Political Union vs. Economic Cooperation

Young Back Choi

The rather sudden unification of Germany in 1990, along with the collapse of socialism in various parts of the world, caused much excitement and urgency about the future of the two Koreas. For a time, estimating the cost of a German-style unification in Korea was a growth industry. But the gradual realization of the costs and difficulties involved in unification had a sobering effect on the initial excitement of a unified Korea. In addition, the 1997 financial crisis in South Korea further dampened the remaining enthusiasm for a German-style unification.

The current South Korean "sunshine policy" reflects the popular sentiment well. The principal aim of the sunshine policy is, not to push for immediate unification, but instead to establish a durable peace based on the coexistence of the two independent countries. The rationale is to avoid a course of events that would prove costly, that is, either a total collapse of the famine-stricken North or a desperate bravado in military ventures. Unification today, in South Korea, is seen only as a long-term goal.

The North Koreans, however, sometimes have behaved unpredictably. Instead of reducing tension on the Korean peninsula and focusing on improving its economy, the North seems intent on escalating the tension—that is, threatening the development of nuclear weapons, provoking a series of naval conflicts, and launching medium-range ballistic missiles, among other provocations. Some of these calculated moves may be initiated to gain bargaining leverage and to increase foreign aid, since North Korea can no longer rely on its erstwhile ideological allies, Russia and China, for bailouts. In the process, the North has succeeded in projecting itself as a menace.

The North's perverse behavior reflects the difficulties facing its leaders: the choice between the urgent need to revitalize the economy through reform on the one hand, and the danger of reform on the other. North Korea's economy

---

Young Back Choi is professor of economics at St. John's University.

THE QUARTERLY JOURNAL OF AUSTRIAN ECONOMICS VOL. 4, NO. 2 (SUMMER 2001): 25–39

has literally collapsed, operating at about 20 percent of what it was in the late 1980s. Famine has struck the country. Millions are reported to have died of starvation and millions more are threatened with the same fate. Contributing factors to this disastrous situation include the decades-long adherence to the mistaken policy of *juche* (self-reliance), the failure of central planning, the disappearance of foreign aid from Russia and China, and a devastating string of floods. It should be clear to the North Korean leaders that they have to reform and open up their economy. Yet, reform threatens the very foundation of their totalitarian regime. The power of the North Korean leaders is based exclusively on the cult of personality and the militarized sector of the economy, which is intent on raising income by any means, from exporting arms, mercenaries, and laborers to counterfeiting and trafficking narcotics. Any attempt to reform the economy requires loosening the rigid regimentation and introducing economic incentives, and that threatens their very own power base.

This difficult situation, I believe, is further compounded by the deeply held suspicion by those in the North that the South's ultimate aim is unification (that is, annexation or absorption under any other name), and this further threatens their power base. In fact, the term "sunshine"–adopted from *Aesop's Fables*–could be interpreted as betraying the ultimate intention of the South.

Most public debate on the future of the two Koreas rests on the universally accepted presumption that the two republics will eventually be unified. After all, ever since Korea was arbitrarily divided in 1945 by the superpowers, reunification has been the stated national goal of both. Generations of Koreans on both sides have been raised to believe that to think otherwise is to commit one of the worst treacheries.

Discussions on the future of the two Koreas, consequently, focuses on different scenarios of unification and on how to deal with the associated problems arising from those different scenarios. The estimation of the costs of German-style unification is one area; several others include: issues of monetary union, issues of the legal structure (for the North), questions of property claims, and issues of balanced regional development.

The presumption of (eventual) unification of two Korea entails many difficulties arising from the unique situation of the two Koreas.

It is time to reexamine the idea of unification itself. Unification involves a number of distinct elements–territorial consolidation through political union, customs union, currency union, uniform legal codes, free movement of resources and goods, etc.–each of which entails different benefits, costs, rights, and obligations. The purpose here is to critically analyze the idea of unification by addressing the following questions: What do people mean by unification? What benefits do people expect from it? What would be its consequences?

Must unification be swallowed whole, or is it possible to derive most of the benefits expected from unification without actually going through unification? I believe that the net benefit of unification is grossly overestimated.

If the unfounded optimism about the gains from unification can be deflated in the South, there is a better chance for peace. This would make the South Koreans more cautious and open to exploring alternatives that would allay the North's fear that the South has a hidden agenda in suing for peace in the peninsula. A fair understanding of the source of the primary benefits of unification will be a sound basis for the exploration of alternatives.

In the remainder of the article, I first examine the prevailing views on the expected *benefits* from unification and find them to be grossly *overestimated*. The most significant benefit would be from the possibility of a greater division of labor and gains from trade, however, this is primarily associated with peace, not necessarily with unification. I then examine the prevailing views on the expected *costs* of unification and find them to be grossly *understated*, ignoring not only the possibility of cost overruns, but the costs associated with the growth of government and the potential for regional conflicts. Considering the most important of the putative benefits of unification can be had without unification, I argue that "no unification" could be a superior alternative for the South. The development prospects of North Korea with and without unification are compared and then it is argued that the North would have better long-term development prospects without unification than with unification. Finally, the possible objections for a no-unification policy because of the anticipated difficulties are not insurmountable, and that no unification should be given a serious consideration as an alternative.

Expected Gains from Unification

According to the prevailing view in the South, there is much to be gained from a unified Korea: (1) acquisition of natural resources; (2) acquisition of cheap labor; (3) enhanced power of a larger political entity; (4) reduced defense spending; and (5) gains from trade. But how realistic are these presumed gains?

Natural resources

Many in South Korea believe that unification would make available valuable natural resources—for example, rich mineral deposits, forests, and hydroelectric potential—now in the North. I believe they have vastly overestimated the value of resources in the North. As for mineral deposits, the current view is a holdover from the Japanese colonial period, when Japan tried to take advantage of mineral deposits and hydroelectric power in their scheme of the "Asia Co-Prosperity Sphere." But things have changed. Today, the mineral deposits in North Korea are not as economically significant as many people

believe. The secular trends of declining commodity prices in the global market and declining transportation costs have rendered mineral deposits within the national border largely irrelevant. Most of the minerals, even if they are not yet depleted, may be obtained more cheaply in the international market. The potential value of the hydroelectric power is not certain given the availability of low-cost nuclear power. After all, the Korean Peninsula Energy Development Organization (KEDO) is building two nuclear power plants, not hydroelectric dams. As for timber, North Korean mountains reportedly are denuded from overharvesting. A significant gain in natural resources is largely a myth.

Even if there are many valuable natural resources, acquiring them through a political union would be far inferior to acquiring them from the North through trade. The reason is that South Korea would be acquiring through unification, not a no-man's land, but a densely populated poor country—with all the responsibilities it entails.

Low-cost, high-quality labor

It is true that wages are currently low in North Korea. After unification, however, the attractiveness of low wages would evaporate, as South Korea would be forced to provide welfare comparable to what currently exists in the South. After unification, the government could not restrict movement of people within the national boundaries, so North Koreans would move to the South looking for greener pastures, competing for jobs, and seeking welfare benefits. Nor would it be possible to legally discriminate against North Koreans for welfare provisions. Therefore, South Korean labor would be likely, as happened in Germany, to demand a generous provision of welfare in the North, fearing losing jobs to a flood of North Korean labor. Consequently, low wages in the North would become, after unification, a thing of the past.

The judgment of high-quality labor is questionable, as well. If the quality of labor were only judged by years of schooling, one could conclude that the North has a high-quality labor force. But if consideration is given to what the education consists of and what kind of work habits and attitudes people have acquired under socialism, the judgment must be greatly tempered. Much retraining, both formal and informal, would be necessary to convert socialist workers into free workers. However, the quality of labor would not be an issue if the two Koreas remained separate countries, for low enough wages will make any labor attractive.

Enhanced bargaining power

Many also expect that a larger national market would mean greater bargaining power in international trade negotiations. It could be an important consideration for trade negotiators who feel that South Korea has been bullied by bigger economies. However, the North Korean population is around twenty-three million and is currently a subsistence economy on the verge of mass

starvation, suffering from years of "industrial cannibalization." The increase in purchasing power after unification, therefore, would not be significant, making the prospect of greater bargaining power more imagined than real. The situation could be altered somewhat if the South were to provide a generous transfer of money to the North. The increased purchasing power in the North, however, would come at the expense of the South Koreans. In either case, there would be no significant extension of the market due to unification, at least in the short to medium term.

Some politicians and bureaucrats think that unification would enhance Korea's bargaining power in trade negotiations, but against whom could South Korea use it? Against the United States, the European Union, Japan, or China, each of which has a much larger national market? Given its heavy dependence on trade with these other markets, South Koreans probably have more to lose from playing hardball in trade negotiations.

Reduced defense spending

Currently the two Koreas devote extensive resources in trying to deter the other side from gaining a decisive military advantage. A united Korea would mean drastically reduced spending on national defense. Reduced defense would release for other uses a significant amount of human resources. If the military forces were reduced over time by two-thirds of their present size, more than four hundred thousand young men would be released from military duty each year in South Korea alone! Reduced military spending could lead to a tax reduction of several billion U.S. dollars a year. In addition, a great deal of land could become available for civilian use, as military bases would be closed and inter-Korea combat zones eliminated. For example, the DMZ that has been no-man's land for nearly a half a century would be available for peaceful uses. North Korea's savings would be greater, as it is proportionally more heavily militarized than the South. In short, there would be significant "peace dividends" for both Koreas, or for a unified Korea.

The real question is whether unification is the only way to reduce defense spending. If the two Koreas could come to an agreement on peaceful coexistence, then a similar gain could be had without unification. While the "peace dividends" are real and significant, political union is not necessary; peace on the Korean peninsula would be sufficient.

Gains from trade

By far the most important of the expected benefits of unification is the possibility of free or freer trade within one national boundary and what that would mean for increased productivity from a greater division of labor and from greater scale economies.

Trade, however, follows price differences and profit opportunities. It is not necessary for countries to form a political union to benefit from trade,

especially not in today's world, where trade barriers have been significantly lowered through multilateral agreements since World War II. Since the 1960s, South Korea has benefited much from increased trade with other countries. The idea that political union is necessary to reap the gains from trade, though such an idea seems to be eagerly pursued in Europe, is an expression of nationalism and mercantilism.

A brief consideration of the anticipated gains from unification reveals the following: (1) there is a great deal of exaggeration in the anticipated gains; (2) the value of natural resources in the North is grossly overstated, especially considering various costly obligations a political union entails; (3) the benefit of cheap labor would disappear after unification; (4) the alleged advantage of gaining a greater bargaining power would likely be more harmful than beneficial; and (5) the most significant expected gains—reduction in military spending and gains from trade—can be had by eliminating the inter-Korean hostility, without political union.

Costs of Political Union

Since the magnitude of the costs of unification would depend on the specific manner of unification, the discussion of the unification costs here dwells necessarily on generalities. Political union of the two Koreas would be extremely costly. The most obvious costs would come from developing the North and providing for the North Koreans during the transition. There would be other costs—perhaps less obvious ones, but not less serious—namely, the almost certain expansion of government and the potential social conflicts. Let us consider them in turn.

Costs of development and welfare provisions

The North Korean economy has nearly disintegrated and is faced with major famine. The North blames bad weather for the famine. But the real reason for the current state of affairs is the decades-long pursuit of central planning combined with the doctrine of *juche* (self-reliance), resulting in economic backwardness and severe industrial cannibalization. In the 1960s, the North boasted successful industrialization in the fashion of Communist Russia. However, after the potential of the forced mobilization had been exhausted—along with the patience of ideological allies in avuncular Russia and China in supplying the North with aid—the North Korean economy steadily declined for nearly two decades. If the Korean peninsula were to be unified as a political unit, the South basically would take over an area larger than itself, populated by nearly twenty-three million destitute people, without much industry, or resources. (The only valuable acquisition would be the one million-man North Korean army, whose loyalty would remain uncertain for some time.)

The costs of developing the North would be staggering, if the South were to bankroll it. Taking a broad view, costs are of the following kinds: costs of dismantling, restructuring, and privatizing uneconomical state enterprises and other assets; costs of building up infrastructure; costs of cleaning up severe environmental degradation; costs of assuming North Korea's external debts (largely to Russia, China, and Japan); and costs of providing welfare for the North Koreans during the transition. In addition, there would be costs associated with settling the property disputes and claims by millions of North Korean refugees (and their heirs) in the South and elsewhere. In light of the German experience, massive cost overruns must be expected. (Through 1998, the total amount of West German subsidies to East Germany came to $560 billion. In 1999, there was an additional $22 billion.)

Therefore the "peace dividends," mainly from reduced defense spending, would fall far short of the required expenditure. The gap, then, would have to be filled either by government borrowing, or printing money, or by additional taxes. Financing the development costs would not only impose burden on the South Koreans, but would also introduce much distortion in the economy. The "peace dividends," however, need not be squandered (and additional burden assumed) if peace on the peninsula is achieved without political union.

Alienation and social conflict

Unification is likely to breed mutual resentments between the North and the South. As it stands now, South Koreans most likely would take charge—they would do the financing and assume the management. Though the majority of North Koreans would benefit from the massive money transfer from the South, they still might resent South Korean domination in all areas, that is, finance, business, politics, academics, etc. South Koreans, in turn, would likely be frustrated with the slow progress and resent the heavy burdens they would have to shoulder, especially if North Koreans showed resentment instead of gratitude, and seemed to be content to get by on welfare provisions instead of working. (Indeed, such seems to be the prevalent sentiment between West Germans and East Germans since unification.) There would be other potential sources of resentment as well. For example, if North Koreans were given certain property claims for assets as a part of the privatization process, a large part of the assets would likely be accumulated by South Korean businesses. Then, the South would be blamed for having schemed to defraud the people in the North.

Koreans are not the most tolerant people. Strong regional prejudice and resentment already exist between the Kyungsang province and the Cholla province. The regional conflicts have become highly politicized since the 1960s and threaten national unity within South Korea itself. Regional resentment and prejudice between the North and South could be much worse under unification than anything we have yet seen. This raises the possibility of renegade

military commanders in the Northern army becoming warlords, demanding tribute and ransom whenever it was opportune to do so.

Growth of government

Seldom considered costs of political union stem from the assured growth of the South Korean government. Many may not view it as a problem, but it is a serious one. After the 1997 financial crisis in the South, many have diagnosed the overbearing government as the root of the evil. Many South Koreans have come to believe that their centralized and bloated government is more harmful than helpful. Yet, they have not been able to roll back the government. Two of the chief difficulties of reducing the role of government in the economy have been the politicians' tendency to look for popular solutions and the bureaucratic reluctance to let go of their "iron bowls." Unification would be a god-sent opportunity for the bureaucrats to expand government under the pretenses of feeding and developing the North. Not only would the government grow bigger, but it would become even more intrusive than now as it would strive to meet certain arbitrarily set targets for development. Moreover, the elimination of a rival regime would remove a check, however meager, on the South Korean government. A further expansion of government in Korea would be a definite negative in terms of personal freedom and economic efficiency.

Based on the above considerations, it seems that common estimates of the costs of unification are vastly understated. When all the costs are fully considered, it is not at all clear whether there would be much, if any, net gain from political union; thus, the argument for political union loses much of its rationale. Even so, the sentimental appeals of unification will tempt many people to insist that there is no alternative. At this point, I would like to suggest that we think about the unthinkable—no unification—and see whether it might be a credible alternative.

No Unification as an Alternative

By no unification, I propose ruling out any thought of ever merging the two Koreas into one nation, as there is no thought of merging Korea with Russia, China, Japan, or the United States, for example. No unification, therefore, means South Korea should regard North Korea as a foreign state, and vice versa—in the manner that South Korea regards the Philippines, or Japan, or Thailand.

No unification is a better alternative because it promises a greater net gain than unification; no unification also is possibly more conducive to peace. This needs some explanation. One, as the above consideration indicates, the nature of expected benefits from unification—the "peace dividends" and the gains from trade—can be had by securing peace. Unification is not a prerequisite for them. Indeed, it was not necessary for South Korea to become a part of a larger political entity to derive much benefit from trading beyond its national boundary. It is obvious that "peace dividends" can be had without

political union. Other expected benefits, more directly tied to unification, for example, natural resources, greater bargaining power, etc., are grossly exaggerated or elusive. Therefore, there would not be much difference in expected gains with unification and without unification. The main difference would be the emotional appeal of unification. Two, unification would be much more costly than no unification. As noted above, the costs of unification would be much greater than commonly estimated; no unification would mean that South Koreans would not incur many of the costs associated with political union. With no unification, the North would be in charge of its own destiny. There is no need for the South to shoulder most of the costs of transforming the North.

The argument that no unification promises greater net gain than unification does not rest on the precise estimation of the relevant costs and benefits. If that were so, the argument advanced here would be very weak. Instead, what is argued here is: The net gains from unification (U) = gains from unification (G) - costs of unification (C). The net gains from no unification (NU) = gains from no unification (G') - costs of no unification (C'). $G = G'$ and $C > C'$. Therefore, $NU > U$.

No unification is possibly more conducive to peace. A clear statement of no unification would render the rulers of the North less suspicious about the South's intentions. There would be fewer worries for the North Korean policymakers about the South undermining their power or being dominated in the reform process. Being less suspicious of the South, the North would be more likely to pay attention to the problem of putting its house in order and developing its economy. The North would soon realize, hopefully, that a lasting peace on the peninsula suits their purpose (of staying in power) more than erratic extortionist tactics, from which net gain is small and diminishing marginal return sets in rapidly.

No unification should be seriously considered as a superior alternative to unification from the South's point of view. No unification as a policy would not succeed unless the North also deems it as a superior alternative. If the rulers of the North are concerned with long-term survival, they should certainly consider the development prospect with no unification.

Development Prospects for the North

What is good for the South is not necessarily bad for the North. No unification promises a better development prospect for the North. In order to appreciate this thesis, we must compare the development prospect with unification and the development prospect with no unification.

Development of the North with unification

The development of the North after unification would be characterized by the imposition of the South Korean system and government-directed

development programs. Much waste, inefficiency, corruption, and social conflict could develop. Given the vast differences in resources under command between the two Koreas, unification would mean that the South Koreans would have to take upon themselves the responsibility of integrating the North and the South into a nation. In carrying out the task, the South Korean system would be imposed on the North.

This raises the question of whether the current South Korean system is most suitable for the development of the North, which faces very different conditions. South Koreans have firsthand knowledge of the difficulties of adopting institutions evolved elsewhere. Moreover, the South Korean system itself is not without its problems. Various problems with the South Korean system have been pointed out especially in the aftermath of the 1997 financial crisis, including excessive government regulations, corruption, weak rule of law, and the absence of civil society. Currently, the situation is much worse in the North, but why should the North be limited to the adoption of the South Korean system, when it could learn from the experiences of developmental and transitional economies and experiment with various possibilities?

There are plenty of examples of successes and failures from which to draw lessons—not only in South Korea, but also in Japan, China, Russia, Vietnam, Taiwan, Cuba, Romania, Albania, etc. The imposition of the South Korean system would needlessly restrict the North's opportunity to experiment with suitable institutions. The North should dread the imposition of the South Korean system, not only for political reasons, but for economic reasons as well.

Government-promoted development

The efficacy of government-directed development efforts is questionable. Massive foreign aid since the end of World War II has seldom succeeded in bringing about meaningful economic development for the recipient. Rather, foreign aid tends to be counterproductive, merely proliferating rent-seeking groups, breeding corruption and inefficiency, and making economies dependent on a constant (or even increasing) infusion of aid. There is little doubt that, given the chance, North Koreans would excel in the rent-seeking game and would do their utmost to frustrate the development effort. Various attempts at internal development have not fared much better. They merely tend to create the growth of government, massive waste, and regional dependency. For all its efforts, for example, the South Korean government has not succeeded in bringing about a balanced regional development within South Korea itself. Can we reasonably expect it to succeed in bringing about balanced growth to the North?

If anything, there is the danger of transforming the program to develop the North into "corporate welfare" for South Korean business interests. Given the state of the economy in the North and the South Korean government's

willingness to foot the bill in the event of unification, there would be a great demand for capital goods—much not based on profit calculations. Many South Korean producers would regard the North as a captive market for investment goods. Therefore, the unification process would likely be a prime opportunity for South Korean producers of capital goods. But this would distort the direction of economic development in the North, raise the costs of developing the North, and certainly breed more corruption. Moreover, the "corporate welfare" would lead to friction with other countries that covet the market.

Some in the South may object to this reasoning, arguing that the *dirigiste* South Korea has successfully developed its economy and, therefore, has the expertise to develop the North. Indeed, there has been a certain amount of expertise on economic development and policymaking accumulated in the South. However, there is a problem in applying the expertise because the situation is different now. The kind of growth-at-any-cost practices that propelled the South along the path of rapid growth in the 1960s, 1970s, and even 1980s cannot be carried out effectively under the current South Korean system, in which the government can no longer exact near-total submission from its people. Ironically, what expertise South Korea could offer based on its own developmental experience might be put into practice more easily if the North stayed separate.

Development of the North without unification

What is important with a no-unification policy is to convince North Korea that it must proceed pretty much on its own and not count on substantial economic transfer, beyond minimal food relief. Once the principle of no unification is firmly established, North Korea would basically be on its own. The development of North Korea with no unification would then be characterized as self-reliance and self-determination—not in the sense of the misguided policy of *juche* (self-sufficiency), but in the sense that its future would depend largely on its own actions.

Given its dire economic situation, the North would try, as it is presently setting the stage to do, to solicit a package of aid from other countries and international organizations, in a combination of famine relief and other economic aid. But any aid would be different from what the Russians or the Chinese used to provide, or, for that matter, what the United States and South Korea currently provide. Presumably, everyone has learned a lesson or two from the futile attempts of showering LDCs (least developing countries) with aid packages. The foreign aid would come with more strings attached—requiring the North to behave in certain ways that might be contrary to the wishes of the North Korean rulers. Moreover, the aid would be grossly inadequate for the development of the North Korean economy—given that the economy has largely degenerated into something less than a subsistence economy. The North

Korean rulers would, therefore, have to make up the shortfall in revenue to retain their power. They would face broadly two choices. The first would be to maintain the status quo. This choice is the traditional extortionist approach of exacting additional transfers from grudging donors—in addition to peddling arms, drugs, counterfeits, and contraband. The North used to receive substantial transfers at various times from Russia and China by playing them against each other, exploiting its geopolitical position. Now, the transfers from the erstwhile ideological allies have been either cut off or reduced to a trickle, compounding its difficulties. Recently, the North has tried to cultivate new donors in the United States, Japan, and South Korea by becoming a nuisance. But this tactic is nearsighted—only getting barely enough resources for the rulers to stay in power, and doing little or nothing to improve the lot of the already struggling people. It is a vicious circle and cannot be sustained for long. Either the population would be drastically reduced and, God forbid, soon there would be only a few left to rule, or the rulers might be ousted in a riot or a coup—as in Romania or Albania or Uganda. The new ruling group then would face the same choices again.

The second choice would be reform. The realization that there is no place to fall back on will, sooner or later, lead to reform, if only because the rulers of the North would need to generate revenue to govern and retain their power. The North's proximity to more prosperous neighbors—e.g., Japan, China, and South Korea—not only should suggest to them what to do and what to expect from a serious reform, but also should provide ample opportunity to gain from trade with them. The reforms would not be textbook pretty, but the rulers of the North would do whatever it takes to earn enough to stay in power. Surely, the rulers would maintain a degree of stability for the sake of retaining power. They would also have to experiment with various schemes to generate needed revenue. Such schemes would not succeed in the long run unless a significant portion of the people also benefitted and conformed to the market. The requirement to earn a profit, therefore, would induce the North Korean economy to gradually become (more) market-conforming. The potential is tremendous if only because the North Korean economy has so long been suppressed and distorted. That would be the beginning of a sustainable developmental path—a much better prospect than the one under unification. Over time, North Korea could turn into a rapidly growing economy. Other countries, including South Korea, have chosen this course in the past—only when all other options seemed to have been exhausted—and have done well. There is no reason why the North would not be able to enjoy a similar success. The North Korean leaders would not only have a better chance of retaining power, but a good chance of getting credit for rebuilding the nation and bettering the lot of the people.

Of the two development prospects—unification or no unification—the latter is more attractive. It is not because the North would be guaranteed to grow

faster or develop better on its own—no one can guarantee such—but that the North would have a chance to do better on its own, if it tried. An independent and prosperous North Korea would then be a good trading partner in economics and a friendly rival in politics to South Korea—as between the United States and Canada, or between South Korea and Taiwan.

Difficulties of No Unification

No unification would not be without its own difficulties, however. They would include: (1) the political viability of advocating no unification; (2) the moral dilemma of tolerating a dictatorial developmental state in the North; and (3) potential refugee problems. The relevant question is whether these are severe enough to render no unification an unattractive option.

Political viability

Introducing the idea of no unification may involve certain political risks. Many South Koreans with a strong sentimental attachment to unification may react negatively toward it. But would people really want unification, at any cost? The enthusiasm for unification has already moderated considerably in light of the high cost of the German-style unification and the sobering experience of the 1997 financial crisis. The paramount issue is how to convince people of the real and stupendous costs of indulging in their gut feelings and of the existence of a far better alternative. How to do it is in the realm of political leadership. It does not seem impossible, however.

Moral dilemma

Once the principle of no unification is accepted, and the North tries to embark on a course of development, the conditions in the North may not be pretty to witness—not by U.S. standards, and not even by the South Korean standards. There may be continued political repression, and the working conditions of laborers could be sub-par for a long time. Some in the South may raise the question: How can we let fellow Koreans in the North suffer under ruthless dictatorship and severe economic hardship? Indeed, the conditions in the North will be difficult to ignore. The correct way to view the situation might be: (1) Do not forget the premise that North Korea is a foreign country; (2) Citizens in South Korea should not expect the government to intervene in North Korean affairs, just as it is prudent not to intervene to rectify conditions in Indonesia or Iraq, for example; and (3) Anyone who might feel morally compelled to aid anyone or any group in the North should be free to do so, as an individual or in collaboration with other like-minded individuals. Many religious people in the South and overseas will be eager to lend a helping hand. One intriguing possibility is organizing volunteers out of many able-bodied people in their late forties and fifties who are in retirement in South Korea. There are many other possibilities.

Refugees

Reforms in North Korea would mean gradually less regimented life and greater movement of people. Since the conditions in the North would not improve overnight, many would be tempted to emigrate wherever the wage level was substantially higher than that prevailing in the North. The South would be especially attractive because the common language and close proximity would make it easier to settle in and adapt. There is the potential for a mass migration to the South, possibly resulting in a large-scale disruption. Few countries with any moral scruples can effectively prevent people seeking a better life from crossing their borders. What to do? A rapid improvement in economic conditions in the North could, to an extent, reduce the incentive to migrate. While the potential is there, unfortunately there is no known method of engineering a quick economic growth. The South should not even attempt to create quick growth; it would result in wasting resources, inducing misallocation of resources, and retarding its development.

A partial solution lies within South Korea itself—a set of reforms in the South. Especially important are a reduction in welfare provisions and a deregulation of the labor market. If various welfare measures in the South were drastically reduced, the South would become much less attractive to settle in, and to that extent, the migration of people from the North would be reduced. But given the vast differences in the prevailing wages, there would still be a large-scale migration. This is why the labor market must be reformed to be more flexible. If the labor market is made more flexible and if there is little welfare provision, then the influx of people is not necessarily a bad thing. Newcomers would then earn their keep and contribute more to the South Korean economy. The South, therefore, should reform its laws to make the labor market more versatile. With appropriate reforms in the South, refugees might be even welcomed!

Concluding Remarks

The main argument here has been that, for South Koreans, no unification could be an option superior to unification because it promises much greater net gains. This could be true for North Koreans as well. Yet, hardly anyone, anywhere, seems to entertain no unification as a serious option. The reason is that Koreans on both sides have for so long taken for granted the eventual unification of two the Koreas. To think otherwise would seem too disloyal even to contemplate. If the analysis presented here, however, is even half-correct, the option of no unification merits serious consideration, for according to the analyses presented above, unification would be too costly. Moreover, a clear articulation of the principle of no unification could allay suspicion on the part of the North Korean leaders regarding the true motive of the South. In the

comforting thought of the greater security of their own survival, then, the North Korean leaders might be more willing to cooperate to promote peace in the peninsula, from which everyone would benefit.

It goes without saying that until a lasting peace in the peninsula is attained, the South, as any country faced with another hostile and belligerent country, should maintain a credible defense capability against any external threat. A combination of a clear and formal renunciation (after building a consensus in the South) of the goal of unification—even in the long run—and a strong defense posture should soon convince the North of the extravagant foolishness of escalating tensions in the peninsula, which it could ill afford.