense Analysis*, Vol. 10 No. 1, p. 7. (Summer)

11) See Narushige Michishita (1999), "Alliances after Peace in Korea," *Survival*, Vol. 41, No. 3, Autumn pp. 72-3.

“Koreanization” of its defense. However, once this threat is gone, South Korea should seek to transform the alliance into a cooperative security arrangement designed to serve as a stabilizing influence in Northeast Asia. Rather than solely being focused on military threats, this alliance system would enable the two countries to share the values of democracy and a market economy, while also striving to maintain peace and stability in the region. Moreover, this security alliance would allow South Korea and the United States to pursue horizontal rather than vertical relations, thereby contributing to the increased flexibility and autonomy of South Korea’s national security initiatives. In this manner, the two allies would be able to create a cooperative security alliance that would facilitate enhanced inter-operability compared to the existing security arrangement.¹²⁾

Rather than being narrowly focused on dealing with traditional military threats, such a comprehensive ROK-U.S. security arrangement would help to create a “human security alliance” designed to address 21st century-type security matters, such as terrorism, drug trafficking, environmental destruction, illegal migration, and piracy. Under such a scenario, South Korea would regain operational control over South Korean forces from the United States in times of military contingency. Human security recognizes that democratic development, human rights and fundamental freedoms, the rule of law, good governance, sustainable development, and social equity are as crucial to lasting global peace and stability as arms control and disarmament. South Korea and the United States, therefore, should advocate a “soft power diplomacy” that builds empowering networks among like-minded countries with respect to Asia-Pacific human security issues such as natural disaster, infectious disease, human rights violations, terrorism, human smuggling, drug-trafficking, and environmental pollution. The complex interconnection of issues makes control over knowledge and information—as opposed to sheer armaments—a crucial facet of power, as the diffusion of new ideas and information

12) Kim Sung-han(2004), “Envisioning the ROK-U.S. Alliance: A Korean Perspective,” Presented at SAIS-IRI Conference on U.S.-Korea Alliance and the Future of Northeast Asia, Washington, D.C., December 6-7.

can generate new patterns of behavior important in international policy coordination. Even if not a part of the alliance charter *per se*, promoting an agenda based on common values and human security will help promote the notion of a relationship that stands for something, not against something.¹³⁾

Should threat from the North disappear, the existing ROK-U.S. military alliance must become part of an expanded security alliance to avert rivalry between China and Japan and secure safe sea lanes between Northeast Asia and the Middle East, the route of energy imports for South Korea, China, and Japan. Regional instability would threaten both ROK and U.S. interests, though the United States has historically been perceived as the benefactor providing South Korea with security services. In such a strategic alliance, South Korea would assume a higher profile as the host for U.S. forces essential to both United States and regional stability.¹⁴⁾

The United States will likely favor such a new form of alliance in Northeast Asia that retains bilateral ties with South Korea but refocuses from deterring the North to a broader security network for stability throughout the region. This would effectively harmonize Washington's global strategy with Seoul's national strategy. Of considerable importance to regional security will be that any ROK-U.S. alliance prevents interference from China on the peninsula as Korean unification proceeds. Similarly, Japan would be kept in check through the Japan-U.S. alliance.¹⁵⁾

13) In this light, the recent 'U.S. beef scandal' in South Korea can be taken as an alliance issue, since this stands for 'food safety' which is a human security issue. If those two allies could not resolve this human security issue, they would not be able to move forward to become a strategic alliance that is supposed to deal with human security issues in the region and in the world.

14) Robert Dujarric (2000), *Korean Unification and After: The Challenge for US Strategy* (Indianapolis: Hudson Institute, 2000), p. 56.

15) See Kim Sung-han (1999. 7), "US Military Presence in a Unified Korea," *IFANS Review*, Vol. 7, No. 1 The US-Japan alliance will also be adjusted given technological changes and regional developments. See Richard L. Armitage, Kurt M. Campbell, Robert A. Manning and Joseph S. Nye (2000. 10. 11), "The US and Japan: Advancing Toward a Mature Partnership," *National Defense University*.

3.3 Exploring Bilateral-Multilateral Nexus

If the process of inter-Korean reconciliation and cooperation is accelerated, it would contribute to creating a favorable environment for multilateral security cooperation in Northeast Asia. The Kim Young-sam government introduced the “Republic of Korea’s Paper on Northeast Asia Security Cooperation” at the ASEAN Regional Forum Senior Officials Meeting (ARF-SOM) in Bangkok on 23-25 May 1994. According to the report, multilateral 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 dignity. Up until now, this idea has not materialized due to North Korea’s refusal. If the North’s negotiations with the South, the U.S. and with Japan make progress, and its relations with China and Russia become stabilized, the North would be less worried that they are ganging up on it.

When the Northeast Asia multilateral security dialogue is launched, Korean Peninsular issues will be discussed. But they will not be the sole or central issue of discussion. The multilateral dialogue in Northeast Asia will deal with a broad range of issues related to regional security including traditional political and military issues as well as non-traditional trans-border security threats.

In Northeast Asia, bilateral security arrangements will remain the backbone of Northeast Asian security for a considerable period of time. Despite the strategic uncertainty and prevailing bilateralism, Northeast Asia needs to search for such a multilateral setting as the Northeast Asia Security Dialogue (NEASED) that was proposed by the Korean government in 1994. The United States, Japan, and South Korea should try to make it feasible and also actively participate in the multilateral activities at the track-II level.

A multilateral security dialogue in Northeast Asia should be based on the following considerations: First, it should be seen as a supplement, rather than as

a substitute to the system of bilateralism in the region, for a considerable period of time. Bilateralism and multilateralism are not mutually exclusive concepts. Second, it should be pursued in a manner consistent with and conducive to improved inter-Korean relations. As long as inter-Korean relations remain unstable, real peace and stability in the region will be remote. Tangible progress in inter-Korean relations should be the precondition to guaranteeing the stability of Northeast Asia. For South and North Korea, participation in such a multilateral security mechanism could contribute to establishing a solid peace regime on the Korean Peninsula. Third, a multilateral security dialogue in Northeast Asia needs to maintain a cooperative and consultative relationship with the ASEAN Regional Forum (ARF). A sub-regional security dialogue addressing Northeast Asian concerns is fully compatible with the ARF. Although the ARF will continue to include in its discussions some items involving the Northeast Asian sub-region, a sub-regional dialogue will permit the major actors to address these issues in greater depth. Finally, a gradual approach should be taken to build a common security framework in Northeast Asia. Given the historic realities as well as the differences in political systems and economic development among the countries in the region, only a gradual approach based on patience will contribute to building the blocks of a Northeast Asian identity.

4. Synergizing Bilateralism, Trilateralism, and Regionalism in East Asia

4.1 Building a Northeast Asian Cooperative System

With respect to Korea's relations with its key neighbors, the Lee Myung-bak government seeks to enhance synergies arising from the complementary and parallel pursuit of bilateral, trilateral, or multilateral engagements.¹⁶⁾ It is important to move

16) The Blue House (2009. 3), *Global Korea: The National Security Strategy of the Republic*

beyond the concept of bloc politics or adversarial relations between particular groups of states. We must shift our efforts to jointly addressing common threats and enlarging common interests through a comprehensive security cooperation mechanism. As we continue to participate in a partnership based on core values such as freedom, democracy, and a free market between Korea, the United States, and Japan, it is also important to augment cooperative and interdependent linkages not only in the foreign policy arena, but in the economic, trade, social and cultural fields as well. In addition, in order to resolve the North Korean nuclear problem and maintaining stability on the Korean Peninsula, it is important to strengthen the sharing of intelligence and strategic coordination.

At the same time, accentuating trilateral cooperation between Korea, China, and Japan will serve to expand East Asia's role and corresponding standing internationally—and all the more critical, to upgrade joint efforts in addressing key challenges confronting Northeast Asia. The institutionalization of the Korea, China, Japan trilateral summit beginning with its inaugural meeting in December 2008 in Fukuoka, Japan, has already resulted in paving the way towards the potential prevention of regional tensions and reinforcing confidence-based relationships. Expanding people-to-people exchanges, bolstering cooperation in the fields of trade, investments, and finance, and participating together in environmentally-friendly growth cannot but result in upgrading the Korea-China-Japan trilateral relationship which has been stymied in the past due to historical legacies.

Peace in Northeast Asia is inexorably linked with securing a more permanent peace on the Korean Peninsula. It thus signals the importance of cooperative diplomacy in Northeast Asia inclusive of on-going efforts to dismantling North Korea's nuclear weapons and fostering reforms and openness in North Korea through the Six Party Talks.¹⁷⁾ If North Korea makes a strategic decision of

of Korea.

17) The "Vision 3,000: Denuclearization and Openness" enunciated by the Lee Myung-bak government is a strategic plan that provides critical incentives to the North should it opt to abandon its nuclear capabilities and programs. Through the process of denuclearization as

denuclearization, the Six Party Talks would be able to transform itself into a Northeast Asia peace and security mechanism. The resolution of the North Korean nuclear problem will be accompanied by the establishment of the permanent peace system on the Korean Peninsula. The converting of the truce system into a peace system on the Korean Peninsula should include having the United States and China endorse an inter-Korean peace treaty based on four-party talks, and secure acknowledgement of this accord for a Northeast Asia peace and security mechanism.¹⁸⁾

4.2 Making Trilateralism Workable

Trilateral cooperative mechanism could potentially become fairly effective and governments should analyze various trilateral combinations. Trilateral arrangement should be regarded as complimentary to bilateral and other multilateral mechanisms and can be used to facilitate cooperation if each trilateral arrangement deals with different agendas. However, security issues must be directly linked to the parties' interests. The states must find ways to cooperate trilaterally but at a certain stage there should be some mechanism for expansion so that other countries' fears of being excluded will be lessened.

Some triangular relationships are seen by the Lee Myung-bak government as more effective than others (e.g., ROK-U.S.-Japan, China-ROK-Japan etc.). In general, the trilateral agenda tends to be fairly limited to avoid greater conflict. From China's perspective, no trilateral arrangement should be a security alliance because it could be used as a tool against a third party. The potential for distrust and misunderstanding to build among the parties left out could be too great. Trilateral arrangement in most cases should not be considered an interim solution-to regionalism as they can stand on their own merits. It would be part of a future

set forth in the Six Party Talks, the North would not only be able to receive sustained economic assistance from the South, it would also enable North Korea to normalize relations with the United States and the broader international community by following universal norms and values.

18) Kim Sung-han, *op cit.*, pp. 139-140.

security mechanism by which stability, peace, and prosperity can be ensured. North Korea could well be included as well.

To those who worry about upholding the balance of power in Northeast Asia, the United States stands out more sharply than ever as the only truly indispensable "balancer." Thus, the United States should refrain from aggravating its relations with Japan and China in order to prevent them from collaborating together in an anti-U.S. move. But it also should refrain from provoking distrust between them because such distrust may induce them into escalating an arms race, thereby threatening the stability of the region. In order to check such arms races, the United States must maintain the security umbrella for Japan. This is a *raison d'être* of the U.S.-Japan security alliance.

Moreover, U.S.-Japan-China trilateral cooperation would benefit not only the three partners but also the entire Northeast Asian region. However, there is no auspicious historical precedent for cooperation among the three countries. Equitable relations among them will be extremely difficult to achieve, as each party tends to envision a nightmarish scenario of the two other nations ganging up on it. A traditional concern in Japan is that the United States may revive its strong affinity for China and form a new China-U.S. relationship, bypassing Japan. Some Americans worry that the two Asian powers may forge an anti-U.S. condominium that might serve as the cornerstone of an East Asian bloc. Similarly, the Chinese are anxious about possible U.S.-Japan collaboration to "contain" China. Although the three countries were not oblivious to the post-Cold War power relationship between themselves, they did not think in trilateral terms. Nevertheless, shifting bilateral cooperation among the three, depending on issues, could dilute mutual suspicions, thereby contributing to the trilateral and even multilateral cooperation among the countries in the region.

Against this backdrop, the United States is expected to play a balancer role between Japan and China to avoid the situation in which their mutual mistrust develops into more open and crude rivalry. But the United States should also avoid its own temptation in the future to exploit and even create a certain level of

Sino-Japanese “tension” with a view to rationalizing the U.S. military presence in Korea and Japan.¹⁹⁾ The United States and Japan should thus continue to involve China in the economic, security, and political arrangements that America and its allies have sponsored. China may never be an ally of the United States, but it doesn't have to be an enemy. The United States and its allies should explain to China the steps that can build on shared interests and lessen differences. Ultimately, America will evaluate its own ability to cooperate and the world will assess America's willingness to do so.

Neither the Kim Young-sam nor the Kim Dae-jung government of South Korea included a trilateral U.S.-Japan-China relationship in its strategic thinking. The Lee Myung-bak government expects a positive contribution from the trilateral cooperation as long as the Korean issue is consulted with South Korea beforehand.²⁰⁾ Where is then the ROK-U.S. alliance located in U.S.-Japan-China relations? Given China's intense historically-based “mistrust” of Japan, Beijing's concern about eroding norms of Japanese self-restraint and the political geography of the Taiwan issue, even certain new defensive roles for Japan could provoke China.²¹⁾ This perception is partly applicable to a unified Korea. China now appears to believe that the ROK-U.S. alliance is a stabilizing force that keeps a reunified Korea restrained and Japan reassured.²²⁾ China will thus be able to accept a stabilized

19) Recent developments signal the advent of a US-China-Japan triangle that is fundamentally different from the preexisting model. The US-China-Japan triangle played the role of a balancer in Sino-Japan relations during the Clinton era: the United States maintained the *status quo* of its alliance with Japan while defining its relations with China as a strategic partnership. Conversely, the Bush administration has bolstered the US-Japan alliance while sustaining a system of cooperation with China on counterterrorism and counter-proliferation with a view to countering global security threats in the short term and gearing up for a Chinese strategic challenge over the middle to long term.

20) Interview with an anonymous high ranking official at the Blue House, September 18, 2009.

21) Thomas J. Christensen (1999), “China, the U.S.-Japan Alliance, and the Security Dilemma in East Asia,” *International Security*, Vol. 23, No. 4, p. 80. (Spring)

22) C. S. Eliot Kang (1999), “Managing Change: Korea and U.S. Security Strategy in Northeast Asia,” paper delivered at the Conference on East Asian Security, Charleston, South Carolina, November 5-7.

U.S.-Japan-China relationship. Likewise, China might want to keep a cushion between itself and a unified Korea. In that sense, the ROK-U.S. alliance continues to be useful even after Korean reunification. This implies the possible coexistence of bilateral alliances and a multilateral security cooperative mechanism.

4.3 Keeping the United States Engaged in the Region

Historically, multilateralism in East Asia never was a prominent organizing principle for U.S. foreign and security policies as it was in Europe. Similar ideational factors, such as shared Western and European democratic cultures for constructing a more robust regional identity have never existed in East Asia compared to Europe. Nor were the strategic interests of all players in East Asia to tie the United States to East Asia on a long-term basis so strong as in Western Europe.²³⁾ While there is much talk of the common interests the United States has with other Asian states, the United States is still far from embracing an identity as a member of the Asia-Pacific community similar to its membership in the North Atlantic community that would be needed to sustain a multilateral commitment.²⁴⁾

The United States did not oppose OSCE because Europe did not oppose NATO despite the end of the Cold War, and even expanded it on the basis of a “new strategic concept.”²⁵⁾ This means that U.S. confidence in its European alliance network contributed to the initiation and reinforcement of security cooperation in Europe. Security cooperation in Northeast Asia thus requires U.S. confidence in its alliance network in the region. Otherwise, the United States is likely to block it as it did EAEC in the early 1990s.

23) Frank Umbach (2003/2004), “The Future of Multilateralism in Asia,” *IRI Review*, Vol. 9, No. 1, (2003/2004), pp. 179-226. (Winter 2003/ Spring 2004)

24) Christopher Hemmer and Peter J. Katzenstein (2002), “Why Is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism,” *International Organization*, Vol. 56, No. 3, p. 602. (Summer)

25) See “The Alliance’s Strategic Concept” Approved by the Heads of State and Government participating in the meeting of the North Atlantic Council in Washington, D.C. on 23rd and 24th April 1999, <http://www.nato.int/docu/pr/1999/p99-065e.htm>.

However, the problem is that the alliance has been a bit weakened by Washington's preference for a "coalition of the willing"²⁶⁾ since 9/11 rather than seeking a common sense and developing joint security strategies within the entire organization. The United States has more diverse interests in Asia than peace and security in Northeast Asia and, for the moment, seems less alliance-friendly than it was prior to 9/11 even though the Obama administration may be slowly changing that. During the Cold War, containment, deterrence and a global balance of power were necessary to deal with the Soviet Union. U.S. leadership was accepted in the context of institutionalized coalitions, consultation and joint decision-making. But after ten years of searching for a unifying foreign policy theme after the demise of the Soviet Union, September 11 has brought into sharp focus a new priority, the threat posed by terrorist groups and the danger that they may secure weapons of mass destruction (WMD). Some U.S. pronouncements touch on the need to strengthen alliances to fight terrorism and to work with "other main centers of global power." But there is a global impression, based on other statements and actions, that it is focused more on a unilateral and anticipatory role in attacking terrorists and confronting WMD-seeking states and entities.

In this light, it seems ironic to say that the Republic of Korea needs to try to lessen U.S. skepticism toward traditional alliances so that restored U.S. confidence in traditional alliances may contribute to facilitating multilateral security cooperation in Northeast Asia. When allies as well as non-allies of the United States can take an eclectic position toward the relationship between alliances and security cooperation, they will see more likelihood that security cooperation in the region will be vitalized and institutionalized.

Many advocate multilateral security cooperation, believing that a bilateral

26) "Coalition of the willing" is a term used to denote a group of states that cooperate in an *ad hoc* or informal fashion, outside of more formal multilateral institutions and alliances. The term has been used recently to describe the group of countries supporting the 2003 US-led invasion of Iraq, but its origins predate the George W. Bush administration. While the term usually refers to cooperation for military purposes, it has also been used in relation to other economic and human security issues in the Asia-Pacific region.

military alliance is an anachronism and a vestige of the post-Cold War era. They call for the establishment of the Northeast Asian Multilateral Security Dialogue to include South and North Korea, Japan, China, Russia and the United States. It is essentially a scaled-down version of OSCE (Organization for Security and Cooperation in Europe). There are two different views. Some say that the ROK-US alliance should be replaced by multilateral security cooperation, while others want a complimentary role for such multilateral cooperation within the framework of an alliance with the United States. While it may sound paradoxical, a strong alliance with the United States is a prerequisite to realizing multilateral security cooperation in Northeast Asia. The United States did not object to the expansion of OSCE because Europe acknowledged the ‘privilege’ of the United States by keeping NATO alive even after the end of the Cold War. The same is applied to Northeast Asia. Multilateral security cooperation in Northeast Asia can be realized when the United States has confidence in its alliances with South Korea and Japan. Since multilateral security cooperation can be instituted only when the ROK-US alliance is well maintained, South Korea’s security policy should be so directed. When a strategic alliance covers the human security issues that are being dealt with mainly by the multilateral forum, it is more likely to be compatible with multilateral security cooperation mechanisms. This is what the Lee Myung-bak government appears to be aiming for.

4.4 Promoting U.S.-led Virtual Alliances

Will bilateral alliances of the United States play a role as a catalyst that facilitates the deepening and widening process of multilateral cooperation mechanisms in the region such as NEASED and ARF? The current relationship between U.S. alliances and multilateral cooperation mechanisms is rather unbalanced due to the lack of institutionalization of regional organizations. That does not mean, however, that bilateral alliances are reinforcing regional institutions. What if bilateral networks of the United States are “multilateralized” through closer

ties between U.S. allies? Would they contribute to inducing other countries to participate more actively in ARF and to have more positive views toward the launching of a multilateral security cooperative mechanism in Northeast Asia? The U.S.-Japan-ROK relationship is the so-called “virtual alliance.”²⁷⁾ The ROK and Japan are not allies but virtual allies since they have the alliance relationship with the United States respectively although they do not have a military alliance pact with each other. The United States might also foster greater security ties, for example, between Japan and the Philippines, and South Korea and Australia. This process of multilateralization of U.S. alliances can be seen as a process of expanding a “virtual alliance” network between U.S. allies. Many neo-conservatives in and out of the George W Bush administration were interested in building a democratic alliance network among the democratic countries in the Asia Pacific region.²⁸⁾

However, this kind of process is unlikely to induce other countries to express more positive views vis-à-vis regional multilateral institutions unless the United States contributes to the regional institutionalization. The process of expanding the virtual alliance network would be seen by China, in particular, as an attempt to create an Asian NATO.²⁹⁾ That is why the United States should also try to create an inclusive regional security community based on the concept of “cooperative security.” The United States needs to show leadership in regional cooperation by

27) Ralph Cossa pointed out that the creation of a “virtual alliance” - achieved through the maintenance of the U.S.-Japan alliance, the continuation of a U.S.-Korea security relationship after Korean reunification, and the strengthening of bilateral security cooperation between Tokyo and Seoul - was seen as necessary, achievable, and in the interests of long-term peace and stability. See Ralph Cossa, ed. (1999), *U.S.-Korea-Japan Relations: Building Toward a “Virtual Alliance,”* (Washington, D.C.: CSIS.)

28) William Kristol, deputy director of the *Project for the New American Century*, said in his *Memorandum to Opinion Leaders* in July 29, 2005, “Asia’s regional organizations do not make democracy a priority, or even a criterion for membership. . . . America’s embrace of democratic multilateralism would break with the past, it would also bring the Bush administration’s policy there into line with its defining philosophy: putting democracy and the character of states at the heart of its foreign policy.” <http://www.newamericancentury.org/asia-20050729.htm> (July 31, 2005)

29) See Derek Chollet (2001), “Time for Asian NATO?” *Foreign Policy*, pp. 91-2. (March/April)

joining EAS (East Asian Summit). Such gatherings as ARF, APT (ASEAN Plus Three), EAS are not designed to supplant or unify American alliances but rather to be a confidence building measure for the region. In short, they are to complement American alliance leadership, not to replace it. They open the prospect for an institutional evolution in the region over a longer period.³⁰⁾

5. Conclusion

As Korea seeks to strengthen its cooperative networks with Southeast Asia, Central Asia, India, Australia and New Zealand, it will be also cognizant of the need for more customized approaches towards these and other countries. Bilateral relations will be strengthened based upon critical interests but Korea also needs to enhance cooperative networks that can make contributions towards Asia's overall development. In addition, Korea's Lee Myung-bak government is well poised to promote a Northeast Asia Peace and Security Mechanism (NEAPSM), but, for now, Northeast Asian regionalism is not an end itself. The ROK-U.S. alliance will remain the central axis of the Korean foreign and security policy for the foreseeable future, while Northeast Asian regionalism will be seen as a means to an end which is peace and stability in Northeast Asia.

Key multilateral settings such as APEC (Asia-Pacific Economic Cooperation), ASEAN+3, the ARF (ASEAN Regional Forum), and the EAS (East Asia Summit), continue to enlarge and deepen intra-regional free trade and security cooperation and are venues where the Republic of Korea is a key participant. Moreover, it is also important to take the lead through such processes to respond to a range of global issues such as terrorism, WMD counter-proliferation, the global financial crisis, and an environmentally-friendly and sustainable development. In Northeast

30) Joseph S. Nye, Jr. (1995), "The Case for Deep Engagement," *Foreign Affairs*, p. 95. (July/August)

Asia, bilateral security arrangements will remain the backbone of Northeast Asian security for a considerable period of time. This means a strategic thinking based on realism is still necessary in order to foster the basis for multilateral security cooperation.³¹⁾ Despite the strategic uncertainty and prevailing bilateralism, Northeast Asia needs to search for a multilateral arrangement like a Northeast Asia Peace and Security Mechanism (NEAPSM). In this light, SPT need to be kept alive, since the existing norms and procedures within the SPT will be used to deal with new problems. This means the countries need to rely on historical institutionalism. A Northeast Asian peace and security mechanism should take the following points into consideration.

First, it should supplement, rather than substitute, the system of bilateralism in the region for a considerable period of time. Bilateralism, multilateralism, and trilateralism are not mutually exclusive. If a small-scale, three-way multilateralism, or “minilateralism” can be activated even before the multilateral cooperation among six-party talk members (2+4) is established, it can act as a catalyst for security cooperation in the region. Relations between the U.S. and China and between Japan and China can be stabilized by opening up channels for (official or unofficial) 3-way talks between South Korea, Japan and the U.S. (or between South Korea, Japan and China).

Second, U.S. attention toward Asia should be “restored” either by expanding the security role of APEC or by its participation in EAS. During the George W Bush administration, the United States had been preoccupied by the Middle East. Asia Pacific regionalism would not be possible without active U.S. attention and commitment. Among 27 EU member states, 21 states are NATO members, which means the United States should actively pursue Asia Pacific regionalism (ASEAN+3+3), while going beyond its traditional “hub-and-spoke” approach to expand its alliance network in Asia.

Third, China should go beyond East Asian regionalism (ASEAN+3), while

31) Kim Sung-han, *opcit.*

Japan should be reminded of Former Prime Minister Obuchi's "human security diplomacy." It seems that the Japanese government is neither interested in East Asian regionalism nor Asia Pacific regionalism. Japan, together with South Korea, could set a role model for human security cooperation in East Asia.³²⁾

Fourth, Northeast Asia should reinforce the forging of a credible sub-regional CSBM mechanism. Examples include greater transparency in force modernization and enhanced coordination regarding non-traditional security threats

Finally, a Northeast Asian peace and security mechanism should be pursued in a way which is consistent with and conducive to the progress on the North Korean nuclear problem. A charter of the NEAPSM emphasizing multilateral security cooperation and non-aggression could be used by North Korea to legitimize its nuclear power status. As long as inter-Korean relations remain unstable, real peace and stability in the region will be remote. Tangible progress in inter-Korean relations should be the precondition to guaranteeing the stability of Northeast Asia. For South and North Korea, participation in such a multilateral security mechanism could contribute to establishing a solid peace regime on the Korean Peninsula.

There remain significant differences between the security environments in Europe and Asia. While it might be premature to replicate the OSCE process in Northeast Asia, the OSCE experience provides a useful lesson for addressing the region's dual challenges. In particular, the OSCE's experience with the CSBM regime could serve as an important reference, *mutatis mutandis*, for building upon multilateral dialogue and mutual trust, bearing in mind the unique situation in Northeast Asia. Northeast Asia needs to make extra efforts to enhance international cooperation on addressing new security threats, including terrorism, trafficking in human beings and natural disasters. In that regard, the role of OSCE missions and other field activities in managing conflict³³⁾ could serve as a valuable reference

32) Regarding Korea-Japan human security cooperation, see Soeya Yoshihide, "US-China Relations and Japan after the Global Financial Crisis: Implications for Japan-Korea Relations," presented at the 8th Korea-Japan Millennium Forum on the Global Economic Crisis and Its Impact on Korea and Japan, hosted by IIRI, Korea University, October 7-8, 2009, Seoul.

for the region.

Continued negotiations with a sense of urgency are needed to bring about a complete resolution of the North Korean nuclear issue through peaceful and diplomatic means. Once the issue of North Korea's nuclear weapons program is peacefully resolved, some people will expect the SPT to evolve into a multilateral forum to address a range of security challenges. Whether or not that comes true, the United States must still play a crucial role in both bilateral security arrangements and multilateral security dialogues to maintain peace in Northeast Asia.

The OSCE and the ARF should also enhance their cooperation. To achieve that goal, the OSCE and the ARF could hold a conference and, in that context, make some track-two efforts to address common issues and common interests. Additionally, the idea of pursuing subregional dialogue on the occasion of a region-wide meeting such as the ARF can be suggested. But, all of these ideas and efforts should be implemented with the sense of realism. Korea's strategic thought toward East Asia will then continue to evolve in a realistic manner.

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33) P. Terrence Hopmann (1999), "Building Security in Post-Cold War Eurasia: The OSCE and U.S. Foreign Policy," *Peaceworks* No. 3, Washington, D.C.: U.S. Institute of Peace.

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Chapter 3

Regional and Global Development Issues and the Role of Korea



7

Transnational Consumer Activism in International Development Cooperation

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Introduction

There is growing consensus that developing country authorities, civil society, and the private sector should be involved in the formation of country-level development targets and strategies as well as the actual implementation efforts. (OECD 2003, p. 9) Complementing and at times substituting for the State, these non-(donor) state actors are in general believed to bring in different perspectives to development policy dialogues. (OECD 2009, p. 14) Moreover, based on their past experiences at the grass roots level, the civil society¹⁾ can mobilize their local networks to carry out state-level policies and help with programs initiated through official

development assistance. In terms of sustainability of the programs, private sector involvement has been proved to be crucial because it creates incentives for individuals and organizations to stay on. Extensive literature has been written on the non-state actors' increasing presence in international development cooperation.^{2), 3)}

Adding to the literature, I turn my attention to the role of transnational consumer activism in international development cooperation in the paper. From buying ethical coffee beans from Kenya to boycotting against Nike for labor exploitations, citizens are now making consumption decisions that have direct consequences to the welfare of the people in developing countries. By refraining from purchasing the goods that are produced in poor working conditions, consumers can pressure multinational producers and their subsidiaries to improve the work environment. By consciously purchasing the goods that are traded or produced "fairly," consumers can promote good practices as well as generate funds for development activities. Consumers now have the power to solve the problems that were partly fostered by globalization using the tools that globalization provides.

Transnational consumer activism also bears significance because it is a market-based development initiative. Policy makers constantly debate over the extent and method of government involvement in the (global) market. As a way of alleviating poverty, should we intervene at the state level and coerce the aid recipient nation to increase minimum wages or should we support the consumer activists through providing accurate information and assist their campaigning activities for them to directly apply pressure to the multinationals? Since transnational consumer activism involves individuals' every-day decision making

1) I use the definition of "civil society organization" in OECD (2009) that it includes all non-market and non-state organizations outside of the family in which people organize themselves to pursue shared interests in the public domain.

2) For sample works, refer to Smillie and Helmich (1999), OECD (2003), and OECD (2009).

3) I define international development cooperation as a collaborative pursuit between agents in one country and agents in another country for economic, social, and political development. When the governments are the agents from both countries, the term can be a synonym for official development assistance.

rather than the heavy hand of the government, it seems to be able to outdo state-level intervention in terms of political viability.

Though in many cases consumer campaigns are coordinated by civil society organizations, the paper distinguishes itself from previous work with its focus on the agents of activism - the consumers - and their action domain - the marketplace. I analyze the decentralized mechanism of transnational consumer activism and how this could indeed be the new dimension to pay attention to in international development cooperation.

Consumer Activism

A growing number of citizens are making claims to specific targets through their consumption behavior. Petersson *et al.* (1998) (quoted in Stolle, Hooghe, and Micheletti (2005)) find that the proportion of Swedish public using boycotts for societal and political purposes had increased from 15% in 1987 to 29% in 1997. According to the 2002/2003 European Social Survey (ESS), 35% of the survey respondents indicated that they were political consumers (Doane 2001; Neilson 2010). Through a 2003 Poll, a UK research company MORI also found that 70% of consumers were willing to pay more for a product that they perceive as ethically superior. (Ghatak and Besley 2007)

Two main “repertoires” of contention⁴⁾ (Tilly 2008) that consumers use are boycotting, or “negative buying” and “buy”cotting, or “positive buying.” Citizens punish businesses for unfavorable behavior by refraining from purchasing the goods that they produce or support businesses for desirable behavior by consciously purchasing the goods - sometimes at a higher price.

The term boycott has its origins in Victorian Ireland, where tenant farmers

4) Contention, involves making claims that bear on someone else's interests one party makes claims on another, the parties often being persons, groups, and institutions. A subject makes a claim to an object and if realized, the object's interests or well-being is often affected.

on the estate of Lord Erne in County Mayo went on strike in protest of the insufficient wages offered by the estate manager, Charles Cunningham Boycott in 1880. (Hawkins 2010) Consumer activism, however, was an often-used form of claims making even before the popularization of the term. For example, throughout the American Revolution in Boston, New York, and Philadelphia, Americans boycotted British goods in opposition of the Stamp Act (1765) that charged tax on letters, legal documents and different paper goods used in American colonies. From the early 1790s to the 1820s, the abolitionists organized boycotts of slave-produced sugar, and in the 1850s, the white Southern supporters of slavery boycotted Northern merchandise. (Glickman 2009)

The term buycott has less of a significant history. According to Friedman (1996; p. 441), organized activist groups tend to favor protests (boycotts) over praise (buycotts) for effecting change. Another reason that we do not have much exposure to “buycott campaigns” compared to boycott ones may be because the term has been used interchangeably with terms such as “girlcott”, “procott,” “reverse boycott,” and “anti-boycott”. One of the early records of buycotts is the White Label campaign in the US in the early 1900s. The anti-sweatshop labeling scheme spoke to American women to buy “sweatshop free” certified cotton underwear for themselves and their children. (Sklar 1998; quoted in Stolle, Hooghe, Micheletti 2005)

Transnational Consumer Activism in a Development Context

Such consumer activism started to have direct development impact when targets (of boycotts) or partners (of buycotts) became multinational corporations. With global economic integration, there now existed a giant multinational firm with headquarters in a developed country and multiple sub-contracting firms located in developing countries. The subcontracting firms supply goods to the multinational firm so that the latter can sell it in the developed country market with its brand

name stamped on. That is, consumers in the developed world became interdependent with the workers in the developing world through global supply chains.

Advancement of communications and computer technologies also played an important role for consumer activism to go transnational and have development consequences. It became much easier for the consumers to get information about the working and living conditions of the workers who produce the goods that they enjoy. Local activists would provide the information on the workplace to transnational activists, and who would then transmit the information to consumers through media campaigns, using the so-called “naming and shaming” mechanisms. (della Porta 2007, p. 13) The campaigns would urge consumers to pressure the target corporation using boycott threats or support the partner corporations through boycotts. Moreover, the rapid transmission of information among consumers due to the advancement of communications technology enabled consumers to mobilize at a specific time period, which contributed to a more effective collective action.

Of different areas in development, the global market structure let transnational consumer activism to be most effective in enhancing and enforcing labor regulations - for example, implementing living wages and eradicating child labor in the workplace. In general, developing States do not have the monitoring capacity or much willingness to enforce labor regulations⁵⁾ at production sites. Thus, it could be better to engage directly with the multinational firm. Since multinational firms are profit-maximizing entities by nature, a threat of a boycott and a possible shrinkage in market-share or an encouragement of a boycott and a growing market-share are good enough incentives for them to put pressure on their sub-contracting firms⁶⁾ for better labor standards in the plants.

Consumer activism in forms of boycott can also generate funds for

5) For example, non-compliance of minimum wages has been extensively documented for countries such as Brazil (Lemos 2006), Honduras (Gindling and Terrell 2006), and Indonesia (Harrison and Scorse 2010). For an introductory discussion, refer to Basu, Chau, and Kanbur (2010).

6) All goods sold by firms such as Nike and Reebok are manufactured in subcontracting firms all over the world.

development activities. For every purchase of a designated good, a proportion of the profit goes to a Funding agency that could be used to support people with HIV/AIDS, build social infrastructure, provide education and training, etc.

As examples of consumer campaigns with development impacts, let's go over the international anti-sweatshop campaigns in the 1990s, the Fairtrade coffee industry, and the Product (RED) program supporting HIV/AIDS funds.

Anti-sweatshop campaigns in footwear, textile, and apparels industry in the 1990s

Labor practices in Indonesia caught the attention of the American public when a 1989 study commissioned by the US Agency for International Development reported that of all the export sector plants, factories that produced goods supplied to Nike paid the lowest wage in Indonesia. (Harrison and Scorse 2005) Organizations such as Global Exchange, Press for Change, and the National Labor Committee started media campaigns on poor factory conditions in Nike plants. The domestic campaigns expanded later on as an international campaign against sweatshop conditions in all factories contracting for Nike, Adidas and Reebok. The campaigns operated through contacts with newspaper columnists, magazine writers, TV shows, and the Internet. In the 1990s, there was a 300 % increase in the number of articles regarding child labor and 400% increase in the number of articles focusing on sweatshop activities in major international newspapers. Non-governmental organizations persistently monitored the working conditions at the production plants during this period. In response to the campaign, Nike established its "Code of Conduct" in 1992 that drew guidelines on the labor conditions in its subcontracting firms. The Code of Conduct was fully implemented in 1995-1996. Harrison and Scorse (2010) find that in Indonesia during the period 1991 to 1996, wages in the textile, footwear, apparels (TFA) factories that were exposed to consumer campaigns increased by 20% more than other TFA plants.

Fairtrade⁷⁾ Coffee

Coffee is the first and the largest fair trade labeled food commodity, and Fairtrade coffee has been representing an approach to alleviating poverty in the developing world based on a strategy of “trade not aid” endorsed by UNCTAD. The coffee market was regulated by the International Coffee Agreement (ICA) for more than thirty years before its collapse. Pre- 1989, governments in both producing and consuming countries agreed upon a pre-determined supply level and set export quotas aiming to keep the price of coffee high and stable within a price range. (Fend 2005) When ICA collapsed in 1989, small-scaled farmers and specialty roasters were given an opportunity to organize coffee production, trading, and consumption outside large corporate channels, and during this period Fairtrade coffee was born. (Taylor, 2004, p. 133) Specialty roasters started to buy coffee directly (not through the middlemen so that the transaction cost was minimized) from farmer cooperatives that were certified by an independent body (the FLO-CERT) to be small-scaled, democratic, and using restricted amount of agrochemicals. The cooperatives are paid by the roasters a floor price (a Fairtrade Minimum Price) or the market price, if higher. For Fairtrade certified “organic” coffee an extra minimum differential is paid and a Fairtrade Premium is added to the purchase price if producer organizations use a part of the profit for social and economic investments at the community and organizational level. (Fairtrade International 2011) The roasters in turn are allowed to stamp the Fairtrade label to their products and can charge higher prices for their labeled coffee. Consumers bear the cost of the price differential between a Fairtrade and non-Fairtrade cup.

According to Fairtrade International (2011), although the market share of Fairtrade certified coffee is estimated at only 1 percent of worldwide coffee sales, it had reached 65808 tonnes in 2008 (a 14 percent year-on-year increase), a total

7) The term Fairtrade is used to describe the certification and labelling system governed by Fairtrade International. In the USA and Canada, the national labelling initiatives use the term “Fair Trade Certified” instead of “Fairtrade.” (Fairtrade International 2011)

value of 1.2 billion Euros. 52 percent of the coffee sold in 2008 was also certified organic. It is estimated that global sales generated an additional income of US\$30 million for nearly 400 producer organizations in 2008.

Product (RED)

Consumer activism in forms of boycott can also generate funds that support various forms of development activities - from building social infrastructure to running HIV/AIDS advocacy campaigns. A recent success has been Product (RED), a brand licensed to partner companies such as Emperio Armani, Apple Inc., GAP, Penguin Classics (UK and International), Starbucks, Dell, and American Express (UK).⁸⁾ Once you buy the designated product, a part of the profit go to the Global Fund to Fight AIDS, Tuberculosis and Malaria, an international funding agency that supplies a quarter of the total worldwide funding for HIV/AIDS related programs, one half for tuberculosis, and almost three-quarters for malaria. For example, whatever product you spend on, the American Express RED card contributes 1% of the consumers spending to the Global Fund. When shoppers buy Penguin Classics (Product) RED edition, 50% of the profits from the sale goes directly to the Global Fund. Of course, the price of the RED editions is higher than the other editions published in Penguin: the RED edition of the *House of Mirth* by Edith Wharton was \$11.00, when the 100th anniversary edition of the book was only \$4.95.⁹⁾ Design and marketing costs aside, it is not hard to see that consumers pay a significant proportion of the 50% profit share that goes to the Global Fund.

Product (RED) is the largest private sector donor to the Global Fund, and has generated over US\$170 million for HIV/AIDS programs in Ghana, Lesotho,

8) For corporations that participate in Project (RED), refer to <http://www.joinred.com/red/#shopred>

9) http://us.penguin.com/nf/Book/BookDisplay/0,,9780141194349,00.html?The_House_of_Mirth_Edith_Wharton.

Rwanda, South Africa, Swaziland, and Zambia since 2006.¹⁰⁾ The grants have been supporting ARV therapy for HIV+ individuals and HIV prevention and treatments to reduce transmission, and also have been providing education and living expenses of children orphaned by HIV/AIDS.

Effectiveness of Transnational Consumer Activism

How effective is transnational consumer activism vis-à-vis other channels of international development cooperation such as direct state intervention? Let's revisit Harrison and Scorse's (2010) work on anti-sweatshop activism and get a sense of this question comparing the impacts of State-level and consumer level interventions in Indonesian footwear, textile, and apparels industry in the early 1990s.

In the early 1990s, the US government threatened the Indonesian government to revoke Indonesia's preferential trade status under the Generalized System of Preferences for its labor right's violations such as obstruction of the right to organize, restrictions on civil servants, the right to strike, the intervention of security authorities in labor disputes, restrictions of workers' access to appeal, limited sanctions against employers, and unfair restrictions on the right to work. Since maintaining the preferential trade status allowed Indonesia to face lower (or no) duties on the goods that they export to the US, the threat was strong enough incentive for Indonesian government to take steps to improve the conditions of workers. Restrictions on union activities were eased and minimum wage was increased - the nominal minimum wage quadrupled and the real value of the minimum wage more than doubled between 1989 and 1996. The government also promised better enforcement.

Recalling the anti-sweatshop campaigns against Nike discussed previously in

10) <http://www.joinred.com/red>.

the paper, we note that the Nike campaigns during the period 1991-1996 were mainly directed to Indonesia because of its 2nd largest market-share status in the world.¹¹⁾ Since the period of consumer campaigns overlap with the period of US State intervention, we can compare the relative effectiveness of the two. Harrison and Scorese (2010) find that wages in the TFA factories that were only exposed to State intervention increased by 35%, and the other TFA factories that were also exposed to consumer campaigns saw a further 20% increase.

In summary, transnational consumer activism makes use of the multinational corporation's rising status in the international economy. In developing countries where the State does not have legal framework or capacity to monitor labor standards in production sites, it could be more effective for consumers to directly engage with the firms with a boycott threat. As Seidman (2007, p. 17) points out, the firm's concern for profits makes it a much more vulnerable target of consumer activism than the state could ever be. When as in the Indonesian case there is indeed an incentive for the state to enhance and enforce labor regulations, transnational consumer activism could be a good complement to state-level action.

Limitations

As Ali (1996) and Seidman (2007) have pointed out, consumer campaigns carry the risk of giving the power to the consumers and not to the workers at the plant in making decisions about what labor rights matter and which factories should be targeted. This becomes a problem because consumers take no responsibility for the outcome of the campaign: when a plant closes down, the workers will have to bear the cost. For example, in the late 1990s, US NGOs successfully ran a boycott campaign and assisted local unions in organizing the workers and improving working conditions in a plant that produced for Gap and

11) China is ranked first.

J.C Penney in Honduras. (Anner 2004) The plant, however, closed down soon after. In the current globalized economy where capital is very mobile, corporations could decide to produce elsewhere when costs of production of a region would go up.

In other words, consumers' conscientious action could actually result in a reduction in welfare of the workers if the firm decides to alter its operation size and location due to boycott campaigns. Han (2009) presents a general equilibrium framework that links consumers, the firm, and workers and show that depending on the proportion of consumers participating in boycott action, difference in average local wage levels and the difference in productivities between possible production locations, firm's response with regards to boycott activism among *Comply*, *Ignore*, *Move* would be determined. Once the firm chooses to *Ignore* the boycott threats and lower the wage and employment size expecting a boycott shock or shut down and *Move* to a different production location, the workers that was of concern becomes worse off than pre-consumer activism times.

When the subcontracting firm decides to comply with the demand to the boycotters and raise wages, for example, it could be that the multinational firm remains unscathed and the subcontracting firms bear the full burden of paying higher wages. This could occur especially when subcontracting firms are small-scaled and do not have the market power against the multinational firm. Such result may not be a desirable result for consumer activists.

Basu and Zarghamee (2009) also argue that consumer product boycotts based on product labelling to fight child labor could actually increase child labor: since children become less desired by the firm, it will lower their wage and therefore force them to work more for the household to reach subsistence level of income. This was also the reason why the Honduran labor activists were in dismay when the US labor rights NGO successfully conducted campaigns against child labor of the US owned apparel firms in Honduras (Anner, 2004). All under-aged workers were dismissed in response to the protests, and there were no other income options for those households in which child labor was inevitable.

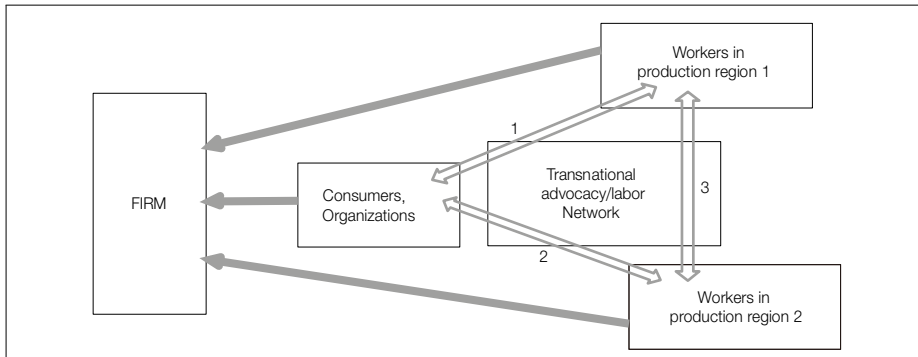
Another limitation of such consumer activism is that consumer campaigns may

have welfare consequences to other non-participating consumers. (Han 2009) When the price of a product increases in response to the increase in wages due to a boycott threat or a buycott incentive, the non-activists in the population who did not care about the welfare of the workers in the first place may experience a welfare loss. Even when the product markets of ethical and non-ethical goods are initially segregated, how the emerging market of ethical goods will eventually affect the other is not so obvious.

Discussions - asymmetry of information

In terms of bringing out development results through boycott activism, two types of collective action can help exert pressure on the firm: cooperation of consumers and workers and cooperation of workers from different regions. To facilitate such collaboration, we want to overcome the asymmetry of information between the parties through transnational advocacy network - arrow 1 and 2 in the diagram - for consumers and workers, and transnational labor network - arrow 3 - for workers from different production regions.

Transnational advocacy network can provide information to the consumers of the working conditions and provide a direct channel of communication between



the two parties. When consumers do not know what the immediate concerns are at the workplace, the campaign could hurt the workers as we have seen in the child labor example in Honduras. Actors in transnational advocacy networks could be referred to as “brokers,” or those who create linkages between previously unconnected actors and mediate the relation. (Tarrow 2006, p. 190) Transferring information between the workers and consumers (Keck and Sikkink 1998, p. 226) brokers can help set a goal that can resonate with both. They can also provide channels of communication between the firm and the consumers so that consumers have enough information about the firm’s business environment - potential production locations, wages, and productivity - and push for not what is “righteous” but what could work for the firm and the workers both.

An effective transnational advocacy network, however, may not be enough for consumer activism to have positive development results when capital is as mobile as it is. As seen in the GAP and JC Penny plants in Honduras, faced with a potential boycott, the firm could close down and move elsewhere and this could easily result in a race to the bottom with minimized welfare of workers all over the developing nations. Thus in addition to the transnational advocacy network and consumers’ willingness to participate in the boycott, one needs collective action among different production sites. Of course, such solidarity is a hard one to build and maintain (Han 2009): again, an intermediate actor, or a “broker” organization should be able to link the production sites and encourage the workers to act collectively.

Overseeing Independent Monitoring and Labeling Agencies

Well-established systems of monitoring and certification can help transnational consumer activism to have positive development consequences. However, resources are limited at independent monitoring and labeling agencies to keep track of every plant sites and there is no accountability mechanism at play for them. Reports that farm cooperatives supplying for Fairtrade sometimes fail to pay the certified

“minimum wage” level to their workers¹²⁾ draw attention to the need for independent watchdogs of the certification process.

Collaboration with other development activities

To maximize development impacts, transnational consumer activism has to collaborate with other development activities. Consumer activists, even as they make transnational claims, draw on the resources, networks, and opportunities of the societies they live in. (Tarrow 2005) This was evident in Indonesia - it is not hard to see that the US government’s pressuring the Indonesian government publicly would have played a positive role in educating the public on the working conditions and motivate them to mobilize. Moreover, the Indonesian government enforcing compliance of minimum wage laws could have induced the subcontracting firms to respond more positively towards anti-sweatshop campaigns.

By promoting local activism, efforts in governance, education, human and labor rights awareness programs through official development assistance in developing countries can also help transnational consumer activism to bear fruit. Moreover, as in the Product (RED) example, delegating the funds that are collected from boycott activities to a specialized development organization would enhance development impacts.

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8

Current Status and Directions of Korean ODA

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1. Introduction

Korea became a member of the Development Assistance Committee (DAC) of OECD in 2010. Despite the world financial crisis in 2008, ODA of Korea increased 0.7% in 2009, which amounted to 0.31% of Korean GNI. As well noted, Korea was one of the poorest country in the world in 1950s. However, Korea has changed to 13th largest economy. Part of its success was due to its effective use of ODA which amounted to 12.7 billion dollars in the post war period. Now Korea has moved from an aid recipient to an aid donor, which is a rare successful case in international aid history.

Since Korea started to provide ODA late 1980s, Korea has experienced many trials and errors. Economic Development and Co-operation Fund (EDCF) was established in 1987 to provide concessional loans, and Korea International Co-operation Agency (KOICA) was made in 1991 to implement grants. These two organizations are based on the separate Acts and controlled by different government

ministries, i.e. Ministry of Strategy and Finance (MOSF) and Ministry of Foreign Affairs and Trade (MOFAT), respectively. Because of this the coordination between these two aid organizations is not smooth so far. Fragmentation of aid is one of the most serious problem in Korean aid. A lack of unified strategies undermines the coherence and efficiency of aid, particularly at country level.

Korean government made the Basic Acts of International Development Cooperation in 2010 in order to solve this fragmentation problem and increase the effectiveness of aid. Based upon this Act Prime Minister's Office (PMO) started to make a unified (or integrated) Country Assistance Strategies (CAS). Recently, Korean government change CAS to CPS (Country Partnership Strategies) in order to align its aid with partner countries' national system and interests. Also, Korean government made a Roadmap on Untying to mitigate an extremely high proportion of tied aid.

In section 2 the current status of Korean ODA is explained in detail. Based upon this evaluation, problems and directions of Korean ODA will be found in section III. Especially, the efforts of Korean government to establish 'Korean type ODA' will be critically reviewed.

2. Current Status of Korean ODA

Even though Korea has rapidly increased ODA in recent years, (ODA/GNI) ratio of Korea is still 0.1% in 2009, which is 1/3 level of DAC average. In Special Summit of UN in 2005 developed countries agreed to increase (ODA/GNI) ratio up to 0.7% by 2015, while Korean government pledged to increase it to 0.15% by 2012, and 0.25% by 2015. Figure 1 shows that the amount of Korean ODA is ranked as 19th among 27 OECD countries in 2008, while [Figure 2] shows that (ODA/GNI) ratio of Korea is ranked as 25th among this group. These comparisons indicate that the level of Korean ODA, considering its economic size, needs to increase in the future.

Table 1. ODA Trend of Korea (net expenditure)

(Unit: USD million)

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ODA, net | 212.1 | 264.7 | 278.8 | 365.9 | 423.3 | 752.3 | 455.3 | 699.1 | 802.3 | 815.9 |
| Bilateral ODA | 131.2 | 171.6 | 206.8 | 245.2 | 330.8 | 463.3 | 376.1 | 493.3 | 539.2 | 580.3 |
| - Grants | 47.8 | 53.0 | 66.7 | 145.5 | 212.1 | 318.0 | 259.0 | 361.3 | 368.7 | 366.1 |
| - Loans | 83.4 | 118.6 | 140.1 | 99.7 | 118.7 | 145.3 | 117.1 | 132.2 | 170.6 | 214.1 |
| Multilateral ODA | 80.9 | 93.1 | 72.0 | 120.7 | 92.6 | 289.0 | 79.2 | 205.6 | 263.1 | 235.5 |
| ODA/GNI(%) | 0.04 | 0.06 | 0.05 | 0.06 | 0.06 | 0.1 | 0.05 | 0.07 | 0.09 | 0.1 |

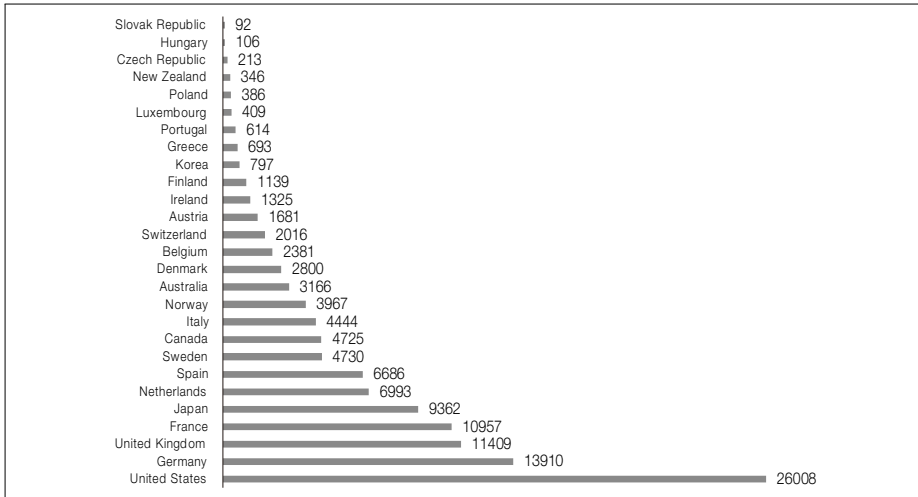
Source: www.odakorea.go.kr.

Aid flows from OECD Development Assistance Committee (DAC) donor countries amounted to USD 129 billion in 2010, the highest level ever, and an increase of 6.5% over 2009. This represents about 0.32% of the combined gross national income (GNI) of DAC member countries. While the 2010 figures demonstrate a commitment to the neediest countries, they also confirm that some donors are not meeting targets they set.

In 2010, the United States, the United Kingdom, France, Germany and Japan were the largest donors of official development assistance (ODA) in terms of volume. EU countries that are members of the DAC provided a combined total of USD 70.2 billion, representing 54% of total net ODA provided by DAC donors. Denmark, Luxembourg, the Netherlands, Norway and Sweden continued to exceed the United Nations ODA target of 0.7% of GNI. The largest increases in real terms in ODA between 2009 and 2010 were recorded by Australia, Belgium, Canada, Japan, Korea, Portugal and the United Kingdom.

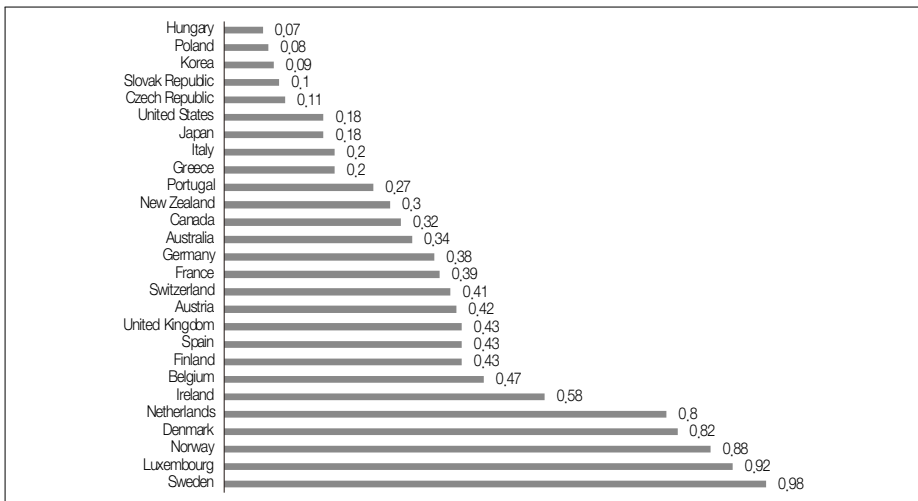
Figure 1. International Comparison of ODA, 2008

(Unit: USD million)



Source: OECD, International Development Statistics Online DB.

Figure 2. International Comparison of ODA/GNI Ratio, 2008



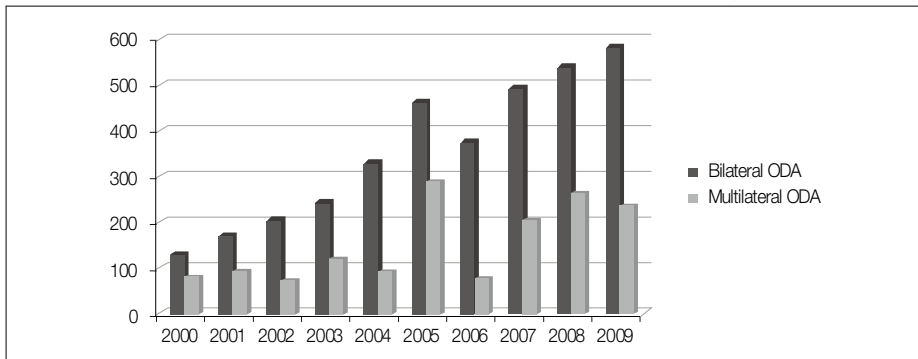
Source: OECD, International Development Statistics Online DB.

Figure 3 shows trends of bilateral and multilateral ODA of Korea. Since 2000 the portion of bilateral ODA has been 60-80%, which is similar to that of OECD/DAC (70%). Hence, the composition of ODA in terms of bilateral and multilateral ODA does not seem to be abnormal in Korean case.

Up to 2002 the portion of concessional loans had been higher than that of

Figure 3. Bilateral/Multilateral ODA of Korea

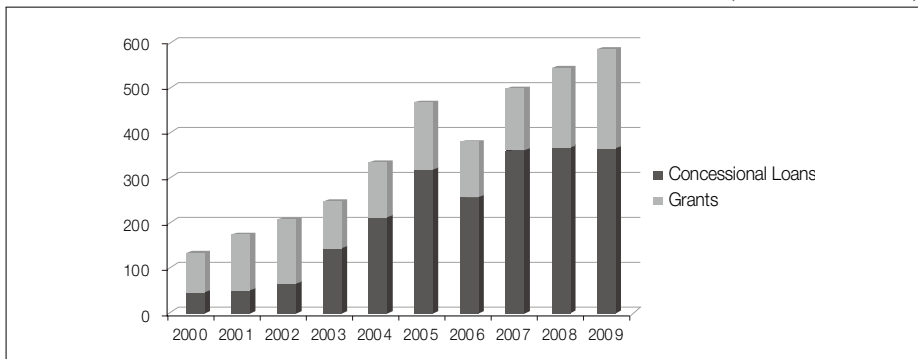
(Unit: USD million)



Source: www.odakorea.go.kr.

Figure 4. Grants and Concessional Loans of Korea

(Unit: USD million)

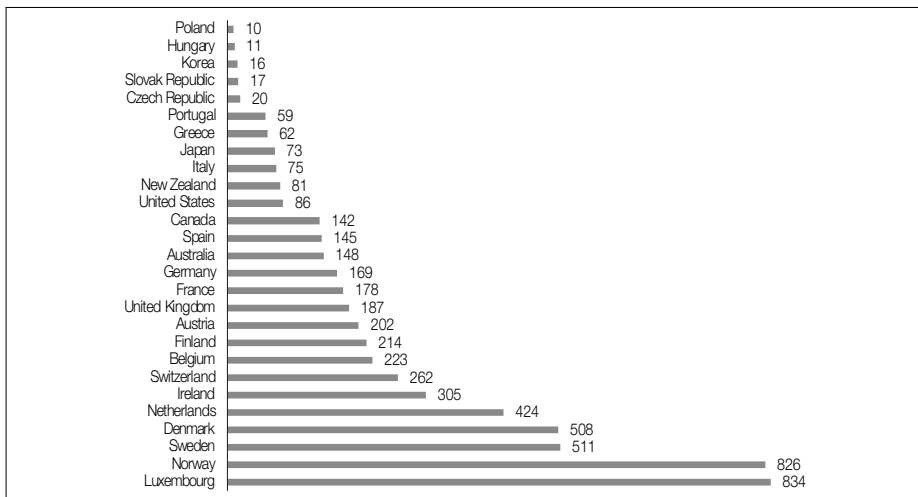


Source: www.odakorea.go.kr.

grants in bilateral ODA, however, the portion of grants has increased to 70% after Afghanistan war in 2003. But the proportion of concessional loans of Korea is still high because the average proportion of concessional loans of OECD/DAC is less than 10%.

OECD/DAC regards tied aids as being likely to increase transactions cost of recipient countries and as being used irrespective of the needs and priorities of recipient countries. However, in case of Korea, the portion of untied aids was only 1.9% in 2006, which was too low compared to the average of DAC (88.3%). The portion of untied aids of Korea increased to 24.7% in 2007, and 35.5% in 2008. International Development Cooperation Committee of Korea made 'Roadmap for Untied Aids' and had a plan to increase the portion of untied aids up to 75% by 2015. Even though rapid increase of untied aids might lower the possibility of Korean firms' participation in procurement market, Korean government has a strong will to follow the international norms in the long run.

Figure 2. International Comparison of ODA per capita(\$), 2008



Source: OECD, International Development Statistics Online DB.

Figure 5 shows the international comparison of ODA per capita. In 2008 the DAC average was \$134, while it was only \$16 in case of Korea. If we compare simply these figures, we might say ODA burden of Korea is too small by any criteria. However, if we consider the financial support of Korea towards North Korea, ODA burden of Korea would increase if we consider it as ODA.

Table 2 shows that support for North Korea peaked in 2007. Government support was 348.8 billion won (approximately, 0.4 billion dollars). If we add private sector's support, it amounts to 439.7 billion won. However, after President Lee was elected, the government support towards North Korea has decreased to 43.8 billion won (about 10% of peak time) in 2008. Even though it is hard to predict, one might expect the support would increase with more stable relation between South Korea and North Korea.

Table 2. Support of Korea towards North Korea

(Unit: 100 million won)

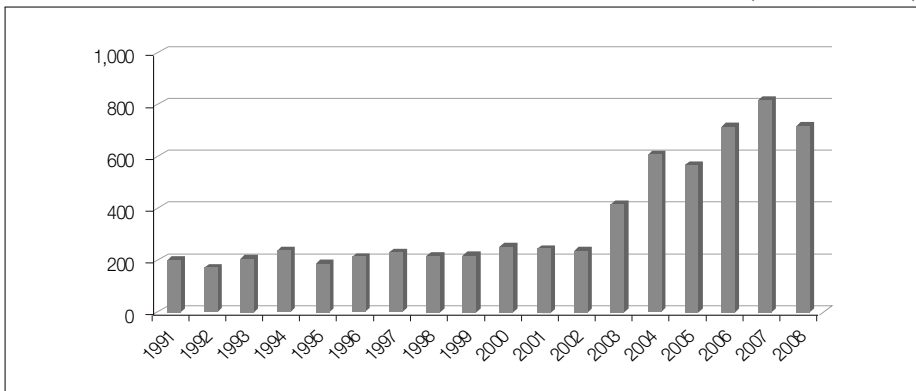
| Year | '95 | '96 | '97 | '98 | '99 | '00 | '01 | '02 | '03 | '04 | '05 | '06 | '07 | '08 | Total |
|---------------------------|-------|-----|-----|-----|-----|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Government (Grants) | 1,854 | 24 | 240 | 154 | 339 | 944 | 913 | 1,075 | 1,016 | 1,211 | 1,240 | 2,139 | 1,767 | 197 | 13,113 |
| Private (private funding) | - | - | - | - | - | 34 | 62 | 65 | 81 | 102 | 120 | 134 | 216 | 241 | 1,055 |
| Government (Foods) | - | - | - | - | - | 1,057 | - | 1,510 | 1,510 | 1,359 | 1,787 | - | 1,505 | - | 8,728 |
| Government (Total) | 1,854 | 24 | 240 | 154 | 339 | 2,035 | 975 | 2,650 | 2,607 | 2,672 | 3,147 | 2,273 | 3,488 | 438 | 22,896 |
| private (Grants) | 2 | 12 | 182 | 275 | 223 | 387 | 782 | 576 | 766 | 1,558 | 779 | 709 | 909 | 725 | 7,885 |
| Total | 1,856 | 36 | 422 | 429 | 562 | 2,422 | 1,757 | 3,226 | 3,373 | 4,230 | 3,926 | 2,982 | 4,397 | 1,163 | 30,781 |

Source: Ministry of Unification, Korea.

Figure 6 shows case ODA amount of Korea. Even though the size of average ODA has increased since 2003, it is still too small to have significant effects. During 1991-2008 KOICA provided 1.77 billion dollars for 3,646 projects (on average 0.48 million dollars per case). As OECD (2008) criticized, Korea provides too many projects to too many countries.

Figure 6. per case ODA amount of Korea

(Unit: 1,000 won)



Source: www.odakorea.go.kr.

Table 3. Aid by major purposes in 2009

| | <i>Percent of total bilateral ODA</i> | | | | | | |
|--|---------------------------------------|-------|------|--------|---------|------|------|
| | Korea | Japan | USA | France | Germany | U.K. | DAC |
| Social and administrative infrastructure | 27.6 | 28.9 | 53.5 | 36.3 | 49.6 | 41.7 | 42.7 |
| Education | 9.7 | 5.3 | 4.0 | 19.2 | 19.1 | 8.9 | 8.8 |
| <i>of which:</i> Basic education | 0.4 | 0.3 | 2.4 | 2.7 | 2.1 | 2.9 | 2.2 |
| Health | 10.4 | 2.0 | 3.7 | 1.5 | 3.6 | 7.8 | 4.6 |
| <i>of which:</i> Basic health | 5.5 | 1.2 | 3.5 | 0.5 | 2.3 | 4.4 | 3.3 |
| Population | 0.2 | 0.4 | 19.0 | 0.3 | 1.9 | 5.0 | 6.7 |
| Water supply and sanitation | 4.7 | 18.9 | 1.6 | 8.8 | 8.7 | 1.4 | 6.2 |
| Government and civil society | 1.7 | 1.2 | 18.6 | 1.6 | 14.7 | 14.7 | 12.5 |
| Other social infrastructure/service | 1.0 | 1.1 | 6.7 | 5.1 | 1.6 | 3.9 | 3.9 |

Table 3. Continued

| | <i>Percent of total bilateral ODA</i> | | | | | | |
|-----------------------------------|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Korea | Japan | USA | France | Germany | U.K. | DAC |
| Economic infrastructure | 60.7 | 33.9 | 9.0 | 9.5 | 21.8 | 17.0 | 14.9 |
| Transport and communications | 52.1 | 26.7 | 4.5 | 6.8 | 2.6 | 2.6 | 7.4 |
| Energy | 8.4 | 6.9 | 2.2 | 1.7 | 8.4 | 1.0 | 3.6 |
| Other | 0.1 | 0.3 | 2.3 | 1.0 | 10.8 | 13.5 | 3.9 |
| Production | 3.8 | 7.4 | 6.1 | 6.8 | 6.0 | 3.1 | 6.4 |
| Agriculture | 3.5 | 4.9 | 5.0 | 5.3 | 3.7 | 1.7 | 4.7 |
| Industry, mining and construction | 0.3 | 2.3 | 0.4 | 1.5 | 1.6 | 0.4 | 1.0 |
| Trade and tourism | 0.1 | 0.2 | 0.7 | 0.1 | 0.7 | 1.0 | 0.7 |
| Multisector | 4.0 | 4.2 | 4.6 | 16.2 | 10.1 | 10.6 | 8.8 |
| Program assistance | 0.0 | 11.4 | 3.1 | 5.1 | 2.4 | 7.0 | 5.0 |
| Action relating to debt | - | 0.7 | 0.6 | 16.1 | 1.6 | 0.5 | 2.6 |
| Humanitarian aid | 1.0 | 2.3 | 15.8 | 0.4 | 4.3 | 9.3 | 8.7 |
| Administrative expenses | 1.9 | 4.9 | 5.0 | 4.8 | 3.1 | 5.0 | 5.2 |
| Other and unspecified | 0.9 | 6.3 | 2.3 | 4.8 | 1.1 | 5.8 | 5.7 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

source: www.oecd.org/dac/stats.

Table 4. Distribution of ODA by Income Group

| | Net disbursements as % of total ODA | | | | | | | |
|------------|-------------------------------------|-------------|-------------------|-------------|--------------|-------------|--------------|------------|
| | ODA to LDCs | | ODA to Other LICs | | ODA to LMICs | | ODA to UMICs | |
| | 1998-99 | 2008-09 | 1998-99 | 2008-09 | 1998-99 | 2008-09 | 1998-99 | 2008-09 |
| Korea | 33.8 | 36.9 | 17.7 | 17.1 | 46.7 | 40.0 | 1.8 | 6.0 |
| Japan | 17.2 | 40.6 | 16.5 | 25.5 | 60.8 | 26.2 | 5.5 | 7.7 |
| USA | 30.4 | 43.4 | 11.3 | 13.2 | 56.7 | 36.6 | 1.6 | 6.8 |
| Germany | 32.8 | 35.8 | 10.1 | 10.7 | 47.7 | 40.6 | 9.4 | 12.8 |
| France | 35.3 | 34.4 | 11.3 | 15.7 | 43.5 | 32.6 | 10.0 | 17.2 |
| U.K. | 39.6 | 49.7 | 14.3 | 15.9 | 34.8 | 27.2 | 11.2 | 7.2 |
| DAC | 31.9 | 43.5 | 13.3 | 14.3 | 47.7 | 33.1 | 7.2 | 9.1 |

source: www.oecd.org/dac/stats.

Table 5. Regional Distribution of ODA by Individual DAC Donors

(Unit: %)

| Region | South of Sahara | | South & Central Asia | | Other Asia and Oceania | | Middle East and North Africa | | Latin America and Caribbean | |
|--------------|-----------------|-------------|----------------------|-------------|------------------------|-------------|------------------------------|-------------|-----------------------------|-------------|
| | 1998-99 | 2008-09 | 1998-99 | 2008-09 | 1998-99 | 2008-09 | 1998-99 | 2008-09 | 1998-99 | 2008-09 |
| Korea | 18.3 | 21.5 | 38.4 | 19.0 | 29.0 | 30.8 | 5.6 | 6.7 | 7.0 | 17.0 |
| Japan | 14.3 | 32.9 | 20.2 | 28.2 | 49.5 | 14.2 | 6.1 | 14.6 | 8.7 | 4.8 |
| USA | 26.7 | 38.9 | 15.3 | 22.8 | 12.3 | 5.7 | 21.2 | 20.6 | 13.3 | 9.4 |
| Germany | 35.4 | 37.0 | 12.7 | 16.3 | 19.1 | 9.4 | 12.1 | 19.1 | 13.4 | 9.0 |
| France | 42.2 | 52.3 | 4.0 | 7.6 | 22.7 | 10.7 | 20.1 | 15.6 | 6.5 | 5.6 |
| U.K. | 44.4 | 47.5 | 20.2 | 25.4 | 9.4 | 8.0 | 6.2 | 10.0 | 13.6 | 4.3 |
| DAC | 32.0 | 42.1 | 14.5 | 17.9 | 23.8 | 9.9 | 11.3 | 15.3 | 11.9 | 8.8 |

source: www.oecd.org/dac/stats.

Table 3 reports disbursement of aid by purposes in 2009. Economic infrastructure including transport and communication takes 60.7% in Korean case, which is quite high. However, portion of social and administrative infrastructure of Korea is only 27.6% while that of DAC average is 42.7%. This contrast indicates that ODA of Korea is more or less related to mutual economic motivations.

Table 4 shows distribution of ODA by income group. The common trends are increasing portion of ODA to least developing countries (LDCs) and decreasing portion of ODA to lower middle income countries (LMICs). These trends indicate that humanitarian ODA to poorest countries are increasing but ODA to countries with bad governance is decreasing. The increasing portion of ODA to upper middle income countries (UMICs) supports the relation between governance and ODA.

Table 5 shows that Korea's the most important ODA region is Asia. To DAC on average Africa is the most important region, but in case of Korea share of Latin America increased to 17%. The differences in regional distribution of ODA indicates strategic consideration of each donor country.

3. Key Issues of Korean ODA

3.1 Objective of Korean ODA

According to Korean government (www.odakorea.go.kr) the objects of ODA is defined as ‘poverty reduction’ and ‘sustainable development’ of international society, which are consistent with the objectives of other donors and international institutions. However, the Acts of International Development Co-operation also emphasizes ‘promotion of economic corporation’.

Even though the other parts of the Acts incorporate the common spirit of ODA, the explicit expression on ‘economic national interest’ seems to distort the pure spirit of ODA. This expression might be adopted due to the objective of EDCF, which is the main fund for concessional loans. However, we need to enlarge the concept of national interest by incorporating collective self-esteem as well as physical survival, autonomy, economic wellbeing (Alexander Wend t(2000)).

Also, in this Act one of the basic principles of international development co-operation is ‘expansion of development experiences’. Based on this principle Korean government has tried to establish KSP (Knowledge Sharing Program) as a representative Korean ODA program. In fact, there are quite a demand for development experiences of Korea from many LDCs. However, in most of the cases the Korean experiences are not applicable to these countries because the situations and environments are completely different. Leaders of LDCs (most of them are dictators) just want to identify them with a economically successful leader like ex Korean president Park. If KSP is to be successful, it needs to be completely localized and reflect the feasibility of the plans.

3.2 Effectiveness of Korean ODA

The evaluation on effectiveness of ODA depends on the objective of ODA in general. In case of Korea effectiveness of ODA is rarely evaluated. Since the objective of ODA is not so clear, results based management (RBM) are quite weak.

As a result no specific objectives and targets are concretely specified.

Recently, KOICA has tried to make a guideline for international development co-operation by following DAC guideline, Principles for Evaluation of Development Assistance (1991). So far the evaluations are done simply for each individual project separately, which lacks the results based approach and country specific considerations. Comprehensive sector evaluations and theme (such as, gender, environment) evaluations are never attempted. These should be incorporated in the future.

As well known, the primary objectives of ODA evaluation of OECD/DAC are ① improvement of ODA policy (projects, programs) through feedback of evaluation results and ② increase of ODA accountability by providing related information to public. However, Korean ODA failed to obtain these objectives.

It is necessary to evaluate ODA at various stages (including pre stage and ongoing stages) for validity and usefulness of evaluation results. However, there were only *ex post* evaluation so far. Multi stage evaluation process should be incorporated.

Even though evaluation tools are prepared by KOICA, it is yet to be fully understood by participating evaluators. Most of DAC countries adopted PCM (Product Cycle Management) and made PDM (Product Design Matrix). This method need to be employed for more effective ODA. Despite the efforts to reflect 5 principles of Paris Declaration (i.e. ownership, alignment, harmonization, managing results, mutual accountability), the result based evaluations are far from being satisfactory yet. The Committee for International Development Co-operation (CIDC) made integrated Country Assistance Strategy (CAS) for 18 countries in 2008, systematic linkage (planning-implementation-evaluation) is not established because there is no specific targets and measurements.

3.3 Selection Problem: Area and Recipient

Korea has provided concessional loans/grants to over 130 countries. *Special*

Review of Korea (2008) of OECD criticized that Korea gives ODA to every LDCs in any sector. This implies that Korea's ODA concentration is quite low and effects of ODA seem to be minimal due to the small size of each ODA project.

Concessional loans are disbursed by the Korean Export Import Bank. The Committee considers population size and GNI of receiving countries, trade with Korea, FDI of Korea, governance status, natural resources, and development demands. 75 countries are selected by this criteria and among them 17 countries are listed as major partners. For the concessional loans (EDCF) economic interests (such as, trade, investment, natural resources) are the main factors. Because of these the coordination with KOICA is not smooth.

Selection problem is not just confined to aid fragmentation problem. In many cases it is very hard to check the consistency of selection criteria. Because each project is evaluated separately, there is no overall evaluations regarding resource allocation.

In case of grants, KOICA gathers each project from each country and sums them up to figure out country allocation, which is the opposite way of grant allocation of DAC. Most of DAC countries allocate resources based on the recipient's mid-term resource allocation plan. First, they allocate fund among countries, and then divide the allocated fund by projects within each country. By adopting this type of allocation, DAC countries could make specific targets which are measurable for each project.

3.4 Korea's Aid System Problem

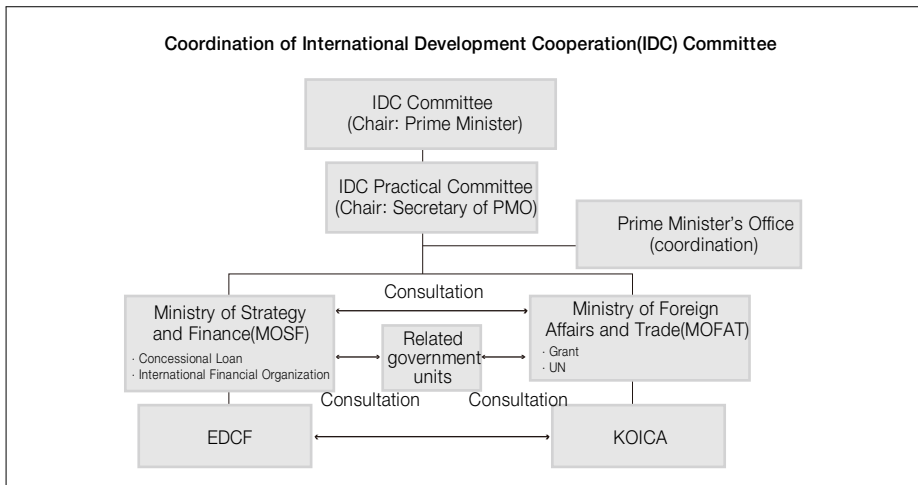
The Korean aid system is based on two main bodies with a number of other small institutions. Since there is no over-arching development assistance legislation, there is also no over-arching development assistance policy or strategy. MOFAT is responsible for roughly half of all bilateral ODA through grants implemented by its executing agency, KOICA. MOSF is responsible for roughly the other half, overseeing the loans implemented through the Korea Eximbank's EDCF.

Multilateral aid is also split, with MOFAT responsible for the UN agencies and MOSF responsible for the international development banks. Furthermore, as many as 30 other ministries, agencies and municipalities execute some small development assistance projects and programs. The most serious problem of Korea's aid system is weak coordination between these two main bodies.

To resolve this problem Korean government made the Committee for International Development Cooperation (CIDC) in 2006, a Prime Minister led body comprising Ministers and civil society representatives, with '*a mandate to deliberate the key policies and plans of Korea's development Assistance*'. The CIDC has approved planning tools such as the *Comprehensive ODA Improvement Plan*, the *Mid-term ODA Strategy 2008-2010*, the *Annual Operation Plan* and the *Integrated Mid-term CAS Strategy 2008-2010*. These instruments are a good first effort to introduce longer-term planning and to co-ordinate better across the Ministries.

However, at this point CIDC does not seem to be successful yet because CIDC does not have budget power and manpower. Although CIDC has nominal mandates, it is hard to expect for CIDC to co-ordinate in advance without budget power.

Figure 7. Integrated ODA Implementing Structure of Korea



Because of this limitation it is hard to find cross-cutting issues and implement them. Hence, it would profit from having a single entity that has sole authority over development cooperation policy, that co-ordinates and ensures a whole-of-government development policy, and that is overall accountable for Korea's policy and programs.

4. Directions of Korean ODA

4.1 Main issues of international development co-operation

More Aid, Better Aid, Changing Aid Architecture

For more aid, DAC pledges to increase aid amount to 0.7% of GNI and find aid resource through innovative ways (such as, air ticket related donation, international development bond, carbon tax). For better aid, leading group changes the focus from aid effectiveness to development effectiveness. For aid architecture, DAC emphasizes the comprehensive aid partnership. Korea, as a member of DAC, needs to follow international ODA trends and play a leading role in international development co-operation

We need to pay attention to Brian Atwood's saying, Chair of the OECD's Development Assistance Committee (DAC): "When countries make aid pledges, they must do the political, budgetary and planning work needed to sustain them. Too often, donors commit without the backing that will enable these promises to be kept. We are promoting a new code of good pledging practice - to ensure that promises are backed by plans." He also mentioned that "The volume of aid is a crucial factor, but there are other forms of assistance that are not classified as ODA, such as some loans and guarantees, that provide critical support to low income countries. And the contribution of new donors is important as well. We are building broader and deeper global partnerships - sharing collective know-how to alleviate poverty and meet the Millennium Development Goals."

These issues will be at the core of the 4th High Level Forum (HLF-4) on Aid Effectiveness, which will be held in Busan, Korea, later in this year. Results-oriented solutions for development are expected to be found in this forum. As a hosting country, Korea will play a key role in drawing on a range of experience and knowledge from developing countries, DAC and other donors, civil society organizations (CSOs), the private sector and many more players in global development.

4.2 Directions of Korean ODA Policies

Korean government set the directions of ODA policy as follows: ① Give hope to recipients, ② Provide ODA best practices with other donor countries, ③ Boost self esteem of Koreans. For these directions Korean government set 3 strategies. [Figure 8] summarizes the directions and its strategies.

First strategy is to develop ODA contents. Modules of development experiences, business technologies and emotional area could be the best candidates of ODA contents. Modulation of development experiences were already started by KDI several years ago.

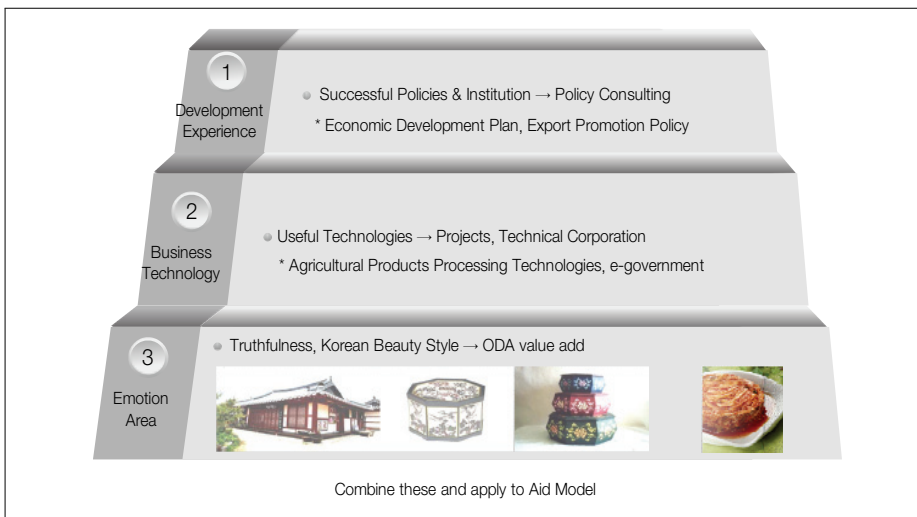
However, Early KSP projects focused on transferring Korea's development experience rather than addressing the policy needs of partner countries in their local context. Also, because early KSP consulting teams mainly consisted of semi-retired senior researchers, they did not work closely with local experts in partner countries. Few attempts were made to link KSP with EDCF and other ODA programs. Early KSP projects started out by sending high-level delegates to identify the policy priorities of partner countries, but they did not subsequently participate in the research and consulting phases. KSP lacked resources to build a database of major policies and case studies.

Figure 8. Directions of Korean ODA



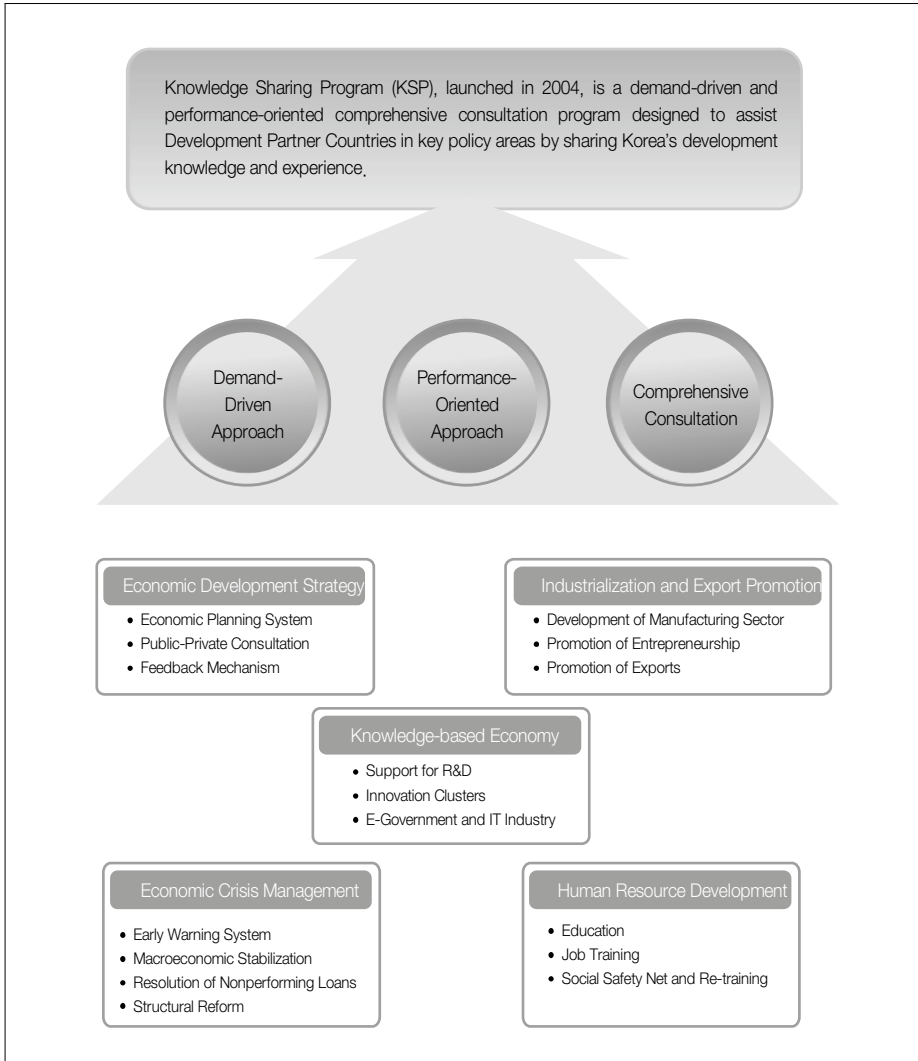
Source: Committee for International Development Cooperation (CIDC).

Figure 9. Contents of Development Co-operation



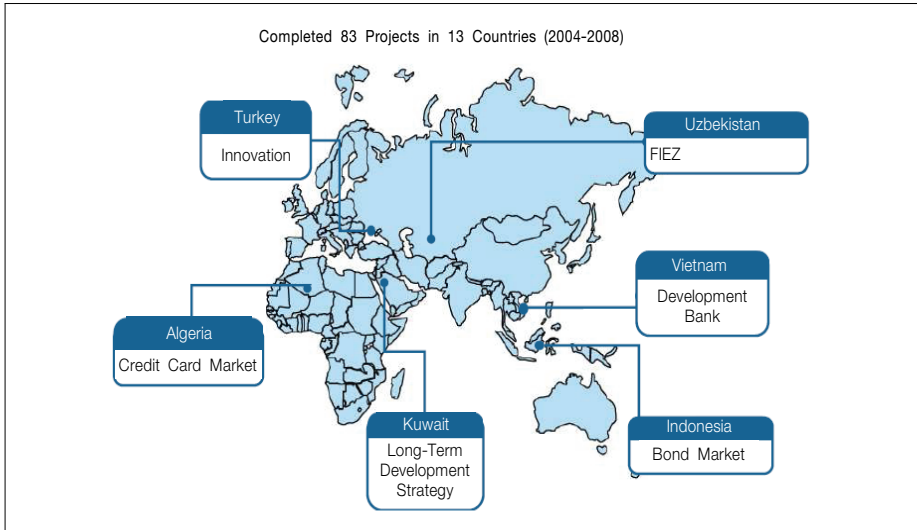
Source: Committee for International Development Cooperation (CIDC).

Figure 10. Knowledge Sharing Program



Source: KDI (www.ksp.go.kr).

Figure 11. Accomplishments of KSP



Source: KDI (www.ksp.go.kr).

Korean government would rapidly increase KSP budget in order to make Korea' own ODA brand. Even though there are some critics about KSP, it is likely to be the representative type of Korean ODA. However, it needs to be reformed in a more applicable way.

Current ODA policies of Korea seek both universality and peculiarity. As a member of DAC, Korea actively participates in international conferences and tries to follow internationally agreed norms. However, at the same time Korea also wants Korean type ODA which is different from other donor countries. It is inevitable choice in some sense because ODA resources are limited but Korean government needs justification for ODA.

KSP is the typical Korean type ODA. On the one hand, establishing Korean type ODA is necessary because Korea can increase the effectiveness of ODA in a differentiated way by sharing development experiences. By doing so, Korea can optimally use the limited ODA resources and take parts of ODA division among

door countries.

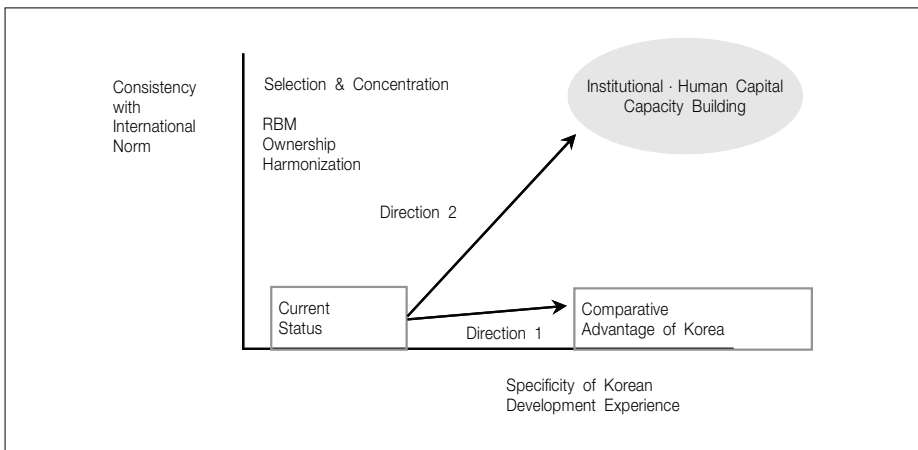
On the other hand, Korean type ODA has following problems; First, concept, Contents, Uniqueness are not clear. Second, applicability of Korean experiences is uncertain. Third, harmonization with other donor countries is likely to be weakened.

Because of these cons and pros Korean government should be more careful in pursuing Korean Type ODA.

5. Implications

As Korea takes more active role in international society, ODA policy becomes more important. For more active, and meaningful participation Korea needs to establish ‘aid philosophy’; ODA should be regarded as global social safety net. If it is combined with experiences of Korea, Korea can contribute to sustainable growth of global economy. In this respect Korea can play a role as building ladder

Figure 12. Current Status and Direction of Korean ODA Policy



for LDCs.

Figure 12 shows current status and direction of Korean ODA policy. Current ODA policies seem to follow direction 1, which emphasize peculiarity of Korean type. However, this direction lacks international harmonization. Hence, direction 2 is the path Korea should seek. By focusing on ‘institutional and human capital capacity building,’ Korea could get both universality and peculiarity.

Also, it is urgently needed to make a comprehensive integrated country partnership strategy (CPS). Along with CPS, aid fragmentation should be corrected in order to get aid effectiveness in the future.

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9

Korea's ODA Policy Towards CLMIV: Trends and Prospects

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1. Introduction

The Korean economy has developed quite rapidly over the last six decades since the cease-fire in 1953. Thanks to massive assistance from the international community, Korea was able to begin reconstruction and development of her economy which had been crippled by a tremendous destruction of industrial facilities and heavy human casualties during the Korean War. During the post-Korean War period, Korea underwent a substantial improvement in her economic structure and emerged as one of the world-leading manufacturers of selected industrial products, such as home electronics, ships, automobiles, semiconductors, etc. The process of Korea's compact economic development over the last six decades is often characterized as "miraculous." Korean economic

development was promoted by an industrialization strategy emphasizing reconstruction of industrial plants and import substitution until the early 1960s, and by an export-oriented industrialization strategy after that.¹⁾ In the process, Korea benefited a great deal from assistances provided by the international community. These assistances were instrumental in nurturing Korea's industrial and developmental capacity through three important channels. First, especially during the first decade of the post-Korean War period, the United States provided a total of USD 2.5 billion as grant-type aids to Korea, which accounted for about eighty percent of Korea's total fixed capital formulation conducted during that period.²⁾ The total amount of Official Development Assistance (ODA) received by Korea in the period of 1945-1980 is reported to be USD 20.3 billion, which can be subdivided into grants of USD 4.5 billion and loans of USD 15.8 billion. Second, numerous developed countries had provided Korea with technical assistance, in order to help develop the nation's industrial capacity and market economy system. This included dispatching foreign experts and technicians to Korea and inviting Koreans for the purpose of vocational training.³⁾ Third, Korea long enjoyed the status of a developing country, and therefore was provided a preferential market access when exporting to its major trading partners, especially under the scheme of generalized system of preferences (GSP), until it graduated from this program in the mid-1990s.⁴⁾

Having reached the status of a newly industrialized economy (NIE), Korea established the EDCF (**E**conomic **D**evelopment and **C**ooperation **F**und) in June 1987 with the purpose of promoting economic cooperation with developing countries. The Export-Import Bank of Korea is responsible for the administrative operation of the EDCF, which includes funding and appraisal of projects designed to assist partner countries in developing their industrial capacity and stabilizing their

1) Cha *et al.* (1997).

2) Mason (1980).

3) Cha *et al.* (1997).

4) Park (2005).

economies. Established in 1991, KOICA (**K**orea **I**nternational **C**ooperation **A**gency), implements the Korean government's grant-type aid and technical cooperation programs. The focus has recently been broadened to promoting sustainable development. The increasing demand from the international community for Korea's economic and technical cooperation is largely managed by these two institutions.

In 2010, Korea became a member of the OECD DAC (**D**evelopment **A**ssistance **C**ommittee). The know-how Korea gained from developing from one of the poorest countries in the world to an emerging economic powerhouse is in itself a valuable asset that Korea can share with its partners. Considering the fact that (East) Asia emerged as Korea's largest trading partner, the recent ODA of Korea is concentrated in this region. In this paper, we will provide an overview of Korea's ODA policy towards East Asian developing countries, and more specifically to Cambodia, Laos, Myanmar, Indonesia, and Vietnam, and discuss possible improvements in its implementation.

2. Main Features of Korea's Overall ODA Policy

2.1 Trends in Korea's ODA Activities

The recent available statistics reveals that Korea's ODA, which stood at approximately USD 112 million in 1993, has increased substantially over the past few years, reaching over USD 1,162 million in 2010 (See Table 1). Considering the country's rather short experience of being a net ODA donor, the greater than ten-fold increase in the absolute amount of ODA within this reported seventeen-year period is rather remarkable.

Another main characteristic of Korea's ODA policy is that the country seems to prefer bilateral aids to multilateral ones. In bilateral ODA, Korea had traditionally focused on loan-type assistance rather than on grant-type assistance. However, the traditional bias of Korea's ODA to loan-type assistance has changed over time:

the grant-type assistance, for the first time in its recent history, exceeded the loan-type assistance in 2003, and this new trend was maintained since (See Table 1).

Table 1. Overview of Korea's Official Development Assistance (1993-2010)

| | (Unit: million USD) | | | | | | | | | | |
|-----------------------------|---------------------|---------|----------|----------|---------|---------|---------|---------|--------|--------|---------|
| | 1993 | 1996 | 1999 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| ODA | 111.56 | 159.15 | 317.49 | 365.91 | 423.32 | 752.32 | 455.25 | 696.11 | 802.34 | 815.54 | 1162.74 |
| ① Bilateral Aid | 60.12 | 123.31 | 131.35 | 245.17 | 330.76 | 463.30 | 376.06 | 490.52 | 539.22 | 580.60 | 890.57 |
| a) Grants | 32.68 | 53.41 | 38.95 | 145.46 | 212.09 | 318.00 | 258.96 | 358.33 | 368.67 | 366.47 | 566.83 |
| b) Loans | 27.44 | 69.90 | 92.40 | 99.71 | 118.68 | 145.30 | 117.11 | 132.19 | 170.55 | 214.13 | 323.74 |
| ② Multilateral Aid | 51.44 | 35.84 | 186.14 | 120.74 | 92.56 | 289.01 | 79.19 | 205.59 | 263.12 | 234.94 | 272.17 |
| Grant to Int'l Org. | (10.25) | (30.08) | (67.70) | (84.92) | (21.6) | (38.3) | (42.9) | (47.7) | - | - | - |
| Capital Subs. to Int'l Org. | (25.67) | (5.76) | (129.46) | (52.53) | (61.0) | (257.3) | (68.8) | (157.9) | - | - | - |
| (Other Aids) | (15.52) | (-) | (-11.02) | (-16.72) | (-10.0) | (-6.6) | (-32.5) | - | - | - | - |
| GNI | 3,614 | 5,552 | 4,400 | 6,061 | 6,824 | 7,901 | 8,873 | 9,713 | 9,347 | 8,372 | 10,145 |
| ODA/GNI (%) | 0.034 | 0.033 | 0.079 | 0.064 | 0.06 | 0.10 | 0.05 | 0.07 | 0.09 | 0.10 | 0.12 |

Source: Recompiled from KOICA database.

This small improvement notwithstanding, Korea is lagging much behind the member countries of OECD's Development Assistance Committee (DAC) in all the related indicators, and especially in terms of ODA as a share of the country's gross national income (GNI). The ODA/GNI ratio of Korea stood well below the level of 0.10 percent, which was continuously raised over the last decade to 0.12 percent in 2010. Whereas the ODA/GNI ratios of more than half of OECD DAC member countries (16 of 22) exceeded 0.30 percent in 2010, it is only 0.12 percent in case of Korea. The average of DAC member countries' ODA/GNI ratio has reached approximately 0.32 percent in 2010, with five countries - Sweden (0.97%), Norway (1.10%), Luxembourg (1.09%), Denmark (0.90%), and Netherlands

Table 2. ODA/GNI Ratios in International Comparison (2003-2010)

(Unit: million USD)

| Country | 2003 | | 2005 | | 2007 | | 2009 | | 2010 | |
|-------------|--------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|-------------|
| | ODA | ODA/ GNI | ODA | ODA/ GNI | ODA | ODA/ GNI | ODA | ODA/ GNI | ODA | ODA/ GNI |
| Australia | 1,219 | 0.25 | 1,680 | 0.25 | 2,669 | 0.32 | 2,762 | 0.29 | 3,849 | 0.32 |
| Austria | 505 | 0.20 | 1,573 | 0.52 | 1,808 | 0.50 | 1,142 | 0.30 | 1,199 | 0.32 |
| Belgium | 1,853 | 0.60 | 1,963 | 0.53 | 1,951 | 0.43 | 2,610 | 0.55 | 3,000 | 0.64 |
| Canada | 2,031 | 0.24 | 3,756 | 0.34 | 4,080 | 0.29 | 4,000 | 0.30 | 5,132 | 0.33 |
| Denmark | 1,748 | 0.84 | 2,109 | 0.81 | 2,562 | 0.81 | 2,810 | 0.88 | 2,867 | 0.90 |
| Finland | 558 | 0.35 | 902 | 0.46 | 981 | 0.39 | 1,290 | 0.54 | 1,335 | 0.55 |
| France | 7,253 | 0.41 | 10,026 | 0.47 | 9,884 | 0.38 | 12,600 | 0.47 | 12,916 | 0.50 |
| Germany | 6,784 | 0.28 | 10,082 | 0.36 | 12,291 | 0.37 | 12,079 | 0.35 | 12,732 | 0.38 |
| Greece | 362 | 0.21 | 384 | 0.17 | 501 | 0.16 | 607 | 0.19 | 500 | 0.17 |
| Ireland | 504 | 0.39 | 719 | 0.42 | 1,192 | 0.55 | 1,006 | 0.54 | 895 | 0.53 |
| Italy | 2,433 | 0.17 | 5,091 | 0.29 | 3,971 | 0.19 | 3,297 | 0.16 | 3,111 | 0.15 |
| Japan | 8,880 | 0.20 | 13,126 | 0.28 | 7,697 | 0.17 | 9,469 | 0.18 | 11,045 | 0.20 |
| Luxembourg | 194 | 0.81 | 256 | 0.79 | 376 | 0.92 | 415 | 1.04 | 399 | 1.09 |
| Netherlands | 3,981 | 0.80 | 5,115 | 0.82 | 3,224 | 0.81 | 6,426 | 0.82 | 6,351 | 0.81 |
| New Zealand | 165 | 0.23 | 274 | 0.27 | 320 | 0.27 | 309 | 0.28 | 353 | 0.26 |
| Norway | 2,042 | 0.92 | 2,794 | 0.94 | 3,735 | 0.95 | 4,086 | 1.06 | 4,582 | 1.10 |
| Portugal | 320 | 0.22 | 377 | 0.21 | 471 | 0.22 | 513 | 0.23 | 648 | 0.29 |
| Spain | 1,961 | 0.23 | 3,018 | 0.27 | 5,140 | 0.37 | 6,584 | 0.46 | 5,917 | 0.43 |
| Sweden | 2,400 | 0.79 | 3,362 | 0.94 | 4,339 | 0.93 | 4,548 | 1.12 | 4,527 | 0.97 |
| Switzerland | 1,299 | 0.39 | 1,772 | 0.43 | 1,685 | 0.38 | 2,310 | 0.45 | 2,295 | 0.41 |
| England | 6,282 | 0.34 | 10,772 | 0.47 | 9,849 | 0.36 | 11,491 | 0.52 | 13,763 | 0.56 |
| USA | 16,254 | 0.15 | 27,935 | 0.23 | 21,787 | 0.16 | 28,831 | 0.21 | 30,154 | 0.21 |
| Total | 69,432 | 0.25 | 107,838 | 0.32 | 104,206 | 0.27 | 120,000 | 0.31 | 128,728 | 0.32 |
| Korea | 366 | 0.06 | 752 | 0.10 | 696 | 0.07 | 816 | 0.10 | 1,163 | 0.12 |

Source: Recompiled from KOICA database.

(0.81%) - fulfilling the non-binding recommendation of DAC to provide more than 0.70 percent of GNI as ODA (See Table 2). The recent drive of the Korean government to increase the absolute amount of ODA, and more specifically the ODA/GNI ratio should hopefully have a lasting impact on improving this ratio for the coming years.⁵⁾

The Asian region appears to be the most attractive beneficiary of Korea's bilateral ODA funds (See Table 3). In fact, Korea has directed more than fifty percent of bilateral aid to the Asian region (52.1%), followed by Africa (15.7%) and Latin America (9.3%). This strong Asia focus can be explained by both the distinctive geographical location of Korea close to the developing countries in Asia

Table 3. Geographical Distribution of Korea's Bilateral ODA (2009)

(Unit: million USD, %)

| | | Grants | | | Loans | | | Total | % |
|-----|---------------|---------------|-------------|----------------|---------------|-------------|----------------|---------------|-------------|
| | | Amount | % | No. of Nations | Amount | % | No. of Nations | | |
| Aid | Europe | 9.65 | 2.5 | 5 | 36.71 | 17.1 | 3 | 46.36 | 7.7 |
| | Africa | 68.65 | 17.7 | 38 | 25.83 | 12.1 | 6 | 94.48 | 15.7 |
| | Latin America | 31.88 | 8.2 | 20 | 23.96 | 11.2 | 6 | 55.84 | 9.3 |
| | Asia | 185.41 | 47.8 | 26 | 128.06 | 60.0 | 14 | 313.47 | 52.1 |
| | Middle East | 21.18 | 5.5 | 7 | 0.19 | 0.1 | 2 | 21.37 | 3.6 |
| | Oceania | 1.97 | 0.5 | 9 | -0.44 | -0.2 | 1 | 1.53 | 0.3 |
| | Others | 68.91 | 17.8 | - | 0.00 | 0.0 | - | 68.91 | 11.4 |
| | Subtotal | 387.65 | 100.0 | 105 | 214.31 | 100.0 | 32 | 601.96 | 100.0 |

Note: 1) RDA: Regional Development Agency

2) Aids for the nations which are under PART II (former Soviet Union & Developing countries) are distinguished as OA (Official Aid) rather than ODA, according to the categorization breakdown of countries in OECD/DAC.

Source: Recompiled from KOICA database.

5) It is a declared goal of the Korean government to increase the ODA/GNI ratio to the level of 0.25 percent by 2015.

and the relatively strong commercial orientation of Korean business towards other parts of Asia. Especially, over the last decade, the Asian region, and more specifically the East Asian sub-region, has emerged as the largest trade and investment partner of Korea. Therefore, the relatively high portion of Korea's ODA funds flowing into Asia can be understood to be in line with the trade and investment orientation of the Korean economy, with the ODA functioning as a complementary instrument to strengthen economic ties with other Asian countries.

2.2 Korea's ODA Policy in International Comparison

As stated in the previous section, a very low ODA/GNI ratio is one of main characteristics of Korea's current ODA policy. The Korean government has been making efforts to increase this ratio since the country's accession to the OECD in 1996. Especially during the period of preparation for the accession to the OECD DAC, and during the period of 2005-2010, Korea's ODA/GNI ratio had increased substantially, reaching its' peak in 2010. But, there has so far been only limited progress. For instance, in 2004, the President of KOICA revealed the government's intention to increase this ratio to at least to 0.10 percent by 2009,⁶⁾ and it has been achieved, as manifested in Table 2. However, this ratio is still well below international standards, as can be witnessed in the average ratio of 0.32 percent of DAC member countries versus 0.12 percent for Korea in 2010.

In the composition of bilateral ODA and specifically in the share of grant elements in total bilateral ODA as well, Korea lags far behind the great majority of DAC member countries. Table 4 reveals that the share of "grant elements"⁷⁾ in Korea's bilateral ODA is sixty three percent, whereas the average figure for the DAC member countries stood at 96.6 percent. Except France (82.8%), Japan

6) See Kim (2005).

7) The "grant element" is calculated (nominal value of ODA - Net Present Value of ODA (10% discount))/nominal value of ODA, and the grant element exceeding 25 percent is one of three main conditions, set by the DAC, to be regarded as ODA.

(88.8%), and Portugal (81.2%), all other DAC member countries registered a grant element of higher than ninety percent. With a debt relief granted occasionally to least developed countries, such DAC members as Austria, Belgium, Canada, Denmark, Greece, Ireland, Luxembourg, Netherlands, New Zealand, and the United

Table 4. Composition of Bilateral ODA in International Comparison (2009)

(Unit: million USD, %)

| Country | Bilateral ODA | Grants | Loans | Share of Grants |
|-------------|---------------|--------|-------|-----------------|
| Australia | 2312 | 2,224 | 88 | 96.2 |
| Austria | 507 | 513 | -6 | 101.2 |
| Belgium | 1,585 | 1,594 | -9 | 100.6 |
| Canada | 3,141 | 3,182 | -41 | 101.3 |
| Denmark | 1,905 | 1,914 | -8 | 100.5 |
| Finland | 791 | 765 | 26 | 96.7 |
| France | 7,019 | 5,814 | 1,205 | 82.8 |
| Germany | 7,097 | 6,747 | 350 | 95.1 |
| Greece | 297 | 297 | - | 100.0 |
| Ireland | 693 | 693 | - | 100.0 |
| Italy | 875 | 871 | 4 | 99.5 |
| Japan | 6,001 | 5,327 | 674 | 88.8 |
| Luxembourg | 266 | 266 | - | 100.0 |
| Netherlands | 4,798 | 4,914 | -116 | 102.4 |
| New Zealand | 226 | 226 | - | 100.0 |
| Norway | 3,168 | 3,125 | 43 | 98.6 |
| Portugal | 277 | 225 | 52 | 81.2 |
| Spain | 4,473 | 4,098 | 375 | 91.6 |
| Sweden | 3,009 | 2,919 | 90 | 97.0 |
| Switzerland | 1,751 | 1,734 | 16 | 99.0 |
| England | 7,657 | 6,994 | 663 | 91.3 |
| USA | 25,174 | 28,992 | -819 | 115.2 |
| Total | 83,602 | 80,800 | 2,802 | 96.6 |
| Korea | 581 | 366 | 214 | 63.0 |

States are proud of having a grant element of one hundred percent or higher.

As in almost all international comparisons, Korea performs quite badly in per-capita ODA as well: Table 5 illustrates that Korea's per-capita ODA has

Table 5. Per-capita ODA in International Comparison

| Rank | Country | Per-capita ODA (USD) | | | |
|------------|--------------|----------------------|------------|--------------------------|-------------|
| | | 2002-2003 (a) | 2008 (b) | Relative to Korea (2008) | b/a |
| 1 | Luxembourg | 344 | 834 | 52.13 | 2.42 |
| 2 | Norway | 381 | 826 | 51.63 | 2.17 |
| 3 | Sweden | 221 | 511 | 31.94 | 2.31 |
| 4 | Denmark | 285 | 508 | 31.75 | 1.78 |
| 5 | Netherlands | 203 | 424 | 26.50 | 2.09 |
| 6 | Ireland | 103 | 305 | 19.06 | 2.96 |
| 7 | Switzerland | 141 | 262 | 16.38 | 1.86 |
| 8 | Belgium | 125 | 223 | 13.94 | 1.78 |
| 9 | Finland | 89 | 214 | 13.38 | 2.40 |
| 10 | Austria | 58 | 202 | 12.63 | 3.48 |
| 11 | England | 89 | 187 | 11.69 | 2.10 |
| 12 | France | 96 | 178 | 11.13 | 1.85 |
| 13 | Germany | 66 | 169 | 10.56 | 2.56 |
| 14 | Australia | 50 | 148 | 9.25 | 2.96 |
| 15 | Spain | 39 | 145 | 9.06 | 3.72 |
| 16 | Canada | 59 | 142 | 8.88 | 2.41 |
| 17 | USA | 51 | 86 | 5.38 | 1.69 |
| 18 | New Zealand | 32 | 81 | 5.06 | 2.53 |
| 19 | Italy | 37 | 75 | 4.69 | 2.03 |
| 20 | Japan | 69 | 73 | 4.56 | 1.06 |
| 21 | Greece | 26 | 62 | 3.88 | 2.38 |
| 22 | Portugal | 28 | 59 | 3.69 | 2.11 |
| DAC | Total | 69 | 134 | 8.38 | 1.94 |
| 23 | Korea | 7 | 16 | 1.00 | 2.29 |

Source: Recompiled from KOICA database.

increased substantially over the last decade, but is still at the level of one-eighth of average per-capita ODA of DAC member countries. Luxemburg and Norway are especially impressive with more than fifty times higher per-capita ODA compared to Korea, respectively. There are thirteen DAC member countries in total that show per-capita ODA higher than ten times that of Korea. Also, the speed of increase in per-capita ODA, which is shown in the last column of Table 5, of half of the DAC members is higher than that of Korea's. Korea, therefore, has to start a more rigorous approach to increase the absolute amount of ODA, in order to reach the minimum international standards set for the ODA donors.

Another indicator to be discussed in the analysis of Korea's ODA is the share of "tied aid." It is a general understanding that the higher the share of untied aid, the higher the degree of using the aid for humanitarian purposes. Also, the autonomy of the recipient in administering the ODA funds is higher with the higher ratio of untied loans. Whereas the share of "tied aid" of the great majority of DAC member countries is kept below twenty percent, and their average ratio is at around 15 percent, more than fifty one percent of Korea's ODA is "tied aid" (See Table 6). This suggests strongly that Korea's ODA funds are still primarily used for commercial purposes, and the autonomy of the recipient countries is extremely limited. All in all, the overall ODA policy of Korea is in need of major improvements in a number of policy areas, and has to be brought into compliance with the recent international efforts to increase the effectiveness and coherence, as noted by the Committee on International Development (2010). It needs to be more strongly based on needs of the recipient countries,⁸⁾ and more specifically of the Asian least-developed countries observed in this paper, as found in a pilot study conducted by Ryou *et al.* (2010).

8) Jung (2010), quotes this as one of seven weaknesses of Korea's current ODA policy.

Table 6. Share of Tied Loans in International Comparison (2009)

(Unit: %)

| Country | Untied | Partially Tied | Tied | Total Amount |
|----------------|-------------|----------------|-------------|--------------|
| Australia | 90.8 | - | 3.3 | 100.0 |
| Austria | 55.1 | - | 44.9 | 100.0 |
| Belgium | 95.4 | - | 4.6 | 100.0 |
| Canada | 98.3 | 0.0 | 1.7 | 100.0 |
| Denmark | 96.6 | - | 3.4 | 100.0 |
| Finland | 90.3 | - | 9.7 | 100.0 |
| France | 89.5 | - | 10.5 | 100.0 |
| Germany | 97.1 | - | 2.9 | 100.0 |
| Greece | 49.8 | 0.1 | 50.1 | 100.0 |
| Ireland | 100.0 | - | - | 100.0 |
| Italy | 52.7 | 0.5 | 46.8 | 100.0 |
| Japan | 94.8 | - | 5.2 | 100.0 |
| Luxembourg | 100.0 | - | - | 100.0 |
| Netherlands | 80.8 | - | 19.2 | 100.0 |
| New Zealand | 90.1 | - | 9.9 | 100.0 |
| Norway | 100.0 | - | 0.0 | 100.0 |
| Portugal | 27.9 | - | 72.1 | 100.0 |
| Spain | 76.6 | 3.7 | 19.7 | 100.0 |
| Sweden | 100.0 | - | 0.0 | 100.0 |
| Switzerland | 99.2 | - | 0.8 | 100.0 |
| United Kingdom | 100.0 | - | - | 100.0 |
| USA | 69.8 | - | 30.2 | 100.0 |
| Total | 84.5 | 0.2 | 15.3 | 100.0 |
| Korea | 48.4 | - | 51.6 | 100.0 |

Note: Technical cooperation & administrative costs are excluded.

Source: OECD (2010), Development Cooperation Report 2010. Statistics for Korea is drawn from KOICA database.

3. The Position of CLMIV in Korea's ODA Statistics

3.1 Overall Features

Table 7 shows a list of the Top 10 and Top 20 recipients of Korea's ODA in 2010. Afghanistan, Vietnam and Mongolia were the three largest recipients of Korea's ODA funds that year. The large amount of ODA to Afghanistan can be interpreted as having been influenced by a unique international event: the 9.11 terrorist attacks and follow-up US war against terror. Afghanistan was devastated by the US "War Against Terrorism," thereby motivating the international community to help the country rebuild democracy and their respective economy. Korea was no exception to this worldwide trend observed since 2001.

It is quite encouraging to find four of the CLMIV countries in the list of the twenty largest recipients of Korea's ODA, with Vietnam, Cambodia, Indonesia and Laos ranking 2nd, 5th, 6th and 11th, respectively. However, as we have observed in the previous section, the absolute amount and many relative indicators of Korea's ODA suggest a minimal impact on the economic and social development of the recipients.

Korea's development aids provided to CLMIV countries tend to be concentrated on four main fields of activities: development study, social and economic infrastructure projects, dispatching of volunteers, and training of industrial workers. In contrast, such aid activities as invitation of experts, dispatching of medical doctors, emergency relief, etc. have not been utilized extensively by Korea's development cooperation agencies. In the following pages, more country-specific features of current bilateral ODAs are described.

Table 7. Top 20 Korean ODA Recipient Countries (2010)

(Unit: 1,000 USD, %)

| Rank | Country | Amount | Percentage |
|----------------------------|------------------|---------------|------------|
| 1 | Afghanistan | 93,416 | 22.8 |
| 2 | Vietnam | 27,961 | 6.8 |
| 3 | Mongolia | 23,544 | 5.8 |
| 4 | Philippines | 17,870 | 4.4 |
| 5 | Cambodia | 15,324 | 3.7 |
| 6 | Indonesia | 15,268 | 3.7 |
| 7 | Iraq | 11,829 | 2.9 |
| 8 | Paraguay | 11,418 | 2.8 |
| 9 | Sri Lanka | 10,432 | 2.6 |
| 10 | Tanzania | 9,640 | 2.4 |
| Subtotal for Top 10 | - | 236,702 | 57.9 |
| 11 | Laos | 9,611 | 2.4 |
| 12 | Ethiopia | 9,551 | 2.3 |
| 13 | Uzbekistan | 9,486 | 2.3 |
| 14 | Bangladesh | 8,143 | 2.0 |
| 15 | Nepal | 7,312 | 1.8 |
| 16 | Palestine | 7,098 | 1.7 |
| 17 | Columbia | 6,233 | 1.5 |
| 18 | Rwanda | 6,103 | 1.5 |
| 19 | Peru | 5,743 | 1.4 |
| 20 | Pakistan | 5,560 | 1.4 |
| Subtotal for Top 20 | - | 311,542 | 76.2 |

Source: Recompiled from KOICA database.

3.2 Country-specific Features

(1) Cambodia

Cambodia has become one of Korea's focus countries in recent years. Over the last ten years, the ODA provided to Cambodia increased approximately fourteen

times, reaching USD 15.3 million in 2010. The total bilateral aids to Cambodia during the period of 2001-2010 stood at USD 64.5 million. (See Table 8)

ODA for Cambodia were distributed among three core areas of development cooperation: development study (12% of total ODA allocated during 2001-2010), social and economic infrastructure projects (48%), and dispatching volunteers

Table 8. Korea's Bilateral ODA to Cambodia (2001-2010)

| Projects | Unit | 2001-2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|------------------------|----------|-----------|----------|----------|-----------|----------|-----------|-----------|
| Total Amount | 1000 USD | 14,315.80 | 6,328.39 | 8,690.38 | 13,113.78 | 6,762.12 | 15,324.36 | 64,534.84 |
| Invitation of Trainees | 1000 USD | 2,405.72 | 619.37 | 854.07 | 1,183.08 | 767.10 | 971.04 | 6,800.38 |
| | Number | 576 | 113 | 120 | 170 | 140 | 172 | 1,291 |
| Invitation of Experts | 1000 USD | 280.11 | 97.80 | 0 | 0 | 0 | 149.06 | 526.98 |
| | Number | 10(10) | 2(2) | 0 | 0 | 0 | 4(4) | 16(16) |
| Medical Doctors | 1000 USD | 578.95 | 81.31 | 137.26 | 68.16 | 0 | 0 | 865.68 |
| | Number | 5(1) | 1(0) | 1(0) | 1(0) | 0(0) | 0(0) | 8(1) |
| Taekwondo Teachers | 1000 USD | 350.80 | 74.91 | 96.93 | 84.28 | 0 | 0 | 606.92 |
| | Number | 5(0) | 1(0) | 1(0) | 1(0) | 0(0) | 0(0) | 8(0) |
| Volunteers | 1000 USD | 2,310.93 | 1,825.25 | 2,081.28 | 2,252.26 | 2,202.82 | 3,072.99 | 13,745.57 |
| | Number | 130 | 119 | 100 | 118 | 126 | 149 | 742 |
| Development Study | 1000 USD | 3,244.08 | 1,196.67 | 1,901.11 | 1,153.04 | 10.07 | 225.20 | 7,730.18 |
| | Number | 11(5) | 3(1) | 3(2) | 2(0) | 1(0) | 1(1) | 21(9) |
| Materials, Facilities | 1000 USD | 377.83 | 0 | 0 | 0 | 0 | 0 | 377.83 |
| | Number | 8(8) | 0(0) | 0(0) | 0(0) | 0(0) | 0(0) | 8(8) |
| Projects | 1000 USD | 4,648.63 | 2,230.53 | 2,542.79 | 7,775.56 | 3,335.91 | 10,359.73 | 30,893.16 |
| | Number | 7(4) | 3(1) | 6(5) | 7(1) | 6(3) | 8(6) | 37(20) |
| Assistance to NGOs | 1000 USD | 118.74 | 202.52 | 335.15 | 597.39 | 330.14 | 546.34 | 2,130.28 |
| | Number | 3(3) | 3(3) | 5(5) | 10(10) | 5(5) | 6(6) | 32(32) |

Source: Recompiled from KOICA database.

(12%). During the reported ten years, a total of 1,291 industrial workers have been invited to Korea and trained, and 742 volunteers have been sent to assist the country to cope with the basic needs and develop industrial and other capacities. It is interesting to note the rapid increase in the number of volunteers to Cambodia over the years.

Since the accession of Cambodia to the WTO, KOICA launched another USD one-million project, which is focused on the country's capacity building in the area of trade policy. The Korea Institute for International Economic Policy (KIEP) has been commissioned this project, which was run until the beginning of 2006.

(2) Laos

Laos is ranked 11th in the list of the Top 20 largest recipients of Korea's ODA, with a share of 2.4 percent. Nevertheless, the rate of increase over the last five years has been remarkable with a 2,252 percent increase during 2001-2010, surpassing that of all other countries in the CLMIV group (See Table 9).

Korea's ODA to Laos is concentrated in social and economic infrastructure projects assuming more than fifty five percent of the total ODA amount provided during 2001-2010, followed by dispatching volunteers (29%) and training of industrial workers (11%). Over the reported ten-year period, a total of 878 industrial workers have been invited for training purposes, and 681 volunteers have been dispatched. The provision of materials and facilities occupies a large portion of Korean ODA, second only to Indonesia among the CLMIV countries.

(3) Myanmar

As is the case with Cambodia and Laos, Korea's ODA to Myanmar has increased substantially over the years, reflecting a stronger assistance effort by Korea towards East Asian developing countries in the 21st century (See Table 10).

Four main focus areas are the construction of economic and social infrastructure projects (32% of total ODA allocated during 2001-2010), the

dispatching of volunteers (20%), and the invitation of industrial workers for training purposes (17%) and the conduction of development studies (14%). Over the reported ten-year period, a total of 853 industrial workers have been invited for training and 288 volunteer workers have been dispatched to Myanmar, respectively.

Table 9. Korea's Bilateral ODA to Laos (2001-2010)

| Projects | Unit | 2001-2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|------------------------|----------|-----------|----------|----------|----------|----------|----------|-----------|
| Total Amount | 1000 USD | 9,625.26 | 4,242.53 | 7,066.88 | 8,461.79 | 7,642.12 | 9,610.54 | 46,649.13 |
| Invitation of Trainees | 1000 USD | 1,468.88 | 731.11 | 772.19 | 726.22 | 570.68 | 801.46 | 5,070.55 |
| | Number | 342 | 101 | 95 | 110 | 94 | 136 | 878 |
| Invitation of Experts | 1000 USD | 202.62 | 100.18 | 0 | 0 | 0 | 0 | 302.81 |
| | Number | 8(8) | 2(2) | 0(0) | 0(0) | 0(0) | 0(0) | 10(10) |
| Medical Doctors | 1000 USD | 58.15 | 0 | 0 | 0 | 0 | 0 | 58.15 |
| | Number | 1(0) | 0(0) | 0(0) | 0(0) | 0(0) | 0(0) | 1(0) |
| Volunteers | 1000 USD | 3,325.19 | 2,140.28 | 2,287.66 | 1,824.66 | 1,557.81 | 2,165.04 | 13,300.64 |
| | Number | 168 | 101 | 92 | 112 | 98 | 110 | 681 |
| Development Study | 1000 USD | 0.35 | 519.53 | 9.61 | 0 | 0 | 0 | 529.48 |
| | Number | 0(0) | 1(1) | 1(0) | 0(0) | 0(0) | 0(0) | 2(1) |
| Materials, Facilities | 1000 USD | 757.12 | 23.20 | 0 | 0 | 65.27 | 0 | 845.58 |
| | Number | 7(7) | 1(1) | 0(0) | 0(0) | 1(1) | 0(0) | 9(9) |
| Emergency Relief | 1000 USD | 10.20 | 0 | 0 | 35.74 | 115.81 | 0 | 161.75 |
| | Number | 1(1) | 0(0) | 0(0) | 1(1) | 1(1) | 0(0) | 3(3) |
| Projects | 1000 USD | 3,598.34 | 728.23 | 3,936.99 | 5,808.61 | 5,222.34 | 6,539.22 | 25,833.75 |
| | Number | 10(4) | 1(1) | 5(4) | 7(3) | 6(1) | 9(6) | 38(19) |
| Assistance to NGOs | 1000 USD | 204.41 | 0 | 60.44 | 66.56 | 110.21 | 104.82 | 546.42 |
| | Number | 5(5) | 0(0) | 1(1) | 1(1) | 2(2) | 1(1) | 10(10) |

Source: Recompiled from KOICA database.

Table 10. Korea's Bilateral ODA to Myanmar (2001-2010)

| Projects | Unit | 2001-2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|------------------------|----------|-----------|----------|----------|----------|----------|----------|-----------|
| Total Amount | 1000 USD | 9,138.46 | 2,794.24 | 1,602.75 | 6,125.88 | 3,484.27 | 4,097.26 | 27,242.85 |
| Invitation of Trainees | 1000 USD | 2,061.71 | 338.28 | 426.53 | 481.81 | 544.71 | 794.57 | 4647.60 |
| | Number | 445 | 54 | 73 | 81 | 95 | 105 | 853 |
| Invitation of Experts | 1000 USD | 196.62 | 0 | 0 | 0 | 0 | 0 | 196.62 |
| | Number | 8(8) | 0(0) | 0(0) | 0(0) | 0(0) | 0(0) | 8(8) |
| Medical Doctors | 1000 USD | 447.82 | 0 | 0 | 0 | 0 | 0 | 447.82 |
| | Number | 1(1) | 0(0) | 0(0) | 0(0) | 0(0) | 0(0) | 1(1) |
| Taekwondo Teachers | 1000 USD | 240.54 | 73.76 | 62.93 | 46.99 | 0 | 0 | 424.22 |
| | Number | 5(1) | 1(0) | 1(0) | 1(0) | 0(0) | 0(0) | 8(1) |
| Volunteers | 1000 USD | 2,309.81 | 903.23 | 581.51 | 326.98 | 544.58 | 800.27 | 5,466.39 |
| | Number | 138 | 52 | 27 | 22 | 22 | 27 | 288 |
| Development Study | 1000 USD | 2,172.90 | 1,441.94 | 115.15 | 70.74 | 0 | 0 | 3,800.74 |
| | Number | 11(4) | 3(1) | 1(0) | 1(0) | 0(0) | 0(0) | 16(5) |
| Materials, Facilities | 1000 USD | 193.23 | 0 | 0 | 0 | 0 | 0 | 193.23 |
| | Number | 5(5) | 0(0) | 0(0) | 0(0) | 0(0) | 0(0) | 5(5) |
| Projects | 1000 USD | 1,236.94 | 37.03 | 416.63 | 2,490.00 | 2,349.89 | 2,231.92 | 8,762.42 |
| | Number | 4(2) | 0(0) | 1(1) | 4(3) | 4(0) | 5(2) | 18(8) |
| Assistance to NGOs | 1000 USD | 177.23 | 0 | 0 | 57.88 | 45.09 | 270.49 | 550.69 |
| | Number | 5(5) | 0(0) | 0(0) | 1(1) | 2(2) | 3(3) | 11(11) |

Source: Recompiled from KOICA database.

(4) Indonesia

Indonesia has been the second largest recipient of Korea's ODA funds among the CLMIV countries, with the total ODA over the period of 2001-2010 amounting to USD ninety million (See Table 11).

The construction of economic and social infrastructure projects (51% of total

Table 11. Korea's Bilateral ODA to Indonesia (2001-2010)

| Projects | Unit | 2001-2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|------------------------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|
| Total Amount | 1000 USD | 23,171.76 | 17,605.01 | 11,722.84 | 9,474.96 | 13,258.59 | 15,267.57 | 90,545.73 |
| Invitation of Trainees | 1000 USD | 3,297.45 | 933.34 | 1,007.14 | 1,096.73 | 719.59 | 670.71 | 7,724.97 |
| | Number | 776 | 152 | 116 | 162 | 129 | 127 | 1,462 |
| Invitation of Experts | 1000 USD | 414.94 | 35.23 | 91.53 | 0 | 0 | 56.61 | 598.31 |
| | Number | 12(8) | 1(1) | 3(3) | 0(0) | 0(0) | 2(2) | 18(14) |
| Taekwondo Teachers | 1000 USD | 388.85 | 77.05 | 88.62 | 77.30 | 0 | 0 | 631.82 |
| | Number | 5(0) | 1(0) | 1(0) | 1(0) | 0(0) | 0(0) | 8(0) |
| Volunteers | 1000 USD | 5,457.15 | 2,098.92 | 2,551.42 | 2,229.16 | 2,209.08 | 2,948.51 | 17,494.23 |
| | Number | 328 | 128 | 128 | 145 | 119 | 144 | 992 |
| Development Study | 1000 USD | 2,281.44 | 709.75 | 634.85 | 1,098.01 | 1,154.90 | 1,271.99 | 7,150.93 |
| | Number | 10(4) | 3(1) | 2(1) | 1(0) | 2(1) | 2(1) | 20(8) |
| Materials, Facilities | 1000 USD | 2,825.04 | 651.04 | 1,996.71 | 0 | 0 | 0 | 5,472.78 |
| | Number | 3(3) | 2(2) | 1(1) | 0(0) | 0(0) | 0(0) | 6(6) |
| Emergency Relief | 1000 USD | 1,451.61 | 1,926.82 | 0 | 0 | 279.31 | 0 | 3,693.74 |
| | Number | 7(7) | 4(4) | 0(0) | 0(0) | 1(1) | 0(0) | 12(12) |
| Projects | 1000 USD | 6,637.76 | 10,790.01 | 5,319.61 | 4,782.87 | 8,829.46 | 9,627.85 | 45,987.56 |
| | Number | 16(7) | 5(2) | 8(3) | 7(3) | 9(4) | 10(4) | 55(23) |
| Assistance to NGOs | 1000 USD | 417.52 | 391.86 | 32.97 | 190.90 | 66.24 | 691.9 | 1,791.38 |
| | Number | 6(6) | 1(1) | 1(1) | 4(4) | 2(2) | 5(5) | 19(19) |

Source: Recompiled from KOICA database.

ODA allocated during 2001-2010), supporting volunteer activities (19%), and training of industrial workers (9%) constituted three focus areas of Korea's ODA to Indonesia over the reported period. Over the reported ten-year period, a total of 1,462 industrial workers have been invited for training, and 992 volunteer workers have been dispatched to Indonesia, respectively. Indonesia has received significantly more in emergency relief funds during this ten-year period than the other CLMIV countries (in the amount of USD 3.7 million). It has also received the most in provision of materials and facilities by far (in the amount of USD 5.5 million) among the five CLMIV countries.

(5) Vietnam

Vietnam has been the largest recipient of Korea's ODA funds among the five CLMIV countries, with the total ODA over the period of 2001-2010 amounting to USD one hundred eight million (See Table 12).

The construction of economic and social infrastructure projects (63% of total ODA allocated during 2001-2010), supporting volunteer activities (18%), and training of industrial workers (9%) constituted three focus area of Korea's ODA to Vietnam over the reported period. In addition, a number of development studies (6.5%) have been conducted through this channel of bilateral development assistance, as well. A total of 1,857 industrial workers have been invited for training, and 1,005 volunteer workers have been dispatched to Vietnam, respectively, over this period. The number of assistance to NGOs (48) is the highest among the CLMIV countries, with the highest total value of assistance to NGOs (in the amount of USD 2.3 million) among the five CLMIV countries.

Table 12. Korea's Bilateral ODA to Vietnam (2001-2010)

| Projects | Unit | 2001-2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|------------------------|----------|-----------|----------|-----------|----------|-----------|-----------|------------|
| Total Amount | 1000 USD | 32,113.10 | 7,873.33 | 11,902.76 | 9,964.27 | 18,269.11 | 27,961.21 | 108,083.79 |
| Invitation of Trainees | 1000 USD | 3,779.59 | 1,144.99 | 1,114.35 | 1,508.23 | 1,254.01 | 1,006.36 | 9,807.54 |
| | Number | 946 | 166 | 168 | 214 | 186 | 177 | 1,857 |
| Invitation of Experts | 1000 USD | 232.73 | 69.4 | 171.43 | 74.21 | 67.23 | 50.37 | 655.37 |
| | Number | 14(13) | 11(11) | 2(2) | 1(1) | 1(0) | 2(2) | 31(29) |
| Medical Doctors | 1000 USD | 177.39 | 96.57 | 120.19 | 19.53 | 0 | 0 | 413.68 |
| | Number | 2(1) | 1(0) | 1(0) | 1(0) | 0(0) | 0(0) | 5(1) |
| Volunteers | 1000 USD | 5,349.15 | 2,596.90 | 2,999.28 | 2,712.47 | 2,476.05 | 3,078.71 | 19,212.56 |
| | Number | 302 | 150 | 132 | 158 | 127 | 136 | 1,005 |
| Development Study | 1000 USD | 1,763.42 | 826.2 | 691.21 | 943.6 | 1,118.67 | 1,663.51 | 7,006.6 |
| | Number | 9(3) | 3(1) | 3(1) | 2(0) | 3(2) | 2(0) | 10(7) |
| Materials, Facilities | 1000 USD | 152.02 | 44.23 | 0 | 0 | 0 | 0 | 196.25 |
| | Number | 3(3) | 1(1) | 0(0) | 0(0) | 0(0) | 0(0) | 4(4) |
| Emergency Relief | 1000 USD | 71.24 | 49.97 | 49.61 | 56.16 | 46.64 | 121.99 | 395.61 |
| | Number | 4(4) | 1(1) | 1(1) | 1(1) | 1(1) | 1(1) | 9(9) |
| Projects | 1000 USD | 19,853.35 | 2,856.41 | 6,492.97 | 4,198.71 | 12,768.53 | 21,643.34 | 67,813.32 |
| | Number | 25(11) | 4(2) | 8(5) | 7(1) | 8(3) | 11(5) | 63(27) |
| Assistance to NGOs | 1000 USD | 480.7 | 188.66 | 263.72 | 451.35 | 537.98 | 396.93 | 2,319.33 |
| | Number | 18(18) | 3(3) | 4(4) | 8(8) | 9(9) | 6(6) | 48(48) |

Source: Recompiled from KOICA database.

4. Evaluation and Policy Recommendations

This paper provided an overview of Korea's ODA policy, analyzed its main features in international comparison, especially with the DAC members of the OECD, and discussed briefly the main features of Korea's ODA directed to the CLMIV countries. Due to restrictions of data on ODA for individual countries, a more detailed analysis could not yet be provided. The discussion so far, however, reveals a number of policy tasks the Korean ODA policy has to tackle in a medium- and long-term perspective.

First, as Korea acceded to the DAC of OECD officially in 2010, it seems to be one of immediate policy challenges for Korea to use the expertise and know-how of DAC member countries as a reference when increasing the absolute ODA volume and upgrading its ODA policy. Eleven of twenty four members are proud of their DAC membership of longer than fifty years, and all members except Korea have joined the DAC by the end of 1990s.⁹⁾ With their experience as ODA donors of more than twenty years, they have a lot to share with Korea.

Second, Korea has to improve its ODA policy in a number of policy areas. Especially, such policy indicators as the per-capita ODA, the ratio of tied loans, the degree of grants (including grant elements) in the entire ODA volume are the areas where Korea needs substantive assistance from the DAC members.

Third, with the expectation that the two afore-mentioned measures will benefit the ASEAN member countries in general and the group of CLMIV countries in particular, Korea could strengthen its efforts to share the country's development experiences with these countries. Especially, Korea can increase such ODA elements as 'training of industrial workers', 'conduction of development studies', and 'invitation and training of experts', thereby contributing to the expansion of her counterparts' development and human resource capacities that are fundamental

9) OECD DAC was established in 1960 with 11 countries as founding members. Korea, which joined the DAC in 2010 is the 23rd member country. The European Commission is one of founding members of DAC, as well.

for their sustainable development.¹⁰⁾ This policy reorientation is expected to help the group of CLMIV countries more strongly than other developing nations, because they share with Korea a number of pre-conditions for successful development strategies. This fields indeed were found to be Korea's core competences in ODA activities.¹¹⁾

Fourth, though not directly related with ODA policy, a provision of preferential market access, via generalized system of preferences (GSP), for strategic products of CLMIV seems to be another desirable instrument to help them follow their respective industrialization strategies. Especially, such labor intensive products as textiles and apparel, standardized consumer electronics and footwear appear to be candidates for an effective GSP scheme.¹²⁾ Considering the allowed degree of discretion of importing countries, a GSP scheme, which is more comprehensive than that applied to other developing countries, can be assembled in a close collaboration with CLMIV countries.

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10) Some of these recommended activities are currently being conducted under the name of 'Knowledge Sharing Program (KSP).'

11) See, for instance, Jung (2010) and Committee on International Development Cooperation (2010).

12) See Park (2005).

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