

Policy Forum 07-086: Economic Consequences of ROK-U.S. Separation

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By Wonhyuk Lim

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I. Introduction

Wonhyuk Lim, Fellow at the Korea Development Institute, writes, "although mutual deterrence between the ROK and DPRK on the Korean peninsula is likely to prevail even after the termination of the ROK-U.S. alliance, the end of the insurance provided by the alliance may weaken the ROK's position in Northeast Asia and present significant security and diplomatic challenges-but not necessarily economic difficulties *per se* ."

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II. Article by Wonhyuk Lim

- "Economic Consequences of ROK-U.S. Separation"

By Wonhyuk Lim

How would the end of the ROK-U.S. alliance affect the ROK economy? This simple question actually consists of a series of questions: (1) What does the end of the alliance mean in operational terms? (2) How does the end of the alliance come about? (3) What is the security impact of terminating the alliance? (4) What are the economic consequences of this security shock?

An exercise in counterfactual positive analysis, *not* normative prescription, this paper makes the following points with regard to these questions. First, the end of the alliance means, at minimum, the termination of the "mutual aid" provision in the 1953 ROK-U.S. Mutual Defense Treaty and, quite likely, the withdrawal of the U.S. forces stationed in the ROK. Second, as with any break-up, the ROK-U.S. separation may be amicable or acrimonious; however, even if the break-up itself is acrimonious, its spillover effect on bilateral economic ties is likely to be limited. Third, although mutual deterrence between the ROK and DPRK on the Korean peninsula is likely to prevail even after the termination of the ROK-U.S. alliance, the end of the insurance provided by the alliance may weaken the ROK's position in Northeast Asia and present significant security and diplomatic challenges-but not necessarily economic difficulties *per se* . Fourth, the security shock of terminating the alliance can be transmitted through three economic channels: defense expenditures, bilateral economic relations, and investor confidence. The ROK's previous experiences with strained alliance relations in the 1970s and recent years provide clues as to how the economic impact of this security shock would be transmitted *and* managed. Although the break-up is not in the ROK's national interest, the ROK seems to have economic and security resources to deal with this shock.

1. ROK-U.S. Alliance: Its Beginning and End

Since the end of the Korean War, an asymmetric alliance in which the client sacrifices part of its autonomy in exchange for the security provided by the patron has defined the relationship between the ROK (Republic of Korea, or South Korea) and the U.S.(1) On July 14, 1950, less than 20 days after the DPRK (Democratic Republic of Korea, or North Korea) had started the Korean War, Syngman Rhee placed the ROK's military forces under the operational command of Douglas MacArthur in his capacity as commander-in-chief (CINC) of the United Nations Command. The 1953 ROK-U.S. Mutual Defense Treaty essentially retained this military command arrangement. A former CINC characterized this arrangement as "the most remarkable concession of sovereignty in the

entire world."(2) However, an alternative or complementary interpretation of this arrangement is also possible: By making the defense of the ROK a shared responsibility between the ROK and the United States, the ROK was able to stick itself to the United States "like the Tar Baby to Brer Rabbit."(3)

In fact, the 1953 Mutual Defense Treaty contains both of these elements. Article III of the treaty stipulates: "Each party recognizes that an armed attack in the Pacific area on either of the Parties in territories under their respective administrative control...would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes." Although this "mutual aid" provision is subject to constitutional processes and limited in geographical scope to territories under respective administrative control in the Pacific area,(4) it is quite broad and effectively makes the defense of the ROK a shared responsibility between the two allies. Concerned about entrapment, especially in view of Syngman Rhee's professed desire to reunify the peninsula by force if necessary, the U.S. Senate gave consent to the ratification of the treaty subject to the understanding that "neither party is obligated, under Article III of the above Treaty, to come to the aid of the other except in case of an external armed attack against such party..." At the same time, the Treaty provides broad concessions to the U.S. forces stationed in the ROK, as stipulated in Article IV: "The Republic of Korea grants, and the United States of America accepts, the right to dispose United States land, air and sea forces in and about the territory of the Republic of Korea as determined by mutual agreement."

Also, the ROK-U.S. Mutual Defense Treaty makes clear that the "mutual aid" provision and the stationing of U.S. forces in the ROK are part of the same package. In principle, the "mutual aid" provision in alliance treaties can be separated from the stationing of forces. In other words, treaty allies can agree on "mutual aid" without having the military of one party stationed in the territory of the other. Conversely, a country can lease a military base to another country without agreeing on an effective "mutual aid" provision. In the ROK-U.S. context, however, these two elements are closely linked. The "mutual aid" provision in the treaty is likely to become far less credible in the absence of forward-deployed U.S. forces in the ROK. The stationing of U.S. forces in the ROK, in turn, is much easier to justify when its primary mission is perceived to be the defense of the ROK.

The USFK (U.S. forces in Korea) has essentially four traditional roles: (1) deter DPRK attack; (2) make wartime U.S. intervention more credible ("tripwire"); (3) contain ROK aggression; (4) serve as a stabilizing force in the Pacific area. In more recent years, however, the "corking the bottle" function has been all but forgotten, and the geographical scope of the stabilizing mission has been expanded beyond the Pacific area with the advent of "strategic flexibility."(5) In addition, during the second nuclear crisis on the Korean peninsula, some noted the presence of U.S. forces in the ROK makes pre-emption against the DPRK a less viable option.(6) Of course, this is an unintended function of the USFK.

In operational terms, ending the ROK-U.S. alliance means the termination of the "mutual aid" provision in the 1953 Mutual Defense Treaty and, quite likely, the withdrawal of the U.S. forces from the ROK. Although these two elements are logically separate, the stationing of U.S. forces in the ROK will be a difficult proposition when its primary mission is no longer the defense of the ROK but rather the maximum exercise of strategic flexibility. The termination of the alliance also requires that the current USFK functions be taken up through other security arrangements to the extent possible. For instance, ROK forces would have to deter DPRK attack without a credible U.S. commitment to wartime intervention. The USFK would have to relocate to Japan or other willing hosts in the Pacific region if it is to maintain its stabilizing role. The end of the alliance would also mean that the ROK and the U.S. would have to work on sensitive issues such as extended nuclear deterrence.

2. Nature of the Break-Up

According to Article VI of the ROK-U.S. Mutual Defense Treaty, the treaty shall remain in force indefinitely, but either party may terminate it one year after notice has been given to the other party. However, this procedural provision is not very helpful in illuminating the economic implications of the ROK-U.S. separation. Far more important for this purpose is the circumstance under which the break-up takes place.

Suppose the two allies have an amicable separation under mutual agreement. For instance, the two allies agree that the ROK can now defend itself without the USFK and that the U.S. national interest is better served if its troops are relocated from the ROK to, say, the Middle East. Under this scenario, the two allies are likely to agree on a phased withdrawal schedule for the USFK so as to minimize the risk of miscalculation on the part of the DPRK. Even after the ROK and U.S. terminate the Mutual Defense Treaty, they may well continue security consultation and cooperation through bilateral and multilateral channels.

Alternatively, the U.S. may decide to bring its troops back home as part of its neo-isolationist program to reduce its overseas commitments. Under this scenario, a phased withdrawal of the USFK may be a more difficult proposition, and the ROK may have to assume a greater part of the USFK expenses to extend its stay and arrange for its orderly exit.

By contrast, an acrimonious separation between the two allies may make "transition planning" much more difficult and produce considerable spillover effects. Suppose, for instance, that a series of unfortunate incidents involving U.S. military personnel trigger a nationalist backlash in the ROK, which in turn leads to American anger at Korean "ingratitude." The ensuing war of words between the two allies escalates to the point that they both decide to go their separate ways as soon as possible. Under this scenario, for which "transition planning" is minimal, what matters is the current preparedness of ROK forces.

An obvious reference case for this scenario is the turmoil in the ROK-U.S. alliance following an incident in the summer of 2002, when a U.S. armored vehicle accidentally killed two Korean middle school girls.⁽⁷⁾ When the driver and navigator of the vehicle were both acquitted in spite of their conflicting statements in a U.S. court marshal, hundreds of thousands of Koreans took to the streets. Ordinary citizens joined candlelight vigils to protest the injustice of the verdict; some students even burned American flags to express their outrage. This, in turn, triggered negative U.S. reaction.

It may be argued that this reference case is of limited use for this scenario because cooler heads ultimately prevailed on both sides, especially with regard to the phased reduction of the USFK. However, in the present context of assessing the economic impact of ROK-U.S. separation under various scenarios, it is important to note that even the most acrimonious exchange of words between the allies in recent memory did not have a large spillover effect on bilateral economic relations. In fact, investment and trade ties between the U.S. and ROK have been the saving grace of the bilateral relationship over the past five years.

3. Security Impact

As noted earlier, the termination of the ROK-U.S. alliance means that ROK forces would have to deter DPRK attack without a credible U.S. commitment to wartime intervention. It also means that the ROK would have to deal with regional powers without the benefit of the insurance provided by the alliance. This would present considerable security and diplomatic challenges-but not necessarily economic difficulties.

DPRK Challenge

With regard to the DPRK, the ROK must secure its own deterrent capability *and* expand inter-Korean exchanges to facilitate the DPRK's transition. The first part of this challenge has to do with "keeping peace"; whereas, the second part is about "making peace." In the Korean context, there is a historical precedent for the first part of this challenge in the 1970s, when the ROK had to launch a rapid defense build-up program in response to changes in its security relationship with the U.S. On a global level, the process through which the Cold War came to an end may be regarded as a historical precedent for the dual challenge of maintaining deterrence and promoting "change through rapprochement."

When the U.S. began to reduce its military presence in Asia in the aftermath of the Vietnam War in the early 1970s, the ROK felt vulnerable to a DPRK attack and launched an ambitious campaign to build up its military capability in conjunction with the heavy and chemical industry (HCI) drive, including a covert nuclear program.(8) Richard Nixon's visit to Beijing in 1972 and the withdrawal of one of the two U.S. infantry divisions stationed in the ROK marked the beginning of the strained alliance relationship. Jimmy Carter's campaign to eliminate U.S. troop presence in the ROK posed an additional challenge to the ROK.

Although the per-capita GDP of the ROK at the time was only about \$3,000 in constant 2000 U.S. dollars,(9) the ROK managed to make up for the reduction of U.S. troops and produce a wide array of conventional weapons in due course, including short-range missiles. As Figure 1 shows, the ROK raised its defense spending from 4 percent of GDP (Gross Domestic Product) in the 1960s to well over 5 percent in the late 1970s. A 5-percent ad valorem national defense tax helped to finance the weapons program. Despite the rapid defense build-up, the ROK managed to maintain an annual economic growth rate of well over 8 percent from 1973 to 1979.

Figure 1. ROK's Defense Spending as Percentage of GDP, 1957-2005

The process through which the Cold War came to an end provides a more comprehensive historical precedent for the dual challenge the ROK would face after the termination of its bilateral alliance with the U.S. There are two opposing views on how the Cold War came to an end.(10) One school of thought believes that the policy of "containment," including the alleged U.S. efforts to trap the Soviet Union in an escalating arms race, created serious strains and frustrations in the Communist Bloc, eventually resulting in its collapse. The other school contend that the policy combination of "peaceful coexistence" and "change through rapprochement" (to borrow from Egon Bahr's 1963 speech) induced internal changes and eventual implosions in communist societies as people-to-people interaction increased. The truth is probably somewhere in-between. By maintaining a strong military posture against the Communist Bloc, the United States and its allies deterred communist expansion, although it would be an exaggeration to claim that this policy "bankrupted" the Communist Bloc. After all, the economic collapse of the Communist Bloc came after its political implosion, not before. While maintaining strong deterrence, the Western allies also promoted change in the Communist Bloc through increased people-to-people interaction, especially after the Helsinki Accord of 1975. When the Soviet Union itself was internally changed and externally reassured to loosen its grip on Central and Eastern Europe, the Cold War came to an end. Without "change through rapprochement," the policy of "containment" or "peaceful coexistence" would likely have meant the preservation of the status quo. This policy combination is essentially the approach the ROK should adopt toward the DPRK.

Regional Challenge

Compared with the task of building the ROK's deterrent capability vis-à-vis the DPRK, it would be much more difficult to replace the insurance provided by the ROK-U.S. alliance. The ROK came to re-appreciate the value of this insurance in the wake of its historical controversies with China and Japan over Koguryo (11) and Yasukuni Shrine in recent years. Maintaining a strong bilateral alliance with the U.S. and developing good relations with former adversaries in Northeast Asia has been the central tenet of the ROK's foreign policy since the late 1980s, and the end of the ROK-U.S. alliance would require that the ROK engage in proactive diplomacy through both bilateral and multilateral channels.

In particular, the ROK should promote multilateral cooperation in Asia that includes the U.S. In fact, while a bilateral alliance can provide a useful hedge against a third power, a multilateral arrangement can offer a more fundamental solution by addressing the security dilemma. With the balance of power shifting in Asia due to end of the Cold War and the rise of China, regional multilateralism under this U.S.-in-Asia approach provides a means of constraining great powers and preventing continental-maritime confrontation in Asia. If great powers agree to be bound by a multilateral cooperation arrangement, thanks in part to facilitation by middle powers in the region, it can be an effective means of securing a lasting peace. China's proactive multilateral diplomacy since the late 1990s (e.g., Shanghai Cooperation Organization and ASEAN plus 3) has been putting pressure on the U.S. to reassess its multilateral policy in Asia, and this competitive dynamic between the two powers may lead to the creation of multilateral arrangements that include the U.S. as well as China. In fact, a Six-Party security cooperation arrangement in Northeast Asia may become the precursor to this new trend in Asia. In the current context, the U.S. is assumed to maintain interest in the Korean peninsula even after the termination of its alliance relationship with the ROK.

4. Economic Consequences

The security shock of terminating the alliance can be transmitted through three economic channels: defense expenditures, bilateral economic relations, and investor confidence. In the extreme case, the termination of the alliance may drive up the ROK's defense expenditures, ruin its bilateral economic ties with the U.S., and undermine investor confidence so much as to bankrupt its economy. However, as the previous discussion makes fairly clear, this is a rather unlikely event.

The end of the alliance would mean, at minimum, the termination of the "mutual aid" provision in the 1953 ROK-U.S. Mutual Defense Treaty and, quite likely, the withdrawal of the U.S. forces stationed in the ROK. This separation may be amicable or acrimonious. As the reference case of the events since 2002 show, however, even an acrimonious relationship in the security area is unlikely to produce a large spillover effect on bilateral economic ties. Under an amicable separation scenario, everyone agrees that the ROK can afford to increase its military expenditure to defend itself; the termination of the alliance treaty has little effect on overall bilateral relations; and investors remain confident that the peace and security of the Korean peninsula can be maintained. Under an acrimonious break-up scenario, for which "transition planning" is minimal, what matters is the current preparedness of ROK forces. An acrimonious break-up in and of itself is unlikely to disturb mutual deterrence on the Korean peninsula, although it may raise the risk of miscalculation.

Defense Burden

With regard to the increase in defense burden caused by the termination of the alliance, it would be useful to recall that the ROK managed to build its deterrent capability in the 1970s in conjunction with its HCI drive when it was faced with a reduced security commitment from the U.S.-and when it had far less economic and security resources than now, especially relative to the DPRK. With the world's thirteenth largest economy, the ROK should be able to handle its security challenges much more effectively. In such defense-related industries as shipbuilding, electronics, steel, and

automobiles, the ROK is one of the top five producers in the world. It also holds the world's fourth largest foreign reserves, after China, Japan, and Taiwan. The ROK has indeed come a long way since the early 1960s when it was one of the poorest countries in the world.

According to an estimate provided by the Ministry of National Defense to the National Assembly in September 2002, the value of USFK equipment and materiel ranges from 14.0 to 25.9 billion dollars depending on assumptions. With the ROK's current GDP close to \$1 trillion, the cost of replacing USFK equipment and materiel amounts to 1.4 to 2.6 percent of GDP. Although this is not a small sum of money, it is by no means unaffordable for the ROK. In fact, as a percentage of GDP, this additional defense expenditure is much smaller than the burden the ROK had to bear in the 1970s to build up its military. As Figure 1 in the previous section showed, the ROK's defense spending as a percentage of GDP increased from 3.47 percent in 1973 to 5.95 percent in 1980.

Although an increase in defense expenditure is likely to raise fiscal deficit or reduce government spending in economic and social areas, its adverse impact on overall economic growth is likely to be manageable. According to a simulation study released in 2003, the ROK's annual GDP is expected to decline by 1.20 to 1.25 percent each year when the ROK's defense expenditure as a percentage of GDP is increased (by debt financing) from 2.9 percent to 3.5 percent for each of next seven years to replace USFK equipment and materiel.(12) Also, the ROK's experience with a rapid defense build-up in the 1970s suggests that an increased defense burden of this magnitude would not have a large adverse effect on the economy.

Bilateral Economic Relations

As for the spillover effect on bilateral economic relations, it is important to recall that even the acrimonious exchange of words in the security area from 2002 to 2005 did not have a significant economic impact on investment and trade ties between the U.S. and ROK. For the United States, the ROK is now the seventh largest trading partner, ahead of such Western European countries as France and Italy; whereas, for South Korea, the United States is the third largest trading partner, after China and Japan.

Although ROK-U.S. interaction has had a positive influence on the ROK's institution-building efforts in the economic area, this effect should not be overstated. On balance, the ROK's accession to the GATT/WTO, OECD, and other international norm-setting institutions has had a greater impact on economic liberalization than has the ROK's alliance relationship with the U.S. It should also be noted that many non-U.S. allies, including China, have adopted global economic norms as part of their requirements for joining international organizations.

Moreover, the ROK's economic development since the 1960s has reduced its dependence on the U.S. In particular, as Figure 2 shows, China's increasing relative importance to the ROK in economic terms has become unmistakable in recent years. In 1991, the year before the ROK and China normalized relations, China bought only 1.4 percent of the ROK's exports while the U.S. accounted for 25.8 percent. By 2003, however, China's share of the ROK's exports had increased to 18.1 percent while the U.S. share had declined to 17.7 percent. Of course, as the controversy over the ancient kingdom of Koguryo in 2004 suggests, the increasing economic importance of China does not mean that the ROK would lean toward China at the expense of the U.S. The ROK's more diversified economic portfolio just means that it has more independence.(13)

Figure 2. ROK's Bilateral Trade Volume and Trade Balance

More fundamentally, the extent to which trade tends to "follow the flag" seems to have been reduced

in the post-Cold War era. In fact, some have argued that while U.S. allies were "too important to fail" during the Cold War, security considerations no longer play a prominent role in determining a response to a major economic crisis like the Asian crisis in 1997-98. The integration of former (and some current) socialist countries into the global economy seems to have accentuated the tendency to decouple security considerations from economic issues.

Investor Confidence

Although the prevailing assumption is that foreign investment is unsustainable in the ROK without a U.S.-guaranteed peace, it should be asked how essential security is in determining investment inflows and how crucial the U.S. guarantee is in maintaining the peace on the Korean peninsula.

As for the first question, although security may be regarded as the most fundamental variable, what actually played a larger role is the ROK's policy on investment liberalization and commercial attractiveness of its assets. Figure 3 on FDI (Foreign Direct Investment) inflows and Table 1 on the foreign investors' share of ROK stock-market capitalization show that the dramatic increase in investment flows took place in the post-crisis period.

Figure 3. Foreign Direct Investment Flows into the ROK (unit: million dollars)

Table 1. Foreign Investors' Share of ROK Stock-Market Capitalization (unit: percent)

1992	1995	1998	1999	2000	2001	2002	2003	2004	2005	2006	4.9	11.9	19.6	21.9	30.1	36.6	36.0	40.1
42.0	39.7	37.3																

Moreover, the investor reaction to the nuclear crisis on the Korean peninsula for more than a decade suggests that the critical variable is the possibility of war, not the quality of the military alliance per se. In fact, if the ROK-U.S. alliance is strong but is about to launch a pre-emptive strike on the DPRK, investors are likely to take flight from the Korean peninsula and its neighboring countries.

When the nuclear crisis broke for the first time in February-March 1993, the market capitalization of the Korean Stock Exchange declined by 6.5 percent. At this time, there was hardly any strain in the ROK-U.S. alliance, but investors were seriously concerned about a military conflict on the Korean peninsula over the DPRK's nuclear program. By contrast, when investors apparently interpreted the DPRK's brinkmanship in 2005 as an attempt to draw attention from the U.S. and break a diplomatic deadlock, the Korean stock market achieved solid gains.

5. Conclusion

To assess the economic consequences of ending the ROK-U.S. alliance, this paper has attempted to define the event in operational terms and look at the security as well as economic impact of the break-up. First, the end of the alliance means, at minimum, the termination of the "mutual aid" provision in the 1953 ROK-U.S. Mutual Defense Treaty and, quite likely, the withdrawal of the U.S. forces stationed in the ROK. Second, as with any break-up, the ROK-U.S. separation may be amicable or acrimonious; however, even if the break-up itself is acrimonious, its spillover effect on bilateral economic ties is likely to be limited. Third, although mutual deterrence between the ROK and DPRK on the Korean peninsula is likely to prevail even after the termination of the ROK-U.S. alliance, the end of the insurance provided by the alliance may weaken the ROK's position in Northeast Asia and present significant security and diplomatic challenges-but not necessarily economic difficulties per se. Fourth, the security shock of terminating the alliance can be transmitted through three economic channels: defense expenditures, bilateral economic relations, and investor confidence. The ROK's previous experiences with strained alliance relations in the

1970s and recent years provide clues as to how the economic impact of this security shock would be transmitted and managed. Although the break-up is not in the ROK's national interest, the ROK seems to have economic and security resources to deal with this shock.

III. Citations

(1) See Wonhyuk Lim, "Transforming an Asymmetric Cold War Alliance: Psychological and Strategic Challenges for South Korea and the U.S.," Policy Forum Online 06-30A, April 16 (San Francisco: Nautilus Institute, 2006).

(2) See William M. Drennan, "US-ROK Defense Cooperation," in *The Future of America's Alliances in Northeast Asia*, ed. by Michael H. Armacost and Daniel I. Okimoto (Stanford: Asia-Pacific Research Center, 2004), pp.177-89.

(3) See Selig S. Harrison, *Korean Endgame: A Strategy for Reunification and U.S. Disengagement* (Princeton: Princeton University Press, 2003), pp.174-5.

(4) During the public debate on whether to send ROK combat troops to Iraq in 2003, some opposed the move on the ground that the geographical scope of "mutual aid" between the ROK and the U.S. is limited to the Pacific area.

(5) For the ROK, it is imperative that the U.S. strategic flexibility not compromise the security of the Korean people unnecessarily. In particular, it would be critical for the ROK to have an implied de facto veto on the involvement of U.S. troops in a conflict outside the Korean peninsula when they are "operating from," as opposed to "departing from," the ROK—that is, moving back and forth from the ROK to intervene in a third-party conflict, putting the lives of the Korean people at risk.

(6) For example, the *Wall Street Journal* made this point in an editorial, urging the U.S. Administration to "get the troops out of harm's way and do what it takes to remove any threat of North Korean missiles or nukes ever reaching American shores." See "'Sunshine' or Moonshine?" *Wall Street Journal*, March 2, 1999, p.A18.

(7) In a letter to the editor of the *Stars and Stripes*, the driver of the vehicle immediately in front of the one that killed the schoolgirls said the company commander had ignored safety concerns raised by soldiers that morning. See Spc. Joshua Ray, "Higher-Ups Put Safety Second," *Stars and Stripes*, November 22, 2002.

(8) See Wonchul O, *How Did Park Chung Hee Build an Economic Power?* [in Korean] (Seoul: Dongseo Munhwa, 2006).

(9) According to the Penn World Table (<http://pwt.econ.upenn.edu/>), the ROK's real purchasing-power-parity-adjusted per-capita GDP in 1973 (in constant 2000 U.S. dollars) was only \$3,059. By comparison, the ROK's real per-capita GDP in 2004 was \$18,424.

(10) See Wonhyuk Lim, "When in Doubt, Blame South Korea: Politics of Food Aid to North Korea," Policy Forum Online 06-13, Feb. 16 (San Francisco: Nautilus Institute, 2006).

(11) With its territory extending from the northern half of the Korean peninsula to Manchuria, the ancient kingdom of Koguryo had the potential to develop into a contentious issue between Korea and China for some time. A major controversy erupted in April 2004 when the Chinese Foreign Ministry deleted references to Koguryo from the Korean history (country profile) section on its Web site (www.fmprc.gov.cn). This official Chinese move followed the "academic" activities of the government-sponsored Northeast Project, which had claimed that Koguryo was merely a Chinese

vassal state or a Chinese regional province. When the ROK protested, China responded by deleting the entire pre-World War II history of Korea. Many Korean scholars interpreted the Chinese action as an attempt to do the historical groundwork to expand its influence into the Korean peninsula. The Koguryo controversy led Koreans to take a second look at China and to re-appreciate the value of the ROK-U.S. alliance.

(12) This estimate is likely to be close to the upper bound, because the simulation study allows for a rather large multiplier effect. See Dong-Keun Cho, "An Estimation of the Economic Value of the USFK," mimeo, Myungji University, November 2003. The ROK's GDP in current dollars was \$608 billion in 2003.

(13) See Sunhyuk Kim and Wonhyuk Lim, "How to Deal with South Korea," *The Washington Quarterly* 30:2 (Spring 2007), pp.71-82 [http://www.twq.com/07spring/docs/07spring_kim-lim.pdf].

IV. Nautilus invites your responses

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