
Introduction

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This volume contains papers presented at the conference titled “Economic Integration of the Korean Peninsula” held at Airlie House outside of Washington, 5-6 September 1997. The conference had its genesis in concerns expressed by senior US government officials about the dearth of analysis of what future developments on the Korean peninsula could entail. Its goal was to bring together an international group of participants from a variety of professional backgrounds to engage in a focused conversation on the issue of economic integration on the Korean peninsula.

It is obvious that any such conversation must begin with an assessment of the broad set of prospective outcomes on the peninsula, in order to ground the subsequent discussion of policy issues. Thus the conference opened with the presentation of three papers addressing the positive likelihood and normative desirability of three broad alternative outcomes: war, North Korean collapse, and the continuation of a two-state peninsula, which might or might not involve the economic integration of the two states.¹ In the leadoff paper, Kyongmann Jeon argues that the possibility of war on the peninsula must be taken seriously because of its extreme undesirability in normative terms. Yet according to Jeon’s analysis, it is effectively impossible to construct a rational case for a North Korean attack on the South under our common understanding of relative force capabilities. At the same time, we can dismiss neither the possibility

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1. For stylistic simplicity the Democratic Peoples’ Republic of Korea is referred to as “North Korea,” and the Republic of Korea is referred to as “South Korea.”

of irrational or desperate behavior on the part of the North Korean elite, nor miscalculation or misunderstanding of relative force capabilities. Indeed, none of the conference participants could point to convincing evidence that the North Korean elite shared the conference participants' uniform belief that an attack on the South would result in the disappearance of the North Korean state.

The second paper, by Aidan Foster-Carter, argues that while a collapse of the North Korean state is probably inevitable, it is not desirable on normative grounds, because it would be very costly in a variety of ways to the citizenries of both North and South Korea. While harboring no illusions about the nature of the North Korean regime, Foster-Carter urges the South Koreans to adopt a much more proactive and magnanimous stance to head off what he and most other conference participants regarded as an undesirable outcome.

In the third paper, Scott Snyder argues that the continued existence of North Korea is a feasible outcome, largely because of the interests of neighboring countries in maintaining it as a viable state. In Snyder's view, North Korean politics are essentially sclerotic; more extensive engagement with the North will create fissures within the North Korean polity and hasten internal change in desirable directions. While his analysis of the surrounding countries' interests was widely accepted, there was less consensus about either the capacity of the North Korean regime to manage change or the ability of foreign powers to keep North Korea afloat even if they so desire.

As the discussion proceeded, it became clear that in order to focus discussion it would be useful to have some notion of the participants' subjective appraisal of the likelihood of alternative outcomes. In the end, a poll was taken in which participants were asked to assess the likelihood of four alternative outcomes occurring five years hence. The four alternatives were continuation of the status quo/"hard" regime in North Korea; a reformist "soft" regime in Pyongyang; North Korea under administration by outsiders, such as a UN protectorate, absorption by the South, and so on; and finally, no functioning central government in North Korea: that is, civil war, warlordism, and the like.

Thirty-one conference attendees participated in this poll. The mean subjective probability assessments, along with the maximum and minimum assessments by individual respondents, are reported in table 1. The results of the poll were striking in a number of respects. Broadly speaking, as a group the participants attached similar probability weights to maintenance of the status quo, reform, and collapse, with reform having the single biggest probability weight. Nevertheless there was enormous divergence in the forecasts of individual respondents: while the group as a whole thought that reform was the most likely outcome, at least one participant dismissed this possibility out of hand. Similarly, continuation of the status quo, reform, and disappearance of the North Korean

Table 1 Likelihood of scenarios for the Korean peninsula, five-year time horizon (percentage likelihood)

Outcome	Mean probability assessment	Maximum	Minimum
"Hard" regime	25	70	5
"Soft" regime	40	80	0
Administration by outsiders	26	60	0
Failed state	9	35	0

Source: Poll of participants at the conference on Economic Integration of the Korean Peninsula sponsored by the Institute for International Economics, Washington, 5-6 September 1997.

state were each regarded as likely outcomes (that is, a more than 50 percent probability of occurring) by at least some respondents. In light of these results, the poll, while revealing, contributed little to narrowing the focus of discussion.

The next session of the conference was given over to the discussion of issues of immediate policy relevance: the food and energy situations in North Korea, as well as the possibility of large-scale population movements. In the paper on food, Heather Smith carefully analyzes data on levels of North Korean food production, consumption, and its composition, comparing current data on consumption in North Korea with the historical experience of both North Korea and other Asian countries. Her analysis raises serious questions about the figures used by a number of international and nongovernment organizations and widely reported in the public discussion of this issue.

In the paper on energy, David F. Von Hippel and Peter Hayes argue that the deal reached under the Agreed Framework, whereby North Korea would suspend its existing nuclear program in return for fuel oil and the provision of less proliferation-facilitating light-water nuclear reactors, is essentially political: it creates a mechanism for North Korea to interact in a constructive fashion with South Korea, the United States, and other participants in the arrangement and will reduce the likelihood of nuclear proliferation. The impact of the deal on the North Korean energy situation is of secondary importance.

In a paper that by its very nature is more scenario-specific, Jeffrey S. Pilkington addresses the possibility of large-scale refugee flows in the Korean context. In this paper he draws a number of lessons for planners from recent experiences elsewhere in the world. One issue that Pilkington's paper does not address is the possibility of cross-border migration in the context of economic integration, a topic that generated an interesting discussion in the next conference session, which was devoted to somewhat longer-run economic issues.

There were four presentations in that session: an overview of the

current economic situation in North Korea by Anthony Michell; a presentation of lessons for Korea from the German experience by Holger Wolf; a discussion of the economic costs and benefits of alternative integration scenarios by Marcus Noland, Sherman Robinson, and Ligang Liu; and a presentation on the possible role of the international financial institutions in the economic rehabilitation of North Korea by Danny Leipziger. (A fifth paper by John McMillan on the lessons for Korea from the Chinese experience was planned, but an emergency prevented McMillan from participating in the conference. Noland briefly summarized an earlier paper by McMillan on this topic in his stead.)

According to Michell, economic conditions vary dramatically across different regions of North Korea. Change is occurring, but it was unclear how much of this represents ad hoc system fraying and how much reflects conscious economic policy decision making by the central government. As a consequence, there was significant disagreement among the participants about whether these changes will prove transitory or permanent. There was a consensus, however, that the physical infrastructure is in severe disrepair, and that the difficulty in movement resulting from the deterioration of the transportation system has probably contributed both to overall economic distress and to regional disparities in conditions and practices.

Wolf then made a lively presentation on the lessons from the German experience. He argues that the conventional view—that the fundamental error in the German unification process was the exchange rate conversion—is mistaken; rather, it was the subsequent wage policy that priced East German labor out of the market.

Noland, Robinson, and Liu then presented an analysis of the macroeconomic implications of alternative integration scenarios, focusing on the roles of cross-border factor movements and on the implications of capital flows from South to North and from the rest of the world into the Korean peninsula for economic performance. Their discussion of the implications of labor migration re-ignited a revealing discussion that had initially been joined in the previous session's consideration of refugee issues; it resurfaced again in the final session of the conference. There were two essential questions: under what terms and conditions would South Korea permit large-scale migration from North to South, and to what extent could the South Korean government halt population inflow if it desired? The conference participants expressed a wide range of views both on the political acceptability of large-scale cross-border migration and on the capacity of the South Korean government to control events.

Leipziger ended the session with a discussion of the potential role of the international financial institutions (IFIs) in the economic rehabilitation of North Korea, drawing on the experiences of the IFIs in Vietnam. Leipziger points out that the IFIs largely reinforce rather than spur policy reforms in client governments, that this process takes years, and that, in

quantitative terms, the capital inflows from the IFIs are likely to be a relatively minor part of the overall picture.

With this, the conference moved on to a final set of issues: what policies should the governments of South Korea and the United States be contemplating in anticipation of economic integration of the Korean peninsula, and how sustainable are those policies in domestic terms? The analysis of Soogil Young, Chang-Jae Lee, and Hyoungsoo Zang assumes a situation in which South Korean authorities effectively control the North (much as German unification was essentially on West German terms). They then lay out a series of recommendations for what policies should be adopted. Among their recommendations are the administration of North Korea as a Special Administrative or Free Trade Zone and the adoption of policies to encourage South Korean entrepreneurs to migrate to the North.

The focus of David Steinberg's paper is different, and he poses a series of important and sensitive questions about the possible implications for South Korean politics and society of greater integration with the North. Among the issues raised are the interrelation of the prospective financial burden arising from unification and the role of the *chaebol* in the peninsular economy, the treatment of demands for restitution and retribution, the extent of local government autonomy, and, ultimately, who gets to write the history of the Korean peninsula. As might have been expected, Steinberg's paper provoked an informative and wide-ranging discussion among the participants.

The final paper of the conference was written by K. A. Namkung. In it, he argues that the common perception of North Korea as a faltering, closed society is fundamentally inaccurate. Rather, North Korea has initiated a policy of internal reform and external engagement. In Namkung's view, the greatest contribution that the United States could make in order to achieve durable peace and stability on the Korean peninsula would be to normalize diplomatic relations and enter into an extensive program of engagement.

While Namkung's thesis is debatable purely on its merits, several participants questioned the political sustainability of his policy prescription in the United States and other democracies. One participant pointed out that resources are fungible, and it would be hard to imagine large-scale resource transfers in the absence of a significant reduction in the military threat posed by the North. Another participant pointed out that without significant internal political reforms in North Korea, including a marked improvement in human rights, it would be difficult to maintain domestic political support for a sustained program of assistance. A third questioned why North Korean propaganda so regularly vilifies countries that are providing it with humanitarian assistance.

This naturally led to a discussion of the feasibility and desirability of tying or conditioning assistance. There was a divergence of opinion on

these issues, but the consensus seemed to be that for internal reasons neither the United States nor China is likely to strongly condition assistance, and that conditionality will effectively be limited to markers such as North Korean participation in the current preliminary discussions regarding the upcoming four-party talks.