

## **What Does Integration Signify?: Its Origin and Optimism for the Global Economy**

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### **I. Origin of Integration in Human History**

Since life first began on earth 3.5 billions years ago, countless species have appeared and disappeared strictly according to the law of the jungle where only the fittest survived. Before the emergence of mankind, the earth had already gone through five mass extinctions with each causing the ecological system to dramatically evolve.

The mammals, of which the human race is a part, only began to thrive after the last mass extinction some 65 million years ago. Since then mankind has survived and evolved through several glacial periods. Through the continuous process of moving north during interglacial periods and then south to the equatorial zone to survive the ice ages, mankind was able to put down roots across the globe. With the end of the last glacial period, i.e., fifteen thousand years ago, humans began to engage in agricultural activities instead of hunting and this in turn led to the emergence of large societies owing to higher productivity.

Also, the appearance of sophisticated weaponry enabled the militarily strong to forcibly unite the surrounding clans to larger tribal societies. This along with advancements in transportation systems, led to the birth of the nation states. Larger societies are also the consequences of awfully cruel wars as well as of civilization and technology.

After a number of large-scale massacres, a mankind tries to look for ways to live

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together less violently. They found the answer in trade and customs unions which originally emerged as a way to overcome trade barriers.

The role of Zollverein, the customs union of the German states was means of the German unification and ultimately it led to the birth of the European Union. Since the Treaty of Rome in 1957, which officially established the first free trade agreement of the region, economic integration has been evolving to the rise of the Euro in 1999. In the first decade of 21st century, we have witnessed that the Euro system without fiscal policy integration are entangled in a series of debt crises in several member countries.

## **II. Journal of Economic Integration since 1986 : Founder's Purpose**

When Sejong Institution at Sejong University(Sejong henceforth) established Center of Economic Integration in 1986, “Economic Integration” was an unfamiliar term and was met with skepticism in both the academic, business, and policy circles. However, I strongly believed that rapid developments in transportation and economic systems will inevitably lead to the rise of a globally integrated economy and that Economic Integration is a prerequisite condition for peaceful transition to the new world order. Sejong has actively conducted studies and published on the topic of Economic Integration. It is the background that *Journal of Economic Integration* has been publishing for the past 27 years, and it has established itself as the leading publication in the field.

The Journal covers wide range of issues because Economic Integration requires deep understanding on every phenomenon ongoing in the world economy. It is truly the synthesis of economics and the mixture of methodologies; microeconomic/macroeconomic, trade/industry/financial/institutional, regional/global, theoretical/empirical/historical approach. I am sure that the Journal will be the collection of crucial policy implications and our intellectual preparation for “the better world”.

Also, by organizing several international seminars on economic integration, Sejong has prompted the Korean government to take interests in the issue. In fact, long before any government took interest, Sejong was the first to emphasize the importance of Free Trade Agreements. Sejong was also a strong advocate for AFTA (Asia FTA), APFTA (Asia Pacific FTA), and WORFTA (World FTA) in spite of the indifference and skepticism on the FTAs.

Looking back upon the past, my heart is filled with deep emotion to see the Free Trade Agreement (FTA henceforth) between Korea and the US is now viewed as a

natural course of action allowing Korea to access to 61% of the global market, to host this seminar on the “Economic Integration of East Asia” after a six-years interruption.

### **III. East Asian Integration: A Global Perspective with Korea's National Strategy**

#### **A. Broad view on East Asia**

East Asia with a quarter of the world's population, accounts for more than a quarter of the worldwide trade volume, more than half of the global foreign exchange reserves. The region's economic status as the driving force of the global economy, has risen particularly since the global financial crisis.

However, the rapid cooling of relationships between the US and China in recent years has thrown the world into a state of extreme chaos. Korea, caught in the middle of the power struggle between these two axes of the global economy, is in a particularly difficult situation. Korea's exports to China and Hong Kong account for more than 30.5% of the total. This is nearly twice the size of combined exports to Japan and the US which stand at 6% and 10.7% respectively.

It is ironic then that Korea must rely heavily on the US militarily and politically to discourage hostile attacks from North Korea, a regime backed by China and that China is currently Korea's largest export market. These changes in the global environment have prompted extremists favorable to the North Korean regime to engage in activities that undermine national interests and security.

Hence, to survive in a region which is the epicenter of the most dramatic political changes in the 21st century, Korea must pursue economic integration as a crucial national strategy. Considering economic sizes and structures, rush to the settling for free trade agreements with China or Japan will only serve to turn Korea into a satellite state, repeating the sad history of the Chosun Dynasty in the late-19th century.

China's population is twenty seven times larger than that of Korea and its economic size is five times larger. Militarily, China possesses nuclear weapons and delivery systems while the superiority of its ground forces remains unmatched. During the past 2,000 years, China has made full use of the numerical superiority of their ground forces to attack the Korean peninsula whenever they strived to conquer the region.

Given her rising dominance in recent years, it is highly improbable that they will cease to meddle in affairs on the Korean peninsula. Keenly aware of this situation, North Korea is trying to overcome its military and economic inferiority by relying on China's support and frantically developing nuclear weapons.

### **B. Logic for Korea's external policy**

In the face of this threat, Korea should prepare effective military countermeasures while promoting ways to unite its people under a firm national identity. Economically we must establish an open economy system and get away from heavy reliance on China. In order to achieve this, we must seek expansion and diversification of exports markets so that the level of our dependence on exports to China does not exceed 10% which is the equivalent of that China's weight in the global import market.

Also, omnidirectional free trade agreements with all countries, not only the US should take precedence before making one with China. Rashly pursuing a East Asia FTA without meeting these conditions would only result in turning Korea into China's satellite country.

The EU accounts for 13% of the current global import market with China at 10.6% and the US and Germany both at 9% each. Japan accounts for 5% and Korea ties with France and the Netherlands at 3%. Hence, if Korea is to become a truly independent country, we must move beyond the FTA agreements with the EU and US to promote free trade agreements with mid-sized trading partners including Canada, Mexico, Taiwan, Russia, Switzerland, Australia, Brazil, and Turkey. The next logical step would be to pursue East Asia FTA which would include the ASEAN countries.

However, this does not imply in any way that we should disregard China or view it with hostility in our future relations. While maintaining our strong ties with China, we must actively expand economic cooperation and trade relations with other countries. This will enable us to lower Korea's dependence on exports to China to a level that is more in line with China's weight in the global import market. In other words, our national goal should be to lower our dependence on China to 10% by tripling our trade volume with other countries.

The military tension on the Korean peninsula could easily trigger another world war. Throughout history, great powers would wage wars against each other in buffer zones, minimizing damage to their own countries. Ancient Egypt and Mesopotamia fought each other in Syria while France and Germany faced off in

**Table 1.** Comparison of State of the Economy in China, Japan, and Korea

(unit: \$bn)						
Country	GDP	Export (E)	E/GDP	Import (I)	I/GDP	(E+I)/GDP
China	5,878	1,581	27%	1,327	23%	50%
Japan	5,459	765	14%	639	12%	26%
Korea	1,007	464	46%	422	42%	88%
US	14,658	1,270	9%	1,903	13%	22%

the Benelux countries. China, Russia, and Japan all waged wars on the Korean peninsula.

It is highly probable that the confrontation between China and the US could come to a head on the Korea peninsula. In order to prevent this, Koreans must rearm themselves ideologically and militarily to achieve a state of true independence. Also, we must continue to expand and strengthen our trade alliance with the rest of the world counterbalancing the predominance of China.

In Korea, dependence on foreign trade stand at 88% of the GDP, the highest of any country in the world. This implies that Korea's economy is highly sensitive to any changes in the global economy. In comparison, China's dependence on foreign trade is 50% of GDP. In Japan, the figure is a mere 26%. Therefore, it is clear that in order to survive in these chaotic times, we must lower our dependence on foreign trade to below 30% by creating a strong domestic market.

The reason for this high dependency on foreign trade can be traced back to the unhealthy industrial structure. While the ten largest companies are responsible for the bulk of the export volume, their employment of the total workforce remains at a marginal level. This can only lead to a polarization of income and increase in exports will not contribute to creating domestic demands.

### C. Logic for Korea's internal policy

To address these problems, we must foster a healthy economic environment and improve systematic measures to enable small businesses to grow into respectable “hidden champions”. Also, we must seek ways to generate domestic demands by overcoming the deindustrialization of the manufacturing sector. This will be accomplished through the firm establishment of law and order and the amendment of illogical labor laws. The collapse of small companies and the middle class will create an atmosphere that pro-North Korean extremists may manipulate to distort the essence of FTA itself.

The ten chaebol groups account for 41% of all manufactured exports and 52% of total market value of listed shares. This can only lead to a worsening of polarization in the income and wealth distribution thereby creating a negative environment that pro-North Korean, anti-globalization forces will take full advantage of. In fact, agriculture, the sector most often used to instigate anti-FTA sentiments, accounts for a mere 3% of the GDP and the government has already doled out 30 trillion won as compensation following the Uruguay Rounds negotiations and plans to put in a further 22 trillion Won. Furthermore, due to overprotection of the sector, food prices in Korea are much higher than the international market prices and making the Engel Coefficient alarmingly high.

Currently only 300 such companies are active on the global stage as ‘hidden champions.’ We must increase that number to 2,000 if Korea is to move beyond its unhealthy economic structure that is heavily reliant on exports by a handful of chaebol groups. When these global hidden champion number in the thousands, we will be able to link these exports into generating domestic demands, lowering Korea's dependence on foreign trade from 88% to under 30%. Only then will Korea become a truly independent country.

In relation, we must actively promote investment in R&D and nurture businesses involved in creating cutting edge technology, thereby establishing an industrial base for top-level talents. The real reason for the massive youth unemployment is not the lack of jobs per se. The overall increase in national income has resulted in improved lifestyle and these young people only seek high-level professions that match their expectations. Hence, it is ironic that in the midst of massive youth unemployment, small and medium companies are suffering from a lack of qualified people.

#### **IV. Concluding Remarks**

Historically, neighboring countries have engaged in conflicts while those far apart seek mutual cooperation to survive. Throughout its 5,000 years history, Korea has suffered numerous attacks by China and more than one-tenth of the population were taken prisoner following the Mongol and Manchurian invasions. From the unification of the three kingdoms up until modern times, Korea strictly remained a subject nation of China. Korean kings paid massive tributes to the Chinese dynasties in return for the seal of state and reign name. Korean kings were only allowed to wear red robes in the fashion of the Chinese viceroys. In fact, Go-jong

and Soon-jong were the only two kings who wore the imperial golden robes.

This was possible when Japan, triumphant in the first Sino-Japanese War temporarily freed Korea from China's grip. Having earned a brief respite from China's control, Go-jong sought to enlist the help of the US and Russia, thereby creating a system of check and balance on the peninsula. However, none of the parties expressed interest and, furthermore, Russia had lost to Japan in the Russo-Japanese War. Hence, there was nothing to prevent Korea from becoming annexed by Japan.

In order not to repeat the painful history of a century ago, it is imperative that Korea firmly establish its national identity and through omnidirectional free trade agreements, move away from its excessive dependency on a particular country. Also, we must actively nurture small businesses so that they may grow into "hidden champions" with revenues of more than one billion dollars.

Whether the FTA succeeds or fails is strictly dependent on the conditions present at the time of the opening of the markets. During Korea's rise to an economic powerhouse, a handful of companies received generous support from the government to expand the foreign markets for Korean goods at all costs. While the revenues of these companies continue to grow rapidly, the small businesses that account for more than 87% of employment are suffering from triple distress; the unfair labor-management relations, rise in production costs due to high exchange rates, and financial stress. It is imperative that we prevent small businesses from dying out under these unfavorable conditions and cultivate them as Korea's new engine of economic growth.

Economic integration is not an ultimate goal in itself. Promoting the peaceful transition from nation state to global state should be the ultimate goal. In the process, delicate combination of integration and disintegration is necessary.