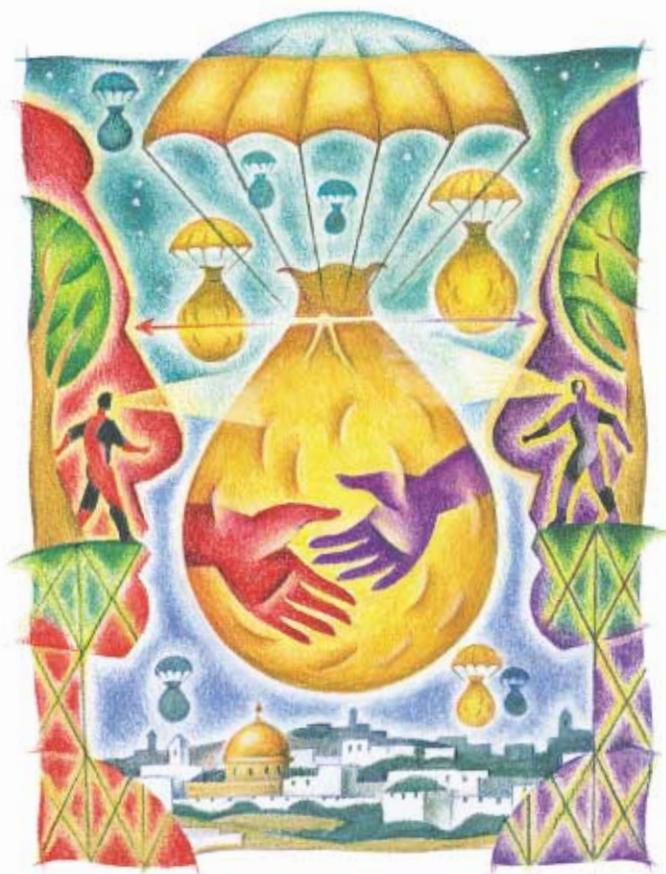


OPINION

# The Economics of Peace

South Korea's economic development holds lessons for the Middle East.

by Moshe Alamaro



The strife between Israel and the Palestinians is largely viewed as a political problem requiring a political solution. The so-called peace process has been focused on issues of land, governance, and security. But while political initiatives may lead to productive negotiations and even a peace settlement, it would be a mistake to assume that they will, by themselves, assure a lasting peace. True peace will never take hold as long as a destitute third world nation stares across a border at a prosperous modern democracy.

What's needed, then, along with a political settlement, is the economic development of the Palestinian areas. And for that, history provides a model in the historically fraught relationship between Japan and South Korea. Just as Japan secured a peaceful, mutually beneficial relationship with a hostile South Korea by fueling its poorer neighbor's economic development, Israel and the West can assure peace only by investing in and nurturing the Palestinian economy.

## Agreeing to Profit

While historical analogies are never perfect, Japan's history with South Korea is relevant to the current situation in Israel, Gaza, and the West Bank. Like the Palestinians and Israelis, the Koreans and Japanese have deep, long-standing animosities: Japan annexed Korea in 1910 and in the late 1930s embarked on a program of cultural assimilation that lasted until Korea's liberation in 1945.

But despite a history that assured Korea's enduring hostility toward Japan, South Korea and Japan established diplomatic relations in 1965. Under the treaty normalizing relations, Japan would provide capital for South Korean industrialization and increase loans, investment, and trade. Japanese industries began to subcontract labor-intensive tasks to South Korean companies, tapping their cheap labor and fueling the expansion of the South Korean economy. Pri-

marily out of self-interest, South Korea gradually agreed to participate in a division of labor and markets: Japan concentrated on lucrative high-tech exports to Western markets while South Korea developed low and intermediate technologies and exports to developing countries. Japanese technological assistance led to the development of the South Koreans' steel and shipyard industries and to a South Korean automobile industry still dependent on Japanese engine technology.

Ultimately, South Korea's economy became one of the most robust in Southeast Asia. South Korea now subcontracts labor-intensive tasks to its poorer neighbors. Indeed, the country's success has caused a ripple effect, setting an example for other Southeast Asian countries that have followed its economic policy model.

North Korea, of course, has remained conspicuously untouched by the ripple, rejecting the path of economic cooperation with its neighbors and the peaceful coexistence that follows. Though richer than the south in natural resources, the country is impoverished – with a per capita gross domestic product just one-sixteenth that of South Korea's. The disparity feeds the North's enmity toward its southern neighbor and toward Japan.

## Closing the Gap

If an independent Palestine comes to be, Israel would be shrewd to divert a portion of the U.S. aid it receives to Palestinian infrastructure development. It should educate Palestinian students and interns in Israeli universities and hospitals, just as Japan educated South Korea's first professional cadre during the 1950s and 1960s. And just as Japan subcontracted its labor-intensive industries to South Korea, Israel could begin by moving its struggling diamond cut-

ting and clothing manufacturing – increasingly irrelevant to Israel's high-tech economy – to the independent Palestine.

Such initiatives resonate well with the argument that the West should respond to the events of 9/11 by supporting broader economic development in the Islamic world. Clearly, it is impossible to instantly lift more than a billion

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people out of poverty. That process will take generations. But the starting point would be an Israeli commitment to vitalizing the Palestinian economy. By some estimates, it would take only a relatively modest 500,000 new jobs with decent wages to create economic stability for the Palestinians – a goal that could likely be achieved in less than five years. The Palestinians should be encouraged, with the assistance of the United States and Europe, to target markets in the Arab and developing world, just as South Korea until recently has been targeting developing countries.

In short, the relationship between Japan and South Korea offers a hopeful precedent for Israel and the Palestinians. With Israel's active participation, the West could create a peaceful regional oasis of free enterprise and economic prosperity that could serve as a model for other Middle Eastern countries.

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Reprint F0211D