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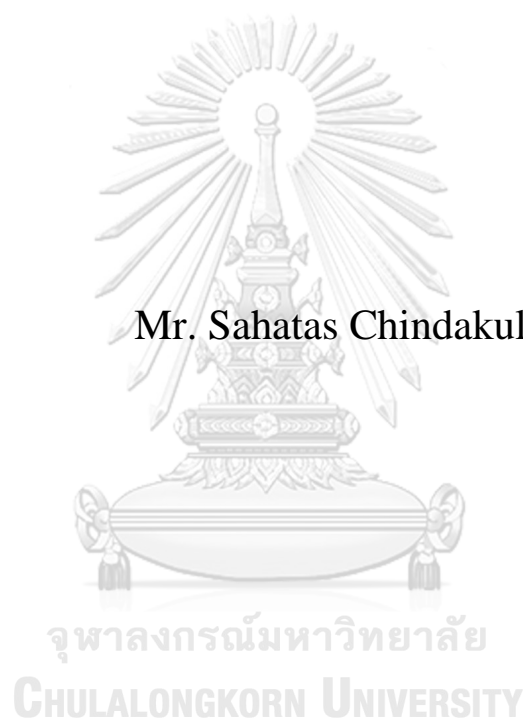
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THE CHANGING OF SOUTH KOREA'S INTERNATIONAL
ECONOMIC POLICY: A
GEOPOLITICAL ECONOMY PERSPECTIVE

Mr. Sahatas Chindakul



A Thesis Submitted in Partial Fulfillment of the Requirements
for the Degree of Master of Arts in Korean Studies
Inter-Department of Korean Studies
GRADUATE SCHOOL
Chulalongkorn University
Academic Year 2021
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การเปลี่ยนแปลงนโยบายเศรษฐกิจระหว่างประเทศของเกาหลีใต้ ผ่านมุมมองทางภูมิรัฐศาสตร์
เศรษฐกิจ



วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาศิลปศาสตรมหาบัณฑิต
สาขาวิชาเกาหลีศึกษา สหสาขาวิชาเกาหลีศึกษา
บัณฑิตวิทยาลัย จุฬาลงกรณ์มหาวิทยาลัย
ปีการศึกษา 2564
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Thesis Title	THE CHANGING OF SOUTH KOREA'S INTERNATIONAL ECONOMIC POLICY: A GEOPOLITICAL ECONOMY PERSPECTIVE
By	Mr. Sahatas Chindakul
Field of Study	Korean Studies
Thesis Advisor	Associate Professor Piti Srisangnam, Ph.D.

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ภูมิรัฐศาสตร์เศรษฐกิจ . (THE CHANGING OF SOUTH KOREA'S
INTERNATIONAL ECONOMIC POLICY: A
GEOPOLITICAL ECONOMY PERSPECTIVE) อ.ที่ปรึกษาหลัก : รศ. ดร.ปี
ติ ศรีแสงนาม

ตั้งแต่ที่ประสบความสำเร็จในการพัฒนาเศรษฐกิจได้อย่างรวดเร็ว เกาหลีใต้ในฐานะที่มีการพึ่งพาการค้า
ระหว่างประเทศเป็นเครื่องยึดหลักในการพัฒนาประเทศได้ดำเนินนโยบายเปิดเสรีการลงทุนระหว่างประเทศเพื่อที่จะ
รักษาขีดความสามารถในการแข่งขันและระดับการเจริญเติบโตทางเศรษฐกิจ การดำเนินนโยบายการเปิดเสรีของเกาหลี
ได้ช่วยส่งเสริมการไหลของเงินทุนระหว่างประเทศของเกาหลีใต้ให้กระจายไปในหลากหลายประเทศ โดยดำเนินไป
เพื่อแสวงหาต้นทุนการผลิตที่ต่ำและรักษาแหล่งทรัพยากรธรรมชาติและวัตถุดิบขั้นต้นในการผลิต อย่างไรก็ตาม เมื่อ
โลกเข้าสู่ศตวรรษที่ 21 สภาพแวดล้อมทางด้านภูมิรัฐศาสตร์ได้เปลี่ยนแปลงไปอย่างต่อเนื่อง โดยเฉพาะการทะยาน
ขึ้นของจีนที่ท้าทายความเป็นเจ้าของสหรัฐฯ ซึ่งส่งผลกระทบต่อพันธมิตรของสหรัฐฯ ในเอเชียตะวันออก โดยเฉพาะ
เกาหลีใต้

ในการนี้ งานวิทยานิพนธ์ชิ้นนี้ มีจุดประสงค์เพื่อศึกษาความสัมพันธ์ระหว่างปัจจัยทางภูมิรัฐศาสตร์ และ
การเปลี่ยนแปลงนโยบายเศรษฐกิจระหว่างประเทศของเกาหลีใต้ที่ส่งผลให้เกิดการลงทุนระหว่างประเทศจากเกาหลีใต้
ผ่านมุมมองทางภูมิรัฐศาสตร์เศรษฐกิจ กล่าวคือ ศึกษาปัจจัยภายในและภายนอกที่ส่งผลกระทบต่อ การดำเนินนโยบาย
การลงทุนระหว่างประเทศของรัฐบาลเกาหลีใต้ตั้งแต่ยุคของรัฐบาลคิมแดจุง ไปจนถึงรัฐบาลมุนแจอิน นอกจากนี้ ยัง
ได้ทำการทบทวนวรรณกรรมที่เกี่ยวข้องเพื่อศึกษาปัจจัยที่ดึงดูดการลงทุนระหว่างประเทศจากเกาหลีใต้

ผลการศึกษาพบว่า นโยบายตะวันออแสง (Sunshine Policy) ในยุครัฐบาลคิมแดจุงและโนมูฮ
ยอน ที่ดำเนินเพื่อกระชับความสัมพันธ์กับเกาหลีเหนือ และนโยบายมุงใต้ใหม่ (New Southern Policy) ที่
ดำเนินเพื่อต้องการลดความตึงเครียดจากการแข่งขันทางภูมิรัฐศาสตร์ระหว่างจีนและสหรัฐฯ ในยุครัฐบาลมุนแจอิน ได้
ส่งผลให้เกิดการเปลี่ยนแปลงนโยบายเศรษฐกิจระหว่างประเทศของเกาหลีใต้ไปสู่เกาหลีเหนือ และประเทศในอาเซียน
ตามลำดับ นอกจากนี้ ยุทธศาสตร์ Global Korea ที่เน้นย้ำถึงการพัฒนาพลังงานทางเลือก เช่น พลังงานงาน
นิวเคลียร์ ยังส่งผลให้เกิดการลงทุนระหว่างประเทศของเกาหลีใต้ในประเทศตะวันออกกลาง

สาขาวิชา เกาหลีศึกษา

ลายมือชื่อนิติ

ปีการศึกษา 2564

ลายมือชื่อ อ.ที่ปรึกษาหลัก

6288515620 : MAJOR KOREAN STUDIES

KEYWORD Sunshine Policy, New Southern Policy, Global Korea, Geopolitics,
D: Geoeconomics, Outward Direct Investment

Sahatas Chindakul : THE CHANGING OF SOUTH KOREA'S
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Piti Srisangnam, Ph.D.

Since the success of rapid economic growth, South Korea, as a foreign-traded dependent economy, has initiated several policies to liberalize its outward direct investment (ODI) in order to maintain its competitiveness and drive its economic growth. The liberalization process of South Korean ODI helps promote South Korean capital abroad to various areas serving its needs of lowering production costs and securing natural resources and raw materials. As the world entered the 21st century with the acceleration of globalization, the global geopolitical situation has changed over time, especially in Asia, the rise of China has become real and threatens the hegemonic position of the US and its allies in East Asia, particularly South Korea.

This research aims to examine the relationship between geopolitical factors and the change in the international economic policy of South Korea that facilitate the flow of South Korean ODI. This research studies both external and internal factors of South Korean governments from Kim Dae-Jung's until Moon Jae-In's presidency, based on the Geopolitical Economy approach. To fill the gap in mainstream economics, this study discusses economic literature related to determinants that pull South Korean firms to invest abroad.

The findings reveal a relationship between Geopolitics and South Korea's international economic policy. For example, there was a changing international economic policy of South Korea to Kaesong Industrial Park in North Korea as a byproduct of the Sunshine Policy under both Kim Dae-Jung and Roh Moo-Hyun administrations, changing international economic policy under Global Korea of President Lee Myung-Buk that focus on nuclear energy development in the Middle East, and the New Southern Policy of President Moon Jae-In which facilitate South Korean investment throughout the ASEAN in response to China's aggressive stance in the region and the simmering US-China geopolitical competition.

Field of Study: Korean Studies

Student's Signature

Academic 2021

Advisor's Signature

Year:

.....

ACKNOWLEDGEMENTS

It might be an overstatement, but writing a thesis is by no mean an easy task. Without the precious support of the following sources, this thesis cannot be done solely by my own capability.

First of all, I would like to extend my gratitude to Assoc. Prof. Piti Srisangnam, Ph.D., my thesis advisor, for his constructive and comprehensive guidance throughout the process. The valuable knowledge he patiently gave me in each of the consultations help progress the thesis effectively. Furthermore, I would like to express my appreciation to my thesis examiners, Assoc. Prof. Buddhagarn Rutchatorn, Ph.D. and Assoc. Prof. Nak Gulid, Ph.D. Without their beneficial feedback as well as relentless encouragement, this thesis would not have been possible.

My gratitude would also need to be given to Assistant Prof. Kamon Butsaban, Ph.D., and Mr. Seksan Anantasirikiat who are supportive and encouraging with their valuable suggestion to my thesis. Moreover, I would also like to thank Ms. Nongluk Boontiem, a Korean Studies program coordinator, who has tirelessly given useful assistance since the beginning of the program.

I am also grateful to the funding from the Korean Foundation which gave me an opportunity to explore any mysterious achievements of South Korea. And of course, without having been given academic training from the ASEAN Studies Centre, my thesis would not be able to achieve.

Last but not least, I would like to express my gratitude to my father and mother, Mr. Damrongsak and Mrs. Charatsiri Chindakul, who not only provided me with the ground for life-long learning which contributed the most throughout my study period but also encouraged me to be able to go through any difficult times.

Sahatas Chindakul

TABLE OF CONTENTS

	Page
.....	iii
ABSTRACT (THAI)	iii
.....	iv
ABSTRACT (ENGLISH)	iv
ACKNOWLEDGEMENTS	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES	viii
LIST OF FIGURES	ix
CHAPTER I INTRODUCTION	1
1.1 Background.....	1
1.2 Research Objective	3
1.3 Research Question.....	3
1.4 Significance of the Study.....	4
1.5 Scope of the Study.....	5
1.6 Research Methodology	5
1.7 Limitations of the study	6
CHAPTER II LITERATURE REVIEW	7
2.1 The Concept of Foreign Direct Investment	7
2.1.1 Motivation of FDI: Eclectic Paradigm	8
2.2 Geopolitics	12
2.3 Geoeconomics.....	14
2.4 The Relationship Between Geopolitics and FDI	17

2.5 Perspectives on Geopolitical Economy and Its Implication to Outward Foreign Direct Investment	21
CHAPTER III THE SOUTH KOREA'S PRESIDENTIAL VISIONS AND ITS CHANGING INTERNATIONAL ECONOMIC POLICY	25
3.1 Introduction.....	25
3.2 Prior to the 1997 Asian Financial Crisis: Liberalization of Outward Direct Investment Policy	27
3.3 The Kim Dae-Jung and Roh Moo-Hyun Administrations (1998-2008)	35
3.4 The Lee Myung-Buk and Park Guen-Hye Administrations (2008-2017).....	44
3.5 The Moon Jae-In Administration (2017-2019).....	53
CHAPTER IV SOUTH KOREA'S OUTWARD DIRECT INVESTMENT AND ITS DETERMINANTS	59
4.1 Introduction.....	59
4.2 Trends of Outward Direct Investment of South Korea	60
4.3 Motivation of the South Korea's Outward Direct Investment and Its Determinants.....	62
CHAPTER V CONCLUSION	75
5.1 Conclusions.....	75
5.2 Recommendations.....	79
REFERENCES	81
VITA	88

LIST OF TABLES

	Page
Table 1: Key Statistics for Kaesong Industrial Complex, 2005-2010	40
Table 2: The 16 Tasks under 3 Pillars of New Southern Policy	56
Table 3: Export and ODI of South Korea by partner country, billion USD, as of 2020	67
Table 4: Bilateral ODA by Region, 2018-2019, million USD	72
Table 5: State Visit by South Korean Presidents, 2008-2019.....	74



LIST OF FIGURES

	Page
Figure 1: The Perspective on Geopolitical Economy	22
Figure 2: Maps of Countries in Asia.....	28
Figure 3: Real GDP and Total Fertility Rate of South Korea, 1970-2019	31
Figure 4: Inter Korean Economic Engagement, 1992-2014, in million USD	39
Figure 5: The Flow of South Korea's ODI by country, million USD, 1998-2008....	43
Figure 6: South Korea's oil exporter as of 2019	46
Figure 7: The Flow of South Korea's ODI by country, million USD, 2008-2017....	53
Figure 8: The Flow of South Korea's ODI by country, million USD, 2017-2019....	58
Figure 9: South Korea's ODI and its number of overseas enterprises, 1987-2019...	61
Figure 10: South Korea's energy import as percentage of total energy use, 1971-2015	64
Figure 11: South Korea's total energy consumption by fuel type, 2019	64
Figure 12: South Korea's FTA Network as of 2022	68
Figure 13: South Korea's Minimum Wage and Labor Productivity, 2007 – 2018Q2	69

CHAPTER I

INTRODUCTION

1.1 Background

The Republic of Korea (ROK), also known as South Korea, has long been both contending with challenges and seizing opportunities given due to its geopolitical significance mainly stemming from being located among 4 traditional major powers including US, China, Japan, and, to some extent, Russia. Since the end of Korean War in 1953, security concerns raised by immediate security threat of North Korea, have prevailed over other geopolitical objectives of South Korea's foreign policy. Not to mention the competition between those traditional major powers to pursue their geopolitical goals in the Korean Peninsula that has continually risen and changed over the period of Cold War to Post-Cold War era. All of these factors signifies both South Korean policy-makers and investors to recalculate their strategy in order to preserve national interest and pursue its geopolitical outcome, such as, the increase in competitiveness of South Korea in international arena.

As time goes by, South Korean economy has been successfully growing from ashes since the Korean War to become one of the finest advanced countries in East Asia, which is widely known as “the Miracle of Han River”. One of the economic tools for achieving its successful economic development is the international economic policy that facilitates the flow of Foreign Direct Investment (FDI) which is being used by both firms, especially multinational corporations (MNC), and states because it

benefits both home and host countries. Since the Post-Cold War world with the proliferation of globalization has come, the FDI is no doubt being used as the primary engine by many states alongside with international trade to maintain its growth. Particularly, South Korean Outward Direct Investment (ODI), which was under control during the developmental period in 1960s-1980s, was liberalized and increased from 2 billion USD in 1991 to around 71.6 billion USD in 2020, accounting for approximately 4.4 percent of nominal GDP of South Korea ranked in the 21st largest country in net outflows of international investment as percentage to GDP according to World Bank.

Due to the growing significance of ODI to Korean economy together with the simmering US-China geopolitical rivalry, which are main partners for both domains of security and economics respectively, this research aims to examine the relationship between geopolitical factors and international economic policy of South Korea that facilitated the change of South Korea ODI. This research will examine both internal and external factors of South Korean governments since Kim Dae-Jung's until Moon Jae-In's presidential period of 2017-2019 before the pandemic occurred. This study aims to be generalized and comprehensive and does not pertain to be specialized. This research will be analyzed through documentary approach as methodology, based on the Geopolitical Economy approach. The vision and strategy of each president will be observed as they reflected the change of both internal and external factors over time. Investigating leader's visions are to understand the evolving South Korean interest to each specific area or country where the government supports South Korean investor to engage in ODI. This research hypothesized that leadership vision would shape South Korea's foreign policy in response to the change of geopolitical situations around

Korean Peninsula and the world which, in turn, affect the ODI policy toward a specific country or region.

In the Post-Cold War world, however, the increasing importance of geopolitics in recent international arena exacerbated by the geopolitical rivalry between US and China, has shifted the focus of many states, especially South Korea who has long been partner with those two major powers, to realign their interest in having relation with other states. The significance of the relationship between Geopolitics and international economic policy on the one hand raise the question of how is the relationship between geopolitical factors and FDI and both benefit and risk exposed by the relationship to the South Korea investor's consideration when undertaking ODI in host countries.

1.2 Research Objective

This research aims to examine the relationship between geopolitical factors and the change of South Korean outward direct investment, as part of international economic policy of South Korea toward some specific geographical areas.

1.3 Research Question

How is the relationship between geopolitical factors and international economic policy of South Korea?

1.4 Significance of the Study

The growing geopolitical competition around the world, especially in East Asia, played the significant role in determining the development of states nowadays. This study is written to examine the relationship between the sphere of Geopolitics and the international economic policy that facilitate the change in outward direct investment of South Korea.

South Korea is the treaty allies of US because it had gone through experience of being a crucial fortress of anti-communist state in Asia as part of US containment policy in order to contain communist influence during Cold war period. Moreover, South Korea also had certain degree of economic dependence on China since China was its largest trading partners among others. The US-China geopolitical rivalry would have an effect to the decision to maintain the projection of country's development, especially the direction of Korean ODI policy to some specific geographical areas which served the South Korean national interest

Consequently, the study of the relationship between geopolitical factors and the ODI policy of South Korea will not only provide significant aspect of geopolitics in consideration of firms to undertake ODI to some specific geographical areas but also give an important clue for policy-maker to adjust their ODI policies in accordance with the rising of geopolitics in this VUCA world.

1.5 Scope of the Study

To examine the relationship between Geopolitical factor and the change of South Korean ODI as a result of changing international economic policy of South Korea, the review of both internal and external factors in the period prior to the Asian Financial Crisis in 1997 as well as the presidential visions of South Korean governments during 1998-2019 would be studied throughout this research.

1.6 Research Methodology

As for achieving the objective to examine the relationship between Geopolitical factor and the change of South Korean outward direct investment, as part of international economic policy toward some specific geographical areas, the methodology of this research would be documentary approach. This research conducted the investigation of the changing international economic policy in response to the change of both external and internal factors in each presidential period since 1998-2019, and emphasized on the changing flow of South Korean outward direct investment as an outcome of each international economic policy.

Regarding the perspective on the theory of Geopolitical Economy alongside with the change of South Korea's international economic policy that facilitate the flow of outward direct investment from South Korea, the non-economic factor such as, presidential vision of South Korean presidents, would help clarify the leading factor that push South Korean investors to invest in that host country. To fill the gap of mainstream economics, this study also discusses with economic literatures related to the determinants of outward direct investment that pull South Korean ODI toward

some specific geographical areas so as to better comprehend the motivations of Korean firms engaging in the international investment.

1.7 Limitations of the study

This research focused on presidential vision and its impact on changing international economic policy which facilitated the flow of South Korean ODI. As well as filling the gap of mainstream economics through reviewed economic literatures related to determinants of South Korean ODI, both economic and non-economic determinants, in order to ensure the factors that pull South Korean ODI into specific geographical areas. However, this study might not consider focusing on the impact from different types of FDI both in manufacturing and service sector. Furthermore, this study concerned mainly on the international economic policy that played a role in changing South Korea ODI. Therefore, the firm-level determinants might not also be emphasized in order to better understanding ODI motivations specifically in the context of South Korean firms.

CHAPTER II

LITERATURE REVIEW

2.1 The Concept of Foreign Direct Investment

According to OECD, the Foreign Direct Investment (FDI) is defined as the international investment of which firms from one economy, so called home country, seeks to establish a lasting interest in another economy, so called host country. The firms from home country, mostly developed country, are mostly called multinational national corporations (MNCs) which have been trying to expand their businesses abroad through various types of investment. MNCs are capable to use FDI as a tool to expand their businesses in foreign countries in forms of either the Joint-Venture (JV) or Wholly-Owned Subsidiaries (WOS). The JV means that MNCs try to establish firm in host country which is partly owned and conducted their business with two or more local companies. And the WOS is that MNCs are willing to invest and establish the fully-owned company in host country. To classify types of investment, FDI could be separated into two categories: Greenfield investment and Mergers and Acquisitions, so-called M&A, to expand their businesses in host country. The former one is that MNCs use direct investment utilized JV or WOS in order to establish a new company that started out from scratch in host country. While the latter one is to acquire the management right of the existed businesses in host country so that MNCs are able to gain advantage from cost reduction arising from the establishment of new company in foreign country like in the category of Greenfield investment (OECD 2008).

Many scholars have reviewed various theories of FDI because of the growing significance of FDI throughout decades. The theory of FDI could be traced back, in 1960s, to the industrial organization approach dealing with the differential return theory based on the assumption of perfect market. The FDI theory was developed later by Kemp in 1964, with an intention to explain the concept of international capital movement. According to Kemp, the flow of capital was a byproduct of the difference in marginal productivity of capital between home and host countries in which capital would move from capital abundant country with low interest rate to capital shortage country with high interest rate. The capital would be flowed until reaching its the equilibrium in which the marginal productivity of capital between home and host counties was equal. However, there were empirical studies of FDI emphasizing on imperfect competition. In 1976, Hymer had developed the theory of FDI trying to explain the international production in imperfect market framework which was later supported by many scholars in the field. The quintessence of his study was that local firms may have a comparative advantage against MNCs such as, having better understanding of culture, preference of consumers, legal systems and so on. The MNCs, moreover, has to encounter with risks, for example, foreign exchange risks driving MNCs to invest abroad in order to reap benefits from domestic firms under the assumption of imperfect competition (Nayak D. 2014).

2.1.1 Motivation of FDI: Eclectic Paradigm

In 1970s, there was an attempt by John H. Dunning trying to develop one of the most prominent and comprehensive frameworks of FDI, the Eclectic Paradigm or

OLI paradigm. Dunning developed his theory by combining two theories of imperfect market; the oligopolistic theory proposed by Knickerbocker in 1973 and Internalization theory proposed by Buckley and his colleges in 1976, with locational theory in which Dunning added in order to address the question of why MNCs choose to open foreign subsidiary in one specific geographical location or area. The OLI paradigm is referred to condition of MNCs' advantages, namely, Ownership, Location and Internalization-specific advantages which affected the decision of each firm when deciding to invest in foreign country (Nayak D. 2014).

First of all, the ownership advantage, sometimes referred to the firm-specific asset, is the comparative advantage asset of firm or MNCs which can be utilized when firm decide to invest FDI in host country. The motivation of MNCs to utilize their ownership advantage is that MNCs are trying to adjust their outward direct investment matching with their rival' s FDI patterns so that it can reduce risks of being underpriced occurring from an uncertainty of production cost in domestic market and maintain their competitive advantage. Moreover, the firm-specific assets involve with not only the tangible assets such as, production resources, human capital and resources but also the intangible asset such as, capability of Research & Development(R&D). For example, there can be referring to superior technological advantage, patent, management and access to control over raw materials, brand name and marketing skills, as well as other knowledge-based resources from which firms could enjoy their cost reduction. The larger the benefit firm gains when investing in local companies, the more possibility firm invests abroad and engages in FDI (Seo 2020).

Secondly, the internalization advantage or the advantage of having internalized is the benefit that firm or MNCs gain when internalize their core-competent activities into local companies, such as, internalizing MNC's core business activities within local companies in order to avoid imitating its own firm-specific assets by its rivalries. The internalized advantage was firstly proposed by Buckley and Casson in 1976, which emphasized on industry-level and firm-level determinants of FDI. They argued that firms being capable to develop new technology through R&D may engage to FDI because it may be difficult to transfer these knowledges to unrelated local companies in host countries or it may have to bear high cost of doing so (Nayak D. 2014). The greater the net profit from internalizing firm's activities within local companies, the more firms engage in FDI to implement those activities itself instead of licensing them to local companies.

Lastly, the locational advantage in which Dunning proposed to address the importance of MNCs' decision on location when deciding to undertake FDI, is referred to the comparative advantage arising from carrying out MNC's production in an alternative country or region. The locational advantage plays a crucial role in determining which location or country in which MNCs will do FDI. The more resources that location has, such as, natural, human and other related resources that the MNC needs together with MNC's ownership and internalization advantages in order to make its production more efficient, the more possibility MNC will prefer to choose that location to be its foreign production through engaging in FDI.

However, the essence of Dunning's eclectic paradigm was that these three determinants need to go together in order to persuade firm to engage in FDI because

each determinants support others. For instances, the firm having ownership and internalization advantages but no locational advantage will likely to decide to increase its production at home and export its products abroad, while, the firm having ownership and locational advantages but no internalization advantage will possibly to licensing its ownership to local companies instead of engaging in FDI.

Furthermore, Behrman also studied the motivation of MNCs to undertake in FDI. He identified the approach through examining the role of FDI and economic development in different locations of each country and classified the MNC's motives to engaging in FDI into 4 motives:

- 1) Resource-seeking;
- 2) Market-seeking;
- 3) Efficiency-seeking; and
- 4) Strategic-seeking investment.

Resource-seeking investment refers to firms or MNCs undertaking FDI in host country so as to gain advantage from lowering cost of either resource and human capital compared to home country. Market-seeking FDI is the motivation of MNCs to gain benefit through having presence in host country's market in order to avoiding trade and non-trade barriers. Efficiency-seeking motive aims to reap advantage from regulatory environment enacted by government of host country throughout the production chain, which benefits MNCs comparing to their home countries' regulations. Strategic-seeking FDI has its objective to gain strategic asset, i. e. ,

specialized knowledge and capabilities of host country in order that MNCs can upgrade their competitiveness (Craven 2016).

2.2 Geopolitics

The Geopolitics is the theory trying to explain, mainly in the field of realism, causal mechanism of interaction between states whether there can be both conflict and cooperation. This theory was coined in early 1900s by Rudolf Kjellen, a Swedish political scientist, that Geopolitics is the study of geographical aspects of the political phenomena as basis of national power of each state which is considered as Organic state (As-Saber S. N. 2001). As to the concept of Organic state, Rudolf considered the states as a living organism which also has life cycle, namely, Youth, Maturity, Old age. All of the states need the nourishment to grow up so as to be able to secure their survival. In this regard, he defines nourishment as physical territorial space, or Lebensraum in German word which means living space. In other words, the state, in the Youth stage needs to gain, accrue, and maintain their physical territorial in order to increase their political power to securing their existence, become Maturity like other major powers, and eventually maintain their old age with an objective to avoid being failed state.

He proposed that state must have, at least, population, land, and living space so as to be organic state which can be born, grown and weaken, or even collapsed. However, he also provided that a good state must consist of wide area, easily connect to the world and being a single piece of land, in which all these mentioned contribute

to the national power of state including having strong control of border and national unity (Tunander 2001).

The concept of Geopolitics has spread through many scholars' works in order to explain the political phenomenon with respect to particular geographical area. There are many attempts to establish theory based on geopolitical explanations, with regard to, the classic reason for state to do anything, the survival of nations. The geopolitical concept has been defined throughout many decades and thus embedded in various theoretical idea related to questions: how the state being survive; how to increase national power and to become hegemon; and even how to maintain its hegemonic stability. Theoretically, the Heartland and Rimland theory, proposed by Halford Mackinder, tell us that the necessary condition to rule the world, in other words, to become super power, is to govern the World Island (Heartland and Rimland). Moreover, the theory also gives us two assumptions: (1) the expansion of the influence over the Heartland paves the way to govern the Rimland, while (2) the significance of Rimland possession is strategically conditioned to govern the Heartland. To put in another way, they described the world as having 2 important areas, Heartland and Rimland, and if one can control each of them, one can rule the world (Limsuebboonsye N. 2021).

In case of its utilization, Geopolitics was applied by many states as a mean to gaining, accruing and also maintaining their national power, for instances, it was believed as ingredient of geostrategy embedded in Expansionism policy of Nazi Germany during the WWII. In the era of Cold war which was the hegemonic rivalry between US and Soviet Union, the US political scientist, Nicolas Spykman, who

applied the concept of Geopolitics with Rimland theory, was believed to be the one who proposed the idea of Containment policy to Henry Kissinger, Secretary of State during Nixon's presidency. He contended that the US need to contain the influence of Soviet Union, who possess the Heartland area, through normalizing and strengthening relations with countries located in Rimland, for example China, in which it led to the US-China diplomatic normalization in 1972.

As of now, the concept of Geopolitics is quite controversy. Regarding its definition, there are two versions, classical and critical geopolitics, which are contending each other in the field of academic literatures. Wu (2018) provided that the classical geopolitics is the study of geographical space, as a pre-existential factor, contributing to policy formulation in order to interact with other countries. While the classical thought views geographical factor as condition naturally attested to a particular area, the critical geopolitics argue that geographical space is weighed and given consideration by political actors of one country as a necessary factors to increase or maintain its power. In other word, the difference between classical and critical geopolitics is the perception on geographical factor as the factor that existed naturally or being existed intentionally.

2.3 Geoeconomics

In the course of interplay between economic and geography, the relationship between these two fields of literatures provided the room for further utilization applied by many scholars or even state's officials. They factor in economic and security perspectives to a specific geographical area while formulating policies of

interacting with other states. This application brought about the concept of Geoeconomics dealing with, as defined by Meriam-Webster, the combination of geographical and economic factors relating to international economic relations.

The Geoeconomics was originally coined by Edward Luttwak. He described that the methods of commerce are displacing the military means in which it leads to the global order with the logic of commerce, which is focusing on the role of labor-producer, entrepreneurs, companies and multinational corporations (MNCs). This shift of logic from military to economical focus, however, not only leads to corporations for development and prosperity as long as they match with their national interest, but also signal the logic of conflict related to economic means, as the military means were. When having interaction with others, especially the economic relations, states must reconcile whether, for example, to regulate transnational economic activities for domestic interest or liberalize them as way to cooperate economically; to seek for gathering wealth of nations from taxation or reduce it to enhance economic relations. Thus, all of these examples show the underlying logic of conflict which is referred to the zero-sum situation (the gain from someone means the loss of another) (Luttwak E. 1990).

As a byproduct of the proliferation of economic perspective as the way to interact between states, there were several efforts to define the concept of Geoeconomics. In 2016, Robert Blackwill and Jennifer Harris termed the Geoeconomics as the “use of economic tools by one state not only to promote and defend national interests, and to bring about beneficial geopolitical outcomes, but also to impact the other states to behave or act according to its national interests or

geopolitical objectives” (Kim 2020). The economic tools that Blackwill and Harris mentioned are these followings:

- 1) Trade Policy;
- 2) Investment Policy;
- 3) Economic Sanctions;
- 4) Cyber;
- 5) Economic Assistance;
- 6) Financial and Monetary Policy;
- 7) National Policies Governing Energy and Commodities.

Most of nations are utilizing Geoeconomics to achieve the goals of reshaping international order in their own favor. For example, China utilized the concept of Geoeconomics to formulate the Belt and Road Initiatives (BRI) , which tries to connect China with Eurasia and upgrade economic ties with the whole Asia through both land and maritime infrastructure cooperation, in order to receive, increase or sustain its influence over any particular geographical areas. China has not only strengthened economic ties with countries in those respective areas through both trade and investment interdependence, but also establish multilateral financial institution, the Asian Infrastructure Investment Bank (AIIB) , to provide financial loans and assistances for any projects under the scope of BRI (Kriengpradith 2020).

Taking the significance of production network into account, the coming of the Second Unbundling, which proposed by Richard Baldwin and referred to the flows of international trade from many producers in different nations to many consumers in different nations regarding locational advantage of any geographical spaces, has

paved the way for MNCs to recalibrate their strategy when deciding to engage in international activities in any particular nations. His work relates to the concept of Geoeconomics as the geographical dispersion of production has the underlying motives, from both policy-makers and entrepreneurs, with respect to national interest of both home and host countries. The mobile phone, for example, can be produced in country A with semi-conductor supplied from Country B, exported to finally assemble in Country C, and lastly, shipped to consumer in Country D. This concept is not limited to goods, but the services, especially professional services that can be affected from the advent of this dispersion. Since then, state must reconcile the best location in which it can serve state's national interest the most, before promoting trade and investment to that location (Krieckhaus 2018).

2.4 The Relationship Between Geopolitics and FDI

Geopolitics has profoundly impact on international business and often plays a role as one of key assessments when deciding to invest overseas. Since the geography has long been an essential element for undertaking FDI, the study of location of international production is pervasively researched by many scholars, especially Dunning, with an attempt to explain the link of country-specific determinants, such as geographic and political factor, to location-specific advantage of host country. Regarding the study of geopolitical impact on international business, As-Saber S. N. (2001) argued that geopolitical factors, emphasizing on time, place and demographic aspects, contribute to the decision to operate international business activities. He mentioned to the time dimension that the distribution of power among states changes

overtime as one historical period pave the way to one another. The shift of power of state comes from the dynamic of states' interest, which often realigns its policies in response to evolving geopolitical situation in a particular area at a particular point of time. For example, the Cold war period posed a challenge to MNCs when undertake FDI in the different ideological blocs in which states might implement trade restriction toward the other side. Thus, pre- and post-Cold war eras, and even pre- and post-COVID periods can have distinct impact to the MNCs decision directly and indirectly. Any distinct shift of power in the international system affects the operations of international business.

In terms of place dimension, He described that the role of natural resources, geographical proximity, strategic location and regionalism have an impact on the flow of FDI. For instances, the strategic location of Singapore located in the chokepoint can attract FDI from foreign country to establish regional headquarters, and later lead to further need of accommodation in order to serve the professional officer or other high-ranking working in headquarters of MNCs. As to the demographic dimension, size of population, supply of labor and role of environmental, ethnic and religious groups are considered as the geopolitical variables that have an impact on operative international business activities. Because the increase of size of population can ensure the long-term growth of business in terms of both large market and abundant human capital, while the role of environmental, ethnic and religious group can have an impact to FDI through conflict of minorities, or even various campaign blockading state to abide by the international order written by WTO (As-Saber S. N. 2001).

The implication of host country's geopolitical factor to the FDI location decision has also been reviewed. To solidify the ties between geopolitics and FDI, Teixeira A.A.C. (2013) employs the case of Poland to analyze the importance of geopolitics in firms' decision to locate their production facility or undertake FDI. In order to do case study approach, they analyzed the relationship between geopolitical situations of Poland and FDI inflowed into it. Methodologically, the quantitative and qualitative approach was used to provide a reason-based data gathering from comprehensive source of information emphasizing on multidisciplinary perspectives of Poland. Furthermore, they also separated the geopolitical factor of Poland into Static (Geographical space, and Position in international relations), Variable (Population, Resources, Social, economic and political structure), and interaction process (Technology, History, ideology, power and strategy).

Some scholars observed the investor's perception of geopolitical risks arising from searching keywords. According to the study of Caldara and Matteo, they found that there are two interesting relationships between geopolitical risks and foreign capital. As to the first finding, the heightened geopolitical risk leads to a decrease in return of stock in developed countries, suggesting that this consequence is perceived as byproduct of increasing geopolitical threats rather than realization. Secondly, the surge of geopolitical risks not only reduces the capital inflows in emerging countries, but also drive more capital flow into developed countries. Even though, these relationships are more suitably to explain the impact of geopolitical risk on portfolio investment while limiting for FDI. This kind of relationships, however, give an implication that the shift of foreign capital from emerging to advanced economies can be interpreted the behavior of investors as flight-to-safety reaction (Caldara D. 2018).

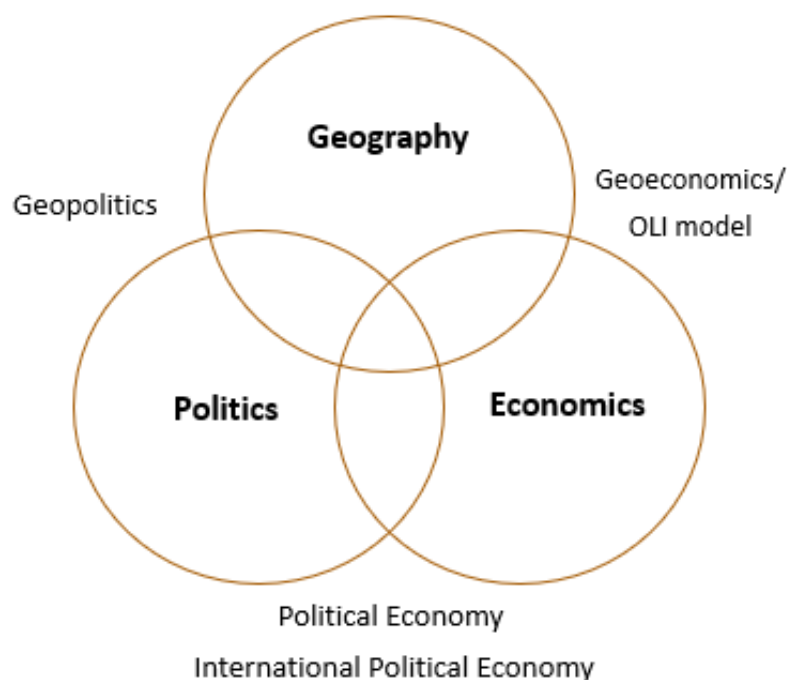
Moreover, the increase of geopolitical challenges to one state, can be translated into more security need for one state against threatening power. This implies that one state can leverage its FDI promotion policies to persuade and maintain FDI from major power for its national security interest. In other words, weak state uses FDI policies as balancing strategy to gain security interest so as to avoiding geopolitical risk arising from major power's geopolitical competition which could harm its economy. For instances, the Guyana and Qatar has to induce FDI from US firms in order to gain security interest from US assistance to US firms investing overseas, and most importantly, to counterbalance the influence of their powerful states, Venezuela and Saudi Arabia respectively (Krane 2020).

In the theory of International Political Economy which examines the relationship between international political risk and economic development, the political risk arising from geographical factor, such as geographical proximity to conflicting neighbor, might affect the development of one country, which, in turn, affect international business activities operated by MNCs, and then have an impact on decision to undertake FDI in that country. Luo D. Y. (2021) utilized both quantitative and qualitative approach to examine the relationship between regional geopolitical risk and FDI flowing into the countries affecting from the risk, for instances the case of Euro crisis with a focus on EU-19 in the Eurozone. He also generated the geopolitical risk index from News Items Search function (NSE) and keywords which represents the perception of geopolitical risk to investor attitude.

2.5 Perspectives on Geopolitical Economy and Its Implication to Outward Foreign Direct Investment

The concept of Geopolitical Economy has encompassed literatures related to Geography, Politics and Economics. The idea of Geopolitical Economy relies on the notion that geography interpenetrates most of the major international political and economic processes (Kriekhaus 2018). Combining Geography into Political consideration would yield Geopolitics, which is the concept that take into account the geographical factors including size of country, position, location, etc. , as a pre-existential factor of one' s state. All of which contribute to its power and policy formulation in order to interact with other countries (Caldara D. (2018); Wu (2018); Limsuebboonsye N. (2021)). On the other hand, integrating Geography with Economics would lead to the concept of Geoeconomics, which is the use of economic tools by a state not only to promote and defend its national interests, and to bring about beneficial geopolitical outcomes and influence other states' economic actions to behave or act according to one state's national interests or geopolitical objectives (Troxell (2018); Kim (2020)). The mentioned economic tools are these followings: trade policy; investment policy; economic sanctions; cyber; economic assistance; financial and monetary policy; and national policies governing energy and commodities. Changing geopolitical situations in one's specific area would likely to affect the state's consideration on the stability of its market in this area and how to wield its economic tools as a mean to interact with other countries so as to both preserve and increase its national interest (Sukmak 2016).

Figure 1: The Perspective on Geopolitical Economy



Source: Krieckhaus (2018)

Furthermore, under the perspectives of Geopolitical Economy, the study of Political Economy and International Political Economy would also help understand why politics influence the state's decision to impose each economic tool for reasons in both domestic and international level respectively. On domestic level, the Political Economy said that the government must take its societal interest group, such as Chaebols and Agricultural sectors, into consideration with its political interest while deciding to use economic tools to conduct its foreign policy, for example, the negotiation of FTAs which relate to both trade and investment policies (Krieckhaus 2018). As for the international level in which the unit of analysis changes from domestic interest group to state, the International Political Economy, as rooted in Political Realism which argues that states must pursue their security through "self-

help” amidst international anarchy, suggested that states will pursue deeper economic cooperation to strengthen their alliance in response to growing common security threats (Chinwanno 2014).

Regarding the relationship between Geopolitics and International Business (IB), Geopolitics has a profound impact on international business and often plays a role as one of key assessments when deciding to invest overseas. The support of state or home country of ODI through investment policy is considered as a mean to engage and expand its influence toward a specific geographical area or host country, which in turn, can potentially affect the act of the host country in line with home country’s geopolitical goals. As-Saber S. N. (2001) provides that the Geopolitics-IB relationship considers factors related to time, place and demographic dimensions. In terms of time dimension, the contemporary geopolitical history in East Asia could be classified into three period including, the Containment Policy during the Cold War, the War on Terror, and the rise of China, which conjointly shape the geopolitical landscape of South Korea over time. For the place dimension, the mainstream study of FDI determinants written by Dunning, the Eclectic Paradigm, initially stresses the significance of geographical dimension as location-specific factors that affect firms’ decision to undertake ODI in host country. The locational factors related to geopolitics include, natural resources, strategic location, geographical proximity, and regionalism. As to the demographic dimension, size of population, supply of labor and role of environmental, ethnic and religious groups are considered as the geopolitical variables that have an impact on operative international business activities. The increase of size of population, for instance, can ensure the long-term

growth of business in terms of both market expansion and abundance in human capital.

Moreover, there have been various studies on the relationship between the flow of ODI and inter-state factors which are under the control of states and share the relationship with Geopolitics. Bilateral relations (cooperation and conflict), Official Development Assistance (ODA), state visit, bilateral investment treaty or investment-related agreement, as well as regional security concerns also play both positive and negative roles in affecting the capital movement between relevant countries (Bussman (2010); Park (2020); Kim (2020); Krane (2020)).



CHAPTER III

THE SOUTH KOREA'S PRESIDENTIAL VISIONS AND ITS CHANGING INTERNATIONAL ECONOMIC POLICY

3.1 Introduction

As time goes by, the economic development of South Korea has been successfully changing South Korea from ashes since the Korean War to become one of the finest advanced countries in East Asia. One of the tools utilized by South Korean government was the international economic policy that facilitate the change of the Outward Direct Investment (ODI). The ODI was being used by both firms and states because it benefits both home and host countries. Since the Post-Cold War world with the proliferation of globalization has come, the ODI, as part of international economic policy, was no doubt being used as the primary engine by many states alongside with international trade to maintain its growth.

Owing to the increasing importance of ODI to Korean economy together with the growing US-China geopolitical rivalry, which are main partners for both domains of security and economics respectively, this chapter aimed to investigate the relationship between geopolitical factors and international economic policy of South Korea that facilitate the change in Korean ODI. To do that, this chapter examined both internal and external factors of South Korean governments since Kim Dae-Jung's until Moon Jae-In's presidential period of 2017-2019 before the pandemic

occurred. The vision and strategy of each president would also be observed as they reflected the change of both internal and external factors over time. Investigating leader's visions are to understand the evolving South Korean interest toward each specific geographical area or country where the government adopt its international economic policy to support South Korean investor to engage in ODI.

The reason behind the attention on South Korean presidential vision is the exceptional nature of its foreign policy which is mostly influenced by decisions of president. This is because the power of President is rooted from three major aspects. Firstly, the war-time experience from the Korean War and the Cold War help increase the presidential power by being promoted to Chief of Defense Forces. Secondly, the legacy from military regimes since 1960s-80s influences in the top-down structure of the policy formulation. Lastly, the long-standing tradition of Confucianism rooted in Korean society also plays an important role in shaping the power of leader in the structure of inter-relationship among Koreans (Sheen 2016).

The relationship between geopolitical factors and South Korean international economic policy in each presidency period since the Kim Dae-Jung and Roh Moo-Hyun (1998-2008), the Lee Myung-Buk and Park Guen-Hye (2008-2017) until the first three years of Moon Jae-In's presidency (2017-2019), will be analyzed throughout the remainder of this chapter.

3.2 Prior to the 1997 Asian Financial Crisis: Liberalization of Outward Direct Investment Policy

The international economic policy of South Korea has been changing over time in order to pursue economic development. One of the economic means implementing under the scope of this policy is to help promote the flow of outward direct investment (ODI). Geographically, South Korea is located among the 3+1 traditional major powers including, China, Japan, Russia to some extent, and geopolitically, the US. The Southeast Asian countries, especially countries in the Association of Southeast Asia Nations (ASEAN), also located in the south of South Korea as shown in Figure 2. The geopolitical importance of Korean peninsula was one of many factors that brought the successful economic development of South Korea during 1960s – 1980s because it led to substantial US economic assistance during the period of Cold War. However, the rapid economic development was also the main contribution to the changing of South Korea's international economic policy that facilitated liberalization of ODI in the late 1980s.

The two Koreas has long been divided since the end of World War II in 1945, and both were later backed by great powers during the period of Cold War, the ideological rivalry between the two great powers at that time, the US and Soviet Union. In the Cold War era, the Soviet Union, who supported North Korea, sought to expand its communist influence, while the US, who backed South Korea, also sought to promote its democratic regime and capitalist ideas to its allies.

Figure 2: Maps of Countries in Asia



Source: <http://www.asia-atlas.com/asia-political-map.htm>

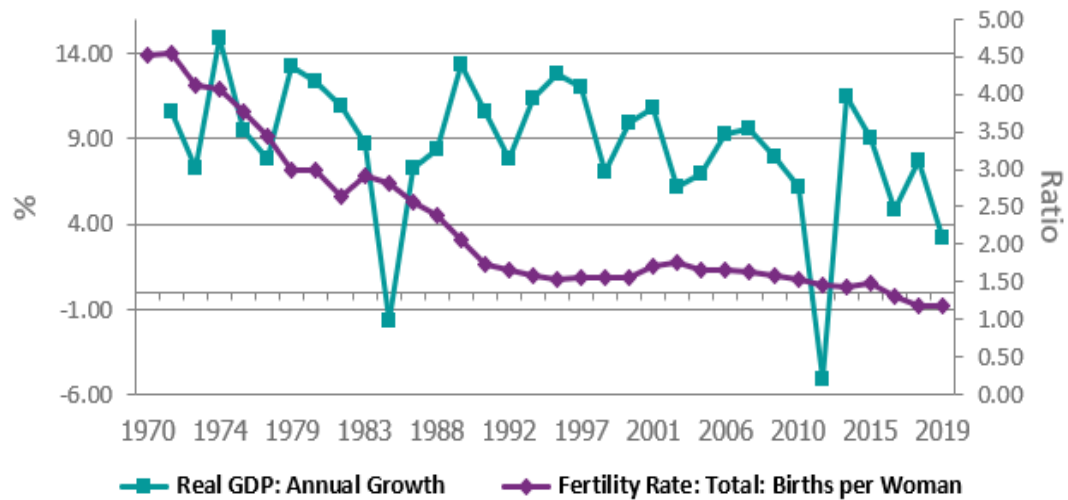
Because of the division of the two Koreas posing a threat of the North Korea to US and South Korea, the Korean peninsula became the strategic location where the two great powers, US and Soviet Union, contended and sought to expand their influence over each other (Park 2017). As South Korea experienced substantial loss from the Korean war in 1953 which ended without peace, only a ceasefire agreement, it inevitably needed to align with the US as its solely security provider. The US-ROK alliance, thus, has long been factored into a US foreign policy as part of the US Containment Policy during the Cold War era in which the US saw that it needed to provide not only military support, but also economic assistance to recover and stabilize Korean economy for it become a fortress against threats from communism. Therefore, the US aid was crucial for the rapid economic development of South Korea and South Korean officials need to adjust its international economic policy aligning with US Containment policy. The example was that the South Korea would do international trade and investment with Western Bloc during the Cold War period (Sheen 2016).

Time during the 1960s-1970s marked the period of Korea's rapid economic development, the only way considered capable of boosting its economy from the Korea War, was the export promotion policy which was endorsed by Park Chung-Hee, a military government, in order to pursue economic growth and maintain stability of his regime. The South Korean ODI during that time, however, was strictly manipulated and needed to get prior approval from the Bank of Korea before acquiring foreign assets. This is because the highly need of capital to support export-oriented industrialization and the problem of current account deficit caused by the need to import machines and other high-valued raw materials for export production

(Nicolas F. 2013). However, the more successful economic growth required the more reliance on oil and gas to maintain its production capabilities. Therefore, the South Korean government support most of the Korean ODI projects that were related to secure raw materials for export and natural resource development. For instance, in late 1960s, Park's government financially supported the Chaebols, Korean business conglomerates who gained support from Park's export-led growth policy, to invest in large-scale resource development projects in Middle East with loans and tax reductions. The reason was to reap benefits from low cost labor and secure oil and gas resources (Levkowitz 2013).

Apart from the lacking of resources, the rising of labor cost in South Korean economy also played as internal factors that pushed South Korea's official to change its international economic policy to support more South Korean ODI. The size of South Korea's population also played a role in further liberalization of ODI. During the period of rapid economic development, South Korea experience the dramatic decline of population growth rate caused by sharply lowering fertility rate, a total births per woman as shown in Figure 3 (Emiko 2011). The more limited population growth, the less possibility for market expansion and sufficient supply of labor which pressured the labor cost to rise (As-Saber S. N. 2001).

Figure 3: Real GDP and Total Fertility Rate of South Korea, 1970-2019



Source: World Bank

During the Park administration, the minimum wage was also kept under control of government in order to keep lowering the production cost and maintaining the country's competitiveness. As a result, Park's assassination in 1979 led to the rise of wage in Korean economy. Due to the interplay between wage hike as internal factor alongside with external factors such as, rise of trade protectionism as well as resource nationalism in response to the two oil price shocks in 1973 and 1979, South Korean government started to relax ODI restrictions, which shed the light on Korean investors to invest abroad in the early 1980s. Several liberalization measures were imposed, for instance, the coming of the Committee of Investment Overseas who replaced the approval system, the removal of requirement of 3-year business experience, and the limit rate of investment and so on (Rhee D. K. 2009).

In the late 1980s, the liberalization of Korean ODI was further triggered by both domestic and international environmental changes. In terms of domestic level,

the economic structural change such as the current account surplus as a result of successful export promotion policy. As well as the political change, the democratization in 1987 that strengthened power of labor union and led to the minimum wage act which reinforced the increasing of wage in South Korea almost every year, was also the crucial internal factors (Nicolas F. (2013); Chiang (2018)). Regarding the change in international environment, the US economy during that time experienced a recession because of both current account and fiscal deficits as a result of a large capital injected into the Vietnam War. The US solution was to pressure countries with strong trade surplus to US to appreciate their currencies, such as Japan and South Korea, which resulted in the signing of Plaza Accord in 1985. Moreover, South Korea had to face with increasing trade tension with US, which pressured South Korea for more open economy, particularly the telecommunication sector (Sheen (2016); Chiang (2017)).

In term strategic concerns, Roh Tae-Woo government (1988-1993) sought to expand the scope of South Korean foreign policy to other countries in order to reduce overwhelming economic interdependence with US. Thanks to the détente between US and Soviet Union since the late 1980s, Roh's government grabbed the chance to uphold her international status through hosting the Seoul Olympics in 1988 and the joining of United Nations in 1991. Since the end of Cold War, South Korea also sought to establish diplomatic relations with former communist countries, for example, the normalization with Soviet Union in 1990, China and Vietnam in 1992, as well as other regions such as being a full dialogue partner in 1991 (Sheen 2016). In order to maintain country's competitiveness, the South Korea government shifted its international economic policy to promote on investment in the country that possessed

lower production cost such as developing countries in ASEAN and Latin America (Nicolas 2003). Accordingly, Roh promoted further liberalize ODI policy, for example, replacing prior approval to notification system to some permitted areas (Nicolas F. 2013). South Korean ODI that surged during this period was to overcome trade barrier imposed by the removal of General Specialized Preference (GSP) by the US in 1988 and followed by the EU in 1989.

The efforts to normalize bilateral relations paved the way for broader economic cooperation in which it was further promoted under Kim Young-Sam administration (1993-1997). The End of Cold war in early 1990s brought an appropriate peaceful and stabilized environment for many states to implement economic liberalization, and for conglomerates to expand their businesses abroad. This environment facilitated the trend of global economic liberalization that could be seen from emerging of multilateral conferences on international economic cooperation for example, several rounds of trade negotiation under General Agreement on Tariffs and Trade (GATT) which was later developed into World Trade Organization (WTO). The South Korea's international economic policy was further shifted to promote broader economic cooperation under the Globalization policy initiated by the Kim government in 1993. This was the policy framework aiming to broaden the economic relation with other countries, to deepen South Korea's integration into the global economy, and to uphold South Korea recognition to an international standard. To achieve the goals, the WTO membership in 1995 and decision to join the OECD in 1994 played an important role in further encouraging the ODI liberalization in Korea, for example, the adoption of the notification system in all ODI projects in 1997 (Sachwald (2002); Nicolas F. (2013)). During the period of Kim

presidency, the Korean ODI surged in many countries, especially Korean ODI in China, the largest share of total ODI, accounting for an increase from 220 million USD in 1992 to around 1.9 billion USD in 1996. This was due to their geographical proximity and abundance of labor supply in China compared to South Korea's.

Thanks to the liberalization policy and various efforts to normalize bilateral relations with other states as well as to uphold the status-quo of South Korea in the international arena, South Korean ODI started to take-off and shown steadily growth since the 1987 FDI liberalization until the coming of Asian Financial crisis (AFC) in 1997. The emerging of the 1997 AFC changed the investment environment of South Korea and slowed down the steady growth of ODI activities. The crisis erupted in South Korea owing to three major reasons. First, the close state-business relation, as a byproduct of President Park's export-led growth strategy, led to the problem of Moral Hazard in which firms tend to invest in risky asset since they would get support from the state, who is bonded with promised economic growth. Second, the close relationship between bankers and large businesses would likely to finance in less productive outward FDI projects. Third, the lack of inward FDI promotion designed for long-term plan to utilized FDI for infrastructure development, and overheated economic growth during the period of 1990s could attract large amount short-term foreign capitals in which it made South Korean economy vulnerable to the crisis (Nicolas F. (2013); Chiang (2017)).

3.3 The Kim Dae-Jung and Roh Moo-Hyun Administrations (1998-2008)

Since the Korean economy initially faced the outbreak of Asian Financial Crisis occurred in December of 1997 during the presidential election, Korean economic recovery was the main task following the inauguration of Kim Dae-Jung government(1998-2003) in 1998. In the Kim's inaugural speech, he requested cooperation on 5 points from the Chaebols and other business-related agencies to achieve financial restructuring of Korean economy. This included operating business with transparency, halting cross-guaranteeing debt payment, focusing on making sound financial structure, limiting the number of key businesses, and condemning executives or firm's leaders for mismanagement (YonhapNewsAgency 1998). The FDI reform was also prioritized and further implemented to relax the movement of capital flow in the Korean economy in order to attract FDI to financially indebted Korean firms. The South Korea's ODI during 1998-2005 remained leveled-off with limited drop since the crisis had begun. The reason behind this little drop was the additional investment from parent companies added to their overseas subsidiaries. The crisis pressured large number of Korean firms to both sell off their indebted subsidiaries abroad and inject capitals to maintain their operations in form of loan guarantee as those heavily indebted subsidiaries required substantial loan guarantees from their parent companies. In response to that, Kim carried out a policy to limit the amount of loan guarantee from Korean parent companies in order to screen for high potential subsidiaries and closely monitor the post-investment operations (Lee 2007). Moreover, Kim also imposed financial restructuring measures which required large companies with bankruptcies to scale down their outward direct investment such as

the closedown of Daewoo Electronics and Daewoo Motor overseas production units (Nicolas F. 2013).

Even though, the main geopolitical goal of South Korea is the denuclearization of North Korea and reunification which both are continually pursued by every Korean president. In the period of Kim presidency, he had pushed for his own progressive vision with liberal economic worldview embedded as the way to conduct his foreign policy. To facing with security concern over the North Korea threat, Kim introduced the Sunshine Policy in which he emphasized on improving Inter-Korean relations through diplomatic means with reconciliation and dialogue, while relations with other major powers were in the supporting role. Along with Kim's principle to "separate economics from politics", he decided to change South Korean international economic policy to pursue economic engagement with North Korea and brought international support for Inter-Korean rapprochement. The concept of engagement was pursued without requiring the normalization of relations, unlike past policies related to North Korea which sought to reduce Inter-Korean tensions, such as denuclearization before an economic exchange (Sheen 2016). Kim believed that the economic engagement would transform North Korean economy, which would later make North Korea recognize that it could not do without integration from outside world (Snyder 2008). In fact, the external factors resulted by the end of Cold War also played a role in materializing the Sunshine Policy. The collapse of Soviet Union and the normalization with China, who both were main supporter of North Korea, subsequently led to the North Korea food crisis since 1996 (Snyder 2008).

In order to achieve its objective of Inter-Korean rapprochement, the support of US-ROK alliance was crucial. The US-ROK relation, however, did not go as well as the Inter-Korean relations. Under the auspices President Clinton in pursuit of peaceful settlement in the Korean Peninsula, the Inter-Korean summit in 2000, which laid the ground for social and cultural exchange such as, the family reunion in Pyongyang and Seoul, showed the progress of Inter-Korean reconciliation (Snyder 2008). However, at the beginning of 2000s, the US economy had encountered with many challenges, for example, the Dot-Com crisis that reached its peak in 2000 and posed a setback to the growth expectation of the US economy. Later on, with the coming of Bush administration and the 9/11 incident occurring in 2001, the US foreign policy was changed to view terrorist attacks as its ultimate threat, which eventually bringing the US and Western allies into the War on Terror. Under Bush presidency, the US' s North Korea policy changed toward a more aggressive approach to its nuclear ambition. He labelled North Korea as one of the 'Axis of Evil' alongside Iran and Iraq, in which North Korea responded to with another nuclear test in 2003, soaring Inter-Korean tensions (Sheen 2016). This view of US contradicted to the intentions of Sunshine policy.

Declining of US-ROK alliance was spurred by the anti-US sentiment in Korean society, which had been stipulated by the killing of two school girls by US military vehicles. During the presidential election in 2002, this incident sparked a heated political debate in Korean society on how the US should view and respect South Korea as the middle power with growing capabilities from its rapid economic development and successful democratization. As for the coming of Kim's progressive successor, Roh Moo-Hyun (2003-2008), with characteristics of anti-US, pro-North

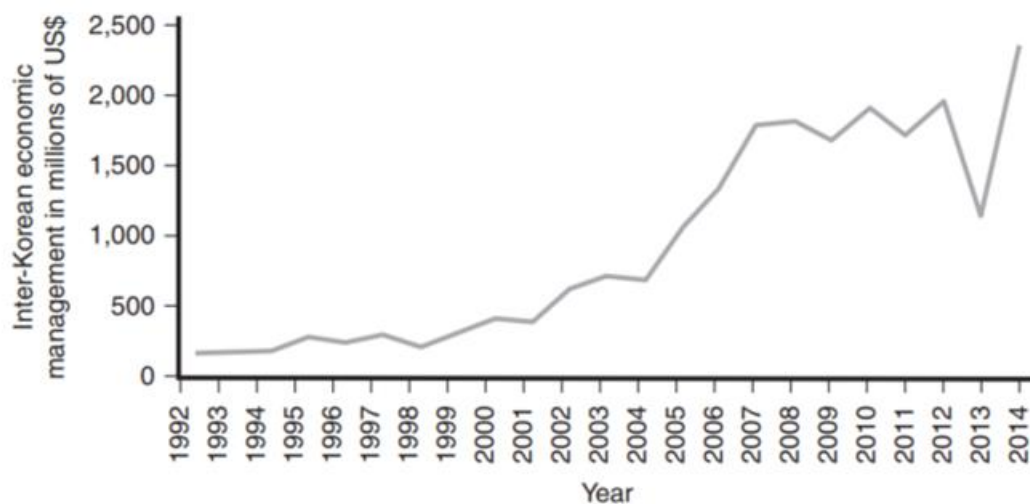
Korea, and pro-China, the anti-US sentiment in South Korea had been factored in the Roh's foreign policy revolving around the question of how to accrue national interest from South Korea as a country with growing capabilities to pursue its own autonomy, while maintaining benefits from US-ROK alliance (Kim 2016). The differences in how to deal with North Korea's provocations, as well as the negotiation on how to institutionalize the US-ROK alliances which revolved around the US-proposed Strategic Flexibility to mobilized United State Force Korea (USFK) in other regions during the realm of War on Terror, were not only major friction between Roh and Bush government, but also posed a challenge to China's strategic concerns (Snyder 2018).

In contrast to the declining US-ROK alliance, Sino-ROK relation was elevated to "Comprehensive Partnership Towards the 21st Century" in 1998, and, further improved to "Comprehensive Cooperative Partnership" in 2003. The reasons behind this strengthening relationship were twofold. First, the South Korea sought to reap political support for its Sunshine policy and economic gains from China as mentioned earlier. Second, the geopolitical gains from China's close relationship with North Korea, given that 28 percent of North Korea's trade in total were with China, brought benefits to South Korea both in terms of countering with North Korea's provocations and hedging against US aggressive policy toward the North, which posed a threat to the process of Inter-Korean reconciliation according to Kim's and Roh's shared visions (Chung (2006); Lee (2020)).

As aforementioned the South Korea's relations with both US and China were conducted to support the Inter-Korean economic engagement under the Sunshine

policy. Despite the recurring of North Korea nuclear threat in 2003, the Inter-Korean relation had continually improved under the Peace and Prosperity Policy formulated by Roh's vision with the foundation of his predecessor. Under this policy, he also pursued a peaceful settlement in the conflict, especially with the North Korea and other traditional major powers, and sought to bring co-prosperity into Korean Peninsula through expanding economic engagement. Such that, the Inter-Korean economic engagement rose from around 500 million USD in 2002 to almost 2000 million USD in 2007 through the government support of Inter-Korea Cooperation Fund as shown in Figure 4 (Snyder 2018).

Figure 4: Inter Korean Economic Engagement, 1992-2014, in million USD



Source: Snyder (2018)

Regarding the impact of changing international economic policy to the North Korea under the Sunshine policy, many projects were initiated as a confidence-building measure between two countries, particularly, the joint development of

industrial park, the so-called Kaesong Industrial Complex led by the initiative of Hyundai Group. The continually Inter-Korean economic cooperation paved the way for more Korean outward investment in Kaesong Industrial Complex that originally planned and invested by South Korean firms and utilized North Korean workers, accounting for the rise of South Korean investors from 11 firms in 2005 to 65 firms in 2007 as shown in Table 1. This benefited particularly small to medium-sized South Korean companies by giving them an opportunity to access to low-cost labor without having to outsource their manufacturing line in China or other countries. Simultaneously, North Korea also gained from declining unemployment rates and earning relatively higher wages without having to illegally cross the borders (Manyin M. E. 2011).

Table 1: Key Statistics for Kaesong Industrial Complex, 2005-2010

	End 2005	End 2006	End 2007	End 2008	End 2009	End 2010
No. of South Korean Manufacturing Firms	11	15	65	93	118 (Jan. 2010)	121
Approx. No. of North Korean Workers	6,000	11,000	23,000	39,000	42,000	47,000
Approx. No. of South Korean Workers	n.a.	700	800	1,500	960	Around 500
Annual Production Value	\$15 mil.	\$74 mil.	\$185 mil.	\$250 mil.	\$256 mil.	\$323 mil.
Exports to 3 rd Countries (i.e., not South Korea)	—	\$20 mil.	\$40 mil.	\$36 mil.	\$29 mil.	\$37 mil.

Source: Mark E. Manyin (2011)

During 1999-2004, the ODI policy was under the private-led promotion in which government continued to support Korean investors who seek to go abroad

through information sharing together with the post-monitoring system to ensure soundness of ODI projects. For example, there were an establishment of the Service Center for Korean Investors Overseas in China, Indonesia, and Vietnam in order to provide useful business-related information, and the totally removal of prior approval system and the less stringent of requirement on self-financing since 1997 (Nicolas F. 2013). However, South Korean ODI took off again in 2005, the ODI policy shifted from a private-led to a proactive promotion, which is the current ODI policy of South Korea. This policy consisted of three prongs to promote overseas Korean Investors. First, the financial support was designed to provide loans and financial capabilities to both investing companies and MSMEs abroad through Exim Bank of Korea and government-established funds such as, Economic Development Fund supporting ODI in developing countries. Second, the information provision was conducted by Exim Bank of Korea and Korea Trade-Investment Promotion Agency (KOTRA). For example, the Exim Bank provided overall investment-related information about host country for example, the economic and political regime, business and living conditions, etc., while the KOTRA, which was designed to support Korean firms through overseas branch's office, provide information to investing companies in particular regions or countries. Third, the government support on reducing non-commercial risks. For instances, South Korean government concluded on the international investment-related treaty served as credible commitment mechanism to Korean investors (Lee (2007); Park (2020)).

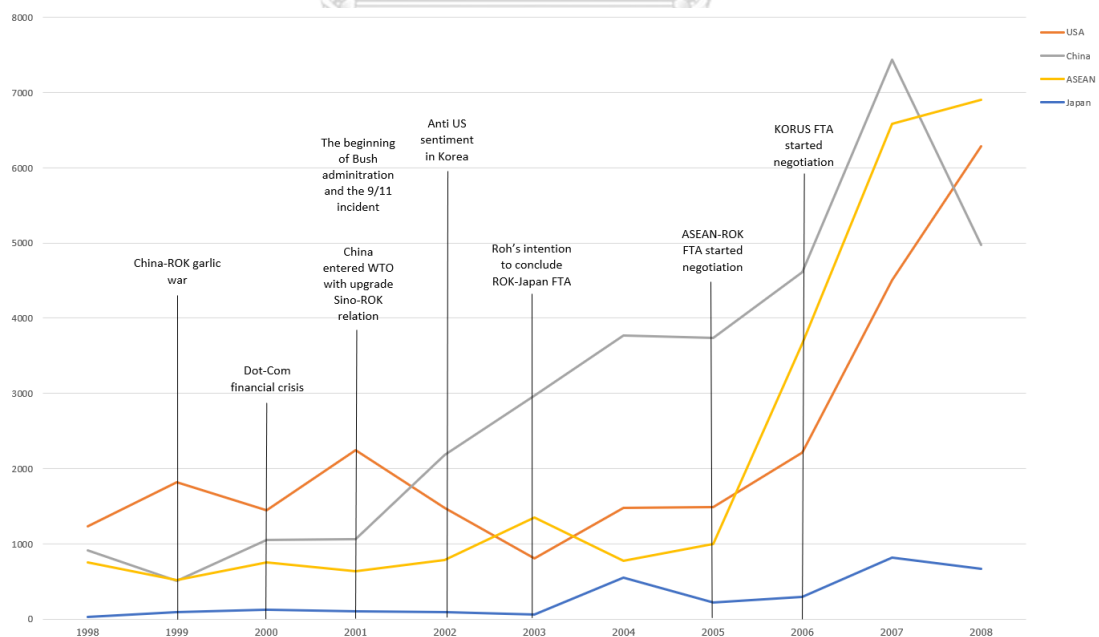
As shown in Figure 5, after the normalization of South Korea and China and the South Korea support on China WTO membership, the Korean ODI to China begun to take off in 2001 and reached its peak in 2007 before the Global Financial

Crisis took place in 2007-8. Despite some setbacks occurred in Sino-Korean relation including the garlic war in 1999 and the dispute over Korguryo history in 2004 in which South Korea sought a low-key approach to deal with the issues due to China's role in cope with North Korea, the volume of Korean ODI to China had surpassed those to US since the more aggressive US's North Korea policy under Bush administration in 2002. This stance of South Korea to tilt toward China reflected the Roh's vision to play the role of balancer between US and China in order to maintain peaceful Korean Peninsula (Bunyavejchewin 2017).

With regard to Roh's recognized of increasing South Korea's capabilities as middle power, Roh introduced the policy of "hub of Northeast Asia" seeking to promote South Korea as business hub centered in the region. Apart from relations with US and China, South Korea also sought to expand its economic cooperation through FTA policy with other countries. For instances, the Roh's intention to conclude ROK-Japan FTA during his visit to Tokyo in 2003 which had reverberation to the rise of Korean ODI to Japan in 2004, although there were hinders to an effort arising from the Dokdo/Takeshima territorial issue in 2006. Not only commencing FTA with Japan, but Roh also started FTA negotiation with ASEAN, utilizing closer relationship laid by Kim administration that actively engaged with ASEAN+3 (China, Korea, and Japan) process to establish East Asian Vision Group (EAVG) consisting experts from the member countries to discuss on how "to nurture East Asia (in which he included Southeast Asia) into single community of cooperation"(Snyder 2008). His proposal signified his vision of regionalism and became the main contributor of the group's vision in which it was further developed into initiatives for East Asian Summit (EAS) with an aim to achieve East Asian Community (EAC) that is a

proposed trade bloc for the region. Consequently, President Roh continued his predecessor's idea of regionalism and further promoted negotiation of ASEAN-ROK FTA that finally concluded the Framework Agreement on Comprehensive Economic Cooperation in 2005, which facilitated the surge of Korean ODI toward this regions from approximately 1 billion USD in 2005 to 6.2 billion USD in 2007, also surpassed those in US (ASEAN Secretariat). This was because the ASEAN region, as a large market with 670 million people and richness of natural resources and low-cost human capital, served the demand of Korean firms, especially labor-intensive manufacturing, to relocate their production assembly in response to its rising land and labor cost (Sermcheep 2017).

Figure 5: The Flow of South Korea's ODI by country, million USD, 1998-2008



Source: Exim Bank of Korea

3.4 The Lee Myung-Buk and Park Guen-Hye Administrations (2008-2017)

With the emergence of Global Financial Crisis (GFC) in 2008, South Korea with the coming of Lee Myung-Buk administration marking as the return of conservative government had had to encounter global economic slowdown which affected the overall plunge of Korean ODI in 2009. During this period, there were various efforts to push Korean ODI through strengthening the function of KOTRA, such as, the installation of both Support Center for Overseas Expansion in 2009 and the Foreign Investment Promotion in 2010 aiming to help provide useful information for Korean Investor abroad (KOTRA). As a result, the Korean ODI begun to surge again in 2009 and reallocate itself to expose a clear path toward its favorable countries, as shown in Figure 3, in which US and ASEAN have started to gain dominant share of total Korean ODI overtaking those in China which had long been preferable destinations since a decade of progressive rules, especially during Roh's government (Kim 2016). This change of the trend of Korean ODI coincided with the shift of South Korea's foreign policy in both conservative leaders, Lee Myung-Buk and Park Guen-Hye, toward recognizing the importance of US-ROK alliance in order to hedge against China's rise and North Korea's provocations. In addition to this, South Korea foreign policy also sought to enhance its international role as middle power through changing its international economic policy to have more engagement with other regions that serve its economic interest, such as ASEAN and Middle East.

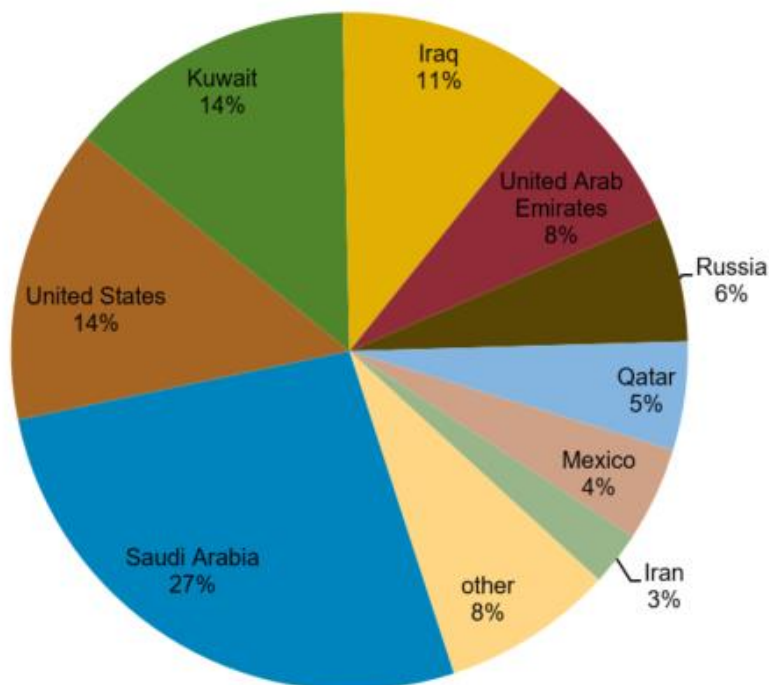
Since the inauguration of Lee administration, he announced his visionary strategy, the so-called Global Korea, which was built on the foundation of

globalization policy under Kim Young-Sam. Lee actively sought to expand South Korea's role as the middle power in global arena through economic and environmental cooperation, including the role as international agenda-setter, such as the role as a middle power with actively recognized climate change issue, and bridge builder between developed and developing countries (Kim 2016). The interaction with regions beyond the Northeast Asia, especially Southeast Asia, also gained Lee's attention. In 2009, Lee launched the New Asian Initiative (NAI) during his presidential tour of Southeast Asia, which attempted to heighten economic cooperation with countries in Asia (Hwang 2012).

According to the World Bank, South Korea was the world's 4th largest in energy import and the 8th largest in energy consumption in 2015, while ranking in the 166th among 190 countries that received income from natural resources as percent of GDP. Most of the oil sources that South Korea import were from Middle East countries as shown Figure 6.

As such, Lee imposed his energy diplomacy with an aim to strengthen relationship, especially economic cooperation with those energy exporting countries in the Middle East, which facilitated an increase of Korean ODI to reach its peak around 4.3 billion USD in 2008 as shown in Figure 7 (Snyder 2018). The government support for Korean investors were, for example, the ROK-UAE summit to support bidding on the UAE nuclear-energized power project, that was worth around 40 billion USD, which would not only serve as South Korea's ticket to enter global nuclear energy market, but also enhance its role as a responsible power, seeking to promote green growth and address climate change issue (Amena B. 2009).

Figure 6: South Korea's oil exporter as of 2019



Source: U.S. Energy Information Administration

In 2011, South Korea and Saudi Arabia also signed an MoU on comprehensive cooperation in nuclear research and development, which, in turn, led to the joint investment of 130 million USD during 2015-2018 (WorldNuclearNews 2019). This investment in nuclear energy was in parallel with Saudi Arabia's grand strategy of Vision 2030, which promotes alternative source of economic growth while reducing dependence on oil export.

Thanks to the China's assertiveness in this region through its 9-dash-line claim in the South China Sea, ASEAN countries needed to look for other powers to hedge against threat from China. Because of the similarities in historical experiences dominated by China, Western countries, and Japan, as well as lack of territorial

dispute with Southeast Asian nations, South Korea was in the best position to serve as a honest broker conducting economic diplomacy to strengthen the economic relationship with ASEAN nations (Hwang 2012). This could be seen by how almost all countries in ASEAN were positioned in top 10 ranking of Official Development Assistance (ODA) from South Korea. The ODA helped facilitate better infrastructure and investment environment for Korean investors (Kang 2017). Economically, the motivation of Korean ODI in ASEAN countries were similar to China, in which Korean investors sought to utilize ASEAN's strength (Seo 2020).

Thus, Lee's various efforts to engage with ASEAN such as, the signing of ASEAN-ROK Investment Agreement under the ASEAN-ROK FTA framework, which was signed in 2009 (ASEAN Secretariat). The improvement of ASEAN-ROK relations helped facilitated Korean investors to invest in ASEAN countries such as Samsung who has become the largest investor in Vietnam with many lines of manufacturing assembly (Nguyen H. T. 2019). The Korean ODI in ASEAN had already surpassed those in China since 2010 as shown in Figure 7. The reason was not only because of the decline of China's economy due to Western economic slowdown that was the result of the GFC 2008 in which China depends largely on their imports, but also the increase in cost of production such as wage rising, more trade-related regulations, and particularly the growing US-China geopolitical rivalry in Asia.

The simmering tension between US-China also posed a challenge to South Korean administration to avoid choosing a side between US and China, which would not only create unfavorable investment climate for investors, but also required South Korea's government to adjust its international economic policy. Apart from increasing

interactions with Middle East and ASEAN, the US-ROK alliance was still crucial for South Korea in order to guarantee its security in the Korean Peninsula and gain international support for upholding its global role. Accordingly, Lee gave his priority to restore the US-ROK alliance and blamed progress on Inter-Korean rapprochement, for being the main driver for distancing the US-ROK relations under progressive leaderships, and called it a “lost decade”(Snyder 2018).

Regarding the fear of rise of China, the US under Obama administration imposed the rebalancing policy seeking to strengthen US allies across Asia, especially in East Asia and Southeast Asia, which resulted in the improvement of US-ROK alliance and US-ROK-Japan trilateral security cooperation. Thanks to his views on foreign affairs and an experience as businessman, Lee continually promoted the FTA policy, which had been initiated under his predecessor. Since Lee recognized the lack of resources and domestic market, he supported the conclusion on renewed KORUS FTA, which was first signed in 2007 and renegotiated in 2010. This effort not only facilitated the Korean ODI growth in the 2011 before signing in 2012, but also laid the ground for further ODI to take off again in 2015 during Park’s tenure as shown in Figure 7 (Chiang 2017).

In an expense of improving the US-ROK alliance together with the shift of Lee’s view from non-reciprocated to reciprocity-based relation with the North through his ‘Vision 3000: Denuclearization and Openness’, in which South Korea promised to increase North Korea’s GDP per capita to 3000 USD a year in exchange with North Korea’s denuclearization, however, the Inter-Korean relation was on the decline. This stimulated the tension in Korean Peninsula and led to the two major provocations

from North Korea, the Cheonan sinking and Yeonpyeong bombardment incidents in 2010. All these incidents brought sluggish growth of Inter-Korean economic engagement during Lee's term as shown in Figure 5 (Snyder 2018).

During the period of Lee presidency, the Sino-ROK relations were also improved. For example, China and South Korea began to upgrade their relationship into Strategic Cooperative Partnership in 2009 and officially agreed to start negotiation on a China-ROK FTA in 2012 (Kim 2016). However, despite the upgrading of Sino-ROK relation in both the aspect of economic and security, the China-ROK relation was later on a decline because of reserved stance of China toward the North Korea's two major provocations in 2010, which exposed different views between South Korea and China on how to deal with North Korea. The reason behind China reluctant to condemn North Korea was the fear of North Korea's collapse and, geopolitically speaking, the strategic value of North Korea in the US-China geopolitical rivalry arising from growing mistrust to the US policy in Asia that Chinese experts had a consensus that US intended to contain China in response to the declining US hegemonic power as a byproduct of the GFC 2008 emerged (Lee 2020).

As for the arrival of Park's government in 2013, she introduced the vision of "Asian Paradox" in which she described that, while South Korea was seeking to maintain peace and security in the Korean peninsula in response to increasing threat from North Korea, South Korea also needed to receive cooperation from regional major powers, namely the US, China and Japan, whose relations were already in tensions with the prospect of great powers' arm race stemming from growing mistrust between US and China. Then, she emphasized on "Trustpolitik" which was the way to

conduct South Korea's foreign affairs with trust-based relation, particularly with North Korea and its neighboring power. Furthermore, She also mentioned the declining of Japan-ROK relation resulting from Japan's failure to recognize its past imperialism, one of the example being the comfort women issue, which was stirred up again during the Japan-ROK summit in 2011 (Snyder 2018).

Since the GFC 2008 erupted in the US followed by the European debt crisis during 2010-2012, the Western economies had slowed down and its effects were realized in South Korea's economy as the world's 12th largest trading country relying more than 70 percent on international trade. Consequently, Park's government focused on economic revival as she emphasized in her inauguration speech in February, 2013 (Yoon 2013). However, during the Park's presidency, the private sector was in the leading role to maintain South Korea's economic growth because there was an increase of international politics around the Korean peninsula that not only posed a challenge to Park's government, but also drained her resources that required to deal with South Korea's economic setback.

Because of the straining Sino-ROK relation since 2010 and the Korean economic decline at the start of Park's government, Park decided to move closer to her largest trading partner, China, for both economic, politics and strategic purposes toward North Korea, while also maintaining a stable relation with US. This was because US-ROK alliance would allow South Korea to increase Sino-ROK economic ties without having to fear of China's growing military strength, which could be seen in Japan-China territorial dispute over Senkaku/Diaoyu islands in East China Sea (Krieckhaus 2018). The Sino-ROK relations reached its peak again in 2014-15 under

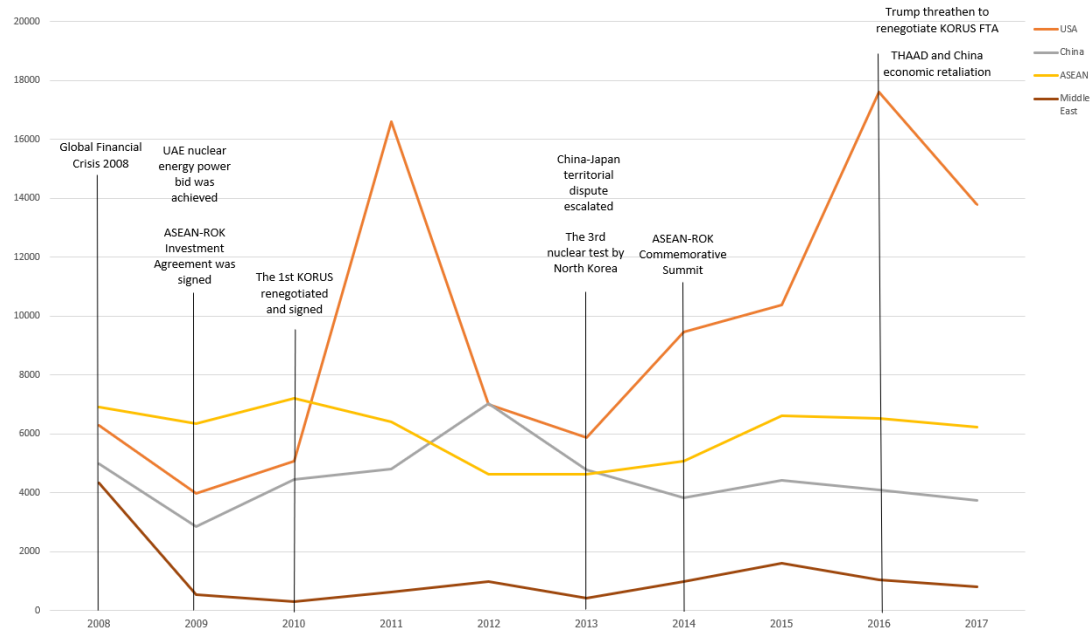
Park administration as evidence of the upgrade of relations into “Enriched Strategic Cooperative Partnership”, and Park’s attendance at the military parade of the 70th anniversary of Chinese’s WWII Victory Day, standing beside both China and Russia leaders which was the place of North Korea leader. All of which led to the change of international economic policy of South Korea to support the conclusion of China-ROK FTA.

Despite the improving Sino-ROK relations, this closed China-ROK ties brought concerns over US and Japan, especially the Park’s decision to join Chinese initiative of Asian Infrastructure Investment Bank (AIIB) in 2015, while refusing to join Trans-Pacific Partnership (TPP) endorsed by US and Japan. The situation in East Asia was escalated when North Korea conducted its fourth nuclear test in 2016, in which China was still reluctant to impose more sanctions on North Korea. This reflected China focus on its geopolitical objectives to stabilize North Korea regime over its vibrant Sino-ROK relation. In response to growing threat from North Korea, Park decided to deploy Terminal High Altitude Area Defense (THAAD), which is the US anti-ballistic missile defense system, for South Korea’s national security. China, however, viewed this Park’s move that it would strengthen US hegemonic position in Asia and, in turn, undermine China’s national security. Thus, China imposed several measures of economic retaliation including boycott on Korean goods and services, reduction in the Chinese tourists to South Korea. The economic loss from this tension was estimated to be around 7.5 billion USD before the rapprochement in late 2017. Due to South Korea’s economic dependence on China, all these Chinese measures led both Korean policy-makers and investors to rethink about its vulnerability to growing China’s aggressive stances and its economic coercion against South Korea.

Concerning about the rise of China lead to an unprecedented change of South Korea's international economic policy toward ASEAN as an alternative market to China under Park's successor, President Moon Jae-In.

As shown in Figure 7, the Korean ODI in China remained leveled-off while surging in other destinations such as US and ASEAN. For the case of US, the surge in Korean ODI from around 7 billion USD to more than 15 billion USD, was likely from the uncertainty of Trump's decision to renegotiate the KORUS FTA as he viewed that the agreement has benefited only South Korea (YonhapNewsAgency 2017) . This could be seen that Korean ODI in US had been in hurry to reap benefits from the existing KORUS FTA before it was renegotiated when Trump came into office in 2017. However, thanks to the impeachment of President Park in 2016 due to her own personal scandal, South Korea domestic politics was paralyzed which undermine its capabilities to respond to the growing uncertainty in the region.

Figure 7: The Flow of South Korea's ODI by country, million USD, 2008-2017



Source: Exim Bank of Korea

3.5 The Moon Jae-In Administration (2017-2019)

Since the presidential election in early 2017, President Moon Jae-In came into office marking as the coming back of progressive presidency. He sought to reconcile with China due to the growing tension in Sino-ROK relations as a byproduct of THAAD deployment, in response North Korea's provocations such as the launch of its Inter-Continental Ballistic Missile (ICBM) in the mid-2017. To achieve reconciliation, Moon declared his policy of "Three Nos" in the late 2017 which consisted of: no more additional deployment of THAAD, no participation in the US missile defense system, and no intention to upgrade the US-ROK-Japan tripartite security cooperation into military alliance (Lee 2020). As a result, the Sino-ROK

relation began to recover but not still had yet to reach its pre-THAAD level. The US also initiated its grand strategy in 2017, the Indo-Pacific strategy, which sought to expand its security influence over both Asia-Pacific and Indian oceans in response to the growing China's economic influence through its Belt and Road Initiative (BRI). Under the umbrella of US Indo-Pacific, Trump's main policy was "America First" which he sought to leverage US assistances and engagement in many aspects around the world to serve its political and economic gains. For instance, US request additional financial contribution to USFK from South Korea, by putting a pressure to withdraw its troops. President Trump, furthermore, also reiterated his unilateral decision to renegotiate the KORUS FTA in 2017, after his successful renewed NAFTA, the so-called USMCA. Last but not least, Trump also escalated the Sino-US tension into trade war in early 2018, which significantly impacted to the decline of Korean ODI in that year (Kriengpradith 2020).

Due to the growing geopolitical tension in the Korean Peninsula regarding the increasing rivalry between the US and China, it led both South Korean policy-makers and investors to recalculate its vulnerabilities in foreign policy, which heavily rely on both China for economic and US for security. The priority of South Korea's foreign policy was revolved around the Inter-Korean relations, the enhancement of South Korea's autonomy from US through transferring war-time military operation, and the dynamic relations with Japan, all of which depended on the will of major powers (Snyder 2018). Hence, South Korea needed to maintain peace with all major powers that saw an arising uncertainties and difficulties due to US-China geopolitical competition (Kim 2020). That was the reason why the diversification of diplomatic portfolio beyond Northeast Asia region was considered in order to not only promote

its middle power status as a responsible power and bridge builder between developing and developed countries, but also to maintain South Korea's autonomy in conducting its foreign policy (Kathryn B. 2021).

In November 2017, Moon announced his policy of “ New Southern Policy (NSP) ” during his presidential visit to Indonesia, and set up the Presidential Committee on NSP, as his advisers and coordinators with relevant Korean ministries and agencies. Under his vision, the NSP was viewed as a novel attempt on its foreign policy focused on elevating strategic ties with ASEAN and India on par with its traditional major powers; US, China, Japan and Russia. This initiative was one of the two components of South Korea grand strategy, the so-called Northeast Asia Plus Community of Responsibility-sharing (NEAPC) along with New Northern policy (NNP) which is the traditional agenda of its foreign policy emphasizing on the inter Korea-relation and its neighboring power (Hoang 2020) . However, South Korea's interest in ASEAN region is quite far from new since there were many efforts by South Korea administrations, one was deriving Kim Dae-Jung's presidency who expressed his personal interest in ASEAN (Yun J. W. 2019).

Moreover, this unprecedented shift of South Korea's foreign policy toward ASEAN and India prioritized 3 pillars as the core of this diplomatic initiative, including the People, Prosperity, and Peace. These three pillars focused on 16 tasks covering the agenda of these three pillars as shown in Table 2.

Table 2: The 16 Tasks under 3 Pillars of New Southern Policy

3Ps	Tasks
People	<ul style="list-style-type: none"> i. Increasing the number of people traveling between Korea and the NSP countries ii. Expanding two-way cultural exchanges iii. Providing support to build human resources capacity iv. Providing support to strengthen public administrative capacity and governance v. Advancing the rights of immigrants (workers) through enhanced protection vi. Improving the quality of life
Prosperity	<ul style="list-style-type: none"> i. Enhancing institutional frameworks for promoting trade and investment ii. Participating in infrastructure projects to improve the region's connectivity iii. Providing support for SMEs to make inroads into overseas markets iv. Enhancing the capacity for growth through "smart" technologies and new industries v. Developing customized cooperative models serving the needs of the partner country
Peace	<ul style="list-style-type: none"> i. Increasing the number of summits and high-level exchange ii. Boosting cooperation to bring peace and prosperity to the Korean Peninsula iii. Strengthening cooperation in national defense and the defense industry iv. Jointly responding to terrorism, cyber and maritime security threats in the region v. Enhancing the NSP target countries' emergency response capabilities

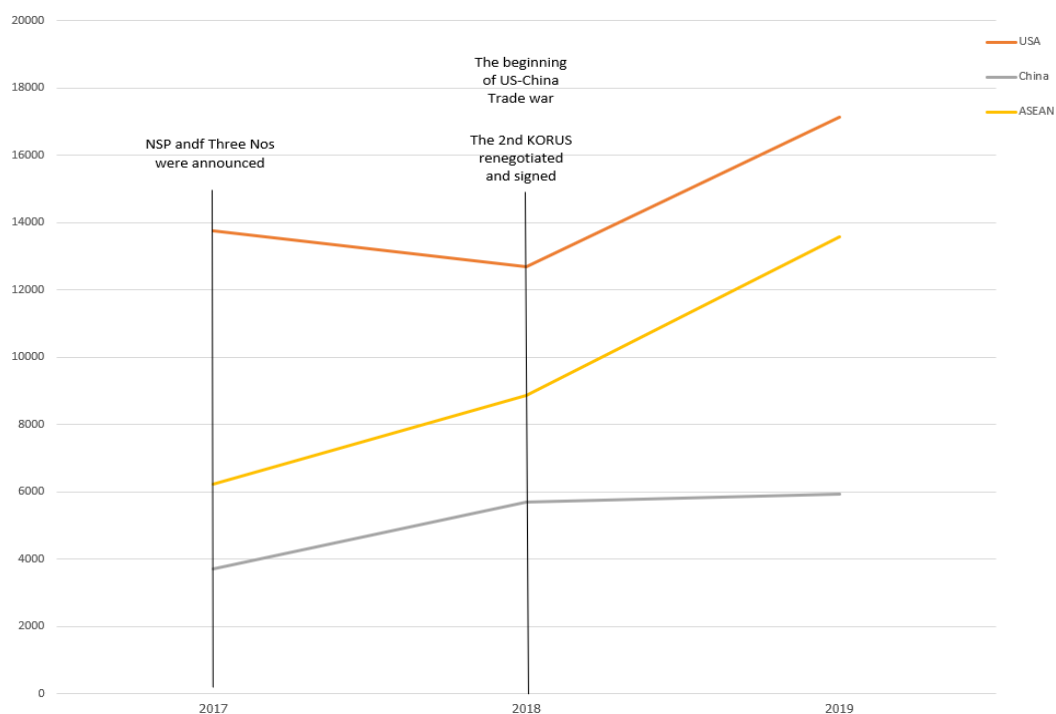
Source: Jaehyon, L., ISEAS Perspective paper (2020)

In terms of the Prosperity, the South Korea changed its international economic policy and sought to enhance economic cooperation with ASEAN and India, especially in focusing on establishing new manufacturing production hubs in order to decrease its reliance on China (Seo 2020). This was evidence in how Moon's government pushed for the growth of trade and investment through concluding of FTAs with both Indonesia and Cambodia, upgrading of existing FTAs with ASEAN and India, supporting discussion between governmental organizations and private sectors through an establishment of the Korea-South and Southeast Asia Business

Coalition, and elevating institutional capabilities such as the setup of ASEAN and India Business Desk in KOTRA aiming to help Korean businesses entering into ASEAN and India markets (Kathryn B. 2021).

Regarding these efforts, as shown in Figure 8, Korea ODI in these areas, especially in ASEAN, saw an exponential increase from around 5.3 billion in 2017 USD to almost 10 billion USD in 2019. Among all ASEAN member states, Vietnam received the most attention, followed by Singapore and Indonesia respectively. Amidst the uncertainty of renegotiation of the KORUS FTA, the Korean ODI to US significant dropped from about 17.5 billion USD in 2016 to 12.6 billion USD in 2018. However, after the renewed KORUS FTA was signed in 2019, the Korean ODI bounced back to the same level as in 2016. In contrast to Korean ODI to US, South Korea ODI to China, Japan and Middle East, excepted ASEAN, remained leveled-off due to uncertainties posed by the US-China trade war in 2018.

Figure 8: The Flow of South Korea's ODI by country, million USD, 2017-2019



Source: Exim Bank of Korea



CHAPTER IV

SOUTH KOREA'S OUTWARD DIRECT INVESTMENT AND ITS DETERMINANTS

4.1 Introduction

South Korea, as an emerging economy located in East Asia, has experienced rapid economic development since 1960s-1980s. Changing of international economic policy made South Korea being one of a few countries in Asia that was successful in rapid economic development. Moreover, South Korea was recognized as one of the New Industrialized Countries (NIC) alongside Singapore, Hong Kong and Taiwan, in 1990s. Combining these elements, South Korea can become one of high-income countries holding with a gross national income (GNI) per capita increased rapidly from US\$67 in the early 1950s to over US\$30,000 in 2018, standing beside Japan, other NIC countries, and those in Western, according to World Bank. The rapid economic growth of South Korea facilitated large amount of Outward Direct Investment (ODI) in both developing and advanced countries, which exposed differently motivations while undertaking ODI.

Therefore, the determinants of FDI in various host countries, economic factors, played an importance role to both firms' decision-making process to engage in FDI and government' s supporting role through its financial assistances and information provision. As well as, governmental measures of non-commercial risk reduction include maintaining good bilateral relations, signing investment agreements

and FDI-related protection treaties, etc., which referred to as non-economic factors as mentioned earlier. Several determinants of South Korea's ODI have long been studied by many scholars throughout the years. To fill the gap of economic-related factors contributing to the flow of ODI, this chapter would dedicate to be as the review of the study related determinant of South Korea ODI in order to fill the gap of economic motivation of South Korea's ODI toward each region or country, as well as to achieve better understanding the reasons that pull South Korean investors to invest in different host countries.

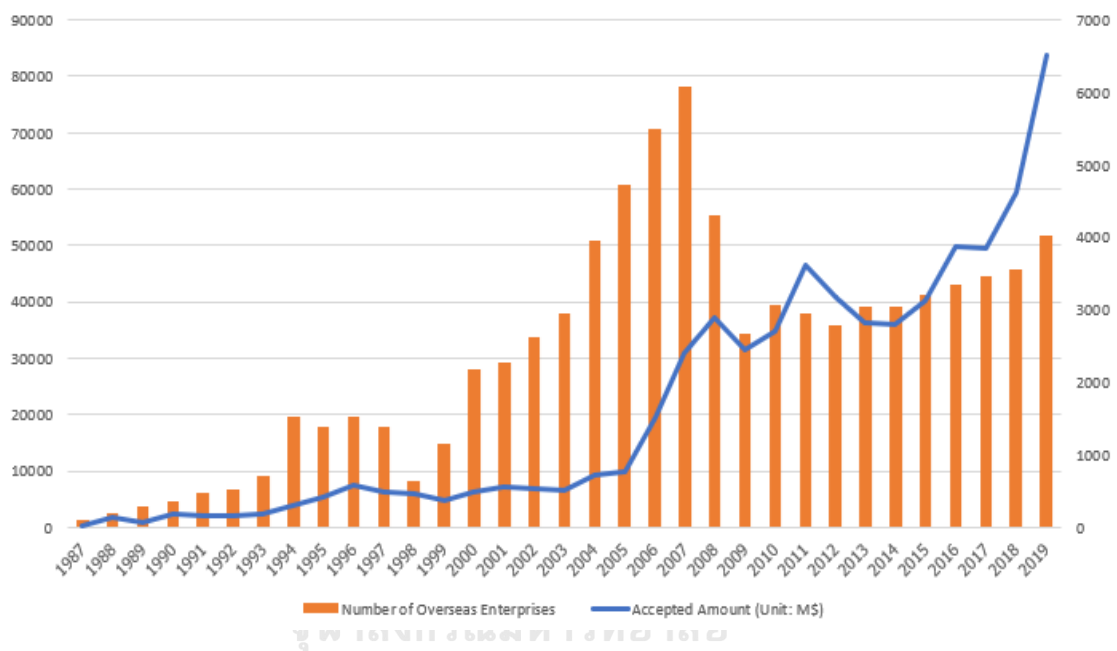
4.2 Trends of Outward Direct Investment of South Korea

The South Korea's outward direct investment has been changing throughout the years. The Figure 9 showed the flow of outward direct investment of South Korea and the number of overseas enterprises during the period of 1987-2019. South Korean firms started to invest overseas since the successful democratization in 1987. Prior to the Asian Financial Crisis in 1997, the number of South Korean firms investing abroad begun to undertake ODI gradually increased in the early 1990s and reached its peak during the 1994 until 1997, accounting for a surge from roughly 100 firms in 1987 to around 1,530 firms in 1996. Meanwhile, the volume of South Korea's ODI also steadily rose until the outbreak of the crisis, accounting for an increase from around 370 million USD in 1987 to approximately 7.4 billion USD in 1996.

Since the emergence of the Asian Financial Crisis, South Korea ODI remained levelled-off to approximately 7 billion USD a year during 1997-2005 following the FDI reforms as a consequence of the crisis such as, financial restructuring of Korean

firms, revising the loan guarantee system between Korean firms and their subsidiaries in host countries, and so on. In the meantime, newly established South Korean firms investing overseas began to surge again since the early 2000s, especially small-and-medium enterprises (SMEs) who began to gain benefits from reducing share of Chaebols in total Korean ODI due to the consequences of the crisis.

Figure 9: South Korea's ODI and its number of overseas enterprises, 1987-2019



Source: Exim Bank of Korea

The South Korean ODI began to takeoff again in 2006 as the results of economic recovery from the crisis and successful reform of FDI promotion policy which shifted the South Korean ODI policy toward proactive promotion. The dramatic rise of South Korean ODI was from about 10 billion USD in 2005 to around 37.2 billion USD in 2008 in response to vibrant global economic growth almost three years before the coming of Global Financial Crisis in 2008. During the period, the number of South Korean enterprises deciding to engage in ODI also continued to

show the two-times increase, from 2,950 firms in 2003 to around 6,000 firms in 2007 marking as the highest increase of all time. Moreover, the share of service sector started to gain higher share in the total Korean ODI in an expense of manufacturing sector since the beginning of the crisis, and surpassed those manufacturing sector in the takeoff in 2006.

With an outbreak of Global Financial Crisis in 2008 which proliferated throughout the world and made the global economy looked dim, the South Korean ODI experienced slightly declined in 2009, while, in contrary, the number of newly established Korean companies overseas showed substantial fall from about 6,000 firms in 2007 to around 2,600 firms in 2009. Even the world recovered from the 2008 crisis, the growth of the number South Korean overseas companies was sluggish during 2010-2014, and have experienced steady rise from roughly 3,200 firms to around 4,000 firms in 2019. While, the volume of South Korea ODI was likely to show a sign of growth in 2011 but reducing again in 2012 until 2014. A takeoff of South Korean ODI was seen again since 2015 and further exposed strong growth during 2017-2019.

4.3 Motivation of the South Korea's Outward Direct Investment and Its Determinants

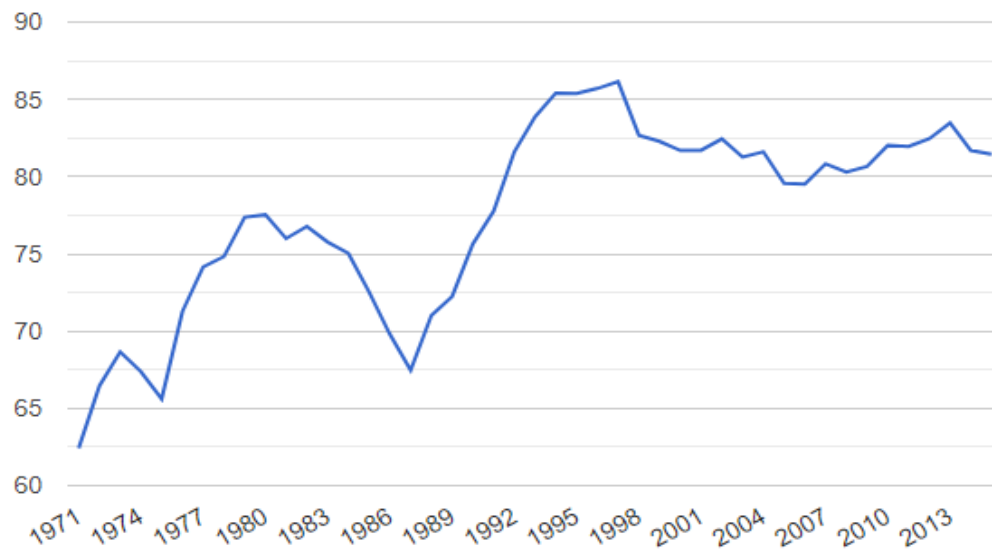
In the decision-making process of South Korean firms to invest abroad, a variety of determinants in host countries plays an important role to pull outward direct investment into host countries around the world. In the case of South Korea's ODI,

there have been many scholars' researching about both economic and non-economic factors as determinants of South Korea's ODI toward both developed and developing economies. According to the National Research Council of Thailand which facilitated the study on South Korea investment, the fundamental reasons of South Korea to invest in foreign country could be concluded into 4 main motives as followings (Vaivanijkul N. 1996).

Firstly, the outward direct investment of South Korea was driven by the resource-seeking motivation. This was because of geography of South Korea which lacks of necessary resource for South Korea to develop its economy, such as petroleum, coal, forest resources, and etc. Therefore, the South Korea needed to import natural resources, especially energy resources, to drive its engine of economic growth. As shown in Figure 10, South Korea increasingly relied on import of energy resources in parallel with growing economic development. In the 21st century, South Korea relied more than 80 percent on energy import which makes South Korea vulnerable to the increasing oil prices. For example, the unprecedented oil prices hike as a byproduct of GFC 2008 led South Korea to rethink on its energy dependence and to look for alternative source such as the ROK-UAE joint investment project on nuclear energy development in 2008-9.

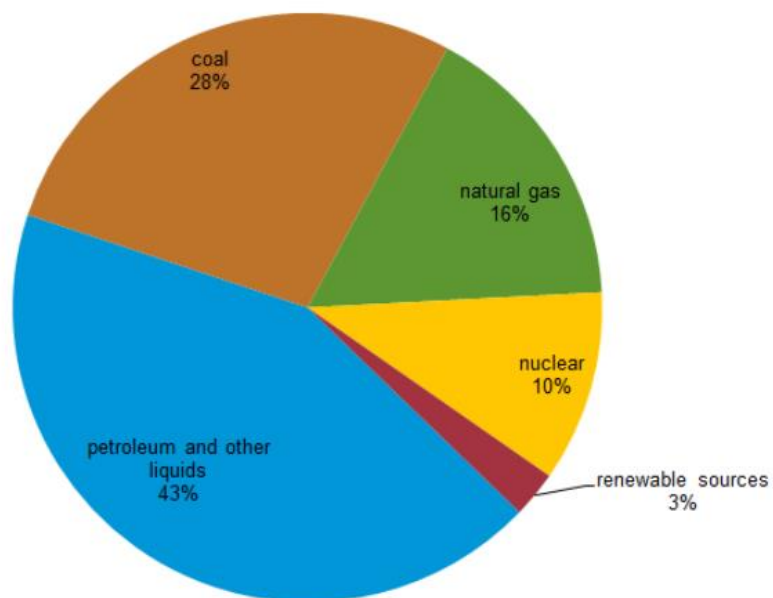
The resource-seeking motive could mention further to the need of labor supply or labor force in host countries in order to maintain its country's competitiveness. As mentioned earlier, the South Korea had to face with declining of population growth as a byproduct of lowering total fertility rate during the period of rapid economic growth.

Figure 10: South Korea's energy import as percentage of total energy use, 1971-2015



Source: World Bank

Figure 11: South Korea's total energy consumption by fuel type, 2019



Source: U.S. Energy Information Administration

Thus, the size of population also had implications to economic factors. For example, a larger size of population implied a larger labor supply or labor forces in host countries, which in turn, affected their cost of labor and competitiveness of labor market. Rhe (2009) explored the relationship between host country population and the South Korea's ODI in both developed and developing countries. He found that the size of population had significantly impact solely on developing country. Furthermore, Seo (2020) also found that the labor force of host countries had significantly positive impact on the South Korea ODI to ASEAN, both in manufacturing and service sectors. For example, there were many Korean firms relocating to Vietnam in response to the wage hike and slowdown of population growth in South Korean society that deteriorate its competitiveness of labor market (Blomenhofer 2017).

Secondly, the motivation that push South Korean firms to go investing abroad was the need to maintain and expand their business. This could be referred to the market-seeking motive. Regarding the export sector as the main engine of growth which account for about 36.9 percentage of GDP of South Korea as of 2020, the market-seeking motive served for the need of South Korean's investor to acquire sufficiently large market in foreign countries in order to support its export growth.

The relationship between FDI and economic development of host countries has long been reviewed by many scholars through both quantitative and qualitative approaches. Regarding macroeconomics-related variables, the Gross Domestic Product (GDP) as an economic factor is prominently used as indicator of market attractiveness. Rhe (2009) utilized quantitative approach to examine the relationship

between the GDP and Korean ODI in both advanced and developing economies. The GDP was statistically significant to the flow of Korean ODI, in which the South Korea's ODI generally tended to flow into host countries with high GDP regardless of being developed or developing countries. This was further approved that the GDP has positive impact to the South Korea ODI to all regions around the world (Park 2020).

Another economic factor that represents market-seeking motivation is the trade openness in host country, which is measured by the volume of international trade divided by GDP . As mentioned earlier, one of the reasons that firms undertake outward direct investment in host countries is to overcome trade barrier and seek for destinations that open to international trade. The relationship between trade and investment had long been reviewed by many scholars. Vietnam is one of the largest FDI recipient amongst ASEAN countries (Pisanwanich 2015). For the case of Vietnam, Ta (2020) applied quantitative approach to study about the South Korean ODI attractive factors in Vietnam. The finding reviewed that the trade openness had statistically positive effect to South Korean ODI into Vietnam. Furthermore, the host country's trade openness also played a positively significant role in determining South Korean ODI to the whole ASEAN countries in both manufacturing and service sector (Seo 2020). This was because ASEAN countries, especially Vietnam, opened to international trade with South Korea, ranking in the top 20 of largest exporting destinations of South Korea as shown in Table 3. The more opened to international trade, the more supportive environment for international investment the country was. This was because the opened country would likely to have policies, regulations or other infrastructures that facilitate the international flow of trade and investment in order to support its economic development. The international agreement could also be

a good example such as, Free Trade Agreement (FTA) which mostly contained international investment agreement that facilitate the flow of investment between member countries.

Table 3: Export and ODI of South Korea by partner country, billion USD, as of 2020

	Exports By Country		ODI By Country	
1	China	132.56	United States	18.25
2	United States	74.40	Cayman Islands	7.67
3	Vietnam	48.54	Luxembourg	5.66
4	Hong Kong	30.63	Singapore	5.66
5	Japan	25.09	China	4.7
6	India	11.95	Vietnam	3.02
7	Singapore	9.83	Canada	2.57
8	Germany	9.58	Hong Kong	2.07
9	Malaysia	9.08	Ireland	2.06
10	Mexico	8.24	Guernsey	2.04
11	Philippines	7.13	Japan	1.88
12	Russia	6.90	U.K.	1.74
13	Thailand	6.85	Indonesia	1.17
14	Indonesia	6.32	Netherlands	1.1
15	Australia	6.19	Cambodia	0.99
16	Poland	5.64	Australia	0.98
17	Turkey	5.55	Germany	0.78
18	Canada	5.48	Poland	0.77
19	Marshall Islands	4.84	Peru	0.74
20	United Kingdom	4.49	Myanmar	0.73

Source: UNCOMTRADE and Exim Bank of Korea

The international investment agreement is one of interstate factors that played crucial role in advancing Korean ODI projects to its counterpart. The international investment agreement facilitated an official commitment to Korean investor that their investment in host country would receive fair dispute settlement and the property right

protection. Park (2020) revealed that the investment agreement helped promote South Korea's ODI in Asia region. This was because the official commitment from investment agreement would be more valuable in developing countries that tended to be riskier, than in developed countries. Currently, South Korea has 18 FTAs with more than 60 countries around the world as shown in Figure 12.

Figure 12: South Korea's FTA Network as of 2022

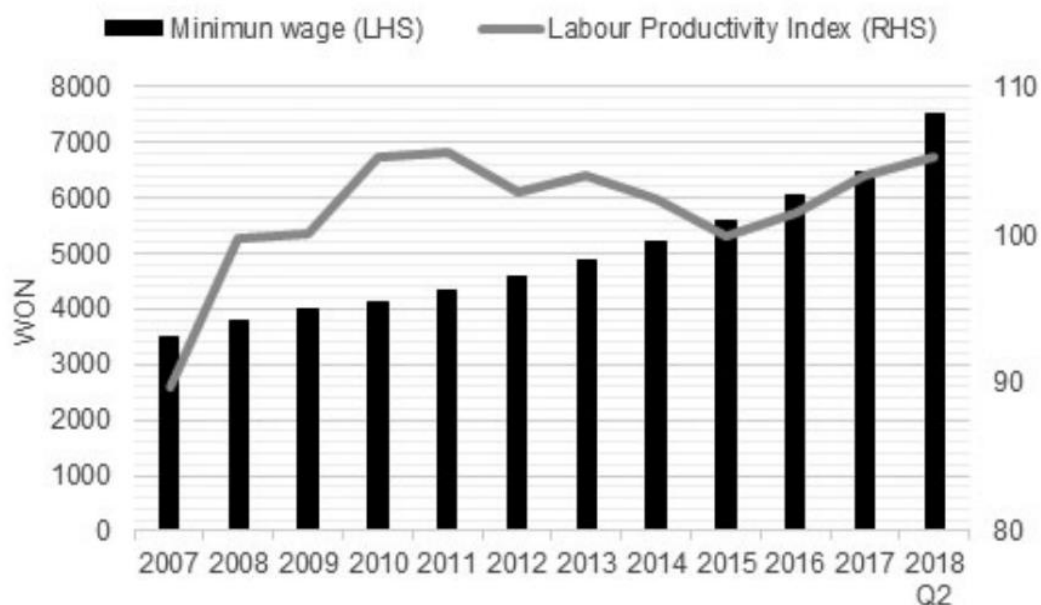


Source: Ministry of Trade, Industry and Energy of South Korea

Thirdly, South Korea is looking for foreign countries to utilize their lower wage to maintain and increase its competitiveness in term of cost of production in order to respond efficiently to its rising of domestic labor cost. This could be referred to the efficiency-seeking motive. The rise of wage in South Korea had been a byproduct of its economic development and democratization leading to the

implementation of minimum wage in 1988 which leads the wage to increase every year as shown in Figure 13.

Figure 13: South Korea's Minimum Wage and Labor Productivity, 2007 – 2018Q2



Source: Chiang M. H (2018)

According to Rhe (2009), host country wages played a significant role in attracting ODI from the South Korea to developing country. This finding was relevant to the fact that about 60 percent of Korean ODI projects in developing countries are in manufacturing sectors, particularly in both textile and electronics equipment industries, which are mostly labor-intensive. In terms of country-specific perspective, the finding also corresponded to the case of Korean ODI to Vietnam. Ta (2020) also found that the wage differential between South Korea and Vietnam also had positive impact on the South Korea's ODI.

Fourthly, after the successful of democratization in 1987, the characteristics of South Korea investment was changed from mainly resource-seeking motives to other motives, such as, market-seeking, efficiency-seeking or strategic-seeking. To estimate an impact of strategic-seeking FDI motive, Rhee D. K. (2009) found that the total annual patent applications in host country, which represented the degree of technological advance in host country, had positively significant effect to Korean ODI in developed countries. This was because the Korean firms might actively invest in developed countries in order to attain strategic asset, especially technology, even though the investment was not profitable. Hence, South Korea investor went out and looked for joint investment with local business, particularly in North America and Europe which had technological advantage (Vaivanijskul N. 1996).

Furthermore, there were factors that indirectly related to one or more motivations of South Korea ODI. One of the most important factors is the physical distance between home and host countries, the so-called geographical proximity. The geographical proximity had long been considered by both SMEs and MNCs as a crucial determinant of outward direct investment for instance, the gravity model which argued that market size and geographical distance have significant impact on an investment decision of foreign investors. Park (2020) conducted the study on the relationship between geographical distance and the flow of Korean ODI utilizing gravity model. They found that the distance mattered to South Korea's ODI projects in all regions excepting in Africa and Latin America. As for the country-specific aspect, Ta V. L. (2020) conducted the survey on the ODI determinants with 27 South Korean investors in Vietnam. They found that the geographical advantage of Vietnam which is the nearest countries located in Southeast Asian region had positive impact

to Korean Investor with about 85 percent of rating rate. In addition, South Korean's firms are engaged to FDI in China due to not only the relatively low labor cost compared to South Korea but also their geographical proximity (Chiang (2018); Seo (2020)).

However, as the world entered into the 21st century, there were not only location-specific factors, but also interstate factors that were operated by government of both home and host countries. The interstate factors helped illustrate the situation of bilateral relations between South Korea and host country which made Korean investors feel more confident when deciding to undertake ODI.

The foreign aid including both various types of Official Development Assistance (ODA) and other official flow was one of many interstate factors that contributed largely to the flow of South Korea's ODI. Park (2020) studied the impact of foreign aid on the Korean outward direct investment in several regions and found that the ODA helped promote the Korean ODI in Asia, especially in Southeast Asia that received most of South Korean ODA. As shown in Table 4, Asia received the largest share of ODA from South Korea compared to other regions. This was because most of the countries in Asia were developing countries that required foreign financial support for improving their investment infrastructure and boosting their economic development. Therefore, the ODA played a role in encouraging foreign investment from donor country to invest in recipient country, which was so called the vanguard effect of ODA.

Table 4: Bilateral ODA by Region, 2018-2019, million USD

Bilateral ODA by Region	2018	2019
Africa	484.09	490.86
(share : %)	27.9	26.4
Asia	802.24	959.00
(share : %)	46.3	51.6
America	170.66	188.70
(share : %)	9.8	10.2
Europe	1.99	7.50
(share : %)	0.1	0.4
Oceania	16.09	15.93
(share : %)	0.9	0.9
Unallocated	259.38	195.05
(share : %)	15.0	10.5
Total	1,734.45	1,857.04

Source: www.odakorea.go.kr

Moreover, the concept of tied aid, which referred to foreign aid that tied with the need to procure goods and services from donor country, also help explain the positive relationship between foreign aid and the Korean ODI. This finding was approved by Kang (2017). They studied on the relationship between the South Korea's ODI and various type of ODA including loan aid and technical cooperation- and humanitarian-related grant aid. The loan-type ODA had positive relationship with South Korea's ODI, particularly in manufacturing sector, which confirmed that the host country needed loan aid from South Korea to develop its infrastructure and improve investment environment. As for the FDI in service sector, the grant-type of

ODA related to technical cooperation helped facilitate the flow of Korean ODI, especially from wholesale and retail industry. This was because of this type of ODA help increase export of consumer goods to recipient country.

Apart from the ODA, the state visit which was referred to the visit the president or head of country to another country. There was the relationship between state visit and the flow of South Korea's ODI, especially in less-developed region such as, Africa. This was because there were always representatives of business groups, such as, conglomerates, SMEs, and public enterprises, travelling along with the President during the state visit. Particular to the Africa region which was not only full of business opportunities, but also possessed a variety of risk, the presence of South Korea presidents would help business entities feel more credible, especially SMEs which often had to encounter with difficulties when starting to invest in less-developing countries from scratch (Park 2020). This finding of the relationship between state visit and Korean ODI corresponded to the fact that South Korean presidents, Lee Myung-Buk and Moon Jae-In who had visited to all 10 countries in ASEAN as shown in Table 5. The state visit during the two presidents facilitated the surge in Korean ODI in Southeast Asia as mention in Chapter 3.

Table 5: State Visit by South Korean Presidents, 2008-2019

Region	Lee					Park				Moon		
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 1	Yr 2	Yr 3	Yr 4	Yr 1	Yr 2	Yr 3
North America	1	1	0	1	0	1	1	1	0	1	1	1
Northeast Asia	3	1	1	2	0	1	0	1	1	2	1	0
Southeast Asia	0	3	4	0	3	2	1	0	0	1	3	6
Europe	0	3	0	3	3	3	2	0	1	0	5	3
Middle East	0	1	0	1	4	0	0	4	1	0	1	0
Africa	0	0	0	3	0	0	0	0	3	0	0	0
Oceania	0	2	0	0	0	0	0	0	0	0	1	0
Central Asia	0	2	0	2	1	0	3	0	0	0	0	3
Latin America	1	0	1	0	2	0	0	4	1	0	0	0
Total	5	13	6	12	13	7	7	10	7	4	12	13
	49					31				29		

Source: Kim J. J. (2020)



CHAPTER V

CONCLUSION

5.1 Conclusions

The geopolitical factors have factored in the historical development of South Korea's international economic policy that facilitated the flow of South Korea's ODI through time, place and demographic dimensions. The South Korea relation with other countries, or the relations of other countries, especially South Korea's traditional major powers, namely, US, China, Japan and, to some extent, Russia, help facilitate the change of ODI policy in many periods. This research was conducted to examine the hypothesis that the South Korea presidential visions had impact to the formulation of foreign policy to interact with some specific geographical areas, which led to the change of international economic policy that facilitate the change of Korean ODI to that area particularly.

As for the beginning of Cold War and outbreak of Korean War in 1950-53, the Korean peninsula has been marked as the strategic location among the radar screen of great powers' rivalry in order to fulfill their geopolitical goals. Since the success of rapid economic growth, South Korea, as foreign-trade dependent economy, had started to change its international economic policy to liberalize its ODI in order to maintain its competitiveness and drive its economic growth. ODI liberalization of South Korea has long been affected by both internal factors such as, the geographical conditions, socio-economic condition, and political condition, as well as external factors.

During the period of rapid economic growth in 1960s-1970s, the ODI policy was strictly manipulated by South Korean government so as to sustain capital for pursuing export-led growth strategy. The current account at that time was also deficit signifying the need of capital to import raw materials, energy resources and heavy machines in order to achieve export-led industrialization in Korean economy. Thus, the ODI policy was to support export promotion strategy. For example, the government support Korean ODI in Middle East during the 1970s emphasizing on natural resource development and raw materials securitization. Moreover, in terms of the socio-economic factors, the declining of population growth during the period of rapid economic development limited not only the growth of labor supply, but also the possibility of market expansion which strained the opportunity for operating business in the country. Reducing supply of labor led to the rise of wage in Korean society in which it was further promoted during the 1987 democratization that not only strengthened the power of labor union but also helped facilitate the minimum wage requirement act in the Korean economy for the first time.

On the other hand, the external factors also played a role in promoting the liberalization process of South Korean ODI policy. As for the impact of the two oil price shocks in 1973 and 1979 as well as large capital injection in Vietnam war, the slowdown of US economy was realized. Therefore, the US, on which ROK heavily depended, pressured South Korean to be more open economy such as, the US threatened to remove trade privilege given to South Korea in the late 1980s. Furthermore, to tackle with the 1997 Asian Financial crisis, South Korean economy initiated several policies to liberalize her foreign investment in order to gain capital for her economy recovery. All of these internal factors led to the demand to liberalize

ODI in the South Korea. All of these internal and external factors led to the demand to liberalize ODI in the South Korea.

As the world entered the 21st century with the acceleration of globalization, the global geopolitical situation had changed by the time, especially in Asia. The rise of China becomes real and threatens the hegemonic position of the US and its allies in East Asia, particularly South Korea. The foreign policy also played a role in shaping direction of Korean ODI through adjusting its international economic policy. As reflected by the presidential vision, South Korean foreign policy has affected the ODI policy through various factors. The improvement of bilateral relations helps change the international economic policy and facilitate the Inter-Korean economic engagement to its counterparts, such as North Korea. For the case of North Korea, the Sunshine Policy help not only improve Inter-Korean relations, but also attract Korean ODI to North Korea via Kaesong Industrial Complex seeking for geographical proximity and low cost of labor.

The lack of natural resources, such as, oil and gas, together with Lee Myung-Buk's vision to enhance responsible role of South Korea's middle power also drive the Korean ODI toward countries in the Middle East as part of South Korea's New Asian Initiative under Global Korea policy. For example, the South Korean investment in nuclear reactor project in UAE in 2008-9 which served the South Korea's geopolitical goal that aimed to reduce South Korea's energy dependence through developing its own alternative energy source such as, nuclear energy. This investment not only served the Lee's vision to elevate the South Korean global role as the middle power who was actively responsible for the climate change issue, but also

gave South Korea the ticket to enter global nuclear energy market in which major powers namely, US, Japan, and China were playing.

The dispute between states, especially US-China geopolitical competition, also poses a challenge to the South Korea. The US announced Pivot to Asia in 2011, which later developed into Indo-Pacific strategy in 2017 aiming to strengthen US alliances and contain China's influence in Asia. On the other side, China exerted not only economic influence through BRI, but China also tried to expand its military influence as can be witnessed from the China-Japan territorial dispute in 2013 which, in turn, led to ROK perception of China as security threat in East Asia. The security concern on China's rise had been convinced by the THAAD deployment issue. Even though the vibrant Sino-ROK relation during Park Guen-Hye presidency, China was reluctant to respond to the increasing North Korea's provocations because of the strategic importance of North Korea. To preserve national security of South Korea, Park decided to deploy THAAD and China responded by economic retaliation which led both South Korean policy-makers and investors to recalculate its vulnerabilities in foreign policy, which heavily rely on both China for economic and US for security.

Therefore, President Moon Jae-In announced "New Southern Policy (NSP)" during his presidential visit to Indonesia in 2017 seeking for diversifying diplomatic portfolio through elevating political and economic ties with ASEAN and India on par with its traditional major powers: US, China, Japan and Russia. Together with the economic policy change in China such as wage hike, and more strictly trade-related regulations in China, there could be seen from lesser share of Korean ODI to China in comparison with ASEAN since the Chinese aggressive stance in both East and South

China Sea. This further shows a clear difference in favor of ASEAN, where is seen as an alternative market to China under the New Southern Policy in response to the growing US-China geopolitical competition.

5.2 Recommendations

For the researchers, the future study related to this topic may consider focusing on the impact from different types of FDI both in manufacturing and service sector so as to differentiate the South Korean ODI motivations in different economic sector. In addition, the study that concern the firm-level determinants should also be conducted in order to better understanding ODI motivations specifically in the context of South Korean firms. Moreover, future study may utilize quantitative methodology to better explain the direction of causal relationship between geopolitical factors and international economic policy or the flow of South Korea's outward direct investment.

For policymakers, in response to maintain economic development in post-COVID-19 era, the international economic policy toward ASEAN should also be continued and upgraded. This is because of two-folds. Firstly, ASEAN is still a region with potential economic growth which is forecasted to grow around 5.0 percent in 2022 ranking the second highest following the South Asia region, according to Asian Development Bank (ADB). Moreover, several ASEAN leaders are willing to attract FDI from home countries in order to pursue their economic recovery from the pandemics.

Secondly, ASEAN is considered as a safe-haven amidst the growing major powers' geopolitical competition, especially US and China. This is because ASEAN

has consistently emphasized on its ASEAN Neutrality as enshrined in Treaty of Amity and Cooperation in Southeast Asia (TAC), Declaration of the Zone of Peace, Freedom, and Neutrality (ZOPFAN), and ASEAN Outlook on Indo-Pacific (AOIP). In response to increasing China's assertiveness in South China Sea, ASEAN also proposed the Code of Conduct for South China Sea (CoC for SCS) which set a guideline for peaceful use of this sea between ASEAN member states, China and other claimant states.

Furthermore, the increasing role of ASEAN is significant to South Korea which can be seen from South Korea's geoeconomic response to ASEAN via signing of Regional Comprehensive Economic Partnership (RCEP), which is the FTA that consist of 10 ASEAN countries, Japan, China, South Korea, Australia, and New Zealand. South Korea should utilize RCEP to play a constructive role in ASEAN such as, strengthening economic cooperation to revival both South Korea and ASEAN economies from the pandemics as well as promoting best practices about Soft Power-based development in which South Korea is viewed as an appropriate model.

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