



Korean Peninsula Division/Unification:

From the International Perspective

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**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.

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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 spoilt 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 AlerNet 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

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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.

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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

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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

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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.

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.

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