

## The Economic Costs of Korean Reunification

During a speech marking the 65th anniversary of Korean independence (August 15, 2010), current South Korean President Lee Myung-bak proposed a “reunification tax” to financially ready the country to pay for reunification with North Korea, which some observers estimate will cost more than \$1 trillion. President Lee stated his belief that “reunification will definitely come” and emphasized that “the time has come to start discussing realistic policies to prepare for that day such as a reunification tax.”<sup>1</sup>

Some were surprised, and others critical of the president’s proposal, especially given his administration’s continuing tough stance on North Korea. Nevertheless, Lee’s reunification tax highlights the deeper and inevitable questions of whether reunification with North Korea is possible, and if so, what form will it entail and how will Koreans pay for it. The idea of reunification has been an aspiration of Koreans since the division of the peninsula in 1945, but no real practical measures have effectively addressed the specific manner and cost of reunification. Even the reunification tax idea was more of a call for debate and consideration than a detailed roadmap toward reunification.

This explores the economic cost of reunification in the context of growing ambivalence in South Korea toward the idea of unity and shifting South Korean policies toward its northern neighbor. Whether or not one agrees with President Lee’s reunification tax proposal, it is a reminder to Koreans on both sides to think more specifically about reunification and how to prepare for it.

Overall, it is important to keep in mind that the question of reunification is a deeply complex matter for the two Koreas, involving sensitive political, social, and emotional issues.<sup>2</sup> The economic cost of reunification is but one dimension of a much more complicated picture.

### Ambivalence about Reunification

The lack of real practical preparation for reunification reflects both the longevity of partition and the nature of relations between the two Koreas. It has been nearly six decades since the Korean peninsula was divided, and much of that history has been characterized by conflict and

tension. The two Koreas fought a bitter war between 1950 and 1953, and even more recently, there have been episodes of conflict, such as North Korea’s sinking of the South Korean ship, *Cheonan*, and shelling of Yeonpyeong Island in 2010. In context of such protracted tense relations, it has not always been feasible to constructively envision a shared, unified future.

Nevertheless, despite such tense relations, the desire for reunification that is rooted in a sense of common ethnicity, cultural experience, and historical justice remains strong. In South Korea, public survey results commonly indicate that the majority of citizens support the idea of unity. For example, in a recent January 2011 survey by the Korean Broadcasting System (KBS), 71.6% of respondents favored reunification of the two Koreas.<sup>3</sup> In addition, in the same survey, nearly 70% of respondents indicated that they were willing to pay the costs of reunification, while 26.6% said they would not.<sup>4</sup> The survey did not specify the level or manner of costs of reunification. The general idea of financially supporting reunification may be acceptable, but when it comes down to actually taking money out of one’s pocket or paying taxes, individual responses may change.

While the majority of South Koreans seem to favor reunification, there is growing ambivalence about the timing and nature of reunification. Nearly half of the respondents in the KBS survey envisioned a relatively gradual process of unity, with 24.6% indicating that it could happen within 10 years and 24% citing a time frame of 20 years.<sup>5</sup> This protracted time frame recognizes that there are very complex and difficult issues involved in reunification. There are the seemingly intractable political differences and mistrust between the two Koreas, some of which are embedded in ideological conflicts. In addition, the North Korean nuclear weapons issue over the past two decades has only made reunification even more difficult to achieve. Finally, the social cleavages stemming from division and war and the generation shift to a younger generation that grew up in a divided peninsula all make the idea of reunification more a long-term dream rather than a near-time reality that requires preparation.

Then there are the economic costs. The survey data illustrates how the South Korean public is wary of the large economic divide between the two Koreas, which would significantly raise the burden of reunification if it were to occur very quickly through a scenario in which

South Korea would absorb a collapsing North Korea. Estimates of Korean reunification run from tens of billions of dollars to over \$1 trillion.<sup>6</sup> The heavy cost of German reunification over the past 20 years for West Germany, which absorbed its eastern neighbor is a stark reminder to South Koreans about what they may possibly face in paying for a united peninsula.

### **The Economic Divide**

One of the most important reasons for this growing ambivalence is the immense gap in economic development and wealth between the two countries. After rapid industrialization that started in the 1960's and 1970's, South Korea is currently the thirteenth largest economy in the world with per capita GDP of nearly \$30,000.<sup>7</sup> It is home of some of the largest industrial conglomerates such as the steelmaker, POSCO, and technological heavy-weights, Samsung and LG. The vibrancy of South Korea's market-based and open economy contrasts sharply with North Korea's debilitated economy that has largely remained closed to global trade. The North Korean economy's GDP is only estimated to be around \$40 billion and per capita GDP ranks as one of the lowest worldwide at only \$1,800.<sup>8</sup> Severe food shortages stemming from economic mismanagement and natural disasters has forced North Korea to seek humanitarian assistance from its neighbors, including South Korea, and the international community. While North Korea has not yet collapsed, despite persistent commentaries that it would, its desperate economic situation significantly raises the costs and reduces the desirability by South Koreans of immediate reunification.

### **Overcoming the Economic Divide**

How can such an immense economic divide be overcome? Inevitably, any economic policy on Korean reunification will be linked to political strategy between the two Koreas, and various South Korean administrations have proposed different North Korean policies. President Lee has urged South Koreans to consider practical preparations for eventual reunification, but he has maintained an overall tough policy toward North Korea. Lee's "Denuclearization, Openness, and 3000" initiative from 2007 stipulated that South Korea would provide economic assistance to North Korea with the cooperation of the international community in order to raise North Korea's per capita GDP to \$3,000 within 10 years.<sup>9</sup> Such aid would be contingent on North Korea giving up its nuclear weapons and help alleviate the economic burden of eventual reunification, but progress on the initiative has not been significant.

Alternatively, former South Korean President Kim Dae-

jung proposed a much more long-term approach that was rooted in engaging North Korea. Rather than maintaining the prolonged atmosphere of conflict with North Korea, his "sunshine policy" sought to foster a mood of trust and reconciliation in inter-Korean relations, rather than seeking to bring down the northern regime with a hostile policy.<sup>10</sup> While not tolerating military provocations from the north, the policy rules out South Korea absorbing its northern neighbor.

One of the most important insights of Kim Dae-jung was the recognition that swift reunification may not be beneficial to either Koreas due to the increasing economic gap between South Korea and North Korea. Rather, a more gradual process of reunification would be required. Thus, Kim Dae-jung sought to increase economic exchanges and links with North Korea. The focal rationale was that in the long run, inter-Korean trade could sow the seeds for fundamental change in North Korea, all the while lessening the gap between the two Koreas. Thus, South Korean advocates of engagement with North Korea have promoted specific projects such as the Gungang Mountain tours and the Gaesong Industrial Complex. Besides manufacturing and production of consumer products, the exporting and importing of ideas between the two Koreas would help form the basis of reconciliation.

Although the "sunshine policy" greatly influenced inter-Korean relations for over a decade, it has been a source of controversy in South Korean politics. Many critics of the policy argue that engaging North Korea in such a manner only props up the Kim Jong-il regime, thus delaying reunification, rather than putting pressure on the northern government.

### **Conclusion**

For some Koreans on both sides of the border, reunification is a goal that should be achieved regardless of the economic cost. While such sentiments have sustained a consistent desire for peace and unity on the Korean peninsula, the political and economic realities mandate leaders in both Koreas to confront and adequately prepare for them.

## Notes:

1. Brett Cole, "South Korea President Calls for Reunification Tax," *Reuters* (August 15, 2010), available online at: <http://www.reuters.com/article/2010/08/15/us-korea-north-tax-idUSTRE67E08K20100815>.
2. Gi-Wook Shin, *Ethnic Nationalism in Korea: Genealogy, Politics, and Legacy* (Stanford: Stanford University Press, 2006).
3. Kanga Kong, "KBS Poll: Sentiment Shifting on Unification," *The Wall Street Journal* (January 7, 2011), available online at: <http://blogs.wsj.com/korearealtime/2011/01/07/kbs-poll-sentiment-shifting-on-unification/>.
4. Ibid.
5. Ibid.
6. SPICE, *Inter-Korean Relations: Rivalry, Reconciliation, and Reunification* (2010).
7. CIA, *World Factbook: South Korea*, available online at: <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>.
8. CIA, *World Factbook: North Korea*, available online at <https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>.
9. Duk-min Yun, "Initiative for 'Denuclearization, Openness and 3,000': Tasks and Prospects," *Korea Focus* (April 29, 2008), available online at: [http://www.koreafocus.or.kr/design2/layout/content\\_print.asp?group\\_id=102041](http://www.koreafocus.or.kr/design2/layout/content_print.asp?group_id=102041).
10. Adapted from SPICE, *Inter-Korean Relations: Rivalry, Reconciliation, and Reunification* (2010).