

Korea Can Cut Reunification Cost

By Kang Hyun-kyung, Kim Se-jeong
Staff Reporters

On the night of Nov. 9, 1989, a crowd breached the Berlin Wall, suddenly leading to the reunification of East and West Germany.

On the 20th anniversary of its fall, experts say there is a lesson South Korea can learn from the German reunification model to cut unification costs: Invest in infrastructure and education in North Korea.

Bernhard Seliger, resident representative of the Hans Seidel Foundation in Seoul, told The Korea Times that people living in the former East Germany who are heavily reliant on social benefits from West Germany is a snapshot of the 20 year-old reunification.

Following the collapse of the wall, West Germany saw about 600,000 people migrate from East Germany within six months.

"West Germany did not want mass migration to occur further and for that reason it massively subsidized consumption in East Germany through social payments," Seliger said.

The economist said East German industries were not competitive and the high wages decreased their competitiveness, raising the jobless rate and increasing social welfare payments.

The generous payments led to

budget deficits in Germany for 17 consecutive years following reunification.

Only 20 percent of total transfers were used for investment, with the remaining 80 percent used for consumption.

Seliger proposed the German government spend more on incentives for those seeking jobs, saying social benefits-oriented spending didn't lead to sustainable growth.

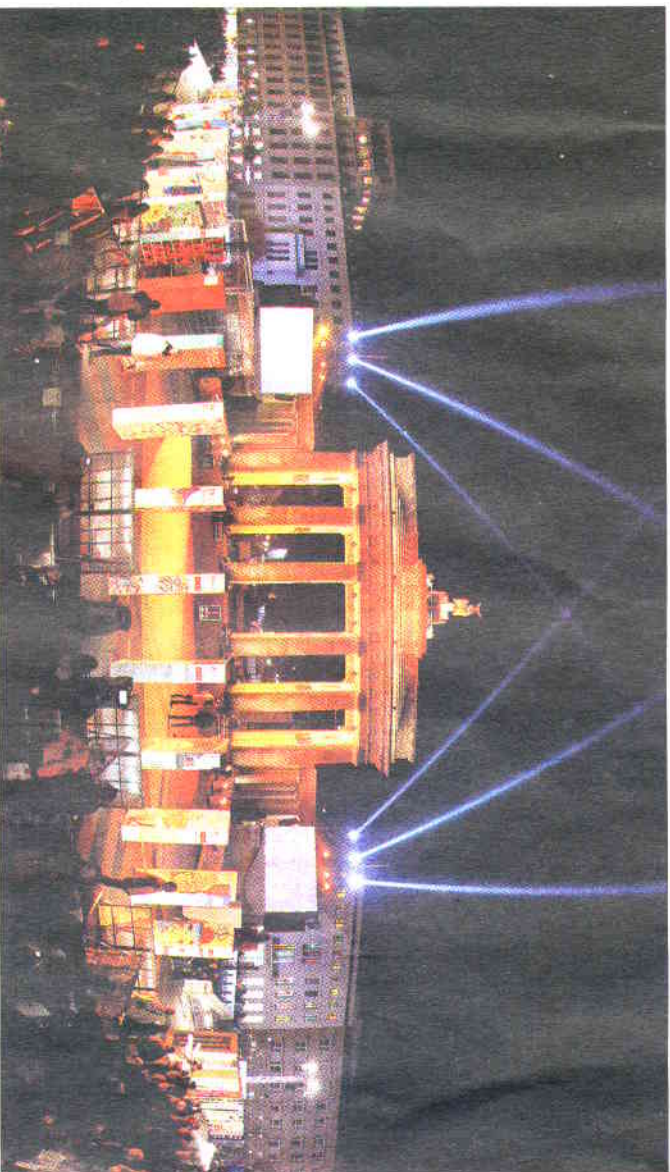
Jeong Hyun-gon, a research fellow at the Korea Institute for International Economic Policy (KIEP), concurred, saying wise spending is the key thing for South Korea to learn from Germany.

According to Jeong, approximately \$2 billion per year — in both public and private level assistance — flowed from West to East Germany from 1972 to 1989.

"At the time, there was heated debate in West Germany as to if the transferred money was spent wisely because East Germany spent most money on repaying debts or other one-off consumption," he said.

To cut unification costs, Jeong said South Korea should help North Korea improve its economic situation through technical assistance.

"We should think about specific programs that can improve North Korea's economic infra-



People walk next to domino pieces near the Brandenburg Gate in Berlin, Saturday. As the highlight of a \$7.4 million celebration marking the 20th anniversary of the fall of the Berlin Wall today, a 1.5-km long segment of the Wall will stand for two days along its original route in front of the Brandenburg Gate to the Potsdamer Platz. Reuters-Yonhap

structure," he said.

The KIEP expert added the North should change its ways first.

"If this is done, it will be a lot easier for the North to get technical and economic assistance from international financial institutions as there are grounds for those institutions to assist the North, even though it is not a member state," Jeong said.

Meanwhile, Seliger pointed out that lack of market-oriented edu-

cation in communist countries, like East Germany and North Korea, tends to increase unification costs.

"There were few jobs available for people living in East Germany as their skills and qualifications didn't fit the job requirements. I think this problem will also occur in Korea if the two Koreas are unified and little can be done about this," he said.

A Goldman Sachs report released in September projected

that a unified Korea could overtake France, Germany and possibly Japan in 30 to 40 years in dollar-based gross domestic product.

The report said South Korea can reduce the unification cost if it has appropriate policies and follows the China/Hong Kong reunification model, which allows separate political and economic systems to coexist.

See Reunification on Page 6