

# EXTERNAL RELATIONS OF THE REPUBLIC OF KOREA: THE PRESENT AND THE PAST

Editors:

Csaba Moldicz  
Amadea Bata-Balog



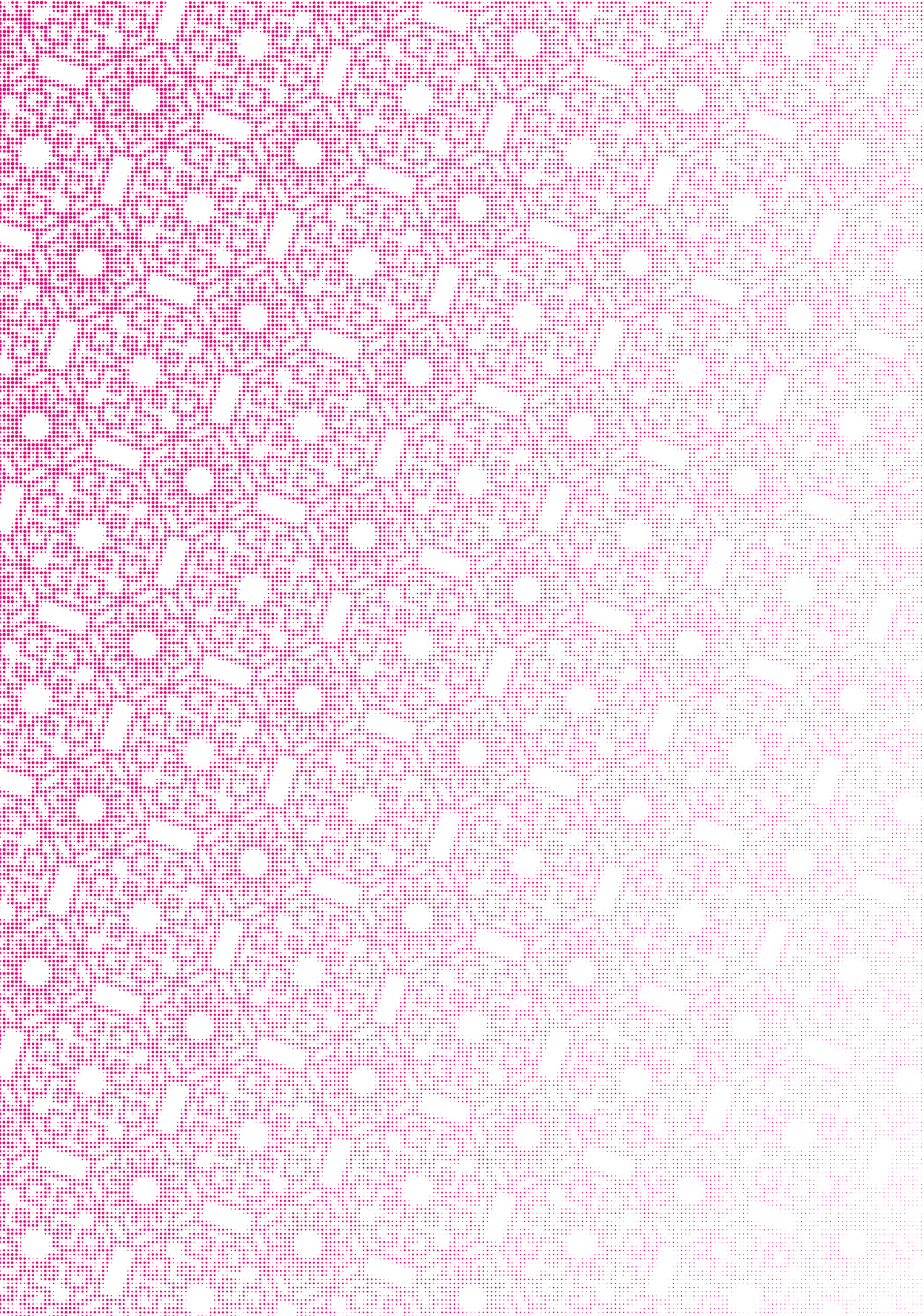
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The Present and the Past**

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Oriental Business  
and Innovation Center  
Budapest Business School



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## Contents

About the Authors	9
Foreword	11
Viktor Eszterhai	
The Decreasing Strategic Opportunities for South Korea in the Light of the Changing Geoeconomic Relationship with China	13
1. The Rise of China and the Area of Economic Competition in East Asia	13
2. The Theory of Geoeconomics and the Geoeconomic Toolkit of the Countries	16
3. China and the Grand Geoeconomics Strategy: Reality or Myth?	17
4. Hypothesis	18
5. Methodology	19
6. The Economic Relations between China and South Korea	20
7. Case Study: Tensions on THAAD	22
8. Discussion	24
References	26
János Vándor	
Gravitation and Indifference in East Asia: Korea-Taiwan Coexistence in the Age of Uncertainty	31
1. Foreword	31
2. The Two Country's Historical Past Compared	32
3. The Political Factors Affecting South Korea–Taiwan Relations	42
4. Economic and Trade Contacts	48
5. Conclusion: The Shy Partnership – Final Considerations	61
References	65

**Péter Klemensits**

<b>The Development Potential of the Philippines–South Korea Relations in Light of the Duterte Government's "Independent" Foreign Policy</b>	<b>73</b>
1. Introduction	73
2. The Philippines Foreign Policy	74
2.1. The Philippines in the International System	74
2.2. Key Elements of the "Independent" Foreign Policy	75
2.2.1. Opening to China Policy	75
2.2.2. The Transformation of the US–Philippines Alliance	76
2.3. Regional Partners	79
3. The Relations of the Philippines and South Korea	80
3.1. The Presence of Philippines in the Korean War	80
3.2. Political and Social Relations after the War	80
3.3. Two Different Models and Economic Imbalance	82
3.4. Tourism and Culture, Korean Wave in the Philippines	86
3.5. Strategic Partnership and Future Plans	87
4. Conclusion	89
References	91

**István Torzsa**

<b>The Normalization of Hungarian-South Korean Diplomatic Relations</b>	<b>95</b>
1. Introduction	95
2. The Establishment of Diplomatic Relations between Hungary and South Korea	96
2.1. The Normalization of Bilateral Relations	96
2.2. The Establishment of Hungarian–South Korean Chamber Representation	97
2.3. President Roh Tae-woo's 'Northern Policy'	99
2.4. The Seoul Olympic Games as a Catalyst of the Negotiation Process	105
3. Talks on the Establishment of Bilateral Political Ties	110
3.1. The Success of the Secret Talks	112
3.2. Establishment of Permanent Representations	112
3.3. Bilateral Ties on the Upswing	114
3.4. North Korea Reacts to the Establishment of Hungarian–South Korean Diplomatic Relations	115
3.5. The Effect of Hungarian-South Korean Diplomatic Relations on Bilateral Ties	116
References	121

György Iván Neszmélyi

<b>The Development of the Bilateral Relations between Hungary and the Republic of Korea</b>	<b>125</b>
1. Introduction	125
2. The Antecedents: Korea and Hungary before the Establishment of Diplomatic Relations	126
3. The Political Relations	128
3.1. The Partnership before the EU Membership of Hungary (2004)	129
3.2. Partnership after the EU Membership of Hungary	129
4. Trade and Investment Relations	132
5. Cultural, Education and S&T Relations	138
6. Relations in Civil Society	141
7. Conclusion	143
References	145





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## Foreword

The collected volume “External Relations of the Republic of Korea: The Present and The Past” emerged over the course of 2019 and 2020. The obvious occasion for the launch of this booklet was the anniversary of the 30 years diplomatic relations between the Republic of Korea and Hungary. The maybe less obvious reason for this volume is that Korea has grown into one of the most substantial investors in Hungary from the East Asian region. Moreover, when looking at the newest investment figures, the country was the most important investment partner of Hungary in 2019. Last year, around HUF 70 billion was invested by Korean firms in Hungary, thus increasing the aggregate stock of the Korean FDI to HUF 900 billion. These numbers clearly show how the significance of the Asian economic partners has intensified over the recent years, and also why it makes sense to put the economic cooperation with East Asian economies on the top of the Hungarian economic strategy agenda.

This collected volume is included in the OBIC Book Series, where seven books have been published until now. These collected books cover several topics ranging from economic development strategies to concentrated works focusing on a single country. This new edition attempts to touch upon some of the key problems and issues of Korea's economic and political network. Emphasis is put on Korea's relations with the neighboring countries and economies, while there are two papers that center on the development of the Hungarian economic and diplomatic relations with the Republic of Korea.

The authors whose research is presented in this volume are affiliated with the Budapest Business School, the Faculty of International Management and Business, or have been affiliated in some capacity to this faculty in the past, and or the researchers of the Pallas Athene Geopolitical Research Institute. We are truly thankful for the support provided by the Magyar Nemzeti Bank (MNB) and the Budapest Business School, without whose generosity and commitment to cooperation, this volume would not have been possible.

Editors of the book:

Csaba Moldicz, PhD

Amadea Bata-Balog, PhD candidate



# The Decreasing Strategic Opportunities for South Korea in the Light of the Changing Geoeconomic Relationship with China

Viktor Eszterhai

## 1. The Rise of China and the Area of Economic Competition in East Asia

Since the introduction of the "Reform and Opening Up" policy in 1978, and especially after the collapse of the Soviet Union, the foreign policy of the People's Republic of China (PRC) has been characterized by a strong adaptation process toward the United States-led world order. This order, which was often understood via the "uni-polar moment" (Krauthammer, 1990/91) of the US, with a superior global military, economic, political, and cultural influence China has introduced market reforms with the aim of reorganizing the structure of the economy and has joined several international organizations (e.g. the World Bank in 1980, the World Trade Organization in 2001). As a result of these important changes, China has become one of the world's most significant economic centers. Nevertheless, China's international political weight and activity has not been catching up with the country's growing global economic status. The cautious behavior dictated by the country's decade-long "low profile" type foreign policy was started by China's last paramount leader, Deng Xiaoping (Yan, 2014) in the 1980s. The modest, rule-following foreign policy of a rising power, however, was not necessarily the natural state of affairs. After the 2008-2009 financial crisis, the Chinese governments became more confident and assertive. Starting in around the early 2010s, China made extensive efforts in the South China Sea, by building artificial features to extend its influence. A more visible change was represented by Xi Jinping, the new President of the Communist Party of China. President Xi's speech at the World Economic Forum in January 2017 (Xi, 2017) laid down the country's new ambition: to become a leading rule-setting member of the international community. In this context, the Belt and Road Initiative, the flagship ambition of the Chinese foreign policy is often portrayed as a vehicle for developing China's economic statecraft and implementing its own conceptions of world order (Rolland, 2017; Zhang – Keith, 2017).

In the context of shifting global power, it is not irrelevant to investigate how other countries see the rising power of China. Reacting to the changing strategic environment after the financial crisis, the United States began to use a dual approach toward China: on the surface promoting cooperation, while at the same time making concrete steps

to contain the East Asian country. The latter clearly can be seen in the Obama administration's "Pivot to Asia" (2011) foreign policy concept or in the Trans-Pacific Partnership Agreement (TPP), the major aim of which was to create a deeply regulated economic zone in the Pacific region, excluding China (Zhao, 2012; Löffmann, 2016). Contrary to its predecessor, the Trump administration made it clear that the American government saw China mainly as an economic and strategic threat, and its further rise would not fit the American interests. In December 2017, the U.S. National Security Strategy labelled China as a "revisionist power", which is undermining the existing international order, and therefore is a "strategic competitor" for the US that uses "predatory economics" to intimidate its neighbors (United States – Trump, 2017). In 2018, Donald Trump imposed tariffs on steel and aluminium imported from China, which launched a trade war. In October 2018, Vice President Mike Pence made a speech that many have interpreted as a starting point of a new Cold War with China (Heydarian, 2020).

This geopolitical rivalry between the United States and China now has deep effects on the international system. The two leading powers have fallen into an economic competition, entering a new era characterized by geoeconomics, in which security and economics cannot be separated from each other (Roberts – Moraes – Ferguson, 2019). In the area of geoeconomics, the economic tools to achieve geopolitical results will have serious consequences for all parts of the world, but chiefly for East and Southeast Asia. This has multiple reasons. First, this region has become the most important economic region within the global economy. Second, China's deep economic ties with the region has put a pressure on the American security alliance system, since many countries are key security partners of the US. The security architecture, which was created after the Second World War by the US, is seen by China as a restraining ring around the country and a strategic necessity to challenge (Lukin, 2019; Wuthnow, 2019).

One of the countries which is often identified as an ideal target of Chinese geoeconomic practices is South Korea. Despite the fact that South Korea has become a middle power with strong global economic and cultural influence and a critical player in Northeast Asian security (O'Neil, 2015), great powers still play an extremely important role in the life of the country. In the Cold War era, South Korea became an integral part of the alliance system between the US and East and Southeast Asia and one of the firmest supporters of the American position within the region, as South Korea saw the US as the only guarantee for its survival.

However, China's rise has not left the South Korean–American relations intact. Diplomatic relations between South Korea and China were established only in 1992. In the following decades, economic ties have dramatically expanded, despite China's

historical alliance with North Korea. The enormous economic rise of China and especially the more open rivalry in East Asia between South Korea's traditional security partner, the US and the economically giant China, has put South Korea in a serious foreign policy dilemma. The South Korean elite generally prefer the "muddling through strategy", which refers to the goal of maximizing security benefits by keeping the alliance with the US, while minimizing economic uncertainty by promoting trade and investment ties with China (Moon – Boo, 2016). The strategic danger in this situation is that the two great powers could press Seoul to choose sides, and this situation will be extremely hard to avoid in the mid- and long term. Other strategic options, such as balancing or bandwagoning, are traditionally part of the small country's strategies, for example that of Korea (Waltz, 1979). However, this would come at the costs of giving up the country's economic interest, which is, in the light of China's growing economic presence, unlikely to be popular. Moreover, the balancing or bandwagoning strategies are also a matter of what the US's intention is. While the American government underlines the importance of the alliance, the Trump administration's withdrawal from the Trans-Pacific Partnership (TPP) or the request to increase funding for the hosting of U.S. troops unsettle South Korea, because it questions the American commitment to back the country.

It is also clear that there is another important external factor in this question, namely the inter-Korean relations. North Korea, the only official ally of China is providing a permanent threat to South Korea. If relations improved, South Korea's dependence on the US alliance could be reduced. This would provide more maneuvering space for the country and a possible realization of the above-mentioned bandwagoning or transcending strategies.

Can South Korea freely choose a strategy? In the new area of connectivity, geopolitical theories argue that economic dependency has decreased the strategic options (Baru, 2012). Observers have accused China of being in a position, where it can change the behavior of other states by applying economic means (Beeson, 2018.). But how well or how poorly is China using these geoeconomic instruments? In order to systematically understand the possible geoeconomic role of China regarding Korea, the paper follows the following steps. Its first section presents an overview of the concept of geopolitics and the tools of statecraft in the hands of great powers. Secondly, the paper empirically explores the economic circumstances by which Chinese statecraft can influence South Korea. Through the case study of the deployment of the Terminal High Altitude Air Defense System (THAAD), it investigates how China is implementing these tools. Finally, the paper concludes by stating that geoeconomics can be defined as an adequate tool for China to achieve its strategic goals and to undermine the East



Asian power relations. Finally, the article draws some theoretical and policy implications for the future of South Korea's strategic adjustment.

## **2. The Theory of Geoeconomics and the Geoeconomic Toolkit of the Countries**

The term geoeconomics has become popular since the Cold War. Edward Luttwak's pioneering work (1990) argued that in the globalized world, the importance of military power has given way to economic power. Therefore, the countries (and other entities) use economic tools to achieve geopolitical objectives. The definition can also be seen reversed, that is how geopolitical tools are used for economic benefits (Baru, 2012). Geoeconomic strategies are not new, countries have long used the economy to achieve their national interests (Findlay – O'Rourke, 2009). This is the reason why there is a growing focus on geoeconomics is globalization. In the Post-Cold War era, the interconnectivity of the actors dramatically changed the word. In the globalized economy, multilateral rules and international institutions (e.g. World Trade Organization) formed the behavior of the actors, and trade and investment treaties involved a separation of the economic and security realms. The interconnected word, in itself, has long been seen as the guarantor of peace and cooperation since governments think twice before projecting power with traditional means). In this global system, under the guidance of the sole hegemony of the US, countries focused more on economic development rather than power rivalry. The view of globalization, however, basically changed with the multipolarization of the international system. Interdependence has started to be identified not only as a chance for development, but also as a factor which creates new threats, while economic connectivity has become an exposure. While interdependence supports economic development, vulnerabilities, etc., it also increases dependencies on foreign states and supply chains, which can be used destructively. This new narrative of interdependence emerges especially when an economic competitor is defined as a strategic competitor, as it has happened to China in the eyes of the US government (United States – Trump, 2017). In such cases, greater protectionism and decoupling to some extent appear to be a relevant counter strategy. In this world, the primary focus on absolute gains disappears, and relative gains play an important role: losing less than the competitor is also an acceptable strategic choice (Roberts – Choer – Ferguson, 2018).

Interdependence can be weaponized by the stronger party especially when the relationship is asymmetric. Following the path taken by Albert Hirschman's early work on the political effects of trade and investment in asymmetric economic constellations

(Hirschman, 1980 [1945]), the economic statecraft model introduced by David Baldwin (1985) provides an analytic framework to show how powerful states use economic means in diverse ways to pursue their foreign policy goals. Besides economic diplomacy, sanctions leverage or coercion are the means to exert political influence. These instruments are categorized into negative sanctions (such as tariff increases, embargos, boycotts, blacklisting, license denial, freezing assets) or positive sanctions (such as subsidies for exports or imports, favorable tariff discriminations, financial aid, investment) (Baldwin, 1985; Norris, 2016). Economic tools project power, via instrumentalizing economic interdependence for geopolitical ends. The newly emerging geoeconomic instruments are trade policy, investment policy, economic and financial sanctions, financial and monetary policy, energy and commodities, aid and cyber. While some function as they have in the past (aid), others are new (cyber) or operate in a different environment (energy) (Blackwill – Harris, 2017). The difference is that “states are instead trying to weaponize the global system itself by utilizing the disruption of various links and connections as a weapon” (Leonard, 2016, p.15).

The success of using economic statecraft in foreign policy mostly depends on the level of asymmetry, defined by the differences in economic weight. Economic statecraft is mostly the policy instrument of the dominant actors with a strong relative economic position over other states, or those who are controlling some specific resources which are relevant for others (Kahler – Kastner, 2006; Leonard, 2016). The precondition of the successful asymmetric economic statecraft is the interconnectedness of the countries.

### **3. China and the Grand Geoeconomics Strategy: Reality or Myth?**

China is a classical example of a practitioner of statecraft and geoeconomics. The country has significant geoeconomic power and serious disruptive potential. First, China is deeply integrated in global trade. China is the biggest trading nation, the world’s fastest growing consumer market, and a major center of the global value chains. Second, since the financial crisis of 2007-2008, China has become a major source of foreign direct investment (FDI), challenging the position of the classical donor countries such as the US or Japan in several regions. Third, China as a rising economic superpower already enjoys an asymmetric economic relationship with all countries—except the US. Fourth, China’s economic system, which is most of the time labelled by the Chinese Communist Party as “socialism with Chinese characteristics” has indeed state-capitalist elements, while the State Owned Enterprises (SOEs) take into account the interests of the Communist Party, beside the market, to influence

other actors' behavior. Finally, China is also very active in establishing parallel international financial institutions (Asian Infrastructure Investment Bank), which provide similar functions as the major Bretton Woods Institutions. Therefore, the "Geeconomics with Chinese Characteristics" term has become widely used in literature (Wu, 2016).

Despite the noise about identifying China as a geoeconomic superpower (Zhang – Keith, 2017; Beeson, 2018.), certain authors are sceptical about the appropriate use of the geoeconomic theoretical framework. These scholars doubt that China has a comprehensive, long-term foreign strategy or a grand plan (Wu, 2016; Ferchen, 2016). Others argue that China is not a monolithic state strictly driven by the CCP as it is often portrayed abroad. Therefore, China is unable to effectively implement such a comprehensive strategy. Some other scholars also argue for a direct relationship between a country's wealth and its international power (Ferchen, 2016). From this point of view, the Chinese geoeconomic strategy is created by foreign academics, think tanks, and it is not more than a geopolitical "narrative" (Drezner, 2017). Finally, from a theoretical point of view, it is also hard to tell the difference between economic and geopolitical tools and, specifically, to understand the carrots and sticks that states have tended to use as part of the country's economic diplomacy. This means that using economic sticks and carrots, in itself, does not mean that a country necessarily has a geoeconomic strategy. More careful analysis is needed in situations when China is using economic tools for political purposes in order to judge whether it fits into a strategy or just provides a separate case.

Therefore, a cautious investigation is necessary to judge whether China systematically uses economic tools to alter the foreign policy of South Korea. The identification of the Chinese capacities, the asymmetric dependency of Korea on China is important, but not enough. A deeper exploration of the systematic and strategic use of economic sticks and carrots in concrete cases is necessary to accept the approach of geoeconomic research.

#### 4. Hypothesis

The major aim of this paper is to provide an answer to whether geeconomics as a strategy has relevance in the foreign policy of China toward South Korea. Therefore, reflecting on the related literature, the first hypothesis is:

$H_1$ : China is in a position to use geoeconomic tools to change the behavior of South Korea.

This hypothesis assumes there are strong economic ties between the two countries and the relationship between them is highly asymmetric in favor of China. These are both necessary preconditions for China to have the potential use of the geoeconomic toolkit. Strong ties and asymmetric economic relations, however, are not enough to accept the existence of the geoeconomic strategy. The second hypothesis argues:

**H<sub>2</sub>:** China is using geoeconomics as a strategy to change the behavior of South Korea to pursue its foreign policy goals, and China is instrumentalizing economic interdependence for geopolitical ends.

The second hypothesis is that the geostrategic use of economic power in the foreign policy of China is formulated according to the "Geoeconomics with Chinese Characteristics" concept. This hypothesis argues that China is already practicing geoeconomics, and this is a strategy to challenge the international system in favor of China's interest. Confirming this hypothesis would be a helpful analytical tool to understand the main tendency of the Chinese foreign policy and to predict the possible behavior of China and the smaller countries in East and Southeast Asia in the coming decades. Furthermore, a deeper investigation of the South Korean case would also be useful to understand the advantages and disadvantages of this strategy.

## 5. Methodology

The verification of the first hypothesis requires an overall analysis of the bilateral economic relations. It is always questionable to investigate to what extent a country depends economically on another. It is very difficult to objectively measure this effect. The paper uses classical indicators including trade and investment to investigate the share of China.

The second hypothesis will be tested through the case study of the deployment of the Terminal High Altitude Air Defense System (THAAD). The conflict about THAAD has become especially well-known since China put pressure on South Korea to change the decision of deployment contrary to the security interest of the country and its main ally, the US. The paper investigates whether the Chinese government has implemented some geoeconomic tools identified by the literature (Blackwill – Harris, 2017). The goal of the investigation is to find a proof of China using economic pressure in a systematic, targeted way, which can consequently be defined as a strategy. The paper also assumes that on the level of official bilateral communication, these measures

will hardly be recognizable, therefore the major source will be provided by the media coverage of the events.

## 6. The Economic Relations between China and South Korea

Since the normalization of the diplomatic relations in 1992, the two countries have soon become key economic partners to each other. The development of the bilateral economic relationship is often distinguished by three phases (Li – Tu – Liu, 2016). The first period lasted from the beginning of the diplomatic normalization until the Asian financial crisis of 1997–98, and was characterized by the dynamic increase of trade and investments. In the second phase, due to the financial crisis, there was a serious slowdown in the bilateral economic relationship: e.g. some Korean companies had to leave China due to their financial difficulties. The third period started when China became a member of the World Trade Organization (WTO) in 2001. China once again was the top economic partner of Korea: Korean trade with China surpassed that with Japan in 2003, and the United States in 2004. The most important moment of this period was in June 2015, when the two countries signed the bilateral free trade agreement (FTA), which came into effect in December 2015 (Ibid).

China is the most important import and export partner of South Korea. In 2017, China, together with Hong Kong, provided a 34.4 percent share out of South Korea's total export, which is a wide margin before the number two player, the US (12 percent share). In imports, China (and Hong Kong together) had a 20.3 percent share in 2017, compared to the rank number two, the US (11 percent share) (Figure 1). Korea has had a positive trade balance with China since 1992 (UN Comtrade, 2018).

**Figure 1**  
**South Korea's top trading partners (2018)**

Top 5 Export Countries		Top 5 Import Countries	
USD Million			
China	162,124.7	China	106,487.9
United States	73,043.8	United States	59,080.6
Vietnam	48,622.1	Japan	54,603.3
Hong Kong	45,978.7	Saudi Arabia	26,335.8
Japan	30,527.1	Germany	20,853.1

Source: UN Comtrade, 2018.

Due to the importance of tax havens and offshore countries, it is hard to define the main investors in South Korea. The major investing country in South Korea is still the United States. The importance of China (together with Hong Kong) is steadily increasing and is currently before the European Union and Japan (Figure 2).

**Figure 2**

**FDI inflows by country in South Korea**

Main sources of FDI	2017
United States	35.0%
Cayman Islands	11.4%
Hong Kong	6.8%
China	6.8%
Vietnam	4.5%
Luxembourg	3.6%
Ireland	3.5%
UK	2.5%
Singapore	2.3%
Japan	1.9%

Source: OECD Statistics, 2020.

Since the 1990s, Korea has followed the Japanese pattern when investing in China. The leading Korean companies, including Samsung Electronics, LG Electronics, POSCO, Hyundai Automobiles, were the first to invest in the dynamically growing Chinese market, but soon, the small- and medium-sized enterprises (SMEs) joined, too. The most important factors for Korean companies were cheap labor force, the size of the potential market, the geographical closeness, and the cultural similarities. In bilateral trade, regional value chains play a crucial role for both the Korean and other multinational corporations. Within the regional value chains, it is still quite typical that besides final products, intermediary goods are also produced in China for processing export goods to third parties (e.g. US, Japan). It is also typical that some goods are reimported back to Korea for further processing. The exact share of these different categories, however, is very hard to identify (Li – Tu – Liu, 2016; Chung, 2018). Before the recent developments, the general opinion was that the Korean and Chinese manufacture sectors complemented each other, since China in the 1990s and 2000s placed emphasis on heavy industries, while Korea on commercial sectors (shipbuilding, automotive, electronics). This complementary character helped the deep integration of the two countries' economies and the strengthening of the inter-industry trade along the value chains. However, in recent years (Stacey et al., 2017), Chinese companies—not independently from the central government's support—have vastly increased their competitive positions in the local Chinese market and increasingly

abroad, at the expense of Korean firms. Moreover, in the next generation of manufacture industry (industry 4.0 trends), the Chinese companies put their Korean rivals under pressure (Wübbecke et al., 2016). The role of China is fundamentally changing: it is not just a manufacturing powerhouse anymore, but also an emerging final market.

To conclude, South Korea heavily relies on its economic relations with China. Especially trade and the exposure of the Korean companies to the Chinese market and subsidiary companies are noticeable. Asymmetry has become the normal course of economic relations.

## 7. Case Study: Tensions on THAAD

The deployment of THAAD (Terminal High Altitude Area Defense) in South Korea is an adequate example to investigate the complex Sino–South Korean relationship, since the two countries have had fundamentally different views on this issue. Moreover, THAAD was seen as a vital strategic issue to China, which made it ready to act. The deployment of THAAD has been suggested to South Korea by the US government for providing a more effective defense system against the increasing threat of the North Korean missiles. The final decision of the deployment was made in February 2016 by the president of South Korea, Park Geun-hye as an answer to the intensified missile tests of North Korea. In July 2016, the US Department of Defense and the South Korean Ministry of National Defense announced the deployment in a joint statement. Hours after the announcement, the Chinese government demarched the US and South Korean ambassadors to China to lodge a formal protest (FMPRC, 2016a). China's Ministry of Foreign Affairs criticized the decision several times. The argument of the Chinese opposition was that THAAD's X-band radar has a range of up to approximately 2,000 kilometers, which reaches most of the eastern half of China. Therefore, from their view, the major aim of the deployment of THAAD is not a defense against the North Korean missiles—which is also a good excuse for the North Korean government for developing new missiles and speeding up development of its nuclear weapon program—, but it is in fact against China. As the major argument stated, THAAD undermines the regional “strategic balance” and fits into the grand strategy of the US to contain China, in which a regional missile defense network takes an important role (FMPRC, 2016b; Hong, 2016).

In such a sensitive case, it is reasonable to examine whether besides classical diplomatic efforts and the influence of the public on both sides, China also responded with geoeconomic tools to alter the behavior of its smaller neighbor. According to

the official statements, not much happened. As the Foreign Ministry Spokesperson Hua Chunying stated on March 27, 2017: "There are not so-called retaliatory measures. China regrets that the public foundation for exchanges and cooperation between China and the ROK is affected by THAAD" (FMPRC, 2017). However, as discussed in the previous part, South Korea's economic dependence on China makes it a particularly vulnerable target. After the announcement of the deployment of THAAD, several unofficial, but coordinated punishments were introduced by China on the South Korean economy, especially targeting sensitive sectors of the country during 2016-2017. The focus was on those goods and sectors which were sensitively affected by the loss of the Chinese market. Some consumer products were the subject of unofficial sanctions in the Chinese market due to "safety concern", including certain types of cosmetics, air purifiers, high-tech toilet seats, and food products (Park, 2017). Hyundai and Kia also reported a serious loss as a result of consumer boycotts (Song, 2017). The entertainment sector was also one of the targets. Korean pop music (K-pop) concerts and events were cancelled, despite the huge former Chinese investment (such as Alibaba) in the sector. China Central Television (CCTV), a state-owned TV channel, reported that the government's broadcast regulator had banned the South Korean TV shows on the state-owned TV channels (Song, 2016). The distribution of South Korean video games was also hindered in China (Huang – Horwitz, 2017). Korea's tourism sector suffered a significant loss as a result of the Chinese measures (Kim, 2019). The Chinese National Tourism Administration instructed Chinese travel agencies to suspend package tours to South Korea. This resulted in a 47 percent decrease of tourists visiting the country in 2017 compared to the year before (Feng – An, 2017).

Some South Korean companies were targeted directly. The Lotte Corporation, which supplied golf courses for THAAD installations, was the most involved. In the end of 2016, Chinese authorities launched a series of investigations against Lotte subsidiaries in Chinese cities. In March 2017, construction of a chocolate factory was suspended, which is jointly run by Lotte and Hershey. By early April 2017, Lotte reported that 75 of its 99 Lotte Marts in mainland China had been closed by Chinese regulators for safety violations. Lotte also reported cyber attacks from unidentified Chinese hackers (Harris – Clover, 2016; Wong, 2017).

Despite significant economic pressure, China has not achieved its goal. The impeachment of Park Geun-hye and the election of the new president, Moon Jae-in in May 2017, had just temporarily affected the installation. President Moon postponed the deployment in order to conduct an environmental impact study, but soon after an ICBM test of North Korea in July 2017, the process continued with the four remaining launchers. Therefore, China has been unable to align South Korea with its interests,



and the leverage from the Chinese economy has not weakened South Korea's security reliance on the US. Moreover, the damaged economic ties must be painful for the Chinese economy, too. In the second part of 2017, the frozen relationship between the two countries was agreed to be normalized again. As a final step in 2019, China lifted its economic sanctions on the Lotte Corporation.

## 8. Discussion

There is broad agreement that China's growing economic capacity can be used to transform it into political influence. Based on relevant literature, the aim of the paper was to point out that geopolitics provides an adequate approach to understand the influence of China on South Korea's foreign political behavior. The first hypothesis, which stated that China is in a position to use geoeconomic tools to change the behavior of South Korea, was proven. China is a dominant trade partner, a major market, and an important element of the Korean and interregional value chains. The asymmetric and deep integration of the two economies provides opportunities for China to use economic dependency as a weapon.

The second hypothesis stated that China used geoeconomics as a strategy to change the behavior of South Korea. The case study, which focused on the reaction of the Chinese government to the deployment of the THAAD, shows that despite the lack of official measures, China launched a concentrated and targeted economic pressure on South Korea. The systematic use of geoeconomic tools proves that China's economic leverage can be weaponized, therefore, as a strategy, geoeconomics is a reasonable framework to understand the major elements of the complex relationship between South Korea and China. This is true even though China's strategy has failed. One of the most important limitations of this study is that the examination of the second hypothesis is based on only one case. As a consequence, we must be cautious with generalizing, that is applying the conclusion of this one case to the countries' long-term strategy. However, the Chinese behavior in relation to THAAD reflects the fact that China has acted in a conscious and concerted manner, using systematically economic instruments to achieve its political goal.

In identifying geoeconomics as an adequate framework for interpretation, South Korea is important in many ways. First, it seems highly possible that China's strategy is to further deepen South Korea's economic dependence, since this dependence would increase the cost of the resistance to the will of the Chinese government. The further integration, however, decreases the possibility of the failure of the strategy

in the longer term. The conflict of THAAD has only been postponed, but not resolved. However, the example of THAAD will not be forgotten in South Korea. Deepening economic relations with China will never be seen again as positive as before 2016, but more as a vulnerability, which should be judged according to the security interest of the country.

It is also highly possible, that this strategy will be pushed forward by China in East and South East Asia. Rebuilding the asymmetric bilateral relations from one point of view will resonate with previous historical periods, in which the tributary system provided an institutionalized regional order, based on asymmetric bilateral relations. Second, it increases the pressure on the regional alliance system of the US. While the Trump administration is expecting smaller countries to support their containment strategy toward China, the increasing leverage from the Chinese economy will make this harder in the future. Forcing countries to choose sides or decouple their economy from China, moreover, can lead to unexpected results, namely that the influence of the US will diminish. The loss of confidence in the US would immediately change the strategic situation in the Korean Peninsula.

With the international tendencies of multipolarization, power politics has returned, while the economy will remain to be a major battlefield. The relationship between South Korea and China from this point of view will provide an important example to follow.

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# Gravitation and Indifference in East Asia: Korea-Taiwan Coexistence in the Age of Uncertainty<sup>1</sup>

János Vándor

## 1. Foreword

For a scientist, at the beginning of deliberating a topic, the most important and unavoidable task is the gathering and processing of relevant data and scientific literature. When the idea of exploring the relationship between South Korea and Taiwan—two, politically and economically interesting and important entities—was adopted it was expected that the major difficulties would stem from the selection of the most reliable and accurate sources from amongst the huge amount of scholarly works. Thus it was not surprising to learn that the literature on Korea and Taiwan was very rich and colorful. However, the material consulted either described these entities individually, gave a comparison of them or placed them within a multilateral environment. In spite of having exerted great efforts to locate scientific papers dealing specifically with their bilateral relations, this endeavor simply failed. No books, no substantial studies could be found. Having gained such negative experience, Taiwanese and Korean contacts were activated and requested for assistance. Much more material was received on Korea or Taiwan, but none on their direct relations. In some sensitive areas like politics, defense or intelligence, the lack of basic material seems to be understandable. However, in such widely explored fields as international economic and trade relations, the shortage of information looks more than strange. This situation raises the question why do the people of science and politics refrain from exploring these relations? Are the politicians, business-people and the common people so indifferent to each other?

<sup>1</sup> Not forgetting the existence of North Korea (Democratic People's Republic of Korea, DPRK) this paper deals specifically with the South Korea–Taiwan relations. If only the name 'Korea' is used, the issue concerned is related to the southern state of the Korean Peninsula. If a statement is connected to either the Koreans, in general (like in a historic review), or to the northern part of the area, specific reference will be applied.

The internationally recognized denomination of the actors, namely South Korea, Republic of Korea, RoK, Taiwan, Republic of China, RoC, China, People's Republic of China, PRC are often mentioned in this paper and are used interchangeably. In addition, in order to avoid an over-frequent repetition of these words, the name of their capitals (Seoul, Taipei, Beijing) will be used for the sake of brevity.



Korea and Taiwan know each other well. So the notion that their academic or political people underrate the value of this relationship should be ruled out. Then what factors can explain this situation? This paper makes an attempt to find the answer. Still, it cannot fill the void left by the lack of basic material. The study attempts to give a short insight into the factors that determine these bilateral relations and hint at the elements that bind the parties together or—on the contrary—aggravate their cooperation. Even though this study probably leaves behind more questions than answers, its intention is to make the distinguished Reader aware of the complex nature of these ties and encourage further research.<sup>2</sup>

## 2. The Two Country's Historical Past Compared

Seemingly, there are more similarities than diversities between these two political entities though their history, as well as their present conditions, could be labeled as extremely different, which makes the nature of this relationship rather complex.

The history of Korea can be traced back to some 4,000 years, while—irrespective of the aboriginal peoples of the island—the presence of the ethnically Chinese population in present-day Taiwan (or the Republic of China, RoC) dates back no further than a couple of centuries.<sup>3</sup> The Korean people went through the long process of political and economic development and by the end of the 19<sup>th</sup> century reached a higher level of statehood. The Koreans took over many elements of Chinese civilizations, adopted many teachings of Confucianism, embraced social, political, economic values, rules and models originating from China, but also retained—what today might be called—national identity. To be sure, they had to endure Chinese suzerainty and regularly paid tributes but—not least thanks to the Chinese political thinking<sup>4</sup>—they usually

<sup>2</sup> Being aware that—not least due to the problems mentioned—the risk and possibility of making errors is higher than usual, it compels the author to emphasize that he alone bears all the responsibility for the shortcomings and the mistakes of this paper.

<sup>3</sup> Historians differ on the date of the coming of the first ethnic Chinese on the island. According to historical scriptures, China was already aware of the existence of this island from the early centuries of our era, but the real populating of it started in the 16<sup>th</sup> century. For centuries, European colonizers tried to gain a foothold at the expense of the other Europeans, and more serious Chinese interest was raised only in the mid-19<sup>th</sup> century. Still, at that time minimal consideration was given to the development of the island. The Japanese seized the island of Formosa, as it used to be called, after the First Sino-Japanese War, and Formosa/Taiwan was handed over to the Republic of China after the end of World War II. A basic consequence of the island's turbulent history has been the fragile identity of the present local people.

<sup>4</sup> This is a reference to the disinterest of the Chinese Empire in directly controlling or occupying 'less intelligent' and 'less cultured' people.

managed to retain their full or at least partial autonomy. They had more problems with the Japanese and the Europeans, as these foreigners regularly made attempts to conquer and directly control Korea. In spite of such efforts no-one could permanently occupy this area till the coming of the 20<sup>th</sup> century, and because of this lack of meaningful, progressive influence from the outside, Korea remained an underdeveloped, weak, stagnating state that could not cope with the challenges of the new century and its own antagonists (Fairbank et al., 1973, p. 309).

When the new empires (Japan, Russia) emerged in East Asia and started to realize their colonial aims, Korea could not withstand their competition. After the Japanese defeated China and later also Russia, Tokyo remained the only dominant actor in the scene. It wasted no time to exploit the situation and forced Korea first to sign a convention making the Peninsula a protectorate of Japan and then, in 1910, annexed and attached the territory to Japan (Fairbank et al., 1973, p. 556; pp. 617-618). Annexation in this case meant simple colonization and Tokyo treated Korea and the Koreans as servants of the Japanese race, whose only tasks were to serve the metropolitan government and people.

Taiwan had a different story. Arriving in increasing numbers and pushing the aborigines to the mountains, the population of the island gradually became ethnically and linguistically Chinese. On the other hand, it was mainly dominated by the Europeans and—from an ethnic Chinese perspective—it was left on its own. The Europeans were fighting mainly among themselves and the Empire realized the importance of the island too late for strengthening its presence, developing Formosa and making it a stronghold that could have kept the Europeans out and repulsed the Japanese conquest. It remained a backward, impoverished territory that lacked all the facilities even of those found on the mainland. When the island was occupied by Japan (1895) there was some, very mild resistance to the Japanese, but Tokyo had no real problem to pacify Taiwan.

Thus, by 1910 Japan had acquired—or plainly, colonized—two territories that were seemingly rather similar to one another but in some respects also resembled Japan itself. While the (Western, long-established) colonizers usually had to cope with strange, unknown peoples and societies, the Japanese theoretically could deal with people sharing similar ideas, cultural, religious, linguistic, social traditions. It could have made it easier for Tokyo to find the proper means to govern the local people and to have them accepted by the populace. It would be a mistake to claim that Japan totally failed in this endeavor. Where it showed a more relaxed and less arrogant policy—and true, where it had to confront a weaker identity like on the island of

Taiwan—it could appease the local people and easily stem sporadic opposition. In other areas it felt compelled—and it was not reluctant—to use the rudest means to achieve its goals.<sup>5</sup>

When Korea and Taiwan became the integral parts of the Japanese Imperial Empire, Tokyo's policy towards these territories proved to be radically different. As Taiwan never experienced the effect of strong attachment to nationhood, it was relatively easy to offer something positive to the local people. Through its limited economic investments, improvement in the education and health care, Tokyo succeeded in achieving some prosperity (in comparison to the past) and tranquillizing the sporadic malcontents. It built up a kind of model colony (especially in comparison to Korea) that could serve slavishly and efficiently the colonizing state.<sup>6</sup> And as the people here also enjoyed the fruits of development they remained considerably tolerant. This explains also why, long after the expulsion of the Japanese—and not regardless of the harsh policies of the Kuomintang after its arrival to the island in the late 1940s—the generation that had lived through the colonial times remembered the Japanese more positively than their own folk.<sup>7</sup>

Korea, in spite of its backwardness and also the earlier, in some respects positive,<sup>8</sup> cultural and political ties with Japan, could not be so easily swallowed. Here Tokyo had to face a higher level of ideological indoctrination by external ideas (more liberal

<sup>5</sup> Regarding the generally accepted political norms of the peak period of colonialism, it had been unrealistic to expect Japan to refrain from territorial expansion, colonization, and in addition, to believe that it had considered the peoples of the conquered territories as equals with their own ethnic group. It was indicative of that period that none of the great powers of that time objected to Japanese moves on moral grounds, only when it jeopardized their interest.

It was not accidental that a general hatred erupted in Korea towards the Japanese. The Koreans have always been worried about the domination of the 'Han', and still they consider them a strong but not frightful opponent. However, in the case of Japan, they always recall the thousand-year long enmity and regard the Japanese as their ultimate enemies. One of the most notable expressions of this hatred was the series of violent demonstrations against the normalization of bilateral (Japan–South Korea) relations in 1964 (Hwang, 2017, pp. 193–4).

<sup>6</sup> Fairbank et al. correctly stated: "...Japan took over a largely prenationalistic polity as well as a pre-modern economy" (Fairbank et al., 1973, p. 876). In fact, the local people were treated as subordinates, while development and economic transformation (e.g. the agricultural, educational etc. reforms) were directed to the needs of Japan. Still, the limited progress could also improve the living conditions of the Taiwanese.

<sup>7</sup> In 1945, the islanders welcomed the compatriots with open arms. However, because of the mass immigration of the million-strong KMT administration and army, as well as the increasing exploitation and oppression of the local people, friendship soon waned and gradually was replaced by suspicion and antipathy.

<sup>8</sup> Having seen the miraculous emergence of Japan as an equal power with the Europeans and Americans, many Koreans looked up at Japan as an example. Many Koreans, students and political figures spent some time in Japan and studied there.

European and definitely significant leftist/communist influences), and also a well-established national identity. Nationalism was latent in Korea and every little sign of a nationalistic movement was drastically oppressed by the Japanese. Originally the Japanese also planned to build up an economic base that—as in the case of Taiwan—could have served the interest of the Empire. Thus, it invested relatively heavily in infrastructural and industrial projects, although the Koreans could not benefit enough from such efforts and the cruelty of the Japanese left a permanent negative impact on the Koreans.

Regarding the post-World War II situation, Taiwan survived the war with minor losses and was offered to the Republic of China by the victorious powers. Korea (the whole of the peninsula) suffered great damages both materially and physically, politically and mentally and became divided along the 38<sup>th</sup> parallel.<sup>9</sup> Despite these significant differences, as a strange turn of history, after the war South Korea and Taiwan happened to be in similar, but at the same time simultaneously diametrically opposing conditions. In fact, by the late 1940s both South Korea (Republic of Korea, RoK), and the island of Formosa/Taiwan, or what had been left of the Republic of China (RoC) remained impoverished political actors struggling for their survival, being at the very mercy of their main patron, the USA. However, already from the outbreak of the Korean War, this relationship turned into a Catch-22 situation in which Washington forced the RoC and RoK to fulfill certain demands, and, at the same time, was obliged to defend (more precisely, could not sacrifice) them. (In a political sense, the tail was wagging the dog.) From the following decades, due to their “economic miracle”, Korea and Taiwan managed to strengthen their economy and become economic assets on their own. In a logically functioning world we could call both of them a justifiably self-confident and solidly secured stable state. Nevertheless, international relations had never experienced such a world and thus these countries remained vulnerable players dependent on the good-will of third parties, and not always of their closest ally.

By comparing the basic indicators of the two entities it seems that in the 1940s Korea was still somewhat poor and less developed, but in general, both states were relatively similar. According to some observers, their economic state lagged behind most of the African countries of that period. Certainly, it could be hypothesized that the peninsula's and the island's economic figures were worse than those of some African states, although through a rather simple but more comprehensive analysis it could be proven that Korea and Taiwan had inherent elements that ensured them huge

<sup>9</sup> It is presumed that this part of Korean history is well-known to any Reader, thus no further account is given here.

advantages over their potential competitors from any continent. In this respect, first of all the relatively favorable human (social, cultural, religious) factors must be mentioned. The millennium old—Buddhist and/or Confucian—social and educational background facilitated the rapid expansion of public education and the quick bursting of the barrier of educational upheaval, while traditional values, inherited rules of social and not least of economic conduct boosted the efforts to move forward diligently and efficiently. Another determinant element was the physical infrastructure left behind by the Japanese that was relatively developed in comparison to other former dependent territories and thus could serve the acceleration of economic development. This paper considers the first mentioned social factor the more decisive, although it must be acknowledged that the social and economic conditions eased the developmental efforts in their totality.<sup>10</sup>

An additional factor that made the case of Korea and Taiwan unique was the impact of the Cold War. Both entities became the subjects of great power and ideological confrontation. Curiously, both of them constituted only one part of their original, political, economic, and not least ethnical polity and they remained the weaker party vis-à-vis their adversaries. They could have easily lost their independence or self-governance if they had not found a sufficiently strong ally. This ally was the USA that has been providing a security shield for them ever since. Nevertheless, while at the beginning they could enjoy the full support of Washington, from the 1960s they were also compelled to look after their own survival, including their own well-being.<sup>11</sup>

That was the time-period when—having similar ideologies, similar political systems—Korea and Taiwan could find themselves on the same wavelength and apparently had every reason to work very closely together. They were condemned for their political

<sup>10</sup> A rather characteristic and expressive résumé of the Korean (and in a way the Taiwanese) attitude and mentality is given by Tudor illustrating the behavior of the founder of Hyundai. Concerning the ‘singular lack of self-doubt’ shown by Jeong Ju-young, Tudor wrote that “(O)ne could relate it to the Buddhist capacity for overcoming and refusing to accept one’s lot; one could also relate it to the Confucian ethic of merit and constant hard work” (Tudor, 2012, p. 73). One could find communities sharing similar ideas and values in some of the East and Southeast Asian areas but very rarely in other parts of the colonial world.

<sup>11</sup> As Washington considered it its vital interest to defend these two territories against the ‘communists’, Seoul and Taipei could expect a high level of assistance. However, after a while, they were also forced to try to stand on their own feet. The Americans assisted them with financial and technical advice and later on Korea and Taiwan tried to follow their own way of development and also made attempts to disengage themselves from the total control of Washington.

The development and ‘miracle’ achieved can be introduced only by a more comprehensive study. Such examination could show how seemingly partial or secondary elements contributed to this course of events.

practices even by their 'friends' and were excluded from many multilateral institutions.<sup>12</sup> Nevertheless, they already started their long journey towards economic development. Notwithstanding their low level of development in the 1940-1950s, by the late 1960s and early 1970s they became the miracles of the world economy (together with the other two dragons, namely Hong Kong and Singapore). They proved that the most backward economies can rise to the highest level, if they are capable to utilize the potentials inherent in the internal and external set of their conditions. It is a simplification to argue that the sole secret of their miraculous rise was their conscious and well-planned economic approach. On the other hand, it is also an understatement to claim that everything happened because of their good luck and by chance. The truth is somewhere in-between: while there were propitious criteria for development and they had very fortunate and favorable conditions in the given decades, they took advantage of the opportunities and achieved good results.

As indicated, in the external political and economic relations of Korea and Taiwan similarities and discrepancies can be also found. Some of these elements deserve more attention. Based on the popular notion regarding development theories (including 'developmentalism'), Kenichi Ohno connected the rapid rise of Korea and Taiwan to 'authoritarian developmentalism'. While some components of such ideas can be questioned, it is correct to point out that both Korea and Taiwan started as extreme authoritarian regimes, and the immensely centralized exercise of power—at least in their case—could have contributed to the successful stabilization of political and social relations, as well as the implementation of economic and development policies. It could not be seen from the very start that the process will lead to such a successful unfolding as in both cases power was exercised by short-sighted and corrupt politicians and groups. After a while, however, determined and more adaptive leaders could direct the course of these economies.<sup>13</sup> Simultaneously with economic trans-

<sup>12</sup> Though Taiwan occupied China's seat in the UN bodies as an unavoidable consequence of the earlier recognition of the Republic of China as the representative of the Chinese people in the course of World War II and could remain in the institutions where it had been seated till the China-USA reconciliation, neither the island nor Korea was accepted into the newly formed international organizations of the former colonies (like the Non-Aligned Movement /NAM/), as they were not really welcome in other Western organizations (like SEATO – Southeast Asia Treaty Organization, 1954), either.

<sup>13</sup> President Syngman Rhee and Chiang Kai-shek were dictators of the worst type. However, Rhee was relatively early replaced by another cruel though economically enlightened dictator, Park Chung-hee, whose determination and stubbornness in carrying out economic and development reforms can still be appreciated. In Taiwan, Chang Kai-shek was as corrupt and short-sighted as Syngman Rhee, but local conditions and the Americans forced him to liberalize the economy. His son, Chiang Ching-kuo also remained an authoritarian leader but close to the end of his domination of the Taiwanese political scene, he became more tolerant. In the sphere of economics, he showed more flexibility and foresight and contributed to the rise of Taiwan.

formation, Korea and Taiwan also progressed along the road of democratization and today they are considered well-established democracies.

In addition, national characteristics also prevailed in the daily exercise of their economic and other policies, and thus the road Korea and Taiwan followed shows as many differences as similarities from this respect, too.<sup>14</sup> As far as the similarities are concerned, Korea and Taiwan

- relied on straightforward and forcefully executed economic policies of the state. Over time the state gradually transferred its control and let the private sector prevail;
- introduced and more or less carefully carried out development-oriented reform strategies that laid radically new foundations for the economy;
- achieved unprecedented economic growth for long time and earlier than potential competitors. Enjoying this advantage they could pass through the unavoidable stages of development (implemented agrarian reforms; relocated human resources, capital, etc. to the primary sector, with emphasis on heavy industries and the cheap labor based industrial branches; modified the industrial structure and directed industry towards high level technological development; arranged their organic integration into the global economy and reached the level of developed economies);
- recognized that they could break out of underdevelopment (and out of poverty and as its consequence of social/political insecurity) only by way of technical-technological development (meaning, first, industrialization, and second, technology excellence) and opening to world markets, as well as to global aid, financial and technology 'donors';
- looked for and found the 'right' partners for the implementation of development programs at home (the SMEs in Taiwan, the chaebols in Korea) and abroad (the developed countries and their multinational companies);

While gradually democracy prevailed in both political entities, corruption was curtailed in a slower tempo and though the corruption rate in both Korea and Taiwan is well below the international levels, it is still present in Seoul and/or Taipei.

<sup>14</sup> Naturally, not all the elements, but only the more outstanding factors of a comprehensive comparison can be listed here.

- facilitated internal (first of all South Korea) and external (mainly Taiwan) investments and the accumulation of capital for investments;
- gradually liberalized their economy and stimulated export competitiveness, applied export subsidies, but again slowly, they also opened up their markets, reduced import protection, and extended liberalization not only in production spheres but also in the financial and other service areas;
- with American and Japanese contribution successfully and steadily replaced the less developed sectors of industry with second or higher tier branches and thus secured their own technological advancement;<sup>15</sup>
- laid very heavy emphasis upon the development of human resources and both entities belong to those group of economies that are ranked the best regarding education and the best performing in sciences;<sup>16</sup>
- (especially since the 1980s) focused their attention on gaining permanent excellence in the sphere of science and technology and are amongst those economies which dedicate the greatest part of their GDP to R&D;<sup>17</sup>
- heavily invested in infrastructure;
- not only joined early enough but often initiated the creation of GVCs (Global Value Chains) cooperation;
- after decades of dictatorship, turned to a more democratic political model and became exemplary cases for Asian-type liberal democracies.

In spite of the similarities in the transformation process, many differences can be observed, too. Regarding dissimilarities we must emphasize the peculiar features of their historical and cultural environment, its impact on their political and economic

<sup>15</sup> In other words, they have been parties to the process that has been described by some economists based upon the theory of Mr. Kaname Akamatsu as the 'Flying geese' model, whereby the less developed (mainly Asian) economies could manage to catch up with the developed world by inheriting or taking over the experiences (and the transplanted second tier industries) of the vanguard partners.

<sup>16</sup> As it has been indicated, education and personal improvement constitute central elements in East Asian thinking and worldview, and both the Koreans and Taiwanese consider education as an essential factor of life. Both Korea and Taiwan belong to the top-performing entities of OECD.

<sup>17</sup> Korea's ratio is around 4 percent, while Taiwan spends also about 3 percent of its GDP on research and development.



aspirations and the main results of the progresses achieved by the implementation of seemingly similar programs and policies.

- Facing very serious external threats, the political and security implications created different conditions, priorities, tasks and demanded distinct responses;<sup>18</sup>
- The direction of state intervention was very different. Their general planning, economic and financial policies differed to a large extent. The Korean attention was focused on the big conglomerates (chaebols) that were capital-demanding but concentrated on production networks, technology intensity and greater scale economies. In Taiwan the administration tried to facilitate the development of a great number of small and medium-sized enterprises (SMEs) and assisted wider production and product diversity;
- In Korea the state protected the conglomerates with direct aids, protectionist measures, financial means (e.g. exchange rate controls). In Taiwan as the state considered the viability of the SMEs essential the means of assistance were adopted to their needs;
- While Taiwan has been keen on preserving prudence and a stable financial position for the state including the SMEs, the Korean government and the chaebols ventured into hazardous business. In international crises the Koreans proved to be financially unstable and had to rely on outside (IMF) assistance. Taiwan could overcome these crises with relative ease. In Korea, the exchange rate policy and the state control of foreign exchange played a determinant role in facilitating export promotion. After the mid-1980s, Seoul had to soften this policy;
- Both economies received significant financial (and politically motivated military) assistance. In addition, Taiwan has always been more open towards foreign capital and welcomed FDI. Korea preferred to rely on itself and opened the market only gradually. Thanks to global liberalization and the new methods of international collaboration (e.g. GVCs), Korea also ventured into foreign markets (and not least to China). However, Taiwan is still a more prominent FDI-recipient and provider than Seoul;
- In spite of their agriculturalist past, neither Korea nor Taiwan can be considered an agrarian economy. Nevertheless, the role of this sector was rather different. In

<sup>18</sup> Related questions will be discussed in the following parts of the study.

Korea, agriculture was not considered a priority, and its neglect prevented it from serving as a solid base for financing the industrial sector. In contrast, on the island, the rapid transformation of this sector resulted in the less radical transformation of the society. However, it could also serve as a source of capital (savings) and foreign exchange (Ho, 1981, p. 1176);

- Technological development became the cornerstone of these economies. In Korea, related tasks were delegated to a special ministry in charge of the technology policy. In Taiwan, competing organs were created several times. In Korea, chaebols served as the centers of creating and absorbing new technologies, while in Taiwan, the technological scene has become more widespread and more diverse. In Korea, high-tech creation became vertically more significant, while in Taiwan a more horizontal spread of technology transfer was realized;
- In the early decades Taiwan became incorporated into the global economy and became the partner of major economic powers as a foremost intermediate actor, a reliable partner in global value chains. Usually it did not play the lead role in high technology industries, but was accepted as a trustworthy affiliate. On the other hand, South Korea and its chaebols have managed to build up fully integrated industries vertically and become the competitor of the largest partners;
- The sharpest difference between the Korean and Taiwanese companies is the ability of the enterprises to manage their affairs. The Korean chaebols have advantage over any SME as they can catch easier the attention of the State, they are more capable to withstand internal and external competition, accumulate capital, concentrate R & D and/or redirect production and enter markets. However, they are less flexible to make radical adjustments or adapt to new conditions;
- Regarding the investment and credit policies of these economies it can be stated that in Taiwan the financial position of the firms, in general, remained more prudent and stable, thus they have been able to survive the international financial crises more easily. While in Korea, some of the chaebols—due to cheap money and easy credits—went under and could not withstand the internal and external financial shocks;
- Besides the American and later Japanese support the Koreans always had to rely on themselves. Taiwan, however, could count on the economic and human support of the overseas Chinese. The Chinese diaspora's contribution served as a very positive stimulant for Taiwan.

While the elaboration of similarities and differences can be continued, it must be seen that the Korean and Taiwanese miracle happened amidst conditions set mainly by external factors that determined both their internal and international position, and also impacted their bilateral relations.

**Table 1**

**Some basic economic indicators for South Korea and Taiwan**

Major Economic Indicators (2017)	Unit	South Korea	Taiwan (RoC)
GDP (PPP)	USD billion	2,035	1,189
Real GDP growth rate	%	3.1	2.9
GDP Global rank		14	22
GDP per capita (PPP)	USD	39,500	50,500
GDP per capita – global rank		46	28
Current account balance	USD billion	78.46	82.88
Exports – global rank		5	15
Exports of goods	USD billion	573.7	317.4
Exports of services	USD billion	86.5	44.7
Imports – global rank		9	18
Imports of goods	USD billion	478.5	259.5
Imports of services	USD billion	120.3	52.8
Gross national saving (% of the GDP)	%	36.6	34.9
Reserves of foreign exchange and gold	USD billion	389.2	456.7
Debt (external)	USD billion	384.6	181.9
Stock of direct foreign investment – at home	USD billion	230.6	78.3
Stock of direct foreign investment – abroad	USD billion	344.7	342.4

Source: World Trade Organization, World Bank, and additional online databases, 2017.

Note: It is understood that different sources apply different methodologies. Thus, instead of sheer statistical data, the trends and the actual situation should be considered the starting point of any comprehensive assessment.

### 3. The Political Factors Affecting South Korea–Taiwan Relations

In the 2<sup>nd</sup> half of the last century, Korea and Taiwan were recognized as outstanding players in global economic affairs. This was a simple, transparent period when actors knew their position, were aware of their allies and their enemies and did not deem it necessary to play complicated political and diplomatic games. The enormous upheavals of the late 1980s and early 1990s radically changed the situation, and it was East Asia that was the most affected by these changes.

As these two political entities are situated some 1,500 km away from each other and do not have significant territorial<sup>19</sup> or other sensitive conflicting issues, it would be easy to assume that they became close allies. Daily reality, however, reflects a different picture. In fact, in spite of their geographic proximity the two actors did not have many contacts in the past. Korea had been flanked by China and Japan and could not look as far as Formosa that was not even an independent entity till the end of the 1940s. No direct and official ties existed between the two areas, and whatever was experienced had to be traced back to the original power centers. Regarding the China-Korea ties in general, two new chapters were opened in the 20<sup>th</sup> century. The first coincided with the end of the 19<sup>th</sup> century when the declining Chinese Empire and later the Republic of China had inherent interest in helping Korea against Japan. China was one of the first countries to recognize the Provisional Government of the Republic of Korea (the Shanghai-based government in-exile, in 1919). During Japanese colonial expansion and World War II, both Chinese parties (Kuomintang, communists) cooperated with elements of Korean resistance and supported the independence of the Peninsula. Chang Kai-shek, who represented the state of China in international forums during World War II, made this Chinese position clear.<sup>20</sup> However, this support did not concern Taiwan (Formosa) itself, as the island was firmly held by Tokyo and successfully isolated from the war zones of the mainland.

At the commencement of the second great period, in 1945 the Korean peninsula became divided and the two Chinese antagonist forces allied themselves with their Korean ideological and political allies. The last seven decades can be divided into three different periods.<sup>21</sup> The first period lasted from 1945/1949 till the late 1960s, early 1970s and covered the peak phase of the Cold War. The global confrontation of alliances offered a good basis for close political and security cooperation between Seoul and Taipei. When the Republic of Korea (RoK) was proclaimed (in August 1948), the Republic of China (not yet 'Taiwan') was amongst the first to recognize the new entity. The outbreak of the Korean War radically changed the situation and had great impact on Korea-RoC/Taiwan bilateral ties. The USA started to pour soldiers and money into South Korea, while also seconding military advisers to Taiwan. The fate of Korea and the RoC became very strongly interlinked for decades to come. Not

<sup>19</sup> Today 'Chinese' (PRC) territorial claims cannot be equated with Taiwanese demands. However, it is also a fact that Taiwan (RoC) regards the Senkaku/Diaoyu Islands in the East China Sea as its own territory. This area, however, is far from the zones where South Korea also has claims.

<sup>20</sup> In November 1943 the Cairo Conference of President Roosevelt, Prime Minister Churchill and Generalissimo Chiang Kai-shek was concluded by the issuance of the Cairo Declaration that—among others—stated that the great powers supported the liberation and independence of Korea.

<sup>21</sup> This periodization is, naturally, discretionary, but hopefully correctly reflects the essential points of certain periods in East Asia's history.

surprisingly, they proved to be not only the most supportive partners of Washington's Asia policy, but they were very keen on tightening defense and military cooperation, the creation of a mutual defense pact on a wider scale, but also among South Korea, Taiwan and the US-supported forces of Vietnam. However, these ideas did not materialize within legally binding frames.

When the southern part of Korea became the Republic of Korea in 1948, the Republic of China soon set up its diplomatic mission in Seoul (January 1949). When the PRC was born, South Korea maintained its recognition and diplomatic relations with the RoC. As the expression of these "friendly relations", Chang Kai-shek paid a visit to Seoul still before the final defeat of the Kuomintang (in August 1949), and President Rhee returned this visit in 1953. In the following years, high level delegations followed one after another on a regular basis.

All through the Cold War, Korea and the RoC extended their bilateral cooperation as much as they could. Thus, they supported each other in the political arena and in the military field. Contacts in the sensitive areas, however, depended first of all on the approval of Washington, as both of them depended on the USA, especially in the acquisition of weaponry. In the covert areas (clandestine actions, exchange of intelligence information, etc.) they had more freedom, especially if it also assisted the Americans. Such collaboration was relatively active till Korea's 'approximation' to China and its disengagement from the island. They also showed interest in widening economic and trade collaboration, although it took a slow start due to their underdevelopment. (See the next chapter.) Despite the relative political and ideological closeness, their cooperation was not strongly assisted by the circumstances of their time. Neither the USA nor their other allies were eager to incorporate them as active actors into the wider global and/or regional political arena and tried to keep them as far from the venues of real decision-making as possible.<sup>22</sup> At the same time, in spite of being 'natural allies' they could not fully compensate for the lack of closeness of interests in survival. In other words, they could not overcome the obstacles originating from the uniqueness of their 'national interest' and 'individual' aspirations. They had close, friendly ties, but the fact that their problems could not be solved by this

<sup>22</sup> This can be easily proved by the case of SEATO. Although both Korea and Taiwan expressed their readiness to join the organization, they were rejected. (See the letter of Syngman Rhee addressed to his representative in Manila. Wilson Center, Document No. 104, dated December 26, 1957.)

As for the rejection of Seoul and Taipei, the most obvious explanation can be that the members of this organization did not fully trust these governments (their dictators), as they were afraid of the unpredictability of these leaders, and also they did not want to commit themselves to on-going hostilities or getting involved in unintended conflicts.

cooperation, that they were 'at the mercy' of others (allies and opponents), prevented them from creating really durable and unbreakable ties.

The second period in the Korea–Taiwan ties extended from the early 1970s till the early 1990s. That was the time of appeasement between China and the USA. This rapprochement radically altered the status quo and none of the actors of the global hot-spots were so directly concerned by these events than Korea and Taiwan. However, the radical changes that affected these two vulnerable entities had to be explained by many more connecting elements. Such a factor was the unforeseeable internal development of China. Since the death of Mao Zedong and the unfolding of the reforms of Deng Xiaoping, Korea and Taiwan viewed the internal Chinese processes from a distance and tried to preserve their positions amidst the seemingly continuously deteriorating conditions. In this respect, Taiwan's hands were much more tied up and—in a way irrespective of its own intentions—had to move as dictated by Washington. Korea had a much wider playground and, by the end of this period, became inclined to normalize its relations with China. This was realized at the expense of Taiwan, and thus the recognition of the PRC as the legitimate Chinese state drastically disrupted the political and ideological bonds that tied the actors together.

Another factor to be taken into account has been the basic security consideration of Korea and Taiwan. In this respect, the central point is the relationship of the two players towards China (the PRC), and this element is supplemented by their relations with North-Korea, Japan and the USA (in the case of Seoul), and the USA (in case of Taiwan). This Sino-centric approach is justified by the fact that China became again the dominant power of the region and showed its abilities to direct the course of events.

It is clear that in the US–China–North Korea–South Korea quadrilateral and the US–China–RoC (Taiwan) trilateral systems Seoul and Taipei have been the really vulnerable actors. It might sound strange to call Seoul the weakest of the 'four' as its economic power already commanded respect on a global scale. However, it can be seen that even the loss of South Korea would not constitute an intolerable damage for either of its major partners. Altogether, Korea is at most a knight or a bishop, not even a rook in the chess game where the USA and China move the real queens and kings. Economically, North Korea is a mere pawn, but—radically strengthening its position—its movement on the chessboard cannot be predicted. Regarding Taiwan, its economic power is also highly praised, but its position is still much weaker than that of Seoul and probably, with the exception of the USA, nobody has been willing to turn against China in the defense of Taipei.

The more advantageous situation of Korea can be attributed to its basically different set of international conditions. The governments in Seoul by the late 1980s realized that they have to reassess their external relations. Still, considering the American moves, it took two decades to reformulate Korea's China policy.<sup>23</sup> It had been politically kind (towards Taiwan) to claim that Seoul stuck to and showed solidarity with its 'Old Friend,' but the explanation is more prosaic: as long as South Korea could not see the change in the PRC's foreign policy, there was no reason to modify its stand towards Beijing.

The start of the third phase in the Korea–Taiwan relations goes back to the severance of RoK's diplomatic relations with Taiwan (August 1992), even though Korea–PRC contacts had been established earlier.<sup>24</sup> The normalization of ties was a longer process, and Seoul was not the only one that made efforts to come to terms with the partner, as Beijing showed similar interest in this 'opening'.<sup>25</sup> From the Korean side, Seoul felt the enormous need of the diversification of its political and economic relations and understood that it could not bypass China (Kim, 2015, p. 59). The RoK understood that China not only returned to the global political stage but acquired a leading role, while the USA has started to become ever more unreliable. Washington was still interested in providing security guarantees to Seoul, however, it was a question how far the Americans were ready to go, and it was clear that the North Korea-issue could not be solved without China, the only player which could seriously press Pyongyang. Since the early 1990s, the China–Korea ties clearly constituted one, if not the most important component of Seoul's foreign policy.

<sup>23</sup> To be sure, President Park Chung-hee already showed readiness to get closer to the PRC, as also to many other 'non-hostile' countries (Lee, 1996, pp. 105–6), but in the early 1970s it was still a premature attempt for this 'fascist dictatorship' (as it was labeled by China) to befriend Beijing. Here it makes sense to recall again the additional factors that motivated South Korea: we should not forget about the global political and security transformation, the radical changes in Asia, and especially in East Asia (the closure of the Indochinese Wars, the clashes between the Communist giants /the Soviet Union and China, as well as China and Vietnam/, the failure of the Domino theory, and also the collapse of the Eastern Bloc and the Soviet Union itself, and not least the emergence of a basically different China, etc.), the reorganization of the international community at global level (the end of the Cold War, the prominence of the USA as the single global military and political superpower and thus the waning of the imminent North Korean threat, the normalization of relations with many of the former Socialist/Communist states, including the Soviet Union/Russia, etc.). However, first and foremost, the radically new and 'peaceful' foreign policy orientation of China.

<sup>24</sup> For useful studies on the Korea–China relations, see Snyder and Chae-Jin Lee among the References.

<sup>25</sup> Beijing's early interest can be easily confirmed by the fact that already in 1985 Deng Xiaoping urged normalization with South Korea, and in 1991 China was ready to support South Korea's bid to join the UN separate from North Korea (and later 'convinced' its ally that it also served the DPRK's interest) (Snyder, 2009, pp. 34–38).

In some respects, the position of Taiwan could be described similarly. For a long time, the USA could not afford to sacrifice this “unsinkable aircraft carrier,”<sup>26</sup> but the redrawing of the USA-China relations radically rewrote the conditions for the island. The RoC lost its leverage over the USA, and thus the strongest pillar of its security was shaken. It could still count on the ‘friendship’ of many anti-PRC partners which, however, could not counterbalance the weakening of American support.

The most important differences between Korea and Taiwan have been as follows: while South Korea could widen its cooperation with many partners and counterbalance the loss of American full-scale support, Taipei could not substitute this ‘alliance’ with anything else. In addition, for all the major powers (USA, PRC, Russia, Japan) the stakes were rather high in the case of Korea, while they had less direct interest in Taiwan. Furthermore, as it became clear in recent years, South Korea could play its own game vis-à-vis China and this was not a real option for Taiwan.<sup>27</sup> The tail has lost its dog. Though Washington has not fully renounced its readiness to defend the island ‘among certain circumstances,’ the interpretation of these circumstances depend solely on the USA. No doubt, Taiwan has remained a significant and well-positioned pawn on the chessboard, and its loss can be tolerated. Interestingly, Taipei did not lose friends, ‘only’ allies,<sup>28</sup> and it stands—more or less—alone.

In this third phase of the Korea–Taiwan relations, links became rather loose with the exception of the economic and trade areas. The Taiwanese strongly resented the changing of sides and cut cooperation with Seoul. It took a decade or more to realize that frozen relations do not serve the interest of either party, and they started to rebuild certain elements of former cooperation.<sup>29</sup> Still, cooperation between the two parties has never really approached the previous levels, as Korea refrains from

<sup>26</sup> During World War II in the American military jargon many of the islands lying in the Pacific Ocean were used as outstanding supply centers and the phrase “unsinkable aircraft carrier” became a widely used description for such important territories. Nonetheless, it is interesting that during WWII and in the consecutive years (till the outbreak of the Korean War), Taiwan did not belong to the group of islands constituting the defense perimeter of the USA and was not yet considered an ‘aircraft carrier’.

<sup>27</sup> Taiwan moved very close to China in the economic and trade spheres, but this ‘closeness’ has proved to be a double-edged sword and showed the vulnerability of Taipei.

<sup>28</sup> Most members of the international community sympathize with the developed, democratic island, but the acceptance of the ‘one-China principle’ clearly binds their hands.

<sup>29</sup> It was not a surprise that Taipei and the Taiwanese public was offended at the severance of diplomatic relations and the firm steps taken by Seoul to prove to Beijing that it had really chosen China instead of the RoC. Taiwan cut its ties with Seoul and took a decade to repair cooperation in some areas. (E.g. When Korea announced the recognition of China Taipei terminated the commercial flights between Seoul and Taipei, by the way, causing significant losses also for its own tourism industry. Regular flights were reinstated only in 2004 (Yang et al., 2015, p. 155).



everything that might offend Beijing. In fact, just like other members of the international community, Seoul and Taipei mutually established a quasi-diplomatic representation in the partner's capital and allowed public and personal ties to flourish. They concluded many agreements, but at the official level Korea always keeps quiet when the question of the RoC is raised and downplays the importance of this relationship.<sup>30</sup> In this manner, Taiwan is not an 'issue' for Korea, though the local public might show signs of fondness. However, even in the non-political fields a relatively low level of attachment between the two peoples can be experienced.<sup>31</sup>

Summing up the Korea–Taiwan political ties, they can be labeled as good as no real conflicts burden these relations. However, in reality, they could be called more 'indifferent', at least on the part of Seoul, and especially when the question concerns the Taiwan-issue. Taipei understands Korea's position and—just as in the case of so many other partners—accept this distancing and refrains from making any political step that might give reason for Korea to further disengage itself from the island.

#### 4. Economic and Trade Contacts

If in the political field Korea and Taiwan cannot maintain close ties anymore, then—following one kind of economic logic—these two middle-size economies, especially as their development level is high enough, and they are capable to provide each other appropriate goods and services, should be inclined to create their own inner circles of cooperation in order to gain jointly from their complementary advantages and strengthen their position vis-à-vis third—usually stronger—parties. This theoretical hypothesis, however, in our case is not fully supported by concrete evidence.

<sup>30</sup> It is a characteristic feature that in the last decades(!), in the annual publications (yearbooks) of the Korean Ministry of Foreign Affairs, the mention of Taiwan is avoided. (Definitely the denomination of the Republic of China is never found.) Reference to the island is made only if it concerns something concrete, but never in direct connection with the Taiwan-issue.

<sup>31</sup> In the last decades the political and cultural achievements of South Korea called the "Korean Wave" (Hallyu) reached the island and contributed to the popularization of Korea, especially amongst the young Taiwanese and assisted in making the 1992 betrayal of Taiwan forgotten (Lee, 2017, p. 179). However, this is not fully reciprocated by the Koreans. That could be seen on the anniversary of the severance of diplomatic relations between Korea and the RoC (in 1992). Only about 100(!) Koreans demonstrated and demanded the normalization of relations with Taipei, as an independent entity. While this demand is absurd and impractical considering political reality, the number of people engaged indicates the insignificance of the issue for the Koreans. For the event see: <https://www.taiwan-news.com.tw/en/news/3767170>

At the very beginning of their relationship, their position was determined by their collaboration with the USA, and these decades offered them the best chances to widen cooperation. That was the time when they had the least political obstacles to extend collaboration, but on the other hand, these were also the decades when the two underdeveloped economies could offer the least economic and trade advantages to each other. They had just started to break out of the vicious circle of underdevelopment, and considering the low level of local productive capacities, the reliance on American assistance—and later on Japanese war reparations and compensations—neither Korea nor Taiwan was in the position to concentrate on the other's market. In these years Taiwan was a bit more developed than Seoul and its export to Korea was several times higher than the opposite deliveries (See Table 2). This was the result of the somewhat more diverse Taiwanese economy, where agriculture could play a more significant role than in Korea, and of the fact that the Taiwanese SME-concentrating economic policy had produced results earlier than the chaebol-oriented Korean development programs.

**Table 2**

**Commodity Trade between Taiwan and Korea (USD million)**

Period	Taiwanese export	Taiwanese imports	Balance
2001	3,379	6,763	-3,384
2002	3,978	7,785	-3,807
2003	4,741	8,795	-4,054
2004	5,689	11,769	-6,080
2005	5,945	13,357	-7,412
2006	7,253	15,095	-7,842
2007	7,939	15,165	-7,226
2008	8,815	13,190	-4,375
2009	7,445	10,558	-3,113
2010	10,902	16,224	-5,321
2011	12,630	18,186	-5,556
2012	12,137	15,305	-3,167
2013	12,223	16,163	-3,939
2014	12,988	15,289	-2,301
2015	12,879	13,450	- 571
2016	12,788	14,650	-1,862
2017	14,733	16,894	-2,161
2018	15,981	19,530	-3,549

Source: Taiwan Statistical data Book 2019, Table 11-9c. Commodity Trade with Major Trading Partners, 2019, p. 222.

The 'miracles' of the 1960s and 1970s, the radical restructuring of their economies were reflected in the general composition of their GDP, and also generated important changes in their external relations, too. However the data indicate that while development served their well-being and strengthened their international position, it was not easy for Korea and Taiwan to find the common points of interest. Indeed, there were differences in the composition of the production sectors, and there were also a lot of similarities that predicted that they could be more competitive with rather than complementary to one another. Their import structure showed parallelism regarding the share of agricultural products or machineries, while there were several differences in their export. While the share of industrial products reached roughly the same level, and Korea was more involved in producing and exporting heavy industrial goods, Taiwan exported more light industry and agricultural products. By the mid-1970s the foreign trade potential of the two economies seemed to be more or less equal. (In the later years—around the turn of the century—Korea managed to increase its foreign trade, and since then its international trade position, which was based also on its production and servicing capabilities, has been much stronger than that of Taiwan.

In these early decades, it was taken as a natural phenomenon that the United States and Japan were the most important partners of Korea and Taiwan. Originally, Washington took the lead, but from the early 1960s Japan gradually replaced the USA. This situation characterized the period lasting from the Japanese miracle through the elevation of the Asian 'dragons' and to the earth-moving political changes of the 1980s that coincided with the relative decline of the Japanese economy and the entering of China into the world economy. The transformation of global and also regional economic power relations created new vistas for local players and for some time nourished the hope of a more balanced economic situation where middle-size actors could also defend their interests. The most determinant factor of these changes especially in the longer run however, was the displacement of the center of regional economic gravity from the USA and Japan to China.

By the 1980s-1990s, the two economies joined the leading players of the world market in the capacity of developed, technologically most advanced actors. Korea became the 5<sup>th</sup> largest export and the 9<sup>th</sup> most important import economy of the world (OEC, 2017). Taiwan's position was somewhat weaker, but it still could (and can) be found among the leading trading economies. Based on their international economic standing, their high level of development, and, consequently, their ability to appear as complementary partners rather than competitors, a rosy picture could be painted of their possibilities and opportunities regarding bilateral relations. Moreover, as mentioned above, they really occupy important positions in the partner's external economic

relations, although the question is not simply the position but the content and depth of these ties and their durability.

In spite of the continuous increase, the Korea–Taiwan bilateral turnover remained relatively low till the mid-1980s, as the new goods produced were marketed first of all in Japan, the USA and in other territories where there was no strong competition, but solvent partners. It should be recalled that when ‘the miracle’ happened, the Asian dragons took over similar industries and started to concentrate on many similar fields of production, thus creating more competition than complementariness. It took several years for the scope of production to widen to the extent that partners could look for and find those branches of production in which they could excel. The annual turnover reached the magic level of USD 1 billion in 1987, and after that the foreign trade value fairly quickly multiplied. Ever since, the decline in the exchange of goods is more the exception than the rule and occasional setbacks could be connected to global or regional crises. While in the earlier periods Taipei had had a surplus, already from the early 1990s the trend was changed and most frequently Seoul has had a positive balance in trade.

The 1990s and the turn of the century resulted not only in the surpassing of the USD 10 billion level (fairly quickly leaving the 1 billion dollar line behind), but also in the deeply rooted transformation of the foreign trade conditions. The arrival of China to the international economic scene contributed to the restructuring of Korea’s and Taiwan’s external economic relations. Here again, similarities and differences can also be detected. As a kind of natural phenomenon, both for Korea and Taiwan the Asian partners have taken over the dominant roles in their foreign economic cooperation. The USA slipped back behind the Asian competitors and especially the East Asian economies. These countries, including some of the Southeast Asian partners, accounted for 70 percent of Korean external trade in 2018 (68.1 percent is expected in 2019), while the share of North America was 12.3 percent (13.9 percent) and that of Europe was 10.8 percent (10.8 percent), respectively.<sup>32</sup> Among the East Asian economies Taiwan ranked 4<sup>th</sup>–5<sup>th</sup> after China, Vietnam, Hong Kong<sup>33</sup> and Japan.

<sup>32</sup> The calculations are based on the figures contained in the materials of the major international institutions.

<sup>33</sup> Regarding Hong Kong, one can never forget that Hong Kong has been a determinant transit and contact point between the PRC and the outside world. Though the local (Hong Kong-based) economic activity should not be totally disregarded, especially in the technologically advanced and financial sectors, nevertheless, the bulk of its export and import originate in and/or directed to the Mainland. From the perspective of the foreign trade of the two economies concerned, this fact implies that the importance of China in their relevant external dependence is at a higher level than indicated by the figures of their direct trade with China.

In the foreign trade of the island the list is quite similar. For the last 15-20 years, the most important foreign trade and economic partner of Taipei has been China. (The PRC's share in direct trade was 24.19 percent in 2018.) Considering the combined turnover (export and import), the USA (11.95 percent) is still ahead of Japan (10.8 percent), although for long Japanese export has outweighed American deliveries. Seoul takes the 5<sup>th</sup> place (5.7 percent) as Hong Kong (6.9 percent)<sup>34</sup> comes before it.

Despite fluctuations, the ratio of Korea and Taiwan in each other's trade was roughly at the same level. As Tables 3 and 4 show, the value of trade was always on the rise within the time periods selected, just as in the previous decades. Nevertheless, the ratio of mutual trade remained between 2.5-4 percent. This ratio is not very high but—especially considering the combined annual turnover of close to USD 20 billion since the turn of the century—it should not be called insignificant, either. The import-export figures do not indicate a balanced trade, however, it can be seen that in the earlier years Korea had relatively high surplus, while in the last years the merchandise trade seemed to be more leveled. Though in 2018 the Korean export to Taiwan was much higher than the import, during the previous four years the island had had a surplus. However, from whatever angle we consider the imbalances in foreign trade turnover, as Korea and Taiwan have constant surplus in overall trade and the surplus/deficit indicator is also changing from time to time, this fact in the bilateral ties does not cause significant imbalances and tension.

Though the value is a significant indicator of trade relations, the composition of the exchange goods and services tells much more of the relationship. Table 3 and 4<sup>35</sup> reflect the decade-long trends. It is clear that in spite of the wide diversity of commercial objects, in both economies the foreign trade has concentrated on certain groups of products. While in the early periods, when Korea and Taiwan had climbed out of underdevelopment and light industrial products played more important roles, today not only industrial goods, but the most advanced product groups take the lead.

Regarding the Korea/Taiwan-China trade, simply looking at the figures of direct trade, one might be inclined to use the term interdependence, instead of the word dependence. Calculating with the PRC and Hong Kong figures combined, it can be seen that their weight in relation to overall Chinese trade is much less significant. In case of Taiwan, the China + Hong Kong combined figure—in spite of its gradual though slow decrease—is close to 40 percent on both sides of Taiwanese turnover. The corresponding figure for Korea stands at 30.1 percent.

Though officially it is unavoidable to treat the PRC and Hong Kong separately, in this paper—assessing the value of the 'Chinese card'—the data related to these (PRC, Hong Kong) directions can be combined.

<sup>34</sup> As indicated in the previous note, the role of Hong Kong should not mislead anybody. It is revealing that the Taiwanese exports to Hong Kong (USD 41.9 billion) are some 30 times higher than the island's imports (USD 1.4 billion).

<sup>35</sup> In these tables those lines were colored where the value exceeded half a billion dollars.

Table 3

## Foreign Trade Statistics of the Republic of Korea and Taiwan (Chinese Taipei)

Values ('000 USD) SITC revision 3

	Korean imports					Korean exports				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
World	309 379 479 356 841 658 435 270 540 323 081 675 425 208 007 325 457 247 371 477 104 422 003 479 363 531 063 466 380 620									
Chinese Taipei	9 287 534	9 966 531	10 642 868	9 851 388	13 647 080	12 995 658	13 027 109	11 461 972	9 501 115	14 830 499
% of total	3.00	2.79	2.44	3.04	3.20	3.99	3.50	2.71	2.61	3.18
3	90 990	46 267	121 092	111 354	127 009	192 145	201 852	305 143	328 824	502 643
33	90 026	41 253	95 725	72 671	57 448	180 971	192 111	290 915	316 698	485 549
5	581 425	848 248	1 159 381	854 424	1 173 951	2 209 305	2 511 054	2 307 207	1 979 324	3 173 408
51	258 641	486 650	718 705	444 973	592 999	1 643 828	1 823 518	1 479 478	1 090 024	1 706 328
52	28 317	40 376	71 851	47 299	56 950	64 269	108 490	205 211	247 776	415 471
57	89 014	107 512	109 401	77 395	124 585	156 808	166 179	190 251	193 090	268 357
58	45 362	52 850	58 173	55 602	111 267	100 696	114 569	145 802	156 611	261 149
59	110 269	109 418	131 261	177 928	219 996	155 290	210 070	183 391	190 452	376 332
6	1 028 988	1 024 406	1 138 154	1 141 175	1 197 581	1 856 629	2 036 594	2 234 048	1 455 943	2 435 517
65	173 302	171 984	124 538	100 626	134 374	132 172	111 856	103 186	95 951	130 503
66	100 608	94 773	84 240	65 871	72 302	123 018	233 727	217 821	209 448	291 212
67	488 955	458 525	657 755	746 983	665 552	628 933	742 079	940 039	516 627	1 114 789
68	120 363	119 556	109 037	94 617	144 983	781 607	682 419	668 751	389 590	590 759
69	112 775	139 125	127 514	99 044	137 436	101 258	155 468	178 182	149 397	180 838
7	6 245 277	6 486 961	6 671 226	6 563 933	8 990 748	7 378 464	6 802 679	5 351 368	4 470 767	6 902 741
72	89 481	67 739	125 539	75 969	269 245	357 322	441 508	404 252	317 834	623 014
73	110 341	113 987	108 045	45 740	121 153	57 342	46 686	49 669	47 535	100 065
74	115 109	127 580	134 755	97 083	180 953	190 458	144 465	121 743	129 358	238 212
75	369 024	362 050	315 000	161 284	182 900	278 275	341 678	185 232	177 503	231 079
76	176 814	143 509	177 809	260 723	490 492	382 304	391 041	342 990	265 594	277 747
77	5 302 311	5 467 630	5 650 724	5 734 038	7 585 053	5 523 069	5 273 462	4 080 068	3 279 008	4 854 389
78	63 742	98 144	122 657	98 876	106 669	214 813	78 684	81 678	83 652	163 864
8	1 067 327	1 232 310	1 297 198	971 408	1 844 306	1 091 241	1 109 564	864 582	836 867	1 167 566
87	247 758	188 417	166 157	119 820	302 588	553 176	521 458	177 573	144 806	212 471
88	134 508	86 324	91 308	96 069	116 964	276 497	301 037	411 968	369 956	477 407
89	667 947	940 531	1 024 897	742 621	1 405 249	240 889	272 474	255 266	299 491	448 002
9	1 178	4 218	4 904	2 607	1 778	64 651	94 830	153 201	213 820	282 161

Source: The selection is based on the tables of OECD International Trade by Commodity Statistics 2014-2018, Volume 2011/5.

Note: Because of the limited value of certain groups some product groups/headings (that are below 9 digits) are omitted from this table. The figures of the first column refer to the following product groups: 3 Mineral fuels, lubricants and related materials; 33 Petroleum, petroleum products and related materials; 5 Chemicals and related products, n.e.s.; 51 Organic chemicals; 52 Inorganic chemicals; 57 Plastics in primary forms; 58 Plastics in non-primary forms; 59 Chemical materials and products, n.e.s.; 6 Manufactured goods; 65 Textile yarn and related products; 66 Non metallic mineral manufactures, n.e.s.; 67 Iron and steel; 68 Non-ferrous metals; 69 Manufactures of metal, n.e.s.; 7 Machinery and transport equipment; 72 Specialized machinery; 73 Metal working machinery; 74 Other industrial machinery and parts; 75 Office machines and automatic data processing machines; 76 Telecommunication and sound recording apparatus; 77 Electrical machinery, apparatus and appliances, n.e.s.; 78 Road vehicles; 8 Miscellaneous manufactured articles; 87 Professional and scientific instruments, n.e.s.; 88 Photographic apparatus, etc.; watches and clocks; 89 Miscellaneous manufactured articles, n.e.s.; 9 Commodities and transactions, n.e.s.

According to Table 3, in the first decade of our century chemical products, manufactured goods, machinery and transport equipment composed most of the turnover. Data indicate that comparing the figures on both sides in the same groupings, Korea

showed some surplus, although that was not totally one-sided. On the contrary, most economies proved to be strong in similar statistical headings.

**Table 4**

**Foreign Trade Statistics of the Republic of Korea and Taiwan (Chinese Taipei)**  
**Values ('000 USD) Harmonized system 2012**

	Korean imports					Korean exports				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
World	525 556 978	436 486 935	406 181 944	478 469 168	535 183 373	573 074 773	526 753 006	495 417 716	573 627 369	604 807 317
Chinese Taipei	15 690 452	16 653 850	16 403 201	18 072 988	16 738 374	15 103 475	12 004 264	12 220 455	14 898 398	20 783 510
% of total	2.98	3.82	4.00	3.77	3.12	2.64	2.27	2.47	2.59	3.44
03	103 824	100 966	97 998	105 094	115 992	11 619	13 997	12 531	13 076	20 422
27	53 797	62 106	85 128	98 464	51 934	2 281 036	1 421 692	1 800 325	2 821 865	5 595 331
28	70 481	56 170	64 184	97 898	123 173	483 396	390 008	350 837	343 037	333 423
29	655 427	533 232	457 356	560 159	783 275	1 633 473	1 048 220	1 020 241	1 430 554	1 955 492
33	10 715	10 303	10 120	10 954	12 190	125 253	131 787	124 291	153 980	156 603
37	33 749	28 147	29 072	22 282	26 510	86 782	109 680	135 752	147 446	148 372
38	185 348	185 190	218 690	190 253	183 130	358 089	276 057	252 078	292 146	335 747
39	472 679	442 418	433 513	565 996	586 608	596 940	449 034	394 611	446 251	494 718
70	155 012	106 605	92 098	90 801	78 104	228 220	192 929	273 474	291 609	323 104
71	114 815	36 011	29 219	30 715	10 047	221 602	180 821	165 823	154 300	132 424
72	529 883	361 035	356 558	596 291	505 964	595 684	524 616	445 596	532 420	574 720
73	101 177	95 935	114 395	135 413	190 037	132 112	128 329	156 534	162 553	244 464
74	227 839	180 966	185 860	220 463	242 102	167 989	159 843	245 682	199 147	238 372
84	798 207	851 852	1 128 064	1 728 253	899 053	1 041 566	972 207	1 056 587	1 068 598	1 246 060
85	10 795 479	12 208 438	11 775 406	11 648 615	11 164 151	4 734 918	3 902 200	3 995 116	4 868 277	7 039 880
87	137 391	160 985	141 416	126 177	110 848	299 411	273 533	213 898	224 302	184 097
90	494 467	433 249	531 540	1 164 459	944 307	736 902	669 837	391 748	415 531	496 816

Source: The selection is based on the tables of OECD International Trade by Commodity Statistics 2014-2018, Volume 2019/6

Note: Because of the limited value of certain groups some product groups (that are below 9 digits) are omitted from Table 4 above. The figures in the first column refer to the following headings: 03 Fish, crustaceans, mollusks and other aquatic invertebrates; 27 Mineral fuels, mineral oils and products of their distillation; bituminous substances etc.; 28 Inorganic chemicals; compounds of precious metals, rare-earth metals etc.; 29 Organic chemicals; 33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations; 37 Photographic or cinematographic goods; 38 Miscellaneous chemical products; 39 Plastics and articles thereof; 70 Glass and glassware; 71 Pearls, precious or semi-precious stones, precious metals; imitation jewelry; coin; 72 Iron and steel; 73 Articles of iron or steel; 74 Copper and articles thereof; 84 Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof; 85 Electrical machinery, equipment parts; sound and television recorders; 87 Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof; 90 Optical, photographic, cinematographic, precision, medical or surgical instruments etc.

Since the 1980s and 1990s a straight, linear development line could be observed and while certain centers of gravity were relocated, these changes usually could be connected to the general technical-technological development of these economies. Having left the phase of medium-level development and fast approaching the characteristics and conditions of the developed countries, Korea and Taiwan were involved in the production of manufacturing and consumption goods of the highest—or close to

the highest—standard, and such items also appeared in their bilateral trade. Though there was some overlapping in their production structures, there was wide room for the exchange of goods. It was indicative that on the export side of both economies, industrial products (machinery, manufacturing goods, etc.) constituted the top group. As the data clearly show, since the early decades this heading amounted to more than half of the total. (In the very beginning, Taiwanese companies were more capable than the Koreans to deliver different types of agricultural products and foodstuffs, and they still export such items, but these goods altogether cannot anymore cut a significant slice out of the Korean export.)

The transformation, which recently characterized global economy and shifted the focus on high technology, became also reflected in the Korea-Taiwan turnover. In spite of its relative diversity, Taiwanese export can be centered on a few groups, namely machinery, electrical machinery, optical, precision, etc. products. (These are as follows: 84, 85 and 90.) Still among these three headings No. 85 (electric machinery, equipment parts, sound and television recorders) is the outstanding one that contains items that constitute the most important products of the island's economy: high tech electronic elements /integrated circuit, semiconductors, and other parts/ that are among the most sought-after products in international trade. It is not surprising that on the Korean side the most important export items together with machinery and ICs (integrated circuits) constitute the most important and valuable goods—in addition to refined petroleum (chemicals, as mentioned).

The composition of foreign trade reflects the rather competitive nature of the two economies, and also shed light on the areas where mutual advantages can still be ensured through either traditional trade or the modern forms of collaboration, namely GVCs systems. While the value of turnover commands respect and there is still room for further growth, this depends on factors whose formation is beyond the capacity of both Korea and Taiwan, and which depends on 'third parties', in their case first of all on China, while in the special Korea-Taiwan case, especially on Seoul and the least on Taiwan.

Under the current circumstances, Korea faces a relatively bright future. It has serious problems as all the other international players, but the conditions give cause for confidence. In spite of the uncertainties, regional political and security trends indicate that conflicts on the Peninsula and in East Asia in general, can be tackled peacefully. The technological advancement of the country is not endangered by any competitors—except, perhaps, China. The global economic fluctuations do not leave Korea intact, but its ability to endure difficulties is better than that of most economies.



In addition, Korea has joined and is capable to join any international institution that has a say in international economic matters. Furthermore, Seoul has already joined practically all those universal and regional organizations where major decisions are taken.<sup>36</sup> Korea already concluded economic and trade agreements (first of all FTAs – Free Trade Agreements) with the most important partners, and very widely enjoys the benefit of these agreements.

Compared to Korea, Taiwan is in an awkward situation. While it is still part of the group of the most developed economies of the world and, in spite of its delicate environment it has managed to keep this position, its middle-term prospects give cause for pessimism. It must face not only the political, but also the economic and commercial pressure of Beijing, including its further exclusion from international institutions, including the regional organizations, the impediment from concluding economic and trade agreements with third parties, etc. It tries to loosen its dependence on the PRC, but its 'New Southbound Policy' (NSP) has until now offered meager results.<sup>37</sup>

Taiwan's position could be preserved, if it could counterbalance the efforts of China and if it could maintain its global and regional economic influence and extend its deeper collaboration not only with individual economies but multilateral institutions as well, let alone retain its organic inclusion into the GVCs systems. In this respect, Korea might also have a role to play. If it wants to play such a role, at all.<sup>38</sup> On the one hand, it is clear that Seoul has no inclination to get into any kind of debate with Beijing and will not sacrifice its own national interest for a third party. On the other hand, by the application of non-political and non-military means, first of all through

<sup>36</sup> Korea is already the member of the WTO, the OECD, etc. and, besides these global institutions, is connected to all the major Asian and Pacific organizations (e.g. APEC). It has close economic ties with ASEAN and started talks on its joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). (Though these talks were practically finalized, because of the Japan-Korea dispute concerning the Korean export of semiconductor and display materials, the Korean Government suspended the process.) In fact, Korea is welcome in any economic organization the charter of which allows the extension of membership and Seoul is ready to join.

<sup>37</sup> It is claimed that this NSP already produced concrete results, e.g. Taiwan's Chinese export declined from 41 percent to less than 39 percent (Chiang, 2019). Though some reports published by the government indicates similar trends, this information should nevertheless be handled with caution. (For instance, the ratio of China in Taiwanese export has never been 41 percent, only if Hong Kong is also taken into consideration. In addition, the latest Taiwanese official export figures, obtained also from official sources, indicate not a decline but a slight increase in the island's export to China (The Bureau of Foreign Trade – MOEA, 2019a).

<sup>38</sup> As indicated earlier, it cannot be expected that Seoul will fight for Taipei, unless it has its own problems with Beijing and thinks realistically that a stronger Taiwan can also serve its own interest. McGuire (2017) explored this question in his short paper, but could not really come up with viable propositions.

strengthening economic and trade cooperation, it could assist Taiwan in staying afloat in international economy and trade. This can be achieved by maintaining and/or increasing a mutually profitable economic cooperation or by way of cooperating with Taipei in third markets, and not least expanding collaboration in the GVCs.

This last element is not a new phenomenon, as Korea and Taiwan have both been involved in the trans-border cooperation embodied in the GVCs. In the 1980s, the high technology enterprises were first to fragment their production processes and incorporate East Asian partners into the production chains. Korea and Taiwan became involved in the production of intermediate goods and imported similar, non-final products that they further processed and either returned to the original, multinational partners or exported further to less developed countries where the finalization takes place.

Though at the beginning the Korean-type development policies, which concentrated on the chaebols, left somewhat less room for this new and very profitable type of international collaboration, the size of the domestic market and the demand for efficiency and cost-reduction forced the Korean firms to distribute manufacturing and certain elements and components of operation to partners. By the turn of the century, Korea became one of the most important actors in GVC networks. In Taiwan, SMEs have taken the lead. In general, they did not strive for engaging themselves in vertically comprehensive productions and were more inclined to excel in fractional activities. Thanks to the high level dispersion of production, many SMEs proved capable of obtaining vanguard knowledge and became top-level producers of products, intermediate goods, elements or spare-parts required by large, mainly international enterprises. The incorporation of these Taiwanese companies into the production (or servicing) process of most sought after goods helped them to acquire and utilize the highest level of technologies and got into the mainstream of GVC networks.

Though Korean and Taiwanese enterprises are jointly involved in GVC networks, and, according to available information, Korea is the 3<sup>rd</sup> most important GVC-partner of Taipei, they do not constitute determinant partners for each other in this area. They mainly concentrate on 'southern' partners, as their incorporation into multilateral economic activities seem to be one of the most pressing issues, especially for Taiwan. The incorporation of such partners into its own 'economic world' can be one of the few tools that can consolidate the position of Taiwan. The southern opening of Korea and Taiwan is understandable because the South (South and Southeast Asia) might provide some room for maneuver, where they can still compete with or resist China. For the last 15-20 years, the PRC has become the central actor in GVC-cooperation,

and while earlier it was more an importer of intermediate products and contributed mainly to the finalizing/completing phase of the production process, today Beijing is also the largest exporter of processed goods containing higher value-added content. In this respect, the PRC has become a strong competitor to Korea and Taiwan. This finding is especially valid in the high technology sectors and GVC networks. To be sure, China could not yet become completely independent of the external suppliers, although the trends and the Chinese official policy indicate that it strives for strengthening its own independence and reduce the role of outside partners. It has already managed to increase the local value content of processed export and the trend seems to be continuing.

An additional interesting element from the viewpoint of Korea and Taiwan is that they have become the leading providers of intermediate goods and other components to China, and thus they compete with each other (Thorbecke, 2014). According to supplementary information, they also realize a high level of foreign trade in goods for GVC cooperation, although available data do not clearly show that this exchange of goods can be connected to unique and strong collaboration, or the parties simply offer each other goods in particular areas where GVC cooperation is realized. However, these cannot be considered activities where the partners complement each other in a valuable and mutually progressive manner.<sup>39</sup>

The strength of bilateral cooperation can also be assessed by the value and extension of mutual investments (foreign direct investments, FDI). In this respect, the figures do not reflect real closeness. Since the early 1950s, Taiwanese enterprises realized somewhat more than 200 investments in Korea that amount to the value of about USD 1.6 billion. In 2018, 7 cases amounted to USD 220 million. The number of Korean investments in Taiwan surpassed 1,500 cases and their value exceeded USD 1.23 billion. In 2018, there were 123 projects with the value of USD 41.5 million (The Bureau of Foreign Trade, MOEA, 2019b). Comparing the figures of Table 5 and 6, it can be seen that neither Taiwan nor Korea considered the other as a prime investment market. (Korean FDI in Taiwan is around 1-1.2 percent of the total FDI while in Korea the share of the Taiwanese is about 0.67 percent. Considering the figures from 2018, the share

<sup>39</sup> It had been very useful to obtain data on the extension and composition of the GVC cooperation with Korea and Taiwan, but efforts in this respect proved to be futile. The difficulty to acquire such figures stem from the fact that the GVC-question has been accepted recently in the major international organizations dealing with trade (WTO, OECD, etc.), and the gathering of targeted data is still a new phenomenon and not widespread.

Thorbecke (2014) publishes very useful data on China's GVC contacts with third partners, including Korea and Taiwan and a lot can be learnt of the position and trade of these two economies regarding the PRC, although no conclusions can be drawn on their bilateral (Korea-Taiwan) relations.

of Korean FDI is 0.29 and the Taiwanese one is 3.14 percent.)<sup>40</sup> This situation can be considered indicative in light of the fact that both Korea and Taiwan belong to the favorite FDI locations and are eager to host foreign companies, especially with higher level of technological knowledge.<sup>41</sup> The main sectors of foreign investments on both sides belonged to the groupings comprised of electronic components, computer and electronic products, optical goods, finance and insurance services. In addition to the mutually 'supported' branches, the Taiwanese also invested in pharmaceuticals and some other areas, while the Koreans invested in wholesale and retail industries and some others.

**Table 5**  
**Foreign Direct Investments in Taiwan**

Foreign Direct Investment	2016	2017	2018
FDI Inward Flow (USD million)	9,261	3,291	6,998
FDI Stock (USD million)	83,048	93,945	100,943

Source: Santander Trade Portal, 2020a, based on UNCTAD, 2019.

**Table 6**  
**Foreign Direct Investments in Korea**

Foreign Direct Investment	2016	2017	2018
FDI Inward Flow (USD million)	12,104	17,913	14,479
FDI Stock (USD million)	188,877	229,399	231,409

Source: Santander Trade Portal, 2020b, based on UNCTAD, 2019.

The rather low level of FDIs is understandable when we bear in mind that the two fairly similar economies can find the best venues (and profitability) for their capital not in the other party with comparable capabilities but in 'weaker' partners where more complex interests can be served (more economical conditions, positive market facilities, longer term interests, etc.). Regarding foreign investments again, the south-bound policies of Korea and Taiwan can be recalled.

<sup>40</sup> It is understood that the data from one single year cannot indicate real trends. Nevertheless, through the extrapolation of figures it can be clear that Taiwan and Korea found better markets for their investments than their partner (namely Korea or Taiwan, respectively).

Note: calculations were based on data originating from different sources. Thus the risk of distortion is relatively high. Nevertheless, the data provided appropriate basis for extrapolation within wide margins.

<sup>41</sup> As indicated by the publications Doing Business in Taiwan/Korea, Seoul and Taipei belong to the most 'hospitable' venues for FDI.

The other area where theoretically Korea could assist Taiwan, is the sphere of multi-lateral cooperation. The GVC-collaboration, which is organized and managed usually by private, essentially multinational companies, do not impede the incorporation of Taipei into multinational cooperation. The question of international institutions makes a different case. Economic and, to be sure, trade agreements are negotiated and concluded among independent political entities, and as Taiwan (RoC) is not recognized by the great majority of states its membership or its application for joining an organization and/or agreement depends on the will and consent of the members of the organization or institution concerned whose behavior is not only determined by their individual interest but also by their relations with China.<sup>42</sup>

Korea is in a comfortable position as it is not only a member of the most important international organizations on its own right but has been invited and/or joined institutions and/or agreements either as founding member or as a late-coming applicant.<sup>43</sup> Korea is present in the Regional Comprehensive Economic Partnership (RCEP), concluded free trade agreements with the ASEAN and many other Asian and non-Asian countries, held talks on its membership in CPTPP and signed FTAs with many partners, etc. Thus it is in a good position to defend its interest. Moreover, it cannot be expected to sacrifice these or other (political, security, etc.) interests for the sake of a third party, and especially not against its determinant partner, China. In every other case, again theoretically, Korea could lend a helping hand providing at least political

<sup>42</sup> If China is a member of the given organization, the situation is quite simple: Beijing can very easily influence the other members as to how to receive the application of the island. It is also clear that the PRC will never accept the application of Taiwan/RoC as a full member of any institution, because that would indicate an equal legal status that, on the other hand, goes against the one-China principle. So if China allows any move, any attempt of Taipei to get inside an organization, the maximum status it could attain might be that of an observer or a 'guest'.

The case is more interesting if China is not a member of an organization/institution or agreement, which Taiwan intends to join. On such occasions, theoretically, the members or signatories have the right to decide the fate of the applicant (namely Taiwan), although it is still relevant that the parties think over a.) what the position of the PRC might be, and if Beijing would consider the support of Taiwan a bad thing, what its reaction might be; b.) what might happen if China applied for membership or partnership regarding the mentioned institution/agreement?

The most relevant examples for these cases can be the Regional Comprehensive Economic Partnership (RCEP), the Asia-wide free trade agreement-proposal, and the CPTPP.

<sup>43</sup> Besides the UN and its affiliated organizations, Korea is a member of all the major institutions (OECD, WTO, etc.) and multilateral forums (G20, etc.) and either as member or as an observer is attached to most of the Asian organizations that have an influence over the economic cooperation of the continent. Thus, it is a dialogue partner of the ASEAN (within the framework of ASEAN Plus Three (China, South Korea, Japan), it concluded an FTA with this organization (ASEAN-Korea Free Trade Area /AKFTA/), etc. What is more, as it was already mentioned, Korea is also party to APEC. Taiwan, on the contrary, is excluded from most of these forums, with few exceptions (WTO, APEC), although in exceptional cases, its role in practical interest-defending capabilities are curtailed.

support to Taiwan, although the question of economic competition should not be lost out of sight. The exclusion of the island from a multilateral cooperation is not a simple political issue, as the absence of Taiwan from the decision-making forums and basic economic and trade agreements harms not only the political interests of this economy but is causing concrete and quantifiable disadvantages, too. It will be in a weaker position than its competitors regarding market access, taxation, competitiveness, etc. and these could undermine its international economic position.<sup>44</sup>

Considering Korea's potential support of Taiwan, the basic consideration of Seoul can be that the strengthened position of the island in the international economic scene might increase the competitive edge of Taipei. What could serve the interest of Korea better in the short-, medium-, or long-term: a stronger but more competitive, or a weaker and less competitive Taiwan? The Korean answer depends on the perceptions of the decision-makers that is difficult to predict.

## 5. Conclusion: The Shy Partnership – Final Considerations

The Republic of South Korea and Taiwan (Republic of China) have many common features, and, based on this, it could be presumed that they can get close to one another and work for their mutual benefit. However, due to circumstances beyond their scope

<sup>44</sup> There is no space here to give a detailed introduction to Taiwan's multilateral and/or FTA connections. Nevertheless, it is worth summing up certain elements of the situation. It is well-known that Taiwan managed to conclude FTAs with a few Latin-American and Pacific economies, and a very few more developed countries (like Singapore, New Zealand (but these later agreements were concluded at the time when Beijing looked more positively to the Ma administration in Taiwan). Taipei also started talks with others on signing similar agreements, but most of its partners showed caution to proceed. (For instance, Australia with whom the talks had been already close to be finalized shelved the negotiations because China showed signs that it would look unfavorably upon Canberra, if an FTA was concluded (Tillett, 2019). It can be presumed that other potential partners would follow suit.

All this does not mean that there are no possibilities for Taipei. Some of the stronger economic actors, like the USA, the EU, or India, might be inclined to make a deal with Taiwan, perhaps not fully identical but similar to an FTA, although they also keep an eye on the PRC and make their own calculations. (At the end of 2019, a significant group of US House members informed the administration that they would support a bilateral trade agreement with Taipei. It is difficult not to see that the American initiative cannot be disregarded from the USA-China trade tug-of-war and the worsening relations. At the same time, it is difficult to rule out that among changed conditions, the American stand will be modified again (Chin-yeh – Mazzetta, 2019).

Concerning the China-Taiwan trade connections it must be recalled that in 2010 the Ma Government signed the Taiwan-China Economic Cooperation Framework Agreement (ECFA), although it was not signed and was put on hold (or perhaps terminated for good). Due to the protest wave (initiated by the Sunflower Movement in 2014), Beijing did not and could not stop cooperating and trading with the island, however, since 2016 it has been making more efforts to cause problems for its adversary.

of capabilities, they could not theoretically and also logically near each other as their interests would dictate. They are not really compelled to neglect each other, but neither do they constitute invaluable partners for each other. Moreover, in areas where, for whatever reasons, they are inevitably interlinked, they mainly compete with each other instead of looking for the common ground of cooperation. On certain issues they could not only understand each other but could lend a helping or supportive hand to the other. Nevertheless, it happens rather rarely that they provide support to the other party, either in the political or the economic field.

This is not a partnership of equals, nor of equal interests. Taiwan needs Korea more than vice versa. It should not be understood as if a stable and economically strong Taipei could not improve the regional position of Seoul, too. Yet Korea often indicates that the presence (or the question) of the island and their relations are more detrimental or harmful than advantageous. In spite of their political and ideological similarities, Seoul would like to limit their relations to the confines of economic and trade cooperation and distance itself from all the political issues related to Taiwan. It is more than shy to acknowledge that there is much more potential in this relationship than what is shown by facts and figures.

South Korea and Taiwan had passed through a political democratization process, economic liberalization, carried out 'miracles' and all these could provide a common ground for mutual understanding. While the 'friendship' of Seoul might be more valuable for Taipei, democratic Taiwan could also be a rather strong and demonstrative partner for the RoK, vis-à-vis North Korea, and also China. Korea's preoccupation with its not only political but also economic survival hampers Seoul to get closer to Taipei even in this respect. Because of its own problems, especially the (North-) Korean question, South Korea considers vital the avoidance of any step that might provoke the PRC. Indeed, Korea's hands are also bound not just because of the political and security considerations, but due to its economic interests in cooperating with the PRC, that is its most important economic and trading partner. Having China in the driver's seat makes Seoul extremely cautious in all its external dealings (especially regarding Taiwan).

While theoretically<sup>45</sup> Korea can enjoy practically all the advantages of being a recognized member of the international community, Taiwan looks more a pariah of this

<sup>45</sup> It is known that theory does not equal to practice in international relations, and power relations overrule hypothetical equality. Thus, the international standing of the RoK might provide great strength to Seoul vis-à-vis many partners, which would not guarantee an equal position against the PRC. Still, its situation is much stronger than that of Taipei.

community. It needs supporters, but it is not in the position to make substantial offers. It can help some less developed and poorer partners in the world, but simply it cannot offer services to Korea that this partner could not get somewhere else.<sup>46</sup> In addition, for both of these entities China constitutes one, if not the most important partner. It cannot be questioned that in case of Taiwan, whatever it does it must keep in mind the existence and global presence of the PRC. For Seoul, the situation is somewhat different. Because of these and some other well-known reasons, the Korea–Taiwan relations can be most objectively assessed through the China-prism.

Korea and Taiwan have severe reservations over the ambitions of the PRC, but economically, and especially commercially they very strongly depend on Beijing. Though Beijing also could not cut its ties with Korea or Taipei easily, any major disruption in bilateral relations would be more painful for the smaller partners. Even in this respect Korea is less vulnerable than Taiwan. Both Taipei and Seoul try to mitigate the Chinese pressure, but their scope of maneuver is limited.

Theoretically it could be ascertained that, in order to counter-balance their dependence on Beijing, these two East Asian actors should work closely with one another for the sake of strengthening their power position in the region and also in a wider area. However, the question arises whether there is any room for a cooperation that could produce mutual gains. The political reality shows a rather cloudy picture. Taiwan was very much in favor of cooperating with Korea (practically with everybody who was ready to do so). Unfortunately, this entity simply does not have the means to offer meaningful assistance to Seoul either in its relationship with China and North Korea (that are the most sensitive and relevant questions for Korea) or anyone else (like Japan, the USA, EU or others). Korea does not have the inclination to embrace this kind of opportunity if they jeopardize the relations with third parties even to the slightest degree, especially with the PRC. In these conditions it is not a surprise that Korea and Taiwan do not have strong political ties. Korea is making use of the internationally applied practices (that have been tolerated by Beijing) and has its representation in Taipei that contributes to the maintenance of the not unfriendly but also not too close political, cultural relations. Being in a weaker position, Taipei, was ready to deepen and widen these ties, although contained by the limits set by Seoul itself.

<sup>46</sup> This statement relates not only to the political but also to the economic field. Naturally, certain goods and/or services obtained from Taiwan can be cheaper and/or better quality than similar merchandises bought somewhere else but—as it has been stated earlier—Taiwan could not make itself an irreplaceable partner for Korea.



Seemingly, there is more room for cooperation in the economic field. Trade turnover confirms that Korea and Taiwan, as well as their companies can find cooperation profitable. Seoul and Taipei managed to elevate their economies to a very high level and standard, but instead of establishing a kind of organic mutual reliance, they became each other's competitors. Despite the frequent competition, local companies could find their partners and extended trade and got involved in the most up-to-date forms of international division of labor, namely the functioning of global value chains. Reaching roughly the same level of industrial and technological development, they could expand cooperation, especially in manufacturing and high technology production. This cooperation proves to be mutually beneficial and the partners seem to be ready to continue this kind of collaboration.

Considering the present international and local conditions, it is not realistic to calculate with the significant improvement of the situation, at least not on the side of Taiwan. This means that bilateral relations will remain within the present frameworks. They will facilitate bilateral trade, cooperation at company level, but will not radically change the distance that keeps not only the political circles but also the two economies apart. It would be a mistake to refer to the political hindrances as the only causes of the relatively loose economic ties. The different ways and methods of economic development described earlier, the characteristics of the major economic players, including the two administrations, the local enterprises and the permanent competition between these parties make it almost impossible to overcome competition and harmonize long-term aspirations.

The picture painted above looks rather negative and pessimistic. Nevertheless, an analysis can prove that in spite of the challenges, it might be to the advantage of Korea and Taiwan to further explore the common ground for cooperation.

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# The Development Potential of the Philippines–South Korea Relations in Light of the Duterte Government's “Independent” Foreign Policy

Péter Klemensits

## 1. Introduction

Having won the presidential election in May 2016 and been inaugurated (June 30), Rodrigo Duterte immediately began to shape the new Philippine foreign policy, described by him as “independent”. Despite the promises made during the election campaign, a major turn was unlikely; still, unlike his predecessor Benigno Aquino, over the past three and a half years, Duterte placed the country’s foreign and defense strategy on completely new foundations the most apparent aspects of which are the distancing from the United States and the opening towards China. As the Philippines is traditionally regarded as the USA’s most important South East Asian ally, Duterte’s new policy turn has a decisive effect not only on the more restricted region’s future, but also on the American–Chinese geostrategic rivalry in the Asian and Pacific regions.

The new “independent” foreign policy, however, influenced not only the relations with the US and China. The Philippines strives to develop a closer cooperation with the regional powers, Russia, Japan, South Korea, and to strengthen its partnerships with the ASEAN states as well.<sup>1</sup> As the Japanese and Russian partnerships play a significant role in diversifying foreign relations in terms of geopolitics, many analyses have been written on this topic. South Korea, however, has been somewhat neglected in this regard, so its situation is worth a closer examination.

This paper following a summary of the essential elements of Duterte’s “independent” foreign policy, and through an examination of the Philippines–South Korea relations—aims to find an answer as to how the development of the two countries’ political, economic, and cultural relationships is in line with Manila’s foreign policy objectives, as well as to highlight the perspectives and challenges of cooperation between the two countries.

<sup>1</sup> Due to its length limitation, the present paper does not cover the evolution of the relations with the ASEAN countries.

## 2. The Philippines Foreign Policy

### 2.1. The Philippines in the International System

Following Philippines' independence from the United States in July 1946, the two countries remained close allies and "partners". In accordance with the Mutual Defense Treaty of 1951, the United States guaranteed the country's protection, and the Military Base Agreement of 1947 allowed the United States to use facilities such as the Naval Base Subic Bay. Beside Thailand, the Philippines was the only Southeast Asian member of the SEATO, strongly committed to the fight against communism. Although, as a founding member of the ASEAN, Manila also supported the regional integration ambitions, by the end of the Cold War, the country's political, military and economic relations were determined by its dependency on the USA (Klemensits, 2016, pp. 13-14).

In 1992, however, the Congress refused to extend the American military presence and the conclusion of another "military bases" agreement, with regard to their right to pursue a sovereign foreign policy, but this event had only minor effects on the political and economic relations. The Philippine government began to see China's emergence and its South China Sea expansion more and more as a threat, therefore, in the beginning of the 2000s, simultaneously with the global war on terror, it again became interested in strengthening the alliance.

Amongst the ASEAN countries, beside Vietnam, the Philippines represented the strongest position against China in the South China Sea conflict, worsening the relationship with the Asian giant, while also contributing to the organization's division over the issue.

During the Presidency of Benigno Aquino, from 2000, the country welcomed the announcement of the American concept of "rebalancing", in exchange for military and political support, therefore, it became one of the most important pillars of the concept to Washington. The Obama administration openly supported the Philippines in its South China Sea dispute, and in 2011, it declared that the two countries (the US and the Philippines) were historical allies and "strategic partners". In April 2014, with the signing of the Enhanced Defense Cooperation Agreement, the partnership deepened further, allowing the return of the US forces on a rotational basis (Thayer, 2014).

Aquino began to treat the protection of the South China Sea interests as key national geostrategic issues, and in order to protect them, he was even willing to engage in conflicts with China, when in 2013 he petitioned the case to the International Court of

Justice at The Hague. Appealing to the economic development of the country, he considered the deterioration of the existing political and economic relations with China acceptable, therefore, he tried to rely more on the ASEAN partners, the USA and its allies, Japan as well as South Korea. Aquino, in his foreign policy, committed himself even more to the USA than previously, and he supported the efforts aiming to encircle China as well (Loewen, 2018).

## 2.2. Key Elements of the “Independent” Foreign Policy

### 2.2.1. Opening to China Policy

The assumption of office by President Rodrigo Duterte in June 2016 placed the country's foreign and defense strategy on completely new foundations, the most apparent aspects of which are distancing itself from the United States and opening towards China and Russia. The court decision of July 12, 2016 in the South China Sea dispute basically favored the Philippines and rejected the position of China. Despite this, Duterte has sought compromises with China from the beginning.<sup>2</sup> During his visit to Beijing on October 18-21, 2016, the Philippine President confirmed the essential elements of his country's “independent foreign policy”, which contained the maintaining of security and economic ties with the US, but, at the same time, committed the Philippines to close economic cooperation with China. Of course, the Philippines did not wish to end diplomatic, defense, and economic ties with the US; it only wanted to make its foreign policy independent from Washington, and thus did not wish to be part of the concept of “Rebalancing”. Hostility towards China is no longer a strategy that pays off. China, realizing its non-cooperative conduct had achieved its goal—that is, it had made the Philippines cooperate by taking a firm stance—, changed its strategy as a result of Duterte's opening towards it. Duterte was welcomed at the highest level during his visit to China in October 2016, meeting President Xi Jinping and Prime Minister Li Keqiang. He was accompanied by 400 Filipino businessmen, demonstrating the importance of economic ties. The parties signed 21 agreements worth 24 billion USD, of which Chinese investments account for USD 15 billion, complemented by an USD-9-billion-credit line. The Philippines does not wish to be left out of China's “21<sup>st</sup>-century Silk Road” project, so the majority of investments are linked to infrastructure development (Smith, 2016).

<sup>2</sup> The President recognised that the court decision was almost impossible to enforce, and that the country could only lose against China both politically and economically, while US help was uncertain; thus, the only solution was the improvement of bilateral relations with China.

In May 2017, President Duterte visited Beijing again in person to attend the Belt and Road Forum, where representatives of the BRI stakeholder countries participated. Many economic and energy agreements were signed during the negotiations, while the Philippine President talked about the positive effects of Chinese investments on the island nation's development. In November 2017, President Duterte welcomed Chinese Prime Minister Li Keqiang on an official visit to Manila, during which the parties signed 14 agreements concerning cooperation in the fields of trade, finance, infrastructure, and defense. During the negotiations, China offered loans worth USD 7.2 billion to finance Philippine infrastructure investments. In April 2018, during Duterte's visit to Hong Kong, agreements on investments worth USD 9.8 billion were signed.

Over the past three years, the relations between China and the Philippines took a new path, confirmed, among others, by high-level visits and signed agreements. President Xi Jinping's visit to Manila in November 2018 can be regarded as the culmination of the cooperative strategy as the parties signed 29 contracts on this occasion, covering economic, defense, justice, and cultural fields. The agreement to jointly explore the energy sources in the South China Sea signaled that Manila was willing to adapt to Chinese political requirements for the sake of cooperation (Eszterhai – Klemensits, 2018). In April 2019, at the second BRI Forum, 19 additional investment agreements worth over USD 12 billion were signed, proving the continuation of the cooperation.

To Duterte, it is important that the Chinese government has the same position regarding anti-drug actions and human rights, and both countries reject foreign criticism.

From the perspective of real politics, the close cooperation with the Chinese might trigger new favors from the US—if it wishes to maintain its former position—, and the Philippines might finally profit from playing the two great powers off against each other.

### **2.2.2. The Transformation of the US–Philippines Alliance**

After the Obama administration criticized Duterte's anti-drug campaign in late 2016, the relationship of the two heads of state deteriorated. He also objected to be a subject of lectures by the US on human rights issues, therefore, he needs new allies such as China and Russia, the more so because Washington is not willing to provide him proper weaponry any more. He also promised to end the joint US-Philippine patrols on the South China Sea along with the annual joint Philippine–US Balikatan military

exercises.<sup>3</sup> During his visit in Beijing on October 20, he spoke about the separation from the US, by which he, as explained later, did not mean the termination of diplomatic, defense, and economic relations, but merely an independent foreign policy reorientation. In fact, Duterte does not wish to be part of the concept of “rebalancing” announced by Barack Obama, and would not like to keep fighting against China—since it was not worth at all for his own country—, rather, he would like to focus on joint cooperation with the US and other countries. Similarly to the previous President, Gloria Macapagal Arroyo, Duterte also tries to establish good relations with both rival major powers, but unlike his predecessor—at least in communication—he is the first to take actual steps towards distancing his country from the US (De Castro, 2016, p. 152). Duterte would not like to give up the US investments either, but as these have not been able to meet even the infrastructural needs, it is clear that there is a need to look for new partners.<sup>4</sup>

The Philippine political leadership eagerly awaited Donald Trump’s Presidency, as after his inauguration on January 20, 2017, the new US President spectacularly broke with the objectives and values represented by the democratic government in his new foreign policy. Soon, it turned out that the issue of human rights is not a priority to Trump during his negotiations with the Philippine political leadership. Trump did not deny supporting the anti-drug campaign of the Filipino President, let alone his other internal and foreign political measures. Since the Trump Cabinet—similarly to Obama—soon realized the strategic importance of the Philippine-US relations, it did their best to mitigate the tensions and restore the harmonious cooperation.

One of the decisive elements of Trump’s Asia Tour in November 2017 was his meeting with the Filipino President and the opportunity to reform the bilateral relations. Following the APEC Summit organized in Vietnam, President Trump arrived in the Philippines on November 12, where his first official meeting with the Filipino President took place.

Sources are contradictory on how much the two Presidents talked about human rights during their negotiations in Manila; however, it is obvious that both Trump and Duterte blamed the Obama Administration for the deterioration of the relationship.

<sup>3</sup> In the latter case, it turned out that he did not mean it, either.

<sup>4</sup> Of course, Duterte understands that at the moment the US is the third largest trade partner of the Philippines after Japan and China, as well as the second largest investor and the main development aid lender. More on Duterte’s policy of infrastructure development: De Castro, Renato Cruz: How Indo-Pacific Geopolitics Affects Foreign Policy: The Case of the Philippines, 2010-2017. In: *Rising Powers Quarterly*, 3(2), 2018, pp. 145-148.

The final outcome of the negotiations suggests that the relationship of the two countries was restored, and the basis of the compromise is that Duterte has stopped his outbursts against the USA, and in return, Trump does not insist on the issue of human rights, either. The good relationship of the two Presidents has much weight; nevertheless, the close political relations between the two countries that could be observed prior to Duterte is not likely to be restored in the near future. Trump is fully aware of the strategic importance of the Philippines, which is proved by the fact that he qualified the island country as “most prime piece of real estate” in military terms and said that he primarily negotiated with Duterte about the status of bilateral trade (Viray, 2017).

Obviously, the two Presidents represent a more pragmatic foreign political approach today, focusing on the acquisition of economic benefits, the enforcement of the interests of their given countries, combined with the regional security political objectives (Vicedo, 2017, p. 2).

The new US National Security Strategy released in December confirmed Trump's commitment to tighter bilateral relations, while at the same time, it stood up for respecting the principles of free navigation and overflight—as opposed to China. This document also pledged to protect the sovereignty of certain Southeast Asian countries against the increasing growth of the Chinese influence.

During Duterte's Presidency, the Philippines aims to build as close economic cooperation with China as possible, while in terms of security, the country also relies on Russia and intends to use Japan as a form of counterbalance against both countries. Nevertheless, the US–Philippines is still of essential importance in security political respect, since the USA assumes a guarantee on the defense of the country (Ibid., p. 4).

The National Defense Strategy, issued by the Pentagon in 2018, highlighted the necessity to strengthen alliances and partnerships in the Indo-Pacific region and this is particularly true for the Philippines. At the same time, the Duterte government initiated the revision of the Mutual Defense Treaty of 1951 at the end of the year and expected the US to take a clear stand primarily on the claims related to the South China Sea islands. During his visit to Manila in March 2019, US Secretary of State Mike Pompeo finally publicly confirmed the Treaty of 1951 and guaranteed to protect the Filipino interests. Of course, re-evaluating and, if necessary, amending the Treaty, which is the basis of the alliance, was not removed from the agenda, but it does not seem to be possible during President Duterte's and President Trump's current term in light of domestic political and strategic risks.

### 2.3. Regional Partners

After his visit to China, the Filipino President also visited Japan between October 25-27, 2016, which may be regarded as symbolic. The Japanese government felt uneasy because of Duterte's anti-American statements in China, and thus the objectives of the new Philippine foreign policy were emphasized during the meetings, in addition to the economic and security cooperation. Duterte, however, assured his hosts that he had only discussed the strengthening of economic relations with China and the creation of a new military alliance was not a subject. At the same time, he naturally tried to encourage the extension of Japanese investments and business relations.

During his meetings with Prime Minister Shinzo Abe, Duterte insisted on the strengthening of the strategic partnership between the two countries and praised Japan's defense-security and development support. The parties also agreed on the purchase of additional training aircraft. Regarding territorial disputes, they confirmed that ensuring the freedom of navigation and settling disputes in line with international are the common interest of both countries. In May 2019, Duterte travelled to Japan for the third time, where he and his hosts agreed on an investment package worth 6 billion USD, laying the foundations of the "golden age" of Philippine-Japanese relations (Heydarian, 2019).

The continuation of the defense cooperation with Japan is indispensable to Duterte, who intends to rely increasingly on the Eastern Asian country instead of the US. However, he wishes to do so not to the extent and in the fashion imposed by the Americans, as opposed to the Aquino government. The Filipino President would not like to expose his country to Chinese interests and he views Japan as an ally which adequately counterbalances Beijing's power.<sup>5</sup>

On the meeting of APEC country leaders in November 2016 in Lima, Duterte showed willingness to develop a closer cooperation with Russia, besides China. He called Vladimir Putin his idol and gladly accepted the Russian President's invitation to Moscow. He also confirmed his "independent" foreign policy ambitions and his wish to join the Chinese-Russian alliance.

After his visit to Moscow in May 2017, Duterte travelled to Russia in the autumn of 2019 again. The parties continue to strengthen economic relations and the Philippine government pledged to extend the defense cooperation in particular. Other factors set

<sup>5</sup> Japan is currently the largest source of foreign direct investment to the Philippines (De Castro, 2016, p. 155).



aside, however, the partnership with Russia has its limits as the Philippine military force is not interested in reinforcing these relations, and therefore its outcome is doubtful (Calonzo, 2019).

### **3. The Relations of the Philippines and South Korea**

#### **3.1. The Presence of Philippines in the Korean War**

The diplomatic ties between South Korea and the Philippines have deep roots because the Philippines was the fifth state which officially recognized the existence of the Republic of Korea. Bilateral relations between the Republic of Korea, proclaimed on August 15, 1948, and the Philippines were established on March 3, 1949, and the Filipino presence in the Korean War between 1950 and 1953—in which approximately 10 percent of the population of the Korean Peninsula died—contributed to the development of close ties between the two countries. The Philippines basically took a neutral position in the Cold War during Elpidio Quirino's presidency (1948-1953). Although after the outbreak of the war, the Presidential Cabinet approved the decision by the UN Security Council (UN Secretary General – Council Resolution), according to which, member states were required to support South Korea by providing medicinal devices, medication, and goods, the Cabinet refused to deploy the Philippine army in Korea, saying that it would constitute interference in other states' internal conflicts and that the Republic of China and the Soviet Union might interpret it as provocation.

In spite of this, primarily as a result of pressure from the United States, the Philippines opted for the military presence in August 1950 after all, justifying its decision by saying that it wished to fulfil its obligations under its UN membership. During the three-year-long war, the country deployed four BTC—battalion combat teams to the Peninsula in total, delegating 1200 volunteers in each unit (Polo, 1982). The military presence underpinned, in particular, the fact that the Philippines is a reliable partner of South Korea and that both states are able to be present as anti-Communist forces in the region, in close cooperation with the United States.

#### **3.2. Political and Social Relations after the War**

The military presence laid the foundations for cooperation between the Philippines and South Korea, which has gained deeper economic, security policy and socio-cultural content over time. In January 1954, the first Ambassador of the Republic of

Korea to the Philippines, Kim Yong-ki assumed his office in Manila, and four years later, under the leadership of Eduardo Quinter, the Philippines also opened an embassy building in Seoul. Linked to the events of the war, but still an important symbol of the relationship between the two countries is a memorial erected in the city of Goyang, near Seoul, which is an indication of the courage and commitment of the Filipino soldiers demonstrated during the battle of Yultong in 1951. The Korean Embassy of the Philippines has held a ceremony here in September each year since the 1960s.

Wars also brought the beginnings of the direct relationship between the modern Korean and Filipino communities, as several Korean soldiers had to fight in the Japanese army against their will and then settled in the Philippines. In the course of the Korean war, approximately 30 Filipino soldiers married Korean women, returning later to the agglomeration of Manila. In the 1970s, more and more Korean Presbyterian missionaries reached the Philippines, and the presence and activity of non-Catholic Christian missionaries has gradually increased. The Philippines proudly boasts to be the only Christian nation in Asia, more than 86 percent of the population is Roman Catholic, 6 percent belong to various nationalized Christian cults, and another 2 percent belong to well over 100 Protestant denominations. One of the conditions for a direct and developing social relation was a stable political relationship between the two countries, which remained steady over the 70 years, the only real difficulty being the Philippines's attitude towards North Korea. Although the possibility of closer cooperation between Manila and Phenjan in order to diversify the economies of both countries has already been raised in the 1970s, the Philippines has abstained from such a cooperation, as it was primarily concerned about the possible negative reaction of South Korea and the United States and the strengthening of the communist Party of the Philippines (Rabena, 2019). Diplomatic relations between the Philippines and North Korea were concluded only later, in 2000. Today, the relationship between the two countries is a less serious issue regarding South Korea, as the policies of Presidents Duterte and Moon are similar: Both aim at normalizing relations with North Korea and a stronger economic presence in the country.

The focus was on South Korea before the 2000s as well as in the 21<sup>st</sup> century. In 1993, Head of State Fidel Ramos (1992-1998), who was one of the veterans of the Korean war himself, visited South Korea as the first Filipino President after the conclusion of diplomatic relations, and this visit contributed to the renewal of the good relationship between the two countries. Six important economic and political agreements were reached during the meeting, and the two countries agreed, *inter alia*, on an extradition treaty and a preliminary investment guarantee. Having returned from South Korea,

Fidel Ramos repeatedly stressed that he had seen a nation and a people who became leaders of the world's newly industrialized countries, who were willing and industrious, and that the Philippines needed a similar path for a successful future.

Politically, security policy agreements between the two countries have been the greatest progress in the last two decades. In 1994, an essential agreement, the Memorandum of Understanding on Logistics and Defense Industry Cooperation was concluded, as a result of which, the Philippines purchased Sea Dolphin patrol crafts, F-5 Freedom Fighter FGA aircraft and Cessna 172 trainer-light aircraft from South Korea. In 2013, the Philippines purchased 12 more Korean FA-50 fighter jets, worth USD 410 million. Another step was taken in 2019, as the South Korean Hyundai Heavy Industries agreed to sell two frigates to the Philippines, which are expected to be delivered by September 2020. According to Robert Empedra (vice admiral, flag officer in command), these multipurpose ships will be the most modern and powerful element of the Filipino unit once they are taken over (Parameswaran, 2019).

South Korea is a less costly, geographically favorable alternative for the Philippines to modernize its own military hardware, while the Philippines can become a major customer of South Korea and is one of the guarantors of freedom of navigation in the South Chinese Sea. The possible escalation of the conflict would affect, *inter alia*, maritime trade in the region, and thus, in particular, South Korea. Maritime sovereignty and a peaceful solution to the situation is an important aspect to South Korea, but there have been no further concrete steps taken in the Korean foreign policy regarding the case—obviously also due to the need for cooperation with China—, which could give rise to mistrust by the Philippines. However, both parties can gain from closer security cooperation, as to the Philippines, business with South Korea could mean more up-to-date assets and another partner beyond the United States, while for South Korea, it means a larger market and the fact that the country could become a relevant geopolitical factor in the region and contribute to the stability of the South China Sea.

### 3.3. Two Different Models and Economic Imbalance

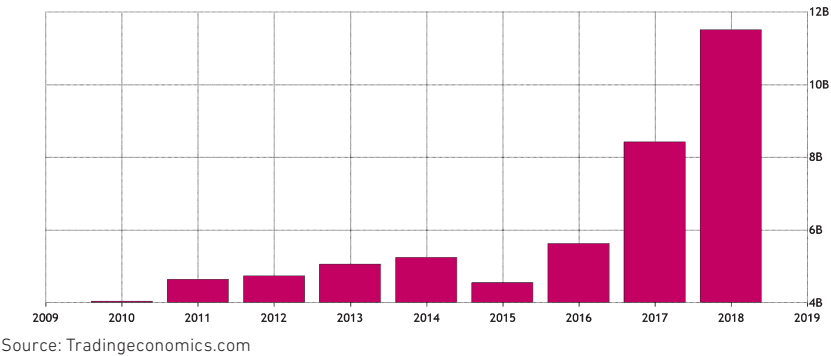
The dynamics of the economic relation between South Korea and the Philippines are easiest to understand through the attitude of South Korea towards the founding members of the Association of Southeast Asian Nations (ASEAN) in the second half of the 20<sup>th</sup> century. Following the war, South Korea was in a difficult economic situation—the average income of the population in the 1950s was less than USD 100 a

year (Kyu, 2007)—, but during Park Chung-hee's (1963-1979) dictatorial leadership, the country produced economic results which have since gone down in history as the Miracle on the Han River. The Korean model required cooperation between the state and the private sector—the goal was the creation of a so-called “guided capitalism” in South Korea (Loi-Dobbs, 2013)—, under which family-based “chaebols” developed an export-oriented development strategy, targeting, *inter alia*, countries in South East Asia. Korean companies, many of which are now world-famous multinational corporations (Pae, 2019), found gaps that could make them truly relevant in the international arena, but often lacked sufficient material and human resources, and natural gas, oil, and labor force provided by Southeast Asian countries became particularly important to South Korea (Palumbarit, 2018). It is equally important that the strong economic downturn in the late 1970s also damaged the political situation in South Korea, and the democratization process made it increasingly difficult for the chaebols to find cheap domestic workforce. During the same period, the Philippines sought to achieve less ambitious plans, since, although it managed to make economic progress in domestic oil resources, land reform, geothermal energy programs, the country's poverty rate was unusually high compared to the region, which was not overcome until the 1990s; so the country continued to lag behind neighboring states. The situation was worsened by the fact that, while the country's foreign debt was less than a billion dollars in 1965 at the beginning of Ferdinand Marcos's Presidency, it reached more than USD 28 billion by 1986 and the average annual growth of the economy was below 1.5 percent.

As a consequence of South Korea's economic development in the 1980s, several Korean small and medium-sized companies appeared in the Philippines. By 2017, the number of companies run by Koreans exceeded 12,500, and most businesses, accounting for almost 20 percent of all businesses, operate as retail and wholesale companies. Real estate (8 percent), manufacturing (6 percent), and construction companies (5 percent), as well as travel agencies and tourist services, hotels and restaurants, and private educational establishments are also popular. Retailers and wholesalers mainly sell electronic components, household products, household goods, scrap metals, motor vehicles, and construction materials, while industrial manufacturers produce ready-to-wear garments, wood products, plastics, food, and beverages. As manufacturing companies, the vast majority of educational establishments and businesses providing services are located in the northernmost part of the archipelago in Luzon, and within that in Manila or near the capital city. Real estate companies are an exception, 54 percent of which are located in Luzon and 37 percent on the island of Mindanao in the South (Palumbarit, 2018).

As regards the full picture of trade between the two countries, South Korean exports to the Philippines amounted to USD 8.74 billion in 2017 (OEC, 2017), while South Korean imports were slightly less than half of that, USD 4.31 billion (OEC, 2017). A year later during 2018 Philippines imports from South Korea was USD 11.5 billion, according to the United Nations.

Diagram 1  
Philippines import from South Korea



South Korea exported a total of USD 600 billion over the year, among ASEAN members the most to Vietnam, worth more than USD 47 billion (8 percent of total exports) and to Singapore, worth USD 18 billion (3.1 percent). During 2018 South Korea exports from Philippines was USD 12.04 billion according to the United Nations.

Diagram 2  
South Korea exports from Philippines



It can also be seen that, if only the 1967 Founding Members are examined, the four countries other than Singapore, namely the Philippines, Indonesia, Malaysia, and Thailand, have a very similar role in terms of South Korea's exports, which corresponds to an amount of around USD 8 billion in each country, led by the Philippines. This also indicates the increasing Korean presence in the Philippines, as in 1995 Korean exports to Malaysia, Indonesia, and Thailand were almost double of the exports to the Philippines—South Korea exported USD 2.8 billion to Thailand and USD 1.5 billion to the Philippines. However, as regards its ASEAN partners, the Philippines lagged behind in 2005 and 2010. However, there is a spectacular external trade deficit in the Philippines: exports of USD 4.3 billion to South Korea are less than a percentage of South Korea's imports, whereas Indonesia and Malaysia are both around two percent. In April 2019 the two countries have agreed to pursue a free trade agreement (FTA) in a bid to improve economic relations aiming to have greater market access for agriculture exports, as well as better collaboration on trade and investments in technology, such as electric vehicles and electronics.

As regards the main commercial products: in the 1970s, the Philippines mainly supplied raw materials and particularly log to South Korea. Wood represented almost 80 percent of total exports. In addition, copper concentrate also was essential, representing a further 14 percent of exports. During this time, the Philippines imported practically only three things from South Korea: talc powder, fruits, including apples and pears, and vinyl and synthetic plastic. By the 1990s, import and export goods became more diverse: To South Korea, copper cathodes, electronics, oil and naphtha, bananas, crude coconut oil, chemicals, and copra were transported in significant amount, while the Philippines was supplied with primarily chemicals, textiles, telecommunication devices, steel and iron, mineral fuels and lubricants, embroideries, and office machinery. By 2017, trade has been dominated by integrated circuits (IC), with a share of approximately 30 percent in both directions. In addition, the Philippines continues to be a major supplier of bananas and tropical fruits to South Korea, and also supplies raw copper, electrical capacitors, electrical transfers, and engine parts, crude petroleum, copper ore, and coal tar oil to South Korea (Singh – Siregar, 1995). In addition to the integrated circuits mentioned above, the Philippines imports large amounts of refined petroleum, parts for aircraft, helicopters, and other vehicles, machinery having individual functions, and large construction vehicles from South Korea. The Philippines's main shortcoming remains the fact that it is not able to become indispensable to South Korea in any commodity, and therefore has difficulty breaking out from the countries of the ASEAN and the region with regard to trade with South Korea.

### 3.4. Tourism and Culture, Korean Wave in the Philippines

During the presentation of economic relations, it has already been mentioned that more and more Koreans stayed in the Philippines for a long term in the 1980s. The increasing Korean impact and the increasing economic and cultural cooperation between the two countries have led to the emergence in Southeast Asia of institutions teaching Korean and familiarizing local residents with the Korean culture. In the Philippines, upon returning from the Ehwa Women's University in Seoul, Lily Ann G. Polo was the first to launch a Korean program at the University of the Philippines Diliman Asia Center. In the early 1990s, Korean language courses were launched in more and more institutions, but during this period, South Korean studies were not as prestigious as Chinese or Japanese studies. From 1995 on, the Korea Foundation<sup>6</sup> has provided significant financial support in order to create more complex and effective study programs related to Korea in Southeast Asian countries. These are now widespread and many higher education institutions offer Korean language courses and training programs related to Korea.

In addition to the institutionalized training, cultural relations between the two countries have become important through the Hallyu or the so-called Korean Wave. In Southeast Asia, people were particularly receptive to the various elements of Korean culture already in the early 2000s, and the Philippines's interest has been steady since then. According to the Korea Foundation's survey in 2018, the Philippines is the Southeast Asian country with the highest number of fans, also shown by the emergence of official fan clubs (Hicap, 2019).

According to the 2019 data, around 100-150,000 Koreans live in the Philippines, who are attracted by lower living costs and the opportunity to study in educational establishments (including English and possibly Spanish) with lower tuition fees (Meinardus, 2006). Besides student, many Korean immigrants work as investors and traders, in the service industry, and as missionaries of certain churches, as well as representatives of various Korean companies expanding abroad. The number of people who choose the Philippines as their permanent residence after retiring in South Korea is also significant. It is worth mentioning that the number of tourists from South Korea is also high in addition to the Koreans living long-term in the Philippines. South Korea has been the largest source market for the Philippines tourism industry in the last nine years: in 2018 alone, 1.6 million South Korean travelled to the country, which was 22.8 percent

<sup>6</sup> The Korea Foundation is "Korea's designated public diplomacy organization, affiliated with the Korean Ministry of Foreign Affairs".

of all tourists visiting the Philippines. According to Philippines estimates, the number of tourists from South Korea exceeded two million in 2019 (Cayon, 2019). Furthermore, the two countries also concluded a cooperation agreement on tourism in November 2019 in Busan. The five-year strategic program aims at closer cooperation between the two communities, joint activities and improving the safety and quality assurance of tourism.

As regards the Filipino presence in South Korea, several challenges are posed: on the one hand, tourists need a visa for entry, which can only be obtained at the local embassy before travelling. Among other things, that is why only 500,000 Filipino tourists visited South Korea last year (Kabiling, 2019). In addition, according to the latest figures, there are now only around 60,000 Filipino workers in South Korea, which represents a drop of almost 30,000 compared to 2011 (Wong, 2013). Although the situation of a large number of Filipino workers in South Korea has been clarified, more and more people were illegally staying in the country in the early 2010s, and the Korean government introduced stricter rules to reduce the number of illegal immigrants and granted immigration permits to fewer Filipino workers. In contrast to Koreans living in the Philippines, less immigrants in South Korea do intellectual jobs—most of them work in the construction sector—and often fail to integrate, and, in addition to language constraints, experience the distrust of the Koreans.

### 3.5. Strategic Partnership and Future Plans

The history and present of examining the relationship between the two countries reveal three important aspects: firstly, the proactive position of South Korea, both economically and culturally, and secondly, the different economic approach of the countries, and the need for both parties to enrich the past and symbolic approximation with more real content. The first two elements are closely linked, as South Korea aims to achieve a significant position on the international economic scene, while the Philippines is primarily seeking to achieve domestic development. Although the country's international presence has undoubtedly changed due to the policy of Rodrigo Duterte, the Philippines still does not seem to be a state that would appear on the map as a major global or regional economic player (Capistrano, 2019). In addition, domestic political developments in the country may also be of concern; in particular, the anti-drug war has caused a negative reaction abroad.<sup>7</sup> As regards real content,

<sup>7</sup> After it was made public that a Korean businessman, Jee Ick-Joo had also been killed by corrupt policemen during the anti-drug war, the President suspended police involvement in the fight against drugs at the end of January 2017, however, relations with South Korea deteriorated at the same time.



it is worth recalling the words of Korean President Moon Jae-in, who said during the Asean–Republic of Korea Commemorative Summit held last November in Busan that he hoped that “the time is right for our countries to think about elevating our relations to a strategic partnership. The elevation of our relations will pave the way for our countries to engage in greater cooperation that will lead us to common prosperity” (Romero, 2019). South Korea and the Philippines became “blood brothers” due to historical similarities and following the events of the Korean war, supported not only by Rodrigo Duterte’s words said at the event last November, stating that the two countries are taking the common path of the “altar of freedom”, solidarity, and mutual assistance, but also by the importance of detailing the friendship and common ideological aspirations of the two states during a number of important diplomatic meetings, particularly during the celebration of the 70<sup>th</sup> anniversary of diplomatic relations. Nevertheless, the geopolitical situation of the 21<sup>st</sup> century requires that the two countries demonstrate their “blood brotherhood” by means of practical cohesion.

Future relations between the two states will be certainly based on South Korea’s New Southern Policy and the Philippines’s 2017-2022 Development Plan. South Korea has reached a stage of development in which it can initiate a major international expansion in line with its domestic policy, as also indicated by the new Northern and Southern Policies of President Moon Jae-in. At the same time, the Philippines needs to make greater progress, and to achieve this, it needs to become much more open to and friendly with foreign partners and create a reliable atmosphere for foreign investment. The development of the traditionally friendly relationship between the two countries was further promoted by the 15<sup>th</sup> President of the Philippines, Benigno Simeon Cojuangco Aquino’s and the President of South Korea, Park Geun-hye’s meeting in 2014 (25<sup>th</sup> Commemorative Summit of the Association of Southeast Asian Nations and the Republic of Korea), during which they agreed to deepen economic relations between the two countries. Four years later, President Duterte agreed on a financial assistance worth USD 1 billion (ODA – official development assistance) with South Korea and extracted a promise of trade and investment worth USD 4.9 billion, most of which concern real estate and manufacturing processes.

The new Southern Policy 2018 included the need for Korean tourists to be safer in the Philippines and for more Filipino immigrants to work in the Korean manufacturing, construction, agricultural, fisheries and stockbreeding sectors. In addition, the sharing of military assets and knowledge is also a task to be developed, which has not yet been achieved as a result of language differences or less close cooperation. The whole of the Southern Policy is based on the community of people, prosperity, and peace, increasing the extent of bilateral cultural relations and the number of visitors

to each other's countries, and aiming at more active infrastructure and political connectivity as well as more decisive and greater action against regional conflicts.

The Philippines's vision to become by 2022 a country whose population is primarily composed of upper middle-income people is in line with the South Korean plan. To achieve this, the country seeks to make creative and cultural economic progress, including possibly being inspired by South Korea's example, placing the country's future on an economic basis similar to the *hallyu* wave. The Philippines can also use South Korea's example in taking measures to eliminate inequality, as the country located on the southern part of the peninsula has managed to realize its current economic status starting from a difficult situation and currently has the infrastructure necessary to provide additional ODA to the Philippines. Duterte's policy needs to follow two main elements: infrastructure development and innovation. The latter seems to be not sufficiently on the agenda yet, but Korean presence and investment may improve the shortcomings to a certain extent. This is what President Duterte and President Moon tried to launch during their meeting in 2019, including by laying the foundations for the conclusion of agreements on education, free trade and fisheries.

#### 4. Conclusion

In the Asia-Pacific region, the shifts in power have already started, with China rising and the United States losing its position more and more. Southeast Asian countries also try to benefit from the changed international balance of power, taking advantage of the rivalry between the two major powers. The Philippines has previously committed itself to the US at political, military, and economic levels, but its effectiveness has now been called into question.

It was in this atmosphere that Rodrigo Duterte became the Head of State in the Philippines, immediately recognizing that the Philippine foreign policy needed a change. Over the past three and a half years, Duterte has tried to pursue his "independent" foreign policy by all means, the most important part of which were opening up to China and transforming the alliance with the USA. However, he has also strengthened cooperation with regional powers, so the Philippines-South Korea relations are also to be seen in this perspective. Building on the common political, economic, and cultural heritage, at the beginning of the 21<sup>st</sup> century, a number of factors indicate the extension of the two countries' security and economic partnership, which is advocated by the leadership of both countries. In the changed geopolitical environment, President Duterte and Moon both consider cooperation important,

especially as it can bring significant mutual benefits. Of course, as we have seen, the “blood brotherhood” is facing a number of challenges and, despite the development of mutual relations, issues of greater importance for both countries are the foreign policy priority, yet in the long term, there is every chance of rapprochement and resolving disagreements. In the light of Duterte’s foreign policy, it can be concluded that, although South Korea is an important partner to the Philippines in terms of regional powers, its strategic importance in the China-US geopolitical power sphere is limited.

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# The Normalization of Hungarian-South Korean Diplomatic Relations

István Torzsa

## 1. Introduction

Thirty-one years ago, on February 1, 1989 the then Foreign Affairs State Secretary Gyula Horn and South Korean Foreign Affairs Minister Choi Ho-joong signed the Protocol of the Establishment of Diplomatic Relations between the Hungarian People's Republic and the Republic of Korea. The event was so significant that Korean television interrupted its program and broadcasted the event live.

On the one hand, the historical step made it possible for South Korea to normalize its relations with its communist neighbors like the Soviet Union and China, on the other hand, it confirmed President Roh Tae-woo's 'Northern policy'.

The Republic of Korea, (ROK, South Korea) is located in East Asia, in the southern part of the Korean Peninsula. Its geographic dimension (99.000 km<sup>2</sup>) is similar to several European countries, like Czechia, Hungary, or Portugal, however, its population is five times bigger, around 51 million, than any of these three mentioned counties (Neszmélyi, 2017).

The present study attempts to provide the reader with a deeper insight into the background of the negotiation process in line with the political changes—on both sides—that enabled Hungary and the Republic of Korea to establish diplomatic relations which were followed by a broad scoped and successful cooperation, based on sharing values and on mutual benefits. Besides bibliographic research the author based his study on his own experiences serving as diplomat on the Korean Peninsula for 14 years—including the period of 2003-2007 when he was the Ambassador in Seoul—and he personally attended the preparatory negotiation during the late 1980's that directly led to the establishment of the bilateral diplomatic relations.



## **2. The Establishment of Diplomatic Relations between Hungary and South Korea**

### **2.1. The Normalization of Bilateral Relations**

The Hungarian–South Korean cooperation was entirely free from political aspects till 1988, and considering the historical past, this needs no explanation. It is a well-known fact that after the Second World War Hungary acknowledged the Democratic People's Republic of Korea (DPRK) as the only legitimate regime on the Korean peninsula. The Hungarian People's Republic was the seventh country to recognize the DPRK in 1948. The first steps on the process of the normalization of the Hungarian–South Korean relations were made in June 1983 when the Political Committee of the Hungarian Socialist Workers' Party (MSZMP) started to deal with Hungary's South Korean relations (National Archives of Hungary, 1987a). According to the official opinion at that time, establishing non-political relations was mainly possible at international forums. An increasing number of Hungarian citizens were given permission to attend events held in South Korea and South Korean nationals were also granted entry into Hungary.

For some time in 1983 it seemed that the quality of Hungarian–South Korean cooperation could change considerably as the 70<sup>th</sup> General Assembly of the Inter-parliamentary Union was held in Seoul between October 2 and 13 that year. The leadership in Pyongyang did their utmost to prevent the delegations of the socialist countries from traveling to South Korea and encouraged them to boycott the event. Hungary, however, decided to attend, which was considered most unfriendly by the leadership of the DPRK and this was expressed not only through diplomatic channels but also in the media. North Korea's intention was to call the attention of the Hungarian leadership at that time to the fact that Hungary's attendance of the General Assembly Meeting would have a negative effect on bilateral relations (North Korean dailies and Rodong Sinmun editions from August and September 1983).

Hungary, however, did not attend the Seoul event, but this was not the result of the North's blackmailing. It is well known that on September 1, 1983 a South Korean passenger air carrier entered into the airspace of the Soviet Union and was shot down by the Soviet air defense (Korea Annual and The Korea Herald editions from September 1983). The circumstances of the incident remain unclear to this day, however, the affair triggered anti-Soviet sentiments in South Korea. In this situation the decision was made in Moscow and as a result, Hungary was not able to participate in the IPU General Assembly meeting. The instructions from Moscow were accepted and

obeyed by Hungary. It is very characteristic of the mentality of the North Korean leadership that after the General Assembly meeting held in Seoul, they officially thanked the leaders of the countries they had friendly relations with for accepting the North Korean position on the issue and boycotting the meeting.

The situation was a bit similar at the time of the Olympic Games, but at that time, Eastern-Western cooperation was of an entirely different nature and this time Pyongyang's efforts failed.

## 2.2. The Establishment of Hungarian–South Korean Chamber Representation

In the second half of the decade, the conditions ripened to legalize Hungarian–South Korean bilateral relations. In a letter Géza Kótai, head of the Foreign Affairs Department of MSZMP Central Committee, wrote to the Minister for Foreign Affairs Péter Várkonyi in 1987, he effectively gave the green light to begin negotiations on establishing chamber representation. In his letter to the foreign minister, Mr. Kótai wrote: "After consultations between myself and comrades Ferenc Havasi, István Horváth, and Mátyás Szűrös, secretaries of the Central Committee of the Hungarian Socialist Workers' Party, we have agreed on the following position. We agree with the proposal that the Hungarian Chamber of Commerce should hold talks with its South Korean partner organization on the signing of a cooperation agreement and the establishment of representative offices, as it could prove beneficial to us from an economic standpoint. It enables us to establish a market presence and promote export growth, enables the elimination of intermediaries and potentially aids the influx of working capital, especially if the representatives of certain interested companies also become active in the market" (National Archives of Hungary, 1987b).

By the late 1980's it had already become clear to the Hungarian leadership that the dynamic growth of the Newly Industrializing Asian economies, like South Korea could not be disregarded as potential sources of valuable additional capital investments. Moreover, the upcoming structural metamorphosis of the Hungarian economy and foreign markets (Neszmélyi, 1996) meant new challenges and opportunities, while the reform-oriented Hungarian leadership found it more and more difficult to pretend to maintain friendly relations with the DPRK on the surface.

In 1988 Hungarian–South Korean relations improved considerably. Former central bank governor Ferenc Bartha and Secretary-General of the Hungarian Chamber of

Commerce Péter Lőrincze visited Seoul on several occasions to hold negotiations on chamber representation. Mr. Lőrincze agreed with his Korean partners on opening the Hungarian representative office during his talks in Seoul on May 22-27, 1988 (National Archives of Hungary, 1988a). Establishing mutual chamber representation of the Korean Chamber of Commerce and Industry and the Hungarian Chamber of Commerce was in line with the decision that Hungary would participate in the 1988 Seoul Olympic Games. In fact, Hungary was the first country from the socialist bloc to decide to participate. Former President Roh Tae-woo's declaration of July 7, 1988 encouraged and made it possible to extend relations on non-ideological grounds.

It is also important to consider that several key changes were also underway at that time in Hungary. The national summit of the MSZMP held in May 1988 had already ended. Party leader János Kádár had been replaced by Prime Minister and Party Secretary-General Károly Grósz, who gave a free hand to those who wished to normalize relations with the Republic of Korea. The next month, Sándor Demján, former governor of the National Bank of Hungary, flew to South Korea and informed Seoul that Hungary was ready to establish diplomatic relations with South Korea before or after the Olympic Games were held, on the condition that Seoul would sign an agreement on an economic package worth 1 billion US dollars. Mr. Demján added that Hungary was also interested in improving commercial ties between the two countries (Oberdorfer, 2001).

The visit made by Mr. Demján led to further talks and on July 5, Park Chul-un, political advisor to the president, paid a secret visit to Budapest. Mr. Park started intensive negotiations with Ferenc Bartha, the newly appointed central bank governor. Mr. Bartha confirmed Hungary's demand for a 1 billion dollar economic cooperation package, while the South Korean politician called for the immediate establishment of diplomatic relations (National Archives of Hungary, 1988b). During the talks the Korean party offered a loan of 400 million dollars and Hungary reduced its expectation to 800 million dollars. Park Chul-un also urged the swift establishment of diplomatic ties during his talks with József Marjai. In his response, Marjai indicated that Hungary's *de jure* recognition of the Republic of Korea, the mutual opening of embassies and the posting of ambassadors could be expected in the fourth quarter of 1989, or earlier if bilateral economic relations progressed quickly enough (Ibid.).

After bilateral relations were normalized, rumors started to spread that South Korea received recognition by paying for it, and Hungary had sold itself out to Korea. However, Károly Grósz's remark made to Park Chul-un, who was paying a courtesy visit to Mr. Grósz, contradicted this statement. Although Mr. Park pressed for the

urgent establishment of diplomatic relations, Mr. Grósz asked him “not to offer to pay for relations with us because we do not want to buy them. We should rather improve them gradually and at the same time attempt to cooperate for our mutual benefit” (National Archives of Hungary, 1988c).

The political advisor, apart from engaging in talks about the economy, informed the Hungarian leadership on the foreign policy program statement of July 7 by President Roh Tae-woo (The Korea Herald, February 2, 1989).

### 2.3. President Roh Tae-woo's 'Northern Policy'

The concept of “Nordpolitik,” or Northern Policy, was first announced in June 1973 by then President Park Chung-hee when he announced that his government was willing to establish ties with countries having ideological and political systems different from South Korea's. It was hoped that this new foreign policy approach would allow South Korea to escape from the Cold War era and establish relations with all of its neighbors, regardless of ideology. This approach was evidently inspired by West Germany's Ostpolitik (“Eastern Policy”) which was launched by former Chancellor Willy Brandt in 1969 with the view of improving his country's relations with the Soviet Union and Eastern European countries, as well as with East Germany. President Roh Tae-woo carried on this philosophy. He indicated on March 1, 1988 that his government would actively seek the establishment of diplomatic relations with China, the Soviet Union, and other socialist countries. Accordingly, on July 7, 1988, he announced the adoption of the policy known as Nordpolitik, or “Northern Diplomacy”. In his July declaration, Roh also indicated that his government would work for the establishment of amicable relations between North and South Korea. This strand of Nordpolitik would eventually lead to the 1991 Agreement on reconciliation, non-aggression and exchanges and cooperation between the South and the North, and related agreements (Nahm – Hoare, 2004, pp. 151-152).

The introduction to the declaration of President Roh pointed out that the dividedness of the country had already resulted in much suffering on the Korean peninsula, therefore the most sacred task for every Korean citizen was to promote the unification of the country. The two Koreas with different social structures and ideologies were over a war and were living in distrust of each other. Although the dividedness of the country was not the result of the people's will, it was their task to reconcile and build cooperation between North and South Korea.

The positive changes in the world proved to be a good background for this and created a historic opportunity for a breakthrough in inter-Korean relations, too. The president pointed out that Koreans should always be aware that they are part of the same ethnic group, and its tradition, culture, and shared past go back several thousand years. This process of the two nations of 60 million people finding each other must be promoted by gradually eliminating all obstacles. Roh Tae-woo pledged to his people and to the world that he would do his utmost for the unification of the country and to this end he outlined and recommended the following ideas to North Korea:

1. South Korea will do its utmost to ensure the free travel of South and North Korean citizens including politicians, businessmen, journalists, leaders of cultural organizations and churches, scientists, university undergraduates, as well as Koreans living abroad;
2. For humanitarian consideration South Korea will actively support the search for family members and their free correspondence and travel even before the successful end of the relevant Red Cross talks;
3. South Korea will open the door to inter-Korean trade, which it will consider a form of trade within the community of nations;
4. South Korea is confident that the trade will be balanced, and the citizens of both countries will benefit from it. South Korea will not raise obstacles for countries it maintains friendly ties with if these countries enter into a trade agreement of non-military nature with North Korea;
5. Both parties will put an end to rivalry and confrontation and will focus on cooperation so that North Korea can take positive steps towards the community of nations. South Korea is also confident that South and North Korean delegates will be free to communicate with each other at international forums;
6. In order to strengthen peace on the Korean peninsula, South Korea is prepared to cooperate with North Korea with a view to improving North Korea's relations with countries that maintain friendly ties with the Republic of Korea, including the United States and Japan. Simultaneously, South Korea will increase its efforts to build relations with the Soviet Union, China, and other socialist countries.

President Roh expressed his hope that North Korea would react in a positive manner to his initiative and that this could result in the establishment of more favorable

conditions on the peninsula (Roh, 1990a). The process known as the 'Northern Policy' officially began with the statement of July 7. Several elements of the president's initiative were in fact a reiteration of the suggestions made during the more than three-decade long history of inter-Korean relations or were based on the consideration of the changes that had occurred over time. However, it can also be considered as something new as the president made it clear that the Republic of Korea intends to change the nature of inter-Korean dialogue and also that South Korea's relations with socialist countries would enter new grounds. From the point of view of domestic policy, this was made possible by South Korea's economic power and consolidated situation, however, processes triggered by the policy of Mr. Gorbachev also had an impact on the Korean peninsula (National Unification Board, 1988). High-level talks between the United States and the Soviet Union resumed—Geneva: November 1985, Reykjavik: April 1986, Washington: December 1987, Moscow: May 1988—and, as a result, not only did the relationship between the two super powers enter into a new phase, but the political atmosphere of Eastern-Western relations also improved significantly. Although Seoul considered it too early from several aspects, it was paying close attention to Mr. Gorbachev's speeches delivered in Vladivostok and in Krasnoyarsk in July 1986 and September 1988, respectively, on the security of the Asia-Pacific region. In fact, Mr. Gorbachev's speech in Vladivostok on July 28, 1986 was seen by Seoul as a sign that the Soviet Union was also prepared to normalize its relations with countries like South Korea. In his Krasnoyarsk speech delivered on September 16, 1988, he outlined a seven-point Peace Plan for the Asia-Pacific region (The Korea Herald, July 30, 1986; The Korea Herald, September 18, 1988). Then-Soviet Foreign Minister Sevardenadze's speech in September 1988 at the UN General Assembly on how to eliminate ideology from Soviet foreign policy was also part of the same process (The Korea Herald, September 29, 1988). Soviet–Chinese relations improved a great deal and Japan's position strengthened, too. So, the great powers directly impacted in the region like the United States, the People's Republic of China, Japan, and the Soviet Union all wanted to develop their bilateral or multilateral cooperation and to settle, as much as possible, disputed issues. This was happening at a time when Seoul was deeply involved in the preparations for the summer Olympic Games and it was obvious that if all went well with the organization of the Games, the Republic of Korea would achieve success both in the field of sports diplomacy and politics. Although the Olympics held in Seoul was not able to promote peace between North and South or develop their existing relations, it definitely strengthened cooperation between South Korea and Eastern European countries. The South Korean prime minister suggested on July 3, just days before Roh Tae-woo's declaration of July 7, 1988, that the prime ministers of the two Koreas should establish mutual relations. The suggestion made by Seoul, not unlike the ones made previously, went unheeded

(The Korea Herald, June 4, 1988). These were the events that preceded the presidential speech in July, which was part of the process that President Roh Tae-woo outlined at his inauguration when he committed himself to the Northern Policy (Roh, 1990b). The starting point of the declaration was that the two Koreas were finally reconciled, and national unity was restored, which would serve as a basis for cooperation built on independence, peace, and democracy. Below are further details on the six points of the president's declaration:

1. The fact that the inhabitants of South and North Korea were free to interact with each other, and Koreans living abroad were free to travel served the same purpose: mutual understanding facilitates the restoration of the country's integrity, and this requires the establishment of relations between people. Apart from ideological differences, the more than four-decade-long dividedness of the two countries was the result of distrust between North and South. This was the reason why the Republic of Korea suggested that the exchange of people should include, among others, politicians, businessmen, journalists, church leaders, and artists, as they represent a large segment of the population and their travel would have a positive impact in terms of restoring confidence. It was not by chance that the proposal also applied to Koreans who were living abroad since at that time two million Koreans were living in the West and in third world countries and approximately 2.2 million in the Soviet Union and China. According to the proposal made by the South, reconciliation can be permanent and successful only if it includes not just Koreans living within the boundaries of the two Koreas but also those living abroad.
2. The second point attempted to alleviate the suffering of torn-apart families. This was—and still is—not only a humanitarian obligation but also a political task for the leaders of both Koreas, as this problem affects 10 million people or one-sixth of the whole population. Actually, this problem was the focus of attention during inter-Korean talks in the past decades and it is an important issue even today. In spite of this, not too many results were achieved before President Roh's initiative, since talks had been held only on one occasion, in 1985, and the event had been of relatively minor significance. This was very discouraging as not too much effort would have been needed to ensure at least correspondence between those who were impacted. South Korea indicated that it would consider this problem a priority even before the respective Red Cross organizations of the two countries would reach an agreement regarding the terms of implementation.
3. Another long-standing issue concerned the trade barriers between the two Koreas. At the talks held between the two parties in Panmunjon in the early 1980s, North

Korea suggested that trade between the two countries would be considered as part of the internal trade within Korea and not foreign trade between two countries. In fact, Roh Tae-woo's proposal was based on the earlier North Korean initiative. It was evident that no tariffs or taxes were introduced in inter-Korean trade as it would be considered internal trade. (The objective of those days seems to have been achieved by now: in the South Korean industrial complex located 15 km from the demarcation zone in the old capital, Kaesong on the 38<sup>th</sup> parallel, goods produced by North Korean workers are transported back to South Korea and no tariffs are charged.)

4. An entirely new element is that South Korea would not raise any objections against North Korea's trade of non-military goods with its allies. This in itself is remarkable as previously the South did everything to hinder the development of trade relations between the Democratic People's Republic of Korea and Western countries. According to Roh Tae-woo's proposal, however, only the COCOM restrictions, applicable in all communist countries, would have remained in force. If this practice were to have been implemented, it would have eased North Korea's economic problems a great deal.
5. One way of cooperation between the two Koreas would be the possibility that the two countries could contact each other at international forums. Earlier it was not possible, as the two Koreas were competing with each other on the international stage. Roh Tae-woo basically suggested that this kind of competition should cease, which would have beneficial results for both countries in general and also in terms of their memberships in the United Nations. At this time South Korea—with or without North Korea—wanted to become a member of the UN as soon as possible. The DPRK believed that UN membership was only possible for one of the Koreas.
6. The two elements of President Roh Tae-woo's Northern Policy focused on two issues: improving relations with the DPRK and establishing cooperation with countries from the communist bloc<sup>1</sup>. In addition, the South pledged to help the DPRK build relations with the United States and Japan. Pyongyang had already wanted this for a long time without having to pay a price for it. Moreover, it wanted the United States to pull out its troops from South Korea, and Japan to pay indemnification to the North, like the South had done earlier, for crimes committed during the Japanese colonial period between 1910 and 1945 (National Unification Board, 1988).

<sup>1</sup> South Korea did not have any official ties with these countries at that time.



The greatest credit of the declaration of July 7 is that it indicated that South Korea recognized that it was time to cease confrontation between the two Koreas. Basically, it offered to help North Korea to open its hermetically closed system and to find ways to develop strategic partnerships and establish relations based on cooperation, in this way contributing to the unification of the country. On the basis of what has been mentioned earlier we can conclude the following:

The unification policy and the foreign policy of South Korea changed considerably. This conclusion is supported by the fact that the declaration acknowledged that the North was part of the same nation and not an enemy. Further to this, it suggested that the two countries should give up all forms of confrontation, hostility and rivalry. South Korea was ready to acknowledge North Korea as part of the international community. Acknowledging North Korea in this manner was rooted in the logical realization that although two states and two societies exist on the Korean peninsula, their citizens share the same bloodline, culture, and ethnic heritage, therefore they form a homogeneous state. This was recognized by the proposal for an internal trade between the two Koreas. Here we are talking about issues that are evident for an outsider. The fact, however, that in Korea it was, and it is considered otherwise can be explained by the historical past. It was a very courageous political step for Roh Tae-woo to abandon the idea of hostility and indicate his willingness to build relations on entirely new grounds.

What indicated the changes in South Korean foreign policy most was the fact that the head of state of the Republic of Korea demonstrated his willingness to settle relations between the DPRK and countries like the United States and Japan, which were South Korea's allies. This was a completely new approach because previously South Korea was very much against the West improving its ties and cooperating with North Korea (National Archives of Hungary, 1988d).

In fact, the declaration of July 7 expressed the goodwill of the Republic of Korea, which was a turning point in unification and the Northern Policy, in other words, in the relations with countries of the communist bloc. South Korea was ready to resume the dialogue without any preconditions and in order to achieve this it launched initiatives for the resumption of the Red Cross talks, the meeting of education experts, the development of a new foreign policy, the liberalization of communication, the economic opening towards North Korea, the preparation for parliamentary talks, and the organization of an inter-Korean summit that was implemented only 12 years later, in 2000, when President Kim Dae-jung visited Pyongyang.

## 2.4. The Seoul Olympic Games as a Catalyst of the Negotiation Process

To enlighten the issue of the Seoul Olympic Games in depth, it has to be underlined that the international movement of the Olympic games fell into a critical stage. In 1980 the Olympic Games took place in Moscow, but the United States and her allies boycotted it because of the Soviet Union's actions in Afghanistan a few months before. In 1984, as a counter-reaction, the Soviet Union and the majority of the socialist countries (including Hungary) boycotted the Olympic Games which took place in Los Angeles that year. This trend seemed to lead to a stalemate and the movement would die away (Csoma, 2018).

During the early 1980's and even still shortly after the standpoint of the Hungarian leadership, including the politically motivated sports-leaders did not divert from the Moscow-led guidelines. It was still the time before Glasnost' and Perestroika of Gorbachev. Until 1985 "old-school" leaders shifted each other in the position of Secretary General of the Communist Party of the Soviet Union, like Leonid Ilyich Brezhnev, Yuri Andropov and Konstantin Chernenko. When in September 1983 the Soviet Air forces shot down the Korean Airlines aircraft which—on the way from Anchorage to Seoul—flying accidentally into the soviet airspace, the Hungarian leadership officially shared the Soviet explanation that the aircraft flew above Soviet territories with the view of spying.

Mention must be made about Friendship Games, (Friendship-84 or Druzhba-84), which was an international multi-sport event held between July 2 and September 16, 1984 in the Soviet Union and eight other socialist states which boycotted the 1984 Summer Olympics in Los Angeles. Although Friendship Games officials denied that the Games were to be a counter-Olympic event, the competition was often called the Eastern Bloc's "alternative Olympics", and about fifty states participated. The Hungarian sport leadership appraised the events similarly to other socialist countries as, "boycotting the Los Angeles Olympics was the right decision as the events proved that all of the worries of the socialist countries were accurate. In our absence the Olympics was devaluated". On the other hand, regarding the Friendship Games, the Hungarian sports leadership had a critical standpoint because of organizational malfunctions at some of the events, the favoritism of the judges and referees and the lack of proper doping tests. This heavy criticism was softened by the remark of István Buda: "in some sports the Friendship Games' (weightlifting, shooting, athletics) far exceed the results of the Olympics and this proves that we weren't boycotting the Olympics because of the fear of failure" (Waic et al., 2016, pp. 186-187).

In December 1984 at the meeting of the leadership of the National Sports and Physical Culture Office (OTSH), the issue of the Los Angeles Olympics was discussed once again. According to their evaluation, "despite our absence from the Los Angeles Olympics we successfully maintained our positions in the international sports world as well as continued our good relations with developed and developing countries. Moreover, in the month of December there was a bilateral sport agreement signed by Hungary and the Netherlands". As 1984 came to a close, the issue of the Los Angeles Olympics disappeared from the agenda of Hungarian sports institutions and preparation for the next 1988 Olympics in Seoul started. As an Eastern bloc country, Hungary used to have official and, on the surface, "friendly" relations with North Korea from the two Koreas, while the "Western" South Korea was not recognized and called a puppet regime of America. Informal sources confirmed that in 1981 voting IOC members from socialist countries opposed Seoul's Olympic bid and the Soviets "suggested" to vote for Nagoya, the other candidate. However, surprisingly the South Korean capital beat the Japanese city with 52 votes against 27 as most IOC members were of the opinion that the Olympics in Seoul will bring the two countries of the divided peninsula closer together. The OTSH first officially discussed the Seoul Olympics at its meeting on November 6, 1985 and the sports leadership aimed that "moderate relations should be established with South Korea. Our athletes will go to the world championships organized in South Korea as they would go anywhere else and we will host South Korean athletes at world championships organized by Hungary. All other events regarding the attendance of South Korean athletes should be dealt with on a case by case base" (Ibid., p. 187).

In 1985 Hungary received a South Korean request, this time the Seoul Olympic Organization Committee indicated its intention to visit Hungary. The OTSH supported the visit but the Ministry of Foreign Affairs only authorized the South Korean delegation to meet Tamás Aján, Secretary-General of the International Weightlifting Federation to discuss issues about weightlifting at the Olympics; otherwise, if the delegation from Seoul would like to meet with other people in Hungary the common standpoint and practice of the socialist countries regarding granting permissions applied: "If other Eastern European countries are willing to host the Seoul Olympic Organizing Committee then we will not deny them entry into Hungary".

In February 1985 sport officials from South Korea asked the Hungarian sports leadership to let a Hungarian modern pentathlon coach work in Korea for six months. The Hungarian Ministry of Foreign Affairs refused the request with the official explanation of, "there are no diplomatic relations between Hungary and South Korea and this fact does not enable the country to help Hungarian citizens in South Korea." Also, because

there was no final decision regarding the Seoul Olympics and "sending a coach to South Korea is in connection with the Seoul Olympics and Hungary's participation at this event is in question at the moment, it needs further discussions with other socialist countries. When the issue of participation is resolved we will be able to return to this request" (Ibid., p. 188).

After 1985 the Hungarian political elite started to consider the then upcoming Olympics as very important. Regarding the status of preparations for the Seoul Olympics, the Central Committee of MSZMP was exclusively informed in November 1986. In this report it was underlined that negotiations started between North and South Korea: "in 1981 the International Olympics Committee gave the possibility to the city of Seoul to host the Olympic Games despite opposition from socialist countries. After this decision was made the IOC gave thanks to the socialist countries which realized the potential dangers for the Olympics Movement and to avoid them now it is more open for a compromise. [...] The Executive Board of the IOC and delegations from both Koreas have held meetings three times but nothing concrete has been agreed to". In the latter parts of the report it focuses on demonstrating the conditions of South Korea, highlighting its rapid economic, political and sport development in the recent past. The report also mentions that thanks to this fast growth, South Korea had already hosted several world sporting events successfully in the 1980s and for this was highly praised by the international sporting elite. The Association of National Olympic Committees (ANOC) because of the upcoming Olympics, held its annual assembly in 1986 in Seoul and almost every socialist country sent their representatives to this meeting. In the same year, the Asian Games was hosted by Seoul and the event was a huge success (Ibid., pp. 187-188).

The then President of the IOC Juan Antonio Samaranch started the routine in the early 1980s that cities wanting to host the Olympics first had to organize a big multi-sport event (like the Asian Games or the Universiade) and prove that they were capable of hosting the Olympics. The Hungarian state and party leadership recognized the South Korean achievements and declared: "based on the success of the Asian Games Seoul is now ready to host the Olympic Games". That the Hungarian sports leadership now supported the Seoul Olympics and was ambivalent towards the North Korean intentions is noticeably shown in the statement: "after discussion with the sports leaders of other socialist countries we assume that North Korea in effect doesn't want a jointly organized Olympics and their intention is to undermine the Seoul Olympics and persuade more and more countries to boycott it" (Ibid., p. 188).

The latter statement underlined that Hungary didn't want to boycott the Seoul Olympics, however, the leadership affirmed (trying to maintain on the surface the image of a unified socialist camp) that "the socialist countries would continue to support at international forums the idea that Seoul should host the Olympics jointly with the DPRK". The leadership also highlighted that with responsibility for the future unity of the Olympic Movement most of the socialist countries intend to attend the 1988 Olympics even if South Korea hosts it solely. The Hungarian sports leadership recognized that if the country boycotted the Seoul Olympics then for at least 12 years there would be no Hungarian Olympic performance. Moreover, the entire Hungarian sports system, like financial sponsoring of clubs and athletes, was based on Olympic results. According to the view of the party leadership, before Hungary could officially register its athletes for the Olympics (the deadline was January 1988), significant political actions were needed, which meant that until the time of the Olympics, relations had to be improved with South Korea both in the fields of sport and economy (Ibid.).

It is, however, interesting to mention that in December 1984, János Taraba Hungarian Ambassador in Pyongyang raised the question to Hwang Jang-yop, Secretary of the Korean Working Party whether it would be possible to organize the upcoming Olympic games in Pyongyang and Seoul jointly. The North Korean official replied: "it would be a very complicated task". He added that the US and South Korea would like to achieve the increase of the international prestige of the Republic of Korea which would not serve the interests of North Korea. He suggested to launch a movement to lobby for organizing the Olympic games in another country. In March 1985, Mikhail Sergeyevich Gorbachev entered into office as the new reformist-minded Secretary General of the Communist Party of the Soviet Union, and a new East-West détente started which eliminated the ages of boycotted Olympics. This détente could be felt in the inter-Korean relations as well. Fidel Castro Cuban president suggested the DPRK to join as co-organizer to the Olympic games. In January 1986, the International Olympic Committee (IOC) held a round of negotiations between the representatives of the two Koreas but no result was achieved. From the 23 sports events, DPRK wanted 11 events to be held in North Korea, while IOB wanted just a few events there, in spite of the fact that North Korea rapidly built stadiums for all planned events. In September 1986, the top summit of the Non-Aligned Countries in Harare, the DPRK tried to press African states to support North Korea's role as co-organizer. However, this idea was supported only by Mali, Ghana and Burkina Faso. In late October 1986, Kim Il-sung flew to Moscow (contrary to his habit of preferring the train) and tried to persuade Gorbachev to support that DPRK should organize at least 8 sports events and in case of failing to achieve this goal, the Soviet Union should declare boycott. The Soviet leader then promised support the DPRK to be co-organizer of the events, but

categorically rejected to impose a boycott. Not much later the DPRK campaigned for a full boycott of the Olympic Games in Seoul, moreover in November 1987 it launched a terrorist attack against a South Korean flight from Baghdad to Seoul. The terrorist suspects were apprehended in Bahrain: a senior man and a young lady, both with Japanese identities. Both of them tried to commit suicide, the young lady was rescued. Her name was Kim Hyon-hee. She later admitted that they were both agents of the North Korean secret service and had travelled from Pyongyang through Moscow to Budapest on North Korean diplomatic passports. The North Korean Embassy then took them by car to Vienna, from there they flew with forged Japanese passports to Baghdad where they received the explosives in a portable radio from two deployed agents. The North Korean authorities tried to rule out the fact of the intentional terrorist attack, claiming it as fiction, full of contradictions. The real objective of the DPRK was to shock the international community and dissuade people from attending the Seoul Olympic Games. After all, the North Korean explanations did not convince the international community about the innocence of the regime of Pyongyang, so from then on DPRK was added to the list of regimes supporting terrorism. After her trial by the South Korean Supreme Court Kim Hyon-hee was sentenced to death, but President Roh Tae-woo pardoned her (Csoma, 2018, pp. 257-259). After all, the Republic of Korea came out from the incident with a higher international prestige which further facilitated it to organize (alone) the Seoul Olympic Games.

The fact, that the summer Olympic Games were supposed to take place in Seoul was widely known and this had an important role in the process of the establishment of commercial and diplomatic relations with the then socialist countries. The main question was which country would be the first;—who would take on the risk of this first step (Torzsa, 2009)?

From the South Korean side, Hungary and Romania were considered the most convenient countries in the socialist bloc to “break the ice”. In the beginning Romania was considered because of its “individual” style (diverting in several cases from the guidelines of the Soviet Union, like attending alone from the socialist countries at the Olympic Games in Los Angeles). However due to its close relations with North Korea, Romania was dropped from the agenda. At the same time Hungaro–South Korean trade relations gained impetus: in December 1987 the South Korean trade representation office (KOTRA) was opened in Budapest, while in March 1988 the Hungarian trade representation office was opened in Seoul (Csoma, 2018, pp. 259-260).

In the course of the secret negotiations the parties agreed that the agreement had to be ratified and the exchange of the ratification documents should be exchanged at the earliest convenience. After that the establishment of diplomatic relations should be soon made.

Even before the Seoul Olympic Games started, Sándor Etre left for Seoul and brought the Hungarian ratification documents. The official procedure of exchanging the ratification documents took place on September 13 in Seoul. Sandor Etre was received by the Head of State of the Republic of Korea too, which reflects the fact that Korea considered the event of great importance.

Mr. Etre attended at the inaugural ceremony of the Olympic Games as Guest of Honour, being invited by the Government of the Republic of Korea. The Seoul Olympic Games as an event was highly successful from the Hungarian point of view too. Besides the number of medals, Hungarian sportsmen and -ladies received heartfelt greetings not only in the stadium, but also in the city. Even months after the Olympic Games, photos were displayed in many shops in Seoul. It happened several times that when shop owners understood the author was Hungarian, they showed their photos where they stood together with Hungarian medal-winners and sportsmen.

At that time Hungary and Hungarians enjoyed high popularity in South Korea. Once when the author was visiting Karak market (in the southern part of Seoul) an old vendor asked him whether he was American. When the author said "No, I am from Hungary", the vendor became enthusiastic and gave him a bunch of vegetables out of courtesy.

### **3. Talks on the Establishment of Bilateral Political Ties**

Park Chul-un also provided information on the above discussed issues when he came to Hungary to conduct preliminary talks on the normalization of relations between Hungary and South Korea. Although the Hungarian and South Korean positions were not exactly the same, the parties agreed to continue their talks. Soon, between August 8 and 12, a Hungarian delegation headed by Mr. Ferenc Bartha, the then-governor of the National Bank of Hungary, traveled to Seoul. During the talks the parties agreed to establish consular relations before the start of the Olympic Games and pledged to establish diplomatic relations within six months. It was important for South Korea to achieve a breakthrough in the case of at least one former socialist country before the 1988 Olympic Games, as it believed such an announcement would contribute to the event's security.

Park Chul-un, accompanied by several South Korean ministers, secretly arrived for the third round of talks held in Budapest on August 25 (The Korea Herald, February 2, 1989). At the end of the talks, which continued for two days and lasted till late at night, the leaders of the two countries' Foreign Ministries agreed that Hungary and Korea would normalize their relations over the course of a two-phase process. Although South Korea wanted to normalize relations as soon as possible, Hungary needed time so that the decision could at least partly be recognized by the leaders of the other socialist countries. These differing positions of the two countries risked hindering the progress of their talks. At this point, following the example of Paul Nitze and Yuli Kvitsinsky, the American and Soviet arms control negotiators, and their famous "walk in the woods" in 1982 (Association for Diplomatic Studies and Training, 2016), Hungarian Ambassador Sándor Etre, a member of Hungary's three-person delegation, who was fluent in Korean, went for a private walk with Park Chul-un along one of the nature trails in the Buda hills that surrounded the Korean delegation's accommodation. The Hungarian delegation was officially headed by János Görög, who later went on to become deputy state secretary and, during Hungary's democratic transition, the Foreign Ministry's state secretary for public administration. Its second member was Sándor Etre, and the author was the third member of the delegation, at the time an official at the ministry's department of international law and later Hungary's ambassador to the Republic of Korea.

Though Park Chul-un was not the official head of the South Korean delegation, everyone involved was aware that it was he, the president's chief security advisor, who had the authority to make the necessary decisions. Their talks ultimately proved successful. As a result, a compromise was made and an agreement was signed on August 26, 1988 that the parties would establish permanent representations in each other's capital cities and undertake to enter into negotiations on the establishment of full diplomatic relations as soon as possible. The agreement was signed by János Görög, head of the International Legal Department of the Hungarian Ministry of Foreign Affairs, who headed the delegation, and Min Hyung-ki, head of the European Department of the Korean Ministry of Foreign Affairs (The Korea Herald, September 14, 1989; Népszabadság, September 14, 1989). It is also worth noting that the agreement was signed in a guesthouse of the Hungarian Ministry of Foreign Affairs which is currently owned by South Korea. One of the initiators of the agreement, Gyula Horn, then foreign affairs state secretary, was also present when the agreement was signed, as he was an ardent supporter of the normalization of Hungarian–South Korean relations. According to the agreement, permanent representations enjoyed privileges and exemption specified by the 1961 Vienna Convention on Diplomatic



Relations<sup>2</sup>. Pursuant to the terms of the agreement, the heads of mission were not allowed to use their diplomatic rank, however, the other officers were entitled to use their ranks, like those working in embassies. The agreement also included an economic package of 625 million US dollars disbursed by the Korean party mostly in the form of a bank loan (Oberdorfer, 2001, p. 190).

### 3.1. The Success of the Secret Talks

The agreement of August 26 entered into force on September 13, 1988, after the exchange of the ratification documents. On this occasion, Sándor Etre<sup>3</sup>, deputy head of the competent department of the Ministry of Foreign Affairs, flew to Seoul. The decision made by Hungary met with general favorable reaction in Seoul, and both the delegations participating in the Olympics and ordinary Hungarian citizens visiting Seoul were able to enjoy its benefits.

Pursuant to the terms of the agreement between the two parties, the Republic of Korea opened its permanent representation in Budapest in Hotel Forum (Today's InterContinental) on October 26, 1988, and the permanent representation of the Hungarian People's Republic was opened in Seoul in Hotel Hilton on December 7 (The Korea Herald, October 27 and December 8, 1988).

### 3.2. Establishment of Permanent Representations

Establishing permanent representation was an event of historic importance for the Republic of Korea. The reason for this is understandable. The Hungarian People's Republic became the first socialist country to establish official interstate relations with South Korea, and this meant a breakthrough in terms of the communist bloc. The event was widely echoed both in the East and the West (Chul-un, 1990). Western countries unanimously praised Hungary for the courageous decision and certain countries among Hungary's allies at the time, like the Soviet Union, led by Gorbachev, Poland, Czechoslovakia, and Yugoslavia also gave their tacit approval. Bulgaria, led by Todor

<sup>2</sup> Decree Law no. 22 of 1965 on the 1961 Vienna Convention on Diplomatic Relations. Presidential Council of the Hungarian People's Republic, Budapest, 1965.

<sup>3</sup> Mr. Etre, who was later appointed as head of Hungary's permanent representation in Seoul before going on to serve as the first Hungarian ambassador was fluent in Korean. To this day he is seen by many in South Korea as one of the key figures of the establishment of Hungarian-South Korean bilateral ties

Zhivkov, did not support Hungary's decision, although it did not criticize it either. The two countries that were openly against it were Romania and the German Democratic Republic, which was probably due to the fact that Ceausescu and Honecker were on friendly terms with Kim Il-sung. It probably requires no explanation that Hungary's decision evoked heated reactions from the DPRK. Several articles criticizing Hungary, its leaders, and its people were published in North Korean daily papers and in response to Hungary's decision, North Korea recalled its ambassador from Budapest (The Korea Herald, November 8, 1988). According to the official paper of the Workers' Party of Korea, Hungary was a traitor that had deserted and denied the Marxist-Leninist ideology and the revolution of the working class. A lengthy article in the daily also raised the question of whether "Hungary was in such big trouble that it had to beg for a few dollars from South Korean puppets" (Oberdorfer, 2001, p. 191). It is worth noting that the DPRK's ambassador to Budapest at the time was Kim Pyong-il, the younger son of Kim Il-sung and the younger brother of former North Korean leader Kim Jong-il. When the then-deputy minister of foreign affairs, István Őszi, informed Kim Pyong-il about the establishment of diplomatic relations between Hungary and South Korea, Mr. Kim said that he disagreed with the Hungarian decision, but added that Hungary was a sovereign state and should bear responsibility for its own decisions. Two days later—probably after having received instructions from higher up—he heavily protested and demanded that the agreement be terminated with immediate effect. On September 14, Kim Pyong-il protested Hungary's decision with Mr. Őszi, saying that it hurt the interests of the DPRK and constituted a challenge of the fight to unite "the only lawful representative of the Korean people" and "South Korean patriots". He demanded that the Hungarian government withdraw its decision to establish ties with the South, adding that if it did not, Hungary would have to "bear full responsibility" for the consequences of its decision (National Archives of Hungary, 1988e). Later, on November 6, he left Hungary without prior notice, never to return. This was probably due to the fact that North Korea realized that the protest they had delivered had no impact at all as the South Korean permanent representation was opened in late October.

Kim Jong-nam, the then-minister of foreign affairs of the DPRK, also delivered a protest against the decision on the establishment of permanent representations to the Hungarian ambassador accredited to Pyongyang and handed over a note verbale to him. (In the note verbale, the DPRK expressed its regret that Hungary "reached an agreement with the Korean puppets on the establishment of permanent representations and opening negotiations on the establishment of diplomatic ties". It berated its southern neighbor, saying that "the hands of the South Korean puppets are tainted with the blood [...] of barbaric oppression" and the "crimes committed against democracy and the people fighting for democracy, human rights and the unification of the country".

The DPRK said it was unjustifiable for people who believed in the ideals of communism to be "driven by mere economic motivations" to "shake the hands of fascist executioners". It said that by formally recognizing "the South Korean puppets", the Hungarian government had "practically accepted the concept of 'cross-recognition' embraced by the American and Japanese imperialists as well as the South Korean puppets" and created favorable conditions for the "efforts to botch up 'the two Koreas'" (National Archives of Hungary, 1988f). The note verbale of North Korea was handled by Gábor Nagy, Hungary's deputy foreign minister, who summoned the ambassador of North Korea to the ministry. At first the ambassador complied with the instruction, but he later canceled the scheduled appointment. Finally, on October 21, 1988, he paid a visit to the Ministry of Foreign Affairs. Gábor Nagy attempted to hand over a reply note verbale to the ambassador, but he refused to accept it, and it was therefore sent to the North Korean embassy by mail. The North Korean embassy, after opening the envelope, sent it back to the Ministry of Foreign Affairs (National Archives of Hungary, 1988g).

### 3.3. Bilateral Ties on the Upswing

After the agreement on the establishment of permanent representations had been signed, political relations intensified considerably. Then-Foreign Minister Péter Várkonyi met his South Korean counterpart at the 43<sup>rd</sup> session of the UN General Assembly and later at the Paris conference on the prohibition of chemical weapons held in January 1989, where they discussed a number of issues and extended their mutual invitation for an official visit. The South Korean sports minister arrived in Hungary in November to sign a cooperation agreement with ÁISH, the Hungarian Youth and Sports Affairs Office. Between December 27 and 29, South Korean Deputy Foreign Minister Shin Dong-won paid an official visit to Hungary and signed the foreign investment protection agreement.

In the meantime, in accordance with the terms of the agreement concluded on August 26, the officials of the two countries continued discussions on the full normalization of their relations. In its resolution of November 22, 1988, the Central Committee of MSZMP recommended that the Council of Ministers authorize the Ministry of Foreign Affairs to enter into talks with the Republic of Korea on the establishment of full diplomatic relations. The party's Political Committee then adopted a resolution on December 27, 1988 backing the decision. It was on the basis of these resolutions that Gyula Horn held talks with South Korea's deputy foreign minister on the conditions of the establishment of diplomatic ties on December 27-29. In its resolution drafted on December 10, 1989, the Council of Ministers authorized the foreign minister to

submit a proposal to the Presidential Council of the Hungarian People's Republic on the establishment of diplomatic ties at ambassadorial level with South Korea. The council's resolution of January 27, 1989 then authorized Gyula Horn to sign the protocol on the establishment of diplomatic ties between the two countries (National Archives of Hungary, 1989a). The talks ended soon and were so successful that on February 1, 1989, foreign affairs state secretary Gyula Horn signed the Protocol on the Establishment of Full Diplomatic Relations between the Hungarian People's Republic and the Republic of Korea. As a result, permanent representations were elevated to embassy status. Other agreements like the Convention on Cultural Cooperation, the Agreement on Trade and Economic Cooperation, and the Visa Waiver Agreement relating to diplomatic and special passports were also signed on February 1 (The Korea Herald, February 2, 1989; *Népszabadság*, February 2, 1989).

### 3.4. North Korea Reacts to the Establishment of Hungarian–South Korean Diplomatic Relations

The DPRK criticized the establishment of Hungarian–South Korean relations more heavily than ever. The print and electronic media not only criticized and insulted Hungary but threatened serious consequences if it did not break off its relations with South Korea. They said that on the basis of the information received from Hanminjon, the former reputed DPRK propaganda organ, South Korean revolutionary forces will destroy the building of the Hungarian representation without sparing the life of the people in it. They expressed themselves in a manner that was rather unusual on the international stage, which they justified by saying that Hungary “shook hands with South Korean puppets, sold its soul for a few million dollars and was dancing with them to a tune played by American imperialists” (*Rodong Sinmun*, February 2 and 5, 1989). Words like these were probably not surprising to those who are familiar with the North Korean system. In fact, the rhetoric of the Pyongyang regime has not changed too much up to these days. Seoul, however, took the threats directed against the Hungarian mission and its members seriously and in order to prevent any unexpected incidents, the Hungarian representation was protected on a permanent basis by a 30–40-strong counter-terrorism special force group for a few weeks after the diplomatic relations were established. This was probably the reason why no insults were, or have ever been, directed against the Hungarian embassy in Seoul, where the level of public safety is high. However, on February 2, 1989, the ambassador of the Hungarian People's Republic to North Korea, Mihály Kornidesz, was summoned to the Ministry of Foreign Affairs in Pyongyang and was practically asked to leave the country. Deputy Foreign Minister Lee In-gyu presented a note verbale to the ambassador in which the DPRK confirmed that it

would be recalling its ambassador to Hungary and asked Hungary to do the same (The Korea Herald, February 5, 1989). Basically, it meant that he became a *persona non grata* in the Democratic People's Republic of Korea. No Hungarian ambassador has resided in North Korea since then. The Hungarian embassy in Pyongyang was closed down in 1999 and Hungary was represented in the DPRK through its embassy in Beijing, China till 2008. Given that Hungary was already a member of the European Union by then and that several of the ambassadors of the Western European EU member states to Seoul are also accredited to Pyongyang, Hungary decided that it too should follow that example. Since then, the Hungarian ambassador to Seoul also serves as the country's top envoy in North Korea. This arrangement is useful not only because it absolves the Hungarian ambassador to Beijing of responsibilities relating to North Korea, but also because it gives the head of mission in Seoul the chance to get firsthand information about the situation in North Korea. The accreditation also involves occasional official visits by the ambassador to the DPRK.

### 3.5. The Effect of Hungarian-South Korean Diplomatic Relations on Bilateral Ties

The establishment of diplomatic relations speeded up bilateral cooperation. In the spring of 1989, South Korea's foreign minister visited Budapest and signed an agreement on the elimination of double taxation and on technical and scientific cooperation. Bilateral cooperation in other fields also improved significantly. Further agreements were signed, among others, the airspace agreement, the agreement on animal health and welfare, the agreement on tourism, the inter-chamber convention on the recourse to arbitration courts, and the agreement between MTI and Yonhap, the Hungarian and South Korean national news agencies. Bilateral relations were expanded between the two countries' universities and academies of sciences.

Then Foreign Minister Géza Jeszenszky returned the visit of his South Korean counterpart in March 1991 and it was he who signed the comprehensive visa waiver agreement (The Korea Herald, March 26, 1991). Based on this agreement, which entered into force in late April 1991, citizens of the two countries could stay in the other country for 90 days without a visa, except for citizens with a purpose of stay related to work or students, in which cases citizens were not exempt from visa requirements.

Diplomatic relations also involved a considerable increase in the number of high-level visits. In addition to those mentioned earlier, there were several others. In 1989, for instance, Péter Medgyessy, then deputy prime minister, visited Seoul, and ministerial

level consultations were often held. Árpád Göncz was the first Hungarian president to pay a visit to the Republic of Korea in the autumn of 1990 (November 14-17)<sup>4</sup>, when he returned President Roh Tae-woo's visit of November 1989 to Hungary. Before the visit of the South Korean president, Hungary had terminated the visa waiver agreement concluded with the DPRK in 1956 for security reasons. It was on July 10, 1989, the Ministry of Foreign Affairs presented a note verbale to North Korea's chargé d'affaires ad interim in Budapest in which Hungary confirmed that it would terminate its existing visa waiver agreement, which was signed in 1956 and expanded in 1967 effective August 10, 1989. In its reply received on July 18, Pyongyang said it would terminate the agreement effective August 1 (National Archives of Hungary, 1989b; 1989c). During the president's stay in Hungary special security measures were in force. North Korea reacted in the usual manner. An Min-su, head of the regional department of North Korea's foreign ministry, told the Hungarian chargé d'affaires in Pyongyang that the DPRK had received reports that Hungary had assigned secret agents to spy on each North Korean citizen in Hungary. The DPRK saw this as a violation of diplomatic immunity and a threat to the safety of North Korean citizens. According to Hungary's official reply, the security measures put in place during the South Korean president's visit to Budapest were justified by prior attempts on the lives of former South Korean heads of state and international acts of terror (National Archives of Hungary, 1989d).

The establishment of diplomatic relations was followed by the establishment of the official relations between the two countries' national assemblies. The initial step was already taken by legislators in March 1989 at the IPU Assembly held in Budapest, when they set up parliamentary friendship groups. Within the framework of inter-parliamentary relations, a Hungarian parliamentary delegation paid an official visit to Seoul in December 1989 and also in May 1991, which was a multi-party delegation led by György Szabad, Viktor Orbán and Iván Szabó were also part of the delegation (The Korea Times, May 24, 1991; The Korea Herald, May 25, 1991).

A few days before diplomatic relations were established, a delegation of the Party for Peace and Democracy, the opposition party led by Kim Dae-jung, had visited Hungary. In the spring of 1991, members of the Hungarian Liberal Party (SZDSZ) visited Seoul. In 1993, a five-party parliamentary delegation held discussions in South Korea.

High-level talks have been held regularly over the past thirty-one years. In 1993, President Árpád Göncz made a private visit to South Korea to attend the Taejeon Expo

<sup>4</sup> His visit was covered by the press in detail.

and in 1995, Prime Minister Gyula Horn flew to the South Korean capital. It was an important moment in the two countries' relations when President Kim Dae-jung visited Hungary in December 2001, and also when the speaker of the Korean parliament held talks in Budapest in the spring of 2002.<sup>5</sup> In 2002, Prime Minister Viktor Orbán also made a private visit to South Korea and attended several events, including the opening ceremony of the FIFA World Cup. South Korean Prime Minister Lee Hae-chan took part in the Progressive Governance conference held in Balatonőszöd and this event provided an opportunity for an overview of bilateral relations. It is important to mention Foreign Minister Ban Ki-moon's visit to Budapest in December of 2005 because this was the second time that a South Korean foreign minister had visited Hungary since 1989 on a bilateral basis, and also because at that time Hungary had the privilege to welcome an official who would later hold the post of United Nations Secretary-General.

It is worthwhile to mention several high-level visits from the Hungarian side. The Hungarian Minister for Agriculture and Rural Development, Dr. József Torgyán—who was the Head of the Hungarian Independent Smallholders' Party, a coalition-member of the then Hungarian government—paid an official visit to Seoul at the end of August 2000 with the view of having negotiations with his Korean counterpart, Mr. Han Gap-soo, Minister of Agriculture and Forestry about further development of the bilateral cooperation in the field of agricultural and food sectors. Besides the mutual declarations of willingness for cooperation, the two ministers raised and changed opinions on their concrete proposals for the enlargement of trading with agricultural goods and foodstuffs (Neszmélyi, 2001).

In March 2005, Prime Minister Ferenc Gyurcsány and in April 2007, Foreign Minister Kinga Göncz held talks in Seoul. The unconcealed visit of the prime minister's visit had been to restore the diminished confidence of South Korean investors towards Hungary, and the visit was successful in achieving this goal. In late November-early December of 2009, President László Sólyom also visited South Korea, with the next presidential visit being made by his successor, Pál Schmitt, in March 2012. The following year saw visits by Foreign Minister János Martonyi and Economy Minister Mihály Varga in April and November, respectively. The next prime ministerial visit came in

<sup>5</sup> It is worth noting that Lee Man-sup, then speaker of the National Assembly of the Republic of Korea, came out in support of Hungary's anti-Soviet uprising of 1956 as a university student at the time. Along with a group of about ten people, he wanted to travel to Budapest to directly support the Hungarian freedom fight against the Soviet occupation. For his courage, he was awarded the highest recognition bestowed on foreign nationals by President Ferenc Mádl. Another member of the group was decorated by then-Speaker of Parliament Katalin Szili during her 2006 visit to Seoul

2014 when Viktor Orbán visited Seoul in November. This was followed by a visit by President János Áder in April 2015. Economy Minister Mihály Varga paid another visit to Korea in February 2016, with the Parliamentary Speaker László Kövér and Foreign Minister Péter Szijjártó also traveling to the country in May and December, respectively. Mr. Szijjártó paid another visit to Korea in December of 2019.

Hungarian–South Korean commercial and economic cooperation was not significant before the establishment of diplomatic relations. The volume of trade was below 5 million US dollars and due to the lack of direct commercial ties, third countries were also involved. By contrast, Hungary's trade volume with South Korea had already exceeded 250 million dollars in 2007 and the value of imports was more than 2 billion dollars. Korean statistics provide more details in this respect, as they show the re-export of products previously imported as raw materials or spare parts for South Korean companies operating in Hungary. However, the surplus on the Korean side is still significant. The greatest result of the prime minister's visit in 2005 was that it established direct contact at the highest level with several executives of Korean companies already operating or planning investment in Hungary. Tire maker Hankook Tire is the best example for this, as the company's Central European investment was still only in the planning stage in 2005. Finally, the company decided that the location for their 525 million dollar investment would be the Rácalmás region in Hungary. By means of this investment, at that time the world's seventh largest tire company intended to become the fifth most significant company in tire production. As a result of this investment, which attracted several suppliers to the Dunaújváros region, 1,500 jobs were created directly, and twice as many counting suppliers.

Parliamentary Speaker Katalin Szili and her delegation visited the Hankook Tire headquarters in South Korea in August 2006 to gain insight into the operation of the factory whose affiliate was to be established in Hungary. In terms of the amount of money involved, the Hankook Tire investment was undoubtedly the greatest success of that time period. The presence of the Samsung group is also important. Samsung SDI, located in Göd, produces electric vehicle batteries. Samsung Electronics was the first South Korean company to enter the Hungarian market, beginning its operations in 1989 in Jászfényszaru and producing several millions of television sets yearly. Samsung Electromechanics set up a plant producing spare parts in Szigetszentmiklós. LG, Daewoo, and the Hanwha Group also established a presence in Hungary. Korean investment in Hungary has increased to more than 2 billion dollars as against 300 million dollars in 2002.



Foreign Minister Kinga Göncz's talks in Seoul proved to be good opportunities for the overview of the results achieved since the prime minister level talks. Although this was not an exceptional outcome of the foreign minister's talks, her visit to South Korea was exceptional because she visited South Korea's industrial park in Kaesong, located on the north side of the Military Demarcation Line separating the two Koreas, a few kilometers from the Korean Demilitarized Zone. Some people asked why the visit to Panmunjom had been excluded from the regular program for foreign visitors. The answer was very simple. Panmunjom symbolized the past, the dividedness of the Korean peninsula, while Kaesong pointed towards the future, to inter-Korean cooperation. Our request for Minister Göncz's visit to Kaesong was agreed to and met with satisfaction in Seoul. Surprisingly, North Korean authorities were also flexible and gave a green light to the visit. This was a 'historic event' on the Korean peninsula. Nineteen years after the establishment of diplomatic relations between Hungary, the first country from the socialist bloc, and South Korea, our foreign minister was the first incumbent high-ranking official to visit Kaesong in North Korea during her official visit to South Korea.

From 2010, and especially after 2012 when the Hungarian Government proclaimed its Eastern Opening strategy, the relations between Hungary and the Republic of Korea gained new impetus. A number of new Korean investors arrived in Hungary while the formerly existing ones, like members of Samsung Group and Hankook Tire implemented new investments—extended and modernized their production capacities.

The high-level visits continued as well, from the Hungarian side, mention must be made about the official visit of Prime Minister Viktor Orbán in 2014, Deputy Prime Minister Zsolt Semjén (2015), President János Áder (2015) and the Parliamentary Speaker László Kövér (2016). From the Korean side, visit of Vice Chairman of the National Assembly Hong Je-hyung (2010) and Speaker to the National Assembly Chung Ui-hwa (2015) can be underlined.

The events of the past thirty-one years have vindicated the courageous step that Hungarian diplomacy took in 1988. Former socialist countries establishing diplomatic relations with South Korea after Hungary all requested a "package" and economic cooperation that was similar to what Hungary had received from and developed with South Korea. Seoul's response to the request of these countries was not unlike the medal awarding process at the 1988 Olympic Games: first-place winners were awarded a gold, second-place winners a silver, and third-place winners a bronze medal. All other contestants were applauded.

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# The Development of the Bilateral Relations between Hungary and the Republic of Korea

György Iván Neszemélyi

## 1. Introduction

The Republic of Korea is one of the newly industrialized economies of Asia (ANIES) which has shown spectacular economic development over the past 50 years. Thanks to its successful policy of economic development, its economic performance has grown to over hundred-fold and its giant companies have become competitive and famous worldwide.

On February 1, 2019, the 30th anniversary of the establishment of diplomatic relations between Hungary and the Republic of Korea were commemorated. In that international context—characterized by the still existing bipolar world—this gesture sent a firm political signal which showed far beyond the bilateral context: it served as a pattern which was followed by all the other European (ex)socialist countries and in a few years even by the People's Republic of China.

The bilateral relations, especially in the field of economics got a dynamic start from the early 1990s. Several Korean companies had already invested and settled in Hungary, in spite of the fact that Hungary used to be considered as bridgehead towards Europe. Nowadays, in 2020—after the 30<sup>th</sup> anniversary of the diplomatic relations and the 15<sup>th</sup> anniversary of the Hungarian EU membership—the economic and political environment is considerably different from the late 1980s.

The present study aims to provide the readers with a thorough insight into the political, economic, cultural and social aspects of the 3-decade old, but impressively enhanced and still developing relations of the Republic of Korea and Hungary.

## 2. The Antecedents: Korea and Hungary before the Establishment of Diplomatic Relations

In fact, the relationship between the Hungarian and Korean nations looks back at a longer history, than the late 1980s. One may look back even to ancient times referring to the fact that Koreans and Hungarians have common Ural-Altaic roots and both nations are supposed to have a common origin from Central Asia. Baráthosi Balogh (1929, p. 4) in his book referred to Siratori Kuriakicsi a Japanese professor who claimed there was a close relationship between Korean and Turani languages<sup>1</sup> adding that there were more than one thousand common words. Also referred to Asthon, British philologist who claimed that Korean and Japanese languages are close to the Turani languages. All this is related to the deep past and in fact, besides linguistic comparisons made by researchers there is not much tangible proof to support it. However, Koreans are also aware of this fact, and Hungarians are considered by them as distant relatives, a nation, which drifted far away to the west.

The document that can be considered as the first step of the relationship in modern times is considered to be the Treaty on Friendship, Trade and Marine navigation which was signed on June 23, 1892 between the Austro-Hungarian Monarchy and the Kingdom of Korea. This treaty was unanimously ratified and enacted by the Hungarian Parliament on April 20, 1893. The documents of ratification were exchanged in autumn of the same year in Seoul. The Austro-Hungarian Monarchy was the 6<sup>th</sup> European power to conclude such a treaty with Korea. However, due to the huge geographic distance, the Japanese annexing of Korea and the collapse of the Austro-Hungarian Monarchy, relations remained peripheric (Fendler, 1994).

Official relations and other ties were interrupted for a long time after Korea was annexed by Japan (1910) and the Austro-Hungarian Monarchy collapsed (1918). Between the two world wars Hungary could keep diplomatic relations with Japan, and only a few direct interactions between Koreans and Hungarians are known. From among the latter the best known is the study tour of Ahn Ik-tae (1906-1965), the outstanding Korean composer, who composed the National Anthem of the Republic of Korea. He studied Hungarian and Central-East European nations' folk music at Zoltán Kodály.

Ahn Ik-tae visited Hungary for the first time in 1936, when he received an invitation to conduct the Symphonic Orchestra of the Hungarian Radio. At that time his talent

<sup>1</sup> The relationship of Hungarian–Turani–Korean languages is still not fully proven.

was followed with interest by Béla Bartók, Ernő Dohnányi and other Hungarian composers. He studied music composition from Zoltán Kodály who is considered to be one of his masters. He used to live in Budapest between 1938-41, from 1939 he was a student of the Academy of Musical Arts with the fellowship of the Hungarian state. He lived in the Eötvös Collegium which was a privilege of a very few gifted students (Hungarian Korean Society).

After WWII when Korea was liberated and at the same time became divided, among the bipolar world order's context, Hungary established and maintained relations only with the Democratic People's Republic of Korea supporting it even during the Korean War, sending a full military hospital and a medical team (Csoma, 2018, pp. 164-167). The Hungarian hospital "Mátyás Rákosi" gained reputation and became well-known to North Koreans. Moreover, even its reputation spread through the frontline, as a member of the Hungarian team, János Zoltán, a Hungarian plastic surgeon mentioned, there were several cases when even South Korean soldiers arrived at the hospital to have their injuries treated by Hungarian doctors (Zoltán, 1996, p. 73).

After the Hungarian revolt in 1956, the relations between North Korea and Hungary started to loosen, most of the North Korean students who had studied at Hungarian higher education institutes were rapidly brought back to North Korea and the atmosphere of the relations was less heartfelt and trustful. By the end of the 1980s the DPRK and the European socialist countries, including the Soviet Union had a huge gap in the political atmosphere, including the approach to political and economic reforms. By the 1980s Hungary and the DPRK's relations were mainly formal and empty ties, but North Koreans still jealously lobbied that no-one of the (ex)socialist bloc should think of establishing relations with South Korea including the participation at the Seoul Olympic Games in 1988. It was one of the main goals of Kim Il-sung when in early summer of 1984 he visited the Central-East European countries including Hungary (Csoma, 2018, pp. 255-256).

In spite of North Korean warnings, in the first half of the 1980s Hungary started informal relations with South Korea. The reform-communist wing of the ruling party focused on economic relations and authorized first the Hungarian Chamber of Commerce and Industry (MKIK) to start and pursue negotiations with the view of gaining loans under favorable conditions, later on also attracting Korean companies to invest in Hungary. In October 1988, the South Korean commercial representation office (KOTRA) opened its office in Budapest, and in March 1988, the Hungarian Trade Office was opened in Seoul (Torzsa, 2014).



The Seoul Olympic Games and the success of Hungarian sportsmen (and-women) further improved the atmosphere between South Korea and Hungary. (Hungary won 23 medals: 11 gold, 6 silver and 6 bronze). The establishment of full diplomatic relations on February 1, 1989 merely improved the international recognition and reputation of South Korea as well. From the Hungarian point of view, Hungary played a pioneering role, being the very first (ex) socialist country to establish diplomatic relations with South Korea. At first it was intended to be done on an "ideology-free" basis, not to induce anger of the more conservative socialist countries at that time (Czechoslovakia, German Democratic Republic and Romania) and also to reconcile North Korea. However, the former European socialist countries including the Soviet Union and P. R. China followed Hungary's example relatively soon.

From the South Korean side, the rapidly growing number of partnerships with the formerly socialist European countries were supposed to serve President Roh Tae-woo's so-called Northern policy, which was built on an assumption that the (former) socialist countries could serve as catalysts to improve the inter-Korean relationship. In the end, it did not work, due to two reasons. First, the Socialist bloc collapsed soon after the establishment of diplomatic relations with South Korea, second, because—since the early 1950s the ex-socialist countries did not have intensive political and economic contacts with North Korea, even if they wanted, they could not influence the North Korean leadership. North Korea followed these newly established partnerships with anger and offence, but it could not hinder them. Eventually, North Korea became even more isolated from the rest of the world.

From the Hungarian side, February 1, 1989 can be considered as part of a diplomatic "campaign" to normalize (establish or re-establish) diplomatic relations with such countries that formerly were considered white spots or "taboos" including the Republic of South Africa and Israel.

### **3. The Political Relations**

In general, it can be said that the bilateral political relations are free of problems and based on the mutual trust, common interests and similar values. High level visits are common and regular.

### 3.1. The Partnership before the EU Membership of Hungary (2004)

The institutional and legal framework for the bilateral relationship were set up: inter-governmental agreements were signed on investment protection, on the avoidance of double taxation, on cooperation in trade, the economy and culture, in the science and technology field, on visa exemption, on air traffic and tourism cooperation. A Joint Economic Committee was launched. Hungary considers the Republic of Korea as a main political and economic partner in Northeast Asia (Hungarian Embassy, Seoul).

Soon after the establishment of diplomatic relations a number of high-level visits followed each other in both directions. Besides top-level summits, visits of a number of cabinet ministers took place as well. The most important of these visits from Hungarian side, were the official visit of President Árpád Göncz in 1990, and later his unofficial visit in 1993 (when he attended at Taejon Expo), in 1991, György Szabad, the Speaker of the Parliament, in 1995 Gyula Horn, Prime Minister of Hungary then in 1997 Mária Kóródi, Vice Speaker of the Parliament can be highlighted. From Korean side visit of President Roh Tae-woo to Budapest (1989), Prime Minister Lee Soo-seong (1996), President Kim Dae-jung (2001), Lee Man-sup Speaker of the National Assembly can be mentioned.

### 3.2. Partnership after the EU Membership of Hungary

The membership of Hungary in the European Union has opened new horizons for political and economic cooperation with the Republic of Korea. Hungary has gradually become a part of the integrated European economy, as a full-fledge participant of the European single market, the Schengen area and other important European framework programs. Since 2004 the high-level bilateral visits have been further intensified.

Table 1

## The most important visits from both sides

From Korean side:	From Hungarian side:
2004 Prime Minister Lee Hae-chan	
2005 Minister of Foreign Affairs Ban Ki-moon	2005 Prime Minister Ferenc Gyurcsány; Deputy Speaker of the Parliament Gábor Világosi;
	2006 Speaker of the Parliament Katalin Szili
2007 Prime Minister Han Duck-soo	2007 Minister of Foreign Affairs Kinga Göncz
2009 Vice Chairman of the National Assembly Lee Yun-sung; Special Envoy of the President Park Geun-hye; Mayor of the Seoul Metropolitan Government Oh Se-hoon	2009 President László Sólyom
2010 Vice Chairman of the National Assembly Hong Je-hyung	
	2012 President Pál Schmitt
	2013 Vice President of the Parliament István Jakab; Minister of Foreign Affairs János Martonyi; Minister of Defense Csaba Hende; Minister for National Economy Mihály Varga; Chief Justice Péter Darák
	2014 Prime Minister Viktor Orbán; Minister of Foreign Affairs and Trade Péter Szijjártó; Minister of Defense Csaba Hende; Minister of National Development Miklós Seszták; Minister for National Economy Mihály Varga; Minister of Human Capacities Zoltán Balog;
2015 Speaker of the National Assembly Chung Ui-hwa	2015 Deputy Prime Minister Zsolt Semjén; Deputy Speaker of Parliament János Latorcai; President János Áder;
	2016 Minister for National Economy Mihály Varga; Speaker of the Parliament László Kövér; Minister of Foreign Affairs and Trade Péter Szijjártó

Source: Hungarian Embassy – Seoul, 2019.

The 30<sup>th</sup> anniversary of the diplomatic relations between the republic of Korea and Hungary was celebrated and commemorated on several occasions in Budapest and Seoul. The Institute for Foreign Affairs and Trade (IFAT) and the South Korean Institute of Foreign Affairs and National Security (IFANS) of the Korea National Diplomatic Academy (KNDA) hosted a conference “Korea and Hungary – 30 Years, Strategic cooperation for the future” on July 5, 2019. The event was opened by András Baranyi, Deputy State Secretary for Eastern Relations of the Ministry of Foreign Affairs and Trade, Kyoo Sik Choe, Ambassador of the Republic of Korea to Hungary, Márton Ugródsy, Director of IFAT, and Bong-Geun Jun, Acting President of IFANS KNDA (IFAT, 2020). In Budapest Business School, University of Applied Sciences, the Oriental Business and Innovation Centre dedicated a conference for PhD students on February 18, 2019 “The Past and the Future of Hungary’s Diplomatic and Trade

Relations with East Asia” on the triple anniversary of the establishment of diplomatic relations between Hungary and Japan, China and the Republic of Korea.

Hungarian–Korean political relations and high-level visits remained frequent in recent years as well. Foreign Minister Péter Szijjártó visited Seoul twice in December 2016 and in December 2019. In 2016 he met his counterpart, Yun Byung-se (former) Minister of Foreign Affairs and discussed new investments by Samsung SDI and of potential investors in the pharmaceutical and automotive industry. Besides these possible cooperation alternatives in the fields of science and technology (S&T), defense, education and human relations. He also met Woo Tae-hee Vice Minister of Commerce, Industry and Energy (MOCIE) and discussed Hungarian–Korean economic relations and met the representatives of 19 Korean companies.

The Hungarian minister of foreign affairs also met his counterpart Kang Kyung-wha (Ms) on the margin of the session of Human Rights Council of the United Nations on February 26, 2018. The two ministers agreed in principle that the international community would never recognize North Korea as a nuclear power. The two ministers met once again in Budapest, when minister Kang Kyung-wha paid an extraordinary visit to Budapest in early June 2019. The main reason for this visit was to receive first-hand information from the Hungarian government about the boat accident on the Danube river which resulted in the death of 33 Korean tourists. Besides this there were also other timely political and economic issues on the agenda. Foreign Minister Péter Szijjártó very recently, in December 2019 visited Seoul when he inaugurated the Hungarian Cultural Centre.

Besides bilateral visits, mention has to be made of multilateral cooperations with Korean participation. Since June 2014 the V4+ROK cooperation has been dynamically developing. The first foreign minister-level meeting between the Visegrad group countries and the Republic of Korea took place on June 17, 2017 in Bratislava at which the Republic of Korea signed a cooperation agreement with the International Visegrad Fund (IVF). The first—and by now the only—top-level summit of V4 and Korea was held in Prague on December 3, 2015 where Hungary was represented by Prime Minister Viktor Orbán.

Mention must also be made of the visit of Cho Byung-jae Chancellor (Vice Minister rank) of the Korea National Diplomatic Academy on November 8, 2017. The purpose of his visit was to attend the transition conference organized in the framework of Visegrad-Four and Korea cooperation.

#### 4. Trade and Investment Relations

The economic-commercial relations between Hungary and Korea show spectacular development since the end of the 1980s. As proof of the international recognition of Korean development, it can be mentioned that the Republic of Korea became a member of the OECD in 1996—the same year that Hungary joined the OECD. The Asian financial-economic crisis of 1997-98 and the world economic crisis of 2008-2009 slowed down the economic growth of Korea, however, Korea's economic position is still solid<sup>2</sup>.

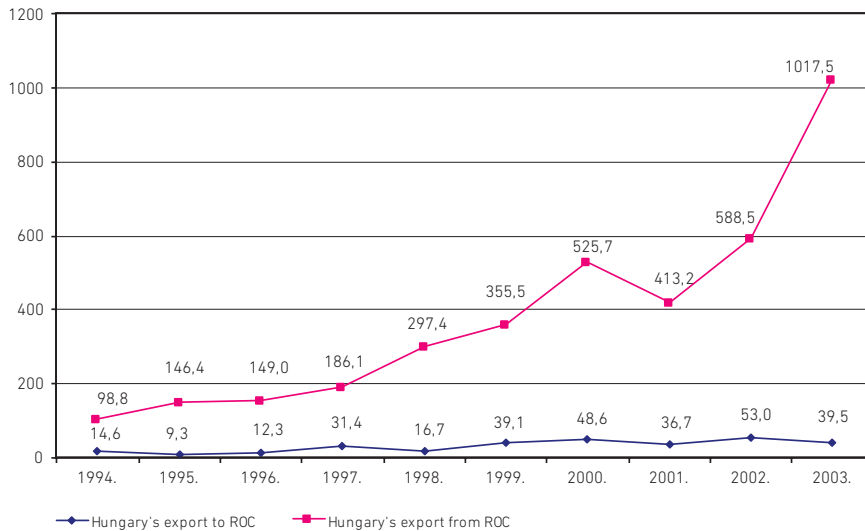
For Hungary the 1990s were a period of comprehensive social-economic metamorphosis. This, often painful process meant simultaneously structural transformation of the national economy, including ownership-relations, and also dramatic changes in the structure of Hungary's export- and import markets. All these were followed by the decrease of economic output until 1995, but since the second half of the 1990s Hungarian national economy had started to grow again. Also, during this decade, the ex-socialist Hungary established stable parliamentary democracy (Neszmélyi, 2001). It can be followed in the characteristics of the bilateral trade volumes of Hungarian-Korean trade, which started in the 1980s from ground zero and slowly grew. In the early 1990s it gained significant impetus and from the middle of the 1990s onwards, which can be seen in Figure 1.

During this period,—when Hungary was still not a member of the EU—Hungary was still considered as a catalyst or bridgehead for Korean companies to the EU with the biggest competitive advantage in low labor costs. However, after 2004, when Hungary became a full fledged member of the European Union, the approach started to change. Hungary still went through economic difficulties during the 2000s. Due to the high rate of public debt and the high budget deficit (reaching 9 percent in 2006), the Hungarian economy suffered more again from the impacts of the world economic crisis of 2008-2009, however, thanks to the “unorthodox” methods of bailing out of the crisis, from 2012 the Hungarian macroeconomic figures seem impressive. Hungary became an attractive investment destination, even though due to the increasing lack of skilled workers and other professionals the salary level has gradually increased. Therefore, Hungary is not a land of cheap labor any longer but rather a destination of more

<sup>2</sup> At the moment of the elaboration of the present study, a trade conflict seems to be escalating between Japan and Korea, which may have a domino-effect through the international supply chains to the electronic industry and other sectors. The author sincerely hopes it will not have radical impacts on the bilateral trade and investment relations.

Figure 1

Bilateral trade between Hungary and the Republic of Korea before Hungary's EU accession (USD Million)



Source: Neszmélyi, 2004, p. 107.

value-added containing production and research activities and this fact is known by foreign investors. The Hungarian economy has already been fully integrated into the European Union. Hungary's export and import destinations are EU members approximately 75-80 percent (HCSO). The only obstacle is the fact that Hungary still uses her national currency (HUF) and even though Hungary fulfils most of the Maastricht criteria, at the moment no-one can predict when the government will find it timely to do the shift to the European common currency which would eliminate or merely reduce transaction costs, and would improve the confidence and trust of investors in the Hungarian economy.

It was in March 2005 at a Prime Minister's visit to Korea when the author of this study personally witnessed the discussion between Kim Soon-teak, CEO of Samsung SDI and Prime Minister Ferenc Gyurcsány in Cheonan, when the CEO Kim underlined: even though Koreans behave with sympathy towards Hungary and Hungarians, Korean companies will accelerate their investments to Hungary only after Hungary

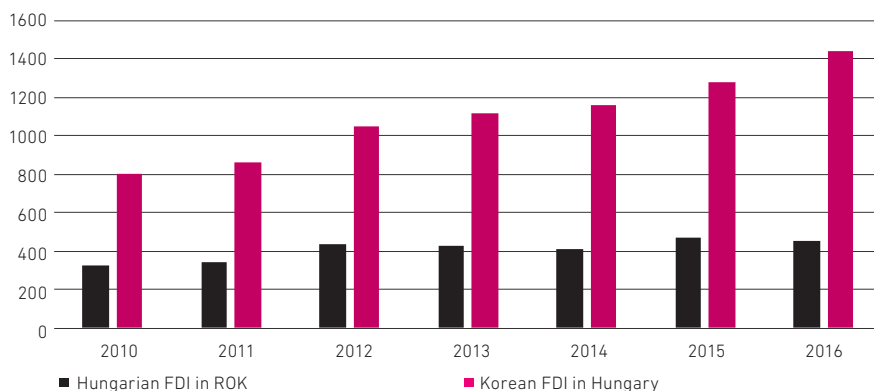
introduces the Euro, the common European currency. Korean companies do not really like the unpredictable fluctuations of the exchange rate of HUF, as they need to re-calculate, even on a daily basis, their costs and revenues, moreover they would be interested in diminishing their transaction costs as well. In spite of maintaining the national currency, bilateral economic relations developed and enlarged more or less continuously during the past 30 years.

The Republic of Korea became the 22<sup>nd</sup> ranked trade partner for Hungary in 2018 (in 2017 it was No 23). In 2018, Hungarian exports to the Republic of Korea amounted to USD 431 million (a 9 percent decrease since 2017), Hungary's imports from Korea amounted USD 2,140.96 million (a 67 percent increase since 2017). The total turnover in 2018 totaled USD 2,578.1 million (a 46 percent increase since 2017). The balance of bilateral trade showed USD 1,703.9 million deficit to Hungary (a 112 percent increase since 2017) (HCSO).

The significant growth on the import side was a result of increasing imports of medicines, pharmaceutical products (an 83 percent growth, USD 317 million), electric machinery equipment (44 percent – USD 110 million) and machines for special industrial utilization (161 percent – USD 182 million). The decrease in Hungarian exports resulted from the exports of motor vehicles (-29 percent - USD 44 million), power generation machinery and equipment (-50 percent – USD 53 million).

The second largest trading partner and also the seventh most important export market for Hungary in Asia. The turnover of bilateral trade considerably exceeds one billion Euros. Also, the amount of Korean FDI into Hungary exceeded one billion Euros. In Hungary the number of operating Korean companies is around 40, which employ altogether around 20 thousand people. Almost all of the best-known Korean holdings (chaebols) are present in Hungary. The growing stock of Korean FDI in Hungary and also, the stock of Hungarian FDI in ROK can be seen in Figure 2.

In 2018, the main import items for Hungary from Korea were medicines and pharmaceutical products (USD 696.9 million), which were followed by electric machinery and equipment (USD 362.3 million) and machines for special industrial purposes (USD 295.7 million). Regarding Hungarian exports to the Republic of Korea in 2018 the three most important items were: motor vehicles (USD 107.4 million), electric machines and equipment (USD 67.9 million) and power generation machines (USD 54.1 million). The bilateral trade figures can be seen in Table 2.

**Figure 2****Bilateral FDI relations between Hungary and the ROK (USD million)**

Source: HCSO, 2018.

**Table 2****The bilateral trade relations between Hungary and the ROK in 2017 and 2018 (USD million)**

Period	Imports	Exports	Turnover	Balance of trade
2017	1,281.8	479.0	1,760.8	-802.8
2018	2,141.0	437.1	2,578.1	-1,703.9
Changes 2017/ 2018	67%	-9%	46%	112%

Source: MFA, 2019, based on data of HCSO

Very soon after the establishment of diplomatic relations between the Republic of Korea and Hungary, several Korean companies established affiliates in Hungary. From among them the biggest investment was made by Samsung Electronics in Jászfényszaru, but mention must be made about Daewoo (in banking sector and they also established a bearing factory in Debrecen). Hanwha invested in Kecskemét, manufacturing instant Korean soup under the brand name "Smack"

Later on, during the 1990s and the early 2000s Korean investment slowly grew further in Hungary. This was the period when two other members of the Samsung Group set up their manufacturing plants (Samsung Electromechanic in Szigetszentmiklós and Samsung SDI in Göd). However, later on it looked as if Hungary may gradually lose its attractiveness for Korean companies, as the main slogan for investors in Hungary and in other CEE countries was the low labor costs. An important warning sign for Hungary was in the autumn of 2003, when in fierce competition against other



Visegrád countries Hungary lost—and Slovakia gained—Hyundai-Kia's car assembly plant investment. Even though Hungary offered huge subsidies to bring this investment to Tatabánya, the Korean giant brought its investment to Žilina in Slovakia.

After a few years pause, and after joining the European Union, Hungary gained its next—and biggest-ever—investment from Korea: Hankook Tire established its Tire factory in Rácalmás, near Dunaújváros. Since then, the manufacturing plant has been further enlarged in 4 phases employing by now around 3300 people.

The founding stone of the first manufacturing unit was set in 2006, and the factory started its production in 2007. Since then the plant has gone through continuous enlargement and modernization. As a result of the most up-to-date developments, the daily production capacity exceeds 55 thousand tires (19 million tires annually in 900 different varieties and sizes for classic cars, SUVs, pickups and light lorries). The plant capacity increased to 3.5 times more of the initial output while the factory provides car tires for well-known brands like Audi, a BMW, a Fiat, a Ford, a Hyundai, a Kia, a Mercedes-Benz, MINI, Opel, Peugeot, Porsche, Seat, Skoda or a VW (Várkonyi, 2018).

The amount of FDI investments of Korean companies exceeded one billion Euros in 2014, with 40 Korean companies operating in Hungary and employing around 20 thousand people. While the overall investment environment in Hungary looks favorable for Korean companies, from time to time it is shaded by withdrawals or shrinking activities by Korean companies as well. For example, in 1998, as a result of the Asian financial crisis, the Daewoo group—on the edge of bankruptcy—withdrew from the Hungarian banking sector. However, its banking branch was taken over by Korea Development Bank (KDB) soon after it (Neszmélyi, 2014). In 2016 the total FDI invested by Korean companies exceeded 1.4 billion EUR, which was 1.9 percent of the total FDI investment in Hungary (and 9 percent of the non-EU foreign direct investments) (HCSO, 2009).

The Hungarian Government has signed agreements on strategic cooperation with two Korean companies (Hankook Tire and Samsung Electronics). In May 2017 Samsung SDI opened its new production plant in Göd which manufactures batteries for e-cars. At the inauguration ceremony of the new manufacturing plant Prime Minister Viktor Orbán extended his greeting address in person. This was the most significant Korean investment (HUF 100 billion) in 2017.

In March 2018 Foreign Minister Péter Szijjártó announced that in Komárom Industrial Park SK Innovation would establish its new plant for manufacturing batteries for e-cars. The value of investment was HUF 97.5 billion which generated 410 new job

opportunities. In November 2018 another noticeable investment was announced: Doosan Group's manufacturing plant in Tatabánya Industrial Park which manufactures copper-film being used in e-car batteries. This investment (HUF 32 billion) created 181 new jobs.

It can now be said that most of the Korean giants are present in Hungary. Moreover, in 2019 Korea was the biggest foreign investor in Hungary starting industrial developments with more than a HUF 400 billion FDI inflow by five companies, which has generated around 2900 new job opportunities. Analysts speculate that Korean investors were encouraged by the low corporate tax and by skilled labour. The investments of 2019 can all be connected to the batteries. From among them the most noticeable ones are SK Innovation (HUF 239 billion) and Samsung (HUF 140 billion), which are supposed to supply electric power storage units to the automotive industry. Inzi Controls company also has similar portfolio, while Bumchun Precision will manufacture battery connection parts. The battery recycling plant of SungEl Hightech has already been completed. In 2019 and also during the preceding years it was typical that Korean investors invested mostly into the automotive industry, like Hankook, a Woory Industries and Lotte have done the same (Ráski, 2019).

As Hungary has become a part of the European Union following the single trade policy, mention has to be made of the EU–Korea Free Trade Agreement (KOREU) entered into force on July 1, 2011 marking the beginning of a new era in EU–Korea trade relations, also setting the main framework in Hungarian–Korean trade and investment relations. The FTA consists of 15 chapters, three protocols, and several annexes. Its main objectives were to liberalize and facilitate trade in goods, services and investment, open up government procurement markets, establish electronic commerce, promote competition between the markets of the two entities, foster foreign direct investment, and at the same time protect intellectual property rights. The two parties undertook the obligation to eliminate custom duties on originating goods of each party and to accord national treatment to goods of the other party (Papademetriou, 2010).

Karel De Gucht, European Commissioner for Trade, pointed out that the agreement brought to an end a process that had begun five years before with the European Commission's communication on 'Global Europe in a Competing World', which called for the EU to renew its engagement in Asia. Moreover, the EU–Korea FTA is the most ambitious and comprehensive trade agreement ever negotiated by the EU, and it is also the EU's first trade deal with an Asian country. The Agreement was expected not only to boost bilateral trade and economic growth in both the EU and Korea, but also

to have a wider impact in Asia and elsewhere by signaling the EU's openness to do business with third countries and its commitment to free trade. Further to all these, the Free Trade Agreement between the EU and the Republic of Korea (EU-Korea FTA) is the first of a new generation of FTAs (European Commission, 2010). Korea was considered as a priority FTA partner for the EU in its trade policy strategy, and negotiations were launched in May 2007 in Seoul. After eight formal rounds of talks, the FTA was initiated by both sides on October 15, 2009. On September 16, 2010 the Council approved the FTA and the Agreement was officially signed on October 6, 2010 during the EU-Korea Summit in Brussels. The European Parliament gave its consent to the FTA on February 17, 2011. The Agreement has been provisionally applied since July 1, 2011. Import duties were eliminated on nearly all products (98.7 percent of duties in terms of trade value had to be eliminated over the course of five years), and there was a far-reaching liberalization of trade in services (including telecommunications, environmental services, shipping, financial and legal services) covering all modes of supply. Under the EU-Korea FTA, EU industrial, fishery and agricultural products face substantially reduced or zero tariffs on import to Korea. As from July 1, 2011, the phased reduction and elimination of import duties led to a gradual increase of savings eventually totaling 1.6 billion EUR annually. The Agreement incorporates fundamental WTO rules on issues such as the prohibition of import and export restrictions. All export duties are prohibited as of the entry into force of the Agreement (European Commission, 2011).

## 5. Cultural, Education and S&T Relations

Besides the field of political and economic contacts the development of bilateral cooperation seems to be impressive also in other areas. Mention must be made of the fields of education, culture, science and technology, and the exchange programs and joint projects based on these fields. Hungary and Hungarians mean friendly country and nation for Koreans who are aware of our common Asian roots. In spite of this, the Korean public does not have too much, especially up-to-date, information about Hungary. It could be the reason why many Koreans still mention "Eastern Europe" or even "the communist bloc" when discussion turns to Hungary. The more educated people are usually aware of the Hungarian Revolution of 1956, and about the fact that Hungary was the first (ex)socialist country to establish diplomatic relations with the Republic of Korea.

Koreans are fond of arts and music. For them the most beloved segment of Hungarian culture is classical music. The names of Béla Bartók, Zoltán Kodály, Ferenc Liszt

are well known in Korea. However, other styles of Hungarian music and performers have made successful concerts, like Rajkó Ensemble, Zoltán Mága or even during the 1980s Neoton Family and Éva Csepregi (they are known in Korea as the Newton Family and Eva Sun, and their music records were published in Korea under these names).

Korean music performers and music pedagogists established Korean Liszt and Korean Kodály societies. The Korean Kodály Society is committed to spreading the arts and intellectual heritage of Zoltán Kodály in Korea. It has over 200 members comprising not only music performers, but of music teachers, choir leaders and students from whom dozens have already studied in the Kodály Institute in Kecskemét and/or Liszt Ferenc Academy of Music in Budapest. As a result of the Korean Kodály Society's lobbying, Korean elementary schools teach pupils singing and music based on "the Kodály-method".

In 1988 Hankuk University of Foreign Studies (HUFS)—the biggest private university that teaches foreign languages in Korea—established a Hungarian Department and its Hungarian-specialized BA course every year admits 40 students. Besides the Hungarian language these students also learn Hungarian literature, history and general knowledge about Hungary. The Hungarian Department of HUFS is located in Yongin (about 40 km south of Seoul) and with its 160 students and 5 full time Korean professors and lecturers it is the biggest institute of Hungarology in Asia. The lecturing work of the Department is assisted also by a Hungarian lector posted from a Hungarian university. Some of the graduates of the Hungarian course may easily find a job in Korean companies operating in Hungary or continue their studies at Master then PhD level—in Korean or Hungarian universities.

Hungary and the Republic of Korea have valid inter-governmental agreements on cooperation in the fields of culture, education and science and technology. The cooperation is implemented and controlled by periodic working programs and joint committees. However, due to the lack of resources they could not substitute direct inter-institutional cooperation. A number of Hungarian and Korean universities have cooperation agreements with each other directly extending to the fields of student and/or faculty member mobility, joint research, etc. Budapest Business School has partnership agreements with Woosung University's SolBridge International School of Business in Daejeon and as a result of Rector Prof Balázs Heidrich's visit in June 2019 the cooperation is intended to be extended to several other universities. Since its establishment in 2016 the Oriental Business and Innovation Centre of Budapest Business School has been offering scholarships for students and research

fellowships to faculty members through which a limited number of students and faculty members have had the chance to travel to Asian countries including South Korea. Mention has to be made also of the pioneer role of one of the predecessor institutes of Budapest Business School, namely the once College of Foreign Trade where Korean language has been taught since September 1989, just directly after the establishment of diplomatic relations. This fact was and is significant in Hungary and in the entire Central and Eastern European region, as this was the very first program that offered Korean studies in the economic higher education (Hidasi, 2004, p. 9). Later on, during the 2000s a Korean Department was established at Eötvös Loránd University (ELTE).

Besides Budapest Business School ELTE, Budapest University of Technology and Economics, Szent István University and others have Korean partner institutions like Seoul National University, Yonsei University, Gwangju Institute of Science and Technology and many others.

Mention has to be made of the role of the Korea Foundation, a government financed organization, which plays a very important role in spreading Korean culture abroad, but also provides foreign students scholarship which enables every year several Hungarian students to learn the Korean language in Korean universities.

The number of Korean students studying in Hungarian higher education institutes is about 350, the majority of them (around 300) are self-paying students mostly in medical faculties. Since the recent visit of Prime Minister Viktor Orbán to Seoul in 2014, Hungary offers 100 fellowships annually for Korean students in the frames of the Hungarian government's Stipendium Hungaricum Scholarship Program. However, this quota has still not been fully used. In 2017 only 38 students applied (16 were admitted), in 2018, 39 applied (22 students were admitted), while for the academic year 2019/2020, 48 students applied.

In March 1992 the Hungarian National Committee of Technological Development (OMFB) and the Korea Science and Engineering Foundation (KOSEF) established and inaugurated the Hungarian-Korean Technological Cooperation Centre in the form of a joint foundation. The Centre is located in the Budapest University of Technology and its main role is to co-ordinate and mediate between Korean and Hungarian universities, research institutes and companies with the view of generating joint projects. Besides this HKTCC regularly organizes conferences for Korean and Hungarian researchers and professionals.

Samsung Medison—one of the leading companies of the world in manufacturing medical devices—turned its focus to the CEE region. As a result of this, on October 14, 2015 it established and opened a training center at the Clinique of Maternity and Gynaecology No 1 of Semmelweis University. The company gives financial and technical support to the courses which introduce and promote the ultrasonographic technology provided by Samsung Medison.

In the development of bilateral relations in the field of innovation the agreement on the establishment of joint research laboratories (2009) was a new milestone. This initiated new cooperation on the basis of merging research capacities and skills of Hungarian basic sciences and Korean applied sciences in several fields of discipline. The mentioned agreement was renewed in 2015 at the summit of the bilateral Joint Committee on Science and Technology.

In 2018 the 9<sup>th</sup> summit of the bilateral Joint Committee on Science and Technology was held at the margin of the international conference *think.BDPST*—where Korea was guest of honor—and it was agreed that the cooperation would be further broadened. Since then Korea and Hungary have launched jointly financed research projects mainly in the fields of biology, healthcare, material science, environmental science and ICT.

The increasing importance and attention of the Hungarian government towards Korean achievements in science technology and innovation is reflected by the fact that since January 2019 S&T attaché has been delegated to the Hungarian Embassy in Seoul.

## 6. Relations in Civil Society

In the course of the past 30 years, a broad variety of civil interactions and cooperation have been witnessed. The early birds were those Korean businessmen, officials and students who worked in Hungary at the end of the 1980s and early 1990s. After they returned to Korea, they established the Duna Club.

Mention has to be made about the inter-regional and inter-city sistership relations too. Since the Daejeon expo in 1993, Daejeon city and Budapest have had a sister-cities cooperation agreement, which was followed by a similar one between Jungbuk Province and Baranya county, moreover other cities and provinces/counties also had such initiatives.

In December 2003, scientists, professionals, well known public personalities, artists and sportsmen established the Hungary-Korea Society (the author of this study is one of its founding members). The Society offered membership not only to individuals, but also for those companies and institutions which are interested in the further development of bilateral cooperation between Hungary and Korea. The Society initiated actions to set up a statue to commemorate the famous Korean composer Ahn Ik-tae in Budapest. As a result of its efforts, on May 11, 2012 the statue was inaugurated in the City Park of Budapest. The Society was first registered in spring 2004 under the name of "Hungary-Korea Society for Friendship and Cooperation Public Association," later on its name was simplified. The main goal of the Society is to foster mutual knowledge and understanding of the two countries' societies, cultures, economies and to assist developing further relations and cooperation. Led by this commitment, the Society established a business and cultural club and an annual prize, the latter is awarded to those Korean and Hungarian personalities who were the most active in developing relations during the preceding year. In 2005, in Seoul its "sister-organization", the Korea-Hungary Friendship Association was established with similar intentions and goals.

In 2013 Hungary and the Republic of Korea concluded an agreement on the Working Holiday Programme, which enables young Koreans and Hungarians (between 18 and 30) to travel with a view to study or holiday allowing them temporary employment (up to a one-year period). (Konrád – Tevelý – Tusor 2013).

It was an important milestone in the Hungarian-Korean cultural relations that in 2012 the Korean Cultural Centre was opened in Budapest. In October 2019 The Institute moved to a bigger building which enabled it to significantly broaden its activities. The Hungarian government has also intended to reciprocate this gesture, however, it was in December 2019 when Foreign Minister Péter Szijjártó inaugurated it.

Civil relations between Koreans and Hungarians seem to be continuously improving. Besides Koreans who live in Hungary in a growing number—due to the growing number of Korean companies as well—tourism has also been growing. Koreans like to visit Hungary, even though many of them come usually on a European round trip, so they spend only a short time in Hungary, mainly in Budapest. From the Hungarian cultural heritage, hot spas mean the major attractions for them. Hungarian cuisine has several dishes which are similar to Korean dishes, like Hungarian fish-soup and Korean mweontang, or Hungarian gulyás (goulash) soup and Korean yukkejang. Real Korean food is still not well known in Hungary, there are only a very few genuine Korean restaurants in Hungary. On the other hand, Hungarian food is also not well known in Korea. It would be worthwhile for both Korea and Hungary to focus on

promoting the national cuisine in each other's country, they would probably be more popular than they are nowadays.

Finally, there were two issues which have to be mentioned that happened during 2019. One of them is sad, while the other one is positive. On May 29 in Budapest there was a fatal accident between two boats on the river Danube in Budapest. The Viking Sigyn cruise (hotel) ship struck the tourist boat Hableány (Mermaid) just after 21:00 as both vessels passed under the Margaret Bridge. Seven of the 35 people on board were rescued while all others—two Hungarian staff and Korean tourists—died. Some of them were trapped inside the boat, while others were swept away by the river (BBC, 2019). The body of one Korean tourist still has not been found. After the accident, Hungarian and Korean professional divers tried to search for the remains of the missing people and locate the boat that sank to the bottom of the river immediately after the collision. The collaboration and coordination of the Korean and Hungarian rescue staff was efficient and excellent. The media reported the ceremony on July 5, 2019, when the Hungarian Divers' Association awarded its highest decoration, the 4<sup>th</sup> star for those divers who contributed to the rescue tasks, risking even their own lives among extreme conditions under the water. The ceremony was attended by Colonel Song Shun-keun Defense Attaché of the Embassy of the Republic of Korea who emphasized that Korean and Hungarian divers got close to each other due to the tragedy. The events that happened taught them that together with each other they can overcome the difficulties (Takács, 2019). Although this event is more than sorrowful, Hungarian-Korean ties and cooperation have been further strengthened.

Another important event was on September 22, 2019, thanks to Polish Airlines (LOT) a long dream became a reality: the first-ever direct flight between Budapest and Seoul was launched, which brings Korea and Hungary—Korean and Hungarian tourists and businessmen—even closer to each other. According to statistics 80 thousand people travel annually between Korea and Hungary, so to start direct flight between the two cities was a timely event (Origo, 2019).

## 7. Conclusion

In the course of the past 30 years, Hungary and the Republic of Korea have built up a complex, challenging and friendly network of cooperation nearly from scratch. These friendly relations are based on the principle of sharing common values and of mutual respect and benefits. The excellent political contacts are rooted in the fact the Hungary and the Republic of Korea both respect and are devoted to democracy,



freedom and human rights. Hungary's NATO membership and Korea's close cooperation with the USA in defense may draw the conclusion that Hungary and the ROK are "natural allies" of each other. Establishing diplomatic and business relations with the Republic of Korea meant a valuable contribution to Hungary's political and economic transition from 1989/90 and simultaneously the international prestige of the Republic of Korea increased since it had established relations with a number of (ex) socialist countries. Hungary can still rely on a potential advantage, as Hungary's image is positive in Korea. During the first 30 years of our partnership not only the fundamentals and the basic framework of cooperation were established but in the course of these three decades, Hungary and South Korea could get to know and become aware of what to expect from each other. The Republic of Korea became Hungary's important trade partners and investors. Korean investments during the recent years look really impressive. The Hungarian people are accustomed to Korean companies and Korean electronic products and cars are becoming more popular. The future may still bring about new horizons and perspectives for the bilateral cooperation. Central Europe, especially the V4 region—which has already been part of the European Union since 2004—may look like a new and efficient engine in the European Union's economy.

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