

Defense Spending vs. Economic Growth: A New Controversy in the Era of Inter-Korean Reconciliation and Cooperation

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Over the last year and a half, the guns-and-butter issue in South Korea has suddenly appeared as one of the most urgent items on its security agenda. This is rather surprising, given that people in the South have tended to view defense spending as inviolate in light of the real and perceived threat of North Korea. Today, the debate on how much defense spending is enough has come into vogue not only among the general public but also among policymakers. This heightened interest in military spending would appear to be the result of two factors.

The first major event that has contributed to the debate on defense spending is the end of the Cold War arising from the political disintegration of the Soviet Union. The winds of change in the East and West confrontations finally blew to the Korean peninsula and the two Koreas formally brought into effect the "Agreement on Reconciliation, Non-Aggression, and Exchanges and Cooperation" (hereafter abbreviated as "Basic Agreement") and the "Joint Declaration on the Denuclearization of the Korean Peninsula," at the Sixth South-North High Level Talks held in Pyongyang from February 18-21, 1992.

These signs of change in South-North relations make some reductionists question the wisdom of maintaining large military expenditures and suggest conversion of the funds into welfare and social infrastructures for eradicating economic difficulties currently faced by South Korea.

Second, the liberalization of the South Korean political system ultimately makes it possible to break with the notion that security issues lie beyond the scope of public accountability. Due to the democratization process initiated in 1987 and the changed dynamics in the domestic political structure, distributional pressures for social welfare have become much more visible and powerful influences on decision making in such crucial areas as defense spending.

Nevertheless, the immediate result of the ongoing debate will more likely be a slower increase rather than a significant reduction.

This study attempts (1) to examine the validity of the argument that reductions in arms spending would improve economic performance, (2) to explain what determines South Korea's large military expenditures and why it is difficult to reduce them, and finally (3) to seek ways to institutionalize arms control and arms reductions on the Korean peninsula.

Finally, this study suggests that aiding North Korea's defense conversion will be a plausible means of giving Pyongyang an incentive to give up its military buildup, and therefore contribute to arms control and arms reduction on the Korean peninsula.

Ongoing Debate on the Level of Defense Budget

The sudden demands for a cutback in South Korea's enormous defense budget is in part a product of its domestic economic difficulties. Recent reports that the Korean economy is losing its competitive edge in sharing export markets have fueled calls for smaller defense spending. Reductionists argue that the changing global situation resulting from the disintegration of the former

Soviet bloc has reduced the chance that Pyongyang will mount a surprise attack on the South.

Within the South Korean government, however, few officials are inclined to accept the theory that North Korea's hostility will lessen significantly due to the climate of international detente. They agree that chances of another war breaking out on the Korean peninsula have been reduced considerably, but point to North Korea's continued use of a quarter of its GNP on military spending as reason for caution. Further, North Korea's developing nuclear weapons program and its missile system capable of delivering nuclear warheads, can be regarded as a major threat not only to South Korea but also to the surrounding nations, including Japan. Despite its unilateral reduction of 100,000 troops in 1987,¹ the North still maintains 995,000 men under arms compared to South Korea's armed forces total of 650,000.²

The debate over military spending began in September 1991 when the Minister of National Defense, Lee Jong-Koo, asked for a 25% increase in the defense budget for the fiscal year 1992. In seeking Won 9.6 trillion (US\$13.2 billion), against the FY 1991 level of Won 7.7 trillion, Lee emphasized the need for South Korea to acquire state-of-the-art weaponry, including a new fleet of F-16 fighters and P3 Orion reconnaissance planes.³

Procurement of such expensive high-tech weapons would inevitably increase the defense budget. According to a recent article the acquisition of F-16s will cost the government US\$5.3 billion and the P3 Orions will cost US\$800 million.⁴

1 Yong Kwan Chung, "Pukhan Kukbang Chongch'aek ui Kujo wa Yoksa e daehan Yongu," (A Study on the Structure and History of North Korean Defense Policy) *Pukhan Yongu* (North Korean Studies), Vol. 2, No. 3 (Fall 1991), p. 201.

2 The Ministry of National Defense, *ROK Defense White Paper 1991-1992*, p. 108. However, other sources indicate that its numbers are over 1.2 million. See Nicholas Eberstadt and Judith Banister, "Military Buildup in the DPRK: Some New Indications from the North Korean Data," *Asian Survey* Vol. XXXI, No. 11 (November 1991), pp. 1110-1112.

3 Jae Hoon Shim, "Soldiering on," *Far Eastern Economic Review*, 26 September 1991, p. 27.

The MND finally did get Won 8.41 trillion for FY 1992 and is now asking for Won 9.84 trillion for FY 1993, a 17% increase.⁵ Over the last five years the defense-budget to government-budget ratio has been 30% for 1988, 31.3% for 1989, 29.3% for 1990, 27.6% for 1991, and 25.3% for 1992. Meanwhile, the defense budget to GNP ratio was 4.37% for 1988, 4.26% for 1989, 3.94% for 1990, 3.77% for 1991, and 3.71% for 1992. The MND announced in its Mid-Term Defense Plan on 17 May 1992 that it is planning to maintain an average defense budget ratio of 24.4% of the government budget and 3.69% of GNP, an annual increase of 12.4% for the next five years (1993–1997).⁶

Since the collapse of South Vietnam in 1975 military expenditure in South Korea has seldom dropped below 30% of the national budget. Under an agreement with the U.S., total defense spending has ranged between 6% of GNP in the early 1980s to 3.77% this year.

Opposition parties are always asking for a cutback, but their demands have never really attracted public support. Moreover, in practice, the defense budget has never been challenged seriously in the National Assembly simply because the Defense Committee is dominated by ruling party members. However, a challenge to the way the government deals with defense spending came unexpectedly from the business community. The Federation of Korean Industries (FKI), a conservative organization of top conglomerates, has recently surprised the government by asking for an outright reduction in the defense budget. An FKI statement in August 1991 said the government must allocate resources better by providing more money for industrial infrastructure projects. In May 1992, however, the FKI did not directly mention any necessity to reduce military spending. But it did call for a troop reduction and asked for a conversion of manpower to

4 Ibid.

5 *The Chosun Ilbo*, 18 May 1992.

6 Ibid.

the industrial sector, where a lack of labor has posed a serious problem.⁷

In addition to the business community, various citizen's groups increasingly pressuring the government with vocal demands for cutbacks. Prominent among these groups has been the Citizen's Coalition for Economic Justice, a dissident-oriented organization, which has argued that the defense budget should not only be gradually reduced but thrown open to thorough discussion in the media.⁸

Lee Jong-Koo, the former Minister of National Defense, has agreed to publicize many of his spending programs and said he will accept a public debate on the issue. Since then, members of the academic community, including Professor Choi Kwang of the Hankook University of Foreign Studies, Dr. Lee Kye-Shik of the Korea Development Institute, and Dr. Hyun In-Taek of the Institute of Social Sciences, have called for a reallocation of the defense budget.⁹

But while demanding cuts in the overall size of military expenditure, critics have different ideas of where the savings should come from or how much they are aiming for. Presidential candidate Park Chan-Jong, for example, has called for reducing the number of armed forces to 300,000 against the current level of 650,000, and has said that if elected President he will reduce the defense budget to one-third the current level during his tenure.¹⁰ He is also calling for building a professionalized armed forces

7 *The Han-Kyoreh Shinmun*, 13 May 1992.

8 Shim, "Soldering On" p. 27.

9 Kwang Choi, "Kunbi Naeyok Palkija," (Let's open details of defence expenditure to the public) *Sisa Journal*, 12 September 1991, pp. 50-51; *The Segye Times*, 8 January 1992; Chang Hwan Mo, "Sahoe Kanjop Jabon, Pang Wi Bi Jool Yeo Choong Dang Eul," (Funding Social Infrastructure, by reducing defense expenditures) *The Han-Kyoreh Shinmun*, 11 September 1991.

10 Interview with Jee Man-Won, *Sisa Journal*, 5 September 1992.

equipped with high-tech weapons and a highly educated officer corps.¹¹ Ruling party presidential candidate Kim Young-Sam recently proclaimed he will increase funding for education up to 5% of GNP if he is elected.¹² He didn't mention, however, whether these funds would be reallocated from the defense budget.¹³ As a matter of fact, most presidential candidates are avoiding the sensitive issue of fund reallocation while acknowledging the need for a long-term reduction of the military budget and the number of armed forces personnel.

However, there are some who still oppose a serious cutback of the defense budget. According to them, even though South Korea has spent more on defense since 1979 has not reached military parity with North Korea. As a very recent armed incursion by North Korean commandos clearly illustrates, the threat of North Korean armed aggression against the South still exists, despite the relaxation of Cold War tensions and Pyongyang's severe economic hardships. For those who oppose defense cuts, Japan's military buildup, and Chinese efforts to modernize its armed forces are further reasons for caution. In their eyes, Japan is trying to expand its military role into the international community and China will soon have a considerable military influence on regional affairs.

On the other hand, instead of outright cuts, some suggest more efficient management of the defense budget to minimize waste. Jee Man-Won, a retired army colonel, saw the problems in the allocation and operation of the ROK defense budget and called for an improved accounting system that would better handle the problem.¹⁴ Lee Sun-Ho, a former marine colonel, shared Jee's

11 He mentioned that he will have the entire officer corps hold M.A. degrees and thus be more oriented to modern science and technology. He also promised to spend more on their welfare. Ibid.

12 *The Dong-A Ilbo*, 18 July 1992.

13 Ibid.

14 Man-Won Jee, *Hanguk Kun Odiro Kayahana?* (ROK Armed Forces: Where to go

criticism and lamented that, "the Korean armed forces looks like a very sick dinosaur....The most serious problem for the ROK armed forces is that the military tries to solve the issues with its own limited perspectives."¹⁵ Jee believes that a future troop reduction is inevitable. However, he warns that such a reduction should involve long-term planning well ahead of actual reduction in outlays and that it needs very careful preparation. According to him, it will take 4 to 5 years for a restructuring of armed forces' manpower, while investing in more high-technology defense equipment. In this case, however, reducing numbers does not necessarily lower the defense budget.¹⁶ Ironically, it would mean even higher spending as it would require a vast amount of advance investment to convert the present labor-intensive armed forces into a technology based one.¹⁷

Opposition critics and dissidents believe Seoul's spending of about US\$10 billion on defense each year—nearly twice the North's expenditure—should be scaled back to make room for more spending in such areas as social welfare, housing and the environment.¹⁸ But the official position of the MND is that the country must keep defense outlays to a level of 4.5% of GNP for another three to four years in order to reach military parity with the North.¹⁹ The ministry notes that amid its serious economic

from here?) (Seoul, Kim Young Sa, 1991).

15 *The Kyung Hyang Shinmun*, 29 February 1992. Sun Ho Lee, *Hanguk Kun Mosi Munje Inga?* (ROK Armed Forces: What are the problems?) (Seoul: Pul Moo Won, 1991).

16 According to Shim Jae Hoon, reducing numbers is unlikely to save enough money to satisfy the critics as the pay levels of South Korean soldiers are well below those in the private sector. According to defense experts, the total cost of maintaining an average South Korean soldier in battle-fit condition is US\$13,810 a year, significantly lower than the US\$16,620 for a soldier in Taiwan. Shim, "Soldiering On" p. 27.

17 Interview with Jee Man-Won, *Sisa Journal*, 5 September 1992, p. 52.

18 According to the *Defense White Paper 1991-1992*, the North's defense budget for 1990 was US\$5.44 billion.

19 Interview with *The Korea Herald*, cited in *Sisa Journal*, 12 September 1991, p. 51.

problems, Pyongyang has recently introduced and deployed on the front lines Scud-B missiles, and hovercraft to transport its special warfare forces; it produces biological and chemical weapons and; above all, it is pushing for the production of nuclear weapons.

On the FKI request for troop cuts, an MND official said on 11 June 1992 that "South Korea will not reduce military manpower in the immediate future despite progress in inter-Korean relations." He continued, that "Any manpower reduction must be compensated by equipment modernization and increase in skilled experts, and this would only increase the defense budget."²⁰ Major General Kim Jong-Bae, Director of the MND's Strategic Planning Directorate, acknowledged, however, that "a reduction in manpower may be a necessary trend considering the progress in inter-Korea relations." He also believes that "the current military budget is not unreasonably large compared to other countries,"²¹ and he noted that Japan, China and North Korea are strengthening their military, which "makes it difficult for us to cut our defense budget or reduce military manpower unilaterally." The comment came after the FKI and other organizations called for a cut in the military budget, claiming a reduction of 100,000 military personnel would save 107 billion Won (US\$135.9 million) annually. Kim also opposed the idea of troop cuts, arguing that it would worsen the already serious shortages of career soldiers compared to other countries such as Japan and the United States. On the FKI's request for force modernization, Kim said, "A larger share of the military budget will be distributed to the air force and the navy for the coming five years." Therefore, according to him, the new budget will give 60 % to the navy and air force and 40% to the army in 1993. "About 3 trillion Won will be spent on improving defense capability and any

20 *The Korea Herald*, 12 June 1992.

21 *Ibid.*

further budgetary cutbacks will severely affect procurement plans."²²

According to a poll by *The Segye Times* and Hankook Public Opinion Institute on 5–6 September 1991, 37.4% of 801 respondents over 20 years old believed that either the defense budget should be cut drastically or reduced gradually, while 27.5% said that it would be acceptable to maintain the current level of defense expenditures. On the other hand, 18.8% said that it would be desirable to increase the defense budget while 16.2% said they didn't know. On the question of allocation of the defense budget, 53.2% said that investment needs to be made to improve the soldier's living quarters and welfare. Only 15.3% called for procurement of modern weapons while 17% of the respondents said funds need to be invested to develop the defense industry.²³

The Puzzle of Guns and Butter: Trade-Off or Myth?

Historically, most analyses of the economic impact of defense expenditures on Third World development have concentrated on possible growth effects (either positive or negative) stemming from increased defense burdens.²⁴ In spite of the numerous studies done to determine the relationship between military expenditure and economic growth, the controversy remains unresolved.

22 Ibid.

23 *The Segye Times*, 9 September 1992.

24 Jacques Fontanel in his review essay examines three recent studies on this issue. They are Saadet Degger, *The Economic Effects* (London: Routledge & Kegan Paul, 1986); Nicole Ball, *Security and Economy in the Third World* (Princeton: Princeton University Press, 1988); Robert E. Rooney, *Third World Military Expenditure and Arms Production* (London: Macmillan, 1988). See Jacques Fontanel, "The Economic Effects of Military Expenditure in Third World Countries," *Journal of Peace Research*, Vol. 27, No. 4 (November 1990), pp. 461–466.; Nicole Ball, "Military Expenditure in Third World Countries: A Rejoinder to Fontanel," *Journal of Peace Research* Vol. 28, No.4 (November 1991), pp. 431–432, and Jacques Fontanel, "Reply to Nicole Ball," *Journal of Peace Research* Vol. 28, No. 4 (November 1991), pp. 461–466.

From the controversial findings of these studies emerged two schools. The first, led by Emile Benoit²⁵ contends that defense expenditure has a positive relationship on economic growth in developing countries. The second school argues a negative relationship between defense expenditure and economic growth. This section will briefly introduce the previous research on this puzzle and examine whether there is a trade-off between defense spending and economic growth in South Korea.

The classic study of the economic effects of military spending was made in 1973 by Emile Benoit for the U.S. Arms Control and Disarmament Agency. He surprised the academic world by claiming that he had discovered a positive correlation between the defense burden (military expenditure as a percentage of civilian GDP) carried by 44 developing countries between 1950 and 1965 and their rates of economic growth. His major finding was that "countries with a heavy defense burden generally had the most rapid rate of growth, and that those with the lowest defense burdens tended to show the lowest growth rates."²⁶ His finding takes on importance because it is contrary to conventional wisdom and also suggests to policymakers in the Third World that military spending encourages economic growth not only by direct interaction but also by indirect interaction through foreign aid and investment.

Benoit contended that countries with high defense burdens have the following advantages: (1) the attraction of foreign capital which engenders industrialization and economic growth; (2) the creation of new jobs and defense manpower training which create and strengthen attitudes and skills useful in civilian occupations; (3) the building of the basic infrastructure a devel-

25 Emile Benoit pioneered this study to find any relationship between defense expenditure and economic growth in developing countries. Emile Benoit "Growth and Defense in Developing Countries," *Economic Development and Cultural Change*, (January 1978). For further details see also *Defense and Economic Growth in Developing Countries* (Lexington: Lexington Books, 1973).

26 Ibid., p. 271.

oping country needs to promote development; (4) a Keynesian-type effect in stimulating the use of unemployed or underemployed resources by raising aggregate demand where anti-inflation policies would otherwise have kept it below the level conducive to maximum real growth; and (5) contribution of defense programs to the essential security required for economic progress, programs which under conditions of national danger may even have energizing and motivational benefits.

There are some fundamental weaknesses, however, in Benoit's study. As many critics assert, the suggestion of a positive correlation between military expenditures and economic development in some developing countries does not establish a causal relationship between the two. Further, as Deger and Smith correctly point out, the real growth rate of civilian GDP is an inadequate indicator to measure the level of development in developing countries.²⁷ Among the 44 countries of his sample only a few had negative GNP growth, while most of them experienced an increase in their military spending along with an increase of GDP during the tested period.

The United Nations commissioned two studies to determine the link between defense spending and economic growth. An MIT study of 69 countries between 1952 and 1970 came up with a negative correlation between defense burden and economic growth, contradicting Benoit's hypothesis.²⁸ The MIT study contends that high defense expenditure has adverse effects on domestic investment (i.e., domestic capital formulation will be jeopardized), the diversion of resources for agriculture to the manufacturing sector, and the decrease of the purchasing power of the people due to a heavy tax burden. The next UN-commissioned study also contradicted Benoit's. It used data for 50 coun-

27 Saadet Deger and Ron Smith, "Military Expenditure and Growth in Less Developed Countries," *Journal of Conflict Resolution* Vol. 27 (June 1983), pp. 335-353.

28 The MIT study was commissioned by the UN Expert Group on Disarmament and Development in 1980 at the request of the UN Special Session on Disarmament in 1978.

tries covering the period 1965–73 and concluded that “no systematic relation is obvious between military expenditure and economic growth.”²⁹

Using a slightly different methodology, Lim tried a replication study based on Benoit’s analysis on fifty four developing countries for a later time period (1965–73) and found that high military burdens are not related to economic growth.³⁰ On the other hand, Faini and associates employed regression estimates for 69 countries over some or all of the 1952–70 period and found that an increase of 10 percent in the defense burden led to a reduction of annual growth of 0.13%.³¹

While Benoit, Lim, and Faini concentrated on the direct impact of defense expenditures, there are some who have focused on their indirect ramifications. Using equation systems that posit, in addition to the direct spin-off effects, related effects through reduced private investment or domestic savings, Deger and Sen and Deger and Smith show that for the 1965–73 period in 50 countries, although military spending has a small positive effect on growth, the net effect of military spending on growth is negative owing to associated decreases in investment or savings.³²

Then, does the South Korean case confirm Benoit’s assertion that a high military burden leads to economic growth? There is no doubt that South Korea has displayed a comparatively heavy defense burden and rapid economic growth. This rapid eco-

29 Nicole Ball, “Defense and Development: A Critique of the Benoit Study,” *Economic Development and Cultural Change* 31 (April 1983), p. 500.

30 David Lim, “Another Look at Growth and Defense in less Developed Countries,” *Economic Development and Cultural Change* (1983), pp. 377–384.

31 R. Faini et al. “Defense Spending, Economic Structure and Growth: Evidence among Countries over Time,” *Economic Development and Cultural Change* (1984), pp. 487–498.

32 S. Deger and S. Sen, “Military Expenditure, Spin-off, and Economic Development,” *Journal of Development Economics* (1983) pp. 67–83, and Saadet Deger and Ron Smith.

conomic development makes South Korea a rather exceptional case in regard to the generally supposed negative impact of defense burden on economic performance.

Despite the conventional wisdom that military expenditure is undertaken at the expense of social welfare expenditure, there are conflicting views among scholars on whether there has been a trade-off in South Korea.³³ Steve Chan and others have discovered no clear evidence of such trade-offs in their studies on Taiwan and Korea.³⁴ Mok Jin Whyu argues more emphatically that there has been no significant trade-off between defense and social spending categories.³⁵

Walter and David Galenson, however, provide a different picture by suggesting that they found evidence of substitution effects between defense spending and the performance of the Korean economy.³⁶ In assessing the economic burden of defense spending, they concluded that South Korean defense spending

33 Little research has been done to analyze the guns and butter issues in South Korea. Hyun's study is a pioneering work in the field. See In-Taek Hyun, "Between Compliance and Autonomy: American pressure for Defense Burden-Sharing and Patterns of Defence Spending in Japan and South Korea," (Unpublished PhD Dissertation, University of California, Los Angeles, 1990).

34 Chan and Davis argue that Taiwan and South Korea have been largely successful in dampening the negative economic consequences of a comparatively heavy defense burden. Steve Chan, "Defense Burden and Economic Growth: Unraveling the Taiwanese Enigma," *American Political Science Review* Vol. 82, No.3 (September 1988), 913-920. Steve Chan and David R. Davis, "Defense Allocation, Inflation, and Unemployment in South Korea and Taiwan: A Granger Analysis," *The Korean Journal of Defense Analysis*, Vol. III, No. 2 (Winter 1991), pp. 239-257. Eui-Gak Hwang, "Kukbangbi ui Kukmin Kyongjejok Yonghyang," (Influence of Defense Expenditures on National Economy) *Kukbang Ronjip* 15 (Fall 1991), pp. 20-36.

35 Jin Whyu Mok "Defense Enigma: The South Korean Trade-Off over Guns and Butter," in *Proceedings of the World Conference of Korean Political Studies*, (Seoul: Korean Political Science Association, 1989) cited in Hyun, "Between Compliance and Atonomy," p. 54.

36 Walter Galenson and David W. Galenson, "Japan and Korea," in David B. H. Dennon, ed. *Constraints on Strategy* (Washington: Pergamon-Brassey's, 1986) pp. 181-88. cited in Hyun, *Ibid.*

diverts significant resources from private consumption and saving.³⁷

According to Galenson, increases in defense spending are financed in one or more of several different ways—increasing tax revenues, increasing bond revenues, or a trade-off between defense spending and other items. In the case of South Korea, according to Hyun, South Korean taxpayers financed some 14% of total defense spending with the defense surtax they paid in 1975, and in the late 1980s, they financed almost half of total defense spending. As a result, the overall tax burden has deepened. Hyun concluded that “this overburdened defense tax has distorted the structure of private consumption and savings and has had a negative impact on the economy in general.”³⁸

In South Korea, where about 30% of the total budget goes to defense, a substantial trade-off between guns and butter should be expected. Although South Korea has largely been successful in dampening the negative economic consequences of its heavy defense burden, that does not necessarily mean that Korea would not be better off were its defense expenditures reduced to the level spent by, for example, Japan.

Determinants of Defense Spending in South Korea

The controversy over whether there is a trade-off between military spending and economic growth remains unsolved. However, the most important question to be posed here is why South Korea has been unable to reduce its defense budget unilaterally and, therefore, cannot utilize the funds for other areas such as social welfare, building the social infrastructure, and education. In this section, the major determinants of South Korea's military expenditures will be analyzed.

37 According to them, the static cost of defense has been equivalent to as much as 11% of total private consumption in South Korea. *Ibid.*

38 *Ibid.*, pp. 210–11.

There are several determinants of defense expenditure in South Korea. First, North Korea has rapidly increased its military assets in the last few years. Particularly, Pyongyang's nuclear weapons program is expected to reach the production stage within a year or two. Also, South Korea is within reach of North Korea's improved SCUD-B missiles and other delivery systems that can be armed with nuclear warheads. This is the major reason why Seoul does not want to reduce its level of defense spending unilaterally.

It is clear that the arms race between Seoul and Pyongyang arises mainly from mistrust and threat perception. South Korean people can never forget the bitter experience and horror of the three-year Korean War provoked by the communist regime of North Korea. The fratricidal war not only caused massive destruction of the land and heavy human casualties but also created mutual antagonism between the North and South. This Cold War mentality provides the government with a rationale for arguing that national security concerns take precedence over individual freedom and social welfare, and in the absence of reliable data on North Korean defense expenditures the South Korean government gives considerable leeway to its own defense increases.³⁹

A second factor is competition among agencies within the government. In this case the dominant player in South Korean politics has been the military. The military establishment has its own corporate interests in keeping the defense budget growing and the numbers of troops high. In keeping with the inter-agency competition of Allison's bureaucratic politics model, we can see that the EPB's calculation is not always harmonious with the MND's vision for the future.⁴⁰ In this sense, overall levels of

39 Estimates are varied among major institutions such as IISS, RAND, SIPRI, ACDA, NSPA and KIDA. See Choon-Sam Park, "Puk Han Kun Sa Bi Kyu Mo Pan Dan," (Estimates of North Korean Military Expenditures) *Kukbang Ronjip* 15 (Fall 1991), pp. 88-99.

40 Choi Gak-kyu, Deputy Prime Minister and the Minister of the Economic Planning Board (EPB) said on 19 May 1992 that he is going to reexamine the

defense spending in South Korea are worked out among government agencies in light of conflicting domestic needs and the overall requirements of government fiscal policy. Again, the military establishment is likely to try to influence the future military budget in its favor.

Third, it is said that there is little concern about a military-industrial complex in South Korea because the government fully controls the arms industry by financing and controlling them. Yet clearly the South Korean arms industry has its own corporate interest in keeping the arms industry busy. With tightened government spending the level of aid to defense companies has steadily dropped. However, if South Korean arms industries try to revitalize arms production and exports by cooperating with foreign defense industries such as Russian⁴¹ or other Asian defense industries,⁴² their joint ventures with foreign arms industries will definitely influence the level of the defense budget for the coming years.⁴³ Nevertheless, because of the small size of the domestic market, the success of the defense industry's move into more high-tech products depends on their export potential. To

level of defense budget for FY 1993 and will discuss the matter with the MND officials. But he cautioned by saying, "It won't be easy to make a drastic cutback because there are factors for increasing defense expenditures..." *The Han-Kyoreh Shinmun*, 19 May 1992. It is said that EPB will allow the defense budget increase less than 9% against the MND's original demand for 18.1%. *The Chosun Ilbo*, 24 August 1992.

- 41 The South Korean government has offered to provide tax benefits for domestic industries which invest in the conversion of the Russian defense industry. *The Segye Times*, 13 July 1992, p. 1.
- 42 The MND official announced on 13 July 1992 that it will cooperate in producing arms with five Asian states including the Philippines, Thailand, Indonesia, Mongolia and Malaysia. *The Han-Kyoreh Shinmun*, 14 July 1992, p. 2.
- 43 In addition, there is the aggressive policy of the Western arms industries who look for their partners in East Asia because of their shrinking domestic market after the end of the Cold War. Seoul happens to be the ideal place where there is a convergence of interests between the Western arms industries searching for a sales market and domestic arms industries that aim to acquire high-tech technology. See also Flora Lewis, "Pay the Cost of a Proper Arms Cure," *International Herald Tribune*, 24 April 1992, p. 8.

break into the worldwide arms market, the South Korean arms industry has no choice but to rely more on government aid.

Fourth, there is the bilateral security relationship with the United States. This has been one important factor for determining the level of defense spending in South Korea, and it will probably be so in the future unless South Korea no longer needs American security protection.⁴⁴ Since the United States attempts to tame free riders by pressuring them to assume a greater share of the defense burden, South Korean defense expenditure will continuously be influenced by this factor.

Fifth, the pace and scope of both Japan and China's military buildup is also likely to be a factor in increasing the ROK defense budget. Unlike its Western allies, Japan still considers the former Soviet Union a potential threat. The Japanese Defense Agency's five-year plan, announced last year, established a Yen 22.75 trillion (U.S. \$170 billion) program, with an average 3% annual increase in defense spending. Purchases will include 10 destroyers, five submarines, 42 F-15 fighters, four airborne early warning aircraft and numerous patrol aircraft, helicopters and missile systems.⁴⁵

On 18 July 1992 Miyasita Sohei, the Minister of State and Director General of the Defense Agency, announced that there was no need to reduce the Japanese defense budget despite the end of the Cold War, saying "because no other Asian countries have begun to reduce their defense budgets and the Japanese Self-Defense Force is solely established for its own defense, there is no need for Japan to consider a cutback for now."⁴⁶

44 In fact, the amount of Korean burdensharing for year 1993 has released by the MND on 22 July, 1992. South Korea will pay US\$220 million, but the exact amount will be finalized at the SCM in October 1992. (22% increase of the amount paid to the U.S. in 1992) *The Chosun Ilbo*, 23 July 1992, p. 2.

45 The Defense Agency of Japan, *Defense of Japan 1991*, (Tokyo: The Japan Times, 1991), p. 90.

46 *The Joong-ang Daily News*, 18 July 1992.

China, despite its troop cuts, also increased its defense budget for improving power projection capability, especially in the South China Sea. B.A. Hamzah cautioned by saying "We are witnessing a *Pax Sinica* in the making."⁴⁷ In addition, China is said to persist in exporting missiles to the Middle East.⁴⁸ Nevertheless, according to Professor Hwang Byung-Moo, the danger of a Chinese buildup is still overshadowed by Japan's defense buildup.⁴⁹

Last but not least the democratic transition during the Roh Tae Woo government created a new social and political atmosphere in South Korea in which people have begun to demand equality, welfare and justice by exerting political pressure on the ruling regime through various channels. Their demands for more assertive policy initiatives on arms reduction and arms control will ultimately influence the level of military spending. As long as threats such as North Korea's nuclear and missile development exist, people may reluctantly accept the idea of spending more money on national defense. Yet, if Pyongyang does clearly show evidence of giving up its military buildup, military officials will be hard pressed to persuade people to keep up the level of defense spending. Even now, there are some analyses indicating that South Korea has achieved a defense capability sufficient to deter a North Korean attack. The Japanese Defense Agency and the Rand Corporation are among those who concur with this view.⁵⁰ Improving relations between Seoul and Pyongyang have

47 Russia began delivery of a squadron of 24 SU-27 advanced fighters to Beijing early this year, with two more squadrons of SU-27s on order. Contracts have been signed for two squadrons of advanced SU-31 fighter interceptors and for a number of T-72 tanks. *The Hankook Ilbo*, 21 June 1992, p. 4.; Jim Hoagland, "Russian Arms to China: Japan Steps In," *International Herald Tribune*, 14 July 1992, p. 4.; B.A. Hamzah, "China's Strategy," *Far Eastern Economic Review*, 13 August 1992, p. 22.; Tai Ming Cheung, "Fangs of the Dragon," *Far Eastern Economic Review*, 13 August 1992, pp. 19-20.

48 *International Herald Tribune*, 4-5 April 1992, p. 4.

49 Byung-Moo Hwang, *Sin Chungguk Kunsu Ron* (A New Study on the Chinese Defense) (Seoul: Pub Moon Sa, 1991).

50 The Defense Agency of Japan, *Defense of Japan 1989* (Tokyo: The Japan Times,

already cut the demand for arms in South Korea. Moreover, if discussions on arms control and force-reduction measures on the Korean peninsula result in any agreements, the rationale for arms procurements will no longer exist and, by extension, neither will the need for an arms industry.

So far, the process of democratization has further expanded the already enhanced role of these societal forces. Demands for more "butter" will definitely affect the magnitude and level of spending for "guns" in South Korea.

Conclusion: North Korea's Defense Burden and Prospects for Curing the Illness of Overarming

North Korea has not given up its military buildup and therefore cannot utilize its scarce financial resources and technology in a more productive manner. Having suffered from the Korean War, North Korean political leaders have been obsessed with military security. Kim Il Sung adopted and vigorously implemented the doctrine of four military lines in the 1960s: (1) arming the entire people; (2) fortifying the entire national territory; (3) elitizing all military personnel; and (4) modernizing the whole military sector.⁵¹ Since then, North Korea has allocated to the defense sector almost 30% of government expenditure and 20–25% of gross national product for the past three decades. The direction of economic development strategy has been realigned to promote military self-help through defense industrialization, favoring the heavy industrial sector over the light, consumer-industrial sectors. Preparing for contingencies, North Korea has also devoted itself to accumulating immense wartime materials at the expense of ordinary citizens' consumption needs.⁵²

1989) and Charles Wolf et al., *The Changing Balance: South and North Korean Capabilities for Long-Term Military Competition* R-3305/1-NA, December 1985).

51 Kwan Yong Chung, "Pukhan Kukbang" p. 190.

52 Chung-in Moon, "The Political Economy of Security on the Korean Peninsula in the Regional Context." Paper presented at workshop on "Security and the

North Korea's obsession with building a military power has not ceased even after having experienced economic exhaustion. The steady erosion of North Korea's previously strong ties with the Soviet Union, and to a lesser extent with China, has forced Pyongyang to expand its domestic arms production in order to maintain its forces ranged against South Korea.

In addition, the country's arms industry⁵³ is assuming growing economic importance because weapons exports—in particular, missile sales to the Middle East—are one of the few channels through which North Korea can earn foreign exchange. North Korea's immediate economic problems therefore pose an acute short-term dilemma. The desire to cut back drastically on the military establishment is contradicted by the need for hard currency. In other words, their arms export policy is likely to continue unless they can find an alternative to satisfy the demands for hard currency. Although shortages of almost all basic commodities and energy plague the rest of the country, the military and the arms industry appear to enjoy ready access to scarce resources.⁵⁴

According to Kim Suh-Myung and Tao Bingwei, North Korean defense economy is under the direct control of the military.⁵⁵

Korean Peninsula in the 1990s," held by the Australian National University from 25–27 March 1992, p. 8.

53 North Korea has 134 arms factories, many built underground. One quarter of these produce ammunition, more than 10% make artillery and small arms, while the rest are involved in the manufacture of tanks, vehicles, missiles, war ships, aircraft and communications equipment. Tai Ming Cheung, "Economic Weapons," *Far Eastern Economic Review*, 23 May 1992.

54 While many of the country's industrial plants are affected by severe energy shortages, it is estimated that the North maintains more than 1 million tons of oil stockpiled in case of war. *Ibid.*

55 Both Kim Suh-Myung, Chairman of Eastern Economic and Technology Development, China and Tao Bingwei, Senior Research Fellow of China Institute of International Studies visited RINU to present lectures in 1991 and said that the North Korean economy is divided into three parts. In addition to the defense industries mentioned above, profitable businesses such as gold mines are managed by the party while industries for production of civilian goods and light

There is also speculation that Pyongyang is trying to support its ever-growing military spending by selling whatever and wherever it can. Further, more than 100 civilian factories could quickly switch to military production in an emergency, and much of the rest of the economy is skewed towards supporting the arms industry, with the heavy industrial sector receiving special priority from the government.⁵⁶

But a more serious problem for the Pyongyang regime is that much of the revenue generated from arms sales is probably plugged back into the country's arms purchases. Pyongyang still spends several hundred million dollars on foreign arms a year, which is about 70% of total imports.⁵⁷

The arms race on the Korean peninsula has seriously drained the North Korean economy, and this is the key factor forcing Pyongyang to begin talks with Seoul on the reduction of military tensions. In addition, with reduced external assistance, the North Koreans are quickly falling behind in technological advancements as the South Koreans continue to acquire the latest arms from the U.S. and other Western countries.

What Pyongyang must keep in mind is that to prevent deeper poverty it will have to shift funds from the military to economic development. The idea must be developed in both the South and the North that the reduction of military expenditure, as well as the generation of greater resources for sustainable development, will directly favor the construction of more secure, more fair and more peaceful societies.

How can Pyongyang be made to reduce its heavy military burden? "Hard cash is uniting what ideology put asunder,"

industries are under control of the government.

56 Cheung, "Economic Weapons."

57 Seong Pyo Hong, "Nam-Puk Han Mugi Chegye wa Pi Haek Chidae Ronjaeng," (South-North Weapon System and Debate on a Nuclear-Free Zone) Jun Kyo Hak Shinmun, 26 June 1991.

according to Jim Hoagland.⁵⁸ What Pyongyang currently needs most is foreign capital. Germany and Japan have recently adopted a tougher and more direct approach in giving aid to the Third World. They are now explicitly tying their development aid to cuts in recipient military spending.⁵⁹ In other words, rewards for cuts might be a better idea than bullying the recipient.⁶⁰ Pyongyang's problems will not be mended without reducing its exaggerated defense expenditures. In any event, Germany and Japan cannot take on the military spending and development trade-off alone. It might help if the Bush administration also lent its weight.

The United States should take the lead in creating a series of positive economic incentives for restraint in the buying and selling of armaments. Currently, the U.S. warns Pyongyang that its missile exports to Syria must cease at once. But the "stick" is more useful when it goes along with the "carrot." In this sense, William D. Hartung's advice is worth heading: the U.S. needs to establish an international economic conversion fund that would be used to aid those countries like Czechoslovakia and the Ukraine, that have expressed interest in getting out of the arms export business.⁶¹

Officials of the International Monetary Fund (IMF) and the World Bank have also appealed for reductions in military expenditures, and former World Bank president Robert McNamara has suggested making a country's level of military spending an explicit condition for receiving assistance from these multilateral

58 Hoagland, "Russian Arms to China."

59 Some suggest that wealthy states could offer significant financial rewards to induce other poor countries to join them in a meaningful regime of arms control. See David A. Koplow and Philip G. Schrag, "Linking Disarmament and Development," *SAIS REVIEW* Vol. 11, No. 2 (Summer-Fall, 1991), pp. 95-112.

60 Leslie H. Gelb, "More Guns, And Almost No Butter," *International Herald Tribune*, 9-10 May 1992, p. 8; Hoagland, "Russian Arms to China."

61 William D. Hartung, "Curbing the Arms Trade: From Rhetoric to Restraint," *World Policy Journal* Vol. IX, No. 2 (Spring 1992), pp. 219-247.

lending agencies.⁶² It is still premature, and I am far from prepared myself, to offer a concrete agenda for the suggested “guns” for “butter” challenge on the Korean peninsula.⁶³ Yet, I would like to suggest that aid for defense conversion to the production of consumer goods rather than negotiating a futile arms reduction will give Pyongyang a better incentive to bring down its military spending. If a conversion fund is raised among countries in a regional or global context, this fund could assist North Korea in shifting its arms production to production for consumers.

If a “guns for butter” deal works in the North Korean case it will not only be helpful for reducing the cost of unification but will also contribute to regional stability in Northeast Asia. In the absence of such a positive step toward diverting heavy military expenditures, it is difficult to see how tensions in Korea can really be reduced.

62 Ibid., p. 242.

63 Information and analyses on the national experiences of conversion issues are published by the International Institute for Peace Vienna. See March 1992 issue of *Peace and the Sciences*; See also Stephen Kirby, “The Political Economy of Conversiya,” *Pyonghwa Yongu* (Peace Studies) Vol. 1 (1991), pp. 51–76.