

APEC AND TWO KOREAS

by

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### I. INTRODUCTION

Two processes of integration will affect the future of the two economies on the Korean peninsula: the integration of each into the international community and the economic integration of the Korean peninsula itself following the unification of two Koreas. Only one of these processes is relatively far advanced: South Korea's participation in regional and global economic systems. While North Korea has expressed some willingness to explore an at least partly open-door policy toward the outside world and engage in mutually beneficial economic interaction in the peninsula, the steps it has taken so far are extremely cautious and tentative, and *Chuche* (self-reliance) remains the official economic philosophy of the North Korean government.

This paper examines the connection of these two processes, using the program of the 18-member economy Asia Pacific Economic Cooperation (APEC) forum as symbolic of South Korea's connection and commitment to regional integrative processes. APEC, in its Bogor Declaration of November 1994, called for "free trade and investment" in the region among the developed countries by 2010 and the developing ones by 2020. Should APEC succeed in this goal, it will clearly have important economic implications for South Korea. But what is perhaps more important for the Korean peninsula is that the success of APEC, which would mean that South Korea would have fully liberalized its trade and investment, may complicate the process of economic unification on the Korean peninsula. Upon unification South Korea will be saddled with a North Korean economy that will require major structural transformation. How this may be done at a minimum cost in an economy one half of which is fully integrated with the international community is a challenging task. The purpose of this paper is to proffer some ideas on how that task may be handled.

Section II discusses the evolution of South Korea's regional policy, the evolution of APEC, and implications of APEC on South Korea. A basic point of this section is that so far South Korea's policy toward APEC has been formulated with scant attention to the possibility of unification. Section III discusses some of the difficulties involved in a merger of two disparate economies. Section IV concludes with a discussion of the policies that South Korea may take toward APEC.

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## II. SOUTH KOREA AND APEC

### (1) South Korea and Regional Cooperation

South Korea can claim with some legitimacy to be an originator of the APEC concept. While notions of intergovernmental Asia-Pacific regional cooperation date back in the academic literature to the late 1960s and entered into governmental discussions in the late 1970s, the specific proposal that led to the creation of APEC came in a January 1989 Australian-South Korean leaders joint communique (Funabashi 1995, p.55).

The South Korean interest in being a part of broader regional arrangements is both very clear and has a considerable history. In 1967, for example, South Korea was the principal sponsor of the Asia Pacific Council (ASPAC) which was disbanded in the early 1970s because Taiwan's membership as the Republic of China was no longer acceptable to most of the other members who recognized the Beijing government following the Nixon China opening. This long-standing South Korean interest was less based on the projected benefits of economic cooperation and more on the value to the Seoul government of its diplomatic and political association with other Asia or Asia-Pacific governments.

Some of these benefits are as follows:

- (a) By associating South Korea with other regional states, it conferred legitimacy on the South Korean state. This was regarded as very important to Seoul, which for many years saw its foreign policy primarily in terms of a struggle with Pyongyang. During much of this period South Korea was a kind of Asian orphan, geographically not eligible for subregional association in Southeast Asia, uncomfortable with Japan, and unrecognized by the People's Republic of China and the Soviet Union.
- (b) There was a potential in regional cooperation for developing associations with Asian governments with which South Korea did not yet have diplomatic relations. In fact, South Korea took the lead in negotiating China's entry into APEC (along with that of Taiwan and Hong Kong) prior to the second APEC ministerial in Seoul in 1991 and in the process augmented its contacts and relations with the mainland government (Funabashi 1995, pp.73-76).
- (c) The association with Asia-Pacific countries represented a diversification of South Korea's foreign policy which has been characterized by an asymmetrical relationship with the United States. This diversification not only made sense in terms of foreign policy but also in terms of domestic policy, where Korean nationalism favored an apparent reduction of tensions with the United States. At the same time, as South Korea became less and less certain about U.S. commitments in the region, Asia-Pacific cooperation was seen as a way of adding to the U.S.-Asia links and maintaining the U.S. interest and presence in the region.
- (d) South Korea could gain bargaining leverage vis-a-vis larger neighbors or trading partners through association with other medium-sized or smaller countries with similar interests.

For South Korea, APEC is thus a vehicle for association with other Asia-Pacific nations, an opportunity for maintaining but diversifying its relations with the United States, and a venue for maximizing its influence and bargaining leverage. In terms of domestic politics, APEC clearly seemed to have positive benefits for South Korea and few or no political negatives. However, the evolution of APEC from a "talk shop" in its earlier stage (1989-95) toward a vehicle for the implementation of trade and investment liberalization and facilitation (from 1995 onward) makes APEC potentially more controversial.

## (2) APEC's Evolution and the Vision of Free Trade and Investment

APEC's evolution over the course of the past six years suggests that (a) the time was ripe for an Asia-Pacific wide cooperative organization and (b) enough of the core member-economies in APEC had experience with multilateral institutions so that they relatively quickly developed a modus operandi that facilitated the development of the organization. During these early years, APEC can be said to be a talk shop, that is, a series of meetings that issued declarations and communiques but little substantive results. Although 10 working groups were set up relatively early, these too appear to have been discussion fora, often for relatively technical issues.

The ASEAN countries in particular were reluctant to see APEC development into a real institution. This reluctance is reflected in the name obviously lacking a noun that gives a sense of an organization. A secretariat was created only in 1993, and then only the most minimal structure possible to provide a center for coordination of the plethora of meetings taking place under APEC auspices. Only a modest augmentation was agreed to at the 1995 Osaka Ministerial Meeting.

Two changes came together in 1993 that began APEC's transformation into something that may be more than a talk shop—the establishment of an Eminent Persons Group (EPG) and the first informal Economic Leaders Conference. The 1993-95 Eminent Persons Group, led by C. Fred Bergsten, was dominated by economists who largely saw APEC in terms of economic liberalization. The group had a powerful effect on the APEC institution, guiding the economic leaders toward a vision of free trade and investment in the region by 2020 (2010 for the advanced economies).

This would not have occurred, however, had not APEC's highest decision-making body been transformed, albeit informally, from the ministerial to the head-of-government level. The Leaders Conference came at the initiative of President Bill Clinton during the American year for chairing APEC (1993). It was unprecedented in the sense that there had never before in history been a joint meeting of the leaders of the three great powers of the Asia-Pacific region—China, Japan, and the United States—much less with an array of leaders from nearly all the other nations. By 1994, the Leaders Conference appeared to be an established annual affair that would be difficult for any leaders to miss (although, of course, some will from time-to-time and in fact President Clinton reluctantly did in 1995). It was the Leaders, and particularly President Suharto in 1994, that embraced the EPG vision of free trade,

setting APEC the task of coming up with an action agenda and requiring "down payments" by the time of the 1995 Osaka summit.

The principal discordant note in these formative years came from Malaysia. Prime Minister Mahathir had urged the establishment of an East Asia Economic Caucus (EAEC) in 1990, and this proposal was strongly opposed by U.S. Secretary of State James Baker, who lobbied particularly hard against it at the time of the 1991 Seoul APEC ministerial meeting.

There were several stated and implied American reservations: that EAEC might detract attention from APEC and would, in any event, add nothing to APEC; that EAEC might be a focal point for Congressional protectionism targeted against Asian countries (which the Administration was combatting); and that by omitting the United States, the EAEC might easily become Japanese dominated, with possible economic implications for the U.S.-Japan relationship.

Although the EAEC evoked sympathy in pan-Asianist elements in Japan and South Korea, the two governments were more strongly influenced by the negative sentiments from the United States. A perception of a relatively lukewarm endorsement of the concept by ASEAN also helped the foreign ministries resist the EAEC pressure. Of the Northeast Asian countries only China outright endorsed the EAEC concept.

Mahathir petulantly ignored the first APEC leaders meeting, but he attended the following two, and Malaysia offered to host APEC in 1998. The Malaysian government has continued to express its opposition to over-institutionalizing and insisted that the 2010/2020 dates are indicative rather than binding.

### (3) Negotiating Free Trade and Investment

By all appearances, the Bogor Declaration was adopted without much attention to the details. Malaysia expressed reservations at the time, and Thailand did a little later. But for the most part the strategy seemed to be the one also adopted by ASEAN in establishing its own free trade area—general statements first and negotiated details later. This raised numerous questions, however. The most basic was how the vision of free trade and investment is to be achieved, particularly since APEC itself was not formally a negotiating body. Nor was the Declaration binding. As noted by an Indonesian representative at the first Senior Officials Meeting following Bogor, it entailed a political but not a legal commitment.

As a political commitment, the APEC member-economies wrestled with the question of how to proceed toward achieving their goal for the November 1995 Osaka meeting—a blueprint of how to proceed (or "action plan") and "downpayments"—that is, concrete steps to be taken. The principal mechanism, called "concerted unilateralism" for a time, seeks to move forward on the basis of coordinated, voluntary liberalization and deregulation. This concept, building upon the recognized past steps being taken in the region toward liberalization and deregulation, hopes to hasten and organize the process. Each member, referring to commitments made by the others, could gain political backing for going ahead

at an even faster pace with liberalization steps that were in its own self-interest to carry forth anyway and were consistent with underlying directions in the regional economy.

It raised, however, several questions that were basically papered over in the Osaka summit. These include:

- (a) **Comprehensiveness.** Should free trade and investment cover all goods, or could there be exclusions. No one had said anything in Bogor about exclusions, but the strong rice lobbies in Northeast Asia were opposed to any liberalization beyond those agreed to in the Uruguay Round negotiations. On this commodity Japan, South Korea, Taiwan, and China were arrayed formally asking for a waiver, while the other 14 member-economies insisted on comprehensiveness. In the end, the Northeast Asia group agreed to the principle of comprehensiveness so long as "flexibility" is to be applied.
- (b) **Comparability.** The United States insisted that the measures taken unilaterally needed to have roughly comparable economic benefit for other member-economies. This notion, however, suggests a level of negotiation and formalization that many members were not willing to undertake. How it is applied in practice remains to be seen.
- (c) **The 2010-2020 Divide.** Which countries should be required to meet the earlier dates and which the second? The biggest question here is China, which regards itself as a developing country needing the extra ten years.
- (d) **Most-favored Nation Treatment.** APEC is designed as a form of "open regionalism" and this means, in the view of some countries, that trade concessions made within the APEC should be liberalized toward the world as a whole. But in the view of other countries, especially the United States, this posture is not politically or economically sound because it allows countries outside the region to free ride on trade concessions among regional countries without giving anything in return.<sup>1</sup>

In addition to concerted liberalization, the APEC members will take collective action and seek trade liberalization through influencing the WTO process.<sup>2</sup> At this point, it is still unclear how APEC will proceed as a trade liberalization device, but it does appear that despite other areas of cooperation (including a broad category of "development cooperation"), trade and investment liberalization will be the main thrust of APEC. It is quite unclear,

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<sup>1</sup>The United States has a specific reservation regarding the People's Republic of China which comes under the "Jackson-Vanik" provisions of the U.S. Trade Act of 1974, originally intended to encourage Jewish emigration and other human rights from the Soviet Union. Under Jackson-Vanik, the President must annually ask that most-favored nation treatment be extended to China as a communist country, and any broader guarantee of most-favored-nation would be inconsistent with this law.

<sup>2</sup>Next year's November 1996 APEC meeting precedes the December 1996 WTO ministerial in Singapore. The APEC leaders agreed to "explore joint initiatives" in the WTO.

however, what political will exists in any of the APEC member-economies (apart from small traditionally free trade oriented economies like Hong Kong and Singapore) for true free trade.

In the United States, for example, the Congress has not reinstated so-called "Fast Track Authority" under which the Administration undertakes trade negotiations, even to negotiate the accession to NAFTA of Chile. There is particular opposition to free trade with Asian countries because of the perception that these have alien business cultures with established informal barriers to U.S. exports beyond the reach of trade negotiators and that some countries' very low wages combined with an relatively efficient work force will present a competitive threat to higher wage U.S. industries that the United States cannot cope with.

In the case of China, there also seems to be considerable opposition to substantial trade liberalization, resulting in a stand-off between the major developed countries (the Quad group--U.S., Japan, European Community, and Canada) and China over its World Trade Organization membership. China used the Osaka APEC meetings to announce tariff cuts on 4000 items (yet to be determined) and other liberalization measures, and this has been welcomed as a step forward even though it cannot yet be fully evaluated. As pointed out above, Japan and South Korea have special problems over rice, but even aside from agriculture, neither country is noted for its aggressive stance on trade liberalization. Therefore, while the 2010/2020 targets may seem far off today, they also appear quite unrealistic.

#### (4) South Korea and APEC Free Trade and Investment

Like the other leaders, South Korean President Kim Young Sam has endorsed the APEC vision as a political if not a legal obligation. South Korea is gradually liberalizing and deregulating its economy, so that it is moving in the direction established by APEC. Moreover, APEC would seem to provide South Korea with some guarantee of being in the same economic grouping as the United States, its single most important market. South Korea had been concerned about the direction of U.S. trade policy indicated by NAFTA, a preferential arrangement in which South Korea was left out. The APEC arrangement would reduce the discriminatory margin over time of the NAFTA.

The free trade and investment schema present, however, a number of challenges for South Korea. These include:

- (a) South Korea is already under extensive unilateral pressure from the United States on a number of trade fronts. South Korea presumably has been looking at APEC more as a vehicle to contain such unilateral pressures in concert with other Asian countries than as a vehicle for adding to such pressures.
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- (b) South Korea has a special sensitivity with respect to trade liberalization with Japan, both for current economic reasons as well as for historical reasons. Thus Korea has sought to discriminate in favor of imports from the United States and against those from Japan. Such discrimination could become increasingly difficult.
- (c) As noted above, agriculture is particularly difficult sector for South Korea and other Northeast Asian countries in which to envision free trade. South Korea does not want to go beyond the very politically difficult commitments it has already made in the Uruguay Round.
- (d) South Korean industrial sectors will have increasing concerns about lower wage manufactured imports from China and developing Southeast Asian countries.
- (e) South Korea has a reputation for a particularly restrictive investment climate with quite small foreign investment relative to overall investment in the economy. Thus any significant degree of investment liberalization beyond equal nation treatment is likely to be resisted by economic and bureaucratic interests.

Therefore, while we have not attempted to model the implications for South Korea of APEC trade liberalization, there is reason to believe that South Korea will approach APEC trade and investment liberalization cautiously, just as in the case of most other APEC economies.

### III. APEC AND THE UNIFICATION OF TWO KOREAS

As the discussion in the preceding section indicates, South Korea's policy toward regional cooperation and APEC seems to be premised on there not being a merger of two disparate economies on the peninsula. Given, however, that there is a possibility of such a merger, we need to examine what implications it might have for South Korea's policy toward APEC. If, however, North Korea maintains its own political regime, its policies with respect to APEC will also proceed entirely independently.

If unification takes place before the North Korean economy has reached the same level of development as the southern counterpart and before its external and internal economic policies has become congruent with those of South Korea, there will be two disparate economies but under one policy regime on the Korean peninsula. One will almost have reached the status of a fully developed economy with its markets well integrated with the rest of the world whereas the other will be still developing, if not isolated from the rest of the world and following socialist principles of economic management. It seems likely, however, that in any scenarios involving political integration the more disadvantaged economy would seek full integration, as indeed was the case in Germany. Given the possibility of unification and a merger of such disparate economies, we need to evaluate whether the current South Korean policy stance toward APEC is appropriate and, if not, how it should be changed.

The unification experience of Germany has clearly demonstrated that the merger of a former centrally planned socialist economy with a capitalistic open-market economy is a costly process involving both structural transformation and economic integration. Any



structural change of the magnitude that East Germany has gone through is costly in terms of output and employment, whether such a change involved the transformation of a centrally planned to market economy or even a significant change within a market economy. In fact, the post-World War II conversion of a war-time to a peace-time economy in the United States brought about a contraction in output and employment no less severe in magnitude than that suffered by East Germany (Schatz and Schmidt 1992). In the case of East Germany the problem was compounded by the fact that its economy, while undergoing structural transformation, was at the same time being integrated with the rest of the world (Schmidt and Sander 1993, Siebert 1993).

A merger of a former socialist economy with a capitalist open economy involves, as demonstrated in the case of Germany, both structural transformation and integration. The first requires privatizing state-owned enterprises, dismantling collective farms, and establishing markets and the institutions of economic policy such as the legal framework for economic activity, government administration, the central bank, the banking system, companies as well as employer and labor associations. The second entails the liberalization of trade as well as the migration of people and the flow of capital and thus integrating the North Korean economy with the South Korean economy and those in the rest of the world.

Transforming a socialist economy into a capitalistic market economy has been shown to be a costly and time-consuming process. There is no reason to expect otherwise in the case of North Korea even though markets and market-supporting institutions will be transferred from South Korea in a relatively short period of time. The process of privatizing state-owned enterprises can be, however, a lengthy process and it is important to carry it out as expeditiously as possible (Lee and Reisen 1994). Unlike China, the North Korean economy in the context of unification would not have sufficient autonomy to delay this process. The German experience strongly recommends a shock-like transformation of North Korea to a market-based system. That is, the introduction of markets, privatization, and the establishment of market-supporting institutions should be carried out not in a gradual manner but all together in as short a period of time as possible (DIW 1995).

One of the most critical issues in transformation is the privatization of the economy through the privatization of state-owned enterprises and the creation of new private enterprises—the so-called bottom-up privatization. The privatization of most, if not all, of state-owned enterprises in North Korea will have to be carried out as quickly as possible upon unification. Privatization experiences in East Germany and Poland point out that although privatizing small-scale enterprises, especially in the service sector, is relatively easy there are several obstacles to privatizing large state-owned industrial enterprises.<sup>3</sup>

Experiences in other former socialist countries demonstrate that many of state-owned enterprises are overstaffed, inefficient, and lack competitive quality standards. Furthermore,

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<sup>3</sup>Privatization of small commercial and industrial firms was rapidly carried out in Poland. Financing them seems to be a major problem as banking system would have difficulty in appraising small firms headed by new entrepreneurs (Fisher 1992)). This is another reason for establishing special development banks in North Korea.

the claims of dispossessed previous owners and the lack of capital market institutions have hindered rapid privatization (Schmieding 1992).

Uncertainty regarding property rights (ownership) has been identified as a main cause for lack of investment and, worse, for depletion of the existing assets in eastern Germany (Sinn 1992).<sup>4</sup> The establishment of a clear ownership title can be, however, a highly politically sensitive and time-consuming process. Some of the reasons for that are the difficulty in distinguishing between the ownership of a firm and the ownership of land, incomplete and neglected records, administrative bottlenecks in processing claims applications (1.2 million applications in the case of Germany), and multiple ownership claims when a firm has added pieces of land and buildings over time (Siebert 1991).

In Germany, until March 1991 any attempts at privatization by the Treuhandanstalt was frozen whenever claims by previous owners were announced.<sup>4</sup> A decision on 23 April 1991 by the German Constitution Court has reduced, but not eliminated, the role of restitution by ruling that restitution does not have to be the only solution for expropriation that took place after 1949. The decision has thus separated in principle the issue of the claims of dispossessed previous owners from the issue of compensation.

In North Korea, disputes over ownership may be less a serious obstacle as most of the private enterprises that were socialized in 1946 had belonged to the Japanese and would not be claimed by their former owners. Many of the enterprises that were established after 1946 were created by the state or local authorities, and there would be no claims for restitution or compensation against them. But even in these cases potential disputes could arise over the ownership of the land on which state-owned enterprises were established. To prevent such disputes from stalling the privatization process, unified Korea should establish from the beginning that compensation, not restitution, is the general remedy in settling ownership disputes. Then, enterprises can be rapidly privatized with the compensation being made at a later date by the state whenever ownership disputes are settled.

Bottom-up privatization is a key to privatizing the economy, but in the case of East Germany it has not been very successful as its economic integration with West Germany had the effect of diverting demand from East German firms to imports from West Germany and the rest of the world. Lacking experience with and knowhow about a market economy, many East German firms were unable to compete with imports from West Germany and the rest of the world. If East Germany had maintained its own currency system it could have selected an appropriate exchange rate to compensate for their lack of international competitiveness. Clearly, integration of the East German economy with that in West Germany under a single currency system has made more difficult for East German firms to be competitive with imports.

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<sup>4</sup>The Treaty on German Economic, Monetary and Social Union of July 1, 1990, which formalized the economic union of the Federal Republic of Germany and the German Democratic Republic, established the Treuhandanstalt ("trust fund") to help privatize the state-owned enterprises while restructuring the supporting them temporarily.

The same is likely to happen in North Korea if integration takes place with the South Korean economy under a single currency system and with South Korea following the APEC schedule on trade and investment liberalization.

The German unification experience suggests that the integration of North Korea into the world market should happen more gradually step by step to allow firms to adjust to the fundamentally changed environment. As pointed out in the DIW report, North Korean firms should be given "handicaps" while integrating into the world market by observing the rules of international competition among market economies and reform its laws and institutions accordingly. As a way of providing North Korea with a handicap the DIW report recommends a separate currency system for North Korea with either a freely floating or officially fixed variable exchange rate. This is certainly a possibility if what is to take place on the Korean Peninsula is just a commonwealth of two Koreas. If, however, there is a sudden merger as in the case of Germany, it is very unlikely that there will be two separate currency areas on the peninsula. The timetable for trade and investment liberalization for unified Korea will then become that for South Korea, and how the northern part of the unified Korea can be provided with a handicap becomes a matter of serious concern.

Safeguards will be available for APEC members to temporarily halt, or even reverse, liberalization that they have already announced, as a result of import surges or other unexpected effects on their economies. South Korea may opt to follow the current timetable for trade and investment liberalization but use the safeguards when unification actually takes place. It must be recognized, however, that since safeguards are industry- or product-specific, they may not be an effective tool in helping economy-wide structural adjustment. The matter will be further complicated since it will be difficult to apply safeguards only on those produced by North Korean enterprises. It is nevertheless important that safeguards be made available to South Korea if and when unification takes place on the Korean peninsula.

Given that a unified Korea with a common currency will have to maintain one common timetable and given that safeguards may not be an adequate handicap for the North Korean economy, subsidies may have to be given for both investment and employment in North Korea. Subsidies on investment will encourage the inflow of capital to North Korea while subsidies on employment will discourage the movement of labor from North to South Korea. Given the likelihood that such subsidies will be large and given that a severe economic hardship in unified Korea may have a significant regional spillover effect, South Korea should request APEC to help create a regional fund for unification on the Korean peninsula.

#### IV. CONCLUSIONS

Our review of APEC and issues relating to unification suggests several conclusions. First, to a remarkable degree in both analytical and policy terms South Korea seems to have isolated its APEC (and WTO) policies toward the region and globe from issues of Korean unification and its economic consequences. This disjunction probably represents at least three factors:

- (1) APEC is an ongoing process to which the South Korean government needs to relate here and now, while North-South unification remains highly speculative.
- (2) Recognizing the economic dislocations that would occur to its own society from any German-style unification, the South Korean government basically hopes for a controlled process of peaceful integration. South Korea's unwillingness to grapple seriously with the implications of other scenarios may reflect the power of this wishful but quite possibly unrealistic thinking.
- (3) Finally, bureaucratically, APEC and Korean unification are dealt with in different South Korean ministries.

It is our belief that South Korea should give more careful attention to the implications of APEC for Korean unification and vice versa. Clearly, South Korea's preoccupation in this free trade and investment scheme hastens its integration into the regional and global economies and will add to the gap between the two Korean economies, complicating the later convergence process. South Korea should not sacrifice the benefits it can gain through APEC liberalization on account of some hypothetical process of future unification. And whatever time unification occurs, the managing of the economic adjustment processes in the Korean peninsula will be South Korea's highest priority. This may require some derogation from APEC obligations. The question is not really one of trade-offs between APEC membership and unification, but how to manage both in the best possible manner.

Second, as part of its efforts to assist North Korea in developing a more open posture toward the rest of the world, South Korea should offer to keep the North continuously informed about APEC activities and South Korea's policies toward those activities. Despite APEC's propensity so far to widen rather than deepen, it is unrealistic to expect North Korea to be accepted by the other members for membership at any time soon. However, APEC has decided to establish a procedure by which non-members may, on a consensus basis, participate in APEC working group activities. South Korea could encourage the North to become involved in these non-political working groups.

It is likely that North Korea will regard as patronizing South Korean efforts to brief about or consult with Pyongyang on APEC activities or encourage North Korean participation in APEC working groups. For this reason, South Korea should make its steps toward North Korea on these matters in a low-key, patient manner.

Finally, it should be remembered that APEC involves "economic and technical cooperation" in 13 specific areas as well as trade and investment liberalization and facilitation. Many of these areas – human resource development, industrial science and technology, small and medium enterprise development, energy, telecommunications, trade promotion, fisheries and agricultural technology, for example – may be quite relevant to Korean unification.

Certainly if there is a sudden reunification, the economic costs to South Korea will be much higher in proportion to the size of its own economy than was the German reunification. Since unification, however, will contribute to the peace and long-term prosperity of the entire Asia-Pacific regime, Korea's APEC partners have an incentive to assist South Korea with the unification effort. One could imagine that APEC might have a special supportive role to play

in this process. To end on the theme at the beginning our conclusions, however, APEC will be prepared to play such a role only if there has been some preparatory thinking and planning about what such a role might entail, at least in the South Korean government and one or two of the other major APEC governments. However, APEC and reunification should not be in tension, but should be mutually supportive.

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