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Reunification of Koreas: A Hidden Treasure Box for the Global Economy

The Republic of Korea's president Park Geun Hye said "Reunification is the jackpot!" (qtd. in Park, my trans. par. 2). Recently, the global economy and individual countries' economies are settling, without any major changes in the economies. Also, economic levels of countries are calculated and graded, and there have not been drastic changes for years. However, there are sometimes unexpected events which affect every economy and individual a lot, and the reunification of South Korea and North Korea is one of them. The reunification will recover wounded heart of people and will improve economy at the same time. Many scholars expect the reunification to be significantly beneficial to global economy.

Reunification will have true economic benefits to South Korea's economy, to North Korea's economy, and to the global economy.

The end of World War II in Korea on 15 August 1945 brought independence to Korea from Japan, but it divided Korea into two countries. The north side of Korea was occupied by the Soviet Union, and the United States occupied the south side of Korea. At the time of the war's end, the Soviet Union and the United States were in conflict, and tension in Korea could have led them to another war. Therefore, the Soviet Union suggested to place buffer states in Korea, and the 38th parallel became the buffer zone (Koo, my trans. par. 1). The buffer zone worked for years, but the Korean War, which occurred in 1950 and is still in ceasefire, led to a deeper conflict between North Korea and South Korea. Tension between two countries still exist, but people from both South Korea and North Korea are still hoping for an early reunification.

The division of North Korea and South Korea not only caused political gaps, but also enlarged economic gaps as well. The economy of North Korea was bigger in middle 60s, since many communism countries, such as Soviet Union and the People's Republic of China helped the North Korea economically. South Korea, in comparison, was much smaller and had a weaker economy than North Korea. However, the coin turned when the Soviet Union was divided and lost its global economy power, and the People's Republic of China opened its market to global investors and started to trade globally. And currently, South Korea is a participant in the G20 and its economy has the 11th biggest GDP in the world, while North Korea is isolated and considered to have a smaller economy to South Korea in terms of GDP (“Expected”, my trans. par. 2). The South Korean government, despite the big economic gap, is willing and trying to reunite with North Korea, and its aim is to unite the economy first.

The reunification of two Korean economies is expected to benefit the South Korean economy, the North Korean economy and the global economy.

Benefit for South Korean Economy

Reunification of North and South Korea is what people of both countries are waiting and looking forward to achieve, not only because they are longing for each other, but also because it will be so beneficial to both countries' economy. The event has been studied and researched by many scholars and economists since it is expected to have significant historical and economical effects. According to Dong Kyu Han, who majored economic at University of Southern California, South Korea would better off in terms of economic gains because the reunification of North Korean economy and South Korean economy create huge synergy (Han). **The economic effects will be especially beneficial to South Korea since North**

Korea has a wide range of natural resources, it can reduce the military budget of South Korea significantly, and it will provide cheaper labor sources than South Korea.

First of all, the abundant natural resources available in North Korea will benefit and boost South Korea's economy. Natural resources are essential for economic growth and they are also a good source of money flow into economy. According to *The Mining Industry of North Korea*, North Korea has a wide variety of minerals and precious and rare metals (Choi "Mining" par. 10-12). Those minerals are lacking in South Korea and most of them have to be imported from overseas. Reunification will reduce such costs and maximize net profit of South Korea's economy. In the report from *Ministry of Unification of Korea*, the author says that the synergy between North Korea's abundant natural resources and South Korea's well-educated human resources will provide more income and employment ("Change", my trans. 254). Those increased income and employment will be the backbone of a strong economy in South Korea and will provide it with more chances to grow in terms of economy. The natural resources in North Korea will bring many benefits to South Korea's economy since they are lacking in South Korea and can work together with skilled human resources from South Korea.

The reduction of military budget in South Korea will also have a positive effect on South Korea's economy. Spending funds on the military is similar as pouring water into a broken cup. It will never be fulfilled and it is not beneficial to the economy. An article from *Joint Force Quarterly* says that 1.78 million soldiers are serving in both North and South Korea, but the numbers will be decreased to 500,000 after the reunification (Macris par. 12). Having an army of 1.78 million soldiers means that 1.78 million young men and women are outside of society and economic cycle, which is a huge loss to both Korea's economy. They could be working or continuing their education and spend more money in the society for

better of economy. According to *Trading Economics*, South Korea's military budget exceeds 38 billion dollars and it is more than a 10% of total budget of South Korea ("South"). A large amount of funds are flowing into military, thus those funds cannot take significant role in the economy. The reduction in military budget will increase economic budget and social welfare budget and inflow of money into those areas will make the economy healthier in South Korea.

Moreover, more and cheaper labor forces in North Korea will benefit South Korea's economy. Labor forces are the primary source in economy and more labor in economy means more buyers in the economy. With more buyers, economy can rotate money faster, which benefits everyone in the economy and itself. According to the report from *Trading Economics*, the number of people in North Korea is more than 25 million and many of them are unemployed or government-employed ("South"). Those people are not working to their full potential now since they are working for government only, but a greater variety job choices and opportunities after reunification will maximize their potential.

The wages of workers are another important factor in the economy. According to *BBC*, the average income of worker of North Korea is only \$1000-\$2000, while average income of South Korea's worker is more than \$20,000 ("Q&A" par. 5). Statistically, South Korean workers are thus more than 10 times more expensive than North Korean workers. The lower wage can maximize profit for firms and government and the profit will turn to budget which will return to workers as terms of social welfare which will also flow into the economic cycle. The cheaper and more available labor forces in North Korea will be a good source of economic improvement of South Korea. After reunification, those labor forces will work to support South Korea's economic base.

Reunification of North and South Korea is not just two countries and people joining together. It is a combination of two economies and the results may have more benefits than we usually thought. By the event, South Korea will benefit from the abundant natural sources of North Korea, huge reduction of military budget of South Korea's annual budget and, many and cheaper labor sources of North Korea.

Benefit for North Korean Economy

Because the economic situations in both North Korea and South Korea are so different, the reunification of North and South Korea is expected to affect the economies of both countries a lot. And since their virtues and strengths in economies are unlike and complementary to each other, the effects are expected to be beneficial, especially for North Korea.

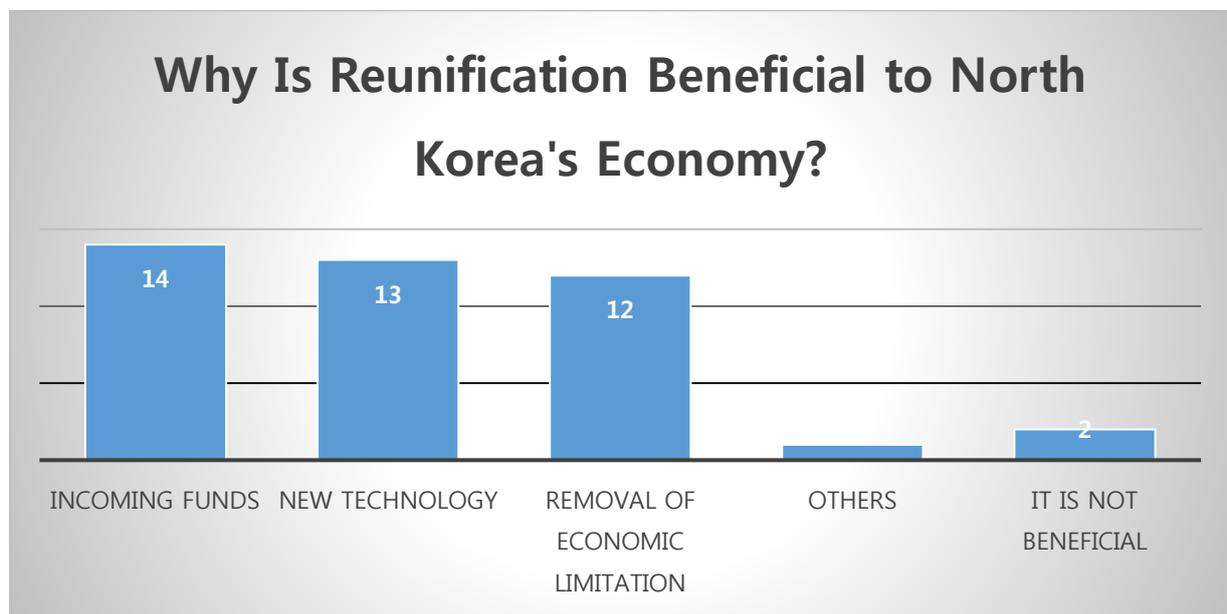


Fig. 1. Kim, Hye Tae. "Economic Effect of Reunification of Korea." Parkland College Students. 1-31 Oct. 2016.

According to a survey that I conducted from 1 Oct. 2016 to 31 Oct. 2016 about the economic benefit of reunification of North Korea and South Korea, of 15 people across the world

showed that 93% of people believe that the reunification would benefit North Korea's economy (Kim "Economic"). **North Korea's economy will also benefit from the reunification by the increase of funds coming into the country, the development of new technology, and the removal of the economic limitations.**

Firstly, funds coming in to North Korea will bring many beneficial effects. Currently, North Korea is trying hard to advertise itself and to get more investment from foreign countries but they could not attract much (Lankov par. 1). Therefore, the funds in North Korea are going out without coming back to its economy, which is a reason for lack of funds in the North Korea's economy, and currently it is causing many problems. It causes a reduction of money circulation in the economy, low development of economy, and less trade between China, which is only way of purchasing foreign goods and products. In South Korea, many people are eager to invest in North Korea and only some selected companies are permitted to invest in North Korea (Cho, my trans. par. 9). South Koreans believe that tall and beautiful mountains and rivers are perfect to invest for tourism and cheap labor forces and lands make North Korea ideal place for building factories for manufacturing companies. Expected funds will not only come from South Korea, but also from the whole globe. Many investors think that North Korea's economy has many potentials, but they are afraid to invest, because North Korea is politically and militarily unstable. However, the unstableness will be removed after reunification. In the interview with CNN Money, Jim Rogers, a famous investor said "(i)f I could put all of my money into North Korea, I would" (qtd. in Stevens par. 12). The availability of more funds increases purchasing power of foreign goods and products which are lacking but needed in North Korea such as a petroleum and cars. Such products are essential for the development of economy and daily living of people. Increased money circulation will also decrease unemployment rate in the economy. According to

Statistics Korea, in the Gaeseong Industrial Complex, South Korean companies are hiring more than 53 thousands workers and paying the workers three times more than other average workers in North Korea. The funds are used for North Korea's economic development ("Productivity", my trans. par. 1). Inflow of funds and investment can solve many economic problems of North Korea and it will lead to benefit of North Korea's whole economy, as well as its people.

Secondly, the reunification will introduce new and advanced technology to North Korea's development of science and economy. North Korea has been technologically-isolated due to the closed economic market of China, which is the only country that it is willing to trade with. After China's economic reform, North Korea could absorb some of the newest technologies, but such information and technologies have been only available for the leader of the country, and benefits of high technology were not available for major groups of people. In reality, while the dictator Kim Jung Un is sleeping on the high tech heated mattress, most of the North Korean people do not have even a simple heater and cannot fall asleep due to cold weather. Also, many homeless children, who were abandoned by family by economic reason, freeze to death (Choi "Homeless", my trans. par. 7). The introduction of new technology to North Korean people is necessary for basic survival, let alone to advance the economy. Technology will also affect the amount of consumption of people. For example, most of South Korea's households have "kimchi refrigerators" which are special refrigerators for Koreans' favorite food, Kimchi. The refrigerator is assembly of high technologies and because such technologies are not available in North Korea, the people in North Korea have to bury their kimchi to keep it fresh. Since kimchi is one of the basic requirements for many North Koreans, just like it is for South Koreans, the kimchi refrigerator will be popular and

will increase the spending of people. Economically, an increase in spending of people will lead to increases in profit for company and workers.

The increase in consumption is not the only benefit of the introduction of the new technology. According to *Trading Economic*, the Gross Domestic Product (GDP) of North Korea is nearly 15 billion US dollars. However, most of the domestic products are self-consumed, due to low competitive edge of the North Korean products in the global market (“North” par. 1). North Korea has advantages such as low price of labor and production fee, but the low technology level is diminishing their export level nearly to zero. If the new technology can be introduced and used by the producers of North Korea, their products will be demanded more in the global market, bringing in more profits to the economy. The introduction and exposure of technology to public are needed urgently in North Korea. The low technology level in North Korea is dragging the economy and the people in it in to poverty and, only possible way to solve the problem is reunification of Koreas.

Finally, the removal of economic limitations is what North Korea truly needs for economic development. The United Nations eased economic sanctions against North Korean commerce after the recent missile launch and nuclear test. The new sanction, “UN Resolution 2270” includes previous economic sanctions added onto much stronger economic regulations (Kang par. 1-4). Due to the strong sanctions, foreign investments, exports, imports and all economic activities outside North Korea are disabled. North Korea’s government is blaming the sanctions for all economic problems in North Korea, and says that removal of the limitations will improve its economy. To compare, Iran was recently freed from economic sanctions from global society. During the limitation, Iran experienced 33% unemployment and 40% inflation. The economy was heading to the bottom of every economic graph.

However, after the removal of the limitation, many of the above statistics were reduced, and

expected GDP growth became more than 5%. In addition, Iran earned more than 3.4 billion US dollars of investment in three months (Kim “Iran” par. 3-7). The economic effect of withdrawal of sanctions will be similar for North Korea. Many investments will head to North Korea, and inflation and unemployment will be reduced in short amount of time.

After the United Nations free North Korea from economic limitations, North Korea will be able to begin trading and it will have more beneficial economic agreements. After reunification, North Korea will be able to make economic agreements, such as TPP (Trans-Pacific Partnership), CEPA (Comprehensive Economic Partnership Agreement) and FTA (Free Trade Agreement). According to “Economic Effect of Reunification of South Korea and North Korea,” written by the *Korea Institute for International Economic Policy* which is the most credible economic research institute launched by South Korea’s government in 1989, North Korea’s industrial productivity will be increased by 5.4% if North Korea joins CEPA (“Economic” 40). The rate is very significant, since the industrial productivity of South Korea increased only 1.2% when South Korea joined South Korea-EU FTA and South Korea-US FTA. The withdrawal of sanctions against North Korean commerce will improve many things in the economy and it will be the beginning of a new era for development of North Korea’s economy.

The reunification of two countries will bring many factors which will make the economy of North Korea much healthier. The economy will experience an inflow of more funds in the market, which will enlarge the pie of the economy. Newly introduced technology will increase profit of the economy from foreign trade while making more profit inside the country as well. The removal of economic sanctions on North Korean commerce will make it possible for North Korea to be able to participate in many beneficial economic activities they

could not do due to the sanctions. North Korea's economy will improve totally by the reunification and it will make the economy much larger and stronger than before.

Opposition

While many people are supporting the reunification, there are some people who are against reunification and saying that the economies of North Korea and South Korea will not benefit by the reunification. They say that the gap between North Korea and South Korea is too big to be filled and the cost of filling the gap to become one economy will be enormous. The required enormous cost will be burden to South Korea and tax payers in it. It will increase tax rate, and instead of raising North Korea's economy, South Korea's economy will fall to be balanced. South Korea's Financial Service Commission Chairman, Je-Yoon Shin, said that \$500bn is required to bring the North Korea's Gross Domestic Product (GDP) from \$1251 to \$10000. The GDP difference between the two countries is also very huge. North Korea's GDP in 2013 was \$31bn, which is just a 2% of South Korea's GDP of the same year (qtd. in Silva par. 1). To compare with the reunification of Germany, East Germany's GDP was 9.7 times smaller than that of West Germany, while North Korea's GDP is 42.5 times smaller than South Korea's (Moore par. 7-8). It seems that the gap between the two economies is massive and the cost of filling the gap would be immense.

That point seems to be true, since the economies of North Korea and South Korea are so different. However, the calculation is done by Income Target Method only, which compares the GDP only and ignores the side effects of investing funds into the gap. Moreover the enormous funds are calculated on the assumption of sudden reunification. Sudden reunification will bring chaos to the united economy and increase the economic cost of reunification, but if North Korea and South Korea can agree to reunite in advance and prepare

for the reunification step by step for years, the economic costs will be minimized and the reunited economy will be settled from beginning. Economic cost will still exist and it will be big; however, the amount will be affordable for the United Korea's united economy if paced over time.

Moreover, the massive economic cost, which is the main reason for opposition to reunification, is not a waste of money. The economic cost is an investment and the reward will be an improved economy. According to the Rule of Valley of Transition, the benefits of the reunification will increase forever as long as North and South Koreas stay united. Since two Koreas are expected to be united forever, the expected net profit of reunification is infinite (Kim "It", my trans. par. 4). According to the global economic paper "A United Korea?" published by *Goldman Sachs*, in 30 to 40 years, economic power and GDP of United Korea will surpass most of G7 countries, such as Japan, France and Germany except US (Kwon "United" 3). The cost of reunification will be big and it might cause downfall of economy initially. However, the negative trends will not last for long and the outcome afterward will be a huge profit to the economy which will last for centuries or even forever.

Benefit for Global Economy

The reunification of North and South Koreas might seem to be as a regional event. However since the global economy nowadays are well connected and globalized, it would benefit economy of many countries around the world. In my survey, more than 90% people said that the reunification is beneficial to global economy (Kim "Economic"). According to Yong Ju Choi, the senior consultant of PwC Consulting, the reunification will benefit Asia hugely, and the effect will spread beyond Asia and reach Russia, the U.S. and even further to Europe (Choi Personal). **The economic effect of reunification will be beneficial to the**

global economy, since the reunification will bring stability in the global currency and stock market, the reunification will reduce the global military budget, and the reunification will introduce new big market into global economy: United Korea.

Firstly, reunification will bring stability in the global currency and stock markets, and the stability will be very beneficial to global economy. The global stock market and currency market are very sensitive, therefore their prices fluctuate every hour. Such small fluctuations are natural and they are not harmful. However, unexpected events can cause sudden decrease or increase of large numbers in the markets, and it is very harmful to global economy and individuals in them. For example, Donald Trump pledged that United States will leave NAFTA (the North American Free Trade Agreement) if he is elected as a president of United States. And as soon as he was announced as the winner of the election, Mexico's currency value and growth prospects rate were crushed, and such sudden changes in the markets are harmful to the people living in Mexico and people holding many pesos (Cota par. 1). North Korea is an unpredictable bomb in East Asia and every single move it makes affects economies of its neighboring countries such as China, South Korea and Japan. South Korea's sovereign credit rate is AA- and the reason it was not improved for several years is due to the uncertainty of North Korea (Lee, my trans. par. 7). The low credit rate makes foreign investors and companies afraid to invest in to South Korea, and its market has slowed down in speed of growing. The downfall in growing rate is spreadable and it would spread to linked economies and global economy. The reunification would remove the uncertainty of North Korea and settle the currency market and stock market, which would allow other investors to invest in East Asia safely to earn their profits and grow global economy.

Secondly, the reunification of North Korea and South Korea will reduce global military budgets. "The six-party talks" is the meeting that talks about denuclearization of

North Korea and the six countries involved in the meeting are countries which can be affected by any actions of North Korea (“Doosan” par. 1). Therefore they are paying attention to North Korea’s military actions while expanding their own military forces. All the countries in the meeting, except North Korea, are in top 10 ranking of military spending and their combined military spending is nearly 60% of total global military spending (Shah par. 7). The ocean and border of North Korea is considered a “powder keg” of the world. Such huge spending on military is not beneficial to global economy since the money flowing into the military circulates very slowly in the economy. Spending of budgets is most useful and valuable when the funds flow to individuals which would increase their spending and circulation of money in the market. For better usage, the military budget should be used for other purposes.

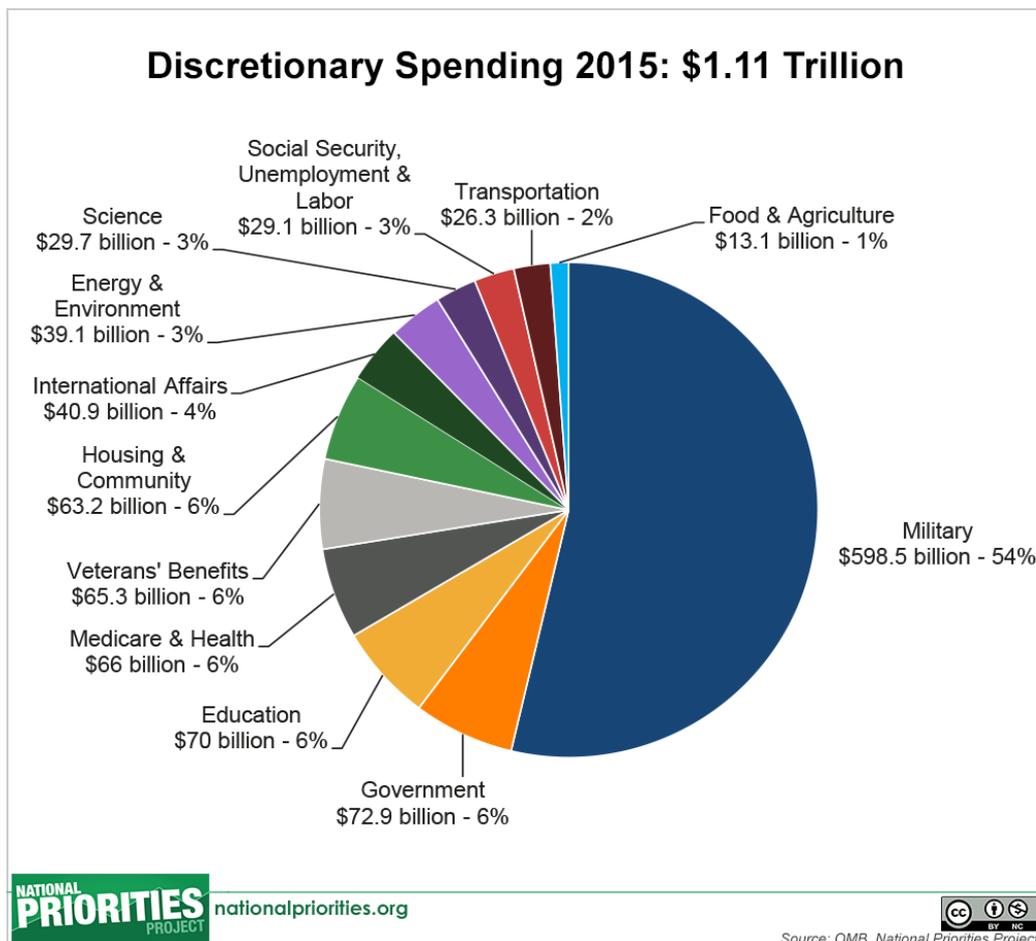


Fig. 2. “Discretionary Spending.” *OMB, National Priorities Project*. N.d. Web. 2 Dec. 2016.

In 2015, total US government discretion spending was \$1.11 Trillion, and \$598.49 billion

was spent on military program and Pentagon. It is the biggest category of discretion spending and it is bigger than addition of rest of others since the proportion for military spending is 53.71%. If conflicts, which US is involved, reduce, US government would be able to reduce military budget and increase budget for other issues such as transportation or Medicare & Health, which are more demanded by people and have more return for its economy. The trend is not only available in US. The countries with high military spending will enjoy the benefit of reduction of military budget and the well-connected economy will spread its benefit to global economy. Reduction of global military budget by reunification would allow more availability of funds in global economy make the economy healthier.

Thirdly, reunification will add North and South Korea and introduce a United Korea to the global economy. Currently, most of markets are open and the global economy seemed to reach its maximum capacity. However, there is still a room to grow, which is an isolated North Korean economy. North Korea is not a small country with population of 25 million people. The introduction of 25 million people in East Asian market would bring vitality into the market and increased trade between countries would be very beneficial to global economy. Introduction of new market would increase consumption of global economy as much as the population of North Korea and it would also lead to increase in export of neighboring and trading countries.

Increase in export is not only benefit that is good for the economy. Every country and region have their strength in certain types of goods or special products and introduction of new market also introduces new products to the market. For example, North Korea is very famous for oriental medicine, Goryeo Ginseng, which is only available in North Korea. The

product is required and demanded a lot by many other countries and entering of North Korean economy into the global market would able the products to be available in other countries. Such introduction of new product into economy increases diversity of purchasing options for consumers, economic profit and satisfaction of people, which are very important factors for economy to grow. Appearance of United Korean market would be very beneficial to global economy since it would increase both total export and import of global economy and improve satisfaction of consumers in it.

Hyun Bok Kwon, the former vice president of Samjung Accounting Firm, mentioned that “the reunification will benefit economies across the globe and everyone linked to the global economy will be affected” (Kwon Personal). The reunification will have large positive impacts on East Asian economy, and the benefits of the economy will be spread across the globe since the bond and connection between economies are very strong nowadays. The stability in currency and stock market, peace in East Asia, which will lead to reduction in global military budget, and appearance of new market are good news for global economy and people in it.

Conclusion

In conclusion, the nations have been divided for more than a half of a century. The division of Korea wounded many people’s heart, and the scar of it is so deep to be removed easily. Some people might afraid to cure it because they are afraid of pain which would cause by the surgery. However, they need to understand the benefit of it to be brave. There will be price to pay for the reunification, but the gain would exceed the price. The economic benefit of the reunification would be enormous. It will benefit economy of North Korea, economy of South Korea and even global economy beyond their borders. South Korean government and

many other countries' governments are working very hard to achieve the reunification and to enjoy the benefits. The reunification process is rough and hard to predict, however, it is just around the corner, and what it needs to pass the finish line is one more push from people and people's willingness toward it.

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