

1 Introduction

The relationship between politics and economics is one of the oldest issues studied in both political science and economics. It has been widely examined and the general conclusion is that they have a significant impact on each other. For instance, the modernization perspective maintains that economic development usually leads to the transition to democracy, although people will also tolerate authoritarian governments in exchange for economic prosperity. At the same time, the types of government/regime have different implications for economic growth. Some scholars argue that democracy may be beneficial for economic growth thanks to its political stability and protection of individual property rights, which in turn enhance private investment. Others contend that democracy is potentially harmful because of the likely activity of interest groups who prioritize their parochial interests ahead of the national interest. In addition politics influences the economy through resource allocation, including tax policies, defense budgets, social welfare programs, and stock market performance. Economic performance also affects voting behavior, elections, and foreign policy. In fact, economic behavior, such as increased trade and foreign direct investment, is believed to be able to reduce the possibility of international conflict. Thus, the intertwined relationship between politics and economics is well established in the literature.

However, previous studies on the politics–economics nexus have focused on the relationship between economic development and democratization, the defense–growth connection, the link between regime types and economic performance, and the association between the economy and voting behavior. As a result, there is a void in the literature when it comes to the question of how economic development affects a country's foreign relations, with the exception of studies on the relationship between trade and interstate conflict. Economic development can influence a country's foreign policy behavior in a number of ways because as a nation develops its economy, changes in domestic politics occur and citizens expect more from the government.

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Excerpt

[More information](#)

2 Introduction

South Korea is a great example of this relationship because its economic development has led to important changes in its foreign relations. For instance, South Korea's per capita Gross National Product (GNP) in the 1950s was less than \$100. At that time, South Korea's international trade was minimal and its foreign relations were limited. As its economy grew in the next four decades, however, Seoul became an economic power too large to ignore. South Korea normalized its relationship with the Soviet Union/Russia, a former adversary during the Cold War, much to the chagrin of the North, and provided economic aid to Moscow as it struggled to make the transition to a market economy. Nor could China ignore South Korea's economic importance, seeking closer ties with Seoul despite its history of fighting in the Korean War.

Key bilateral relations, such as inter-Korean relations and the ROK–US alliance, have also changed as a result of economic development, with South Korea exerting greater influence in these relationships. With economic prosperity, South Korea possessed the resources to provide North Korea with significant amounts of economic aid, something it had been unable to do in the 1950s and 1960s. With North Korea's desperate need for food, South Korea was able to approach the North differently from before. This change in South Korea's approach to the North had mixed results. North Korea enjoyed the aid, but at the same time became worried about being annexed by the South. South Korea–US relations are changing too, and evolving into more of a partnership, driven in part by South Korea's growing economic, political, and military strength. In the past, the relationship between the two countries was characterized as a patron–client relationship. However, it is changing to a strategic partnership as South Korea's economic power grows.

The role of South Korea in international organizations has significantly increased, and Seoul is actively expanding its activities in the international economic arena, including free trade agreements with other nations. For instance, South Korea joined the Organisation for Economic Co-operation and Development (OECD) in 1996, became a member of the OECD Development Assistance Committee (DAC) in 2010, served as a rotating member of the United Nations Security Council (UNSC) in 1996–97 and 2013–14, and signed a free trade agreement (FTA) with the United States in 2007 which was ratified by both countries in 2011. South Korea also signed a FTA with the European Union (EU) in 2009, which became effective in July 2011. FTAs with Chile and Peru have been in force since April 1, 2004 and July 6, 2011 respectively, and a bilateral agreement between the Association of Southeast Asian Nations (ASEAN) and South Korea, the ASEAN–KOREA Free Trade Area (AKFTA), has been in effect since January 1, 2010. Seoul is

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currently negotiating a FTA with China, and South Korean businesses are looking for opportunities to invest in Africa, Latin America, the Middle East, and Southeast Asia. South Korea hosted the G20 meeting in November 2010 and the Nuclear Security Summit in 2012.

South Korea's economic development and its changed global status are well described in President Lee Myung-bak's 2010 radio address. He said, "The world can be split into two groups. One group sets global rules, the other follows," and South Korea had "successfully transformed itself from a passive follower into an active agenda-setter."¹ In other words, South Korea's interests, influence, and involvement have been expanding well beyond its immediate vicinity of Northeast Asia.

In this book we develop a theory on how economic development affects foreign relations, linking the literature on democratization, economic development, constructivism, and foreign policy and then apply the theory to domestic politics in South Korea to show how these domestic factors have influenced ROK foreign policy as its economy has developed. Particularly, we explore how South Korea's economic development has affected its foreign policy in three key areas: security relations; economic and political ties with some of the world's largest economic players; and the broadening of South Korean interests and involvement in the global community beyond Northeast Asia. We analyze how South Korean economic success has led to political development, has made it a sought-after political and economic partner, and has changed its relations with North Korea, the United States, Japan, China, Russia, the European Union, India, multilateral institutions, and the developing world.

Plan of the book

In Chapter 2 we develop a general theory on how economic development may lead to foreign policy change through a number of channels. First, economic development often leads to the transition to democracy, which results in elite change. New elites may not share their predecessors' assessments of national interests or policy preferences. Economic development also provides more resources and policy options. Citizens of a nation that achieves economic development may expect the government to play a greater role in international affairs because of higher national pride.

In Chapter 3, we talk about inter-Korean relations. South Korea's economic rise has played an important role in its relations with the North. For a number of years after Korea was divided in 1945, North Korean

¹ Christian Oliver and David Pilling, "Into Position," *Financial Times*, March 17, 2010.

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Excerpt

[More information](#)

4 Introduction

economic growth surpassed that of the South, making Seoul increasingly vulnerable to an emboldened Pyongyang and dependent on the United States. One of the chief reasons for South Korean President Park Chung-hee's overhaul of the economy in the 1960s was to improve South Korea's security situation by increasing its strength vis-à-vis North Korea and reducing its dependency on Washington. Over time, a thriving South Korean economy generated the resources to shift the military balance in its favor and to pursue an active agenda of economic and political engagement with the North. As South Korean confidence grew, its willingness to reach out to the North increased. Trade between the two Koreas rose significantly, and the cash flow from two important North–South projects, the Kaesong Industrial Park and the Kumgang Mountain tourism venture, have become important sources of income for the North Korean economy. Despite the increased economic exchanges, North Korea's nuclear program continues to be a hurdle for moving the inter-Korean relationship forward. Thus, this chapter will assess the significant impact South Korean economic prosperity has had on its relations with North Korea.

In Chapter 4 we discuss how South Korea's economic success changed the US–South Korea relationship. South Korea's alliance with the United States is a key bilateral affiliation that began as a patron–client relationship. Washington provided a security guarantee and large amounts of economic aid as part of an arrangement to halt the spread of communism. In those early days, South Korea was poor and contributed little to the relationship. President Eisenhower once opined that Washington had a mendicant on its hands. However, beginning in the 1960s, South Korea began its economic takeoff and this security relationship began to change. Seoul's development made it more valuable to Washington and helped it contribute more to the relationship. South Korea's growing military capability allowed it to send troops to Vietnam in the 1960s and the first Gulf War in 1990–91 along with more recent operations in Iraq and Afghanistan. South Korea has also begun building a blue-water naval capability that allows the ROK Navy to participate in multinational operations such as anti-piracy operations off the coast of Somalia and disaster relief operations in Asia. South Korea's development generated increased confidence and capability, creating forces within South Korea that called for reshaping the alliance and increased independence in its foreign policy.

In Chapters 5 through 8 we examine the role economic development played in South Korea's evolving relations with some of the world's chief political and economic powerhouses. South Korean economic power and the end of the Cold War opened the door for Seoul to pursue a

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Excerpt

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relationship with China and Russia. Despite past historical animosity and their relationship with North Korea, both China and Russia normalized relations with South Korea to take advantage of the trade and investment opportunities present in the South. South Korea's economic development also enhanced its ties with other major economies, such as Japan, the EU, and India. South Korea's relations with each of these have different dynamics and explain different aspects of Seoul's changing stature in international relations. Together, these chapters demonstrate how South Korea's economic growth and trade-oriented economy attracted attention because an enhanced relationship with Seoul was mutually beneficial, and in turn, enhanced South Korea's power and influence in the international community.

In Chapter 5, we analyze South Korea's changed relationship with China and Russia. For years, China and the Soviet Union were South Korea's Cold War adversaries and the patrons of Seoul's chief rival in the North. When the Cold War ended, South Korea's economy, which had risen to the top fifteen globally, provided an opportunity to change these relationships that had been hostile for many years. Both Beijing and Moscow took advantage of the opportunity and improved the relationship with Seoul, even at the expense of their ties with Pyongyang. In 1990 and 1992 respectively, Russia and China established normal relations with South Korea, and increased trade and foreign direct investment and improved political ties followed. In 1991 South Korea provided \$1.5 billion in loans to the Soviet Union. Russia, as part of the loan repayment, provided weapons systems to South Korea. These arms transactions between two former adversaries are unique because the motives of an arms deal – commercial benefits, ideological solidarity, and geopolitical considerations – were lacking in this relationship. These transactions were possible because South Korea's economic prosperity allowed it to provide economic aid to Russia, which wanted to expand its ties. Later, trade between the two countries increased annually and reached \$22.5 billion in 2012.

ROK relations with China have also improved since 1992. Bilateral trade and South Korean investment flows to China skyrocketed, and in 2003 China became South Korea's largest trade partner. The two countries are considering a free trade agreement to further expand their relationship. Considering that both China and Russia were adversaries posing a serious security threat to South Korea, the change in relations between these countries and South Korea is impressive. South Korea's economic development made it attractive for both China and Russia to pursue a relationship with Seoul, knowing it would damage their relations with the North.

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Excerpt

[More information](#)

6 Introduction

Chapter 6 discusses South Korea–Japan relations. South Korea and Japan normalized relations in 1965 during the early years of the ROK economic takeoff. Yet, the relationship has remained delicate due to the legacies of history, particularly the Japanese occupation of Korea from 1910 to 1945, the Dokdo island dispute, and descriptions of Japanese colonial rule in Japanese textbooks. As South Korea's economic and political power has grown, it has created important opportunities for ROK–Japan relations that remain underdeveloped. Moreover, as alliance partners with the United States, there is tremendous potential for tri-lateral economic, political, and security cooperation. Yet South Korea's relationship with Japan has two faces: cooperation and competition. As South Korea's economy develops, South Korean products, such as automobiles, mobile phones, and electronic goods, have started competing with Japan's in international markets.

Chapter 7 describes how South Korea's economic development has increased its economic ties with the EU. The EU is South Korea's third largest export destination after China and the United States, and receives approximately 15 percent of South Korea's exports. The relationship between them is based largely on the Framework Agreement for Trade and Cooperation signed in 1996. To expand their trade ties, South Korea and the EU have negotiated two complementary agreements. First, in October 2009, they concluded a free trade agreement (FTA), which became effective in July 2011. Second, to broaden cooperation between them, they have discussed upgrading the Framework Agreement to include cooperation on science and technology, education, social policy, the environment, and development assistance. At a summit meeting held on May 23, 2009, South Korean and EU leaders expressed their wishes to upgrade the relationship to a strategic partnership, and to this end they signed the EU–South Korea Framework Agreement in October 2010. Yet, as with Japan, ROK–EU relations have elements of cooperation and competition. South Korean economic growth is an opportunity and a threat for the EU, creating a delicate relationship for both. This chapter will examine South Korea's relationship with one of the world's largest economic entities and most advanced multilateral political organization.

In Chapter 8 we explore South Korea's relationship with India. South Korea's economic development has had a significant impact on its relations with other important states in Asia. Regarding India, the other rising power in the region, ROK economic and political ties with New Delhi have been growing over the past decade. India's economy, with over a billion potential consumers, continues to grow in power and influence,

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and South Korea's involvement in India positions it to be able to take advantage of future growth. Described as a "silent success" by the *Times of India*, India's largest newspaper, the relationship between South Korea and India has expanded beyond economics to include cooperation in science and information technology. Bilateral trade reached \$20 billion in 2011 and the two countries signed a Comprehensive Economic Partner Agreement (CEPA) in January 2010. For the United States, Japan, and Australia, good relations with India are often viewed as a potential balance to a rising China. Does South Korea view closer ties with India in the same way? How will this complicate Seoul's relations with Beijing? Thus, this relationship has important economic consequences and may have security implications as well.

In the rest of the book, we investigate South Korea's increased role in world politics and international organizations. Throughout much of its history, South Korea's attention has been focused on matters in its immediate neighborhood. Its economic and political destiny was determined largely by what occurred in Northeast Asia. Economic growth has expanded South Korea's attention. The two chapters in this section show how South Korea's foreign policy has broadened to a wider set of global interests, and greater levels of involvement in other regions; it is no longer solely a Northeast Asian country. South Korea actively pursues relationships with many countries all over the world and has begun to play a significant role in several international organizations. Moreover, South Korean economic growth has expanded ROK foreign policy tools such as foreign aid, diplomacy, and military assets for more international cooperation. Thus, South Korea has not only deepened its ties with the world's major players but also sought to broaden its interests and involvement around the world. In this section, we will describe how economic development in South Korea transformed a small state in Northeast Asia to a global player.

In Chapter 9 we focus on South Korea's increased political and economic exchanges with the developing world, including Africa, Latin America, the Middle East, and Southeast Asia. Prior to South Korea's economic rise, it had few interests in and little concern for the affairs of these areas. As the ROK economy grew, Seoul's interests and economic involvement in these regions expanded as well. Numerous South Korean companies see the developing world as investment opportunities and markets for their goods. For example, in 2003 South Korea concluded a FTA with Chile providing an entry into Latin American markets. Recently South Korea beat US, French, and Japanese competitors to win a contract to build a nuclear power generator for the United

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Excerpt

[More information](#)

8 Introduction

Arab Emirates. A similar deal with Turkey is also under consideration. ROK foreign investment has risen sharply, as has its interest in acquiring raw materials, particularly oil and natural gas, from these regions. Finally, Southeast Asia is another region of Asia that is becoming stronger politically and economically, with South Korean ties to the region growing dramatically. South Korea's membership of the ASEAN Regional Forum (ARF) also ties Seoul more closely to regional security issues that arose as a result of South Korea's economic heft.

South Korea's economic power has created opportunities in Africa, Latin America, the Middle East, and Southeast Asia but ROK companies confront many of the same challenges facing other outside investors. South Korea was once considered a member of the developing world but its economic prowess has created different relationships with these regions. South Korea's growing ties with these players beyond its traditional focus in Northeast Asia point to a broadening of interests and influence in other areas of the world. Many argue that economic development is good for regional and state stability. These new economic players such as South Korea also become forces for contributing to global peace and stability elsewhere, another important effect of South Korea's economic development.

Chapter 10 discusses South Korea's increased involvement and influence in multilateral institutions, another sign of the increasing breadth of ROK interests. South Korean economic growth has generated a sense of responsibility among leaders and the public to play a larger role in addressing global challenges. The South Korean government is involved extensively in numerous multilateral organizations and is determined to be a leader in UN Peacekeeping Operations (PKO). For instance, South Korea currently has over 600 soldiers working for UN PKOs, but the Seoul government intends to increase that number to more than 1,000 and dispatch these troops to Africa as part of UN peacekeeping missions. South Korea also became a member of the OECD's Development Assistance Committee (DAC) in 2009 to help less developed countries reduce poverty and to assist with development activities. The story of South Korea transforming itself from an aid recipient to a donor shows how economic success can lead to increased international involvement and influence in international organizations. South Koreans are also very proud that the current UN Secretary-General, Ban Ki-moon, is a former South Korean foreign affairs minister.

Finally, in Chapter 11, we summarize and assess the major findings of our study on the role of economic development on foreign policy change in South Korea. We will also draw theoretical implications as well as policy lessons for other countries that are experiencing similar

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Excerpt
[More information](#)

Plan of the book 9

rapid economic development and foreign policy change. This book will not only make a theoretical contribution to the literature on the impact of economic development on foreign policy, but it will also provide a useful explanation of South Korea's foreign policy change and growing involvement in international affairs.

2 Economic development, state power, and foreign policy

In this book we seek to develop a theory that explains how economic development affects a state's power and foreign policy in international relations. We begin here by laying out that theory with a description of the potential changes that come to foreign policy as states develop their economies. Next, this chapter places the theory in the context of previous literature on economic development, political modernization, democratization, and foreign policy. While we use South Korea as a case study to examine the theoretical implications of the nexus between economic development and foreign policy change, this study is also applicable to other rising economic powers.

A theory of economic development and foreign policy change

Economic development can influence a country's foreign policy behavior in a number of ways because as a nation develops its economy, changes in domestic politics occur and citizens expect more from the government. Economic development often leads to the transition to democracy, which occurs through a number of channels, including better education, industrialization, and a growing middle class. Democratization brings in elite changes. The new elites may interpret national interests differently, and make policy changes, such as shifting the focus in foreign policy, and changing relations with other states may follow, reflecting the new assessment of national interests. Thus, the transformation of political elites and type of government often leads to changes in a country's foreign policy and international relations.

Economic development also attracts more trade and foreign investment, for two reasons. First, democratic systems that result from economic development provide the rule of law and furnish better protection of private property rights. Thus, foreign investors feel comfortable