

NOVEMBER 2014

*A Conference Report of the
CSIS Korea Chair*

Korean Unification in a New Era

EDITOR
Victor Cha

CSIS | CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

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Center for Strategic & International Studies
1616 Rhode Island Avenue, NW
Washington, DC 20036
202-887-0200 | www.csis.org

Rowman & Littlefield
4501 Forbes Boulevard
Lanham, MD 20706
301-459-3366 | www.rowman.com

Contents

Executive Summary	v
<i>Dr. Victor Cha, Center for Strategic and International Studies</i>	
Introductory and Welcoming Remarks	1
<i>Dr. Kang Eun Bong, National Research Council for Economics, Humanities, and Social Sciences</i>	
Congratulatory Remarks	3
<i>His Excellency Ambassador Ahn Ho-Young, Republic of Korea Ambassador to the United States</i>	
SESSION ONE: ECONOMICS OF KOREAN UNIFICATION	5
Panel A: The Economic Synergy Effect of Unification of the Korean Peninsula	6
<i>Dr. Marcus Noland, Peterson Institute for International Economics</i>	
<i>Dr. Kim Dongsoo, Korean Institute for Industrial Economics and Trade</i>	
<i>Dr. Jeong Hyung-Gon, Korea Institute for International Economic Policy</i>	
<i>Mr. Matthew Goodman, Center for Strategic and International Studies</i>	
Panel B: Opening for Business: Foreign Investment after Unification	18
<i>Mr. Thomas Byrne, Moody's Investors Service</i>	
<i>Mr. William Brown, Office of the Director of National Intelligence</i>	
<i>Dr. Sue Mi Terry, East Asian Institute, Columbia University</i>	
<i>Dr. Park Hyeong-Jung, Korea Institute for National Unification</i>	
LUNCHEON ADDRESS	31
<i>Mr. Sydney Seiler, Special Envoy for Six-Party Talks, U.S. Department of State</i>	
SESSION TWO: KOREAN UNIFICATION AND THE SECURITY ENVIRONMENT	37
Panel C: The Northeast Asian Perspective	38
<i>Dr. Michael Green, Center for Strategic and International Studies</i>	
<i>Dr. Park Ihn-hwi, Ewha Womans University</i>	
<i>Mr. Christopher Johnson, Center for Strategic and International Studies</i>	
<i>Mr. Bruce Klingner, Heritage Foundation</i>	

Panel D: Global Perspectives 50

Dr. Kurt Campbell, The Asia Group

Dr. Kim Jaechun, Sogang University

Ambassador Stapleton Roy, Wilson Center

Dr. Kim Yung Ho, Sungshin Women's University

CLOSING REMARKS 62

Dr. Victor Cha, Center for Strategic and International Studies

Appendix 1. Conference Agenda 64

Appendix 2. Media Participants 66

Appendix 3. Participant Biographies 68

Executive Summary: Analyzing the Concept of “Jackpot” Unification

Dr. Victor Cha, Center for Strategic and International Studies

As a result of a speech delivered by Republic of Korea (ROK) president Park Geun-hye in Dresden, Germany, on March 28, 2014, the topic of unification of the Korean peninsula has been on the minds of many. This is, of course, not the first time that unification has been in the news. During the Cold War era, unification was defined as the absolute military victory of one side over the other. In Korean, this was known as “songgong t’ongil” or “p’ukch’in t’ongil” (“march north” or “unification by force”). In political science literature influenced by the European experience, it was defined as the perfect integration of the two countries. After the reunification of Germany on October 3, 1990, unification was seen as the economic and political absorption of one side by the other. And yet at other times, it was defined, by both North and South Korea, as the imperfect operation of one country, two systems. For a decade during the period of “sunshine” policy, 1997–2007, unification was defined as something to be avoided for generations. It was framed as an outcome that was too difficult to contemplate, too dangerous to suggest, and too expensive to afford.

What is different about the current iteration of the unification dialectic is Park Geun-hye’s view of unification as an opportunity or jackpot **대박**.

What does this mean? How is this formulation different from previous conceptions? And what are the opportunities as well as the challenges inherent in unification for Korea, the United States, and the world?

To try to answer these questions, CSIS with the National Research Council for Economics, Humanities, and Social Sciences (NRCS), Korea Institute for International Economic Policy (KIEP), Korea Institute for National Unification (KINU), and Korea Institute for Industrial Economics and Trade (KIET) organized a two-day international conference on September 4, 2014, at CSIS headquarters in Washington, D.C. The title of the conference was “Korean Unification in a New Era.”

The conference panels were designed to analyze specifically the proposition that unification is a “jackpot” as described by President Park. Two panels in the morning were

devoted to in-depth analysis of the economic aspects of unification. The first panel addressed the question of the economic opportunities that might be associated with unification. The second panel looked specifically at the business and investment opportunities/potential with unification. Participants in both panels were world experts, including economists and sovereign ratings analysts, in addition to trade policy specialists.

The afternoon panels were devoted to the political and security opportunities with unification. The key question addressed in these sessions related to the so-called peace dividend that might be associated with unification and in particular the reactions of regional players to a unified Korea. Would they support such an outcome? And how could they be helpful? The afternoon sessions were also populated with high-profile specialists, including former White House officials in both the Bush and Obama administrations.

There are a lot of unknowns about unification that make forecasting difficult. There are also known challenges that make unification daunting. There are no two bordering countries today with a larger income gap than that between the two Koreas, which poses obvious integration challenges. This conference did not deny the many known difficulties associated with unification. It did, however, seek to identify the positive elements amid many of the unknown variables at play. Thus, it did not take on faith that unification would be “easy.”

Conference Proceedings and Agenda

The day started with some congratulatory remarks by the H. E. Ahn Ho-Young, South Korea’s ambassador to the United States. In his remarks, Ambassador Ahn congratulated the organizers for pulling together a so-called dream team of specialists on Korean unification. The ambassador also hosted a dinner at his private residence in the evening to allow speakers and discussants to continue the conversation from the morning and afternoon in an off-the-record format.

The conference took place in the main conference hall of CSIS with an attendance of 162, including national and international print and television journalists (see Appendix 2 for a full list of media participants). The event was live streamed to audiences around the world via the CSIS live Ustream channel, and throughout the day observers could follow the conference through social media and tweet questions @CSISKoreaChair #CSISLive.

What follows is a summary of the key points gleaned from the day’s panel presentations and the discussions that followed each session.

A Framework for Conceptualizing the “Jackpot”

For so long, we have thought about unification in terms of daunting costs, dangerous competition, and strategic instability. Undeniably there are many unknowns associated with

unification, and, over the years, these have become well studied. We have not positioned ourselves well, however, to have a full understanding of unification. A new framework entails thinking not just about the risks, but also about the benefits associated with the task. Here is a summary of the key assumptions that support a new framework to think about unification.

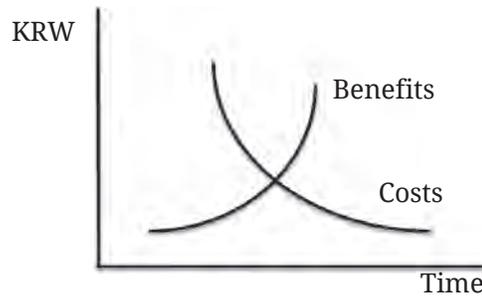
Key Assumptions

- The concept of “jackpot” is not based on blind optimism. Rather, it is the sober net assessment of the benefits over the costs.
- Unification is not a matter of “if,” but “when.”
 - The key question is how we prepare today in ways that promote a peaceful and prosperous outcome.
- Unification is the middle ground.
 - The end of the Korean division should be viewed politically not as an extreme political position for the right or the left. Instead, it should be viewed as occupying a wide middle ground, encompassing a large swath of the political spectrum.
- Unification is a Korean issue, but one that will touch on the core interests of many in the international community.
 - Adequate preparation at the international level requires socializing neighbors about the likely process and shaping positive-sum solutions.
- Any unification “policy” must now move beyond abstract ideas to concrete planning and conceptualization of long-term unification plans.

With this framework in mind, panelists and discussants analyzed the various challenges and opportunities in several key issue areas related to unification. The important takeaways from these discussions are listed below.

The Economics of Unification

- The economics of unification may not be as bad as people think. We always imagine the worst and have been conditioned to think that way.
- Unification will slow South Korean growth, but peninsular growth will rise dramatically; moreover, poverty levels on the peninsula will decline dramatically.
- The cost line for unification will initially be steep. The benefit line will initially look flat. But ultimately these two lines will cross each other.



- The synergy effects of unification, including vertical economic and business integration, human capital, and poverty reduction, will benefit not only South Koreans; they will disproportionately benefit North Koreans.
- There are many areas of great investment potential with unification, including in textiles, metals, rail, and tourism.
- Fair liquidation of government assets, ownership, private investment, and the development of equity markets (which took 12–15 years in China and Vietnam) are important preconditions for foreign direct investment.
- In the efforts to raise production levels in the north, it is important to protect the South Korean system in a unification process, particularly in terms of financial solvency and credibility.

The International Context of Unification

- There is no more potent variable for change in the international system than the collapse of a regime and the resulting power vacuum. Unification should not open this space to eighteenth-century zero-sum balance-of-power politics but instead should be a path to a twenty-first-century security community in Asia where emerging patterns of trust and cooperation rule out the possibility of conflict.
- Korea needs China's tacit cooperation at a minimum for unification, and therefore Korea must continue a high-level strategic dialogue bilaterally or trilaterally by including the United States. Seoul, however, must also convey clear red lines on Chinese actions because Seoul's interests do not overlap perfectly with those of Beijing.
- Korea and the United States must be sensitive to the fact that unification will leave China as the only divided country left in Asia, which may have deleterious effects on its views of Taiwan.
- Relations with Japan are in need of dramatic improvement because public opinion on current relations has shifted in a wholly unfavorable direction. This in turn could impact Japanese perceptions of unification. Improved relations between the two countries are important for future unification of the peninsula.

- Russia will be an important role player in unification. It can act as a repository state for fissile material and be a potential cooperative partner in areas like energy and transportation, especially rail, infrastructure.
- The United States will want to maintain an alliance with a united Korea and will act to support the realization of a twenty-first-century security community.
- The United Nations and the international community will value a transparent unification process.

Humanitarianism and Unification

- Unification is a human right.
 - Although many southerners will do well with unification, the biggest winners will be the North Korean people.
- A key to North Koreans believing that unification is in their interest is ownership, not aid or handouts.
- Although many of the costs and benefits of unification are quantifiable, there are some unquantifiable factors that will nonetheless be significant. The psychological benefits are not easily measured, but they will be significant.

All of these points and more are covered in the ensuing pages of this report, which includes a transcript of the recorded proceedings of the day.

Introductory and Welcoming Remarks

Dr. Kang Eun Bong, National Research Council for Economics, Humanities, and Social Sciences

His Excellency Ambassador Ahn, Dr. Victor Cha, and distinguished guests, first of all I would like to express my deepest appreciation to the prominent policymakers and experts from Korea and the United States for attending this conference, despite your busy schedule. On behalf of NRCS of Korea, my special thanks goes to Dr. Cha, who has made great efforts to host this meaningful event.

Ladies and gentlemen, Northeast Asia is one of the most dynamic regions of the world. The region has been increasingly contributing to the global economy. However, the most concerning factor on the security as well as economic front is North Korea. North Korea should make the right choice to be a responsible member of the international community. In order to induce North Korea to make that choice, it is important for us to speak with one voice. The message must be clear and consistent.

Under this recognition, President Park Geun-hye suggested a vision for the Korea-U.S. alliance in an address to the joint session of the United States Congress last year. President Park emphasized that we should lay the groundwork for enduring peace and reunification on the Korean peninsula, and that we need to make a mechanism of peace and cooperation in Northeast Asia. The trust-building process on the Korean peninsula, as we all know, includes developing inter-Korean relations, establishing peace on the Korean peninsula, and laying the groundwork for unification.

President Park also proposed the Northeast Asia Peace and Cooperation Initiative. We witnessed the nations of Northeast Asia region failed to fulfill it collectively. The region suffers from the Asia paradox, disconnection between growing economic interdependence and backward political and security cooperation. The way we manage this paradox will determine the shape of new order in the region. We cannot afford to put off the multilateral dialogue process in Northeast Asia.

It could also reinforce President Obama's strategy of rebalancing towards the Asia-Pacific. I believe that especially the U.S., together with Korea should take an active part in this endeavor so these ideas bear fruit.

As President Park emphasized, Korean unification would be an immeasurable bonanza for any nation with interest on the Korean peninsula. Unification on the Korean peninsula will contribute not only to the prosperity of Korea but also to the peace and prosperity of Northeast Asia and the rest of the world. A peaceful and unified Korea that is free from the fear of war will be a catalyst for economic development in Northeast Asia. Since German unification in 1990, Germany has emerged from the backwater to become the growth engine of the European economy. That is a powerful testimony to the tremendous potential of Korean unification.

At this conference, policymakers and experts from the U.S. and Korea have joined today to discuss the way to prepare for unification. I ask all of you to gather your wisdom to make Korean unification come earlier for the prosperity of the world beyond Northeast Asia. I hope today's conference would serve as an opportunity for all of us to understand each other better and build friendships. Thank you very much.

Congratulatory Remarks

*His Excellency Ambassador Ahn Ho-Young, Republic of Korea
Ambassador to the United States*

Good morning. I will start with an analogy from the world of sports. In the world of sports, they have an expression, which is “dream team.” I was just checking some data to see where it started from, and I came to find that dream team started with basketball teams and then it moved to football, and then it moved to wrestling, and then in Korea, it moved to archery, right? Dream teams are spreading, which is a good thing. Why do I tell you about dream team? It’s because I just went through the list of speakers for today’s seminar, and I said, “This is a dream team.”

If you want to form a dream team of Asian experts, I said myself, you don’t have to go too far; you can come to CSIS this morning. I’m looking at you, the members of the dream team. They have a task for today, which is to discuss unification of Korea. When it comes to unification, there is one proposition in which I strongly believe. In this hall there will be many of you who will be sharing this same proposition with me, which is—it is not a question of if; it’s a question of when. It will happen eventually, but we do not know when.

What should we be doing today in order to promote the process of unification and be better prepared for it? I can think of at least three things that we should be doing together even today.

First thing on my mind would be better understanding about what unification means. Earlier today, Victor Cha was talking about how it could be risky, it could be dangerous, it could be costly, and I agree with everything that Victor said. But at the same time, we in fact have to think about all the benefits which will be accruing from unification. Both Victor as well as Dr. Kang talked about economic benefits, and then on top of it there would be security benefits, and then on top of it these days we are talking more and more about humanitarian benefits, but at the same time there is no assurance. It would be costly, it would be risky, but at the same time there can be benefits, although nothing is written in stone and concrete. As a matter of fact, it would depend very much upon our attitudes and mindset that will determine how costly unification would be. It will depend upon our mindset, as well, that will determine how risky unification could be. At the same time our mindset and understanding will determine how beneficial unification could be. So that’s

the first thing that we should be doing, which is a better understanding about what unification means for each and every one of us.

The second action we could be taking even today would be to strengthen engagement between South Korea and North Korea. I know, again, it is not easy. It is not easy today. It has not been easy for the past 70 years. It has not been easy because of ideological differences, because of the Korean War, because of weapons of mass destruction, because of all those unnecessary provocations. I reiterate “unnecessary provocations,” and all of these issues made it difficult for us to engage North Korea, but even then engagement is something necessary. President Park made a speech at Dresden. In the Dresden speech, I think my president mentioned at least three points: humanitarian exchanges, economic infrastructure, as well as cultural exchanges. All of them, to the extent we can do it today, to the extent that through the process of trust-building process, we in fact should be extending the scope and contents of our exchanges between South and North Korea. That would be the second thing we can and we must do today.

The third thing, which I think we can do today, would be engagement with countries around the world with interest in the unification of Korea. Why do I say that? It is because when we talk about this issue of unification, we often talk about the lesson of Germany. Dr. Kang has already mentioned the lesson of Germany. I think one lesson of Germany would be the importance of engagement with neighboring countries with deep interests in the unification process. At that time, people were saying German unification, if it in fact was a success or the outcome of bad politics. But, at the same time, there were far more people who were saying it was not so much bad politics, but the good politics, which in fact at the end of the day helped make German unification something that the neighbors could accept. So that, I think, would be another German lesson for understanding Korean unification.

I think these three are the things which we can do, we must do, in order to promote the process of unification and at the same time, so that we will be better prepared when the day comes. We in fact end up with a unified Korea. So better understanding, that’s something we can do. And more engagement between South and North Korea, that’s something we can do. And engagement with the countries with deep interest in the unification of Korea, that’s something we can do. I think I can afford to be brief today. Why? Because as I told you, these issues, we are going to discuss all day long. By whom? By the dream team of Asian experts. So thank you so much, and I look forward to our seminar today. Thank you.

**SESSION ONE: ECONOMICS
OF KOREAN UNIFICATION**

Panel A: The Economic Synergy Effect of Unification of the Korean Peninsula

Dr. Marcus Noland, Peterson Institute for International Economics

Thank you very much. It is an honor to be invited to address this group. My secret dream is that I've always wanted to be six-nine and play power forward in the NBA, so I suppose this is the closest I'm ever going to get to being a member on a dream team.

The United States has a strong economic and political interest in seeing Korea unified as a democratic capitalist state. The specifics of U.S. involvement are partly contingent on the unification scenario. Excluding the horrific possibility of war, unification scenarios basically come down to two: a protracted consensual process in which North Korea maintains sovereignty for some significant transitional period, and an abrupt collapse and absorption scenario along the lines of the German experience.

Earlier this year, the Ilmin Institute of International Relations surveyed 135 experts, a term I use advisedly in this context. The consensus coming out of this group, or at least the modal response of these experts, was that the life expectancy of the Kim Jong-un regime was something like 10 to 20 years. A majority 64 percent expected the regime to fall through internal power struggle and that unification with the south would be the final end point of that process. This implies that the consensus of these experts tends toward that second abrupt collapse and absorption scenario. With respect to that scenario, as the United States has learned quite painfully in Afghanistan and Iraq, the establishment of civil order is absolutely critical. If there were prolonged violent opposition to South Korean rule, quarantine or something akin to the Israel–West Bank–Gaza situation could emerge on the Korean peninsula, which would obviously impede economic recovery.

Rapid clarification of property rights will be essential under either scenario. Without clarification of property rights, there will not be investment, and without investment, there will not be recovery. I think that some of the most important lessons of the German case have been miscomprehended or ignored. One is the importance of the clarification of

property rights. The Germans pursued restitution that slowed down the process of clarifying property rights and getting investment.

The second and the bigger thing which I think is genuinely misunderstood is that the monetary conversion rate at the time of unification was not the primary cause for the collapse of East Germany. It was the subsequent behavior of East German wages, and that was very much a product of German policy.

The good news is that Korean unification would accelerate peninsula growth and lead to a dramatic reduction in poverty. The bad news is that the price tag could easily exceed 1 trillion dollars or something on the order of 100 percent of annual GDP.

Estimates of the impact on the United States' economy vary widely. The key issue is the extent of reform in North Korea. Ironically, from an analytical standpoint, it's actually easier to do the analysis in the collapse and the absorption scenario, because existing sanctions, legislations, and things like that become moot, because North Korea has disappeared as a sovereign state.

The other thing about unification from the United States' standpoint is that the United States can contribute to financing unification, but I want to emphasize that the role of the private sector would be absolutely crucial, and that is the topic of the second session we are going to have. The U.S. public sector can do a fair amount, but private-sector involvement is really what is going to be decisive.

So what are our starting points? I'm going to—as a good economist—assume away mass violence, whatever the process, whether it be consensual or a collapse. If it's a collapse, it's more like the East German collapse, where there is not violent opposition.

Human capital in North Korea may be lower than expected. There is considerable evidence that the education system has deteriorated quite substantially over the last 20 years. Environmental degradation is likely to be extensive and may be quite expensive to clean up, especially if South Korean environmental standards are applied. The implication for North Korea—and this is more important under the prolonged consensual unification scenario—is that the growing centrality of the mining sector is associated throughout the world specifically in transitional economies with corrupt, familial-based autocracies that are evident in parts of Central Asia today. That is the trajectory that North Korea is on. It's not a particularly good, pretty picture, but the good news is that North Korea has South Korea. One cannot imagine a better asset to have in the process of unification than South Korea as a partner. North Korea's population is a bit younger than South Korea's, so that should help.

My survey evidence that was reported in a paper that was released earlier this year by the U.S.-Korea Institute at the Paul H. Nitze School of Advanced International Studies (SAIS) at Johns Hopkins University suggests a relatively disciplined and productive labor force in North Korea. There are pockets of excellence, though sadly these tend to be in things like

missiles. In terms of the economics of the absorption, product market integration between North and South Korea would not have a big impact on South Korea. Think about Mexico integrating with the United States and NAFTA, or a small European country joining the EU. It may affect specific communities, specific firms, or specific industries, but from a macro-economic standpoint, North Korea is simply too small to have a major impact on the South Korean economy if all that integrates are product markets. The issue changes dramatically when we allow factor market integration. That is if labor markets start to integrate between the two countries—people are allowed to cross the DMZ - and investment goes from South Korea to North Korea.

My own work, based on a multisector, computer-generated, macro-equilibrium model, suggests that among the key issues are the rapidity of technological transfer, upgrading, and productivity increase. Obviously, the faster productivity ramps up in North Korea, the lower the ultimate price tag will be in unification. How much labor migrates to the south? How much capital would be invested in the north? How much of that comes from South Korea? How much comes from third parties? Is it capital that is invested on a profit-seeking basis or is it grant aid? As I indicated, my works suggest that over a decade the cost of unification, defined as the amount of capital investment needed to raise North Korean income to the 60 percent of those in the south, would exceed a trillion dollars, which is roughly in the same ballpark as the figure put out earlier this year by the South Korean Ministry of Finance. It would have distributional implications in South Korea. There would be a shift in the distribution of income from labor to capital, and from within labor, from relatively low-skilled labor to high-skilled labor. So absent compensatory policies by the South Korean government, the process of economic integration would be accompanied by widening wealth and income inequality. There are possibilities that different sectors of the economy, what we economists call traded goods versus nontraded goods, would be affected differentially.

South Korea would not be hurt in absolute terms. I want to make this quite clear, though the growth rate in South Korea would slow. The peninsular growth rate overall, however, would accelerate and there would be a dramatic reduction in poverty. To me, the policy implications for South Korea are that engagement to encourage as much transformation as possible within North Korea is a precondition to reconciliation, and, eventually, unification is desirable. South Korea ought to be running a budget surplus to basically put away money for eventually unification costs. There is a need to strengthen the Korean Fair Trade Commission to make sure anticompetitive practices are not practiced in North Korea as they were in East Germany post-unification. In terms of the monetary union, the Bank of Korea ought to be working very diligently to understand what the North Korean real exchange rate is and, as I mentioned with the case of Germany, focus on wage setting, not the initial conversion rate, which is where the German case went wrong. Possibly, most critically, it is essential to clarify property rights quickly in order to get investment. What you want is compensation, not restitution. If people have claims on property in North Korea, they can be compensated, but you don't want them in some legal process in which the ownership rights of the assets are contested and the assets deteriorate. So, the principles

are compensation, not restitution, and owners of capital with “skin in the game” to restrain wages. “Land to the tiller,” that is to say give North Korean farmers the land they are currently operating so they can continue to do it. It would increase productivity and reduce the incentives to migrate, and while you may ultimately want to see privatization of assets, this has to be done very carefully so it doesn’t become a fire sale as happened in the case of Germany.

For the United States, which of these two basic scenarios obtains, whether it be the prolonged consensual unification process or a more abrupt process, matters. Successful rehabilitation of the North Korean economy, under either scenario, will lead to the expansion of trade with the United States that would largely consist of North Korea shipping light manufactured goods to the United States in return for capital goods and agricultural products. Other products that North Korea produces, such as metals, may well be purchased by U.S. firms for assembling operations. For example, in the electronic sector elsewhere in Asia, so they might be considered indirect imports by the United States. There would be an expansion of services trade, as well, basically business services exports from the United States to North Korea, and North Korea exporting tourism services to the United States. One issue that might be different under the two scenarios, in the kind of protracted scenario where North Korea remains sovereign for some considerable period of time, labor standards issues may become quite important, at least under the standpoint of United States investors.

U.S. interaction with North Korea today is constrained by a dense web of sanctions and other measures. In the consensual scenario, those may require executive and/or congressional action for their removal, and I think this is important for the South Korean audience to understand. Even if there is rapprochement between Seoul and Pyongyang, it doesn’t automatically follow that the United States will start changing its laws with respect to North Korea. That would not be such a big deal in the collapse and absorption scenario because those measures would effectively become moot. In either event, Annex 22B of the KORUS Agreement, could be used to jump-start American action with North Korea, if you have, for example, in the case of Germany, the brief period when the German Social Democrats ran the East German government under the final prime minister, Lothar de Maizière.

In terms of finance, as I indicated, unification is likely to be expensive. There is a role for the U.S. to play both bilaterally and through international financial institutions. The capacity of the United States government to contribute to this process is going to be partially a function of the U.S. fiscal position. And the U.S. fiscal position over the next 10 to 20 years is highly uncertain. But I want to emphasize that unification finance should not be thought of strictly as a public-sector activity.

Indeed, the private sector will have a critical role to play, as well. Probably, the most important U.S. economic contribution to the process is likely to come through the private sector for foreign direct investment, which constitutes the institutional mechanism for both technology transfer and the links to the marketing and distribution network globally that North Korea currently lacks. The basic problem of the North Korean economy is that

you have a certain amount of latent potential, but they literally do not have the potential nerve synapses to connect that latent potential to the global market. That's where foreign direct investment will be so critical, and that is where the U.S. will really have an impact. In that context, aid should seek to compliment, not substitute for those private-sector activities, and, indeed, should try to be oriented in a way to, in fact, encourage additional private-sector financial inflows. I thank you for your attention, and I look forward to our subsequent discussion.

Dr. Kim Dongsoo, Korean Institute for Industrial Economics and Trade

Good morning. I am more than happy to join the dream team this morning. It is really an honor to present my paper here. This morning I am going to talk about the economic synergy effect of unification. Before doing that, I am going to talk about the premises of economic integration, go over the synergy effects by industrial sectors, and then I will conclude.

In order to discuss the economic impact of unification, we need to think about economic integration. Sometimes I am not quite sure about economic integration. It seems like it is a bigger concept than unification. Probably, this morning, I am going to mess up the terminology between economic integration and unification. Please forgive me.

The path of unification is really determined by the initial condition of the North Korean economy. That is why the speed and course of economic integration or reunification is really important, not only for the two Koreas, but also neighboring countries such as China and Japan.

There is a lot of literature that talks about the process of unification. Two processes are possible, gradual and radical unification. Gradual unification might be the ideal case right after significant economic growth of the overall North Korean economy; then we may have unification. But this is hard to achieve. When we think about economic integration, the case of radical unification might be more realistic. There are still two possible situations. One is intermediate-complete integration and the second is gradual-partial integration.

In order to talk about the economic synergy effect, I need some kind of premise for economic integration. Firstly, after economic integration, North Korea is supposed to immediately adapt to a market economy. The second one, after unification, there will still be wage disparities between the two Koreas. Otherwise, it will be really difficult to think about integration.

Before discussing the synergy effect, I am next going to talk about the South Korean economic situation. We do face challenges. Firstly, we do have a strong neighborhood. You may have heard about the sandwich theory, mentioned by the CEO of Samsung, Lee Kun-hee. He initiated the sandwich theory term in 1992. South Korea looks like a sandwich located between China and Japan. We believe the technology disparity, the gap between South

Korea and China, has been lessening, while the technology gap between South Korea and Japan is widening. That is what we face right now. A lot of industrial experts really worry about that.

The other challenge we face is that we are one of the fastest-aging societies. The number of people in their 40s–50s is almost double compared to teenagers under 10 in South Korea. The population distribution in 2010, the shape of a pyramid, is very unbalanced. We are going to be facing problems in the next 20–30 years, with a lack of production labor forces.

We are also facing a sort of deadlock on the industries side. Compared to 1995–2012, the structural industries still have not changed much. The steel sectors, automobiles, refineries, chemicals, and machineries are the main key manufacturing industries in Korea, and we haven't moved too much to the IT sectors, even though we are famous for that.

The potential of North Korea is pretty rosy to us. They have abundant resources and human capital. According to the Bank of Korea, coal and iron are abundant. As for the railroad and transportation infrastructure, the quality is pretty poor. However, the railroad land is pretty abundant; a lot bigger than South Korea's. The labor cost in Kaesong is an annual income of \$1,500. This is a lot lower compared to Beijing, Qingdao, or Jakarta. So we may use lower labor force costs, if we have unification with wage differences.

Overall, the effect of unification is pretty prosperous, not only for Korea but also for the Northeast Asia region. I believe the political stability on the peninsula will bring the same synergy effects in manufacturing, logistics, and energy. We should also think about the energy and transportation systems in Northeast Asia, such as the transcontinental railroad, which runs from Tokyo to London, and the network gas pipelines in Northeast Asia. That may bring multilateral cooperation to Northeast Asia countries. I believe unification will also bring more business opportunities, at least in 50 years. Absolutely we will need to rebuild North Korea from their backward industrial linkage and this investment demand will bring more opportunities in Northeast Asia.

Let me go over it sector by sector briefly. I believe unification will trigger industrial restructuring in Korea. There might be enhancement in labor-intensive industries, such as machineries, textiles, electrics, and chemicals. There is also some potential in IT sectors. I don't know how they educate people, but their IT, software skills, and technologies are pretty outstanding. North Korean hacking skills are one of the top. So we may use those kind of technologies in a reunified Korea. South Korea is losing competitiveness in the steel industry, that is a traditional manufacturing sector, because of higher labor costs. For example, the average age of the labor force in the steel industry is over 45 years old. We lose productivity. China has already surpassed South Korea. If we can use the labor force in North Korea, with their relatively lower labor costs, then we could still be competitive.

Also, we could use a lot of the natural resources in North Korea. We could imagine vertical integration in chemicals. In Korea, refineries and petrochemicals show good prospects. Again, the same thing happened in these sectors with higher labor costs.

We could also think about transportation machinery and equipment, such as automobile production facilities. We could make North Korea a hub for the Chinese market rather than going abroad. Hyundai had seven production factories all over the world. So we could build one for the Chinese market in North Korea.

Let me address environmental issues. There might be serious environment deterioration in North Korea. This will bring more opportunity for investment.

The aerospace and defense industrial sector is a rosy sector. The technology in that sector is also at a very high-level worldwide.

The last sector I'd like to discuss is the service sector. That is the most underdeveloped sector in North Korea. We could think about the business opportunities as we will need to build up the financial system, commercial system, logistics and a lot of business services, and manufacturing services. All of these services would need to be established in North Korea.

Let me conclude. It is really difficult to think about the synergy effect of unification without real data. Official data of North Korea is very limited and when it is available we cannot trust that data. The Bank of Korea provides a small number of statistics, but that is not very reliable. Even census data of North Korea is very outdated; so we cannot trust that either. However, I believe there is still potential for industrial cooperation between the two Koreas. Because the two Koreas are totally complementary in terms of factor endowment, there might be huge benefits if we can unify. Again, similar to the way Samsung moved mobile production to Vietnam semiconductor production to Xi'an, China, if we can use North Korea as a production site, that will give us a lot of opportunities. In South Korea right now, because of higher labor cost, we are opening to the foreign workers and there are a lot of illegal foreign workers in South Korea. If we can use the North Korean workforce, that will be beneficial. The synergy effect of unification is not a matter of how, but a matter of possibility. The cost of unification at the first stage will be huge while the benefit will be increasing. However, I believe in a generation or two, the cost will be all gone. But the benefits will be perpetual, I believe. Unification is going to give us a very good opportunity. I believe that is feasible in the long run.

A lot of people have asked me, "Do you really want unification?" Yes, I do. "Are you ready to pay for that?" Well, I don't know. Probably for my daughter, she will pay that cost. We really need to prepare for the unification pretty soon. Unified Korea will have a population of 75 million. That is a pretty good number, slightly bigger than the UK and France, but slightly smaller than Germany. I think the 75 million people of a unified Korea will have great potential.

However, there are a lot of obstacles against unification. Again, a generation gap exists and the next generation doesn't care much about unification. Plus, there are a lot of stakeholders for unification. I don't think neighborhood countries such as Japan and China, really want a unified Korea in terms of industrial competitiveness.

The most ideal way to unify, I believe, will be through economic exchange first with industrial cooperation. We hope that North Korea becomes like China in 1970s or 1980s. We hope that North Korea will open their economy. Then we could just exchange our industrial cooperation and unify. Then we would hope to achieve full-fledged economic integration.

Dr. Jeong Hyung-Gon, Korea Institute for International Economic Policy

Thank you very much for the kind introduction, Victor. Let me first express my sincere appreciation to CSIS for making this session possible. It was very interesting for me to hear two presentations on the economic synergy effect of Korean unification from different points of view. Recently there has been a wide-ranging and active analysis of the effect of Korean unification. Following the recent statement of President Park Geun-hye, who described Korean unification as a bonanza, despite the diversity, recent publications and analysis pointed out the common conclusion that unified Korea would experience rapid economic growth and would provide full growth with respect to global demands, which will be beneficial not only for South Korea's neighboring countries, such as the U.S., Japan, China, and Russia, but also for the global economy as a whole. It appears that both Dr. Noland and Dr. Kim have reached a similar conclusion. Although there is a whole range of benefits that could be expected from Korean unification, the most significant would be the two Koreas' effective integration in terms of division of labor and cooperation, thus achieving economies of scale. North Korea can improve its total factor productivity by taking advantage of the capital movement from South Korea and foreign countries that possess advance technologies.

Additionally, this would bring North Korea closer to South Korea's infrastructure, and raise North Korea's input and coefficient to a level similar to South Korea's, leading to the resolution of inefficiencies associated with course input in North Korea. Dr. Noland described and outlined this process very clearly by utilizing factor market integration. The positive effects and benefits generated from the Korean unification will no doubt benefit both Koreas. However, the people of North Korea will receive the greatest share of those benefits. The extent of those benefits might vary depending on the form of unification, but any form of unification not involving a war will lead to an exponential growth of North Korea's GDP, and growth in wages and well conception among the North Korean population. Trade by North Korea with other countries would also grow by leaps and bounds, and its industrial structure would undergo rapid transformation.

Another added benefit for North Korea in the event of unification with South Korea is that North Korea will also become a beneficiary of the FTAs South Korea has concluded with many other countries. Countries currently trading with South Korea would also have economic gains from the unification of the Korean peninsula. By diversifying the scenarios for unification and conducting the CG analyses for them, as Noland did in his previous other studies, we can determine the potential GDP changes in South and North Korea in

each scenario. And if we expand our range of analysis, and include the U.S., China, Japan, and Russia, we can calculate the GDP for those other countries, as well. This is exactly what our institution did recently, and we found that the level of gain for each country differs depending on the pace and direction of the given scenarios. As a whole, however, it was discovered that our neighboring countries eventually benefited from Korean unification. Then again, the biggest winner from the unification is inarguably the people of North Korea. And it is urgent and very important that we let them know. It is exactly to emphasize its urgency that President Park Geun-hye described unification as a bonanza, and she reiterated and added to her point when she visited Dresden this past May, stating that Korean unification is a bonanza not just for Korea but all countries near the Northeast Asian countries.

The next logical step for President Park Geun-hye is to make a strong push for her argument that unification represents the biggest bonanza for the people of North Korea. At this point, I would like to remind everyone that unification cannot happen through the effort of South Korea alone. It is something that is only possible when the people of North Korea respond positively, and only then the unification will become a bonanza for everyone in the Korean peninsula. So it is crucial that we impress upon the North Korean people the benefits of unification for the north, and this is the point that cannot be understated.

There is one more point that I would like to raise concerning the unification issue. I would like to point out that there has been a lot of discussion on the costs and benefits of unification in relative terms. There has not been much debate on which scenario, perhaps, represents the most effective policy for reunification. So my question for our presenters actually links to this point. Dr. Noland and Kim have analyzed the economic effect of different scenarios on Korean unification. So my question is, which of those scenarios represents the most effective form of unification economically? Which one is the best when considering existing political and social limitations of South and North Korea? And what are some of the policies that the South Korean government needs to implement in order to bring unification in accordance with those scenarios? So, ladies and gentlemen, that will conclude my comments and questions. Thank you for your attention.

Mr. Matthew Goodman, Center for Strategic and International Studies

Thank you, Victor. I am really honored to be up here. To extend the sports metaphors, I am a big baseball fan. I feel a little like a rookie up here coming to bat after some Hall of Fame sluggers have just gone up. I have not done the same kind of deep analysis of this subject as these gentlemen, so my comments will be largely as a layman looking at this in a common-sense point of view, trying to reinforce some of the points they are making, and maybe asking a couple of questions. I would start by just asking the audience for a little empathy for everybody up here because this is an incredibly hard subject to try to analyze, as economic analysis is always. Prognostication is always very difficult. But I think here,

you've got a lot of known and unknown unknowns, including what is going on in North Korea, which is truly unknown to all of us. I think we have to admit that, certainly from an economic perspective, you do not know what the nature of this transition might be and when it is going to start and how it's going to proceed. It is very hard to do any economic analysis with that kind of moving target. Of course, we do not know whether the dynamic effects would be positive or negative in that transition. So I will just start prefacing all this by saying that this is a really difficult task for all of us.

Broadly speaking, I think it is right to say that there will be economic synergy if there is a transition to ultimate reunification of the peninsula. Certainly, there is complementarity of the two economies and resource endowments. The north having minerals and cheap labor and starting from such a low base and the south having capital, technology, and sophisticated efficient markets suggests that there is an opportunity here for real long-term synergy. People smarter than me at Goldman Sachs said there is a possibility this could be, ultimately, an economy that is more competitive and larger than Germany. Certainly as a theoretical longer-term proposition, I think, clearly, there is a synergy.

But, again, there are a lot of unknowns here, as has been alluded to by previous speakers. We don't know the real condition of North Korean labor stock. Capital stock could be much weaker than we think. Again, dynamic effects of a sudden collapse and absorption, if that is the principal scenario here, and particularly with that scenario, including migration effects, are very uncertain. The UN has noted that these two economies have the largest income gap of any countries sharing a border anywhere in the world. So there has never been a precedent of bringing together widely divergent economies in terms of income. I think we have to be honest in that we don't know exactly how that synergy is going to be created, or even whether it will end in some specific respect.

I think the other piece that, of course, everybody has touched on, is the German example and how much that's relevant. I just thought I would offer few thoughts on that. It is instructive, but clearly there are also limits to the German example as a model. Frankly, the experience of Germany is not entirely comforting either from a Korean perspective. As for similarities, obviously they are two populations that are of roughly similar size, roughly 75 million in both cases. You have a socialist command economy on one side, supported by a large neighbor, versus a dynamic market-based economy aligned with the U.S. Obvious similarities in political economy in both places. But the differences are also quite striking.

West Germany had a population three to four times as large as East Germany's population. Whereas the Koreas have, I think, a ratio of two to one. So I think that, by itself, raises questions about how this absorption will be different. Obviously Korea has been divided for nearly 70 years, whereas Germany was divided for more like 40-plus years. And it feels like things were converging in Germany on a lot of levels, and synapses were corrected and connected even before the wall fell in a way it doesn't seem to be happening in Korea. In fact, if anything, in the last few years it seems to be moving the other direction. And then, importantly, East Germany's GDP per capita was about one-third of West Germany's at the

start of process. Whereas North Korea is something like 5 or 6 percent of South Korea's today. So South Korea is about 15 to 20 times larger in per capita income.

All of that suggests that, compared with Germany, this well could be a much more challenging process. It could take a lot longer and be more expensive. And, as I alluded to, even at the end point, the German experiences are not yet totally finished. It's taken 25 years so far and is still incomplete. Unemployment is still double, nearly double I think, what it is in the east to what it is in the west. Wages are only 70–80 percent of the west. Richer western states are still paying solidarity taxes to the eastern states.

It's been estimated that the total cost of the German process has been close to two trillion dollars today and is still accumulating. I think there are reasons to be not necessarily comforted by the German experience, even if it is a lesson. But of course the good news is that most Germans are much better off today than in 1989. It was only 50 years before an East German was elected as the chancellor of unified Germany. Germany has become a political and economic center of gravity of the European Union. There are a lot of reasons for thinking of that example as if it were an analogous model that would be ultimately positive for Korea.

The final thing is that it is possible, on the other hand, that this transition could be not quite as painful as people would think in practice. I think it depends a lot on whether, looking at this situation today where there is this huge gap that has to be closed over a certain period of time, this process starts after a point of some convergence. So it really depends on what the starting point is. Although, I must say, this does remind me of the old joke about the driver who is out in the countryside lost and stops to ask a farmer how to get to the town that he is going to. The farmer says, "Well, I would not start from here." So I admit we are in the world we are in. It's possible, short of some real reform and opening in North Korea that leads to more gradual consensus unification, that you could have an improvement in living conditions in North Korea that would raise that base and create better preconditions for unification. Whether some of the market-based reforms that may or may not be under way through reports of rising prices and construction boom in Pyongyang. I wonder whether there any improvements going on within which could close the gap before the unification process.

And then of course, there is what we could all do to help close that gap. President Park's trustpolitik economic dimensions are interesting in whether the aid packages are possible; cooperative infrastructure projects or even people-to-people exchanges in some way to help close that gap in advance. I think those things are definitely interesting and would change the calculation about the cost of transition.

All that said, I think there is a good reason for caution about what sort of internal reforms are going on in North Korea and the ability of outsiders to influence what is going on inside. I do not mean to state that these things are going to dramatically change the situation. The only other point of comfort, obviously for our South Korean friends, is that South Korea is not going to be alone in this. The U.S., Japan, and other countries are

bilaterally going to support the process of transition. International financial institutions, I think it is as Marcus alluded to, are inevitably going to become involved. More importantly, I also strongly endorse the point about the private sector being a critical player here. In fact policy today should be focused on trying to learn how to incentivize, how to support and guarantee businesses and the private sector as it moves into a new situation if that happens. Economic synergy clearly is a long-term proposition, but there are a lot of unknowns. If unification started today, I'd say it's going to be bumpier, take longer, and be more costly than we think. Though, again if there were changes in the precondition, it might be not so painful. Policy should focus on how to ease this transition.

Panel B: Opening for Business: Foreign Investment after Unification

Mr. Thomas Byrne, Moody's Investors Service

First of all, my comments are not prescriptive, so I will keep my credit rating analyst's hat on. We have never been prescriptive on our work, and now we cannot be because we are in a regulated industry. The overall framework that I am looking at is not the collapse, but really an opening of North Korea as a bridge towards unification. I think the scenario that is the most easy to grasp mentally or analytically is the delayed unification concept. And in that, I think unification can be done perhaps on Seoul's terms. I do not think unification can be done unless Beijing's terms matter as well, looking at the history of the PRC on the Korean peninsula and also at Chinese behavior recently in the region.

That being said, unification would have considerable near-term costs for the South Korean government under the delayed unification scenario. But it will also bring longer-term economic benefits. I think the degree of the costs and benefits will be influenced by the time frame of the successful political and economic transformation of North Korea. Nonetheless, the elimination of the existential threat to South Korea removes the low probability but high severity event risk to its economy, which is actually the rating constraint for us when we look at structural finance deals in South Korea. I think it would have a positive psychological effect, which is probably unquantifiable.

Basically, I am looking at a unification scenario that is externally supported but also internally driven, and I will get to that later. Seoul has a considerable amount of fiscal headroom to absorb, over time, the costs of an opening of North Korea or unification. This would involve direct fiscal transfers and infrastructure investment, of course. South Korea's debt levels in the government balance sheet are rather moderate, something like 32 percent of GDP, mostly comparable to the industrial countries, particularly those who went through the severe crisis of 2008 and 2009. Their debt level was about 80 to 100 percent of GDP, including the U.S. on the general governance basis, including the States. The debt burden is not much, at least based on the government balance sheet. However, greater fiscal space can be generated if Korea's public-sector companies' - the nonfinancial public corporations who actually act as an arm in South Korean economic policy - debt can be

reduced, because its contingent liabilities are on the balance sheet. The reason I think this is important is because, at least in the initial phases of an opening, if South Korea is involved in the economic investment in North Korea, the public-sector companies would be involved, something like Korean Housing and Land. The Korea National Railway Corporation might establish a railroad from Russia to the peninsula. KEPCO, as well, probably would not build a nuclear power plant in North Korea, but could develop a grid in North Korea, which according to satellites and photos, does not exist really. So I think this will be in the vanguard.

South Korea's national savings are ample. A delayed unification process would not completely derail South Korea's economic and fiscal fundamentals or its growth projections during this delayed unification period. South Korea has fairly strong external payments position. Reserves and net international investment positions are okay; not terribly strong but still strong enough to avoid being buffeted by the turbulent conditions in global financial markets in the future as it undergoes the process of investment in aiding and externally supporting North Korean unification.

The benefits of an opening, and eventually unification, in North Korea would be most fully realized by a robust role of the private sector. This is just not the South Korean private sector but a North Korean private sector. South Korea's firms' participation in the opening and also the development of North Korea's private sector really hinges on the establishment of a stable and predictable industrial regime in North Korea.

However, experience so far in North Korea and elsewhere suggests that the transition from socialist or communist system to socialist market economy is neither smooth nor rapid. In many frontier markets, protectionism and resource nationalism have prevented foreign investment from playing a strong consistent catalytic role. We look at the case of Mongolia. It actually got off to a fast start after leaving when the Council for Mutual Economic Assistance broke up, and went through an economic transformation in 1990. In 1997 they joined the WTO ahead of China. However, the lack of a stable and predictable investment regime is impeding the development of its very rich natural resource base. This has lessons to be applied to North Korea, that large-scale firms are not going to invest in North Korea unless a predictable and stable investment regime is there, so that their long-term investments are protected either under the delayed unification system with some legal friendly terms of North Korea or under some modification by guarantees from the South Korean government.

Development mixed with the private and capital market takes time. We will look at the examples of China and Vietnam. China opened up in 1978. Twelve years later its stock market at the early stage was established. That took 12 years. It was very small, a non-state sector at that time. In Vietnam in 1986, the Doi Moi program started. Its stock market, the very flexible one in Ho Chi Minh City, was opened in the year 2000, so we are talking about 14 years there. Both systems decided to access the international capital markets, a little before the opening of private markets of the domestic financial system's equity

financing. Moody's and other rating agencies follow the development of capital markets, and we had the first rating on China 10 years after the opening and on Vietnam, 11 years after the opening. It is only in China now that capital markets are developing in any healthy and constructive direction. Vietnam is still struggling. But even in its private markets, more than 30 years after the reforms were announced, China is still struggling with how to incorporate the private sector into the economy. The third plenum of 18th Party Congress said that market forces will be decisive allocators of resources. But how do you do that in a system where the state controls so much economic leverage and legal and policy tools? This is still something that has to be worked out, even in the case of China.

That being said, if the delayed unification process does happen, an easy way to get investment into the economy, looking historically, is to have special economic zones. They were very successful in the case of China. Shenzhen was opened up in just two years, after 1978, after the transformative third plenum of 11th Party Congress. Shenzhen, which was a farming and fishing village back then in the 1980s, now has the highest per capita GDP in all of China; so the developments there have been really transformative.

I think none of that would have happened if there was not the internal leadership to drive this. That raises a question: where does the leadership come from that will drive the opening of North Korea? Does it exist now? Or is it something that can come to be seen in the future? I think China is a good example because China has transformed itself from a totalitarian system. In 1978, the leader, Deng Xiaoping, decided to take a different path instead of protecting socialism and communism, and set up a socialist market economy to go down, essentially, the capitalist path. Now Deng Xiaoping was someone who already existed in the system. In fact, during the 1950s, he himself had a transformation with his experience during the Cultural Revolution. This is an internal leader.

The question is, does North Korea have somebody lurking in the system? I am looking at the more recent example of Myanmar. Myanmar was a socialist economy which has been undergoing transformation since 2010. In Asia, other than North Korea, Myanmar's government was dominated by the military for the longest period of time. The military took over in the early 1960s in Myanmar. Where did the leadership come from in Myanmar? It was different. You had generals who were chafing under the authoritarian and totalitarian leadership at that time. The current president was in the system, and when he was given the opportunity, he broke out, took Myanmar along a different path. None of this will happen in North Korea's delayed unification unless there is leadership in North Korea to open up.

If North Korea were to concentrate on what North Korea can do to attract foreign investment, an option is to open free export zones. I mentioned Shenzhen where they worked quite well. I have also had experience traveling to many of the free export zones throughout Southeast Asia. The Philippines is a good example—they have export zones where not just foreign companies but also domestic companies can operate. Of course, the benefits of

a free export zone is that it insulates the business environment and protects investment from inefficiencies, lack of governance, and weaknesses of a governmental system as a whole. These zones provide tax benefits, income tax, expedite customs procedures, etc. It works out really well. Moreover, there are linkages to the domestic economies. In the Philippines, you have many companies where middle-level management is actually Filipino. I visited one company that makes elements for the airplanes that we all fly on. I asked the manager, “How many do you have in your factory?” He said, “I am the only one in the head office from the U.S. From the engineers to the managers, they are all Filipino.” The reason I mention this is that I did visit the Kaesong zone some years ago after the opening. I did not see any of these attributes. The workers were performing diligently and the supervisors were supervising seriously. But yet it seems to be that interaction between North Koreans and South Koreans was pretty absent. Kaesong is a positive seed from the sunshine policy, but yet it has not germinated fully in the way that other special economic zones have elsewhere in Asia.

To summarize, in terms of the cost, I think South Korea has the fiscal headroom to accommodate gradual unification. There are demands in the South Korean economy that prevent the South Korean government from running a larger fiscal surplus than it already has. If you include the national social security fund surpluses, as we do in general in the IMF standard accounting and in U.S. deficits and budget calculations, South Korea is running a small surplus. Nevertheless, if you take out those surpluses, then you get small deficits. You take that out and the debt to be refinanced every year is only 2.5 percent of GDP. In the case of China, it is 6.1 percent of GDP, which are the figures in 2014, in Germany, 6.8 percent of GDP. So it would appear South Korea has several percentage points of GDP, at least over the short to medium term, which can be used to provide assistance to North Korea directly or indirectly through the companies.

Second, I am intrigued that President Lee Myung-bak in 2007 had his Vision 3,000 Denuclearization and Openness policy, a mini-Marshall Plan for North Korea. I don't know how much it would cost South Korea to boost North Korea's per capita income to 3,000 dollars from whatever they are now. The cost of the original Marshall Plan was fairly modest, and financial transfers were the key transformative agent in the plan for reconstructing Europe. The U.S. wanted Europe to follow a more capitalist system than the more socialist system in which they were headed. It was the liberal economic elements of policy prescription that really helped in efficient use of resources in Europe. This could also be the case in North Korea if the liberal policy prescriptions were a part of a Marshall Plan the local leadership could buy into. Of course, all these costs really depend on expedited reform in North Korea, which is really a function of the leadership in North Korea.

If I can take the role of a commentator talking about the benefits. First of all, the elimination of the permanent and existential threat has psychological benefits that we cannot quantify, but would be good for South Korea. One benefit that won't be realized is the notion that South Korean firms suffer from a Korea discount from the uncertainty and security threat posed by North Korea. In my understanding, the Korea discount is really

internal to the corporate governance of the South Korean corporations, which had historically been weak but have improved recently. In more particular terms, the dividend payouts are much lower in South Korean firms than elsewhere, and that also has an effect on the relatively lower prices in Korea. So there will be no benefit to the Korean market there—from unification or the elimination of the existential risk from North Korea in regards to the Korea discount.

In terms of expansion of the labor force into the South Korean economy, President Park has her 4-7-4 vision where growth would be 4 percent, labor force participation rate would be 70 percent, and the per capita income would be 40,000 dollars. I think the more difficult one out of those numbers to achieve is the middle one, the 70 percent participation rate. For South Korea to absorb North Korean labor, the rigidity of the South Korean labor market will need to be greatly reduced. South Korea labor force participation rate is somewhat similar to the current one in the U.S. Of course, there are a lot of concerns about the low participation rate in the U.S., which has shrunk since the recession in 2009. South Korea does have a low employment rate relative to the U.S. Yet the labor force participation is hindered by the internal rigidity. That has to be worked out by the South Korean firms.

Lastly, if there is a delayed unification where other great powers can buy in, even before Samsung and Hyundai move in for their long-term investment under the stable investment regime, you have three large development banks in the region that can participate in the infrastructure projects, in the resource development. In addition to Korea, you have China's and Japan's development bank. I think they all look favorably towards investing in North Korea to relieve the direct burden of taxpayers in South Korea for the process of economic opening under a delayed unification scenario.

Mr. William Brown, Office of the Director of National Intelligence

It is really interesting to listen to all the conversations about unification that have been spawned by President Park's "unification bonanza" talk earlier this year. I, for one, welcome this discussion since for a long time I have thought we in the West, and certainly in South Korea, have been paralyzed in our engagement policies by fears of an Iraq-like disaster should the North and South ever be unified. In my view the two economies are highly complementary and, given the right policies, there would be no shortage of willing investors in the North should its economy be reformed and merged with that of the South. Economic growth in the North would be spectacular and the South, even the region, would benefit greatly. I agree completely with President Park on all those points. The trick, of course, is to convince North Koreans that they, not southern or foreign carpetbaggers, would be the primary beneficiaries. Perhaps one way to do this is to cast the unification issue as a merger of two companies, with shareholders, not the managers, of the junior company, that is, the North Korean citizens, being the primary beneficiaries. It's a little different way to cast this unification issue.

If there is one word that I'd like you to remember from all of this, it's the word *ownership*. We need to create an ownership system in North Korea, before we can even think about investing there. Barring the following preconditions, all bets are off. I think the preconditions work either in a gradual unification scenario or in a sudden one. The point is, with the sudden one, the new occupiers, or the new South Korean government presumably, needs to be prepared to do all these things very quickly. However, a transition in North Korea can happen over a couple of years, maybe fenced off a little from the south even in the abrupt change scenario. So I'm thinking, limit the two-way population flows, gradually open the DMZ if you can, and immediately enable market mechanisms in the north. For that reason, we should not give too much aid. I'm concerned if it's like the Marshall Plan, too much aid will flow in, preventing reform from happening.

An essential first step is to require all workers in North Korea be paid with real money, not through the socialist ration system they have now. Investments would be needed in creating new legal accounting and property registration systems. They should create a new money and banking system in North Korea with something like a currency board. It is so interesting to watch because a lot of this is happening already in North Korea. The dollarization of North Korea is really quite phenomenal. As in post-World War II East Asia, a critical step will be to institute massive land reform. A lot of studies say that in Japan, South Korea, and Taiwan, land reform was essential to the development of their capitalist economies. I would argue that in North Korea they should privatize land and houses to current residents. Collective and state farms should be liquidated, and the proceeds should be applied to farmers, to an emerging private sector, and to state agencies charged with education, health, and pensions. A customs union could be established. Gradually, they should allow capital and labor to flow across the DMZ. Finally, as the north stabilizes, they should create a monetary union with a common currency banking system.

Once that has happened, we can think about investment opportunities. I divide investment into four different areas. The first one is what I call central government investment from Seoul in North Korea. I suggest, compared to a lot of people, a fairly modest amount of investment. In fact, I'm a little concerned that the huge numbers push people off. It can't be so large as to endanger the South Korean financial system. In the north, it should concentrate on creating institutions needed to build a private ownership system; that is all the legal, accounting, and tax information systems that modern capitalistic economies require. No doubt it also must provide short-term aid to prevent chaos. The central government can facilitate North-South Korean monopoly enterprises, such as the railway, telecommunications, and electric power systems to connect with the north. Each of these, nonetheless, should be as self-supporting as possible. An example is commercializing North Korean railway stations, as occurred in China. The profits from those can easily pay for rebuilding the railroads and linking China and Russia with South Korea. East coast port development also should be emphasized.

Next is North Korean local government investment. It is easy to forget a fundamental aspect of North Korea, which is that the North Korean government presently owns North

Korea. Liquidating much of this property and licensing key industry and trade functions should provide plenty of resources that the provinces and local governments can use to balance their equally large liability, especially in health care, social security, education, roads, etc. The trick of course, is how well and how fairly it can liquidate this property. China again is the example, although one fraught with challenges. But there is one thing we missed in following the Chinese. We are always thinking that something will go wrong. However, the Chinese government has been able to feed itself by selling off, divesting itself, of state property for 30 years now. So I think the same thing could happen in North Korea.

Next is domestic private investment. Ultimately, domestic private investment will take on the bulk of investment opportunities and challenges, as in any rapidly developing country. South Korea in the 1960s and 1970s is a great model, where newly formed money and banking systems created a powerful machine for encouraging private savings and private investment. South Korea went from the worst saving country in the world in 1960 to the best-saving country in the world in about 1980, on the strength of little less than market-based banking reform. North Korea should be able to do something similar.

This then brings us to South Korean and foreign investment. Logically, I put them together since I see no economic reason to separate them. In fact, I think North Korea should make itself as competitive as possible and force South Korean investors to compete on the same terms as Japanese, Chinese, or American investors. Now, what will we, the foreigners, or the South Koreans, end up investing in? The standard model used to understand foreign investment and trade drivers is Ricardo's Comparative Advantage Theory and the Hecksler-Ohlin theories of factor prices. Simply put, they say a country should concentrate on production, and thus exports, of goods and services in sectors that it can produce relatively cheaply compared to other goods and services. And, just as importantly, that it should discard industries that have less of an advantage. Foreign investment is likely to flow into comparative advantage industries since a flow of foreign exchange earnings is needed to repay the investors. It's a nice way of saying, in North Korea, a lot of things will no longer be made. I emphasize this because in the 1980s we did a lot of studies on comparative advantage in the Chinese economy. As it was shifting from a socialist economy to a central market economy, the prices of everything changed so radically that a lot of the things that they were investing in and producing were illogical once you had market prices. I did a study in 1985 on energy demand in China. In 1980, China's energy prices were close to zero. Consumer prices were very high; raw material and industrial prices were close to zero. So you bring it on the market, what do people do? First of all, they export the oil. China's biggest foreign exchange earner in 1980 was oil exports. By 1990, and now, China's the world's biggest oil importer. But it's easy to see how, when you change a price, given market incentives, everything changes.

The problem any investor presently has, however, is figuring out, based on present data, what future comparative advantages and disadvantages a reformed North Korean economy likely will have. It is tempting to look at its trade data, as provided by trade partners, to get

some idea of its comparative advantages but these can turn out to be erroneous, once a market wage and price system replaces the state system. Even so, looking at data and what is happening closely, the country is changing in interesting ways, with this mixed price system gradually starting to dominate the state price system. It is a very good thing and creates a lot more productivity.

The biggest jump in North Korean exports, January through July of this year, is textiles, which are up 46 percent, approximately 400 or 500 million dollars. Textiles are the second leading export item. Five or 10 years ago, textiles would not have been on the list. Other things in which I do still think we would invest in, are the metals and minerals industry. Those are actually down a little bit this year. I think what is happening in the textiles business is that more and more Chinese textile company managers are getting into North Korea, paying market wages, hiring North Korean women, and pumping out the textiles, rapidly increasing the production. The productivity is growing enormously because they are paid a market wage, instead of the old set wage, which is essentially nothing. In the set wage system, you are not paid—you are given everything. You are given your ration, you are given your lunch, and you are given your house. In the market system, you are paid according to what you have made. In this, the transformation is beginning to happen, and we are seeing it in textile exports to China. So that is one area to invest in, the textile and footwear industry.

Some of these reach back to Japanese colonial days, when American investors also were there, helping build rails lines and the country's first modern gold mine. These natural resources still apparently are plentiful and very valuable in today's global economy. I expect they are well worth developing for export. Lead, zinc, magnesite, a number of "rare" earths, and uranium are also likely candidates.

For a number of other examples of areas for investment we should look to history before the social communist government. In Japanese colonial days, northern Korea was developed to a high degree by Japanese investors to take advantage of the country's large reserves of non-ferrous metals and anthracite coal. They also invested in rail and port development to export these products. One of their most interesting investments was in what it now called the Kimchaek Iron and Steel Mill in Chongjin. It is by far North Korea's largest industrial facility—over 100,000 workers. The Japanese built that plant because of its proximity to one of Asia's largest iron ore mines, the Musan mine, on the North Korean border. They developed a slurry system and a rail system to get the iron ore down to Chongjin. Today the plant is a virtual derelict, but with 100,000 skilled workers and good transportation links to Musan and the Sea of Japan (East Sea of Korea), this facility could be completely rebuilt into a modern competitor. The new owners—presumably with the workers having a large share—in a unified Korea, would do well to have Posco, Japanese, and Chinese steel firms bid for the plant, using some of the funds to pay for the social needs of the poverty stricken northeast. That, to me, represents a really interesting case study for a very major foreign investment opportunity. An alternative would be to invest only in the Musan mine and export the iron ore, as Chinese firms presently are attempting to do.

However, given the skilled labor supply and the good port, I expect a steel mill would be much more beneficial. North Korea needs a lot of help. But selling and privatizing those sorts of resources would do wonders.

North Korea still seems to be quite rich in nonferrous metals—lead, zinc, and some gold. Interestingly, the first U.S. investment in North Korea, in the 1920s, was in a gold mine. Certainly, there are some interesting developments in the rare earths. A little caution should be noted when considering minerals and metals. With mining, the product might be worth a trillion dollars if you can get it out of the ground, but there are costs to getting it out of the ground, refining it, and moving it.

Lastly, we tend to make fun about Kim Jong-un's ski resort but his idea to promote foreign tourism ultimately makes a lot of sense. Tourism can employ a lot of workers, bring in foreign exchange, and take advantage of the unique characteristics of North Korean geography and history. Most importantly, North Korea is only a day trip for hundreds of millions of wealthy Chinese, Japanese, and South Koreans, who would flood the country given the chance.

Many more opportunities are likely to present themselves. My guess is that under the right circumstances, authorities will be in a position to having to make sure there is not too much foreign investment, which would displace the savings and investments that should develop within the domestic economy. The main issue for foreign investments, of course, will be how to trust the new legal system, and to ensure that property rights, both for those selling the property and those buying the property, are protected.

Dr. Sue Mi Terry, East Asian Institute, Columbia University

First I'd like to thank Victor, and obviously CSIS and NRCS for inviting me here today to participate and be part of this dream team. Overall I feel fairly reaffirmed as someone who has been pushing unification of the Korean peninsula as a good thing, a net benefit on balance for Korea, the United States, and the region. These two respected economists argued that there are real economic benefits in the long term for unification. I am always convinced that unification would be a positive thing in terms of security, human rights issues, and humanitarian concerns, but it is good to hear economic arguments that there are serious investment opportunities in North Korea post-unification.

All Korea watchers understand that there are serious costs and challenges to unification in the near term. In fact, for many years now, Korea watchers have focused our studies on the potential high costs and all the things that could go wrong in the unification scenario. Personally, in the decades that I spent in the government, I spent the majority of my time thinking about all the potential problems that might confront the U.S. and the Asian countries. I spent virtually no time thinking about the potential opportunities

of unification. All the problems were more security-related problems, such as securing nuclear weapons in North Korea and preventing the kind of chaos that gripped post-Saddam Hussein Iraq. Although, I do think that this analogy with post-Saddam Hussein Iraq with the Korean case is somewhat misleading because, in Iraq, there was no South Iraq to absorb the newly liberated state the way South Korea can absorb the North. And Iraq is also highly fragmented, but the population of the Korean peninsula is mostly homogeneous.

I do not think there is any serious Korean watcher that is underestimating the potential costs and challenges of unification. Almost everyone agrees that, even under the best circumstances, unification of South and North Korea will be very expensive and more challenging than the unification of East and West Germany because the two Koreas are further apart in terms of economy, education, technology, and ideology. It is hard to get an exact figure in terms of what it will cost. I think a lot of economists have different numbers in terms of a bill for rebuilding North Korea and integrating it into the South Korean economy. German unification, I think cost 1.9 trillion dollars over the course of 20 years. I do think that it is time that we have a more balanced look at the various challenges and opportunities when talking about unification.

Mr. Brown lays out concrete steps towards economic unification which, to even a non-economist like myself, make sense. These steps include the importance of protecting the South Korean financial system at all costs, allowing capital to go to the north, and focusing on helping to create institutions that are needed to build out private ownership. I think both Mr. Brown and Mr. Byrne have emphasized in their presentations that the benefits of unification would be fully realized by a robust private sector, not necessarily by a huge investment by the central government. I also think that beginning with the mining sector, with the plentiful natural resources in North Korea, it is worth developing for export. I particularly think that the synergistic effect of unification can be powerful if we make possible a combination of South Korea's technology, which is the most advanced in the world, with North Korea's resources. Unlike South Korea, which has no natural resources and imports 97 percent of its energy needs, North Korea has large deposits of coal, uranium, and so on. I am reiterating this point because it is important. I think the value of the minerals is almost 6 trillion dollars, which is 140 times the size of North Korea's current GDP. However, you cannot tap into it today because of the primitive state of North Korea's mining industry. This can be beneficial if you could develop that to accelerate the unified Korea's economy and attract foreign investment. Mr. Brown's point about the textile industry makes sense. The last point about the tourism industry is also interesting. North Korea has the most scenic area in the peninsula and could attract many foreign visitors if combined with the infrastructure that South Korea and foreign companies could provide. These could all be developed into serious industries.

Mr. Byrne mentioned an important point about Seoul having an ample amount of fiscal headroom to absorb, over time, the costs of opening or unification, at least in its initial form from direct fiscal transfer to infrastructure investment. I think the assessment is

right. I think South Korea has some monetary reserve, and I think it is over 300 billion dollars, which is not counting gold holdings etc. It has some account surplus and it has savings and resources to respond with some fiscal headroom to absorb the initial costs of unification. However, over the longer term, I do think that South Korea has to maintain financial stability. South Korea would need to find solutions to at least some of their deep structural, longer-term domestic weaknesses, ranging from widening income inequalities to high household debt and, perhaps a serious threat to its future, a rapidly aging population.

Developing the relatively younger labor pool in North Korea to address South Korea's aging population is an interesting discussion point. South Korea absolutely faces a serious demographic crunch because life expectancy, which is around 81 years old right now, is increasing. But the fertility rate is very low; per woman it is about 1.2 children, which is among the lowest in the world. As a result, OECD predicts that South Korea will have the second oldest population by 2050 with 7 people over 65 for every 10 working-age adults. The working-age population from 15 to 64 will start to decline in 2015, then the population as a whole will begin to shrink in 2030. The North Korean demographic is different. From the research I have done, 91 percent of its population is estimated to be under 65 years old and its fertility rate is higher, two children per woman. Right now North Korea would, therefore, add 17 million potential workers aged between 15 to 64 to the 36 million which are in South Korea. That is a gain of some 47 percent for the total workforce.

Thus, unification could introduce a new source for Korean-speaking labor to unified Korea without having to resort to immigration from Southeast Asia or other low-wage areas. South Korean firms could also move some factories out of China, where they had been located to take advantage of relatively cheap labor, and relocate them into North Korea, where the labor would even be cheaper, at least initially. However, as people, goods, and services flow freely in a unification scenario, the north and south wage gap would be closed and the labor cost will not fall as low as we might think.

One question for consideration is how appropriate or important would wage control be then in the unification scenario. There are some other questions and considerations that I wanted to throw out for discussion. Once the north is joined by the south, would it enter OECD and thus forfeit any foreign aid from its members? That was the case when East Germany joined West Germany. Similarly, would North Korea no longer enjoy the benefits of the WTO system of preferential tariffs for developing countries? There are other concerns, as well. Very complex litigation over property rights, I think is a very important point that is likely to rise. Would Chinese investors demand their existing contracts be recognized, adding to the already very high costs the southern or foreign firms would be facing when trying to enter the northern market?

Dr. Park Hyeong-Jung, Korea Institute for National Unification

First, I thank the organizers for inviting me as a discussant in this session. I am also a noneconomist in the economics session, but one of my main areas of analysis is North Korea's political economy. My role is to bring some social political aspects of the North Korean economy to the discussion on economic integration of the two Koreas. Presumptions on the North Korean economy at the time of unification will exert influence on thinking about how to manage the economic unification process. The theses for economic unification and investment possibilities given by the two presenters can be regarded as basic models for the unification and post-unification economic process. Building upon this basic model, I want to add some new points and some complementary thoughts to figure out a more complex and concrete model of economic integration of the unified Korea. I'd like to bring six points.

The first point is on the current status of the evolution of North Korea's official economic system. Kim Jong-un formalized important institutional changes into the economy with the so-called June 28th measures in 2012, and other follow-ups in 2013 and 2014. As a result, the official facade of the current North Korean system can be compared to those of China's between 1984 and 1992 and of Vietnam's between 1986 and 1991. Theoretically this is a socialist economy without planned directives to state firms and collective farms. In other words, it is a politically managed market economy composed of commercially operating state firms. The institutional and operational facade of the North Korean economy would evolve increasingly similar to all the stagnant market economies of developing authoritarian countries in the near future. Before too long, North Korea could initiate a package of policies to privatize state firms as China did in 2002 and Vietnam did in 1991. Whether North Korea's undertaking of such economic reform measures would kick off meaningful economic growth is another question.

My second point is on unification as a merger between democratic and political capitalism. Korean unification would not be a merger between a market democracy and a communist command economy as was the case between East and West Germany, but one between democratic and political capitalism. Here, political capitalism is defined as market economy, in which profit opportunities are determined not by economic competition, but by authoritarian political decisions. The redesigning of the East German communist command economy into a West German-type democratic market economy was relatively simple because after the political collapse of the party state there was no complex net of strong established interest groups in the society. The political capitalism which has been evolving in North Korea would nurture a complex set of established interest structures outside of the party state bureaucracy. Because they are located in a society based on private wealth and connections, they would survive even after the political collapse of North Korean state as they did in other stagnant reform-resistant political economies of postcommunist authoritarianism.

My third point is regarding the plunder of the state property through the introduction to market institutions. One of the main drivers of introducing a politically controlled market mechanism in North Korea has been the fact that based on current conditions they contribute better than the command economy to the private enrichment of the individual communist political elites, especially through misuse or theft of state properties and shadowed privatization. The introduction of apparent free market institutions and formal privatization of state property would be accelerated in the future and especially with the advent of prospects for economic unification of the two Koreas. Because before it is too late North Korea's corrupt political elites would like to seize the last opportunities for shadow privatization and private enrichment.

My fourth point would be how to promote poverty reduction. North Korea has been transformed from one of the most egalitarian societies to one of the most unequal in the past 20 years. And one of the most important challenges is to promote poverty reduction in a unified Korea.

My fifth point is about how to promote North Korean entrepreneurship. At the time of unification, no matter when it would be, we will find a host of businessmen with various amounts of private wealth in Pyongyang and other local cities. A unified Korea should not only attract foreign investment and technology but also nurture a new type of innovative market entrepreneurship among North Koreans. Economic policies must promote small and medium private businesses by North Koreans in North Korea.

My last point is about geostrategic competitions for economic predominance in the northern part of a unified Korea. North Korea is located in the center of Northeast Asia and is surrounded by large countries. The collapse of the regime would provide neighboring countries with increasing chances for establishing influential positions in North Korea. The process of unification might not guarantee South Korea a dominant economic position in North Korea. China might have already positioned itself as the dominant player in the North Korean economy and might try to take advantage of its strong economic position in North Korea to influence the economic unification process and the foreign policy of the unified Korea.

LUNCHEON ADDRESS

Mr. Sydney Seiler, Special Envoy for Six-Party Talks, U.S. Department of State

It is an honor to be speaking here today on this particular issue of unification. I know it's an issue that, for our Republic of Korea friends here, you've grown up your whole lives thinking about, virtually. For those who are not Korean—who come here via Korean studies, U.S. government work, academic work, journalism—from the very time you encounter the Korea issue, unification of the Korean peninsula is something we've all given thought to.

Personally, having followed this issue and studied it for a few decades myself, I'm really glad to see that the discussion is moving beyond the abstract and the theoretical—various formulae for unification that, when you look back on them, had very little to do with the geopolitical or security realities at the time. Instead, we are in the realm of the concrete, the real—moving to concrete conceptualization and planning for a reality we all know is coming.

It is also encouraging to see the shift in the discussion of the economic dimensions of unification. The idea that unification need not be feared simply because of some unverifiable and alarmist forecast of potential costs. It's certainly not a new one, but in this regard, both the vision and leadership of President Park in declaring that unification is a bonanza, or windfall, or *daebak* to keep it easy in the Korean, and that it might bring a bonanza to Korea and the region is certainly overdue—a long overdue, encouraging proclamation. A reframing of the unification discussion.

Finally, one other encouraging development related to this issue is that there are few people out there today that question the commitment of the United States to unify the Korean peninsula. There may have been a time when many Koreans thought the U.S. may have seen some advantage in a divided Korean peninsula, but that's certainly not the case any longer. Our Korean friends realize that unification is indeed a central tenant of our overall Korea policy, and that's why I'd like to speak to you today by providing a brief overview of our broader Korean peninsula and regional policy goals. I think we can see how the interaction of our various lines of effort on our current approach to the North Korean issue all come together, and how all this, by extension, therefore ties to the issue of reunification.

Let me start with a broad but brief regional context. In his August 13 East-West Center speech on the United States' vision for Asia-Pacific agreement in Hawai'i, Secretary Kerry described how America's security and prosperity are closely and increasingly linked to the Asia-Pacific. An Asia marked by democratic governance, free markets, a rule-based security order, and a respect for human rights is in everybody's interest—first and foremost, for those who make the Asia-Pacific their home. Certainly, to the United States, which has been, and always will be, a Pacific nation. It's natural, therefore, that the United States seeks a stable and economically vibrant Asia, and is involved throughout the region toward that end.

Of course, it should come as no surprise then that these broader goals are the very foundation for our Korean policy, as well. As we watch these goals materialize in the Republic of Korea—a vibrant free market democracy—we never lost sight of the fact that our ultimate goal is of a unified Korea where all 70 million Koreans can enjoy democracy, free markets, a respect for human rights, and dignity. Our efforts, in this regard, were never designed to stop at the 38th parallel, nor are they today. In the broadest sense, we see a unified Korea with these goals—democracy, free market economy, prosperity, a respect for human rights, and dignity—as a natural end state toward which the Korean people, we, and, in fact, history itself are heading.

That is why the president, alongside President Park in April of this year, stated, “The United States supports the Korean people's desire for reunification, and I share President Park's vision to reunify Korea—free from the fear of war, free from nuclear weapons, and where people throughout the peninsula enjoy the political and economic freedom that exists here,” speaking from Seoul, in the south. As President Park's own Dresden speech made clear, there are plans, strategies, and actions that we must devise and implement today that lay the foundation for, and create the conditions conducive of, a peaceful path towards those ends. Actions we take today that lead toward a democratic Korean peninsula, where everyone can enjoy political freedom and have a voice in their future. Actions we can take today that lead to a Korean peninsula with a vibrant economy, where the prosperity enjoyed by people throughout the peninsula contributes to regional and global economic growth and prosperity. Actions we can take today that contribute to a peaceful Korean unification free from weapons of mass destruction, benefiting regional and global security, as well. And, finally, actions we can take today that can lead to a Korea free of gulags, free of oppression, and free of the other cruelties that the UN Commission of Inquiry so well documented. Is this ambitious? Yes. Is it too much to handle, particularly given the importance of denuclearization and instability? I don't think so.

Secretary Kerry, in his speech in Hawai'i, noted that our efforts to denuclearize North Korea, and to defend against the nuclear missile threat, are important. He also emphasized our commitment to speak out against the horrific human rights situation in the north. In doing so, the secretary made clear that denuclearization and improving human rights are not mutually exclusive, contradictory policy objectives. As the leadership of North Korea begins to make the right strategic choices that can bring the peace and prosperity its people deserve, we can progress in denuclearization. We will see progress in human rights. We

will see progress in economic growth and a better standard of living for the North Korean people—the same type of peace and prosperity that we see marks the rest of the region.

But until that day comes, how do we, today, move to that future we've identified as our goal? How do we translate the aspirational into practical policy objectives and goals? This is a good segue into a brief discussion of our current North Korean policy.

The United States remains committed to peaceful denuclearization of the Korean peninsula through authentic and credible negotiations. Let me emphasize again: we want to resolve denuclearization via negotiations. We are not ideologically opposed to dialogue with North Korea, nor have we placed insurmountable obstacles to negotiations in our insisting North Korea simply demonstrate a willingness to live up to its international obligations and abide by international norms of behavior. The bars have not been set too high by insisting that denuclearization talks be about denuclearization, and that they would progress along the lines of September 19, 2005, joint statement of the Six-Party Talks.

Now, of course, talks are not an end to themselves. They are a means to an end. Talks must lead to a stated purpose—in this case, denuclearization—in order to be authentic. Talks must demonstrate a possibility for concrete actions, for concrete progress, to be credible even as we pursue a path to authentic and credible talks, leading to a complete verifiable, irreversible denuclearization of the Korean peninsula.

Our broader policy goes beyond talks, goes beyond just dialogue, and integrates major lines of effort—diplomacy, pressure, and deterrence—which I would like to speak to you about today. Together these three lines of effort—diplomacy, pressure, and deterrence—seek to roll back the North Korean program while countering, deterring, and defending against the threat.

Let me start with the latter, of deterrence. I see some representatives of the Republic of Korea military here, active duty and retired, who have spent their careers working in the defense of the Republic of Korea. It's good to see you here. General Jung. General Shin. They will tell you our alliance remains strong. Our U.S.-ROK forces “go together” on a daily basis. Our counterprovocation planning ensures that Pyongyang clearly knows that, as it contemplates its next set of provocations or its next actions, it faces a rock-solid U.S.-ROK alliance. In response to the north's pursuit of nuclear missile capabilities, our countermissile planning and tailored extended deterrence stand as concrete examples of our shared commitment to deny North Korea an ability to threaten and intimidate the Republic of Korea through its pursuit of these capabilities. In the face of outlandish rhetorical threats and posturing, our firm, yet calm, responses coupled with our seamless and transparent U.S.-ROK cooperation remain the foundation of our success in denying North Korea the benefits of its provocative behavior in an attempt at coercive diplomacy. Deterrence is working. Security is ensured.

It is important to know that our sanctions are not designed to hurt the North Korean people. They are designed instead for a number of purposes that contribute to peace and

stability on the peninsula. Our sanctions are key elements of efforts to constrain the growth of the north's WMD program to curtail its proliferation activities worldwide. By impeding exports and repatriation of profits from illicit sales abroad, we are able to deny North Korea the resources it needs to sustain and advance its nuclear missile programs. By inflicting an economic and diplomatic cost for behavior that clearly runs counter to international norms and DPRK's own international obligations, we also sharpen the DPRK's choices and lead the leadership in Pyongyang to make better choices that will benefit its country and its people. We also make clear that Pyongyang's aspirations for improving its economy and improving the livelihood of its people are fundamentally inconsistent with its pursuit of nuclear weapons. Thereby, moving forward, we will continue to seek robust implementation of UN Security Council resolutions and U.S. sanctions on North Korea.

If the DPRK makes the right choice, returns to the negotiating table, embarks on a credible path of irreversible denuclearization, and begins to come into compliance with its international obligations and commitments, the appropriateness of these sanctions would, of course, be reviewed. But with our ultimate goal being denuclearization of the Korean peninsula through peaceful means, we continue to believe that a dual track approach is the best path to authentic and credible negotiations.

Which brings us to the role of diplomacy. The question I'm sure many of you have: "How do we get North Korea back on the denuclearization path?" First, let me say that we believe the Six-Party Talks' framework has provided, and continues to provide, a useful platform for diplomacy. It has, over the past several years, helped us bring a consensus to the need for North Korea to return to a credible path of denuclearization, and we will continue to use this framework moving forward. We build a strong international consensus on the need for North Korea to denuclearize. We strengthen cooperation with the other four parties within the framework. And, most importantly, we've maintained five-party commitment and consensus on the September 19, 2005, joint statement as the bedrock framework toward a path of denuclearization that in return will bring a range of diplomatic, economic, and security benefits to the DPRK. With the September 19 statement, there is remarkable clarity to the expectations of the DPRK in terms of denuclearization and the potential benefits to Pyongyang should it choose that path.

Of course, the United States for the past five years has demonstrated its willingness to engage with North Korea. We did so with Ambassador Bosworth's trip to Pyongyang in December 2009, even after the events earlier that year with Taepo Dong launch and nuclear test. With the process that began in 2011, after the *Cheonan* and *Yeonpyeong-do* shelling, with the process that led to the February 29, 2012, understanding, which was shortly thereafter walked away from by the north. And, of course, with our contacts through the New York channel.

Our policy is not one of not talking for the sake of not talking, if you can handle the triple negative. We have been, and will continue to be, willing to engage Pyongyang, to probe its intentions, to push and urge it to make the right decision by presenting to the

leadership an alternative path, and to prove our sincere commitment to U.S.-DPRK relations once North Korea begins to move on the path to denuclearization. But clearly the ball is in Pyongyang's court.

One can see all three pillars—deterrence, pressure, and diplomacy—contribute to creating the types of conditions favorable to the future we all envision, that we are all talking about here today: a unified Korean peninsula that is free of war, free of nuclear weapons, and just plain free. We engage in diplomacy to seek a breakthrough in denuclearization, and to ensure that the international community speaks with one voice, and Pyongyang hears one voice. Telling Pyongyang that the peace, prosperity, and security it seeks remain possible only once the leadership makes the decision to move down the path of denuclearization. We can use pressure that is needed to constrain those aspects of North Korea's behavior that are destabilizing and detrimental to our goal of laying the groundwork for peace, prosperity, and security that enables unification down the road. Finally, until we get to that day, we will seek to ensure a safe Korean peninsula through deterrence, looking for the day when the threat posed on the peninsula no longer exists. We will speak out on the human rights issue as we look toward the day Koreans throughout the peninsula enjoy the same political and economic freedom now enjoyed in the Republic of Korea, to the day human rights are guaranteed, to the day when political camps are emptied. We stand ready, as President Park also had made quite clear, to engage with a denuclearizing North Korea to help its leadership move the country down a different path in which ultimately a transformed DPRK can begin to join in and enjoy dynamic prosperity that marks the rest of the region.

The conversations you are having here today look forward to a unification process we all hope will unfold in the not too distant future. The mere fact that we are here today reflects our shared understanding, and by "our," I mean including that of U.S. official policy, as well. Our shared understanding that planning for this day, you are doing here today—is a task that cannot be put off. We simply cannot afford to wait.

**SESSION TWO: KOREAN
UNIFICATION AND
THE SECURITY ENVIRONMENT**

Panel C: The Northeast Asian Perspective

Dr. Michael Green, Center for Strategic and International Studies

Thank you, Victor. This is an important topic. Unification of the Korean peninsula could end the suffering of 25 million North Koreans, unpredictable threats not only to Northeast Asia but for the entire world, and could ultimately produce a peace jackpot, not just the economic potential jackpot that was discussed this morning. In my view, perhaps not consistent with other speakers, reunification happens when North Korea has collapsed. When powers collapse, you cannot always predict the changes. In the Second World War, the collapse of the Axis powers in Europe and in Asia freed tens of millions of people and ended the war, but left a vacuum in Manchuria, the Korean peninsula, Southeast Asia, and Central and Eastern Europe that created the new tensions and new suffering in the Cold War. Then the collapse of the Soviet Union at the end of the Cold War brought freedom to tens of millions of peoples in Eastern and Central Europe, but opened up historic wounds in places like Yugoslavia, and as we see today, in Ukraine. So the questions for Korean unification is whether unification will open new patterns of cooperation in Northeast Asia based on twenty-first-century norms, or reawaken nineteenth- and eighteenth-century patterns of rivalry and competition that have been so tragic for Northeast Asia, and particularly for the Korean peninsula.

On the whole, I am optimistic that the former scenario will be the one we will see. I think, ultimately, the mutual interests among the major powers will align. But there are a lot of reasons to worry that they might not. To avoid complacency and think now of not only the economic aspects of unification but what the national security and geopolitical requirements will be, I will go through major powers briefly.

I've spent about two years in and out of government talking to Japanese, Korean, Russian, and Chinese counterparts about what unification will look like. In some cases you will have official statements. In China's case, Wang Yi, the foreign minister, said in March that China supports denuclearization, but China's redline is no war, no instability. I think that the Xi Jinping government has openly displayed its disdain for Kim Jong-un and it has, in effect, doubled down on stability in the north in terms of investment and support. Xi Jinping has said reportedly to President Park that he supports unification. However, in any discussion

with Chinese government officials and scholars, there is an important caveat—“independent unification.” This means, when you burrow in, no outside powers, particularly the U.S., driving it. And it has to be mutual; North Korea, in effect, gets a vote. I’ve had Chinese counterparts argue that if there is unification, it would someday have to represent the views of the 25 million people in North Korea. To which I asked, “You mean a national referendum?” and my Chinese counterpart changed the subject. I think it is less about the North Korean people and more about preserving, as long as possible, structures and institutions in the north that are more favorable to China’s interests. China is clearly concerned about instability, refugees, and about the implications of a unified Korean peninsula that is democratic and aligned with the U.S. and, by implication, therefore Japan. Not only because of the geostrategy of it but because of the demonstration effect of democratization, and the impact that might have on views in Taiwan and elsewhere within China.

I think there is a very robust debate within China; the best evidence was the famous *Financial Times* article by Deng Yuwen, of the Central Party School’s journal *Study Times*, suggesting that China should abandon North Korea and that regime collapse is better. He was, of course, sacked. However, I still think that within the Chinese system there is a robust debate; it is just not as public as it was a year or two ago.

My belief is that Beijing ultimately sees delaying unification as being in China’s interest because of the concerns about instability, and because of an assumption that time is on China’s side. That is that trade patterns with both South and North Korea are moving in a way that China will have, in effect, a decisive vote. The longer it takes, the more economic interdependency will exist between both Koreas and China. I think that is the Chinese assumption. I also think that the Chinese government and the PLA are worried about some of the consequences of unification. There is evidence that the PLA has prepared for consequence management of chemical and other incidents along the border. That in 2009, the migration of 50,000 armed Kokong militia men from north eastern Burma into China was a test case for disarming and returning them. That PLA officers and officials looked at it as a trial run for a much larger case if North Korea collapses. So the Chinese are not putting their heads in the sand on this question, in my view. But they want to wait, they want it to be “independent,” and, I believe, they will do whatever is possible to preserve their institutions in North Korea, even if the Kim Jong-un regime goes.

For Korea what this means is that rapprochement with Beijing and President Park’s relationship with Xi Jinping is a good thing. However, I think the ROK has to think carefully about how it is framing Chinese expectations, Chinese leverage over this process, and how successfully Seoul is indicating its redline and its bottom line for unification.

Today, I think, strategic thinking in Japan about the Korean peninsula is the weakest I’ve seen in 20 years. It is ironic because the Abe government is very strategic about the maritime domain, about values, and about diplomacy. When it comes to the Korean peninsula, Japan is the country where Yamagata Aritomo 100 some years ago famously said that the Korean peninsula is a dagger end pointed at the heart of Japan. Japan has developed a

blind-spot strategy on the Korean peninsula. A lot of this is because of the political tensions between Tokyo and Seoul. A Yomiuri Shimbun poll in December indicated that well over 80 percent of Japanese said that they do not trust Korea, which is by far the lowest number. This is bit worrisome because the problem with Japanese opinion polling is, unlike Korean public opinion polls which bounce all over, Japanese public opinion polling sticks. Genron NPO, a Japanese organization that does pretty effective popular polling, indicated that 74 percent of Japanese think that Korea is to blame for the problems in Korea-Japan relations, another bad sign. On the question of unification, again the Genron poll found out that only 12 percent of Japanese thought that the process of unification had begun, that unification was happening, and that the jackpot speech was leading to a process of unification. Twenty-six percent of Koreans said that the process of unification had begun. Polling on Japanese views of unification is hard to find. In 2007, I think it was Nikkei, did a poll asking the best way to solve the North Korea problem. They polled Americans, Japanese, and Koreans. Japanese overwhelmingly said that the best way is regime change, which was the third choice for Koreans, and the second choice for Americans, after diplomacy and pressure. There has not been polling since, in part because Japanese newspaper editors were criticized at the time and have since avoided it. In general, I think the Japanese view is that they are favorable to unification. Ambassador Muto, the Japanese ambassador to Seoul, has given a speech saying Japan would like to have a democratic, peaceful, stable neighbor that is open for business—that is all good for Japan. But there is anxiety about whether a unified Korean peninsula would become anti-Japanese. There is a narrative in Tokyo, which I think is wrong, but it is quite strong in academia, journalism, and in parts of government, that Korea is sliding into China's orbit. That creates some anxiety in Japan that was not there 5–10 years ago.

I think it will be hard for Russia to have a coherent Asia policy, particularly now, given what is happening in Ukraine. Putin is obsessed with NATO and obsessed with the West. The consistent themes we have seen from Moscow and I think we continue to see are: Russia opposes nuclear weapons on the Korean peninsula, Russia likes the Six-Party Talks, and Russia would like to build a pipeline through North and South Korea to sell LNG to Japan and Korea. That third point was usually the only one President Putin made in summits when the North Korea issue came up. I think the dominant feature of Russian policy in Asia is going to be alignment with China, because of the preoccupation with NATO, the West, and the United States. We will see Russia try to peel Japan and Korea off from the Western camp to try to break up pressure on them for Ukraine. At the end of the day, though, I think Russia will play an important role in unification as a repository state—Russia is able to accept fissile and nuclear material and do the denuclearization process. They have experience doing it with the United States. That's an asset. The Russians are pretty experienced diplomatically in the Six-Party process and, as a permanent member of the UN Security Council, will have an important role to play diplomatically. So Russia has long-term investment, but in the near term, it is going to be difficult for Russia to play a positive role.

The U.S. has been the most consistent supporter of unification of the Korean peninsula outside of the Republic of Korea itself. The administration strongly supports President Park's policies on unification. The expectation of the U.S. government would be that the

Korean peninsula, when unified, would be nonnuclear and democratic—although government officials tend not to say this because it is presumptuous—and to have a continuing U.S.-ROK alliance. Nonnuclear means, in the near term, the very difficult job of preventing the leaking of nuclear material, weapons (chemical or biological), and engineers or weapons officers who know how to use them. It is going to be a very tough near-term problem. A Korean peninsula that is friendly with China and Japan is in U.S. interests. A Korean peninsula that is in the process of unification and not destabilizing the international economy, and therefore the IMF, World Bank, and ADB would be important. A process of unification that is legitimate in the eyes of the world, and the eyes of Congress, in terms of transparency, denuclearization, property rights, and rule of law in the process of integrating North Korea into the ROK. At the end of the day, the U.S. has a big stake in successful democratic unification of the Korean peninsula, and not just to get rid of the North Korea problem, not just turn Northeast Asia power relations in a positive direction, but to set an example, which Korea has done before.

When I travelled to Indonesia or Myanmar, Korea's democratization in the 1980s is the one that military officers who agreed to democratization point to. They do not point to the U.S. and they do not point to Japan. They point to Korea which successfully transitioned to a democratic world from military leadership, did so smoothly, and created an enormous economic growth process along the way. That is pretty attractive to the TNI or the current military in Myanmar. Getting this right will have a powerful demonstration effect in the cross-strait situation and elsewhere, just as the unification of Germany and democratization process in Eastern Europe had a powerful effect on Korea and a powerful effect in Asia.

This could be a very important demonstration effect. Korea has the tool kits to align the major powers behind a view of unification as a jackpot not only economically but for peace. I think the key tools would be the alliance with the United States (which is in good shape), the right balance of relations between China and Japan (which Korea doesn't have right now), and high standards for human rights, democracy, denuclearization, strong leadership, and international organizations (which Korea is demonstrating right now). Korea is going to have to fortify its own democracy—healing internal divisions and building consensus. I would credit President Park for doing this. I think one of the most important aspects of her speeches on unification is she is building a middle ground, in a very divisive Korea political environment, where people can talk about unification to begin that consensus within Korea, which, at the end of the day, will be the most important thing. Korea's coherent, stable vision and determination on this will set how China, Russia, Japan, and the U.S. play our parts in this important process of unification.

Dr. Park Ihn-hwi, Ewha Womans University

I am Ihn-hwi Park, teaching at Ewha Womans University. This is always an exciting and honorable chance to share possibilities of peace on the Korean peninsula with people from South Korea and the United States. I will mostly discuss the connection and interdependence

between the Korean peninsula and the Northeast Asian region. Every region of the world has a very unique political, economic, and sometimes social connotation. The Northeast Asian region, as an independent region, has a very unique social, economic, and cultural background. What is the main difference between the Northeast Asia region and other regions? People say that Northeast Asia is an independent region heavily focused on security reflecting critically on the competition of the global powers, such as the United States and China. Also, the Northeast Asian region has a very interesting coexistence between global-scale competitors, such as the United States and China, and regional-scale competitions such as the Sino-Japan rivalry or the ROK-Japan rivalry.

Most importantly regarding the main issue of this conference, Northeast Asia has very unique security concerns with North Korea's nuclear problems and a still-divided challenge of the Korean peninsula. The uniqueness of the North Korean nuclear issue is that there are five countries, normally known as the nuclear club, recognized by the NPT regime. There are three countries who were never recognized by the NPT regime, India, Pakistan, and Israel. However, there is a very interesting fundamental difference between the North Korean case and those three countries. These three countries never joined the NPT regime. North Korea is the first and only country that successfully conducted nuclear capabilities as a formal member of the NPT regime. Theoretically speaking, this means that the international recognition of the nuclear issue of North Korea undermines the justification of the NPT regime. The North Korea nuclear problem, therefore, has implications not just for Northeast Asian security but also the integrity of global regimes. The United States and South Korea have been unsuccessful in their negotiations with North Korea, despite the efforts of many different administrations, both liberal and conservative, since the first denuclearization agreement in October 1994 was consummated. What is interesting today is that all six nations in the Six-Party Talks, not just South Korea, have all transitioned to new leadership. The Obama administration started its second term after the 2012 presidential election. The Abe administration began in Japan at the end of 2012. Xi Jinping became the new leader of China in 2013. Putin began another term in 2012. North Korea also saw the transition from Kim Jong-il to his son Kim Jong-un. Despite these changes, North Korea conducted its third nuclear test in February 13, 2013. This was two weeks before Park Geun-hye's inauguration. As bad as this action was, the combination of new political leadership and the crisis occasioned by the nuclear test provides an interesting time and opportunity to begin new approaches to handle the North Korea problem and achieve fundamental security and economic prosperity in the Northeast Asia region.

The European precedent offers much to be learned in this regard; in particular, a Northeast Asian version of the Helsinki process. The interdependent elements of Northeast Asia are striking. If you include only three countries' GDP (China, Japan, and Korea), they total almost 25 percent of global GDP. So, in terms of economic, social, and cultural happenings, the three countries are very interdependent and closely integrated. But if you move to political and security conditions, such kinds of indivisible economic and social integration never easily transfer to positive outcomes, or positive mutual respect among those countries.

Theoretically speaking, people say that there is no spillover effect from social and economic interdependent conditions in Asia to political and security conditions. President Park Geun-hye, along with many other leaders, has often referred to this gap between politics and economics. President Park refers to it as an “Asian paradox.” As long as we have such a wide gap between political and economic areas, the establishment of permanent peace between the two Koreas and unification of the Korean peninsula may not be easily achievable. So again, in terms of the connection between the Korean peninsula and the Northeast Asia region, one of the critical approaches or solutions to figure out permanent stability and economic stability in Northeast Asia is to achieve unification of the Korean peninsula.

Interestingly enough, the division of the Korean peninsula is a result of international politics in one sense. So, achieving peaceful reunification on the Korean peninsula should be conducted with the support of the international community. If you think about the beginning of modern international relations in Northeast Asia, I would say that it began only after World War II. Every country may have a different background, but the modern concept of sovereignty and the nation-state broadly started after World War II. A unified Korea, however, never experienced this during the time of modern international relations in Northeast Asia. But despite these unfortunate beginnings, Korean sovereignty and unity can help to close the gap between the economics and politics of the region. It can help to resolve the Asian paradox. By saying “unification jackpot,” this raises the hope that peace and interdependence pervading in a unified Korea could create similar trends in the region. To achieve those goals and achieve future progress, we also have a couple of concerns and problems. We just assume that the use of force can be limited only to issues like the denuclearization of North Korea and the possibility of a regime change in North Korea. So, unification, in this context, may bring the positive process of North Korea’s denuclearization. Again, in terms of the concern of Korea unification within the context of the Northeast Asian region, however, the implications of the use of force would be much broader and would have critical effects on how neighboring states would see themselves as benefitting from unification of the Korean peninsula. We say that unification could be beneficial not only to the two Koreas but also to the U.S., China, Japan, and even Russia. It is still a tough question, how to specifically show the future benefit of unification to neighboring countries, not only in terms of theoretical terrain but also in terms of specific benefit going to those member countries.

The Park Geun-hye administration aspires to link peace on the Korean peninsula to peace in the Northeast Asian region. For instance, the Park Geun-hye administration tries to articulate a peace and cooperation initiative, but also previous Korean administrations suggested many similar concepts linking regional policies to bring peace on the Korean peninsula. President Roh Moo-hyun also tried to accomplish this goal with the concept of Korea as the balancer between the U.S. and China.

Whenever I have a chance to discuss the connection between Korea and the Northeast Asian region, I say that all countries have unique identities and DNA. However, South

Korea is the only country that identifies itself as part of the Northeast Asian region. I don't believe the U.S., China, and Japan try to describe themselves as Northeast Asian states. If we have to choose one state in the world in Northeast Asia, then I would say that it is Korea. That means the regional stability and prosperity of Northeast Asia is most critical in guaranteeing and maximizing the future of South Korea's national interest.

Finally, I would say that if you think about the end of World War II, how many countries were divided? People would say five, including Germany, Korea, China, Vietnam, and Yemen. But Yemen can be categorized with a different meaning and significance. After the unification of Vietnam, South Korea tried their best to avoid the Vietnamese way of unification. After German unification, North Koreans are doing their best to avoid Germany's way of unification. It is a kind of international general recognition to understand the "One China policy," meaning no one identifies the China and Taiwan condition in terms of competition. We just assume mainland China under the name of the "One China policy." We are doing a lot to figure out some lessons of German unification. If you take a look at German unification, European diplomatic condition and global diplomatic circumstances were fairly critical factors in bringing permanent unification in the case of Germany. For Korean unification, we have to visualize that because of the unique dependence of the Korean case and Northeast Asia region, international cooperation and efficient diplomatic assistance between the U.S. and Korea are definite factors in achieving unification on the Korean peninsula.

Mr. Christopher Johnson, Center for Strategic and International Studies

Thank you, Victor, for inviting me to participate on this panel. It is a very interesting topic. Let me just raise a couple of points. First, I would like to echo Dr. Green's presentation, the emphasis on stability, obviously for China, as they look at reunification of the peninsula. No matter what terms that would take place under, China's core principles really have not changed on that front. They do want it, as Dr. Green said, to be independent. They want the North Koreans to have a heavy say. Obviously, what they want the least is U.S. troops right on their border. That has really been their long-time concern.

There has been a lot of debates since Xi Jinping, the new Chinese president, took power in the fall of 2012 about whether or not China's North Korea policy has been changing and, therefore, its general approach to the Korean peninsula writ large. The key indicators that people often cite are the reordering of the Chinese phraseology in terms of its priorities on the peninsula, moving denuclearization to the front rather than its former position as the last of three. There has been some discussion about whether or not there is more robust debate now inside China, with regard to the role North Korea plays for China as a buffer state. In fact, whether or not that continues to be the case, that debate was quite strong early on in Xi Jinping's tenure with some sides arguing that it doesn't really matter what type of regime we have there as long as something is there to physically serve as a buffer. Others in the debate were arguing that that may have been true in the past, but increasingly

provocative North Korean behavior may be making that latter true and damaging the Chinese position in the wider region. It is my sense that this debate has largely quieted, if not completely gone away, and I do not think that it is because one side or the other necessarily won. I just think that they moved on to other subjects.

The core issue is that a lot of ink and commentary has been spilled on whether or not China has changed its policy, but that is not really the point. You can argue the merits and difficulties of the point as much as you want. I think the key factor is to look at how Xi Jinping has changed the relationship with North Koreans, and it's really this idea of moving the relationship from the traditional special relationship between China and North Korea to a normal bilateral relationship. I think this is a very strong theme that we've seen under Xi Jinping's leadership, and there are several things to me that indicate that this is in fact going on.

The first, of course, is the lack of high-level visits between Chinese and North Koreans. Kim Jong-un has yet to visit Beijing, and Xi Jinping has no inclination to go to North Korea at this particular time. There are still high-level dialogues at the next tier down between the two sides but there has been no major summitry. Not only that, but Xi Jinping has turned more towards South Korea in his diplomacy. He seems to have very solid working relationship with President Park, with a very successful summit here recently. Some of this is driven by this idea that some in China perceive that there is an opportunity, given the close economic interdependence growing between China and Republic of Korea's economies, to peel South Korea off from the United States. I agree with Dr. Green that it is ridiculous, especially when you look at the way the summit unfolded between President Park and Xi Jinping. While there was a lot of positives to this summit, there was also some behavior by the Chinese with regard to how the summit was arranged, and the things Xi Jinping said at various speeches that clearly ruffled the South Koreans' feathers. I think those in Beijing, who seem to think that this is working or there is a huge opportunity here, should be more cautious.

I think the other thing that we see emphasizes this issue of special to normal, is their whole approach in the region. This is where we come to Xi Jinping's thoughts on a new style of major country relations with the United States, but that only the United States merits a new-style of major country relations. For all the other regional players and everyone else, it's more a great power diplomacy approach that is emerging. Gone is the sort of rhetoric of Deng Xiaoping of biding their time and keeping a low profile internationally. Instead we see more of a philosophy where the idea is China is already a rising great power and should act like a traditional great power in its foreign relations. And this has a real impact on its approach to the Korean peninsula. I think with North Korea—the message we see from the new Chinese leadership is basically, “We are the big brother in the partnership, and you are the little brother. Your behavior should not be such that it causes problems as the larger party, and we are not going to make special sort of arrangements for the traditional special relationship, such as making sure every time we have a visit with the South Koreans, there's a parallel visit with the North Korean side and so on.” In fact, it appears to me that relations between Xi and Kim Jung-un in particular are basically non-existent. I don't see them radically improving in the near future.

Likewise, we see a similar approach to South Korea, where economic interests and the other interests China has on the peninsula right now lean in that direction, so we see them emphasizing that relationship. I think this is going to continue going into the future.

So what does this mean for how the Chinese might be thinking about unification? I very much agree with Dr. Green that this idea of delayed unification is in their interest. They don't want to see it happen anytime soon. Certainly, they believe that time is on their side—with both sides of the relationship, especially with South Korea, where they do believe that, over time, economics and other factors will allow them to have a stronger sway with South Koreans. There is a sense, as well, that this way they will have a better set of eyes and ears by reemphasizing their relationship with South Korea, getting a better feel on both sides on the peninsula, and for how they are approaching Korean peninsula issues and potential for unification.

I do think over time that the Chinese won't reflexively deny the interests or opportunity for reunification. But for now, the debate about whether or not that could happen and under what terms has largely been shelved. I think the other thing to stress, in closing, with China's approach, is that it is my opinion that Xi Jinping actually is not paying a lot of attention to North Korea policy or to Korean policy writ large, other than this warming to South Korea. He set out the tenets to their approach, and he is letting it hold for now while he works on issues with Russia, the relationship with the United States, and so on. Whereas with Hu Jintao, the issue was a little more on the front lines and a lot of that was due to North Korea's behavior, I think with the Xi Jinping administration we are seeing the need to continue to manage the relationship very carefully and strong concerns about what happens on the Korean peninsula. But it is not going to be a strong driver for their diplomacy going forward.

Likewise, I think the fundamental reason for why we have been able to see this change is because of Xi Jinping's rapid consolidation of power, and the fact that he is running Chinese foreign policy pretty much unilaterally. The formal mechanisms of Chinese diplomacy are not operating as much as they were under the previous leadership.

The foreign ministry has very little say on these policies. Even the party's international liaison department, which was very influential in shaping the relationship with North Korea under the previous administration, does not have a whole lot to do with it at this stage. They are certainly not the independent influence that they had before. We see this in the fact that the Chinese foreign ministry has begun taking more of a role and managing the mechanics of bilateral visits and so on with the China and North Korea relationship, and that the international liaison department's influence has been downgraded, and I expect that to continue. Likewise, there is no one on this standing committee as was in the previous Politburo's standing committee leadership, who really has a say on North Korea policy. Zhou Yongkang, now famously in trouble with this corruption investigation, had been educated in North Korea. Even though he was number nine of nine on the former Politburo standing committee, he had undue influence on shaping North Korea policy. Then, you have several members of that standing committee who, frankly, were very conservative on

North Korea policy and wanted to see very little change. That is not the case in the new Politburo standing committee, and Xi is certainly calling the tune on that, and I expect him to continue doing so going forward.

Mr. Bruce Klingner, Heritage Foundation

I think that when we talk about unification, we have to be clear. It really is an absorption of the north by the south. Indeed, Article 4 of the South Korean constitution calls upon the Republic of Korea to “formulate and carry out a policy of peaceful unification based on the principles of freedom and democracy,” neither of which exists in North Korea. So, this is not a case of trying to average out two systems. Indeed, you cannot. For example, human rights in North Korea is a 0, South Korea is a 10, you cannot request to get to a 5. You are not just going to keep some of the North Korean gulags in order to end up with a five in human rights.

Similarly, you cannot equate or average a command economy and free market principles. So South Korea should not be striving to average these two countries out. But it really is indeed about having the South Korean system of freedom, democracy, free market principles, and respect for law and human rights prevail. There is nothing to say for the North Korean systems. North Korea knows this, and that is why they are so resistant to the Dresden declaration of President Park, or opening up their economy or their political system to what they see is contagion of outside influence.

I think there would be perhaps three scenarios for unification. The first is the Blue House gets a phone call from Pyongyang. They say, “We’ve been talking amongst ourselves and you guys win. We will leave the lights on. But you guys win, and the country is yours. We’re all heading to cross the border into China.” That’s not going to happen. The second scenario is a gradual reconciliation, a gradual reform, a gradual meeting in the middle between the Koreans, and that is also not going to happen. Because Kim Jong-un, like his predecessors, has made it very clear that they have no interest in implementing political or economic reform. The North Korean leaders made that clear in their New Year’s Day speeches and their central committee comments. They even became so frustrated with speculation of impending reform under Kim Jong-un that they issued statements stating that “foolish politicians of the world, particularly in the south, should not expect us to change one iota from Kim Jong-il or Kim Il-sung.” We know that they are not going to change.

As we look around the region, as our speakers have done today, I would agree that China has not changed its policy. Even though China said it accepts Korean unification, there is a very big asterisk to what conditions Beijing would accept. When Xi Jinping was in Seoul and spoke at Seoul National University, he made a great declaration of how Korea and China share interests, citing the Imjin War. I might have responded to Xi, “Sir, there was a more recent war in the 1950s when China fought against South Korea.” Some Koreans blame the United States for dividing the peninsula, but the Allied forces were on the cusp of uniting the Korean peninsula in 1950 but China prevented that. I think that is something South Korea should keep in mind when Beijing has its latest charm offensive towards Seoul.

Certainly, Beijing does not have South Korea's best interests at heart when they push South Korea against better defending its population against the North Korean missile threat, by pressuring Seoul against adopting better ballistic missile defense, etc.

When addressing the other great player, it is important to include the U.S. even when we talk about Northeast Asian perspectives because we are very much involved. People have asked over time "what is the U.S. policy on unification?" U.S. diplomats get frustrated by this and respond that the U.S. policy has always been protecting Korea as it works towards peaceful unification. As the father of a teenage daughter, I think it's fine for the Koreans to talk and it is fine for the Koreans to date. Our role is as the protective father, walking 10 steps behind with a shotgun, making sure South Korea is not taken advantage of. But on the issue of unification, Korea should be in the driver's seat since this is a matter for the Korean people. The U.S. is just there to make sure that South Korea's interests are protected.

And when people ask, "what would be the role for the U.S. Forces Korea after unification?" I think it is too early to say. It will depend on the timing and it will depend on the circumstances of when that happens. Perhaps both the U.S. and South Korea would see no more need for U.S. Forces in Korea, and we would come home. Or there may be growing concern, as there is now, about Chinese intentions. I think that's an issue that we can skip over for now.

There has also been a lot of talk today about the "jackpot" resulting from unification. I think that reference was an appeal by President Park to the South Korean populace. There has been declining support domestically for Korean unification, particularly amongst the youth. I saw recent polls where, for the first time in my memory, a majority of South Koreans did not support unification. The number, I believe, was 49 percent in support of unification, and I believe that was the first time that it had dipped below 50 percent. Particularly the younger generation sees the negative economic impact that unification would have on their personal economy and the national economy. So, in a way, President Park's appeal that unification would not be a drain on the economy, but would instead be a jackpot, was a way of trying to reverse this downward trend in South Korean public support for unification.

We can all be hopeful for the unification, but I do not see it happening anytime soon. I am reminded of the year 2000, when after the first inter-Korean summit and the very emotional joint North-South Korea walking side-by-side into the Sydney Olympics. A very senior CIA official chastised those of us working on the Korean issue that we were missing it. That the Koreans were on the cusp of unification and, just like the Soviet analysts had missed the collapse of the Soviet Union, like the German analysts had missed the rapid unification of Germany, that we were getting it wrong. We really had to understand that Korea was on the cusp of unification. Well, he was wrong. As we pointed out at the time, if this was like Germany, it wasn't the Germanies right after the fall of the Berlin Wall. It was more like the Germanies in 1970 when they started engagement.

So, I think we can hope for unification. Certainly, we should be prepared for it, but I think I don't see it happening anytime soon. As Dr. Green pointed out, unification has to happen with the collapse. Not that anyone wants to induce collapse, because we are afraid of what

could happen. It is as if we are one side of the swamp. We are in the stable environment. On the other side of the swamp, we see the quest—we see a peaceful unification of the Korean people. The problem is that, between here and there, is a very messy and potentially dangerous swamp. And no one wants to jump into that swamp in order to get to the other side. So right now, it tends to be passive, the devil you know rather than the devil you don't know. But that is not to say that we cannot still be preparing for it and certainly still be hoping for it.

Panel D: Global Perspectives

Dr. Kurt Campbell, The Asia Group

Thank you very much. It's terrific to be back at CSIS. Let me thank Victor, because as you all know, he puts together some of the most interesting, thought-provoking panels as a part of his efforts here at CSIS. He's also working on a long overdue study with the Bush Institute to consider what to do with the North Korean human rights situation and the refugees that have been coming out of North Korea now for over a generation. Also, it's great to be with Korean friends and the dean of Asia specialists, Stapleton Roy. I'll try to be on my best behavior and offer some ideas for how to think about the next steps as we go forward.

I would say, generally speaking, when I've worked in government (this is my third time, once on the Joint Chief of Staffs and Treasury, and another time with the Department of Defense, and most recently at the State Department) one of the things that ties that period together of almost 25 years is a set of unbelievably vexing problems associated with North Korea, the parameters of which have changed very little over the course of 25 years. Indeed, the playbook itself, as I was listening to the pleas of the three "visitors" in North Korea about wanting help from the international community or the United States, is a playbook that is like the Green Bay Packers of the 1960s. They run three plays over and over again, and we're in the midst of one of those well-understood plays where we resist initially and then we finally figure out some way to talk to the North Koreans. They are disappointed with what we put on the table, but in some, either exhaustion or sense of enough of this, release this person. Tom is the master of this. He's been involved in several of them. But I think it is undoubtedly the case that the people who work on North Korea inside the U.S. government are suffering from not only a kind of fatigue but a sense of exhaustion in the sense of the strategies that have been applied.

There have been periods where we tried substantial pressure. There have been periods, more regular periods, in which certain complex nuances of diplomacy are tried. We'll try to do this, signal we'll do this; then they'll say this, and then we'll do this. The most arcane choreography of orchestration of diplomacy imaginable is associated with North Korea.

In this arena, however, with the arrival in power of Kim Jong-un, some of the former playbook no longer works. It is not clear that our former interlocutors at the foreign ministry, or even in senior positions in the military, have the trust and confidence of the senior leadership. Many of these people are no longer around. Frankly, they've been retired from

service in many circumstances. We are left with a set of circumstances that most of the senior players inside the U.S. government right now, in a fundamental sense, are at a loss about how to proceed. We often talk about this with regard to strategic patience. In truth, it is also the case that many of the tools we've tried have just simply not worked. We are in a set of circumstances now where it is not clear, fundamentally, the way forward. I'll talk a little more about that as we proceed.

One of the tendencies has been, and I will put myself in this category, to try to redefine elements of the problem. Clearly, we have not been successful in putting substantial pressure on North Korea, or seeing any kind of either domestic reform or inhibition on nuclear or proliferation activities. We have not been able to effect the kind of change that basically a generation of diplomacy has been aiming towards and for.

What we have been successful in is keeping the Six-Party group of nations together. We have kept a relatively solid front. No one has broken out to support or to be involved in North Korean surreptitious activities that are fundamentally not in the best strategic interests of the United States or other countries. China, over time, has come to understand that North Korea is, in fact, acting in ways that are quite antithetical to its strategic interests. It may not acknowledge that publicly on a regular basis, but I think what we've seen in the last several years is a deep frustration and worry that, in many respects, what North Korea is doing is creating a security dynamic in North Korea that is profoundly not in China's strategic interest. What that means over time, I'm not sure we know, but that is a profound change from 15 or 20 years ago, when the prevailing sentiment in Beijing was quite different about North Korea.

It is also the case that sentiments and views in the United States and other countries about what we would like to see on the Korean peninsula have changed substantially. I think there were periods in the past where major countries, or elements within countries, believed that a continuing separation of North Korea was in the best strategic interest of Northeast Asia. I do not believe that is the case any longer. I think there is a broad, overwhelming assessment that peaceful reunification and a move towards unification on the Korean peninsula is in the best strategic interests of most of the major players of Northeast Asia, and even countries where there have been some elements of ambivalence. I think some of that has been swept away by repeated human rights abuses and issues associated with the most provocative antithetical language that emanates from North Korea more generally.

Here I think I have to compliment both the last administrations. What we have seen is, in many respects, almost a sociological, political change in South Korea and how they talk about unification. The idea that if you look at the history of Chinese foreign policy, the greatest success of Chinese foreign policy over the last 30 years is the concept of one China, and that nations and groups that stand in opposition to one China are working at cross-purposes in terms of the best interests of the Chinese people. I believe a variation of that concept is becoming more prevalent in South Korea since Korea is one people and one nation. And efforts taken to divide the Korean peninsula are not in the strategic best interests

of the country. I would say that the most recent, very ambitious diplomacy between Madame Park and President Xi is at least a modest step in the direction of articulating a view of a Korea in the future that does not face this division that has been so difficult and problematic over time. I think the challenge that I've seen in a lot of the commentary about South Korea assumes that the process, however, will be smooth and without difficulty.

Now, we talked this morning about the economic dimensions. Clearly, the gap in economic performance between the north and the south is enormous and the going-in presumption in German diplomacy was that Germany saved an enormous amount. Then, the aggregate capability would allow East Germany to recover more rapidly when in fact it was not the aggregate but the differential between East and West Germany. I think we are going to confront that problem in spades between North and South Korea.

But Victor asked me primarily to talk about the security dimensions of this problem. I think it would be fair to say that the United States in conjunction with South Korea, but also occasionally with Japan and irregularly with China, have had conversations over almost a 20-year period about uncertainty on the Korean peninsula. These conversations between the United States and South Korea are extraordinarily detailed and complex, and they become more so over time. The conversations with China are halting and difficult. Under many circumstances, it is the United States that talks and China listens and takes notes but does not feel that it wants to comment on circumstances in particular. I think it is also the case that, with tensions between Korea and Japan currently, there are obvious limitations about what is possible. If you look at the situation 15–20 years ago in Asia, and indeed until quite recently, North Korea stood as the one profound problem area in Asia. If we could simply get beyond this issue, then we would have at least the potential for more peace and stability and harmony in Northeast Asia.

I remember our good friend, our ambassador from Australia to the United States, refers to Asia often as the sunny uplands, the place that American and others can turn to if they want to be reminded about returns on investments, strategically and politically. I will say, recent years suggest that Asia's future will be challenging. We are facing tensions and maritime security issues, a variety of political dynamics that involve history and territory, future ambitions, and military protocols that will be extraordinarily difficult.

The North Korean issue is not alone any longer in Asia and complicating the political dynamics. However, on almost every issue, there is a level of growing distrust and a lack of confidence at strategic levels in Northeast Asia. In terms of how you would handle a major problem, either around a disputed island, an issue of associated navigation, or a sudden change on the Korean peninsula. So it was the case in the past that I was one of those people who had at least some confidence that there would be the necessary diplomacy between the United States and China about developments on the Korean peninsula. I think that in the current environment, we would have to be somewhat worried that the parameters of that diplomacy would be extraordinarily complex, probably surrounded by an enormous amount of uncertainty and suspicion. So, it strikes me that in the period ahead, I

was a person who believed that in our north-south diplomacy, we should increasingly expect South Korea to take a leading role. I think one of the conceits of American diplomacy with North Korea was to seek to lead that process sometimes without appropriate consultation and leadership from South Korea. I think we've now reached a period where we should be confident and comfortable with South Korea taking a leading role in diplomacy with North Korea. But in addition to that, if we ever face a situation of dramatic change in North Korea, which I think is a very real possibility given the many uncertainties we're facing in North Korea, the critical role on the peninsula is likely to lie in Seoul. In the past, I would have said the critical players in this would be the United States, and perhaps first among equals, China. But increasingly, it will be the role that South Korea plays, which would require remarkable foresight, preparation, capability, and maturity. These are things that I think require very deep consultations between the United States and South Korea. The most important diplomacy that needs to take place in advance is actually not between the United States and China. That's critical; that's number two. What's most important is the diplomacy between the United States and South Korea, about expectations, about preparations, and the like, and then, following that, a kind of three-way diplomacy that involves Japan, as well. South Korea, and the United States, and then China going forward.

All told, I would say we face a set of difficulties, challenges, and uncertainties with regard to North Korea and we have two choices, two possible ways forward. One is a set of very serious problems, and another even more serious set of problems, so there's no good outcome. There's no way forward that doesn't involve massive numbers of refugees, uncertainties associated with weapons of mass destruction, questions about the role of U.S. forces, Chinese forces across the border, what to do with problems, schisms inside the military, or security establishments in North Korea. These are all problems that will confound any stable, secure effort, and I believe will pose the most significant diplomatic challenge of the last 25 years.

In conclusion, there are a number of things I think the United States should be doing more of with South Korea. Obviously, we've talked about in the morning sessions the economic and commercial sides. I have to commend South Korean friends for the steps they have taken to welcome North Korean friends. I would like to see the United States do more of that. We, today, host very few North Korean refugees in the United States. We should do more of that. What we do, I think, is primarily done by religious organizations. I think that's terrific, but I'd like to see other opportunities for North Koreans to come to study in American universities, to have the opportunity to train and the like. To date, much of that training is about technical issues, questions associated with modern commercialism and the like. Increasingly, we're going to have to train and prepare some of these people who have left North Korea to understand issues associated with governance to think carefully about the way forward. That's exactly what we did with South Africa for almost 25 years. Many of the people that staffed the initial South African government were trained in the United States, Britain, and elsewhere. We need to do more of that. We need to take that on.

I'd also like to see a set of circumstances where we broadcast more, try to actually take steps to have more information penetration into North Korea, and have that be a little bit more nuanced and active than it has been in the past.

As we think about our overall tool kit, there is one element of our strategy that I do not think people fully appreciate. We often think of North Korea, I certainly did, as one of the most sanctioned countries in the world with almost impossible obstacles for people who want to travel, invest, and the like. It turns out, when I was at the State Department working on Myanmar or Burma, comparing Burma to North Korea is night and day. Burma has much more in the way of sanctions and challenges associated with interactions. If we faced a set of further challenges with respect to North Korea, it would be possible for us to put more financial pressure on North Korea. I think we need to let Chinese friends know and understand that some of the things that have been contemplated by the new regime, if followed through on, would entail and involve a reaction that is much more strenuous than we've seen in the past. I think that element of our diplomacy is likely to be necessary as we go forward.

Ultimately, sometimes you ask yourself: How important are these sessions? How important are war games? How important are issues associated with planning in advance? I remember a senior official, when I was at the White House, saying we had set up a morning session to go through how to think about what would happen if we faced a certain amount of uncertainty. This person was a little impatient in saying, well, look, there's so many parameters—why spend the time doing this? I remember I responded, “Look, this is not an attempt. There will be no answers, but to socialize yourself to prepare to think about the questions, challenges, and problems ahead.” We have to do more of that, and we have to do it with Korean friends, and this is an arena where track two and think tanks have an enormously important role. That is one of the reasons why I'm grateful to Victor for taking this on.

Dr. Kim Jaechun, Sogang University

Let me preface by saying that it is really an honor to be among these distinguished experts and a distinguished audience today. In the previous sessions, we talked about unification benefits; in particular, the benefits of unification that can be brought about and the benefits that unification can bring to the people on the Korean peninsula and in Northeast Asia, as well as to the major stakeholder countries in the region. We also talked about the ways in which we can materialize those unification benefits on the Korean peninsula and Northeast Asian region. The thing I want to present today is a little bit different. I'd like to incorporate global perspectives into this unification benefit discussion.

President Park called unification an economic bonanza or “*daebak*” early this year. This has in effect rekindled people's interest in South Korea and the region regarding unification, and notably in expanding the beneficiaries and the scope of the unification benefits.

After the *daebak* theory was proposed, much of the discussion has revolved around mutual benefits. There has been a tendency to view Korean unification as an event that will

benefit mostly the Korean people. Surely, the biggest beneficiary of unification would be people on the Korean peninsula. However, the beneficiaries of Korean unification can be much more diverse. As President Park's "*daebak*" theory purports, it can also benefit the people in Northeast Asia and major stakeholder countries in the region. In addition, the scope of unification benefits can also be much broader. My contention is that unification would be an historic world event that could contribute to the international community. We tend to interpret the outcomes of unification mainly in terms of security and economic benefits only, but the benefits of Korean unification can go beyond those two areas and contribute to many issue areas in international relations, such as nonproliferation, human rights, environmental protection, human trafficking, and even money laundering. President Park's description of Korean unification as an "economic bonanza" has enlarged the beneficiaries of unification from the Korean peninsula to the Northeast Asian region. But the discussion has taken place only in the regional and economic contexts, and I think we need to take this discourse to an international level and discuss it in the broader context of many different issue areas in international relations. This is important because, in my view, Korean unification is a world historic event that could benefit the international community and it is important for Korea to get the international community involved in this unification discourse.

The successful unification of Korea can work as international public goods by sending two big messages to the world. One message would be that intractable conflicts can be resolved. The world is plagued by a number of intractable conflicts, and I think the Korean peninsula has been one of those zones of age-old conflicts in the world. By resolving the conflicts on the Korean peninsula, unification can impart a positive message to the world that seemingly intractable conflicts can be resolved if we put in good faith efforts. Successful Korean unification also means that integration is possible. In today's world, growing income inequality across nation-states and within nation-states has been one of the many problems associated with the unfettered advance of globalization. How can we resolve it? Maybe a successful integration of South Korea and North Korea can present a model. South Korea, one of the top economies in the world, is a successful, rich country. In contrast to that, North Korea is one of the most backward countries in the world. So, successful integration of these two Korean societies can work as a model for resolving polarization of incomes or inequalities or as a model for social integration. The Korean unification can also provide international public goods in several ways. First, it can serve as a nuclear free Korea. The re-unified Korea will be free from not just nuclear weapons but all kinds of weapons of mass destruction. The country will also eliminate nuclear safety problems in North Korea and remain as a model country for peaceful use of nuclear energy. This will result in strengthening the international nonproliferation regime.

Second, the reunified Korea can become a Green Korea. Since the division of Korea, North Korea has suffered severe environmental degradation and deforestation. Korean reunification will restore the ecosystem in North Korea and improve the environment on the Korean peninsula. The DMZ peace park can work as a test case for this endeavor.

Third, Korean unification will be a champion of human rights. North Korea is a country where democratic values are ignored and human rights are denied. Korean reunification could lead to a great accomplishment in the promotion and protection of international human rights by advancing liberal democratic values and human rights in North Korea.

Fourth, unified Korea will be a promoter of trade liberalization. A unified Korea will definitely pursue free trade, and this will definitely reinforce the existing free international trade order.

Korean reunification means resolution of all the problems associated with North Korea. It means improvements of world security situation as a whole. This will enforce existing world order and existing global governance in many issue areas in international relations. One caveat is that in order for unification to work as an international public good, I think several conditions should be met. First, unification should not be a reunification which brings the situation to the status quo of 70 or 80 years ago. Reunification should be a new reunification, meaning that we would have to create a new country that embodies not only nationalistic visions of values but espouses universal values. So, nationalism should not be too much of a driving force for reunification. Unification should espouse a universal vision, not a nationalistic one. Unification should not be a simple extension of the South Korean system to North Korea. Unification should fulfill a more refined vision, so that we can appeal to the international community. A more refined vision, of course, includes peace Korea, green Korea, human rights Korea, and Korea as a big promoter of international free trade. In order for this to happen, we need to have solid plans, and we have to execute these plans, in order for reunification to work as international public goods for the international community.

Ambassador Stapleton Roy, Wilson Center

We've had two very excellent presentations. Kurt Campbell has stressed the complexity of the whole issue of Korean unification, and Professor Kim has talked about the potential economic bonanza it could create. In other words, he looked at some of the positive aspects of unification. Our panel is supposed to be talking about unification and the security environment, looking at the broader, potentially global aspects of this. My reaction to the presentations is that we don't know how Korean unification will take place. We have four divided countries that resulted from World War II. Two of them have unified. The unifications, in each case, took place in ways that had not been anticipated. Vietnamese unification occurred largely because of the collapse of President Nixon's domestic political position, and the fact that the administration was left powerless in dealing with the negative reactions to the Vietnam War to intervene in any way. This created circumstances for the reunification of Vietnam, which was violent. It occurred because of a major war, and then it was still violent. It was an invasion essentially of North Vietnam into South Vietnam. The German case took place largely because of the unraveling of the Soviet empire in Eastern Europe, something that people had not anticipated. It was peaceful. So, when we look at

Korea and China, I think we should assume that we cannot anticipate at this point exactly what the circumstances are that will suddenly create the opportunities for unification. It could be violent or it could be peaceful.

We can comment on the fact that the end results will have different effects. Certainly, one would hope in Korea's case that the reunification would be peaceful and contribute to a more stable East Asia. Now, Korea has a special problem. It's at the intersection point of great power rivalries. In the nineteenth and twentieth century, it was caught up in the rivalries between Qing dynasty China and imperial Japan, between imperial Japan and the Russian empire, between imperial Japan and Republican China, and between the United States, the Soviet Union, and the People's Republic of China in the post-Cold War period.

Now, these are major contributing factors to why Korea is a divided country. The interests of the Korean people have been secondary considerations in this great power politics, giving rise to a phrase; Korea has been a shrimp among competing whales.

I think it is fair to say, however, that Korea is no longer a shrimp. You could define it as a lobster, or maybe as a great white shark. I think South Korea is much more in the position that West Germany was in at the time of unification. It has gotten real heft, and if you look at the unification process, in each case of the two that have been unified, one of the parties was the driver in the unification process, and the other, essentially, had to accept what emerged. If we think about Korean unification, you would have to conclude that South Korea was clearly in a stronger position to be in the driver's seat in any type of unification scenario. But again, that does not answer the question of whether it will be peaceful or whether it will not be peaceful, and whether it will contribute to stability or contribute to instability in Northeast Asia.

Given the fact that the Korean people themselves have been the principal victims of the great power rivalries in which Korea has been either a prawn or a pawn, depending on which term of speech you want to use, it's clearly desirable for Korean unification to give rise to new circumstances in Northeast Asia, marked by stability and opportunities for economic development and prosperity. Is that an impossible goal? The answer is no. German unification was seen to have, in many ways, contributed to that. But you could also argue that German unification created circumstances in Europe which looked like a dream outcome for 20 years, and, all of a sudden, we're beginning to see the potential for new conflict, emerging from the circumstances that were created by the collapse of the Soviet empire. In other words, we don't want that pattern to repeat itself for Northeast Asia. It's frankly too dangerous, and we have to worry about it. This is not going to be an issue left entirely to the interests of the Koreans themselves. Great powers are still great powers. Japanese interests, Chinese interests, Russian interests, and American interests are all going to be factors in unification, not simply the wills and desires of the Korean people themselves, important as those are.

From Japan's standpoint, it's unacceptable from a security standpoint for a unified Korean peninsula to have the potential to drift into China's sphere of influence. And from

China's standpoint, it's unacceptable to have a unified Korean peninsula that could be used as a great power platform for threats against China. So, how do you compromise those two types of considerations? I think President Park and her Dresden speech wisely referred to perhaps we need some type of a cooperation and security system created in Northeast Asia that could address these types of issues. I think that is a likely consideration, but the question is, are current security arrangements in Northeast Asia compatible with the type of new security and cooperation system that would have to emerge? And, if so, how do you handle that transition? Once again, great power interests are clearly an important consideration.

We often talk about the law of unintended consequences, but there is also the law of unexpected consequences. The two are not the same. An unintended consequence may be something that you knew would happen, but it wasn't the real reason you did what you did. An unexpected consequence is something you had not anticipated. It is very important to try to anticipate the potential consequences of Korean unification. One of those, I would point out, is that Korean unification would leave China as the last country that is un-unified. My judgment, as someone who has lived a long time in China, is that is going to change the psychology of the Chinese people, and it's something we need to bear in mind. Domestic pressures in China to complete Chinese unification are going to increase if Korean unification takes place. The problem is, while remarkable common interests have been created across the Taiwan Strait between the mainland and Taiwan, they have lessened support for dangerous independence scenarios on the part of Taiwan. They have greatly increased support for maintenance of the status quo in Taiwan, but they have not increased support in Taiwan for reunification with the mainland. If unification of Korea were to create pressures from China to unify under conditions where Taiwan has not yet moved to a willingness to accept a unification outcome, we could have a very dangerous situation in East Asia. And this could be an unintended consequence of Korean unification, but it shouldn't necessarily be an unexpected consequence. In other words, we need to think about these considerations, because if you look at history, things occur, which then create follow-on consequences, and in many cases, those follow-on consequences are very negative. That is not what we would like to happen in the case of Korean unification.

Is Korean unification compatible with the interests of the major powers? In my judgment, it is. Kurt Campbell, I think, referred to this. The United States has officially endorsed the concept of unification. China, in my judgment, cannot afford to impose unification because it is not yet unified itself, and it would simply be untenable for China to impose the unification of a divided country. But it will want the circumstances to be compatible with Chinese interests. Russia, I don't think, has any reason to want to oppose Korean unification. So, the issue is not really great power opposition to unification. The issue lies in the fact that has been referred to by our presenters, which is, the developments since World War II have created two different types of Korea that are far more different in their essences than was the division between the two parts of Germany, which when unification took place in Germany, actually was very, very difficult to overcome. It wasn't just the economic imbalances. It was the whole different attitudes of mind that had been generated on the part of people who had grown up under a social system and those who had grown up under

a free, open system. You have those same types of differences embedded in the Korean peninsula, and this is one of the issues that you need the cooperation of the great powers, in order to overcome those types of obstacles in bringing about the unification that ought to serve the interests of all of the interested parties.

Dr. Kim Yung Ho, Sungshin Women's University

I want to extend my thanks to the organizers of this conference. It is an honor to be a member of such a distinguished panel. There is no surprise left when it comes to the last of the discussions of the last panel, but I will try. I agree with what Dr. Campbell said in his illuminating presentation. Especially, I agree with what he said about the emerging consensus that Korean unification not only benefits the Korean people but also all the countries in the region and, as Dr. Kim said, the international community. I also agree with what Dr. Kim laid out on the effect of Korean reunification. Especially, I liked Dr. Kim's conclusion that the beneficiaries and the scope of Korean unification benefits are much broader than are generally thought. So, I'm going to offer some comments to elaborate on the important points made by the two previous presenters.

The first point I want to make is that Korean unification should be pursued and achieved in the geopolitical context of emerging U.S.-Chinese global hegemonic competition. I think it is very important to understand this point because U.S.-Chinese hegemonic competition is going to have a very significant impact on the new international order in the twenty-first century. The Korean peninsula was divided as a result of the postwar global hegemonic competition between the United States and the Soviet Union. Now the Soviet Union is gone, and a rising China is emerging as the next competitor of the United States in the second hegemonic competition in the twenty-first century. So, I think we need to understand the current geostrategic environment when we approach the Korean unification issue from a global perspective. As Ambassador Roy explained to us in detail in his discussion, historically the Korean peninsula became the battleground for regional and global hegemonic competitions whenever such conflicts took place among great powers. So, peaceful Korean unification can be achieved only when we can prevent the Korean peninsula from falling under the influence of regional and global power rivalry, particularly as we face the U.S.-Chinese hegemonic competition emerging in Asia. At today's conference, I heard that the Park Geun-hye government has focused on the economic benefits and aspects of Korean unification, but I think it is not true. President Park Geun-hye and her government have also paid attention to the geopolitical dimension as well as the economic dimension of Korean unification. President Park Geun-hye proposed the Trust-Building Process on the Korean peninsula as a policy measure to achieve peaceful unification. Her government also proposed the Northeast Asia Peace and Cooperation Initiative. These sets of policies show us that the current Korean government has also considered the geopolitical aspects of the Korean unification.

The next question is what kind of policy options can South Korea take in this geopolitical context to achieve peaceful unification. My suggestion is that Koreans need to take a

realistic approach based on the historical lessons they can draw from the dealings with great powers in the past. As Ambassador Roy explained to us in detail, Koreans experienced many different power systems in the past. These examples include the Chinese military hegemony, the Japanese imperial hegemony, and the Soviet communist hegemony, and, finally, the American liberal hegemony. So, according to the experience of the Korean people, I think among these different hegemonies, American hegemony was the most beneficial to Koreans in terms of security, political, and economic development. Also, the Republic of Korea was on the winning side of the Cold War, the first global hegemonic competition, with the help of the U.S.-ROK alliance.

I think maintaining the U.S.-ROK alliance and upgrading this alliance in the twenty-first century is critical for peaceful Korean unification and for peace and prosperity in the region. To approach the issue of Korean unification, we need to understand the current U.S. rebalancing strategy, especially whether this is in the South Korean national interest or not. My answer is that it is in the South Korean national interest because this new strategy will strengthen the U.S.-ROK alliance and also deepen diplomatic and military and economic cooperation between the two countries. The Obama administration's rebalancing to Asia is a clear expression of the U.S. intention to continue to assume a role of balance in the region. A continued U.S. presence and security commitment in the region is pivotal and indispensable to security and prosperity in the region. The U.S.-ROK alliance and the U.S.-Japan alliance are the two most important pillars to support the U.S. presence in the region. In this respect, I believe it is very important to restore ROK-Japanese relations. I think it is not prudent to give North Korea maneuvering room to drive a wedge between Korea and Japan. A good ROK-Japanese relationship is very important for the resolution of the North Korean nuclear issue and peaceful Korean unification.

To approach Korean unification from a global perspective, I think I need to briefly mention China's new strategy. Mr. Johnson, in the previous panel, mentioned China's new strategy as a new type of great power relations. In my view, from the South Korean perspective, the denuclearization of North Korea is an important litmus test for the successful development of China's new type of great power relationship strategy. If China does not play a constructive role in resolving the North Korean nuclear issue, credibility of China's new strategy will be in doubt. I think it is not enough for China to use its diplomacy to hold the Six-Party Talks. I think China needs to do more to resolve the North Korean nuclear problem. During today's conference, China specialists mentioned China's policy on Korean unification, called "delayed unification." I interpret China's intention of delayed unification as an attempt to extend the buffer area to South Korea, including North Korea. I think China's attempt to extend the buffer area to South Korea cannot be successful, and this attempt would also be detrimental to peace and prosperity in the region.

Finally, I want to mention the North Korean nuclear issue, which is the most serious impediment to Korean peaceful reunification. North Korea's nuclear program poses three very serious problems. The first one is the transfer of nuclear materials and technology to other countries and terrorist groups. The second one is the nuclear domino effect. The

third one is a nuclear war on the Korean peninsula. Because of the limited time, I will just briefly mention the nuclear domino effect.

The United States is very concerned about the domino effect because it will undermine the NPT regime, which is one of the most important cornerstones of American foreign policy. To prevent this domino effect in Asia, the U.S. provides a nuclear umbrella to Japan and the ROK in the form of extended nuclear deterrence. However, for South Koreans, North Korea's nuclear weapon is a cash in hand to be used anytime. In contrast, extended nuclear deterrence is a check which takes time to be cashed in. So, when North Korea's de facto nuclear status becomes a reality, this domino effect cannot totally be excluded in South Korea for domestic political reasons. To avoid this domino effect, the U.S. and ROK need to find a way to enhance the independent, conventional war-fighting capabilities of the ROK army. In this respect, the U.S. and ROK need to consider signing a defense trade cooperation treaty. The U.S. signed a defense trade cooperation treaty with Great Britain and Australia. These treaties can be used as a model for the future U.S.-ROK defense trade treaty. This treaty will enhance the interoperability between the military forces of the two countries and will also enable the two countries to deal with the conventional and nuclear threats from North Korea. I think the treaty would also prevent the domino effect from taking place in South Korea by making clear, and reaffirming, the U.S. commitment to the security of South Korea.

CLOSING REMARKS

Dr. Victor Cha, Center for Strategic and International Studies

To close today's events, let me first thank all of the panelists for joining us. They are all very busy individuals, and some of them have come a very long way to join us. Over the course of the day, we have had a lot of different discussions on unification from different angles. Let me offer, in closing, five quick points about unification as a bonanza and thinking about it in the future.

The first is a historical point. We talk a lot about unification, but one thing to remember is that division of the Korean peninsula is a historical aberration. That when the history of this is written, it will be remembered as a 60- or 70-year period when South Korea grew dramatically and became a liberal democracy and a beacon of advanced industrial society in this part of the world in East Asia. It will be remembered as that, but it will also be remembered as a very aberrant period in Korean history because the actual history of Korea is one of a unified nation.

The second is a political point. It was mentioned in some of the panels that when we think about unification politically we should not think about it as being an extreme ideological point. Questions of unification and of North Korean human rights have always been pushed to the far right end of the spectrum. President Park's speech and today's discussion show that it isn't something that is solely the preoccupation of one particular part of the ideological spectrum. It is increasingly moving much more toward the middle ground of our discussions on policy and politics.

Third, this is in part inspired by something Ambassador Roy said, when we think about unification and security, we do not want the solution to become the problem. In other words, if we think of unification as the solution, we have to work extra hard to ensure that the unintended consequences, the negative externalities, do not come back to create new problems. We don't want eighteenth-century balance of power politics to come to East Asia after unification. We want twenty-first-century security community to be the way we think about Asia.

Fourth, on economics, we had a lot of discussion about profit, margins, and all the economics that come with unification. That is a very important part of thinking about

unification, but it's not just about profit. It's also about overall growth and overall reduction of poverty. We know that the South Korean economy will take a hit when unification comes. In the longer-term perspective, growth on the peninsula will accelerate dramatically. This was Marcus Noland's point from the first session. Most importantly, poverty reduction of the entire Korean peninsula will be dramatic.

That leads to the fifth and last point. Although we talk about unification as a bonanza for Americans, South Koreans, Japanese, Chinese, or others, the biggest winner from reunification is going to be the North Korean people. They will be the biggest winners, and that needs to be communicated and conveyed to them.

Let me thank our organizers and sponsors for this event, the National Research Council for Economics, Humanities, and Social Sciences, the Korea Institute for International Economic Policy, the Korea Institute for National Unification, and the Korea Institute for Industrial Economics and Trade. I want to especially thank two of our members of the Korean delegation who did not join us onstage, but did participate: Dr. Chun Seongwhun from the Blue House, as well as the president of the Korean Political Science Association Dr. Kim Young Jae.

Appendix 1: Conference Agenda

0900 INTRODUCTORY AND WELCOMING REMARKS

Dr. Victor Cha, CSIS

Dr. Kang Eun Bong, NRCS

0915 CONGRATULATORY REMARKS

His Excellency Ambassador Ahn Ho-Young, Republic of Korea Ambassador to the United States

SESSION ONE: ECONOMICS OF KOREAN UNIFICATION

0925 PANEL A: THE ECONOMIC SYNERGY EFFECT OF UNIFICATION OF THE KOREAN PENINSULA

Moderator: Dr. Victor Cha, CSIS

Presenters: Dr. Marcus Noland, Peterson Institute for International Economics
Dr. Kim Dongsoo, KIET

Discussants: Dr. Jeong Hyung-Gon, KIEP
Mr. Matthew Goodman, CSIS

1035 COFFEE BREAK

1045 PANEL B: OPENING FOR BUSINESS: FOREIGN INVESTMENT AFTER UNIFICATION

Moderator: Dr. Victor Cha, CSIS

Presenters: Mr. Thomas Byrne, Moody's Investors Service
Mr. William Brown, ODNI/NIM-East Asia

Discussants: Dr. Sue Mi Terry, East Asian Institute, Columbia University
Dr. Park Hyeong-Jung, KINU

1200 LUNCHEON ADDRESS

Mr. Sydney Seiler, Special Envoy for Six-Party Talks, U.S. Department of State

SESSION TWO: KOREAN UNIFICATION AND THE SECURITY ENVIRONMENT

1300 PANEL C: THE NORTHEAST ASIAN PERSPECTIVE

Moderator: Dr. Victor Cha, CSIS

Presenters: Dr. Michael Green, CSIS
Dr. Park Ihn-hwi, Ewha Womans University

Discussants: Mr. Christopher Johnson, CSIS
Mr. Bruce Klingner, Heritage Foundation

1430 PANEL D: GLOBAL PERSPECTIVES

Moderator: Dr. Victor Cha, CSIS

Presenters: Dr. Kurt Campbell, The Asia Group
Dr. Kim Jaechun, Sogang University

Discussants: Ambassador Stapleton Roy, Wilson Center
Dr. Kim Yung Ho, Sungshin Women's University

1545 CLOSING REMARKS

Dr. Victor Cha, CSIS

1600 ADJOURNMENT

Appendix 2: Media Participants

David Brunnstrom, Thomson Reuters

Byunggun Chae, JoongAng Ilbo/JTBC

Jae-soon Chang, Yonhap News

Weihua Chen, China Daily

Hans Cho, JoongAng Ilbo/JTBC

Xianyang Han Guangming, Daily Washington Bureau

Toshiyuki Hayakawa, Sekai Nippo

Tomoko Horie, Nippon TV

Takashi Hotta, TV Asahi

Tomotaro Inoue, Kyodo News

Bo Ra Joo, JoonAng Ilbo/JTBC

Yangwoo Kang, Munhwa Broadcasting Corporation (MBC)

Lauren Kim, Yonhap News

Mikyung Kim, Seoul Shinmun Daily

Sejin Kim, Yonhap News Agency

William Kim, Voice of America

Kang Duk Lee, Korean Broadcasting System (KBS)

Seung Han Lee, Dong-A Ilbo

Sang Ki Lim, MBC

Ping Liu, China Youth Daily
Yoshihiro Makino, The Asahi Shimbun
Michael Marshall, United Press International
Toshiyuki Matsuyama, Fuji TV
Michiko Morimoto, Yonhap News
Michael Mosettig, PBS Online NewsHour

Genie Nguyen, Voice of Vietnamese Americans
Edward Park, Seoul Broadcasting System (SBS)
Jung Woo Park, Radio Free Asia
Hyodong Roh, Yonhap News
Min Sun Shim, Seoul Broadcasting System (SBS)
Jemin Son, Kyunghyang Daily
So Taira, Tokyo Broadcasting System
Miho Takashima, Tokyo Broadcasting System
Elliot Waldman, Tokyo Broadcasting System
Kitty Wang, New Tang Dynasty Television
Son Taek Wang, YTN

Wei Wu, New Tang Dynasty Television
Xiaoyang Xia, Wen Hui Daily
Yifan Xu, China Press
Tatsuya Yamashita, TV Asahi
Sungwon Yang, Radio Free Asia
Jumpei Yoshioka, Nippon Hoso Kyokai (NHK)
James Yu, KBS

Appendix 3: Participant Biographies

INTRODUCTORY AND WELCOMING REMARKS

Dr. Victor Cha, Center for Strategic and International Studies

Victor Cha joined CSIS in May 2009 as a senior adviser and the inaugural holder of the Korea Chair. He is also director of Asian studies and holds the D. S. Song-KF Chair in the Department of Government and School of Foreign Service at Georgetown University. From 2004 to 2007, he served as director for Asian affairs at the White House on the National Security Council, where he was responsible primarily for Japan, the Korean peninsula, Australia/New Zealand, and Pacific Island nation affairs. Dr. Cha was also the deputy head of delegation for the United States at the Six-Party Talks in Beijing and received two Outstanding Service Commendations during his tenure at the NSC. He is a former John M. Olin National Security Fellow at Harvard University, a two-time Fulbright Scholar, and a Hoover National Fellow, CISAC Fellow, and William J. Perry Fellow at Stanford University. He holds a BA, an MIA, and a PhD from Columbia University, as well as an MA from the University of Oxford.

Dr. Kang Eun Bong, National Research Council for Economics, Humanities, and Social Sciences

Kang Eun Bong is the secretary-general of the National Research Council for Economics, Humanities, and Social Sciences (NRCS), the governing institution of the 23 national think tanks of Korea. Prior to joining the NRCS in March 2014, he worked in the Korean government for 31 years. He served as the deputy minister for regulatory reform, deputy minister for government policy analysis and evaluation, deputy minister for the Jeju Special Province Policy of the prime minister's office. He also served as deputy secretary for public relations of the Office of the President. He graduated from Seoul National University (SNU), and received master's degrees from SNU and University of California at Berkeley, United States. He obtained a doctorate degree from Dong-a University in Korea.

CONGRATULATORY REMARKS

His Excellency Ambassador Ahn Ho-Young, Republic of Korea Ambassador to the United States

Ambassador Ahn Ho-Young is Ambassador Extraordinary and Plenipotentiary of the Republic of Korea to the United States of America. Ambassador Ahn joined the Ministry of Foreign Affairs in 1978 and has held a number of postings throughout his career, most recently as first vice minister of Foreign Affairs and Trade at the Ministry of Foreign Affairs. Prior to this, Ambassador Ahn served as Korea's ambassador to Belgium and as head of

the Korean mission to the European Union. He was appointed deputy minister for trade at the Ministry of Foreign Affairs and Trade (MOFAT) from 2008 to 2011, during which time he also was the president's Sherpa for the G-20 and G8 outreach meetings. Ambassador Ahn also has served as director general of the Multilateral Trade Bureau and as director of the International Trade Law Division in the Office of the Minister for Trade. He was director-general of the Economic Cooperation Bureau at the Ministry of Finance and Economy from 2004 to 2006, and also taught as an adjunct professor of law and diplomacy at Korea University from 2006 to 2008. Ambassador Ahn is a graduate of Seoul National University and the Edmund A. Walsh School of Foreign Service at Georgetown University in Washington, D.C.

Session One: Economics of Korean Unification

PANEL A: THE ECONOMIC SYNERGY EFFECT OF UNIFICATION OF THE KOREAN PENINSULA

Dr. Marcus Noland, Peterson Institute for International Economics

Marcus Noland is executive vice president and director of studies at the Peterson Institute for International Economics and a senior fellow at the East-West Center. He was a senior economist at the Council of Economic Advisers in the Executive Office of the President of the United States, and has held research or teaching positions at Yale University, the Johns Hopkins University, the University of Southern California, Tokyo University, Saitama University (now the National Graduate Institute for Policy Studies), the University of Ghana, and the Korea Development Institute. He has authored, coauthored, or edited numerous books, including *Famine in North Korea: Markets, Aid, and Reform* and *Witness to Transformation: Refugee Insights into North Korea* (both coauthored with Stephan Haggard). His book *Avoiding the Apocalypse: The Future of the Two Koreas* won the prestigious Ohira Memorial Prize. His latest book, coauthored with Cullen Hendix, is *Confronting the Curse: The Economics and Geopolitics of Natural Resource Governance*.

Dr. Kim Dongsoo, Korean Institute for Industrial Economics and Trade

Dongsoo Kim has been working as the director of the Research Planning and Coordination Division in the Korean Institute for Industrial Economics and Trade (KIET) since June 2013. After joining KIET in 2007, he focused on research for regional development in Korea in the Regional Development Center. He conducted various researches such as migration, comparative analysis between cities, statistical analysis, regional development policies, because of the sensitive social issue of regional disparity in Korea. He also has served as the head of regional police team since 2011, until he became a director. He earned a BS degree in mathematics from Yonsei University in Korea and an MBA degree from the George Washington University. Then he expanded his academic career with economics and got an MA degree from Yale University. Finally, he received a PhD degree from the Economics Department of the George Washington University with the major of urban and regional economics.

Dr. Jeong Hyung-Gon, Korea Institute for International Economic Policy

Hyung-Gon Jeong is vice president of the Korea Institute for International Economic Policy (KIEP). He graduated from the University of Bonn and holds a PhD in economics from the

University of Cologne. He was a Fulbright Visiting scholar at the Johns Hopkins University, School of Advanced International Studies (SAIS). He also serves as consultant at the Development Advisory Committee, Incheon Free Economic Zone; Office of Minister for Special Affairs; the Advisory Committee of Free Economic Zone, Ministry Knowledge Economy. He is also a member of the standing committee at the National Unification Advisory Council, member of the Evaluation Board of a Proposed Site for Free Economic Zone, Ministry of Trade, Industry & Energy, and member of the Evaluation Committee at the Ministry of Unification. He has participated in the Korea-China-Japan Joint Research Project (2011–2012) as a research fellow, conducting joint research projects with IDE-JETRO from Japan and DRC from China. He also served as consultant of special economic zones to the governments of Vietnam, Uzbekistan, and Kazakhstan as a part of Korean knowledge-sharing projects. Before joining KIEP, Dr. Jeong was director general at the Office of Strategy Planning, National Security Council (NSC), the Blue House, from June 2003 to December 2005.

Mr. Matthew Goodman, Center for Strategic and International Studies

Matthew Goodman holds the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies (CSIS). The Simon Chair examines current issues in international economic policy, with a particular focus on the Asia Pacific. Previously, Goodman was White House coordinator for Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit (EAS). He also served as director for international economics on the National Security Council staff and was responsible for the G-20, G-8, and other international forums. Prior to joining the White House, Goodman was senior adviser to the undersecretary for economic, energy, and agricultural affairs at the U.S. Department of State. Before joining the Obama administration in August 2009, he worked for five years at Albright Stonebridge Group, a global business advisory firm based in Washington, D.C., where he was managing director in charge of the firm's Asia practice. From 2002 to 2004, he served at the White House as director for Asian economic affairs on the staff of the National Security Council. Mr. Goodman holds an MA in international relations from the Johns Hopkins School of Advanced International Studies and a BS in economics from the London School of Economics and Political Science.

Session One: Economics of Korean Unification

PANEL B: OPENING FOR BUSINESS: FOREIGN INVESTMENT AFTER UNIFICATION

Mr. Thomas Byrne, Moody's Investors Service

Tom Byrne (senior vice president/manager) is Moody's spokesperson and director of analysis for the Sovereign Risk Group in the Asia-Pacific and Middle East regions. In addition, he is the lead sovereign analyst for China, Japan, and Korea. Tom was also the codirector of the 2013 update of the Moody's Sovereign Bond Methodology, and is a frequent contributor to Moody's research publications. Prior to working at Moody's, he worked in the Institute of International Finance in Washington, D.C., where for much of his tenure he was senior economist in the Asia-Pacific Department, after having begun his career as an economist in the Africa–Middle East Department. Tom has an MA degree in international relations

with an emphasis on economics from the Johns Hopkins School of Advanced International Studies, after having served in South Korea as a U.S. Peace Corps volunteer.

Mr. William Brown, ODNI/NIM-East Asia

William Brown is senior adviser to the national intelligence manager for East Asia and the Koreas in the Office of the Director of National Intelligence. Mr. Brown's remarks, herein, are his own and do not necessarily reflect those of the director of national intelligence or the U.S. government.

Dr. Sue Mi Terry, East Asian Institute, Columbia University

Sue Mi Terry is a senior research scholar at the Columbia University Weatherhead East Asian Institute, a position she has held since 2011. Her research focuses on East Asia, particularly Northeast Asia security and U.S.–Northeast Asia Relations, North Korea's evolving nuclear strategy and potential for instability, and the politics and foreign policy of South Korea. She is also the founder of Peninsula Strategies, Inc., an advisory firm specializing in Korean issues with both government and corporate clients. In 2010–2011, she served as the national intelligence fellow in the David Rockefeller Studies Program at the Council on Foreign Relations in New York. Before coming to New York, Dr. Terry served as a career intelligence officer. She served as deputy national intelligence officer for East Asia at the National Intelligence Council (2009 to 2010) in the Office of the Director of National Intelligence. She also served as the director for Korea, Japan, and Oceanic Affairs at the National Security Council (2008 to 2009) during the George W. Bush and Barack Obama administrations. Earlier in her career, she served as a senior analyst on Korean issues at the Directorate of Intelligence, the Central Intelligence Agency (2001–2008). Dr. Terry holds a PhD in international relations (2001) and a master of arts in international law and diplomacy (1998) from the Fletcher School of Law and Diplomacy, Tufts University. She also holds a bachelor of arts in political science from New York University (1993).

Dr. Park Hyeong-Jung, Korea Institute for National Unification

Park, Hyeong-Jung is a senior research fellow at the Korea Institute for National Unification (KINU). His main research covers the politics and economy of North Korea, inter-Korean relations, the East Asia policy of the United States, comparative dictatorships, and development assistance. He received his PhD in political science from Philipps University in Marburg, Germany. He has been active as a policy adviser to the government as well as humanitarian and human rights NGOs and as a commentator for Korean and foreign media. He was an Eisenhower Fellow in 2002 and a visiting fellow at the Center for East Asia Policy Studies at Brookings from 2006 to 2007. He has written a number of books and research and policy papers in Korean and English. His recent articles in English include “North Korea's New Doctrine of Nuclear Strategy and South Korea Policy since 2012” (2014); “The Demotion of Choe Ryong Hae” (2014); “The Purge of Jang Song-taek and the Competition for Regency during the Power Succession” (2013); “The Ups and Downs of the Military's Influence during the Period of Kim Jong-un's Power Consolidation” (2013); “Fiscal Fragmentation and Economic Changes in North Korea” (2013).

LUNCHEON ADDRESS

Mr. Sydney Seiler, Special Envoy for Six-Party Talks, U.S. Department of State

Sydney Seiler is the U.S. Department of State special envoy for the Six-Party Talks. Previously, he served as director for Korea in the White House National Security Council from May 2011 August 2014. He is considered the most authoritative expert on political, cultural, and social issues on both Koreas in the Obama administration. For the past 30 years, he has worked in multiple intelligence disciplines, including the National Security Agency, the Directorate of Intelligence and Directorate of Operations in the Central Intelligence Agency, and the Foreign Broadcast Information Service. He spent 12 of those years in South Korea. He previously served as deputy director of national intelligence manager for North Korea, having joined the office when it was established in January 2006. Prior to the DNI, he served with the National Clandestine Service of the CIA. He is the author of the book *Kim Il Song 1941–1948: The Creation of a Legend, the Building of a Regime*. He received his MA in Korean studies from Yonsei University's Graduate School of International Studies. Mr. Seiler is a graduate of the Korean-language programs of the Defense Language Institute and Yonsei University. Mr. Seiler's remarks, herein, are an edited transcript, published with permission.

Session Two: Korean Unification and the Security Environment

PANEL C: THE NORTHEAST ASIAN PERSPECTIVE

Dr. Michael Green, Center for Strategic and International Studies

Michael Green is senior vice president for Asia and Japan Chair at the Center for Strategic and International Studies and an associate professor at the Edmund A. Walsh School of Foreign Service at Georgetown University. He served on the staff of the National Security Council from 2001 to 2005, first as the director for Asian Affairs and then as the special assistant to the president for national security affairs and senior director for Asia. Before joining the NSC staff, he was the senior fellow for East Asian security at the Council on Foreign Relations, the director of the Edwin O. Reischauer Center and the Foreign Policy Institute, and an assistant professor at the Paul H. Nitze School of Advanced International Studies at Johns Hopkins University, a research staff member at the Institute for Defense Analyses, and the senior adviser on Asia in the Office of the Secretary of Defense. He also worked in Japan on the staff of a member of the National Diet. He received his MA and PhD from SAIS and did additional graduate and postgraduate research at Tokyo University and the Massachusetts Institute of Technology. He received his BA in history from Kenyon College.

Dr. Park Ihn-hwi, Ewha Womans University

Park Ihn-hwi is a professor of the division of international studies at Ewha Womans University. Professor Park's area of expertise includes international security, U.S. foreign policy, and Northeast Asian international relations. He is currently a member of the Advisory Committee of the Ministry of Unification, and he holds the same position in the Ministry of Foreign Affairs and the Ministry of National Defense. He was a visiting scholar at the Jackson

School of International Studies of the University of Washington in 2010. He also has been a research fellow for Korea-U.S. Exchange Council (2001–2004). Professor Park has written many articles in leading journals, including *International Journal of Korean Unification Studies*, *Korea Journal of Defense Analysis*, and *Global Economic Review*, among others. He received his PhD in the area of international politics from Northwestern University in 1999.

Mr. Christopher Johnson, Center for Strategic and International Studies

Christopher Johnson is a senior adviser and holds the Freeman Chair in China Studies at CSIS. An accomplished Asian affairs specialist, Mr. Johnson spent nearly two decades serving in the U.S. government's intelligence and foreign affairs communities and has extensive experience analyzing and working in Asia on a diverse set of country-specific and transnational issues. Mr. Johnson worked as a senior China analyst at the Central Intelligence Agency, where he played a key role in the analytic support to policymakers during the 1996 Taiwan Strait missile crisis, the 1999 accidental bombing of the Chinese embassy in Belgrade, the downing of a U.S. reconnaissance aircraft on Hainan Island in 2001, and the SARS epidemic in 2003. Mr. Johnson served as an intelligence liaison to two secretaries of state and their deputies on worldwide security issues and in 2011 was awarded the U.S. Department of State's Superior Honor Award for outstanding support to the secretary and her senior staff. He also served abroad in a field site in Southeast Asia. Mr. Johnson graduated summa cum laude with bachelor's degrees in history and political science from the University of California at San Diego (1994) and received his MA in security policy studies from the George Washington University (1996).

Mr. Bruce Klingner, Heritage Foundation

Bruce Klingner is the senior research fellow for Northeast Asia in the Heritage Foundation's Asian Studies Center. Klingner's analysis and writing about North Korea, South Korea, Japan, and related issues are informed by his 20 years working at the Central Intelligence Agency and the Defense Intelligence Agency. From 1996 to 2001, Klingner was the CIA's deputy division chief for Korea, responsible for the analysis of political, military, economic, and leadership issues for the president of the United States and other senior U.S. policymakers. In 1993–1994, he was the chief of CIA's Korea branch, which analyzed military developments during a nuclear crisis with North Korea. Klingner, who joined Heritage in 2007, has testified before the House Foreign Affairs Committee, the Senate Select Committee on Intelligence, and the House Permanent Select Committee on Intelligence. He is a frequent commentator in U.S. and foreign media, including television news programs for ABC, CBS, Fox, CNN, MSNBC, BBC, Bloomberg, and C-Span. His articles and commentary have appeared in major American publications such as *The New York Times*, *The Washington Post*, *The Wall Street Journal*, *Los Angeles Times*, *USA Today*, *Christian Science Monitor*, *Newsweek*, and *Fortune*, as well as in overseas outlets such as *Financial Times*, *Chosun Ilbo*, *JoongAng Ilbo*, *Kyodo News*, and *Nikkei Weekly*. Klingner is a distinguished graduate of the National War College, where he received a master's degree in national security strategy in 2002. He also holds a master's degree in strategic intelligence from the Defense Intelligence College and a bachelor's degree in political science from Middlebury College in Vermont. He is active in Korean martial arts, attaining third-degree black belt in taekwondo and first-degree black belt in hapkido and teuk kong moo sool.

Session Two: Korean Unification and the Security Environment

PANEL D: GLOBAL PERSPECTIVES

Dr. Kurt Campbell, The Asia Group

Dr. Kurt Campbell is the founding partner, chairman, and chief executive officer of The Asia Group. From 2009 to 2013, he served as the assistant secretary of state for East Asian and Pacific Affairs, where he is widely credited as being a key architect of the “pivot to Asia.” Previously, Dr. Campbell was the CEO and cofounder of the Center for a New American Security (CNAS) and concurrently served as the director of the Aspen Strategy Group and chairman of the editorial board of the *Washington Quarterly*. He was the senior vice president, director of the International Security Program, and Henry A. Kissinger Chair at the Center for Strategic and International Studies. Dr. Campbell also served as the associate professor of public policy and international relations at the John F. Kennedy School of Government and assistant director of the Center for Science and International Affairs at Harvard University. He previously served in several capacities in government, including as deputy assistant secretary of the White House, and White House fellow at the Department of the Treasury. He was concurrently an officer in the U.S. Navy Reserves, serving on surface ships, on the Joint Chiefs of Staff and in the Chief of Naval Operations Special Strategic Advisory Unit. Dr. Campbell received his BA from the University of California, San Diego, a certificate in music and political philosophy from the University of Erevan in Soviet Armenia, and his PhD in international relations from Brasenose College at Oxford University, where he was a Distinguished Marshall Scholar.

Dr. Kim Jaechun, Sogang University

Jaechun Kim is a political scientist trained at Yale University (MA in international relations; MPhil in political science; PhD in political science). Before joining the Graduate School of International Studies (GSIS) at Sogang University, he worked for Yale University as a lecturer for the Department of Political Science and Yale Center for the International and Area Studies (YCIAS). Currently he is the director of Sogang University’s Institute of International and Area Studies (IIAS). He also served as the dean of Sogang GSIS (2010–2013). Earlier in his career, he had worked for the National Assembly of Korea as legislative assistant and the Bankers Trust Company as credit analyst. He has been advising the Ministry of Foreign Affairs of Korea as a member of the policy advisory board since 2006. His research interests include international relations theory, U.S. foreign policy making, international security and peace, and intelligence policy. His recent publications deal with the ROK-U.S. security alliance, Korea’s role in global governance, the impact of Korean War on the U.S. military policy, and so on. At Sogang, he offers courses on international relations, international security and peace, American politics and American foreign policy, social science research methodology, and so on.

Ambassador Stapleton Roy, Wilson Center

Ambassador J. Stapleton Roy is a Distinguished Scholar and Founding Director Emeritus of the Kissinger Institute on China and the United States at the Woodrow Wilson International

Center for Scholars in Washington, D.C. He was born in China and spent much of his youth there during the upheavals of World War and the communist revolution, where he watched the battle for Shanghai from the roof of the Shanghai American School. He joined the U.S. Foreign Service immediately after graduating from Princeton in 1956, retiring 45 years later with the rank of Career Ambassador, the highest in the service. In 1978 he participated in the secret negotiations that led to the establishment of U.S.-PRC diplomatic relations. During a career focused on East Asia and the Soviet Union, his ambassadorial assignments included Singapore, China, and Indonesia. His final post with the State Department was as assistant secretary for intelligence and research. On retirement he joined Kissinger Associates, Inc., a strategic consulting firm, before joining the Woodrow Wilson International Center for Scholars in September 2008 to head the newly created Kissinger Institute. In 2001 he received Princeton University's Woodrow Wilson Award for Distinguished Public Service.

Dr. Kim Yung Ho, Sungshin Women's University

Yung Ho Kim is a professor, Department of Political Science and Foreign Affairs, Sungshin Women's University in Seoul, Korea. He served as the secretary to the president for unification, Office of the President of the Republic of Korea (2011–2012), and ambassador for human rights, the Republic of Korea (2012–2013). He was the director of the Sungshin Education Program for Free Citizen (2007–2009), which was designed to help North Korean refugee college students to adjust themselves to South Korean society. He worked as the director for the Center for East Asian Studies of Sungshin Women's University, and as the dean of academic and external affairs at Sungshin Women's University. He graduated from the Department of Diplomacy, Seoul National University, and received his PhD from the Department of Government and Foreign Affairs, University of Virginia (1996). He has published books in Korean entitled *Korea and International Politics* (2012) and *The Origins and Development of the Korean War* (2006). He has also published articles on China's new type of great power relationship, U.S. policy to pivot to Asia, and the Northeast Asian version of the Helsinki process.

Observers

Cheon Seongwhun, Republic of Korea Office of National Security

Cheon Seongwhun is secretary to the president for security strategy, Office of National Security, the ROK. Before joining the Office of National Security, he was the president of the Korea Institute for National Unification (KINU). In 2013, he was an expert member of the Transition Team of the 18th President, the ROK. Previously, he was a senior research fellow and the director of the Center for North Korean Studies at the KINU, Seoul, South Korea. He had been an editorial consultant for Radio Free Asia (RFA) from October 2000 to August 2013. He was also a member of policy advisory committees for the Ministry of National Defense, the Ministry of Unification, and crisis management at the Office of the President. He is the recipient of Commendation of President of the Republic of Korea in 2003 and awards for excellent research from the Korea Research Council for Humanities & Social Sciences in 2001, 2002, and 2003. Dr. Cheon graduated from the Department of Industrial Engineering at the Korea University and received his PhD in Management Sciences from the University of Waterloo, Canada.

Dr. Kim Young Jae, Korean Political Science Association

Young Jae Kim is currently the president of the Korean Political Science Association. He is also a professor of the Department of Political Science and International Relations. He also serves as the secretary-general of the New Millennium Forum and a member of the advisory committee in the Ministry of Defense of Korea.

Dr. Ju Jaeuk, National Research Council for Economics, Humanities and Social Sciences

Dr. Ju Jaeuk is a research fellow at National Research Council for Economics, Humanities, and Social Sciences.

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4501 Forbes Boulevard, Lanham, MD 20706
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