
PRESS RELEASE

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“Sectoral-specific policies to separately operate South and North Korean Economies after unification”

- **KIEP convened a seminar on “Temporary Separate Operation of South and North Korean Economies after Unification”**
- **Most favorable mode of reunification is Special Zone-type integration, rather than German Unification model**
- **Labor and social welfare; monetary, financial, and fiscal policies; and state property management should be gradually integrated, allowing independent operation for considerable period of time**

The Korea Institute for International Economic Policy (KIEP) hosted an international seminar titled “Temporary Separate Operation of South and North Korean Economies after Unification” on October 28th at the 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 renowned researchers shared and discussed the research findings they have conducted for the last six months. In his opening address, Jung Taik Hyun, KIEP’s President expressed, “This seminar will become a new frontier in research on inter-Korean unification by seeking compromises between the polarized unification policies, and suggesting sectoral-specific plans.”

Ho-Yeol Yoo, Executive Vice-Chairperson, National Unification Advisory Council was also present to deliver congratulatory remarks.

In this seminar, renowned speakers shared their ideas concerning Temporary Separate Operation of South and North Korean Economies after Unification in terms of Economic Necessity and Legal Validity; Labor and Social Welfare; Monetary, Financial, and Fiscal Policies; and State Property Management.

[Economic Necessity and Legal Validity, “Most favorable mode of unification to maximize the net benefits of unification is ‘Special Zone-type integration’, rather than German Unification model”]

Soo Ho Lim, Head of International Cooperation for Korean Unification Team at KIEP, and Jun Gyu Min, Head of North Korean Economy Team of Economic Research Institute of BOK, examined the economic

necessity and legal validity of the Temporary Separate Operation of South and North Korean Economies after Unification from the perspectives of maximizing the net benefits of unification and ensuring compatibility with the Constitution.

In his research, Dr. Lim analyzed the mode of integration that can maximize the cumulative net benefit as being Special Zone-Type integration, which would cost approximately KRW 1,000 trillion. Special Zone-Type integration is a mode that temporarily prohibits migration between the North and South and which maximizes investment in infrastructure for developing the North Korean region. He said the effect of mitigating the income gap under the Special Zone-type integration would be stronger than the German unification model. Thus, when unification does occur, it would be best to avoid a German-type economic integration and instead pursue Special Zone-Type integration.

He pointed out it would be essential to secure national consensus on the appropriate cost of unification, because the “valley of transition (the dip into negative net benefit right after unification)” could deepen in the short term following unification.

Meanwhile, Dr. Min examined the constitutionality of temporary separate operation of the labor market, which is one of the basic premises of the research. It is perceived that prevention of migration from the North to South, employment permit system, minimum wage discrimination and restriction of labor rights could possibly violate essential aspects of the fundamental rights or freedom stipulated under the Constitution. However, he predicted that the constitutional acceptability will be improved if the purpose of the separate operation of labor market is recognized as a way to avoid existing danger, and if it is supported by human-rights friendly policies and national consensus.

[Labor and Social Welfare, “Free migration between the north and south region will be an enormous burden to unified Korea, operation of labor and social welfare system should be temporarily separated]

Dr. Jin-Soo Kim, Dean of the Yonsei University School of Social Welfare, estimated the number of displaced persons would be around 2 million based on the lessons learned from the Korean War and German unification. This would be an enormous burden to the unified Korean government, and thus he suggested that the labor and social welfare system be separately operated through an ‘Emergency Transition Period’, ‘System Integration Period’, and ‘System Settlement Period’.

Dr. Kim emphasized two policies: 1) Provision of various incentives to prevent mass migrations from the North to South through various relevant economic and social policies, and 2) Temporary block on overseas Koreans from entering the Korean Peninsula.

In addition, he suggested that the social welfare system should be gradually applied to the North in the stages of introduction, settlement, expansion, and maturity, when considering that the South Korean social welfare system has still yet to reach the maturity stage.

[Monetary, Financial, and Fiscal policies, “Temporary separation of monetary, financial, and fiscal polices is desirable, but certain level of economic support is inevitable”]

Dr. Young Chan Kim, Visiting Research Fellow at KIEP, predicted that temporary separation and gradual integration of monetary, financial, and fiscal polices is desirable even in the case of rapid political integration, due to the gap between the two Koreas in income level and stages of financial & fiscal development. However, he suggested that a certain level of cooperation and support would still be needed during the separation period, such as support for development of initial financial infrastructure, exchange rate stabilization, and guarantees for government bonds.

For monetary policies, he proposed for an independent authority to regulate monetary and exchange rate policies for North Korean economies through the introduction of new currency and establishment of a central bank in the region. For financial policies, support from the South would be needed in order to establish a market-based financial system and infrastructure in the early stage of the separation period with dual banking systems. Lastly, for fiscal policies, he mentioned that the crisis resolution mechanism would be necessary to prevent lax management, while building up independent fiscal management rule at the same time.

Furthermore, the integration time of monetary, financial and fiscal policies could be different depending on economic development, financial intermediation and benefit of integration.

[State Property Management, “A customized state property management plan is desirable by asset types and unification process.”]

Cheol-Soo Park, Professor of Halla University, proposed ‘3 phases road map for effective management of state properties’. He emphasized that a customized management plan according to asset types and unification processes would be desirable.

According to his research, the unified government should set up real estate management institutions during Phase 1 (Preparation Phase), and resolve ownership disputes based on the institutions during Phase 2 (Implementation Phase). Lastly, the government should establish a comprehensive land development plan for the Korean peninsula to integrate state property management institutions and related laws during Phase 3 (Preliminary Integration Phase).

Road Map for Real Estate (Land/Housing) Management

Phase	Objectives	Actions
Phase 1 (Preparation) -within 5 years-	Build the foundation for stable real estate management	<ul style="list-style-type: none"> ■ Set up real estate management organizations ■ Enact and revise relevant laws and systems ■ Carry out comprehensive survey ■ Educate and publicize land policies ■ Implement measures for social stabilization ■ Set up land development plans for the North ■ Raise and manage asset management funds
Phase 2 (Implementation) -10 to 15 years-	Stable real estate management (resolve ownership issues and disputes)	<ul style="list-style-type: none"> ■ Resolve ownership issues ■ Provide compensation and return lands to original owners ■ Set up dispute resolution organizations ■ Set up a council for social dialogue ■ Implement land development plans ■ Permit private ownership of Special Grade and Grade 4 houses, and boost house sales and public rentals
Phase 3 (Preliminary Integration) -within 5 years-	Prepare for the integration of real estate management organizations, laws, and systems	<ul style="list-style-type: none"> ■ Prepare for organizational integration ■ Prepare for legal integration ■ Transfer the authority for land ownership dispute resolution ■ Develop a comprehensive land development plan for the Peninsula ■ Full privatization of houses

He pointed out that policy measures for North Korean properties management by scenarios should be prepared before unification to avoid the confusion which occurred during German unification. He also emphasized that customized privatization policy should be implemented by regions and asset types during the temporary separation period. Lastly, he suggested sufficient information and advisory and consulting channels should be provided to North Korean interest group by bringing up the middle class and capitalist during the privatization period.

About 150 participants attended the seminar, including: Korean specialists from the 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 “Temporary Separate Operation of South and North Korean Economies after Unification” is held on October 28th, 2016 at Westin Chosun Hotel, Seoul.



[Photo2] Jung Taik Hyun, the President of KIEP delivers an opening address at the international seminar held on October 28th, 2016 at Westin Chosun Hotel, Seoul.



[Photo3] Ho Yeol Yoo, the Executive Vice-Chairperson of National Unification Advisory Council delivers congratulatory remarks at the international seminar held on October 28th, 2016 at Westin Chosun Hotel, Seoul.

