
Prelude

The Korean Diaspora and Globalization: Past Contributions and Future Opportunities

Special address by C. FRED BERGSTEN

When Byong Hyon Kwon, South Korea's former ambassador to China and Australia, asked me to help him prepare the conference on which this book is based and to add an economic dimension to it, I responded immediately for three reasons.

First is my deep affection for Ambassador Kwon. In his remarks to the conference, he was very kind in giving me some credit for the development of the Asia-Pacific Economic Cooperation forum (APEC) but in fact he was the one who made APEC a possibility. When South Korea was chairing APEC in 1991, he negotiated something that had never been done before in history. It was the involvement of all "three Chinas," as they then were—the mainland, independent Hong Kong, and Taiwan—in an international institution where all could participate together. This made APEC a real possibility. Ambassador Kwon deserves the credit for whatever APEC has turned into, and I was thrilled to be able to work on it with him.

The second reason for my desire to participate in the conference and contribute to the book was that I personally, and our Institute for International Economics, have devoted enormous attention to South Korea over the years. In fact, in my very first job back in 1964, I was part of a super-secret task force at the US Department of State that worked with the Korean authorities at the time in developing the original

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development strategy that propelled Korea into becoming one of the greatest success stories in economic history. My assignment was to determine the proper exchange rate for the *won* and I therefore prepared a laborious calculation comparing Korea with all the other countries in the region. I came up with an exchange rate that was then adopted as part of the Korean development strategy.

At that time, South Korean exports of manufactured goods totaled about \$10 million. Today, of course, they are far in excess of \$100 billion. I always felt that what we accomplished then, working closely with our Korean friends, was a huge success. I have always been proud of it, and have always been happy to work very closely with friends in Korea on Korea's superb economic development ever since.

The third—and perhaps the most important—reason that I was thrilled to have a chance to participate in *this* event was that I personally reside in the middle of the Korean diaspora. I live just outside Washington in a town in Virginia called Annandale in the midst of Fairfax County. Those of you who know the region know that Annandale is in fact at the heart of the Korean diaspora. In the town of Annandale, there are more than 300 Korean businesses and 37 Korean restaurants. Every church has its Korean component. There is a Seoul Plaza shopping center a mile or so from my house. Korean businesses account for half of all the business revenue that is collected in Annandale.

So, living in the midst of the Korean diaspora, I was delighted to have a chance to analyze it and participate in this historic conference. The conference has tried to bring together many prominent participants in, and observers of, the overseas Korean community to enable us to think together about its future and how it can contribute even more to both South Korea and all the countries in which the overseas Korean population plays such an active and constructive role.

What we tried to do is to organize a conference on the economic aspects of the Korean diaspora, to try to understand it better, to see what its effects have been, and to come up with ideas for how it could even more effectively and more positively contribute both to South Korea and to the world economy as a whole. In doing so, we of course wanted to look at the Korean diaspora in the broader context of globalization.

As historians look back at the past 50 years, and I suspect at the 21st century as well, it will probably be viewed as the golden age of globalization, when countries and people around the world were increasingly integrating their activities and having economic exchanges with each other at a level never seen before in human history. We know that globalization brings huge benefits to all the countries that participate in it. Indeed, it remains true that no country in history has ever succeeded in building a developed and high-income economy without participating in the global economy. Globalization is imperative for economic success.

South Korea is the most dramatic example of that experience. As I mentioned, it went from being a poor, underdeveloped economy, fewer than 40 years ago, to one of the most successful and prosperous economies in the world today. As analysts, economists, and historians look at the evolution of globalization, South Korea is the poster child. It is held up as the example above all of how participation in the global economy can propel a country from poverty to being one of the most successful in the world.

The most dramatic contrast is with North Korea, one of the few countries that has excluded itself from globalization and therefore has remained one of the poorest and least developed societies on the face of the globe. There can be no clearer understanding of the benefits of globalization, and the costs from failing to participate in it, than an analysis of events on this peninsula. It is therefore particularly appropriate to look at how this country and its people have participated so actively in the process during this period.

At the Institute for International Economics, we have done a series of studies looking not just at globalization's macroeconomic effects but also at its impact on individual industries, workers, and communities, and at how it brings them tremendous benefits. We have looked at the United States, which has also globalized rapidly during the past 50 years, and found that workers in globalized industries earn 10 to 15 percent more than workers in industries that are the same in all other respects but have not taken an active role in the world economy. We have looked at how communities benefit enormously from having their workers and companies participate in the world economy.

Moreover, one of the largest elements in globalization, in addition to international trade and international investment, is the flow of individuals—the migration of people from one set of countries to another, the same phenomenon that we discussed and analyzed in this conference in its focus on overseas Koreans and the Korean diaspora. Indeed, there was an earlier historical wave of globalization, in the 19th century, which in fact was led by the flow of people. The huge migration of Europeans—in particular to the United States, Canada, Australia, and South America—was a defining element in that first wave of globalization. Yet we know that—as we now celebrate the 100th anniversary of Korean migration to the rest of the world—Koreans did not participate very much in that first wave of immigration and globalization in the 19th century.

However, the chapters in this book show that Koreans have now been making up for that late start very extensively during the past 50 to 100 years. The flow of Koreans seems small in comparison with the flows of Chinese or Indians or other large diasporas about which we know much more. But the results are in fact different when we analyze the flow of Koreans more closely.

If one looks at the number of Koreans who are involved in this diaspora—about 6 or 7 million, depending on how it is defined—it turns out

to be a much larger share of the Korean population than the flow of overseas Chinese, overseas Indians, or indeed overseas communities from most other countries. The percentage of Koreans who have moved abroad and into the world economy is a much larger share than that of any other large Asian country.

The papers presented at the conference, which now form the chapters of this book, look at the impact of overseas Koreans on both overseas economies and on South Korea. Chapter 4 analyzes the impact of Koreans in the United States on the economy of the United States, and the results are rather stunning. The Korean population in the United States is a small share of the US economy, but it has a disproportionately favorable impact. The Koreans in the United States have a saving rate double that of the average American, something we need badly because our national savings are far too low. Koreans in the United States graduate from college at a rate double that of the average American, providing a highly skilled and highly educated addition to our labor force. The second generation of Koreans has an average income 70 percent above that of the average American, indicating both their attainment and the contribution they make to the US economy. In chapter 4, my colleague Marcus Noland—who is a well-known expert on South Korea, the Korean economy, North Korea, and the outlook for Korean unification—reached the stunning conclusion that if somehow we were able to double the number of Koreans who were participating in the US economy, we would increase the growth rate of per capita income by 0.1 to 0.2 percent.

But the chapters in this book also demonstrate that the benefit from the flow of Koreans to the rest of the world is considerable for South Korea itself. It is a win-win proposition. Another of my colleagues at the Institute, Inbom Choi, concludes in chapter 2 that Koreans in the United States have generated an increase in trade between the United States and South Korea of about 15 to 20 percent, a further important increment to the exchange between our two countries. This obviously adds to economic welfare, social benefits, and personal satisfaction in both countries.

So it is very clear that the Korean diaspora has had a large—indeed, disproportionately large—impact, one that has been extremely favorable on both South Korea and the countries to which the overseas Koreans have gone. But that is all in the past. And so, as we celebrate the 100th anniversary of the Korean diaspora, it is good to look forward and see what the future might have in store and what might happen during the next 100 years as Korea's involvement in the world economy expands even further.

As we look to the future, a key point is that globalization, widespread as it now is, is almost certainly still in its early stages. We know that because studies have been done of how much impact borders still have on national economies. They have looked at the impact that national divisions still have on economic development to try to find out what effects further globalization would have on various countries.

One way to do that is to look at the relationship between the United States and Canada. One might think that the national border between the United States and Canada could not be very important. The two countries basically speak the same language, virtually all Canadians live within 150 miles of the border, and the two countries have had a free trade agreement for more than 20 years. Hence one might think that the border would have very little impact. In fact, however, studies of the relationship that compare trade between US and Canadian cities or US and Canadian states with trade within those countries, across pairs of states or pairs of cities, holding everything else constant except for the border, show that trade within Canada or trade within the United States is still 15 to 20 times as great as trade between the United States and Canada, indicating that the border still has a tremendous impact.

Similar studies have been done for Europe, looking at trade between France and Germany, which have had a common market for 50 years. It turns out that trade within these two countries is still many times as great as trade between them, despite the fact that they are next to each other and that they now have a single economy and even a single currency. The point is that globalization still has a long way to go before the impact of national boundaries has been reduced to the point where international exchange functions largely as national exchange. Therefore, the benefits of the movement of people, and of trade and investment between countries, are still in their infancy, and large future benefits are yet to come.

As I look at both South and North Korea in that future world of increasing globalization—and perhaps look forward a number of decades, not just years—it strikes me that three possible fundamental developments might further enhance the role of Korea in the globalization process and indeed the world economy as a whole. The first, of course, is the inevitable unification of the peninsula. Marcus Noland has studied unification in great depth, and what one sees is that the economic joining of North and South Korea will create a much larger country and, after the inevitable adjustment phase, a much more successful one.

We know that the cost of unifying the Korean peninsula will be very large. Noland estimates that it will cost something like \$600 billion over a 10-year period to integrate the two Koreas, once that process becomes politically possible. But once it occurs, the highly skilled, capital-intensive economy of South Korea will be joined to the underdeveloped, labor-intensive economy of North Korea, bringing together labor and capital in new combinations that will provide the opportunity for substantial further expansion—not just the improvement of North Korea to the South Korean level but also a further impetus to economic growth in South Korea and the peninsula as a whole. And therefore, in the 21st century and this age of increasing globalization, the inevitable unification of the peninsula will further boost the economy of Korea and the role it can play in the world economy.

The second factor will be the increasing convergence between South Korea and the other leading economies in the world, particularly Japan. As we all know, the Japanese economy has been stagnant for the past decade—the “lost decade,” as it is frequently called in Japan. It is encouraging that recent personnel changes in Japan may lead it out of that stagnation, help it undertake needed reforms, and start its economy growing again. But even with these improvements in Japan, it is quite clear that the Korean economy, with its annual growth potential of 5 to perhaps 7 percent, is going to continue expanding much more rapidly than Japan. This situation means that at some point in the 21st century—maybe even within about 20 years if Japan fails to improve its performance, but surely at some point in the next few decades—per capita income in Korea is likely to equal or surpass that in Japan.

In one sense, these equalizing per capita incomes will simply be part of the global convergence process whereby successful developing countries move up the income scale, catch up with the former leaders, and often pass them. But in this part of Asia, given its history, it will be particularly significant for Korea to approach the Japanese standard of living, and possibly even reach it, within the foreseeable future.

Yet that is only the start of that particular story, given the population and demographic changes that are also taking place. The unification of the Korean peninsula will create a country whose current population would be about 70 million. Japan’s population is now about 110 million but it is starting to decline, and many Japanese demographic projections suggest that in the course of the 21st century it will actually be cut in half to something like 60 million, lower than the population of a unified Korea today. Meanwhile, Korea’s population will continue to increase at least modestly. So, sometime in the 21st century, Korea is likely to have a larger population than Japan.

Now put together these two developments: a Korea that has a larger population than Japan, and a Korea whose per capita income is approaching that of Japan, or perhaps even reaching it. The inexorable result of the two would of course be that Korea’s economy would become larger than Japan’s. I say this not to criticize Japan or in any way to denigrate its own economic development two or three decades ago, which was in fact the most remarkable economic success story in history to that time.

But times change. Countries that once were world leaders, like the United Kingdom in the 19th century, drop to a more intermediate position. Countries like Argentina, which in 1930 had the world’s third highest per capita income, drop to much less favorable positions. Countries rise and countries fall. I simply make the comparison between Korea and Japan because of their proximity and the region’s history, and because it dramatizes the role that Korea will be able to play more and more in both the region and the world.

Finally, I point to the third major development that I think will also heavily influence Korea's role in the globalization process in the coming decades: the effort to put in place new institutional arrangements of cooperation among East Asian countries, including free trade and financial agreements among the countries that belong to the Association of Southeast Asian Nations (ASEAN) and those of Northeast Asia—the so-called 10 plus 3. On the financial side, these countries have already concluded the Chiang Mai Initiative, under which the major East Asian countries have agreed to financial cooperation totaling about \$35 billion.

With regard to trade, South Korea and Japan are talking about a free trade agreement. Korea, Japan, and China are studying the possibility of a Northeast Asian free trade agreement. More broadly, the 10 ASEAN countries are actively discussing free trade agreements with the countries of Northeast Asia and even negotiating with some of them.

The form that this movement has taken at the moment, however, strikes me as worrisome for Korea. Therefore, Korea should be sure that it plays an active role in this process to benefit fully from it and avoid being adversely affected.

The form that the Asian regional economic process now seems to be taking comprises two sets of bilateral negotiations: one between the ASEAN countries and China, and the other between the ASEAN countries and Japan. Indeed, China and the ASEAN countries have reached agreement to form a free trade arrangement within 10 years, and they are already talking about implementing its first stages in the near future. Negotiations between Japan and the ASEAN countries are behind the Chinese process, but they are also trying to work out free trade provisions among them.

My fear is that if these ASEAN-China and ASEAN-Japan agreements proceed, Korea could be left out. There would be free trade between China and the Southeast Asians, and between Japan and the Southeast Asians, but not between Korea and that important part of the world, nor between Korea and its economic partners on either side, China and Japan.

Therefore it seems to me that, from a South Korean standpoint, it is critically important to return to the original concept of an East Asia-wide free trade agreement, combining the 10 Southeast Asian countries with the three Northeast Asian countries—China, Japan, and South Korea—in a single unit. This would avoid discrimination within the region, which could otherwise adversely affect Korea.

Regional arrangements of this type clearly have become some of globalization's driving forces during the past decade. They will almost certainly be its major driving forces in the decades ahead. As Korea assumes the larger economic role described above, it would be tragic for Korea, and very unfortunate for the region and the world, if Korea were not centrally involved in the process. I therefore hope that Korea will take up that role and make the full contribution of which it is capable.

All of these developments provide a major opportunity not only for the South Korean economy but also for overseas Koreans. The chapters of this book portray the very positive impact that overseas Koreans already have been having on both the world economy and the countries where they live. The book's chapters also conclude, however, that both overseas Koreans and South Korea itself could do even more to encourage that outcome. The book suggests a number of ways for that to happen. We believe that the book and the conference that led to it are a very promising, encouraging, and creative start for that process and are delighted to have been offered the opportunity by Ambassador Kwon to participate so actively in it.