While the oversize personalities of North Korean leader Kim Jong Un and US President Donald Trump tend to dominate global attention on the continuing efforts to resolve the North Korean nuclear issue, the peace initiative of South Korean President Moon Jae-in — the man in the middle — is increasingly pivotal to how things evolve among all of the players in this complex diplomatic drama.

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Making Transformative Peace: The Bold Vision for A Peace-Driven Economy

By Jangho Choi & Jae-Young Lee

Moon Jae-in’s vision sees peace between the two Koreas as a way not only to drive economic growth on the Korean Peninsula but also to transform economic relations in Northeast Asia, write Jangho Choi and Jae-Young Lee. While rooted in solid economic theory, Moon’s ‘peace economy’ initiative suffered a setback following the collapse of talks between the US and North Korea, but the authors urge patience and a long-term perspective.

The initiative to build a peace-driven economy on the Korean Peninsula has its origins with the Berlin Initiative proposed by South Korean President Moon Jae-in in 2017. Invited to Berlin by the Körber Foundation amid tension on the peninsula due to repeated nuclear and missile tests by North Korea, Moon proposed five key policy directions. Eventually, North Korea responded to the peace initiative and decided to participate in the 2018 Winter Olympics, followed by an inter-Korean summit and summits with the US and China. The series of talks kindled hopes for peace on the peninsula. The president spoke about a “new Korean Peninsula regime” in remarks on March 1 this year, offering a more comprehensive and specific blueprint based on the Korean Peninsula peace initiative introduced in 2017.

Before examining the “peace-driven economy initiative,” it is crucial to understand the Sunshine Policy pursued under previous liberal South Korean governments. This policy was grounded in the liberal theory that claims economic exchanges promote peace. The Mt. Kumgang tourism program and the Kaesong Industrial Complex are classic examples of how peace can be attained through economic co-operation. These two projects partially contributed to lowering tensions on the Korean Peninsula and raised hopes for a permanent peace. However, they were discontinued following the additional nuclear tests conducted by North Korea and the killing of two tourists, making it evident that economic development would be limited without the denuclearization of North Korea and the elimination of military tension between the two Koreas. In addition, the realization grew that the nuclear tests are a reflection of Cold War politics in Northeast Asia and would require a framework to discuss peace in the region. Out of these discussions was born the vision of a peace-driven economy.

The peace-driven economy initiative reflects current circumstances and past experiences of inter-Korean co-operation through the 1990s to 2010s. It is a revised approach to realize the Korean Peninsula peace initiative through capitalist peace theory. It is also a comprehensive model that accounts for the geopolitical structure of the Korean Peninsula and the multilateral sanctions placed upon North Korea. From the perspective of this comprehensive geopolitical assessment, the peace-driven economy initiative can thus be seen as the most practical and valuable strategy.

A further development is represented by the “new Korean Peninsula regime,” identified by President Moon earlier this year as “a new order of peace and co-operation” on the peninsula for the next century. This implies a shift from reactive Cold War politics to an active peace order.

One approach to establishing this would be to form a “new community of peace and co-operation” and a “new community of economic co-operation,” signifying that peace and prosperity would be shared by all of Northeast Asia, not just the Korean Peninsula. The grounds for this are provided by the peace-driven economy initiative and the theoretical concept of such an economy. The initiative focuses on the mutual reinforcing effect that peace and economic prosperity create rather than any unilateral effect by one on the other. This can also be described as a virtuous cycle driven by peace and leading to economic prosperity.

Moving on Two Fronts: Peace and Prosperity

The peace-driven economy initiative goes beyond the unilateral, functionalistic approach of conventional ideas of economy and peace. It is an economic and theoretical model that pursues economic prosperity and peace at the same time. Were the initiative to lift off, it would take the following course. First, it would enable economic gains. If there are no nuclear weapons left on the Korean Peninsula, joint business and economic projects will become possible between the two Koreas. In the short term, we can start with humanitarian aid and later move toward reinstating the Mt. Kumgang tourism project and the Kaesong Industrial Complex. The economic co-operation will break the stalemate of bilateral negotiations on denuclearization and prime the pump to drive a virtuous cycle. Next would be a peace settlement, helped along by inter-Korean economic co-operation.

Following this would be the expansion of peace across all of Northeast Asia. Restoring inter-Korean relations would lead to normalizing North Korean relations with the US and with Japan. The result would be a new peaceful order in Northeast Asia. The last stage would be economic growth beyond Northeast Asia to Southeast Asia and Eurasia by pursuing a “new southern policy” and “new northern policy.” This is how the Korean Peninsula would look under a peace-driven economy.

The concept of a peace-driven economy originates from the European Coal and Steel Community (ECSC), the 1950s forerunner of the European Union. France’s foreign minister at the time, Robert Schuman, proposed the integration of the coal and steel industries between France and West Germany in 1950 as a way to make future war “impossible” between the two nations. This was one of the greatest outcomes in the drive to transform Germany into a peaceful nation after the Second World War. Of course, there were ulterior motives: France wanted to secure high-quality German coal, Germany wanted to improve its image and eventually reunite East and West Germany. As a result of these broader agendas, the ECSC, designed to pursue co-operation in coal and steel, eventually grew into an organization to forge broad economic and security co-operation in Europe.

How Does Peace Lead to Prosperity?

As discussed earlier, the ways by which economic growth can promote peace is a longstanding research topic in international politics, based on the theory of liberalism. The opposite process — peace promoting the economy — has not received as much attention. We believe this is because peace is largely understood as an abstract idea. But if we see the notion of peace as a specific and comprehensive economic condition, we can see that this has been a familiar topic for a very long time.

If a state of substantive peace is established, it can...
be seen as reducing certain economic inefficiencies. More specifically, we can resolve the imperfect allocation of resources by establishing peace. The economic parlance suggests that there are ways in which the current state of resource allocation can be given a Pareto improvement, meaning a change in allocation harms no one and helps at least one person and likely many more. The most symbolic example would be military expenses. In addition, inter-Korean economic co-operation would ensure efficient allocation of resources. North Korea has comparative advantages in labor and land, while South Korea has a massive lead in technology and capital. By the theory of trade, if we combine those two, productivity would significantly rise.

Peace also can help remedy the currently incomplete legal and institutional frameworks required for inter-Korean exchanges. Institutional barriers are fundamental obstacles that hinder both sides from making exchanges in various sectors. In general, nations will conduct negotiations to sign free-trade agreements (FTAs) or multilateral trade agreements in order to set up a favorable environment for their interests. While Seoul and Pyongyang established an institutional framework by signing the Inter-Korean Basic Agreement in 1991, this is far from complete by international standards. This was a huge predicament for South Korean corporations that were engaged in inter-Korean economic co-operation and there were many demands for revision. It is hoped that when peace is settled, we can revisit the Basic Agreement or sign a comprehensive economic partnership arrangement.

Another expected outcome of peace would be a decrease in political insecurity. Before making an investment, most companies estimate expected revenues and expected costs. Assuming they are rational, they would invest only when the former exceeds the latter. Political instability reduces expected revenues and raises expected costs. In other words, uncertainties lead to the suspension of corporate investment. The last way in which peace can promote the economy would be by eliminating physical barriers and establishing an economic bloc. While Korea is located on a peninsula, for the past 70 years it has effectively been an island, no different from Japan. The current administration is pursuing the New Northern Policy, which aims to connect Russia’s far east and China’s northeast. There have been no substantial outcomes, however. Should there be progress in making peace, then North Korea would no longer be a barrier to expanded links with China and Eurasia.

What Are the Prospects for the Peace-Driven Economy Initiative?
President Moon quoted German statesman Goethe in his March 1 Independence Movement Day address last year: “Dream no small dreams, for they have no power to move the hearts of men.” He presented the new Korean Peninsula regime as a vision to replace the order that has held sway for the past century. If realized, it will lead to a new community of peace and economic co-operation in the whole of Northeast Asia.

The peace-driven economy initiative centers on the vision of the virtuous cycle of peace allowing for economic gains, which in turn fosters peace. The improvement of inter-Korean relations via economic co-operation also promises to allow for a real relationship between North Korea and the United States. Then it could lead to the declaration of the end of the war, signing of a peace treaty and the establishment of diplomatic relations between Washington and Pyongyang. This new order could then guide the peninsula and Northeast Asia to prosperity under the “new economic map” envisioned by President Moon in 2017. Yet, there will be adversities ahead that require resolution of conflict within South Korea, between North and South and across Northeast Asia. Of course, there are also practical restraints to be overcome as well, such as the easing of economic sanctions on North Korea.

The collapse of the Hanoi summit in February left North Korea and the US at an impasse, and as a result conditions for the peace-driven economy initiative are difficult. North Korea is performing a diplomatic dance that raises concerns over whether it might return to its previous reclusive state. South Korean society is now also showing signs of frustration after the initial surge of hope. But if we remember the situation a year ago, when the first inter-Korean summit took place, it is remarkable that the two Koreas reached détente at all. Now is the time to gather our strength and look at the current situation from a longer perspective.

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