

## THE CHANGING BALANCE IN THE MILITARY COMPETITION BETWEEN SOUTH AND NORTH KOREA

The RAND Corporation and the Korea Institute for Defense Analyses have been collaborating since 1983 in an analysis of the Republic of Korea's economic, technological, and political capabilities to compete militarily with North Korea over the next decade. In the latest phase of this research, a macroeconomic model was employed to assess the effect of alternative South Korean military postures on the nation's economy. This small model of the Korean economy (SMOKE), developed at RAND, consists of twelve equations specifying gross national product, civil consumption, defense spending, civilian and military capital stock, total and civilian employment, and several other variables. The SMOKE results were supplemented with less formal analyses of unmodeled factors and compared with an earlier assessment of the North Korean economy and defense effort, leading to the following conclusions.

**South Korea's economic and technological advantages over North Korea are substantial.** The economy of South Korea is about four-and-a-half times as large as that of the North. The South spends about 6 to 7 percent of its GNP on defense, so to keep pace, the North would have to devote about 30 percent of its economy to the military, which is probably more than it actually does. The two sides are separated by a similar technological gap.

**The South's economic preponderance over the North is growing rapidly.** South Korea's annual rate of real economic growth is between 7 and 8 percent, compared to an estimated 2.5 to 3.0 percent for North Korea. Although we project the South's growth rate to fall off a little, it will still be twice as high as the North's.

**South Korea's economic and technological development affords major opportunities for it to realize significant military advantages over the North.** Some of these opportunities lie in drawing more fully on the civil economy to augment the military. Examples include enhancing South Korea's ability to mobilize its industry; establishing contingency plans to augment its order of battle with civilian vehicles, airlift, and shipping; and achieving peacetime cost savings through deregulating the defense industry.

To achieve other advantages, a direct diversion of resources from the civil to the military sector would be required. For example, South Korea might enhance its amphibious and airborne forces to allow it to mount counteroffensives. South Korean forces have been configured and deployed for defense. Deterrence and stability might be aided by obliging North Korea to retain some of its forces for protecting Pyongyang, thereby diminishing the North's concentrated threat at the 38th parallel. A decision by the South to move in this direction requires careful consideration, since it could provoke the Soviet Union to step up military aid to North Korea, offsetting part or all of the South's projected advantage.

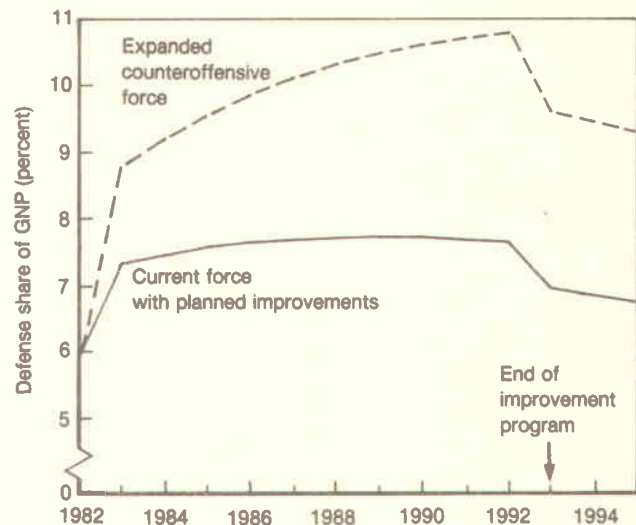


Fig. 1—An expanded counteroffensive force would require an additional 3 percent of South Korea's GNP

Expansion of South Korea's military along these lines would involve a manpower increase of 24 percent above that of its planned force improvement program. It would also entail a rise in defense spending amounting to 2 to 3 percent of the nation's GNP during the next decade (see Fig. 1), resulting in a reduction in annual

GNP growth of about 0.2 percent. While such an increase is well within the economic capabilities of the Republic, it could result in political and social stresses. Thus, the constraints on South Korea's converting civil to military resources are mainly political, whereas those faced by North Korea are predominantly economic and technological.

South Korea can plausibly aspire to an increasing degree of military self-reliance. It is already the case that U.S. ground forces in Korea have more symbolic than direct military value. An expanded South Korean army could take on even more of the responsibility for the Republic's defense by substituting for some of the U.S. troops. Meanwhile, the point of the American presence could be made more effectively if the United States expanded its air units in South Korea and more firmly reiterated its commitments.

Although South Korea apparently spends more annually for defense purposes (see Fig. 2), North Korea has a greater military capability. This is a legacy of the North's buildup of military capital stock in the 1970s

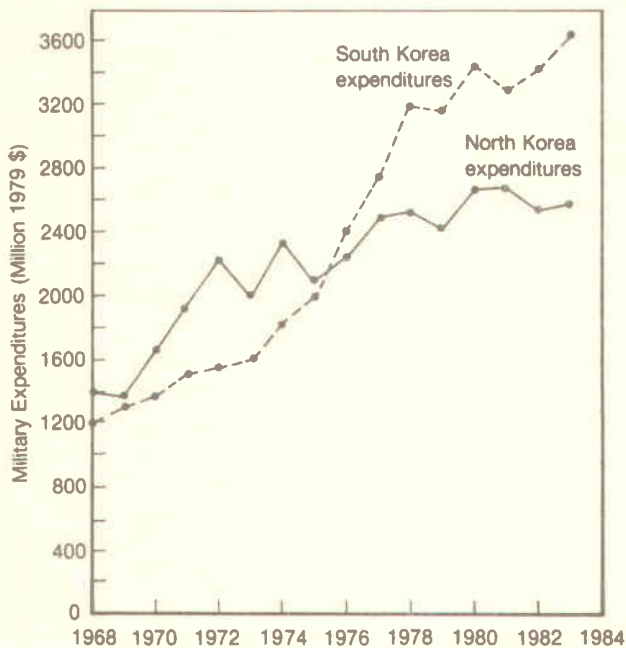


Fig. 2—South Korea now spends more per year on the military than North Korea

(see Fig. 3), and a result of the North's ability to keep more men in uniform at lower cost than the South.

Both North and South face important political uncertainties through impending, unprecedented shifts of leadership—in the South, via the presidential elections of 1988, and in the North, via the anticipated demise of Kim Il-Sung and accession of his son, Kim Chong-II. On balance, however, we conclude that both South and North Korea are stable societies, capable of sustaining current or even increased military burdens.

There is also a great deal of uncertainty associated with factors that could influence South Korea's economy, e.g., future oil prices, labor supply, the openness of export markets, and aggregate productivity. Of course, these economic factors are as likely to contribute to South Korea's economic strength as to impede it. They are strong enough to overwhelm the economic effects of altering the Republic's defense posture. For example, if these factors develop in congenial directions, South Korean annual growth could be above 8 percent, whereas if they combine in adverse ways, its annual growth might fall as low as 3 percent.

Nevertheless, as time goes on, the competitive balance should tip increasingly in favor of the South. This in itself could affect the behavior of the North. It may lead the North to a more conciliatory approach; there have been some modest signs of such a change over the past year. On the other hand, it is just as likely that the North Koreans may undertake aggressive behavior to slow the trend running against them.

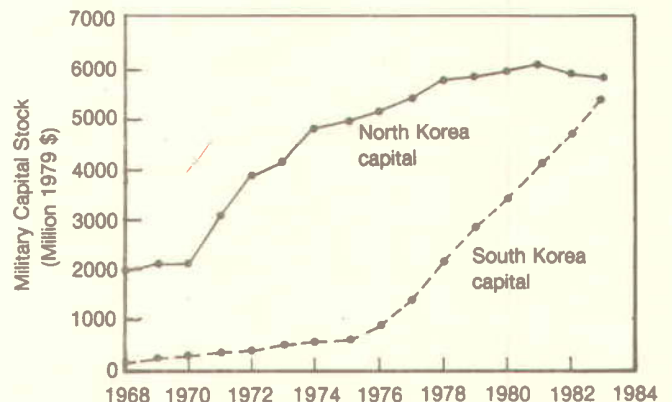


Fig. 3—North Korea's military capital stock was still greater than South Korea's in 1983

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