
PRESS RELEASE

December 12th, 2018 at 9:30am

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Lessons from the Past Economic Cooperation between East and West Germany and Post-Unification Development Policies

- **KIEP hosts a seminar on the Economic Cooperation between East and West Germany and Post-Unification Development Policies and its implications for Korea.**

The Korea Institute for International Economic Policy (KIEP) held the 5th Korean-German Unification Economic Policy Seminar at the Westin-Chosun Hotel in Seoul on Wednesday, December 12, along with the Ministry of Strategy and Finance. This seminar was opened to the general public and attended by experts from the Federal Ministry of Finance, the IWH-Halle researchers, the Ministry of Strategy and Finance, the Korea Institute for International Economic Policy, academia and the press.

The Korean Ministry of Strategy and Finance and the Federal Ministry of Finance in Germany have jointly studied the case of German unification from the Ministry of Finance and the Economic Research Institute each year since 2014, recognizing the need for cooperation between the two countries to promote the unification of the Korean Peninsula. This seminar was a venue for both economic research institutes to present and discuss the final research results on this year's research topic. The research results discussed in this seminar will be used to prepare and establish inter-Korean exchanges, cooperation, and economic policies on the Korean Peninsula after unification.

The seminar started with the opening remarks of KIEP Senior Vice President Chul Chung, Byung-ryul Woo, Director of Foreign Economy at the Ministry of Strategy and Finance, and Stefan Olberman, Federal Minister of Economy and Finance at the Federal Ministry of Finance in Germany.

The first session's presenter, Mirko Titze, a senior economist at Halle Institute for Economic Research, presented a study on the German government's support for East Germany after unification. In his presentation, he analyzed the effects of the "Improving regional economic structure" (GRW) policy, which provided financial support to the structurally vulnerable areas of the German government, in this case, Saxony-Anhalt. According to his research, subsidies to the region

have been mostly used for infrastructure and modernization of private enterprises' facilities. Difference in difference was used to analyze the subsidy effect. As a result, the employment inducement effect due to subsidy support varied by region and company, and the employment effect of the subsidy company decreased. In order to clarify the effect of the subsidy program, Dr. Titze suggested that a subsidy evaluation system should be established and the subsidy-related data such as company name, industry, location, and period of subsidy should be digitised.

In the next session, KIEP Senior Research Fellow Hyung-gon Jeong made a presentation on the "West German Support System for East German Support for Trade Activation." First, he explained the legal basis for trade in East and West Germany and analyzed in detail East - West trade in the process of division. He emphasized that the trade between East and West Germany was made possible due to strict control measures by the government on trade and commerce and remittance since the very beginning, imposed under the circumstances of the Cold War era. In order to overcome these limitations, the West German government guaranteed the East German government various preferential benefits such as VAT reduction, tariff exemption, swing loans, and so on. However, it was analyzed that the direct cause of the increase of trade in East and West Germany was political reconciliation and cooperation policy pursued by the East and West, and institutional prerogative was a necessary condition for revitalizing the economic cooperation, while the sufficient condition was political stability and reconciliation policy towards cooperation.

Dr. Jeong also analyzed that West German support for the East German economy was provided under a very strong political intent. The West German government believed that the East German economy depended too heavily on the former Soviet Union, and worked to reduce the East's reliance on the Soviet and Eastern European socialist countries. Towards this, West Germany implemented the preferential measures mentioned above, which were a great help not only for East Germany to access the West German market, but also for its entry into the Western European market. In particular, West Germany gained official recognition for trade with East Germany by signing the Treaty of Rome in 1957, enabling the East to access the Western market on a non-tariff basis and import capital goods and intermediate goods from West Germany, thus improving the competitiveness of East German products in European markets. In conclusion, West German support for East Germany reduced the dependence of East Germany on socialist countries and enabled its trade with Western European capitalist countries to increase dramatically, which greatly contributed to the adjustment of the East German people to the market economy after the reunification.

In the mid-1970s, however, the Swing system was used as an important means to reduce the difficulties caused by the lack of foreign reserves in East Germany and to dramatically increase bilateral trade. Removing the swing's expiration date was an undesirable policy. On the contrary, without the due date, it was analyzed that the system served as an obstacle to promoting East-West trade. Lastly, Dr. Jeong estimated that more than 6,000 West German companies created profits

through trade with the East German states, and that the mutual understanding between these companies provided the East side a very useful experience in learning the market economy.

Matthias Brachert, economist at the Halle Institute for Economic Research, in his second session, presented a study of interregional disparities in the process of transition to East Germany. According to Dr. Brachert, this study was the first to analyze the overall employment change in the East German region in both the short and medium term. The data on the regional economic structure, which was established shortly after the iron curtain was lifted, showed the impact of the socialist legacy on the local economy. In conclusion, the socialist legacy seems to have enhanced the ability to cope with the structural changes that have taken place since the collapse of the Berlin Wall in 1989 in the East Germany.

The economic structure and agglomeration led to the short- and mid-term economic development of the East German states, and caused employment effects. Common indicators such as population density and the diversity of regional economic structures have also shown positive effects. The presence or absence of large corporations was a factor that prevented employment decline in the short term, but it seems to hinder economic growth in the medium term. State-owned enterprises such as "Kombinate" were not immediately shut down but led the regional industrial policy.

In addition, it was found that the higher the proportion of the East German entrepreneurs, the more the regional employment increase. The higher the share of intra-German trade and international trade, the lower the employment rate. This is due to the fact that East German residents have begun not to prefer East German products, and subsequently trade with Eastern countries has decreased significantly. Human resources have also been found to have a positive impact on regional economic development.

Lastly, Young-Chan Kim, adjunct professor at the Hankuk University of Foreign Studies, presented his study on policies to support small and medium-sized enterprises in Germany after German unification. In this study, Dr. Kim examined the current status of successful small and medium-sized enterprises (hidden champions) in the East German region, analyzing the characteristics of companies and their support measures, and then drew implications for Korea. Dr. Kim said first that the total number of "hidden champion" companies in East Germany is significantly lower than in West Germany, but the emergence of hidden champions is very positive. Hidden champion companies appeared in the East German region because of the various forms of government policy support they received, in addition to the technology they possessed. In conclusion, Dr. Kim predicted that North Korea's businesses, along with the entrepreneurship needed to form these hidden champions, should be provided policy support by the government in order to strengthen the regional economic base and become a cornerstone of balanced development.

Appendix 1: Program Overview

Economic Cooperation between East and West Germany and Post-Unification Development Policies: Implications for Korea	
Opening Ceremony	
09:00-09:15 (15 min)	Opening Remarks : Chul Chung (KIEP)
	Welcoming Remarks 1 : Woo Byung-Ryul (Ministry of Economy and Finance)
	Welcoming Remarks 2 : Stefan Olbermann (Federal Ministry of Finance)
09:15-09:30 (15 min)	Group photo session
Session I	
09:30-10:40 (70 min)	Moderator : Jong-Hwa Lee (Korea University) Presentation 1 : Evidence-based evaluation of economic support schemes in East Germany —a pilot study on the effectiveness of regional policy in Saxony Anhalt (20 min) Mirko Titze (IWH) Presentation 2 : The West German government's support system to promote trade with East Germany (20 min) Hyung-gon Jeong (KIEP) Panel Discussion : Suk Ki Lee (KIET), Sang In Park (SNU)
10:40-10:55 (15 min)	Coffee Break
Session II	
10:55-12:05 (70 min)	Moderator : Deok Ryong Yoon (KIEP) Presentation 1 : Regional Differences in the Transformation of the East German Economy (20 min) Matthias Brachert (IWH) Presentation 2 : Policy Measures for SMEs in NBL : Case for Hidden Champions (20 Min) Young-chan Kim (KDGW) Panel Discussion : Nam Hoon Cho (KIDA), Suk Jin Kim (KINU)
12:05-13:30 (85 min)	Luncheon

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- **About the 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] Presenters who participated in the 5th Korean-German Unification Economic Policy Seminar hosted by KIEP on December 12 in Seoul along with the Ministry of Strategy and Finance took a group photo.



[Photo2] KIEP Senior Vice President Chul Chung delivered the opening remarks at the 5th Korean-German Unification Economic Policy Seminar.



[Photo3] KIEP hosted the 5th Korean-German Unification Economic Policy Seminar at the Westin-Chosun Hotel in Seoul on Wednesday, December 12, along with the Ministry of Strategy and Finance.

