

## Opportunities in and Threats to Korea's Economy

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The late Reverend Sun Myung Moon said, "Communism is doomed." History has borne this out. "*Juche* ideology is ill-conceived." Reality in North Korea bears testimony to that. "North Korea and South Korea should seek a breakthrough through multi-faceted cooperation." -- There is no better way than this, as long as it is based in peace.

The message is clear: the future of our country and her opportunities lie in cooperation between the two Koreas on diverse fronts; therefore, communism and *Juche* ideology -- characterized by repression, isolation and inefficiency -- should give way to opportunities instead of making threats at each other. This message, though laconic, is profound. His audacity and insight merit our praise; no one else made such bold statements to the North Korean leadership.

South Korea's economy is at a crossroads. No doubt, it is experiencing a crisis in terms of both economic cycle and structure. All indicators, including of production and investment, the consumption trend and business sentiment have been worsening. Under the current administration, which has championed the cause of job creation, the economic downturn has become the order of

the day, taking a toll on distribution of wealth (contrary to expectations) and increasing the unemployment rate sharply among the low-income class.

The reality is such that it seems to be gnawing at the fundamentals of the economy, which remained resilient enough to give hope during the nation's financial crisis in 1997. Major macro-economic indicators, such as the economic growth rate, prices, the unemployment rate and the current account balance are sending us warning signals. The nation's potential growth rate for 2019 has been on a steady decline at 2.8–2.9%, while its expected real growth rate for 2019 stands at 2.3%, well below her potential growth rate. Investment and employment are in the worst shape since the 1997 financial crisis. The economy is experiencing stagflation, where prices are increasing amid a dwindling growth rate. Just as deplorable is the performance of the nation's external trade, which has been supporting her economy. Exports have begun to take a sharp decline in the last 18 months. Sales of large corporations leading the nation's exports, such as Samsung and Hyundai, have plummeted.

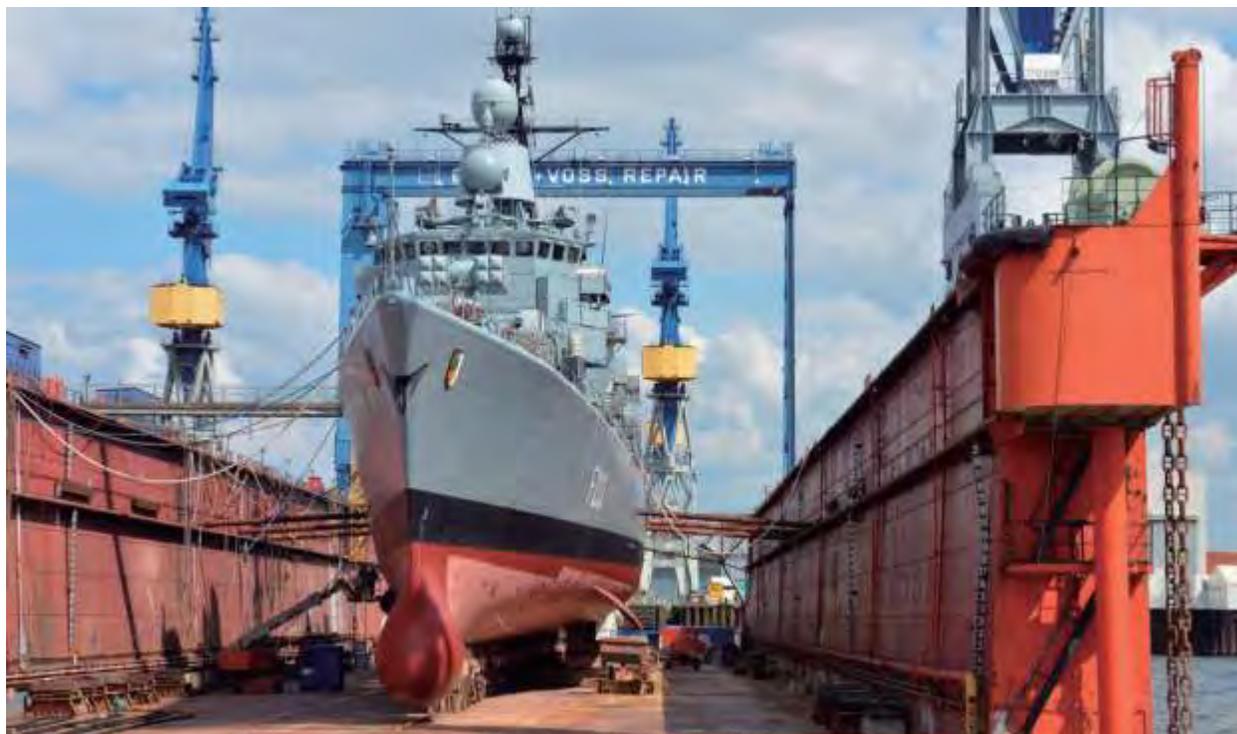
The problem is that tomorrow may be worse than today. The Index of Leading Economic Indicators gives us a clear message. The number is lower than the OECD average of 99.31 in terms of employment, consumption, investment, finance, construction and machinery inventory. (A number larger than 100 bodes well for the economy, while less than that bodes ill for the economy.) The figure shows a slim chance of the economy rebounding. The gloomy prospect may cause businesses to resort to belt-tightening to reducing investment and recruiting, prompting social unrest with a high unemployment rate.

That is just part of the problem, though. The nation's major industries, boastful of being the world's top, are facing a challenge of grave proportions. Her industries with a traditional competitive edge, including semi-conductors, electronics, shipbuilding, chemicals, steel and iron, have been losing their global market share owing to competition from China and Southeast Asian countries, with some even losing their top position.

What is worse is that our external economic situation is unfavorable to us: Sino–US trade disputes made our exports of intermediary goods to China drop sharply, adding to the nation's overall export downturn. South Korea is facing ever-intensifying trade pressure from the US.

## South Korea's birthrate

As if that is not enough, Korea's low birth rate and aging has long been a serious economic and social problem by any measure. Her proportion economically active population is 63.2 percent, lower than that of Japan. Administrative units facing extinction among the cities and counties number as many as four. Her birth rate is the lowest among OECD member nations, eclipsing Japan's, which has been known for having the lowest rate (1.3 for Japan and 1.25 for South Korea). In the meantime, her population is aging at the fastest pace in the world. The low birth rate and aging is expanding the cost of social and economic welfare dramatically, unleashing the inefficiency of the nation's overall economic system. It is a stark reminder of a collapsing growth engine.



Korea is the only nation that succeeded in transforming itself from a basket case to a donor country in the 20th century and in the 21st. Many developing countries have been trying to emulate Korea for their economic success. Now the nation is encountering a moment of truth. Will the nation be able to counter the challenge by expanding her fiscal spending (increasing the tax rate) to create jobs directly, increasing welfare benefits to halt the low birth rate, with her financial authorities lowering her interest rate, rediscount rate, and reserve requirement, etc.? Will the quantitative easing, which is invariably employed in crises, do the job this time? Will the innovative growth championed by the government fit the bill? The measures are common in other countries as well. Is there not any extraordinary way out? There is, indeed upon deep reflection: North Korea and reunification. These variables are unique to us, but never have they been put to use properly.

Imagine this: What if North Korea were free of nuclear weapons and had a free economic environment? It would, as all would agree, have economic consequences of an unimaginable magnitude. It would become an instant magnet for huge investment in infrastructure, industries, services, and development of natural resources.

On its part, South Korea would take advantage of her proximity to expand investment sharply in infrastructure, including railroads, land roads, ports and airlines that would help her connect Pyongyang, Sineuju, China, Russia and all the way to Southeast Asia and Europe.

Abundant energy, industrial raw materials, and goods from China and on account Russia would be transported through this infrastructure to South Korea, drastically reducing the cost of logistics and production. Suffering a setback, South Korea's leading industries, such as shipbuilding, machinery, electronics, steel and iron, and chemicals would see their competitiveness soar through the combination of South Korea's capital, technology and management knowhow and North Korea's resources and labor. A surge in consumer population from 50 million to 80 million on the peninsula would create a much larger market, touching off a production-inducing effect by a large margin. Market liberalization of North Korea would attract global investors and businesses for investment and exchanges. The economic effect of such a scenario would be overarching.

The New North Policy and the New Southern Policy spearheaded by the government would materialize within the framework. North Korea variably certainly appears to be a panacea for all of South Korea's economic ills. Will it be? The expected certainty presupposes North Korea renounces its weapons of mass destruction, such as nuclear weapons and missiles, its variable will turn out to be a threat greater than an

opportunity; no country or business would invest in or pursue economic cooperation with a tinderbox. Given that North Korea is experiencing sanctions from the international community, including the UN, on account of this nuclear arsenal, its intransigent position on the nuclear issue would deter other countries, including Russia and China, and even the current South Korean government, ore friendly than its predecessors, from expanding economic cooperation with the North. North Korea's nuclear issue, in other words, poses the biggest political threat to South Korea's economic rebound.

### **Reform is indispensable**

North Korean variable could prove to be a risk rather than an opportunity if the country did not reform and open up, following in the footsteps of China for Vietnam. Creation of economic efficiency calls for a free, timely and efficient combination of capital, management knowhow and labor. Lack of reform and opening up by North Korea may invite humanitarian aid or friendly investment, but not large-scale investments. Friendly investments, if at all, are not likely to translate into profit. One has to look, for assurance, nowhere else than failures of business investments in North Korea in the past. From a economic perspective, North Korea's anti-reform and anti-market policy is the greatest of economic threats.



### **Openness**

North Korea's investment attraction practices are far from being favorable to South Korean businesses. Countries around the world are willing to go an extra mile to offer a variety of incentives to prospective investors not just on the government level but also on the corporate level in addition to the favorable regulations on foreign investment. North Korea, however, does not seem much inclined to encourage foreign investment apart from the relevant law. If anything, the north has not been doing justice to southern businesses. Investors complain that entry ticket to north Korea cost more than the amount of investment itself. North Korea's propensity to equate an investment opportunity with favoritism is another threat to potential investors.

### **Behavioral changes**

North Korea's human rights issue is one of the big threats to investment or aid from the international community. Despite the attractiveness of the North Korean variable, its reprehensible human rights abuses negate the cause of South Korea's engagement with her northern brethren. Any initiatives, be it in economy, cooperation or reunification are about the dignity and welfare of people of the two Koreas. Economic engagement with North Korea, if its economic fruits enriched North Korea's elite at the expense of most of the people, would not last in the face of international censure and resistance.

### **Southern cohesiveness**

Ideological confrontation between the left and right in South Korea stands in the way of her engagement with the north. The democratic forces for peace and the forces for liberal democracy are locking horns over a whole gamut of issues, including North Korea's nuclear ambitions, its human rights, the US– ROK alliance, inter-Korean matters and economic ideology (balance between growth and distribution). Confrontation and conflict between the two groups are all too obvious in inter-Korean issues and

engagement policy. The democratic forces for peace believe that peace can take root by building mutual trust through economic cooperation, and on the basis of the trust, gradually eliminating threats, such as nuclear weapons and weapons of mass destruction. This attitude is underpinned by two propositions: one is the belief that Kim Jong-un is a man to be reckoned with in accomplishing a feat and the other is the disposition to approach the inter-Korean issue from the perspective of the Koreans. Naturally, they are bent on autonomous solutions to the inter-Korean issues.

The forces for liberal democracy, on the other hand, view all inter-Korean cooperation not supported by fundamental change of course of the Kim Jong-un regime as propping up the dictatorship at the risk of South Korea's security. This attitude is buttressed by two ideas: one is the belief that Kim's regime's dictatorial gene would give way, and the other is the issue of improving inter-Korean relations. Naturally, US–ROK alliance, human rights and the UN sanctions are their main concerns.

The former argues that now is the unprecedented "national opportunity" to push ahead with improving the inter-Korean relations and extensive cooperation: the latter argues that now is the unprecedented "international opportunity" to turn the Kim Jong-un on its head. The former stresses cooperation rather than criticism against North Korea, believing that the peace of tomorrow is forged by peace of today and no value is greater than peace. They are preoccupied with cooperation of today, leaving behind for the future issues, such as human rights and hereditary succession of power.

The latter, on the other hand, stresses change of North Korea rather than immediate cooperation, believing that peace of tomorrow is forged by eliminating the threats of today. They put on the agenda of today such issues as nuclear arsenal, missiles, human rights, and character of the regime. These issues constitute major items on the agenda for improving inter-Korean relations. They diametrically opposite positions do not seem to afford any possibility for them to meet each other halfway. Failure to break and domestic deadlock itself is a threat to South Korea.



## **International ties**

Historically, North Korea and inter-Korean relations have been international issues as well as national issues. The nation was liberated by international power politics. The Korean Conflict was a civil war, indeed, unleashed by North Korea, but to the extent that it was intervened by China and the UN, it was an international war as well. Korea's economic recovery and prosperity after the war is credited to a combination of her resilience and international support. The current economic challenge the two Koreas are facing is international in nature as a breakthrough should be found in expanding cooperation with the outside. The North Korean nuclear arsenal is a domestic and international issue as the Kim Jong-un regime is resorting to maintain stability of its regime and have its security guaranteed by the international community, including the US.

All inter-Korean endeavors are geared to revive the nation as a whole, for sure. The efforts, however, have been and will be made within the framework of international cooperation. In other words, all the Korean challenges related to improvement in inter-Korean relations and work for reunification would be overcome with international approval and cooperation, more importantly, reduction or elimination of the threat from North Korea and its active engagement. Local and international environment conducive to a potential success is an opportunity. From that standpoint, the current environment surrounding the Korean peninsula affords more opportunities than before, but falls short of being dispositive.