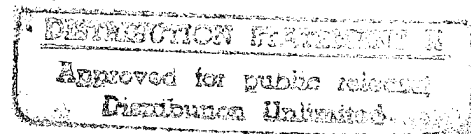


Korea in the 21st Century

Paul Bracken, Yale University



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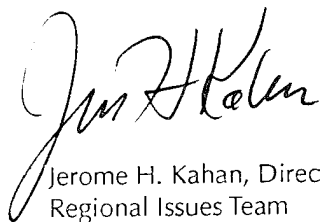
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Approved for distribution:

February 1996

A handwritten signature in black ink, appearing to read "Jerome H. Kahan". The signature is written in a cursive, flowing style.

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The Research Memorandum represents the best opinion of CNA at the time of issue. It does not necessarily represent the opinion of the Department of the Navy.

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Summary

The Commander, Seventh Fleet, asked CNA to assess the security environment of the Asia-Pacific Region (APR) between now and 2010. This research memorandum focuses on the most probable evolutionary trends for Korea during this period. The project's final report, *The Dynamics of Security in the Asia-Pacific Region* (CNA Research Memorandum 95-172, January 1996), discusses the implications of these trends (and of the probable trends in other countries of the region) for U.S. forces, particularly the Navy.

Factors

Between 1960 and today South Korea has gone from being poor to being middle class, from being rural to being urban, from having primary industries to having secondary and increasingly tertiary industries, and from having an inferiority complex with respect to Japan to having an attitude that could develop into chauvinism. The problem for the future is whether Korea can successfully continue its economic progress in a world that is more competitive, more wary of exploitative economic practices, and more dominated by large surrounding countries that have in the past been enemies.

There is no way that Korea can deal confidently with such giants as China, Russia, and Japan on its own. In the future, Seoul may try to balance off China and Japan, which represent the historic threats to the Peninsula. In the Korean view, only the U.S. presence in the Pacific prevents the otherwise inevitable Japanese rearmament that could follow, for example, the emergence of China as a military power. Because Koreans are not convinced that the United States will be present in Northeast Asia for the longer term, and because Korea does not trust either China or Japan, (certainly not to the degree that it has trusted the United States), Korea is building a modern navy. That navy is to show the flag, help protect Korea's sea lines of

communication, and contribute, more than symbolically, to multilateral naval efforts. Such a navy could be regarded with suspicion by Japan, China, or Russia, unless Korea remained anchored in some security relationship with the United States.

The special issue of the North

We estimate that a military conflict is unlikely to occur over the next 15 years and that chances are better than even that North Korea will disappear as a sovereign state, through either total internal collapse or takeover by the South. Less likely, it could succumb to a face-saving confederation status over several years in a way that would virtually ensure ultimate absorption into the South. The arguments for treating North Korea this way are compelling. North Korea today is not in a political or economic position to rationally initiate war against the South. It is doubtful that any individual or faction in the North Korean leadership has the authority or stature to bring together the internal coalition to support something as bold as military attack. These internal problems create significant hurdles for short-term military adventurousness. Also the North lacks the food, ammunition, and fuel supplies needed for anything beyond an initial attack against the South. Economic difficulties preclude a smooth military operation: logistic nets, roads, and command and control systems to support the North's large forces do not exist. These deficiencies will grow over time.

Alternative futures

In looking at South Korea today, three possible futures seem most likely and relevant:

- A "business-as-usual" society, a Korea that continues more or less along current lines. Economic growth continues, but is more problematic than the unbroken successes of the past. A slow build-up of regional military forces ensues, but with major gaps in operational capabilities.

- A "reformed" Korea that is more economically dynamic and aggressive than anyone expects, and that exploits new opportunities with China and Russia.
- A "failed tiger," in which Korean industry cannot reach the global scale needed to compete against Japan, China, or the United States. This is a Korea that seems too small, one where foreign multinationals in joint ventures dominate much of the national life, breeding resentment and reaction from ordinary Koreans.

The three alternatives identified here represent a realistic range of choices open to Korea in the next ten to 15 years. None are "disaster scenarios" for the United States. It is fair to say that the current momentum of Korean growth, along with the pacific conditions in East Asia more generally, should make the next 15 years a period of tranquillity compared to the potential for military violence that has historically existed in Asia until recent times.

Implications for the United States

Clearly in prospect is the transformation of the U.S.-ROK security relationship from one with an emphasis on its ground force to one with a maritime foundation. Even if the peninsula is not completely unified, the relative decline of the North should assure movement in the South toward regional activity—that is, activity beyond the peninsula itself. The ROK is building the technical and scientific base to make this possible. Once Korea is unified, the rationale for the presence of large U.S. ground forces, and for that matter, for large Korean ground forces, will be gone. If some U.S. ground presence (say, headquarters, communications, and air base squadrons) could remain, it seems most likely that Korean force development would stress the maritime component.

It will be necessary to take account of enlarged Korean naval forces, and necessary to include them in whatever regional military frameworks exist in 15 years. An independent Korean navy might be small, and might be no match for the Japanese MSDF in terms of size, sophistication, or professionalism. But if Korea has a navy and is left unanchored to a larger power such as the United States, it could be

perceived in Tokyo as a potential ally of China or Russia. For these and other reasons, the changing structure of U.S.-ROK security relations needs careful thought in Washington.

The decreasing size of the U.S. defense budget necessitates that we creatively factor naval developments into our strategic planning. One obvious way is to stress the naval relationship early, while acting as an honest broker between still suspicious Japanese and Koreans, and without provoking either Russia or China.

In certain ways opportunities from increased U.S.-ROK maritime relations could induce Japan to keep naval bases available to the United States. Greater naval cooperation with Korea as an adjunct to our position in Japan, and by inference as a possible fallback against our departure from Japan, could reinforce the availability of the Japanese bases (inter alia, by avoiding Japan's "singularization" as the only APR country hosting U.S. bases). On the other hand, such cooperation should avoid the appearance of an anti-Chinese move.

Introduction

For Korea the development of an Asian nation-state system comes at a time of historic power relative to anything of the past century.¹ The problem for the Korean people, historically, was that Korea was a weak state surrounded by strong empires in China, Russia, and Japan. The economic development of Korea over the past 30 years is a remarkable success story, although this development took place in a peaceful stable environment. With the U.S. backing it against its opponent in the north, Korea was able to experiment with an economic program that has had enormous social consequences. Between 1960 and today South Korea has gone from being poor to being middle class, from being rural to being urban, from having primary industries to having secondary and increasingly tertiary industries, and from having an inferiority complex with respect to Japan to having an attitude that could develop into chauvinism, as described in the second alternative Korean future, below.

The problem facing Korea is whether it can successfully continue its economic progress in a world that is more competitive, more wary of exploitative economic practices, and more dominated by large countries who have in the past been enemies. Korea's development in the 1970s and 1980s could largely ignore Japan and China. Neither was a military rival, as Japan was pacifist and China was blocked by the United States. Neither was an economic competitor: Korea straddled the middle ground between a Japan that played in international high-technology markets far above Seoul's capacities, and a China that entered its economic modernization via low-wage assembly workers (some of whom had fled Korea).

1. The term "Korea" refers to South Korea, or to a Korea united on Southern terms. Distinction from North Korea will be made clear in context.

Economically, South Korea is still an economy that needs to master the kind of large complex enterprises that only large nations, or small ones with friendly large neighbors, have been able to organize in the past. Hyundai, the leading car exporter from South Korea, bases all of its production in country, save for an assembly plant in Canada. Yet Hyundai must compete against the American, Japanese, and European automobile giants with their global facilities. GM and Toyota can afford big mistakes. Hyundai cannot.

Politically, Korea has had a penchant for internal feuds and factions, as intense as those historically found in Kentucky and Paraguay. It is difficult for outsiders to appreciate the social tensions factionalism creates in Korea. Factionalism causes organizational purges, determines the awarding of contracts and promotions, and is responsible for other basic decisions in Korean society. These tensions underpin a complex status system and insecurity over position and rank. Untempered factionalism can disrupt Korean society, creating new international vulnerabilities.

What all of this produces is a Korea whose past successes will now be tested against competition from large and more powerful neighbors. Koreans have worked very hard since 1960, and many expect to enjoy the new national wealth. Yet for the average white-collar urban worker, rising wages have not led to a better living standard—or, more accurately his expectations have not been met. True, the average Korean household now has color television, a trash compactor, and a stereo system—but the father's commute to work takes longer, his rent has increased, and the pressure on his children to cram for university admissions has grown enormously. A new kind of resentment is building up, similar to that in other countries as they enter the modern era. New social tensions follow. New interests have to be represented in the power structure, and this means that old ones decline in importance. Middle-class interests—access to education, opportunity for economic mobility, and a sense that the ladder for social advancement has not been pulled out of reach—need more representation.

Unfortunately, factionalism, jealousies, and family rivalries remain endemic in Korea. They will persist in the new Korea too. Such fac-

tionalism contributed to the selling out of the country to Japan early in the century. The Korean post World War II economic dynamo, built by the *chaebols* (industrial groups created by the government) and wealthy families, stands resistant. Class tensions are increasing, reinforced by spectacular inequalities of wealth that capitalism has always produced, and may produce on an even greater scale in Asia than it did in Europe. It is against this backdrop that a secular decline in anti-communism in South Korea is taking place. Anti-communism—the threat from the North—has been a glue that has kept the South Korean social and economic landscape relatively quiescent. Yet rising middle-class demands stemming from democracy and a greater voice in national direction, accompanied by a perception of decline in the communist danger, could accelerate a transition to a new political equilibrium in South Korea. Its exact form is difficult to specify precisely, but what can be said is that if these trends continue, the period of authoritarian capitalist development will end by the late 1990s. How this interacts with foreign and military issues of concern to Americans is something best analyzed in scenario alternatives.

Alternative futures

This section explores the future of Korea through alternative futures. The first of these, a “business as usual society,” is fully developed. The less likely but possible alternatives (a “reformed Korea,” or a “failed tiger”) are analyzed fully enough to highlight the differences. By constructing several identified, notional futures integrating social, economic, political, military, and technological factors, we can better clarify some of the previously cited abstract concepts. Better than separate descriptions of such factors as politics and economics, a discussion of alternative futures can show how these factors interact with one other, convey a better understanding of the significance of current trends, and suggest likely turning points and surprises.

But before this can be done, the problem of North Korea must be faced squarely. How does it affect the future of South Korea?

The special issue of the North

To avoid overloading consideration of the future with immediate policy problems, this study treats North Korea as a problem of economic absorption. We estimate that a military conflict is unlikely to occur over the 15-year timeframe of interest here. Moreover, we think chances are better than even that North Korea will disappear as a sovereign state, either through total internal collapse and takeover by the South, or less likely, through succumbing to some face-saving confederation status over several years in a way that will virtually ensure ultimate South Korean absorption. North Korea will factor into a larger Korea in ways treated here as fairly predictable: all of the alternatives will see a peninsula unified on Southern conditions; the unification will be costly and politically difficult, with differential impact across futures. Unification could unleash new energies and problems, whose resolution and intensity would be different in each alternative future.

The arguments for predicting such a future for North Korea are compelling.² North Korea today is not in a political or economic position to rationally initiate war against the South. The death of the elder Kim in July 1994 has further lowered the chance of war. It is doubtful that any individual or faction in the North Korean leadership has the authority or stature to bring together the internal coalition to support something as bold as military attack. The junior Kim himself does not have this status, and the government appears badly divided and overwhelmed by internal problems.

These internal problems are insurmountable in the long term under the current form of government, and create significant hurdles for short-term military adventurousness. Quite simply, the North lacks the food, ammunition, and fuel supplies needed for anything beyond an initial attack against the South. Economic difficulties preclude a smooth military operation: logistic nets, roads, and command and control systems to support the North's large forces do not exist.

These deficiencies will grow over time. The ratio of GNPs between the two Koreas is today about 25 to 1. The North is technologically backward, its natural resources badly managed, its international comparative advantages squandered on a bloated security and administrative apparatus. Finally, North Korea finds itself surrounded by capitalist nations that are driven by market forces, rather than ideology, and that ascribe more status than ever to technology and wealth. All of this further isolates and saps the confidence of Pyongyang.

North Korea has been compelled to open up more in the last five years than in the previous 40, not from any strategic decision to do so, but because it has had no alternative. It joined the United Nations only because the South was granted admission (having the South in the UN as the lone Korean state was intolerable). It has been forced to permit international monitoring of its nuclear program. Finally,

2. Recent testimony of the Director of DIA is consistent with the perspective offered here. See "The Worldwide Threat to the United States and Its Interests Abroad," Statement for the Senate Armed Services Committee, January 17, 1995, by LTG James R. Klapper, Director, Defense Intelligence Agency.

the flow of Chinese peddlers, select Japanese businessmen, short-wave radios, and North Korean representatives to the outside is at an all-time high. Under any conceivable future, North Korea's economic problems suggest that it will be incapable of self-reform, and unable to qualify for sustained levels of economic aid by World Bank and Asian Development Bank standards without such reform.

We do not believe that North Korea can survive the openings that have already begun. As in East Germany, the Soviet Union, and even China, dictatorial rule becomes increasingly difficult in the face of the information flows that accompany economic opening. North Korea's form of hermit communism cannot lighten and long survive.

Militarily, the North has been deterred for over 40 years, and it is difficult to see this situation ending when the military balance is moving against Pyongyang. The North is so outgunned that an attack on the South would be suicidal. U.S. air power would destroy the North Korean armed forces.

Thus, the alternatives explored here posit a peninsula dominated by the South, either overtly through incorporation of the North, or *de facto*, as Seoul is so transcendent in relative importance to Pyongyang that reunification is widely anticipated. Irrational actions are obviously possible; war cannot be removed as a factor. Nevertheless, it now seems sufficiently unlikely that we leave it aside in our consideration of long-term Korean future.

Alternative Korean futures

In looking at South Korea today, three possible futures seem most likely and relevant:

1. A "business-as-usual" society, a Korea that continues more or less along current lines. Economic growth continues, but is more problematic than the unbroken successes of the past. A slow build-up of regional military forces ensues, but with major gaps in operational capabilities.

2. A "reformed" Korea that is more economically dynamic and aggressive than anyone expects—one who exploits new opportunities with China and Russia.
3. A "failed tiger," in which Korean industry cannot mount the global scale to compete against Japan, China, or the U.S. This is a Korea that seems too small, one in which foreign multinationals in joint ventures dominate much of the national life, breeding resentment and reaction from ordinary Koreans.

The three alternatives considered here represent a realistic range of choices open to Korea in the next ten to 15 years. Although each has interesting and important implications, over the next 15 years none are "disaster scenarios" for the United States. Some lead to greater strain than others, particularly toward the later years. But it is fair to say that the current momentum of Korean growth, along with the pacific conditions in East Asia more generally, should make the next 15 years a period of tranquillity compared to the potential for military violence that has historically existed in Asia until recent times. Aside from the danger emanating from North Korea, it is hard to see Korea facing a serious military threat of attack from Japan, China, or Russia over the next 15 years. Over this time period, China will continue to be dominated by movement toward market capitalism, and will have little incentive to cause military trouble in Northeast Asia. Japan will continue to rely on a U.S. security guarantee, one that at the end of the timeframe may be weakened, but that nonetheless continues to operate. Russia will at most begin to come back from its profound transformation in its policy and economy. For all of these reasons, the next 15 years will constitute an era of transition in East Asia, at a time when the momentous changes of the 1980s and 1990s are absorbed.

Beyond the next 15 years, the outlook is far more interesting and uncertain, and one of the key conclusions of this paper is the imperative to take a long-term outlook on what the United States is doing in Asia. That is to say, the purpose of American military presence in the region is more important in terms of how it helps a new world develop there than in terms of how well it performs on a day-to-day basis. Given the American tendency to look at problems with a short-term framework this may not be easy to do, especially as in the near term, over the next five years, there may be little call to actually use

U.S. military power in the Pacific (save, again, in the possible case of North Korean aggression).

A way to think about U.S. military forces in East Asia and Korea is as shapers of a certain environment in the region—one that would be more democratic, open, liberal, and confident in its own security.

A business-as-usual Korea

A business-as-usual Korea would continue broadly along current lines, a country in which neither the government, nor the elites, nor the public make much of an effort to redirect policies other than in a short-term, *ad hoc*, and largely reactive manner. No business-as-usual future lasts forever. If Korea does not suffer greatly from following policies based on short-term, *ad hoc* choices, such a policy may be said to have succeeded. What is certain is that Korea has succeeded over the past 30 years. Incomes have risen, educational attainment has increased, life expectancy has been prolonged, and international status has risen. Korea has defined the "new development model" studied in economics, based on strategic export industries, national consensus, and hard work.³ Its transition to democracy is deepening, representing another achievement to be proud of. For all of these reasons, there is likely to be a great deal of momentum behind business-as-usual policies that do not radically change what has worked in the past.

Two issues are suggested by an attachment of Korea's leaders to the business-as-usual future. First, could it withstand the peaceful collapse of North Korea and its absorption by South Korea? Second, will the policies that worked in the past serve Korea as well in the future as it competes on a larger international economic scale and in more technologically intensive sectors?

Turning first to the costs of absorption, this clearly would be a wrenching event. Exactly how wrenching would depend on how Seoul goes about managing it. It is argued here that the most likely outcome is continued adherence to a business-as-usual future. The basis for this conclusion is that Seoul would be in no better position to successfully

3. Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (Oxford: Oxford University Press, 1989).

manage the absorption of North Korea by changing any of the high-growth policies that have worked in the past. Closing the economy or returning to authoritarian rule would only worsen the absorption problem. Korea's need for exports would increase after unification, and authoritarian control, other than for a brief period of the crisis, would not further abet the integration process.

It is also possible that the costs of absorption have been intentionally inflated by the South Koreans to legitimize Seoul's request for assistance from international economic organizations and the United States. This is certainly understandable. Germany in its own way has done the same thing, putting creditors at bay in the early 1990s on the basis that it had to finance the restructuring of East Germany. However, we would like to raise an additional possibility that would distinguish Korea from Germany—namely, that South Korea might better manage unification, and might benefit in major ways from it.

Germany has advanced on a path to absorption of the East: extending social welfare benefits immediately to the East, mandating strict environmental compliance and clean up, tilting investment to the East for the public and private sectors, and extending complete freedom to Eastern residents to live wherever they like and vote for whom-ever they please. It is difficult to imagine that Seoul would do the same. There is instead likely to be a long period of dual citizenship categories that will compel Northerners to remain in the North, exclusion from the limited South Korean social welfare and educational system, and a pay-as-you-go approach to integration. Northerners will probably not be allowed to vote in elections and will very likely be under *de facto* martial law for a considerable period of time.

In addition, the addition of 23 million North Koreans may alleviate some of the main economic problems facing the South. It will add cheap labor at a time of rising labor costs in the South, and will dampen wage demands as work is shunted to the North. Overnight it will sharpen the distinctions between skilled and unskilled labor in the South, and may well be used to break the back of the South

Korean labor union movement.⁴ Although this may seem like a crude attempt of capital to control labor, it might in turn empower the rising professional middle classes, who have relatively less political voice in Korea than does organized labor.

In short, reunification will alter the social and economic equilibrium in Korea, and there is far greater chance that it will be considerably more positive either than the German experience or than most observers today imagine.

The second problem for a business-as-usual Korea is in many ways the central problem of contemporary Asian political economy. Past success and dramatic environmental change produce a danger of "organizational atrophy." Organizations that habitually use programs based on their previous utility tend to become desensitized to environmental changes. In Korea, the economic growth model continues to be used—despite a far more complex business environment with an increased number of technological competitors.⁵ In China, a capitalist market transformation continues, even though it is producing massive income disparities in a country wherein income equity was a political goal of communism and the foundation of the Dengist attack on the communist industrialists.⁶ In Japan, a government–industry partnership that produced success in the heavy manufacturing sectors is being used in other sectors—finance, electronics, services—with less success.⁷

The lesson is that a business-as-usual future may last "too long." At some point, a predictable shock that would have been easily managed in the past may force state and society to make changes that they had been unable or unwilling to make before. Thus, rapid changes occur

4. This possibility is based on the author's interviews in South Korea with labor and business leaders.

5. Michael Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1990).

6. William H. Overholt, *The Rise of China* (New York: W.W. Norton, 1993).

7. Christopher Wood, *The End of Japan Inc.* (New York: Simon and Schuster, 1994).

in addition to the continuities that most people become used to as change is absorbed into the political and economic systems. For instance, the period covered in this paper is likely to be one of a business-as-usual future for Korea; however, it will be a future with increasing contradictions and tensions, which will form the preface to a more fundamental kind of change some 15 years away. Of great importance for the national security community is the fact that a similar theory can be applied to the entire region, not just to Korea.

Economic trends

By any measure South Korea is one of the large and dynamic economies in the world. Its GDP is now about \$300 billion, larger than that of Australia. Even with a slowdown, its GDP will surpass that of Canada early in the next century. All of this from a 1960 per capita income of \$82.

Korea's economic transformation is the fastest that has ever taken place in world history. It is certainly a more rapid transformation than took place in Japan, where per capita income in the 1860s was comparable to that of Korea in 1960. It far surpasses in rapidity the German industrial transformation of the 1890s. For reasons that will forever remain open to argument, South Korea hit on the right factors and policies to permit all of this to occur.

Some argue that the role of the state was all-powerful in selecting the right economic path in the early 1960s. Others argue that it was "dumb luck," with Korea stumbling into the export sector for light manufactured goods such as textiles just when Japan was leaving this niche behind due to higher wages and increased costs of production. Certainly there were multiple factors involved in this success story. Korea did possess a strong set of state economic institutions in its Trade Ministry and Export Boards. It also had the advantage of a liberalizing international trade regime in general, and an open U.S. market in particular. Washington's Cold War security objectives in Asia nicely meshed with tolerance toward exports into the U.S., and with a security guarantee that allowed the economic program to advance. South Korea's defense expenditures routinely surpassed 12 percent of GDP.

But the economic take-off of South Korea was built on a social system that had been so disrupted that it was particularly amenable to major changes. Why did South Korea grow rapidly, while Argentina, for example, in the same period did not? Certainly Korea followed better macroeconomic policies than Argentina. Instead of emphasizing import substitution industries—the curse of two generations of economic growth in Latin America—Korea focused on strategic exports. They were strategic in the sense of being state directed and focused on a handful of key areas: textiles, shipbuilding, automobiles, and, later, electronics.

There is an additional political determinant to Korea's growth that is important to understand in charting the future of democracy and South Korean politics. South Korea's class structure was radically transformed by historical events. First, the Japanese occupation, and second, the Korean War eliminated the wealthy land-owning classes who have traditionally blocked progressive change. In Argentina, Col. Peron took on these interests in the 1950s, but he could not eliminate them with anything like the ruthless efficiency of the Japanese or the North Korean People's Army during their respective occupations. In countries that have not seen this class's power reduced or eliminated, such as the Philippines today, economic change has been slowed. Of great benefit to South Korea is that this wrenching change is behind it. The change was undertaken in a way that would never be countenanced in a democratic or even a semi-democratic system of government because of the emphasis on the rule of law—but in Korea's case, it was all the more effective for just this reason.

This social situation accounts for some of the important features of contemporary Korean economics and politics, and the particular mechanism selected by the government to attain such dramatic rates of economic growth. The theory of political economy suggests that bargains are struck between a state and society that allows the state to achieve its goals. This leads to a sharing of power between state and society. In the case of Taiwan, for example, the state must be conscious of the interests and the potential for chaos latent in the 20 million native Taiwanese. But in Korea, the most highly organized opponent to industrialization, the landed elite, was eliminated by the Japanese and the Communists during their occupation. As a conse-

quence, the state faced little organized resistance to its programs of forced urbanization and industrialization that began in 1960. The above arguments concerning reduction in the power of South Korean labor post-unification fit this pattern as well.

South Korea faced so few threats to its autonomy that it felt completely free to use big business to advance its economic program. Some of the largest companies in the world (Samsung, Gold Star, and Daewoo) are South Korean. Samsung, the largest, has annual revenues of some \$60 billion, putting it in a league with IBM and General Motors, organizations with comparable revenues; this is a remarkable achievement for a country of 44 million.

Had firms of this size emerged in Taiwan at any time in the past 30 years they would have been promptly nationalized. Indeed, even in America, when big business has emerged here the government response has been to enact anti-trust legislation to prevent monopoly. South Korea has the largest and most powerful corporate sector of any country. Of course, the dividing line between public and private—which is so sharp in the United States—is blurred in Korea. In fact, the main vehicle of corporate growth, the *chaebol*, is an industrial grouping created at government direction. These firms had extensive protection from competition—both domestic and foreign—in the 1960s and 1970s, and they grew into giant organizations as a result.⁸

The problem facing the Korean economy is that this corporate vehicle for growth may not be nearly as successful in the future as it has been in the past. In the business-as-usual future described here, the *chaebol's* power is gradually reduced. The business logic in this requirement is that the complexity of the Korean economy has now advanced to a point where markets must substitute for hierarchical resource allocation in the large firms. For launching into textiles, or even automobiles, a hierarchical firm can coordinate parallel technological and market developments rapidly. Needed machines can be financed and imported, markets developed, and goods shipped on

8. Richard M. Steers, Yoo Keun Shin, and Gerardo R. Ungson, *The Chaebol* (New York: Harper Collins, 1989).

owned container ships. For relatively simple goods, this is a feasible approach. For more complex products, such as electronics and financial services and flexible manufacturing, it is at a competitive disadvantage from firms that source from the market.⁹

The Korean economy is weak in the area of small and medium suppliers of parts, services, and intermediate products. What the large *chaebols* did not produce themselves they simply imported from the United States and Japan. For instance, American firms have had great success in exporting robots to South Korea. Yet, one could travel far around industrial Japan without ever coming across a single American-made robot. The reason is that Japan has a far deeper network of suppliers for its industry than Korea, even weighting by the respective sizes of the economy. Korea also has a much smaller collection of mid-sized industrial firms than Taiwan. The impact of such industrial structural differences is important. For most of their boom periods of high economic growth both Japan and Taiwan have had balance of payment surpluses. Indeed, today Japan and Taiwan have such enormous surpluses of hard currency that they are fueling the development of China, just as Britain used its surpluses in America in the 19th century. South Korea, in contrast, has almost always had a balance of payments deficit because it needs to pay for imports of those elements of its domestic production that are not made at home.

This produces two structural problems. At the macroeconomic level, the government in Seoul has to manage a balancing act, now and in the future, which juggles export prices, the exchange rate, money supply, and wages. In the late 1980s, Seoul could no longer keep down industrial wages. These were increased following a series of large strikes against the *chaebols*, strikes that some American political scientists identified as the beginnings of a Marxist class consciousness. The resulting wage increases increased the value of the Won, which in turn hurt Korea's export competitiveness. This balancing is possible in the business-as-usual future. It is easier than managing large levels of sovereign debt, a problem Seoul does not confront. However, as the move to democracy continues, Seoul cannot as easily keep

9. Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991).

wages down. This means it has to move into more complicated exports where higher production and wage costs are justified. Democratization then puts Korea in more of a head-to-head economic competition with Japan and the United States, a competition that could take a number of different directions.

At a microeconomic level, the Korean economy is held back from greater efficiencies with its over-reliance on a disproportionate number of large industrial groups. One of the biggest reasons for Japanese efficiency has been the management of small firms supplying big firms through competitive markets. Without these advantages, Korean companies will not be able to exploit innovations such as just-in-time inventory control, outsourcing with local suppliers, and flexible manufacturing with its requirement for complicated supply relationships.¹⁰

A recent example shows that a turning point in Korean industrial policy has been recognized: The Samsung Group has decided to enter the automotive production market in direct head-to-head competition with Hyundai and Daewoo. Samsung's strategy is to massively import production technology from Nissan, the Japanese auto maker.¹¹ The significance of this is that for the first time large Korean companies are competing by using foreign technology to overtake domestic rivals. The fact that Samsung received approval means that Korean domestic competition among *chaebols* is now based on modern technology rather government protection. From the government's perspective, the move is a way to speed up the technologizing of the national economy, in part by increasing importation of foreign technology into Korea's industrial sector.

There are political dimensions to these features of the Korean economy. The large *chaebols* have become political targets because of their size—a labor action against them can have disproportionate impact, and a squabble over wages can have national repercussions. The centralization inherent in the Korean large corporation gives it a

10. See Toshihiro Nishiguchi, *Strategic Industrial Sourcing, The Japanese Advantage* (New York: Oxford University Press, 1994).

11. Agency Press Release, Seoul, December 6, 1994.

large political role in the nation, but its size creates diseconomies of scale.¹²

For these reasons there is likely to be a reduction in the size and political clout of these firms. Continued economic growth in the area of 7 percent per year requires this change.

Korean science and technology

Trends in Korean science and technology reflect a recognition of the macro- and micro-economic problems outlined here. Whereas the government previously concentrated its science and technology in firms by granting subsidies and tax credits to them, a very different approach is now being followed. South Korea has a declared goal of becoming one of the seven leading scientific and technical powers in the world by the year 2001. To this end it has established a "science city" 125 miles south of Seoul. Taedok Science Town represents the Korea of the future as the government and corporate sector envision it; as such, it is central to the Korea of the business-as-usual future.

First, the emphasis on advanced science and technology is itself indicative of Korea's economic plans. It reflects Korea's need to have an advanced economy on the cutting edge of technology, to stay competitive with its neighboring economic giants and to compete on a world stage. This emphasis on technology is seen as the natural progression from cheap labor to heavy export manufacturing and services. Research and development expenditures have been increasing at about 10 percent per year, and Korea now spends about 2.6 percent of its GDP on research and development. Although this fraction of GDP on R&D approaches the levels found in the United States and Europe, in absolute terms it is much smaller than these expenditures. As a result, the government is attempting to increase the efficiency of R&D with a two-pronged approach: broadening it into small firms away from an exclusive reliance on the large *chaebols* and undertaking joint-venture projects with a diversified set of foreign countries.

12. Leroy P. Jones, "Big Business Groups in South Korea: Causation, Growth, and Policies," in Lee-Jay Cho and Yoon Hyung Kim, eds., *Korea's Political Economy* (Boulder, CO: Westview Press, 1994), 469-498.

Taedok Science Town is modeled after the U.S. silicon valley. Formed some 20 years ago, it languished during the era of the *chaebol* and strategic export of relatively simple industrial goods. Recently, it has been rejuvenated to become the centerpiece of government science and technology revitalization. It is designed to be a “sticky region”—an economist’s term for a cluster of small companies interacting and learning from each other.¹³ At government initiative, 27 firms have already started operations. The most prominent include the Agency for Defense Development (ADD), the Korea Atomic Energy Research Institute (KAERI), and the Korea Aerospace Research Institute (KARI). Samsung, Hyundai, Goldstar, and Sangyong also run R&D centers there.

South Korea has a wealth of scientific and engineering talent, a significant fraction of which has been educated at America’s and Europe’s finest universities. Formerly, its engineering talents have been over-concentrated in large firms. Taedok City is a break from this pattern.

Taedok has a technical professional workforce of 20,000 workers—many of them foreign visitors. Korea’s first scientific satellite, Uribyol No. 1, was built at Taedok. The TDX 10, a time division exchange digital-switching system has also been produced there, as has Korea’s first industrial robot. Taedok is certain to be at the heart of Korean defense technology efforts in the future.

The other important feature of science and technology in South Korea is its cultivation of foreign joint-venture partners and foreign markets. As an example of this, the government recently signed a joint agreement with China on cooperation in areas of high technology. Currently, 38 joint projects are ongoing under this agreement; they range from advanced electronics to materials to aerospace.

There are several political and strategic aspects to the Korean government’s new emphasis on science and technology as the backbone of

13. An overview of international comparisons of “sticky regions” is found in David Friedman, *Getting Industry to Stick: Creating High Value Added Production Regions in the United States*, MIT Japan Program, Paper 93-02, February 1993.

future growth. Broadly speaking, technical workers such as engineers do not join unions, and they do not strike. The new scientific emphasis thus attempts to get away from the struggle between big labor and big business that loomed in Korea of the late 1980s and early 1990s. The government recognizes that with the increase in democracy it must reduce labor-management confrontation by expanding opportunities for middle-class and professional workers, based on increased value added through more research, development, and technology.

Koreans also recognize past over-reliance on the United States, as a market and as a source of advanced technology. It is not that Korea is turning anti-American. Rather, it is diversifying its foreign policy to embrace more nations, especially its immediate neighbors in Asia. To this end, there are plans for Korea to become a kind of Hong Kong for northeastern China.¹⁴ This idea, highly relevant to the next 15 years, anticipates that the extraordinary growth in southeastern China will be repeated early in the next century in northeastern China.

The distinctive features of the "Hong Kong" plan for Northeast Asia are not only to recreate a capitalist zone of enterprise that makes many people rich, but to do this in a way that creates something of great value that neither the Japanese nor the Chinese can manipulate against Korea. At the same time, it offers foreign investors a safe way to participate in the Chinese, Japanese, and Russian markets. One of the key business risks in cross-border investments is that the investor becomes "hostage" to political authorities once his capital is invested. That is, agreements and understandings can change to the detriment of the investor—who, once there, cannot easily liquidate his position.

Multinational firms have a number of ways of dealing with this risk. One of the most important is not to build a complete operation in a single country, but instead to disperse key parts of it among several nations. The purpose of this is to reduce the benefit to the host country if it were to seize the plant. With assets of the firm dispersed across several countries, the authorities in country A would require the

14. This information derives from the author's interviews with *chaebol* executives during the past year in Seoul.

inputs from countries B and C, neither of which they control. Thus, a multinational firm operating in China and Korea could reduce its exposure in China by making its investment there critically dependent on inputs from Korea. This approach can even work against creeping expropriation. If new regulatory burdens or taxes are placed on the plant in China, a firm can cut back on the supplies coming from Korea. This increases unemployment of Chinese workers, yet makes it difficult to retaliate because if the plant in China is seized then all of its supplies can be terminated, further pressuring the Chinese government.

The uncertain nature of the business climate in China and Russia makes the Korean "Hong Kong" plan attractive to foreign multinationals. But it applies to Japan as well. Although Japan has a highly developed and stable legal business system, there are substantial political risks associated with changing regulations on taxes, environmental controls, and labor issues. The strategy underlying the Korean plan to attract multinational investment recognizes these business realities, and seeks to leverage Korea's location near three potentially giant markets all with varied but still high levels of business risk.

Korea is positioning itself for this development in several concrete ways. It has begun forming ties to China in the areas of high technology and finance. In addition, it has begun plans for a massive new airport at Incheon, which will be the center of this new zone and serve as a regional hub for all of Northeast Asia. The concept is to use this new airport as a light industry and biotechnology hub with easy communications and transportation to and from China, Japan, Russia, and the United States.

The future development of Northeast Asia has enormous economic implications as a market for Korean goods and services. Here, we must point out that it also serves to economically isolate North Korea as part of a peaceful attempt to induce the economic disintegration of that state over the course of several years. This is part of a "poisoned carrots" approach, wherein North Korea is surrounded by dynamic capitalist economic areas, with which it cannot hope to compete.

Finally, there are military aspects to the Korean science and technology plan. There can be little doubt that South Korea is advancing down a road where it can be far more self-reliant in defense as a regional power. The naval and missile programs recently undertaken have many gaps in them, to be sure. But South Korea is creating a technical and educational infrastructure that will give it the capacity to fill in these gaps, if necessary. There is also a steady building of organizational capacities that can fill them.

Government always tends to be content to get through each day without disaster and to limit forward thinking to the date of the next election. This habit is ingrained in government. Yet there is an equally strong tendency to look at the day-to-day slow progress and bureaucratic infighting that takes place in every country. There can be no absolute guarantee that the Korea described will be successful. We will examine several of the most likely failure paths in other futures. But it is important to understand that South Korea is not simply coasting, that there is a coherent attempt to come to grips with its changing domestic and international environment. For many countries this would amount to enormous change. For Korea it is a business-as-usual response to living in a small country surrounded by giants, a precarious balance of skill and flexibility that has so far produced the most rapidly changing economy in world history.

Strategic and international consequences

The South Korea of the business-as-usual future is one that maintains good relations with the United States. These are needed to maintain stability in Northeast Asia, both on the peninsula and with respect to China, Russia, and Japan. There is no way that Korea can deal confidently with such giants on its own.

Korea needs the United States as a hedge against catastrophe on the peninsula. This is so obvious in the event of a military attack that it does not need to be explored. But even in the absence of a military threat, Seoul needs Washington to line up international credits for the anticipated peaceful collapse of North Korea. By engaging the United States, Seoul assures our participation in the international effort to restructure the North following its demise. Washington's

concerns about China, Japan, and Russia undergird participation: Seoul is well aware of this American strategic interest.

Beyond a peninsular transition period, the military structure of Korea is likely to see profound changes. The standard way of looking at military forces does not adequately describe what is taking place even now in Korea. It is not helpful to forecast future budget levels or force structure because of the high uncertainty attached to such estimates in a period of transition within the peninsula, and because there are not likely to be any clearly focused external threats driving force build-ups.

With respect to Korea's immediate neighbors in Northeast Asia, Seoul's foreign policy is likely to balance off the two giants of greatest concern—China and Japan—so that neither feels too confident in pressing Korea on economic or military issues. Today it is possible to find different assessments in Seoul of the “true” threat to Korea. Some observers see it in Japan, for historical reasons. Others perceive a China threat. Few see a threat from Russia. It is our strong contention that there is no answer to this question, either as to where or even whether a true threat exists, or as to what Koreans will regard as the true threat ten years hence.

In Korea today, concern about Japan comes mainly from the armed forces and from government officials. Japan's great wealth and its lack of true penance for its sins in World War II (and earlier) convince many Koreans that little has changed, that Japan will become a threat again. In this view, Japan's pacific foreign policy is a temporary respite from the inevitability of rearmament. Only U.S. presence in the Pacific prevents this, and as China and eventually Russia develop as East Asian military powers, Japan will be forced to rearm in response. When this happens, Korea must be prepared. Yet given the vast size of the Japanese economy and its technical sophistication, Seoul cannot wait for Japanese responsive rearmament to start preparations. This explains new South Korean naval expansion, and provides a rationale for the increased investments in science and technology development described earlier.

Among senior business officials, China is a source of concern. The historical reasons for such concern lie to a greater extent in the dis-

tant past than the worry over Japan. What some business leaders observe is the way China casts a large shadow over the economy of Southeast Asia; they reason that China could do the same in future years in Northeast Asia. They worry less about crude military threats than about the kind of tribute-seeking homage to the Middle Kingdom characteristic of Chinese foreign policy before 1911.

In short, experts will argue whether Japan or China presents a long-term threat, yet both would agree that the rise of China will force Japan to rearm, and that the development of two powerful giants in Northeast Asia requires Seoul to be far more watchful of them than during the Cold War. The American conventional wisdom—which argues that democracies do not fight each other, that market economies are necessary for democracy because they permit individual choices and expressions of value, and that, therefore, economic growth in Japan and China will tend to be stabilizing—is absent from any Korean strategic conceptualization.

In the business-as-usual future, different groups will project a threat onto Japan or China. The government will most likely rectify these from one month to the next. A port visit to Japan will be followed by a visit to China. New initiatives will be made toward Russia, on the basis that Korea has an interest in ties with regional actors who could balance the two giants. But throughout the period of interest Seoul will become more watchful—not less, as is imagined frequently in Washington—as Japan and China proceed with their development.

It is of course possible in the business-as-usual future that one threat might predominate. If so, it seems likely that it would be China. Japan is a status quo power driven to change by external events. China is not a status quo power. No country with 1.2 billion people can be status quo, and China needs markets and outlets for her vast labor. If China is seen as the primary threat, it is likely that Seoul will respond not by alliance with Tokyo but rather with moderated appeasement to Beijing. That is, Korea can supply advanced technology and provide some political support for Chinese positions in international organizations. Since Korea has no realistic ability to offset China, a combination of appeasement, homage, and concurrent attempts to elicit support from the U.S., Japan, and Russia are likely

developments. If the threat to Korea emanates from Japan, Seoul's response is likely to be greater alliance with China, as will be described later. But in *either* case, Korea will need a strong alliance with the United States.

In a business-as-usual Korea, the armed forces would continue a gradual shift that would have four features consistent with the strategic realities described:

- Demilitarization of politics
- A new high command system
- A reconcentration away from North Korea, toward a Northeast Asia regional outlook
- An expansion of capacities in national command and control and intelligence.

Because these trends are basic to all of the Korean futures described, we will consider them in their broader political and economic setting.

A demilitarization of politics

The demilitarization of politics assumes, and follows the continuation of, democracy in South Korea. Historically, the ROK Army has had a large impact on politics, either producing national leaders (Park Chung Hee, Chun Doo Wan) or by backing quasi-civilian governments.¹⁵ This backing has established the limits of South Korean politics. With its erosion, the limits of South Korean politics are likely to expand. For the timeframe of interest here, when the threat from the North vastly declines or is eliminated altogether, the limits will expand even further; there remains today a contingent potential for military involvement in politics if the danger from the North sharply increases. Indeed, one of the reasons that current Korean politics emphasize a soft line toward the North is to keep the ROK Army in the barracks. This soft line does raise civil-military tension, but not

15. James Cotton, "The Military in South Korean Politics," in Viberto Selochan, ed., *The Military, the State, and Development in Asia and the Pacific* (Boulder, CO: Westview Press, 1991), 203-20.

to levels where there should be concern over military intervention. Although such sentiments do exist, their impact is muted by new institutional controls, and by a populace that is less tolerant of military action in politics.

In the past, Korean politics were defined around a line of support for the strong state, which defended the Republic and engineered economic growth.¹⁶ The shape of new political arrangements is difficult to discern. Yet it does appear that the power of the military, organized labor, and intellectuals will decline, while that of professionals, managers, and other highly skilled workers will increase.

Instead of the military shaping politics, politics will shape the military. Although this could produce a politicized military—one where promotions, budgets, and acquisitions were compromises among different army factions—it is far more likely to produce the professional model found in the United States and Western Europe. This is because the basis for future power in Korea will be in economics, not in the military. In addition, a democratizing open Korea that is trying to expand its economy into more technologically complex areas is not one conducive to authoritarian—let alone, military—rule.

There is another interesting reason to believe that the political role of the armed forces will decline, being confined to military and strategic matters. One view of South Korean politics has been that the Northern threat reinforced the creation of a powerful government. This power has turned to economic development of a kind that disrupted the old order in Korea. It meant rapid urbanization, industrialization, suppression of workers' rights, protection of a *chaebol* system of elite power, and tolerance of widespread corruption that emanated from the blurring of lines between big companies and big government. Social tensions resulting from this variety of business-state relations had to be dealt with, both to maintain the basic system and to prevent their exploitation by the North. Consequently, the military

16. Hagen Koo, "Strong State and Contentious Society," in Hagen Koo, ed., *State and Society in Contemporary Korea* (Ithaca, NY: Cornell University Press, 1993), 231-49.

and a large para-military force were held in reserve, as the basic order was preserved through coercion and the threat of coercion.

In the future, labor markets will supplant coercive mechanisms for system maintenance. The relative de-emphasis of the *chaebol*, the creation of new employment opportunities in Korea's twin push toward internationalizing and technologizing its economy, and the distaste that democracies show toward clubbing striking workers and students point to a more stratified society. Instead of a Korea divided into the military bureaucrats, business, unions, and students, a far more differentiated mosaic Korean society is likely to emerge. Income distribution is likely to broaden, not into haves and have-nots, but into a society with an expanded middle class, a dynamic upper middle class, and more poor who are left out of the system altogether.

This Korean society will have little tolerance for military coups. Indeed, a very different kind of civil-military relationship can be anticipated, one related to some of the other security trends discussed here. In the past, officers' promotions depended on social connections and skill at leading infantry units. In the future, merit and knowledge of technical and administrative matters will count for far more. That is, the internationalizing and technologizing trends in the larger economy will be reproduced in the military, with some lag.

A new high command system

The revived Joint Chiefs of Staff system of 1989 is likely to be an example of command change that will continue into the future. At the most basic level, the new civilian leaders will need management handles to reach into the Korea armed forces to shape it. The old control system was based not in organizational processes, but on personal and social connections. In reorienting a large complex enterprise, these do not provide the tools needed. As a result, the Korean high command is likely to be remodeled even more in the future in ways that establish civilian control not only over its potential for independent action, but over less dramatic military and programmatic activities.

Saying exactly what these are is difficult, and is less important than recognizing the impetus for administrative reforms that transcends muting the threat of coup. As Korea moves into new high-technology

military areas, the demands for administrative reform will increase all the more. Thus, even though insiders say that reform is unlikely, the experience of virtually every other country, from the Soviet Union to the United States to China, is that when a military becomes more technologically oriented it must change its high command to manage this transformation.

A regionally focused military

Korean planning will focus on a wider range of dangers and problems. Korea will continue to ally itself with the United States as its most important friend, but the Koreans will have to support a foreign policy that guards their own interests against intended or only implied actions of the megastates surrounding them.¹⁷ Seoul can simply not afford to have a military that is misaligned with its new position in Northeast Asia and the world. An infantry-dominated force that is large in numbers but is virtually without any capacity to shape events other than on the peninsula is a nearly useless vehicle, albeit an extremely expensive one. What Korea requires is a military that can remove any belief that foreign countries who pressure her can do so with impunity.

It is often said that Korea is wasting its money because it will never have a threat from Japan. To an American this idea makes sense; for a Korean it has major flaws. It is not that sophisticated observers in Seoul really think that there will be military clashes with Japan. Rather, it is believed that Japan may press Korea on some unrelated economic or political matter in a way that reflects the contempt for Koreans that every Korean believes Japan continues to feel. To allow this form of denigration would be political suicide for any Korean leader. Korea's armed forces are less designed to fight Japan, or any other great power in the area, than they are to suggest a visible and significant military option that foreign pressure could stimulate, in extremis.

17. Paul Bracken, "The Korean State in Northeast Asia," *Strategic Review* 20 (Summer 1992): 40-47.

The regional re-focus in Korean military planning is in part a hedge against American military withdrawal, either from Korea, or from the region. The United States supplies virtually all of the naval and air shield protecting South Korea. It would be imprudent for the ROK to keep all of its eggs in this one basket.

Over the next 15 years, China and Japan are most likely to oscillate in importance to Seoul, from the military perspective. At different times, visitors to Seoul will hear a different story. From the U.S. point of view, a balancing act must be understood to be in operation. Given the inherent economic, demographic, and strategic power of both China and Japan compared to Korea—even a united Korea of 75 million people—there is no way for Seoul to ultimately trust either nation to the degree that it has trusted the United States for its security.

Recent Korean moves toward a blue-water navy reflect these shifts in perception. The South Korean naval program has accelerated despite initial opposition from the United States. In the past, South Korea had a coastal defense navy principally oriented around blunting a North Korean amphibious attack and designed to stop infiltration from the sea. At an expense that is large in absolute terms, and which has cut into ground force modernization, Seoul has advanced toward an open-ocean navy organized around a surface fleet of modern destroyers and diesel submarines. The construction of new German-design diesels—the first of which was built in German yards, and the latter two in South Korea—marks a major step not only toward blue-water capacity, but into the kind of advanced technologies already described. The ROK Navy is also building its own KDX destroyers to replace older U.S. models. These feature anti-ship and anti-air guided missiles purchased outside the United States. New ASW helicopters and surface patrol planes are also in acquisition. Taken together, there is a clear program to build an open-ocean capability that can show the flag, help protect the South Korean sea lines of communication, participate in large regional exercises, take part in UN and other coalition operations, and engage in naval diplomacy.

As for the army, its manning levels may be substantially reduced while its technological and professional level increases. The keys here are

the North Korean threat and the draft. Without a North Korean threat, there will be strong pressure to eliminate conscription. Although it will not be ended overnight, it is not implausible that in the event of a collapse in the North the ROK Army will be bought off to agree to end the draft in exchange for better modern weapons. For the ROK Air Force there may be greater modernization as well, compensating for declines in U.S. presence after the Northern threat is removed. Another key item to look for is ROK development of an expanded missile research program. Indeed, the North's many technical experts in this field could be employed by the ROK government, just as the U.S. and the Soviet Union employed German scientists after World War II.

A natural question arises as to what these programs might look like in collective fashion 15 years in the future in a business-as-usual Korea. Some substantial delays, financial disruptions from cost overruns, and lack of urgency will affect the size, composition, readiness, and location of these forces. The ROK will not possess a true blue-water capability in 15 years. Rather, it will possess some of the pieces of such a capacity. It will very likely learn more about what it needs. In other words, it will be a far more discriminate consumer of advanced military technology in the future than at present. Much of the awkward character of some Korean programs will gradually disappear.

In a business-as-usual Korea, Seoul will have enough of a regional force—consisting of short-range missiles, a navy, and a limited army power-projection capability—to create a perception of increased military strength in the region.¹⁸ We are not saying that Seoul will do this, or even that it is likely. Rather, it is a point about the changing general character of Asian military institutions. Today, South Korea cannot really join any other country (save the United States) in military cooperation of a kind that would send a political signal. In 15 years, this will no longer be true.

18. See Paul Bracken, *South Korean Naval Development*, unpublished paper, July 1994, for an elaboration of the military specifics and some scenarios related to this point.

As an illustrative example, the nascent Korean Navy could side with China in exercises that could be seen as a threat to Japan. The underlying strategic rationale might range from an external expression of domestically inspired nationalism against Japan, to a reaction to strategic changes in Japan itself. The capacity is what is worth emphasizing, rather than the intent behind it. Currently, China is building its own blue-water navy, one apparently focused on the South China Sea. However, the Chinese Navy could exercise northeast, in the direction of Japan, and this would place a new significance on the Korean Navy. Were this dramatic change to occur, Japanese interest in the Korean Navy would suddenly increase.

The arguments above, concerning broader geographical interest for the Korean armed forces, also suggest new interest in multilateralism and cooperation outside of the immediate Northeast Asian area. Although this is not likely to be strategically important, South Korean naval forces have already made port calls in Thailand and India. More extra-regional presence can be expected in the future. Seoul has already cultivated other members of APEC (the Asia Pacific Economic Cooperation forum) and the ASEAN Regional Forum. This latter body was explicitly created to discuss security issues in Asia. In short, Seoul will have diplomatic reasons to participate in these extra-regional multilateral activities.

One additional point concerning the all-azimuth Korean military redirection must be addressed. Post-unified Korea would likely see withdrawal of U.S. ground forces. One could make a case for having permanent token U.S. forces there following removal of the North Korean threat—but the argument for having U.S. troops in Korea would not be as persuasive as it is now. Korea is not Germany. Even Germany may not be Germany. That is, forward deployment of U.S. ground forces is a politically vulnerable undertaking when there is no real threat to justify it. In a unified Korea, it would be easy for Washington to declare victory and depart. The Korean people may want this to happen even more than Americans do. In the absence of a U.S. ground force in a unified South Korea, most of the arguments

above would be reinforced. Japan and China would likely bolster their military postures because they would be faced with an entirely new strategic situation after Korean unification, namely one with reduced U.S. presence.¹⁹

The United States could compensate for a substantial removal of its ground forces from the peninsula by leaving an air force presence and by increasing naval cooperation. Thus, a plausible restructuring following the collapse of the North would be removal of ground forces over several years while retaining some U.S. air forces, and by strengthening naval cooperation and presence. The United States may have no obvious interest in a permanent naval base in Korea—it certainly has none now. Yet interest in closer naval relations of all kinds should grow, as U.S. ground forces diminish. The United States may need to add another base in the APR to avoid singularizing Japan. Korea could appreciate some additional evidence of long-term commitment, as ground forces depart. In the meantime, U.S. ships could make calls at more South Korean ports, including calls on northern ports such as Wonson, later.²⁰

National command, control, and intelligence systems

The government of South Korea already recognizes its dependence on the United States for high-level command and control and intelligence and is running to reduce it. Several studies have confirmed this situation. The details of these studies have not been released publicly, but several aspects stand out.

19. Ye Ru'an, "Historic Transformation of the Korean Peninsula and China's Concerns," and Satoshi Morimoto, "Japan's Interests in Security on the Korean Peninsula in the Post-Cold War World," in Andrew Mack (ed.), *Asian Flashpoint: Security and the Korean Peninsula* (St. Leonards, Australia: Allen & Unwin, 1993), 37-50.

20. For a discussion of U.S.-Korean naval cooperation in the future, see *Prospects for U.S. Korean Naval Relations in the 21st Century*, the report of a workshop held in October 1994, sponsored by the Korea Institute for Defense Analysis (KIDA) and CNA (published by CNA, February 1995); and *Naval Cooperation After Korean Unification*, the report of a second KIDA-CNA workshop, held in December 1995 (forthcoming from CNA).

First, Korea has embarked on satellite launch and tracking programs. Two Korean satellites have been launched, the Uribyol 1 in August 1992, and Uribyol 2 in September 1993. These are very small (about 50 kg each) and have advanced microelectronics, designed for photography, remote sensing, and other scientific purposes. The development pattern for the two satellites was a standard for Korean technology. The first was built in Britain with Korean engineers participating. The second was built entirely in Korea, with British engineers assisting. Both were launched on Ariane rockets from Guyana. These satellites are small and primitive in their bandwidth capacities. At the present time, Korea is deficient in satellite technology. Yet it is hard to believe that Korea could not mount a serious program in this field, given the technical strengths resident in its large companies.

Second, Korea has a definite policy of sourcing commercial off-the-shelf technologies in support of national command, control, and intelligence. The modernization of the Korean telephone system offers major opportunities for this, as shown by the relatively successful efforts in this direction by Iraq and other countries.²¹ South Korea is already among the most aggressive countries in copying foreign technology. In 1994, it was placed on the U.S. Trade Representative's priority watch list (along with Japan) for skirting technology export control laws.²² Indeed, the head of the Korean intelligence service openly said in February 1994 that his department had a five-year priority program to gather foreign technology secrets and data.

It would be fairly easy for South Korea to put together national communications intelligence, naval direction finding, and data fusion centers with existing commercial products. The widespread availability of commercial satellite pictures from French and U.S. sources could easily be added to these capabilities. In the future Russia and other countries might distribute them. The only other missing links

21. See Paul Bracken, "Command and Control Technologies in the Developing World," in W. Thomas Wander, Eric H. Arnett, and Paul Bracken, eds., *The Diffusion of Advanced Weaponry: Technologies, Regional Implications, and Responses* (Washington, DC: AAAS, 1994), 139-59.

22. *Washington Technology Newsletter*, 9 (May 26, 1994).

in this system are communications to pull it all together and computers to manage the information collected. Clearly, the new fiber-optic grids planned for Korea would provide more than enough bandwidth to communicate whatever is needed. Widely available technologies make the need for computers a simple constraint to overcome.

Certainly, by 2010 the South Koreans should have a moderately capability to monitor radio traffic patterns and ships at sea near the peninsula, and to fuse disparate sources of information. The recent (December 1994) agreement to hand over peacetime command and control of Korean forces to Korean military commanders will be a major impetus for redesigning the national command and control system to meet new requirements. The introduction of new technologies and the new demands on security to focus on more than the threat from the North are likely to be strong factors in shaping a more balanced—less Army dominated—command and control system. A new system will not emerge immediately, but will take years to evolve. This length of time will allow the pressures for the broader security strategy to affect the evolving system.

A more dynamic and assertive Korea

The trends and developments described in the business-as-usual Korea future can have considerable scope. In this section, we will consider the potential for a more dynamic and assertive Korea, along with its consequences. In the section following this one, we will consider a less successful Korea.

The likelihood of this future

Before discussing the reasons that Korea could be more assertive in the future, it is worth discussing the likelihood of this future. In our judgment, it is second most likely after business-as-usual, and significantly more likely than the "failed tiger" possibility discussed in the next section. There is a strong tendency for U.S. observers to look at the East Asian miracle and to react to it by pointing out all of the vulnerabilities and ways things could go wrong. It is useful to recognize that in the American academic treatment of Korea an expectation of political chaos based on class friction has been anticipated since the late 1960s, without its taking place. Korea is a tough society, a resilient culture that has already absorbed many shocks successfully. Its homogeneous ethnic composition is the source of unity, all the more so because of the very real sense in Korea that cooperation is necessary in the face of more powerful neighbors.

The major reasons for anticipating a more assertive Korea arise from the ability of technology and the multinational corporation to resolve many of the economic difficulties that Korea now faces. The ease of international capital flows, and the government's new policy of discouraging over-concentration in industry, demonstrate a keen recognition of the inefficiencies generated from the old system. In an open liberal environment, Korea can tap the greatest engine of technology transfer in world history: the multinational corporation. This at a time when the world's multinationals are looking for new markets

beyond the United States and Western Europe. The point is that Korea is at a stage of political and economic development where it can allow Siemens, GE, Nissan, and others access to its markets, and it is wise enough to structure these investments to get maximum technology transfer from them.

As noted above, Korea's science and technology policy emphasizes foreign sources and participation. These new technologies could overcome the biggest obstacle to Korea's economic growth: the absence of small innovative companies, medium-sized suppliers, and world-class engineering exporters beyond the narrow confines of the *chaebol* giants. Therefore, if Korea can develop its medium-sized industries it will be able to generate new employment in a way that will incorporate emerging new professional classes of managers and engineers into the national development effort. This, in turn, will give the government enormous status and legitimacy based on this empowerment.²³

Finally, a source of dynamism could stem from the unleashing of energies from unification. The parallel would be with German unification during the 1870s, which led to a precipitous explosion of national energies. This might be one of the major surprises of international affairs over the next decade.

Strategic behavior of an assertive Korea

A more assertive Korea could be more nationalistic. There is a strong tendency among Western observers to underestimate nationalism, largely because it is so distasteful to them.²⁴ If Japan began to founder as the giant of post-war economic growth, this nationalism could be fostered all the more. This is not the place to debate Japan's economy, other than to say that a reasonable case can be made for a

23. For a discussion of the middle class in South Korea see Carter J. Eckert, "The South Korean Bourgeoisie: A Class in Search of Hegemony," in Hagen Koo, ed., *State and Society in Contemporary Korea*, 95-130.

24. This is documented in Anthony Giddens, *The Nation-State and Violence* (Berkeley, CA: University of California Press, 1987) and William Pfaff, *The Wrath of Nations* (New York: Simon & Schuster, 1993).

significant economic slowdown there, based on high labor costs, financial speculation, and the appearance of new competitors.²⁵ For Korea, this would increase the detachment from Japan in the sense that it would no longer be the role model that it has been for the Korean program.

Korea has been forced into a national mobilization of effort to construct a strong country—not only to protect itself from communist threats, but also to enforce its national identity as something distinct from Japan and China. Although Americans focus on the threat from North Korea, what is happening below the surface in the Korean economic miracle is considerably larger. Korea is a society on the periphery of great powers—China and Japan—and it has always needed to advance its particularity as distinct from these nations. This has made alliance with the United States easier.

Increased strength and independence may foster a greatly increased nationalism, once this particularity is achieved. Thus, the Korean economic success represents attainment of a centuries-old attempt to distance itself from the cultural sway of China and Japan. Japan, especially, has held Koreans in contempt for at least the first half of this century—and, arguably, well after the end of World War II as evidenced by the low status accorded Koreans living in Japan. Therefore, once Korea has achieved its goal of national identification, it could turn against others by going to the next step of superiority rather than being satisfied with independent self-identification.

One consequence of increased nationalism could be a rise in tensions with Japan. A unified Korea could behave far more independently than a Cold War Korea, and could join in anti-Japanese, or less likely, anti-Chinese activities. These would not be of a kind leading to cross-border violence, but rather actions to display contempt for a decadent, weak, formerly great power. Here, Japan must be the focus of Korean contempt, in a reversal of roles that would attempt to compensate for what has gone before. Japan is probably a lot safer for Korea to irritate than China. Tokyo is restrained by the United States, and, for the period of this study, by a desire not to overstimulate its

25. Christopher Wood, *The End of Japan Inc.*

own right wing. It is important for the United States, and others, to monitor this potential, and to mute it before the strains it introduces into Northeast Asia lead to counter-reactions from the affected parties.

That a competition for status in Asia seems disconnected from underlying power factors might only make it all the more dangerous and upsetting. Japan's population of 120 million is not so much greater than a (unified) Korea's population of 75 million as to dismiss competition altogether, especially a competition that focuses more on symbols of national status than on actually inflicting losses one on the other. Such symbolic strife could extend to competition in armaments (including naval arms), between business groups, and in relationships with other Asian nations.

This could become dangerous. A faltering Japan would be ripe for domestic political changes that would magnify the significance of any slights. Moreover, Korea undoubtedly knows the weakness of Japan, that is, its vulnerability to isolation from a strong and growing China. If Korea were to cooperate in visibly or even arguably anti-Japanese military exercises—for example, operating even a few ships in a bilateral exercise with China—the results could be serious and negative for regional stability.

A failed tiger

A “failed tiger” future for Korea seems less likely than the business-as-usual or the assertive Korea, but it does represent what some observers think is the culmination of current trends. In its most explicit form, it posits a Korea that is unable to modernize to new economic and political conditions, and reverts to its old factionalism and infighting.²⁶

The factors that could produce this outcome are clear enough to see. The power of the *chaebols* would be retained for political reasons. Their inefficiencies would be compensated for not by creation of middle-sized companies or more flexible markets, but instead by government protection and restrictions on wages to maintain their international competitiveness. Were this to occur, there would be a sharp increase in labor conflict in industrial Korea. Just as important, there would be no new status accorded to middle-class managers and no freedom to pursue high-risk technological ventures. Thus, Korean industry could be saddled with protectionism and its short-term benefits, at the expense of technological and managerial modernization.

The results of these trends would be disastrous. Not only would economic growth be curtailed, but Korea would lose out in international competition. The worst aspect of this is that the many conflicts and dilemmas of such an arrangement would be thrust onto the political system for resolution. The question is frequently asked, How deeply is democracy taking root in South Korea? The answer to this cannot be given in the absolute. It depends on the problems the democratic system is asked to resolve. If these are problems of incorporating a newly empowered middle class into a growing economy that is more decentralized than in the past, the democratic system can do this. But

26. Mark L. Clifford, *Troubled Tiger* (Armonk, NY: M.E. Sharpe, 1994).

if the political system is asked to resolve fundamental economic inefficiencies, it is much less likely to succeed.

The consequence of a failed tiger Korean future are likely to be a greatly constrained ability to direct coherent strategy, increased corruption, increased ability of foreign companies to exploit Korea, and possibly, political chaos and disorder. Of these, the last may be the most significant for the United States. A spectacular failure of democracy in South Korea could jolt expectations about its political future. Korea has been doing so well that its political and economic deterioration could have major upsetting effects in Asia. Other actors could exploit this for their own advantage, reproducing in the minds of many Koreans a high-tech 21st century repetition of earlier periods of Korean history when the weak state not only was the object of foreign influences but created a corrupt set of rulers who facilitated this exploitation.

For the United States, a failed tiger could produce several negative consequences. It would increase our dependence on Japan, particularizing Japan to a degree that is unhealthy for Japan or the United States. It could also make whatever military presence we had in Korea, or agreements with it, so unreliable as to be seen as a poor foundation on which to build U.S. policy in Northeast Asia.

Conclusions

Several conclusions emerge from this analysis. Probably the most important change is one that has already started, but that tends to be dismissed because its dimensions are as yet fairly small. The evolution of South Korea toward a more balanced force structure is highly likely regardless of alternative future, and is unstoppable by any degree of persuasion. It is not a product of bureaucratic politics, although bureaucratic politics are always a factor. Even were the threat from North Korea to disappear entirely, the South Korean military effort would undergo a profound restructuring away from a virtually exclusive focus on ground forces to a broader regionally oriented military force.

The manifestations of this restructuring are today small and error prone. The South Koreans do not appear ready to operate missile and submarine forces. But a Korea 15 years hence will be much more adept at this. In addition, the renewed national-development focus on research, development, and technology will have its own important impact on the armed forces, by changing the kind of officer who gets promoted. The military can be expected to be a test bed for many dual-use technological developments. From the perspective of the South Koreans, who would be surrounded by Russia, China, and Japan under any of the three futures, forgoing naval construction is tantamount to forgoing an ability to enforce Korea's sovereignty in the new Asia. This would not be consistent with Seoul's long-term security interests.

None of this is to argue that there will be an efficient Korean blue-water navy or land-force power projection capability outside of the peninsula in 15 years. But to look for these is to miss the strategic importance of what is taking place. Korea will develop an option to do these things if they are needed; it will have the capacity to cooperate with other countries, ranging from China to Japan to the United

States; and it will develop new capacities in command, control, and intelligence to monitor events in Northeast Asia.

One clear implication of this for the United States is the transformation of the U.S.-ROK security relationship from one with a ground force to one with a maritime foundation. There are several dimensions to this. It will be necessary not only to take account of the larger Korean naval forces, but also to include those forces in whatever regional military frameworks exist in 15 years. One of the more dangerous possibilities could occur even in a business-as-usual future. An independent Korean navy might be small, and might be no match for the Japanese navy in terms of size, sophistication, or professionalization. But left unanchored to larger powers like the United States it could be perceived in Tokyo as being a potential ally with China, Russia, or some other nation that did have a large fleet. For these and other reasons, the changing structure of U.S.-ROK security relations needs careful thought in Washington. The decreasing size of the U.S. defense budget necessitates that we creatively factor these trends into our strategic planning.

Several factors have to be considered. First, the impact on Japan, China, and Russia from these transformations requires careful attention. In certain ways, opportunities from increased U.S.-ROK maritime relations could induce Japan to keep naval bases available to the United States. Greater naval cooperation with Korea as an adjunct to our position in Japan—and, by inference, as a possible fallback against our departure from Japan—could reinforce the availability of the Japanese bases (inter alia, by avoiding Japan's "singularization" as the only APR country hosting U.S. bases). On the other hand, such cooperation should avoid the appearance of an anti-Chinese move.

Just as South Korean strategic space is being enlarged, so too is the space of the United States. Even if a restructured security relationship is rejected, thinking through its costs and benefits—and its underlying assumptions—can have a beneficial impact. It is widely assumed, for example, that there is no alternative to the U.S.-Japan security alliance in its present form. But this is not technically true. There are variations, and if necessary, alternatives.

For a long time analysts have been talking about the strategic changes taking place in Northeast Asia as a result of the end of the Cold War. The very subject matter of this paper highlights the fact that this new era has arrived. This is another important conclusion that must be integrated into U.S. thinking about the region. It has been easy to get by with broad generalizations that have not much affected U.S. military policy in the area. For all of the talk about fundamental strategic change, U.S. policy has been more affected by budget cuts than by new frameworks. If this paper reinforces any lesson, it is that this gap between policy and strategy is no longer acceptable. For if the United States does not become proactive in thinking through the impact of the regional changes, then it will be the recipient of a much less ordered set of developments in which it is only a secondary participant.

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