

Towards a Northeast Asia Security Community: Implications for Korea's Growth and Economic Development

Toward a Northeast Asian Security Community: Implications for South Korea's Economy

by Soon Paik

This paper has three purposes. The first is to analyze the current circumstances and present perspectives of the existing Northeast Asian security community. The second is to develop three scenarios concerning the possibilities and probabilities of developing a Northeast Asian security regime. The third is to discuss what implications these scenarios will provide in terms of Northeast Asian economic institutions. Economic implications are related to the economic benefits and costs and specific issues to follow from the development of the Northeast Asian security community in the process of the three scenarios.

Since World War II, Northeast Asian economic circumstances developed in three phases. In the first phase, just after World War II and ending in the later 1960s, the Japanese economy developed tremendously through the U.S. post-war recovery plan and Japan's U.S.-bound export-oriented economic policies based on Japan's modern industrialized capitalistic structure that had been imported from Western economies in the late nineteenth century. During this phase, the North Korean economy also made major advances to become a developed socialist economy. Joan Robinson, one of the famous British economists after John Maynard Keynes, visited North Korea in early 1960, after which she praised the North Korean economic development that rose from the ashes of World War II.¹

In the second phase, during the period of the early 1970s to the early 1990s, the South Korean economy developed at a double-digit growth rate owing to government-led and export-oriented development strategies. In the third phase, since the late 1980s, the Chinese economy has shown a big jump as a world manufacturer of most kinds of goods owing to its so-called open economic policy that started in early 1970s.

In the dynamic economic phenomena existing in the Northeast Asian community, the current security environment of

the Northeast Asian countries and the countries' possible prospects provide significant implications for the Northeast Asian economies and at the same time for South Korea's economy.

Northeast Asian Security Community: Perspectives and Prospects

The present Northeast Asian security community is based on a two-tiered foundation: one tier is the region's bilateral security alliances such as those between the United States and South Korea, the United States and Japan, and China and North Korea; the second tier is the so-called six-party talks framework.

The first tier is still the fundamental foundation of the Northeast Asian security community, which was developed after World War II and the Korean War. This security foundation is characterized by its strictly bilateral nature, including the Cold War-type of political "isms." It still finds the justification for its existence in the presence of the existing political structure of socialistic communism in North Korea and China.

The second tier, the six-party talks, is a temporal but institutional security arrangement, whose main objective is to resolve North Korea's nuclear issue and to provide a nuclear-free peace on the Korean peninsula. The six-party-talks security framework also has great potential for being developed into the various forms of a Northeast Asian security community.

In this context, three scenarios are proposed concerning the prospects for a Northeast Asian security community.

- **Six-party multilateralism.** This implies a permanent structure of the existing six-party-talks framework, which might be developed in the form of a permanent of-

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office at some place near the border between South Korea and North Korea. Within this framework would be the continued development of bilateral, trilateral, quadrilateral, and multilateral security dialogues, which would move forward from the current status.

- **Extended multilateralism.** This would be a more institutionalized organizational structure than the six-party talks and also would expand membership to include countries such as Australia, Canada, and Mongolia, depending on Northeast Asian security interests.
- **Organized multilateralism.** This system would look toward the establishment of a Northeast Asian security alliance such as NATO, based on the six-party talks and structures that it develops.

The implications of a Northeast Asian security community for South Korea's economy can be illustrated in terms of the prospects for the above three scenarios.

Multilateralism of the Six-Party Talks and Implications for South Korea's Economy

Even after a permanent office for the current six-party talks framework has been installed at a location on the Korean peninsula, the current bilateral economic relations among the six countries would continue to develop toward a more advanced status in terms of volume of trade, foreign direct investment (FDI), and economic connections.

According to data provided by the Korea Economic Institute, South Korea's gross domestic product (GDP) has shown an impressive but moderate growth, with annual rates of 10.0 percent, 8.5 percent, 3.8 percent, 7.0 percent, 3.1 percent, 4.7 percent, 4.2 percent, 5.0 percent, and 5.0 percent during the period from 1999 to 2007.² This growth has been pushed by three factors: reform of Korea's *chaebol* and financial structure after the so-called International Monetary Fund crisis in the late 1990s; increased trade with double-digit developing China; and increasing FDI from various countries.

In 2003, China surpassed the United States as South Korea's number one trading partner, with increasing trade surpluses. After the 1997 crisis, South Korea's Kim Dae-jung government moved aggressively to eliminate most restrictions on foreign firms' long-term investments in local subsidiaries and on their controlling interests in local companies. The figures for FDI into the ROK show impressive amounts (in billions) such as \$15.5, \$15.3, \$11.3, \$9.1, \$6.5, \$12.8, \$11.6, \$11.2, and \$10.6 for the period 1999 through 2007.

South Korea—U.S. Economic Relations

The economic relationship between South Korea and the United States has been essential for the development of the South Korean economy since the time of World War II and the Korean War in terms of economic aid and the U.S. status until 2002 as Korea's number one trading partner.

There are two benefits and two costs (or issues) to consider in the development of the Korea-U.S. economic relationship under the category of six-party-talks multilateralism:

- The first benefit is expected to be the ratification of the U.S.-Korea Free Trade Agreement (KORUS FTA) by both the ROK National Assembly and the U.S. Congress after a short period. The semipermanent six-party talks multilateralism provides the incentive base for both the ROK and the United States to improve and reinforce their economic ties in the Northeast Asian region.

According to estimates by the United States International Trade Commission, after four years of the KORUS FTA, U.S. exports to Korea and Korea's exports to the United States are expected to increase by 54 percent and 21 percent, respectively. The U.S. GDP and the Korean GDP would then rise by 0.2 percent and 0.7 percent, respectively.³

- The second benefit is the possibility of strategically enhancing the economic status of South Korea in the economic environment of the two countries.

The current economic position of South Korea is that it is sandwiched between the world's number two economic power, Japan, and the world's most rapidly developing economic giant, China.

South Korea might be able to leverage its security position in six-party-talks multilateralism to enhance its economic power, and at the same time coordinate and advance ROK-U.S. economic cooperation.

- The first cost (or issue) is an increase in South Korea's security burden in relation to the United States.

At present, the costs of stationing U.S. armed forces in South Korea are being shared by both countries. After six-party-talks multilateralism has achieved semipermanent status, it is highly probable that the United States will pass on all its stationing costs to South Korea.

- The second cost or issue is the probability of revival of protectionist policies directed at the United States.

Semipermanent six-party-talks multilateralism would lead to the assumption on the part of South Korea that the United States alone is not as important as in the past in terms of security and economic issues; this might develop into protectionist policies in South Korea.

South Korea–Japan Economic Relations

In 1965, South Korea and Japan signed the Basic Treaty, which normalized the economic relationship for both countries. From the beginning of the economic normalization, however, South Korea's trade with Japan showed increasing trade deficits, contrasting its surpluses with the United States and China.

Two benefits and one cost characterize the South Korea–Japan economic relation:

- The first benefit is that the coordinating position of South Korea's economy is enhanced by Japanese economy.

Since the 1965 Basic Treaty, South Korea has utilized Japan's past wrongs as well as South Korea's contribution to Japanese security, especially related to North Korea issues, as a means of developing bargaining leverage over Japan. Since the late 1990s, however, South Korea's economic status has been changing from "dependent" to "coordinator," a situation that has been perceived by both governments and developed in reality.

The semipermanent establishment of six-party-talks multilateralism would provide political and economic ties between Japan and North Korea and at the same time improve the economic relationship between Japan and South Korea.

- The second benefit is that South Korea's economy might obtain some advantages from the South Korea–Japan economic relationship by utilizing South Korea's security and economic arrangements with the United States, China, or North Korea as leverage.

Japan's economic position in the Northeast Asian economic community would not be strengthened unless Japan developed positive economic relationships with the South Korean, North Korean, and Chinese economies.

- There would be one cost to the South Korea–Japan economic relationship due to six-party-talks multilateralism: competition among the four economies of South Korea, North Korea, China, and Japan.

The Japanese economy is characterized as an advanced one, with high technology and a complex economic structure; the North Korean economy is an underdeveloped one with

abundant low-cost labor; and the Chinese economy is a developing one with many manufacturing industries.

The South Korean economy is a highly developing one, in the process of moving toward becoming an advanced economy, currently occupying the gap between manufacturing economies and high-tech economies. Japan would improve its positive economic ties with North Korea and China but not with South Korea as a rival economic entity.

South Korea–China Economic Relations

Since diplomatic recognition in 1992, South Korea and China have developed their relationship from friendship and a cooperative relationship to a collaborative partner (under President Kim Dae-jung), to a comprehensive collaborative partner (under President Roh Moo-hyun), and currently to a strategic relationship (under President Lee Myung-bak).

The two benefits are:

- South Korea's economic relationship with China would be more improved under a more settled Northeast Asian security community like a semipermanent six-party-talks multilateralism.

South Korea utilizes the huge market in China for its economic growth, and China uses more freely the development strategies of South Korean experiences such as *SeaMaoul-Undong*.⁴

- Seoul may be able to develop its security or economic leveraging strategy against China to an advanced level under six-party-talks multilateralism by utilizing its three bilateral economic relationships—with the United States, Japan, and North Korea.

The KORUS FTA is expected to play a huge role as powerful leverage.

The two costs or issues are:

- South Korea's economy is rapidly and broadly becoming dependent on China's economic well-being and thus diminishing South Korea's competitive advantage.

The Korea Development Bank estimated in 2006 that China's technology had already reached 95 percent of the Korean level and could surpass the Korean level in almost all areas in five years. This process would develop over time and in scope.

- Chinese economic influence on North Korea would be greater than at present.

The expected economic benefits of six-party-talks multilateralism to be gained from the economic relationship between South Korea and North Korea would probably deteriorate.

South Korea–Russia Economic Relations

- The first benefit is the increasing volume of trade between two countries under a more stable Northeast Asian security community.

South Korea and Russia established diplomatic relations in 1990, and since then their trade turnover has soared from less than \$1 billion to an estimated \$20 billion in 2008. These two countries are now planning a strategic assault on Asian and European markets.

- The second benefit is the increases in bilateral capital investments.

These investments are related to (1) South Korea's direct investments in Russia such as by Hyundai Motors, Samsung Electronics, and the Lotte Group, (2) construction of three new "silk routes," (3) joint development of agriculture, and (4) natural gas pipelines.

- One cost or issue is that Russia might use its political ties with North Korea in order to obtain more economic benefit from the highly developed economic environment of South Korea rather than its bilateral ties with North Korea.

South Korea–North Korea Economic Relations

- The first benefit is that South Korea could be the number one trading partner for North Korea.

At present, South Korea is the number two trading partner to North Korea's economy after China. Trade between the two Koreas increased from \$400 million in 2001 to \$700 million in 2004.⁵ Since then, their trade has shown a big jump—to more than \$1 billion in 2005—including the Kaesong industrial park and the Mt. Kumgang tourism project.

- The second benefit is that South Korea's economy could utilize North Korea's low-cost labor and natural resources in a de facto exchange of industrial structure and investments between South Korea with North Korea.

The costs or issues are:

- How much economic aid should be given to North Korea in terms of the benefit-cost calculation?

- How can Chinese economic dominance in North Korea's economy be balanced in terms of four bilateral economic interests between the Korean peninsula and the United States, Japan, China, and Russia?

- How can North Korea's economy be integrated with the Northeast Asian economic community in terms of economic reform and international financial loans?

The North Korean economy needs not only South Korean economic assistance but also various kinds of international economic aid, including education for North Korean leaders about market economies.

South Korea, more importantly, should develop a strategy for reforming the North Korean economy in terms of its legal system and its economic structure.

Extended Multilateralism and Multilateral Economic Cooperation

Multilateral economic cooperation growing out of the six-party-talks framework would make it feasible for the current six-party multilateral institution to carry out structural adjustment.

On 19 September 2005, the joint statement after the fourth round of the six-party talks referred to "ways and means for promoting security cooperation in Northeast Asia." On 13 February 2007, the joint statement created a working group on a "Northeast Asia Peace and Security Mechanism." This arrangement might make feasible an extended multilateralism in the Northeast Asia region.

Steps should be taken for institutionalizing multilateral economic cooperation beyond the bilateral economic relationships enhanced through the semipermanent six-party-talks multilateral framework.

- The first benefit is that economic integration could reinforce and strengthen the security integration among the extended multilateral partners, and vice versa. Economic cooperation could enhance the security alliance, and the partners' security alliance could also promote economic cooperation.

- The second benefit is that there would be an expansion of the bilateral free-trade agreements existing among the extended partners and possibly also with other countries in regional organizations such as ASEAN countries.

But three major issues need to be resolved to attain successful multilateral economic cooperation among the countries in the extended multilateral security framework:

- The top-down bureaucratic economic planning approach used so far should be modified so that the economic ministers manage the economic issues through talks, and the representatives of major corporations should be invited as well.
- Other multilateral institutions such as Asia-Pacific Economic Cooperation should be interrelated.
- Areas of common interest among the participants—including depoliticized infrastructure, transportation, and energy—should be enumerated and put on the table.

Organized Multilateralism and Multilateral Economic Organization

The fundamental question related to the Northeast Asian economic community is: Is it feasible to formulate a Northeast Asian Union (NEAU) to function in the same manner as the European Union? Although there have been many arguments against the feasibility of an NEAU, in a moderate functional form, a Northeast Asia free-trade agreement, especially a South Korea–Japan–China free-trade agreement, has been argued to be feasible through extensive multilateral approaches.

This argument is based on the fact that economic interactions among these three countries have increased tremendously in recent years. China became not only the number one trading partner of South Korea in 2003, but also the number one trading partner of Japan in the first half of 2007. Regional trade among South Korea, Japan, and China accounts for about 55 percent of total trade of these three countries.⁶

There are three benefits:

- A successful South Korea–Japan–China FTA could be implemented owing to these countries' secure organized multilateralism.

A regional division of labor among these three economies could be arranged according to each economy's comparative advantage. Each of the three economies would probably promote its own comparative economic advantage on the basis of its different stages and patterns of economic growth.

- A South Korea–Japan–China free trade zone might be established to help the three countries maintain their competitiveness in the global market.

- A South Korea–Japan–China FTA could be extended to become a Northeast Asia FTA through 10+3 cooperation with ASEAN. Such a Northeast Asia FTA could promote its competitive strength vis-à-vis the North American Free Trade Area or the European Union, or both.

Two issues will need to be resolved:

- Japan and China might become dominant and gain the most advantages among the three economies. Japan is the world's second-largest economy, and the Chinese economic growth potential is enormous, with double-digit growth rates in recent years.
- Under organized security multilateralism, there is the possibility of including North Korea in an extended FTA. The three countries have several areas of common interest, but it is hard to find areas of common interest with North Korea's economy.

Conclusion

Three scenarios are considered for the prospects for the development of the Northeast Asian Security Community: a six-party-talks multilateralism, an extended multilateralism, and an organized multilateralism.

Under six-party-talks multilateralism, the bilateral economic relationships between South Korea and, separately, the United States, Japan, China, Russia, and North Korea would be enhanced, including the rapid ratification of the KORUS FTA.

Bilateral economic relationships could be improved and move to upgraded levels such that South Korea could make use of its security position in the Northeast Asian security community under the format of six-party-talks multilateralism as leverage in obtaining more economic benefits from its partners.

It is probable that six-party-talks multilateralism would lead to serious competition in the bilateral economic relationships.

By extending the current six-party-talks multilateralism, a multilateral economic cooperation entity might be established for enhancing various economic benefits for the Northeast Asian economic community.

Economic integration to be established through multilateral economic cooperation could also strengthen Northeast Asian security integration.

To establish multilateral economic cooperation, three issues have to be resolved:

- The top-down bureaucratic planning approach should be modified.
- Other multilateral economic institutions should be interrelated.
- Areas of common interest among the participants should be enumerated.

As an organized security multilateralism is in the process of being developed, the first step is to establish a tri-country FTA comprising South Korea, Japan, and China. The second step will be the expansion toward a Northeast Asian FTA.

In either a trilateral FTA or a Northeast Asian FTA, the Japanese economy or the Chinese economy, or both, might tend to dominate and gain the most economic advantages from this organized economic multilateralism.

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Endnotes

¹ Joan Robinson, "Korea, 1964: Economic Miracle," *Monthly Review*, January 1965, reprinted in *Collected Papers*, vol. 3 (Oxford: Basil Blackwell, 1974), 207–15.

² *Korea's Economy*, vol. 23 (Washington, D.C.: Korea Economic Institute, 2007); *Korea's Economy*, vol. 24 (Washington, D.C.: Korea Economic Institute, 2008).

³ Christine McDaniel and Alan Fox, *U.S.-Korea FTA: The Economic Impact of Establishing a Free Trade Agreement (FTA) Between the United States and the Republic of Korea*, Publication no. 3452 (Washington, D.C.: United States International Trade Commission, 2001), x–xi.

⁴ *SeaMaeulUndong* was a movement for modernizing rural areas of South Korea through agricultural development; this movement was initiated and implemented by the Park Chung-hee government of the Republic of Korea in the late 1960s.

⁵ Korea Trade-Investment Promotion Agency (KOTRA), Seoul, Republic of Korea, various years.

⁶ "China-Japan-South Korea FTA Saga: More Thunder, Little Rain," *Chinastakes.com*, 5 May 2008.

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