



Korean Peninsula Division/Unification:

From the International Perspective

edited by
Kyuryoon Kim and Jae-Jeok Park



Korean Peninsula Division/Unification: From the International Perspective



edited by Kyuryoon Kim and Jae-Jeok Park



Korean Peninsula Division/Unification: From the International Perspective

Printed December 2012

Published December 2012

Published by Korea Institute for National Unification(KINU)

Publisher President, Korea Institute for National Unification

Editor Division of Planning and Coordination

Registration number No.2-02361 (April 23, 1997)

Address 1307, Hancheonro (Suyudong), Gangbuk-gu, Seoul 142-728, Korea

Telephone (82-2) 900-4300; (82-2) 901-2521

Fax (82-2) 901-2541

Homepage <http://www.kinu.or.kr>

Design·Print Myungin Publishers

ISBN 978-89-8479-675-1 93340

Price ₩ 13,000

Copyright Korea Institute for National Unification, 2012

All KINU publications are available for purchase at all major bookstore in Korea.

Also available at Government Printing Office Sales Center

Store (82-2) 734-6818; Office (82-2) 394-0337

**Korean Peninsula Division/Unification:
From the International Perspective**

Contents

Summary	vii
Introduction	1
The Costs of Division and the Benefits of Unification for the Four Northeast Asian Powers	
Kook-Shin Kim	
Jae-Jeok Park	
Chapter 1	9
The Costs of Korean Division and the Benefits of Korean Unification for U.S. National Security	
Kongdan Katy Oh	
Chapter 2	29
Economic Implications for the United States of the Divided Korean Peninsula	
William B. Brown	
Chapter 3	57
Korean Peninsula Division/Unification and China : From the Security Perspective of China	
Ming Liu	
Chapter 4	81
Korean Peninsula Division/Unification and China : From the Eco- nomic Perspective of China	
Jiyoung Zheng	
Jianzhong Jiang	
Chapter 5	119
Korean Peninsula Division/Unification : From the Security Per- spective of Japan	
Tomohiko Satake	

Chapter 6	139
Costs and Benefits of Korean Unification for Japan : Political and Economic Perspectives	
Sachio Nakato	
Chapter 7	161
Korean Peninsula Division/Unification and Russia : From the Security Perspective of Russia	
Leonid Petrov	
Chapter 8	181
Korean Peninsula Division/Unification and Russia : From the Economic Perspective of Russia	
Alexander Fedorovskiy	
Chapter 9	201
Korean Peninsula Division/Unification and Security Order in the Asia-Pacific Region	
Thomas S. Wilkins	
Chapter 10	235
Korean Peninsula Unification : Opportunities and Challenges to Asia-Pacific Economies	
Jeffrey Robertson	
Conclusion	255
Kyuryoon Kim	
Hyun-Wook Kim	
Contributors	269

Contents Table

<Table 4-1>	87
Security needs around China	
<Table 4-2>	93
The proportion of Chinese FDI in different Industries	
<Table 4-3>	95
Domestic and International research institutions and the forecast on China's future demand	
<Table 4-4>	99
The 2000-2010 degree of dependence, contribution ratio and pulling rate of China's foreign trade	
<Table 4-5>	101
Contrast of per capita between China border regions and the surrounding neighboring countries and regions	
<Table 4-6>	105
Import and export trade and processing trade of provinces around the Yellow Sea with Japan and South Korea	
<Table 6-1>	147
Estimated North Korean Trade by Selected Trading Partner, Selected Years, 2000-2008	
<Table 6-2>	148
Japan's Merchandise Trade with the DPRK, 2000-2008	

Korean Peninsula Division/Unification: From the International Perspective

Summary

This book analyzes the cost of division that the four powers must bear as well as the benefits of unification they will acquire. There has been much research on the same topic, but mostly done from the perspective of Korean scholars. However, this book provides perspectives of scholars from each of the four states as well as Asia-Pacific region. This book is part of an ongoing effort by KINU to strengthen South Korea's unification diplomacy.

This book is divided into 10 chapters. Chapter 1-8 analyze the cost of division and the benefits of unification from the security and economic perspective of the United States, Japan, China, and Russia. Chapter 9 and 10 look at the bigger picture by discussing the division cost and benefits of unification from the standpoint of the Asia-Pacific region as a whole. Based on the analyses of the chapters, the conclusion chapter examines the similarities and differences of the division cost that the four powers must bear as well as the benefits they will obtain.

국문요약

모든 국가들은 일반적으로 국가안보와 경제적 번영 등 국익을 증진시키는 것으로 목적으로 대외정책을 추진한다. 동북아 4국의 한반도정책도 자국의 국익 증진을 위해 남북한에 영향력을 행사하는 방식으로 추진되고 있다. 그런데 동북아 4국이 국제정치학의 현실주의이론에 입각하여 한반도를 '지정학적인 세력균형의 장'으로만 인식한다면 상호 불신에 의한 안보 딜레마에서 벗어나기 어렵다. 사실 한반도가 분단된 배경에는 일제 식민지배에서 갓 해방된 한반도를 미국과 소련, 중국이 이념대립의 세력 각축장으로 인식했기 때문이다. 그러나 탈냉전 이후 중국과 러시아의 체제이념도 변화하였으므로 한반도는 이제 이념대립 또는 세력균형의 각축장으로서 인식될 필요성이 해소되었다. 오히려 해양세력과 대륙세력을 연결하는 가교로서 미·일·중·러 공동의 국익을 확대할 수 있는 조건을 갖추고 있는 것이다.

이러한 관점에서 한반도 통일이 동북아 공동번영을 위한 선결조건임을 이해시키기 위한 통일외교를 보다 적극적으로 전개할 수 있는 환경이 조성되고 있다. 한반도 분단으로 인해 동북아 4국이 지불하고 있는 비용과 한반도 통일이 이들 국가들에게 가져올 수 있는 편익에 대한 체계적인 연구는 우리의 통일외교가 보다 구체적이고 객관적인 사실에 입각하여 국제사회를 이해·설득시킬 수 있는 기반을 제공한다. 통일외교는 지금까지 남북관계 개선 및 한반도 평화정착

에 관한 우리의 정책구상을 홍보하는 데에 주력해왔다. 하지만 앞으로의 통일외교는 주변 국가들에게 한반도 통일이 동북아지역의 평화와 공동번영의 기반을 확대한다는 사실을 이해시키는 설득논리 개발에 역점을 두어야 할 것이다.

한반도 분단비용과 동북아 4국의 남북한통일에 대한 입장

한반도 분단으로 인해 미·일·중·러가 치러온 비용은 1950년 6.25 전쟁에서부터 현재까지 한반도와 동북아지역의 안정을 유지하기 위해 각기 지불한 군사·안보비용을 추정하여 산정할 수 있다. 미국과 중국은 한국전쟁 기간 동안 군대를 파견하여 직접적인 군사적 충돌을 겪고 많은 인명 손실을 경험하였다. 휴전체제가 수립된 이후에도 미국은 남한과 상호방위조약을 체결하고 많은 군사·경제지원을 실시하였다. 한편, 중국과 구 소련은 북한과 군사동맹을 체결하고 군사·경제원조를 실시하였다. 1990년대 탈냉전 이후에도 동북아 4국은 냉전의 유산을 해소하지 못하고 한반도 분단체제 유지에 많은 비용을 지불하고 있다. 미국과 중국은 여전히 남북한에 각기 군사동맹조약을 유지하며 많은 국방비 지출을 감내하고 있다. 한편, 일본과 러시아는 한반도 군사문제에 직접적으로 개입하고 있지 않지만 북한의 핵·미사일 개발로 인한 안보위협이 증가하는 상황에서 동북아지역의 안정을 유지하기 위해 군사·안보차원의 비용을 지출하고 있다.

동북아의 중심에 위치한 한반도가 분단되어 역내 인적·물적 교류협력을 차단함으로써 기회비용 또한 큰 손실을 기록하고 있다. 예를 들면 시베리아 지역의 천연가스와 유전 등 막대한 자원을 공동개발하여 역내 공동번영을 추구할 수 있는 기회상실 및 한국·일본·중국 사이의 원활한 물류소통을 통한 지역경제 활성화 가능성 저해 등의 경제적 손실을 지적할 수 있다. 탈냉전 이후 20여 년간 만성적인 식량난에 시달리는 북한 주민들을 돕기 위해 추진한 인도적 지원도 일종의 분단비용으로 간주할 수 있을 것이다. 이와 같이 주변 4국이 치르는 한반도 분단비용은 과거 60여 년간 반복되어 온 한반도 안정을 유지하기 위해 지출한 군사비, 경제협력을 통한 공동번영을 이룰 수 있는 기회상실 그리고 북한 주민에 대한 인도적 지원 비용 등의 범주로 유형화할 수 있다.

한반도 통일편익과 동북아 경제·안보 공동체 구축

통일편익은 한반도 통일로 인해 발생하는 경제적 보상과 비경제적인 혜택을 일컫는다. 경제적 편익으로는 분단비용이 해소되고, 규모의 경제가 실현되며, 시장의 확대, 산업 및 생산요소의 보완성이 증대된다는 점을 지적할 수 있다. 비경제적 편익으로 역내 여행이 자유로워지며, 국제적 협력이 증대되고, 안보위협이 해소되어

여유로운 문화생활을 즐길 수 있다는 점을 들 수 있다. 여하튼 대륙 세력과 해양세력을 연결하는 가교 역할을 하는 한반도의 통일은 동북아지역을 하나의 공동체로 묶는 효과를 발생시킴으로써 역내 평화·안정과 공동번영에 크게 기여하게 된다.

탈냉전기 국제관계는 이념적 대립이 감소됨에 따라 상호 협력하는 분위기가 전반적으로 고조되었다. 하지만 동구 사회주의권과 소련이 붕괴된 이후 냉전질서를 완전히 해소한 유럽지역과 달리 동북아지역은 냉전의 유산을 완전히 극복하지 못하고 있다. 현재 동북아지역의 세력판도는 미국·일본 대 중국·러시아를 축으로 하는 느슨한 대립구도를 형성하고 있다. 동북아 4국은 상호 불신을 해소하지 못하고 군비경쟁을 강화하고 있지만 이들의 경제적 상호의존성은 지속적으로 심화되고 있다. 최근 글로벌 금융위기를 계기로 미국과 일본의 경제력이 상대적으로 쇠퇴한 반면, 중국과 러시아의 지위가 상대적으로 부상하고 있다. 하지만 이들 모두 세계 금융위기 극복을 위해 협력하고 있다.

동북아지역은 경제대국 일본, 거대한 인적 자원을 가진 중국, 천연자원이 풍부한 러시아의 시베리아 등을 포함하고 있어 무한한 경제발전 잠재력을 지니고 있다. 탈냉전 이후 세계경제에서 동북아지역이 차지하는 비중은 점차 커지고 있으며 역내 국가 간 교역량도 급속히 확대되고 있다. 그러나 동북아지역의 경제발전은 주로 무역과

투자 확대 등 기업 중심의 시장 메커니즘에 의해 추진되고 있는 반면, 정부차원의 다자간 경제협력은 극히 저조한 실정이다. 따라서 정부 차원의 대규모 투자가 필요한 에너지 공동개발, 지역개발사업 등이 효율적으로 추진되지 못하고 있다.

한반도가 통일되면 동북아지역에서 정부차원의 경제협력도 본격화될 것이다. 남북한 지역의 철도 연결은 중국과 시베리아횡단철도 등과 연계되어 한반도는 동북아 교역의 중심지가 된다. 일본의 물품이 한반도를 경유하여 유럽으로 수출되며, 시베리아와 중국 동북 3성의 물동량도 한반도를 경유해 일본·북미·호주 등 태평양 항로와 연계수송이 가능해진다. 한반도 통일은 시베리아지역 천연가스 개발, 두만강지역개발사업 등 대규모 합작사업도 촉진시킬 것이다. 특히 시베리아의 석유·가스 등 에너지자원 개발과 이를 한국·중국·일본 등에 공급하기 위한 수송망 구축사업은 국제적인 자본·노동·기술의 협력을 필요로 하는바, 미국을 포함한 동북아 경제통합의 촉매 역할을 할 것이다.

또한 한반도 통일은 동북아지역에서 정부차원의 경제협력을 자극할 뿐만 아니라 역내 다자안보협력을 제도화시키는 기폭제로 작용할 것이다. 북핵문제 해결을 위한 6자회담에는 동북아 평화·안보 체제를 협의하기 위한 실무그룹이 구성되어 있다. 따라서 남북한이 통일되면 6자회담은 동북아지역의 평화체제 구축을 논의하는 정부

차원의 다자안보협의체로 확대·발전될 것이다. 한반도 통일을 계기로 동북아 지역의 다자안보협의체가 상설화되어 정례적으로 개최되면 역내 국가들의 안보정책의 투명성을 제고하고 정책적 차이를 조율하는데 크게 기여하게 될 것이다.

보고서의 목적 및 구성

본서의 목적은 위에서 언급한 한반도 분단과 통일이 동북아 4국 및 아태지역 안보질서와 경제협력에 미치는 비용과 편익을 고찰하는 데 있다. 현재까지 동일한 주제로 다수의 연구가 수행되어 왔으나, 한국인의 시각에서 동북아 4국의 분단비용과 통일편익을 고찰한 연구가 다수 이었다. 이에 비해 본서는 해당 국가의 한반도 전문가가 자신들의 목소리로 분단비용과 통일편익을 체계적으로 분석한다는 데 그 특징이 있다.

본서는 총 10장으로 구성되어 있다. 1장부터 8장까지는 미국, 일본, 중국, 러시아 개별국가의 분단비용과 통일편익을 각각 정치안보적 측면과 경제적 측면에서 살펴본다. 이어 9장과 10장은 좀 더 거시적으로 아태지역 차원에서 한반도 분단비용과 통일 편익을 논의한다. 마지막 결론에서는 1장부터 10장까지의 논의를 토대로 4국의 분단비용 및 통일편익의 유사점과 차이점을 분석한다.



**The Costs of Division and the
Benefits of Unification for the Four Northeast
Asian Powers**

Introduction



Introduction. **The Costs of Division and the Benefits of Unification for the Four Northeast Asian Powers**

Kook-Shin Kim
Jae-Jeok Park

South Korea's 'Unification Diplomacy'

Every state exercises its foreign policy in order to advance its national interest. The North Korean policy of the four Northeast Asian powers (i.e., the United States, Japan, China and Russia) is no exception. Their policy may well be designed to maximize their national power and security. Yet, as long as the four powers perceive the Korean Peninsula as a place of geopolitical competition, it is difficult for them to overcome a security dilemma caused by mistrust among them. Indeed, the ideological confrontation between the United States and the Soviet Union following the liberation of the Korean Peninsula from Japanese colonial rule contributed to the division of the Korean Peninsula.

Yet, the end of the Cold War has brought dramatic ideological changes to China and Russia. It is no longer necessary to view the Korean Peninsula as a venue for ideological confrontations. Rather, the Korean Peninsula could act as a bridge to connect the maritime and the continental powers, so that the U.S., Japan, China and Russia could expand their common national interests. In order to persuade the four states that unification of the peninsula will bring common prosperity in the Northeast Asian region, a new approach of unification diplomacy is required.

Unification diplomacy has so far concentrated on the promotion of South Korean policies for improving the South-North Korean re-

lationship. However, given the changed environment, close attention should also be paid to developing logical arguments that can convince the four states that Korean Peninsula unification can bring peace and common prosperity throughout the whole region. In that context, systematic research about the costs of division and benefits of unification for the four states should be conducted.

The four neighboring powers have paid both tangible and intangible division costs. For instance, the U.S. and China have provided military support to South Korea and North Korea, respectively, and spent large amounts to strengthen their military capabilities for responding to contingencies on the Korean Peninsula. In addition to eliminating such division costs, the peaceful unification of the two Koreas could boost economic cooperation and facilitate multilateral security cooperation in the Asia-Pacific region. Below are some general descriptions of division costs and unification benefits.

Division Costs for the Four Powers

The discussion of the costs that come with the continued division should not be limited only to those paid by North and South Korea. The costs to maintain and manage the divided Korean Peninsula are inflicted on all states that have interests in regional stability and prosperity. We can calculate the costs to the U.S., Japan, China and Russia by estimating military and security expenses that have been paid by them in order to ensure stability on the peninsula and in Northeast Asia in general since the Korean War in 1950.

During the Korean War, the U.S. and China sent troops and experienced a direct military collision resulting in many casualties. Even after the Korean armistice agreement was signed, the U.S. developed a mutual defense treaty with South Korea and provided military and economic aid. On the other hand, China and the Soviet Union signed a military alliance with North Korea and implemented their own military and economic aid.

Despite the end of the Cold War, the four powers have yet to settle the remnants of the Cold War, paying the costs for the continua-

tion of a divided Korean Peninsula. The U.S. and China still maintain their military alliances with South and North Korea, respectively, and are sharing a huge defense burden. While Japan and Russia aren't directly intervening in the Korean Peninsula's military issues, they nevertheless are paying costs to maintain the stability of Northeast Asia in the face of North Korea's missile and nuclear development.

The Korean Peninsula is situated at the center of the Northeast Asian region. The blockage of human and material exchange because of its division is detrimental to the region's economy. For example, the opportunity to co-develop Siberia's natural resources has been lost, and the smooth transition of goods among South Korea, Japan, and China has been impeded. The continuous humanitarian aid that has been given to the people of North Korea suffering from chronic hunger also counts as one of the costs of maintaining the division of the two Koreas.

The four powers feel pressure on account of these division costs, and all have come to agree that together, they must thwart the development of any situations that would threaten the peace and security of the peninsula. They all recommend that North Korea give up its nuclear ambitions and instead develop a policy of openness and reform to improve its relationship with the South. The four powers have officially announced that they support an unification through dialogues and compromise between the two states. However, none of them wants the uncertainty about the future that could follow unification. In addition, they worry that the regional power dynamics following unification could have a negative effect on the national interests of each country. That said, if unification benefits exceed costs associated with division/unification, the four states would support the unification of the two states.

Unification Benefits for the Four Powers

Unlike Europe, which overcame the Cold War order, Northeast Asia has not fully done away with the relics of the Cold War. The loose confrontational lines between the U.S. and Japan on the one

hand and China and Russia on the other have been shaping the current Northeast Asian security structure. Northeast Asia's four powers have failed to eliminate their mutual distrust and, in the face of that, have strengthened the arms race. Nevertheless, ideological confrontation has diminished, and a generally cooperative atmosphere has developed in the Post-Cold War era.

The term "benefits of unification" refers to economic advantages as well as non-economic advantages. From a non-economic standpoint, traveling would be safer, international cooperation would strengthen, and security threats would be alleviated. As a result, people would be able to enjoy all aspects of the cultural lifestyle. A Korean Peninsula unification is also expected to facilitate the institutionalization of multilateral security cooperation.

From an economic perspective, once the two Koreas are unified, the costs of maintaining the division would be eliminated, leading to an increase in market power and complementarities of industrial and production elements. The four states' economic interdependence has continued to deepen. Due to the recent global financial crisis, the economic power of the United States and Japan has declined while the positions of Russia and China have strengthened. However, all of them are working together to overcome the financial crisis.

Since the end of the Cold War, the strength of Northeast Asia's effect on the world economy has been increasing, and trade between countries in the region has been expanding rapidly. The U.S.'s and Japan's high-tech, China's vast human resources, and Russia's ample natural resources provide Northeast Asia with the potential for infinite economic development.

The economic development of the Northeast Asian region has been pursued by market mechanisms such as expanding trade and investment. Yet, multilateral economic cooperation at the governmental level has been hindered. Therefore, the areas that require vast investments from governments (e.g., energy co-development) are not being sufficiently explored. If the peninsula were to be unified, more economic cooperation would be facilitated at the governmental level. The linked railways between the North and South would be


connected to the Chinese and the Siberian transcontinental railways. As a result, a unified Korea would become the center of Northeast Asian trade and commerce. Unification would accelerate large-scale joint-development projects among the various states. Especially, the project for constructing a transportation network that would supply South Korea, China, and Japan with Siberia's oil and gas would require the joint involvement of international financial capital, labor, and technology. The implementation of such projects would serve as a catalyst for the economic integration of the Northeast Asian states, including the U.S.

The Purpose and Structure of the Book

This book analyzes the aforementioned costs of division that the four powers must bear as well as the benefits of unification they would acquire. There has been much research on this same topic, done mostly from the perspective of Korean scholars. However, this book provides perspectives of scholars from each of the four states as well as Asia-Pacific region. This book is part of an ongoing effort by KINU to strengthen South Korea's unification diplomacy.

The book is divided into 10 chapters. Chapters 1-8 analyze the costs of division and the benefits of unification from the security and economic perspectives of the United States, Japan, China, and Russia. Chapters 9 and 10 look at the bigger picture by discussing the costs of division and benefits of unification from the standpoint of the Asia-Pacific region as a whole. Based on the analyses of the other chapters, the conclusion examines the similarities and differences among the division costs that the four powers must bear as well as the benefits they would each obtain.

The publication of this book owes much to the diligent efforts of Kyung Jung Kang, Research Associate at KINU. She provided excellent editorial assistance, including proof-reading all drafts of this volume.



**The Costs of Korean Division and the Benefits of
Korean Unification for U.S. National Security**

Chapter **1**

Chapter 1. The Costs of Korean Division and the Benefits of Korean Unification for U.S. National Security

Kongdan Katy Oh*

The most significant security costs of Korean division for the United States come in the form of threats of incalculable magnitude and probability. The security benefits of Korean unification lie in the distant future and will depend upon when and how Korea is unified and the nature of the regional situation at the time of unification. Thus both costs of division and benefits of unification are difficult to reckon.

U.S. Security Interests on the Korean Peninsula

U.S. security interests in the Korean Peninsula have waxed and waned since the two countries first made official contact in the latter half of the 19th century. As a global power, the United States' interests, concerns, and resources are necessarily spread widely. It might not be much of an exaggeration to say that U.S. interest in Korea has historically been secondary to other concerns in Northeast Asia, except during the three years of the Korean War: Japan in the first half of the 20th century, the Soviet Union and the so-called communist bloc in the years immediately following the conclusion of the Second World War, North Korea (seen as a representative of the communist bloc) in the second half of the century, and a rising China in the early

* The views expressed in this paper are those of the author and do not necessarily reflect the views of any organization with which she is affiliated.

years of the 21st century.

Since 1953, the U.S.-ROK security alliance has been the backbone of the security relationship. This alliance, forged by the fear of a repeat North Korean invasion, has been one of the strongest American alliances. It continues to be strong, although it was somewhat weakened during the decade beginning in 1998, when two South Korean presidents pursued engagement with North Korea, and perhaps has not completely recovered thanks to the bureaucratic legacy of that period. Twenty years into the post-Cold War era, the alliance is primarily focused on deterring North Korean provocations and a possible although unlikely invasion.

Apart from security concerns, the United States has developed many ties with Korea that keep the two nations close. They share similar economic and political models. American culture is popular in Korea, and Korean culture is well-known in the major American metropolitan centers. Over a hundred thousand Americans live in Korea and almost two million Koreans live in the United States.

In assessing the strength of the U.S.-Korea relationship, it is also necessary to consider “competing” relationships that the United States has with other countries in the region. The U.S.-China relationship remains somewhat strained, thanks in part to the very different nature of their political systems, and in part to Washington’s wariness about China’s growing influence in the region, as well as to China’s resentment of U.S. influence in Asia. The U.S.-Japan relationship remains robust, based on similar political and economic systems and a strong economic relationship. As a legacy of the Cold War, when Japan was viewed as an “unsinkable aircraft carrier” helping to protect the West against communism (to quote former Prime Minister Yasuhiro Nakasone in 1983), Japan is still viewed as the “linchpin” of American security in the region (to quote President Barack Obama in 2012).¹ The U.S.-Taiwan relationship continues to be solid, although it must be kept low-key. The U.S.-North Korea

¹ David Nakamura, “Japan Alliance Called ‘Linchpin,’” *Washington Post*, May 1, 2002, <<http://www.washingtonpost.com>>.

relationship, despite what American officials occasionally say, must necessarily remain bad owing to their diametrically opposed political systems.²

It is interesting to speculate on the role that North Korea as the region's "bad guy" (President Lee Myung-bak used the phrase "naughty child"³) plays in influencing the security relationships the United States has with other countries in the region. If North Korea were not a belligerent, revolutionary state (i.e., a state that cannot survive for the long-term in the current international order and which must therefore push for changes to improve its survival), would the U.S.-ROK security relationship be as necessary; or the U.S.-Japan relationship? Would the ROK-China relationship be different? There is no denying that North Korea's behavior puts the entire region on edge, providing an important rationale for the militarization of Northeast Asia.

Security Costs to the United States of Korean Division

The revolutionary nature of North Korea imposes a variety of costs on the United States, Korea's neighbors, and much of the global community. These costs come in many forms, including money, time and effort required to contain, constrain, deter, and defend against North Korea, and "tension" raised in the region by North Korean provocations. At first glance, the cost that might appear to be easiest to quantify is the financial cost. Unfortunately, this cost turns out to be extremely difficult to calculate.

Consider, for example, the calculations necessary to determine the financial cost of stationing U.S. troops in South Korea. Estimates

2_State Department, "The United States reaffirms that it does not have hostile intent toward the DPRK," Press Statement, February 29, 2012, <<http://www.state.gov/r/pa/prs/ps/2012/02/184869.htm>>.

3_Young-jin Kim, "Lee Calls N. Korea 'Naughty Child,'" *The Korea Times* Online, May 6, 2012, <http://www.koreatimes.co.kr/www/news/nation/2012/05/116_110422.html>.

of this cost vary widely but a conservative estimate is between one and two billion dollars a year.⁴ That presumably does not include the cost of building the facilities for these troops. In that regard, a bilateral decision has been made to move most of the soldiers who reside in the Seoul area to a more remote area to the south. Recent estimates for this move alone are \$14 billion.⁵ Part of this cost will be to “normalize” the stationing of American troops in Korea to provide for family housing and facilities so troops do not have to be separated from their families during their tour of duty.

If somehow all these costs could be calculated, then the incremental cost of stationing American troops in Korea could only be calculated after subtracting the cost of stationing them elsewhere and providing them with transportation back to Korea if needed. The United States has made clear that its troops in Korea are not there solely because of North Korea but also serve a regional security function, according to the doctrine of “strategic flexibility.”⁶ Thus they need to be based somewhere, if not in Korea. How many troops might be released from duty if North Korea were no longer considered a threat is impossible to say. If the departure of U.S. troops from South Korea should weaken deterrence to the extent that North Korea launched an attack on South Korea, then the cost of returning these troops along with several hundred thousand additional troops to engage the North Koreans in combat would be astronomical.

For the United States, the potential cost of Korean division is much larger than the costs of basing troops in country. Consider the following scenarios: North Korea launches a full-scale attack on South Korea, either by surprise or as a result of escalating tensions. North Korea launches missiles against Japanese cities or Ameri-

4_Mark E. Manyin, Emma Chanlett-Avery, and Mary Beth Nikitin, “U.S.-South Korea Relations,” U.S. Congressional Research Service, 7-5700 R41481, May 15, 2012, p. 22. According to the authors, “South Korea’s direct financial contribution for U.S. troops in South Korea in 2011 will be 812.5 billion won (about \$743 million). This is about 42% of the total cost of maintaining U.S. forces in South Korea.”

5_*Ibid.*, p. 22.

6_*Ibid.*, p. 24.

can bases in Japan. North Korea launches a nuclear-tipped missile against an American city and scores a lucky hit. North Korea sells nuclear material to a state or to a non-state group that subsequently uses a nuclear weapon against the United States or one of its allies. In each of these cases, however improbable, the costs, including the cost of human life and health, could be in the hundreds of billions of dollars. How is one to make rational judgments about the “expected value” of these kinds of scenarios when the potential costs are astronomical and the probabilities of any scenario occurring is unknown?

Another group of scenarios also carries large human and financial costs, although these scenarios are not as easy to define and the costs are therefore even more difficult to calculate. North Korea’s international criminal activities, including counterfeiting (e.g., of American currency) and drug manufacture and sale certainly impose security costs on the United States. North Korea’s human rights violations may not constitute a direct security threat to the United States, but they do impose a moral cost on any American officials who might be in a position to alleviate the fear and suffering of millions of North Koreans but choose not to do so, even for the best of reasons. To some degree the arms buildup of South Korea and Japan are a direct result of the North Korean threat, and the very presence of these arms constitutes a threat to the security of the region, at least insofar as they provoke North Korea to engage in a retaliatory build-up of its own military forces. And finally, the diversion of U.S. attention and military resources to counter North Korean threats constitutes an opportunity cost that is difficult to calculate.

North Korea’s history of aggression, its revolutionary nature, and its military resources constitute a clear threat to the United States and its regional allies. But for all of that, the greater long-term threat to U.S. security comes from China, which is opposed to democracy and is gradually expanding its regional and global influence. If the United States and China could cooperate to contain North Korea, then North Korea’s belligerence (in a divided Korea) might even be considered a benefit to U.S. security. Unfortunately, this does not seem to be the case. Despite China’s oft-made assertions that it is opposed

1

2

3

4

5

6

7

8

9

10

to North Korean provocations and WMD proliferation, China has repeatedly acted to protect North Korea. For example, after North Korean attacks on South Korea in 2010, the Chinese called on “all parties” to remain calm. After the 2012 rocket launch, which was in clear violation of United Nations resolutions, the Chinese again called for everyone to remain calm, and agreed to only two additional sanctions, even though the larger number of sanctions favored by other UN members would have done little to damage North Korea. In short, rather than nudging China closer to the Western democracies, North Korea provides China with a tool to compete with the United States and constrain its influence in the region, thus increasing the threat from China.

The same might be said for security threats to the United States and its allies from such countries as Pakistan, Iran, Syria, and Burma. All four (among others) have received some form of military assistance from North Korea, in numerous cases involving missile and nuclear technology, and thus pose a greater threat to U.S. security than they otherwise would.

Potential Benefits of Unification to U.S. Security⁷

Korea’s unification at some unknown future date is inevitable. In the meantime, almost nobody is eager for unification: certainly not the North Korean regime, nor the South Korean government, nor (given the projected costs) most of the South Korean public. North Korea’s neighbors, who value stability over change, are also not eager to see the two Koreas unified. Americans hardly even think about Korean unification. Only the North Korean people (with the exception of the core members of the Kim dynastic regime) yearn for early unification, because they believe it will make their lives easier.

When and how unification is achieved will influence what impact

⁷ Much of the material in this section comes from the following publication: Ralph Hassig and Kongdan Oh, “The United States and Korean Unification,” Jung-Ho Bae (ed.), *Korean Unification and the Position and Roles of the Four Neighboring Powers* (Seoul: Korea Institute for National Unification, 2011), pp. 49–72.

it has on the region and what benefits it will confer on the U.S. security situation. Perhaps the most important unification variables will be what model is used to guide the unification process, what circumstances actually bring about unification, when unification occurs, and what the situation in Korea and the region is like at the time of unification.

Unification Models

The North Korean unification formula does not envision a true unification of the two political and economic systems currently existing on the peninsula. A separate-but-equal status that protects the status quo of the North Korean regime is the desired form of unification—with the implicit hope that North Korea’s unitary politics might someday undermine the South’s pluralistic politics. The South Korean unification formula does envision a time in the distant future when true unification would be achieved under democracy and a market economy. A recent formulation is President Lee Myung-bak’s proposal that unification take place in three stages.⁸ The first stage would see the near-term formation of a “peace community,” meaning that the two Koreas would not harm each other (and also would become a nuclear-free zone). The second stage would involve the formation of an “economic community” in which inter-Korean exchanges would be expanded and North Korea’s economy improved. Only in the third stage, after the North Korean economy had been strengthened, would the two Koreas unify their systems to create a “genuine community.” Even more recently, President Lee has suggested that unification should occur only after the North Korean economy “can stand on its own,” a date which is likely to be far into the future.⁹

8_ “ROK President Lee Proposes Three-Step Reunification with DPRK,” *Yonhap News Agency* (in English), August 15, 2012, <<http://english.yonhapnews.co.kr>>.

9_ “Lee: N. Korea's Economy Should First Stand on its Own before Unification,” *Yonhap News Agency* (in English), May 22, 2012, <<http://english.yonhapnews.co.kr>>.

If unification does take place in stages spread out over years or even decades, then the benefits to U.S. security will depend upon the situation on the peninsula at each stage. For example, even the first stage of President Lee's unification scenario would confer peace benefits and relief from the U.S. concern about North Korean nuclear proliferation. Of course these stage-wise models do not take into account the possibility that some event might trigger a compelling opportunity for the two Koreas to unite in a precipitous fashion. Even talking about such an early "contingency" angers the North Korean authorities, and for that reason such talk was taboo during the engagement presidencies of Kim Dae-jung and Roh Moo-hyun, only to emerge cautiously in recent years.

Unification Scenarios

It is difficult to consider the end state of the unification process to be anything other than unification under democracy and a market economy: in short, an absorption of North Korea into South Korea. This could occur through either a hard or soft landing for North Korea. For example, unification might be triggered by another Korean War, which is lost by the North. Or the North Korean government might gradually lose control of its people. The Kim regime leaders might even negotiate a reform and handover to South Korea—if their situation looked hopeless and they were assured of very favorable conditions under a unified government. Especially in hard-landing scenarios—but also in soft-landing scenarios—the security benefits of unification for the United States would only follow the expenditure by South Korea and, presumably, the international community, of tremendous sums of money to handle the unification process.

More important in determining what the costs and benefits of unification will be for the United States is to consider what North Korea will look like at the time of unification. In the aftermath of a war, the North Korean infrastructure will be badly damaged, hundreds of thousands of people may have been injured and killed,

and remnants of the Korean People’s Army may continue fighting in the mountains. All of these wartime legacies will impose security costs on the United States. If unification occurs in the aftermath of a collapse of social order or revolutionary uprising, the infrastructure will be largely intact but North Korean society may experience widespread chaos. On the other hand, in a negotiated or stage-wise unification, life will continue more or less normally for the North Korean people, although they will need much support from South Korea, with supplementary support from the United States.

Unification Timing

Opinions about the timing of unification have been freely offered by South Korean government officials and experts, North Korean defectors, and the general Korean public. Since 2009, the (South) Korea Institute for National Unification (KINU) has set in motion its own “Unification Clock,” based on survey research. This clock (actually numerous clocks, including one for an agreed-unification scenario and another for hostile absorption) has been set back, indicating greater pessimism about the imminence of unification.¹⁰ As a basis for predicting when unification will come, all these estimates have limited usefulness. North Korean society has been crumbling for many years, yet there is no indication that a social collapse or an agreement on unification is on the horizon. Likewise, North Korea has been threatening war almost since it became a separate state, but war has not broken out since the 1953 truce.

Regional Politics after Unification

Exactly how Korean unification will change the map of Northeast

¹⁰ Young-Ho Park and Hyeong Ki Kim, *2010 Unification Clock: When Will We See a Unified Korea?* (Seoul: Korea Institute for National Unification, 2010). And the same authors’ *2011 Unification Clock*, published in 2011.

Asia and affect the security of the United States depends on its nature and timing. If the unification process takes many years, there will be time for Korea and the international community to make accommodations to the new order. If unification takes place suddenly, it will doubtless be more costly (and confer fewer benefits on U.S. security) than a planned and peaceful unification.

After unification, China will be the lone remaining dictatorship in Northeast Asia. Korea will now be the size of France but still smaller than Japan, with which it has a history of uneasy relations. If China continues its current rate of growth, neither Korea nor Japan will be a match for Chinese economic, political, and military power. As the largest regional power, China may adopt a kind of Monroe Doctrine whereby it feels it has the right and duty to keep non-Asian powers from exercising too great an influence in the region. Without a regional organization to smooth over disputes, East Asia could become a difficult political neighborhood to live in, with attendant higher security costs for the United States.

Politically, the new Korea will not look like the old one. One-third of the population will be North Korean, and if these reunited citizens are allowed to vote in national elections, they may make their influence felt by changing the nature of South Korean politics and economy. From the very beginning it may be necessary to offer some kind of accommodation to former North Korean politicians, bureaucrats, and soldiers in order to gain their cooperation. South Korea already has a significant segment of voters with socialist inclinations, so a unified Korea is likely to move toward the political left.

The global community hopes that after unification Korea will divest itself of the nuclear weapons inherited from North Korea, but perhaps that will not be the case. Korea will face a nuclear China and a Japan that could quickly acquire nuclear weapons. Many Koreans, especially those from the North, will remain suspicious of the intentions of their neighbors. Korea may opt to depend upon U.S. extended nuclear deterrence for its security, but even today some South Koreans are skeptical of the U.S. commitment in that regard and are calling for their own nuclear force.

Some South Koreans envision a unified Korea as politically neu-

tral, and this seems to be Pyongyang’s avowed post-unification preference. Positioned between China and the West, it is understandable that Korea would wish to avoid getting caught up in future conflict. But whether it is possible for a country in Korea’s geopolitical position to be neutral is another question. True neutrality would mean downgrading security relations with the United States and improving security relations with China and Russia. Even now, South Korea has moved closer to China than to the United States in its trading relations, so a political realignment is not unthinkable. Economic pressure for a closer Korea-China relationship would be even stronger if a South Korea-Japan-China free trade agreement should ever come to fruition. A realignment of Korea closer to China would probably be considered a cost rather than a benefit to U.S. security.

The U.S. Position on Korean Unification

The United States government has long supported Korean unification. President Eisenhower assured ROK President Syng-man Rhee in 1953 that “The United States will not renounce its efforts by all peaceful means to effect the unification of Korea.”¹¹ President Carter told President Park Chung-hee in 1979, “We must take advantage of changes in the international order . . . ultimately, to bring permanent peace and reunification to the Korean Peninsula.” In 1985, President Reagan told President Chun Doo-hwan, “We must ultimately achieve peaceful reunification of the divided land through democratic means.” Addressing the Korean National Assembly in 1992, President George H. W. Bush declared, “The American people share your goal of peaceful reunification on terms acceptable to the Korean People.” A year later, President Clinton repeated those words to the Assembly: “We support Korea’s peaceful reunification

¹¹Unless otherwise indicated, quotations are taken from Peter M., L. “U.S. Foreign Policy toward the Korean Peninsula: An Anti-Unification Policy or Just Too Many Uncertainties to Account For?,” *International Journal of Korean Unification Studies*, Vol. 16, No. 2 (2007), pp. 79~108.

on terms acceptable to the Korean people,” adding, “And when the reunification comes, we will stand beside you in making the transition on terms that you have outlined.” While visiting the Demilitarized Zone in 2002, President George W. Bush said, “I see a peninsula that is one day united in commerce and cooperation instead of divided by barbed wire and fear. . . . And when the day comes, all the people of Korea will find in America a strong and willing friend.”¹² And in 2009 President Obama’s White House issued a “Joint Vision” paper which looks forward to a “peaceful reunification on the principles of free democracy and a market economy.”¹³

How would the United States security situation benefit from Korean unification? The White House periodically issues a National Security Strategy, the latest of which was released in May 2010.¹⁴ The white paper lists the following broad interests: maintain national security (e.g., homeland defense, counter-terrorism, and counter-proliferation), pursue economic prosperity, promote American values (e.g., democracy and human rights), and preserve a stable international order (e.g., maintaining strong alliances, strengthening international institutions).

The last U.S. government report on security interests in Asia, issued in 1998, lists the following: maintain U.S. engagement in the region (including deployment of American troops in Asia); strengthen alliances with Japan, Korea, Australia, Thailand, and the Philippines; engage with China; increase cooperation with Southeast Asia and with Russia; support multinational dialogue; promote democracy; counter proliferation; and fight terrorism, drug trafficking, and other transnational crimes. The report particularly mentions the goal of

12_Thomas M. Defrank, “Prez Peeks at N. Korea,” *New York Daily News*, February 20, 2002, <http://articles.nydailynews.com/2002-02-20/news/18198068_1_wire-and-fear-north-korea-sunshine-policy>.

13_The White House, “Joint Vision for the Alliance of the United States of America and the Republic of Korea,” June 16, 2009, <http://www.whitehouse.gov/the_press_office/Joint-vision-for-the-alliance-of-the-United-States-of-America-and-the-Republic-of-Korea-Joint-Vision.doc>.

14_The White House, *The National Security Strategy*, May 2010.

“dampening the sources of instability” in Asia.¹⁵

The U.S. government has not found the opportunity to issue a more recent Asia-Pacific security report, but five American think tanks undertook the task in 2009 for the purpose of advising the Obama administration. Their list of interests is virtually identical to the 1998 report, with the following minor adjustments: Engaging China is replaced by “articulating a realistic and pragmatic China policy,” and countering radical Islam is added, as is strengthening American soft (e.g., economic) power and promoting open and free trade.¹⁶

U.S. national interest is oriented first of all toward countering threats, especially security (military) threats. North Korea has long been high on the U.S. security threat agenda. In an April 2012 interview with CNN’s Wolf Blitzer, Secretary of Defense Leon Panetta said of the North Korean threat, “Unfortunately these days, there’s a hell of a lot that keeps me awake. But that’s one that tops the list.”¹⁷

Once North Korea is absorbed into South Korea or agrees to a peaceful unification process, Korea will no longer be a major security issue, unless it is involved in a new regional security crisis. U.S. national security concerns will probably shift to China, so the relationship between a unified Korea and China will be a major American concern.

Unification will solve an important security problem for the United States. This is especially the case if North Korea’s WMD arsenal can be secured and eliminated. Once this goal is achieved, America’s primary interest in Korea may be in maintaining the U.S.-Korea security alliance and keeping some U.S. troops stationed in Korea as a

15_ Department of Defense, “The United States Security Strategy for the East Asia-Pacific Region,” November 1998.

16_ Ralph A. Cossa, et al., *The United States and the Asia-Pacific Region : Security Strategy for the Obama Administration*. Sponsored by IDA, Pacific Forum CSIS, INSS, CAN, and the Center for a New American Security, February 2009.

17_ “Panetta: ‘We’re within an inch of war almost every day,’” *CNN*, April 19, 2012, <http://edition.cnn.com/2012/04/19/politics/pol-clinton-panetta-interview/index.html?hpt=hp_t2>.

regional rapid-response and stabilizing force. Whether this troop presence will be agreeable to the Korean electorate—in the absence of a North Korean threat and with the addition of millions of North Koreans in the unified Korean electorate—is another matter. Without a North Korean threat, the Japanese public might likewise question the need for 100,000 American troops in their country, although for Japan another convincing rationale for hosting U.S. troops would be to counter Chinese force. This argument might also appeal to the Koreans, but not as strongly.

Conclusion

Because future conditions are difficult to predict, it can be argued that by not pushing for unification the United States is taking a wise course by dealing with the devil that it knows (North Korea) rather than the unification ghost that it does not know. North Korea is a real and present security threat, and nasty as this threat is, it has so far been fairly effectively contained. China is a looming future threat, which may not be so easily contained. Presumably any decision the United States makes regarding Korean unification will take into account the China factor. For Koreans, this is a discouraging perspective, reminiscent of positions the United States has taken toward Korea in the past; namely, the abandonment of Korea to Japan at the beginning of the 20th century and the U.S.-Soviet partition of Korea at the end of the Second World War.

Current U.S. policy toward the Korean Peninsula seems designed to (1) maintain a strong security alliance with South Korea to deter North Korea, (2) constrain China, and (3) keep a U.S. military presence on the Asian mainland to deal with future contingencies. The most immediate concerns are to prevent a North Korean provocation against South Korea and to discourage North Korea from developing and proliferating its nuclear weapons program. A second level concern is for the suffering people of North Korea, but since their suffering is not considered a security threat to the United States, the human rights issue receives only sporadic attention. U.S. policy to-

ward North Korea has been implemented by “strategic patience”; that is, waiting either for the demise of the Kim regime or for the regime to reform itself. Neither outcome is actively pursued by the United States, so in practical terms the policy is based more on hope than on calculation and effort. The United States continues to ask China to provide a restraining influence on North Korea, but the United States presumably does not entertain great expectations for China’s assistance, given the long history of its support for North Korea.

Looking squarely at the threats that North Korea currently poses, the logical policy would seem to be to end the threats as quickly as possible before they have a chance to materialize. What the United States has so far not decided to do is to actively work for the replacement of the North Korean regime. Rather, policy is to encourage the regime to change itself, although sanctions have more often been used than inducements. The reluctance to adopt a more active policy to eliminate the North Korean threat is presumably based in part on the difficulty of the job, on simple political inertia, and presumably on the fear that a change in North Korea might bring more trouble to the United States and South Korea than it would be worth.

Providing for national security means not only protecting people but preserving the national culture. Much of what makes the United States a desirable place in which to live and work is the freedom and equality that is the bedrock of our cultural heritage. If this culture erodes, national security will be less deserving of protection. By extension, tolerating nations that oppose this culture of freedom and equality can be considered a threat to our own national values, and hence to our national security. Governments that put the lives of their people in jeopardy are particularly threatening to the United States. In April 2012, President Obama, speaking at the United States Holocaust Museum, reminded his audience that in 2011 he had issued the first-ever presidential directive addressing gross human rights violations. The president took the position that “preventing mass atrocities and genocide is a core national security interest and a core moral responsibility of

1

2

3

4

5

6

7

8

9

10

the United States of America.”¹⁸ This moral dimension of national security deserves some consideration in calculating the costs of tolerating a divided Korea in which North Korea continues its attacks on these values, and in calculating the benefits of a unified Korea in which Koreans from the south and north live in a free democratic society.

¹⁸The White House, “Remarks by the President at the United States Holocaust Memorial Museum,” April 23, 2012, <<http://www.whitehouse.gov/the-press-office/2012/04/23/remarks-president-united-states-holocaust-memorial-museum>>.

References

Cossa, Ralph A., Brad Glosserman, Michael A. McDevitt, Nirav Patel, James Przystup, Brad Roberts. *The United States and the Asia-Pacific Region : Security Strategy for the Obama Administration*. Sponsored by IDA, Pacific Forum CSIS, INSS, CAN, and the Center for a New American Security. February 2009.

Hassig, R. and Kongdan Oh. “The United States and Korean Unification.” Bae, Jung-Ho (ed.). *Korean Unification and the Position and Roles of the Four Neighboring Powers*. Seoul: Korea Institute for National Unification, 2011.

Lewis, Peter M. “U.S. Foreign Policy toward the Korean Peninsula: An Anti-Unification Policy or Just Too Many Uncertainties to Account For?” *International Journal of Korean Unification Studies*. Vol. 16, No. 2, 2007.

Manyin, M., Emma Chanlett-Avery, and Mary Beth Nikitin. “U.S.-South Korea Relations.” U.S. Congressional Research Service. 7-5700 R41481. May 15, 2012.

Park, Young-Ho and Hyeong Ki Kim. *2010 Unification Clock: When Will We See a Unified Korea?* Seoul: Korea Institute for National Unification, 2010.

_____. *2011 Unification Clock: When Will We See a Unified Korea?* Seoul: Korea Institute for National Unification, 2011.

The White House. “Joint Vision for the Alliance of the United States of America and the Republic of Korea.” June 16, 2009. <http://www.whitehouse.gov/the_press_office/Joint-vision-for-the-alliance-of-the-United-States-of-America-and-the-Republic-of-Korea Joint Vision.doc>.

_____. “Remarks by the President at the United States Holocaust Memorial Museum.” April 23, 2012. <<http://www.whitehouse.gov/the-press-office/2012/04/23/remarks-president-united-states-holocaust-memorial-museum>>.

_____. *The National Security Strategy*. May 2010.

U.S. Department of State. “The United States reaffirms that it does not have hostile intent toward the DPRK.” Press Statement, February 29, 2012. <<http://www.state.gov/r/pa/prs/ps/2012/02/184869.htm>>.

U.S. Department of Defense. *The National States Security Strategy for the East Asia-Pacific Region*. East Asian Strategy Report. 1998.

_____. *The United states Security Strategy for the East Asia-Pacific Region*. November 1998.

New York Daily News. <<http://www.nydailynews.com/>>.


Washington Post. <www.washingtonpost.com>.

Yonhap News Agency (in English). <<http://english.yonhapnews.co.kr>>.

The Korea Times (in English). <<http://www.koreatimes.co.kr>>.

CNN. <<http://edition.cnn.com/>>.

1
2
3
4
5
6
7
8
9
10



**Economic Implications for the
United States of the Divided Korean Peninsula**

Chapter **2**

Chapter 2. Economic Implications for the United States of the Divided Korean Peninsula

William B. Brown

In a paper I gave at a KINU conference in 2008 commemorating 60 years of the U.S.-Korea Alliance.¹ I emphasized a fact that is worth repeating here. The United States, alone among the East Asia powers, has an unambiguous interest in achieving Korean reunification as long as the resultant Korean state is strong enough to keep its three large neighbors--China, Russia, and Japan--from interfering with it. We can hope as well that unified Korea provides prosperity for itself and to those that want to engage, economically, with it. Practically speaking, these conditions mean unified Korea needs to be a) democratic, b) independent c) militarily strong and most fundamentally, d) a decentralized capitalistic rather than a socialist or feudalist economy. The absence of any of these conditions a century ago helped foment a half century of warfare in East Asia that cost the United States, the region, and especially Korea, very dearly. And even the peaceful last half century has been expensive for South Korea and the United States which have had to maintain large armies to protect the South from another invasion. South Korea, after three generations of difficult, risky, and brave work, has produced three, maybe four, of these pre-requisites for successful reunion; the only ones in question are its ability to stand on its own against a nuclear armed North Korea and an unwieldy, possibly unsteady, and powerful China. Allied with the United States, these problems are contained and South Korea gives the entire region an unusual degree of stability, thus contributing strongly to the economic prosperity of its big neighbors and the

¹ William B. Brown, *The United States, Korea, and East Asia in the 21st Century*, (Seoul: Korea Institute for National Unification, 2008).

1

2

3

4

5

6

7

8

9

10

United States.

At that 2008 conference, as I'm pretty sure would be case today, the representatives of China and Russia voiced not too subtle concerns about a unified Korea and even the Japanese was a bit ambivalent. Their voiced concerns were more about the path to unification than unification itself. but clearly each wondered aloud as to which regional giant a unified Korea would align itself with. With such views so pervasive, clearly getting to unification will be a difficult task for those most interested in it getting there—Americans and Koreans. It is not impossible, though and with a little luck Pyongyang will soon realize what everyone else in the world already knows; the disaster that these big neighbors and so-called benefactors, in particular Mao's China and Stalin's Soviet Union, imposed upon the northern half of the Peninsula in 1948 and 1949 and from which the people are still suffering. Kim Jong Il's death last year, a failed rocket launch, and some buzz in Pyongyang about economic reform offer newfound but still limited hope.

This paper will focus on the economic aspects of the division and potential reunion and the relationships of these to America's own economic well-being. Let me say up front that strictly speaking from an economics perspective the impacts on the United States of unification probably are not large. Korea has proved to be an enormously costly undertaking for the United States but these costs have been spread out over so many years that ending them will not make a major difference to the U.S. economy. And several caveats need to be made. First, economic gains and losses never accrue consistently across an entire country and big or small external changes will inevitably create winners and losers in America. I will try to identify classes of each but necessarily very incompletely. Second, a country's GDP, a measure of the value of final goods and services production over the course of a year, is a very imperfect proxy for a country's well-being but nevertheless is probably our best measure in these circumstances. Third, in discussing unification of Korea we cannot limit the consequences to the Peninsula itself -- regional and even global issues caused the division and regional issues will play important

roles if and when unification occurs. Fourth, there are philosophical issues here as well. One of the striking conditions in North Korea is the existence of concentration camps where unspeakable human crimes are committed every day. Most Americans are blissfully unaware of these conditions; were these conditions better known all of us would feel a loss and would willingly pay something, perhaps a lot, to change it. But forcing a change at this point would probably require an event on the order of another Iraq war, which cost America upwards of three quarters of a trillion dollars, probably not considered by Americans as affordable for the United States to undertake on its own at this time. Put another way, a unification of Korea that solved this and many other serious situations in North Korea would bring many benefits to Americans but not all can be measured in dollars and cents. These we can only address tangentially in this paper.

Status Quo: A Divided But Stable Peninsula and the United States

There is something important to be said for stability and divided Korea certainly has contributed to Korean and regional stability and thus to the economic vibrancy of all of East Asia. Since the 1953 Armistice, the DMZ has stood as a solid wall separating what have become two extremely different economies, north and south. It stands as the most impenetrable economic barrier in the world, probably because it is a double sided wall, not like most walls which stop movement from one side or the other. People in Seoul probably have more economic transactions with counterparts ten thousand miles away, in South Africa, New Zealand, and Chile, than they do with people in Haeju, only 40 miles away. And, not coincidentally, the existence of this wall is associated with an unusual historical peace in this often volatile and warlike East Asian region. So bringing down the wall has the potential for enormous political and economic consequences. I like the image of a dam that was hurriedly thrown together with a lot of debris back in 1950 to stop a major flood. After 62 years a

1

2

3

4

5

6

7

8

9

10

large lake has formed, cracks are forming, and the rainy season is approaching. For South Korea, the lake is on the north side, ready to inundate the countryside to the south. But for North Koreans, they must see the lake as on the south side, ready to flood north in a wave of carpetbaggers. As an economist, I see the flood going in both directions and one that needs to be channeled if it is going to bring good results to all.

On the south side of the DMZ, South Koreans, and a little further away, Japanese, have produced two of the three most remarkable growth economies in world history. And the third economic record holder, China, lies just a few hundred miles away on the other side of North Korea. These three big economies are now among the top seven largest trade and investment partners of the United States and, despite isolationist rhetoric coming out of the margins of American politics—both left and right—all three countries contribute to U.S. prosperity. Direct trade data offers a small but incomplete glimpse at this positive relationship.

- In 1948, the year Korea was politically divided, U.S. exports to Japan, China, and Korea amounted to \$0.567 billion, 4.8 percent of worldwide US exports, and would have contributed $\frac{1}{4}$ of one percent of US GDP that year except that most of these were paid for by US aid.² So in that year East Asia contributed essentially nothing to the US economy.
- In 2011, U.S. exports to these three countries amounted to \$214 billion, 14 percent of US merchandise exports and directly added 1.4 percent to U.S. GDP.³

This direct contribution to U.S. GDP of East Asian trade may look small, as most contributions to such a large concept as GDP inevita-

2_ Statistical Abstract of the United States, 1950, p. 261 (GNP) and p. 861 (US trade by country). <<http://www2.census.gov/prod2/statcomp/documents/1950-01.pdf>>.

3_ National Data, April 2012, p. 3, <http://www.bea.gov/scb/pdf/2012/04%20April/D%20pages/0412dpg_a.pdf>; “U.S. Trade in Goods by Country,” <<http://www.census.gov/foreign-trade/balance/>>.

bly do, and it is important not to exaggerate the impact of Korea or even East Asia on the large U.S. economy. But probably more important than the direct trade are the investment and corporate linkages that have grown between the United States and the East Asia region during the post-war era. This data suggests a far more complicated relationship than simple trade would have it. U.S. businesses and individuals earn \$15 billion a year in service transactions with South Korea, twice the amount that Koreans earn in service sales to the United States and as U.S. income on investments in Korea pay off with solid returns. These highly profitable transactions are growing rapidly as direct investment expands between the two countries and as Americans profit from their \$30 billion direct investment in South Korean businesses. In fact U.S. earnings on investments more than offset—by about \$ 1 billion a year—payments to Korean investors on a much larger volume of Korean investments in the U.S. due to the conservative nature, and small returns, of Korea’s U.S. investments. Earnings of educational services sold to Koreans—South Korean students spend about \$2 billion annually on U.S. educations⁴—\$4.6 billion in royalty payment to U.S. firms by Korea in 2011, tourism etc. all add to U.S. income, jobs, and profits.

All of this suggests that the importance of South Korea to the U.S. economy in a dynamic sense—one that takes into account the improvements in U.S. productivity attributable to strong competition from vibrant South Korean enterprises, the increase in investment in the U.S. allowed by profits gained on merchandise and agricultural sales to Korea, the economies of scale gained by big U.S. IT and service companies—from Microsoft to McDonalds—extending their markets by 50 million consumers, the improved competitive environment given the existence of companies like Samsung that compete with companies like Apple, probably adds the equivalent of two or three percentage points to U.S. GDP. Again this may not sound like a large amount but consider all investment in the U.S. in 2010 added up to just 15 percent of GDP. Put another way, the complete loss of

4_<<http://www.k2campus.com/2012/>>.

1

2

3

4

5

6

7

8

9

10

the Korean economy's contributions to U.S. GDP would likely be around the total loss of the "great recession" between 2008 and 2009. What happens to all this activity in the event of unification of the two Koreas is not obvious and is well worth considering as we consider the potential that at some point in history the DMZ will come down.

South Korea's Economy and the DMZ

The DMZ makes South Korea, for all practical purposes, an island economy, exhibiting similar characteristics as Japan, Taiwan, Hong Kong, and Singapore in East Asia and Great Britain and Ireland, globally. Foreign trade and finance is highly rewarding for such economies since their historical isolation produces wide divergences in comparative advantages from their continental trade partners that then allow great profits as trading begins. Waterborne trade, moreover, is often more efficient and global than is land based continental trade but requires, and thus induces, the creation of more formalized corporations to take advantage of the gains from trade. So South Korea, like the other major island economies, has developed intense trade relations with scores of countries worldwide and by now has large sophisticated manufacturing and trade conglomerates that dominate not only its foreign trade but its domestic economy as well.

- Beginning in the mid-1960s South Korea's engagement with the global economy--once tough minded money and banking reforms had been promulgated and property rights protected--has been hugely successful, bringing South Korean GDP per capita up to \$23,800 in 2011. Once largely agricultural, the country's comparative advantages now lie in high skill and capital intensive heavy manufacturing, automobiles, semiconductors and other electronics. Imports consist of most of the country's energy requirements, food products, raw materials and intermediate inputs, and high technology capital equipment.
- A highly dense and urbanized Korean population saves and invests well but is on the cusp of an historic drop in numbers over

the next few decades, creating large challenges for future economic growth and for the financial system that supports it. Little immigration occurs amid a continuing net outflow of students to the U.S. Educational achievements of the populace are second to none amid concerns of job opportunities for well-educated students with expectations for high future incomes.

- Strong investment internally and abroad by world class corporations has been the key to Korean technological success. Firms like Samsung, moreover, do more than just provide good jobs and high incomes for Korea. By providing high level competition to similar firms world-wide, these firms raise the level of worldwide competition and drive productivity increases everywhere, including in the U.S. There is little doubt that the U.S. auto, telecoms, and semiconductor industries would be less productive and capable without South Korean competition and U.S. consumers would be significantly worse off. High concentration among these Korean firms, weak capital markets that give too much authority to bank finance, and the relative lack of middle sized firms that can absorb financial and labor market risks nonetheless keeps South Korean finance on edge, as does the occasional North Korean threats of invasion.
- Large expenditures for defense (about \$30 billion or 2.7 percent of GDP in 2011)⁵ against North Korea, and one of the world's largest militaries, has forced reliance on relatively high tax rates combined with low levels of governmental spending on environmental and other social concerns. Meanwhile, North Korean nuclear advancements and continued hostility exemplified by the sinking of the naval corvette, Chonan, and the Yong Pyong Do attacks of 2010, require expensive additions to South Korean capabilities and raise questions as to how much of an offensive, or even preemptive, military capability Seoul should develop. Without

5_ “The 15 countries with the highest military expenditure in 2011,” Stockholm International Peace Research Institute, <http://www.sipri.org/research/armaments/milex/resultoutput/milex_15/the-15-countries-with-the-highest-military-expenditure-in-2011-table/view>.

unification, these expenditures are likely to grow rapidly, eating away at the country's investable surplus.

- The potential for military instability no doubt raises the cost of investments in South Korea, both domestically and from abroad. Some argument can be made that the bond rating agencies, for example, hold South Korea's rating one level (out of 10) lower than they would if North Korea were considered a threat. But more than that, South Korea's government itself probably errs on the side of caution and holds somewhat higher foreign exchange reserves, and thus generates less interest income, than it would without that threat.

North Korea's economy and the DMZ

North Korea has developed in the opposite manner as South Korea since 1948, although its reputation as a "hermit" is somewhat misleading since it is firmly connected to China with which it shares a long history and a long border. Not an island but more an appendage to a large continental Asian economy is probably the best way to think of it. The Soviet, and the Japanese economic system before it, with which it was connected, also were strongly trade oriented but the trades were made via a centrally planned mechanism, or a forced military system in Japan's case, not the decentralized capitalist markets on which South Korea has developed. Sadly, even the end of the Soviet trading system and the resultant collapse of much of North Korea's dependent industry have not induced Pyongyang to give up its command economy system. Instead, since the 1990s, the successive Kim regimes have reinforced emphasis on the military and security establishment, not allowing economic reform in the direction of the by now nearly universal global market price system. Most debilitating, not even a real money system has not been allowed to eclipse the legacy Soviet systems' ration coupons; the lack of a viable North Korean currency means that foreign currencies are now taking it over—the flood that undercuts regime control and that will ultimately undermine the DMZ itself. Foreign trade is not small but

is entirely dominated by China. No significant enterprises have been built that engage in foreign trade and the population is indigent, unable to save even if the government allowed savings institutions to exist. In short, Kim Jong Il's North Korea was a beggar country, existing hand to mouth with the strong support of China and with significant but highly variable Western and South Korean donations. How Kim Jong Un's economy will change no one yet knows.

North Korea's economy has positive attributes and its separation from the global economy means that, like South Korea in the 1960s, enormous gains from trade await once the socialist trading system is dismantled. Comparative advantages are likely to be seen in the country's rich nonferrous metals and coal resources, its relatively low population density, and its relatively high education standards and sense of discipline and organization compared to the meager wages that its workers command. Most beneficial of all is its ideal location, wedged in between rich Japan, booming China, and crowded and prosperous South Korea. Wage differences, land utilization differences, and the level of capital development offer enormous latent profits to those who can arbitrage these gaps once the country opens up to market driven trade.

Continued Division or Reunification, and the U.S. Economy

The forward looking topic of this paper allows us to engage in some hypothetical estimates about how things would look differently for the U.S. economy should the Koreas be peacefully reunited. As is usual with economics, the results are two-sided, with some overall benefits and some overall costs. Who you are, what you do, and where you sit makes big difference. Implications for the U.S. economy will be determined by what happens with the important South Korean trade and investment partner, what happens with the now isolated and unimportant North Korean economy, and what happens with U.S. military spending related to Korea. First, let's look at how Korea's economy itself might change.

1

2

3

4

5

6

7

8

9

10

Impact of Unification on the South Korean economy

This topic has generally been approached in the reunification and policy literature as the “costs of reunification.” I am indebted to Choi, Kim and Brown⁶ in their new paper on the economics of German and Korean reunification, for breaking free of this simple but misleading portrayal of Korean reunification.⁷ Charles Wolf in his 1994 paper tried to do the same but with fewer rigors. They rightly point out that much of the so called “costs” really are investments aimed at increasing the productivity of the North Korea’s capital and land resource base and its work force. Certainly there are costs involved in making such investments but these normally are willingly incurred by investors who anticipate positive net returns. There is no reason to think differently about reunification with North Korea. Massive investments made by a mix of private and public investors should be expected to generate significant profits that would be reinvested for still higher returns. So just saying there will be large “costs” misses the point of why investments are made.

How best to unify? A useful economic model can be seen in the merger of two corporations. But a large problem is the incompatible ownership systems of the two countries. Liquidation of North Korea’s state ownership of essentially all property, and transfer of those assets to North Korean citizens prior to reunification, would go a long way to making a merger successful. Funds earned by the sale of state assets, most importantly land, furthermore, could be used to pay off North Korean debts and build social welfare systems needed for the population.

6_Seung Mo Choi, Hyung Seok Kim and Max St.Brown, “Economic Impacts of Reunifications in Germany and in Korea,” December 2011, <[http://cahnrs-cms.wsu.edu/ses/gradstudents/MaxStBrown/Documents/Choi,%20Kim,%20St%20Brown%20\(2011\)%20Reunification.pdf](http://cahnrs-cms.wsu.edu/ses/gradstudents/MaxStBrown/Documents/Choi,%20Kim,%20St%20Brown%20(2011)%20Reunification.pdf)>.

7_Charles Wolf Jr., “Korean Reunification and Reconstruction: Circumstances, Costs, and Implications,”<http://www.nbr.org/downloads/pdfs/PSA/BS_Conf06_Wolf.pdf>.

South Korean specialists and media also often seem to think the investors in North Korea would be all or predominately South Korean, and thus most of the “costs” would be laid on South Koreans. Again this seems unlikely. If in the process of unification, North Korea were to become a market economy, as is likely, hundreds of billions of dollars of investments would flow naturally from all over the world; my guess the largest foreign investors would be Chinese, Japanese, South Korean, and American in that order. But even more than this international flow would be the rise of entirely North Korean re-invested earnings that I expect would propel GDP growth forward at a rate even faster than we have seen in China in recent years. In short, there is no reason why North Korea would not become a booming economy offering all investors advantageous, if not lucrative, returns on their investments and a growing market for foreign and domestically produced goods and services.

Choi’s paper assesses that unification will, nevertheless, hold back South Korea’s economic growth by as much as 20 to 24 percent over a 25 year time frame, as South Korean public funds and a lot of private investment shifts from south to north, and in this sense they do deduce a “cost” to South Korea. Although not quantified, the paper nonetheless indicates that the aggregate Korean economy will be larger after 25 years than the assumed combination of North and South would be by then without unification, since North Korean GDP will rise so much faster.

It is useful to lay out, as they do, such specific estimates and the rigorous framework for deriving them so that others can challenge them with the aim of producing better estimates. My much less rigorous challenge to what I consider is far too pessimistic (for unification, optimistic for remained division) analysis, is threefold;

- The Choi results are overly dependent on a German productivity story that bears scant relevance to reunifying Korea. Germany, or more to the point, former West Germans, has not fared as poorly since reunification as many South Koreans seem to think. Choi focuses on a slowdown in the rate that at which German incomes were catching up with those of the U.S. during the two decades

1

2

3

4

5

6

7

8

9

10

following unification as illustrating what could happen with Korea. But there are alternative explanations for this relative slowing of German growth and very weak linkages to the Korean situation. The whole European monetary union story, for example, is absent from their analysis.

- Their results are focused on per capita GDP (territory based production and incomes) but this is a rare case, with populations of the North and South mixing, that the old fashioned GNP (resident based production and incomes) is a more useful approach. In other words, what happens to the people, not to the territories, is what is important. Integration of two very different and complimentary economies might reduce the growth of GDP in the territory of South Korea, as physical and human capital moves northward in search of better returns, but the owners of that capital, many of whom would be South Koreans, would benefit, as would the integrated total.
- Lastly, and perhaps most importantly, I find Choi's forecast of South Korean economic performance in the absence of reunification far too optimistic--closing in on ever rising U.S. per capita levels by 2040--hence the 20 percent losses to GDP growth of the unification scenario also are overstated. South Korea is quickly encountering the same demographic challenge that hit Japan two decades ago and this is already sharply slowing GDP growth. Turbulence from an economy highly exposed to international finance and to peculiarities about both the Chinese and Japanese economies also creates uncertainty that will likely raise South Korean interest rates and thus lower domestic investment. Even the continued existence of a nuclear armed and very belligerent North Korea has to be assumed in the non-unification base case, likely forcing more, not less government spending on the South Korean military.

These uncertainties in South Korea's economy over the next several decades are where a peaceful unification scenario offers so many economic benefits and makes one consider that South Korea may

need unification for its own future prosperity. For instance, North Korea has plenty of poorly paid but well-trained industrial workers who could take advantage of South Korea's investment in heavy industry in a way that the children of current day South Koreans probably will not. Some, perhaps tens of thousands, of such workers might come south, filling empty South Korean factories and producing a second wave of South Korean export growth. South Korean industrial conglomerates would likely add North Korean factories to their business lines—one can easily imagine, for example, a combination of the POSCO steel concern with the huge Kimchaek steel facility in Chongjin, and the productive employment of hundreds of thousands of North Korean workers.⁸ The result would likely be a big efficiency boost in both north and south. South Korea's enormous investment in higher education, moreover, might equally pay off as one can imagine hundreds of thousands of otherwise unemployed South Korean teachers and professors working productively in North Korean schools.

Whereas the details of such a merger are difficult to measure, the overall result, as predicted by economic theory, is that the enormous expansion of internal trade and investment, and likely an expansion of labor mobility north and south, would propel rapid economic growth in both North and South and almost certainly for the Korean aggregate. Not everyone would benefit—some elites in North Korea who currently maintain monopoly positions in North Korean trade, might suffer from competition, although others who adapt well would thrive. Some South Korean landlords also might lose as the comparative availability of land in North Korea may lower South Korean land values. Poorly educated South Koreans would be confronted by more competition from North Koreans willing to work at much lower wages. The opposites would be true as well, however;

⁸ To put in perspective, Apple, locked in a global battle with Samsung over the computer tablet market, indirectly through Taiwan's FoxCon corporation, employs the equivalent Chinese workforce of the entire North Korean army. Samsung does almost the same in China. I'd imagine both companies would look enviously at North Korean wages that would probably start out maybe 1/3 the Chinese level.

1

2

3

4

5

6

7

8

9

10

well educated South Koreans and ordinary North Korean workers would likely be greatly advantaged, and South Korean consumers should be benefitted by cheaper housing and improved services. In a Pareto Optimal world, the efficiency gains of the merged economy should easily be enough so that a share of the gains of the winners could more than compensate the losers for their losses, although in practical terms these transfers would be unlikely to happen.

The economic risks attributable to reunification, no doubt, are very high and these represent costs to investors who may shift capital to other countries as a result. But it is not clear whether such risks are higher before a unification event occurs or afterwards. Fisk bond raters, for example, say that South Korean debt is permanently rated one or two notches down simply because of the persistent North Korean threat. Reunification that removed that threat eventually would lower that risk.

Other analyses of unification also show a large “cost” to South Korea’s economy and I realize I am likely an outlier on this. My best guess, nonetheless, is that a peaceful and well-managed unification would have an altogether positive impact on Korean living standards, both North and South and thus allow an increase in trade and investment activity with the United States. Of course, the “peaceful” and “well managed” caveats are key. A poorly managed transition, for example one in which South Koreans try to take over North Korean property, or create social systems that raise taxes and otherwise burden reform and productivity growth – as some argue occurred in Germany – could stall Korean growth and keep it for a long time a middle income country. And, of course, any kind of residual violence in North Korea would delay investment and growth as it has, for instance, in Iraq.

I am concerned that at present, despite the pressures that seem to building on the DMZ, neither North nor South Korea seems to be preparing adequately for a peaceful reunification. In North Korea only a few early signs of economic reform are evident, reforms that could create an ownership system capable of merging with South Korea. South Korean preparations, moreover, including the building of

a large financial reserve, often seem misguided and overly state centric. The unification tax, for instance, imposes hardships on private enterprises and private investment that need to be very strong if they are to flourish with unification. State centric methods, moreover, distort South Korean's economic relationship with the U.S. economy—Korean government savings tend to flow into U.S. Treasury assets rather than into more productive private investments.

U.S. Economic Linkages with a United Korea

Prior to the division of Korea it would have been hard to find more dissimilar economies than those of the U.S. and either the northern or southern parts of Korea. And even then there were large differences between the agricultural and largely rural southern Korea and the fairly well industrialized north. Differences, we know, drives profitable trade through the mechanics of comparative advantage, with the largest relative differences creating the greatest profits. The very act of trading and investing, however, narrows the differences so that these gains from trade dissipate over time.

- This classical process of trade convergence is nowhere better observed than in the case of U.S.-South Korean trade over the past sixty years. In 1948, price and wage relationships between the two economies would have been about as different as between any two countries anywhere. Even by 1970, U.S. incomes were on average about 20 times those of South Koreans. Presently, after sixty years of intense trade, convergence in prices and wages appear close on the horizon with U.S. incomes only about half again as large as their Korean equivalents.
- As if to nail down Ricardo's comparative advantage theorem even more tightly, the absence of trade with North Korea and the absence of convergence between the U.S. and North Korea in prices and incomes should remove any doubt. In 2011 the U.S. exported only \$9 million in goods to North Korea, about as much as in one daylight hour to South Korea. And U.S. imports were nil. No

1

2

3

4

5

6

7

8

9

10

U.S. investment, no loans, no services, very few travelers; in fact the U.S. probably has less to do with North Korea commercially than with any other country in the world. This is in part due to U.S. sanctions on certain North Korean activities but is mostly because North Korea has chosen not to join the trading system regulated by the WTO, making it necessary for the U.S. to impose high tariffs needed to guard against the socialist system's arbitrary prices. And as a result of the lack of trade or any other kind of economic transactions, North Korean wages are still only 2 percent or so the level of U.S. wages, probably a larger discrepancy than in 1948.

Without major policy changes the outlook would appear to be toward further widening in the disparity between U.S.-North Korea economic linkages. The recently ratified KORUS Free Trade Agreement, by lowering mutual tariffs to near zero, will give a modest boost toward further U.S.-South Korean trade-driven convergence whereas North Korea's unwillingness to even apply for WTO membership prevents the U.S. from removing high tariffs on North Korean exports. This unequal treatment is not a "sanction" or penalty by the United States on potential North Korean exporters but rather an acknowledgement of the reality that free trade regimes cannot coexist with command economy trade regimes without danger to both. Until North Korea understands this basic fact, its attempts to create special export zones will surely continue to falter.

What then would be the impact on the U.S. economy of major policy or strategic changes that unified the two Koreas? Let's first consider sectors in which the U.S. is likely to be benefitted and then consider sectors that would be disadvantaged. As noted earlier, there are not going to be all winners or all losers in such a complex process.

Winners

- Unification under current circumstances that opened North Korea to a market economy would very likely create an economic

boom there. The results would be very positive for the U.S. economy since the economies are so different they would complement each other nicely. Two-way trade and investment flows would surge and productivity and incomes would grow. As with China, U.S. brand name companies would likely find North Korea very profitable and North Korean demand for U.S. intellectual goods would be highly beneficial. U.S. agricultural sales would expand as well as North Korea shifted from self-reliance in foodstuffs to specialization in manufactures and services.

- One way of looking at the impact of a new market of 22 million people is by considering the 2007 analysis by the USITC of the goods trade expansion accorded by the then prospective KORUS Free Trade Agreement. This study estimated that the agreement would provide a permanent one-time boost to annual U.S. GDP of \$10.1-11.9 billion, or a little under 1 percent.⁹ Other studies that included service gains indicated a larger \$25 billion U.S. GDP gain.¹⁰ The latter would imply a per-capita increase in U.S. incomes of about \$75 per-year, this gain the result of improved exports and cheaper prices for imports from Korea. Even though much smaller at the outset, integration of the North Korean economy into that agreement, as poor an economy as it is, would have much more of a positive impact on the U.S. economy. A minimum contribution of about \$100 per capita, or a \$400 annual real income boost for each U.S. family, might be implied.
- Another estimate can be created using classical studies of the impact of trade and exports on an economy that suggest a GDP gain of about 1 percent for each 1 percent increase in the share of exports in a country's GDP.¹¹ If we postulate that North Korea, with

9_ United States International Trade Commission, "U.S.-Korea Free Trade Agreement: Potential Economy wide-and Selected Sectoral Effect," Investigation No. TA-2104-24. USITC Publication 3949, September 2007.

10_ Troy Stangarone, "Expectations Run High for the KOR-U.S. FTA The Peninsula," Korea Economic Institute, March 2012.

11_ Robert Krol, "Trade, Protectionism and the U.S. Economy: Examining the Evidence," Trade Briefing Paper, Washington D.C.: Center for Trade Policy Studies, September 2008.

1

2

3

4

5

6

7

8

9

10

a population about that of Taiwan, expands trade with the U.S. at a rate that gives it Taiwan's level of U.S. purchases in twenty years, this would imply a boost in U.S. exports of about \$37 billion, equivalent to 0.2 percent of US GDP and thus imply a 0.2 percent boost to U.S. GDP.

- A much larger gain would be registered in the ability of the U.S. to virtually eliminate its Korea related military expenses, both in Korea and worldwide in defense of Korea. Direct costs of the U.S. military presence in South Korea are somewhat offset by South Korea's \$700 million annual contribution to their upkeep, but U.S. costs for these 28,000 soldiers is still very large. U.S. Defense Department accounting makes it impossible to separate out North Korea related costs of the U.S. military and intelligence budgets but a reasonable minimal approximation of 5 percent of U.S. military expenses of \$711 billion in 2011 would equal about \$35 billion a year,¹² slightly more than even South Korea spends on its own defense, (although the latter does not include the opportunity costs of the substantially underpaid, conscript South Korean military force.) This includes about \$2.6 billion spent procuring Korean services in Korea by the Department of Defense in 2011.¹³ Some of the remainder is spent in Japan, where 47,000 U.S. troops, accompanied by nearly 50,000 dependents, support the defense of both Japan and Korea, but the bulk of it is spent in the United States where it is considered part of U.S. GDP.¹⁴ With the U.S. itself in poor financial condition with re-

12_In 1998, the U.S. libertarian think tank CATO, estimated that the U.S. spends \$15-20 billion on the defense of Korea, a figure that to my knowledge has not been argued with by the U.S. government. Adjusting for 15 years of inflation and much higher U.S. costs for high technology systems, \$35 billion or 5 percent of U.S. military spending seems like a reasonable estimate although some might argue that the reduction of the U.S. troop presence in Korea from 37,000 to 28,000 has lowered US costs. <<http://www.cato.org/pubs/handbook/handbook105.html>>.

13_U.S. Department of Commerce Bureau of Economic Analysis, "International Data" <<http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1>>.

14_GDP measures a nation's total product of final goods and services and in this

spect to both its governmental and its international deficits and debts, the ability to cut U.S. federal spending by \$35 billion or so would be of significant gain to the overall economy, much more, I suspect, than would come strictly from the gains from increased trade.

- The impact on the U.S. economy of such a cut in spending is nonetheless complicated. Economic studies show differing results on the impact of military spending on GDP growth across many countries but several recent studies indicate that at proportionally higher levels of defense spending, as is the case for the United States, military spending and economic growth are negatively correlated.¹⁵ Note that the spending itself is part of GDP, a service or benefit like any other provided by the government, but if military spending comes at the cost of investment spending, and thus reduces capacity for long-term growth. So to the degree that Korean reunification would reduce U.S. military spending it should allow an increase in U.S. investment and thus an increase in long-term growth. By how much, however, is very hard to say.
- Easier to see is the benefits to the U.S. taxpayer of a shift in spending, or a reduction in taxes, of \$35 billion a year. Whereas such a shift may have little impact on GDP, it would allow the average U.S. person to spend about 1,000 (\$4,000 per family) on a new mix of consumption, savings, and government services.¹⁶
- A unified Korea and the United States still might want to maintain a U.S. military alliance and a U.S. military presence in Korea but presumably this would be undertaken only to advance other goals

case the final service being provided is security and stability in Korea, something U.S. taxpayers presumably desire and are willing to pay for.

15_ Dale Bremmer and Randy Kesselring, "The Impact of Defense Spending on GDP: The Case of North America." Presented During the "Topics in Economics" Session at the 49th Annual Conference of the Western Social Science Association. Alberta, Canada. Friday, April 13, 2007.

16_ Uk Heo, "The Relationship between Defense Spending and Economic Growth in the United States," *Political Research Quarterly*, Vol. 63, No. 760 (April 2010), pp. 760~770.

1

2

3

4

5

6

7

8

9

10

of U.S. and regional Asian security. The goal, indeed the entire purpose, of the current alliance, protection of South Korea from a North Korean attack, would have been reached and ongoing expenditures against that goal could logically be suspended. This clearly would be the largest gain to the U.S. economy stemming from Korean unification and it reminds us of the quite substantial cost that the U.S. has incurred in Korea since even after the 1950-53 War – probably on the order of a trillion dollars or more, now embedded in the U.S. federal debt.

Losers

Economic costs to the U.S. of peaceful unification would be small and extremely difficult to measure. If the unification were not peaceful, or if it resulted in a long-term destabilization of the entire Korean economy, the cost would be much greater, probably much higher than the costs of the Iraq and Afghanistan wars to the U.S. economy. Such a destabilization in the midst of the current fragile global financial situation, for instance, easily could cause a new Asian financial crisis, negatively impacting China and Japan, the world's second and third largest economies. In the worst case, East Asia could turn, as it did 100 years ago, from a peaceful to a volatile part of the world. Assuming a peaceful unification:

- South Korea, no longer an island economy, would lose important characteristics that are probably beneficial to the U.S. economy, as it transitioned into becoming a part of the continental Asian economy. Land linkages to China and Russia, for example, would make South Korean trade patterns shift even faster to those countries. Oil and gas pipelines from Russia, for example, would build a strong relationship with Russia and inner Asia that currently does not exist. Rail connections to Europe are probably exaggerated in terms of economic influence—rail is much more expensive than ship for long distance trade, and much slower than air shipments needed for high-valued goods—but nonetheless would have some negative impacts on U.S. trade with Korea and Japan.

- Some U.S. producers of minerals and metals, for instance lead and zinc producers, magnesite, and rare earths, may find more competition from North Korea producers with some of the largest deposits in the world.
- The U.S. could lose some leverage over Korea in terms of trade negotiations and investment terms. And Korean current account surpluses would no longer be used to purchase U.S. Treasury notes, going instead into investment in North Korea and to the rest of Asia. These may, on the margin, require a tiny upward tick on U.S. interest rates penalizing U.S. borrowers while rewarding U.S. savers. I would expect a large controversy in Korea to emerge over Korean participation in the U.S.-led Trans Pacific Partnership. The strict market based rule system inherent in the partnership might make it difficult for China to participate, and if not, Beijing might put pressure on a unified Korea to stay out as well, and even join with Beijing in a more “socialist-market friendly” structure. One can also imagine increased regional pressure for an Asia-wide, and Chinese dominated currency zone. These for Seoul would require watershed decisions and U.S. influence over their outcomes could be small. My expectation, but with low confidence, would be that Seoul would resist getting too close to China, opting as has the UK in Europe, to stay clear of too much continental integration, and would try to maintain closer links to the U.S. dollar zone. I have higher confidence that even as Asian economic integration deepens, cultural and national rivalries will remain or even grow, as they have in Europe, giving impetus to continuing high levels of U.S. influence.
- Management of peaceful unification would likely not be optimal under the best of circumstances and severe mismanagement, as discussed above, could be detrimental to the U.S. economy should the Korean economy stagnate or otherwise falter. The U.S. would likely be expected to provide aid to North Korea, likely billions or even tens of billions of dollars annually over several years, to help stabilize that economy and put it on a sustainable growth path. An effort on par with economic aid given to South Korea in

1

2

3

4

5

6

7

8

9

10

the 1950s might be expected. For some years this would eat away at the gains from military cost reductions.

- The shift in U.S. federal spending from Korea to other activities, or to a reduction in taxes or borrowing, would have a very negative impact on some small segments of the U.S. defense industrial establishment, and to some intelligence components. North Korea comprises conventional, nuclear and potential terrorist threats and thus feeds spending in virtually all aspects of the U.S. defense equation. As the withdrawal from the Middle East and Afghanistan proceeds, and continues slowly from Europe, South Korea remains one of few places where a U.S. land base army is still needed.

Summary

To summarize, the net impacts of peaceful Korean unification on the U.S. economy would likely be small but positive. Trade and investment gains with a larger Korean economy would be strongly positive despite some loss of trade share to the larger domestic Korean economy and to Korea's likely expanded trade with China, Russia, and Eurasia more generally. The largest winners eventually would be U.S. taxpayers who would no longer need to fund Korean domestic security. Little in the way of increased economic competition would be envisioned from northern Korea as that economy now stands as wholly complementary to the U.S. economy. U.S. investors and corporations would gain by investing in and establishing a strong presence in northern Korea as they have in China. The largest U.S. losers would be the defense establishment that might press for offsets, for example by trying to maintain a large U.S. military presence on the Peninsula to contain potential Chinese aggressive tendencies. But by any stretch of the imagination, these gains and losses are a long way off. Even if a unification process were to start immediately, short term concerns over how the unification was to work out, not just for Korea but for the region at large, would probably raise U.S. military spending for a few years. Eventually though a large military draw-

down in Korea and in the region could be expected and that would be significantly beneficial to the U.S. economy at large. A long and expensive phase of our history in East Asia would finally be over.

1

2

3

4

5

6

7

8

9

10

References

- Bremmer, Dale and Randy Kesselring. "The Impact of Defense Spending on GDP: The Case of North America." Presented during the 'Topics in Economics' Session at the 49th Annual Conference of the Western Social Science Association in Alberta, Canada. April 2007.
- Brown, William B. *The United States, Korea, and East Asia in the 21st Century*. Seoul: Korea Institute for National Unification, 2008.
- Choi, Seung Mo, Hyung Seok Kim and Max St.Brown. "Economic Impacts of Reunifications in Germany and in Korea." December 2011. <[http://cahnrs-cms.wsu.edu/ses/gradstudents/MaxStBrown/Documents/Choi,%20Kim,%20St%20Brown%20\(2011\)%20Reunification.pdf](http://cahnrs-cms.wsu.edu/ses/gradstudents/MaxStBrown/Documents/Choi,%20Kim,%20St%20Brown%20(2011)%20Reunification.pdf)>.
- Elliot, Michael. "The F-1 Visa Interview: A Guest Post." <<http://www.k2campus.com/>>.
- Heo,Uk. "The Relationship between Defense Spending and Economic Growth in the United States." *Political Research Quarterly*. Vol. 63, No. 760, April 2010.
- International Monetary Fund. "IMF, World Economic Outlook database." September 2011. <<http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx>>.
- Krol, Robert. "Trade, Protectionism and the U.S. Economy: Examining the Evidence." Trade Briefing Paper, Washington D.C.: Center for Trade Policy Studies. September 2008.
- Stangarone, Troy. "Expectations Run High for the KOR-U.S. FTAThe Peninsula," Korea Economic Institute. March 2012.
- Stockholm International Peace Research Institute. "The 15 countries with the highest military expenditure in 2011." <http://www.sipri.org/research/armaments/milex/resultoutput/milex_15/the-15-countries-with-the-highest-military-expenditure-in-2011-table/view>.
- _____. "SIPRI Military Expenditure Database." <<http://www.sipri.org/databases/milex>>.
- U.S. Department of Commerce Bureau of Economic Analysis. "International Data." <<http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1>>.
- _____. "National Data, April 2012." <http://www.bea.gov/scb/pdf/2012/04%20April/D%20pages/0412dpg_a.pdf>.
- U.S. Department of Commerce. "Statistical Abstract of the United States, 1950." <<http://www2.census.gov/prod2/statcomp/documents/1950-01.pdf>>.
- _____. "U.S. Trade in Goods by Country." <<http://www.census.gov/foreign-trade/balance/>>.
- U.S. International Trade Commission. "U.S.-Korea Free Trade Agreement: Potential Economy wide-and Selected Sectoral Effect." Investigation No. TA-2104-24. U.S.ITC Publication 3949. September 2007.

Wolf, Charles Jr. "Korean Reunification and Reconstruction: Circumstances, Costs, and Implication." <http://www.nbr.org/downloads/pdfs/PSA/BS_Conf06_Wolf.pdf>.
CATO <<http://www.cato.org/>>.

1

2

3

4

5

6

7

8

9

10



**Korean Peninsula Division/Unification and China:
From the Security Perspective of China**

Chapter **3**



Chapter 3. Korean Peninsula Division/Unification and China: From the Security Perspective of China

Ming Liu

Introduction

The Korean Peninsula has been divided for almost 60 years, which brings great pain to the Korean people. Looking to other parts of the world, Vietnam and Germany have realized the task of unification in 1975 and 1990, respectively. Now, only the Korean Peninsula and China are facing division. Taiwan doesn't have a consensus for unification with Mainland China, whereas the two Koreas share a strong desire for unification.

After more than 60 years of suffering from North Korea's repeated bluffing and provocations, South Korea feels the desire to unify much more strongly than it ever has, particularly after the sinking of the South Korean corvette Cheonan and its Yeonpyeong Island being shelled by North Korea in 2010. They think that only unification could effectively eliminate the North Korean threat and realize the goal of denuclearization. Thus, the South Korean government set up a fund in the year 2012 to start raising 55 trillion won (U.S.\$49.4 billion) to help pay for its eventual reunification with the North.¹ Actually, unification has been a topic for South Korea since the separation occurred 60 years ago, and many plans and proposals have been put forth since the establishment of the First Republic (1948-1960), and a variety of scenarios have been developed in the wake of the North

1_ "South Korea Plan to Create 55 Tln Won Fund for Unification with North Korea," *Yonhap News Agency* (in English), November 1, 2011, <<http://english.yonhapnews.co.kr>>.

1

2

3

4

5

6

7

8

9

10

Korean starvation of 1995-1997.

In all these discussions, the attitudes and positions of the major powers towards unification has always been the key to the smooth development of the process. Within this major powers factor, naturally, China is one of the most important variables, as they are primarily regarded by the South Korean people as a roadblock on the way to unification. These worries are not completely groundless, since China is theoretically North Korea's only ally in the world. China was involved in the Korean War on the side of the DPRK, whereas South Korea has America as an ally, and the U.S. strategically sees Beijing as a potential challenger. Against this background, a divided Korean Peninsula could be favorable for China's strategic environment.

However, the argument that maintaining the Korean division is favorable to China doesn't necessarily lead to the conclusion that Beijing would do whatever it can to block the unification process when the situation is evolving in that direction. Whether China would fully support the unification process or not depends mainly on a cost/benefit analysis and the trend of development in the situation. Given this understanding, this paper seeks to make an objective examination of China's costs relative to the Korean Peninsula division and the benefits China would gain from a Korean Peninsula unification.

China's Costs Relative to the Korean Peninsula Division

In the wake of the passing of the Cold War era and China's normalization of South Korea, China's ties with North Korea have experienced an obvious transition. Beijing no longer offers full scale assistance to Pyongyang, and the regular amount of economic assistance has been reduced to a lower level than before.² China no longer

² According to a South Korean media report, China offers 100,000 tons of rice and 500,000 tons of fuels to North Korea every year, see *The Dong-A Ilbo*, June 25, 2012, <<http://english.donga.com/>>.

backs North Korea's provocative behavior and its goal of reunification through force. China explicitly opposes North Korea's nuclear program; and China also disapproves of North Korea's closed-door policy.

Since the two countries have these differences, they are often at odds with each other on the policies Pyongyang pursues. In the face of this situation, the DPRK prioritizes its national interests by independently and aggressively pushing forward its "military first" strategy. Therefore, North Korea has become a burden for China diplomatically, which impedes China's efforts to solve the problem of Korea's nuclear weapons.

This kind of policy conflict with China will exist as long as the division of the Korean Peninsula continues. So the costs of the division are quite extensive.

In terms of the political costs, they could be reflected upon from several angles. First, Beijing is still regarded by the international community as the most influential actor in relation to and protector of North Korea. Since China still offers a moderate sum of economic and energy assistance and maintains a close economic and political exchange with North Korea, this special linkage between China and North Korea tarnishes China's image in the international community.

Secondly, North Korea places possession of nuclear weapons as one of their strategic goals, which contrasts with Chinese national interests on the Korean Peninsula. Beijing doesn't want its neighbors to become nuclear states, as that would limit Chinese nuclear deterrence against the U.S. alliance and would make the surrounding security situation more complicated and dangerous. Also, China is a major power that firmly supports the NPT regime and collaborates with other major nuclear powers to confine membership in the nuclear club to as small a number as possible. Therefore, North Korea, having already performed two nuclear tests, heightens the tensions between China's "emerging role as a global actor with increasing international responsibilities and prestige and a commitment to North Korea as an ally with whom China shares

1

2

3

4

5

6

7

8

9

10

longstanding historical and ideological ties.”³

As a partnership of traditional friendship, China and North Korea should have a convergence of national interests. But the DPRK is a country that clings obstinately to its own course; and when it decides to do something, it often neglects Chinese interests and advice. As a result, South Korea and the U.S. are tempted to think that China does not do all it can to force North Korea to refrain from its provocative measures.

When North Korea has stubbornly taken provocative actions and flagrantly conducted nuclear tests, South Korea and the U.S. have taken the issue to the UN, asking the Security Council to condemn and punish North Korea. In such circumstances, Beijing has tried to help North Korea get out of its diplomatic fix by resisting tough measures in the proposed resolutions against North Korea. In July of 2010, the UN Security Council discussed a resolution to condemn North Korea as the culprit for the sinking of the South Korean corvette Cheonan. China successfully blocked the resolution and persuaded the U.S. and South Korea to pass a UNSC Presidential Statement on July 9 instead, which didn't mention the DPRK as the attacking country. If this kind of coverup or leniency is repeated frequently without sufficient justification, China's behavior would be described as irresponsible.

Though Beijing doesn't like any of North Korea's provocations against South Korea, it finds it difficult to criticize Pyongyang's conduct openly, since their bilateral relations go beyond normal state ties. If the PRC were to side with the ROK completely in the inter-Korean squabble, caused by the North, the Chinese special position would lose ground, and the DPRK would develop unfriendly policies towards China. As a consequence, China's leverage in persuading North Korea to keep its relations toward the South rational and to forgo its nuclear weapons would be reduced.

This neutrality, as a matter of fact, also has something to do with

3_Scott Snyder and See-won Byun, “China-Korea Relations: Pyongyang Tests Beijing's Patience,” *Comparative Connections*, Vol. 11, No. 2 (2009), p. 103.

China's policy of maintaining the status quo on the Korean Peninsula. China doesn't want to see South Korea engage in radical retaliatory acts against the North. Of course, keeping the status quo also reflects some Chinese concerns that a unified Korea would lead to an unfavorable position for China, since the U.S. might then divert its strategic resources to deter China's capabilities, and the newly reunified Korea might no longer regard China as a strategic partner, absent a hostile North Korea. Also, it might be wary of the unpredictability of the ties between Beijing and Seoul in the future, which includes the uncertain role of the Korea-U.S. alliance.

Thirdly, over the last decade, the Korean Peninsula situation has developed unevenly. Kim Jong-il and Kim Dae-jung had the first inter-Korean summit in 2000, which led to an intermittent reconciliatory period of 7 years that also featured a second inter-Korean summit in 2007 between Kim Jong-il and Roh Moo-hyun. However, the DPRK didn't substantially change its military and domestic policies; they took advantage of Kim Dae-jung's Sunshine Policy as well as Roh Moo-hyun's engagement policy to pursue nuclear and missile development. As a matter of fact, North Korea made almost no reciprocal gestures towards South Korea relative to the latter's demands: repatriating POWs back to South Korea and signing a military guarantee agreement for customs clearance along the Demilitarized Zone. Furthermore, Pyongyang always gave the cold shoulder to Seoul's demand for inter-Korean talks on the issue of denuclearization.

When this fragile reconciliation stopped with Lee Myung-bak's presidency, the previously eased inter-Korean relations deteriorated abruptly. Much worse, in 2010 the South Korean corvette Cheonan was sunk by an unknown agent from the outside, which a joint-investigative team claimed was a torpedo from a North Korean minisub. Also, the DPRK military shelled the South Korean island of Yeonpyeong near the Northern Limitation Line (NLL) during a series of South Korean-American military drills.

Following this attack, the aircraft carrier U.S.S. George Washington moved into the Yellow Sea, displaying muscle to deter North

1

2

3

4

5

6

7

8

9

10

Korea from further military action and to prevent South Korea from engaging in a risky retaliation. As a further consequence, China subsequently held naval drills in the East China Sea and the Yellow Sea, just to show its unhappiness with the American naval maneuvers near the Chinese EEZ. These kinds of countervailing military exercises and the growing strain between China and the U.S. exacerbate tensions not only on the Korean Peninsula, but also in the whole North-east Asia region. Furthermore, the Cheonan sinking and its aftermath had far-reaching implications for efforts to achieve regional peace and the denuclearization of North Korea.⁴

Fourthly, China's core goal is to maintain the status quo, which means stability and peace between the two Koreas. If the Korean Peninsula were to be frequently and periodically involved in a crisis or confrontation, China would often feel anxious, fearing that the crisis would escalate and even get out of control, and in a worst case scenario, Beijing would be drawn into a new Korean War or an inter-Korean conflict, which would seriously disrupt the peaceful environment of China's northeast region. Therefore, China's State Councilor went to Pyongyang and Seoul immediately following the 2010 crisis, trying to reduce the hostility and to discourage any further military actions between the two Koreas.

During the period of February to June, 2012, in the wake of Kim Jong-Un's assuming the leadership position, the whole situation was still near a volcanic edge. Many analysts assumed that the performance of another atomic test by North Korea was just a matter of time following the failure of a controversial rocket launch in April, 2012.⁵ In addition, during that period North Korea vowed many times to launch a "sacred war" against South Korea at "any time necessary"; and it also threatened to strike the South Korean government and conservative media. In response to North Korea's vicious lashing out, South Korea and the U.S. also displayed their strength

4_ "Post-Cheonan Regional Security-Where are we now? Where do we go from here?," at *APIS Symposium*, August 2010, p. 1.

5_ K.J. Kwon, "North Korea Slams Use of Its Flags in U.S.-South Korean Military Drills," *CNN U.S.*, June 25, 2012, <<http://edition.cnn.com>>.

by frequently conducting military drills near North Korea's coastal waters or a mere 50 kilometers away from the North Korean border. North Korea reacted angrily to the use of its flag by South Korea and the United States during live-fire drills in June of 2012, calling it "a grave provocative act."

The high tension on the peninsula will have a profound impact on the two Koreas, as well as on Sino-American, Sino-South Korean and Sino-North Korean relations. On the one hand, North Korea would be determined to strengthen its nuclear deterrence; on the other hand, each side might engage in overreaction or miscalculated actions towards the other. As the major neighboring country, China will usually adopt a neutral and balanced stance between the two Koreas. However, sometimes China will have to tilt to one side in a certain crisis. On such occasions, the other side that fails to gain support will adopt a negative attitude towards China. Thus, whatever China would do, it could not fully meet the demands of both sides at once, and China will always be in a big dilemma while an unstable and confrontational Korean Peninsula exists.

As a rising power, China doesn't want to repeat the old path or model that the previous hegemonic power chose. With respect to this goal, Beijing has to take more responsibility in resolving international conflicts, to play fair as a mediator between conflicting parties, and to commit itself more firmly to common regional economic and security interests.⁶ If China really wants to play this new role, it has to figure out how to resolve its North Korean predicament.

China's Benefits in a Korean Peninsula Unification

A large number of South Korean scholars argue that North Korea is a buffer zone for China and that it is not in the interests of Bei-

6_Hochul Lee, "China's Peace equation: Rising China and Security in East Asia," a paper for a symposium on 'Peace in Korean Peninsula and Sino-U.S. Relations,' co-sponsored by the Center for Korean Studies, Fudan University and Institute of Chinese Studies, University of Incheon, Shanghai, October 28~30, 2011, p. 3.

1

2

3

4

5

6

7

8

9

10

jing to support unification. This argument is not unreasonable. Late Chinese senior leader Deng Xiao-ping once stressed the importance of the existence of North Korea by claiming that it was, indeed, a strategic buffer zone for China.⁷ Underneath Deng's remarks was a concern about the possibility of U.S. troop deployments in North Korea. In such a situation, the U.S. would border on China. This thinking has been quite prevalent in China's strategic studies cycle for a long time.⁸

However, opposing views have also been gaining momentum since North Korea undertook two nuclear tests and has often touched off tensions on the Korean Peninsula. One view holds that, once the Korean Peninsula is reunified, the U.S. would have no rationale to continue stationing forces there, or at least, would have to reduce the number of its troops deployed there.

Another supporting argument is that if the U.S. were to engage in a conflict with China, it could have diverse places from which to choose for launching an attack. North Korea doesn't have a unique position that is incomparable with others.⁹

Just assessing China's policy on Korean unification from the perspective of a China/U.S. competition is too simplistic. Sino-American relations could currently be defined in terms of a cooperation-confrontation paradigm. Along this spectrum, both sides make decisions ranging from supportive to unsupportive (or unhelpful) of the other.¹⁰ On the Korean Peninsula, or in the issue of North Korea,

7_Ming Liu, "China and the North Korean Crisis: Facing Test and Transition," *Pacific Affairs*, Vol. 76, No. 3 (2003), pp. 347~373.

8_Peng Yun, "*Chaoxian Bandao Wenti Zoushi ji Zhongguo Yingduifangan* (The Developmental Trend Involving the Korean Peninsula Issues and China's Strategy)," *Global Defense*, November 12, 2012, <www.clk-mil.com/wdjj/pengy001.htm>.

9_Zhenhai Qiu, "*Zhongguo Shifou Yingdang Tiaozheng Duichaozhanlue* (Should China Readjust its North Korea Strategy?)," <<http://blog.ifeng.com/article/2630601.html>>.

10_Thomasingar, "Alternate Trajectories of the Roles and Influence of China and the United States in Northeast Asia and the Implications for Future Power Configurations," L. Gordon Flake (ed.), *One Step Back? Reassessing an Ideal Security State for Northeast Asia 2025* (Maureen and Mike Mansfield Foundation, 2011), p. 130.

this paradigm could be applicable as well. Beijing did hold suspect the U.S.'s overall strategic intentions in East Asia, but whether they would support unification also depends on their limits of tolerance regarding North Korea's decision on denuclearization, North Korea's future development trajectory, and its judgment on the U.S. guarantee of China's security interests in the Korean Peninsula.

Viewing China-North Korea relations, the opposing opinions also stand up. China and North Korea have had an agreement that both sides should consult with the other before any important decisions are made. However, the DPRK seldom listened to Chinese views before they took important actions, like nuclear tests, missile firings and negotiations with the U.S. In other words, when they have decided to do something, they have not taken Chinese interests into account. However, China will always bear its responsibility for what the DPRK does in a crisis or tense situation.

If North Korean issues were to cease to exist, Beijing should not have to suffer a bitter feeling of betrayal and to face a paradox--offering benefits but receiving none in return. Increasingly, many young people complain about such things as China's lavish treatment of Kim Jong-il when he visited China and North Korea's obstinate position on nuclear development, irrespective of China's interests and concerns.

So the first benefit of unification is the elimination of a political burden and the fact that China could have more room for strategic maneuvering and options. In particular, China would not have to maintain abnormal state-to-state relations with North Korea nor to speak out on behalf of North Korea when it makes mistakes.

In terms of economic benefits, unification will also bring positive effects for China. According to different sources' unconfirmed statistics, China provides 100,000 tons of food, 500,000 tons of fuel, and goods worth 20 million U.S. dollars to North Korea every year.¹¹ Of course, this kind of assistance is not always unconditional; some-

11_“Scale of Yearly Chinese Unconditional Aid to N.Korea Unveiled,” *The Dong-A Ilbo* (in English), June 24, 2012, <english.donga.com>.

1
2
3
4
5
6
7
8
9
10

times it is just for the purpose of coaxing the DPRK back to the Six-Party Talks, or a reward for their implementation of an accord coming out of those talks. As for the unconditional aid, it is partly offered based upon a regular economic cooperation agreement, and partly given out on the occasion of both leaders' exchanging reciprocal visits, which are treated as gifts from China. In addition, there are other temporary arrangements, such as humanitarian assistance, a deal of a grant for the Chinese exploration of North Korea's mines or using certain transportation facilities.

It is difficult to figure out the real amount of China's aid every year, but definitely, North Korea ranks near the top in the list of recipients from the Chinese government. If this amount of assistance could be saved and transferred to other countries that are in need, it would produce greater effects and bring back more strategic and substantial rewards to China. Even if there are no such rewards directly, it would help other countries' development as well as people's welfare.

Adding weight to this argument: this quantity of assistance to Pyongyang is not only an economic burden or a loss in terms of a cost/benefit analysis, but it is also a political burden for China. It is widely acknowledged in the international community that "China is North Korea's most important ally; biggest trading partner; and main source of food, arms, and fuel. China has helped sustain Kim Jong-Il's regime and opposed harsh international economic sanctions in the hope of avoiding regime collapse and an uncontrolled influx of refugees across its eight-hundred-mile border with North Korea."¹²

Given that understanding, the U.S., South Korea and other countries have always believed that it is only China that could play a primary role in persuading Pyongyang to drop its nuclear program. By that token, they continually ask China to use its economic leverage fully to press North Korea to make a concession. However, China

12_Jayshree Bajoria, "The China-North Korea Relationship," Backgrounder, Council on Foreign Relations, October 7, 2010.

thinks its role is not as influential as what others suspect. For one reason, China's assistance, traditionally, has not been used for negative purposes, but more for encouraging ends, and it is unwilling to see massive numbers of starving people swarm across the Chinese border because of the severance of the food and fuel supply. For another reason, North Korea is a country that is immune to outside pressure, and China neither wants to become a country that uses sanctions as a stick nor believes that severance of the assistance could force Pyongyang to bow to pressure.

However, if unification could be accomplished in the near future, the aforementioned discord between China and other countries around economic sanctions on North Korea would end, naturally, and China would be relieved of the international pressure.

Beyond relief from the economic burden on China, once unification is in place, there is another great bonus for China, i.e. the bright prospect for regional economic cooperation over the border-areas of China, Korea, Russia, and Japan, across the East Sea.

Over the last two or three decades, various Northeast Asia economic cooperation plans have been proposed, including the Tumen River Area Development Project (TRADP). But there has been little progress in terms of substantial cooperation due to the complicated causes, including China-Japan and South Korea-Japan historic feuds and territorial disputes; the U.S.-Japan hedging policy towards China; inter-Korean tensions and military confrontation along the Demilitarized Zone; North Korea's nuclear program and closed-door policy, etc. Among them, the Korean Peninsula division is the most important factor obstructing the deepening of cooperation.

China has more enthusiasm for the Tumen River Area Development Project than any other Northeast Asian country, including North and South Korea, Russia, Japan and Mongolia. Through this development, China wants to elevate its northeast area economic development level, which is comparatively less-developed than its east coast area. According to this ambitious plan, it will try to convert an area - from the Chinese town of Yanji to the Sea of Japan, and from Chongjin in North Korea to Vladivostok in Russia - into a \$30

1

2

3

4

5

6

7

8

9

10

billion trade and transport complex with 11 separate harbors, three international airports, and an inland port rail hub. However, this grand undertaking is based upon transnational financial support, legal protection, market economy and all related governments in full coordination. It also relies largely on private investors from outside and foreign assistance agencies sharing the funding for the project.

The biggest barrier is North Korea and its intransigence about the nuclear issue and other agreements. Pyongyang claims to want foreign investment, but on its own terms.¹³ Because the North Korea nuclear issue is pending, and inter-Korean relations are on and off, few foreign investors would have an interest in pouring a large quantity of money into this uncertain place. That's why a pessimistic viewer came out and said, "The Tumen area seems destined to have a hard time and luring capital and multilateral cooperation remains a hollow slogan."¹⁴ Also, because the U.S. has not established diplomatic relations with North Korea, there are many legal impediments preventing American businessmen from trading with an area that is economically involved with North Korean people and companies.

Nevertheless, China is still pursuing the development of Tumen. In May of 2012, the Chinese government approved the setting up of an International Cooperation Model Zone in Hunchun city, within which four functional areas will be constituted: foreign trade cooperation, international industries cooperation, China-North Korea economic cooperation, and China-Russia economic cooperation.

In addition to the Tumen River Area Development Project, there is a series of economic cooperation projects. First is a gas pipeline from Russia to South Korea. This project has long been discussed by Korean as well as Russian economists and officials. North Korea's late leader, Kim Jong-il, also had great interest in it; but, due to the unstable inter-Korean relations and North Korea's changeable attitude towards South Korea, the project remained on paper only for

13_“TED Case Studies: Tumen River Project,” <www1.america.edu.cn/ted/TUMEN/HTM>.

14_ *Ibid.*

a long time.

If this project is realized, China could also gain some benefits. China, South Korea, Japan and Russia could promote intense economic cooperation projects in North-east Asia based on a division of work with a sufficient supply of gas. China also could tap into this pipeline and let Chinese enterprises share part of the gas.

Secondly, if Korean unification materializes, all the railways across North and South Korea could be linked with the Chinese railway system. According to the previous inter-Korean agreement, a railroad should connect Seoul and Sinuiju on the Gyeongui Line, and then the Trans-Korean Railroad (TKR) could connect with the Trans-Chinese Railroad (TCR). Some South Korean officials have even talked enthusiastically about the concept of the “Iron Silk Road,” which would connect the TKR to the Trans-Siberian Railway and Trans-Asian Railway. If that plan could be realized, “the cheap and abundant natural resources and labor in Russia, China, Mongolia and North Korea can be combined with the technological strength and capital of South Korea and Japan.”¹⁵

Besides this, the connection of the China-Korea railways also would produce positive effects for the development of the Chinese Northeast region and the building of the Euro-Asia Bridge.¹⁶ Though trains from the North and South performed trial runs from both sides across the border in the Demilitarized Zone on May 17, 2007, a full line connection hasn’t been accomplished due to the North Korea military factor and the re-emergence of inter-Korean tensions.

Third, now that China, Japan and South Korea are preparing for the negotiation of FTAs, if North Korea could be integrated

15_Republic of Korea Ministry of Unification, *Peace and Prosperity: White Paper on Korean Unification* (Seoul: Ministry of Unification, 2005), p. 68.

16_Dun-qiu Li, “ZhongHan Guan-xi yu Chaoxian Bandao Tongyi (*China-South Korean Relations and the Korean Peninsula Unification*),” Shi Yuan-hua and Fang Xiu-yu (eds.), *Huanhe yu Hezuo: Dongbeiya Guojiguanxi 30 nian* (Detente and Cooperation: 30 Years of Northeast Asian International Relations) (Seoul: Dawang Press, 2003), p. 297.

1
2
3
4
5
6
7
8
9
10

into this FTA arrangement, the magnitude would become much larger, and the benefits would expand proportionally.

On the political side, first, the elimination of the North Korean nuclear issue and Korean Peninsula tensions would greatly reduce military competition and facilitate the building of a new regional security order in Northeast Asia. For China, it would be assured that Japan and South Korea would have no rationale to pursue a nuclear policy, which could preclude the forming of a nuclear perimeter around China. Also, an embryonic trilateral military alliance among the U.S., Japan and South Korea might not proceed as planned, and military drills could be decreased to a minimal level, as they were in the past. Therefore, China's security environment could be improved significantly.

Second, China's diplomacy to the Korean Peninsula would be carried out much more easily. Beijing would no longer have to manage a balanced tie between North and South Korea in a subtle and sophisticated manner, and as a result, it would reduce sharp criticism from the South Korean media, as China would not be bogged down by contentiousness between the two Koreas.

Third, China and South Korea (or a unified Korea) could substantially promote and expand their strategic partner relationship. Currently, in implementing the partnership, China will always take the North Korea factor into account and will try to avoid offending North Korea or causing its unhappiness and nervousness, which limits the effects and deepness of this partnership development. For South Korea, as it faces heavy military pressure and uncertain behavior from North Korea, it has to consolidate its alliance capabilities and tilt strongly in the direction of the U.S. East Asia strategy, which will substantially affect the content of cooperation within the China-South Korea strategic partnership. Specifically, when the two countries conduct military exchanges for confidence-building, Seoul has to pay attention to the U.S. concern for the possible revelation of its military technology and capability information to China.

China's Position on the Korean Peninsula Unification

China sees the benefits of unification clearly, but it doesn't think any kind of rushed and non-peaceful unification will bring positive effects for China. At the same time, North Korea refuses to renounce the possession of nuclear weapons, and Beijing will not accept any proposal of regime change, such as those raised by some former U.S. officials. If China were to agree to such a plan, it would mean that the PRC would renounce its long-standing position that any country should respect the sovereignty and the integrity of the territory of the others. Further, regime change would certainly involve the use of military force and would lead to some significant conflicts; and the expansion and escalation of the fighting would probably cause large numbers of refugees to flow across the China-North Korea border and spread military action onto Chinese soil.

There are so many uncertain scenarios in this option, each of which contains variable and dangerous results. Therefore, it is in Beijing's interest to see North and South Korea sit down and work out a mutually acceptable approach to unification.

In the past 40 years, both North and South Korea have put forward different kinds of unification proposals. Before China and South Korea normalized diplomatic relations, Beijing maintained a deferential policy towards Pyongyang that supported Kim Il-Sung's proposals of unification by confederation.

Kim Il-Sung's first proposal was announced on August 14, 1960, and in the 1970's, North Korea published the Five Point Program for Unification, which called for building a "Confederated Republic of Koryo."¹⁷ In the 1980's, the configuration was expanded into the "the Formula for Creating a Democratic Confederal Republic of Koryo." When the Kim Jong-il era began, North Korea changed the formula into that of a low-level federation, which seemed to integrate the two parts into one country.

On the South Korea side, there have been many types of unifica-

¹⁷ Republic of Korea Ministry of Unification, *Peace and Cooperation: White Paper on Korean Unification* (Seoul: Ministry of National Unification, 1996), pp. 75-76.

tion formulas; among them, the most influential one is the commonwealth system, which was embodied in the proposal submitted in 1989 by President Roh Tae Woo that featured a South-North confederation as a transitional stage prior to unification. It was later revised by his successor Kim Young Sam in 1993, and further modified by Presidents Kim Dae Jung and Roh Moo-Hyun. According to the last two presidents' designs, in the final stage of the unification process, democratic general elections would be held, and a unified government and nation with a single political system would be established.¹⁸ On the surface, both sides uphold a unification goal and share similarities; but in essence, there are some substantial differences. First, each side's proposal implies its leading role; it can be seen simply in the sequence of unification terms that each side wants to be placed first: South-North Reunification (남북통일) or North-South Reunification (북남통일). Secondly, the South wants to reunite the peninsula under a liberal and democratic political system; while the North is afraid of being absorbed by the South under the western democratic system, so they try to use the confederal system to maintain their Juche system and will resist moving into the final stage under a western political system.

In terms of this difference and contradiction, China has to maintain a general and neutral policy towards Korean unification. In principle, Beijing will support any approach and process for promoting unification that will be carried out in a peaceful way and upon which both Koreas agree. In the unification process, what China opposes considerably is foreign intervention and the use of military force, which means a unification arrangement imposed upon the people by one side or the other.

From the past statements of Chinese leaders, we can see the frequent reiteration of these principles. Chinese President Jiang Ze-Min (1989-2002) told a North Korea delegation that China would support efforts of North and South Korea to improve relations through

18_ Republic of Korea Ministry of Unification, *Peace and Prosperity: White Paper on Korean Unification* (2005), p. 15.

dialogue and finally to realize unification through an independent and peaceful approach.¹⁹

When China reiterates its general position on unification, various considerations might be in its mind. 1. Reconciliation and cooperation between the North and the South are of importance for the stability and relaxation of tensions. 2. Over the short and medium terms, there is no prospect for unification; North Korea could survive for a relatively long time. 3. If unification finally materializes, the approach must be absorption, i.e. the North will be integrated into the South. 4. Currently, any formulas raised by politicians are just for political propaganda; they don't have realistic meaning, and what China could offer now would be just lip service. 5. If the Korean Peninsula situation turns favorable for unification, no major power in the region could have reason and sufficient leverage to block the process.

Therefore, for the time being, China doesn't have any feeling that a unification is impending. What China pays more attention to now are the North Korean nuclear weapons program development, the resumption of the Six-party talks and the recalcitrant behavior of North Korea. During Kim Jong-il's last visit to China, Chinese leaders talked with him more about denuclearization, friendship, economic situation, inter-Korean relations, etc, but did not seriously mention unification or possible regime change.

In a comparison between the formulas of North and South Korea, it seems the South's formula is more feasible for implementation and would be acceptable for the people of both Koreas. The reasons are as follows: 1. North Korea is a poorly-managed country. The economy is functions poorly, and its people are living in destitution. Its leaders never reveal the goal of homeland unification. Therefore, South Korea dares not live together with the North under the canopy of a lower-level federation without the prior establishment of strategic trust, especially considering that the DPRK's aggressive ideology is still operative. 2. Since South Korea is the more prosperous and de-

19_ "China News Agency report" <www.hn.xinhuanet.com/news/2001-7-11/20017>.

veloped nation, and it wins international recognition as a medium-sized and attractive country, it would be most desirable for the North to be integrated into the system of the South. 3. Since the gap between the North and the South is so large that they could not immediately accommodate to each other in a unified society and system, a gradual and incremental approach could allow them to iron out the differences and help people adapt to their new life together, avoiding a shock both economically and psychologically.

Given this observation, it is in the interest of China to support a three-phase unification process, i.e. reconciliation and cooperation, cooperation, and unification. By this token, China was pleased to see reconciliation and cooperation proceeding well under the Kim Dae Jung and Roh Moo Hyun administrations during the time period of 2000-2008. Beijing is aware of the fact that when inter-Korean relations develop in a smooth and good way, China can pay less attention to the stability of the Korean Peninsula; South Korea would have less criticism of China, and China's role would be less important regarding North Korea. For this reason, Beijing felt greatly relieved when the North Korean military cleared mines and moved some of its weapons to make room for the rail system and the Gaesong industrial complex in 2007.

China also expects that North Korea could adopt an open-door and reform policy following the establishment of economic cooperation with South Korea, which would not only connect the whole Northeast Asian area together and transform it into a region of well-distributed economic factors, but also lead to building a peaceful, unified Korean Peninsula free of nuclear weapons. In terms of North and South Korean interests and the political realities, China prefers an economic and social integration, which will be based on reconciliation and North Korea's open-door policy, rather than a sudden political unification.

In addition to a gradual approach to unification, experts and media now talk a lot about a formula for sudden unification derived from an assumed scenario of North Korean domestic turmoil. Regarding this situation, it seems, so far, that China doesn't have a well

prepared plan. In such a case, China's position might be that of collaborating with the countries concerned and the UN to manage the ordering of the society. Encouraging political compromise and a solution among the parties within North Korea will be the most likely policy that China adopts, in light of its position in the UN discussion and voting on the turmoil in Syria in 2012. Unlike South Korea, China would not simply link the North Korean domestic issues to a chance for unification. Maintaining social order, exploring political solutions and making humanitarian arrangements might be China's priority of alternatives.

However, if the situation actually evolves to a stage that is ripe for unification, China would adopt an open mind to embrace it and to explore the possibility of developing peaceful and good relations with a unified Korea. Of course, during that transition period, China would do its utmost to help the North Korean people make their opinions heard by the interim authority, so as to protect their basic interests in the arranging of new institutions and setting up the new economic and political system, while keeping in close consultation with South Korea for collaboration on the unification process. China would certainly respect South Korea's leading role and position in the transition period. Before all the parties reach a consensus for unification, Beijing would oppose attempts of any outside force to make intervention or to take any kind of pre-emptive action to accelerate their preferred political process without gaining the prior consent of the main parties and leading social groups in North Korea.

Conclusion

A divided Korean Peninsula is a historical legacy from the Cold War era. The status quo of the quasi-war structure, the confrontation and frequent conflicts between the two Koreas, North Korea's nuclear development and "military first" policy, and its closed-door policy towards globalization and regional economic cooperation have become a burden and problematic for China in its international relations.

1

2

3

4

5

6

7

8

9

10

All these problems will endure for the foreseeable future, because we haven't seen sufficient evidence that North Korea will make substantial changes. Certainly, it would produce a new situation and get rid of most of the troublesome issues if the two Koreas could bring about unification, which could be reflected in the economic and security arenas.

However, whether unification could be accomplished or not doesn't currently rely only on the political choices of South Korea and other major powers. It also depends upon the joint efforts between the two Koreas to engage in the long process toward unification and on North Korea's leaders' adopting correct policies and respecting its people's choice.

China will support the two Koreas' unification goals and encourage the process to proceed in a natural and peaceful way. China's specific policy towards the unification process will be developed in a rational and practical way, but with a precondition that all the parties concerned need to respect the Korean people's interests and demands, and that outside countries should avoid taking any measures damaging to Chinese traditional and strategic interests on the Korean Peninsula; which means that a unified Korea would still be a close and friendly neighbor to China in terms of security and political relations. The unification should facilitate the development of a real strategic partnership between China and the unified Korea and help build a security mechanism in Northeast Asia.

References

- Bajoria, Jayshree. "The China-North Korea Relationship." Backgrounder. Council on Foreign Relations. October 7, 2010.
- Fingar, Thomas. "Alternate Trajectories of the Roles and Influence of China and the United States in Northeast Asia and the Implications for Future Power Configurations." L. Gordon Flake (ed.), *One Step Back? Reassessing an Ideal Security State for Northeast Asia 2025* (Maureen and Mike Mansfield Foundation, 2011).
- "States in Northeast Asia and the Implications for Future Power Configurations." L Gordon Flake (ed.). *One Step Back? Reassessing an Ideal Security State for Northeast Asia 2025*. Maureen and Mike Mansfield Foundation, 2011.
- Lee, Hochul. "China's Peace equation: Rising China and Security in East Asia." A paper for a symposium on 'Peace in Korean Peninsula and Sino-U.S. Relations', Shanghai, October 28-30, 2011.
- Liu, Dun-qui. "ZhongHan Guan-xi yu Chaoxian Bandao Tongyi (China-South Korean Relations and the Korean Peninsula Unification)." Shi Yuan-hua and Fang Xiu-yu (eds.). *Huanhe yu Hezuo: Dongbeiyu Guojiguanxi 30 nian (Detente and Cooperation: 30 Years of Northeast Asian International Relations)*. Seoul: Dawang Press, 2003.
- Liu, Ming. "China and the North Korean Crisis: Facing Test and Transition." *Pacific Affairs*. Vol. 76, No. 3, 2003.
- "Post-Cheonan Regional Security-Where are we now? Where do we go from here?" at *APIS Symposium*, August 2010.
- Qiu, Zhenhai. "Zhongguo Shifou Yingdang Tiaozheng Duichaozhanlue (Should China Readjust its North Korea Strategy?)." <<http://blog.ifeng.com/articles/2630601.html>>.
- Republic of Korea Ministry of Unification. *Peace and Cooperation: White Paper on Korean Unification*. Seoul: Ministry of National Unification, 1996.
- _____. *Peace and Prosperity: White Paper on Korean Unification*. Seoul: Ministry of Unification, 2005.
- Snyder, Scott and See-won Byun. "China-Korea Relations: Pyongyang Tests Beijing's Patience." *Comparative Connections*. Vol. 11, No. 2, 2009.
- CNN U.S. <<http://edition.cnn.com>>.
- The Dong-A Ilbo (in English)*. <<http://english.donga.com>>.
- Yonhap News Agency (in English)*. <<http://english.yonhapnews.co.kr>>.

1

2

3

4

5


6

7

8

9

10



**Korean Peninsula Division/Unification and China:
From the Economic Perspective of China**

Chapter **4**



Chapter 4. Korean Peninsula Division/Unification and China: From the Economic Perspective of China

Jiyoung Zheng
Jianzhong Jiang

Introduction: The Choice of the Unification Path

There are many discussions on the unification of the Korean Peninsula. There are two kinds of methods and models of bilateral unification: first, the Korean National Community model is proposed by South Korea; second, the model of the Democratic Federal Republic of Korea (DFRK) is put forward by North Korea. The Reunification of the Korean National Community program was first proposed by president Roh Tae-woo and improved by Kim Dae-jung Roh Moo-hyun and Kim Young-sam. It consists of a three-phase unification program based on a respect for democracy, a spirit of coexistence and promotion of national prosperity-reconciliation and cooperation, and both north and south being joined as one country with one government.¹ Kim Dae-jung articulated the three-phase unification program after he took office. The first phase involves the establishment of a North-South commonwealth and the maintenance of two separate governments. The commonwealth is developed into a federation in the second phase. This federation has a single federal government with two local governments under its control. In fact, it is an authentic reunification of the country. The third phase

1

2

3

4

5

6

7

8

9

10

¹ Yong-chu Kim, "South Korean President Kim Young-sam," *Current Affairs Press*, 1977, p. 334.

brings about one country, one government.² This program emphasizes South Korea's dominant role in the process of unification and stresses South Korea's aspirations in the process of unification according to the values of freedom and democracy and the principles of a market economy. It advocates for the unification of the Korean Peninsula by way of peace, reconciliation and cooperation. Through the strengthening of bilateral cooperation in the areas of railways, harbors, roads, communications and electricity and other infrastructure, the South Korean economic model would expand to cover the entire Korean Peninsula. At the same time, the combination of the Democratic People's Republic of Korea (DPRK)'s excellent labor and the ROK's capital would promote the international competitiveness of small and medium-sized enterprise in the newly unified Korea.³

The proposal of the DFRK offered by the DPRK is similar to that of South Korea in appearance. First, insisting on the three principles of independence, peace and the unity of ethnic groups, both North and South Korea would establish a federalist DFRK with equivalent rights and obligations which are based on mutual recognition of and allowance for the various ideological and social systems. Second, a Supreme National Federation Conference would be composed with equal representation from North and South Korea and the appropriate number of legislators. The Federal Standing Committee-the highest national Federal Assembly and its permanent bodies-would dominate the North and South local governments. The two statutory agencies would be authorized to discuss and decide the internal affairs of the States, foreign and defense policies and other issues of mutual interest. Third, the DFRK should be a neutral country and shouldn't join any political or military alliance or bloc.⁴ The federal government should set up its armed forces by integrating the exist-

2_ Un-Chul Yang, *The Political Economy of Korean Unification* (Sungnam: The Sejong Institute, 1998), p. 114.

3_ Republic of Korea Ministry of Unification, *Hand in hand, towards the Unification* (Seoul: Ministry of Unification, 2000), p. 73.

4_ II-Sung Kim, *Program on establishment of the Democratic Federal Republic of Korea* (Pyongyang: North Korea's Foreign Languages Press, 1979).

ing armed forces of the two countries. Neither party should impose its own ideology and social system on the other, and each should respect the system selection of the other for a significant period of time.⁵ In April 1998, Kim Jong Il reiterated the principles and policies of Korean Peninsula Unification and declared that he would adhere to Kim Il Sung's teachings on Korean Unification so as to achieve unification of the Korean Peninsula without interference from other nations by adhering to the principle of national independence and the communalities and common interests of the nation instead of the differences in ideologies and systems.⁶

Although there are ideological orientation or philosophical differences between the two models, in fact, the essential differences lie in the concrete ways unification is to be achieved and the identity of the leading force in the process of unification. In principle, there are similarities in terms of cooperation, peace and nationalism. This paper aims to calculate China's profits and losses from an economic perspective under the assumption of Korean Unification.

China's Cost of Korean Peninsula Division

Some political scientists and experts on China who focus on the study of international relations maintain the view that a divided Korean Peninsula is currently most favorable to China.⁷ No doubt, this view is taking into account China's reality only from the realist perspective. A divided Korean Peninsula, whether from the political, the security or the purely economic aspects, is an enormous loss to China, because the current status of the Korean Peninsula is likely to lead to serious losses to China in both macro- and micro-economic terms.

5_Jinying Wang, "Research on the mode of inter-Korean reunification," *International Forum*, Vol. 6 (2003), p. 15.

6_Qingyi Meng, Wenjing Zhao and Huiqing Liu, *Korean Peninsula: Problems and Solutions* (Shanghai: People's Publishing House, 2006).

7_Zbigniew Brzezinski, *The Grand Chessboard* (Shanghai: People's Publishing House, 1988), p. 218.

The division on the Korean Peninsula has consumed huge amounts of China's defense resources and increased the cost of China's security.

In order to strengthen their respective positions in the confrontation with one another, North and South Korea have inevitably sought support from the outside world and are likely to continue to do so. External forces will likely intervene into the affairs of the Korean Peninsula to maximize their own interests by taking advantage of this situation. It is because North Korea is in a geopolitical environment in which it is surrounded by significant external forces that the Korean Peninsula becomes the intersection and impacting point among the major powers. In turn, Northeast Asia is full of risks because of the complex international political structure and the volatile situation on the Korean Peninsula, which has led to a serious deterioration in the security environment of Northeast Asia. Of course, this includes China. For example, the United States adopted a containment strategy of contact (geo-strategy to contain China); the National Diet of Japan passed emergency legislation; and the American and Japanese governments amended the new set of Japan-U.S. defense cooperation guidelines, which have seriously destabilized the security environment in eastern China. Former U.S. National Security Advisor Zbigniew Brzezinski said: "South Korea is an axis country from the perspective of Far East geo-politics. The tight ties between South Korea and the U.S. are bound to enhance the role of the United States in the Far-east."⁸ In addition, the major powers have participated in the Korean Peninsula's affairs through bloc politics and arms trade, rather than through constructive economic and trade relations, which has exacerbated a spiraling arms race between North and South Korea and has led to China's being located on a powder keg. In this case, China has had to spend huge resources to balance the military power imposed on the peninsula by other world powers. To cope with the division of the Korean Peninsula,

8 *Ibid.*, pp. 63~64.

China would increase its military burden (Table 4-1). In particular, the security expense is higher because the People's Liberation Army replaced the previous armed police forces stationed on the China-DPRK border in 2003. Theoretically speaking, a greater degree of security expense should be focused on the southeast and southwest borders of China. However, due to the "gathering" of military forces between the great powers caused by the divided peninsula, nearly a quarter of China's military power is deployed on the border along the Yalu River. The elite forces of the Shenyang, the Beijing, and the Jinan Military Regions have had to be arranged on the China-DPRK border, which has seriously weakened the defense forces in other parts of China. These valuable resources required to guard the border could not be used for the development of the economy or improving people's well-being in the Northeast of China, but only to cope with unnecessary security situations.

Table 4-1 Security needs around China

China's region	Security needs
Northeast	Traditional security, illegal immigration and cross-border ethnic strife
Eastern Coast of China	Territorial sea dispute, resources and energy channels, import and export channels
Southwest border	Territorial security, social stability

Source: Fei Teng Zhong and Zhang Jie, "Flying Geese safe mode and China's Strategic Choice in Neighbor Diplomacy," *World Economics and Politics*, No.8, 2011.

Rigid trade method

China's and North Korea's trade method follows a safety-oriented instead of a market-oriented mode, which ultimately results in China's excessive and one-dimensional aid to North Korea in bilateral trade and North Korea's excessive dependence on China.

Economic and trade relations between China and the DPRK have existed on three levels: The first level lasted from World War II to the

1

2

3

4

5

6

7

8

9

10

1980s. The character of bilateral trade has maintained a relatively stable development and China's unpaid assistance to the DPRK.⁹ The second level extended from the 1980s to the end of the 1990s. Bilateral trade remained at \$500 million per year (estimated at current value), because of the establishment of diplomatic relations between China and South Korea. The third level has been a boom period in the new century, when bilateral trade volume rose from \$370 million in 1999 to more than \$4 billion dollars in 2011. One of the main features of Sino-DPRK trade has been that trade volume wandered up and down the fundamental bottom line, i.e., bilateral trade maintained or fluctuated around the level of \$500 million dollars for an extended period, which demonstrated that Sino-DPRK trade was oriented towards maintaining a strategic pattern in Northeast Asia. China provided basic strategic materials to the DPRK, as stabilizing the North Korean economic system has been an important foundation for the continuation of the North Korean regime, thus contributing to the basic stability of Northeast Asia strategic security. Therefore, the pattern of trade between China and the DPRK has been known as a strategic, security-oriented trade relationship.

This strategic, security-oriented trade relationship has failed to adhere to the essential connotation of bilateral trade and the rules of a market economy. According to the latest theory of international trade, bilateral trade roles are mainly as follows: the adjustment of supply and demand between the two countries, promoting the full utilization of the factors of production, developing a comparative

9_North Korea is one of the most successful countries in getting foreign aid during the post-war reconstruction. According to a calculation by the Soviet Union, up to April 1, 1960, North Korea received aid valued at 5.5 billion rubles from other socialist countries, including 1.3 billion from the Soviet Union and 900 million from China. According to the statistics of South Korea, North Korea received a total aid of \$2,043,000,000 from other socialist countries from the end of World War II to the 1970s. The Soviet Union accounted for 43.14 percent and China accounted for 30.75 percent of this aid. Comparatively speaking, Soviet Union aid to the DPRK should surpass China in both quantity and quality. However, from the perspective of capacity, China gave the largest contribution to North Korea. Zhihua Shen and Dong Jie, "Sino-Soviet aid to North Korea and the economic reconstruction after World War II," *Yan Huang Chun Qiu*, No. 6 (2011).

advantage, improving production technology, optimizing the structure of domestic industry, increasing revenues, and so on. However, China could not get the usual benefits from trade between China and the DPRK. On the contrary, the Chinese government has borne a heavy financial burden from the unidirectional trade between China and the DPRK. Meanwhile, the solidification of this trade pattern restricts the further development of non-governmental trade between China and the DPRK. In 2005, there were six China-DPRK border trade zones approved by the Jilin provincial government.¹⁰ Although the local Korean government took positive action, the DPRK has not yet ratified these six Free Trade Border Areas. This failure was due to two factors: first, the North Korean central government worried that there might be no transaction in goods and that the border residents might be able to get foreign exchange in the “underground market” and carry out cash transactions in the mutual free trade zone, which would result in North Korean foreign exchange losses; and second, the DPRK worried that the South Korean government could use the mutual free trade zones for penetrating into North Korea and could pose a security threat to the North Korean regime. Therefore, the pattern of Sino-Korean border trade is a kind of “black market” model which cannot be officially recognized and cannot get protection from North Korean law and the market mechanism.

North Korea's inflexible economic system has become a bottleneck which has restricted revitalization of the old industrial zone in northeast China and might lead to the collapse of the regional economy, which would seriously threaten the region's economic and social security.

First, North Korea's economy is in recession, and North Korea's political system is inflexible. North Korea adopted a long-term

¹⁰ The six border trade zones are: the Hunchun quanhe-Wonjeong, Ji'an Qingshi-Wonbong, Changbai-Hyesan, Longjing Sanhe-Hoeryong, Hunchun Shatuozi-Ryuda Island, Tumen-Namyang.

planned economic system and has been undergoing the “suffering march” to fulfill the established goals. North Korea does not have the capacity to lead and to extend foreign economic relations because it has a limited purchasing ability for the nation and people, a lack of foreign exchange reserves, a depreciated currency, a weak capacity for making payments, a difficult process for the recovery of investment and trade loans, and so on. North Korea has continually adopted a highly centralized planned economic system. The government, and particularly the army, has controlled the vast majority of economic projects. In North Korea, the economic operation of internal markets has been experiencing serious distortions, biases and misunderstandings, because the government and the army are limited by the political system. The core leadership completely ignores the rules of a market economy and cannot accept the system and practices of such an economy. They lack the understanding of the economic and management methods of markets, since their trade habits have for so long been influenced by the planned economy. This situation has seriously affected China’s direct investment in North Korea and has limited China’s expansion into the important overseas investment market in North Korea.

Second, the economic and trade act and the regulations in North Korea are not perfect. North Korea passed a number of economic acts and regulations in the 1980s, and even the concept of a special economic zone was introduced to the DPRK from overseas, following which the North Korean government established special economic zones in Rason, Kaesong, Sinuiju, Mount Kumgang, and on Hwangguemyung and Granville Islands. However, these special economic zones are confined to special areas, and the integral economic strategy in North Korea is similar to a mosquito net, as they aim at gaining temporary benefits and earning hard currency, rather than focusing on the improvement of the economic system as a whole. Therefore, a series of relevant laws on economic cooperation, investment, trade, foreign exchange, and taxation also need to be improved. It is difficult to adapt North Korea’s economic development model because of the lack of transparency relative to the content and

implementation of many policies, which combines with a “rule of man” system, rather than the “rule of law” system in the DPRK, that is, the troops dominating North Korea’s trade, frequent changes being made in policies and regulations, and each department acting on its own according to its own standards.¹¹ For example, there is no standardized mechanism for bank settlements, for export credit insurance or arbitration in border trade, no standard transaction procedures, a lack of performance capabilities, many Korean customers not complying with international trade rules and procedures, a lack of business reputation and commitment, and frequent breachings of contracts. At the same time, trade settlement is extremely irregular. In contrast with the most usual credit payment mode in international trade, China-DPRK trade settlement still adopts the method of cash transactions and remittances due to international sanctions and the fact that the Korean financial system is seriously flawed, which greatly increases the risks in bilateral trade. In addition, the rumors of North Korea’s producing counterfeit money are serious threats to bilateral trade. However, China has to cope with these trade practices in a large proportion of bilateral trade due to the current international political realities. Over the past years, these ingrained trade patterns have even resulted in “bad money driving out good money.” Gray/black trade has gradually been taking the place of normal bilateral trade between China and the DPRK. North Korea has become a transfer station to smuggle third country goods into China. Smuggling cases have frequently taken place in the border areas in recent years. The proportion of smuggled goods from third countries has been increasing.¹² In the smuggling activities in the lower reaches of the Yalu River, North Korea has become a hub and transfer station for third countries’ goods entering into China. Smuggled goods are shipped to North Korean ports from other countries or regions, and

11_Longshan Chen, “The characteristics of DPRK’s foreign policy and trend analysis,” *Northeast Asia Forum*, No. 4 (2003).

12_Smuggled cars include BMWs, Mercedes’, and Audis from Germany, Mitsubishi and Hondas from Japan. Smuggled cigarettes includes ‘3 by 5,’ ‘Marlboro’ and ‘Black Cat’ from Great Britain and the U.S.

1

2

3

4

5

6

7

8

9

10

trade companies of the DPRK transfer these goods to China's border areas, waiting for an opportunity to take them into China.¹³ Gray and black trade seriously damages normal economic and trade relations between China and the DPRK, and the door for foreign trade to the Korean Peninsula has gradually closed.

China's benefits from Korean Peninsula unification

The interests of North Korea and China are intricately linked and intertwined. As one of the great powers in the Asia-Pacific region, China's support for the independent and peaceful reunification of the Korean Peninsula is unwavering. For China, this decision is a dominant strategy derived from China's and the DPRK's historical development process, as well as from the realities of international politics, the global economy and the regional economy.

China pursues a natural resources-oriented strategy in the foreign direct investment (FDI) field, and rich fossil resources would be made available for acquisition after the reunification of the Korean Peninsula.

China is the developing country that absorbs the greatest quantity of FDI in the world. Meanwhile, China provides the most outward FDI for the outside world in other developing countries.¹⁴ Sanders has pointed out that the main reasons for a sharp increase in China's outward FDI were the rising demand for economic resources and

13_Why does this phenomenon take place? The key reason is North-Korea's non-market-oriented economic policies. North Korea is the only tax-free country in the world. All imported goods are allocated according to a specific plan, which results in the fact that goods from other countries find it relatively easy to enter into Korean territory and to transfer to the region near the Chinese border.

14_In 2010, net foreign direct investment of China reached \$69.81 billion. China owned 16,000 overseas enterprises in 178 countries, accounting for 72.7% of the total number of countries around the world. Cumulative net of FDI exceeded \$300 billion.

expansion of overseas markets, as well as the stability of the global production plant status.¹⁵ As the world's factory, China is thirsty for raw materials. The percentage of consumption of the world's supply of aluminum, copper, nickel and iron increased from 7 percent in 1990 to 15% in 2000 and 20% in 2004. Statistical data showed that the mining industry occupied a large proportion of China's outward FDI, accounting for 30.34% of the total foreign investment by China.¹⁶

Table 4-2 The proportion of Chinese FDI in different Industries

(Unit : %)

Serial number	EU		U.S.A		Southeast Asia		Australia		Russia	
	National	Global	National	Global	National	Global	National	Global	National	Global
1	10.50	1.70	7.4	0.19	13.4	4.42	5.9	1.01	9.3	0.87
2	24.4	14.08	13.2	5.74	6.9	8.24	2.6	1.58	4.1	1.37
3	14	11.66	36	22.57	10.90	18.49	9.8	8.63	3.8	1.83
4	7.2	1.1	1.3	0.15	6.7	2.12	73	11.85	14.8	1.32
5	2.1	9.48	1	3.39	0.4	3.46	2	9.5	24	62.44
6	-	-	1.2	1.32	7.6	22.04	0.9	1.36	3.7	3.06

Notes: Serial numbers of Industries: 1. leasing and business services, 2. financial services, 3. wholesale and retail trade, 4. mining, 5. real estate, 6. building industry. National means China's FDI to the industry accounting for the proportion of China's FDI to the country/region. Global means China's FDI to the industry accounting for the proportion of China's FDI to the world.

Source: People's Republic of China Ministry of Commerce, <<http://english.mofcom.gov.cn>>.

As we can see from Table 4-2, Australia, and Russia are the destinations for China's overseas investment in mineral resources. However, though North Korea is a neighbor of China's, and although it is rich in mineral resources, it is difficult for foreign investment

¹⁵ Wei Liu, "Study on the relationship between Chinese international trade and GDP increasing," *International trade issues*, No. 6 (2006).

¹⁶ Lei Li and Zhaoyang Zheng, "Is the Chinese outward FDI resource-seeking?" *International trade issues*, No. 2 (2012).

1
2
3
4
5
6
7
8
9
10

capital to enter into the DPRK due to North Korea's closed-door policy.¹⁷ According to the current situation in China, the Limits to Growth in China are gradually being reached. Economic researchers and observers have raised a lot of assumptions to explain the Limits to Growth in China, such as the end of the demographic dividend, the lack of domestic demand, a setback in industrial upgrading, irreversible environmental population, and so on. In fact, a shortage of resources and energy is the fundamental reason for these limits most frequently cited by researchers and officials.¹⁸ At present, the domestic energy supply has been maximized. In the last few years, energy imports have helped delay the arrival of the Limits to Growth in China. What we are most concerned about is how long Chinese economic growth might continue by relying on energy imports, and especially in the case in which China wants more energy (Table 4-3) and China's energy imports are subject to a lot of uncertainty.¹⁹

17_North Korea has abundant natural resources. So far, more than 360 kinds of natural minerals have been identified, 200 of which have value from an economic perspective. The reserve volume of magnesite ranks first in the world. The reserve volumes of tungsten, molybdenum, graphite, barite, and fluorite rank in the top 10 globally. North Korea has such a rich supply of metallic and energy minerals, it is self-sufficient in 70% of its domestic industrial raw materials and fuels. At present, production departments on mining coal, iron ore, zinc, limestone and magnetite play an important role in the Korean mining industry. Musan iron is about 1 billion tons, whose annual production capacity is over 800 million, Proven coal reserves in Korea are 14.71 billion tons, including anthracite reserves of 11.74 billion tons, and lignite reserves of 3 billion tons. (Republic of Korea Ministry of Unification).

18_National Bureau of Statistics data show that total energy consumption in 2010 was 3.25 billion tons of standard coal calculated in terms of equal value. Coal consumption accounted for 44% of this figure. The future situation will be even more severe: According to estimates by the Chinese Academy of Engineering, the annual average growth rate of the Chinese economy is 8.4%, and China's energy demand will reach 4.07-4.35 billion tons of standard coal. The estimates of the Chinese Academy of Engineering are conservative compared to their foreign counterparts. Estimates by the International Energy Agency show that energy demand will reach 5.1 billion tons of standard coal by 2030, even if the Chinese annual average growth is limited to 3.9%.

19_Some countries from which China imports oil, such as Iran, Saudi Arabia, and

Table 4-3 Domestic and International research institutions and the forecast on China's future demand

(Unit: Standard Coal²⁰)

Institution	2015	2020	2030	2035	2050
IEA(2010)	41.2	45.1	51	53.4	-
EIA(2010)	36.5	43.7	58.6	65.5	-
IEEJ(2010)	-	36.3	45.2	49.3	-
CAE	-	40.7-43.5	45.5-49.5	-	51.9-57.9
NDRC	-	38.5-47.7	-	46-58.5	50.2-66.9

Notes: CAE: Chinese Academy of Engineering, NDRC: National Development and Reform Commission

Sources: IEA, *World Energy Outlook 2010*, 2010; EIA, *International Energy Outlook 2010*, 2010; IEEJ, *Handbook of Energy & Economic Statistics in Japan 2010*, 2010; China's long-term energy development strategy research project group, *Research on China's long-term energy development strategy (2030, 2050)*, Science Press, 2011; Research group of the Energy Research Institute, National Development and Reform Commission, *China's Low-carbon development path in 2050*, Demand for Energy and Carbon Emission Analysis, Science Press, 2010.

Under such conditions, expanding overseas investment in resources becomes crucial to the smooth development of China's economy. But we should pay a great deal of attention to the fact that the large-scale publicly owned enterprises controlled by the Chinese central government are mainly responsible for FDI, which reflects a political task undertaken by large-scale state-owned enterprises in the process of sustained and rapid economic growth, the strong demand for various resources, and the ensuring of a stable and continuous supply of energy for the Chinese economy. However, these kinds of FDI dominated by state-owned enterprises are frequently

the Sudan are threatened by a deteriorating regional security situation. Angola and Libya are experiencing unrest. Venezuela's leader is suffering from health problems.

20_One ton of coal is equivalent to 0.7 ton of standard coal, and one ton of crude oil is equivalent to 1.4 tons of standard coal calculated in terms of equal value.

1
2
3
4
5
6
7
8
9
10

influenced by the complex geo-political relations among countries. When Chinese enterprise purchases such enterprises whose motherland has a good relationship with China, acquisition goes smoothly; and when Chinese enterprises purchase other enterprises whose motherland is wary of China, acquisition will involve countless obstacles. Taking into account China's huge demand for overseas resources, both scholars and politicians in China have been very eager to raise concerns about the issue of protection of overseas interests. Compared with distant South America and Africa, the Korean Peninsula is in China's neighborhood, and North Korea's culture is similar to China's, and such proximity will cut down on both the transportation costs and the security risks. According to the strategic culture calculation methods proposed by Saumer,²¹ the strategic culture level between China and a reunified Korean Peninsula would be above average, which indicates that there would be less resistance from the governments of the other nations when Chinese enterprises would seek to merge companies on a reunified Korean Peninsula. Supposing that, after reunification of the Korean Peninsula, overseas capital would enter into Korea freely, China would achieve a unique advantage in exploring overseas resources.

A reunified Korean Peninsula would become another growth engine for China's foreign trade.

First, a reunified Korean Peninsula would become China's second largest trading partner. According to a Goldman Sachs Group estimate, in 2030, the Korean Peninsula would be a global power with a population of one hundred, whose GDP will rank fifth in the world, which would greatly promote trade between China and Korea. Generally speaking, the volume of trade between two countries

21_Strategic culture cannot simply be understood as China's Confucian or traditional Chinese culture, but rather as an integrated concept, whose contents include freedom, a degree of openness, dominant principles and positions in the process of modernization, etc. We will give a more detailed introduction in the following section.

is influenced by comprehensive economic strength, geographical proximity and culture.²² The cultural distance is the main explanatory variable in bilateral trade and has a considerable effect on international trade.²³ The national cultural distance is the difference of cultural values between two countries, and it is determined by the level of culture development.²⁴ Geert Hofstede (1980), Dutch scholar, maintains that the national cultural distance is determined by the host's national system of culture, the economic and legal systems, political risk, and the political systems of the host and home countries. It can be described by the following formula:

22. Traditional trade theory indicates that the volume of trade between two countries is relevant to gross national product and the geographical distance between them. It can be described by the following formula: $I = \frac{hG_1G_2}{R^2}$, with I indicating the volume of trade between two countries, G1 and G2, respectively, representing each country's GDP, and R representing their geographical distance from each other. This is the famous theory of gravity trade. But this theory has been challenged recently by many economists. The latest trade theory maintains that the cultural distance between two countries is a very important factor for bilateral trade.

23. DiMaggio and Zukin's (1990) research demonstrates that cultural difference has a major impact on a market economy. Elsass and Veiga (1994) maintain that the existence of a difference of cultural backgrounds between countries increases the difficulty of bilateral intercourse and is not conducive to cross-border market activity. Bedassa Tadesse and Roger White (2008) assert that cultural distance has an inhibitory effect on bilateral relations. In 2010, they found that the greater the cultural distance, the lower the trade volume. Gabriel J. Felbermayr and Farid Toubal (2011) found that cultural similarity is an important determinant factor in the volume of bilateral trade. Sources: 1. Bedassa Tadesse, and Roger White, "Cultural Distance as a determinant of bilateral tradeflows: do immigrants counter the effect of cultural differences?" *Applied Economics Letters*, Vol. 17, No. 2 (2010), pp. 147~152. Roger White and Bedassa Tadesse, "Cultural Distance and the U.S. Immigrant Trade Link," *The World Economy*, Vol. 31, No. 8(2008), pp. 1078~1096.

24. Carlos M.P. Sousa and Frank Bradley, "Cultural Distance and Psychic Distance: Two Peas in a Pod?," *Journal of International Marketing*, Vol. 31, No. 4 (2006); Hofstede and Geert (eds.), *Culture and organizations: the power of psychological software* (China: Renmin University Press, 2010).

1
2
3
4
5
6
7
8
9
10

$$IP_j = \sum_{i=1,2,3,4,5} [(I_{ij} - I_{ih})^2 / V_i] / 4$$

IP_j is the cultural distance between the home country and the investing country. I_{ij} is the score in the i th cultural dimension of the j th country, I_{ih} is the score in the i th cultural dimension of the home country, and V_i is the variance of the score in the i th dimension of the two countries. The American Heritage Foundation, The Wall Street Journal and the Canadian Fraser Institute released the annual Index of Economic Freedom, and Daniel Kaufmann drew up the global governance indicators in 2010, which showed that China and North Korea adhered to a socialist system, but there were many differences in the cultural dimensions between China and the DPRK. By contrast, China and South Korea have the same perceptions on the market economy, and the culture between China and South Korea is more similar than the culture between China and North Korea. If the Korean Peninsula were to be reunified according to the German model, the Korean Peninsula's gross domestic product would be greatly enhanced, and the geographical and cultural distance between China and Korea would be greatly reduced, which would substantially promote bilateral trade.

Second, as foreign trade is an important driving force for the Chinese economy, the reunification of the Korean Peninsula would play a fundamental role in China's economic growth.

Qiao Yu (1998) did empirical analysis on the relations among investment, trade and economic growth on the basis of monthly time series data from 1982 to 1994. The results showed that Chinese economic growth was determined by fixed-asset investment and exports from 1982-1994, and China's economic growth was due to the capital- and export-driven economy.²⁵ This phenomenon can be de-

25_ Other research results also showed that foreign trade is the main force in China's economic growth. In 2001, Yifu Lin and Yongjun Li established a simple macroeconomic model to analyze the contribution of imports to GDP growth. Xianli Wei studied the relations between export and economic growth from the first quarter of 1985 to the fourth quarter of 1987 by taking advantage of the

scribed using the foreign trade contribution ratio and foreign trade pull degree.²⁶ Table 4-4 shows the statistical data on the contribution ratio and pulling ratio of China's foreign trade over the past 10 years.

Table 4-4 The 2000-2010 degree of dependence, contribution ratio and pulling rate of China's foreign trade

(Unit: RMB)

Years	GDP(China)	Contribution ratio	Pulling ratio
2000	99,214	47.11	85.18
2001	109,655	13.36	14.63
2002	120,332	46.12	47.17
2003	135,822	60.19	87.32
2004	159,878	53.35	82.85
2005	184,937	53.11	55.32
2006	216,314	47.25	59.16
2007	265,810	31.03	48.95
2008	314,045	14.11	13.75
2009	340,506	-65.42	-35.89
2010	397,983	43.01	93.43

Source: People's Republic of China Ministry of Commerce, <<http://english.mocom.gov.cn>>.

Granger causality test and variance technology. The result showed that there was a one-way Granger causality relationship between exports and economic growth, and the contribution of exports to economic growth was about 31%.

26 Foreign trade pull degree refers to the contribution of foreign trade on economic growth multiplying the GDP growth rate. It can be described by the following

$$\text{formula: } LDD_t = \frac{\Delta NX_t}{\Delta GDP_t} \times \frac{\Delta GDP_t}{\Delta GDP_{t-1}} \times 100\% = \frac{\Delta NX_t}{\Delta GDP_{t-1}} \times 100\%$$

Foreign trade contribution rate is defined as the ratio of net export increment and the increment of the gross domestic product. It can be described by the fol

$$\text{lowing formula: } GXL_t = \frac{\Delta NX_t}{\Delta GDP_t} \times 100\%$$

1
2
3
4
5
6
7
8
9
10

Objectively speaking, China's export trade effectively promoted smooth economic growth. The contribution ratio and pulling ratio of foreign trade are positive from 2000 to 2010 (except for 2009). Since China's accession to the WTO, the contribution ratio and pulling ratio of China's foreign trade exceeded 12% and 47.17%, respectively. The pulling ratio of foreign trade reached an historic peak in 2011.

According to the above analysis, the Korean Peninsula would greatly promote the growth of China's foreign trade. The German reunification experience shows that at the beginning of unification, the economic stagnation of the Korean Peninsula would occur to a certain extent, the need for external investment and technology would increase substantially, and the volume of multilateral trade between Korea and neighboring countries would grow explosively. Obviously, China, one of the closest countries to Korea, would benefit enormously from these kinds of depressive effects in enhancing China's economic development. In 2010, Goldman Sachs estimated that if the Korean Peninsula were to be unified, the scale of Korea's economy would surpass Japan's and become the world's third largest economy.²⁷ Unified Korea would become China's second largest trading partner, and the contribution ratio would reach 0.61-0.86% for China's economic growth. Meanwhile, according to the contrast of per capita GDP (Table 4-5) between coastal provinces and the surrounding bordering countries, we can conclude that North Korea's per capita GDP lags far behind other countries around China. On the assumption that the Korean Peninsula were reunified and Korea's per capita were to keep up with the neighboring countries, the per capita consumption ability of the Korean Peninsula would expand greatly, and the Korean Peninsula would become an important market for China's merchandise, which would be the most important driving force for China's exports.

27_“North—east Asia and the unification of Korean Peninsula,” *Financial Times*, March 3, 2010, <<http://www.ft.com>>.

Table 4-5 Contrast of per capita between China border regions and the surrounding neighboring countries and regions

(Unit: U.S \$)

Regions of China	Per capita GDP	Neighboring countries and regions	Per capita GDP
Northeast of China	4,559	Russia	8,684
		North Korea	500 (estimated number)
Eastern coast	9,055	South Korea	17,087
		Japan	39,734
Southeast Coast	5,490	Malaysia	7,030
		Philippines	1,752
		Indonesia	2,349
		Cambodia	667
		Laos	940
		Myanmar	-
Northwest of China	2,579	Nepal	427
		India	1,134
		Pakistan	955
		Afghanistan	405
		Tajikistan	716
		Kyrgyzstan	860
		Kazakhstan	7,257

Sources: China's data: National Bureau of Statistics of the People's Republic of China (eds.), *China Statistical Yearbook 2010* (China Statistics Press, 2010). Neighboring countries and regions' data: <<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>>.

1

2

3

4

5

6

7

8

9

10

Third, Korean Peninsula unification would be an important driving force for the revitalization of Northeast China.

Both “New trade theory” and “New growth theory” indicate that bilateral trade can not only promote economic growth, but also can optimize the economic structure through technology spillover and the promotion of domestic technological progress. At present, northeast China has been experiencing the conversion from a traditional industrial base to a modern industrial base. Korean unification would be an important driving force for this conversion.

First of all, there are different levels of product suppliers in the production network between northeast China and the Korean Peninsula, and China is located exactly in the middle. Manufacturing enterprises in China, as a part of the production network in northeast Asia, would inevitably form a tight relationship with different kinds of upstream suppliers and downstream distributors in the production network. High-level suppliers (in the south of the Korean Peninsula) would provide technical assistance or technical information to the low-level providers (subsidiaries of multinational corporations in China) to improve the quality of products, or to complete the process of technological innovation, or to provide assistance in staff training, management and organizational skills, which would ultimately result in knowledge spillovers. Secondly, China could vigorously develop the processing trade by taking advantage of the industrial base in northeast China. China could benefit from the “learning by doing” technology spillover effect in the processing and assembly of imported parts and components, emerging raw materials and advanced equipment. Moreover, China could make full use of the geographical advantage in selling these processed and assembled industrial products to the reunified Korean Peninsula. A virtuous cycle is formed: northeast China absorbs technology and knowledge from the south of the Korean Peninsula and sells the intermediate products to the north of the Korean Peninsula. Thirdly, northeast China would benefit from the economies of scale effect caused by the process division of labor. If the Korean Peninsula were reunified, from the perspective of internal economies of scale, the division

mode of the production network would, in essence, be the division of production processes (or vertical specialization). The manufacturing industry in northeast China would make use of comparative advantages in specific product sections to integrate into the production network. From the perspective of external economies of scale, vertical specialization could produce industrial agglomeration of the segmentation process. The clustering of investment brings about the development of relevant industries, leading to the expansion of the external economies of scale, which are major factors in the export competitiveness of the manufacturing sector.

Korean Peninsula unification would be an essential condition for China to share the dividend of economic regionalization in Northeast Asia and trade liberalization.

First, the Korean Peninsula unification would greatly accelerate the formation of the economic circle around the Yellow Sea. Scholars from China, Japan and South Korea have proposed a sub-regional economic cooperation system, i.e., an economic circle around the Yellow Sea according to the economic complementarity and the strategy and policy orientations of the countries and regions around the Yellow Sea. Geographically speaking, the economic circle around the Yellow Sea includes China, Japan and South Korea. The cooperation plan among the countries around the Yellow Sea is a workable plan to make full use of geographical advantages and to accelerate the economic development of China's Yellow Sea region. It should be emphasized that Korea's southwest coast is geographically located in an economic circle around the Yellow Sea, but it is almost isolated from the outside world, and the exchange and cooperation between the DPRK and other countries in this economic circle is weak. Therefore, the situation on the Korean Peninsula should take into account the establishment of the economic circle around the Yellow Sea, because it relates to regional security and a peaceful environment on the economic circle, which is a prerequisite for regional integration. The safety factor on the Korean Peninsula has been ex-

1

2

3

4

5

6

7

8

9

10

tremely fragile since the end of World War II. Other countries are unwilling to invest in North Korea without some form of security guarantee. In fact, the idea of an economic circle around the Yellow Sea was strongly endorsed by the Chinese, Japanese and South Korean governments. In October 1987, Kim Young-Sam, the leader of the opposition party in South Korea (and later, president), announced in a statement at a meeting that if he had been president, he would have strived to promote the establishment of a Yellow Sea economic community covering the entire mainland, including China, China Taiwan, South Korea and North Korea. Therefore, the economic circle around the Yellow Sea would be an economic growth triangle similar to NAFTA. This kind of growth triangle could make full use of the respective advantages of participating countries, take advantage of a large-scale flow of goods, personnel and technology, use complementary and optimal combinations of production factors, form a new international division of labor, and achieve multilateral economic integration within the region, whose purpose would be to obtain mutually beneficial economies of scale and to promote the rapid economic development of relevant countries and regions. The growth triangle cooperation would be flexible, and its system of coordination would be regional. The population of the economic circle around the Yellow Sea would be over 300 million, and its economic strength would surpass ASEAN and MERCOSUR in both GDP and trade. It would have a large consumer market. Owing to the close geographical location, the strong economic complementarity, a strengthening of economic cooperation, a common ground in culture, and increasingly frequent personnel exchanges, there would be increasing cooperation and coordination in regional and international affairs among countries and regions within the economic circle around the Yellow Sea. As far as China is concerned, the benefits from this economic circle would be as follows: first, it would promote the economic development of the provinces adjacent to the Yellow Sea by the industrial connection between Japan and Korea. Industrial connection is the convergence and integration among all aspects of the industry value chain, and is the product of inter-

national industrial transfer. Japan and South Korea are important trade partners of the Shandong and the Liaoning provinces, whose combined trade volume reached \$1.3 billion, accounting for 28% of the total foreign trade volume of the two provinces. Shandong and Liaoning's processing trade volume to Japan accounted for 17% of their total foreign trade, and the proportion of processing trade volume to South Korea reached 27%(Table 4-6).

Table 4-6 Import and export trade and processing trade of provinces around the Yellow Sea with Japan and South Korea

(Unit: \$million)

Years	Provinces around Yellow Sea and Japan			Provinces around Yellow Sea and South Korea		
	Trade volume	Proportion	Processing trade volume	Trade volume	Proportion	Processing trade volume
2006	1,240	18%	780	890	12%	460
2007	1,560	21%	670	870	15%	480
2008	1,109	11%	470	680	24%	570
2009	1,890	19%	1,390	1,080	17%	780
2010	2,100	27%	1,570	1,480	21%	950
2011	2,690	31%	2,100	1,880	19%	1,150

Source: People's Republic of China Ministry of Commerce, <<http://english.mofcom.gov.cn>>.

From the perspective of industrial investment and technological cooperation, up to 2011, South Korea's actual investment to the provinces around the Yellow Sea reached \$2.3 billion, ranking first, and accounting for 19.8% of total foreign investment in the region. Japan ranked second, accounting for 14.6% of total foreign investment. The introduction of technology in these areas mainly focuses on these areas: electronics and communications equipment manufacturing, paper and paper products manufacturing, special equip-

1
2
3
4
5
6
7
8
9
10

ment manufacturing, raw chemical materials and chemical products manufacturing. Japanese and South Korean investment and technical cooperation in the Yellow Sea provinces has had a far-reaching impact on the scale of the competitiveness of the region in terms of enterprise and industry, efficiency and growth as well as social and economic development.

The second advantage gained by the creation of this economic circle is the possibility of upgrading the industrial structure of the Yellow Sea provinces by following the model of Japanese and Korean industries. There is a certain similarity in the industrial structure, especially in terms of manufacturing, among China, Japan and South Korea, but there is a huge difference in the industrial level, as well as technical and knowledge structures. The Kyushu region is the major region of Japan in the Yellow Sea Circle. Iron, steel, chemical and shipbuilding industries have a long history in Kyushu. With continuous adjustment of the industrial structure, the IT industry and automotive manufacturing have become pillar industries in the Kyushu region.²⁸ In Japan, Hitachi, Sony, Mitsubishi, Fujitsu and other companies have established research institutes in Kyushu. The environmental industries, biotechnology, and nano-technology have developed rapidly in the Kyushu region and have assumed a leading position in the world. In short, the industrial and technical cooperation between the Chinese provinces around the Yellow Sea and the Kyushu region would greatly promote the gathering, transformation and upgrading of the related industries of the manufacturing base. Meanwhile, South Korea also has considerable comparative advantages, including automotive, electronics, shipbuilding, steel, semiconductors, communications; and Korea's superior industries, human resources, and mechanisms would be indispensable in upgrading the industrial structure of provinces around the Yel-

28_ With the prosperity of IT and the development of the semiconductor industry, several research institutions have established bases of operations in Kyushu. The German National Institute of Information on Processing and Cranfield University, UK successively has settled in Kyushu.

low Sea.

In addition, the unification and marketization of the Korean Peninsula is a basis of economic and regional integration in Northeast Asia. As long as North Korea remains separated from the market economy system, economic integration could not be achieved in Northeast Asia, and China would not be able to realize the benefits of integration. Generally speaking, the integration of the regional economy would bring development to the entire region due to the Feedback Effect. Feedback Effect refers to the industrial upgrading of the central city and the gradual transfer of industry that would bring about market and technology spillovers in peripheral areas. The center and the peripheral areas achieve common development by promoting the integration of markets and optimizing the allocation of production factors. Due to North Korea's closed-door economic policies, the process of economic integration in Northeast Asia has so far been blocked. If the Korean Peninsula implemented a market economy after reunification, the frequency of economic exchanges in Northeast Asia would change significantly. In Northeast Asia, the economic strength of the central city is significantly stronger than that of the peripheral areas, because there are significant differences of influencing patterns and intensity in the different areas.

In particular, there is a symbiotic phenomenon between northeast China and the northern part of the Korean Peninsula due to three specific mechanisms, as follows: First, from the perspective of geography, there will be an adjacent effect between Dandong, Tumen and the border city after Korean Peninsula unification. The level of economic development in Dandong in northeast China is relevant to economies of scale, geographical distance and economic ties (economic integration) in the peripheral regions: the larger economies of scale would expand the demand for products of this region, and this demand is currently weaker due to long-distances while being stronger due to a higher level of economic integration. Second, from the perspective of the regional economy, there is a spillover effect in the process

1

2

3

4

5

6

7

8

9

10

of economic development for the key cities. Major cities' (such as Dandong) adjacent effects on growth would be greater than that of the smaller cities (such as North Korean border cities after unification). However, the spillover effect in central cities in different regions is different, which reflects the overall level of regional economic development and the radiation effect of the central city. Third, from the perspective of foreign economic relations, a more open city could take advantage of attracting international investment and trade to remedy or strengthen market return, which would enhance its economic development.²⁹

Korean Peninsula reunification is indispensable to the opening of the fourth Eurasia Bridge³⁰ to traffic.

The most important and fundamental target of northeast expansion is putting the northeast's inferior trunk line into use. This continental bridge starts in the Eurasian hinterlands of Russia, Chita city, via Ulaanbaatar, the Mongolian capital, and has its terminal stations in the Rajin and Pioneer ports in North Korea. This bridge extends to Japan and South Korea through the sea channel and is a main trunk line which connects international railways and ports. This trunk line passes through the region of the Tumen River and has approximated the distance to the six neighboring countries. With an annual capacity of more than ten million tons, the construction cost of this railway is the most economical, and the construction period is the shortest. Via the Tumen River, the main trunk line of the Eurasian

29_Deyou Xu, "Market return and regional development gap," *World Economic Papers*, No. 1 (2012).

30_There are three Eurasian Continental Bridges into Asia, achieved by means of coupling the European railway network and the Russian railway. The first Eurasian Continental Bridge reaches Lianyungang by Kazakhstan, Xinjian, and the Lanxin, Longhai railway line. The second Eurasian Continental Bridge couples Dunums in Russia and Ulan Batro with the Erenhot-Tianjin Port. The third Eurasian Continental Bridge is from Russia's Chita to Vladivostok, whose fatal shortcoming is that it is 1700 km and 4000 km longer than the other two continental bridges, respectively.

Continental Bridge extends to the Russian and North Korean ports, whose transportation distance is only 43% of the distance from Chita to Vladivostok. At the bottom of the main trunk line, Bossatu, Zaru-bino, Rajin and Pioneer – 4 ports interface with Japanese and South Korean ports. The distance between them is nearly 150 kilometers less than the vertical distance between Japan and Vladivostok. However, due to the closed-door policy, the railway to Rajin and Pioneer Ports is interrupted in the Korean territory, which has resulted in the plan failing. The main trunk line would successfully get through after Korean Peninsula unification, which would bring maximum benefit to China, i.e., the northeast railway network could be improved into a virtuous circle. In Jilin province, the Beijing-Harbin line, which crosses the Changchun-Tumen line, bears several times or even ten times more than the east-west trunk line in terms of transport volume. However, the East-West Route is in an idle state, which results in railway transport per year that is less than 5 million tons in Jilin province. The exchange of material between China and the DPRK is only 500 thousand tons per year. Although Jilin province is short of energy, it could not get a sufficient supply due to transport capacity constraints. The fact that the north-south route is over-burdened and the east-west trunk line is in an idle state gravely affects the speed of industrial development, and agricultural and industrial development are seriously constrained by the transport network imbalance. The establishment of the Eurasian Continental Bridge is bound to encourage Heilongjiang and Liaoning provinces to export goods to Russia via the Hunchun ports over the Mudanjiang-Tumen, TongRang and Shenyang-Jilin lines. It is by this means that Heilongjiang province exports goods to Japan, South Korea and other countries, and Jilin province imports and export various cargos as well. By making use of the surplus capacity of the east-west trunk line, the materials that were originally transported to three provinces in northeast China would be conveyed by the east-west trunk line, which could release the transport capacity of the north-south trunk line and convey more goods from the three provinces in north-east province to other provinces and would be bound to promote economic development in the

1

2

3

4

5

6

7

8

9

10

northeast provinces. Meanwhile, this transport pattern would fundamentally improve the northeast railway network.

China's position on the Korean Peninsula unification

The division of the two Koreas is the unfortunate result of historical development. For the Korean minority in China, peninsula reunification is a legitimate and reasonable requirement. Both North and South Korea adhere to the "one China" principle, and in turn, China is also actively in favor of a peaceful reunification in the Korean Peninsula.³¹ China maintains the view that North and South Korea should abandon suspicion and hostility, enhance mutual understanding and foster mutual confidence by consultation and dialogue for the early realization of national reconciliation and unity, which would ensure the permanent peace and stability on the Korean Peninsula. China is located in Northeast Asia, and North Asia has been in turmoil. China's peripheral security, to a great extent, is determined by the stability of the Korean Peninsula. Therefore, China does not want North and South Korea to be in a long-term state of division and hostility. China has been looking forward to Korean Peninsula unification through peaceful means, which is not only conducive to Korean Peninsula peace and stability, but also beneficial for China's development strategy. In 1995, visiting South Korea, President Jiang emphasized that China supports the implementation of independent and peaceful reunification of the Korean Peninsula, supports the reasonable proposals for easing the situation and improving bilateral relations as well as the constructive efforts toward those ends. China would persevere in its efforts to maintain and develop good-neighborly and friendly relations between itself and North and South Korea, and to keep the Korean Peninsula in peace and stability.³² China's current stance on Korean Peninsula unification can be sum-

31_Meihua Yu, "Situation in Korean Peninsula and China's policy analysis," *Contemporary international relations*, No. 10 (1996).

32_ "President Jiang visiting South Korea," *People's Daily*, November 15, 1995, <<http://english.peopledaily.com.cn/>>.

marized as a desire for cooperative effort and peace.

First, China respects the choices of North and South Korea. No matter whether it be division or unification, peaceful unification or other forms of unity, China would support and endorse the choices made by both the North and South, as long as the choice is in line with the common interests of people in both the North and the South. China hopes that the two separated countries will improve relations and achieve reconciliation and cooperation through dialogue and consultation and eventually realize independent and peaceful reunification. This is in the fundamental interests of both the North and the South which are conducive to peace, stability and development in Northeast Asia.

Second, China stands for the achieving of peaceful reunification on the Korean Peninsula through the common efforts of the relevant parties. China hopes other relevant parties would respect the Korean Peninsula's will and choice, would not seek to impose its will on the peninsula, and would help to create a favorable international environment to promote the reunification of the North and South.³³ China could play a positive role in Korean Peninsula affairs, but China adheres to the basic principle of non-interference in internal affairs and would not wish to make irresponsible remarks in an attempt to have a say in the internal affairs of other states. China has promised that it does not seek any unfair advantage and would handle the relationship between the North and South on the basis of the Five Principles of Peaceful Coexistence. China also stands for the principle that a Korean Peninsula reunification should result from favorable external conditions, and it calls for the joint efforts by all members of the international community, and especially by those relevant parties who have a close relationship with the Korean Peninsula. The United States contributed directly to the Korean Peninsula division, and the long term stationing of troops in South Korea has aggravated the Korean Peninsula division. Therefore, the United

33_Fengjun Chen and Chuanjian Wang (eds.), *Asian-Pacific Major Powers and Korean Peninsula* (Peking University Press, 2002).

1

2

3

4

5

6

7

8

9

10

States should play a crucial role in eliminating the division and promoting the unification of the Korean Peninsula. An important act of good faith that would signify a guarantee to North and South Korea that the United States would support their solving their own problems independently, without external intervention, and their achieving ultimate reunification according to their own terms is that they would gradually or rapidly withdraw their troops from the Korean Peninsula.³⁴ On February 24, 2003, Chinese President Hu Jintao met with U.S. Secretary of State Colin Powell and pointed out that the Iraq war and the North Korean nuclear issue were then currently hot issues within the international community, and said “We stand for achieving denuclearization of the peninsula in a peaceful way through dialogue and consultation to maintain the peaceful stability of the peninsula and Northeast Asia. Historical experience showed that Korean Peninsula issue could properly be resolved only through dialogue and consultation. Thanks to joint efforts by China and other parties, there were signs of relaxation. We hope that the relevant parties would seize the opportunity to engage in active interactions, resume the process of dialogue and consultation as soon as possible, and ensure that the situation on the peninsula will move forward in a positive direction.”³⁵

Third, China has always stressed that the international community should provide an appropriate solution to the Korean nuclear issue, and urged that the international community hold in their concern the security of other parties. The international community should fulfill the North Korean security requirement in the process of resolving the nuclear issue. China stands for that appropriate solution of the Korean nuclear issue, and relies on equality and friendly relations among the various countries. China supports the efforts of North and South to seek national unification, and stands for the

34_ “President Jiang meeting with the South Korean President’s special envoy,” January 13, 2003, <www.xinhuanet.com>.

35_ “Vice President Hu Jintao meeting with U.S. Secretary of State Colin Powell,” *People’s Daily*, Feb 25, 2003, <<http://english.peopledaily.com.cn/>>.

North and South to resolve the peninsula issues independently. China pays a great deal of attention to the Korean nuclear issue. China stands for achieving denuclearization of the peninsula in a peaceful way through dialogue and consultation to maintain peace and stability on the peninsula.³⁶ On May 29, 2000, on the eve of the North-South summit, at a meeting with Kim Jong-il, General Secretary of the Workers' Party of North Korea, Jiang Zemin pointed out that as a close neighbor of the Korean Peninsula, China holds as a fundamental guideline for its handling of the affairs of the Korean Peninsula the maintaining of peace and stability on the peninsula. China hopes that the relevant parties will seize the opportunity to engage in active interactions, resume the process of dialogue and consultation as soon as possible, and ensure that the situation on the peninsula will move forward in a positive direction.³⁷

Of course, there are two sets of opinions worthy of understanding: First, China, as much as the United States, Japan, and Russia, would like to face up to the current division on the Korean Peninsula, so as to resolve it, at present, a divided Korean Peninsula is most favorable to China. This is reflective of a cold-war mentality in dealing with international issues. The Chinese government had already declared the hope that the Korean Peninsula would eventually realize independent and peaceful reunification. Historical experience shows that Korean Peninsula reunification would guarantee the stability of Sino-DPRK relations and the security of eastern China. On the other hand, persistent Korean Peninsula division or instability would threaten China's security. China's central task and main objective is to accelerate economic development and to develop an overall prosperous society that desires a stable surrounding environment. Taking the Korean Peninsula division and high tension on the Korean Peninsula as an excuse, the United States maintains troops on the peninsula, strengthens the U.S.-Japan alliance and jointly de-

36_Jingzhi Li, "How to realize China's peaceful rise," *New View*, No.5 (2004).

37_"President Jiang meeting with Kim Jong-il, General Secretary of the Workers' Party of North Korea," *People's Daily*, June 2, 2000, <<http://english.peopledaily.com.cn/>>.

velops and deploys its Theater Missile Defense System (TMD), all of which has a detrimental effect on the surrounding environment, having especially an extreme impact on China's socialist modernization. Korean Peninsula reunification and the end of the North and South political and military confrontation would create a peaceful and stable surrounding environment for the economic development of northeast China, and provide a platform for economic cooperation among the countries of Northeast Asia, which would expect to accelerate the formation of a Northeast Asia economic cooperation mechanism. Goldman Sachs estimates that if the total population of reunified Korea were to reach 100 million in 2030, Korea would become the 4th or 5th largest economy in the world, which would play a significant role in the development of Chinese trade and finance. Facing weak economic growth, China would be greatly benefited by Korean reunification in its exports, economic growth and economic structural adjustment. More specifically, taking Pusan as a central port and Rajin as an auxiliary port, the Korean Peninsula and China would achieve enormous gains, especially if the international community were to develop Rajin as an international logistics park, connecting the logistics system of the East Sea Rim and the Pacific Rim.³⁸ Second, if the Korean Peninsula were to achieve reunification through German absorption model, would the Korean Peninsula become the site of a major U.S. military base? The answer must be 'no.' The U.S.FK would be faced with a challenge after a Korean Peninsula reunification: first, there would be no legitimate reason for U.S. troops to be garrisoned in a unified Korea; second, a significant minority of Koreans have strong nationalistic sentiments, and the North and South have been separated for more than 50 years. No matter what happens, this Korean minority would never resign themselves to the will of the great powers.³⁹ As an independent single-ethnic country,

38_ Gongja Jang, "Concept on Northeast China and the Korean Peninsula Economic cooperation," *Northeast Asia Forum*, No. 4 (2000).

39_ "Inter-Korea talks, the Major Powers Tension," *International Herald Tribune*, June 15, 2001, < <http://global.nytimes.com/?iht>>.

the Korean Peninsula would no longer be utilized, sought after or fought over by the great powers. The Korean Peninsula would be unlikely to be attached to only one or two powers. The Korean Peninsula would act in its own security and national interests, and would pursue an independent, peaceful foreign policy. Peace and neutrality would become the dominant ideology for the relationship between Korea and the great powers.⁴⁰ To say the least, even if the reunified Korean Peninsula through the “German model” remains allied with the United States, China’s military also has the ability to safeguard its territorial security. China would keep calm and make efforts to help ease the tension and maintain peace and stability in the Sino-Korean region.⁴¹

Conclusion

The experience of maintaining national security for one hundred years shows that the Korean Peninsula is an important region that could bring harm or threat to various strategic areas of China. Therefore, Korea, preserving its traditional friendship with China, is a priority for China to maintain its strategic depth. With a new military revolution developing further, the role of strategic buffer strip is increasingly unimportant. In contrast, a unified, powerful and prosperous Korean Peninsula would provide a boost for the Chinese economy: a good security atmosphere would provide a good platform and opportunity for improving bilateral economic and trade relations; the continuous development of trade would be an important driving force to promote China’s economic development and the adjustment of its industrial structure; the opening and development of the Korean Peninsula would help bring about favorable conditions for economic integration and trade liberalization on

40_Fengjun Chen, “The Strategic Significance of the Korean Peninsula in the 21st Century,” *International Politics Studies*, No. 4 (2001).


41_Zhiying Cui, “Status Quo of North-South Relations and Attitude of the Neighboring powers,” *Northeast Asian Studies*, No. 1 (2006).

Northeast Asia, and China, Russia and Japan could share the “economic dividend” of integration. Therefore, China should make use of its geo-political advantage and influence on the Korean Peninsula, take the initiative in the process of Korean Peninsula reunification, and contribute to a better environment for Chinese economic development and lasting peace and stability on the peninsula and in Northeast Asia.

References

- Brezezinski, Zbigniew. *The Grand Chessboard*. Shanghai: People's Publishing House, 1988.
- Chen, Fengjun and Chuanjian Wang (eds.). *Asian-Pacific Major Powers and Korean Peninsula*. Peking University Press, 2002.
- Chen, Fengjun. "The Strategic Significance of the Korean Peninsula in the 21st Century." *International Politics Studies*. No. 4, 2001.
- Chen, Longshan. "The characteristics of DPRK's foreign policy and trend analysis." *Northeast Asia Forum*. No. 4, 2003.
- Cui, Zhiying. "Status Quo of North-South Relations and Attitude of the Neighboring powers," *Northeast Asian Studies*. No. 1, 2006.
- Jang, Gongja. "Concept on Northeast China and the Korean Peninsula Economic cooperation." *Northeast Asia Forum*. No. 4, 2000.
- Hofstede and Geert (eds.). *Culture and organizations: the power of psychological software*. China: Renmin University Press. 2010.
- Kim, II-Sung. *Program on establishment of the Democratic Federal Republic of Korea*. Pyongyang: North Korea's Foreign Languages Press. 1979. 1
- Kim, Yong-chu. "South Korean President Kim Young-sam." Current Affairs Press. 1977. 2
- Li, Lei and Zhaoyang Zheng. "Is the Chinese outward FDI resource-seeking?" *International trade issues*. No. 2, 2012. 3
- Li, Jingzhi. "How to realize China's peaceful rise." *New View*. No. 5, 2004. 4
- Meng, Qingyi, Wenjing Zhao and Huiqing Liu. *Korean Peninsula: Problems and Solutions*. Shanghai: People's Publishing House, 2006. 5
- Republic of Korea Ministry of Unification. *Hand in hand, towards the Unification*. Seoul: Ministry of Unification, 2000. 6
- Shen, Zhihua and Dong Jie. "Sino-Soviet aid to North Korea and the economic reconstruction after World War II," *Yan Huang Chun Qiu*. No. 6, 2011. 7
- Sousa, Carlos M.P. and Frank Bradley. "Cultural Distance and Psychic Distance: Two Peas in a Pod?" *Journal of International Marketing*. Vol. 31, No. 4, 2006. 8
- Tadesse, Bedassa and Roger White. "Cultural Distance as a determinant of bilateral trade flows: do immigrants counter the effect of cultural differences?" *Applied Economics Letters*. Vol. 17, No. 2, 2010. 9
- _____. "Cultural Distance and the U.S. Immigrant-Trade Link." *The World Economy*. Vol. 31, No. 8, 2008. 10
- Wang, Jinying. "Research on the mode of inter-Korean reunification." *International Forum*. Vol. 6, 2003.
- Wei, Liu. "Study on the relationship between Chinese international trade and GDP increasing." *International trade issues*. No. 6 (2006).
- Xu, Deyou. "Market return and regional development gap." *World Economic Papers*. No. 1, 2012.

- Yang, Un-Chul. *The Political Economy of Korean Unification*. Sungnam: The Sejong Institute, 1998.
- Yu, Meihua. "Situation in Korean Peninsula and China's policy analysis." *Contemporary international relations*. No. 10, 1996.
- People's Republic of China Ministry of Commerce. <<http://english.mofcom.gov.cn>>.
- Republic of Korea Ministry of Unification. <<http://www.unikorea.go.kr>>.
- International Herald Tribune*. <<http://global.nytimes.com/?iht>>.
- Financial Times*. <<http://www.ft.com>>.
- People's Daily*. <<http://english.peopledaily.com.cn/>>.
- Xinhuanet News*. <<http://www.xinhuanet.com>>.



Korean Peninsula Division/Unification: From the
Security Perspective of Japan

Chapter 5



Chapter 5. Korean Peninsula Division/Unification: From the Security Perspective of Japan

Tomohiko Satake*

Introduction

During the Cold War era, situations on the Korean Peninsula were always central concerns for Japanese security. After the outbreak of the Korean War in 1950, the General Headquarters of the Allied Powers undertook Japan’s partial rearmament, including the establishment of the National Police Reserve—an original version of the Self-Defense Forces (SDF). During the Korean War, Japan contributed to the operation of UN multilateral forces by sending mine-sweepers, as well as functioning as a logistical supply base. Since then, Japan had refrained from direct military engagement with the Korean Peninsula. Instead, Tokyo contributed indirectly to the defense of South Korea by providing financial support, especially after the normalization of their relationship in 1965. Successive Japanese Prime Ministers often repeated the recognition that “the peace of the Korean Peninsula is indispensable for Japanese security,” originally stated by Prime Minister Eisaku Sato in November 1969. Japan also had behind-the-scenes policy coordination with South Korea in terms of security issues, such as policy toward North Korea or the U.S. military on the Korean Peninsula.¹ As such, Japan always paid close attention to situations on the Korean Peninsula during the Cold War, albeit limiting its engagement to non-military activities.

* The views expressed in this paper are those of the author and do not represent the official viewpoint of NIDS or the Ministry of Defense, Japan.

1 Victor D. Cha, “Vietnam and the Carter Years, 1975-1979,” *Alignment Despite Antagonism: The United States-Korea-Japan Security Triangle* (Stanford: Stanford University Press, 1999), pp. 141~168.

1

2

3

4

5

6

7

8

9

10

The Japanese people's concern over the situation on the Korean Peninsula became greater after the end of the Cold War, because of North Korea's development of nuclear weapons and mid-to-long range missiles under Pyongyang's "military first" doctrine. Because of these developments, North Korea has come to pose more direct threats to Japanese security than those during the Cold War era.² In this paper, I will discuss how the North Korean military threat—as a product of the division of the Korean Peninsula—has imposed risks and costs on Japanese security, and explain how Japan has coped with these threats since the end of the Cold War. Then I will suggest that Japan's position regarding the unification of the Korean Peninsula is not as reluctant as is often supposed, and will support that thesis by citing some recent developments. In conclusion, I will argue that the trilateral cooperation that exists between the U.S., Japan, and South Korea is indispensable to achieving a successful unification of the Korean Peninsula.

North Korean Military Threat as a Driver of Costs of the Division of the Korean Peninsula

Supersizing the North Korean Threat?

Since the end of the Cold War, the North Korean military threat has imposed significant costs and risks on Japanese security. Some argue that Japanese policymakers have overemphasized—or “super-sized”—the North Korean threat in order to justify Japan's military-buildup, strengthen the U.S.-Japan alliance, and hide its long-term purpose, which is coping with the threat from China.³ Indeed, To-

2_Narushige Michishita, “Japan's Security and the Korean Peninsula,” Tatsuo Akaneya and Kotaro Ochiai (eds.), *Nihon no Anzen Hosyo (Japanese Security)* (Tokyo: Yuhikaku Compact, 2004), p. 146.

3_Christopher W. Hughes, “Supersizing the DPRK Threat: Japan's Evolving Military Posture and North Korea,” *Asian Survey*, Vol. 49, No. 2 (March/April 2009), pp. 291~311.

kyo's large-scale campaigns to protect its people from North Korea's missile launch tests in both 2009 and 2012, along with the Japanese media's unusually extensive coverage of those tests, may have created the impression that Japan has overreacted to threats from North Korea. Nevertheless, the evidence that follows suggests that Japan faces genuine and significant security challenges from North Korean military threats, despite Pyongyang's limited and out-of-date conventional weapons. Indeed, North Korea's military threat to Japan comes mostly from its asymmetric, rather than symmetric, capabilities.

It is obvious that the most serious asymmetric threat Japan faces comes from North Korea's nuclear weapons. Compared to its first nuclear tests in October 2006, North Korea's second nuclear test conducted in May 2010 enjoyed a greater level of technical success, as well as achieving a much larger nuclear explosion than the one in 2006 (estimated as four times larger). According to one U.S. intelligence officer, North Korea "may now have several plutonium-based nuclear warheads that it can deliver by ballistic missiles and aircraft as well as by unconventional means."⁴ In addition to these plutonium-based nuclear weapons, Pyongyang has already revealed the existence of a uranium enrichment program, which had, according to their announcement, already entered its "completion stage."⁵ It is estimated that, since the two nuclear tests, North Korea possesses a separated plutonium stockpile that is sufficient to produce seven to 11 nuclear weapons. This number will easily increase once the 5MWe reactor restarts, as well as if the enrichment facility at Yong-

4_ "World Wide Threat Assessment," Statement before the Committee on Armed Services, United States Senate by Ronald L. Burgess, Jr. Lieutenant General, U.S. Army, Director, Defense Intelligence Agency, March 10, 2011, <<http://www.dia.mil/public-affairs/testimonies/2011-03-10.html>>.

5_Sang-Hun Choe and David E. Sanger, "North Korea Reveals Second Path to Nuclear Bomb," *The New York Times*, September 4, 2009, <http://www.nytimes.com/2009/09/05/world/asia/05korea.html?_r=0>.

byon were to be configured to produce highly enriched uranium.⁶

These nuclear weapons would likely be delivered to Japan by North Korea's medium-to-long range missiles, which were test launched in 1993, 1998, 2006, 2009, and 2012. In the cases of 1998 and 2009, some of those missiles flew over Japanese islands and dropped into the Pacific waters. Although three tests of Taepodong-2, which were believed to be conducted in 2006, 2009, and 2012, apparently failed, it is estimated that the North has succeeded in its tests of *Nodong*-a medium range ballistic missile with a range from 1300 to 1500km that is believed to reach almost all parts of Japan—and has already deployed them. If Pyongyang has successfully miniaturized its nuclear weapons, it is possible that *Nodong* has already been loaded with nuclear warheads. *Nodong* could also be capable of delivering chemical and biological warheads—although they are not technically easy—which could potentially be used to wage a massive terror campaign against large cities and industrial targets in Japan.

While a majority of analysts estimates that the North has from 200-320 *Nodong* missiles, a report recently published by the International Institute for Strategic Studies (IISS)—one of the most credible institutions that observe North Korean military trends—posits that North Korea possesses only 100 *Nodong* missiles.⁷ The report also estimates that the *Nodong's* maximum range is only 900km (when carrying a 1000kg payload), which could not cover all likely targets in Japan (including Tokyo).⁸ At the same time, however, the report stresses the importance of a new missile, named *Nodong-2010* variant, unrevealed by Pyongyang's military parade in October 2010. According to the report, the *Nodong-2010* variant could deliver a 750kg warhead 1600km, which covers targets throughout most of Japan, including the U.S. bases on Okinawa.⁹ For these reasons, the

6_Mark Fitzpatrick (eds.), *North Korean Security Challenges: A Net Assessment* (London: International Institute for Strategic Studies, 2011), p. 114.

7_*Ibid.*, p. 145.

8_*Ibid.*, p. 133.

9_*Ibid.*, p. 135.

report concludes that, “in a few years, if North Korea fully develops and deploys its *Nodong*-2010 variant and Musudan missiles, it could stretch its strategic reach and threaten U.S. bases on Okinawa with nuclear weapons.” Based on these estimates, one of the authors of the report concludes that “there is ample reason to be concerned about North Korea’s ballistic missiles—especially if you live in the neighbourhood.”¹⁰

Another “asymmetric” threat comes from North Korea’s special operations forces, which are believed to have the largest number of soldiers in the world.¹¹ The intended missions of North Korea’s Special Forces are said to include raids against U.S. Air Force bases in Japan (Misawa and Yokota Air Bases) and on the island of Okinawa (Kadena Air Base), as well as SDF’s bases and radar sites, in the case of emergencies on the Korean Peninsula.¹² It is also believed that, following North Korea’s missile attacks against military bases in Japan, Pyongyang would use its Special Forces to attack important facilities in Japan, such as nuclear plants, which are quite vulnerable to terrorist attacks. Although nuclear reactor’s in Japan are covered by solid containment buildings and reactor vessels, the massive earthquake and subsequent tsunami waves that struck Japan on March 11 of 2011 revealed that these protection measures are useless when the nuclear reactor’s cooling system is down. This means that terrorists could cause a tremendous nuclear disaster equivalent to (or even greater than) the one in Fukushima, if they can successfully terminate the power supply system of the nuclear facility.

It is believed that North Korea has already made several attempts

10_Mark Fitzpatrick, “North Korean Missile Challenges,” paper prepared for the 2012 R.U.S.I Missile Defence Conference, May 30, 2012, p. 1.

11_According to the South Korean Defense White Paper published in late 2010, the number of North Korean Special Forces had risen to 200,000, while the total size of the North’s military remained unchanged. These are soldiers trained to carry out assassinations and the infiltration and disruption of key facilities. *2010 Defense White Paper* (Seoul: Ministry of National Defense, 2010), p. 30.

12_Joseph S. Bermudes Jr., *North Korean Special Forces* (Second Edition) (Annapolis: Naval Institute Press, 1998), pp. 3~4.

to send soldiers or spies to Japan by various means. According to the report published by the Japanese Coast Guard (JCG), the JCG has identified 21 suspicious boats since its establishment in 1958.¹³ These ships became famous especially in 1999 and 2001, when the Japanese Maritime SDF (MSDF) and the JCG found suspicious boats [fushinsen] navigating in Japanese territorial waters and the Exclusive Economic Zone (EEZ). While the first ship that appeared in 1999 escaped in the chase by the MSDF and JCG ships and returned to the North, another ship blew itself up and sank after a gunfight with JCG ships in 2001. It later appeared that the ship had been equipped with a number of heavy firearms, revealing that it had attempted to deliver agents for illegal activities in Japan. In addition to these spy ships, North Korea would be able to use its submarines as vehicles to deliver secret agents to Japan.

Finally, Tokyo is watching North Korea's cyber-attack capabilities carefully. Since the late 1980s, North Korea has systematically trained experts in cyber warfare, including such measures as establishing a training school for hackers as a "university." It is believed that the Reconnaissance Bureau of the People's Army has a unit called "Unit 121" that focuses solely on cyber warfare, with around 17,000 personnel estimated to be assigned to it in 2007.¹⁴ With this unit, North Korea has conducted several cyber-attacks against South Korea, such as hacking the computers of South Korea's military or attacking websites of major governmental organizations and financial institutions of the South. Some of these attacks appeared to be conducted by using internet servers owned by Japanese companies or through the Chinese internet. Most recently, from 28 April to 13 May 2012, North Korea repeatedly sent GPS jamming signals to South Korea, directly affecting the navigation of civilian aviation and

13_Japan Coast Guard, *2012 Kaijyou Hoan Repoto (Japan Coast Guard, Annual Report 2012)* (Tokyo: Kokudo Kotsu Sho, 2012), p. 64.

14_Kevin Coleman, "Inside DPRK's Unit 121," *Defensetech*, December 24, 2007, <<http://defensetech.org/2007/12/24/inside-dprks-unit-121/>, accessed on 12 July, 2012>.

fishing fleets, including 10 Japanese aircraft.¹⁵ Although the jamming caused no accidents or loss of life, it demonstrates that North Korea has become increasingly capable of disrupting the high-tech infrastructure of other countries.

Imperfect Defense

In response to North Korea's asymmetric military threat, Japan has taken several measures. These measures include: revising the U.S.-Japan defense guidelines so that the SDF can provide "rear area" support to U.S. forces in the case of a crisis on the Korean Peninsula; developing a ballistic missile defense (BMD) system; improving interoperability with the U.S. military, such as the establishment of the Bilateral Joint Operations Coordination Center at Yokota Air Base in March 2012; establishing SDF's special operation units and strengthening the protection of nuclear facilities in order to respond to the threat of terrorism and guerilla warfare; revising the SDF law to alleviate the restriction over the use of force by MSDF ships during maritime policing activities; and elaborating countermeasures to cyber-attacks, such as the announcement of MOD's first defense guidelines on cyber-attacks in September 2012. In addition to these measures, Tokyo has established a new legal framework that invests both the government and the SDF with broader authority (such as clearing roads for military vehicles, supervising evacuations, etc.) in order to respond an armed attack by foreign military forces.

Notwithstanding Japan's efforts to establish effective defense measures, however, Japan's responses to a North Korean military threat have many problems. First, Japan's intelligence gathering ability is not developed well enough to capture information about North Korea's missile launching. Since the launch of Taepodong-2 in 1998, Japan has launched seven "intelligence gathering satellites (IGS)." Yet their abilities to capture information on North Korean soil are much

¹⁵ "N.Korean GPS Jamming Threatens Passenger Planes," *The Chosun Ilbo*, May 10, 2012, and "N.Korea's GPS Jamming Is Terrorism Pure and Simple," *The Chosun Ilbo*, May 11, 2012.

1

2

3

4

5

6

7

8

9

10

more limited than those of American reconnaissance satellites, especially in terms of image analysis technology. Since Japan does not have its own early warning satellite, moreover, it is impossible to cope with North Korean missile attacks without unilaterally relying upon the American Defense Support Program Satellite. In the cases of the North Korean missile tests in 2009 and 2012, the MOD had some difficulties confirming the Satellite Early Warning from the American side, which caused a false announcement (in 2009) and a delay of an announcement (in 2012) of the missile launch by the MOD. Although the Japanese government has considered the development of its own early warning satellite, it remains unclear whether it is possible, especially under the current severe budgetary constraints.

Second, although Japan's BMD system is an invaluable asset to protect against the threat of North Korea's ballistic missiles, it is far from perfect. Since its introduction of a BMD system in December 2003, the Japanese Government has deployed Patriot Advanced Capability-3 (PAC-3) to 16 Fire Units in 11 SDF bases, as well as equipping four Aegis vessels (Kongo-class) with Standard Missiles (SM-3).¹⁶ According to the latest report by the U.S. missile defense agency, 53 of 67 hit-to-kill intercept attempts have been successful across all programs—including Aegis BMD and PAC-3—since the integrated system began development in 2001. With respect to the SM-3, 18 of 25 intercept attempts have been successful as of May 2012.¹⁷ In fact, the MSDF has conducted test launches of the SM-3 four times in 2007, 2008, 2009 and 2010, and three tests proved successful. PAC-3 has also been tested successfully twice, in September 2008 and September 2009.

These attempts, however, never guarantee whether Japan's Aegis equipped SM-3s could successfully intercept North Korean ballistic missiles, especially if the North should launch a large number of

¹⁶ Japan's new Mid-term Defense Program for FY2011 to FY2015 stipulates that the SDF would attach BMD capability to two additional Aegis vessels (*Atago*-class), as well as deploying PAC-3 to another SDF Fire Unit.

¹⁷ Missile Defense Agency, "Fact Sheet, Ballistic Missile Defense Flight Test Record," <<http://www.mda.mil/global/documents/pdf/testrecord.pdf>>.

missiles (including decoys) simultaneously. Even if the SDF could intercept nine out of 10 ballistic missiles launched by North Korea, it does not matter much, should the remaining one be equipped with a nuclear warhead. Furthermore, the kill ratio of the BMD would vary significantly depending on such factors as the availability of information on the location of enemy ballistic missile launchers, the disposition of friendly Aegis BMD destroyers, missile trajectory, vibration, and the existence of countermeasures.¹⁸

To compensate for the weakness of its BMD system, Japan has discussed the possibility of possessing limited strike capabilities to conduct counterforce operations against North Korean missiles and missile bases (the “attacking the enemy’s bases” theory or Teki-kichi Kogeki Ron). The theory is based on an official position of the Japanese Government stated in 1956, which explained that, in case there would be no alternative means, Japan would be able to attack missile bases in order to prevent missile attacks against Japan without violating the principle of self-defense. According to this position, it would be legally possible for the SDF to conduct a preemptive (but not preventive) attack against North Korean missiles bases, once it appeared that North Korea was ready to launch its missiles against Japanese territory. Based on this position, various politicians and experts have recommended the introduction or discussion of possessing preemptive self-defense capabilities.¹⁹

Yet, as many security experts note, attaining such capabilities is not an easy task, if not being an impossible one, due to the number of technological and political concerns involved. For instance, attack-

18_Narushige Michishita, “Japan’s Response to Nuclear North Korea,” *Joint U.S.-Korea Academic Studies*, Vol. 23 (2012), p. 106.

19_See for example, a report submitted by the defense sub-committee of the Liberal Democratic Party on 14 June, 2010, <<http://www.jimin.jp/policy/pdf/seisaku-017.pdf> (in Japanese)>. For the most recent discussion, see the statement of Defense Minister Satoshi Morimoto to the foreign policy and defense committee of the House of Councilors, June 19, 2012, <http://kokkai.ndl.go.jp/cgi-bin/KENSAKU/swk_dispdoc.cgi?SESSION=16654&SAVED_RID=6&PAGE=0&POS=0&TOTAL=0&SRV_ID=9&DOC_ID=11245&DPAGE=1&DTOTAL=1&DPOS=1&SORT_DIR=1&SORT_TYPE=0&MODE=1&DMY=22821>.

1
2
3
4
5
6
7
8
9
10

ing North Korean missiles on its own soil would require the ability to locate the missile launchers (including transporter erector launchers) and simultaneously supply their locations to the attacking units, which cannot currently be achieved without the support of the U.S. military.²⁰ It would become more difficult to locate these launchers if they were hidden by such obstacles as buildings or trees, or located underground. Politically, possessing strike capabilities could be understood as a violation of Japan's "defensive defense" doctrine, even if it were for purposes of self-defense, which could cause a lengthy controversy at both the public and governmental levels.²¹ Considering all these issues, it would be fair to say that Teki-kichi Kogeki Ron remains little more than a "theory," rather than an actual option for Japanese security policy.

Third, although Japan has established several laws concerning national security affairs, there is much imperfection in Japan's legal system, which limits the SDF's ability to respond effectively to a North Korean threat in cooperation with other countries. For example, during ship inspection activities in shuhen-jitai, MSDF ships cannot fire on a ship that attempts to escape inspection, since MSDF ships are not allowed to use weapons except for the purpose of self-defense or emergency evacuation on the high seas. In terms of BMD, the SDF are not allowed to intercept ballistic missiles aimed at U.S. territories, which is recognized as the exercise of the right of collective self-defense. A similar problem could occur during Japan-Korea-U.S. joint military trainings. Even if the U.S. or ROK ships are attacked by the North Korean military during exercises, the SDF cannot take countermeasures if these attacks are conducted outside Japanese territorial waters. Japan's legal constraints also limit

20_Sugio Takahashi, "Dealing with Ballistic Missile Threat: Whether Japan Should Have a Strike Capability under its Exclusively Defense-Oriented Policy," *NIDS Security Reports*, No. 7 (December 2006).

21_According to the latest opinion poll conducted by the Japanese broadcast company, 74.8 percent of Japanese are against Teki-kichi Kogeki Ron, whereas only 17.2 percent are for it, <http://wwwz.fujitv.co.jp/b_hp/shin2001/chousa/chousa.html>.

the SDF's ability regarding cyber-warfare. Since it remains unclear whether a cyber-attack can be recognized as the "use of force" internationally or domestically, the SDF is not allowed to wage a counter-attack against the cyber-attacker, unless the attack is implemented as part of an armed attack against Japan.

Finally, Japan is not prepared enough for responding to a full-scale conflict on the Korean Peninsula. For instance, Japan's unusually long coastline would make it impossible for both the MSDF and the JCG perfectly to protect against the intrusion of North Korean Special Forces into Japan, if these forces were to approach Japan by a number of small spy ships or submarines.²² Once a crisis would happen on the Korean Peninsula, moreover, it is expected that hundreds of thousands of refugees would rush to Japan. Yet neither the SDF nor the Japanese police have enough capacity to accept a large number of refugees from the Peninsula. In addition, the SDF has difficulties in Noncombatant Evacuation Operations—rescuing Japanese on the Korean Peninsula, which are said to number more than 40,000, including everyday tourists—especially under the condition that the South Korean Government would not allow the SDF on Korean soil.

In short, notwithstanding a number of measures that have been implemented to counter a North Korean military threat, Japan's security still faces many risks and costs caused by that threat. Such risks and costs have become even greater as North Korea has become increasingly hostile and provocative with its development of nuclear weapons, as demonstrated by both the *Cheonan* and the *Yongpyongdo* incidents in 2010. Those risks and costs naturally led Japanese policymakers to be more concerned than they ever had been with the unification of the Korean Peninsula, as will be discussed in the following section.

22 According to a simulation made by the Japan Defense Agency in October 2004, even if the GSDF and the MSDF put their resources into defeating the Special Forces' landing operations at the water's edge, five percent of these Special Forces would successfully intrude into Japanese soil. Mitsumasa Saito, *Zainichi Beigun Saizen Sen (The Front Line of the U.S. Military in Japan)* (Tokyo: Shinjinbutsu Ourai Sha, 2010), p. 164.

Japan's position on the unification of the Korean Peninsula

It has been common to describe Japan's position toward Korean unification as "negative," or at least, "reluctant."²³ According to one observer, for example, Japan fears that a unified and strong Korea might become a military and economic threat to Japan.²⁴ A more moderate and nuanced understanding is that, although Japan might hope for the unification of the Korean Peninsula in the long term, the status-quo is more preferable than unification in the short term. Michael Armacost and Kenneth Pyle summarize Japan's position as follows:

Most Japanese policymakers have quietly concluded that their wisest course is not to hasten unification, but rather to pursue a course that maintains the status quo of a divided Korea for as long as possible, all the while supporting American policies of deterrence, hoping to contain tensions and foster cordial ties with South Korea, and favoring policies that promote a gradual reconciliation rather than a rapid and potentially violent reunification, which might produce new problems for Japan.²⁵

Considering the significant costs and risks imposed by a divided Korea, however, it would be quite reasonable for Japanese policymakers to seek the peaceful unification of the Korean Peninsula. Indeed, Japan's Prime Minister, policymakers or retired officials have occasionally expressed their hopes for the unification of the Korean Peninsula, which would bring about the peace and stability of the East Asia region.²⁶ Given North Korea's provocations in 2010,

23_Victor Cha, "Defensive Realism and Japan's Approach toward Korean Reunification," *NBR Analysis*, Vol. 14, No. 1 (June 2003).

24_For such a view, see for example, Sunny Lee, "Tokyo wants Korean unification least," *The Korea Times*, March 29, 2011, <http://www.koreatimes.co.kr/www/news/nation/2011/03/116_84105.html>.

25_Michael H. Armacost and Kenneth B. Pyle, "Japan and the Unification of Korea: Challenges for U.S. Policy Coordination," *NBR Analysis*, Vol. 10, No. 1 (March 1999), p. 9.

26_Remark by Japanese Prime Minister Kiichi Miyazawa to the National Diet of the Republic of Korea, available at <<http://www.ioc.u-tokyo.ac.jp/~worldjpn/>>, accessed on 30 July, 2010>.

moreover, Japan's interest in the unification of the Korean Peninsula seems to have become stronger in recent years.²⁷ Most recently, Japan's Ambassador to South Korea reportedly said that the reunification of Korea would be a "big benefit" for Japan because: (1) the reduction of tension on the Korean Peninsula would promote peace and stability in the region; (2) the unification would result in a large market and business opportunities for Japan; and (3) Japan wants to have a very strong partner next to it, which shares Japan's interests in promoting peace, stability and prosperity in the world.²⁸

Of course, Japan's support for Korean unification would never be unconditional. First, Japan would want the Korean Peninsula unified peacefully. Although Japan has been preparing for a contingency on the Korean Peninsula in military, diplomatic, and legal dimensions, a conflict on the Peninsula could bring about unacceptable costs and risks for Japanese security, as has been discussed. Second, a unified Korea would have to be a democratic country. As a Japanese diplomat argues, "Sharing freedom, democracy, rule of law, and other basic values with a unified Korea will help to maintain long-term stable bilateral relations, to address frictions and disputes between the two countries in a practical and controlled manner, and to further build confidence and trust between the two countries."²⁹ Third, a unified Korea would have to be a nonnuclear state. As Japan is the only country that has suffered actual attack using nuclear weapons, it is not acceptable that a unified Korea—whether it is friendly to Japan or not—would possess nuclear weapons against the international non-proliferation regime. Finally, it is preferable for Japan that a unified Korea would maintain the U.S.-ROK alliance, which would ensure regional stability by allowing U.S. forces to be stationed on

27_Victor D. Cha, "The End of History: 'Neojuch Revivalism' and Korean Unification," *Orbis* (Spring 2011), p. 296.

28_Evan Ramstad, "U.S., Japan, Russia on Reunification: Good!," *The Wall Street Journal Asia*, April 8, 2011.

29_Hideki Yamaji, *Policy Recommendations for Japan: Unification of the Korean Peninsula*, The Brookings Institution Center for Northeast Asian Policy Studies, 2004, p. 5.

1

2

3

4

5

6

7

8

9

10

the Korean Peninsula.³⁰

It should be noted, however, that these conditions are based on Japanese interests, and it is fundamentally up to the Korean people what kind of country a unified Korea would be in the future. After all, Japan has little influence over the unification of divided Korea. As Shunji Hiraiwa argues, it is the two Koreas that should “play a central role in the unification issue,” while “other related countries will need to cooperate for that purpose above all.”³¹ Hiraiwa also adds, “although the unification itself is a problem between South and North Korea, it is equally important for Korean people to understand that a new East Asian order which is to emerge as a result of the unification will have significant implications for Japan.”³² It is in Japan’s interest, therefore, that the unification process would always be carried out in close consultation with the other regional countries, albeit initiated by the two Koreas, especially South Korea.

Conclusion

I have so far argued that, despite its superiority over North Korea in terms of conventional weapons capabilities, Japan faces serious and genuine threats from North Korean asymmetric military capabilities. I have also argued that, although Japan has taken several countermeasures against these asymmetric threats during the post-Cold War period, there remain many problems in spite of these measures, leaving Japan vulnerable to threats from North Korea. North Korea’s hostile intention against Japan, along with its provocative behavior, magnifies Japan’s threat perceptions. In short, Japan faces many risks

³⁰ *Ibid.*, p. 6.

³¹ Shunji Hiraiwa, “Kitachousen wo Meguru Nikkan Kyouryoku (Japan-South Korea Cooperation over North Korea),” Masao Okonogi and Young-Sun Ha (eds.), *Nikkan Shinjidai to Kyousei Fukugou Nettowaaku (A New Era of Japan-South Korea Relations and Symbiotic Complex Network)* (Tokyo: Keio Daigaku Shuppankai, 2012), p. 97.

³² *Ibid.*

and costs relative to its security due to situations caused by a divided Korea. Those risks and costs imposed by North Korea have encouraged Japanese policymakers to express their hopes for the unification of the Korean Peninsula, and this tendency has grown stronger, given the increasing tension on the Korean Peninsula.

The discussion above naturally leads to the conclusion that, in order successfully to achieve a peaceful and democratic unification of the Korean Peninsula, Japan would need to have a close and strong security relationship with South Korea, as well as the United States. As Hideki Yamaji suggests, the U.S.-Japan-ROK trilateral coordination “can help shape an international environment that would avoid unnecessary competition among neighboring countries over the Korean Peninsula and stabilize relations between China, Russia, and the three countries. This triangle could minimize the negative effects caused by unification scenarios (explosion, implosion, and reconciliation), and help achieve the ROK-led unification no matter what unification processes it may follow.”³³

In particular, both Japan and South Korea should improve their information-sharing over North Korean nuclear weapons, missiles, and other military and political activities. Such cooperation between Japan and South Korea not only benefits a military purpose like missile defense, but also makes it possible for Tokyo and Seoul to share their views over situations on the Korean Peninsula, which is necessary for the U.S.-Japan-ROK trilateral coordination toward the peaceful unification of the Korean Peninsula.³⁴ In other words, a successful unification of the Korean Peninsula is possible only when these three countries maintain solid and close security relations. The future of the North East Asian security order depends heavily on whether or not Tokyo and Seoul can work together for their common interests and purposes beyond the negative legacy of the past.

33_ *Ibid.*

34_ Hiraiwa, “Kitachousen wo Meguru Nikkan Kyouryoku,” p. 97.

1

2

3

4

5

6

7

8

9

10

References

- Armacost, Michael H. and Kenneth B. Pyle. "Japan and the Unification of Korea: Challenges for U.S. Policy Coordination." *NBR Analysis*. Vol. 10, No. 1, 1999.
- Bermudes, Joseph S. Jr. *North Korean Special Forces* (Second Edition). Annapolis: Naval Institute Press, 1998.
- Cha, Victor D. "Vietnam and the Carter Years, 1975-1979." *Alignment Despite Antagonism: The United States-Korea-Japan Security Triangle*. Stanford: Stanford University Press, 1999.
- _____. "Defensive Realism and Japan's Approach toward Korean Reunification." *NBR Analysis*. Vol. 14, No. 1, June 2003.
- _____. "The End of History: 'Neojuch Revivalism' and Korean Unification." *Orbis*. Spring 2011.
- Coleman, Kevin. "Inside DPRK's Unit 121." *Defensetech*. December 24, 2007. <<http://defensetech.org/2007/12/24/inside-dprks-unit-121/>>.
- Fitzpatrick, Mark. "North Korean Missile Challenges." A paper prepared for the 2012 R.U.S.I Missile Defence Conference. May 30, 2012.
- _____. *North Korean Security Challenges: A Net Assessment*. London: International Institute for Strategic Studies, 2011.
- Hiraiwa, Shunji. "Kitachousen wo Meguru Nikkan Kyouryoku (Japan-South Korea Cooperation over North Korea)." Masao Okonogi and Young-Sun Ha (eds.). *Nikkan Shinjidai to Kyousei Fukugou Nettowaaku (A New Era of Japan-South Korea Relations and Symbiotic Complex Network)*. Tokyo: Keio Daigaku Shuppankai, 2012.
- Hughes, Christopher W. "Supersizing the DPRK Threat: Japan's Evolving Military Posture and North Korea." *Asian Survey*. Vol. 49, No. 2, March/April 2009.
- Michishita, Narushige. "Japan's Response to Nuclear North Korea." *Joint U.S.-Korea Academic Studies*. Vol. 23, 2012.
- _____. "Japan's Security and the Korean Peninsula." Tatsuo Akaneya and Kotaro Ochiai (eds.). *Nihon no Anzen Hosyo (Japanese Security)*. Tokyo: Yuhikaku Compact, 2004.
- Republic of Korea Ministry of National Defense. *2010 Defense White Paper*. Republic of Korea Ministry of National Defense, 2010.
- Missile Defense Agency. Fact Sheet, Ballistic Missile Defense Flight Test Record. <<http://www.mda.mil/global/documents/pdf/testrecord.pdf>>.
- Ministry of Defense of Japan. "Toward Stable and Effective Use of Cyberspace." September 2012. <http://www.mod.go.jp/e/d_act/others/pdf/stable_and_effective_use_cyberspace.pdf>.
- Ramstad, Evan Ramstad. "U.S., Japan, Russia on Reunification: Good!" *The Wall Street Journal Asia*. April 8, 2011.
- Takahashi, Sugio. "Dealing with Ballistic Missile Threat: Whether Japan Should Have a Strike Capability under its Exclusively Defense-Ori-

ented Policy.” *NIDS Security Reports*. No. 7, December 2006.

Yamaji, Hideki. *Policy Recommendations for Japan: Unification of the Korean Peninsula*. The Brookings Institution Center for Northeast Asian Policy Studies, 2004.


“World Wide Threat Assessment.” Statement before the Committee on Armed Services, United States Senate by Ronald L. Burgess, Jr. Lieutenant General, U.S. Army, Director, Defense Intelligence Agency. March 10, 2011. <<http://www.dia.mil/public-affairs/testimonies/2011-03-10.html>>.

Japan Coast Guard. *2012 Kaijyou Hoan Repoto (Japan Coast Guard Annual Report 2012)*. Tokyo: Kokudo Kotsu Sho, 2012.

The New York Times. <<http://nytimes.com>>.

The Chosun Ilbo. <<http://english.chosun.com/>>.

The Korea Times. <<http://www.koreatimes.co.kr>>.



**Costs and Benefits of Korean Unification for Japan:
Political and Economic Perspectives**

Chapter **6**

Chapter 6. Costs and Benefits of Korean Unification for Japan: Political and Economic Perspectives

Sachio Nakato

Introduction

Many scholars, government officials and journalists, especially in Korea, seem to question Japan's support for Korean unification, because a unified Korea would constitute a military as well as an economic threat to Japan.¹ They believe that Japan does not want a unified Korea, since a divided Korea may serve its national interests best, especially in the postwar period. For example, foreign scholars often cite a report that during a meeting of the House of Councilors in March 2006, then-Prime Minister Junichiro Koizumi answered with reservations that early unification of the Korean Peninsula would not be desirable if the economic gap between the South and the North were taken into consideration.² What Prime Minister Koizumi meant is not clear, since he also recognized that a unified Korea is the earnest wish of both South and North Korea. However, his statements are considered as proof that the status quo remains the preferred policy option for Japan.

This paper analyzes the costs and benefits for Japan of the Korean Peninsula unification, as well as Japan's policy toward unification of the Korean Peninsula. First of all, the costs of division of the Korean Peninsula will be analyzed. This section tries to figure out the impli-

1_Sunny Lee, "Tokyo wants Korean unification least," *The Korea Times*, March 29, 2011, <<http://www.koreatimes.co.kr/www/index.asp>>.

2_Won-Jae Park, "Koizumi Opposes Early Korea Unification," *The Dong-A Ilbo*, March 6, 2006, <<http://www.donga.com>>.

cations of the status quo on the Korean Peninsula for Japan both politically and economically. Section II explores the potential benefits of the unification of the Korean Peninsula for Japan. This section tries to focus especially on economic aspects of the benefits of the unification of the Korean Peninsula for Japan. Section III will then discuss Japan's position on the unification of the Korean Peninsula. Following this, possible Japanese policy directions concerning the issues of when a unified Korea emerges will be discussed. A brief conclusion follows.

Japan's Cost of Korean Peninsula Division

Japan's status quo policy toward the Korean Peninsula and its costs

As many analysts argue that Japan is taking advantage of the status quo on the Korean Peninsula, it seems to be true that Japan has not fully engaged in supporting unification of the Korean Peninsula. There are several reasons for such a stance on Japan's part. First of all, Japan's foreign policy itself has been adaptive or reactive rather than proactive since WWII. Japan's policy toward the Korean Peninsula has been characterized as a mix of strategic, cautious, and opportunistic policies. Some observers have predicted that Japan is unlikely to play a proactive role and would remain cautious, reactive, and adaptive to the process of reunification as it develops.³ In other words, Japan's policy has tended to aim at preserving the status quo on the Korean Peninsula rather than taking an active role in promoting the unification process of the two divided Koreas. Japan has actually considered that such a passive policy is not only consonant with U.S. interests but also is congruent with its own security in-

3. Michael H. Armacost and Kenneth B. Pyle, "Japan and the Unification of Korea: Challenges for U.S. Policy Coordination," Nicholas Eberstadt and Richard J. Elings (eds.), *Korea's Future and the Great Powers* (National Bureau of Asian Research, 2001), p. 141.

terests.⁴ After all, peaceful coexistence on the Korean Peninsula has served Japan's national interests up to this point.

Secondly, the Japanese government has been questioning whether it is possible to realize peaceful unification between the South and the North in the near future. South and North had actually fought each other during the Korean War from 1950 to 1953. Since Japan and South Korea established security alliances with the United States in 1952 and 1953, respectively, South Korea has worried that the United States might abandon it should a second Korean War happen, while Japan has traditionally been concerned about its "entrapment" into such a regional conflict because of the U.S.-Japan security alliance. If unification is realized through war or a sudden collapse of North Korea, such unification would not serve Japan's interests. Prime Minister Koizumi's statement also reflected Japan's concerns along those lines about how the Korean unification would be accomplished.

Thirdly, Japan does not seem to be fully aware that its former colonial rule has contributed at least in part to the present division of the Korean Peninsula. Needless to say, Korea was divided into South and North Korea by the United States and the Soviet Union. In other words, the Japanese tend to think that Japan simply handed Korea over to the Allied Powers and that it was the two postwar super powers that directly divided the Korean Peninsula into the South and the North. However, the division of the Korean Peninsula is rooted in Japan's colonial rule that divided people in Korea into collaborators and resisters.⁵ That is, Japan's colonial rule of the Korean Peninsula is partly responsible for the division. It is hard for most Japanese to recognize that the division of the Korean Peninsula was an outgrowth of Japanese colonization of Korea. While some schol-

4_Hong N. Kim, "Japan's Policy Toward the Two Koreas and Korea Unification," Young Hoon Kang and Yong Soon Yim (eds.), *Politics of Korean Reunification* (Seoul: Research Center for Peace and Unification, 1978), p. 188.

5_Yoshikazu Sakamoto, "On Paik Nak-chung's views regarding the unification of Korea: from a Japanese perspective," *Inter-Asia Cultural Studies*, Vol. 11, No. 4 (2010), p. 532.

ars argue that Japan is morally obligated to work for reunification of Korea, the Japanese have not perceived that to be the case, which leads to a passive attitude toward Korean unification.

Therefore, finally, Korean perceptions of Japan with regard to its responsibility for the Korean division as well as to Japan's status quo policy toward the Korean Peninsula have cost Japan a tremendous amount, since such Korean perceptions of Japan have, without question, resulted in Japan's attempts at cooperation being rebuffed by South and North Korea and have created negative images of Japan. It is unfortunately true that Japan is not able to dismiss historical issues with regard to its Korean policy. Although it is arguable as to whether or not the Taft-Katsura agreement of 1905 is related to the division of Korea, there is a belief in Korea that it paved the way for the eventual division of the Peninsula.⁶ Also, the reason many Korean people believe that Japan does not want a unified Korea is due partly to its passive posture toward the reunification process on the Korean Peninsula. For these reasons, unless Japan takes responsibility for some of the costs of Korean unification, these historical issues remain as additional deterrents to Japan's support.

Economic costs for Korea and Japan of division of the Korean Peninsula

Costs of division are actually tremendous for South Korea as well as for North Korea, if we think about economic and social aspects. North Korea has emphasized its heavy industry for its economic development in order to become a socialist industrial nation as well as to nationalize its major military equipment. Also, hostile relations on the Korean Peninsula have promoted military buildups in both South and North Korea. As a result, North Korea's military expendi-

6_ The Taft-Katsura Agreement of 1905 granted the United States the right to occupy the Philippines, while Japan was granted the right to occupy the Korean Peninsula in return. I thank Professor Lee Kitae for pointing out at the workshop held at KINU on September 14th, 2012 that the agreement led to the division of the Korean Peninsula.

tures as well as use of human resources for the military remain high. For example, North Korea maintains about 1,190,000 soldiers, compared to 645,000 that are maintained by South Korea.⁷ If one considers the relative population sizes and economic scale, this number is disproportionately high. Also, the ratio of North Korea's military expenditures to its total national budget has been maintained at around 16 to 20 percent for the past ten years.⁸ Although there is no official data to figure out North Korea's military expenditures compared to its GDP, it can be shown that the ratio of the military expenses is fairly high compared to neighboring countries and that the military sector has become a hindrance to North Korean economic development.

Certainly, not all South Koreans are supportive of the reunification of Korea. This is, at least in part, due to possibly huge costs of inter-Korean integration as well as to hostile relations between the South and the North, especially since the Lee Myung Bak administration came into power. Many South Korean people do not necessarily show positive interest in unifying with the North, especially among the younger generations.⁹ This is understandable for many Koreans, especially when the prospective job market for young college graduates is not necessarily bright. However, many experts point out that the costs of division of the Korean Peninsula are higher than those of unification. For example, Lee Chun Gun, a senior researcher with the Korea Economic Research Institute, has claimed that not only the level of military expenditures but also the pain of separated families and the numbers of students who serve in the military during

7_Ministry of Foreign Affairs of Japan, <<http://www.mofa.go.jp/>>.

8_*Ibid.*

9_According to a survey conducted by the SNU Institute for Peace and Unification Studies in 2011, the number of people who show no interest in unification increased by 1.3% compared to the previous year and reached 8.2%, while 53.7 % of respondents answered that unification is necessary. Younger generations tend to show negative attitudes toward reunification of Korea. 10.8 % of respondents in their 20s show no interest in unification, and 26.0 % of them consider North Korea as an enemy. *Yonhap News Agency*, September 19, 2011.

college are extremely costly.¹⁰ One government official at the Ministry of Unification also suggested that costs of division continue forever, while costs for unification are temporary and could be paid off through investment in the northern part.¹¹ Although such costs are not necessarily easy to quantify, unseen costs of the division of the Korean Peninsula could reasonably be considered to be high.

The costs of division of the Korean Peninsula and unstable conditions on the Korean Peninsula to a lesser extent apply to Japan as well. First of all, instability on the Korean Peninsula is certainly not desirable for Japan's interests. Especially, peace and stability in inter-Korean relations are crucial for Japan's security environment. During the past few years, inter-Korean relations as well as the security environment surrounding the Korean Peninsula have been precarious. North Korea conducted its second nuclear test following a "satellite" launch on May 25, 2009. North Korea allegedly sank an ROK navy patrol vessel called Cheonan in March 2010. Then on November 23, 2010, North Korea attacked Yeonpyeong Island, and the two Koreas exchanged artillery fire. Such developments have certainly posed a challenge for regional security in Northeast Asia, including for Japan.

Economic development and prosperity in Northeast Asia is based on the security environment in Northeast Asia as well as peace and stability on the Korean Peninsula. If we follow the metaphor of Joseph S. Nye, a former U.S. assistant secretary of defense, security and political stability are "like oxygen."¹² People tend not to notice it until they lose it; but our daily lives, including economic activities, actually count on such political stability. If such aggressive foreign

10_Hong Chan Seon, "Unified Korea one of five strongest countries in the 21st century, unification costs<division costs," *Money Today*, August 19, 2012, <<http://www.mt.co.kr/view/mtview.php?type=1&no=2012081912003677442&outlink=1>>.

11_Chun Sik Kim, "Casehardened by the division cost," *Financial News*, May 13, 2012, <<http://www.efinancialnews.com/>>.

12_Joseph S. Nye Jr., "The Case for Deep Engagement," *Foreign Affairs*, Vol. 74, No. 4 (1995), p. 91.

behaviors of North Korea are, after all, the result of a divided Korea, unification of the Korean Peninsula would likely bring about a more stable environment and a brighter security environment in North-east Asia.

Table 6-1 Estimated North Korean Trade by Selected Trading Partner, Selected Years, 2000-2008

(Unit: \$ in millions)

North Korean Exports									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	1,319	1,171	1,91	1,266	1,561	1,568	1,909	2,535	2,801
China	37	167	271	395	586	499	468	584	754
Japan	257	226	235	174	164	132	78	0	0
S.Korea	152	176	272	289	258	340	520	765	930
Russia	8	15	10	3	5	7	20	34	14
North Korean Imports									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	1,859	3,086	1,973	2,051	2,616	3,388	2,908	3,437	4,127
China	451	573	468	628	799	1,081	1,232	1,393	2,033
Japan	207	1,066	133	92	89	62	44	9	8
S.Korea	273	227	370	435	439	715	830	1,032	888
Russia	38	62	69	111	205	206	190	126	97

Source : Nanto and Chanleft-Average, 2010, p. 38.

Secondly, and related to the first issue, Japan has lost its economic opportunity with North Korea due to hostile relations between Japan and the DPRK as well as North Korea's aggressive foreign behavior. As we can see in Table 6-1, Japan was one of the largest trading partners with North Korea in early in the first decade of the 21st century. However, since Japan has adopted and accelerated economic sanctions on North Korea due to North Korea's missile and nuclear tests, as well as the abduction issues, economic transactions between Japan and the DPRK have stagnated, while China has increased trade with North Korea. At present, trade and investment

1
2
3
4
5
6
7
8
9
10

Table 6-2 Japan's Merchandise Trade with the DPRK, 2000-2008

(Unit: \$ in millions)

Year	Japan's Imports	Japan's Exports	Total Trade	Japan's Balance
2000	256.891	206.760	463.651	-50.131
2001	225.618	1,064.519	1,290.14	838.901
2002	235.840	132.645	368.485	-103.195
2003	174.390	91.445	265.835	-82.945
2004	164.299	88.743	253.042	-75.556
2005	132.277	62.505	194.782	-69.772
2006	77.776	43.816	121.592	-33.96
2007	0.000	9.331	9.331	9.331
2008	0.000	7.663	7.663	7.663

Source: Nanto and Chanleft-Average, 2010, p. 38.

between Japan and the DPRK have come to a virtual standstill. Therefore, Japan has practically no leverage over the DPRK when it negotiates with it, and the role of Japan in the Six Party Talks is fairly limited for that reason.

As table 6-2 shows, by 2008 total trade between Japan and the DPRK had decreased to less than \$8 million from \$1,290 million in 2001. Japan has stopped importing from the DPRK since 2007. In the past, Japan imported seafood, electrical machinery, aluminum, mineral fuels and apparel.¹³ Of Japan's imports from North Korea, seafood made up about half. Japan especially enjoyed imports such as North Korean clams and matsutake (mushroom) in the Japanese markets. On the other hand, Japan exported items such as vehicles, electrical machinery, boilers/reactors, wool, and articles of iron and

13_This paragraph owes much to the following study. Dick K. Nanto and Emma Chanlett-Avery, "North Korea: Economic Leverage and Policy Analysis," CRS Report for Congress, January 22, 2010, pp. 1~65.

steel to North Korea. The division of Korea and hostile relations between Japan and North Korea have certainly cost Japan economic benefits through loss of trade with the DPRK.

Japan's Benefits from Korean Peninsula Unification

Positive impact on Japanese economy

There are at least two possible positive results for Japan from an economic perspective. First of all, the DPRK has plenty of natural resources as well as an abundant and competitive labor force. According to one estimate, the DPRK has large potential reserves of magnesite, coal, uranium, iron ore and other minerals. The same study estimates that North Korea's mineral wealth is valued at 140 times its 2008 GDP.¹⁴ Another estimate also provides support for these promising potentials. According to a senior researcher with the Institute for National Security Strategy, Cho Hyeon Tae, there are over 300 different kinds of mineral resources worth a possible 6,984 trillion won in North Korea. In addition to that, some of the important strategic rare metals required by South Korea, including tungsten, molybdenum, manganese and magnesium, are abundant in North Korea.¹⁵

Needless to say, since Japan has few natural resources, it is also interested in investing in these resources in North Korea. Through the experience of colonial rule over the Korean Peninsula, Japan still has much information on the natural resources of North Korea. While Japan would provide economic cooperation to a unified Korea to develop the northern part of the Korean Peninsula, it surely hopes to obtain such abundant natural resources as well. Better relations

14_Goohoon Kwon, "A United Korea? Reassessing North Korea Risks (Part 1)," *Global Economics Paper*, No. 188, September 21, 2009, p. 10.

15_ "Think tank says unification cost can be reduced to one-tenth of estimates," *Yonhap News Agency*, July 27, 2011, <<http://english.yonhapnews.co.kr/national/>>.

with North Korea, as well as the unification of Korea, would pave the way for Japan to have access to these resources. At present, China has enjoyed having access to North Korea's natural resources, since it has maintained relatively better relations with the DPRK. Unification of Korea would give more opportunities for South Korea as well as Japan.

Secondly, a unified Korea would offer Russia more economic opportunity as well, since the Siberian railways could reach South Korea, and an energy pipeline could bring Russia's natural gas to South Korea as well as to Japan. When Chairman Kim Jong-il visited Russia in August 2011, North Korea and Russia reached an agreement on the gas pipeline project to link South and North. This gas pipeline project would give Japan greater business opportunity as well. Japan would try to have the opportunity to develop energy resources in Russia as well, which would be conveyed via North and South Korea to Japan. It actually serves Japan's interests if a unified Korea could be an important impetus to creating fuller economic integration in Northeast Asia.

In either case, however, Japan needs to engage in these projects in the process of unification of the Korean Peninsula. Therefore, it is important for Japan not only to support unification but also actively to engage in the process of the reunification of Korea. First of all, Japan's engagement in the process of the unification of Korea should contribute to peace and stability on the Korean Peninsula as well as in Northeast Asia. With its colonial past, Japan has specialized knowledge and is capable of an extremely positive contribution which would be indispensable for the economic development of the region. Secondly, economic cooperation should be pursued, especially in the northern part of the Korean Peninsula. Economic cooperation is clearly indicated in the Japan-DPRK Pyongyang Declaration. Japanese economic cooperation is needed to facilitate the economic development of a unified Korea. Thirdly, Japan needs to take proper action regarding historical issues with both South and North Korea. Japan can never be trusted unless it takes further steps to deal with issues from its colonial era in relation to other Asian countries, and especially in Korea.

Positive impact on regional economic cooperation

Reunification would bring major economic benefits from a regional perspective in regard to at least the following three aspects. First of all, the ratification of an FTA with a unified Korea would mean even larger markets for Japanese exports. South Korea is now the 12th largest economy in the world, and a unified Korea has great potential in the long run to be one of the largest economies in the world. Also, a unified Korea would provide momentum for Japanese companies to explore the opportunities in investing especially in the northern part of Korea. South Korea has been concerned about the increase of imports from Japan, which would result in a larger trade deficit with Japan, as the tariffs on industrial goods decrease when the ROK-Japan FTA is established. Therefore, Japanese foreign direct investment has been urged in order to decrease the trade imbalance between Japan and South Korea. Since Japan would have stronger incentives to invest in North Korea, it could also contribute to decreasing the trade imbalance between Japan and a unified Korea.

Secondly, the successful conclusion of an FTA between Japan and a unified Korea could be an important step for creating a mega-market in Asia.¹⁶ Although institutional integration in East Asia lags behind when compared to the European Union or the North American Free Trade Agreement, East Asian regionalism has been characterized as functional integration, since economic integration driven by the market is fairly well developed. Such market-based integration would promote a North Korean economic transition as well as integration if reunification is realized. Also, it would be important for Japan and a unified Korea to conclude a high level FTA which could be a standard for a unified Asian market. Since FTA negotiations among China, South Korea and Japan have started, though many political and economic hurdles remain, an FTA between Japan, China and a unified Korea would definitely contribute to greater liberalization, such as APEC and the Trans Pacific Partnership (TPP). At pre-

16_Tae jong Kim, "Hyosung chairman wants Korea-Japan FTA," *The Korea Times*, May 16, 2012, < <http://www.koreatimes.co.kr/www/index.asp>>.

sent, whether or not Japan should participate in the negotiations of the TPP is a hot issue in Japan. The ROK has already established an FTA with the United States as well as with the EU. An FTA between Japan and a unified Korea could provide more momentum to link all these different kinds of free trade arrangements.

Finally, by eliminating the threat of weapons of mass destruction through reunification, security benefits of regional economic cooperation could be expected. Security benefits would result in expanded trade and investment in East Asia as a whole. The major impediments for regional economic integration have come from non-economic factors, such as political conflicts among countries as well as security concerns in the region.¹⁷ If such political and military impediments are reduced through the unification of Korea, a deeper integration of East Asia would be expected. Japan may also be able to reduce the threat of weapons of mass destruction aimed directly at Japan and to pursue a resolution of the abduction issues.¹⁸ At the same time, deepening economic relations between Japan and a unified Korea through an FTA as well as creating regional economic integration in East Asia would contribute to stability and better relations between the two countries as well as among all of the countries in Northeast Asia.

Japan's Position on the Korean Peninsula Unification

Does Japan not want a unified Korea?

There are several issues related to the conventional idea that Japan does not support reunification of the Korean Peninsula. First of all, many foreign observers argue that Japan does not want a unified

17_Tom J. Pempel, "Regionalism in Northeast Asia: an American perspective," Park, Pempel and Roland (eds.), *Political Economy of Northeast Asian Regionalism: Political Conflict and Economic Integration* (Edward Elgar, 2008), pp. 11~29.

18_Charles Wolf, Jr., "Korea Reunification and Reconstruction: Circumstances, Costs, and Implications" <www.nbr.org/downloads/pdfs/PSA/BS_Conf06_Wolf.pdf>.

Korea, because a unified Korea would be a much larger entity than the combination of the two are now and would be a bigger threat to Japan both economically and militarily. There are actually a few studies which show that the economic size of a unified Korea would surpass that of Japan in the long run. For example, a Global Economic Paper issued by Goldman Sachs predicts that the GDP of a unified Korea could exceed that of Japan in 30 to 40 years, if the growth potential of North Korea with its rich mineral resources as well as well its trained labor force is effectively utilized.¹⁹ The Goldman Sachs report is certainly provocative and has gained attention both in Korea and in Japan.

However, such economic forecasts would not necessarily lead to the conclusion that Japan opposes a unified Korea because it does not approve of a stronger Korea. First of all, economic indicators would be only one of many factors to consider when a country makes foreign policy, even though a unified Korea might overtake Japan in terms of GDP by 2050, as the Goldman Sachs reports suggests. In addition, the results of economic forecasts change if assumptions on economic growth rates and other variables change. Also, taking into consideration the trade structure between Japan and South Korea, a unified Korea may actually be preferable for Japan, since Japanese exports would increase due to South Korea's dependence on Japanese intermediate goods for its exports. Finally, other scholars may not necessarily share the same view that a unified Korea would become larger and stronger than Japan. For example, Ezra Vogel, a prominent Asian specialist at Harvard University, has argued that it would be difficult for a unified Korea alone to compete with Japan, since the population is about half that of Japan even with the two Koreas unified.²⁰

Secondly, rather than being opposed to unification, Japan would certainly care how Korean unification is realized. Prime Minister

19_Kwon, "A United Korea? Reassessing North Korea Risks (Part I)," p. 18.

20_Hyo Sang Kang, "Even if Korea is unified, difficult to compete with Japan," *The Chosun Ilbo*, November 11, 2006, <<http://chosunilbo.net/>>.

Koizumi's "negative" statement on the early unification of Korea could be understood in this context. Japan would prefer the status quo to an early unification if unification were to be achieved through non-peaceful means, since it would involve a huge cost to Japan. The Rand Corporation once examined four possible scenarios of Korean unification: integration and peaceful unification, collapse and absorption, unification through conflict, and disequilibrium and potential external intervention.²¹ Japan obviously hopes for the first scenario and prefers the status quo to the others.

Thirdly, the Korean unification itself is a matter of concern primarily for people on the Korean Peninsula as well as Korean people all over the world. If reunification of Korea is accomplished through dialogue and peaceful means, Japan has no choice but to accept the Korean unification, even though the political and economic system of the unified Korea may not be desirable for Japan. Japan would certainly need to think about what role it could play and what kind of support it could provide for Korean unification, for the sake of Korea, as well as for its own interests, especially if it takes into consideration its past colonial control over the Korean Peninsula. However, the issue is not whether Japan likes unification or not, but whether unification of Korea should be promoted for the sake of the Korean people.

Japan's position on unification of Korea

Although Japan does not oppose the reunification of Korea itself, there are certainly several concerns about what a unified Korea would be like. First of all, Japan would be concerned about the possible increase in anti-Japan sentiment, especially with regard to historical and territorial issues. Both South and North Korea believe that Japan has not fully apologized and has not taken necessary responsibility for its past colonial rule over the Korean Penin-

21 Jonathan D. Pollack and Chung Min Lee, *Preparing for Korean Unification: Scenarios & Implications* (RAND, 1999), pp. 49~81.

sula. While Japan-South Korea relations have developed in some areas, such as economic and cultural exchanges, anti-Japan feelings are deeply rooted in Korean politics. It was reported on July 2, 2012 through DongA Ilbo, that the Korean government had proposed in a ministerial meeting with the United States during the Roh Moo Hyun administration to declare that Japan is a potential enemy.²² The Japanese government's behavior on historical and territorial issues can inspire Korean nationalism, and such anti-Japanese feelings boost pro-unification sentiment among the Koreans.²³ If Korean unification is promoted through anti-Japan sentiment, it would not be a desirable course in Japan's estimation. From the Japanese perspective, it is important for Japan to take actions to prevent a unified Korea from becoming an anti-Japan nation.

Secondly, Japan does not want a unified Korea with nuclear weapons capabilities. Chung Mong Joon, a presidential candidate, recently claimed that the ROK should also have nuclear weapons capabilities in order to deal with the North Korean nuclear crisis.²⁴ Mr. Chung suggested that the denuclearization of North Korea could not be expected, since North Korea inscribed its status as a nuclear state in its constitution. While Mr. Chung's statement does not necessarily imply that South Korea will soon go nuclear, and his support rating remains very low, South Korea may try to pursue developing nuclear capabilities in the future. Needless to say, North Korea has already obtained nuclear weapons. If a unified Korea maintained its nuclear weapons status, it would pose a serious threat to Japan. Japan and Korea (both South and North) have unresolved historical and territorial disputes. If a unified Korea would start to threaten Japan with its nuclear bargaining card, Japan would be in a vulnerable position. Therefore, Japan would need to deal with this prob-

22_ "Roh gov't proposed defining Japan as 'hypothetical enemy,'" *The Dong-A Ilbo*, July 3, 2012, <<http://www.donga.com>>.

23_ Jounghwon Alexander Kim and Myungshin Hong, "The Koreas, Unification, and the Great Powers," *Current History*, April 2006, p. 189.

24_ "South Korea should get nuclear weapons: Rep. Chung," *The Dong-A Ilbo*, June 3, 2012, <<http://www.donga.com>>.

lem through enhancement of the U.S.-Japan security alliance and to review its security policy if a unified Korea were to pursue a course of possessing nuclear weapons, which would pose a serious threat to Japanese national security.²⁵

Thirdly, Japan would be concerned if a unified Korea were to fall under Chinese influence. China is the largest trade partner for both South and North Korea. It is possible that a unified Korea would not only promote Korea's economic development in the long run, but that it would also accelerate economic integration, especially, with the three northeastern provinces in China through economic cooperation between China and a unified Korea. It could eventually expand the opportunity for imports from China as the purchasing power of a unified Korea increases. As a result, it seems logical to assume that economic relations between China and a unified Korea would deepen even further. Moreover, if a unified Korea were to make a strategic turn toward China in the future, it would be a serious security concern for Japan in the long run.

Finally, Japan would try to promote further cooperation and show positive support if the Korean Peninsula were unified under South Korean rather than North Korean leadership. Yachi Shotaro, a former vice minister with the Ministry of Foreign Affairs (MOFA) of Japan has argued that Japan should have much closer cooperative relations with South Korea if the political and economic system of a unified Korea is based on liberal democracy and a market economy.²⁶ From the Japanese government's perspective, South Korea is the most important neighboring country which shares fundamental values, democracy and a market economy.²⁷ In addition, the ROK is also an ally of the United States. Japan would prefer that a unified Korea maintains its security alliance with the United States. Japan would continue to strive for further strengthening toward future-

25_ "South Korea should get nuclear weapons: Rep. Chung," *The Dong-A Ilbo*, June 3, 2012, <<http://www.donga.com>>.

26_ *Ibid.*

27_ Ministry of Foreign Affairs of Japan, *Diplomatic Bluebook*, 2010, p. 9.

oriented Japan-Korea relations. Especially if a unified Korea enters the Chinese political and economic sphere, U.S.-Korea-Japan trilateral cooperation would be of utmost importance.

Conclusion

Based on the above analysis and discussions, a few conclusions can be drawn. First of all, the division of the Korean Peninsula certainly has imposed several costs on Japan. The precarious security environment in Northeast Asia as well as instability in inter-Korean relations has posed a threat to Japan, since economic development and prosperity in Northeast Asia depends on political stability in the region. Also, for that reason, Japan has lost trade and investment opportunities with the DPRK. As of 2012, total trade between Japan and the DPRK has virtually ceased. In addition, it should be noted that Japan's status quo policy toward the Korean Peninsula as well as passive attitude toward the unification process has also created a negative image of Japan.

Secondly, Japan would certainly be able to get major economic benefits through unification of the Korean Peninsula. Japan would have an opportunity to invest in natural resources in North Korea as well as in Russia. Since North Korea has plenty of natural resources, many countries, including Japan, would try to gain access to them. A unified Korea would become a larger market for Japanese exports and give Japan multiple incentives to invest in Korea. Also, the successful conclusion of an FTA between Japan and a unified Korea could become a critical moment for creating a mega-market in Asia. It would be important for Japan and a unified Korea to conclude a high level FTA, since it could set a certain standard for economic cooperation for an integrated Asian market.

Thirdly, it is certainly true that Japan has not shown a positive attitude toward unification of Korea. However, this does not necessarily mean that Japan is opposed to the idea of a unified Korea itself. Japan would see Korean unification as an opportunity that comes with some concerns. Japan certainly does not want a hasty unifica-

1

2

3

4

5

6

7

8

9

10

tion through the collapse of North Korea, nor unification through conflict on the Korean Peninsula, including external intervention in the process of Korean unification. However, if Korean unification is peacefully promoted through integration and dialogue, Japan would have many reasons to engage actively in the process of Korean unification.

Finally, while some foreign observers are suspicious of Japan's real intentions with regard to Korean unification, Japan would support the unification of Korea under certain conditions. Japan would be worried about the possible increase in anti-Japan sentiment in a unified Korea. Also, Japan would not want a unified Korea with nuclear weapons capabilities. In addition, Japan would be concerned if a unified Korea were to enter the sphere of Chinese influence. From the Japanese government's perspective, if the Korean Peninsula is unified under South Korean leadership, Japan would try to establish further cooperation with a unified Korea.

References

- Armocost, Michael H. and Keneth B Pyle. "Japan and the Unification of Korea: Challenges for U.S. Policy Coordination." Nicholas Eberstadt and Richard J. Ellings (eds.). *Korea's Future and the Great Powers*. National Bureau of Asian Research, 2001.
- Kim, Hong N. "Japan's Policy Toward the Two Koreas and Korea Unification." Young Hoon Kang and Yong Soon Yim (eds.). *Politics of Korean Reunification*. Seoul: Research Center for Peace and Unification, 1978.
- Kim, Jounghwon Alexander and Myungshin Hong. "The Koreas, Unification, and the Great Powers." *Current History*. April 2006.
- Kwon, Goohoon. "A United Korea? Reassessing North Korea Risks (Part I)." *Global Economics Paper*, No. 188, 2009.
- Ministry of Foreign Affairs of Japan. *Diplomatic Bluebook*. 2010.
- Nanto, Dick K. and Emma Chanlett-Avery. "North Korea: Economic Leverage and Policy Analysis." CRS Report for Congress. January 22, 2010.
- Nye, Joseph S. "The Case for Deep Engagement." *Foreign Affairs*. Vol. 74, No. 4, 1995.
- Pempel, Tom J. "Regionalism in Northeast Asia: an American perspective." Park, Pempel, and Roland (eds). *Political Economy of Northeast Asian Regionalism: Political Conflict and Economic Integration*. Edward Elgar, 2008.
- Pollack, Jonathan D. and Chung Min Lee. *Preparing for Korean Unification: Scenarios & Implications*. RAND, 1999.
- Sakamoto, Yoshikazu. "On Paik Nak-chung's views regarding the unification of Korea: from a Japanese perspective." *Inter-Asia Cultural Studies*. Vol. 11, No. 4, 2010.
- Shotaro, Yachi. "Constructing a New Balance of Power and Korea Unification." Jinwook Choi (ed.). *Korean Unification and the Neighboring Powers*. Seoul: Korea Institute for National Unification, 2010.
- Wolf, Charles Jr. "Korea Reunification and Reconstruction: Circumstances, Costs, and Implications." <www.nbr.org/downloads/pdfs/PSA/BS_Conf06_Wolf.pdf>.
- Ministry of Foreign Affairs of Japan website. <<http://www.mofa.go.jp/>>.
- The Chosun Ilbo*. <<http://chosunilbo.net/>>.
- The Dong-A Ilbo*. <http://www.donga.com>.
- Financial News*. <<http://www.efinancialnews.com/>>.
- The Korea Times*. <<http://www.koreatimes.co.kr/www/index.asp>>.
- Money Today*. <<http://businesstoday.intoday.in/moneytodayarchive/1/moneytodayarchive.html>>.
- Yonhap News Agency*. <<http://english.yonhapnews.co.kr/>>.

1

2

3

4

5


6

7

8

9

10



**Korean Peninsula Division/Unification and Russia:
From the Security Perspective of Russia**

Chapter **7**

Chapter 7. Korean Peninsula Division/Unification and Russia: From the Security Perspective of Russia

Leonid Petrov

Introduction

In July 2013, Koreans and the world will commemorate the 60th anniversary of the Armistice Agreement, which halted the hostilities in Korea. Started in June 1950 as a domestic conflict between the two rival states on the peninsula – the Democratic People’s Republic of Korea (DPRK) and the Republic of Korea (ROK) – the Korean War immediately turned into an international conflict, a surrogate World War III.¹ The United States, China, and sixteen other nation states willingly rushed to Korea in order to support one or another side of this essentially ideological conflict. On the backdrop of the unfolding Cold War, the war in Korea was a logical continuation of the global quest for a better political and socio-economic model: Communism or Liberal Democracy.

Conspicuous with its absence in the conflict was the Soviet Union (U.S.S.R). Credited with liberation of Manchuria and Korea from Japanese colonialism in 1945, Moscow created a friendly but neutral regime in the northern half of the peninsula and was stubbornly against the unification of Korea by military force. Kremlin strategists seriously feared that if the World War III starts Russia would be destroyed by the nuclear-powered U.S. Only after the first Soviet successful atomic test in August 1949, which was followed by the victory of Mao Zedong in the civil war in China, did Joseph Stalin

1_Gavan McCormack, *Target North Korea* (New York: Nation Books, 2004), p. 15.

1

2

3

4

5

6

7

8

9

10

begin contemplating the Kim Il-sung's plan of military unification of Korea.

The question why Moscow gave green light to Kim and Mao but abstained from any direct involvement, including the non-intervention in the UN Security Council vote for Resolutions 82, 83, and 84, remains unanswered. As the veto-wielding great power the U.S. SR could kill the idea of international punitive action against North Korea in the bud, but Soviet ambassador to the United Nations was personally ordered by Stalin not to attend the UNSC meetings. Whether the war in Korea was Stalin's master-plan to trap China and the U.S. and keep them bogged in there for as long as possible remains unknown. The Korean conflict resulted in the loss of millions of lives and costed billions of dollars in damage to both the allies and enemies of the tyrant, and ceased only after his death in 1953.

Since then a peace regime in Korea has never been fully restored. Neither the 1954 Geneva Peace Conference nor the 1975 UN General Assembly's decision to dismantle the UN Command and the Military Armistice Commission in Korea could result in declaring the end of conflict in Korea. Despite the Sino-Soviet ideological split both Beijing and Moscow continued diplomatic and economic support to the DPRK that insured its survival despite of financial bankruptcy and political self-isolation. In 1990, the reformist government in Moscow established diplomatic relations with Seoul: since then, the Russian Federation pursues the "two-Koreas policy" that is primarily designed to maintain the *status quo* in Korea.

In 1991, when the Communist Bloc was falling apart under the burden of its own structural problems, both Korean states simultaneously joined the UN. Still Pyongyang and Seoul claim sole legitimacy on the Korean Peninsula and refuse to recognise each other, creating difficulties for their traditional allies. Russia and China, when deal with North and South Korea, have to take into account numerous factors, including their relations with the U.S. and with each other. In the last twenty years (from Boris Yeltsin to Vladimir Putin) Russia's policy towards North Korea experienced a number of serious transformations that changed bilateral relations dramatically. In-

terestingly, Russia's relations with the U.S.-allied South Korea were more stable and demonstrated significant growth and development.

This paper sets the goal to analyse the cost and benefits of the continuing division and possible Korean unification for Russian national security. These costs and benefits can hardly be calculated in monetary terms but their importance is easily understood if compared as threats or opportunities for Russia. Challenges associated with the division are likely to be offset by the future unification, along with some current opportunities, which are also bound to disappear. Therefore, this paper is divided into two parts dealing with the cost of division and benefit of division as perceived by Russian policy-makers and academics.

The main sources for this research have been selected from the speeches of Russian government officials and articles by the leading academics engaged in formulating Russia's policy towards the two Koreas. These materials have been used to reconstruct the prevailing attitude to Korea's division and unification in Russia, which seem to have made a major volte-face since the rise of Putin administration in 2000. Author's personal opinion expressed in this paper does not reflect the official position of the Russian government or academic circles.

The cost of Korea's division for Russia

Among the various issues that challenge Russian national security in the Asia-Pacific Region (APR) the primary place is occupied by the continuing military stand-off on the Korean Peninsula. The nuclear-powered North Korea and the U.S.-allied South Korea look at each other through the gun sights and refuse to reconcile. Periodical threats and military clashes between the DPRK and ROK happen just hundreds of kilometres away from the Russian national borders. North Korean nuclear tests and ballistic missiles create and maintain nervousness both in the Russian Far East (Maritime Province and Khabarovsk Krai) and in the capital Moscow.

Moscow literally created the DPRK in 1948 but with the decline

1

2

3

4

5

6

7

8

9

10

of Soviet era it preferred to recognise the ROK in 1990. The U.S.S.R President Gorbachev and Foreign Minister Eduard Shevardnadze did not deliberate on the details in anticipation that Washington in reciprocity would automatically recognise Pyongyang. However, the expected cross-recognition did not take place and Pyongyang took this shift in Moscow's policy as a betrayal. This compounded the complexity of bilateral relations for a decade where Russia, like China, would find itself in awkward situation every time the tensions in and around the Korean Peninsula aggravate.

After the 2006 and 2009 nuclear tests, Russia has become fully aware that this crisis zone might one day bring about the actual nuclear war and tries hard to use what is left of its political leverage on North Korea to persuade it to stop its nuclear ambitions and military provocations. The problem is that not much of the Russian influence can be exerted on North Korea after Moscow began to pursue the "two-Korea policy." Therefore, it desperately tries to play the role of principal arbiter of the crisis on the peninsula by participating in the Six-Party Talks and through other multilateral institutions.

While Moscow's contribution to the crisis settlement is questionable, Russia as the former mentor and benefactor of North Korea still has the best understanding of the DPRK regime, and could be seen as helpful in any negotiations, not only regarding the nuclear problem. Russians, nevertheless, are realistic in understanding that Pyongyang views only Washington as the primary interlocutor for resolving the nuclear and other problems.

When discussing the North Korean nuclear conundrum, Dr. Victor Mizin, the Vice-President of the Moscow based Centre for Strategic Assessments and the member of the Centre for Political and Military Prognosis of the Russian Academy of Science IMEMO Institute, admits that the entire "Korean problem," as well as its nuclear "angle," is a holdover of the Cold War era. Mizin assumes that "Historically, Moscow was the major provider of Pyongyang's nuclear and missile capabilities and therefore is responsible for the entire problem. The Ministry of Foreign Affairs, however, rejects the allegations that it was central in promoting the proliferation of Weapons

of Mass Destruction (WMD) and delivery systems, technology, or expertise to the North Korean regime.”²

As for the Russian vital interests towards Korea that drive its security policy, Mizin ironically describes them by the clear-cut maxim: “for everything benign and against anything menacing.” Russia’s approach to regional issues was formulated back in the Yeltsin’s era by the Foreign Minister Andrey Kozyrev. His statement dated 24 March 1994 outlined the following key points as: “convening of the multipartite conference on Korea’s non-nuclear-weapons status which is bound to negotiate an overarching solution; military denuclearization of the peninsula; non-interference in domestic affairs; introduction of military-related confidence-building measures of any party; agreement on a new peace treaty to replace the anachronistic Armistice.”³

History and geography dictated Russia’s essential interest in the stability and peace in Korea and prompted it to look for a pragmatic settlement of the problem. This pragmatism often came into conflict with the desire to maintain friendly and working relations with Pyongyang. Russia is the permanent member of the UNSC and must either support or veto the condemning decisions on North Korean nuclear and missile programs. By supporting such decisions, Russia undermined its relations with the DPRK; but by vetoing them too often Russia risked to compromise its own benign intentions vis-à-vis other regional neighbours.

Since then, many things have changed: Vladimir Putin now serves his third term as the President of in the Russian Federation; the names and policies of his predecessor, Boris Yeltsyn, and former Foreign Minister Kozyrev have been anathematised; Russian-American relations took a roller-coaster ride marked by anti-American rhetoric and noticeable cooling. As before, Moscow still favours the

2_Victor Mizin, “Russia’s Core Issues,” presented at the New Approach to Security in Northeast Asia: Breaking the Gridlock Workshop in Washington DC, October 2012, <<http://nautilus.wpengine.netdna-cdn.com/wp-content/uploads/2012/10/Mizin2.pdf>>.

3_Ibid.

1

2

3

4

5

6

7

8

9

10

restart of the Six-Party process on the Korean issue based on the Joint Statement of 19 September 2005 and urges Pyongyang and Washington to re-enter the Six-Party Talks without any pre-conditions. Russia calls upon North Korea to put a moratorium on nuclear testing, to accept the IAEA inspectors in Yongbyon, and to start discussing its “uranium dossier.”

To avoid the conflict of interests, these days Russia is actively opposing the transfer of the Korean nuclear issues to the UNSC, preferring the Six-Party format or other provisional alternatives. Concerned with the lack of progress in multi-lateral negotiations and convinced that the U.S. are buying time while trying to bring down the Pyongyang regime, Moscow has few options but to buttress the DPRK diplomatically, economically and militarily. This cannot but strains Moscow’s relationship with Seoul every time Pyongyang does something radical (i.e. Yeonpyeong Island shelling, Cheonan corvette sinking, etc.). That is why Russian military experts tend to mystify the incident investigation reports and refuse to blame North Korea unilaterally for the outbursts of violence. Instead, Russia reminds the South that the Korean War has not ended yet.⁴

Because of the continuing hostilities in Korea, Russia loses every year billions of dollars which could be earned from the sale of oil, gas and electricity to the divided nation. In August 2011, at the last summit between the North Korean leader Kim Jong-il and the then Russian President Dmitry Medvedev, the parties agreed to move forward on a proposal to build a pipeline that would be capable of transporting Russian natural gas to both Koreas. Simultaneously, North Korea and Russia signed a protocol calling for economic cooperation between the two countries. But international observers immediately questioned the feasibility of such a project in the midst of an ongoing inter-Korean conflict. Professor of Kukmin University in Seoul, Dr. Andrei Lankov, is sceptical about this project and writes: “for years there will be talks, enthusiastic newspaper articles, even official vis-

4_Sunny Lee, “Why Russia doesn’t share its Cheonan results with Seoul,” *The Korea Times*, October 12, 2010, <http://www.koreatimes.co.kr/www/news/nation/2010/10/116_74440.html>.

its, but not much in terms of actual construction.”⁵

In contrast, the Russian academics working in Moscow are more optimistic about the joint prospects of economic cooperation with North and South Korea and tend to link such cooperation with the possibility of positive developments in regional security. Dr. Vorontsov, Chief of the Korea and Mongolia Department at the Institute of Oriental Studies of the Russian Academy of Sciences, believes that the implementation of the three trilateral projects will contribute to the development of inter-Korean cooperation. That will facilitate progress in the six-party talks on its nuclear program, but more importantly, he claims that long-term international infrastructure projects involving the Korean Peninsula, such as oil and gas pipelines and Trans-Korean and Trans-Siberian railroads junctions “are of crucial importance to the economic revitalization of the Russian Far East.”⁶

The oil markets of the last ten years have been favourable for Russia, allowing the country to save hundreds of billions of petro-dollars from the sale of energy-rich natural resources to its neighbours. Expecting an impoverished North Korea to pay off a Soviet-era debt, which by 2011 had amounted to U.S. \$11 billion, would be unrealistic. Therefore, in 2012 the Russian government agreed to discount 90 % of the debt owed by its destitute but stubborn ally. The remaining U.S. \$1.1 billion was promised to be invested in joint Russian-North Korean projects, particularly in education, medical and energy sectors. Dr. Vorontsov believes that “The decision on a settlement of debt is a significant step as it removes the obstacles for cooperation. Now [more] credits can be granted.”⁷

One may be surprised by the timing and generosity of the deal.

5_Andrei Lankov, “North Korea lacks rich relation in Russia,” *The Asia Times On-line*, September 18, 2012, <<http://www.atimes.com/atimes/Korea/NI18Dg01.html>>.

6_Alexander Vorontsov, “Current Russia – North Korea Relations: Challenges and Achievements,” *The Brookings Institution Center for Northeast Asian Policy Studies*, February 2007, <<http://www.brookings.edu/research/papers/2007/02/northkorea-vorontsov>>.

7_Lukas I. Alpert, “Russia, North Korea Sign Debt Pact,” *The Wall Street Journal*, September 18, 2012, <<http://online.wsj.com/article/SB10000872396390444450004578003921362316046.html>>.

1

2

3

4

5

6

7

8

9

10

Despite promises of a new era of strength and prosperity, the year 2012 saw the DPRK at odds with old evils. The coldest winter and the driest summer in decades have dashed its expectations for a proper harvest. The embarrassment of a faulty Unha-3 rocket launch in April was compounded by the withdrawal of U.S. food-aid and international condemnation. The hyper-inflation of North Korean currency and the continuing energy crisis are not the propitious signs of effective governance by the newest leader in the Kim dynasty. Unlike during the early post-Soviet days, today's Russia is clearly trying to help Kim Jong-Un consolidate political power and overcome mounting economic difficulties.

In 2012 Russia experienced the return of the Kremlin veteran, Vladimir Putin, to the presidential seat. While he is associated with political reaction and is concerned by the prospect of "colour revolutions" at home, Russia is desperately running out of friends on the international stage. With Libya and Syria having already become victims of the "Arab Spring," Moscow is scrambling to buttress dictatorial regimes in its vicinity. Anti-Americanism and curtailed political freedoms once again have become the primary criteria in gaining Kremlin sympathies. Belarus, Iran, the countries of Shanghai Cooperation Organization, and now North Korea, have all received special treatment from the increasingly anti-Western Russia.

Moscow's promises to persuade North Korea to end its nuclear weapons program are in conflict with North Korea's determination to remain a self-proclaimed nuclear power for the sake of its regime survival. Whereas Beijing was once the only power that remained content to sink trillions of Yuan into North Korea simply to prop up a buffer state ruled by an anachronistic regime, Moscow is now also returning to a policy that echoes of the Cold War. Instead of reprimanding Kim Jong-Un for his provocative actions and belligerent rhetoric, Putin is dumping of trillions of tax-payers' roubles into supporting a friendly dictator.

The benefit from Korea's division for Russia

One may get an impression that the challenges that Korea's division poses for Russian national security will naturally dissipate should North and South Korea unify. However, every year of fruitless Six-Party negotiations cements the national division and makes the unification improbable. What benefits might the Russian national security gain from the continuing status quo in Korea? Alternatively, what will be Russia's position on the unification if the numerous security issues (e.g. nuclear and missile proliferation, human and food security, ecology, etc.) are successfully resolved and the two halves of the Korean Peninsula decide to unify? Much will depend on the nature of unification and the international status of Korea afterwards.

If the unified Korea becomes a regional Nuclear Weapon-Free Zone (NWFZ), a neutral and non-allied state then Russia is likely to support such plan with little hesitation. As an energy-exporting regional power Russia has much to earn from and contribute to Korea's post-unification recovery and development. The network of oil and gas pipe-lines, the grid of electricity and railway corridors will work for the benefit of both the Korean and Russian peoples. Heavily fortified Russian national borders in the Far East will open up to welcome the larger amount of visitors and cargo. Protection of military secrets behind those borders will stop dominating the decisions made by federal and local politicians and will lead to larger regional cooperation.

On the contrary, if Korea's unification is going to be forced, leading to the DPRK being absorbed by the U.S.-allied ROK, Moscow will most certainly refrain from supporting such scenario. The Cold-War mentality still dominates the region and makes any plans for Korean unification rather ephemeral. Neither Moscow, nor Washington, Beijing or Tokyo want to miss out if Korea's unification is orchestrated by a neighbour or the rival security bloc. This approach to Korea and its future may sound paranoid but, in fact, is pragmatic and realistic and should be understood in the context of divergent national interests.

For example, Director of the Centre for Korean Studies of the

1

2

3

4

5

6

7

8

9

10

Institute of Far Easter Studies, Russian Academy of Sciences, Dr. Alexander Zhebin, in his research paper delivered in Pyongyang in 2004, argued that the continuing stationing of U.S. troops in South Korea is an anachronistic vestige of the Cold War period. A high degree of uncertainty concerning the character of the foreign policy of a united Korea and its possible participation in military-political alliances, according to Dr. Zhebin, compels Russia, while welcoming inter-Korean detente, to take a more cautious position toward the prospects of unification. "Russia hardly can welcome as a new neighbour, a state with a 70-million population to be under a prevailing influence of the U.S. and the more so, with the American troops on its territory. It would be equivalent to the emergence near our east borders of an Asian clone of NATO."⁸

Interestingly, in 2008 while attending an academic conference in Seoul, Dr. Zhebin insisted that "the aspiration of some analysts to enrol all the neighbours of Korea, including Russia, to the number of opponents of its unification is nothing more but another attempt to mask the selfish interests of some countries who consider the [Korean] peninsula a mere pawn in their geopolitical combinations. For Russian security and economy the inter-Korean reconciliation and broad cooperation is, of course, profitable."⁹ As before, the Russian scholar blames "some countries" for egoism and Cold War mentality but this time tries to present Russia as a resolute supporter of Korean unification.

In fact, Russia has something to lose even if the unified Korea is going to be nuclear-free, neutral and non-allied. As long as the DPRK and ROK are separated Russia will have no territorial disputes

8_Alexander Zhebin, "Russia's Efforts for Reconciliation and Peace in Korea," paper for the *2nd World Congress of Korean Studies* in Pyongyang, North Korea. August 2004, <http://www1.korea-np.co.jp/pk/208th_issue/2004081407.htm>.

9_Alexander Zhebin, "The Six-party Talks and the search for a new security mechanism in Northeast Asia," paper delivered at the 20th Joint Conference of Institute of Far Easter Studies, Russian Academy of Sciences and the Centre for Asia-Pacific Studies of Hanyang University in Seoul, South Korea, October 2008.

with them. The Russo-Korean 17 km-long border will continue to be seen as a good example of a meeting point and a most eastern gateway of the Eurasian continent. However, if North and South Korea unify, the Russian Federation (at least in its current borders) is likely to face a major problem akin to the notorious disputes over the Dokdo/Takeshima Island between Korea and Japan, and Diaoyudao/Senkaku Islands between Japan and China. It is the former island of Noktundo forms the 32 square kilometres of land in the canal of the Tumen/Dumangang River that may sooner or later become the bone of contention between Russia and the unified Korea.

The border between China, Russia and Korea was first created in 1860 under the Convention of Peking, when Russia acquired new lands from China. Some of the lands, which Qing Dynasty ceded to the Russian Tsars, had been possessed by the Yi Dynasty of Joseon Korea since the 15th century. In 1587 the Koreans had a local garrison on this island under the control of Admiral Yi Sun-sin, a national hero of Korea, whose mission was to repel the Jurchen nomads. Noktundo was an island in the segment of the Tumen River, which separated Russian Maritime Province from Northern Hamgyeong Province of Korea. Every time the Tumen was shallowing, the northern branch of the river would change or completely disappear. As a result, the island of Noktundo de facto merged with the Russian mainland but de jure it remained under Korean jurisdiction.

After the conclusion of the 1884 Russian-Korean trade agreement the Korean government approached Tsarist Russia many times with a request to return the Noktundo Island, but to no avail. Three rounds of talks held between Korea and China over the resolution of this territorial problem did not bring fruit either. The Qing government referred to the false topographic documents at the time of the transfer of the lands east of the Tumen River to Russia, and only expressed regret to the Korean side. All this prompts the ROK government to believe that Chinese officials had implicitly admitted that the 1860 Peking Convention was illegal and unfair.¹⁰ Japanese colo-

¹⁰ Alexander Ivanov, "The problem of the Noktundo Island in the Media in South Korea," Zhebin and Asmolov (eds.), *Korea: a View from Russia* (Moscow, 2007).

1
2
3
4
5
6
7
8
9
10

nial regime (1910-1945) also considered areas around the Noktundo Island as “Korean territories” illegally occupied by Russia, but attributed this to the weakness of Joseon Korea’s authorities in dealing with territorial disputes.

The establishment of the DPRK in North Korea in 1948 completely changed the nature of relations between Pyongyang, Beijing and Moscow. In order to secure economic and military aid from the Soviet Union and the People’s Republic of China, North Korea abandoned territorial disputes with the fraternal nations. The DPRK government, which claimed sole legitimacy on the Korean Peninsula, ceded some lands around Mt. Baekdu / Changbaishan to China and agreed to the existing border with Russia. Due to the changing course of the Tumen River, the border between North Korea and Russia periodically needed to be re-demarcated. Most recently this was done between 2000 and 2003, when the Russian Federation and the DPRK conducted a joint topographical survey on terrain changes, and restored the boundary markers along the 17 km-long frontier. This was confirmed by the two governments in the 2004 Protocol on State Border Demarcation. To prevent further erosion, Russia has planted willows along the Tumen River and built a 13-kilometer bank.

The geostrategic importance of this short DPRK-Russian border is difficult to overestimate as it effectively separates the landlocked Northeast China from the East Sea / Sea of Japan. The North Korean Special Economic Zone of Rajin-Seonbong attracts both Russia and China as strategically important transportation hub. The state-run monopoly OAO Russian Railways is currently upgrading the 52 km railway connection between the Khasan-Dumangang railway crossing and Rajin-Seonbong SEZ, investing at least 1.75 billion roubles (U.S. \$60million) into this project, which should be completed in 2012.¹¹ China, in its turn, is building a multimillion highway linking the city of Yangji with the Rajin-Seonbong SEZ.

11_Leonid Petrov, “Russia’s ‘Power Politics’ and North Korea,” *International Issues & Slovak Foreign Policy Affairs*, Vol. 27, No. 2 (2008), pp. 27~43.

Russian-Chinese economic competition in North Korea is becoming increasingly tough and contributes to the growing mistrust between the former communist patrons. Renovation of port facilities and infrastructure seems to be a mere add-on to the more significant contracts of strategic importance. As long as the DPRK remains a sovereign state on the peninsula, its army, navy, and air force will need munitions, spare parts, and new military equipment, opening for Russian and Chinese state-owned exporters many lucrative opportunities. During the 2000s, Russian arms sales in North Korea were conducted under the guise of a mysterious “Trest” company. Russia is the world’s second largest arms exporter, and Putin has promised to spend 23 trillion roubles (nearly U.S. \$730 billion) on the military by the end of this decade.¹²

For the first time in the post-Soviet era, in 2007 North Korea saw a major Russian investment. In the city of Pyeongseong the Russian auto plant KamAZ opened its first assembly line, specialising in the production of medium-size trucks named “Taebaeksan-96.” Although less than 50 trucks per year were assembled this cooperation became an important milestone in the development of bilateral relations. It is unlikely that any profit was made from this venture but it showed Moscow’s drive to expand its influence in the DPRK in anticipation of Korean unification. Should the North and the South unify, the car and truck market will be controlled by the South Korean producers.

Since 1970s DPRK citizens are being sent to Russia as woodcutters and builders but some have also managed to find work in the agricultural and marine industry. North Korean workers are being contracted to work in mines and lumber mills in Russia’s Far East. Through the presence of these labourers, Russia has enjoyed a partial repayment of DPRK’s post-Soviet debt.¹³ The wages they are able to

12_Thomas Grove and Timothy Heritage, “Russian defence chief crossed Putin’s political ‘family,’” *Reuters*, November 8, 2012, <<http://uk.reuters.com/article/2012/11/08/uk-russia-defence-scandal-idUKBRE8A70TN20121108>>.

13_James Brook, “Building Ties with North Korea,” *The New York Times*, December 11, 2003, <<http://www.nytimes.com/2003/12/11/business/building-ties-with-north-korea.html>>.

1

2

3

4

5

6

7

8

9

10

make in Russia are very low but far greater than what they would make at home. However, the foreign worker quota is set not by provincial governments but by Moscow, which often tries to put a stop to these programs due to the complexity of the matter, including the refugee issue. Part of this opposition stems from the fact that the North Korean workers in Russia still fall under DPRK laws and, therefore, are subjects to intrusive supervision.

In 2004, the Russian Federal Immigration Service issued 14,000 visas for foreign labourers, of whom North Korean labourers in Russia numbered 3,320 in 2005 and 5,000 in 2006. Since the DPRK has no other way to pay in goods or services its government started paying for oil imported from Russia by dispatching thousands of labourers at zero cost. Following strong demand from local companies, just in 2006 regional authorities of Primorsky Krai agreed to issue extra 5,000 working visas to North Koreans.¹⁴ These days there are up to 20,000 North Korean labourers working in the Russian Far East as loggers and builders. Should the North and South Korea unify, Russia will become a less attractive destination for the cheap Korean labour or its cost will grow significantly.

Solutions and Conclusions

In the meantime, Russia is actively cooperating with its partners in the Six-Party Talks and strives to adopt the guiding principles of peace and security in the region. Moscow's current approach to establishing firm peace in regional affairs resonates with the old Gorbachev's initiative of 1988 to replicate the Organization for Security and Co-operation in Europe (OSCE) in Northeast Asia. In this context, Russia considers crucial to work out a new legally-binding peace treaty, which would formally end the Korean War and substitute the 1953 Armistice Agreement with a new legal document

14_ "Pyongyang offers slaves in exchange for Russian oil," *AsiaNews.it*, March 11, 2006, <<http://www.asianews.it/index.php?l=en&art=7651&geo=41>>.

contributing to the creation of new regional security architecture.¹⁵ Moscow is striving to demonstrate its impartiality in Korean affairs, and insists on a “package solution,” where the implementation of 2005 Joint Statement by all the parties is emphasised. The multi-lateral format of negotiations ensures that the status quo on the peninsula will be preserved and no bi-lateral talks will take place between Pyongyang and Washington behind Moscow’s back. Russia also calls upon the resumption of the inter-Korean dialogue, the advancement of DPRK-Japan dialogue, and the beginning of trilateral (Russia-DPRK-ROK) cooperation projects in economic sphere. These measures, if applied in complex, are likely to lead to inter-Korean reconciliation, cooperation, peaceful co-existence and, sooner or later, unification.

Russia will support any formula for Korean unification only if the Korean Peninsula is going to become a zone free of WMD. A broader regional NWFZ concept might turn into an integral part of the comprehensive security agreement that would also see the unified Korea as a neutral and non-allied state. Moscow would agree to abstain from storing nuclear weapons in the zone and also could agree not to threaten or use nuclear weapons against any non-nuclear state in the region observing the terms of the treaty. Certainly, Moscow would ratify such treaty only if Washington and Beijing do the same, and only if such zone does not include the territory of Russia proper (namely its nuclear arsenals in Siberia and the Far East).¹⁶

The problem is that Russia and the U.S. must provide each other with security assurances in the new paradigm of the extended non-nuclear deterrence, but Moscow and Washington do not trust each other anymore, particularly since the introduction of Anti-Ballistic Missile (ABM) systems in Eastern Europe and Northeast Asia. ABM issue has become Moscow and Beijing’s nightmare and unites them in their stubborn rejection of many U.S. proposals, particularly those supported by U.S. regional allies, South Korea, Japan or Australia.

15_Victor Mizin, “Russia’s Core Issues.”

16_ *Ibid.*

1
2
3
4
5
6
7
8
9
10

“North Korea and Iran are named by Washington as the targets of the missile defence system, though it is clear the real targets are China and Russia.”¹⁷

As it can be seen through the above material the conflict in Korea is only a small part of the global confrontation between the countries that traditionally belonged to conflicting blocs of the Cold War. The roots of this confrontation remain deeply entrenched in the minds of policy-makers around the world. Preoccupied by the unending security dilemma, politicians in Moscow and Washington, Beijing and Tokyo project their concerns to their allies in the Korean Peninsula. Thus, any positive dynamics in the inter-Korean dialogue can be easily disrupted by the change of mood across the Pacific or on the other end of the Eurasian continent.

The goal of ending the Korean War appears unattainable without dissipating the phobias and prejudices accumulated throughout the 20th century. Moscow’s efforts aimed at making Northeast Asia a safer and better place to live usually stumble over the unresolved issues of the past. The legacies of imperialism, colonialism, Cold War and global economic competition are compounded by Russia’s own complicated relations with its not-so-distant past and further complicate the issue. As long as the ideological conflict continues to dominate the politics of Northeast Asia, any geo-political change will be perceived as undesirable, costly and potentially dangerous. In such circumstances the maintenance of the status quo becomes a preferred option for everyone.

17_Mike Billington, “China Joins Russia: Warns vs. Obama Drive for World War,” *Executive Intelligence Review* (2012). <http://www.larouchepub.com/other/2012/3914china_v_obama_war.html>.

References

- Billington, Mike. "China Joins Russia: Warns vs. Obama Drive for World War." *Executive Intelligence Review*. 2012. <http://www.larouchepub.com/other/2012/3914china_v_obama_war.html>.
- Ivanov, Alexander. "The problem of the Noktundo Island in the Media in South Korea." Zhebin and Asmolov (eds.). *Korea: a View from Russia*. Moscow, 2007.
- McCormack, Gavan. *Target North Korea*. New York: Nation Books, 2004.
- Mizin, Victor. "Russia's Core Issues." Presented at the New Approach to Security in Northeast Asia: Breaking the Gridlock Workshop in Washington DC. October 2012. <<http://nautilus.wpengine.netdna-cdn.com/wp-content/uploads/2012/10/Mizin2.pdf>>.
- Petrov, Leonid. "Russia's 'Power Politics' and North Korea." *International Issues & Slovak Foreign Policy Affairs*. Vol. 27, No. 2, 2008.
- Vorontsov, Alexander. "Current Russia – North Korea Relations: Challenges and Achievements." The Brookings Institution Center for Northeast Asian Policy Studies. February 2007. <<http://www.brookings.edu/research/papers/2007/02/northkorea-vorontsov>>.
- Zhebin, Alexander. "Russia's Efforts for Reconciliation and Peace in Korea." Paper for the 2nd World Congress of Korean Studies in Pyongyang, North Korea. August 2004. <http://www1.korea-np.co.jp/pk/208th_issue/2004081407.htm>.
- _____. "The Six-party Talks and the search for a new security mechanism in Northeast Asia." Paper delivered at the 20th Joint Conference of Institute of Far Easter Studies, Russian Academy of Sciences and the Centre for Asia-Pacific Studies of Hanyang University in Seoul, South Korea. October 2008.
- AsiaNews.it*. <<http://www.asianews.it/index.php?l=en&art=7651&geo=41>>.
- The Korea Times*. <<http://www.koreatimes.co.kr>>.
- The Asia Times*. <<http://www.atimes.com>>.
- The Wall Street Journal*. <<http://online.wsj.com>>.
- Reuters*. <<http://uk.reuters.com>>.
- The New York Times*. <<http://www.nytimes.com>>.

1

2

3

4

5


6

7

8

9

10



**Korean Peninsula Division/Unification and Russia:
From the Economic Perspective of Russia**

Chapter **8**

Chapter 8. Korean Peninsula Division/Unification and Russia: From the Economic Perspective of Russia

Alexander Fedorovskiy

Introduction

Since the beginning of the first decade of the XXI century, regional economic cooperation in Northeast Asia (NEA) has entered a new stage of development. The close economic exchanges between China, Japan and the Republic of Korea (the ROK) at bilateral and trilateral levels have increased radically. The Northeast Asian economy is one of the leading “locomotives” which impels the development of the contemporary multipolar world, and it is clear that Russia’s foreign policy takes this fact into account.

Kremlin policy towards the Asia Pacific Region (APR), including NEA, is at this new stage also. There are two main purposes for this kind of policy. The first, traditional purpose is for the development of Siberia and the Russian Far East (or Pacific Russia). This region has the prospect of being the main economic partner of Pacific countries among Russian regions in the long run. The second, more general task is modification of the national economic strategy in order to rebalance Russia’s foreign economic relations in favour of the Pacific. According to Moscow’s view, the Northeast Asian countries will be able to overcome the world economic crisis by modernizing their economies as well as by upgrading regional business partnerships. In turn, Russia intends to enter into this regional economic cooperation.

The Russian economy still depends on the export of energy and mineral resources on a large scale. This kind of dependence on ener-

1

2

3

4

5

6

7

8

9

10

gy exports is projected to be the primary feature of Russia's economic diplomacy in the long run. Meanwhile, the new Putin administration declares the necessity to stimulate the exportation of high-tech goods and services as well as to expand humanitarian and cultural exchanges with neighbouring countries. Because the modernization of Northeast Asian countries will be ongoing, it will stimulate the increase of imports of different types of goods and services. But Russia has to be ready to join in the regional economic cooperation in order to make use of the positive economic trends in NEA for its own interests. This theoretical thesis can be realised only on the condition that Russia would be an integral element of the structure of regional cooperation.

During the last decade, Russia has begun the development of various programs of economic cooperation with neighbouring countries. One of the results of these efforts was improved bilateral relations and an increase in different kinds of exchanges between Moscow and Beijing. Russia-China economic cooperation was growing significantly in areas such as the development of transportation facilities along mutual borders, oil pipeline construction, cooperation between banks and other financial institutions, as well as huge investment deals. Consequently the PRC is now one of Russia's most important foreign economic partners. Moreover, the role of China in Russia's foreign economic relations will be increasing over the long run. But it is necessary for Russia to have alternative "gates" to Northeast Asian and Pacific markets. The Korean Peninsula has the opportunity to be one of the key channels of Russia's economic integration into the Asia-Pacific region. It would be possible for Russia to use this "gate" in order to increase the traditional Russian exportation of energy and mineral resources and to diversify regional trade and investment, as well as science and humanitarian exchanges. The problem is that Russia's economic relations with North and South Korea are different from each other in nature.

The cost to Russia of Korean Peninsula division

So, one of the most important purposes of the Russian Pacific strategy is the radical expansion and diversification of foreign economic relations with Pacific countries. In the final analysis, regional economic integration will be not only the basis for the modernization, development and prosperity of the Pacific countries, including Russia, but it will also be a core element of security and political stability in NEA. That is why an economic factor is the favourite element of Russian foreign policy towards Northeast Asian countries in general and towards the Korean Peninsula in particular.

Russia has paid special attention to bilateral economic relations with the ROK since the establishment of official diplomatic relations in September 1990. Relative to this kind of policy, bilateral trade between the Russian Federation and the ROK increased during 2000-2007 (under the first Putin administration) from \$15 bln to five times that. During the crisis in 2009 Russia-South Korea trade decreased, but in the next two years economic exchanges were restored and the growth resumed. By 2010 bilateral trade had reached \$18 bln, and in 2011 the trade turnover increased by 40% to \$25 bln (amounting to 3% of Russia's foreign trade). Since the beginning of the 1990s economic relations between Moscow and Pyongyang had been stagnating: the trade turnover was fluctuating between \$100-300 mln, investment exchanges and R&D cooperation were frozen.

There currently exist some opportunities to intensify and to balance Russia-Korea economic cooperation. It is necessary to establish adequate institutions and to improve international legal foundations in order to reach this goal. WTO membership is an important factor for the development of economic relations between Russia and the Pacific countries. The next purpose of Russia's economic diplomacy is signing Free Trade Agreements (FTA) with the Pacific countries. FTA negotiations have already been started between Russia and New Zealand. Russia and Vietnam will also initiate negotiations in order to sign an FTA. The ROK is among the most prominent Russian economic partners for signing an FTA in the near future. The problem is that North Korea is far from engaging in international negotiations

1

2

3

4

5

6

7

8

9

10

or discussions on legal and institutional issues. Under these conditions, it will be very difficult for Russian government officials and businessmen to prepare long term business plans of economic cooperation not only with the North, but in some measure with South Korea, also.

Nevertheless, it is necessary to overcome difficulties which undermine the possibility of future growth of trade and economic cooperation. In this case it is necessary to note that the stagnation of North Korea's economy is among the main obstacles to Russia's expansion into the Korean Peninsula. Internal negative trends in North Korea, such as the degradation of national industry and food and infrastructure crises cannot be stopped under the current economic system. Besides, it is impossible to modernize the country without foreign assistance. Accordingly, domestic economic reforms, radical improvement of the investment environment and foreign economic relations are the only ways to achieve the transformation of North Korea.

North Korea's non-market economy, rigid inflexible administrative system, unpredictable domestic and foreign policy, and ruined infrastructure are viewed negatively by Russian private businesses as well as by highly ranked managers of public economic institutions. By the same token, it is impossible for Moscow to use North Korea as a transportation and communication "bridge" between Russia and South Korea. Because of these problems it is difficult for Russia and the ROK to increase direct exchanges. Under these conditions it is impossible for Russia to invest in the realization of large-scale economic projects in Korea and to take part in the development of inter-Korean cooperation. Generally speaking, a divided Korea and unstable or even interrupted inter-Korean relations do not make it possible for Russia to develop a coordinated policy towards the Korean Peninsula as a whole.

As for exchanges between Russia and North Korea at the governmental level in 2000-2010, it seems that both sides are dissatisfied with the economic results of bilateral negotiations. North Korea's position on the key issues was traditional: refusing to take any step

toward a market economy while at the same time appealing to restore Soviet style economic assistance. It was natural that, in spite of long negotiations and several Russia-DPRK summits, significant projects (railway construction and modernization, energy transition programs, etc.) have failed to be realized. At the same time, it is difficult for Russia to adopt its pragmatic economic foreign policy to North Korea's reality. Pyongyang's inflexible economic policy at home and abroad, which is still far from market standards, is the main obstacle for realization of long-term and expensive business projects on the Korean Peninsula. Because of this reason, Russia had no choice but to let large public corporations find out alternative routes of economic expansion for themselves. Thus, GASPROM and Korea Gas Corp. discussed possible construction of an undersea gas pipeline directly from Russia to South Korea. If Russia and the ROK exclude the DPRK from Russia-South Korea energy cooperation, it will be evidence that Moscow doesn't intend to depend on an unpredictable partner and is going to copy European Policy in North East Asia. Russia has attempted to by-pass unreliable transitional countries by the construction of the North Stream gas pipeline to Germany in the Baltic Sea as well as by construction of the South Stream gas pipeline to Southern European countries in the Black Sea.

North Korea tried to avoid isolation and to diversify foreign economic relations in order not to depend on China too strongly. For these reasons the main purpose of Kim Jong Il's visit to Russia and his meeting with president D. Medvedev in August 2011 was the stimulation of North Korea-Russia negotiations on economic issues.¹ Although both sides agreed to support development of infrastructure projects, including constructing a gas pipeline from Russia across the Korean Peninsula to the ROK, there was no evidence that suggests that North Korea's government intends to establish the economic, political and legal environments that would be necessary radically to improve Russia-North Korea economic relations. Positive declarations on possible bilateral economic cooperation be-

1 *Kommersant*, August, 22, 2011, <<http://www.kommersant.ru/>>.

tween Moscow and Pyongyang were adopted during Kim Jong Il's last visit to Russia. But after the death of the North Korean national leader and the inauguration of a new administration headed by Kim Jong Eun, bilateral economic relations have become unpredictable and are at the stage of stagnation again. Moreover, a new political crisis on the Korean Peninsula caused by the North Korean missile launch destroyed inter-Korean relations almost completely. This means that the programs of economic cooperation that have been adopted by North Korea and Russia must be put on hold once more.

In these circumstances it is necessary to remind ourselves that it is urgent for Russia to develop a modern infrastructure of economic cooperation with the North-East Asian region in order to expand bilateral and multilateral economic relations with these countries. The term "infrastructure" means, on the one hand, some adequate institutions, inter-governmental treaties and basic legal agreements; and on the other hand, a network of electrical generating facilities, railways, ports, pipelines, etc. The Korean Peninsula has the opportunity to be an important infrastructure "bridge" for Russia's economic expansion into NEA as well as a prominent beneficiary of coordinated Russian government and business activity in the Pacific area.

If inter-Korean cooperation were to be renewed on a large scale, it would stimulate regional economic cooperation in NEA in general. But under the new North Korean administration, the political risks for business projects are still very high. These risks make it difficult for private Russian businesses to invest in North Korea. The same factors also cause large Russian public corporations to refrain from participating in huge transportation and energy projects. Nobody can be sure that it will be possible for North Korea to avoid political turbulence, economic chaos and unpredictable migration processes during this period. Under these conditions, a North Korean domestic crisis could result in an international conflict on the Korean Peninsula involving the participation of the great powers. So, another of the main tasks of Russian diplomacy is monitoring the current situation on the Korean Peninsula and working together with other countries to develop different kinds of measures in order

to prevent humanitarian crises and to guarantee control of nuclear weapons in the DPRK.

The benefit to Russia's of Korean Peninsula unification

According to the Kremlin's point of view, it would be better for Russia as well as for both Korean states and neighbouring countries for North Korea to engage in processes of international cooperation on the Korean Peninsula and in Northeast Asia as a preliminary step toward Korean unification. So Putin's administration is interested in a predictable political dialogue with Pyongyang and has sought opportunities to increase bilateral economic exchanges and trilateral cooperation between Russia, the ROK and the DPRK.

Meanwhile, there are many reasons to anticipate the possible unification of Korea in the foreseeable future.² Korean unification would be the most important factor for the radical improvement of Russia-Korea strategic economic cooperation. But in the first stage of unification, the opportunity for Russia-Korea cooperation will decline. Nevertheless, the situation will later move in a positive direction.³

The stabilization of the security and political situations on the Korean Peninsula will make it possible to minimize the political risks for foreign investments. An adequate legal system in the market economy of a Unified Korea will create the basis for strategic economic cooperation between Russia and Korea. Transparency on the part of business institutions and a unified financial and banking system will create opportunities for Russia, as different kind of companies could expand their activities in both the northern and southern parts of Unified Korea.

2_A. Dynkin, *Strategicheskii Globalnyi Prognoz: 2030 (Strategic Global Outlook: 2030)* (Moscow: Magistr, 2011).

3_A. Fedorovskiy, V. Amirov and V. Mikeev, *Rezultaty i Perspektivy Rossiysko-yuzhnokoreiskogo sotrudnichestva (Twenty Years of Russia-ROK Diplomatic Relations: Main Results and Prospects for Bilateral Cooperation)* (Moscow: IMEMO, 2010), p. 39.

1

2

3

4

5

6

7

8

9

10

Unification of the education system in Korea could also upgrade the general and professional education of employees. This factor could stimulate Russian investment in the development of North Korea. Modernization and unification of communication systems in Korea would make it easier to increase exchanges between Russian and Korean businesses. Radical improvement of statistical data in the North as well as distribution of business information would also have a positive effect on the commercial activity of Russian businessmen in Korea. An improvement of the ecological situation in North Korea would make it possible for Russia to optimize ecological expenditures and to upgrade ecological and medical security at home.

There are several reasons why small businesses from Pacific Russia would benefit from the unification of Korea. First of all, it is worth noting that transportation expenditures would be minimized radically because of the improvement of logistics, roads and railroad traffic. It would be easier for Russia's small and medium size businesses to reach every region on the Korean Peninsula. Better conditions of government administration, lower levels of corruption, and the improvement of customs services are also among important factors for improved Russian small business activity in Unified Korea.

Both the northern and southern parts of Korea would have to be modernized on a large scale as a result of national unification. Accordingly, Russian business would have the chance to increase the scale radically and to diversify energy, resource and machinery exports to Korea. Development of the construction industry and the modernization of agriculture and the food industry in the North would offer new opportunities for Russian exporters: producers of wood products, steel and non-ferrous metals, pulp and paper, fertilizer and other chemical products, etc. Russian exporters of manufactured goods such as nuclear and electric power equipment, helicopters and space technologies also would have the chance to meet the demands of a Unified Korea. Food demands such as grain, fish and marine products would stimulate exports to Korea.

Energy-related, environmental and transportation problems are among the most prominent issues of Korea unification. A better po-

litical and investment climate would make it easier to develop the transportation infrastructure needed to export energy from Pacific Russia to the Korean Peninsula, including the construction of pipelines and electrical networks. In turn, Korean investors would have a better opportunity to increase their involvement in the production of oil, gas and coal in Russia for export.

Russia is the nearest low-risk supplier of energy to the Korean Peninsula. That is why Russia would be among the major sources of different kinds of energy for the Korean economy. Gas demand would increase significantly as a result of the modernization of the energy industry both in the north and in the south. As a result of unification, Korea would increase the development of bilateral Russia-Korea cooperation in the gas industry. This point of view is widespread among Russian energy experts: “Prospects for Russia's gas export to the Korean market will be more prominent if South Korea and the PDRK are unified.”⁴ Now, Russia supplies the ROK with 2.2 bln cubic m (1.6 mln tones) of LNG.⁵ Domestic gas demand in a unified Korea would increase significantly over the long term. Within the next two decades, the South Korean gas market is expected to increase because of the implementation of the “green energy policy” and expanding consumer demand. North Korea’s gas demand would increase after unification also, at an even higher rate. The energy industry in the North must be modernized radically. Besides, gas consumer demand will grow constantly. As a result, Korea’s gas market will be of great interest to Russia’s gas exporters. GAZPROM and KOGAS, as leading gas companies of the two countries, have already agreed to improve facilities to produce and export gas from Pacific Russia to the Korean Peninsula. If the Koreas are unified, these companies would be able to construct a gas pipeline from Rus-

4_S. Zhukov, *Asiatskie energeticheskie scenario (Asian Energy Scenarios)* (Moscow: Magistr, 2012), p. 184.

5_A.G. Korzhubaev, I.I. Melamed and L.V. Eder, “Perspectivy energeticheskogo sotrudnichestva Rossii s Yuzhnoi Korei (Prospects for Energy Cooperation between Russia and South Korea),” *Ecological Bulletin of Russia*, No. 4 (2012), p. 13.

1

2

3

4

5

6

7

8

9

10

sia to Korea (as they have already agreed). In this case, total gas exports (LNG and export by a pipeline) from Russia to Unified Korea would be increased by at least ten times.

Russia's oil exports to the ROK and the PDRK in 2010 reached 8-9 mln tones. Although the South Korean economy will follow a green growth strategy over the long term, the importation of oil will be increased for the foreseeable future. As for North Korea after unification, even the beginning of industrial modernization would increase the need to import oil. Consumer demand also would stimulate the consumption of oil and oil products overall. In general, the oil importation by Unified Korea from Russia could be increased by 3-4 times over current levels.

The coal industry is another prominent area for Russia-Korea energy cooperation after the unification of Korea. North Korea has a coal industry, but the quality of North Korean coal is very low. It seems that under these conditions the North Korean industry would face a serious crisis in a market and open economy, and it would hardly be possible to save the majority of coal production in North Korea after unification. This means that it would be necessary 1) to seek new sources of coal; and 2) to find new jobs for miners. Russia could play an important role in the reformation of the North Korean coal industry. Some of the workers could be transferred to coal mines in Siberia and in Pacific Russia. As a result, problems of the North Korean mine industry could be resolved to the mutual benefit of Russia and Unified Korea.

In turn, the Russian coal industry would also have the chance to benefit. The Russian coal business would gain miners for its own native coal industry, and at the same time Russia would have the opportunity to increase exports to the Korean Peninsula (from about 8,5 mln tones of coal in 2010) by 3-3,5 times.

Russia would be an important market for different kinds of goods produced in the northern part of Unified Korea. Consumer goods exported by North Korean producers would compete with Chinese goods as well as with goods from South-East Asian countries, which currently dominate Russia's domestic market. In this case, increas-

ing competition in the Russian domestic market would benefit Russian consumers.

Unified Korea's position as a regional hub would play an important role in Russia's foreign economic policy. It is necessary to stress that the unification of Korea would be an important factor in the development of Russia-Korea cooperation in transit and logistics. Russia could be involved in the reconstruction and modernization of railways on the Korean Peninsula. Russian railway experts have already prepared a feasibility study for the repair and radical improvement of railways in North Korea connecting the main cities, sea ports and the Russian border. According to preliminary estimates, it would be necessary to invest \$2,5-3,0 billion. (But it would also be necessary for Russia to modernize its TransSiberia railway.) If the project were to be implemented, Russia could benefit as an exporter of railway equipment for railway modernization as well as a transportation transit country. It would take 12-14 days for Korean companies to transfer goods to the EU. If the TransSiberia Railway and TransKorea Railway were to be linked, it would be possible for Russia to transit at least half a million containers from Korea to the EU, Central Asia and Middle Eastern countries annually and to receive about \$1-2 billion annually for transit and logistics operations.

Unification of Korea would make it easier for Russia to expand economic ties with the Pacific region, especially with North-East Asian countries. Russia would have the chance to diversify regional economic relations. By cooperation with a Unified Korea, Russia would have the opportunity to integrate with such leading regional and world economies as China and Japan. Russian business would use Korea's business, financial, transportation and logistics infrastructure to increase trade, investment and innovation exchanges with Pacific countries.

Positive trends in inter-Korean integration and the unification of Korea would have an effect on regional trade and investment exchanges at bilateral, sub-regional and regional levels. Normalization of the situation on the Korean Peninsula, including the stable and dynamic improvement of inter-Korean relations, would greatly

1

2

3

4

5

6

7

8

9

10

stimulate the development of the infrastructure of regional cooperation. It could let Russia demonstrate in practice its strategic economic goals and business priorities in foreign trade, in energy, in other industries and in infrastructure development. A Unified Korea as an integrated part of the economic community of NEA countries would make it possible for Russia to become a commercial presence in a regional integration that would be clear and open for multinational cooperation on the Korean Peninsula with the participation of not only Korean partners, but also investors from China, Japan, the U.S.A and other countries. Under these conditions, it would be possible for Russian business to create long-term commercial partnerships with banks, other kinds of financial institutions, and other public and private companies from NEA countries.

Russia's position and role in the Korean Peninsula unification

During the past decade Russia, unlike South Korea, the United States and Japan, chose not to condemn North Korea; but at the same time Moscow kept its distance from North Korea's position on inter-Korean relations. In this context, Moscow has a real opportunity to act as an impartial mediator and to play an active role in Korean negotiations.

Russia's basic priorities with regard to North Korea were declared by President Vladimir Putin in an article written at the beginning of this year during the election campaign.⁶ The first thesis is: a nuclear North Korea is unacceptable to Russia. The second thesis is: let us give the new North Korean leadership an opportunity to show the priorities of the new Pyongyang administration. President Putin opposed the idea of the political isolation of Pyongyang or the introduction of any economic sanctions towards the North Korean regime. Moreover, at that time, according to the Kremlin's point of

6_V. Putin, "Rossiya i menyauschisya mir (Russia in the changing world)," *Moscowskie novosti*, February 27, 2012, <<http://mn.ru/>>.

view, more important for Russia as well as for both Korean states and neighbouring countries was North Korea's involvement in the process of international cooperation in Northeast Asia. So the Putin administration was interested in carrying on a predictable political dialogue with Pyongyang and sought opportunities to increase bilateral economic exchanges with North Korea and trilateral cooperation between Russia, the ROK and the DPRK.

However, North Korea's aggressive political rhetoric during the first half of 2012 and its decision to initiate a missile launch in April caused Moscow's policy towards Pyongyang to become more rigid. Moscow, together with Beijing and Washington, initiated a UN Security Council declaration strongly opposing North Korea's missile and nuclear activity.

North-South conflicts and political instability are real obstacles to Russian economic expansion on the Korean Peninsula and more broadly in Northeast Asia. It isn't in Moscow's interest to view North Korea as a buffer state in relation to South Korea, the United States and Japan, because that would mean continued instability and latent confrontation on the peninsula. So, Russia's priority is not diplomatic competition or antagonism but large scale cooperation with various countries on the Korean Peninsula. Generally speaking, Moscow is interested in seeking a normalization of the situation on the Korean Peninsula, including a continued, concerted improvement in inter-Korean relations.

In this case, the unification of Korea is to Russia's benefit, and Russia would be anxious to support Korean unification. Once that is accomplished, it would be possible for Russia radically to expand political and economic cooperation with Unified Korea and other countries in Northeast Asia. As was mentioned earlier, Russia is interested in seeking to have regional transportation and energy projects implemented.

The correlation between security concerns and economic issues has surely been on the agenda of negotiations between Northeast Asian countries. Moscow is interested in expanding discussions from a focus on denuclearization to the development of a regional

1

2

3

4

5

6

7

8

9

10

security treaty and an economic agreement. This means that positive trends on the Korean Peninsula would create an environment conducive to stable and multinational cooperation in Northeast Asia.

Russia intends to increase its focus on the development of the Russian Pacific region and to expand economic and humanitarian exchanges with neighbouring states. The coordination of modernization between Russia (Pacific Russia, in particular) and Korea could play an important role in carrying out this strategy.

It is difficult to predict how the situation in North Korea will develop as well as the specific characteristics of inter-Korean integration and unification. Meanwhile, it is necessary to note that formal unification doesn't refer only to full-scale unification and that such complete unification would take a significantly longer period of time. Moreover, the political unification and the economic integration of the South and the North will be two different processes, and that means that these two processes may not always advance at the same rate. It is necessary to pay special attention to the economic cooperation and integration of the North and the South, because these processes will play a decisive role in the final establishment of a Unified Korea.

The introduction of a market economy into North Korea will be a long and challenging process. It will take some time to adapt market institutions to North Korea's reality as well as to educate market-oriented personnel and to change the mentality of bureaucrats. Another very important issue is the normalization of the social situation. If the social situation would not be improved significantly for a majority of the people within a reasonable time after the start of unification, it would undermine social stability and have a negative effect on the unification process. In this case, it is important to mention that Russia has had a unique experience in the market transformation of society after seventy years of living under an administrative economy (approximately the same period of living under an administrative economy currently exists in North Korea). An analysis of the positive and negative results of reforms and of the national transformation from a totalitarian to a market-oriented and open society

could help Korean authorities avoid some significant problems and make the transition period progress more smoothly.

On the other hand, Russia is interested in fostering predictable consequences of a North Korean transition, national unification and stability on the Korean Peninsula. Reconstruction of the North Korean economy and innovative modernization of the South Korean economy seems to be an important part of inter-Korean integration and the process of unification. Accordingly, Russia could monitor the situation on the Korean Peninsula in order to correct Russia's policy towards Korean unification, keeping in mind the changing realities on the Korean Peninsula and in Northeast Asia. This means that Moscow should take into account not only Korea's issues but also regional economic trends and prospects for the social and economic development of Northeast Asian countries, as Korea's unification will be most successful if it correlates with other regional realities.

In practice this means that the modernization of Russia and Korea would also include the modernization of neighbouring NEA countries. Thus, after the recent disaster Japan will have to modernize its national economy (energy, infrastructure, etc); the modernization of North-East China and the development of innovative industries are on the agenda in the PRC; the Russian Far East region has to improve its transportation infrastructure and to implement an energy project as well as to develop innovative industries and social and educational systems. And under these conditions there would be a good chance to increase trade and investment exchanges between the U.S.A and the NEA economies. So, radical changes in inter-Korean integration towards unification may be a symbol of a New Stage in the expansion of broad scale regional cooperation in NEA.

A major problem is that regional powers are not yet ready to prevent the development of negative trends on the Korean Peninsula nor to support positive trends in inter-Korean relations. In this case, it is notable that there is no institute or mechanism for regular consultations on Korean and North East Asian issues that includes participants from all countries in the region. Taking into account the

1

2

3

4

5

6

7

8

9

10

Six-party Talks, such processes must be established in specialized economic and financial institutions as well.

Modernization in NEA will be successful if an interconnection between economic growth and improvements in the social system is maintained. In this case, it will be important that Russia and other negotiators support the establishment of Korean economic as well as social institutions that would be adequate to the new reality in NEA. In order to reach this goal, Russia, as Korea's neighbour, can participate in the development of the medical care network, educational system, and cultural and humanitarian institutions. In practice, this means the coordination of the development of these kinds of institutions in Pacific Russia with the same programs in a Unified Korea and other Northeast Asian countries. In turn, regional medical, educational, cultural and humanitarian exchanges and cooperation would have a positive effect on the regional business climate as well as on the social and economic situation in Pacific Russia. This means that social and humanitarian exchanges would have positive effects on the realization of a strategic program of the development of Pacific Russia.

Inter-Korean integration would create the most positive conditions for trade and investment cooperation, particularly for the realization of lengthy, expansive and multinational projects in energy and transportation, which are very prominent areas for Russia's cooperation with Northeast Asia.

Besides, it is necessary for Russia to adopt cultural, educational, scientific and technological exchanges as core elements of Russia's policy towards Northeast Asia.

Inter-Korean integration may be only a first step for the regional community, including the possibility for Russia to become part of an efficient regional system of regular dialogue and stability as a necessary element of a regional security system and multilateral economic cooperation. Reforming banking and financial systems at the national level, as well as supporting regional financial systems could also be areas of international cooperation (with the assistance of the World Bank, the International Monetary Fund and various other international organizations).

Conclusion

On account of a variety of basic economic, political and security reasons, the unification of Korea is not a national, but an international, process. Russia is not only involved in, but also supports, this process. The reason for this is that the unification of Korea is consistent with Russia's economic and political priorities at home as well as in Northeast Asia and the Asia-Pacific region in general. One of the main tasks of Russian economic diplomacy is cooperation with Korean authorities and the international community (regional countries, especially) in order to create better conditions for the development of full-scale inter-Korean integration and to support the modernization of a unified Korea as one of the key elements of a regional system of prosperity and progress. Korean unification would stimulate the development of Eastern Siberia and the Russian Far East areas (or Pacific Russia). At the same time Russia would have the chance to increase its integration into NEA. Under these conditions the unification of Korea would be an important element of a comprehensive Russian domestic and regional foreign economic policy in NEA over the long term.

1

2

3

4

5

6

7

8

9

10

References

- Dynkin, A. *Strategicheskiy Globalniy Prognoz. 2030 (Strategic Global Outlook: 2030)*. Moscow: Magistr, 2011.
- Fedorovskiy, A, Amirov V. and V. Mikheev. *Rezultaty i Perspektivy Rossiysko-yuzhnokoreiskogo sotrudnichestva (Twenty Years of Russia-ROK Diplomatic Relations: Main Results and Prospects for Bilateral Cooperation)*. Moscow: IMEMO, 2010.
- Korzhubaev, A.G., Melamed I.I. and Eder, L.V. “Perspektivy energeticheskogo sotrudnichestva Rossii s Yuzhnoi Korei (Prospects for Energy Cooperation between Russia and South Korea).” *Ecological Bulletin of Russia*. No. 4, 2012.
- Zhukov, S. *Asiatskie energiticheskie scenario (Asian Energy Scenarios)*. Moscow: Magistr, 2012.
- Kommersant*. <<http://www.kommersant.ru/>>.
- Moscowskie novosti*. <<http://mn.ru/>>.



**Korean Peninsula Division/Unification and Security
Order in the Asia-Pacific Region**

Chapter **9**

Chapter 9. Korean Peninsula Division/Unification and Security Order in the Asia-Pacific Region

Thomas S. Wilkins*

Introduction

South Korea, along with its Asia Pacific neighbors, is confronted by an increasingly complex and unpredictable regional security environment. A shift in the regional balance toward a rising China (and India), coupled with a newly re-assertive diplomatic posture on the part of the United States and Japan present major challenges for the future of the Korean Peninsula.¹ After the end of the comparatively stable Cold War era, the region is currently in a state of flux. Nick Bisley argues that “Asia is moving away from a stable international order towards a hybrid system where elements of the old order remain, hints of the new are visible and uncertainty abounds.”² Moreover, it is this volatile regional security order that will form the backdrop to potential reunification of the Korean Peninsula. A KINU study notes that “Amid this period of transition in the interna-

* The author would like to thank all those at KINU for their support in this research, my colleagues with whom I shared the lively workshop discussions that prefigured this volume, and my intern, Mr. Hugh Evans, for his assistance on producing the final version of this chapter.

1_David Shambaugh (ed.), *Power Shift: China and Asia’s New Dynamic* (Berkeley: University of California Press, 2005); Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: Public Affairs, 2008); Bill Emmott, *Rivals: How the Power Struggle between China, India and Japan Will Shape Our Next Decade* (San Diego: Harcourt, 2008).

2_Nick Bisley, *Adelphi 408: Building Asia’s Security* (London: Routledge, 2009), p. 128.

tional order, the environment for Korean unification will go through a difficult phase, as Korea has to convince not only the U.S. but also multiple other rising powers with overlapping problems.”³

As Jonathan Pollack and Chung-min Lee identify; “If and when Korean Unification occurs it will constitute one of the decisive strategic changes in North East Asia since the outbreak of the Korean conflict nearly a half century ago.”⁴ It will therefore have profound effects on regional security order. The Korean Peninsula, by virtue of its geostrategic position has always existed as a vital ‘crossroads’ between the region’s great powers. As the proverbial ‘shrimp between whales’, this has always confronted Korean strategists with harsh realities and an exceedingly difficult, even perilous, set of policy options. This dilemma would be further exacerbated in the case of national reunification between the ROK and DPRK. A re-unified Korea would possess a population of over 70 million, a formidable military establishment, (including nuclear weapons capabilities), and a land border with China (and Russia). Thus, Chung-min Lee asserts:

“For the vast majority of Koreans in the South and the North, reunification remains the ultimate national goal. Nonetheless, highly charged issues persist, including the terms of reunification, the likely responses of the major powers directly affected by a unified Korea (the United States, China, and, to a lesser extent, Russia and Japan), and major policy choices such as the national security platform of a future, unified Korea.”⁵

3_Kyuryoon Kim, Byung-Duck Hwang et al., “New Approach to the Costs/Benefits of Korean Unification: Adopting Comprehensive Research Factors and Seeking Alternatives,” (KINU Research Abstract 11-01, 2011), p. 5.

4_Jonathan D Pollack and Chung-Min Lee, *Preparing for Korean Unification: Scenarios and Implications* (Santa Monica: RAND, 1999), p. iii.

5_Chung-Min Lee, “Coping with Giants: South Korea’s Responses to China’s and India’s Rise,” Ashley J. Tellis, Travis Tanner and Jessica Keough (eds.), *Strategic Asia 2011-12: Asia Responds to Its Rising Powers-China and India* (Seattle: NBR, 2011), p. 170.

It is with these considerations in mind that the following analysis examines questions of Korean strategic policy and the country's place in the regional security order.

Reunification 'Endgame'

The division of the Korean Peninsula is 'unfinished business' from the Cold War.⁶ The existence of the DPRK regime and its pursuit of nuclear and non-nuclear WMD capabilities is cited (along with the Taiwan Strait and maritime territorial disputes) as one of the most destabilizing aspects of the current security order, and a potential flashpoint for serious regional conflict.⁷ Reunification that occurs as a result of such conflict would validate the worst fears of security analysts with potentially serious-to-catastrophic results, depending upon its course and intensity. On the other hand, unification, (even if realized as a result of conflict), would eliminate this destabilizing factor and create a more stable security equilibrium. Either way, the exorbitant costs of reunification will also lead to an 'interregnum' period, in which Seoul will be totally preoccupied with national integration alone. Charles Wolf and Kamil Akramov posit that

"The total costs of reunification would be dependent on how unification would occur, including, for example, the costs of meeting humanitarian demands, stabilization requirements, the needs of human capital reeducation training and replacement, and the demands of social integration."⁸

6_Don Oberdorfer, *The Two Koreas: A Comparative History* (New York: Basic Books, 2001).

7_Kent E. Calder, *Asia's Deadly Triangle: How Arms, Energy, and Growth Threaten to Destabilize Asia-Pacific* (Sonoma: Nicholas Brealey Publishers, 1997); Paul Bracken, *Fire in the East: The Rise of Asian Military Power and the Second Nuclear Age* (New York: Harper Collins, 2000).

Economic computations of the costs/benefits of reunification must be taken with a large grain of salt. If history is anything to go by, no model can predict these costs with any degree of accuracy.⁹ Goohoon Kwan states that “Cost estimates for inter-Korean integration vary widely from 2% to 25% of GDP per annum, depending on the speed of integration and policy assumptions.”¹⁰ These in any case are not incurred in isolation from other material and psychological factors, as a recent KINU study identifies.¹¹ These costs, economic and otherwise are extrapolated further throughout this volume.

It is impossible to predict the course that reunification will take, though Seoul (as well as Washington and Beijing) have prepared for a variety of scenarios and contingencies.¹² These basically consist of: (1) ‘unification through system evolution and integration’, (the China-development model); (2) ‘unification through collapse and absorption’ of the DPRK, and; (3) ‘unification through conflict’, or some variation thereof.¹³ These are mentioned earlier in this book, as well as considered elsewhere, and need not be rehearsed here.¹⁴ Since the terms of reunification will impact significantly on any

8_ Charles Wolf and Kamil Akramov, *North Korean Paradoxes: Circumstances, Consequences, and costs of Korean Unification* (Santa Monica: RAND, 2005), p. xi.

9_ For a survey of a range of estimates see: Goohoon Kwon, *A United Korea: Reassessing North Korean Risks (Part 1)* (Goldman Sachs Global Economics, Commodities and Strategy Research, 2009. For more detailed (but dated) analysis see: Noland, Sherman Robinson, and Li-gang Liu, “The Costs and Benefits of Korean Unification – Alternative Scenarios,” *Asian Survey*, Vol. 38, No. 8 (1998), pp. 801~814.

10_ Goohoon Kwon, “A United Korea: Reassessing North Korean Risks (Part 1),” *Global Economics Paper*, No. 188, 2009, p. 19.

11_ Kyuryoon Kim, Byung-Duck Hwang et al., “New Approach to the Costs/Benefits of Korean Unification: Adopting Comprehensive Research Factors and Seeking Alternatives” (KINU Research Abstract 11-01, 2011).

12_ These are supported by studies from think tanks such as the RAND Corporation and the Korean Institute for National Unification (KINU).

13_ Akramov and Wolf, *North Korean Paradoxes*; Pollack and Lee, “Preparing for Korean Unification.”

14_ Pollack and Lee, “Preparing for Korean Unification: Scenarios and Implications.”

post-united Korea and its place in the regional security order, this must be our point of departure. As Pollack and Lee argue,

“the results and effects of any endgame scenario will determine whether a unified Korea is able to move forward in a coherent way to shape its regional strategies and policies, or whether future leaders will be indefinitely preoccupied by the problems of peninsular transition.”¹⁵

As noted earlier, in the event that reunification occurs as a result of peninsula - or even regional - conflict, the ramifications will be enormous. Should miscalculations in Pyongyang or Seoul (coupled perhaps with miscalculations in Washington and Beijing), lead to armed conflict, such a clash will be devastating to the peninsula and will shape future order in incomprehensible ways, negating much of the following analysis. This chapter implicitly assumes the more optimistic scenarios for reunification (1) and (2), as the basis for its projections.

(Regional) Security Order

The task here is to bring some analytical coherence to the extraordinarily complex issues raised by division/unification of the Korean Peninsula and its impact on regional security order in the Asia Pacific. Security order is an extensive concept that has generated wide-ranging conceptual debates within the IR discipline. According to David Morgan ‘regional orders’ are “dominant patterns of security management within [regional] security complexes.”¹⁶

¹⁵ *Ibid.*, p. 84.

¹⁶ David A. Morgan, “Regional Security Complexes and Regional Orders,” David A. Lake and Patrick M. Morgan (eds.), *Regional Orders: Building Security in a New World* (Philadelphia: Pennsylvania State University Press, 1997), p. 32.

A number of theorists have aimed to refine our understanding of 'order', starting most famously with Hedley Bull, and ending more recently with the work of Muthiah Alagappa, and others.¹⁷ Alagappa identifies several types of order that differ in terms of purpose, the identity of participants, cohesion, interests, and rules. Briefly stated, these are: instrumental, normative-contractual, and solidarist. The first is orientated toward achieving an individual state's national interests or private goals and exhibits minimal cohesion among the interacting units (Realist notions of hegemony, balance of power, and great power 'concerts'). The second seeks to attain both private and public goals through collaborative activities. Cooperation is governed by common understandings and 'norms' of behavior (the Liberal conception of collective security, international regimes, and economic interdependence). The third represents an ideational shift among actors toward a new 'community' of shared identity and values (through Social Constructivism: 'democratic peace' and international integration). G. John Ikenberry and Michael Mastanduno have also used similar approaches to examine configurations of security order in the Asia Pacific region.¹⁸

In the course of the following analysis I survey the potential costs and benefits of a reunified Korea in terms of national and regional effects, and connect these with wider questions of security order. I refrain from making specific predictions, as most analysts are alert to the pitfalls of the 'unexpected' in international politics (consider the failure of IR theorists or policy analysts to forecast the 9/11 terrorist attacks, the 2008 Global Financial Crisis, or 2011 Arab Spring). As Samuel Kim reminds us, "Paradoxically, the most predictable quality of the future of humanity is its unpredictability."¹⁹ I concentrate

17_Hedley Bull, *The Anarchical Society* (London: Macmillan, 1999); Muthiah Alagappa, *Asian Security Order: Instrumental and Normative Features* (Stanford: Stanford University Press, 2003).

18_G. John Ikenberry and Michael Mastanduno (eds.), *International Relations Theory and the Asia Pacific* (New York: Columbia University Press, 2003); Erik Beukel, "ASEAN and ARF in East Asia's Security Architecture: The Role of Norms and Powers," *DIS Report*, No. 4 (2008), p. 12.

19_Samuel S. Kim, *The Two Koreas and the Great Powers* (Cambridge: Cambridge

only on security aspects of regional order, as economic aspects are the concern of Chapter 10 by Jeffrey Robertson. This necessitates a greater emphasis on the instrumental (or Realist) elements of order, since the normative-contractual (Liberalist) elements are substantially - but not exclusively - more orientated toward economic interactions than security dynamics. This caveat notwithstanding, there is increasing recognition of the inseparability of economic and security dimensions to regional order, as the current volume amply demonstrates. Mark Beeson argues that “the idea that we can consider either economic or strategic policy in isolation is increasingly insupportable.”²⁰ Finally, it should be noted that any forecast of possible strategic trends involving Korean unification is based upon incomplete and widely disputed data and assumptions. We must therefore be highly cautious and skeptical in all such scenarios. As Wolf and Akramov remind us: “North Korea is conspicuous if not unique among the 190 other members of the United Nations in the paucity of reliable information about it.”²¹

Korea in the regional security order: assessment of potential costs and benefits

Informed by abstract types of order and the ‘pathways’ that states may take to pursue such an order, we now proceed to examine how Korean division/reunification impact upon Asia Pacific order, and, conversely, how external trends may in turn affect the peninsula itself either detrimentally or advantageously. First I will examine the power dynamics indicative of instrumental security order, looking at the reunification process and its ramifications regarding the three

University Press, 2006), p. 299.

20_Mark Beeson, *Institutions of the Asia-Pacific: ASEAN, APEC and Beyond* (London: Routledge, 2009), p. 73.

21_Akramov and Wolf, *North Korean Paradoxes*, p. 3. See also: Jonathan D. Pollack, *No Exit: North Korea, Nuclear Weapons and International Security Adelphi 418-19* (London: International Institute for Strategic Studies, 2011).

major powers: the U.S., China and Japan. Second, I proceed to examine aspects of the reunification process from the perspective of a normative-contractual order, (concomitantly evaluating the prospects for a solidarist order).

Korea in an instrumental security order

This section examines a cluster of potential dynamics unleashed by reunification from the perspective of an instrumental security order. It considers multiple and interlocking dynamics including, largely internal questions of (i) spillover; (ii) strategic limbo, and; (ii) strategic autonomy. This is followed by an examination of external questions of alignment: (iv) neutrality; (v) balancing; (vi) bandwagoning; and (vii) reconciliation.

(i) Spillover

The first question to arise from peninsula reunification will be the need to work with other regional powers to suppress the potential ‘spillover’ effects emanating from the transition process.²² Depending on the method of reunification, the process could generate a range of potential security threats which are at present, relatively contained. According to Choong-nam Kim

“These include a grave security threat, capital flight and a faltering stock market in South Korea and perhaps other countries in the region, not to mention the price of rolling back an extant North Korean nuclear weapons program and the costs associated with an arms race and nuclear proliferation ripple effect to Japan, Taiwan and even Southeast Asia, all resulting in a tension-filled region created by North Korea.”²³

22 Alan Collins (eds.), *Contemporary Security Studies* (Oxford: Oxford University Press, 2009).

23 Choong-nam Kim, “Redefining ROK’s Strategic Posture in the Twenty-First Century,” *International Journal of Korean Studies*, Vol. 11, No. 2 (2007), p. 32.

To prevent such a cascading security collapse in the region, various contingencies must be identified and prepared for. In the case of economic/financial crisis, it will require exceptional coordination through regional and global financial institutions to contain this danger (discussed elsewhere in this volume). Another obvious security threat is the danger of mass migration of North Korean refugees either to the South, which must be amply prepared to receive them, or more probably, across the Chinese border, which Beijing views with extreme concern. Such 'unregulated population movements' (UPMs) can lead to strains on local resources, ethnic conflict, crime, human rights abuses, and other insecurities. Furthermore, it is likely that given the crude nature of the DPRK industrial complex that significant environmental security risks will be encountered, leaving ROK expertise to decontaminate areas of the former DPRK to protect public health. Likewise, risks of food insecurity or even an infectious disease outbreak in a collapsing North Korea also require consideration. As previous famines in that country have shown, food supplies and distribution are unable to cope with such crisis.

Lastly, there will be a need to quickly secure control of all nuclear facilities in the north to prevent either their capture by renegade elements of the regime/military ('nuclear blackmail'), or their potential export/sale to external parties, including terrorists or other hostile regimes. The danger of 'loose nukes,' though less serious than the former U.S.S.R, raises similar concerns. The same applies to DPRK personnel with nuclear experience. There are both state and non-state actors who would see renegade scientific expertise as highly valuable to their own nuclear ambitions – a repeat of A Q Khan scenario must be prevented. It is likely that Seoul and Washington will coordinate decisively to counter this danger, though questions about the permeability of the Chinese border may arise. On a smaller scale, the fruits of Pyongyang's narcotics and counterfeiting industries must be intercepted to avoid region-wide surge in contraband proliferation.²⁴

24_Paul Rexton Kan, et al., "Criminal Sovereignty: Understanding North Korea's Illicit International Activities," *LeTort Papers*, April 2010.

(ii) Strategic 'limbo'

Whatever the method of reunification, it will temporarily eliminate Korea as an effective regional player for some time, as almost the entire national effort will be geared to dealing with the colossal problems of national integration of the destitute North into the prosperous South. There will be scant capacity for any other foreign policy initiative for a period of some years (depending on the exact terms of reunification). Korea will, by necessity, concentrate virtually all its state capacity and resources on rebuilding and will as a consequence be severely constrained from practicing any major foreign policy initiatives. Indeed, the restructuring of unified Korean armed forces will open a window of strategic vulnerability, while troops are demobilized, retrained, and redeployed, and new doctrines, operational and organizational culture take hold. This means that Korean capacity to respond to security challenges will be circumscribed, and foreign policy must therefore be defensive, moderate, and conciliatory. Once this reintegration period is complete however, the picture of a unified Korean strategic policy will be clearer.

But these costs will be offset in the longer term by the benefits accrued to national strength on all fronts. Kwon estimates that “a united Korea could overtake France, Germany and possibly Japan in 30-40 years in terms of GDP in U.S.D terms, should the growth potential of North Korea be realized.”²⁵ The untapped potential of North Korea’s labor and mineral resources, and expanded economic and strategic space, would augment the unified Korea’s power considerably. Paul Bracken estimates that “North Korea is ideally located for rapid industrial development, and a unified Korea would create explosive opportunities for investment by the chaebols and Japanese keiretsus alike.”²⁶ Thus Narushige Michishita predicts “Once the North Korean threat disappears,” which is the basic assumption of reunification, “South Korea can be expected to play a leading role in shaping the

25_Kwon, “A United Korea: Reassessing North Korean Risks (Part 1),” p. 3.

26_Bracken, “How to Think About Korean Unification,” p. 415.

future of the Korean Peninsula.”²⁷ To summarize: once reintegration is complete, a united Korea holds major economic and strategic potential, which will create new strategic options, now to be examined.

(iii) *Strategic autonomy*

The enhanced national territorial, economic, demographic, and psychological strength accrued by reunification, just noted, creates a tantalizing possibility for Korea to stand autonomous as a major power in its own right. Pollack notes how “South Korea may well aspire to a larger role as an emergent rising power.”²⁸ Having inherited an extraordinarily large conventional military force from the North, plus its nuclear weapons capabilities, added to the already potent ROK military establishment, this would temporarily create the specter of Korea as a regional military power greatly superior to Japan and even comparable to China. In the process of reunification, a surge of nationalist pride (perhaps anchored in anti-American/Chinese/Japanese sentiment—depending on the circumstances of the act of reunification), could lead to the temptation to pursue strategic autonomy and a major power role in the regional order (what Bracken dubs, ‘manifest destiny’).²⁹ For a people long subject to division and occupation, such an opportunity to shape national destiny independently would hold natural appeal. This option was much discussed in a KINU workshop of 2012, for its ostensible advantages to a unified Korea, particularly to a people who have long been divided and subjected to external powers. Therefore Bracken cautions that that “If North Korea disappeared altogether, South Korean energies could be fully directed to becoming a large economic and military actor in the region. Given Korea’s history of suffering at the hands of

27_Narushige Michishita, “Alliance after Peace in Korea,” *Survival*, Vol. 41, No. 3 (1999), p. 69.

28_Jonathan D. Pollack, “The Major Powers and the Two Koreas: An Uneasy Transition,” *Korean Journal for Defense Analysis*, Vol. 21, No. 1 (2009), p. 7.

29_Bracken, “How to Think About Korean Unification.”

the countries around her, this would be a natural development, but also a highly destabilizing one.”³⁰

Thus there are strong arguments against a re-unified ‘major power’ posture that militate against such a potential Korean policy option. There are persuasive reasons why a unified Korea will demobilize the colossal military it will inherit and proceed with swift denuclearization. Firstly, the cost of maintaining such an enormous establishment is not sustainable, particularly when one factors in the capital required for the reconstruction of North Korea. Wolf and Akramov note that “the additional costs of sustaining WMD are one reason why Korea will be disposed to comply with anti-proliferation efforts.”³¹ This may, or may not be the case. There are plenty of countries willing to endure the high opportunity costs of WMD possession; Pakistan, for example. Second, are “the shared and strong convictions by the United States and China that retention of WMD in a reunified Korea would be regionally destabilizing and inimical to both countries interests.”³² Since the Korean government will require both the acquiescence and cooperation of the great powers in its political reunification (as did Germany vis-à-vis the U.S. and U.S.S.R), and their subsequent economic assistance, it is most likely that nuclear facilities will be swiftly decommissioned (though this may depend on whether the U.S. nuclear ‘umbrella’ is to be maintained). It is equally likely that the enormous conventional military establishment of the North Korean People’s Army (KPA) will be largely demobilized and the remainder absorbed through retraining into the democratically-controlled ROK forces. Hence, Victor Cha notes “With the loss of the military *raison d’être*, its southern rival, much of the northern military will no longer be necessary.”³³ External powers may even impose arms control agreements as the price for acquiescing in peninsula reunification. This will reduce the economic bur-

30_ *Ibid.*, p. 416.

31_ Akramov and Wolf, *North Korean Paradoxes*, p. 60.

32_ *Ibid.*, p. 60.

33_ Victor D. Cha, *North Korea: The Impossible State* (New York: Harper-Collins, 2012), p. 422.

den of the army on the reunified country, but also create a pressing need to redeploy these men into the civilian sector smoothly (this will also be true of the bloated ROK military establishment). On the other hand, Bracken points to the potential for large land forces to be redeployed to other services, particularly the navy, boosting unified Korea's maritime capabilities and force projection role (which could cause alarm in China and Japan).³⁴ A last reason for a mass demobilization of the North Korean military establishment, in addition to its comparative ineffectiveness at modern warfare, is the question of the political reliability of former KPA elements in the unified armed forces.³⁵ Thus, in summary, "The problem of demobilizing the North Korean military establishment and absorbing some of it into a unified Korean military would be more formidable than in the German case."³⁶

Alignment policy

Closely connected with issues of domestic integration and strategic autonomy are questions of alignment. Korea's alignment policy will be a compound of internal agency and external pressures. In the first case, Kim notes "Like German unification, Korean unification would instantly create the question of alignment vs. neutrality."³⁷ In the second case, Michishita asserts, "However it comes about, a Korean peace would drastically alter the strategic environment, forcing all countries with an interest in the region to reassess their military postures and alignments."³⁸

A reunified Korea may seek to pursue a neutral or 'non-aligned'

34_Bracken, "How to Think About Korean Unification."

35_James M. Minnich, *The North Korean People's Army: Origins and Current Tactics* (Annapolis: Naval Institute Press, 2005).

36_Akramov and Wolf, *North Korean Paradoxes*, p. 56.

37_*Ibid.*, p. 56.

38_Michishita, "Alliance after Peace in Korea," p. 68.

stance based upon a posture of strategic autonomy/self-sufficiency (described above), or it may seek to retain its traditional alliance with the U.S., or seek a new alignment with China or Japan. As Kim asserts “In the long run, the question of which direction a unified Korea might lean strategically could engender competition for a close relationship with Seoul among Washington, Tokyo and Beijing.”³⁹ Since these relationships are examined in detail elsewhere in this volume, I put the emphasis on how these dynamics could potentially shape the regional security order from Seoul’s perspective.

(iv) Neutrality

Either in conjunction with, or separate from a policy of strategic autonomy, “new nationalist sentiments following unification may result in a domestic political consensus that rejects an alliance with a major power.”⁴⁰ Leveraging its enhanced power capabilities, and with the intention of pursuing an unfettered independent diplomatic course, unified Korea may opt for neutrality (analogous to India’s non-alignment policy). On the positive side, “A stance that avoids alliance politics or closer association with one power, which inevitably fuels enmity from another, could allow Korea to attract as many countries as possible to support the tremendous costs of reunification.”⁴¹ Furthermore, “Neutrality would also allow the country to avoid expensive military modernization plans and focus on the reconstruction of northern Korea.”⁴² But there is always the danger that ‘neutrality’ would be perceived as a dangerous ‘void’ in the security crossroads of the region triggering increased competition or rivalry among external powers. A major power Korea could also theoretically pursue an independent ‘balancer’ role between the great powers (as the former Roh Tae-woo government previ-

39_Kim, “Redefining ROK’s Strategic Posture in the Twenty-First Century,” p. 32.

40_ *Ibid.*, pp. 42~43.

41_ *Ibid.*, p. 40.

42_ *Ibid.*

ously indicated).⁴³ Playing off one power against another could be an option for maintaining this neutrality. But this would be a perilous course, given that other powers cooperating against Korea could vastly overmatch its own national capabilities.

Likewise, ‘neutrality’ of a different hue may also be imposed upon Korea from without. It is possible that as part of a ‘grand bargain’ between the major regional powers, particularly the U.S. and China, that the conditions of reunification may stipulate the neutralization of the unified peninsula (similar to Austria in 1945). Korean policy-makers may have limited agency in such a process, dependent on their requirement for political acquiescence and economic support from external powers.

(v) *U.S.: to balance?*

A recent KINU study identifies that “a vital task for South Korea’s unification policy is to understand the view of the U.S. concerning the costs and benefits and identify related factors.”⁴⁴ The countries share a long history, as fighting comrades in the Korean War (1950-53), and as allies from its conclusion until the present (under the Mutual Security Treaty), and officially the U.S. maintains its alliance commitment in a post-unification world.⁴⁵ The U.S. deploys approximately 37,000 military personnel and bases in the ROK, patrolling the DMZ under the guise of the UN banner. The U.S. will be closely engaged in the reunification and transition process and its forces will be an indispensable safeguard against conflict, in reconstruction, and in providing security and stability for a fledgling unified state. Though Korean-U.S. relations have not always been smooth, and

43_Frank Reudiger, “A New Foreign Policy Paradigm: Perspectives on the Role of South Korea as a Balancer,” Policy Forum Online, Nautilus Institute, 2005.

44_Kim, and Hwang et al., “New Approach to the Costs/Benefits of Korean Unification,” p. 4.

45_Sung-Han Kim, “From Blood Alliance to Strategic Alliance: Korea’s Evolving Strategic Thought toward the United States,” *Korean Journal of Defense Analysis*, Vol. 22 (2010), pp. 265~28.

many resent the presence of foreign military personnel on national soil, the alliance will be vital in deterring or combating North Korean renegades, or unwanted Chinese infiltration.⁴⁶ It remains, and will remain, the best guarantee of Korean security against its northern adversaries. As Lee notes “despite elevated military-to-military discussions and ties with China, the ROK-U.S. alliance remains the main conduit for counterbalancing Chinese influence on the Korean Peninsula.”⁴⁷ Alliance management into the future will be a difficult task marked by a “constant pull between overdependence on and abandonment by the United States.”⁴⁸ In terms of regional order, the U.S. will likely welcome a more powerful ally in such a vital geostrategic position. Indeed, recent utterances from the White House have hinted at a reprioritizing of Korea over Japan.⁴⁹

But the U.S. and Korea must be careful not to encroach too far upon the interests of the PRC. One may consider the provocation offered to Russia in the post-Cold War settlement, by not only incorporating a powerful reunified Germany into the NATO alliance, but expanding that alliance to the Baltic borders of their former adversary’s territory. U.S. troops have approached the border with China on a previous occasion during the Korean War, and Beijing found this intolerable. The U.S. must also be sensitive to Korean concerns of equality and revitalized national stature if the alliance is to go forward and prosper. The Koreans will certainly wish to proceed with ‘decoupling’ the Combined Forces Command (CFC), and a draw-down or removal of U.S. Forces Korea (U.S.FK) assets may also proceed, even if the alliance is maintained (a burden that Washington itself may be glad to shed, becoming in lieu an ‘offshore balancer’). Therefore, Michishita concludes that the alliance must continue in some form.

46_Scott Snyder, *The U.S.-South Korea Alliance: Meeting New Security Challenges* (Boulder: Lynne Rienner, 2012).

47_Lee, “Coping with Giants,” p. 181.

48_*Ibid.*, p. 168.

49_Mark E. Manyin and Emma Chanlett-Avery, Mary Beth Nikitin, Mi Ae Taylor, “U.S.-South Korea Relations,” Congressional Research Service, November 2010, p. 6.

“Dissolution of the U.S.-Korea alliance would be precipitous and unwise, however. The objectives of the alliance will necessarily change, but its importance would persist for at least five reasons: reassurance; regional and global security; burden-sharing; a hedge against the possibility of an aggressive China; and the long-term development of a n East Asian community of democracies.”⁵⁰

Indeed, in a post-unification context, the alliance will be released from its ‘North Korea-locked’ status. The removal of the DPRK threat will permit a restructuring and redirection of the alliance towards a more multifaceted form of security cooperation. The potential for refocusing on non-traditional security issues, including piracy, natural disaster relief and so forth, would add to regional security. However, the release of immobilized Korean and American alliance capabilities may be just what China fears. An American alliance, especially one that it ‘virtually’ linked the U.S.-Japan alliance and other ‘spokes’ such as Australia, will reinforce the perception in Chinese minds of a powerful encirclement of the middle kingdom. This could accelerate and deepen rivalry between the U.S. and China, and trigger a counter-response either in terms of increased military spending, or deepening alignment with Russia. This scenario portends a competitive bipolar (Cold War) security order. In contrast, Michishita argues (paradoxically) that, if protected by the U.S. alliance, Korea is “likely to be less anti-Chinese and more interested in cooperation and bridge-building than an insecure Korea caught in the old geopolitical dilemma between two major powers.”⁵¹ In some sense the U.S. alliance guarantee may serve as a ‘bottle cap’ that precludes Korean maintaining major military capabilities, as described in the ‘strategic autonomy’ scenario above.

50_Michishita, “Alliance after Peace in Korea,” p. 71.

51_*Ibid.*, p. 72.

(vi) *CHINA: to bandwagon?*

China will be an active participant in the both the reunification process and following transition period. Beijing will seek to shape the outcomes of both toward its own national interests.⁵² Thus, Michishita argues that “Chinese influence over a unified Korea could grow dramatically.”⁵³ As China continues to prop up its erstwhile, but truculent ally (the 1962 PRC-DPRK Agreement of Friendship, Cooperation and Mutual Assistance recently celebrated its 50th anniversary), it seeks to actively prevent any alteration in the status quo, particularly the most likely ‘collapse’ scenario for Pyongyang. The demise of China’s North Korean ally would confront Beijing with a much more powerful unified state, potentially still in alliance with the United States. “In strategic terms, Korean unification would mean the loss of China’s ‘strategic buffer zone’ against the U.S., and that is one reason why China reacts very sensitively to talk of deploying U.S. forces on a unified Korean Peninsula.”⁵⁴ Whether Washington, Seoul and Beijing can broker a deal over the continued presence of U.S. troops, or their withdrawal after the reunification transition, will be a critical issue for Chinese policy-makers. “China, which shares a border with Korea, might exert tremendous pressure on a unified Korea to discontinue the alliance.”⁵⁵ On the other hand, maintenance of the alliance it may be tolerable to Beijing provided U.S. troops do not approach the northern border with the PRC (a potentially combustible situation since Article III of the Mutual Security Treaty can be interpreted so as to compel U.S. intervention in the case of border conflict).

Conversely, a unified peninsula may see its future more closely

52_Scott Snyder, *China’s Rise and the Two Koreas: Politics, Economics, Security* (Boulder: Lynne Rienner, 2009); David Kang, *Rising China* (New York: Columbia University Press, 2008).

53_Michishita, “Alliance After Peace in Korea,” p. 70.

54_Kim and Hwang et al., “New Approach to the Costs/Benefits of Korean Unification,” p. 4.

55_Kim, “Redefining ROK’s Strategic Posture in the Twenty-First Century,” p. 57.

allied to rising China, or at least seek some form of alignment with Beijing as the price for its support for reunification. Pollack notes a “historic accommodation with Beijing, which has broadened and deepened greatly over the past decade and a half.”⁵⁶ In this case Seoul may choose to ‘bandwagon’ with the new regional hegemon. This would effectively ‘Finlandize’ the peninsula, eliminating it as an autonomous security actor due to its concession to a neighboring superpower. On the basis of proximity, cultural affinities, and psychological maneuvering, Bruce Gilley asserts that “Being so close, the superpower need only issue vague threats, rather than display actual military muscle, to change its weaker neighbor’s policies.”⁵⁷ Though this is not a desirable scenario for a unified Korea determined to protect its newfound sovereignty, some form of arrangement with Beijing will be essential. China will hold many powerful levers throughout the reunification process and beyond, and can choose from a spectrum of pressures to exert its influence on the peninsula. In addition to possible economic coercion, “Since many Korean People’s Army officers received training in China by the People’s Liberation Army, the North suspects the Chinese may have levers to influence events in the DPRK, especially in the military.”⁵⁸

We should also note that, China may be a less-than-constructive player in the overall unification process. Not only does Beijing (reluctantly?) support its North Korean ally, it may have an interest in perpetuating the division of the peninsula since from Beijing’s view it (1) prevents a stronger unified Korean power on its border, potentially in alliance with the U.S., (2) ties down vast American and ROK resources: economic, strategic and psychological, and (3) maintains a (proxy) ‘threat in being’ to its former adversaries: the ROK, U.S. and Japan. China also allegedly has (historical) designs on the an-

56_Pollack, “The Major Powers and the Two Koreas,” p. 3.

57_Bruce Gilley, “Not So Dire Straits: How the Finlandization of Taiwan Benefits U.S. Security,” *Foreign Affairs*, Vol. 89, No. 1 (2010), p. 48.

58_Mark P Barry, “Korean Reunification Would Cast off China’s Shadow,” *World Policy Blog*, June 26, 2012.

cient territorial kingdom of Koguryo.⁵⁹As Cha concludes – “China neither sees fluidity on its North Korean border, nor desires it.”⁶⁰

(vii) JAPAN: reconciliation?

In terms of shaping the regional security order on the Korean Peninsula, I do not consider that Russia will play a significant role (see Chapter 7). Although a member of the Six Party Talks, Cha considers “Russian is the forgotten player on the Korean Peninsula.”⁶¹ This is due to its limited power protection in its Far East, and diminished relationship with Pyongyang after the termination of the Cold War formal alliance.⁶²

Therefore, Japan, will be the third major power actor in the unification/transition process and beyond. Presently, Korean attitudes toward Japan are bifurcated between outright hostility in the North, and ambivalent cooperation in the South. The issue of Japan’s former colonization of the peninsula (1910-1945) and particularly its wartime conduct continue to touch raw historical nerves in both North and South. Though understandable, for a successful incorporation of a unified Korea into the regional security order, Japanese cooperation is absolutely indispensable. It would allow for complete ‘normalization’ of relations, which is not currently possible under Pyongyang’s regime. But the relationship between in Seoul and Tokyo is delicately balanced. Kim argues that “Some in South Korea argue that an increasingly powerful Japan will emerge ultimately as a potential adversary, particularly after unification.”⁶³ Anti-Japanese sentiment in the North could be difficult to dissimulate, and could take over from anti-Communist sentiment in the south. Territorial

59_ *Ibid.*

60_ Cha, North Korea, pp. 342~343.

61_ *Ibid.*, p. 437.

62_ Georgy Toloraya, “Russian Policy in Korea in a Time of Change,” *Korean Journal of Defense Analysis*, Vol. 21, No. 1 (2009), pp. 67~84.

63_ Kim, “Redefining ROK’s Strategic Posture in the Twenty-First Century,” pp. 52~53.

conflicts, namely the Dokdo Islands, must not be allowed to degenerate into mutual antipathy.⁶⁴ This hostile turn would likely see a reciprocal response from a more nationalist Japan, since Tokyo at present exercises considerable ‘self-restraint’ in its military and security posture. This could change if Japan feels threatened by a more assertive and antagonistic united Korea. Rather, “close cooperation between the two neighbors is essential. They are important partners, if not ‘virtual’ allies, sharing the three basic systems of democracy, market economy and an alliance with the United States.”⁶⁵ Indeed, though long-delayed, incremental steps toward building a ‘strategic partnership’ between Seoul and Tokyo were proceeding apace (until derailed at the time of writing by recent provocations under the Lee Myung-bak administration). This is a development that Washington welcomes within the context of ‘networking the spokes’ of its bilateral alliance system in the Asia Pacific.⁶⁶ Cha has already identified the existence of a ‘quasi alliance’ between the three countries that should be further consolidated, and with a unified Korea’s enhanced stature it could feel potentially more comfortable as an ‘equal’ partner with Tokyo.⁶⁷

Korea in a ‘normative-contractual (solidarist)’ order

The previous section concentrated on the power dynamics generated by a unified Korea vis-à-vis the other major powers in an instrumental (Realist) regional order. This section takes a more Liberalist approach and considers how a unified Korea can exercise successful

64_Hiroshi Hirabayashi, “Responses to PacNet #56 – Korea-Japan: Enough is Enough!” CSIS, *PacNet #56R*, September 2012.

65_Kim, “Redefining ROK’s Strategic Posture in the Twenty-First Century,” pp. 52~53.

66_Dan Blumenthal, *et al.*, “Asian Alliances in the 21st Century,” *Project 2049 Institute*, August 2011.

67_Victor D. Cha, *Alignment despite Antagonism: The United States-Korea-Japan Security Triangle* (Palo Alto: Stanford University Press, 1999); Scott Snyder, “Is It Time for the U.S.-Japan-South Korea Virtual Alliance to Get Real?,” *Asia Unbound*, Council on Foreign Relations, January 2012.

'middle power diplomacy,' principally by building multilateral institutions to create a more *normative-contractual* order.

As an alternative option, rather than seeking to transform its reunification 'inheritance' of military and economic capabilities into a major power role, (as discussed above), unified Korea could buttress its already strong credentials as a 'middle power.' Young-Jong Choi argues that "South Korea has long maintained a strong identity as a middle power."⁶⁸ Seeking to expand into major power competition, though understandably tempting for a newly reunified nation, ought to be resisted due to the costs/drawbacks enunciated above. Freed from its North Korea-locked focus, a unified Korea will have a greater capacity for such initiatives. Jeffery Robertson argues, "South Korea, limited by its position as a divided nation and facing a constant and not inconsequential security threat from its northern neighbor, has rarely engaged in middle power initiatives of its own accord."⁶⁹

Firstly, Bisley argues "it is clear that a regional security architecture is needed to underwrite regional order."⁷⁰ Korea could play an active role in multilateral process needed to superintend unification and future regional order. Indeed the ROK has long been at the forefront of efforts at Asian regionalism, and an enhanced middle power posture would further strengthen efforts in this direction.⁷¹ President Chung-hee Park initiated the Asia Pacific Council (ASPAC) in the 1960s, Tae-woo Roh proposed a Consultative Conference for Peace in Northeast Asia in the 1980s, Dae-jung Kim coined the East Asia Vision Group (EAVG) and East Asian Study Group (EASG) in the 1990s, as well as the Northeast Asia security Dialogue (NEAS-

68_ Young Jong Choi, "South Korea's Regional Strategy and Middle Power Activism," *Journal of East Asia Affairs*, Vol. 23, No. 1 (2009), p. 54. See: Andrew Cooper et al., *Relocating Middle Powers: Australia and Canada In A Changing World Order* (Melbourne: Melbourne University Press, 1993).

69_ Jeffery Robertson, "South Korea as a Middle Power: Capacity, Behaviour and now Opportunity," *International Journal of Korean Unification Studies*, Vol. 16, No. 1 (2007), p. 153.

70_ Bisley, *Building Asia's Security*, p. 15.

71_ William T. Tow and Brendan Taylor, "What is Asian security architecture?," *Review of International Studies*, Vol. 36, No. 1 (2010), pp. 95~116.

AD), and in the 2000s Moo-hyun Roh pursued a Northeast Asian Cooperation Initiative. Seoul is a participating member in the majority of existing regional security forums: APEC, ASEAN+3, ARF, EAS, and in track II dialogues such as CSCAP and ADMM+ (and global forums such as the UN and G20). The ROK is an observer in the OSCE, and SAARC and a core member of the Six Party Talks (6PT), KEDO, and Proliferation Security Initiative (PSI). From a Realist, as well as a Liberalist angle, “As a smaller power surrounded by stronger nations, South Korea has been susceptible to the idea of multilateralism from the perspective of regional balance of power.”⁷²

Thus, the pressing task is to work towards a robust and workable security framework in Northeast Asia, where none presently exists, in order to successfully manage not only the process of reunification, but create a stable regional order into which a larger Korea can be incorporated without conflict.⁷³ Currently, “Northeast Asia lacks a viable framework for political-military relations that all powers deem legitimate and acceptable.”⁷⁴ Kim adds that “In the absence of a multilateral security mechanism (akin to NATO) to manage such a tectonic geopolitical shift, there is little reason to expect relations in the region after Korean unification to be either smooth or comfortable.”⁷⁵ Some have optimistically suggested that the existing (but failed?) 6PT could form the basis of such a regime. Sook-Jong Lee attests that “It is too early to predict whether the current six-party talks can develop into a meaningful multilateral security institution; however it is clear that northeast Asian countries have to deal with potential conflicts through multilateral security regimes, as South

72_Sook-Jong Lee, “Korean Perspectives on East Asian Regionalism,” Kent E. Calder and Francis Fukuyama (eds.), *East Asian Multilateralism: Prospects for Regional Stability* (Baltimore: Johns Hopkins University Press, 2008), p. 198.

73_Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (Cambridge: Cambridge University Press, 2004).

74_Pollack, “The Major Powers and the Two Koreas,” p. 2.

75_Kim, “Redefining ROK's Strategic Posture in the Twenty-First Century,” pp. 29~30.

East Asia has.”⁷⁶ Cha is less sanguine about this prospect, seeing it as unable to even resolve the issue it was designed for (DPRK denuclearization), and as such, of little use other than a “way of managing the problem.”⁷⁷

But the case of German reunification still offers some hope. Reunified Germany was seamlessly incorporated both into the EU (then EEC) and NATO, thereby neutralizing any nationalist or independent great power policy, and reassuring its neighbors both friend and foe of its inability to pose a threat to regional security.⁷⁸ This initiative has been a solid success to date. A unified Korea’s transition process superintended by a Northeast/East Asian security framework and anchored in some form of ‘East Asian Community,’ might favorably replicate this success. Ultimately, the goal would be a North East Asian ‘security community,’ where expectations of peaceful change would govern inter-state relations.⁷⁹ Such a lofty goal to create a solidarist-type order seems remote at the present time. But we must remember that it took the shock of World War II to bring Western European countries into a ‘common home’. The progress of the ASEAN Security Community, also points towards such an optimistic future.⁸⁰

In addition, unified Korea could play an enhanced ‘internationalist’ role. To date “the unique security situation on the peninsula has impeded the ability of South Korea to evolve from a middle-ranking state in terms of capacity to a middle-ranking state in terms of foreign policy behavior.”⁸¹ Released from this purgatory, a more

76_Lee, “Korean Perspectives on East Asian Regionalism,” p. 210.

77_Cha, *North Korea*, p. 306.

78_Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, NY: Cornell University Press, 2005).

79_Emanuel Adler and Michael Barnett, *Security Communities* (Cambridge: Cambridge University Press, 1998); Karl Deutsch et al., *Political Community and the North Atlantic Area* (Princeton: Princeton University Press, 1957).

80_Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order* (London: Routledge, 2001).

81_Robertson, “South Korea as a Middle Power,” pp. 157~158.

powerful, unified Korea could potentially fulfill some major policy objectives with regard to regional order-building. From a Liberalist middle power perspective, these multilateral efforts will be every bit as important as the bilateral alliance with the U.S. (and quasi-alliance with Japan). One final aspect is whether Seoul can emulate efforts by other powers to build privileged economic-security bilaterals/mini-laterals to embed its interests and support more widely across the Asia Pacific region. This would be a good example of middle power ‘coalition-building.’ Lee argues that “the ROK must expand its strategic space by forging new security linkages with key emerging powers (notably, India, Indonesia, Vietnam, and Australia).”⁸² Choi concurs that “Australia and New Zealand, and Canada are promising coalition partners to promote security, economic liberalization, North-South economic cooperation, as well as to spread democracy.”⁸³

Finally, a unified democratic Korea would be an inspiration to other regional countries in their progress toward representative rule and good governance, thus advancing the cause of ‘democratic peace.’ In addition to embedding itself firmly within a tight framework of Asia Pacific/East Asian regionalism, this would facilitate Korea’s ability to pursue activist middle power diplomacy, either by continued non-proliferation efforts or a focus on non-traditional/human security initiatives (perhaps targeting enhanced ODA as a means of leveraging its policy in the region, as Japan did formerly).

Conclusion

The unification of Korea will transform the regional security order. Though the costs to Korea and other regional actors will un-

⁸² Lee, “Coping with Giants,” p. 171.

⁸³ Choi, “South Korea’s Regional Strategy and Middle Power Activism,” p. 63.

doubtedly be high, the benefits are potentially great. The disappearance of the irksome DPRK regime, with its WMD program, militaristic ideology, crumbling economy, human rights abuses, and state-terrorism will be a welcome improvement in regional stability and security. In other words, termination of the Pyongyang regime will be a huge net gain in 'security' for the region. As Wolf points out:

"A unified Korea in cooperation with the region's powers would be able to control and then terminate the WMD programs in North Korea. In addition, Japan could more easily resolve the abduction issue, China would no longer have to worry about potential refugee flows into China's Jilin province, and South Korea would no longer have to worry about an attack from the North."⁸⁴

But after the champagne (or soju) has flowed, unification will present its own challenges, both during the transition process and beyond. Managing the unification process, and subsequent transition process, as it emerges from the 'unification tunnel', will pose extraordinary difficulties for Korean policy-makers. The context in which reunification occurs, particularly the policies of the major powers, and the robustness of regional institutions, will have a profound impact on the implications of a reunified Korea and its place in the regional security order. Pollack attests that "Even assuming that acute instability can be averted, the longer-term challenge is whether there is a credible, shared concept of the peninsular and regional future."⁸⁵ Whereas Samuel Kim reminds us, "Microdecisions being made today in Pyongyang, Seoul, and Washington – and also in Beijing, Moscow, and Tokyo – will have a large role in the way the future of

⁸⁴ Charles Wolf, "Korean Reunification and Reconstruction: Circumstances, Costs, and Implications," National Bureau of Asian Research, 2006, p. 1.

⁸⁵ Pollack, "The Major Powers and the Two Koreas," p. 8.

[Northeast Asia] and the Korean Peninsula plays out.”⁸⁶ Furthermore, when the high costs which will be incurred by the reunification process and beyond are considered, thought must also be given to the mounting ‘costs’ of the combustible and unsustainable status quo in any comprehensive cost/benefit calculus. As the Robertson chapter points out, the ‘unseen’ costs, as well as the costs of continued division – high military tension, bloated military expenditures, danger of strategic miscalculations leading to war – must not be ignored.

The exact nature of the future regional security order cannot be clearly determined, but if past and present indicators are anything to go by, it will have elements of both an instrumental and a normative-contractual composition. Bisley argues that “At present, the creative tension between the institutional and power-political approaches is helping to sustain the region’s relatively stable order.”⁸⁷ Firstly, a unified Korea and its neighbors will still engage in power politics, balancing, bandwagoning, and hedging against worst-case conflict scenarios. On the other hand, the prospective economic gains to be made in the process of unification and beyond should temper the most dangerous Realist tendencies. In this sense a normative-contractual order, with a unified Korea playing a major role (since it has more to lose from power politics competition), embedded in a strong regional security framework, the outlook for regional peace and prosperity are enhanced. The best chance for Korean security and consequent peaceful security order denuclearized, demilitarized peninsula, with a unified state centrally embedded in a coherent regionalist security framework of some type (prototypes including the 6PT, OSCE, or EAC). Though the emergence of a solidarist regional order, based upon a transformation of the region into a shared ‘East Asian’ or ‘Asia Pacific community’ is not impossible, but at present seems remote. Perhaps a more feasible outlook is to hope that the reunification process offers a renewed opportunity for Koreans and Japanese to overcome the unproductive historical animosities that

86_Kim, *The Two Koreas and the Great Powers*, p. 301.

87_Bisley, *Building Asia’s Security*, p. 97.

continue divide what ought to be natural allies, working together for mutual peace and prosperity. This would be a significant achievement and one that would represent a major step towards the aforementioned regional community-building enterprise.

References

- Alagappa, Mutihiah. *Asian Security Order: Instrumental and Normative Features*. Stanford: Stanford University Press, 2003.
- Barry, Mark P. “Korean Reunification Would Cast off China’s Shadow.” *World Policy Blog*. June 26, 2012.
- Beeson, Mark. *Institutions of the Asia-Pacific: ASEAN, APEC and Beyond*. London: Routledge, 2009.
- Beukel, Erik. “ASEAN and ARF in East Asia’s Security Architecture: The Role of Norms and Powers.” *DIS Report*. No. 4, 2008.
- Bisley, Nick. *Adelphi 408: Building Asia’s Security*. London: Routledge, 2009.
- Blumenthal, Dan & Randall Schriver, Mark Stokes, L.C., Russell Hsiao and Michael Mazza. “Asian Alliances in the 21st Century.” *Project 2049 Institute*. August, 2011.
- Bracken, Paul. *Fire in the East: The Rise of Asian Military Power and the Second Nuclear Age*. New York: Harper Collins, 2000.
- Bull, Hedley. *The Anarchical Society*. London: Macmillan, 1999.
- Calder, Kent E. *Asia’s Deadly Triangle: How Arms, Energy, and Growth Threaten to Destabilize Asia-Pacific*. Sonoma: Nicholas Brealey Publishers, 1997.
- Cha, Victor D. *Alignment despite Antagonism: The United States-Korea-Japan Security Triangle*. Palo Alto: Stanford University Press, 1999.
- _____. *North Korea: The Impossible State*. New York: Harper-Collins, 2012.
- Choi, Young Jong. “South Korea’s Regional Strategy and Middle Power Activism.” *Journal of East Asia Affairs*. Vol. 23, No. 1, 2009.
- Collins, Alan (eds.). *Contemporary Security Studies*. Oxford: Oxford University Press, 2009.
- Cooper, Andrew et al. *Relocating Middle Powers: Australia and Canada In A Changing World Order*. Melbourne: Melbourne University Press, 1993.
- Emmott, Bill. *Rivals: How the Power Struggle between China, India and Japan Will Shape Our Next Decade*. San Diego: Harcourt, 2008.
- Gilley, Bruce. “Not So Dire Straits: How the Finlandization of Taiwan Benefits U.S. Security.” *Foreign Affairs*. Vol. 89, No. 1, 2010.
- Gries, Peter Hays. “The Koguryo Controversy, National Identity, and Sino-Korean Relations Today.” *East Asia*. Vol. 22, No. 4, 2005.
- Hirabayashi, Hiroshi. “Responses to PacNet #56 – Korea-Japan: Enough is Enough!” *CSIS. PacNet #56R*. September 2012.
- Ikenberry, John G. and Michael Mastanduno (eds.). *International Relations Theory and the Asia Pacific*. New York: Columbia University Press, 2003.

1

2

3

4

5

6

7

8

9

10

- Kan, Paul Rexton, Bruce E. Bechtol, Jr., Robert M. Collins. "Criminal Sovereignty: Understanding North Korea's Illicit International Activities." *LeTort Papers*. April 2010.
- Katzenstein, Peter J. *A World of Regions: Asia and Europe in the American Imperium*. Ithaca: Cornell University Press, 2005.
- Kim, Choong-nam. "Redefining ROK's Strategic Posture in the Twenty-First Century." *International Journal of Korean Studies*. Vol. 11, No. 2, 2007.
- Kim, Kyuryoon, Byung-Duck Hwang et al. "New Approach to the Costs/Benefits of Korean Unification: Adopting Comprehensive Research Factors and Seeking Alternatives." KINU Research Abstract 11-01, 2011.
- Kim, Samuel S. *The Two Koreas and the Great Powers*. Cambridge: Cambridge University Press, 2006.
- Kim, Sung-Han. "From Blood Alliance to Strategic Alliance: Korea's Evolving Strategic Thought toward the United States." *Korean Journal of Defense Analysis*. Vol. 22, 2010.
- Kwon, Goohoon. "A United Korea? Reassessing North Korea Risks (Part I)." Global Economics Paper. No. 188, 2009.
- Lee, Chung-Min. "Coping with Giants: South Korea's Responses to China's and India's Rise." Ashley J. Tellis, Travis Tanner and Jessica Keough (eds.). *Strategic Asia 2011-12: Asia Responds to Its Rising Powers-China and India*. Seattle: NBR, 2011.
- Lee, Sook-Jong. "Korean Perspectives on East Asian Regionalism." Kent E. Calder and Francis Fukuyama (eds.). *East Asian Multilateralism: Prospects for Regional Stability*. Baltimore: Johns Hopkins University Press, 2008.
- Mahbubani, Kishore. *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East*. New York: Public Affairs, 2008.
- Manyin, Mark E. and Emma Chanlett-Avery, Mary Beth Nikitin, Mi Ae Taylor. "U.S.-South Korea Relations." Congressional Research Service. November 2010.
- Michishita, Narushige. "Alliance after Peace in Korea." *Survival*. Vol. 41, No. 3, 1999.
- Minnich, James M. *The North Korean People's Army: Origins and Current Tactics*. Annapolis: Naval Institute Press, 2005.
- Morgan, David A. Morgan. "Regional Security Complexes and Regional Orders." David A. Lake and Patrick M. Morgan (eds.). *Regional Orders: Building Security in a New World*. Philadelphia: Pennsylvania State University Press, 1997.
- Oberdorfer, Don. *The Two Koreas: A Comparative History*. New York: Basic Books, 2001.

- Pollack, Jonathan D. *No Exit: North Korea, Nuclear Weapons and International Security Adelphi 418-19*. London: International Institute for Strategic Studies, 2011.
- Pollack, Jonathan D. and Chung-Min Lee. *Preparing for Korean Unification: Scenarios and Implications*. Santa Monica: RAND, 1999.
- Pollack, Jonathan D. "The Major Powers and the Two Koreas: An Uneasy Transition." *Korean Journal for Defense Analysis*. Vol. 21, No. 1, 2009.
- Reudiger, Frank Reudiger. "A New Foreign Policy Paradigm: Perspectives on the Role of South Korea as a Balancer." Policy Forum Online. Nautilus Institute. 2005.
- Robertson, Jeffery. "South Korea as a Middle Power: Capacity, Behaviour and now Opportunity." *International Journal of Korean Unification Studies*. Vol. 16, No. 1, 2007.
- Rozman, Gilbert. *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization*. Cambridge: Cambridge University Press, 2004.
- Shambaugh, David (eds.). *Power Shift: China and Asia's New Dynamic*. Berkeley: University of California Press, 2005.
- Snyder, Scott. *China's Rise and the Two Koreas: Politics, Economics, Security*. Boulder: Lynne Rienner, 2009.
- _____. "Is It Time for the U.S.-Japan-South Korea Virtual Alliance to Get Real?" *Asia Unbound*. Council on Foreign Relations. January 2012.
- _____. *The U.S.-South Korea Alliance: Meeting New Security Challenges*. Boulder: Lynne Rienner, 2012.
- Toloraya, Georgy. "Russian Policy in Korea in a Time of Change." *Korean Journal of Defense Analysis*. Vol. 21, No. 1, 2009.
- Tow, William T. and Brendan Taylor. "What is Asian security architecture?" *Review of International Studies*. Vol. 36, No. 1, 2010.
- Wolf, Charles and Kamil Akramov. *North Korean Paradoxes: Circumstances, Consequences, and costs of Korean Unification*. Santa Monica: RAND, 2005.

1

2

3

4

5

6

7

8

9

10



**Korean Peninsula Unification:
Opportunities and Challenges to Asia-Pacific
Economies**

Chapter **10**

Chapter 10. Korean Peninsula Unification: Opportunities and Challenges to Asia-Pacific Economies

Jeffrey Robertson

“There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.”- Frederic Bastiat

In the 1850 essay *Ce qu'on voit et ce qu'on ne voit pas* (That Which Is Seen and That Which Is Unseen), Frederic Bastiat made famous the parable of the broken window. The parable of the broken window laid the foundations for debate on the political-economy of war, reconstruction and stimulus-led recoveries, which continue to this day.¹

The parable begins with a shopkeeper making the decision to repair a window carelessly broken by his son. To repair the window, the shopkeeper must pay a glazier. What ensues is a discussion of

1 See James A. Dorn, “Bastiat: A Pioneer in Constitutional Political Economy,” *Journal Des Economistes Et Des Etudes Humaines* 11, No. 2 (January 2001), <<http://www.degruyter.com/view/j/jeeh.2001.11.2/jeeh.2001.11.2.1026/jeeh.2001.11.2.1026.xml>>; Leonard Liggio, “Bastiat and the French School of Laissez-Faire,” *Journal Des Economistes Et Des Etudes Humaines* 11, No. 2 (January 2001), <<http://www.degruyter.com/view/j/jeeh.2001.11.2/jeeh.2001.11.2.1029/jeeh.2001.11.2.1029.xml>>; M Rothbard, “The Influence of Frederic Bastiat,” *Advances in Austrian Economics*, Vol. 2 (1995), pp. 327~343 <[http://www.emeraldinsight.com/10.1016/S1529-2134\(95\)02006-3](http://www.emeraldinsight.com/10.1016/S1529-2134(95)02006-3)>; Max Raskin, Scott A. Kjar, and Robert Rahm, “What Is Seen and Unseen on the Gulf Coast,” *International Journal of Social Economics* 35, No. 7 (2008), pp. 490~500; David R. Henderson, “The Economics of War and Foreign Policy: What’s Missing?,” *Defense & Security Analysis* 23, No. 1 (March 2007) pp. 87~100.

1

2

3

4

5

6

7

8

9

10

this action centered upon the difference between that which is seen and that which is unseen.

That which is seen is clear. The shopkeeper must repair the window. The shopkeeper's payment engages the glazier, who in turn engages further assistance and pays for materials. The payment appears to add cash to the economy and generates economic activity.

That which is unseen is less clear. The money spent on repairs, could have been destined to be invested in other areas—a book for the shopkeeper's library or a new pair of shoes. The book (containing the latest research) could improve efficiency and productivity, thereby expanding the shopkeepers operations, perhaps employing more people and generating greater economic activity. The new pair of shoes could also conceivably improve operations, or at the least provide a personal benefit to the shopkeeper.

As a result of the broken window, the money, perhaps once destined for the bookshop or shoemaker, has now gone to the glazier. Purchases from the bookshop and shoemaker are now postponed. The shopkeeper, once destined to have both a window and a book or new pair of shoes, now has only the window.

In ensuing debates, further circumstances have been introduced. What if the shopkeeper had not engaged the glazier to fix the window, but rather maintained the business under sub-optimal conditions? This could have resulted in spoiled goods, wet floors and injured workers. Each could be considered continuous drains on the economy—productivity constraints, which impede the shopkeeper's operations from reaching potential levels of productivity and efficiency. Needless to say, such productivity constraints would leave the shopkeeper, the glazier and the shoemaker worse off.

Bastiat's essay provides insight into the question of Korean unification. The Korean Peninsula is, in more ways than one, the Asia-Pacific's window. In a literal sense, it is the window through which the Asia-Pacific looks to the Eurasian continent. It is a potential corridor, which could tie the transportation, energy and logistics hub of South Korea (and Japan), to the markets of Europe.

Yet, in a metaphorical sense, the window is broken. Even worse,

the costs of repairing the window are daunting. The ‘shopkeeper’ has largely become accustomed to productivity constraints and the glazier and the shoemaker have forgotten that the window is broken. The continued division of the Korean Peninsula is the Asia-Pacific’s broken window. Inherent costs—those, which are seen and those, which are unseen—act as an ongoing constraint on economic and political activity.

Through a reading of Bastiat’s essay, we can attain a fresh perspective on Korean unification. The study does not present new facts or figures, but rather takes an original, thought-provoking look at unification. The study highlights the long neglected hidden costs and benefits of Korean unification, and equally, the hidden costs of continued division.

Short-term economic impact on Asia-Pacific economies²

Like a carelessly broken window, unification will present the Korean consumer with a cost when it is least expected. In analytical terms it is a low-probability, high-impact event. It is an event that has long been considered ‘likely.’ During the 1990s, a plethora of academic literature on the collapse of North Korea emerged. Such studies contended that North Korea was on the brink of collapse. While the economy had been in long-term decline since the early 1970s, the collapse of the Soviet Union set in motion a chain of events that resulted in a severe downturn. Soviet and Eastern European trade assistance and concessions disappeared. China, no longer competing with the Soviet Union for influence in North Korea, also curtailed assistance. The ultimate result was a collapse of the state-run economy and purportedly in combination with severe weather conditions, a famine that resulted in an horrendous death toll. Estimates of famine-related deaths range from 220,000 by the North Korean

2_In continuing the structure of the book, this essay focuses on non-major power Asia-Pacific economies.

Government to 2.5 million by the United States Agency for International Development (U.S.AID).³

With the destitute state of the economy, failing political institutions and an increasing inability to feed its population, the end of the regime seemed not only probable, but also imminent. The collapse of the Soviet Union and the subsequent collapse of its autocratic satellites had cast a long shadow over the future of North Korea. Yet, North Korea survived.

Similar historical events demonstrate that there will be few warning signs and that these are likely to be recognized only in hindsight. As noted by Robert Kaplan and Abraham Denmark writing on the example of political change in Romania for North Korea in *World Affairs*: "...it took only ten days for a small demonstration about minority rights in the western city of Timisoara to mushroom into a nationwide uprising that culminated in the grim executions of tyrants Nicolae and Elena Ceausescu."⁴

In comparison to North Korea, Romania was an open book. Every piece of information from North Korea attracts international attention. The international press, particularly the South Korean and Japanese press, pours over every detail of information available. Yet still, reporting is largely based on speculation. The outside world knows nothing of North Korea. This has been aptly demonstrated by the torrent of guesswork regarding the 'mysterious woman' appearing beside Kim Jong-Un, who was later revealed by the North Korean state to be the young leader's wife; the plethora of pundits willing to provide putative expert insights into changes in the military leadership structure on the removal of Ri Yong-Ho; and the continual reminder (in every newspaper article) that the closest estimation of the current supposed leader's age is 'twenty something.' The suddenness of political change in North Korea (and subsequent

3_AlertNet, "North Korea famine at a glance," *Reuters AlertNet Foundation*, July 2006, <<http://www.alertnet.org>>.

4_Robert Kaplan and Abraham Denmark, "The Long Goodbye: The Future North Korea," *World Affairs*, June 2011, p. 16.

unification) could make the removal of Romania's Ceausescu look like a long-planned event.

Preparation for Korean unification in the public sector is limited and virtually non-existent in the private sector. Preparation for Korean unification at an international level is even more limited. In particular, there are constraints upon the capacity of China and the United States to cooperate or even discuss the potential collapse of North Korea. In South Korea, efforts to better prepare for the fiscal impact through the establishment of a unification tax and/or voluntary fund remain mired in controversy. Unification attracts only intermittent public interest with new studies gaining scant attention. There is a degree of complacency, and arguably, a long-term decline in support for unification. Studies on unification which do attract media attention predominantly relate to cost.

Estimates on the cost of unification vary widely, ranging from around U.S.D100 million (Korea Institute of Public Finance) up to U.S.D2 trillion (Korea Development Institute). The variations are based on both the difficulty of securing knowledge regarding the situation in North Korea and differing estimates on 'how far' unification should go. Like all statistical and economic forecasting, accuracy is based on assumptions, which are open to political and/or ideological influence.

Despite these differences, there is general agreement that the cost of unification will increase steadily with time. At unification, per capita income in East Germany was one-third of West Germany. Per capita income in North Korea is today thought to be less than five percent of that in South Korea. To the author's knowledge, there have been no attempts to economically model how Korean unification would affect the non-major economies of the Asia-Pacific. Australia serves as a good example and can be used as an indicator of how Korean unification would affect other non-major Asia-Pacific economies, such as Canada, New Zealand, Malaysia, Indonesia, Thailand and the Philippines. These states share comparable profiles in their relationship with South Korea, with trade marked predominantly by raw materials exports to South Korea, which return in the

1

2

3

4

5

6

7

8

9

10

form of elaborately transformed manufactures (ETMs), such as cars, electronic equipment, and manufacturing materials.

Despite South Korea being Australia's third largest export market, interest in and study of Korean affairs is limited. Studies on the Australia-Korea economic relationship have recently focused predominantly on the potential impact of a Free Trade Agreement (FTA). However, even these indicate that the initial stages of depressed consumer demand resulting from unification is likely to affect Australian economic interests.

Australia and South Korea are important trade partners. South Korea currently accounts for 8.9 percent of Australian exports with year-on-year growth of 14.1 percent. Key exports include iron ore, coal, crude petroleum and agricultural commodities. These key exports do not demonstrate a high degree of import demand elasticity, meaning that as the price rises (relative to income) demand is unlikely to decrease significantly. However, these key resource commodity exports are understandably dominated by multinational corporations. Australian small and medium-sized enterprise (SME) exports demonstrate a higher degree of import demand elasticity, meaning that demand could decrease in the early stages of unification.

Australian services exports to South Korea are dominated by education and travel, both of which are generally considered to have a high degree of import demand elasticity. Although, it must be noted that measurements for import demand elasticity in education services are based on rational expectations. These measurements do not take into consideration the distinct characteristics of the Korean market. During periods of high political tension, there can be a rise in education services, as children are sent abroad for both education and safety. Anecdotal evidence suggests this occurred prior to the transfer of Hong Kong to Chinese rule.

For developing economies there is a further risk associated with unification. Remittances from workers in South Korea comprise an important source of income in Indonesia and the Philippines and an important destination for education and training, which ultimately

lead to productivity improvements in the domestic economy. Unification is likely to result in an abrupt and potentially medium-term disruption to both remittances and education and training.

In contrast to the healthy levels of bilateral trade, foreign direct investment between Australia and South Korea is relatively subdued. South Korean investment in Australia is understandably centered on resource extraction; predominantly iron ore, coal and gas. More recently, South Korean companies have also demonstrated interest in securing access to rare earth elements. As noted below, any change resulting from unification will be positive in the medium to long-term as demand increases. While unification will increase access to domestic sources of iron, copper, gold, nickel, zinc, graphite and coal (anthracite), increased demand will ensure Australia remains an important destination for resource investment.

It must be noted that an over reliance on rational expectations has in the past confounded analysis of the Korean economy. During the 1997 Asian Financial Crisis, South Koreans queued to turn in private gold holdings to the government for sale on the international markets to pay off public foreign debt. Traditionally militant labor unions sat down with management and politicians to agree upon shift, salary and job cuts. ‘IMF discount’ meals of instant noodles became standard shared workplace meals. The level of personal sacrifice made in the public interest contrasts sharply with contemporary Greece. South Korea paid off the last of its debt to the International Monetary Fund (IMF) two years ahead of schedule. While studies based on rational expectations for unification provide an indication, the socio-cultural context can be equally important.

In the simplest terms, the cost of unification reflects Bastiat’s parable of the broken window. The above reflects that which is seen based on rational expectations—consumer behavior will be altered by an unanticipated but necessary cost. South Korea and its 49 million consumers will be forced to engage the glazier to repair the window.

1

2

3

4

5

6

7

8

9

10

Medium-term benefits of Korean unification to Asia-Pacific economies

In Bastiat's parable, the glazier welcomes the carelessness of the shopkeeper's son. With the broken window the glazier's business continues. It would not be far-fetched to imagine the Asia-Pacific as ultimately playing the role of glazier (or at least the glazier's supplier) in Korean unification.

The progress of Korean unification can be thought of as a three-stage process—an immediate short-term period marked by uncertainty and confusion as public and private sector priorities are re-configured; a medium-term period marked by reconstruction and development; and a third long-term period marked by growth of a stable, consolidated single market.

As noted above, during the first period, demand for natural resource exports will potentially decline as economic priorities are re-organized. This will particularly affect export items with a high level of import elasticity in the Korean market. In the medium-term, as government and private priorities become clearer, natural resource exporters will benefit from what we may term 'the North Korea infrastructure project.' Finally, in the long-term, natural resource exporters will benefit from a substantially larger Korean market comprising more than 73 million consumers. It is during these latter two stages that the benefits to the Asia-Pacific region from Korean unification become particularly attractive.

Sensationalist reports on nuclear or cyber-warfare capacity aside, North Korean infrastructure is believed to be at the level of South Korea in the mid-1970s. The 'North Korean infrastructure project' will be immense—a project which dwarves similar historical examples in Eastern Europe and the former Soviet Union. Major projects will include road, railway and port infrastructure; telecommunications and utilities (energy, water, sewerage) infrastructure; as well as housing and rural infrastructure. North Korea will undertake a period of economic development much like South Korea during the 1970s. The Asia-Pacific region—a key source of materials for South Korea's development in the 1970s—will also be a key source of ma-

terials for the development of North Korea.

The potential growth of a unified Korea is highly dependent on political contingencies. A stable, consolidated single market in the long-term could be similar to what a unified Germany is to Europe today. A 2002 Goldman Sachs report by Goohoon Kwon forecast that a unified Korean market could have a gross domestic product (GDP) exceeding that of France, Japan and Germany within 30-40 years. Forecasts such as this exemplify the potential benefits to the Asia-Pacific region. It's not hard to imagine the smiles on the faces of the board of directors as the CEO of Meat and Livestock Australia (MLA) or the CEO of Petronas Malaysia, state that the size of the Korean market is expected to grow by nearly 50 percent.

The above reflects that which is seen. It is clear that in the early and medium-term stage of Korean unification there will be industries, which will benefit. It just happens that the bulk of the Asia-Pacific's exports to South Korea are in this category. In the later stages, we can imagine that significantly larger market of consumers will push more and more of Korea's trade partners into the latter category. Much like the glazier in Bastiat's parable, the Asia-Pacific region will be a direct beneficiary of Korea's unification.

Medium-term challenges of Korean unification to Asia-Pacific economies

The recent 20th anniversary celebrations of Germany's unification brought out reports highlighting 'Ostalgie'-a play on the German term for 'east' and 'nostalgia.' Many citizens of the former East and indeed many from the West, look back upon the period of division with nostalgia. With twenty years behind them, the difficulty of unification remains. Indeed, for many of those negatively affected by unification the last twenty years is referred to as the 'lost generation.'

Unification could result in a number of important socio-economic issues, including uneven development, social divisions, increased nationalism and labor unrest. East European and former Soviet transition economies all experienced these issues to a greater or lesser

1

2

3

4

5

6

7

8

9

10

degree. It would be disingenuous to consider a unified Korea as immune to these and perhaps more intense versions of these issues. The difficult task of overcoming these challenges, including seeking international assistance, will necessarily be a major policy imperative. As a result, long-term projects in which South Korea has invested much work, which will attract less attention after unification.

As South Korea's attention turns inwards, the external projects of aid and development; regionalism; nation branding and the centering of Korea in international society will attract less support. This will have a profound effect on the Asia-Pacific region.

On 1 January 2010 South Korea joined the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC). On joining the DAC, South Korea pledged to increase overseas development assistance (ODA) from the current level of 0.12 to 0.25 percent of gross national income (GNI) by 2015. In 2011, South Korea provided U.S.D1.32 billion in Official Development Assistance (ODA), making the country the 17th largest major donor nation in the world.⁵

In 2011, South Korea hosted the Fourth High-level Forum on Aid Effectiveness, attracting 3500 officials from 160 donor and recipient states. The forum, hosted in the southern port city of Busan attracted global attention to South Korea's role in aid and development. This has occurred with strong public support and a growing interest in overseas aid and development, particularly among the young. There is a genuine desire to 'pay back' the international community for the assistance Korea received to rebuild its economy following the Korean War.

The 'Korea model' of development is also a source of pride, demonstrating the state's achievements in economic and social development. Regional states have repeatedly welcomed South Korea's growing role in development aid, with the majority of this directed within the region. At the same time, regional states have demonstrat-

5_OECD, "Net Official Development Assistance from DAC and Other OECD Members in 2011," May 2012, <<http://www.oecd.org/dac/aidstatistics/50060310.pdf>>.

ed support for a growing South Korean role in the region. However, unification and 20 years of focus on developing the North will pose a major challenge to South Korea's current commitment to international development.

Similarly, South Korea's steady development as an increasingly important diplomatic actor on the global stage will face challenges. Since the 2000s, South Korea has increased its relevance in international affairs. There are very obvious examples, such as the increased number of South Korean nationals working in international governmental organization (IGOs) and the sponsorship of South Korean nationals in major IGO offices, most obviously including the Secretary-General of the United Nations. There is also less obvious, but equally important evidence. The Union of International Associations statistics for international meetings in 2010 show that South Korea had the 8th largest number of international meetings and that Seoul had the 5th largest number of international meetings.

The 2010 hosting of the first G20 Leaders Summit outside of the G7/8 countries, the 2011 hosting of the Fourth High-level Forum on Aid Effectiveness and the 2012 hosting of the Global Nuclear Security Summit all demonstrated the facilitative role that South Korea plays as a middle-power diplomatic actor in global affairs. Australia, New Zealand and Canada have been quick to support South Korea's growing role. Consecutive Australian prime ministers have authored joint op-eds with President Lee Myung-Bak to demonstrate solidarity between Australia and South Korea on economic reform. Australia has sought to tie the two countries together as 'middle-powers' with shared interests. Yet, unification and 20 years of focus on developing the North will present a major challenge to the maintenance of this diplomatic role.

The above also reflects that which is unseen. As noted by Bastiat, events produce not just one effect, but multiple effects. "Of these effects, the first alone is immediate; it appears simultaneously with its cause; it is seen. The other effects emerge only subsequently; they are not seen; we are fortunate if we foresee them." The shoemaker in the context of Korean unification is South Korea's bilateral aid and

1

2

3

4

5

6

7

8

9

10

development, regional and diplomatic partners. Those states, which become accustomed to South Korea playing an important economic, political and diplomatic role in development and global governance, will have to await the return of a more confident, unified Korea.

The cost of continued division to Asia-Pacific economic cooperation

It could be assumed that by now the reader is finding holes in the above argument. Bastiat's parable of the broken window is based on the assumption of an object 'unnecessarily destroyed' and subsequently necessarily repaired. The parable exposes the fallacious contention that despite the consequences, destruction results in a benefit to society as economic activity increases. The parable's application to the Korean Peninsula is limited. Yet, subsequent debate on the parable has greater relevance to the Korean Peninsula.

What if the window were never repaired? What if the shopkeeper, unable to secure the ability (both financial and political) was satisfied with maintaining the business, despite the occasional soaking when storm clouds gather; occasional ill-winds knocking over carefully prepared shop-front displays; and a permanent (to the point that it is hardly recognized) chill settling upon the workers going about their daily lives? The glazier would never be engaged—nor would the shoemaker. The shopkeeper would work tirelessly yet never reach the potential that could be achieved were the window repaired. The broken window would act as an ongoing constraint on the shopkeeper's potential.

This is of course the current situation on the Korean Peninsula. North Korea acts as an ongoing constraint on South Korea's potential – Particularly its status and potential role as a middle-power.

A 'middle-power' is a specific national-role.⁶ Role theory uses the theatre as an analogy for social life. A social actor creates and sus-

⁶ Karl Holsti, "National Role Conceptions in the Study of Foreign Policy," *International Studies Quarterly*, Vol.14, No. 3 (September 1970), pp. 233~309.

tains a role based on their own subjective conception of their status, society's expectations of the role, and the social context in which the role is acted out.⁷ In the same way, states invoke a set of social behaviors adapted to fit the expectations of other actors in international society – the “group of states, conscious of certain common interests and common values,” which “form a society in the sense that they conceive themselves to be bound by a common set of rules in their relations with one another.”⁸

States are socially assigned a status, but they enact a role. Essentially, this means that a role is focused on behavior. While states can be socially assigned the status of middle-power, they do not necessarily successfully enact a middle-power role. Particularly during periods of heightened security tension, middle powers may hold a middle-power status but do not enact a middle-power role. They revert to following major power leads in order to profit from a coincidence of interests.

This understanding can be used to explain the anomaly of South Korea – a state, which has long been situated between major and lesser powers in terms of relative economic, military and political measurements, but does not always act in a middle-power role. South Korean middle power activism is closely aligned to major power policy during periods of heightened security tension. Conversely, during periods of lower security tension, South Korea seeks a greater role in decisions regarding the peninsula. This is true for all middle-power states and their interaction with Korean Peninsula issues.⁹ This affects South Korea's interaction across the breadth of diplomatic activity.

Reflecting the above, even in the context of continued growth,

7_Karl Holsti, “National Role Conceptions in the Study of Foreign Policy,” *International Studies Quarterly*, Vol.14, No. 3 (September 1970), pp. 233~309.

8_Hedley Bull, *The Anarchical Society: a Study of Order in World Politics* (New York: Columbia University Press, 1977), pp. 9~10.

9_Jeffrey Robertson, “South Korea as a Middle Power: Capacity, Behavior and Now Opportunity,” *International Journal of Korean Unification Studies*, Vol.16, No. 1 (2006), pp. 155~158.

1

2

3

4

5

6

7

8

9

10

South Korea's ability to act as a middle-power, will always be constrained. South Korea, like all middle-powers, needs to align its policy to a major power during periods of heightened security tension. With Korean Peninsula division, the regularity of this need is increased. This has a profound effect on the Asia-Pacific region and the wider international community.

Middle-powers play important roles in terms of facilitation, mediation, leadership and sponsorship. This includes facilitation of Asia-Pacific regionalism; mediation of regional political and/or territorial disputes; leadership in regional human rights and human security initiatives; and sponsorship of initiatives to strengthen regional interaction. Examples of middle-power activism that have had an important impact on regional affairs include the establishment of Asia-Pacific Economic Cooperation (APEC), the Cambodia Peace Settlement and agricultural trade liberalization at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Can South Korea play such a role as a divided state?

Accordingly, North Korea acts as a constraint on South Korea's role as an Asia-Pacific middle-power. This is repeated across all of South Korea's regional relationships. Australia again serves as a useful example.

Australia and Korea have held two sessions of the 1.5-track 'Australia-Korea Dialogue.'¹⁰ Such 1.5 track dialogues serve as an important means to improve bilateral relationships, allowing non-committal exploration of future policy direction. In May 2010, a former defense minister led the Australian delegation to Seoul. Despite the theme of "Expanding cooperation in the 2010's" the joint-summary shows much of the discussion focused on defense and security issues. In October 2011, the second Australia-Korea Dialogue, this time hosted by Canberra, was more focused with an overarching discussion of "practical ways in which the two countries could fur-

10_Australian Department of Foreign Affairs and Trade (DFAT), "Republic of Korea Country Brief," DFAT: Countries and Regions, February 2012, <http://www.dfat.gov.au/geo/rok/brief_index.html>.

ther enhance their security cooperation.”¹¹

In the same way, media articles in the regional press focus predominantly on security and/or North Korean affairs. Relatively few focus on South Korean political, economic and/or cultural affairs. This is highlighted during annual Association of South East Asian (ASEAN) Regional Forum (ARF) dialogue sessions. During the past three years, media reporting on Korean Peninsula issues have focused on North Korea.

Continued division and the focus on security means a relative neglect of economic, cultural and people-to-people links. Rather than exploring means to widen and deepen the bilateral relationship, the dialogue remains focused on security. Across the breadth of South Korea’s regional relationship, the North Korea focus diverts attention from political, security and economic cooperation.

The very fact that the current publication is focused on unification rather than expanding trade and economic relations or furthering cultural and people-to-people links within the Asia-Pacific region demonstrates the cost of continued division. Every dollar spent on producing the current publication could be directed towards strengthening trade and economic relations or furthering cultural and people-to-people links. The continuing cost of division is a constraint on more meaningful regional interaction.

Conclusion – The ongoing cost of division to the region

The term ‘Korean Peninsula unification cost’ is representative of an inherent bias. The vast majority of research focuses on the costs of unification rather than the costs of continued division. As noted by Unification Minister Yoo Woo-Ik in an interview with the German daily Spiegel: “People have gotten used to the division. And up until now we have always only emphasized the costs of reunification, but

¹¹ *Ibid.*

never the costs of division.”¹²

We know that the estimated costs of Korean unification increases substantially with each new study, as the economic difference between North and South Korea widens. Yet, the cost of division is also growing.

South Korea continues to spend money on education, repatriation, national security, foreign affairs and military programs directed at North Korea, to name but a few. Military expenditure alone is significant. The Stockholm International Peace Research Institute (SIPRI) shows South Korean military expenditure between 1988 and 2011 ranged from 4.5 percent of GDP (1988) to 2.4 percent of GDP (2002). Comparable states demonstrate a consistently lower level of military expenditure.¹³ Australian military expenditure over the same period ranges from 2.2 percent of GDP (1993) to 1.8 percent of GDP (2008).¹⁴ When North Korea's extreme militarization is taken into consideration, the expected 'peace dividend' that could result from unification will be substantial.¹⁵

Despite this, there has been no attempt to calculate the cost paid by the South Korean public to maintain division. Nor has there been any attempt to calculate the economic and political cost to South Korea's neighbors and its global economic and development partners.

In a metaphorical sense, North Korea is the Asia-Pacific's broken window. The day will come when the shopkeeper faces an unexpected cost in recognition that what was long broken can now be repaired. There will be consequences that are seen and those that are

12_Manfred Ertel, "South Korea's Unification Plan: No One Wants to Just Swallow Up the North," Spiegel Online, March 10, 2012, <<http://www.spiegel.de/international/world/south-korea-s-unification-plan-no-one-wants-to-just-swallow-up-the-north-a-820577.html>>

13_Stockholm Institute of Peace Research (SIPRI), "SIPRI MilEx Data," Military Expenditure Database, 2011, <<http://milexdata.sipri.org/files/?file=SIPRI+milex+data+1988-2011.xls>>.

14_Ibid.

15_Marcus Noland, "Korea's Growth Performance: Past and Future," *Asian Economic Policy Review*, Vol. 7, No. 1 (June 2012), p. 38.

unseen. The shopkeeper will pay the glazier and postpone purchases from the bookshop and the shoemaker. Further down the track, the shopkeeper, free from the ongoing productivity constraints of a broken window, will engage the glazier, bookshop and shoemaker on a regular basis. Until that day, North Korea will remain, in a literal sense, the Asia-Pacific's broken window.

1

2

3

4

5

6

7

8

9

10

References

- Adigbuo, Richard. "Beyond IR Theories: The Case for National Role Conceptions." *Politikon*. Vol. 34, No. 1, April 2007.
- AlertNet. "North Korea famine at a glance." Reuters AlerNet Foundation. July 2006. <<http://www.alertnet.org>>.
- Australian Department of Foreign Affairs and Trade (DFAT). "Second Australia-Korea Dialogue - Co-Chairs' Summary." October 12, 2011. <<http://www.dfat.gov.au/geo/rok/co-chair-summary.html>>.
- _____. "Republic of Korea Country Brief." DFAT: Countries and Regions. February 2012. <http://www.dfat.gov.au/geo/rok/brief_index.html>.
- Bull, Hedley. *The Anarchical Society: a Study of Order in World Politics*. New York: Columbia University Press, 1977.
- Dorn, James A. "Bastiat: A Pioneer in Constitutional Political Economy." *Journal Des Economistes Et Des Etudes Humaines*. Vol. 11, No. 2, January 2001.
- Ertel, Manfred. "South Korea's Unification Plan: No One Wants to Just Swallow Up the North." Spiegel Online. March 10, 2012, <<http://www.spiegel.de/international/world/south-korea-s-unification-plan-no-one-wants-to-just-swallow-up-the-north-a-820577.html>>.
- Henderson, David R. "The Economics of War and Foreign Policy: What's Missing?" *Defense & Security Analysis*. Vol. 23, No.1, March 2007.
- Holsti, Karl. "National Role Conceptions in the Study of Foreign Policy." *International Studies Quarterly*. Vol. 14, No. 3, September 1970.
- Kaplan, Robert and Abraham Denmark. "The Long Goodbye: The Future North Korea." *World Affairs*. June 2011.
- Liggio, Leonard. "Bastiat and the French School of Laissez-Faire." *Journal Des Economistes Et Des Etudes Humaines*. Vol. 11, No. 2, January 2001.
- Noland, Marcus. "Korea's Growth Performance: Past and Future." *Asian Economic Policy Review*. Vol. 7, No. 1, June 2012.
- OECD. "Net Official Development Assistance from DAC and Other OECD Members in 2011." May 2012. <<http://www.oecd.org/dac/aidstatistics/50060310.pdf>>.
- Raskin, Max, Scott A. Kjar, and Robert Rahm. "What is Seen and Unseen on the Gulf Coast." *International Journal of Social Economics*. Vol. 35, No. 7, 2008.
- Robertson, Jeffrey. "South Korea as a Middle Power: Capacity, Behavior and Now Opportunity." *International Journal of Korean Unification Studies*. Vol. 16, No. 1, 2006.
- Rothbard, M. "The Influence of Frederic Bastiat." *Advances in Austrian Economics*. Vol. 2, 1995.
- Stockholm Institute of Peace Research (SIPRI). "SIPRI MilEx Data." Military Expenditure Database, 2011. <<http://milexdata.sipri.org/files/?file=SIPRI+milex+data+1988-2011.xls>>.



Conclusion

Conclusion

Kyuryoon Kim
Hyun-Wook Kim

In this book, authors from each of the four Northeast Asian powers have proposed their ideas and opinions about the costs of the divided Korean Peninsula and the benefits that would result from a unified Korea, from the perspectives of both security and the economy. Also, two authors have looked at the bigger picture by discussing the division costs and benefits of unification from the standpoint of the Asia-Pacific region as a whole.

The Korean Peninsula is the only place that is still living in a Cold War context, even though more than two decades have passed since the collapse of the Berlin wall. In South Korea, along with the North, there have always been desires to achieve unification on the Korean Peninsula, but only minimal attempts have been made towards unification without any substantial results. Conservatives in South Korea have maintained more of a focus on security issues in their North Korea policies, which has caused them to emphasize a pressuring and containing of the North, with the goal that Seoul could absorb Pyongyang in achieving unification. In contrast, progressives in the South have put more weight on achieving dialogue and cooperation with the North, but no movement has resulted, and their policies have been blamed for having fed the regime in the North, allowing it to stay fat. Those past mistakes from the ideologically-tilted policies on both sides could be remedied so that more realistic policies could be discussed and pursued in the future.

South Korea should take the lead in promoting the peaceful unification of the Korean Peninsula, but in reality many obstacles keep South Korea from pursuing unification on its own. Nowadays, the regional dynamics in Northeast Asia are becoming more complex,

and unification cannot be achieved without taking into consideration a regional calculation. South Korea cannot over-emphasize the importance of cooperation and support from other Asia-Pacific states in achieving peaceful unification. In this vein, this volume provides a number of ideas for how Korean unification can be facilitated through international cooperation.

Security Perspectives on the Korean Unification

Costs of a Divided Korea and Benefits from a Unified Korea

This volume has five chapters dealing with security perspectives. Four of them pertain to the perspectives of the U.S., China, Japan and Russia. The last chapter is about the effect of the unification on regional security. One common similarity from each country's perspective is the concern of the states with the possible tensions on the Korean Peninsula as the source of their biggest cost of a divided peninsula. Dr. Kongdan Oh mentioned that the U.S. has to pay for the cost of the U.S. troops stationed in South Korea, which is between one and two billion dollars a year. She also states that the North's military threats could trigger tensions not only between the two Koreas, but also between two superpowers, the U.S. and China.

Dr. Liu Ming's concerns are similar. He worries about the tension between the U.S. and China on the Korean Peninsula, not only because of the North's conventional weapons but also because of its possession of nuclear weapons. But he goes deeper in calculating Chinese concern. Most of the international community criticizes China for being a bulwark for the North's provocative behaviors, and this is fostering negative attitudes toward China. Sometimes, China has attempted to take a different posture, lessening the distance from the policies of the South and distancing itself more from the North. This diplomatic maneuvering, however, has become another burden for China, as this behavior would garner criticism from whichever Korea is not favored by China at the time.

In fact, this has been proven historically. When the first nuclear test was conducted by North Korea, China changed its policy. Rather than remaining neutral, China actively participated in the UN Security Council Resolution and expressed a strong intention to suppress the North's nuclear program. The North responded with counter-diplomacy. It made a secret deal with the United States in Geneva, went into a 6-party agreement, and had its economic sanctions lifted by the United States. The change in Chinese diplomacy resulted only in its losing its influence over the North. On the divided Korean Peninsula, China could achieve only partial diplomatic success.

Japan's bigger concern lies in North Korea's military threat, which is devastating and expensive. The world still remembers vividly the Japanese reaction when the North launched its Taepodong missile in 1998, which flew over Japan and into the Pacific Ocean. Due to a series of North Korean missile and nuclear threats, current Japanese military preparedness is very costly, burdening the U.S.-Japan alliance unnecessarily.

Dr. Leonid Petro supports the Korean unification, because a divided Korea becomes a security and economic risk to Russia. The North's nuclear program might not be targeting Russia directly, but it hinders Russia's economic partnership with the South. It currently expects to conduct many economic projects with South Korea, like a gas pipe line, railroads, etc. It is interesting that Russia now has an absolutely capitalistic mindset. It supports the unification only if it results in democracy and a market economy. Its main concern is how to gain economic benefits from a unified Korea. All these can be achieved most fully by the removal of threats and tensions coming from the divided Korea.

It is interesting to note that each country recognizes different benefits it would gain from the Korean unification. According to Dr. Oh, the U.S. security benefit from the unification is that the North's WMD would be eliminated from the peninsula. Currently, the Obama government's policy to achieve a nuclear weapons-free world aims to remove as many WMD as possible, and North Korea is one of the two target states. But, a more important benefit is that

a unified Korea would be a democratic and market economy state. This means the North would be absorbed by the South, and the unified Korea would be a solid ally of the United States.

Dr. Ming Liu focuses on the ways China could be liberated from the problem of North Korea if the two Koreas are unified. According to Dr. Liu, if the Korean Peninsula is unified, China could have more room for strategic maneuvering and options. Particularly, China would not have to maintain abnormal state-to-state relations with North Korea and would avoid having to speak out on behalf of the North when it misbehaves or makes mistakes. Also, China could be relieved of the burden of international pressure to sanction the North. This would allow China to pursue broader economic cooperation in the region with Japan, Russia, Korea, etc.

Dr. Tomohiko Satake argues that Japan supports Korean unification because it reduces tension on the Korean Peninsula, offers a large market and much business opportunity to Japan, and contributes to regional peace and stability. A commonly held view is that Japan hates the idea of Korean unification because it does not wish a powerful Korea. However, according to Dr. Satake, what Japan could gain from the unified Korea is a window of opportunity.

With respect to Japanese support for Korean unification, one thing to consider is how South Korea and Japan can settle the current Korea-Japan disputes. Historical animosity between the two would be a hurdle for Korean unification. Japan would not like a stronger Korea, which would pose another threat to Japan. A bigger Korea would challenge Japan to apologize for its past behaviors, territorial disputes would be more heated, etc.

Russian benefits all focus on economics. Russia's main concern is how a market-democracy based unified Korea could be beneficial to the Russian economy. Unified Korea could be a helpful partner for Russian modernization. However, Russia would not be fully supportive of Korean unification. It is not willing to spend money for the North's reconstruction. It would not be a leading investor in North Korean reform. So, Russia supports unification but takes a neutral posture, being primarily concerned about its own economic benefit.

Implications for Regional Security

The implications of unification on the Korean Peninsula for regional security are enormous. The world currently engages in a complex-interdependency. One region's issue is closely linked to those of other regions. European economic distress is linked to the economy in Asia. Security threats in one region are linked to the security of other areas. The state border is sometimes meaningless, and the state-actor is sometimes much weaker than non-state actors in controlling security and economic risks.

The Korean unification's effects on Northeast Asia cannot be overemphasized. Dr. Thomas Wilkins explained this phenomenon with two theoretical approaches: instrumental (realist) vs. normative-contractual. From the realist perspective, Dr. Wilkins suggested three concerns with regard to the Korean unification. First, there might emerge many non-traditional security threats from the unification: a financial crisis, food insecurity, etc. Second, a unified Korea's possession of both conventional and nuclear capabilities could destabilize the regional order. Third, a unified Korea's diplomatic posture (alignment vs. neutrality) could worry surrounding countries. For example, if Korea tilts towards the United States, China would risk facing diminished power vis-à-vis the U.S. However, Dr. Wilkins suggests an alternative picture of regional order from the normative-contractual perspective. If a unified Korea successfully exercises middle-power diplomacy through multilateralism, this could develop into the creation of a new stable regional order.

It is uncertain what the regional order would be in the process of, or following, the unification of Korea. To hedge against uncertainties, a regional multilateralism should be developed before the process begins. An example of this is the Six-Party Talks. The initial concern of the Six-Party Talks was to dismantle the North Korean nuclear program, but as the process proceeded, it was expected to provide an arena for all the participating parties to solve their mutual security concerns. For example, Japan began solving its abductee issue through the Six-Party Talks. A U.S.-China dialogue could be achieved, and their different interests could be coordinated. The

peace regime issue was included, and different postures were coordinated. Though the Six-Party Talks have come to a stalemate, we need to create and activate such multilateral processes so that, even after the unification is achieved, they could be functioning to serve a broader purpose: regional security order-building after Korean unification.

Economic Perspectives on the Korean Unification

Costs of a Divided Korea and Benefits from a Unified Korea

Five chapters of this book discuss the direct and indirect effects of the division/unification of the Korean Peninsula on the four North-east Asian powers, focusing on the cost of having to maintain a divided Korea along with the benefits the unification could bring. In general terms, division costs/unification benefits are characterized as tangible and intangible. The estimated costs due to the division have been calculated in terms of the problems of the past, and the benefits of unification are considered in the context of an anticipated future. The paragraphs below summarize the main arguments put forward by the authors of the five chapters from the economic perspectives of the U.S., Japan, China, Russia and the Asia-Pacific region as a whole.

First, Mr. William Brown argues that many researchers have exaggerated the costs of the unification of the two Koreas, and points out that a well-managed unification could result in a number of benefits. If the peninsula is unified, the North's economy would be open to others, providing various advantages to the U.S. economy. The U.S. would also be able to save the portion of its military budget that has been spent for the defence of South Korea, which means that the tax money collected from U.S. citizens could be employed elsewhere.

The costs and benefits for the Japanese are similar to those for the Americans. Like the United States, Japan cannot maintain economic relations with the North so long as Korea remains divided. The continued division brings uncertainty and instability to the Japanese

economy, according to Dr. Sachio. He argues that Japan could utilize North Korea's natural resources and cheap labor workforce once the two Koreas would be unified. Also, the unification would allow economic cooperation of Northeast Asia to increase greatly.

The division of the two Koreas has forced China to spend a massive portion of its defense resources for North Korea, contributing to the increase of China's military spending. Moreover, due to the division, the economic relationship between North Korea and China has been abnormal and accompanied by negative side effects. Dr. Zheng contends that North Korea's inflexible economic management serves as a hindrance to the economic vitalization of China's Northeastern three provinces. On the other hand, the benefits of unification for China include an increase in China's direct foreign investment, along with trade and commerce in North Korea. Also, unification would promote active economic growth across the Yellow Sea. China would benefit from the positive effects for the country's Eastern region of a new transportation network that would connect the Korean Peninsula to the Eurasian continent.

Similar to the losses faced by other neighboring countries, the division of the Korean Peninsula hinders Russia from having a normal economic relationship with North Korea. If unification is realized, many Russian corporations would be given the chance to invest in North Korea. Dr. Fedorovskiy contends that, with Russia's abundant natural gas resources, Russia would be able to export her energy, leading to a boost to the Russian economy. A unified Peninsula would increase the economic exchange with Russia, and the facilitated transaction of goods would contribute to the growth of Russia's economy.

As summarized above, the four authors share the view that (1) the fact that North Korea's economic policy is abnormal is the most harmful consequence resulting from the division of the peninsula; (2) the unstable regional situation due to the division is an obstacle to the revitalization of Northeast Asian economic cooperation; (3) because of the division, the security cost to maintain the region remains great. Also, in relation to unification benefits, they com-

monly claim that their individual state would obtain positive economic benefits from the unification and should actively participate in revitalization of the peninsula's economy once the unification takes place. All the authors refer to North Korea's abundant natural resources and are in agreement that their development would produce a positive economic effect. They all agree that the unification would facilitate the economic cooperation of Northeast Asia, leading to the vitalization of each economy as well as increased trade and commerce with neighboring countries. These views are also shared by Dr. Robertson, who discusses division costs/unification benefits from the economic perspective of the Asia-Pacific. He argues that the unification of the Korean Peninsula would remove the security concerns, stabilize the region and have an extremely positive effect on binding the economic relations among the Asia-Pacific states together.

Implications for the Regional Economy

As the U.S., Japan, China and Russia maintain their status as major powers in the world, the economic benefits they gain from the Korean Peninsula need to be understood from the standpoint of their global and Asia-Pacific regional strategies. This is the position taken by Dr. Robertson along with the other authors. The world economy has been affected by instability since the financial crisis in the United States in 2008 and in Europe in 2010. In this context, the world economy centered around the Atlantic is no longer producing growth. On the other hand, due to the rapid and strong growth of the Chinese economy, the power dynamics of the world economy are shifting. In this sense, the center of the world economy has already transferred to Asia, providing challenges and opportunities to the Korean Peninsula.

At this point, the change in the world economy following the unification of Germany in early 1990 should be noted. At the time of the German unification, due to communism, the world economy was very unstable; thus, their unification provided opportunities and

challenges simultaneously. The unified Germany overcame the challenges and seized the opportunity to become one of the strongest states in Europe. On the other hand, after Europe had experienced WWI and WWII, in the hope of avoiding any more wars, it pushed for regional integration; and as a result, Europe became integrated as the European Union. Europe has been able to maintain peace and stability in the region, and unified Germany continues to play a central role in that stability.

In order to maintain the economic dynamics that are currently at work in Asia as well as to continue the success and development of China, the unification of the Korean Peninsula would contribute a great deal to the development of Asia's economy. With this realization and expectation, unification is not only essential to the Korean Peninsula but also to Northeast Asia and the rest of the world. As South Korea faces the challenges of economic development during and following the unification process, the country will have an opportunity to demonstrate the capabilities of the Korean people. The four major states, also, will share this opportunity to write a new chapter in human history.

On the other hand, as in the case of the EU, there is a need for building a community in East Asia in order to maintain the economic dynamism and to ensure military security in the region. Unification of Korea would be a catalyst in building this community, while playing a significant role in ensuring the stability of the region. As the rise of the Asian economies in the 21st century has been led by the economic dynamism of the surrounding countries, it now appears to be time to shift the focus from forging a peace settlement to the fundamental formation of the regional order.

In order to advance on this issue, one must go beyond this research that has approached the idea from the standpoint of the benefits that would accrue to each of the four states independently by considering the regional factor, which could reveal additional benefits from unification. In this context, the unification of Korea would bridge the Pacific to the Eurasian continent, thereby allowing for the smooth flow of modern industrialization that began in Europe and

spread to the Americas, and has now been spreading through Asia and back to Europe. Unification of the two Koreas would also mean the end of a communist regime, accepting its entry into the global economy based on principles of a market economy and also, importantly, signifying the acceptance of universal values, economic prosperity and a peace settlement.

Conclusion: The Four Northeast Asian Powers' Positions towards Unification

The four Northeast Asian powers agree that the division of the Korean Peninsula has been inflicting huge costs on all of them and that the unification will generate benefits for them. That said, those four powers hold different positions towards unification. First, the U.S. supports democracy and a market economy in a unified Korea. In a 2009 summit meeting between Presidents Lee and Obama, a joint statement mentioned that the U.S. supports a unified Korea which is based upon the principles of democracy and a market economy. For Russia, which is now a capitalistic country, a major concern is economic development; and Russia likewise supports a unified Korea based upon a market economy and democracy. It does not want the North's socialist system to remain intact within the unified Korea, as it would be detrimental to a partnership with Russia. Russian strategic interest in relation to Korea is, thus, that the North should first establish a market and open system, after which unification could be achieved.

Japan's position would clearly be the same. It is still uncertain whether Japan would support Korean unification actively, but at least Japan would not oppose it. Having said that, the Japanese preference would be to see a South Korea-initiated unified Korea that is based upon a market economy and democracy. One important condition would be that, as Japan wants to continue to contain China through the U.S.-Japan alliance, it would hope that a stronger and larger unified Korea would be supportive of this purpose of Japan via the U.S.-ROK alliance. If a unified Korea is democratic and capitalistic, the

U.S.-ROK alliance should remain in force, albeit there might need to be another alliance modification focused on new purposes and tasks.

China's position on Korean unification is that it supports it, if it is pursued by the Korean people in a peaceful way: that is, peaceful and independent unification. China, thus, opposes unification by foreign intervention and military means, which means a unification arrangement imposed upon the people from one side to the other. In this context, as mentioned above, Dr. Ming points out that China supports a three-phase unification process, i.e., reconciliation and cooperation; cooperation; and unification. This idea may reflect China's concern that the Korean unification would be initiated and achieved using the influence of the U.S.-ROK alliance, and that it would damage China's position vis-à-vis the U.S., if the long-lasting buffer state – North Korea – were suddenly to disappear. Even though South Korea and China have been enhancing their economic relations – and China would hope that such enhancements would also characterize its relations with a unified Korea, China cannot overcome its concern over the expansion of U.S. influence on the peninsula. This is especially true now, as the U.S. has been pursuing a more active policy towards Asia. The U.S. is in the completion stages of wars in Iraq and Afghanistan. Its withdrawal makes it possible for the U.S. to focus on strategic maneuvers in the Asia-Pacific, despite its budgetary concerns. The next U.S. government would pursue an Asia rebalancing policy more actively. Such predictions raise China's concerns around the issue of Korean unification.

From an economic standpoint, the U.S., Russia and Japan support a Korean unification based upon a market economy. This formula is based upon the assumption of the South's absorption of the North in the process of unification. However, this assumption is not shared by China. To repeat, the Chinese position on Korean unification is support for a three-phase process. That is, China prefers a more equal and bilateral formula between the two Koreas.

The countries surrounding the peninsula all have their own costs and benefits from the unification, and their indifference to the outcome is realistically impossible. Among the four states, the Chinese

version of a 'peaceful and independent unification of Korea' is most at odds with the views of the other three states. This suggests that China will present the greatest challenges among the four in achieving the unification of the two Koreas. South Korea should make efforts to persuade China that a unified Korea would not be unfavorable to its interests and that a unified Korea would not tilt unduly towards the U.S. As Dr. Petrov points out, South Korea-China cooperation will be critical in bringing about a smooth integration of North and South Korea and in peacefully transforming North Korea. There must be deep cooperation between China and South Korea in order to realize a successful unification of the two Koreas.

Contributors

Kook-Shin Kim is currently an Honorary Research Fellow at Korea Institute for National Unification (KINU). His research interests include U.S. - North Korea Relations, North Korean Human Rights Issues, Northeast Asia Policy, and Theory of National Integration. He received his B.A. and M.A. at Korea University and University of Georgia, and Ph.D. from University of Colorado. He has published numerous articles in scholarly journals including *International Journal of Korean Unification Studies* and *Korea and World Affairs*. His recent publications include *Transformation of the U.S.-Japan Alliance and South Korea's Security Strategy* (2008) and *White Paper on Human Rights in North Korea 2011* (2011). He has been a board member of The Korean Association of International Studies.

Jae-Jeok Park is currently a Research Fellow at Korea Institute for National Unification (KINU). His research interests include alliance politics, U.S. security policy in the Asia-Pacific, Korean national security, and nuclear strategy. He received his B.A and M.I.S. from Yonsei University, M.A. and M.S. from Northwestern University, and Ph.D. from Australian National University (December 2009). He has published articles in scholarly journals, including *Pacific Review*, *Asian Survey* and *Australian Journal of International Affairs*. Before joining the KINU (in September 2010), he worked for the Institute for Foreign Affairs and National Security (IFANS) as a visiting professor (between Jan. 2010 and August 2010).

Kongdan Katy Oh is a Research Staff Member at the Institute for Defense Analyses (IDA) and a Non-Resident Senior Fellow at the Brookings Institution. She was formerly a member of the political science department of the RAND Corporation and has taught courses at a number of universities. She is a member of the Council on Foreign Relations, the Korea Working Group of the United States Institute of Peace, the Board of Directors of the United States Committee of the Council for Security Cooperation in the Asia-Pacific, and she is the co-founder and former co-director of The Korea Club of Washington, D.C. She received her B.A. at Sogang University and an M.A. at Seoul National University. She subsequently earned an M.A. and Ph.D. in Asian Studies at the University of California, Berkeley. She is the co-author of *North Korea through the Looking Glass* (2000) and *The Hidden People of North Korea* (2009). Her recent articles include “The United States between Japan and Korea,” *The Korean Journal of Defense Analysis*, June 2010, “Kim Jong-un Inherits the Bomb,” *International Journal of Korean Unification Studies*, Vol. 20, No. 1, 2011, “The United States and Korean Unification” in Bae Jong-ho (Ed.), *Korean Unification and the Positions and Roles of the Four Neighboring Powers* (Seoul: Korea Institute for Unification Studies), December 2011, and “Military Confrontation,” *Joint Force Quarterly*, Issue 64, 1st Quarter, 2012. She has just completed the manuscript of her first novel in Korean.

William B. Brown is a senior economist with a Northern Virginia consulting company currently working on Chinese and North Korean economic issues for U.S. government clients. He retired from a career in the U.S. government in 2003 after working many years for CIA, the Commerce Department, and the National Intelligence Council.

Bill grew up in Kwangju, South Korea in the 1950s and 1960s; earned his B.A. in International Studies from Rhodes College in Memphis, Tennessee, and his M.A. and much of his Ph.D. coursework in Economics and Chinese studies from Washington University in St. Louis. Bill served as Senior Research Officer in the U.S. Embassy in Seoul in the mid-1980s and took leave from the U.S. government to work as Director of Plans and Policy in Virginia's World Trade Department in the late 1980s, and for a private trade management firm in Norfolk. He has taught graduate courses in East Asian and international economics for many years as an adjunct professor in George Mason University's School of Public Policy and in George Washington University's Elliott School of International Affairs.

Ming Liu was born on March 14, 1958, in Shanghai. He currently is a professor, executive director of the Institute of International Relations (IIRS), and director of Center for Korea Studies at the Shanghai Academy of Social Sciences (SASS). Liu holds a Ph. D. from World Economy Institute, Fudan University in 1998. He has also been a visiting scholar at Columbia University, Seoul National University and Stanford University. Over his twenty-three years career, Liu has contributed extensively to several leading Canadian and South Korea journals, including the paper "Opportunities and Challenges for Sino-American Cooperation on the Korean Peninsula" (the Korean Journal of Defense Analysis) and "China and the North Korea Crisis: Facing Test and Transition" (Pacific Affairs).

Jiyoung Zheng is a researcher at Fudan University, with research interests in domestic politics of the two Koreas (DPRK's power structure and ROK's political parties), and bi-

lateral and multilateral relations related to the Korean Peninsula. He is the author and co-author of over 30 scholarly articles, and author or editor of five books, including ROK's Political Party Systems (2008).

Jianzhong Jiang is the vice Director of economy department of Nanjing Institute of Politics, with research interests in theory of International Relations, Empirical-Quantitative Approaches to the Study of International Relations, and Financial Engineering.

Tomohiko Satake is a Research Fellow at The National Institute for Defense Studies. He focuses on Alliance Studies, Asia-Pacific Security, and Japan's Security Policies. His major publications include "Japan, Australia and International Security Burden-sharing with the United States," in William Tow and Rikki Kersten (eds), *Bilateral Perspectives on Regional Security: Australia, Japan and the Asia-Pacific Region* (Palgrave Macmillan, 2012), "The Origin of Trilateralism? The U.S.-Japan-Australia Security Relations during the 1990s," *International Relations of the Asia-Pacific*, Vol. 11, No. 1, 2011: 87-114, and "Japan's Nuclear Policy: Between Non-nuclear Identity and U.S. Extended Deterrence," *Austral Policy Forum*, 09 12-A (May 2009). Tomohiko Satake received his Ph.D at Australian National University.

Sachio Nakato is a Professor in College of International Relations at Ritsumeikan University, Kyoto, Japan. His current research interests are international relations of Northeast Asia, U.S.-Japan relations, and U.S.-Japan-South Korean policy toward North Korea. His recent publications include "North Korea's Second Nuclear Test: Neoclassical Realism Perspectives," *Pacific Focus* (2012), "Security Dynamics in Northeast Asia: Emerging Confrontation

between U.S.-ROK-Japan vs. China-Russia-DPRK,” U.S.-China Relations and Korea Unification (2011), and others. Professor Nakato received his Ph. D. from Ritsumeikan University, M. A. from Ritsumeikan/American University, and B.A. from State University of New York at Oneonta. He also graduated from Korean Language Institute at Yonsei University. Professor Nakato has been a visiting fellow at the Center for Asian Studies, American University, and Graduate School of International Service, Sookmyung Women’s University.

Leonid Petrov graduated from the Department of Oriental Studies, St. Petersburg State University in 1994, where he majored in Korean History and Language. In 1994-1996, he worked as interpreter for the South Korean National Soccer Team. In 1996-2002, Leonid Petrov worked on a doctoral thesis “Socio-economic School and the Formation of North Korean Official Historiography” at the Australian National University (Canberra). Between 2003 and 2005, Dr. Petrov conducted post-doctoral research at the Academy of Korean Studies (Seongnam) and taught Korean History at the Intercultural Institute of California (San Francisco) and Keimyung University (Daegu). In 2006-2007, he was Chair of Korean Studies at the Institut d’Etudes Politiques de Paris (Sciences Po). Starting from 2007, Dr. Petrov worked on a number of projects sponsored by the Australian Research Council: “Historical Conflict and Reconciliation in East Asia” (2007); “Northeast Asia and the Korean War: Legacies of Hot and Cold Wars in Contemporary Constructions of the Region” (2012); and “North Korea’s Quiet Transformation” (2013). Since 2009, Dr. Petrov teaches Korean History and Language at the University of Sydney.

Alexander Fedorovskiy is an expert in the Pacific regional econo-

my, Northeast Asian affairs, the Korean economy and Russian-Korean relations. He graduated from Moscow State University (1977), economic department and received his Ph.D. in economics from IMEMO. He is Head of Section for Pacific Studies at the Institute of World Economy and International Relations (IMEMO) of the Russian Academy of Sciences since 1996. In 2003-2007 he also served as the Executive Secretary of the Center for Contemporary Korean Studies and member of editorial board of journal "KoRus-Forum" (Moscow); in 2002-2004 he was a professor at Moscow MGIMO University of the MOFA the Russian Federation. In 2008-2010 he was member of Editorial Advisory Board of "International Journal of Korean Unification Studies" (Seoul). Professor Fedorovskiy is the author of 3 individual monographs, 20 collective monographs and about 200 journal and newspaper articles published in Russia, the ROK and other countries, including: Books: Editor in Chief: Twenty Years of Russia-ROK Diplomatic Relations: Main Results and Prospects for Bilateral Cooperation (in Russian). Moscow: IMEMO, 2010. Co-Editor in Chief (with Jung-Ho Bae) Russian National Strategy a. ROK-Russian Strategic Partnership in the 21st Century. Seoul:KINU, 2010. Chaebol phenomena: the state and big business relations in the Republic of Korea (In Russian), Moscow: Strategiya Publishing House, 2008. Prof. Fedorovskiy has held research fellowship in the ROK, Japan and the U.S.A and participated in research programs initiated by Korean Institute for National Unification (KINU) (1997); SIPRI (1998-1999); National Institute for Research Advancement (NIRA, Japan), (1999-2000); Gorbachev-Foundation (2002-2003); the RAND Corporation (U.S.A) (2005-2007); the Korea Foundation (Republic of Korea) (2010-2012).

Thomas S. Wilkins is Senior Lecturer at the University of Sydney. He specialises in Security Studies and Strategic Studies, with a particular emphasis on the Asia-Pacific region. Before joining the University of Sydney he was a Lecturer in Military History/Security at the University of Salford, and held Post-Doctoral Fellowships at the University of San Francisco, the East West Center (Honolulu). Dr. Wilkins is spending the 2012-2013 academic year at Tokyo University via a Japan Foundation Japanese Studies Fellowship. His latest publications include: 'Japan-Australia Security Relations: Building a Real Strategic Partnership?' in Bill Tow and Rikki Kersten, (eds.), *Bilateral Perspectives on Regional Security: Australia, Japan and the Asia-Pacific Region*, London: Palgrave, 2011; 'Japanese Alliance Diversification: A Comparative Analysis of the Indian and Australian Strategic Partnerships', *International Relations of the Asia-Pacific*, vol.11:1, 2011, pp. 115-155. He is currently completing his manuscript for Lynne Rienner Publishers on 'Asia-Pacific security Alignment.'

Jeffrey Robertson is a Visiting Professor at the Korea Development Institute (KDI) School of Public Policy and Management and concurrently works as a consultant on Korean Peninsula affairs. He previously worked for the Australian Government and served as Senior Researcher (North Asia) in the Foreign Affairs, Defence and Security section of the Parliamentary Research Service, Parliament of Australia, providing research and analysis for Members of Parliament, Senators and Parliamentary Committees. His research interests include middle-power diplomacy, foreign policy and diplomatic practice. He is currently completing a book on South Korea's diplomatic style.

Kyuryoon Kim is currently the Director of Center for International Relation Studies at the Korea Institute for National Unification (KINU). His research areas include Inter-Korean Exchange and Cooperation, East Asian Regional Cooperation, Asia-Pacific Trade Relations, and International Political Economy. He received his M.A. and Ph.D. in International Political Economy at Northwestern University. His major publications include *Energy Cooperation with North Korea* (2005), *New Linkages of Northeast Asian Regional Cooperation* (2007), *North Korea's External Economic Relations* (2008), *Modernization and Opening-Up of North Korean Economy: Roles and Efforts of Neighboring Countries* (2009), *In Search of New Peace on the Korean Peninsula* (2010), and *A New Approach to the Research on Unification Costs/Benefits of Korean unification*(2011). He is concurrently a member of Board of Director at The Korean Political Science Association and previously he was a Visiting Scholar at the U.S. Library of Congress.

Hyun-Wook Kim is currently the Director-General at the Department of American Studies, IFANS, Korea National Diplomatic Academy. His research areas include international security, U.S. Foreign Policy, U.S.-ROK relations and U.S.-DPRK relations. He has published many articles in journals like *Australian Journal of International Affairs*, *IFANS Review*, *Journal of East Asian Affairs*, *Korean Journal of Defense Analysis*, etc. He has finished his doctoral program in political science at Brown University, and worked at the University of Southern California as a postdoctoral fellow. He received his M.A. and B.A. from Yonsei University.

연구총서

2010-01	북한 핵 보유 고수 전략의 도전과 대응	박형중 외	9,500원
2010-02	탈사회주의 경제이행 국가의 권력구조 유형과 개혁 경로: 포스트-김정일 체제에 대한 시사점	최진욱, 김진하	8,000원
2010-03	북한 개방화와 인권개선 방안연구	김국신, 김연수, 서보혁	7,000원
2010-04	북한의 체제위기와 사회갈등	조한범, 양문수, 조대엽	7,500원
2010-05	오바마 행정부 출범 이후 동북아전략 환경의 변화와 한국의 동북아 4국 통일외교전략	배정호 외	12,500원
2010-06	북한주민 인권의식 실태연구	이금순, 전현준	8,500원
2010-07	라진·선봉지역 물류분야 남북 협력방안 연구	김영윤, 추원서, 임을출	8,000원
2010-08	민족공동체 통일방안의 새로운 접근과 추진방안: 3대 공동체 통일구상 중심	박종철 외	11,500원
2010-09	통일한국의 정치체제	허문영 외	6,000원
2010-10	북한 핵에 대한 억지방향 연구	홍우택	5,000원
2010-11	북한의 포스트 김정일체제 전망	정영태 외	11,000원
2010-12	북한 주민의 의식과 정체성: 자아의 독립, 국가의 그늘, 욕망의 부상	조정아 외	17,000원
2010-13	북·중 경제관계와 남북경협에의 대북 파급효과 비교분석	최수영	7,500원
2010-14	East Asian Community Building: Issue Areas and Perspectives of Regional Countries	김규륜 외	10,000원
2010-15 (I)	신아시아 외교와 새로운 평화의 모색 I	김규륜 외	13,000원
2010-15 (II)	신아시아 외교와 새로운 평화의 모색 II	김규륜 외	13,000원
2011-01	제2차 핵안보정상회의와 북한 핵문제	전성훈	14,500원
2011-02	북한군의 기강 해이에 관한 연구	이교덕 외	11,000원
2011-03	통일 진입과정에서의 북한 재건 방향	최진욱, 김진하	5,500원
2011-04	북한의 부문별 조직실태 및 조직문화 변화 종합연구	정영태	16,000원
2011-05	북한형사재판제도 연구: 특징과 실태	이규창, 정광진	8,000원
2011-06	북한주민의 삶의 질: 실태와 인식	김수암 외	12,000원
2011-07	한반도 평화와 북한 비핵화: 협력적 위협감축(CTR)의 적용방안	박종철 외	10,000원
2011-08	대북한 핵협상 전략구상방향	홍우택 외	6,000원
2011-09	중국의 부상에 대한 북한의 인식과 대응	허문영, 마민호	10,000원
2011-10	북한 핵의 국제정치와 한국의 대북 핵전략	배정호 외	11,000원
2011-11	평화통일을 위한 통일외교 전략	박영호 외	13,500원
2011-12 (I)	중국의 G2 부상과 한반도 평화통일 추진전략 제1부	황병덕 외	15,500원
2011-12 (II)	중국의 G2 부상과 한반도 평화통일 추진전략 제2부	황병덕 외	13,500원
2011-12 (III)	중국의 G2 부상과 한반도 평화통일 추진전략 제3부	황병덕 외	18,000원
2012-01	미국의 對韓 핵우산정책에 관한 연구	전성훈	14,000원
2012-02	북한부패와 인권의 상관성	김수암 외	11,000원
2012-03	보호책임(R2P) 이행에 관한 연구	이규창 외	11,000원

2012-04	EC/EU사례분석을 통한 남북 및 동북아공동체 추진방안: 유럽공동체 형성기를 중심으로	손기웅 외	14,000원
2012-05	김정은체제의 권력엘리트 연구	이교덕 외	13,000원
2012-06	독재정권의 성격과 정치변동: 북한 관련 시사점	박형중 외	11,000원
2012-07	북방삼각관계 변화와 지속: 북한의 균형화 전략을 중심으로	허문영, 유동원, 심승우	10,000원
2012-08	북한 핵문제의 전망과 대응책: 정책결정모델(Decision Making Model)을 이용한 전략 분석	홍우택	8,000원
2012-09	중국의 한반도 관련 정책연구기관 및 전문가 현황분석	전병곤	
2012-10	2000년대 대북정책 평가와 정책대안: '동시병행 선순환 모델'의 원칙과 과제	박종철 외	12,500원
2012-11	리더십교체기의 동북아 4국의 국내정치 및 대외정책 변화와 한국의 통일외교 전략	배정호 외	
2012-12	김정은 정권의 정책전망: 정권 초기의 권력구조와 리더십에 대한 분석을 중심으로	최진욱, 한기범, 장용석	7,500원
2012-13	신정부 '국가전략 DMZ 평화적 이용'	손기웅 외	8,000원

학술회의총서

2010-01	이명박 정부 2년 대북정책 성과 및 향후 추진방향		8,000원
2010-02	독일 통일 20년과 한반도 통일비전		6,000원
2010-03	분단관리에서 통일대비로		5,500원
2010-04	독일 통일 20년과 한국의 통일대비		7,000원
2011-01	한반도 통일비전과 국제협력		4,000원
2011-02	북한인권 실상과 효율적 개입방안		8,500원
2012-01	The Outlook for the North Korean Situation & Prospects for U.S.-ROK Cooperation After the Death of Kim Jong-il		6,000원
2012-02	김정은 체제의 북한 인권문제와 국제협력		19,000원
2012-03	해외 이주·난민 지원제도의 시사점		13,000원

협동연구총서

2010-14-01	북한정보체계 실태조사(총괄보고서)	황병덕 외	12,000원
2010-14-02	북한정보체계 실태조사(上)	황병덕 외	14,000원
2010-14-03	북한정보체계 실태조사(下)	황병덕 외	13,000원
2010-15-01	이명박 정부 외교안보통일정책의 세부 실천방안 (총괄보고서)		
		여인곤 외	9,000원
2010-15-02	이명박 정부 외교안보통일정책의 추진환경 및 전략과 실천방안		
		박영호 외	9,500원
2010-15-03	이명박 정부 대북통일정책의 세부실천방안	허문영 외	7,000원
2010-15-04	이명박 정부 외교정책의 세부실천방안(1): 협력 네트워크 외교 분야		
		남궁영 외	7,500원

2010-15-05	이명박 정부 외교정책의 세부 실천방안(2): 포괄적 실리외교 분야	전재성 외	9,500원
2010-15-06	이명박 정부 안보정책의 세부 실천방안	이수훈 외	7,500원
2010-16-01	북한의 정상국가화 지원방안 연구(총괄보고서)	이교덕 외	7,000원
2010-16-02	북한의 정치부문 정상국가화 지원방안	전현준 외	7,500원
2010-16-03	북한 시장 진화에 관한 복잡계 시뮬레이션	조정아 외	14,000원
2010-16-04	북한의 정상국가화를 위한 국제사회의 지원방안	민병원 외	7,500원
2011-14-01	북한정보관리체계 개선방안(총괄보고서)	황병덕 외	14,500원
2011-14-02	북한정보관리체계 개선방안(상)	황병덕 외	13,000원
2011-14-03	북한정보관리체계 개선방안(중)	황병덕 외	12,000원
2011-14-04	북한정보관리체계 개선방안(하)	황병덕 외	13,500원
2011-15-01	북한 경제발전을 위한 국제협력 프로그램 연구: 국제사회의 경험 분석(총괄보고서)	임강택 외	11,000원
2011-15-02	부패의 개념과 실태 및 반부패 개혁	박형중 외	10,000원
2011-15-03	체제전환국의 시장-민주제도 건설 지원	박영호 외	13,000원
2011-15-04	국제사회의 개발지원전략과 협력체계 연구	장형수 외	9,500원
2011-15-05	수원국의 역량발전을 위한 개발협력전략과 사례연구	이종무 외	9,500원
2011-15-06	인프라 개발을 위한 국제협력 사례와 시사점	이상준 외	9,000원

논총

<i>International Journal of Korean Unification Studies</i> , Vol. 19, No. 1 (2010)	10,000원
통일정책연구, 제19권 2호 (2010)	10,000원
<i>International Journal of Korean Unification Studies</i> , Vol. 19, No. 2 (2010)	10,000원
통일정책연구, 제20권 1호 (2011)	10,000원
<i>International Journal of Korean Unification Studies</i> , Vol. 20, No. 1 (2011)	10,000원
통일정책연구, 제20권 2호 (2011)	10,000원
<i>International Journal of Korean Unification Studies</i> , Vol. 20, No. 2 (2011)	10,000원
통일정책연구, 제21권 1호 (2012)	10,000원
<i>International Journal of Korean Unification Studies</i> , Vol. 21, No. 1 (2012)	10,000원

북한인권백서

북한인권백서 2010	박영호 외	10,000원
<i>White Paper on Human Rights in North Korea 2010</i>	박영호 외	20,000원
북한인권백서 2011	김국신 외	17,500원
<i>White Paper on Human Rights in North Korea 2011</i>	김국신 외	17,500원
북한인권백서 2012	김수임 외	19,500원
<i>White Paper on Human Rights in North Korea 2012</i>	손기웅 외	23,500원

기타

2010	김정일 현지지도 동향 1994-2009		15,000원
2010	21세기 러시아의 국가전략과 한-러 전략적 동반자관계		10,500원
2010	Russian National Strategy and R.O.K.-Russian Strategic Partnership in the 21st Century		13,500원
2010	NPT 체제와 핵안보		13,000원
2010	Nuclear Security 2012: Challenges of Proliferation and Implication for the Korean Peninsula		15,000원
2010	통일 환경 평가(통일대계 연구 2010-01)	박종철 외	18,000원
2010	통일비전 개발(통일대계 연구 2010-02)	조민 외	12,000원
2010	독일의 평화통일과 통일독일 20년 발전상(통일대계 연구 2010-03)	황병덕 외	16,000원
2010	사회주의 체제전환 이후 발전상과 한반도통일-중국, 베트남 및 중동부 유럽 국가들의 사회주의 체제전환 중심(통일대계 연구 2010-04)	황병덕 외	15,000원
2010	전환기의 북한과 통일담론(통일대계 연구 2010-05)	배정호 편저	11,000원
2010	한반도 통일과 주변 4국(통일대계 연구 2010-06)	최진욱 편저	11,000원
2010	Korean Unification and the Neighboring Powers(통일대계 연구 2010-07)	최진욱 편저	13,000원
2011	통일대비를 위한 북한변화 전략(통일대계연구 2011-01-1)	박형중 외	17,000원
2011	북한변화를 위한 한-중 협력방안(통일대계연구 2011-01-2)	임강택 외	6,500원
2011	남북 친화력 확대 방안(통일대계연구 2011-02)	조민 외	6,000원
2011	통일대비를 위한 국내과제(통일대계연구 2011-03)	박종철 외	13,000원
2011	통일외교 과제와 전략(통일대계연구 2011-04)	최진욱 외	13,000원
2011	US-China Relations and Korean Unification(Grand Plan for Korean Unification 2011-05)	최진욱 편저	12,000원
2011	통일 비용-편익 연구의 새로운 접근: 포괄적 연구요소의 도입과 대안의 모색 (통일 비용-편익 종합연구 11-01)	김규륜 외	19,000원
2011	체제전환 비용-편익 사례연구(통일 비용-편익 종합연구 11-02)	조한범 외	10,500원
2011	통일 비용-편익 추계를 위한 북한 공식경제부문의 실태연구 (통일 비용-편익 종합연구 11-03)	임강택 외	9,500원
2011	2011년 통일에측시계구축	박영호, 김형기	8,000원
2011	한반도 통일과 동북아 4국의 입장과 역할	배정호 외	6,500원
2011	Korean Unification and the Positions and Roles of the Four Neighboring Powers	배정호 편	8,000원
2011	중국의 부상에 따른 동북아 전략환경의 변화와 한반도	배정호 편	12,000원
2011	2011 Unification Clock: When will We See a Unified Korea?	Park Young-Ho, Kim Hyeong Ki	4,000원
2011	알기쉬운 통일교육 12주제	허문영 외	35,000원
2012	탈북자 관련 국제조약 및 법령	이규창 외	19,500원
2012	북한인권 이해의 새로운 지평	북한인권연구센터 편	20,500원
2012	알기쉬운 통일교육: 해외한인용	허문영 외	30,000원

2012	통일대비를 위한 대북통일정책 모색(통일대계연구 12-01)	박형중 외	15,000원
2012	통일한국에 대한 국제적 우려해소와 편약: 지역 및 주변국 차원 (통일대계연구 12-02)	박종철 외	14,000원
2012	Korean Unification and a New East Asian Order	최진욱 편저	6,000원
2012	Korean Peninsula Division/Unification: From the International Perspective Kim Kyuryoon, Park Jae-Jeok		13,000원

연례정세보고서

2010	통일환경 및 남북한 관계 전망: 2010~2011	7,000원
2011	통일환경 및 남북한 관계 전망: 2011~2012	6,000원

◆ 비매품 ◆

통일정세분석

2010-01	2010년 북한 신년 공동사설 분석	임강택 외
2010-02	북한 최고인민회의 제12기 제2차 회의 결과 분석	최수영
2010-03	김정일 방중과 중국의 전략외교	배정호, 박영호, 전병곤
2010-04	2010상반기 북한정세 분석 보고서	정영태, 이교덕, 최수영, 임순희, 조정아
2010-05	독일통일 20주년 조망: 독일통일이 한반도 통일에 주는 시사점	황병덕
2010-06	야로슬라블 한-러 정상회담 결과 분석	여인곤
2010-07	북한 3대 세습 후계구도 분석 및 정책변화 전망	김진하
2011-01	2011년 북한 신년 공동사설 분석	최진욱 외
2011-02	미-중 정상회담의 의미와 한국의 전략적 고려사항	배정호 외
2011-03	2011년 미-중 정상회담 평가: 동북아 및 한반도에서의 함의	황병덕 외
2011-04	2009년 헌법 개정 이후 북한 노동법제 동향	이규창
2011-05	최근 북한 주민의 의식변화와 정책적 시사점	임순희
2011-06	최고인민회의 제12기 제4차 회의 결과 분석	임강택, 최진욱
2011-07	중동 민주화 혁명과 한반도 전략적 함의	배정호, 박영호, 박재적, 이기현
2011-08	북한의 여성권·아동권 관련 법 제정 동향	임순희, 김수암, 이규창
2011-09	상반기 북한정세 분석 보고서	최진욱 외
2012-01	2012년 북한 신년 공동사설 분석	최진욱 외
2012-02	북한의 아동교육권 실태와 관련 법령 제정 동향	임순희, 조정아, 이규창
2012-03	북한 미사일 발사에 대한 국제사회의 대응	배정호 외
2012-04	제4차 당대표자회와 제12기 제5차 최고인민회의 분석	박형중 외
2012-05	최근 국제사회의 북한인권 논의동향	이금순, 한동호

KINU 정책연구시리즈

2010-01	한반도 녹색성장을 위한 남북한 산림협력 법제 개선방안 예비연구	이규창
2010-02	2010년 통일예측시계	박영호 외

2010-03	북한 경제개발계획 수립방안 연구: 베트남 사례를 중심으로	임강택 외
2010-04(III)	접경지역의 평화지대 조성을 통한 남북교류 활성화 방안(III): 정책제안	손기웅 외
2010-04(IV)	접경지역의 평화지대 조성을 통한 남북교류 활성화 방안(IV): 2010년 「코리아 접경포럼」 자료집	손기웅 외
2011-01	재스민혁명의 분석과 북한에 대한 시사점	박종철 외
2011-02	창지투(長吉圖) 선도구와 북한나선특별시, 러시아 극동지역 간 경제협력 과제	림금숙
2011-03	6자회담과 남북관계: 전망과 대책	박종철 외
2011-04	보호책임(R2P)의 이론 및 실행, 그리고 한반도예의 함의: 리비아 및 코트디부아르 사태를 중심으로	조정현
2011-05	남북러 가스관 사업의 효과, 쟁점, 과제	이윤식
2011-06	DMZ 총람: 개요, 정치·군사적 현황	손기웅 외
2011-07	DMZ 평화적 이용의 국가적 의미	손기웅 외
2012-01	통일재원 마련 및 통일의지 결집 관련 국민의 인식	김규륜, 김형기
2012-02	2012년 상반기, 북한 정책동향 분석: 북한 매체의 논조를 중심으로	박형중 외
2012-03	러시아 극동개발과 북한 노동자	이영형

북한인권: 국제사회 동향과 북한의 대응

2010	북한인권 국제사회 동향과 북한의 대응, 제5권 1호	김국신, 김영윤, 전현준, 이금순, 이규창
2010	북한인권 국제사회 동향과 북한의 대응, 제5권 2호	김국신, 전현준, 이금순, 이규창
2011	북한인권 국제사회 동향과 북한의 대응, 제6권 1호	김수암, 전현준, 이규창
2011	북한인권 국제사회 동향과 북한의 대응, 제6권 2호	김수암, 김국신, 이규창
2012	북한인권 국제사회 동향과 북한의 대응, 제7권 1호	손기웅 외

Studies Series

2010-01	Strategy for Encouraging North Korean Opening: Basic Direction and Sequential Tasks Choi Jin Wook, Lee Kyo Duk, Cho Jeong Ah, Lee Jin Yeong, Cha Moon Seok
2010-02	Unification Clock: Predicting Korean Unification Park Young Ho
2011-01	A New Approach to the National Community Unification Formula Park Jong Chul, Hong Woo Taek, Lee Kyu Chang, Kim Philo, Chun Chae Sung, Cho Seong Ryoul, Hong Ihk Pyo, Hwang Sun Hye
2012-01	Study of Disciplinary Problems in the North Korean Army Lee Kyo Duk, Chung Kyu Sup
2012-02	The Quality of Life of North Korean: Current Status and Understanding Kim Soo-Am et al.

기타

2010	2010 Unification Clock: When Will We see a Unified Korea	Park Young Ho
2010	In Search of New Peace on the Korean Peninsula	Kim Kyu-Ryoon

통일연구원은 민족공동체 실현을 위한 국민 역량을 축적하고 통일환경 변화에 적극적 주도적으로 대응할 수 있도록 통일문제에 관한 제반 사항을 전문적, 체계적으로 연구하고 있습니다. 본원의 연구성과에 관심이 있는 분들에게 보다 많은 정보와 자료를 제공하고자 연간 회원제를 운영하고 있습니다.

연간 회원에게는 간행물을 우편으로 우송해 드리며 각종 학술회의에 참석할 수 있는 혜택을 드립니다.

1. 회원 구분

- 가) 학생회원: 대학 및 대학원생
- 나) 일반회원: 학계나 사회기관소속 연구종사자
- 다) 기관회원: 학술 및 연구단체 또는 도서관

2. 가입방법

- 가) 「회원 가입신청서」 작성
- 나) 신한은행 140-002-389681(예금주: 통일연구원)으로 계좌입금
- 다) 연회비: 학생회원 7만원, 일반회원 10만원, 기관회원 20만원

3. 회원 특전

- 가) 연구원이 주최하는 국제 및 국내학술회의 등 각종 연구행사에 초청
- 나) 연구원이 발행하는 정기간행물인 『통일정책연구』, 『International Journal of Korean Unification Studies』, 단행본 시리즈인 연구총서, 학술회의 총서, 협동연구총서, 통일정세분석 등 우송
- 다) 도서관에 소장된 도서 및 자료의 열람, 복사이용
- 라) 구간자료 20% 할인된 가격에 구입

4. 회원가입 문의

- 가) 주소: (142-728) 서울시 강북구 한천로 1307(수유동)
통일연구원 통일학술정보센터 출판정보관리팀 도서회원 담당자
(pcm@kinu.or.kr)
- 나) 전화: (02)901-2559, FAX: (02)901-2547
- 다) 홈페이지: <http://www.kinu.or.kr>

※ 가입기간 중 주소변경시에는 즉시 연락해 주시기 바랍니다.

Korean Peninsula Division/Unification: From the International Perspective



가격 : 13,000원