

PRESS RELEASE

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**“Korean unification will be the new growth engine
and catalyst for deep economic cooperation in North East Asia”**

- **KIEP convened a seminar on “Economic Policies of Neighboring Countries Towards the Korean Peninsula After Unification”**
- **Korean peninsula-3 Northeast Chinese provinces-Far East Russia-Mongolia will rise as a massive economic region**
- **U.S. and China will benefit the most in the event of Korean unification**

The Korea Institute for International Economic Policy (KIEP) hosted an international seminar titled “Economic Policies of Neighboring Countries Towards the Korean Peninsula After Unification” on October 7th at Westin Chosun Hotel, Seoul.

[President Hyun’s opening address]

This seminar was a third-year sequel to KIEP’s annual “Mid-to-Long Term Unification Research Series,” in which researchers from the U.S., China, Japan and Russia shared and discussed the research findings they have conducted for the last 6 months. In his opening address, Jung Taik Hyun, KIEP’s President (June Dong Kim, KIEP Senior Vice President delivered the address on behalf of the President) expressed his hope that this seminar would “be a prelude to a global debate on unification,” through discussing “analyses on the ripple effects of Korean unification on the East Asian economy and how each country can contribute to the development of unified Korea.”

Yong-pyo Hong, Minister of Unification was also present to deliver congratulatory remarks.

In this seminar, four renowned scholars presented their research on the economic effects of Korean unification, changes unification would bring on Northeast Asian value chains, and prospects of changes in the four major countries’ economic policies towards the Korean peninsula as a result.

[The U.S. counterpart: “Devised a model for predicting North Korea’s economic development based on the correlation between economic growth and indicators such as Fraser Institute Economic Freedom Index, life expectancy at birth, and urbanization ratio.”]

Nicholas Eberstadt, Henry Wendt Scholar in Political Economy at the American Enterprise Institute (AEI), predicted North Korea’s major economic indicators based on the assumption that after Korean unification, there will be one political and economic system but two separate units temporarily.

In this research Dr. Eberstadt came up with a model for predicting North Korea’s economic development based on the correlation between economic growth and indicators such as the Fraser Institute Economic Freedom Index, life expectancy at birth, and urbanization ratio. He used panel data from about 120 countries from the period of 1970 to 2010. According to his analysis, 5 years after unification, the Northern region is expected to enjoy up to \$16,768 GDP per capita, and \$19,160 10 years after unification.

Northern Korea’s Major Economic Indicators Prediction after Unification (US\$)

	5 Years After Unification	10 Years After Unification
Per Capita GDP	16,768	19,160
Per Capita Service Exports	1,500	1,756
Per Capita FDI Stock	6,108	7,803

[The Chinese counterpart: “Korean unification will be the catalyst of the creation of a massive economic region connecting the Korean peninsula-3 Northeast Chinese provinces-Far East Russia-Mongolia]

Tingting Li, Professor of Peking University postulated that economic integration of the Korean peninsula will induce production throughout the whole peninsula due to the Northern region’s factor input increase and optimization, and Southern region’s cheaper raw material supply, decrease in military spending, and alleviation of the “Korea risk.”

She also predicted that North Korea’s trade barriers will be alleviated, international sanctions against North Korea will be lifted, the provisions for inter-Korean trade will be adjusted (e.g. inter-Korean FTA), and the Northern region will participate in bilateral and multilateral trade agreements. In this process, North Korea will accept international standards of production, labor, and environmental criteria.

As a result, Li predicted that China will adjust its existing East Asian value chain policy. She viewed that China will actively promote investment into the Northern area of unified Korea and

facilitate and integrate the North Korea-China special economic cooperation zone. China would also put effort into building infrastructure and establishing communications and financial systems and try to connect this with the 3 Northeast Provinces.

All in all, the Northern region after unification, linked with China's 3 Northeast Provinces will rise as a major economic region, and in the long term will be the catalyst for the creation of a massive economic region connecting the Korean peninsula-3 Northeast Chinese Provinces-Russian Far East-Mongolia.

[The Japanese counterpart: "U.S. and China will benefit the most in the event of Korean unification"]

Tomohiko Inui, Professor of Gakushuin University and Hyuk Uk Kwon, Professor of Nihon University in Japan analyzed the economic spillover effects Korean unification would bring to major countries based on the World I-O table and the predicted North Korean I-O table.

First, if the East Asian value chain becomes readjusted due to Korean unification, every one unit increase in product demand realized by North Korea will lead to a 0.46 unit increase of production in the rest of the countries. One unit increase in product demand in South Korea will result in 0.25, China's one unit increase will result in 0.10, Japan's in 0.06, U.S.'s in 0.05, and Russia's in a 0.04 unit increase of production in other countries.

Next they predicted the total induced production effect due to Korean unification will amount to \$65 trillion and U.S.'s induced production will be 43% of the total induced production effect, while China would be 34%, Japan 17%, Russia 4%, South Korea 3%, and North Korea 0.05%.

The reason why North Korea's unit increase in product demand in other countries is relatively high but has low percentage in the total induced production effect is because it has low quality technology and high dependency on imported intermediate goods. If the North Korean region increases investment in R&D and improves technological quality and therefore decreases its dependency on imported intermediate goods after Korean unification, then the induced production effect in the Northern region will increase.

Induced Production Effects

	Induced Production Effects (\$Million)	Share (%)
U.S.	28,144,806	43.0
China	21,975,726	33.6
Japan	10,772,437	16.4
Russia	2,701,628	4.1
South Korea	1,870,022	2.9

North Korea	35,080	0.05
Total	65,499,699	100

[The Russian counterpart: “Logistics, transportation, energy sectors are promising in unified Korea and Russian economic cooperation”]

Lastly, Sergey Lukonin, Senior Fellow at the Institute of World Economy and International Relations (IMEMO) at the Russian Academy of Sciences investigated the current status of Russia’s economic interaction with North Korea and predicted promising sectors for Russia’s economic cooperation with unified Korea.

According to his analysis, economic interaction between North Korea and Russia is currently very small. Since 2012 Russia has put a lot of effort into expanding economic cooperation with North Korea, and it has been gaining momentum especially due to the Ukraine crisis in 2014, but there have not yet been any tangible results. Therefore a Russian strategy for economic cooperation with unified Korea does not exist.

Currently the Russian business and scientific community is discussing a number of specific projects that can be implemented in North Korea, and these can be the basis of Russia’s economic strategy towards the unified Korea. However, he noted that the absence of legal and economic mechanisms, lack of human resource capacity, underdeveloped financial sector and infrastructures are major obstacles to deepening economic cooperations between the two countries.

Meanwhile, he suggested promising economic cooperation projects such as the Rajin-Khasan project, ‘Pobeda project’ (Modernization project of North Korea’s railroads), logistics and energy corridors, mining, casino and tourism industries.

In this seminar, there were about 150 participants, including: Korean specialists from US, China, Japan and Russia, foreign missions, and members of the government, academia, research institutes and private sector as well as domestic and foreign news media, all of whom showed enthusiastic interest in the issue of Korean unification.

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- **About Korea Institute for International Economic Policy(KIEP)**

The Korea Institute for International Economic Policy (KIEP) was founded in 1990 as a government-funded economic research institute. It is a leading institute concerning the international economy and its relationship with Korea. KIEP advises the government on all major international economic policy issues and serves as a warehouse of information on Korea's international economic policies. Further, KIEP carries out research by request from outside institutions and organizations on all areas of the Korean and international economies by request.

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[Photo1] The international seminar titled "Economic Policies of Neighboring Countries Towards the Korean Peninsula After Unification" is held on October 7th, 2016 at Westin Chosun Hotel, Seoul.



(From the left) Tingting Lee, Professor at Peking University, Byung Yeon Kim, Professor at Seoul University, Hyung Gon Jeong, Senior Research Fellow at KIEP, Oh Seok Hyun, AIIB International Advisory Panel, Yong Pyo Hong, Minister of Unification, June Dong Kim, Senior Vice President at KIEP, Nicholas Eberstadt, Senior Research Fellow at American Enterprise Institute(AEI), Tomohiko Inui, Professor at Gakoshuin University, Jong Wha Lee, Professor at Korea University, Ho Yeol Lim, Vice President of Department of Northeast Asian Economies at KIEP, Hyeog Ug Kwon, Professor at Nihon University.

[Photo2] June Dong Kim, KIEP Senior Vice President delivers an opening address on behalf of Junh Taik Hyun, the President of KIEP at the international seminar held on October 7th, 2016 at Westin Chosun Hotel, Seoul.



[Photo3] Yong Pyo Hong, Minister of Unification delivers congratulatory remarks at the international seminar held on October 7th, 2016 at Westin Chosun Hotel, Seoul.

