

U.S. Navy Secretary
meets with Korean
Minister of Defense
in Seoul

U.S. Navy (Kevin S. O'Brien)



A FOCUS ON COSTS, NOT BENEFITS, Dampens Koreans' Desire for Reunification

By GREGORY MACRIS

Young people think the financial sacrifice will be huge. That's why they may have negative emotions toward unification.¹

—Republic of Korea President
Lee Myung-bak, October 2011

Gregory Macris wrote this essay while a student at the National War College. It won the Strategy Article category of the 2012 Chairman of the Joint Chiefs of Staff Strategic Essay Competition.

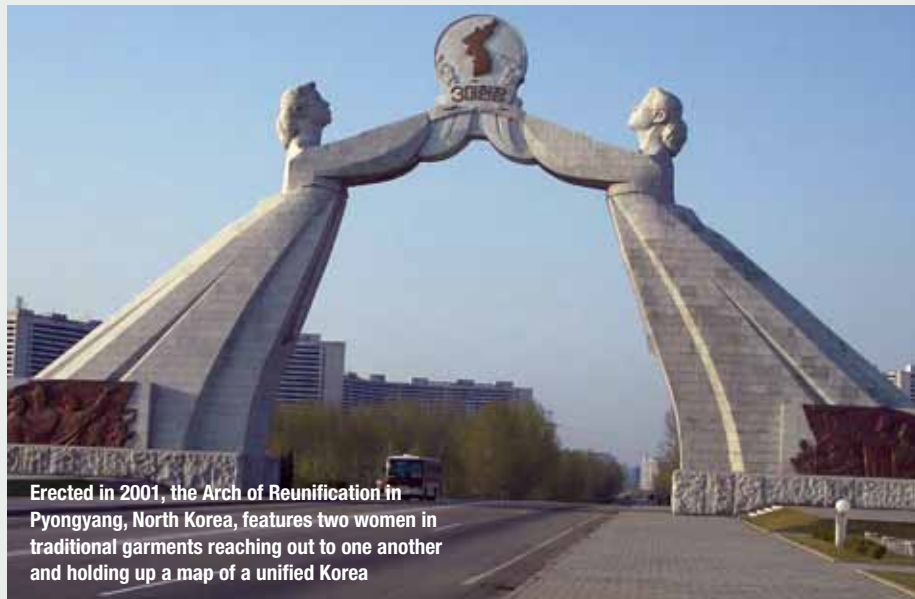
While reunification remains South Koreans' preferred method of ending the peninsula's long division, Korean youth increasingly are contemplating alternatives such as permanent separation. Many consider North Korea another foreign country, albeit one whose inhabitants share language and ancestry. Numerous factors underpin their changing attitude. Sixty years have passed since the Korean War sealed the frontier, reducing familial ties and other linkages with the North. Rapid increases in wealth, plus advances in communications and transportation, have brought South Korea's mindset closer to the West. The strongest

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Erected in 2001, the Arch of Reunification in Pyongyang, North Korea, features two women in traditional garments reaching out to one another and holding up a map of a unified Korea

catalyst of anti-unification sentiment among Republic of Korea (ROK) youth, however, is the monetary cost of unification, which could surpass \$2 trillion. Overcoming anxieties that equate political union with impoverishment will require ROK decisionmakers to portray costs as investments and to highlight reunification's economic benefits, which will endure long after expenditures subside. Since a reunified Korea furthers long-term U.S. interests in Northeast Asia, the United States should support the ROK effort.

Once Solid, Support Begins to Dwindle

ROK politicians continue to promote peninsular union, fearing electoral blowback if they abandoned this longtime strategic objective. Nevertheless, recent polling shows support for integration dropping. Eighty percent of mid-1980s South Koreans asserted unification was imperative. That figure now reads 56 percent.² Young adults poll at 41 percent, while only 20 percent of ROK teenagers consider national union vital. Of citizens claiming that achieving reunification should be the government's highest objective, 83 percent were elderly. Most South Koreans under 30 assert the government should focus first on improving their job prospects.³

Despite loud pro-reunification rhetoric, ROK government policies often preserve the peninsular status quo. Examples include large-scale food and fertilizer donations to North Korea and continued funding of the Kaesong Industrial Complex north of the demilitarized zone, which conservatively provides \$20 million yearly to the Kim family.⁴

Curtailing financial support could hasten regime change and thereby increase reunification prospects. Nonetheless, prominent Korea watchers contend that Seoul prefers that the North undergo a China-like economic reform before unification proceeds.⁵

Electoral calculations explain the go-slow approach, as ROK citizens jealously guard their hard-won prosperity and punish politicians who risk it. Recently publicized cost estimates on reunification have stoked fears of a return to poverty. The Presidential Council for Future and Vision set the price tag for union at \$2.1 trillion if the North Korean regime toppled today.⁶ That figure represents \$40,000 per ROK citizen and would raise the national debt from a manageable 38 percent of gross domestic product (GDP) to 135 percent.

What Is Behind These Enormous Figures?

South Korea's 49 million residents enjoy a per capita GDP of approximately \$30,000. Corresponding figures for the North are unreliable, but demographers estimate the population at 24 million and GDP at \$1,000 to \$2,000. The South's assimilation of a population half its size and far poorer would require a gargantuan investment. Korea experts peg first-year expenditures—primarily for humanitarian assistance and resettlement—at \$50 billion.⁷ Costs could rise further if the nations reunified following a violent struggle, as in Vietnam.⁸

Infrastructure expenditures increase reunification's cost considerably. Compared

to South Korea's infrastructure, the North's utility and transportation grids appear medieval. While the ROK rates among the most wired nations in the world, Internet connectivity is rare in North Korea. Much agricultural land lies fallow and environmental degradation is frightening in scope. Also worrisome is the North's woeful underinvestment in human capital. Although basic literacy surpasses that of most developing countries, the ideology-heavy student curriculum has a 1950s feel, and even engineers have limited computer proficiency. Furthermore, the mid-1990s famine and continuing malnutrition have stunted cognitive and physical growth of an entire generation of North Koreans.

South Koreans who fear union for financial reasons look worryingly at Germany, where reunification expenditures between 1989 and 2010 surpassed \$2 trillion. West Germany faced a comparatively simple assimilation next to South Korea, which must incorporate a far larger, poorer, and less-educated population. Moreover, while a physical barrier separated Germany for nearly 30 years, it was hardly impassable. Significant East-West trade occurred even after the Berlin Wall was constructed. The governments in Bonn and Berlin maintained phone, mail, and transportation links, and had inked 30 treaties to minimize practical repercussions of the political division.⁹ In sum, East German dependence on the West arising well before 1989 created conditions that smoothed unification. Linkages between North and South Korea pale by comparison.

Yet a closer look at the German example offers lessons and cost savings for South Korea. Germany's introduction of a common currency upon reunification proved costly because the East's ostmark had a pre-unification value just one-fourth that of the deutsche mark. Similarly expensive was the common wage scale for Easterners, whose pre-1989 productivity rated just 25 percent of their Western cousins.¹⁰ Unfettered migration rights and migrants' immediate qualification for social welfare raised expenditures further. With each measure, the German government sought to solidify political union by leveling incomes regionally.

Nevertheless, examples abound of politically stable nations whose regions differ widely in wealth. China's boom has little enhanced its central and western provinces, while in Italy, Sicilian incomes are barely one-third of those in Milan. Even in the United

States, per capita GDP in the South trails the North, 147 years after the Civil War. Any attempt by a unified Korea to quickly harmonize Northern and Southern incomes would drain government coffers and ultimately fail.

A RAND Corporation study proposes a more modest effort. Rather than pegging North Koreans' income as a percentage of Southerners' income, RAND's model aims only to triple existing Northern GDP. The resulting reunification cost estimates range widely because of one variable difficult to fix: the current size of the North Korean economy. Nonetheless, RAND predicts a more manageable price tag of \$50 to \$667 billion; private funding from South Koreans' savings and the global capital market could cover half, with governments and international financial institutions providing the remainder.¹¹

Increased Economic Activity: The Other Side of the Ledger

The financial benefits of peninsular reunification receive short shrift in South Korean media, with expected negative results

on under-30 public opinion. Many youth are unaware a political agreement would bring both short- and long-term economic stimulus. First to benefit would be South Korean construction firms, owing to aforementioned infrastructure requirements in North Korea. Longer term, the North's greater fecundity would help alleviate what is perhaps South Korea's greatest strategic challenge: a birth rate in 2010 that ranked as the world's lowest (1.14 children per woman).¹²

Significant savings would accrue from reduced military spending, redirecting capital to more productive parts of the Korean economy. Experts calculate a unified Korea would require 500,000 men in uniform (corresponding figures for North and South Korea today are 1.1 million and 680,000, respectively).¹³ Owing to the low wages paid in the North and the expectation its soldiers would comprise a large percentage of the unified military, shrinking the ROK army would provide a significant "peace dividend." Further, universal ROK conscription delays young males' entry into higher education and

the labor force, with predictably negative economic consequences.

Its only land frontier sealed, South Korea resembles an island economy plagued by high transportation costs. Erasing the fortified border would allow land shipment of goods to and from China and Russia. Energy costs would fall, as an envisioned pipeline from Vladivostok to Seoul would reduce seaborne shipments of expensive liquefied natural gas.¹⁴ Reunification also would lower capital costs since government and private industry currently pay higher interest rates because of political uncertainty.

Costs a Factor, Not a Non-Starter

Recent developments on the Korean peninsula, from North Korea's 2010 sinking of the *Cheonan* to its continuing nuclear and ballistic missile activities in contravention of international sanctions, seemingly make discussion of reunification an academic exercise at best. Yet might an "outlier" be lurking? In 1989, few analysts were predicting the fall of the Berlin Wall or collapse of the Soviet

South Korean marines participate in urban operations training at Korea Training Center where U.S. Marines take part in Korea Interoperability Training



U.S. Marine Corps (John Kennicutt)



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a competition for regional leadership within a shifting balance of power, and history. At the strategic level, there is intense, but quiet political competition for the mantle of leadership in the Asia-Pacific region. The author discusses the increasing integration of the two economies—for example, within Japan's business community, the China boom is widely recognized as the driving force behind Japan's recovery from its "lost decade" in the 1990s. Nevertheless, the Japan-China relationship is also marked by a number of combustible political issues including conflicting territorial claims, a disputed maritime boundary in the East China Sea, and security anxieties in both countries. Moreover, highly nationalistic, zero-sum issues relating to sovereignty, such as the September 2010 Senkaku incident, have the potential to derail the relationship at significant cost to both nations. These issues must be managed with care if Sino-Japanese relations are to reach their full potential.



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U.S. Navy (Melissa Pelosi)

Chairman of South Korean Joint Chiefs of Staff talks with commanding officer of USS Chafee during exercise Foal Eagle 2012

Union. It thus behooves the South Korean government (and its strongest ally, the United States) to plan prudently for reunification, irrespective of timing and likelihood.

President Lee Myung-bak has gotten the message. Even as his electorate is turning rightward, demanding swift retribution for any future *Cheonan* incidents, Lee's administration is tacking to center. It is executing a robust public diplomacy campaign, for example, whose capstone television programs—delivered in sitcom and reality show formats favored by South Korean youth—aim to portray North Koreans in a more favorable light and tout the economic benefits of reunification.¹⁵ Reshaping public opinion is no easy task, however, and will require great patience and even greater resourcing. The United States should seek opportunities to echo Lee's pro-unity message toward Koreans under age 30. It should utilize both high-profile encounters, such as President Barack Obama's March 2012 visit for the Seoul Nuclear Security Summit, and lesser known tools like Fulbright Scholarships and grants for prominent unification supporters to convince Korean youth that reunification under an open democratic system offers the greatest chance for regional stability and economic growth. **JFQ**

² Ibid.

³ Christine Kim, "Paying for Unification: Only 10.8% Want Taxes," *Joinsmsn.com*, March 3, 2011.

⁴ Dick Nanto and Mark Manyin, *The Kaesong North-South Korea Industrial Complex* (Washington, DC: Congressional Research Service, March 17, 2011), 1.

⁵ Andrei Lankov, "Working Through Korean Unification Blues," *Asia Times Online*, November 15, 2007.

⁶ "Sudden Reunification Would Total \$2.1 Trillion," *The Chosun Ilbo Online Edition*, November 4, 2011.

⁷ "Korean Reunification Would Cost \$2.38 Trillion," *Asia Pulse Online*, October 7, 2011.

⁸ Peter M. Beck, "Contemplating Korean Unification," *The Wall Street Journal*, January 4, 2010.

⁹ Hanns Gunther Hilpert, "A Comparison of German and Korean Division: Analogies and Differences," *International Journal of Korean Reunification Studies*, Korea Institute for National Reunification, June 30, 2010.

¹⁰ Charles Wolf, Jr., "Korean Unification: How It Might Come Along, and at What Cost?" *Defense and Peace Economics* 17, no. 6, 681–690.

¹¹ Ibid.

¹² Theresa Kim Hwa-young, "South Korea Has World's Lowest Birth Rate," *Asia News IT*, February 26, 2010.

¹³ *Asia Pulse Online*, October 7, 2011.

¹⁴ Jason Struther, "Russia, Two Koreas Renew Talks on Stalled Gas Pipeline," *VOA News Online*, September 20, 2011.

¹⁵ Harlan.

NOTES

¹ Chico Harlan, "South Korean Young People Are Wary of Unification," *The Washington Post Online Edition*, October 17, 2011.