

**CHALLENGES POSED BY THE DPRK
FOR THE ALLIANCE AND THE REGION**



**The Korea Economic Institute • 1201 F Street, NW, Suite 910 • Washington, DC 20004
Telephone (202) 464-1982 • Facsimile (202) 464-1987 • Web Address www.keia.org**

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EAST ASIAN REGIONALISM: MOVING FORWARD

SOUTH KOREA AND EAST ASIAN REGIONALISM: WHICH PATH AHEAD?

by *Chung Jin-young*

Nowadays East Asian countries are busy pursuing and negotiating regional trade agreements, particularly in the form of free-trade agreements (FTAs), with their trading partners within and without the region. Even a few years ago, East Asia was a region characterized by the absence of regional trade arrangements, in contrast with Europe and North America. However, the scene has been changing very rapidly in recent years. The East Asian financial crisis of 1997–98 was a catalyst for this movement. Many countries became victims of the regional financial turbulence. In fact, the region as a whole felt a serious threat to its economic security and had a sense of powerlessness in coping with the ongoing crisis. East Asian heads of the state met together for the first time in history, in the name of the ASEAN+3 Summit, in 1997. Since then the summit has been held regularly and has adopted many measures to preempt the reemergence of a similar crisis. In this sense, the financial crisis was a turning point in the history of regional cooperation in East Asia.

The FTA Game in East Asia

East Asian countries have different, and sometimes contradictory, interests beyond the common recognition that they need a certain arrangement for regional cooperation. For instance, each country has its own interest with regard to the specific nature of a regional arrangement: membership, type of arrangement, and length of the transition period. Every country wants to gain, not lose, from East Asian cooperation. As the process of economic cooperation evolves at both the bilateral and regional levels simultaneously,

countries compete to occupy favorable positions in the game. We can easily discern two stylized facts in this FTA game in East Asia.

First, competition among the key players in the game has been pushing the process forward by making each player make a bolder move not to fall behind. In particular, the rivalry between China and Japan for influence over the rest of East Asia has been a factor in intensifying the process. It was the Association of Southeast Asian Nations (ASEAN) that started the process of regional cooperation in East Asia. In the early 1990s, ASEAN countries agreed to build an ASEAN Free Trade Area (AFTA) to integrate their intraregional markets in the face of the enormous challenge from the rapid development of the Chinese economy. ASEAN economies were threatened by rising Chinese exporters and foreign investors diverting to China. In addition to building AFTA, ASEAN—especially two of its members, Singapore and Thailand—began to actively pursue preferential trade arrangements with its trading partners outside their region. ASEAN+3 (APT) was also an ASEAN invention and operated by ASEAN.

China adopted the idea of East Asian regionalism and pushed it forward by proposing an FTA with ASEAN at the Singapore ASEAN-China summit in November 2000.¹ Two years later, China and ASEAN announced a framework agreement for a bilateral FTA at the Phnom Penh ASEAN-China Summit. At Phnom Penh, China also proposed a China-Japan-Korea (CJK) FTA. Since the big three Northeast Asian countries account for approximately 90 percent of the total East Asian

1. ASEAN invites the three Northeast Asian countries when it has an annual summit. When the ASEAN countries plus the three Northeast Asian countries all meet together, it is called ASEAN+3. When ASEAN meets separately with each of the three, the meetings are called ASEAN-China, ASEAN-Japan, or ASEAN-Korea summits.

economy, East Asian economic cooperation cannot be complete without the participation of any of them.² Recently, China has proposed that South Korea begin official negotiation for a bilateral FTA.

China's turn to regionalism was initially a defensive move in itself.³ First of all, China did not have an explicit FTA policy before the ASEAN+3 meeting in 2000. China proposed an FTA to ASEAN at that meeting in order to get support from ASEAN for its admission to the World Trade Organization (WTO). The Chinese initiative for a CJK FTA is often seen as a response to the ongoing discussion of a bilateral FTA between Japan and Korea. However, the Chinese move has caused a direct repercussion on Japan.

On his January 2002 visit to Southeast Asia, Prime Minister Junichiro Koizumi of Japan proposed the establishment of an ASEAN-Japan FTA study group. In November 2002, many important events occurred that were related to Japan's FTA policy: Japan's Ministry of Foreign Affairs released a document entitled "Japan's FTA Strategy"; Japan proposed an economic partnership agreement, including an FTA with ASEAN, just one day after China and ASEAN signed their partnership agreement; and the Japan-Singapore FTA came into effect during 2002.⁴

In "Japan's FTA Strategy," the Japanese government stated five criteria with regard to the choice of Japan's FTA partners: (a) economic criteria, (b) geographic criteria, (c) political and diplomatic criteria, (d) feasibility criteria, and (e) time-related criteria. Based on these criteria, the Japanese government concluded that Korea and ASEAN are the two priority partners in Japan's FTA policy:

When Japan promotes FTAs, we must pay attention to securing political and economic stability within the larger context of the construction of a regional system. Priority should be given to concluding FTAs with countries and regions where, despite close economic relationships, relatively high trade barriers exist that pose obstacles to the expansion of Japan's economy. From this standpoint, East Asia is the region with the most promising counterparts for negotiations, and in light of the feasibility criteria and political and diplomatic criteria cited above, the Republic of Korea and ASEAN are the most likely partners for negotiations.⁵

South Korea has come to join the East Asian FTA game very late. It is true that Korea began to negotiate a bilateral FTA with Chile in 1999 and was conducting feasibility research with Japan for several years before the two countries officially started their negotiation in 2004. Moreover, Korea participated very actively in the ASEAN+3 process with an aim to promote regionwide economic cooperation. Nevertheless, Korea did little before it concluded an FTA with Chile in 2002 and ratified it in 2004.

The second fact in the East Asian FTA game is that numerous and competitive efforts for FTAs at the bilateral level have been accompanied by serious discussions of the establishment of a regionwide cooperative arrangement. The ASEAN+3 process has been a legitimate place in which to deliberate and discuss this issue. In fact, it has established two advisory groups—the East Asian Vision Group (EAVG) and the East Asian Study Group (EASG)—to study and pro-

2. When measured in terms of gross domestic product (GDP) at the current U.S. dollar price, Japan accounts for 61.7 percent, China 20.1 percent, and Korea 8.6 percent of the East Asian economy. However, in terms of purchasing power parity (PPP)-adjusted GDP, China accounts for 49.5 percent, Japan 27.5 percent, and Korea 6.6 percent. ASEAN as a whole accounts for 9.6 percent in terms of current GDP and 16.4 percent in terms of PPP GDP.

3. Wen Hai and Hongxia Li, "China's FTA Policy and Practice," in *Northeast Asian Economic Integration: Prospects for a Northeast Asian FTA*, ed. Yangseon Kim & Chang Jae Lee (Conference Proceedings 03-05, Korea Institute for International Economic Policy [KIEP], 2003); Inkyo Cheong, "FTA Policies of ASEAN and China and Prospects for a Bilateral FTA between ASEAN and China" (paper presented at KIEP international seminar, "Rising China and the East Asian Economy," Seoul, 19–20 January 2004).

4. Shujiro Urata, "Japan's Strategy toward Free Trade Agreements," in *Northeast Asian Economic Integration*, 102–4.

5. "Japan's FTA Strategy (Summary)" (Tokyo: Ministry of Foreign Affairs, October 2002), www.mofa.go.jp/policy/economy/fta/strategy0210.html.

pose its vision for East Asian cooperation. Based on the recommendations of these advisory groups, the ASEAN+3 summit at Vientiane in 2004 agreed “to establish an East Asian Summit” and “to set up an expert group to conduct a feasibility study on EAFTA” (an East Asian free-trade area).⁶

A well-known achievement of ASEAN+3 is the so-called Chiang Mai Initiative (CMI). Promulgated at the finance ministers’ meeting of ASEAN+3 countries in May 2000, the CMI has set up a regional monetary cooperative mechanism by expanding the existing ASEAN currency swap arrangement to incorporate the additional three countries. Although the swap agreement is limited in amount, it will be of help to those countries whose currencies are under speculative attack; they will be able to withdraw some foreign exchange in the face of impending currency crisis. Fred Bergsten once saw this as the sign of East Asian regionalism envisaged by Dr. Mahathir of Malaysia.

What is the future of East Asia as a consequence of the current rush to economic cooperative arrangements on both the bilateral and regional fronts? We can discern three different scenarios for the future of East Asia.

Three Scenarios for the Future of East Asia

Following are three likely scenarios for East Asia in the future.

East Asian FTA

The most challenging scenario is a regionwide East Asian FTA (EAFTA), as recommended by the two advisory groups of the ASEAN+3—EAVG and EASG. It can be said that this ideal has been the goal of the ASEAN+3 process since its summit meeting in Manila in November 1999, when a joint statement on East Asian cooperation was issued. As mentioned above, the Vientiane summit in 2004 endorsed a fea-

sibility study of EAFTA. The East Asian summit, which is scheduled to be held in December 2005 in Malaysia for the first time, will contribute a step further toward the realization of this vision.

However, there are many well-known obstacles on the road to EAFTA. They include, importantly, the rivalry between China and Japan, the existence of great disparities in levels of development and in political systems, the lack of East Asian identity, and the potential opposition of the United States. Therefore, there have always been contrasting—optimistic and pessimistic—views on the future of East Asian regionalism. Let me simply introduce what two leading U.S. scholars say about this.

Fred Bergsten at the Institute for International Economics represents an optimistic view:

Virtually unnoticed by the rest of the world, East Asian countries are getting together to make their own economic arrangements. As a result, for the first time in history, the world is becoming a three-bloc configuration. Not only global economic relationships, but political ones too, will turn on the direction these new arrangements take—and on how the United States, and others outside the region, decide to respond to them.⁷

To the contrary, Edward J. Lincoln at the Council on Foreign Relations assesses that “Neither the moves toward regional free trade nor the discussion of currency cooperation is likely to produce anything akin to the European Union or even to the North American Free Trade Agreement (NAFTA)” in East Asia. According to Lincoln, “a variety of constraints will continue to impede the tightening of economic regionalism in East Asia over the next five to ten years.” Therefore, he advises that the U.S. government “not adopt a strongly negative public stance toward the various discussions ongoing in Asia since they are unlikely to proceed very far.”⁸

6. “Strengthening ASEAN+3 Cooperation,” Chairman’s Statement of the 8th ASEAN+3 Summit, Vientiane, 29 November 2004, www.aseansec.org/16848.htm.

7. Fred Bergsten, “Towards a Tripartite World,” *Economist*, 13 July 2000.

8. Edward J. Lincoln, *East Asian Economic Regionalism* (New York: Council on Foreign Relations, and Washington D.C.: Brookings Institution Press, 2004), 5–6.

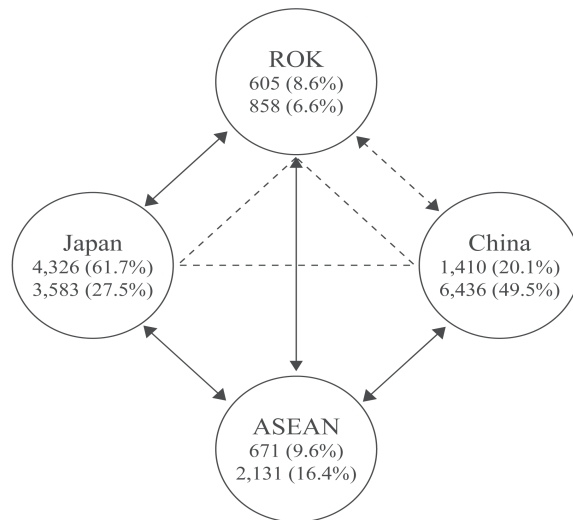
Leaving aside the many and serious constraints to East Asian regionalism, there can be two probable ways of achieving the goal of EAFTA. One is through the decision at the ASEAN+3 or East Asian summit to adopt the recommendation of advisory groups. The other is a two-stage approach: First, three Northeast Asian countries conclude their own FTA, the Northeast Asian FTA (NEAFTA); second, NEAFTA and AFTA conclude an interregional FTA. Either way, however, the obstacles against EAFTA are great.

Web of Bilateral FTAs

The competition for FTAs among East Asian countries will produce a densely populated network of FTAs in the region. As long as the current trend continues, almost every country will have one or more FTAs with its neighbors. In particular, some active and major participants in the East Asian FTA game such as Singapore, Thailand, China, Japan, and Korea may have several FTAs within the region and several more outside the region. *Figure 1* provides a snapshot of regional bilateral FTAs. The solid lines indicate FTAs completed or under negotiation, while the dotted lines represent FTAs proposed or under study.⁹ ASEAN has concluded its FTA with China and has been negotiating with Japan and Korea. A Korea-Japan FTA has been under official negotiation, while a Korea-China FTA and a CJK FTA have been under feasibility study. The only pair of countries that is still not making any effort for a trade agreement is China and Japan.

One may argue that the increase in the number of FTAs and the number of participating countries will give birth to a de facto East Asian FTA. It is true that as the regional bilateral FTAs increase, trade among regional countries becomes freer. However, this process has been known to have several important problems.¹⁰ They importantly include “spaghetti bowl effects, a hub-and-spoke dilemma, regional leadership struggle.”¹¹ The so-called spaghetti bowl effect oc-

Figure 1: FTA Partners among ASEAN+3



Source: Data and Statistics (Washington, D.C.: World Bank), www.worldbank.org/data/quickreference/quickref.html.

Key to figure:

— FTAs concluded or under official negotiation.

--- FTAs proposed or under study.

1st row of data: each country’s GDP in millions of U.S. dollars and its share (%) of total ASEAN+3 GDP.

2nd row of data: each country’s PPP GDP in millions of international dollars and its share of total ASEAN+3 PPP GDP.

cur when the same product is imported on different terms from different countries. The hub-and-spoke system occurs when one or two big countries become the hub of the network with several neighboring countries linked to it as subordinate partners. The regional leadership struggle occurs when major players compete to construct a regional order with their respective country at the center of the order.

Fortunately, these problems did not materialize yet in East Asia. In fact, there are still only a few regional bilateral FTAs concluded. It is certain that China and

9. Figure 1 does not provide information on the FTAs that ASEAN member countries have concluded or proposed individually. These include, importantly, Singapore-Japan and Singapore-Korea FTAs that have already been concluded, and Thailand-Japan and Thailand-Korea FTAs under study or under negotiation.

10. This is the reason why free-trade theorists often criticize FTAs as stumbling blocks of the multilateral trade order.

11. Cheong Inkyo, *East Asian Economic Integration: Recent Development of FTAs and Policy Implications* (Seoul: KIEP, 2002), 16.

Japan will compete for the leadership position. However, ASEAN and Korea will also try to make themselves a hub of an East Asian FTA network. In a certain sense, ASEAN and Korea have more room to maneuver in pursuing FTAs within the region. They may also be able to mediate and induce their two big neighbors toward an East Asian FTA.

Emergence of Two Rival Blocs

East Asia may well separate into two rival blocs, with China and Japan (together with the United States) leading each of them. This scenario is based on an assumption that the region's two big powers can hardly be in the same boat. They are not only very different from each other in many respects, but they still maintain a historical sense of mutual antipathy and rivalry. In fact, there is ample evidence showing that they have been engaged in a competitive game for influence over the rest of East Asia. The presence of the United States and its potential rivalry with China are also important factors, maybe determining factors, for the future of East Asia.

South Korea's Role in the East Asian FTA Game

The argument of this essay is that South Korea may have a great impact on the evolving future of the East Asian regional order because Korea is located at a very strategic position in the East Asian FTA game and has been willing to play an active role for East Asian regionalism. As the third-largest economy in East Asia—and the eleventh-largest in the world—the South Korean economy is almost the same size as the ASEAN economy as a whole in terms of current GDP. South Korea's per capita GDP and its level of development are also in between advanced Japan and developing China and ASEAN. South Korean democracy is very robust, while its cultural products have been very popular recently all over East Asia. Both China and Japan expect a mediating role from South Korea in handling matters related to Northeast Asian cooperation.

South Korea has been willing to play the roles of facilitator and mediator for East Asian cooperation. Considering South Korea's economic and strategic interests, it is very rational for South Korea to do that.

Economically, South Korea has a big and increasing interest in East Asia. We see in *Table 1* that East Asian countries are large trading partners of South Korea. China, especially, has been increasing its share in Korea's trade, replacing the United States as Korea's largest trading partner. Korean corporations are also active investors in China. In all, the South Korean economy has become increasingly more integrated into and entangled with the East Asian economy in general and the Chinese economy in particular.

South Korea also has important strategic interests in East Asia. From the Korean perspective, East Asian economic growth has been providing good opportunities for its economic expansion and advancement. South Korea wants to take advantage of them by playing active roles in the process of East Asian economic cooperation. In fact, South Korea wants to be an economic hub of East Asia. Many Koreans believe that their country's fate hinges on its role in the East Asian integration process.

Table 1: South Korea's Major Trading Partners

Trading Partners	Exports		Imports	
	Volume (\$, millions)	Share (%)	Volume (\$, millions)	Share (%)
2000				
China and HK	28,263	16.4	13,990	8.7
Japan	20,466	11.8	31,828	19.8
ASEAN	19,728	11.4	17,650	10.9
NAFTA	42,429	24.6	31,727	19.7
EU	24,678	14.3	16,165	10.0
Other	36,704	21.5	49,121	30.9
Total	172,268	100.0	160,481	100.0
2004				
China and HK	67,890	26.6	32,853	14.6
Japan	31,701	12.4	46,144	20.5
ASEAN	24,024	9.4	22,383	9.9
NAFTA	49,226	19.3	31,383	13.9
EU	37,830	14.7	24,187	10.7
Other	43,174	17.6	67,513	30.4
Total	253,845	100.0	224,463	100.0

Source: Major Trade Statistics (Seoul: Korea Customs Service), www.customs.go.kr.

Table 2: Current Status of South Korea's Regional Trade Agreements

Current stage	Partner	Comments
In effect	Chile	Negotiation began in November 1998
		Negotiation concluded in October 2002
		Effective since April 1, 2004
Negotiation concluded	Singapore	Joint study began in November 2002
		Announced conclusion in November 2004; to be effective in 2005
	EFTA	Joint study began in May 2004
		Negotiation concluded in July 2005
Official negotiation in progress	Japan	Joint study began in December 1998 Negotiation began in December 2003
	ASEAN	Negotiation began in February 2005 and will finish by the end of 2007
	Canada	Negotiation officially began in January 2005
Joint study initiatives or other	ASEAN+3 (EAFTA)	ASEAN+3 summit will be replaced by East Asian summit beginning in 2005
		Chiang Mai Initiative for currency swaps
		Vision for East Asian FTA proposed
	China + Japan (NEAFTA)	Three-nation summit continues since 1999 via ASEAN+3
		Joint study on economic effects of NEAFTA is ongoing
	China	Joint study began in March 2005
		China proposed to begin official negotiations
	United States	Periodic discussions on bilateral FTA and bilateral investment treaty since the late 1980s
		Working-level meeting in February 2005
	Mercosur	Agreed to begin joint study in November 2004
	Mexico 2004	Joint study began in October 2004
		To adopt the joint study report in August 2005
India 2005	Joint study began in January	
Thailand	Joint study began in 1999, completed in 2001	
New Zealand	Joint study began in 1999, completed in 2001	

Source: Compiled by the author with ROK government's FTA data (Seoul: FTA Center), www.fta.go.kr.

Table 2 provides an update of South Korea's efforts for regional trade agreements. As we can see here, its efforts are not limited to the East Asian region. This fact may have some negative impacts on the creation of an East Asian regional bloc. However, it is also true that the country has been pursuing East Asian regionalism with much concern and energy.

The North Korean factor is also an important consideration in South Korea's regional strategy. South Korea wants to induce North Korea to open up and reform its socialist economic system by way of providing economic incentives and arranging a favorable external environment. East Asian cooperation, especially Northeast Asian cooperation, has been considered a good tool for this strategic purpose.

South Korea's strategic position in East Asia and its interests in East Asian cooperation have pushed it to adopt more active regional policies in recent years. South Korea has actively participated in the ASEAN+3 process. It was South Korea that proposed the establishment of advisory groups for a joint study of the future of East Asia. It was also South Korea that proposed a feasibility study for a bilateral FTA with Japan. South Korea has always had a positive attitude toward the idea of building official cooperative arrangements among the big three in Northeast Asia. Since the conclusion of the Korea-Chile FTA, the South Korean government has become bolder and more assertive in pursuing its FTA policies with many countries around the world. The South Korea-Singapore FTA negotiation has been officially concluded, while the South Korea-ASEAN FTA negotiation has been going very fast. According to the South Korean government's FTA road map announced in August 2004, the country has a plan or intention to conclude FTAs with most of its major trading partners, including China, the United States, and the European Union. South Korea's changed attitude toward FTAs and East Asian cooperation will have a great impact on the evolution of the East Asian regional order.

Conclusion

What is going to be the future of East Asian economic regionalism? First of all, the momentum for closer regional cooperation has already taken off and can hardly be stopped or reversed. As long as the

Chinese and ASEAN economies continue to grow, East Asian economic integration will be deepened further. Japan and South Korea have been advantaged by the economic rise of East Asian developing countries.

Second, South Korea can play a key role in the future of East Asian regionalism. If it plays a facilitator and mediator role successfully, the first scenario above—an East Asian FTA—can be realized. If South Korea and ASEAN work together, the ASEAN+3 process or an East Asian summit will be activated and will function as an effective instrument for an East Asian FTA. However, if South Korea loses its momentum or appetite for regional cooperation, the East Asian project will lose steam and East Asia may follow the second scenario—a web of bilateral FTAs. China and Japan can hardly be seated together in an East Asian boat, and Northeast Asia and Southeast Asia can hardly be bridged. East Asia may have a great chance of being separated into two rival blocs.

The most probable scenario for East Asia for the time being is going to be the second scenario—a web of bilateral FTAs. China and Japan continue to compete for influence over the rest of East Asia, while South Korea and ASEAN try to overcome the force of China and Japan with their plans of becoming hubs of East Asian FTAs. However, East Asia will not fall apart because every major player is in need of the others. In short, East Asian countries have become too interdependent to reverse the ongoing integration process.

Dr. Chung is a professor of international political economy at the School of International Studies, Kyung Hee University. He is currently a Fulbright Research Scholar at the University of Maryland–College Park, where he is working on a historical and comparative study of ROK-U.S. trade frictions during the past half century.



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The Korea Economic Institute
1201 F Street, NW, Suite 910
Washington, D.C. 20004

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