Shifting Strategic & Diplomatic Relations with the Koreas
CONTENTS

Preface .................................................................................................................................................. vii

Dealing with North Korea: Taking Stock of 2008
No Hugging No Learning
   Michael Schiffer ........................................... 1

North Korean Questions: Taking Stock of 2008
   Lee Shin-wha ............................................. 15

Completing the Strategic Transformation: The U.S. Military Alliances with Korea and Japan
   The U.S.-Japan Alliance and the U.S.-ROK Alliance
   James Przystup ............................................. 43

   Bruce E. Bechtol Jr. ........................................ 75

Korea and Japan’s Strategic Relationship: Where to From Here
   The Future of Korea-Japan’s Strategic Relationship: A Case for Cautious Optimism
   Park Cheol-hee ............................................ 101

   Beyond Bilateral Approaches: Regionalizing Japan-Korea Tensions
   T.J. Pempel .................................................. 119

Alternative Futures: U.S.-Korea Economic Ties with and without a Free Trade Agreement
   Can the U.S. and South Korea Sing without KORUS? The Economic and Strategic Effects of the KORUS FTA
   Mark Manyin, William Cooper .......................... 135

   KORUS FTA as a Better Alternative to Manage the Bilateral Economic Relationship
   Lee Jaemin .................................................... 159

Korea-Japan Economic Ties
   Korea: the Next Asian domino in Global Crisis
   Richard Katz .................................................. 177
KOREA: THE NEXT ASIAN DOMINO IN GLOBAL CRISIS

Richard Katz*

CONTENTS

I. Introduction
II. First, the Good News
III. Economic Anorexia in Korea
IV. Trading Partners
V. Conclusion

I. Introduction

As the U.S. economic crisis was just getting off the ground, many analysts claimed Asia would be relatively immune to the impact because its economies had “decoupled” from the United States. The exports of countries like Japan and Korea were no longer as oriented to the United States as in the past. Instead, China was the major growth market.

In reality, the decoupling story is woefully wrong, for Korea as well as Japan. In both countries, this decade’s economic expansions have been extremely unbalanced; they combine a huge shortfall in consumer income and spending with a stunning rise in the trade surplus to make up for the shortfall in consumer demand. The notion this doesn’t matter because China is the market doesn’t hold water. That’s because many of the exports from Korea and Japan to China serve as inputs to China’s own exports to the United States. As U.S. imports from China slow, so will China’s imports from Korea and Japan.

What strikes us is the degree to which the growth strategy for the big three of Northeast Asia—Japan, China, and Korea—have all converged on the same flawed pattern in this decade: falling consumer income and spending as a share of GDP and an explosive rise in the trade surplus. It’s a very risky strategy that could be sustained only as long as the United States kept expanding its trade deficit. But now the price-adjusted U.S. trade deficit is plunging and imports are declining.

All of this makes Korea, as well as Japan, very vulnerable to the U.S. slowdown. Indeed, while the official forecasts from the Korean government still project growth of 4.8–5.2 percent in 2009, private forecasters think this is whistling past the graveyard. The Korea Economic Research Institute believes growth will slow to 3.8 percent next year, following projected 4.2 percent growth for 2008. Citigroup sees a slowdown to 3.4 percent in 2009. This is a far cry from the 4.8 percent that Korea has averaged since 2002, and even these numbers may prove to be too optimistic depending on the severity of the U.S. recession.

II. First, the Good News

Korea’s Fundamentals Are Sound

To lift a phrase from Senator John McCain, the fundamentals of the Korean economy are sound. But they were also sound back in 1997–98 when investor panic and perverse International Monetary Fund policies all over Asia—for
example, forcing countries to raise interest rates and cut budget deficits in the
midst of a recession—sent the Korean economy into a 7 percent plunge in 1998.
The good news is that, after that panic was cured and the IMF reversed itself,
Korea bounced back to 9.5 percent growth in 1999 and 8.5 percent in 2000. The
solid fundamentals that enabled such a powerful recovery seem to be still in place.

Japan had set the pattern for rapid catch-up, that is, for a very poor country to rise
rapidly toward U.S. levels of per capita GDP. No other country had previously
risen so far so fast. But Korea, like Taiwan, is on the verge of overtaking Japan’s
record (Figure 1). As of 2006, Korea’s per capita GDP was nearly 10 times as
high as it was 40 years earlier in 1968. In 2006, Korea was just as rich as Japan
had been in 1988. What a change people have seen in their lifetimes. Assuming
that Korea does not suffer a Japan-like “lost decade,” it is on the verge of
overtaking Japan’s trajectory. So far, only Taiwan has done better.

Figure 1: Growth of GDP per Capita in Selected Asian Countries

Most economists think that Korea still has the potential to grow at 4.5–5.0 percent
a year for several years to come, assuming no macroeconomic crisis (Figure 2).
That would be an extraordinary rate of growth for a country as rich as Korea.
Typically, poor countries grow slowly; then growing picks up as countries
industrialize; and then growth slows again as countries mature.

Japan was also growing at 4–5 percent during the late 1980s, when its per capita
GDP was the same as Korea’s today. The reason for greater optimism about Korea
is that Korea’s growth is driven by solid increases in productivity (Figure 3)
strength that Japan had begun to lose even before its bubble turned into its lost
decade. Labor productivity, growing at an average of 3.2 percent a year during
this decade, has provided Korea with 70 percent of all GDP growth. The other 30
percent is provided by more people working. By contrast, Japan’s labor productivity
growth has averaged 2.2 percent during the current recovery, and sustainable
productivity growth is probably somewhere between 1.5 percent and 2.0 percent.

Even more important for high growth over the long haul is total factor
productivity, that is, growth in GDP plus growth in labor and capital combined.
In Korea, this has grown at 2 percent a year and has provided 40 percent of all
GDP growth during this decade.
There is another good sign for Korea in comparison with Japan. In the 1980s, Japan made up for its shortfalls in both productivity and consumer demand by using the monetary steroids of low interest rates to promote capital investment. That led to many white-elephant projects like office buildings and factories that eventually turned into money losers that produce a mountain of nonperforming debt. Korea went through a similar problem prior to the 1997–98 crisis. Its capital formation rate (the sum of business, government, and housing investment) reached nearly 40 percent—an unsustainable rate. But now Korea has been able to maintain good growth rates even as it lowered its capital formation rate to a more sustainable high 20s (Figure 4).

Figure 4: Capital Formation Rate in Korea’s Economy, 1985–2007

Competitiveness through Competition

During a trip to Seoul in 1999, we heard an economic minister in the reform government of Kim Dae-jung declare, “You can’t have competitiveness without competition.” And so the Kim administration moved to open Korea more than ever before to trade and inward foreign direct investment (FDI) in the belief that increased competition with foreign countries would make Korea’s own firms “lean and mean.” This reasoning is solidly based. Evidence shows that, all other things being equal, countries with higher ratios of trade to GDP tend to grow faster.

The Kim Dae Jung administration also believed that economic liberalization would weaken the dominance of the economy by government-allied corporate conglomerates (chaebol) and thereby help Korea become more democratic.
Korea had always been more open to trade than Japan, and this difference has increased of late.

The trade-GDP ratio (exports plus imports as a percentage of nominal GDP) has risen from 63 percent in 1985 to 90 percent in 2007 (Figure 5). In price-adjusted terms—which better reflect the competitive pressures on domestic Korean firms—the trade-GDP ratio has soared even more: from 34 percent in 1985, to 71 percent when Kim Dae-jung came in, to 112 percent today (Figure 6). The cumulative stock of FDI increased from 2 percent in 1990 to 8 percent by 2006 (Figure 7).

**Figure 5:** Nominal Trade-GDP Ratio in Korea, 1985–2007

![Nominal Trade-GDP Ratio in Korea, 1985–2007](image1)

**Figure 6:** Real Trade-GDP Ratio in Korea, 1985–2007

![Real Trade-GDP Ratio in Korea, 1985–2007](image2)
By contrast, Japan’s nominal trade-GDP ratio is still only 27 percent of GDP, up from 13 percent in 1980. Its stock of inward FDI was only 2.5 percent in 2006, an improvement from the negligible level of 0.3 percent in 1990, but still way behind global trends.

The fact that Korea is opening up so much unilaterally explains one reason why there is so little strong business lobbying by U.S. firms on behalf of the U.S.-Korea Free Trade Agreement (KORUS FTA). Automakers are strongly against it, for fear of lowering the 25 percent import tariff on trucks. By contrast, most of the U.S. business sectors seeking greater opportunities for trade and investment in Korea are already seeing tremendous progress even without a KORUS FTA. Certainly, U.S. firms would benefit, some (like financial firms) more than others. But with so many other issues on which to spend their political capital, the KORUS FTA is a lower priority. Similarly, Barack Obama is hardly as hawkish on trade as he had to pretend to be in order to win the Democratic primaries. With so many other issues on his plate, it’s hard to see why he would spend political capital trying to push even a renegotiated KORUS FTA through Congress early in his term. Perhaps the best that can be hoped for is that a vote is delayed until the receptiveness improves. Trying to push an early vote probably poses a greater risk of defeat.
III. Economic Anorexia in Korea

Now for the bad news. Although Korea differs from Japan in many ways, it unfortunately resembles Japan (and China) in some of its macroeconomic imbalances.

Like Japan, Korea suffers from “economic anorexia,” a serious consumption disorder. Consumer spending is too weak to drive growth. That’s okay when a country is in the newly industrializing stage of development, and it suppresses consumption to free resources to promote high investment rates. But after a country becomes rich, it must shift to consumer-led growth. As a country matures, because of the law of diminishing returns, there are fewer opportunities for high-return investments. That is why, in mature countries, growth slows and investment rates decline. As investment rates decline, consumption rates need to rise to make up the difference. Unfortunately, Korea, like Japan before it, has moved in the opposite direction.

Consumer spending as a share of real (price-adjusted) GDP has taken a plunge even steeper than in Japan: from 65 percent of real GDP in 1985 to only 49 percent in 2007 (Figure 8). This is not because Koreans are too frugal to spend, but because they lack sufficient money to spend. The problem is not lack of will but lack of wallet. Household disposable income has fallen from 75 percent of real GDP in 1985 to only 53 percent in 2007 (Figure 9).

Figure 8: Consumer Spending as Share of Price-Adjusted GDP in Korea, 1985–2007
Let us be clear. We are not talking about a decline in living standards. On the contrary, the rise in income and consumption and living standards has been phenomenal. Real personal consumption in 2007 in Korea was more than triple the level in 1985. What we are talking about is the fact that, as fast as consumption has risen, it has not risen as fast as GDP. While GDP has risen 4.8 percent per year since 2002, consumption has risen only 3.1 percent. Consequently, consumption has declined as a share of GDP. That has produced a big macroeconomic imbalance.

**Exports Make Up Demand Shortfall**

For a country to grow, demand must equal potential supply. Korea’s good fundamentals (for example, its productivity) give it the potential to continue growing at healthy rates. Whether it can actually do so depends on whether demand is high enough to purchase all that Korea is able to produce. If consumption is falling as a share of GDP, then something else must rise to make up the difference. Otherwise, Korea would fall into a chronic malaise, as Japan did during its lost decade.

Like Japan and China, Korea has used a rising trade surplus to make up the shortfall. For an economy to have both exports and imports rise as a share of GDP in tandem is a very healthy development. That provides competitive pressures that force companies to improve their efficiency, and it allows exporters to gain economies of scale. But for a large economy to rely inordinately on a rising trade surplus—exports minus imports—is inherently unhealthy because it is not sustainable.
Prior to the 1997–98 financial crisis, Korea chronically ran a trade deficit. It was consuming and investing more than it was producing. In essence, it was borrowing from the rest of the world in order to finance high capital formation rates at home. That can be a very sound economic strategy, just as it is sound for a company to borrow in order to finance growth. However, its huge buildup of short-term debt made Korea was very vulnerable when capital flight took place during the investor panic of 1997–98.

Since then, Korea, like other countries in Asia, has sought to avoid any future vulnerability on this count by running increasingly large trade surpluses in price-adjusted terms (for example, the number of cars exported vs. number of barrels of oil imported). By 2007, the trade surplus had soared to a stunning 11 percent of GDP (Figure 10).

**Figure 10: Trade Surplus in Korea, 1985–2007**

![Trade Surplus in Korea, 1985–2007](image)

In nominal terms, Korea runs a negligible surplus, and sometimes a deficit, because of higher prices on oil imports and other items. When it comes to promoting real demand for output, it is the price-adjusted trade surplus that matters. But the distinction between the real and nominal trade balances poses another kind of risk that we’ll discuss later.

As a result, Korea’s growth has become extremely unbalanced (Figure 11 and Figure 12). Even though consumption amounts to half of GDP, it has provided only 28 percent of growth in GDP during 2002–07. Business investment accounts for 29 percent of GDP but supplied only 23 percent of growth during this period. By contrast, the trade surplus provided a whopping 40 percent of growth, even though it averaged “only” 8 percent of GDP during this period. In fact, Figure 11 looks very similar to charts we have run on Japan.
Korea has, in effect, traded one kind of vulnerability for another. During the days when it ran big nominal trade deficits, Korea was vulnerable to capital flight. As the money fled, Korea could no longer afford to import vital parts, materials, and oil. Factories shut down and the country suffered depression. But relying on an excessively large surplus to drive growth also leaves a country vulnerable. What happens if growth slows in the market countries and Korea’s exports decelerate or decline? That is the situation Korea faces today.
In late 2008, the U.S. slowdown is only beginning to hit Korean exports. As of July 2008 (latest data available at the time of this talk), Korea’s price-adjusted exports were up 11 percent from year-earlier figures (Figure 13). That’s a comedown from 15 percent year-on-year growth earlier in 2008 but not much below the 12 percent average for the past few years.

**Figure 13: Price-Adjusted Exports in Korea, 2005–08**

The Myth of Decoupling Owing to the China Market

Koreans, like the Japanese, have long believed that they had decoupled their economies from the United States. After all, they had diverted their export markets from the United States to China. From 30 percent in 1990, the share of Korean exports going to the United States fell to 12 percent by 2007. Conversely, the share going to China rose from zero in 1990 to 22 percent by 2007. The share going to Japan fell from 20 percent to a surprisingly small 7 percent (Figure 14). Moreover, during the current decade, China has accounted for one-third of all Korea’s export growth, compared with only 4 percent for the United States and 3 percent for Japan (Figure 15).

Beyond that, Korea runs a big trade surplus with China, compared with a smaller surplus for the United States and a big deficit with Japan (Figure 16). (Note that the surplus by country is measured in nominal terms because we do not have the data in price-adjusted terms.)

So, the Korean government and many analysts reckoned that, even if the United States slowed down, Korean exports could keep growing rapidly as long as
China held up. That’s exactly the same reasoning that prevailed in Tokyo until recently.

**Figure 14: Korea’s Exports to China, Japan, and the United States, 1990–2006**

![Graph showing Korea's exports to China, Japan, and the United States, 1990–2006.](image)

**Figure 15: Korea’s Export Growth vis-à-vis China, Japan, and the United States, 2000–07**

![Graph showing percentage of 2000-07 export growth for Korea vis-à-vis China, Japan, and the United States.](image)

But here’s the reality: as with Japan, Korea’s exports to China hinge on China’s own exports to the United States—not on China’s internal GDP growth. During the current decade, there has been a very high 72 percent correlation between the ups and downs of Korean exports to China and China’s own exports to the United States, up from a 50 percent correlation for 1994–2008. In other words, the correlation has gotten tighter over time (**Figure 17**).
By contrast, to our great surprise, there has been virtually no correlation between the growth rates of Korea’s exports to China and Chinese GDP growth (Figure 18). This is quite extraordinary. It suggests that most Korean exports to China serve as capital or material input for the Chinese companies that export to the United States. Korean exports to China are, in effect, Korean exports to the United States, with China as the midway station. Hence, even if, as many economists expect, China uses fiscal stimulus and other measures to sustain its own domestic growth during the U.S. recession, that will not keep Chinese demand for Korean goods at a high level. To put it another way, even if China has managed to decouple its own growth from the United States, that does not keep Korea safe.
IV. Trading Partners

The United States Is Still the Locomotive

For good or ill, the United States remains the locomotive for much of Asia’s growth, certainly for Korea and Japan. In fact, the United States is such a global locomotive that, during the current decade, Korea’s global exports have mirrored the ups and downs of U.S. global imports. The correlation between Korean global exports and U.S. global imports has been a very high: 72 percent (Figure 19). This is extraordinary considering the big decline in the United States as a direct market for Korean exports.

Figure 18: Korea’s Exports to China Compared with China’s GDP, 1994–2008

Figure 19: Korea’s Global Exports Compared with U.S. Global Imports, 1992–2008
This suggests two things. On the microeconomic level, it suggests that, not just in the case of China but elsewhere as well, Korean products are part of a global production and distribution network for which the United States is the ultimate customer. On the macroeconomic level, it suggests that the explosive growth in U.S. imports during much of this decade has been a great source of global demand stimulus.

But the consequence is this: if the United States slows its imports—globally or from only China—then sooner or later Korea’s global exports, including its exports to China, will have to slow. That is already happening. Indeed, because of the emerging U.S. recession, U.S. global imports are not just decelerating; they’re actually declining. As of mid-2008, the price-adjusted global imports to the United States were down 2 percent from year-earlier levels (Figure 20).

Figure 20: Real Import Growth of the United States, 2000–08

What about the Trade Surplus?

As noted earlier, the key factor for growth was not just exports, but net exports, that is, the trade surplus (in GDP accounting, exports add to demand while imports subtract from it). In 2007, Korea’s price-adjusted trade surplus was 11 percent of GDP. For the trade surplus to continue driving growth, its ratio to GDP would have to rise even higher. Remember, it is not the size of the trade surplus that counts for GDP growth. What counts is whether that surplus is growing or shrinking. A trade surplus that goes from 11 percent to 9 percent of GDP detracts from growth.
Korea simply cannot sustain a trade surplus at 11 percent of GDP indefinitely, let alone cause it to keep rising. Korea is just too big to run the kind of surpluses a small economy might. Korea cannot run a trade surplus of $100 billion or $200 billion or $300 billion unless the rest of the world combined runs an equal trade deficit. For most of this decade, “rest of the world” mostly meant the United States as its trade deficit exploded to a peak of 6 percent of real GDP in late 2004. But now the combination of a cheaper dollar and economic weakness has reversed the huge growth in the trade deficit. As of mid-2008, the real trade deficit of the United States is down 40 percent, to $380 billion, from its peak of nearly $640 billion in late 2005 (Figure 21).

Figure 21: U.S. Trade Deficit, 1995–2008

The Won and Nominal Balances

One reason for Korea’s better-than-expected performance is a dramatic 20 percent drop in the Korean currency, the won, since the beginning of the year (Figure 22). This has made Korean products cheaper on world markets. But in a world that is slowing down, currency depreciation is not a lasting recipe for export growth. It took a while for the impact to hit Japan. It is taking even longer for it to hit Korea.

There is another consideration for Korea: the gap between its trade balance in price-adjusted vs. nominal terms. In price-adjusted terms—the consideration that matters for driving demand—the Korean surplus, as we stressed above, hit 11 percent of GDP in 2007. However, in nominal terms, the surplus was far lower, less than 1 percent of GDP (Figure 23). One reason for this difference
is high prices for oil and other raw materials imports. If the price of oil goes from $20 a barrel to $100, then Korea’s import bill soars even if Korea does not import a single additional barrel of oil. A depreciating won also makes import prices higher.

*Figure 22: Exchange Rate for Korean Won, 2000–08*

![Exchange Rate for Korean Won, 2000–08](image)

*Figure 23: Nominal Trade Balance as Percentage of GDP in Korea, 1980–2007*

![Nominal Trade Balance as Percentage of GDP in Korea, 1980–2007](image)

So, as Korean exports shrink in the global downturn, Korea is likely to start running a sizable nominal trade deficit. In fact, some forecasters say that in 2008 Korea may run the biggest nominal deficit since 1996, when the deficit was $20 billion. That could put additional downward pressure on the won. Korea has very large foreign exchange reserves and so should not suffer a crisis as in
1997–98, but it is something for policymakers to consider. A big loss in terms of trade (having to pay more for imports and earn less on exports) would be a considerable hit to the economy, Korea’s attractiveness to foreign investors, and financial stability.

**Comparisons with China**

Korea’s excessive reliance on a rising trade surplus during this decade is hardly unique. The same pattern—and resulting vulnerability—afflicts both China and Japan. And both are already feeling the impact of the U.S.-originated global slowdown. It is striking to see how similar the pattern is in all three of the Northeast Asian countries.

Typically, poor countries devote about 60 percent of GDP to personal consumption. In China, consumption was already a relatively low 50 percent of GDP in the 1980s. Today, it’s a mere 37 percent, one of the lowest consumption rates in the world. Lowering the consumption share has allowed China to devote more resources to investment and thereby grow faster. So, in absolute terms, consumption has gone up tremendously. Back in 1990, 875 million Chinese lived on less than $2 a day; but by 2015, only 181 million will live in such abysmal poverty. A development strategy that brought enormous success has been taken to an unhealthy and unsustainable extreme.

The primary reason for low personal consumption is low income. According to prominent Sinologist Nicholas Lardy, household disposable income as a share of GDP fell by 5 percentage points and suffered another fall of more than 4 points in 2004.

To make up for such anemic consumption, China has poured on investment. Total investment in public works, business investment, and housing now amounts to a gargantuan 45 percent of GDP, one of the highest capital formation rates in the world. One factor in propelling investment has been ultra-low interest rates that, at times, have become negative in inflation-adjusted terms. Monetary steroids were a feature of Japan’s bubble as well. A second factor is an undervalued renminbi, which has stimulated a huge amount of investment in capital-intensive, export-oriented manufacturing sectors.

When money is so cheap, it is likely to be wasted. Calculations by the International Monetary Fund show that China gets less and less of an increase in GDP for each additional dollar of capital (factories, stores, offices, and roads). Declining productivity of capital also means that a growing number of projects
are losing money. That’s what leads to masses of nonperforming loans. China already suffered one such crisis in the 1990s and could suffer another. A capital formation rate of 45 percent of GDP is not sustainable. Without enough consumer income, however, simply reducing investment could hurt growth. It’s a dilemma that keeps policymakers up at night.

With personal consumption and investment combined not enough to absorb all that China can produce, China has turned to relying on a rising trade surplus. China lends foreigners money to buy Chinese products, giving China a trade surplus of 9 percent of real (price-adjusted) GDP. This is very unusual for China. In the 1980s, China ran negligible trade surpluses or even deficits. During the 1990s and early 2000s, its trade surplus averaged a mere 2–3 percent of GDP. Suddenly, after 2004, its trade surplus exploded, going from 2.5 percent of GDP in 2004 to approximately 9 percent in 2007. As a result, in 2005–07, the rising surplus provided 20–25 percent of all GDP growth, a new development for China. As with Korea, a trade surplus that high is simply not sustainable; China is too big for the rest of the world to keep absorbing such a huge surplus, particularly now that the U.S. deficit is shrinking.

China’s leaders, including Premier Wen Jiabao, have recognized that this pattern of growth is not sustainable—and they have said so publicly. But they also admit that they are not quite sure how to achieve the changes that they seek.

**Parallels with Japan**

In its post-2002 recovery, Japan has followed the same pattern as Korea and China. Personal consumption is low and has fallen as a percentage of GDP in recent years. It was never the driver of growth but has become even less so in the recent recovery. Personal consumption amounts to 55 percent of GDP. Yet, in the post-2002 recovery, it accounted for only 32 percent of overall GDP growth.

The reason is not, as Japanese officials claim, because consumers are too anxious to spend or already have everything they want. Rather, they lack the money. Real worker compensation has fallen from 54 percent of GDP in the 1980s to only 50 percent in recent quarters.

With personal consumption so anemic, Japan has turned to business investment and a rising trade surplus as the main drivers of growth. Even though the trade surplus accounts for only 5 percent of GDP, it provided 31 percent of growth from early 2002 through early 2007. Business investment accounts for 16 percent of real GDP. Yet, from 2002 through the first quarter of 2007, investment provided
another 33 percent of GDP growth. In other words, elements amounting to only one-fifth of GDP provided two-thirds of growth.

This has already proved to be unsustainable. Business investment—much of which is related to exports—turned flat in early 2007 and is now a drag on growth. Exports are still growth, but the pace of growth has already started to slow owing to the U.S. and global slowdown. In the three months ending in September 2008, the growth of real exports slowed to a negligible 0.8 percent from year-earlier levels. This compares with 10 percent growth at the beginning of 2008. The trade surplus fell in April–June.

As with Korea, many analysts said that Japan had decoupled from the United States because it was shifting its export market from the United States to China and offshore Asia. In reality, Japan’s exports to Asia hinged on Asia’s own exports to the United States. Consequently, in the three months ending in September, Japan’s real exports to China slowed to only 3 percent year-on-year growth from double-digit levels during most of the past half decade. Exports to Asia’s newly industrializing countries have stopped growing.

Consequently, Japan is now in recession.

**V. Conclusion**

Korea, along with Japan and China, adopted a highly risky growth strategy during the current decade—one that made sense only as long as the United States was able to keep expanding its trade deficit. It seemed to work very well for a while, but it left Korea and its neighbors very vulnerable to a U.S. slowdown. It’s time for a big course correction in Northeast Asian growth strategies.
Dealing with North Korea: Taking Stock of 2008
Shin-wa Lee, Michael Schiffer

Completing the Strategic Transformation: The U.S. Military Alliances with Korea and Japan
Bruce E. Bechtol, Jr., James Przystup

Korea and Japan’s Strategic Relationship: Where to From Here
Cheol-hee Park, T.J. Pempel

Alternative Futures: U.S.-Korea Economic Ties with and without a Free Trade Agreement
William Cooper, Mark Manyin, Jae-min Lee

Korea-Japan Economic Ties
Richard Katz

Sponsored by:
- The Korea Economic Institute
- The Korea Institute for International Economic Policy
- The Center for Japan-U.S. Business and Economic Studies, Stern Business School, New York University