

BACKGROUND

REPUBLIC OF KOREA REACHES OUT TO EASTERN EUROPE AND THE USSR

The cementing of diplomatic ties between Poland and the Republic of Korea (ROK) on November 1 marked another successful step in Seoul's "Nordpolitik" enunciated in July 1988. Behind the July '88 declaration lay the stated objective of improving relations with North Korea through improving the ROK's relations with the Soviet Union, Eastern Europe and the People's Republic of China (PRC), and bringing North Korea out of isolation and into the international community. Economically, "Nordpolitik" serves the ROK's objectives of seeking to tap new markets and sources of raw materials, especially in the Soviet Union.

So far the Soviet Union, the prime target, has not established formal relations with Seoul, although the Soviet Chamber of Commerce has already opened an office in Seoul. While diplomatic recognition between the Soviet Union and the ROK will likely not occur for some time (since the Soviet Union vies for influence in North Korea with the People's Republic of China, it would be reluctant to be the first to break faith with the North Korean President Kim Il-Sung), Poland is the second diplomatic success achieved by South Korea. Hungary established diplomatic ties with Seoul earlier this year, and Bulgaria, which has a trade office in Seoul, could be the next candidate for upgrading.

North Korea, one of the last holdouts against changes sweeping the communist world, has protested but can do little. Economically it has little to offer eastern Europe whereas the ROK is an attractive source of both potential investment and affordable technology. Diplomatic recognition by Poland was accompanied by a five-year US\$450 million Korean loan package (the Poles are reported to have sought US\$1 billion), while Hungary obtained US\$120 million in loans. For Seoul the Soviet far east offers potential for resource development and for the Soviets, Korean capital can be used as an alternative to the

Japanese, or at least as a bargaining chip, to persuade reluctant Japanese investors to reconsider Soviet Asia.

While the existence of Korean minorities in the Soviet Union is an added consideration, ROK involvement in major capital projects in the region has been put on hold following the Tiananmen incident when Korean business in the PRC felt exposed in view of a lack of consular, diplomatic and investment protection. Since the same situation pertains to the Soviet Union, for the time being this has had a dampening effect on the Korean business community's enthusiasm for Soviet ventures.

While the long-term offers economic opportunities, current trade between the ROK and the Soviet bloc is miniscule and likely to remain so for some time, given the lack of hard currency in these countries. In 1988, for example, only about 0.5% of total ROK trade was with the Soviet Union and eastern Europe (approximately US\$500 million two-way) although growth rates are impressive (owing to a low base initially). In the first half of 1989, total trade was US\$430 million (0.7% of total) with Korean exports of US\$180 million and imports of US\$250 million.

Perhaps not coincidentally, it is the two most open countries of eastern Europe that have established formal direct links with Seoul. As the wind of change sweeps from the Baltic to the Black Sea, it would not be beyond the range of possibility to see normalization of relations between the ROK and most or even all the eastern European countries within the next couple of years (with the possible exception of the Soviet Union).