

The Road to **One Korea** Prosperity in Peace

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Foreword

Contrary to popular opinion, the Republic of Korea (South Korea) can afford the costs of reunification with its neighbor to the north, the Democratic People's Republic of Korea (North Korea). Moreover, the sooner South Korea embarks on the process of reunification, the better it will be. In this way, South Korea can reduce both the unnecessary costs it pays due to non-unification and the actual cost of reunification itself. Given popular opinion, what is especially remarkable is that reunification presents itself as a vast set of opportunities rather than a set of financial burdens. Reunification is a tremendous opportunity, one that will create a huge pay-off for the whole re-unified Korean nation. This is true even if one just looks at the economic side of the process.

But what is the current political reality?

Most ordinary South Koreans fail to realize how much can actually be achieved as a single nation.

And so the pathway leading to reunification continues to be blocked.

The primary purpose of this book is to outline the facts on all the major issues relating both to the real costs of reunification and the consequent gains of reunification. An awareness of the reality of this situation will help to steer the nation in the right direction, rekindling interest in the reunification movement.

Although this book is based largely on the author's own academic research, it is not intended for experts only. Instead, it aims to reach a much broader audience of men and women from different generations and socio-economic backgrounds. It presents a collection of facts and ideas on the best way to achieve the Korean goal of a unified nation.

At times, my thesis will rely implicitly on a detailed in-depth analysis of certain topics. This part of the thesis will be presented separately in a series of appendices. Splitting up the thesis in this way will allow the reader to follow the key substantive arguments more easily.

The author wishes to take this opportunity to express his appreciation to Dr. Yim Deok-soon, for his editing of the first manuscript in Korean; Professor Jai P. Ryu for his academic guidance, and to all who assisted him in the process of writing and publishing the two versions of this book. The author is especially indebted to Mr. Harry Truman Lee for his dedicated translating efforts for the first draft in English and to Ms. Deidre Lim for her excellent proofreading; and to Chairman Seung Chun Yang for his proofreading of the first completed manuscript; and to my beloved daughter Shinn Kyung-sam, a lawyer in Seattle, for the occasional translation and the proof-

reading of some specific portions of the manuscript. And finally this book has been given one final copyediting by Professor Terence Murphy, who teaches in the English Department at Yonsei University.

Introduction

The subject of the reunification of the two Koreas, the Republic of Korea (South Korea) and the Democratic People's Republic of Korea (North Korea) has been a burning issue for quite some time, but for some reason seems to lack a contemporary resonance.

Under the first post-liberation government of Syngman Rhee, the first president of South Korea, there was a belief that reunification could be achieved at the expense of North Korea ("Conquer the North, Achieve Unification" was the coined slogan). From the time of the government of Roh Tae Woo, a number of different visions, most of them variations on "The Three-Step Approach toward Unification", have been put forward. Most of these blueprints, however, have been devoid of genuine substance; and successive South Korean governments, when elected to office, have not demonstrated a serious willingness to achieve them. Instead, for over half a century, South Korea has set its mind on fighting communism, with the issue of reunification seeming to be of little or no concern.

The North Korean Position

In the 1960s and early 1970s, the North Korean leader Kim Il-sung made the call for a so-called “Koryo Federation of Korea”. Supreme Leader Kim seemed quite confident that he could achieve his goal of spreading communism throughout the entire Korean peninsula, bringing together North and South under his rule.

However, the latter half of the 1970s saw a widening gap in the income level between North and South Korea, in favor of the democratic South. As the North became increasingly impoverished, a frustrated and ailing Kim finally exclaimed in his 1991 New Year Address: “I don’t like eating unification” (i.e., unification by absorption).

Behind the Supreme Leader’s declaration was the belated recognition that he would have to abandon his plan of reunification by communizing the entire peninsula. Instead, he would be forced to settle for maintaining the status quo and consolidating his power base. In his mind, reunification was no longer within the realm of possibilities.

For his part, his son, Kim Jong-il, who succeeded him as the North Korean leader in 1994, hinted that Koreans might not see national reunification for at least forty or fifty years. For him, maintaining power became a more important issue

than anything else. Hidden behind his words is the idea that he would be fully capable of maintaining a grip on power for quite some time to come.

Nonetheless, Kim Jong-il frequently referred to the idea of reunification. In truth, this was because reunification was the only hope he could hold out to his desperate, oppressed people.

When over two million people starved to death in the mid-1990s, ordinary North Koreans reportedly wished for war in the belief that it would lead to reunification. If they were victorious, they would be able to gorge their stomachs on rice from the *Honam* rice fields. And even if they were defeated, they would still be better off under the rule of their richer cousins. For Kim Jong-il, however, reunification, in whatever form it took, would have meant the end. For this reason, he wanted to avoid it at all costs, even if he cannily spoke in favor of it publicly.

Presumably for this reason, he must have felt a great sense of relief when his regime acquired a nuclear capability, since he was convinced that this would be the only way for him to maintain his grip on power.

Given the prevailing states of mind in both North and South Korea through the course of the second half of the twentieth century, reunification was bound to remain elusive. The lessons should be clear: only if and when South Korea comes to a genuine consensus on the need for reunification, and only if future governments promote policies that actually move domestic policy in this direction, will reunification be achieved.

The Structure of the Thesis

The book you are about to read is arranged as follows.

Part I makes it clear that it will be the South Korean people who will both act to make the dream of reunification possible and who will be the agents who will finally achieve it.

Part II outlines the actual costs of reunification and the consequent tremendous gains that will result from its achievement.

Part III reveals the necessary prerequisites for a successful reunification of the Korean peninsula.

Part IV investigates a desirable land policy in the run-up to reunification and thereafter.

Part V describes a method for achieving a successful reunification. Although many experts believe that such a reunification project is impossible at the present time, the argument will be made that it can be realistically achieved through the economic capacities of the contemporary South Korean economy.

Finally, **Part VI** investigates some widely misunderstood topics relating to the reunification process.

In light of the fact that the South Korean economy is vastly superior to the North Korean economy, the South should do all in its power to win over its Northern neighbors. A major effort in this direction will contribute meaningfully to the overall process.

Based on the experience of German reunification, South Korea is fully capable of translating its hope for reunification into reality at relative minimal costs, while still safeguarding its domestic interests. Provided South Korea takes the initiative and makes the necessary adjustments along the way, reunification is entirely possible. However, reunification will not take place as a kind of natural process unfolding in the course of time. Instead the cause of reunification will require a political will based on the consensus of public sentiment in South Korea, working in conjunction with the friendly understanding of the major world powers, as well as the firm determination and ongoing commitment in order to see it through.

Part

I

The South Korean People as Political Agents

There are too many people who think reunification has nothing to do with them. But no other country can achieve reunification on behalf of the Korean people.

Nonetheless, at the present time, many South Koreans feel distant from this issue. They fail to recognize that the cause of reunification hinges on how much energy they can devote to it. In this respect, reunification is more a matter of effort than of time.

According to some recent South Korean public opinion polls, a majority of the respondents believe that reunification could be achieved in about 20 or 30 years. Others are more hopeful, stating that it will occur within the next decade. Still others prefer to confine themselves to the proposition that reunification is something that is bound to happen, sooner or later. Whether such polls are trustworthy or not, the assumptions behind these responses are not plausible.

The sudden death of Kim Jong-il in December 2011 led some foreign media to predict the imminent fall of Pyongyang. Such wild speculation attests to a lack of understanding and inside knowledge of North Korea. Given the internal workings of the North Korean regime, it is quite clear that it is unlikely to collapse of its own accord in the foreseeable future.

In any case, the sudden fall of the regime in Pyongyang would not necessarily pave the way for immediate reunification. Instead, Koreans, North and South, would be faced by a more complex set of challenges. They should not forget that their liberation from Japan was not achieved through their own efforts. At that time, foreign forces intervened in both the North and the South, and as a result the Korean peninsula remains politically divided to this day.

The sad truth is that unless individual citizens are fully cognizant of the reality of the situation, reunification will remain nothing but a pipedream.

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Explaining the Lack of Governmental and Public Interest

Why do most Koreans shy away from or remain apathetic about the vital task of reunification of the Korean peninsula?

First, public apathy is largely due to the fact that successive governments since liberation from Japanese colonial rule have lost their sense of direction. They have all lacked resolve.

During the Korean War, which started with the June 25th invasion by Kim Il-sung, President Syngman Rhee called for “Unification by Advancing on the North”. Since then, no government has put forward a credible reunification policy. What is more, there has been no genuine attempt to promote the ideal of reunification. Instead, for the past sixty years, an anti-communist stance has prevailed; and the general public has been brainwashed into believing that ideology will save the day.

President Park Chung-hee came to power in a coup d'état in 1961. His relationship with the United States was a major priority. Because of his youthful ideological history, his term

began with a stress on the national importance of fighting communism. In this respect, even the signing of the July 4th 1972 Joint Declaration with North Korea was not intended to advance the cause of reunification. Instead, it was a deliberate stalling strategy to buy more time. This was because South Korea still feared being subjugated beneath the weight of its economically stronger northern neighbor.

As a consequence, President Park Chung-hee did not take any positive steps towards reunification. However, his major achievement was in being enormously successful in his efforts to spur South Korea's economic development. It is on the basis of these economic foundations that reunification has become a genuine possibility. At the time, however President Park did not make a commitment to that separate end.

For his part, President Chun Doo-hwan, who came to power in December 1979, was unable to shed the mindset of a soldier who had lived through the era of the Cold War. And initially, President Roh Tae-woo, who succeeded President Chun in 1987, seemed intent on working through the good offices of Russia.

President Roh never spoke publicly about reunification. However, the author was informed that when briefed on the estimated \$100 billion cost of reunification by the Korea Development Institute (KDI) in 1991, President Roh's response was to issue a strict gag order. He was afraid of the general public's reaction and its possible reluctance to shoulder such a financial burden. As a matter of fact, the content of the cost at that time was strictly limited to the main infrastructural link-

ages within the unified country.

As a result of these developments, the present author, then a Professor of Macroeconomics and Microeconomics at Chung-Ang University in Seoul, was asked to provide an initial macroeconomic estimate of the comprehensive total cost of reunification. This estimate was subsequently reported to a seminar of the National Unification Advisory Council in 1992.

First promulgated in 1998, President Kim Dae-jung's Sunshine Policy, when carefully evaluated, failed to go beyond a strategy of peaceful co-existence. Clearly, President Kim also felt that the cost of reunification was too high. In this respect, his policy was aligned with that of Kim Jong-pil, the Chairman of the conservative Republican Party, with whom Kim Daejung had joined forces in order to form his new government.

Given the very limited scale of economic cooperation with Pyongyang, Kim Dae-jung's Sunshine Policy could not promote the cause of reunification. Instead, it simply invited criticism from his political opponents. They accused him of making "too many concessions".

President Roh Moo-hyun, Kim's successor, continued to push the same policy, but he failed to accomplish very much. In 2007, President Roh went to see Kim Jong-il, but was rebuffed ironically enough probably because of Roh's past involvement in the anti-government movement.

Following his election in 2007, President Lee Myung-bak put forward a new policy known as the "Non-Nuclear, Open, 3000 Strategy". This policy turned out to be nothing but empty slogans.

In short, since the end of the Korean War and the division of the peninsula into North and South Korea, each successive South Korean leader has demonstrated the lack of a clear and unequivocal commitment to the issue of reunification. In consequence, the slogan of reunification has been largely devoid of meaning, a mere euphemism used in order to help safeguard the respective rule of each successive president.

But there has also been a second set of problems caused by the general attitudes and perceptions of the South Korean public. The fate of Korea, at least in recent history, more often than not, has been decided by the greater weight of its neighboring powers. In this respect, it is as if Koreans still assume, perhaps unconsciously, that the issue of reunification will be determined elsewhere. They still tend to believe that reunification is not something they can achieve by themselves. For example, most Koreans seem to think, that the cause of reunification will not succeed in the face of Chinese opposition. Since Korea is located within a geo-strategic sphere of influence contested by the United States, China, Russia and Japan, many Koreans tend to act as though it will be difficult for them to achieve the unification of the peninsula.

To those who have doubts or who are skeptical, the author would point to the example of Germany. Even though all the neighboring powers were openly opposed, in the early 1990s Germany managed to achieve the difficult task of reunification. In contrast, none of the nations near Korea is ostensibly opposed to Korean reunification. Indeed, Russia has indicated that

it might stand to benefit from a reunification process led by South Korea. And even China is slowly changing its position.

Third, a strong sense of individualism has taken root in the soil of South Korean democracy. There are those among them who put concern for their own wellbeing ahead of their concern for the national community. Still others have no intrinsic objection to the issue of reunification, however slim they believe the real chances are of achieving it, so long as they, as individuals, are not negatively impacted.

Fourth, many older South Korean citizens worry about a so-called “tax bomb” that would come due at the moment of reunification, while young men and women are quite worried about a projected flow of jobless North Koreans southward. However, what both groups do not realize is that these are false suppositions.

A fifth and final factor is the attitude of lethargic defeatism that seems to be quite widespread among much of the older population. As many South Koreans learned first-hand, communists can be ruthless. As a consequence, many believe that working with them to achieve reunification is inconceivable. Once an individual is steeped in left-wing politics, these skeptics contend, changing that person’s ideology is virtually impossible. And they say that those who do not know how complicated these matters are should refrain from taking part in the discussion.

In truth, many polls show that a majority of South Koreans are mostly uninterested in, indifferent to, or even annoyed by the subject of reunification.

For example, at the time of the last presidential election in South Korea in December 2012, the *Maeil Business Newspaper* reported that voters rated the challenges facing the next president as follows: price stability (15.8%); economic recovery (14.1%); job creation and unemployment (12.5%); social policy (7.8%); the widening gap between the rich and the poor with its attendant bipolarization (7.4%).

The presidential term of office is for five years, but the issue of reunification does not even appear on the general public's list of political priorities.

Moreover, in the same survey, the question was posed about the possibility of a tax to help pay for the costs of reunification; a remarkable 48.7% stated that they would be opposed to the idea.

If South Koreans simply turn their back on reunification, Korea will be divided forever. When South Koreans are the only possible agents who can act as the engine for national reunification, and even they do not approach the issue seriously, instead choosing to distance themselves from even thinking about it, the chances of achieving reunification in 20, 30 or 50 years are quite remote.

In essence then, the human suffering and the national tragedy of division will continue into the indefinite future. In the meantime, the main beneficiaries of indifference, skepticism and annoyance will be none other than Kim Jong-un, the blood successor of the virtual Kim Dynasty, and his key group of advisors and supporters in North Korea.

Reunification Is Possible Only by the Will of the South Korean People

It is possible to break down the financial costs associated with the maintenance of the status quo of continuing division. We can then compare this with the actual costs associated with a successful reunification process.

The economic costs of reunification will amount to an aggregate of all opportunity costs, both explicit and implicit.

First and foremost, there are the excessive military expenses incurred due to the confrontation between the North and South. To this must be added the loss of opportunities to improve human capital due to the lengthy period of enlisted military service.

Since the end of the Second World War, Japan has pursued an economic development strategy, earmarking a mere 1% of its Gross National Product to finance its National Self-Defense Forces. By way of comparison, South Korea has expended about 3-5% of its annual GDP to cover military expenses. In addition, all of South Korea's young men are compelled to spend part of their valuable formative years performing compulsory military service. In the United States, of course, their counterparts are studying for their master's and doctoral degrees. How can South Koreans compete in the world arena with this current system? Moreover, these young men are faced with the constant threat of an imminent conflict as a result of division.

As long as national division exists and national power is

attenuated, Korea will be bound by the influence of the great powers. The price Korea pays will be both economic and non-economic. Should the situation worsen, there is no guarantee that in the long run Korea will not be re-subjugated by the force of a foreign power. In this respect, Koreans would do well not to forget the lessons of the past when their former rulers, lacking a long-term vision, became overly complacent. As a consequence, the nation in its entirety fell under the control of Imperial Japan. Under this ignominious imperial rule, Koreans suffered untold disgrace. If Koreans fail to take a broader, more long-term approach, both as a nation and as a people, and instead becomes a nation of individuals, each focused solely on his or her own interests, history might well repeat itself.

The human toll of Korean division is unquantifiable. To put an end to this silent suffering, all 50 million South Koreans need to take a stand and contribute actively to the reunification process.

Once united with the South, North Korea will be able to solve the problem of widespread starvation due to its massive food shortages, thus making life worth living for its people. At the same time, the people in South Korea will enjoy accelerated economic growth. Within a decade of reunification, GDP will increase 2.6 times over. With the country safely unified, the average income per head will rise in the span of ten years from \$27,000 to \$69,000 using a constant price index, for example. In a very short time, this will make Korea one of

the most advanced countries in the world.

If, on the other hand, South Koreans choose to ignore this central issue, there will be no reunification. The result will be that the people of South Korea will be forced to shoulder the astronomical human and financial costs of geographical division.

It is the author's sincere hope that this book will persuade its readers of the tremendous advantages and economic benefits to be derived from reunification. In this way, each reader may find him or herself willingly joining with those who are already working toward the cause of reunification.

Tremendous Economic Benefits

In order to make this argument, it is important to take a step back from the German theory of *Sollen*. The theory of *Sollen*, which is derived from the German word for “must”, is used to signify the idea that national unity is a self-evidently laudatory aim. The theory suggests that we “must” unify our country, whatever the cost. This is because as fellow nationals, they are brothers and sisters, parents and children; and it is simply ridiculous to hate and kill each other.

Instead, they must try to evaluate objectively the advantages and disadvantages of reunification. Assuming that South Korea is not overwhelmed militarily by North Korea, is each citizen willing to support the cause of reunification, even if it involves some cost? For example, even if it means paying out 0.25 percent of personal income per annum. This is not a mere outlay,

of course, for the resulting increase in production will ensure substantial returns on this investment. In Chapters 5 and 6, the author will address this point in greater detail.

For each of the 10 years immediately after reunification, Korea will achieve an annual growth rate of 11%.

By the end of the 10-year period, real income would have multiplied by a factor of 2.6.

In the immediate aftermath of successful reunification, we will see an 11% rise in annual economic growth in South Korea for the first ten years, while the tax burden will remain at 1% of GDP. Subsequently, in real terms South Korean income will jump by a multiple of approximately 2.6. This will represent a real bonanza for the economy, a real-life version of someone hitting the Las Vegas jackpot. United and politically independent, Koreans will be able to achieve peace, prosperity and exceptional economic growth. In this way, successful reunification will transform Korea into one of the most advanced nations in the world.

This is what Koreans can achieve if each one of them exerts the required concerted effort toward this noble goal.

Part II

Reunification Expenses and Gains: Facts and Truths

Required Reunification Costs and Funds

Achieving a desired goal usually requires an initial outlay, and the goal of the reunification of the two Koreas is no exception. The willingness and commitment of South Korea to contribute financially to the process is therefore vital. A unilateral systemization is needed in all fields—political, military, administration, economy, education, culture, sports as well as in infrastructure, including electricity, roads, railroads, communications, and the postal system, and so forth.

The issue that looms largest in this regard is the enormous income gap between the North and the South.

In 2013, North Korea's per capita income was about 1/20 that of South Korea, and this gap is gradually widening. Obviously, it will not be possible to say that a successful reunification process has been completed if this stark reality is ignored. In order to build a relatively stable society within a unified nation, the production and productivity in the north must be greatly improved. What is more, without an adjustment

in income levels, the stability of the reunification process will be highly precarious. It is not one of the objectives of reunification to allow one group to dominate the other, as is the case with colonial rule, or to create a new two-class system.

The Reduction of the Income Gap between the South and the North

North Korea has to produce goods and services by employing its capital and labor in the fullest and most efficient way. North Korea has both human and natural resources, including some untapped underground sources of wealth; but it lacks the capital to make real investments in them. Speaking realistically, the heaviest burden on the post-reunification process will be the need to find the required large amounts of physical capital to invest in development.

The costs of Korean reunification can be categorized in the following manner:

1. Crisis Management Expenses, including food supplies, clothing and medicine, the kind of supplies that will be required immediately after reunification.
2. Systemic Unification Expenses, including costs associated with politics, administration and the military, education and culture, social infrastructure and so on.

3. Physical Capital Investment, required to gradually reduce the income gap between the North and South.

A major investment to reduce the income gap is not an option determined by profitability but rather a necessity. It is for this reason that this sum needs to be included in the costs of reunification. Obviously, the physical capital formed during this process will remain as a form of permanent national wealth, and it is only the depreciation of a portion of the physical capital that will remain as a genuine expense. Each of these three expense categories is required to carry through successful reunification of the Korean peninsula.

Estimates and Implications

1) Estimating Reunification Expenses

Objectives 1 and 2 will be discussed later. For now, we will address the issue of the third objective, that of estimating the physical capital required to spur development in the North Korean region.

A. Reunification Costs

As shown below, ten years represents the ideal timeframe for bringing the income levels of the North and the South into line with each other following reunification.

Based on the most recent data available, Table 1 provides an estimate of the funds required for reunification.

〈Table 1〉 Estimating the Size of the Reunification Fund

N&S Income Adjustment Year	Billion US\$ (2011 Constant Price)	Ratio to the South's GDP
2026–2035	1,350	6.3%
2031–2040	1,527	6.3%
2036–2045	1,761	6.4%

* Basic Data for Estimate:
SOUTH KOREA's GDP: US\$1,152 Billion (2012)
SOUTH KOREA's GDP per capita: US\$22,657 (2012)
NORTH KOREA's GDP per capita: US\$1,153 (2011)
NORTH KOREA's Population: 24,308,000 (2011)
Source: *Major Economic Index, Bank of Korea, March 2013*

If South Korea commits itself to acting with a positive resolve, it is probable that Korean reunification might be achieved by 2025-2030. Under this scenario, the reunification costs for the first 10 years will account for approximately 7% of South Korea's current GDP. As Table 1 demonstrates, this estimate includes both the cost of physical capital formation cost and the aggregates for crisis management and systemic unification.

2) Steps in Calculating the Reunification Costs

In order to leave the line of the main argument clear, the actual process of calculating the costs of reunification costs is described in detail in Appendix 1. Appendix 2 offers a time-line supporting the data outlined in Table 1.

3) The Implications of the Estimate

Based on these estimates, we arrive at the following conclusions:

First, South Korea can afford the costs of reunification.

Second, the sooner reunification is achieved, the lower the costs. This is true not only in terms of the absolute expenses but also in terms of the costs as a relative share of GDP.

Through the implementation of a “Buy Korean Products” Policy, and with the supplement of a set of policies that will be described later, the South Korean economy will experience an unprecedented period of growth, averaging 11% annually for the 10-year period immediately following reunification. What is more, this growth will continue at a sizeable rate for a considerable time thereafter.

Based on these facts and truths, South Koreans should be confident about the process of reunification. Korean reunification is both possible and desirable.

1) The Timing of the Reunification Process

Should South Korea come to the conclusion that the nation will be better off unified, the basis issue becomes one of timing.

Until the present time, the majority of South Korean leaders have argued for a wait-and-see attitude, an attitude that was warranted by the nation’s relative political and economic weakness. For example, in the 1990s and 2000s, both Kim Dae-jung and Kim Jong-pil were of this view. In truth, however, both men were mistaken in their analysis.

The current author has conducted separate research projects on the costs of reunification in each of the following years: 1992, 1993, 2001, 2004, 2007, 2010, 2011, 2012, and 2013, respectively. The most fundamental truth that emerges from this research is this: the longer the wait, the higher the costs. For this reason, delaying reunification is a mistake; policies based on this notion are fundamentally wrong.

2) The Adequate Time Framework for Income Adjustment

According to the author's calculations, the shorter the period of adjustment, the higher the relative expected burden. If we take a period of adjustment of 9 or fewer years, the burden grows to an intolerably high level. By way of contrast, if the period of adjustment exceeds 11 years, the costs are not significantly reduced. This is because of the accumulated depreciation of the physical capital deployed in the early years of the adjustment period.

For these reasons, it can be safely concluded that 10 years represents the most adequate time framework for the achievement of a relative income adjustment between the two regions of the country following reunification.

Of course, this optimal 10-year time framework represents only the first stage of the reunification process. During that time, the unified economy will become somewhat more homogeneous. However, it could well take as much as 60 years before the complete homogeneity of the two social systems is achieved.

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2 Minimizing Costs, Raising Funds

If we try to expedite the process without a period of adequate preparation, as Germany did, Korea would have to deal with both a highly costly, and genuinely wasteful, reunification process. Ultimately, this would hinder or even preclude genuine unity. In order for the process to be a success, South Korea must be thoroughly prepared and to have put into place a number of cost-effective measures to deal with a range of potentially unforeseen problems.

The financial outlay will depend very much on what steps are taken and what policies are implemented in order to reach the desired objective. In this respect, the numbers will vary significantly from one case scenario to the next. Both at home and abroad, past calculated outcomes have proved to be extremely inconsistent. For example, there are some experts who believe that the scenario of German reunification should be followed without major discussion. But as a direct consequence, the estimates of the cost of reunification quickly go beyond

what might be considered achievable. One effect of academic papers of this kind has been simply to discourage the Korean public from considering reunification.

What is more, the mass media often deliberately stirs controversy in the way in which they deal with the latest estimates for the cost of reunification, without offering any discussion of the background and context for these estimates. Indeed, the consistent tactic of the mass media is to report on particularly high estimates of the costs of reunification, even when such estimates are largely without substantive meaning. The effect is predictable: the public, which typically has little knowledge of how these numbers were calculated, finds these inflated estimates shocking and dissuasive.

In contrast, the author has tried to find ways to minimize the costs of reunification and has tried to calculate expenditures based on the implementation of specific policies. The results can be seen in Table 1.

Table 1 also shows that on average about 7% of current South Korean GDP will be required to cover the costs of reunification-related expenditures, regardless of the year when reunification occurs. A reduction in military expenses could account for up to 2% of GDP while 1% would derive from long-term low-interest loans extended by the international financial institutions, 3% from the issuing of national treasury bonds and only the final 1% from a tax on reunification.

Let's begin for the moment by looking at how to establish a crisis management fund and mobilize the funds required for

systemic reunification.

Several key proposals may be set forth immediately:

- (a) As a priority, funds in the existing government's budget for economic projects, which are currently earmarked as reserved for non-emergency situations, could be transferred for use in reunification-related expenditures.
- (b) Use can be made of the "Special Contribution Fund" which is incidental to the "Buy Korean" Policy. This will be explained in detail in a subsequent chapter.
- (c) Once their income level exceeds the minimum standard of living, it will be possible to collect taxes from the residents in North Korea.
- (d) More contingency funds can be raised by means of short-term foreign loans. The reimbursement of these loans can be made by means of the "Special Contribution Fund" from the profits derived from the "Buy Korean Products" Policy.
- (e) In the immediate post-unification phase, the rice reserves stockpiled under the South Korean government's program can be used for the emergency assistance of North Korean residents.

Nonetheless, it will probably not be necessary to utilize the entire resources of the anticipated contingency fund. Instead, much of the cost of the systemic reunification purposes between the South and the North might be met by means of the physical capital formation process.

During the first 10 years, there will be a need for a set of structural adjustment policies designed to reduce the costs of reunification and to increase the economic benefits that may be derived from it. These policies may be summarized as follows:

1. The separate management of the unified national economy in the South and North;
2. A temporary reduction in military force and attendant expenses;
3. The effects of the “Buy Korean Products” Policy;
4. The outlay of cash payments to the original owners of land and other forms of real estate in the North.
5. The maintenance of the status quo regarding the status of nationalized land in the North of the unified nation.

In order to translate these measures into action, South Korea would need to formulate a well-organized plan in advance and to seek out a national consensus on this.

For the first ten years following reunification, there will be separate management of the unified national economy in the South and North

A 10-year period of adjustment would appear to be a reasonable recommendation. This is based on the premise that the unification of the economies of the South and North is possible once the income gap has been narrowed. Apart from the economy itself, there would need to be measures taken to unify the various other systems and structures. In order to achieve a stabilized society, it would seem necessary that the per capita income level of the residents in the North should be raised to at least one-half that of the residents in the South. Apart from the economy, all other systemic unification processes should be set in train immediately following political re-unification.

A. Separate, Ten-Year Planned Economy for the North

“Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime”, says an old proverb. The goal should be to enable the North Koreans to become self-sufficient. For this reason, the residents in the North should be provided with the necessary physical capital and advanced technology. This would help both to minimize the burden of the residents in the South and to cut down drastically the expenses of reunification. The approach taken by Germany, in which it provided social security and welfare to

the residents in Eastern Germany, is not only undesirable but also too costly. Korea simply cannot afford it.

The separate governance of the North, which is recommended for the first 10 years following reunification, is not intended to discriminate against its residents. Instead, it is intended to safeguard their dignity while creating the conditions that will allow them to become self-sufficient. Koreans are a nation of diligent people who are therefore poised for prosperity. With the help of the South, a system of separate governance will contribute to the efficient enhancement of the standard of living and income level in the North. In turn, this measure will help to establish a single, prosperous, unified nation.

Since the residents of the North have lived in seclusion for far too long, much time and effort will be required in order for them to adjust to a new environment. In fact, the adjustment period could last as long as the period of division itself. As a result of the communist system, their productivity lags far behind. To re-educate them individually would be too costly and wasteful. Accordingly, collective re-adjustment and vocational training will be part and parcel of the process.

Once South Korea opens the border between the South and the North, the workers in the unified country will eventually take up the demand of equal pay for equal work. As a consequence, this demand will raise the issue of the productivity gap issue; and wages will start to weigh too heavily on the budget. If the workers in the North are paid excessively high wages, this will have long-term negative consequences. The

products these workers produce will be considered overpriced and will not sell easily. In turn, this could lead to the need to shut down factories and to carry out massive layoffs.

Wages Need to Be Kept in Line with the Real Levels of Productivity

In the instance of a single system of governance, and in combination with the difference in productivity, this actually existing income gap will create a two-class system among the workers that will fuel social conflict. This may give rise to an unwanted and unnecessary feeling of inferiority among the residents from the North.

Reigning in the Labor Movement

During the period in which income levels are gradually realigned, wage-earners should be paid strictly according to their productivity. This requirement is in the interests of both the individuals considered separately and in the interests of the society as a whole. So long as a separate system of management is put into place at the outset, most of these issues can be dealt with successfully. But it will be necessary to prohibit by law all forms of labor union activity in the North for the first 10 years, and strikes must not be allowed until economic growth reaches a definite minimum standard. If the laborers are allowed to unite on a national basis, this will prove to be impossible to achieve.

Some commentators are quite skeptical about the concept of economic separation. However, it is entirely possible as a consequence of the “Pull Effect” and “Push Effect”. The *Pull Effect* will cause the residents of the North to remain in their place of residence in the period before the achievement of reunification, and the *Push Effect* will cause them to be pushed back to their original place of residence following the achievement of reunification.

An explanation is warranted.

First, the reason that the residents of the North will wish to remain in their place of residence under the sway of the *Pull Effect* is that the economy will start to grow right in their area. Jobs will be systematically created, and this will dissuade them from moving elsewhere.

Second, the *Push Effect* can make people stay in their place of residence. It is a fact that North Koreans have grown used to living without genuine freedom of movement for the past sixty years or so.

Third, food, clothing, rations and other basic necessities should be allowed only if they agree to stay in their original areas of residence. This will act as a major incentive for them to stay put for a good while.

B. The “Buy Korean Products” Policy

We believe that a “Buy Korean Products” Policy is going

to be essential during the process of reunification. This policy is inevitable if we are to maximize the economic benefits and gains for the residents in the South from reunification. In order to make this possible, South Korea will require the support and cooperation of the great powers the United States, Japan, China, and Russia.

We estimate that as much as 7% of South Korean GDP should be invested annually into the economic development projects aimed at raising the income level of the residents of the North to approximately half the income level of their Southern neighbors during the 10-year period following reunification. Rather than initiating an international bidding process for them, the authorities in the South will need to take control of these projects. The purpose here is not to seek material help from other countries. Instead, the aim is to support a made-in-Korea plan so that Koreans can solve their own problems. Approximately 80% of the physical capital required in the North should be provided by the South. The resulting surge in production in the South will represent 5.6 percent of GDP out of the 7 percent required as cost. Using such a productive surge, it is clear that South Korea will experience an unprecedented period of fabulous economic growth.

Some commentators might be skeptical about this plan's feasibility. However, a portion of the plan can be dealt with through domestic laws and regulations. In addition, Korea should reach out to other countries in order to make clear to the leaders of the relevant great powers of its intentions in advance. If Korea waits until strong competition or opposition

emerges from the neighboring great powers, it will obviously be too late.

All Required Physical Capital from South Korea

In addition to this policy, a partial conversion of the armed forces to industry combined with the trend growth of the Korean economy will translate into an annual growth rate of 11 percent for ten years following reunification. This will even eclipse what was achieved under President Park Chung-hee, the growth rate of which was deemed the greatest economic miracle since the time of *Dangoon*, the mythical founding father of Korea.

As a form of state contribution, businesses that earn profits from increased production due to the physical capital requirement in the North will be required to pay a special tax. This special tax would then fund a part of the contingency program and fund certain activities to help unify the two systems across a range of sectors.

C. A Temporary Reduction in Military Expenditure

During the period of South-North income adjustment following reunification, military expenditure should not exceed 1% GDP. Again, the cooperation and support of the great powers—the United States, China, Japan and Russia—will be pivotal. The implementation of this policy will constitute 2%

of South Korea's annual GDP for the decade following reunification.

This policy is not without precedent. For example, under the protective umbrella of the United States, Japan has succeeded in keeping its self-defense expenditure within 1% GDP. To implement its own version of this policy, South Korea should seek agreement with the US, China, Japan, and Russia.

Military Expenditure at the Level of 1% GDP

Some will voice skepticism regarding this temporary military reduction: they will argue that the South Korean armed forces will be vehemently opposed.

In order to counter such views, the government must guarantee the status of professional soldiers after reunification. One means for doing this is to ensure that the soldiers who occupy the bottom ranks of the military will consist of North Korean young men with low levels of productivity at the time of reunification.

All South Korean Professional Soldiers Guaranteed Status after Reunification

Second, the South Korean young men who become exempt from military duty as a result should be allowed to continue studying. Through these means, these young men can raise their subsequent level of productivity—or they can be sent out immediately to join the labor force.

Third, North Korean soldiers above the rank of private will be discharged. These individuals should be sent to work on the production line once they have completed suitable vocational training.

Fourth, it will be desirable to recall South Korean generals and officers from the military reserve forces to active duty. This will allow the military to be reinforced in as short a period of time as possible. This action will last until the military structure within the North is secure, following reunification.

Fifth, a newly unified Korea should be mindful of the fact that she needs the United States Forces to stay in Korea. The period should be at least for the 10 years following reunification, if not for a longer period, provided both sides are in agreement. Given its long-standing relationship, Korea will benefit from the continuing presence of the US Forces on its soil.

D. Cash Compensation to the Original Landowners

While maintaining the current system of state ownership of Northern land, a cash compensation program should be set up to reimburse the original North Korean landowners. Over the long term, it will be better if the ownership of land is unified along Northern, rather than Southern, lines.

Maintaining the state ownership of land and other real estate in the North will prevent the serious problem of a lack of equal opportunity between the North and the South from arising.

Once privatized, it will require an astronomical level of savings to repurchase the land in order to construct the necessary system of roads and other infrastructure.

State-Ownership to be maintained in North Korea

Most importantly, maintaining the state-owned land policy after reunification will allow for the grand economic, political and social plan for a unified Korea to be carried into action. In order to do this, however, it will be critical to avoid making the same mistakes that took place in the past, as a consequence of mass speculation based on untamed market forces.

The land ownership policy of a unified Korea is highly important in the short run and assumes even greater importance in the long run. For this reason, in Chapter 4, the author will provide a detailed analysis of what such a policy will entail.

E. Direct Approach to Raising Funds

1) Foreign Loans and the Issuing of Overseas Bonds

It is strongly recommended that South Korea seek a set of long-term, low-interest loans from such international financial institutions as the IBRD and ADB amounting to 1% GDP. These international institutions design programs to support developing nations. There are two major arguments that can be made in support of a request for such a loan. The first argument is that North Korea is one of the least advanced countries in

the world. The second argument is that the reunification of North and South Korea will bring about peace and security in the region of Northeast Asia. Given South Korea's creditworthiness, any loan would naturally be secured on the most favorable terms.

If the nation turns out to be unsuccessful in obtaining large enough loans, South Korea should advocate the issuance of overseas bonds to close the gap. Again, borrowing represents the necessary approach to avoid placing an excessive burden on the economy.

2) Tax and National Treasury Bonds

The South Korean people will be required to contribute the 4% of GDP required to finance the reunification fund. Ideally, a tax contribution for regional development of the North equivalent to 1% of GDP should be made annually during the 10-year income adjustment period. And an additional 3% will be raised through the issuance of a reunification treasury bond. The bond may be repaid slowly, implying an inter-generational sharing of the burden.

After Reunification, 1% Tax, 3% Treasury Bonds

The reunification tax should not be collected in advance and kept as a reserve fund. Such a tax should be imposed only when, and if, it is needed; or it will end up placing an unnecessary burden on the general economy due to pure leakage. Likewise, the issuance of pre-reunification bonds for the same purpose is not recommended either.

Taxation for Reunification Similar to Germany's Solidarity Surcharge

Whether adopted pre- or post-reunification, the taxation scheme should seek to emulate the German model and take the form of a “Solidarity Surcharge” in other words, income and corporate taxes should be collected in a progressive way to the amount required. Undue pressure on taxpayers should be avoided.

Some have suggested converting the defense tax into a reunification tax, but this recommendation recalls the years of the Cold War. Even if properly re-formulated, this would not be the right way forward. Others call for a reunification tax in the form of a value-added tax. However, the problem with this is that it is a form of regressive taxation that imposes the same rate on the rich and the poor alike.

There have also been appeals for raising a North/South co-operation fund that would be placed in “escrow”. This scenario is equally unrealistic, however, because it will turn into a form of unnecessary leakage from the economy.

Once the reunification process is completed and all required expenditures are covered, Korea should expect a veritable economic bonanza—both in tangible and intangible gains as well as in benefits and returns.

First, Koreans South and North will be free from the tragedy of fratricidal infighting and national security concerns. In their place, a new peace will be guaranteed. Korea will be able to establish a basic framework for the development and prosperity of both its state and nation. It will be very important to consider the potential economic benefits and gains that Korea stands to obtain.

Once the ordinary citizens in the North are free from the ridiculous “soldier games,” a set of attitudes and actions that seem to constitute the sum of their present politics, politics which are difficult to fathom for normal, rational thinking individuals—they will be able to enjoy freedom and a life worth living, particularly from an economic standpoint.

In this respect, the onus is on the South Korean people to take a leading role in achieving Korean national reunification. By the same token, it will be they who will be the ones to reap the tremendous benefits and gains from this achievement. This is why the South Korean people are a vital driving force for national reunification.

Viewed from the South Korean perspective, the aggregate of all economic gains, benefits and returns from reunification can be summed up in the following terms:

- a. Both the tangible and intangible expenses consequent upon national division will be expunged automatically upon reunification. All losses, both material and psychological, resulting from national division will be entirely eliminated. The disappearance of all these things means the disappearance of all the negative phenomena they cause. The upshot will be a set of gains replacing a set of losses and expenses.
- b. North Korea's economic development will begin as soon as the reunification fund is put to use. At this point, we will see the income of North Korean people increase dramatically, together with the concomitant accumulation of national wealth. At the same time, especially as a result of the "Buy Korean Products" Policy, South Korea's economy will also grow very rapidly.

c. As a result of the income readjustment program during the first post–reunification decade, the income level of Koreans in the North will rise to about half that of Koreans in the South. In the years that follow this initial period of adjustment, the integrated economic system will yield consistently high returns. The Korean economy stands to reap extraordinary gains, benefits and returns, due to the high effective aggregate demand arising from the needs for physical capital in the North. In addition, there exist underground natural resources in North Korea. The synergy effects from the economic activity in a variety of fields will be felt over the entire national economy. With the opening of the land bridge connecting North Korea to Northeast Asia, transportation costs will decrease. In addition, the Korean economy will reap a multiplier effect from the investment project, from economies of scale, from lower production cost, from positive externalities, and from higher rates of competitiveness in the international market.



Time P: Present

Time R: Time of Reunification

Period of PR: Period of Division

Period of RA: Ten Years of North Korean Income Adjustment

Period of RF: A Long Period of Time Opening Up, Post-Reunification

The benefits of reunification can be classified in the following manner:

- ④ In the above graph, during the period of time from the Present until Reunification, there will be division costs. These costs and expenditures will be expunged at the time of Reunification. When these costs disappear, we can reinterpret them as a net gain.
- ⑤ The economic gains yielded during the period of Reunification until the Income Adjustment period. Under a special investment program, approximately 7 % of South Korea's GDP will be injected into North Korea annually. This will result in a phenomenal increase in

productivity in the North Korean region. As indicated, during this process, the per capita income of North Korea will be raised to a level corresponding to approximately half that of South Korea's. With most of the required physical capital being procured in the South, South Korea will enjoy an approximately 11% rate of economic growth annually for the first decade post-reunification,

© Reunification is bound to have a considerable positive effect on the national wellbeing and psyche, while security will be enhanced and peace will be actualized. Economic growth and development as well as productivity levels will continue to grow. Korean national power and competitiveness on world markets will increase, ensuring a long period of prosperity that will give the unified country greater prominence and stature on the global stage.

Both ⑥ and © would take place after reunification; there is a reason why ⑥ is classified separately from ©. First, in the case of ⑥, the gains are achieved while Korea executes its economic policy plan, with all its efforts aimed at successfully completing the process of reunification. Secondly, ⑥ refers to the economic gains that follow immediately after the reunification expenses are incurred. This makes it possible for

us to compare the costs and expenses directly with the gains and benefits.

A detailed analysis of each period is given below.

Annulment of the Costs of National Division (The cost that appears in the period of ㉑ in Graph 1)

1. The Concept of "Division Costs"

The concept of "division costs" refers to the opportunity cost Korea has to pay as a result of the division of the country. Due to lost opportunities, this represents an actual expenditure in the form of both explicit and implicit costs. But if we interpret this from the point of view of a nation made whole again, this turns out to be a "gain". For this reason, it has a dual character.

The Duality of the Division Costs

If one views division costs as an expense, it actually consists of the aggregate of all the opportunity costs generated so long as the country remains divided. National division causes numerous losses and expenses, tangible and intangible, economic and non-economic, including the destruction of human lives. It is very difficult to assign monetary value to the suffering that results from ideological conflict and power struggles in which even brothers fight and kill one another. This, in fact, is the price Koreans have had to pay.

We will first look at the economic sector and then deal with the non-economic sector. These will be treated in detail in

Appendix 4.

An Estimate of the Costs of National Division

It would be almost impossible to estimate all the economic and non-economic, explicit or implicit, costs from national division. However, what is clear is that the costs of division are enormously high, and they do not cease accumulating all the while the state remains divided.

Among these expenses, however, the author would like to attempt, first and foremost, to estimate the primary factors both in terms of explicit and implicit costs (See Appendix 5).

A Comparison of Divisions Costs and Reunification Expenses

If Korea were to achieve reunification soon, the related expenses would constitute roughly 7% of South Korea's GDP over a 10-year period. The combination of the excessive expenditure required for military preparedness and the high maintenance expenses for the armed forces account for about 4.4% of South Korea's GDP annually. What is more, the expenditure on reunification is limited to just 10 years. In contrast, the division costs continue to accumulate indefinitely or for as long as a state of national division prevails. It is pointless to compare a definite sum with an indefinite one. In mathematical terms, this simply yields a trivial solution. Moreover, if all the non-economic factors described in the previous section are taken into consideration, there is simply no comparison between

the cost of reunification and the continually accumulating costs of division.

The Limited Costs of Reunification versus the Unlimited Costs of National Division

Economic Gains in the Process of Forming Physical Capital in North Korea for the Decade Post–Reunification (Period ⑥ in Graph 1)

South Korea would need to make an intensive investment in physical capital in the North for the 10 years following reunification in order to improve the income of its residents. The next section will assess the economic returns that will be made from this investment in physical capital. Because the situations of South and North Korea are radically different, we will examine each separately.

A. South Korea

Once a unified Korea has raised the required physical capital in the North under the “Buy Korean” Policy, this will tend to produce an economic boom in the South. The South needs to supply a level of physical capital corresponding to about four-fifths of 7% GDP for the first 10 years following reunification. This will bring about a period of astounding economic growth of about 11% per year.

The reasons are as follows: Let us assume a trending growth rate in the economy of about 3% at the time of reunification. If 80% of the physical capital required in the North can be supplied by the South, this will mean a 5.6% increase in Southern GDP. As a consequence of the transformed military, we can expect a 2.4% increase in the productivity of goods and services. All this will add up to a growth in Southern GDP of about 11%. In addition, the complementarities associated with the use of the North's untapped natural resources will have some positive synergistic effects. There will also be a multiplier effect that will follow from the investment injection from the South. And as the accompanying economies of scale comes into play, the resulting lowering of costs will improve competitiveness on the world market. This in turn will cause exports to increase. A virtuous circle of growth will have been set up. This will more than help to make up for whatever decreases in the growth rate resulting from the occasional economic downturn.

Economic Growth Rate in South Korea, 11 percent after Reunification!

This means that South Korea's economy will reach new heights. The result will be very similar to that of Japan during the Korean War and of both Japan and Korea in the

wake of the Vietnam War. The boom following Korean reunification could in fact surpass both of these periods of economic expansion.

This rate of economic growth in South Korea as a whole will be far greater than the 7% of GDP which was calculated as the cost of reunification, even if the portion of vanishing division costs is excluded from the reunification returns. And recall that the result of the expenditure for the accumulation of physical capital in the North remains as a form of national wealth—apart from the portion lost as a result of physical depreciation.

Reunification is Not a Burden but an Opportunity

An 11% economic growth rate on a sustained basis means that reunification is not a burden but rather a great opportunity. If the Korean people come to appreciate this, the entire attitude toward the idea of reunification will inevitably start to shift. If Koreans have hitherto shied away from the issue of reunification because they have tended to worry about the money, they should instead enthuse about it for much the same reason.

Even after the period of income-level adjustment, it seems clear that the demand for physical capital in the North will continue. This is as a consequence of both capital accumulation and the development of a market economy.

This in turn will help to sustain an economic boom in South Korea for a considerable period of time after the 10 years we have been discussing. With an expanding economy in the North, the combined higher aggregate demand from both South and North will lead to higher production, which will create, in its turn, sizable economies of scale. This will lead to lower production costs and higher competitiveness on the world market.

C. A Unified Korea

With the simultaneous systemic integration of the two regions, Korea will become a unified country in both name and reality, paving the way for national development for years to come.

In fact, Korea will reach such a level of development as a nation that it will never again be subjugated by another nation, due to her own lack of economic power and political clout. Korea will never again experience the misfortune of becoming a colonial subject. Instead, Korea will stand on an equal footing with the most advanced and powerful nations in the world.

B. North Korea

In the decade following reunification, the income of Koreans in the North will increase from almost nothing to about half that of Koreans in the South, a highly dramatic transformation. Their income in fact will exceed that of the South at the starting point of the economic planning for income adjustment. By the time the income levels in the South and the North are on a par, a country which was once one of the poorest in the world, where the people were on the brink of starvation, will have joined the group of advanced economies, where people enjoy a life worth living in a highly civilized environment.

From Rags to Riches

Long-Term Gains after Reunification (Period © in Graph 1)

Let us take a look at the potential gains that will probably ensue in the decade immediately following reunification.

How the various interests will intertwine will become clearer once we have examined the respective positions of the South and the North, as they stand now, divided.

Gains for the Residents in the North

Once reunification is achieved, Koreans in the North will experience an entirely different life, the quality of which

will be vastly superior to what they have known to date. This will represent an absolutely extraordinary reversal of fortunes.

The most important transformation will be their newly-found freedom and restored dignity as human beings. With this extraordinary change will come the opportunity to become prosperous, after decades of deprivation. In essence, one-third of a unified Korean population will be transformed, and each individual will be treated as a citizen of Korea with all the attendant dignity and respect, wherever he or she may travel in the world.

Gains for Residents in the South

- (1) In the process of procuring North Korea's physical capital in accordance with the "Buy Korean" Policy, South Korea will reap the benefits based on an established timeline.
- (2) The trend of economic growth in the Southern region will be sustained, and this will be added to the increase in production and economic power supplied by the addition of the land and people in the North. This will make Korea a relatively powerful country.
- (3) After the period of income readjustment, the demand for capital goods in the North will be continued over the

long term as an extension of the capital accumulation process. This will play an active role in contributing to economic growth in South Korea.

- (4) Throughout the 10-year period of readjustment, South Korea's total production will increase by a factor of 2.6, and this quantitative growth will be accompanied by technological and qualitative progress.
- (5) This economic development will make it possible to raise the level of social awareness among the general public. The tremendous economic development of a unified Korea will increase the level of gentrification. In turn, this will tend to make people more aware of their civic identity. As a result, the values of civility will gradually be revered. In short, the people of a unified Korea will become more civilized.
- (6) Reunification will serve as a unique opportunity to introduce a "public land concept in the form of state-ownership". Since Korea has very little land, Korean owners are bound to bid the price up too high, if this matter is decided by the forces of a market economy. Although in most matters, the rule of the market economy is to be preferred, land reform marks an exception. As previously indicated, once the concept of public land is institutionalized in the North, it will be critical to introduce it in the South as well, on a very long-term basis.

Eventually, businesses in the South will benefit from this system and see substantial savings in their production costs. At the same time, the public will be spared from the inequality of income redistribution. This will also be a means for staving off inflation as well.

(7) A land bridge can be constructed to the continent over the Yalu and Tumen rivers. In addition, free air passage over the North of the unified country will help save on logistical transportation costs, thus enhancing international competition and trade expansion.

(8) In the agricultural sector, Korea will be able to introduce an organic farming system to make the most of the farmlands in Hwanghaedo Province and other areas in North Korea not polluted with chemical fertilizers. The farmers will benefit from this value-added produce, and the people in the metropolitan and other densely populated areas will benefit from a source of non-polluted, high quality produce. In the long run, organic farm products will help improve people's health.

Benefits of a United Korea

(1) A united Korea is a country comprised of both the South and the North. The benefits to each are the benefits for all.

- (2) The benefits of a unified Korea are what the people gain from being free from the disadvantages, losses and pains suffered in the state of division. Furthermore, in the re-unification process they can expect significant gains in national power, with their increased economic might.
- (3) A large deposit of underground mineral resources in the North, which are presently of little or no use to North Korea, will see its worth rising rapidly after reunification. The synergy effect of the complementarities between the two regions, which will present themselves in varied forms, will contribute greatly to the economic growth of a united Korea.
- (4) After reunification, the railroads, roads, ports, power lines, water pipe lines, communication, and postal services will be re-connected. This process will bring about opportunities for the related industrial bases to develop, while at the same time promoting a direct advance to the interior of the Asian continent.
- (5) At long last, national conflict will come to an end. As a result, the nation will become a force to be reckoned with and a fierce competitor in Northeast Asia. Once on a par with its powerful neighbors, a unified Korea will enjoy peace and freedom, prosperity and dignified security.

Reunification Gains, Benefits, and Returns

The gains, benefits and returns from the reunification process are so extensive that a broad overview will not suffice. Each one of them—including both the economic and non-economic—will be examined in detail to provide a realistic view of the scope of the costs and returns of reunification (see Appendix 6).

In addition to the issues addressed thus far, the following two points should be emphasized.

1. Reunification Tax

South Koreans do not need to fear a reunification tax. The pre-reunification tax the people will pay directly will help win over public sentiment in the North and help to blaze the trail of reunification. At the same time it will shorten the length of the process itself. This tax will not exceed 0.25 % of total individual income (see Chapters 5 and 6), and 1 % during the ten-year period post-reunification. There will be no other taxation directly related to the reunification process. During this same period, Korea will experience extraordinary economic growth by 11 % annually. This is the reality. Nonetheless, if almost half the population adamantly refuses to pay the reunification tax, this poses a major problem that needs to be

urgently tackled.

2. Jobs

Reunification will completely eliminate unemployment. In its place, there will be a surplus of jobs. During the first 10 years after reunification when a program to raise the income level of North Korean residents is in place, South Korea will experience an unprecedented rate of full employment, as a result of the sharp rise in production to meet the demand for capital goods. Some people will have to work overtime; some retirees will need to return to work, if their health allows. Everyone will benefit from putting the North Korean economy on the path of rapid planned growth.

Reunification Guarantees a Higher Rate than Even Full Employment

Some might be concerned that when cheap labor is allowed into South Korea, it will raise the unemployment rate significantly. But this concern is unfounded: reunification will spur on the job market substantially.

Part III

Three Steps Required, Before and After Reunification

Every step that South Korea takes to achieve a successful reunification process has its particular significance.

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Three Phases of Reunification

Basic Phase 1: Achieving a National Consensus for Reunification

Above all else, the most important consideration is the process of constructing a consensus for reunification among the general public. Without this consensus, no political leader will be able to initiate this process. In the absence of this leadership, reunification is unlikely to succeed. However, if the general public comes to the conclusion that the benefits of reunification greatly outweigh the costs, political leaders can be elected on a reunification platform. Given its democratic nature, Korea will then be in a position to expedite this important process.

Basic Phase 2: Actions to Win Over the Residents of the North

When South Korea succeeds in constructing a general consensus in favor of reunification, the country will then need to take the proper steps forward toward this end.

In this respect, it is of grave importance that the conversation be conducted in the field of the economy rather than that of politics or ideology. By concentrating on the economic field, South Korea will be able to take steps to win over the popular sentiment of the residents of the North. Under no circumstances must this process be neglected or ignored. For it is only by the successful employment of this economic strategy that South Korea can hope to minimize the costs of reunification.

For this purpose, the economic field between the two Koreas needs to be opened more widely. South Korea should seek to initiate trade and cooperation with its Northern neighbor.

On the basis of an open economy, South Korea should begin to help the North to construct various kinds of social overhead capital (SOC). Such a policy will help to win over the hearts and minds of the residents of the North. In any case, the SOC policy will need to be continued after reunification. If this policy is initiated before reunification takes place, the period for income adjustment between the two regions will be shortened.

In fact, this phase of the process represents the crossroads as far as reunification is concerned. It will decide whether Korea can achieve reunification or not. This critical phase will

be discussed in detail in Chapter 5.

The Main Phase

Even when the initial phase of political reunification is achieved using a successful strategy (Basic Phase 2) to win over the sentiments of the general public in the North, there will still remain certain issues that will need to be implemented to complete the process successfully. The substantive areas are: ① Advance preparations for separate management; ② Manpower mobilization after re-unification; ③ International cooperation for safe military reduction; ④ International understanding about the *Buy Korean Products Policy*; ⑤ Cash compensation to the original land owners; ⑥ The setting up the frame for taxation along the line of German solidarity surcharge; ⑦ The introduction of the necessary legislation and so forth.

- **The German Model**

As a reference guide, the German model is one that should be examined closely.

The German people claim that the process of re-unification in their country came unexpectedly early. Over the years, the combined impact of the Christian Democratic Party's "Superior Power" Policy and the Social Democratic Party's "New East Policy" contributed to expediting the

process of reunification almost at a subconscious level.

In the years before reunification, the economic exchanges between East and West Germany reached approximately 221,9 billion Marks (US\$7,5 billion). East Germany was the recipient of US\$2,3 billion annually from West Germany, including US\$800 million in official transactions and an unofficial grant amounting to US\$1,5 billion annually. These economic ties are known to have played a significant role in building national solidarity.

Inter-German exchanges also played a political role:

- (1) By mitigating antagonism, maintaining national homogeneity, and establishing links connecting the two parts of the country;
- (2) By promoting transportation, communication and exchanges, while relieving the effects of division, lifting some restrictions imposed by the East German government;
- (3) By improving the quality of life for East German residents;
- (4) By helping to stabilize the situation in Berlin and securing access for citizens to travel safely to West Berlin;
- (5) By demonstrating the superiority of the West German system;

- (6) By helping win over the residents of East Germany through West German generosity;
- (7) By helping to minimize East German reliance on the Eastern European economic zone, thereby paving the way to integration with West Germany.

Economic Power Underpins A Successful Reunification Process

The logic of power was what made German reunification possible. It was not its military power but rather the economic power of West Germany that convinced the East Germans. Eventually, this economic power accelerated the process of the early successful completion of the reunification process. Opting for a military solution (reunification by force) would only have caused further pain and suffering. The conclusion is that leveraging economic power to win over the other side is the rational approach to the achievement of the desired objective.

Winning over Public Sentiment

It is important for Korea to learn some important lessons from the German experience. Perhaps the first lesson is this: it is the wide gap between the economic circumstances of South Koreans and their neighbors in the North that will eventually contribute to swaying Northern public

sentiment. It should therefore form the cornerstone of South Korean strategy.

Germany underwent this experience using a process of trial and error after reunification. Korea can learn from the mistakes that were made.

The first mistake was the pegging of the currencies of East and West at the same level. The second mistake was determining that income levels should be on a par. The third mistake was attempting to return the land in Eastern Germany to its original owners.

The first two mistakes brought about a large increase in the unemployment rate in Eastern Germany, and the third mistake resulted in 2.2 million lawsuits. This latter error undermined the management of economic policies. These are obviously mistakes that Korea should avoid repeating.

One of the most fundamental problems in the German reunification process was the lack of proper research and the consequent absence of precautionary measures. Faced with a post-reunification crisis, Germany had to push forward with a provisional social welfare program. This led to rampant wasteful spending for the next generation. A proverb is relevant here: Do not simply give someone a free lunch but rather teach that person how to make lunch for themselves. South Korea should supply the required physical capital and advanced technology to

increase productivity in the Northern region. It is important that the residents of the North will be left to figure out how to raise their standard of living for themselves.

In order to move forward, South Korea must work out a detailed and comprehensive master plan, and then revise it as necessary. There is abundant research available on the ways and means of mobilizing financial resources for the purpose of reunification. Most of these programs tend to earmark extremely large amounts for social welfare. Indeed, some experts have estimated the cost of reunification at more than two trillion dollars.

These kinds of estimates are entirely misleading. For example, Germany racked up nearly 50% of the expenses related to reunification through its expensive social welfare program. Korea should opt for a more rational and effective method.

There is also a major positive lesson to be drawn from Germany's experience. West Germany managed to win over the public sentiment of the East German residents. The East Germans were persuaded of the benefits of reunification. They were well aware of the high, stable standard of living of the West Germans. They envied the lives of the West Germans and they wanted to live similarly. What is more, Korea should learn from the critical mistakes that Germany made.

In conclusion, South Korea should choose the most appropriate way forward, the one most likely to succeed. In other words, South Korea should work on convincing or winning over the North Koreans prior to initiating the process and minimizing the post-reunification costs.

In subsequent chapters, the author will outline the policies that should be pursued in order to achieve this.

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2 Advance Preparations for Separate Management

There is a baseline formula for the successful completion of reunification at the lowest cost: while income levels adjust, the management of North Korea's economy must be undertaken separately for the 10 years following reunification.

The following policies are needed to apply this formula.

South Korea needs to lay the groundwork so that when the time comes the residents of the North are not tempted to move from their areas of residence. Both a regulatory framework and the proper environment are pre-requisites for the *Push- and Pull-Effect* to yield the desired results. Once a timeline is estimated for national reunification, it will be necessary to establish a special security commission to take immediate action.

The Push- and Pull-Effects Should Be Synchronized

Apart from the economy, coordinated action toward system-unification needs to be carried out. The economy should be allowed to take its own route. Since all the sectors are related, either directly or indirectly, to the economy, it will naturally be difficult to make that exception. But in case problems do arise, it will be important to stay mindful of the purpose for implementing two separate management systems.

In order to formulate a structure through which to manage two separate economies, the following issues need to be considered.

A (Provisional) Presidential Economic Development Commission for the North

A (Provisional) Northern Presidential Economic Development Commission must be set up to manage all Northern economic issues independently. This Commission should be set up under the command of a Chairperson (or, provisionally, Second-Premier). Here, the title "Chairperson" reflects the independence of the Commission and that of the Second-Premier, a high administrative of-

fice directly under the command of the President. During the 10-year period after reunification, the economic policy objectives of North and South will be different. For this reason, if a single administration office handles both economic policy objectives, it may prove counter-productive and even ineffectual. Korea should anticipate this risk.

After reunification, if each *dong*, *li*, or township that handles general administrative matters in the Northern area receives conflicting directives from the Ministry of Administration & Security and the Office of the Second-Premier, priority should be given to the latter. By the same token, the Second-Premier should be given maximum support from the Administrative Security Agency for the purpose of the execution of all directives. In particular, we should remember that the Resident Centers will play a very important role in maintaining order among the residents.

Different Currencies for the South and North

Korea should use a separate system of currency in the Southern and Northern regions for up to 10 years following reunification. Using two currency systems, Korea will be able to allay, to a certain extent, those forms of conflict that may result from a direct comparison of wages, salaries and lifestyles. Of course, the expenses related to the exchange rate will be significant, but the positive contribution

to financial independence and social stability are expected to be more substantial.

The Establishment of a Second Bank of Korea

A (Provisional) Second Bank of Korea needs to be set up with a view to running the economy of the North effectively. This is a measure designed to forestall friction between the Southern and Northern regions over monetary policy in the light of their separate economic systems and goals.

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3 Manpower Mobilization after Reunification

It will be very important for Korea to unify its structures in all fields including politics, administration, military, education and culture. It will also be important to work out in advance a variety of ways to mobilize manpower effectively. Should problems arise, the situation might otherwise become unmanageable.

No political or economic compromise will be possible. What this means is all the systems will need to be harmonized along the lines of the South Korean model. In order to allow this systemic merging to occur, all those who have experience, in particular in South Korea—retirees, for instance—should offer to help—payment being made at the level of Northern income.

In the process, two sectors will require particular focus: the military and education.

Organization of the Armed Forces

- (a) Total military expenditures in a unified Korea should not exceed 1% GDP for the first decade.
- (b) All professional military personnel of South Korea should remain in office.
- (c) Leveraging their experience, all physically-able retired generals, field grade officers, and other retired officers should be recalled to active duty, provided they are willing, so that they will be able to help reorganize the North's military. Their pay level should correspond to that of the Northern Region's Armed Forces.

Maximum Use of Reserve Personnel

- (d) All enlisted regular soldiers will be discharged and sent back home.
- (e) Within the North Korean military, apart from regular soldiers, all general grade officers, field grade officers, lower-grade officers and non-commissioned officers will be discharged and retrained according to their aptitude. After this period of retraining, these officers will be employed by the industrial sector.
- (f) Only those North Korean regular soldiers who are healthy and loyal to the cause of a unified Korea will be allowed to serve following reunification. All those who are neither healthy nor loyal will be discharged and retrained through standard academic education or vocational training programs.
- (g) During the transitional period, the higher echelons of

the armed forces in the North will be filled by South Koreans, mostly veterans called back to active duty. The lower levels of the regular forces will be mostly filled by former North Korean enlisted soldiers.

Education Structure and Organization

- (a) The education system of the North Korean region will be reorganized promptly to model that of the Southern region under the reunification program.
- (b) Physically-able retired teachers and professors in the South will be called back to fill positions in the newly-revamped Northern system. The pay level of these recruits will be about the same as that of the regular North Korean academic staff.

Retired Teachers and Professors to Serve on Salary in North Korea

- (c) In principle, all teachers and professors who have served in North Korea prior to reunification will be dismissed. Instead, they will be re-employed as industrial workers, according to their skills and competence. Those who worked in academic fields that had required no overt political affiliation will be allowed to work as before, albeit on a selective basis. A very careful selective process will be required to scrutinize those who demonstrate an inability or unwillingness to shed their previous ideological indoctrination.
- (d) During the first 10 years following reunification, there

will be no direct election for supervisors. In the North, staff will be recruited strictly by appointment.

- (e) For a limited time after reunification, a free lunch will be provided to all school grades.

Raising funds for reunification through military reduction is essential. As with the “Buy Korean” Policy, military reduction may be difficult without the understanding and cooperation of neighboring powers such as the United States, China, Japan and Russia. Of prime importance is the cooperation and support of the United States, as a *sine qua non* condition to bolster Korean national security and prevent a regional crisis. Such a strategy will hinge on expert diplomacy, even if the United States would otherwise support Korean efforts in order to safeguard its own national interest in Asia.

By the same token, Koreans need to be realistic about developing an independent military. Every nation pursues self-defense, fully cognizant of the advantages that such a stance entails. The Japanese do not pretend they do not know about the importance of self-defense. For this reason, they have limited their military spending to 1% GDP since the end of World War II and relied primarily on the help of the United States.

Until they have all the resources and capabilities required to ensure their own defense, Korea will need to maneuver carefully to avoid putting undue pressure on its people.

It should be made clear at this juncture that for the first 10 years following unification, spending on national defense will need to be capped at the level of 1 % GDP, with the support of a highly skilled diplomatic corps to protect its national security. It is in the interest of the United States to maintain peace in this region of the world. Moreover, the U.S. will be able to point to Korea, a major beneficiary of its aid, as an extraordinary success story after World War II.

A Multi-National Security Structure in Northeast Asia

The long-term strategy should be to reestablish close ties with all Northeast Asian nations following the required military reduction within a unified Korea. Korea can emulate Europe's CSCE model to implement a multi-national security system in Northeast Asia, while still guaranteeing peace for a unified Korea.

A “Buy Korean Products” Policy

This policy is pivotal to grow the South Korean economy at an annual rate of 11% for the decade following unification. No mistakes can be made in executing this important plan. As explained previously, the “Buy Korean” Policy is a program under which all the physical capital supplied to the North during the income readjustment period will be produced in South Korea. If Korean producers have to compete on a par with foreign businesses, the potential benefits of unification will be minimal.

To some extent internal laws and regulations will help. An in-depth concrete study, together with the required preparation, should be conducted in this regard to achieve the best possible results.

The Neighboring Powers

Businesses, both large and small, in the neighboring powers,

will attempt to seize and maximize every opportunity offered by Korea's unification. For this reason, it is important to ensure the understanding, cooperation and support of Korea's neighboring powers and allies---the United States, China, Japan, Russia by laying the groundwork before initiating change.

Mobilizing Domestic Unification Funds

The author recommends minimizing domestic sources for the unification fund because the vast majority of South Koreans are against a unification tax. The unification funds will be enough with a total of 1% of GDP before unification, including 0.25% from tax and the remaining 0.75 % from treasury bonds (see Part V). After unification, the tax will cover 1% of GDP, and 3% will be raised from treasury bonds during the 10-year income adjustment period.

Pre-Unification Fund of 1% GDP; 0.25% in Tax and 0.75% in Treasury Bonds

As explained in detail in Part V, of the aggregate 1%, it is estimated that approximately 0.2 % only will represent the actual South Korean share of the direct burden, because the remainder will be transformed immediately into physical capital to be supplied to the North under the “Buy Korean” Policy.

Post-Unification 10 Years, Tax 1%, Treasury Bonds 3% GDP

The 1% that will be raised through taxes and the 3% that will be raised in treasury bonds would hardly be a burden, since an 11% annual economic growth rate will ensue in South Korea, following reunification. This is an extremely profitable proposition. The issuance of treasury bonds is meaningful because it permits sharing the gains and benefits of unification over a number of generations.

It is recommended that Korea adopt legislation and regulations in advance, to introduce a Solidarity Surcharge to be raised along the line of income and corporate profit. The model of a Solidarity Surcharge will be familiar from the experience of German reunification.

Low Interest Long-term Loans and Overseas Bonds

A unified Korea will need to secure some long-term low-interest international loans equivalent to 1% of South Korean GDP. International financial institutions should be made aware of Korea's situation and intentions and be willing to help with the unification process. By the time of reunification, North Korea will still be one of the poorest state of the world.

The Training of International Financial Experts

If Korea fails to obtain sufficient overseas loans, the gap should be filled with international bonds. Korea needs the highest degree of professionalism and integrity in this area, which will require the training of experts with long-term visions. International financial institutions should provide Korea with long-term low-interest loans in consideration of South Korea's high credit rating and the singular situation of the North Korean region. In addition, a careful study of the bonds to be issued

overseas for foreign investment institutions will need to be undertaken.

Cash compensation, rather than land restitution, should be offered to the original landowners of the North Korean region. Moreover, into the post-unification era, the North Korean state-ownership of land and other real estate should be maintained. In the very long run, Korea should reform the land ownership system of South Korea to be state-owned too. Cash compensation to the original landowners will play an important role in completing the process of unification at minimum cost and confusion.

A Golden Chance Available in One Thousand Years

The author strongly endorses the state ownership of land, for he is convinced that Korean unification will provide a golden opportunity to the nation. This opportunity comes only about once in a thousand years: it provides a fundamental solution

to one of the serious market failures in South Korea. In the world right now, only Korea has been presented with this opportunity. It is unique, in this respect. This will create the foundations on which Korea can prosper for generations to come. The impact is likely to be significant because landownership affects so many individuals and the economy as a whole. In Part 4, this will be discussed in detail from a social justice and academic standpoint as well as with the goal of creating a sound market economy.

An agency needs to be commissioned that will grapple exclusively with all the major unification-related issues. It should be tasked with the planning and management of all matters discussed in Part III through Part V. This agency will draw up legislation to prevent and counter any disruptions that may take place both before and after unification. There will be numerous challenges, and Korea will need to be fully prepared to take them on.

In consideration of all these tasks, the author would advocate that a Provisional Unification Committee be set up under the Office of the President. The Ministry of Unification is not capable of carrying out this remit.

A Unification Committee under the Office of the President

The Ministry of Unification, whose budget is about the same

as that of a small county office, has operated within a rather narrow scope in its dealings with the many issues relating to reunification. Some of its ministers have boasted about taken on numerous challenges. However, the truth is that the Ministry has failed to do anything really important. This situation is extremely disconcerting. Nonetheless, the failure of this Ministry ultimately represents the failure not of these ministers but rather that of each of South Korea's presidents.

For the committee to do its work, while resolving matters related to unification, it should be provided with the necessary authority and budget to seek its own independent contacts. Even if it is under the Office of the President, the entity must be allowed to be self-contained and should be guaranteed autonomy and continuance.

Some may object to this agency, saying that its activities would appear to overlap with or duplicate those of other official entities. In fact, the Ministry of Unification has already shown its obvious limitations, and it may as well continue to carry out its business as usual. It will not lose its vested interest.

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Necessary Legislation

It is very important for South Korea to adopt all the necessary legislation in each field, while seeking to unify the two systems in the post-unification era. While expediting the process and raising the necessary funds, both before and after unification, Korea should be fully engaged in working out a grand design for the nation's future, for many years to come.

It is critical that this legislation be implemented in a timely fashion, neither too early nor too late. The process should not necessarily be rushed. Timing, which includes the adoption of legislation to establish a proper framework, is the key to success. If done in haste or if individual interest intervenes, this might well be at the expense of the ultimate goal.

But if the personnel in charge are too deliberate, Korea will lose the momentum and end up failing. For this reason, when the overall structure and policy are moving in the right direction, the necessary legislative process should be initiated.

Part IV

A Post–Unification Land System for North Korea

In the post-unification period, one of the critically important issues to be dealt with will be the issue of land ownership in the North.

We need to address two issues regarding land and other real estate. First, South Korea should avoid making the mistake Germany made by returning land and other real estate to the original owners. Second, the opportunity afforded Korea by unification is extraordinary and will lay down the foundation on which it can establish itself as a peaceful and prosperous nation with a market economy for many, many years to come. For Koreans to accomplish this, they need to introduce, in the very long run, the state ownership of land in the South, even while maintaining the land system in the North intact. Even if South Korea at first faces fierce resistance, this system will ultimately minimize the inherent injustices of the market economy.

Many are of the opinion that land should be restituted to those in possession of the necessary legal ownership documents. Some believe that for the proper integration of all the systems to occur, the North's system of public land ownership should be changed to a private one, as is the case in the South. This is not a viable long-term solution for reasons that the author will explain in the next section. In fact, the exact opposite is the best possible way forward: the conversion of the South's privately-owned land into state-owned real estate.

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The Concept of the Public Domain and Cash Compensation

Some will have strong objections to this proposal, viewing it as a form of “socialist” legislature. It is the author’s firm belief that an exception must be made strictly in the realm of land ownership for the sake of Korea’s future, if it wants to remain a market economy.

Cash Compensation for Land in the North

Maintaining the state-ownership of land in the North after unification is vitally important. First, it will help to establish a balance between the North and South. Second, it will be absolutely necessary to cap spending on unification. Third, escaping from a kind of market failure, such an approach will lay the stable foundation for the unified nation’s economic growth and social development for many years to come.

Striking a Balance

If we consider integrating the North Korean land system post-unification and private ownership, there are three possible options.

First, the land can be distributed, divided up proportionately according to each of the North Korean residents' production while taking into account the apportionment of national and private land in the South.

North Korea has 24% more land than South Korea but less than half the population. As a result, the residents of the North would be given a parcel of land more than twice as large as the average allotment of the residents in the South.

This option would cause a major imbalance between the North Korean residents and their South Korean counterparts. Considering the fact that real estate is a very significant element of private assets in the South, this is no small matter. South Korean residents have shed blood, sweat and tears for so many decades to achieve their extraordinary economic development, while North Korean residents have been playing soldier games, so to speak. They will not willingly agree to the North Koreans being offered more than twice as much land as they have.

The second option is to distribute plots to North Koreans that are equal in size to those of South Koreans. But this too will lead to similar problems as option one. In view of the fact that North Korean productivity is about 1/20 that of South

Korea and is constantly decreasing, this will also be perceived as unfair. South Koreans will no doubt object to either measure.

Third, we can think of a land distribution approach based on the rate of economic achievement or contribution. In essence, land could be distributed to North Korean residents in proportion to the level of their income at the time of unification. This would then be dependent on their individual productivity. However, as indicated above, the individual North Korean income level is far below that of South Korea, and decreasing over time. North Koreans will not be satisfied, for they have in fact controlled the North Korean region thus far.

If we distribute land to North Koreans based on the principle of their actual possessions during the period of division, South Koreans will be extremely resentful. This is because the perception will inevitably be that North Koreans are riding the coat tails of the economic achievements of South Korea. Likewise, North Koreans will not agree to land being distributed proportionally to an individual's income level at the time of unification or to that individual's productivity contribution rate. If South Korea maintains the private ownership of land, while state-ownership remains in place in the North, this will create both a deep-seated resentment and an economic imbalance.

Whatever the option we choose in order to distribute North Korean land after reunification, it will satisfy neither the North nor the South. That being the case, the only option is to maintain the state-ownership of land. This will in fact be to the

advantage of both North and South in the long run. Maintaining the state ownership of land will constitute a significant paradigm shift for stable sustained growth, while maintaining fairness in the economy.

We are all well aware of the fact that there are numerous issues associated with the South Korean land system. Land, labor, capital and entrepreneurship encompass all of the inputs needed to produce goods or services. However, in the southern part of the Korean peninsula, the land and real estate have been exposed to many problems under the market economy. Land ownership has been misused as a means for accumulating wealth and as the target for widespread speculation. Over time, this may even pose a threat to the market system itself. Under these circumstances, the question is whether such a system should remain in place, post-unification.

It is the author's hope that a unified Korea will adopt a free democracy and a market economy, thus enjoying sustained prosperity and peace for many, many years to come. The author is a strong advocate of a market economy because he firmly believes that this is how South Korea will continue to be highly competitive on the world stage. The concept is that of Pareto efficiency or optimality—a state of allocation of resources, through production and consumption—in which it is impossible to make any one individual better off without making at least one individual worse off.

However, competition in a market does not always bring out Pareto efficiency. We cannot ignore the potential causes for market failure.

In a country like Korea with very little space, private land ownership poses a high risk of market failure. In general, the problems of market failure include distortions from externalities, asymmetric information, public goods, and monopolistic price and quantity. If we leave it up entirely to market forces, Pareto optimality will not be achieved. In turn, this will lead to pervasive inequalities.

Preventing Market Failure

In a land-poor country like Korea, private land ownership can easily be conceived as a potential cause of market failure. When land is misused and turned from a means of production into a means of wealth accumulation, it can become a major source of unearned income. Throughout recent Korean history, many enterprises, including some conglomerates, have recorded large profits from their real estate investments to cover their large business losses, while their final balance sheets still registering significant gains.

Where did the gains come from? The short answer is from the sacrifices of the Korean people, a typical case of exploitation by the owners of the land.

A Prerequisite for the Successful Completion of Unification: The Preservation of North Korean State Land Ownership

In order for South Korea to successfully complete re-

unification in all its key aspects, including militarily and politically, the income level of North Koreans must reach at least half that of the South Koreans. This is where the land issue is pivotal.

As described above, there are a number of prerequisites that must be met for the economy to grow 11 percent annually for the decade following unification and for the income levels of North Koreans to be raised to half the level of the average South Korean income. One of these prerequisites is the option of cash compensation to the original landowners and the simultaneous preservation of the state ownership of land in the North.

During the course of reunification, Germany made a number of strategic mistakes, mistakes that Korea should strive to avoid. The pre-division land ownership was recognized and a subsequent restitution was made.

The German land policy consisted of restitution to the original landowners on the principle of private property. However, even quite distant relatives of deceased land owners came forward to restitution claims. The number of such claims eventually resulted in 2.2 million cases of litigation. Since Germany has a triple-tiered court system, this meant that it would take nearly a decade to settle all of these many, many cases. In turn, this had an immediate impact on real estate investment.

For this reason, the maintenance of the state ownership of land will bypass this cumbersome, uncertain and highly litigious process, and contribute instead to a full integration after unification. It is simply more sensible to offer cash compensation to the owners of land in North Korea who moved south

before the country was divided or to those original owners who ended up staying in North Korea.

This raises a question as to the criteria used to determine compensation. It is the author's view that a sound basis could be the structure adopted during the period of land reform in the South in 1950. This structure offers one way of making the situation more equal and fair with respect to those who received compensation during the land reform years after Korea's liberation from Japan. In this respect, the process of North Korean land reform is irrelevant since the land in North Korea was simply confiscated from its original owners.

Cash Compensation for Land in North Korea at the Level of South Korea's Land Reform

As described in the following section, a deed in the form of a security was issued to landowners as part of the farmland reform policy. But these certificates became worthless due to the hyperinflation that followed the outbreak of the Korean War. As a result, the landowners in South Korea did not gain much from this land reform. We should keep this history in mind.

An Introduction to the Concept of Public Land

South Korea's land system presents a number of challenges.

First, it is virtually impossible for those who do not own land at the present time, as well as for future generations, to own real estate of any kind.

Moreover, the price of real estate is prohibitive for most people. The frustration and resentment felt by the overwhelming majority may eventually result in class conflict.

Second, the land speculation that will inevitably occur will give rise to the issue of unearned income, which will also affect productivity and costs, resulting in a loss of production and profit.

Third, the increase in the price of land means higher costs for the factors of production. In turn, this may cause inflation and eventually even social unrest.

Fourth, the increase in the cost of production resulting from these problems will weaken Korea's competitiveness in the global marketplace. As Korea is highly dependent on trade for its economic development, this is something that it will be difficult to tolerate.

Accordingly, to maintain the present land policy in the South in the post-unification era would be unreasonable and unfair. There are a number of countries that have adopted a combination of public and private ownership of land within a basic free market system. The smaller the country, the more serious the problem becomes. The question is then: What would be the most appropriate mode of land ownership and tenure for Korea following reunification. In brief, separating land ownership from its use is the most viable solution. The state will own the land, and the right to use the land will be awarded to the highest bidder, regardless of whether this be an individual or an enterprise. In the early days of this program, the pre-existing arrangements should naturally be taken into consideration.

The Concept of Public Land: Separate Ownership of Land and the Right to its Use

A paradigm shift is necessary for Koreans to implement this new concept. Land itself is not a final good for consumption. The right to make proper use of it for production is all that needs to be determined. Land should not be a means to accumulate wealth. The difficulty lies in the fact that we have lived for many years under the current regime in which there is no clear distinction between land ownership and the right to land use. The only real differences are that ownership cannot be passed on to the next generation and profits can no longer be made once the right to use is transferred. Within a market economy, these should be the only exceptions made strictly in order to eliminate a major potential source of market failure. In this solution, the author does not intend to suggest a form of socialism or communism by stealth; his intention instead is to institute a healthier market economy.

A Paradigm Shift for a Viable Market Economy

As a transitional measure, landowners should be allowed to use their properties as they see fit until their death. But there should be no transfer rights granted beyond that. If an original landowner at the time of unification is deceased, the land may be used by someone else. This individual will then pay a usage fee to the state. If an individual or an enterprise owns a piece of land that is only partially used, the state may purchase the

unused portion of land for which the owner will then be entitled to fair compensation—this will be determined on the basis of the land usage fee.

Land Compensation to South Korean Residents

Residents in the North may object to the granting of state compensation to South Koreans. Nevertheless, they will need to accept the South Koreans' substantial contribution to the economic development of the country which results in nearly 20 times the North Korean income per capita. The necessary argument that will be made is that the North Koreans will eventually benefit from this arrangement. This is because over the first 10 years following reunification, their income level will be raised from almost nothing to close to half that of the residents in the South.

Once the land system is in full effect in the South, all usage fees will take the form of a pure state income. Accordingly, other taxes can be adjusted downward.

Reforming the land system and introducing the concept of public property are fundamental policies. In other words, state-ownership needs to be implemented at the time of unification, a time that provides a unique opportunity for Korea, one apparently on offer nowhere else in the whole world. This will be Korea's chance to turn the calamity of its national division into a boon that will ensure peace and prosperity for the long-lasting future.

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2 The Past Experience of Land Reform in South and North Korea

Let us examine the existing policies in the South and the North to determine the future direction of land reform. We can identify both the strengths and weaknesses in both systems to formulate a viable and integrated strategy. With this in mind, a brief overview of the history of the management of the land in both North and South Korea is presented in Appendix 7.

Based on the study of the land-related issue since the liberation of Korea from Japan in 1945, the author has found nothing that challenges the notion of cash compensation for land in North Korea at the time of reunification. He has also found nothing that contradicts the concept of land as a form of public property in the post-unification era.

The Post—Unification Land System

It is important to have a thorough understanding of the attributes of land in order to decide how the system should work. Based on a detailed study, the author has come to the conclusion that the most desirable form of land ownership in a unified Korea is its return to the state, under the concept of land as a public property. Both individuals and enterprises will then have the right to use this land. It is expected that legislation for this purpose will be adopted to define the framework of the public domain.

The limited understanding of the concept of the public domain in the South should not prevent us from searching for a fundamental solution to the problems related to land ownership. Appendix 8 provides an historical overview of how those concepts are perceived in Korea, while Appendix 9 assesses the differences in the policies that South Korea should take after unification and those adopted by a number of socialist regimes.

We need to examine the attributes of land from various angles. We then attempt to identify the most desirable land system for Korea.

The Attributes of Land

Given the attributes of land, decisive action is required (see Appendix 10). Clearly, land is one of the factors of production. Land can naturally promote productivity, depending on the purposes for which it is used. But when land is used as a means to accumulate wealth, its scarcity will result in its eventual use as a form of economic rent. Land in the form of economic rent can be used to exploit people, eventually causing a sense of deprivation. The rich will get richer and the poor poorer. Again, the only viable solution to this problem is to return the ownership of land to the state.

A Complement to the Market Economy System

We are aware of the fact that within the market economy itself, there exists potential causes of market failure. We can take a specific example: when negative externalities intervene, what are the implications if we do nothing to control them? Due to the scarcity of land and the potential for speculation, if real estate investment is left unchecked, market failure is inevitable.

There are several concepts of land functioning as a public domain. The most desirable one for a unified Korea is that

the state owns the land and the right to its use is granted to individuals or businesses.

The Separation of Land Ownership and the Right to its Use

As far as land is concerned, we cannot afford to rely on the market economy. For this reason, we should be prepared to introduce the public domain concept.

The Management and Supervision of Land Ownership by the Central Government

Let us examine the land system that is used in China, since this can provide some insight into a workable system for the Korean future.

China's collective ownership policy means that land belongs to the state as well as to farmers' groups. Of course, Korea does not need to follow the Chinese model. All it needs to do is to legislate that the central government own and manage the land. The primary concern will be to avoid some of the problems China has faced over the years, particularly the widespread corruption among its government officials.

Forestalling Corruption and Chronic Abuses

Summary

We prefer to take market economy and free democracy not

because they are flawless, but rather because to date, human beings have not managed to invent better systems than those.

In a market economy there clearly exist some sources that lead to market failures. One of them may be scarcity of land. The only way escaping from the dilemma regarding to land scarcity is the separation of land ownership and the right to use it.

Given this harsh reality, simply reforming the North Korean land system along the lines of the South Korean model as a supposedly “easy way out”, as some scholars suggest, is not a viable solution.

The legislators should recognize the significance of the legislation they are considering and strive to ensure no mistakes in the policy-making and execution process. If the premise of private land rights is included in the legislation, it will have disastrous results, particularly if the attributes of the land are not fully taken into account.

Once legislation has been voted, it will be virtually impossible to overturn it, even if the majority subsequently recognizes that this legislation is unfair.

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The Road To Unification

Foreword

At the time of President Lee Myung-bak, government has put forward a new slogan: “From Division Management to Preparation for Unification”. But unless South Korea takes the initiative, the mere passage of more time will not bring about this momentous event.

Instead, South Koreans need to mobilize themselves in order to create a *modus operandi* for reunification. The moment has come to start on this long march.

The fact that no government in South Korea has espoused any positive unification policy since the time of its first President, Syngman Rhee, is most unfortunate. Rhee originated the slogan “March Northward for Unification”—a hallmark of his militaristic doctrine. Since then, every government has managed the division and maintained the status quo. This has been the situation for over half a century, and the nation has sunk deeper and deeper into a civil Cold War.

In the past, anti-Communism ruled the day, and any talk of unification was frowned upon and regarded with deep suspicion. Even today, an anti-communist stance is seen as patriotic. Nonetheless, the moment is ripe to leave the anti-communist discourse aside in order to work toward the achievement of a united Korea based on democratic freedoms and a market economy. It is on these foundations that the nation can build both peace and prosperity.

In order to be successful, however, the residents of North Korea will essentially need to be “deprogrammed”. It will be impossible for South Korea to achieve a genuine reunification unless it reverses the process of “thought-reform” and the mass indoctrination of the North Korean residents, as they cling in their despair to the cult of Kim Il-sung and his descendants.

If each North Korean resident continues to believe in the cause of safeguarding first Kim Il-sung, then his son Kim Jong-il, and now his grandson Kim Jong-un, with his or her own life, North Korea will remain an impregnable fortress.

Convincing the North Koreans

Since the division of the country at the end of the Korean War, South Korea has managed a status quo of *de facto* division and firm opposition to the government of North Korea. As an indirect consequence, Kim Il-sung and his descendants have remained in power for three generations. It is important to realize that reunification will not simply come about through inter-governmental negotiations. On both sides of the division, there is a consensus that a military solution to the problem is not realistic; therefore we need to accept the fact that this process will only commence once public sentiment in North Korea begins to turn away from its government.

But there are in fact a number of strategies to help win over the North Koreans to the cause of reunification. These include:

- Inducing the North Korean public to draw closer to the South through economic cooperation and to covet the standard of living in the South through its economic superiority;
- Raising awareness of global developments through the Internet, Internet TV, SNS terminals, shortwave radio and other technological outlets;
- Narrowing the psychological distance between the scientists of the two Koreas through cooperation in science and technology;
- Providing food aid and other supplies to help North Koreans cope with famine and natural disasters;
- Showcasing the superiority of the market economy through the Gaeseong Industrial Complex and other industrial or commercial showcase sites;
- Disseminating news bulletins, flyers and manifestos in order to reveal the true nature of Pyongyang's propaganda;
- Demonstrating the solidarity and good will of South Korea towards the residents of North Korea via the communities of ethnic Koreans living in the three northeastern provinces of China;
- Show South Korea as it really is through the Keumgang-san tourism program and other inter-Korean attractions;

Among these strategies, the first and second will have the most profound effects. And the third will play a significant role in the long run. The North Korean public will begin to change by means of these three factors, among others.

A National Consensus for Reunification

If we consider the issue of reunification, we can see that the two main policies of successive South Korean governments have been merely to strategize the defense of the South against Pyongyang and to manage the status quo of national division. But reunification cannot be achieved by means of anti-Communism alone, simply relying on the same old rhetoric. The time has come to formulate a practical strategy to achieve the ultimate goal. Reaching a national consensus is a pre-requisite to devising such a strategy.

Without national consensus, the struggle for reunification might be likened to the Sisyphean task of ceaselessly rolling a huge boulder up a steep hill. Conflicting interests and dissenting opinions must be dealt with or the direction and momentum required to move forward with unification will be lost.

The author believes that a desirable national consensus can be established on the basis of his findings. This consensus will work as an engine to accomplish a confident reunification

process. The major findings are:

- (a) South Korea can afford unification in economic terms;
- (b) The sooner reunification is achieved, the lower its ultimate cost;
- (c) Providing that the process of reunification is undertaken with sufficient preparation, Korea will reap unprecedented gains and benefits; reunification will take the form of a kind of economic jackpot.

When a majority of Koreans recognize these facts and truths, the task of reunification can be achieved on the basis of the self-confidence and efforts of the people. Armed with this self-confidence, the South Korean people will face the critical challenge of winning over the public sentiment of the North Korean residents. The author is strongly convinced that at that point the cherished goal of genuine Korean self-determination will be finally within reach.

A National Consensus Based on Facts and Truths

At the moment, however, there are many obstacles in the way of achieving a national consensus. Obviously, these obstacles should not prevent Koreans from forging ahead or causing them to lose sight of the ultimate goal.

One major source of concern is the controversy over the issue of “puh-joogi”. This term refers to a strategy of excessive giving to the North, without any apparent return except further

nuclear threats. Other problems include the principle of reciprocity; the North's nuclear weapons; human rights; anti-Communism; and the remnants of the Cold War. The author does not deny that these problems should be taken into account. However, if Koreans just focus on this long series of potential drawbacks, their energy and goodwill will run out. As a consequence, the ultimate goal will be forgotten.

A Direct Approach to Reunification

The issue of nuclear weapons is one that cannot be dealt with lightly. But as long as South Korea's alliance with the United States remains firm, the author does not believe that this issue need impede the process. Even before Pyongyang's nuclear capability was revealed, it was an open secret that North Korea had a legion of long-range cannons that could reach as far as Anyang and Suwon located farther south of Seoul. But North Korea cannot conceive of launching an invasion beyond the line of demarcation. Even though Pyongyang now has nuclear weapons, it should not be supposed that it would use them to attack the South because of the consequences of a major counterattack by the South. Should the South Koreans express fear with respect to the North's nuclear capability, the psychological strain could create a real problem. South Koreans should not fall into this trap. It should not be forgotten that the former Soviet Union had thousands of nuclear heads but still collapsed. Nuclear weapons themselves do not feed the people or help to lead the nation, nor are they capable of annihilating every-

thing with a single strike.

It is a given that the North Korean regime could attack the South at any time, but South Korea stands ready, alongside the United States, to defend itself against attack. The nation should remain vigilant but not excessively nervous. Given that South Korea may not be able to find a comprehensive solution to the problems of nuclear weapons and human rights by the time of reunification, it is natural to be realistic about taking the appropriate countermeasures.

But as the author has previously suggested, conflicting opinions and internal dissent will only hamper preparatory efforts, thereby slowing—or worse yet—halting the march towards reunification, resulting in a significant waste of resources. At that point, reunification might no longer part of the realm of possibilities.

Why An Approach to Public Sentiment in North Korea

If Korean unification is not possible through either military force or political negotiations, the sole area that remains for consideration is that of the economy. The history of humanity involves the constant transfer of energy, in accordance with the laws of the universe itself. In truth, this is the way in which South Korea can achieve the goal of national re-unification: by means of its superior economic capability and energy.

South Korea should undertake a major effort to win over the public sentiment of the residents of North Korea because this is the only way to achieve the ultimate goal of reunification on the Korean peninsula. If South Korea intends to pursue this policy, then a strategy of separating the economy from politics is absolutely key. What the author will be calling “Theory R” provides the underpinning for this strategy.

The gist of *Theory R* can be explained briefly. In North Korea today, there exists two quite different entities. These entities are the North Korean regime and the residents of North

Korea who endure its harsh rule. These two entities should be conceptually separated. Two different strategies are required for these two quite different entities. The author strongly believes that the reunification can be achieved by means of an appeal to the public sentiment of the North Korean residents.

Regardless of whether it is thought of as something voluntary or as something coerced, reunification is absolutely inconceivable as long as North Koreans remain bound to the cult of the Kim family. We have often seen evidence of a personality cult in North Korea. *The Great Leader and the Dear Leader's* brainwashed followers appear to be in a state of induced fervor and frenzy. For this reason, it is vital for South Korea to psychologically separate the people of North Korea from the current regime of Kim Jong-un.

It is impossible to regard North Korea as a sovereign nation governed by and for its people. After his grandfather Kim Il-sung and his father Kim Jong-il, the current leader of North Korea Kim Jong-un must be seen as the head of a cult. His grandfather, Kim Il-sung was also the leader of a cult. This cult combined aspects of communism, socialism and *Juch'e* ideology, borrowing its ruling structure from a western religion. Kim Il-sung indoctrinated and brainwashed his people, stripping them of any sense of human dignity. He then developed and encouraged a personality cult. Under his rule, if anyone dared to hint at leaving the cult, he or she was ruthlessly punished. As a result, the North Koreans are powerless subjects.

Kim Jong-il kept his father's ideological legacy intact. As a dutiful son (think of filial piety), he held his father in high

esteem and tried to maintain his father's halo in the eyes of his helpless followers. The son ruled the country as a second heretical leader in the exact same manner as his father, in keeping with that man's dying wishes. And now the comedy of Kim Jong-un is being played out as a third-generation heretical leader. It is hard to understand how this extraordinary, inexplicable situation can be taking place on this peninsula, with one third of this brilliant nation virtually obliterated. It is so humiliating for Korea in the face of the rest of the civilized world. We cannot but laugh at the news that they have tried to christen themselves "the Kim Il-sung nation".

Are All Koreans a "Kim Il-sung Nation"?

After he helped to found the Democratic People's Republic of Korea with the support of the former Soviet Union, Kim Il-sung subjected the North Koreans to a constant program of ideological indoctrination. Consequently, unless the North Korean people are deprogrammed, it will be virtually impossible for Korea to achieve reunification.

Assuming that reunification is the goal, what should South Korea's first step be on the road to reaching this objective the South and the North are the two principal stakeholders in this process. With the political bankruptcy of North Korea, the responsibility naturally falls to the South. But unless the South resolves to act, nothing will be accomplished. It is quite clear that Kim Jong-un and his entourage have no intentions of simply renouncing power. There will be no change here, whoever

becomes the fresh heir to the throne.

North Korea's nuclear testing and military slogans, alongside some recent measures taken by China, all cast a dark shadow over the question of reunification. Nonetheless, if South Korea leverages its resources and follow the steps the author is recommending, history will be shown to be on South Korea's side.

Until the early 1970s, North Korea was economically better off than South Korea, but since that time the ratio of economic power has turned strongly against the communist nation. For example, by the early 1990s, the South-North Korea per capita GDP ratio was 5:1 in favor of South Korea. In 1991, Kim Il-sung said in a New Year's address: "I do not want to see "eating" unification." In saying this, he meant that he did not want to be "eaten" or conquered. The implication was that he had given up the goal of achieving reunification under a communist system, but nonetheless wanted to remain as the king he had become.

The disparity between the economic power of South Korea and North Korea has since become ever larger. In 2013, it stood at more than 20 to 1 in per capita GDP and more than 40 to 1 in terms of GDP taken as a whole. The disparity is now so large that there is very little basis for rational comparison. The state of division no longer involves two equal parties. Even as the Pyongyang regime struggles desperately with its ideology of *Juch'e* and its campaigns of self-reliance, the current disparity cannot possibly be overcome, no matter what happens. As time passes, the disparity will certainly widen still further.

Following the dying injunctions of Kim Jong-il, close attention must be paid to Kim Jong-un's erratic schemes; and Seoul must stand ready to take appropriate countermeasures. One of Kim Jong-il's plans was to keep a set distance between the North and the South and to bring the desperate North Korean residents into his fold. As a matter of fact, he sent Hwang Jang-yup south as part of a strategy to prevent a war in an emergency when millions were starving to death in North Korea. Hwang pretended to be on the side of South Korea, while secretly attempting to maintain antipathy between North and South Korea as a long-term strategy. As long as a certain distance from South Korea is maintained, North Korea can continue to exist. And until the time of his death, Hwang exerted all his efforts to disseminate the seed of his *Juch'e* ideology, his lifetime achievement.

All this was intended to help prop up Kim Jong-il and his regime. For Kim's regime can survive as long as there is conflict between North and South Korea. Taking advantage of the anti-communist sentiment in the South, Kim Jong-il clearly adopted a strategy of preserving his regime with his slogan aimed at "Protecting the Republic" and inciting loyalty from North Koreans.

The North Korean Survival Strategy: Keeping a Strategic Distance from the South

Beyond maintaining the status quo, what can South Korea do to further the cause of reunification? The priority should

be to make every effort to win over the North Korean residents, who have been so misled by their rulers. In reversing that state, the antagonism that the North Koreans feel towards South Korea will eventually dissipate. It is this change of heart that will help to bring the North and South closer. Unification will then follow. Some might think that this whole process will take a very long time, but it will nonetheless prove to be the most effective way of expediting unification.

Germany bore a prohibitively high set of costs because so many mistakes were made as a result of its very sudden reunification. There is therefore much to be learned from this experience. But South Korea should remember that it was by means of the generous West German program of economic co-operation and its aggressive media campaign that the East German people eventually became envious of the West German lifestyle. This proved to be the driving force. West Germany won over the East German people, and this hastened reunification.

Take the Path that Speeds up Reunification

The various strategies of the Lee Myung-bak government namely, its Non-Nuclear Strategy, its Opening-up Strategy and its 3000 Strategy were in actuality nothing but empty slogans. Neither the Non-Nuclear Strategy nor the Opening-Up Strategy are acceptable to Kim Jong-il. But by clinging to this policy, President Lee demonstrated that he had no intention of doing anything for the remainder of his incumbent period.

Separate Deals with the North Korean Residents and the Pyongyang Regime

Employing *Theory R*, the South Korean government needs to shape a long-term separate policy towards the North Korean residents and to confront the Pyongyang regime directly on such important issues as nuclear weapons.

A Dual Track to Deal with North Korea

By separating Kim Jong-un and his entourage from the general public, South Korea can maneuver more effectively on two fronts. At present it has a single track in dealing with North Korea. Any form of tension between the two sides thus leads to a complete impasse in all sectors and at all levels. This is the reason the author recommends that, North Korea should be approached using a multi-tiered strategy that moves in different directions.

Theory R and Separating the Economy from Politics

Theory R a set of strategies for Korean Reunification is derived from a basic concept in international economics: the number of policy strategies should be at least the same as the number of targets.

Using *Theory R*, South Korea should strive to separate conceptually the regime of Kim and his clique from the general population and tackle the two separately. In terms of the nuclear problem, military confrontation and political negotiation, South Korea is faced with the North Korean regime. In contrast, in terms of its economic superiority, South Korea has to maneuver to win over the residents of North Korea. This situation facilitates a two-track strategy targeting two distinct entities. The solution of this situation will help lead the entire nation to a free democracy and a prosperous market economy.

North Korea contains both enemies and blood brothers. The notion of “enemy” is applied to the Kim regime, while that of “blood brothers” is applied to the general public in North

Korea.

A Conceptual Separation of “Enemy” and “Blood Brothers”

The North Koreans harbor great antagonism towards South Korea and their reliance on the regime has increased as a result. To break the vicious cycle of antagonism and blockade, South Korea needs to conceptually separate the “enemy,” i.e., the North Korean regime, from the residents the ruled and the oppressed and to formulate a policy for each entity. Even if a partial conflict occurs, South Korea should push forward with this two-track strategy since this represents the best and most effective way to achieve its ultimate objective.

As for the North Korean regime, which resorts to military force at every opportunity, South Korea should stand ready to counter any provocation and not allow itself to be subjugated under any circumstances to the North Korean armed forces.

The South Korean government should face the North Korean government with the principle of an-eye-for-an-eye. South Korea need not be intimidated by force. In contrast, South Korea should stand with the residents of North Korea and try its best to win over Northern public sentiment. A dual track to deal with North Korea is essential to achieve reunification. If the South Korean government practices only one strategy toward two different entities, it will not achieve anything.

Watertight Defense

In the meantime, it is incumbent on South Korea to embrace and welcome the North Koreans as compatriots and to do its best to make them feel cared for. “Deprogramming” the people will eventually bring them closer to South Korea. If the North Korean regime no longer has the support of its people, it cannot survive and will eventually crumble.

“We are One”-The Concept of Brotherly Love

Even if South Korea encounters obstacles, it should forge ahead with this two-track policy, one directed at the regime, the other at the people. For example, the fact that the rice South Korea sends to benefit the residents of the North is used to feed soldiers instead should not make it lose sight of the big picture. While on this course, South Korea should not dwell on the obvious. As long as the rice is not sold to a foreign country to fatten the ruler’s purse, it does not make a great deal of difference who actually consumes the rice in North Korea.

Since it is the power of the armed forces that buttresses the North Korean structure, it is somewhat natural that the soldiers should eat first.

But all that is required is a slight change in their thinking. South Korea should consider the fact that some older rice might then fall into the hands of a starving general public when the new rice goes to the soldiers.

One concern is that the food distribution that was interrupted might resume. If this happens, the regime's control over the people might also resume, as a direct consequence. But once again, this will not make a critical difference, adversely affecting the current state of relations between the North and the South. It should be recalled that in the days when the distribution of basic necessities proceeded without incident, the North Korean regime was not more motivated to attack and invade the South.

What if rice donations to the North eventually help strengthen the physical condition of the North Korean soldiers, making them more aggressive, forcing their South Korean counterparts to counterattack? We cannot ignore the potential consequences of an actual military confrontation. But regardless of how strong the North Korean military is, South Korea will have the capacity to overpower them.

Let's take another example. If some North Korean laborers work at the Gaeseong Industrial Complex, the financial returns from the project will be mostly funneled to Kim Jong-un. There are many people who are concerned that this will then threaten South Korean security. Numerous people are convinced that the money handed over to North Korea in the course of implementing President Kim Dae-jung's Sunshine policy helped the North develop its nuclear weapons program. Even the recent White Paper on National Defense reportedly called the Sunshine Policy a failure. But it should be noted that Pyongyang's plutonium development project was already progressing during the presidency of Kim Young-sam in the

mid-1990s.

In any event, we are aware that nothing is more important for Kim Jong-un than his own security. Accordingly, we need to realize that in the course of developing nuclear weapons, the smaller the amount of funding from South Korea, the higher the number of deaths from starvation. In fact, in the days when Kim Jong-il pushed relentlessly for nuclear development, over two million people starved to death. Kim Jong-il showed no hint of remorse, calling for what he termed “The March of Hardship” —an example of ultimate individual egoism. In appearance, he was a fervent communist and socialist and a firm believer in *Juch’e* —the North Korean philosophy of self-reliance—but in reality his staying in power and concern for his own well-being were more important than the lives of more than two million people.

Under these Circumstances, Should Funds Run Low, More People Will Suffer

While Southern aid to North Korea helps its residents, it also sustains the current regime. This is a double-edged sword. It serves the interests of the regime by keeping it in power, while simultaneously deluding the people about its true nature. Internally, it will exacerbate popular discontent that could lead to an uprising against the government, thereby precipitating its collapse.

We can think of applying pressure on the North Korean regime, as the South Korean government does. However, any

such strategy to bring down Pyongyang will not succeed in achieving its aim. South Korea should accept this reality. This regime did not collapse even while more than two million people starved to death during the days of the so-called “March of Hardship.” The author cannot guess how many more people would have to starve to death to destroy this regime.

Pressure Alone Will Not Bring about Success

It is about time South Korea recognizes that outside pressure alone will not bring down the North Korean regime. The author cannot help but feel frustrated to see those people who believe that international coaxing will cause Pyongyang to abandon nuclear weapons and open its doors. As long as China is involved, the impact of the pressure is limited. The United States acts and reacts according to what it deems to be in its best national interests. For Washington, the unification of another country is hardly a priority. But for Koreans, nothing should loom larger on the agenda than a reunification of the nation based on the principles of democratic freedom and a market economy.

What should our strategy be toward the North Korean regime? For the regime and its armed forces, *Lex Talionis* —“an eye for an eye and a tooth for a tooth”—should be applied. Backed by a strong military defense system, South Korea should forge ahead so as to be ready to face any challenge or diplomatic issue that might arise, as well as any problem that might turn up related to the issue of nuclear weapons. Under no circumstances should South Korea be pushed around

militarily, nor should South Korea attempt to overpower the North militarily. It will be enough for South Korea to defend itself, for the objective is not to achieve reunification through military action. If North Korea takes unnecessary action in response to what it perceives as a provocation on the part of South Korea, it knows that it will eventually pay the price. It is critical that Seoul seize every opportunity to impress upon the North's rulers that they stand to gain absolutely nothing from a military challenge.

Winning the Hearts of the North Koreans

A key question is how the residents of North Korea can be brought around to a new perspective. The answer lies with the investment of massive Social Overhead Capital (SOC) in North Korea. In fact, this investment should be the first order of business following reunification. It can play a significant role in winning the North Koreans over even before, thus shortening the process. The author hopes that the future governments of South Korea will be mindful of this fact. The author believes it would be appropriate to initiate SOC investments at 1% of GDP every year until unification is achieved. This is vital considering how effective the injection of the desperately-needed physical capital will be and the fact that South Korea is able to shoulder the financial burden. During the process, the residents of North Korea will come to feel that their Southern brothers and sisters care about them.

The most important prerequisite for successful SOC invest-

ments is an expanding field of economic co-operation between the South and the North. The principle of the separation of the economy from politics needs to be firmly established. South Korea witnessed the need for this separation quite graphically when the Gaeseong Industrial Complex was shut down unilaterally by the North in March 2013.

Separating the Economy from Politics

It should be noted that the driving force for German unification was a pool of resources and information provided by West Germany, which converted the East Germans and helped expedite the unification process. There are lessons to be learned from the German policy, regardless of whether it emanated from the Christian Democrats or the Social Democrats.

The author has been emphasizing *Theory R* as a strategy for Korean unification. Again, we should look to Germany's experience for guidance. Testimony given subsequent to unification by East German Ex-Defense Minister Rainer Eppelmann attests to the legitimacy of *Theory R*.

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The Effect of SOC Investment on North Koreans

Leaving aside the psychological argument, the most effective way forward from an economic standpoint is to launch SOC construction projects and initiate large-scale investments in North Korea.

“Sentiment Arisen from a Storehouse” (Old Korean Proverb)

Major SOC construction in North Korea even before reunification will certainly play a role in minimizing the antagonism of Northern residents toward the South. This project must be implemented, if it is at all possible. But the expectation is that those who are fiercely anti-communist will have strong objections to this plan ultimately at the expense of the objective itself. This mindset is attributable to the Cold War animosity that took root in South Korea over half a century ago. The time has come to do away with this ideology and to strive

for unification.

1. The Effects of Deprogramming

A large-scale SOC investment will have a significant psychological impact on the North Koreans. If South Korea invests just 1% of GDP (approximately \$11 billion in 2012) in infrastructure or SOC in the North on a continued basis annually until reunification is achieved, and when numerous large-scale construction projects are promoted all over the North, the impact is bound to resonate with its residents. In comparison, North Korea's total GDP is about \$25 billion. The extent of the deception the North Koreans have fallen prey to, for some many decades, will then become clear to them; and the “deprogramming” will have been set in train.

A Large-Scale Investment Akin to the Marshall Plan

With the profusion of large-scale Southern investments, Pyongyang's slogans promoting unity in the struggle to safeguard the “Republic,” supporting Kim Jong-un to the death, and disparaging “the U.S. imperialists and their South Korean puppets”, will become meaningless. Clearly if “the U.S. imperialists and their South Korean puppets” were as evil as the North Korean regime regularly makes them out to be, they would not be coming to the rescue of the North Korean residents. During this time, North Koreans will become increasingly aware of the vast economic disparity between the North

and the South. They will then begin to realize, contrary to what they have been told by their regime, that this economic disparity is quite real and that they have been utterly deceived over the decades through their exposure to a deeply fraudulent form of government propaganda.

The anticipated reaction on the part of Kim Jong-un, like Kim Jong-il before him, will be to allege that “the U.S. imperialists and their South Korean puppets” are offering to help the North out of their fear of its nuclear weapons. By this time, however, the regime will have great difficulty hiding the facts from its people.

2. Food Aid

In order to maximize the desired effect of the SOC investment, it is recommended that South Korea make regular food donations to North Korea. Once the North Koreans realize that they are free from the problem of hunger, thanks to help from Seoul, they are much less likely to remain permanently cautious and defensive.

By way of contrast, if the North Koreans continue to suffer from food shortages, the author is afraid that they will plunder the construction materials and other supplies from the SOC investment projects. This situation actually occurred during the construction of the Pyongyang University of Science and Technology.

3. The SOC Investment: Proof of True Patriotic Feeling

This large-scale SOC investment will not only prove South Korea's capability but will be perceived by the North Koreans as a clear demonstration of brotherly love and care.

Kim and his clique are extremely egocentric individuals, concerned only about staying in power and looking out for those who remain loyal. But if South Korea assists the North Korean people with SOC investment projects and provides help to their fellows without prejudice, the people in the North will come to appreciate the patriotism and genuine desire to help them. They will regret having failed to see the truth, and the effects of relentless brainwashing will gradually be reversed.

In conclusion, the SOC investment projects will have the most potent impact on the strategy of “deprogramming” the North Koreans.

A Successful SOC Investment Strategy

The SOC investment projects will include the building of roads, railways, seaports, airports, power plants, piped water, gas lines, chemical plants, forestry, transmission and other communications facilities. These will not immediately alter the balance of military power between North and South Korea. Instead, the execution of projects prior to unification will mitigate the burden afterwards, thus shortening the timeline for the completion of the various post-unification projects. This will be a significant advantage. More importantly, these investments projects are the most effective indirect way of demonstrating “brotherly love”. It is a given that this aid to North Korea will initially help to prop up Kim Jong-un, but in time North Koreans will come to recognize and appreciate the genuine concern and desire of South Koreans to help them, while coming to terms with the reality of the enormous economic divide between the two states.

Investment of Physical Capital Equivalent to 1% of South Korean GDP

In view of its potential impact, the author believes it is appropriate for South Korea to invest up to 1% of GDP annually in the SOC projects from now until unification is achieved. An independent entity should be commissioned to support and leverage this project. Government intervention will undermine its viability and effectiveness as policies towards Pyongyang are adjusted with each election.

South Korea needs to be cautious when carrying out the program. All the equipment and material for the project should be produced in South Korea, with all the technical support originating from the South as well. The labor required for this project will be provided by North Korean workers, and the level of pay should be based on the pay schedule set for the Gaeseong Industrial Complex. When 1% of South Korea's GDP is invested in the program, there will be approximately an 80% return on the total investment as the material production and technical support will have originated here. This means that with an outlay equivalent to only 0.2% of South Korean GDP, the impact on the economic development of North Korea will be substantial and it will also strongly impact public sentiment in the North too.

All Physical Capital to be Supplied by the South

The SOC investment program is outlined next in terms of

the national economy. One percent of GDP will be collected in the form of tax and bond, most of which will be invested in production activities in the South, which in turn will feed into the SOC project in North Korea. This project of cooperation with the North will also help create jobs in the South. The investment of 1% of South Korean GDP will cost in actual fact about 0.2% as a form of direct leakage to the North. If this bold measure is taken, the author expects that the long-awaited reunification of Korea will be in sight within 7 or 8 years after the program is fully initiated.

Generally speaking, the investment itself will not be particularly burdensome. The determining factors will chiefly be strategy and empathy. The question therefore is whether South Koreans continue to be controlled by defeatism and the logic of division management, or whether they wish to make a major breakthrough by taking drastic action toward the goal of unification. This is a genuine choice.

Forestall Chinese Capital Investment

South Korea should not overlook the fact that the current infiltration of vast amounts of Chinese capital in the North will pose a major challenge in the future. It was reported recently that the Chinese are implementing a U\$7 billion investment project in North Korea. It is said that China had U\$8 billion for the construction of bridges on the Yalu and Tumen rivers. More recently, there was a report that China will build an express highway from Shineijoo, the northernmost city, to

Gaeseong, the southernmost city in North Korea. If the Chinese continue to invest even beyond these projects, it could be quite problematic. Some lament that under the Sunshine Policy the government of President Kim Dae-jung made “too many concessions to the North.” It is estimated that all the “concessions” from the South as a whole amount to about \$8 billion. But the Chinese are offering rather large investment packages of their own, and it is difficult to predict how much more they will invest in the future.

If South Korea decides to initiate the SOC construction project in North Korea before reunification, it will be appropriate to be financed by a unification tax and a treasury bond (say, a unification tax of 0.25 % and a treasury bond of 0.75%). It is the government that will establish the Fund. This plan should be executed by an independent, authoritative entity, tentatively a South-North Cooperation Corporation, which will carry out the program under the guidance of a group of experts, based on a blueprint drawn up in advance.

Provisional Independent South-North Corporation

With this two-track approach to North Korea in which the government and the corporation play separate roles, the author has no doubt that South Korea will be able to maneuver better in its dealings with North Korea in the long run. Acting alone, the government will not be able to obtain many tangible results, precisely because it has very little room to maneuver in setting policy towards Pyongyang. And if this approach changes with

each new government, the North Korean regime will question the intentions and good will of the South.

Some will argue that the SOC investment program will help to prolong the Kim regime, while others express concern that an improvement in the power supply would further contribute to the development of nuclear weapons. Some Korean citizens even allege that the assistance provided under the Sunshine Policy advocated by President Kim Dae-jung helped North Korea to develop nuclear weapons. These arguments are made by people who know neither the history of nuclear weaponry nor the history of Kim Jong-il. The fact is that if South Korea had not helped the North Koreans, more people would have died of starvation. Kim Jong-il would have developed nuclear weapons with plutonium irrespective of the aid from Seoul. What difference does the choice of plutonium or uranium make in an area as small as the Korean peninsula? Ultimately, nuclear weapons are nuclear weapons, and what matters is whether a country has these weapons or not. Finger-pointing will not solve the problem.

Some also argue that North Korean students should not be taught in IT classes at a North-South joint college in Pyongyang for fear that these same students would then learn how to hack into South Korean computer systems. But North Korea's technological capability is already such that it is able to strike Alaska and sites further east with long-range missiles. Moreover, it is said that North Korea already keeps 30,000 men and women for electronic battle purposes. Do these people really think that teaching North Korean students how to use

a computer will substantially strengthen the military power of the Kim dynasty? It is far more likely that distributing computers within North Korea will help its people acquire greater knowledge of the outside world.

Will the Kim regime accept a proposal for the SOC construction project? It will, eventually. For the North Korean leaders are strong believers in what is called “the mosquito net theory”. That is, they choose as much as required to help themselves without suffering adverse side effects. We can imagine their confidence, for they have been successful in keeping their people brainwashed and in complete isolation from the outside world for the last sixty years or so.

Lastly, there are concerns about discussing these important issues openly rather than behind closed doors. But South Korea is not a dictatorship, and its decisions should not be taken arbitrarily. However, the Korean reality does reflect an old proverb: “One hundred adherents calling for one hundred different arguments.” Some people in the government allege they have functional countermeasures in reserve, but the truth is that they have nothing of the sort. The Korean people live in a free democracy, and therefore they are the ones that need to reach a consensus and groom their political leaders to achieve their ultimate goal.

If South Korea were to launch a wide-reaching communication campaign through radio and TV, it should be able to achieve a synergy effect with the North Korean residents. This media outreach initiative will require cutting-edge facilities such as satellites for radio and TV broadcasting to the North. This in turn will lay the foundation for unifying all systems in the post-unification era. By the same token, the SOC project will also serve to keep the channels of communication open while preventing disruption and waste. While striving to achieve unification, it is critical that South Korea take a step-by-step approach to unifying these systems.

The next task faced by South Korea will be to define the content of the broadcasts and the most effective technical way of conveying them. This combination of SOC investment projects with electronic signals is designed to ensure that the North Korean people will eventually be converted to the Southern side.

The North Korean regime will mobilize all means possible to block this campaign, but this should not deter South Korea in any way. However, as stressed by Dr. Jin Yong-ok, an expert in this field, when South Korea tackles a problem that is considered virtually impossible to solve through sheer determination and tenacity, chances are that a solution will eventually be found. With major strides in the electronics industry in terms of both hardware and software, a breakthrough will eventually occur in the form of an SNS network that will help achieve the goal. New forms of electronic terminals beyond the iPad and the smart phone will be developed and distributed, and more practical way of disseminating information will present themselves. It has been reported that there are already more than 2,500,000 mobile phones in North Korea. South Korea should avoid confrontation with the North Korean authorities while pushing forward with this project. Instead, indirect cooperation through a multitude of channels should be sought.

It would be most appropriate to broadcast all content from South Korea in an unedited and uncensored form, as nothing is more convincing than the truth. The goal is to capture North Korean hearts and minds in order to turn their thinking around. Any form of coercion or the appearance of psychological pressure will eventually backfire and have the opposite effect to the one South Korea is trying to achieve.

Scientific & Technological Exchanges and Cooperation

Scientific & Technological Exchanges and Cooperation (STEC) between the South and the North have an important role to play in winning the trust of the North Korean people. STEC will help the process of capital investment for SOC construction and electronic media. Since this will take the form of intellectual exchange and cooperation, the North can be approached on an emotional level. Such interactions will act as a useful passage to enlighten the North of the authentic nature and superior status of South Korean society. Accordingly, these beneficial effects will gradually filter out to the public, thereby playing an important role in winning the hearts and minds of the people in the North. South Korea will definitely need a method to convince the people of the North to acquiesce with Southern opinion by minimizing the potential side effects of unification, while still giving them the required consideration.

One of the most important contributor to the cause of German reunification was the technological superiority of West

Germany. At the moment, however, the role of science and technology occupies only a very minor place in public discussions of Korean reunification. Indeed, most STEC projects between the South and the North are automatically suspended after a short round of peace talks. If Korean reunification is to move forward, there needs to be a new initiative in inter-Korean science and technology projects. One way of maintaining a stable, sustainable STEC environment between the South and the North would be for South Korea to make greater use of the major international organizations.

The needs and requirements for STEC from the standpoint of a united Korea can be summarized in the following manner:

- North-South STEC is essential in working towards reunification;
- STEC will not only help build trust but will also aid the process of assimilation;
- The wider the North-South gap in terms of science and technology, the steeper the reunification costs. STEC will help tremendously in decreasing the costs of reunification costs both before and after. Investing in STEC serves as a kind of pre-payment on the cost of reunification.

The following comments are also worth bearing in mind:

- The North and South have different strengths in the fields

of science and technology. For example, the North appears to have some strengths in basic science, while the South has more market-related knowledge. When these different strengths are combined with the necessary capital, they will produce some significant benefits. A complementarity between the North and the South will benefit both sides, creating a win-win situation. All this will help make a unified Korea technologically competitive, thereby helping make Korea more powerful in the global marketplace.

- STEC will help to decrease the cost of unification. Gradually, the two sides will come to resemble each other. The technology gap between North and South will be reduced, and the result will be of benefit to all.
- Directly or indirectly, STEC will also help with the issues relating to the North's supply of food, clothing, and shelter. After unification, the North and the South will become an united community again. If the members of the households lack physical strength due to malnutrition, this would represent both a loss and a tragedy. The physical strength of the people is directly related to the wealth of the state. If South Korea ignores this issue, it will ultimately become its responsibility anyway. South Korea must look to the future on a comprehensive scale.
- STEC will contribute to the internationalization of the North. North Koreans must take the road to internationalization, as it will gradually become more and more impossible to rely on the doctrine of self-reliance alone.

This is evident in students at Pyongyang University of Science and Technology (PUST) focusing on international trade and courses in finance mathematics. As long as its existing system is unaffected, North Korea has no reason not to welcome this phenomenon.

- North Korea's science and technology capacity should be supported so that it remains at a competitive level. In Germany following reunification, there was a huge outflow of scientific and technical personnel and the whole-scale collapse of research institutions in East Germany. This caused the economy in certain areas to break down. If North Korean science and technology personnel can be maintained through STEC, this will act as a firm foundation for the economy of the North following reunification.

Even if there is a period of strain caused by political confrontation, it will be desirable to create a set of possible STEC pathways among private intellectuals of the North and South.

Achieving Reunification with a Triangular Strategic Formation

A triangular formation of these strategies (uninhibited SOC construction investment in the North; beaming electronic signals into North Korea; STEC) is essential for the unification of the two Koreas. This will induce the sentiment of the North Korean people to lean toward the South. The first two elements focus mostly on ordinary individuals, while the last one will start with the intellectuals and spread to other individuals in the North. In the long run, this will play a very important role.

There is no need to distinguish which is more important in this strategic triangular formation. When South Korea is pursuing each of these three strategies, their combined forces will create a synergy effect, and all this energy will eventually be channeled into the drive for reunification. Of course, the most preferred alignment would be a central SOC construction investment, with a campaign for electronic signals and STEC as supporting formations. Launching this system and moving for-

ward steadily toward the goal of reunification will allow South Korea eventually to achieve this goal.

9 Achieving Social Stability, Dealing with Political Criminals

The psychological stability of the residents of North Korea is critically important for both sides. The residents of the North need to feel at ease with the reunification process. In this respect, the security of both the individual and the collective are the *sine qua non* that will avoid the emergence of mass resistance on the part of North Koreans who could be tempted to ban together with the Pyongyang regime, if there is any intuition among them that they are being coerced. Should this scenario play itself out, the damage to both sides would be irreversible. Therefore, it would be wise to inform the North Koreans of the security measures South Korea intends to implement for all of them across the board, irrespective of social class and status during the unification process, and regardless of what they have done in the past. These security measures will be applied to everyone, including Kim Jong-un himself.

For its part, the Seoul government must make it clear to the people of North Korea that South Korea is economically

capable of bearing the burden of reunification. If they are aware of the fact that South Korea is capable of doing this, and that they will not be persecuted under any circumstances because of their past behavior, North Koreans are more likely to accept the change-over in a calm and orderly manner. Indirectly, South Korea needs to let them know through a clandestine media campaign that there is no reason to flee to China, Russia, or Japan when the time comes.

No Need to Flee to China, Russia or Japan

A report from IMEMO, a Russian research institute, suggested that one million North Koreans, including the core supporters of the Kim regime (assumed to be approximately 500,000 in total) would try to seek asylum in China or Russia.

It is important to let them know that it is not necessary to flee overseas; that they will suffer as refugees wherever they choose to settle; and that the South Korean authorities will help them settle down and guarantee a happy life in their own land.

The Kim family and its close entourage should be allowed to go into exile overseas without interference. There should be no attempt to seek revenge for the three generations of tyrannical rule and oppression since the first communist government of Kim Il-sung. South Korea should be generous even towards the royal guards, who are known to number up to 500,000. It is very important for the authorities concerned to make it clear that no retaliatory measures will be taken against anyone associated with the Kim clan and that no one will be held re-

sponsible in any way for acts of hostility against the South or for atrocities committed against the people of North Korea.

South Korea should also make it clear that she will not press charges against the military forces of the North, if they surrender to the South Korean side without resistance. Everyone, without exception, will be accepted as citizens of the new state. Again, the objective is to keep disruption and conflict to a minimum.

Through its underground media network, the South Korean government should notify the North Koreans informally of its intentions regarding emergency counter-measures. In this respect, an official announcement could have undesired consequences.

Forgive, but don't forget!

Storing document archives, as the Germans did, will be essential, as will keeping records of all egregious acts committed in the North only for “the record” not as justification for punishment. This will be in the best interests of the Korean nation as a whole. In a phrase, “Forgive, but don't forget!”

Don't push them to the brink

If South Korea fails to win the hearts of the North Koreans, and instead follows the wishes of the United States by imposing only sanctions on Pyongyang, the people will join with the regime and rally behind its leaders, creating a Trojan fortress.

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Theory R: Some Compatible Points of View

We can find a number of points of view that tend to coincide with *Theory R*, which in its essence tends to emphasize popular sentiment:

There is the well-known East Asian saying that popular sentiment is exactly the same as the heavenly will. One could imagine only a temporary and short-lived aberration from this truth under very special circumstances. North Korea is no exception.

In 2007, East Germany's last Defense Minister, Rainer Eppelmann, said: "What made German unification possible was East Germany's ongoing economic struggle and its monumental lag behind West Germany. More importantly, the East Germans were all keenly aware of this reality and wanted to live like their counterparts in the West. The West German government had always attempted to use any opportunity it had had with the East German government for talks or to reveal as much information as possible and help raise the awareness of the

East German people about the lifestyle of their West German counterparts. This was an essence what led to German unification.” In 2011, he added: “It is important that the North Koreans arrive at a situation where they want unification. And to make this possible, it is essential for *the South Korean* government to leverage its leadership and engage with North Korea.”

In a letter he wrote, the prominent social scientist, Professor Jai P. Ryu of Loyola College, Maryland, called this author’s proposal “to keep pushing forward with the social infrastructure investment project in North Korea and make inroads into the hearts of the North Korean people” “epoch-making”.

In an interview with the *Joong-Ang Daily*, the former deputy director of the National Security Agency, who later served as ambassador to Japan, Dr. Rah Jong-il, reportedly said: “Mao Zedong once said that power comes from the barrel of a gun. I think he was wrong. Power comes not from the barrel of a gun but from moving the hearts of the people. The Sunshine Policy should have been as a human agenda, not as a political one.”

In an article on the 2010 year-end report of the Ministry of Unification, the government agency in charge of the unification issue, the *Dong-A Ilbo*, a leading South Korean daily newspaper, stated: “the salient feature of the policy toward North Korea in the report was its expressed determination to pursue a two-track approach towards North Korea, separating

its people from the regime.” While maintaining pressure on the North Korean regime, the government made it plain that it will promote a policy to push for change from within North Korean society, using a people-first policy.” This policy is similar to *Theory R*. Unfortunately, it was not thereafter implemented in reality.

When Zhu Yuan-zhang inaugurated the Ming dynasty, he allowed one of his generals, a man named Xu Da, to distribute calendars to the farmers. This event led the farmers to be greatly moved by the new leader’s care and consideration. In response, the soldiers discarded their spears and swords and simply returned home. This is how Zhu Yuan-zhang suggested a general could gain the trust of the people and win a battle, even without actually fighting.

In a column of the *Chosun Ilbo Daily*, the Chairman of the Korean Peninsula Advancement Foundation, Park Se-il, said: “All we have is a policy for the North Korean regime but not for its people. If we want unification to succeed, we need to win the hearts and minds of the people of North Korean. In this respect, we should help them so that when they find themselves in a difficult situation they eventually choose the side of South Korea. We should have raised and supported the cause of the pro-democratic reunification forces, but we have failed to do so. This is in sharp contrast to the pro-North Korean forces working in the South.”

In a seminar hosted at the Johns Hopkins University SAIS, the Reverend Monk Bup-ryun stated: “We can win a war against North Korea, but we will suffer from it tremendously. The important thing is for us to win over the hearts of the North Korean people”.

Some Potential Stumbling Blocks

Certain key issues make the actual application of *Theory R* difficult. First, the South Korean mindset has become fiercely anti-communist over the course of a long period of Cold War. In fact, many are misled and brainwashed, so to speak. Viewed from within this mindset, even strategic cooperation can be regarded as a kind of *puh-joogi* or simply giving things away for free. For this reason, any economic cooperation with North Korea is criticized as concessionary. Some oppose any economic cooperation with North Korea simply in order to avoid appearing as though they had leftist leanings.

Nonetheless, when it comes to the interests of the reunification of the two Koreas, economic cooperation and the separation of economic trade and cooperation from politics and the military affairs is critically important.

Second, given the current public sentiment of the South,

community leaders, and politicians in particular, do not want to grapple with anything concrete or specific related to national reunification. In their minds, doing so could undermine their chances of being elected or re-elected, in both the parliamentary and the presidential elections.

Third, South Korea has unfortunately not had a president sufficiently strong, willing and able to focus on the issue of reunification. Beyond the level of the executive and its objectives, public officials cannot adopt radically new policies. The same is true of policy researchers sub-contracted by the government. Even in the presidential elections, candidates tend to refrain from advancing proposals regarding unification: they are afraid of losing votes, given the prevailing public mood. In reality, of course, this public mood is misguided. Without a doubt, the two most important national objectives are economic growth and national reunification. It is regrettable that presidential candidates are unable to present their vision for the second of these two issues.

As long as the current public sentiment persists and political leaders refuse to take decisive action, as has unfortunately been the case since the division of the peninsula and the onset of the Cold War, the goal of Korean national reunification will remain elusive. But South Korea is no longer a dictatorship, and for this reason the solution to the problem is for the people to recognize and accept the need for reunification. This would represent a bold first step. From the start, the Korean people

will need to elect politicians and leaders who will make efforts to work towards unification. There really is no other option.

South Koreans have to resolve to take action and to seek a national consensus on ways to win the hearts of the North Korean residents. Combining the hardware of the SOC investment with the software of a media campaign is the most effective method of translating the Korean dream for unification into reality, before this dream disappears for good.

VI

Part

Reconsidering Some Important Issues

There are a number of issues relating to the cause of reunification that on the surface sound quite rational and democratic. However, if we examine them more closely, we can see that most of these turn out to be improperly formulated or misunderstood. Let us examine each of these key issues in turn.

In Korean, *puh-joogi* means “giving things away without getting anything in return”. Many South Koreans shun the cause of economic assistance and cooperation with the North, because they regard it simply as a form of *puh-joogi*.

For all its deviations, the universe moves according to the laws of thermodynamics. It is conceivable then Korean reunification will be decided by the logic of power. In this situation, military power is not an option. In truth, political negotiations cannot bring about reunification. For this reason, it is possible to surmise that reunification will be determined by simple economic power.

From this very point of view, the author would like to suggest that SOC investment in North Korea will bring the North Koreans closer to the side of South Korea. But the reality is that there are forces within South Korean society that regard this type of assistance as exceedingly concessionary. As a result, they strongly oppose the program. They claim that this

economic cooperation is what helped Kim Jong-il in the past and which today helps Kim Jong-un with the development of nuclear weapons. On the face of it, such an assumption appears plausible. But is it? In truth, it reflects the mindset that took root during the Cold War era and which merely persists, rather than flourishes, today.

Is the United States generous in its foreign aid? The answer is no. US policy makers know of the thousands of homeless people living near the entrances to subway stations, and there are many more who do not earn a minimum wage. While the government needs to take care of its citizens, it also has to set priorities based on where its national interest truly lies.

In fact, South Korea's assistance to North Korea has been anything but generous. Considering that there are already objections to South Korea's economic cooperation with Pyongyang, the adoption of the author's proposal of making an SOC investment in North Korea equivalent to 1% of South Korea's annual GDP seems to them unthinkable.

At this juncture, we need to take an in-depth look at past history. As Table 2, 3 and 4 demonstrate, the total amount of aid provided through grant money, food aid, and fertilizer amounts to about \$8 billion. Based on 2012 values, this contribution corresponds to 0.7 percent of GDP. This is not an annual computation, but the total amount of past economic assistance. It is unlikely that South Korea will be able to win over the North Koreans on the basis of such a modest contribution.

〈Table 2〉 Government and Civic Organization Grants

(unit: US \$10,000)

Year	Bureau of Statistics			〈Adjusted*〉
	Total	Government	Civic	Total (corrected)
1995	23,225	23,200	25	23,225
1996	460	305	155	460
1997	4,723	2,667	2,056	4,723
1998	3,185	1,100	2,805	3,815
1999	4,688	2,825	1,863	4,863
2000	11,377	8,139	3,238	20,187
2001	13,539	7,522	6,017	13,539
2002	13,492	8,915	4,577	76,612
2003	15,763	9,377	6,386	84,966
2004	24,791	11,541	13,250	49,971
2005	21,254	13,588	7,666	105,833
2006	29,828	22,740	7,088	44,912
2007	30,461	20,893	9,568	30,461
2008	10,456	3,996	6,460	10,456
2009	5,278	2,420	2,858	5,278
2010	3,528	1,780	1,748	3,528
Grand Total	216,048	141,008	75,040	482,829

*Adjusted: Data from the Office of Statistics and *Dong-A Ilbo* (2006,9,8), *Chosun Ilbo* (2007,1,7).
Taken with larger amounts.

〈Table 3〉 Food Aid to North Korea

(unit: 100 million Korean won)

Year	Amount	Government		Civic
		Grant	Food Loan	Grant
2001	1,757	975	0	782
2002	3,226	1,140	1,510	576
2003	3,373	1,097	1,510	766
2004	4,230	1,313	1,359	1,558
2005	3,926	1,360	1,787	779
2006	2,982	2,273	0	709
2007	4,397	1,983	1,505	909
2008	1,163	438	0	725
2009	671	294	0	377
2010	332	133	0	200
Total	26,567	11,006	7,671	7,381

Source: Bureau of Statistics, Statistics for North Korea, Exchange between North and South Korea

〈Table 4〉 Fertilizer Supplies to North Korea

Year	Amount (100 million Korean won)	Weight (10 kilo tons)
1999	462	16
2000	944	30
2001	638	20
2002	832	30
2003	811	30
2004	940	30
2005	1,207	35
2006	1,200	35
2007	961	30
2008	0	0
2009	0	0
2010	0	0
Total	7,995	256

Source: Bureau of Statistics, Statistics for North Korea Exchange between North and South Korea

Why Did the Sunshine Policy Fail?

President Kim Dae-jung's overtures to the North earned him a Nobel Peace Prize, but this award was not enough to move the hearts of the North Koreans. His Sunshine Policy failed not because the intent was wrong but because the economic funds earmarked for economic cooperation with North Korea fell far short of what was truly needed. In fact, we can now see that the real goal of his policy was peaceful co-existence. From the beginning, his precept was that South Korea was economically still too weak to bear the burden of unification and needed to wait until the nation was in a significantly stronger position.

Economic Cooperation—Too Limited to Win the Hearts of the North Koreans

But if we merely seek peaceful co-existence—which represents the perpetuation of national division—Korea will eventually decline and continue to suffer the tragedy of being toyed with by the neighboring great powers. Given that South Korea is now capable of building a powerful country and achieving unification, the South Korean people should not allow this to occur.

Winning the Heart of the North Koreans

Some people criticize what they call “excessive” economic

assistance to North Korea. Yet the author believes that South Korea's aid needs to increase significantly if reunification is to be achieved. The residents of North Korea are the ones who are isolated and have no one but an abnormal leader to rely on. Reunification will be possible only when South Korean assistance is enough to convince them of its sincerity and good will. In turn, this will offer them the incentive to look more favorably on the South.

Once reunification is realized, the financial gains for both South and North Koreans will be substantial. An unprecedented economic growth of 11% annually for the first decade post-unification awaits South Korea. What is more, a sustained high growth rate will follow for many years afterwards. Can the South Korean people walk away from this extraordinary opportunity? Do some people really not want reunification or even, more pragmatically perhaps, simply a far better life?

Is it realistic to think that Pyongyang will not make the most of its military power, if pressured, given that this is its only strength? The solution then is to act or preempt; it should not be to react belatedly. The price South Korea pays will be unbearably high if it sits back without anticipating potential problems, merely letting time dictate the course of events and shape the narrative.

The fact is that the Chinese are strategizing carefully and acting with resolve while South Korea merely waits. It has been reported that a supreme leadership conference presided over by President Hu Jin-tao led to the decision to provide North Korea with 500,000 tons of foodstuff and 250,000 tons of crude

oil immediately after the death of Kim Jong-il. The Chinese leadership made this decision to help Kim Jong-un secure his position at the country's helm with the people standing firmly behind him. He owed this to the temporary relief from the food crisis and the festive atmosphere that prevailed at the time of Kim Il-sung's 100th birthday celebrations.

It is critically important for South Korea to recognize that the vast investments made in North Korea by China will be problematic in the long run. China has reportedly pooled some US\$7 billion to invest in North Korea. Reports suggest that China has been granted a 50-year lease on a port in North Korea. And there are proposed contracts to build bridges over the rivers between the two countries amounting to around US\$8 billion. Moreover, there was the recent report regarding the signing with China of a contract for the building of a long express highway. Every Chinese move was, and continues to be, carefully planned.

If these circumstances prevail, the North Koreans will have only China to rely on. Before the downfall of the Soviet Union, Kim Il-sung alternately swung between Beijing and Moscow; but now China is the only country that actively supports North Korea. The reliance on China has reached such an extreme that Pyongyang had to turn to it for the selection of its next leader. Should this reality persist, North Korea could easily become the fourth North Eastern province of China. This would represent a grave national tragedy for Korea.

This is yet another reason that we cannot afford to fail in our quest to achieve national reunification. Following the steps

outlined under *Theory R*, before it becomes too late, South Korea must take some strong pro-active measures to separate the people from the regime in the North. Given the strong South Korean economy, the time is ripe to forge ahead with reunification.

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2 Anti-Communism Only, Nothing More?

Armed only with a resolute anti-communist stance, reunification cannot be achieved. The 1970s are long gone; and the time has come to turn the page on the anti-communist rhetoric only. The goal is to put an end to the state of division and achieve reunification on the basis of a market economy, free intellectual inquiry and the principles of democracy.

The author once met an old foreign professor, who pondered: “How can I see Karl Marx after I die if I failed to follow the right path when I was alive?” In the Eastern European communist countries, people used to believe in Marxism the way Christians believe in the Bible. Now Marxism is nothing more than a chapter in their history. The main reason for the failure of Marxism was Marx’s inability to anticipate the significance and weight of technological progress in the economy. He offered prescriptive guidance to the workers of the world, calling on them to liberate themselves from the shackles of capitalist

exploitation, predicting that the capitalists would drive them to deprivation in the end.

Through the years, however, the real wages of the working class have actually increased in the highly advanced capitalist countries like the United States, with technological advancement playing a decisive role. Malthus, who came up with the theory of overpopulation, maintained that human beings could not exceed a minimum standard of living due to the fact that food production was growing in an arithmetic progression whereas population growth was exponential. He too, could not foresee the development of technology. History did not advance as either Malthus or Marx predicted, because both failed to recognize the significance of technological progress as a critical factor in economic growth. The communist societies of the former Soviet Union and Eastern Europe, which appeared so grand at one time, ended in miserable failure.

The anti-communist fighters are certainly great people, but it is not right for them to continue to focus on the issue of armed confrontation while opposing reunification. These people denounce the idea of bringing the two countries together through economic means. They are opposed to any policy, except for a crude anti-Communism. But history tells us that it is high time to move past the era of anti-Communism only.

Anti-Communism Only Benefits the North Korean Regime

How will this evolve in the end? Paradoxically, this particular approach will benefit the enemy. In fact, the North Korean strongmen live on the fat of anti-communism in the South. Anti-communism in the South gives them the pretext to coerce the North Korean people into rallying behind them. If the South fails to help the North Koreans, the resulting absence of good feeling will force them to rally behind the Kim Dynasty just in order to survive.

In short, moving decisively beyond the use and abuse of anti-communist rhetoric, the moment has come to promote a strategy aimed at toppling the communist regime. In so doing, South Korea should not think in terms of military means alone. Instead, South Korea should leverage its outstanding economic superiority. A basketball player should strategize to win on the basketball court. A table tennis player should find a way to beat his opponent over the table.

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Build up South Korean Strength and Wait for the Right Time?

We have heard of people arguing that South Korea is not powerful enough to bear the burden of reunification, and, for this reason, it should not run the risk. This way of thinking prevailed with South Korean leaders such as Kim Dae-jung and Kim Jong-pil. At the time of their power, the author openly criticized their misconceptions in a daily newspaper editorial. However, once in the Blue House, Kim Dae-jung advocated peaceful co-existence instead of reunification. This was an incorrect policy, based on a misconception of the task at hand.

Waiting for the right moment sounds plausible; but as the foregoing chapters have attempted to demonstrate, South Korea is not only fully capable of bearing the burden of reunification, it actually needs to achieve reunification sooner rather than later. In this way, the expenses will be significantly lessened. Of course, there are still those who argue that the South Korean standard of living is not as high as that of West Germany at

the time of German reunification and that therefore the cost would be too burdensome. But this is a misleading perspective and could cause South Korea to fail as it is an intuitive rather than a strategic way of thinking, one based on the real facts and truths of the case for reunification.

Not Well Off Enough Now and Too Much Trouble Reunited?

Some insist that South Korea is not wealthy enough yet to take on the burden of reversing division. These people express concern over its possible ramifications, in turn instilling a subconscious sense of weariness about and suspicion of reunification. But this particular concern is born from ignorance and a lack of understanding of the plans and strategies that can be mapped out, post-reunification.

First, it should be made clear that after reunification South Korea does not have to become entirely responsible for feeding the North Koreans. After all, this is the position adopted by the West Germans. However, with proper planning, feeding the North Koreans will neither be a necessary nor a desirable outcome. Instead, South Korea should provide the North Koreans with the means and the resources to catch their own fish, helping them in the process stand on their own two feet. By doing so, South Korea will not only improve their living standards, but will also greatly benefit itself. Once reunification

is achieved, the North and South will be able to adopt a winning strategy for all, with the separate management of North Korea being strategically adopted the first ten years.

Reunification Will Be a Bonanza

Second, South Koreans will be able to achieve an 11% annual growth rate owing to the “Buy Korean” Policy, an extraordinary economic boost. This being the reality, South Koreans should not worry about feeding the North Koreans. Rather the projected bonanza will propel them to the top tier of the world’s most advanced countries.

What If Cheap North Koreans Laborers Flock South?

Some people also worry that cheap North Korean labor will flood the South soon after unification, just as the job market is shrinking. This concern is unfounded as well.

The adoption for a whole decade post-unification of separate economic management structures for the South and the North will prevent this from happening. In contrast to the fears of these critics, South Korea will enjoy a state of more than full employment, with retirees rejoining the workforce, a rare phenomenon.

Once reunification is achieved, all the systems and structures should be merged under the Southern model; no compromises should be allowed. In order to do this, all those South Koreans with expertise should volunteer in order to take part in this effort. Furthermore, South Korea should push forward systematically with the “Buy Korean” Policy for the first ten years. South Koreans will need to work literally more than 24 hours a day. This means there will be no shortage of jobs,

rather a shortage of workers. A GDP gap in the opposite direction will have emerged.

Jobs Everywhere

Reunification will represent a real bonanza for the Korean economy as a whole; at the same time, it will lead to the creation of an unprecedented number of jobs.

The Establishment of a New Ideal?

When Korea was liberated from Japanese colonial rule, new 'isms and ideologies, which had hitherto been entirely foreign to it, made inroads into the country's psyche. After liberation, the United States and the former Soviet Union made advances into the South and the North respectively, with the 38th parallel acting as the borderline. A democracy ruled in the South, and Communism ruled in the North. From then until now, division has been the *modus vivendi* on the peninsula. President Park Chung-hee once wanted to introduce "Korean-style democratic principles" in order to maintain a firm grip on the power. The North has adhered to *Juch'e* ideology and has called for independence from any foreign influence.

But *Juch'e* eventually resulted in the worship of the leader Kim Il-sung. The most recent craze is the emergence of a so-called "Kim Il-sung nation." They have named all the Koreans that way.

Aside so-called "Korean Democracy" and the *Juch'e* ideol-

ogy, all other 'isms have been imported from abroad. Against this reality, some people argue that we should define and shape a new ideology for the unified country.

At first, this seems quite reasonable.

In truth, however, there is no better system than a free democracy and a market economy. This is not because these are perfect systems, without obvious flaws. In fact, a free democracy and a market economy have many problems. Nevertheless, we should adopt these systems because there is nothing that is superior to them in the real world. We have no choice other than to find workable solutions to the problems that confront us.

One of these more serious issues is the fact that it is very difficult to obtain a good leader under Korea's existing electoral system. It is very important that a problem like this is resolved collectively.

If there were no market failures from the economy, and if everyone were supposedly to start on an equal footing, we might be able to construct an ideal system. However, we are well aware that this scenario is unrealistic. The reason Korea should choose a market economy is that a planned economy, one that is diametrically opposed to the workings of the market, does not work efficiently. At first, a planned economy might seem to produce tangible results, but when it eventually proves ineffective and corruptible, history has shown that the entire system tends to collapse like a house of cards. At one point, the economy of the Soviet Union made astonishing progress;

the world-renowned economist Paul Samuelson drew a graph supposedly demonstrating that its economy would overtake that of the United States in some years, if it were to keep growing at the same pace. In the early 1990s, however, the Soviet Union totally disintegrated.

Until the mid-1970s, North Korea's per capita income surpassed that of South Korea's, but that trend has since been reversed. Nowadays, the South's per capita income has a 20-fold superiority over that of the North. North Korea's entire national capacity is exceedingly weak: it stands in an unequal ratio of about 1:40 in comparison with the South (see Appendix 11).

If the argument for building an ideal system prevails, a form of collective selfishness, under the guise of socialism, is apt to emerge. Broadly speaking, however, the recent history of the world has shown that socialism does not work.

In sum, Koreans want to have a government that serves the people; they do not want to build a system that commands, dominates and oppresses.

Some people speak of peaceful co-existence and believe it to be a reasonable proposition. This sentiment is especially true of the younger generation. But in reality, it is an illusion: there is no such thing as peaceful co-existence. These same people argue that North and South Korea are pursuing different goals and so are able to live peacefully together. As a result, they question the utility of unification.

A number of political leaders embrace peaceful co-existence as well. By and large, there may be three main political lines of argument.

A first group thinks that as long as no particular problems arise, there is no reason to be concerned. They are content as long as there is no evidence of trouble. A second group thinks that South Korea lacks sufficient economic capacity to bear the burden of unification. It is for this reason that they are satisfied with the status quo. The third group is composed of the people who argue that North Korea is a country pursuing

its own ideology and that we need to respect this, rather than to be antagonistic. These people may well expect that one day they will be rewarded by the North Korean regime for advocating such a stance.

Peaceful Co-existence Is an Illusion

However, the concept of peaceful coexistence is an illusion. For the communists, the concept of co-existence itself does not exist. For them, all other systems and ideologies deserve to be overthrown or destroyed.

Furthermore, the North Korean regime uses its military might to stay in power, and thus basically there is no such concept as peaceful co-existence. In some ways, this is a moot point. The *Juch'e* ideology, and the claim of a building a self-supporting independence, has done nothing to feed the people. South Korea is the only country Pyongyang can go to for help. It has been relentless in pursuing that avenue, threatening the South, in one way or another, most of the time. Co-existence with North Korea is therefore an illusion. There will be undoubtedly be further provocative incidents in the future which will serve to further prove this point.

There are those who believe that if they support the Pyongyang regime, they will subsequently gain favor or acceptance. These individuals are being duped. It should be remembered that in the end the Yien-an clique from China and all those who moved to North Korea from the South were purged.

Even if a system of co-existence is established, there is a high probability that this permanent division would eventually lead to the downfall of the Korean nation. Should the Korean peninsula be left in this state, as a result of the concept of peaceful co-existence, it will be impossible to predict what other disasters will plague it in the future in the volatile game of international power.

Will Absorption Result in “Calamity for All”?

Some people say that South Korea should help North Korea in the way that someone might buy an insurance premium. By doing so, the South can make sure that the North does not collapse, since such a collapse would prove burdensome. For people who evaluate reality carefully, this reasoning may sound very wise and reasonable. In fact, however, this reasoning does not correspond to reality. As we have already argued in these pages, South Korea will be able to bear the burden of a North Korean collapse, even a sudden one, so long as the country prepares for it properly. Not only can the South deal successfully with this, but the nation will be faced with a situation like that of an individual who has just been given the winning ticket to a large lottery. In light of this, to offer precautionary comments in an arbitrary fashion without knowing all the facts will only cause social confusion.

Unification by Absorption in Fact Is the Best Option

In truth, reunification through the absorption of the North by the South will help reduce waste and be most efficient. South Korea should therefore not be afraid of this form of reunification. After reunification-by-absorption, it will be most preferable to rebuild the North from scratch into the best possible system it can be. If, instead, South Korea anticipates something of a compromise with the North and tries to take advantage of the North's current level of productive potential, nothing will result except for mere expectations. Even the North's natural resources are useful only when there is an adequate level of SOC supporting it. Natural resources alone are not particularly useful. In order to create an efficient system, everything should be orchestrated according to Southern perspectives and Southern initiatives.

Some of the people who are worried about reunification-by-absorption suggest that we look at Germany. They say that Germany suffered greatly because unification was achieved by the absorption of the East by the West. They therefore urge us to be very careful. But using Germany as an example is a mistake. Germany's resources were hard hit because the unification process took the country by surprise. For this reason, the nation had virtually no time to prepare and lay the groundwork. Nevertheless, after the United States and Japan in the bloc of non-communist countries, Germany maintains its position as the third strongest economy in the world. The

reason the Germans complained more about the economy after reunification may be because Germans know that other countries are cautious due to Germany's history of Nazism.

Reunification-by-absorption will not cause the destruction of Korea. On the contrary, it will lead it to a fabulous economic jackpot instead. For South Korea, reunification-by-absorption is the most efficient way to achieve peace and prosperity on the peninsula.

9 A Sudden Collapse of the North Korean Regime Is Not Desirable

Russia's IMEMO reports regarding the North Korean situation stated that the collapse of Pyongyang was being "accelerated." Some foreign experts seemed to expect a collapse of North Korea as the result of a power struggle during the process of power succession when Kim Jong-il died.

However, Pyongyang's regime is so deeply entrenched that its collapse is not a given. The reality is that the road to reunification will have many stumbling blocks along the way that the end result could be disastrous if South Korea is not fully prepared.

There are two conceivable scenarios for North Korea's collapse. First, the North Korean economy has been bankrupt for quite some time now and simply cannot last much longer. Second, Kim Jong-un is too young and knows nothing of international affairs. Kim Jong-il, his father, passed away very suddenly, without laying a solid foundation for his succession, and the infighting among the leaders caught in a hidden struggle

for power could turn fratricidal.

However, it is hard to imagine that either scenario will materialize. First and foremost, the North Korean power structure was strong enough to withstand the pressure even when over two million people starved to death. We should not overlook the fact this is a system where people pay respects to their leader even if they are dying from hunger, the result of constant brainwashing and the reign of terror.

We should also not look upon the North Korean strongmen as daft. They will not attempt any reckless actions, because the concentrated counter-attack that would ensue would be devastating to them. They will instead opt for a safe strategy, with someone in the Kim Dynasty as an emblematic leader. Meanwhile, behind the curtain, the rest will attempt to secure their power and resulting fortunes. It should be remembered that these people are smart and have strong survival instincts. As a matter of fact, Jang Sung-taek was a fool. He should have read this book in Korean version earlier.

***...But the Collapse of North Korea Is Desirable —
after the Necessary Countermeasures are in Place***

It is impossible to predict what will happen when the power vacuum occurs in North Korea if South Korea has not yet been able to reach out to its people and is not adequately prepared.

Since Korea failed to gain its national independence from Japan on its own terms, it had to allow foreign forces to make inroads into the country. This is what eventually caused

Koreans to suffer the tragedy of a divided nation. Neither China nor the United States will sit idly by, should the North Korean regime collapse suddenly.

The reunification process will be accomplished in an orderly manner only when the North Korean regime collapses as a result of the various SOC projects couple with a sustained media campaign, with North Korean public sentiment moving to the side of the South.

10

The Nuclear Problem

North Korea will never give up its nuclear weapons. The Kim dynasty will regard these as its last line of defense. There are unconfirmed reports according to which Kim Jong-il declared, “We can now survive at last!” when the North’s first nuclear test was successful. The implications of that statement are subject to interpretation.

But the South Korean government should continue promoting the cause of a nuclear-free Korean peninsula. If North Korea establishes itself as a nuclear nation, the whole of Northeast Asia will end up nuclearized. Each of the nations in its own turn Japan, South Korea, and Taiwan will want to take possession of nuclear weapons.

Any non-nuclear negotiation is apt to serve merely as a stalling strategy or diversion. For Pyongyang, there is no greater satisfaction than being able to hold on to its nuclear weapons.

Kim Jong-il maintained that one of Kim Il-sung’s deathbed injunctions was that no nuclear weapons be allowed on the

Korean peninsula. But what was the purpose of his relentless pursuit of them at the expense of the lives of more than two million people who starved to death? Did he develop them just so they could be dismantled after a single rant? Kim Jong-un has stated that he is abiding by his father's dying wishes. But would he really feel safe without nukes?

Nonetheless, South Korea should avoid making too much of the nuclear issue. If the Pyongyang regime really wanted to turn Seoul into a sea of fire, as it occasionally claims it can do, a long-range cannon would suffice to shoot weapons as far as Anyang and Suwon located south of Seoul, farther away from DMZ.

The Soviet Union, which had thousands of nuclear warheads, collapsed in the end. Why? What keeps a country alive is its economy, not its nuclear capability. At the present time, the total economic strength of North Korea is one-fortieth that of the South's. It is not difficult for us to predict what this means for the future.

The Pyongyang regime will not discard its nuclear weapons for which it has paid such a high price. The advent of a nuclear-free North Korea will occur only after the regime collapses. Nevertheless, under the circumstances, South Korea should steadfastly commit to its non-nuclear policy for the Korean peninsula and formulate strategies that reflect that commitment. South Koreans should not let themselves be daunted by the nuclear threat under any circumstances.

In any case, it would be unwise for South Korea to refrain from any kind of undertaking until the nuclear problem is en-

tirely solved. South Korea needs to have a multi-track strategy. Even while negotiating for an end to nuclear weapons, the triangular formation strategy for reunification should be initiated, at whatever cost. Time does not stand still. The Lee government was in power for five years, without accomplishing anything. Should the country continue merely to wait?

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On the Absence of Humanism in North Korea

There are two approaches to humanism and human rights in North Korea. First, the North Korean regime should be made to deal with its people as human beings. If anyone dared to question the royalists, for instance, he was exiled to an island with a couple of bowls of corn. It is said that if that person came back alive after a couple of years, he was reintegrated into society. Otherwise, no one cared about what happened to him. This may sound unbelievable, but similar things are reportedly taking place in North Korea. In North Korea, the concept of “human rights” is devoid of meaning.

In the South, similar atrocities occurred during Park Chung-hee’s rule, but these were reportedly not as harsh as those committed in the North. We can tell how unsure North Koreans are about their safety. They look around suspiciously before daring to say anything. This behavior is reminiscent of the South Koreans’ own behavior under the dictatorial rule of President Park Chung-hee.

What can we possibly achieve through a human rights policy of engagement in North Korea, if suppression persists under such a harsh communist structure? Outside pressure will not help. The only possible way to put a stop to this inhumanity is the end of the regime itself. The only system of values in North Korea consists of the individual's unflagging loyalty to the regime. Any attempt from within or without to argue about humanism or human rights will be regarded by Pyongyang as sheer provocation.

Second, South Koreans need to help their fellow neighbors in the North in any way possible, while yet following their conscience with a pure heart, expecting nothing in return. Koreans share the same ancestry. They have been a homogeneous nation of people for thousands of years. It is indeed a tragedy that millions of them were allowed to starve to death.

It is a well-known fact that every year North Korea is short of one to 1.5 million tons of foodstuff. This is a very serious problem. As a result, it is said that adult males who measure a mere 127 cm are drafted into the army. Over two million starved to death in the mid-1990s while Kim Il-sung and Kim Jong-il spent heavily on the development of nuclear weapons. What about those who survived? Their health is reportedly very poor. The author remembers people turning their faces away from the images of North Korean children with bloated bellies resulting from malnutrition. The youngsters' underdevelopment will pose serious health problems for them throughout their lives. They will not be able to function properly even when

they reach adulthood. A large portion of national power derives from the basic good health of the people. The resulting effects of malnutrition will remain as a serious concern in a unified Korea.

It would be unwise for South Korea to attempt to use food assistance as a lever in negotiations on human rights with the North. Given the reality, South Korea needs to ask itself some serious questions about how the concept of human rights can help it in its relationship with Pyongyang.

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2 Reciprocity

Arguing that South Korea should adhere strictly to the principle of reciprocity, some politicians criticize what they see as excessive tribute offered to North Korea. What they mean is that South Korea should advocate a give-and-take approach, as West Germany did in its dealings with East Germany. This principle of reciprocity is standard in the Western world. In the march towards Korean unification, South Korea should devise its own strategy to solve these issues.

South Korea should sometimes demand that the North Koreans reciprocate immediately in one form or another, following assistance from the South. At other times, South Korea should consider granting them a more extended period for taking reciprocal measures in order to secure more comprehensive agreements. In the case of a commercial transaction, it is quite normal to expect equivalence in value. But it is necessary for South Korea to adopt a comprehensive method which is flexi-

ble, since it seeks the goodwill of the North Koreans with an eye on South Korea's long-term goal of reunification.

Commercial Reciprocity Is Not Appropriate

Applying strict principles of reciprocity would therefore not be appropriate with North Korea. When South Korea decides to implement the plan of investing 1% of GDP annually to develop North Korea's infrastructure, there should be no conditions attached. This will ensure the goodwill of the North Koreans, thereby hastening the pace of unification. South Korea should not confuse its national management strategy for unification with the standard practice of commercial reciprocity.

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Will China Relinquish North Korea?

There are many who argue that a South Korea-led unification is impossible while China still supports North Korea. In the present circumstances, these people are not entirely wrong. But it is necessary for South Korea to persuade China that reunification under South Korean guidance will neither poses fresh problems or new threats to its national interests. Depending on the state of global geopolitics, China's position is subject to gradual change. Almost everything hinges on what steps South Korea takes.

If South Korea chooses to maintain the status quo of national division, and if North Korea is unable to maintain economic independence, staying within China's sphere of influence, North Korea may have no other option than to become China's fourth Northeast province. In truth, we can see China moving in that direction. In 2004, the author came across a book entitled *The History of Koguryeo, China* in Jian, China. Koguryeo was one of the three dynasties of the Korean people.

The language spoken in Koguryeo was Korean, not Chinese. The Chinese also now say, “Balhae was the provincial government of T’ang”. These are tell-tale signs of such a conspiratorial development. It should be remembered that in the days of Koguryo, the River Hahn marked the border between Koguryo and other territories. If South Korea accept the situation where North Korea is absorbed into China, the Hahn River would then become the border between China and South Korea.

But if South Korean efforts to win over the North Korean residents prove successful, China’s attempt to “conquer” North Korea by stealth will not materialize. No course is foreordained. All that can safely be said here is that the situation will depend on the kinds of actions South Korea chooses to take.

China Does Not Think North Korea Will Lead the Reunification Effort

At the present time, China does not expect North Korea to undertake any initiatives linked to national reunification, nor is China prepared to support such a process. This means that South Korea needs to be pro-active and take the lead.

China should recognize that a South Korean-led effort for reunification will not create any special problems for its national interests. Instead, this development will open up some mutually beneficial opportunities. For example, at a seminar of the Research Institute for Peace in Seoul, Cheng Shao-he, a professor at Renmin University in China, stated: “a unified market and a group of consumers totaling 80 million people

on the Korean peninsula would represent an irresistible temptation to many other countries, including China”.

Even in Russia, the IMEMO-sponsored research report concluded that a South Korea-led unification would be beneficial to Russia. Furthermore, if the Free Trade Agreement is ratified, the North Eastern provinces of China will stand to gain considerably. This is because a unified Korea, with a set of direct landline transportation routes, would clearly also benefit China. In fact, China would gain more from a united Korea than it would from the United States, for the simple reason that Korea is experiencing robust economic growth while the U.S. has advanced ahead too much. This was a concept that was argued when China was opening up in the 1980s, and the argument is still valid.

As Time Goes By, China Seems to Be Changing its Stance

Second, China should be aware that a unified Korea would not intend to or would not be capable of attacking it, either economically or militarily. By the same token, China gets very little in return for its continuous support of the current North Korean regime.

All the world powers put their own national interests first. It is not difficult to imagine China having to take what appears to be irrational action in order to help North Korea, even if this ends up tarnishing its image as a world power. Over the medium term, however, it will become increasingly challenging

for China to support Pyongyang's erratic behavior, prompted as these often are by the interests of a personality cult rather than by a set of sound policies.

Third, a united Korea, with the North's nuclear weapons in its possession, will be reluctant to retain them. This is because a united Korea would not want to offer unnecessary incentives for Japan and the other East Asian countries to seek a nuclear capability as well. However, China should examine more closely the repeated series of unpredictable nuclear weapons provocations by North Korea.

North Korean Nuclear Weapons Not in China's Interest

The general consensus is that North Korea will never give up its nuclear weapons. These weapons make the Kim Dynasty feel safe and secure. However Pyongyang's nuclear capability does not benefit China in any way and could literally "backfire" given the long-standing historical relationship between the two countries. Beijing might have felt somewhat dependent on North Korea for its security when China used to confront the United States. But North Korea has long since distorted its communist aspirations into the maintenance of a gross cult of personality. Nowadays, China shares very little common ground with North Korea.

No More Moral Obligations for Alliance

In essence, China should be the only country allowed to have nuclear weapons in Northeast Asia. If other countries are allowed to acquire them, the situation will become unmanageable. Under no circumstances should North Korea be permitted to keep its nuclear weapons. This is not a matter that can be settled with promises or agreements. Nobody knows where Pyongyang will keep “the seed of fire” hidden.

Fourth, U.S. Forces in Korea will stay where they are now. They will not be relocated nearer to the Chinese border. This is because China would become a good neighbor to a united Korea. It can certainly not become an enemy of Korea. That was the case during the Korean War and during the final years of the Cold War. But today these two countries are good neighbors who work together on friendly terms for their mutual interests. There is no realistic scenario in which the United States would seek conflict with China, while a united Korea was caught in the middle.

China Needs to Adopt a Reasonable Policy

If the North Korean residents become sentimentally inclined toward South Korea, China will not blindly continue to support the Kim Dynasty. In conclusion, it all depends on how South Korea treats the residents of North Korea.

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No More Defeatism

As long as the Pyongyang regime is supported by about 500,000 core loyalists and buttressed by nuclear weapons, the widely-held assumption is that it will not collapse. But are South Koreans not responsible for this regime, which should have disappeared from the annals of history a long time ago? If South Korea had moved to win over North Korean hearts during the transition period of the 1980s and 1990s, the Pyongyang regime would have folded around the time that Hwang Jang-yup, the personal adviser to Kim Il-sung and Kim Jong-il, came South. On one occasion, Hwang confessed that he thought the collapse of the North Korean regime was imminent. It would be obvious evidence that Kim Jong-il allowed Hwang to come south as part of a deliberate, calculated strategy.

But what is seen as a fortress of absolute power cannot collapse instantly. The goal is to encourage the gradual, quiet implosion of the North Korean regime. The deployment of

armed forces should be reserved strictly for defense purposes and never considered as an option to achieve unification. North Korea is said to maintain a very strong military. According to a report by the Korea Economic Research Institute, North Korea currently possesses a large-scale infantry and a large number of tanks, artillery, and warships, combined with unparalleled military power. Since 1990, the Pyongyang regime has brought in MIG29s and submarines as well. For more than 20 years, the country has suffered extraordinary economic hardship, but its military power is reportedly stronger than ever.

North Korea attempts to maintain itself through a “military first” policy. For this reason, it would be both irrational and dangerous to provoke armed conflict with it. Instead, South Korea should go forward with a strategy to win without a fight. Needless to say, North Korea’s greatest weakness is its economy. Per capita income is said to be around \$1,000, but about two-thirds of North Koreans are short of food. No regime of this nature deserves to stay in power. Economically, there is little hope for North Korea to improve. Given its circumstances, the North Korean regime pleads for aid from abroad, while yet suppressing its own people.

A Breakthrough by Drastic Action

At this juncture, South Korea needs to focus its efforts on the economy. South Korea should always remember the fact that the collapse of North Korea depends on the approach taken by South Korea. If South Korea thinks of North Korea as a

single, unified entity, failing to differentiate the people from the government, and continues to maintain a defensive position, the Pyongyang regime may well keep its grip on power for the next 40 to 50 years, as Kim Jong-il once intimated. But if South Korea adopts a strategy to secure the goodwill of the North Korean residents and welcome them wholeheartedly, the Kim dynasty may be toppled much earlier than many may anticipate.

Avoidance Invites Offense

Although reunification seems like a tall order, South Koreans should not give in to defeatism. Rather than finding reasons why it cannot possibly take place, they should find ways to ensure that it can. Reunification should be the South's long-term objective. Nobody else can, or will, take the initiative. The Kim clique is only interested in perpetuating itself.

President Park Geun-hye: Opening the Door to Reunification

President Park Geun-hye is finally opening the door to reunification. She is the first president who has the goal of reunification clearly in her mind. Now Koreans can finally hope for a unified nation.

At the New Year Press Conference, President Park highlighted the economic benefits, dismissing negative opinions about the high cost of reunification.

“Some asks the question of whether we really need reunification. I would say it is like hitting the jackpot. I believe peninsular reunification would be a chance for our economy to take another great leap,” she said. “For Korea to move up to another level internationally - away from inter-Korean conflicts, war threats and nuclear threats - we should open the era of peninsular reunification and we should start preparing for that.”

After President Syngman Rhee, no president has led the one

country who has sincerely dreamed of the possibility of reunification. The strategies of the succeeding presidents have consisted of promoting anti-communism, resisting communism, managing a divided country, maintaining peaceful co-existence, or teaching naughty habits to the North. Neither promoting anti-communism nor maintaining a peaceful co-existence guarantees reunification. Instead, either option will tend to make the division between the South and North permanent.

Now President Park Geun-hye intends to succeed in the task of “small unification” and work towards the greater goal of “big unification”. This is very refreshing to see. Her plan for reunification has an authentic content.

Until now, all the talk about the various plans—the “three stages for unification” plan, “the non-nuclear” plan, “the open economy” plan, “the 3000 dollars per capita for the North” plan each of these were just empty words. The discussions lacked sincerity, and their authors appeared not to believe that they were actually going to become reality.

President Park has defined the task of “small reunification” in terms of an economic community where companies can invest and move freely between the South and the North. In contrast, the task of “big unification” refers to the reunification of the political, legal and institutional structures. While going through a process of building trust, President Park appears even to be contemplating the construction of social infrastructure in

the North. This should be interpreted as dramatic progress.

The heart of the reunification process consists in moving the sentiment of the people of North Korea toward that of the South by means of economic cooperation and exchange. We must note that reunification will occur without major hiccups only when the North naturally converges with the South during such a process. Under no circumstances can we image reunification being achieved through force. Reunification also cannot be realized through simple political negotiations. Ultimately, the only realistic means for achieving reunification is through the economy. The challenge South Korea now faces is how to smoothly and wisely carry out the task of “small unification”.

The foundations for the achievement of “small unification” are very important. The major means for creating these consists in the enforcement of the policy of the separation of economy from politics and the military in dealing with the North. It would be a grave miscalculation to think that the government alone can reach unification. There are bound to be limits on what any government can do. For example, it will be impossible to have a meaningful ideological compromise in negotiations between two different governments with significantly different ideologies. It will also be meaningless to talk of a simple division of political power. In order to make reunification a real possibility, the sentiment of the people in the North should be made to move toward that of the people in the South. During

this process, the most important prerequisite is the division of the role between the South Korean government and civilian firms. This should not be overlooked.

President Park Geun-hye has emphasized the importance of trust processes, and these are beautiful words. However, she should not be disappointed by anything that happens in reality. The North Korean regime has shown itself historically capable of swallowing its words any time. In this respect, it is important to maintain a conceptual separation of the two entities. South Korea needs to work on accumulating the trust of the people of the North. In this way, it can reduce their level of hostility toward the South and begin to move toward it.

In essence, this is the way in which reunification can be achieved. In terms of negotiations, it is not wrong to propose building trust with the ruling authorities in the North. But South Korea need not become obsessed about this. Deception is not unusual in historical military strategy. What this means is that South Korea should not become disappointed or frustrated due to an excess of anticipation. Nonetheless, the attitude that South Korea should work towards building trust with the Northern government is itself good.

While always looking at the big picture, South Korea should work towards achieving reunification. With this ultimate goal in mind, the government also needs to become adept. During the recent issue over the Gaeseong Industrial Complex, the South Korean government stated at first that it would not deal

with the North until the North apologized and reassurances were made that the same issue would not be repeated. This issue was ultimately resolved when both the South and the North agreed that “both sides” would try to work this out. This is a good strategy. Words are not everything. There is also body language and attitude. This principle of trust is important so long as everything is harmonized in accordance with the ultimate goal.

President Park Geun-hye established her definite position that she will positively work towards reunification by adamantly expressing reunification brings “a jackpot” during the 2014 New Year's press conference.

Appendices

Steps for Estimating the Costs of Reunification

The bulk of the expenditures needed to complete the process of reunification successfully will be taken up by the investment fund for the physical capital formation in the region of North Korea. The annual scale of this project can be estimated through the following 6 stages, based on the Harrod-Domar growth model. Assuming that labor is not a binding factor in this North Korean economy, this boils down to estimating the physical capital needed, given the prevailing capital-output ratio.

1. At first, an estimate needs to be made of the disparity between the South and North per capita GDP, as revealed in the last year of income adjustment. The major premise for doing this is that the GDP of the South and the North can be estimated along independent growth paths, regardless of the process of reunification. This implication here is that the South Korean economy will not shrink when assistance is provided to North Korea. This also means that South Koreans will not suffer a sense of loss due to the process of reunification.

2. This disparity between the South and North per capita GDP is then multiplied by the expected North Korean population in that year. This will yield the total size of production needed to equalize income throughout the whole country. If the capital-output ratio is assumed to be around 2.2 (which would be in line with the past history of South Korean economic growth), the required physical capital multiple would be about 2.2 as well.
3. Practically speaking, about 1/2 the required physical capital calculated above would suffice. In South Korea in the early 1990s, the per capita income of Chungcheong-Namdo was 1/2 of that of Gyeonggi-Do. In reality, this discrepancy did not cause a popular uprising.
4. If we assume that the existing physical capital in the North to be one-sixth of the total needed, and if we take into account the North's natural resources (which includes its underground resources, its usable land and its usable buildings), the actual physical capital needed can be obtained by multiplying this figure by five-sixths.
5. With capital formation on this scale to be reached by the target year, the annual investment size should

be calculated in proportion to the expected GDP growth in the South. We need to keep in mind that a portion of the total physical investment will always be lost due to depreciation. This means that the total size of the investment required in the first year when the income adjustment is initiated should be calculated as follows:

$$x_1 = \frac{K_j}{\sum_{i=1}^j gr^{i-1} \cdot (1-\delta)^{j-1}}$$

where x_1 : *investment₁*

K : *capital*

gr : *growth rate*

δ : *depreciation rate*

$i=1,2,\dots,j$

j : *target year*

6. Finally, so long as the investment amount is raised annually in proportion to the South Korean GDP growth rate, as the income adjustment period draws to a close, the target physical capital formation will be met.

These calculated results are illustrated in Table 1. The contents of the calculation process are reflected in Table 5, Table 6 and Table 7 in Appendix 2.

Estimating the Size of the Unification Fund

〈Table 5〉 Ten-Year Capital Formation, 2026–2035

Year	S–N Per Capita Income Disparity (\$)	North Korean Populati on (1,000)	Total Required Physical Capital (\$100M)	1/2 of Required Physical Capital (\$100M)	Required Invest- ment (\$100 M)	Annual Invest- ment (\$100M)	South Korea GDP (\$100M)	Annual Investm ent/ GDP(%)
2026						1,187	18,827	6.3
2027						1,223	19,391	6.3
2028						1,259	19,973	6.3
2029						1,297	20,572	6.3
2030						1,336	21,190	6.3
2031						1,369	21,719	6.3
2032						1,404	22,262	6.3
2033						1,439	22,819	6.3
2034						1,475	23,389	6.3
2035	40,596	27,399	24,470	12,235	10,196	1,512	23,974	6.3
Total						13,501		

〈Table 6〉 Ten-Year Capital Formation, 2031–2040

Year	S–N Per Capita Income Disparity (\$)	North Korean Populati on (1,000)	Total Required Physical Capital (\$100M)	1/2 of Required Physical Capital (\$100M)	Required Invest- ment (\$100 M)	Annual Invest- ment (\$100M)	South Korea GDP (\$100M)	Annual Investm ent/ GDP(%)
2031						1,363	21,719	6.3
2032						1,397	22,262	6.3
2033						1,432	22,819	6.3
2034						1,468	23,389	6.3
2035						1,504	23,974	6.3
2036						1,542	24,573	6.3
2037						1,581	25,188	6.3
2038						1,620	25,817	6.3
2039						1,661	26,463	6.3
2040	44,880	28,091	27,736	13,868	11,557	1,702	27,125	6.3
Total						15,270		

〈Table 7〉 Ten-Year Capital Formation, 2036–2045

Year	S–N Per Capita Income Disparity (\$)	North Korean Populati on (1,000)	Total Required Physical Capital (\$100M)	1/2 of Required Physical Capital (\$100M)	Required Invest- ment (\$100 M)	Annual Invest- ment (\$100M)	South Korea GDP (\$100M)	Annual Investm ent/ GDP(%)
2036						1,544	24,573	6.3
2037						1,583	25,188	6.3
2038						1,622	25,817	6.3
2039						1,704	26,463	6.4
2040						1,747	27,125	6.4
2041						1,791	27,802	6.4
2042						1,835	28,498	6.4
2043						1,881	29,210	6.4
2044						1,928	29,940	6.4
2045	49,614	28,800	31,435	15,718	13,098	1,976	30,689	6.4
Total						17,611		

Data: Office of Statistics, Major Index of North Korea Statistics, 2013.3; Bank of Korea,

Data Base, Major Economic Index, 2013.3.

South Korea GDP: (2012) U\$11,521 (100M)

Per Capita GDP: South Korea (2012) U\$22,657

North Korea (2011) U\$1,153

Population: North Korea (2011) 24,308,000

Estimated Assumptions Used to Calculate Unification Funds

1. Population Growth Rate: South Korea: 0.5%

North Korea: 0.55%

2. GDP Growth Rate: South Korea: 2013–2020 4%

2021–2030 3%

After 2031 2.5%

North Korea: 1.3%

3. Capital Output Ratio: 2.2

4. Depreciation Rate of Physical Capital: 6.7%

03

The Earlier the Reunification, the Smaller the Required Fund

The earlier reunification comes, the better. This is true not only in terms of absolute costs but also in terms of the relative burden as measured against GDP size at the moment of reunification.

Table 8, Table 9, and Table 10 are based on 2011, 2005, and 2003 data respectively.

The information in Table 1, Table 8, and Table 9 show clearly that the earlier unification comes, the better in terms of the impact on South Korean GDP.

〈Table 8〉 Required Unification Fund (Based on 2011 Data)

Year of Income Adjustment	Unit: US\$100B (Based on 2012 Constant Price)	Rate Compared to South Korea GDP
2021~30	11,165	5.95%
2026~35	12,524	5.8%
2031~40	16,034	6.54%
2036~45	18,237	6.57%

〈Table 9〉 Required Unification Fund (Based on 2005 Data)

Year of Income Adjustment	Unit: US\$100B (Based on 2012 Constant Price)	Rate Compared to South Korea GDP
2016~25	9,171	6.63%
2021~30	10,604	6.66%
2026~35	12,379	6.85%
2031~40	14,138	6.91%

If we analyze the results of the data for 2005 and 2011, we can see that the later date shows a higher cost for reunification than the earlier date. The main factor in this discrepancy is due to a more favorable supposition for South Korean GDP. Generally speaking, this is not an abnormal phenomenon; and it does not contradict the fact that the sooner reunification comes, the better.

〈Table 10〉 Required Unification Fund (Based on 2003 Data)

Year of Income Adjustment	Unit: US\$100B (Based on 2012 Constant Price)	Rate Compared to South Korea GDP
2011~20	6,161	6.49%
2021~30	8,210	6.61%

These figures also confirm that the earlier unification comes, the better not only in terms of the overall cost but also in terms of the relative impact on South Korean GDP.

04

Content of Division Cost

What follows is a breakdown of the economic and non-economic costs associated with national division.

Economic Sector

In the economic sector, there are both explicit and implicit costs.

- **Explicit Costs**

- ① If we could limit the military expenditure of the unified Korea to less than 1% of South Korean GDP during the income adjustment period, it would save up to 2% GDP on military expenditures. Military expenditures have accounted for about three percent of GDP for quite some time.
- ② Due to national division, South Korea pays more logistical costs, including transportation expenses. This is because the land bridge to North Asia is closed.
- ③ Due to the no-fly zone over North Korea, alter-

nate, and often longer, air routes must be utilized for air travel. This causes unnecessary additional expenses including fuel and lost time, not to mention the sheer inconvenience of having to travel over longer distances.

- ④ Because the land routes are blocked, South Koreans pay an unreasonably high price for sightseeing trips to Diamond Mountain (Keumgang-san). This is an explicit cost. A large portion of this extra expense benefits the North Korean regime, not its people. Even this kind of expensive sightseeing may become impossible if the political relations between the South and the North are too strained.
- ⑤ South Korea pays too high a risk premium interest rate on foreign loans in the international financial market due to the inherent instability caused by the confrontation between North and South.

- **Implicit Cost**

- ① South Korean GDP should rise substantially when South Korea transfers a large portion of the military into the industrial workforce; at the moment

this opportunity is wasted.

- ② Mandatory conscription, due to national division, represents a long period for young men, in their prime of life, who could be pursuing more useful, productive activities, including furthering their short or long-term education or training.
- ③ Korea is prevented from leveraging the complementarities of the natural resources that exist between the South and the North. For example, North Korea has far larger deposits of underground resources than South Korea. At the moment, the opportunity to make the most of these resources for economic development is being wasted since North Korea lacks sufficient capital to develop them.
- ④ North Korea's agricultural, uncontaminated land could be used for value-added farming by the introduction of an organic farming system. This would contribute to improving the people's health in North Korea.
- ⑤ Since the economic spheres of the South and North are completely separated, Korea loses a valuable opportunity to establish economies of scale. If Korea were reunified, South Korea would

be able to expand its domestic market. In this way, its unit price of production would be lowered and its international competitiveness improved. All these things constitute a large source of losses for the Korean nation.

- ⑥ The two Koreas are unable to take advantage of their complementarities in science and technology. Some basic scientific fields are more developed in the North than in the South, while South Korea has a much more sophisticated sense of marketing know-how. The combination of the two would be mutually beneficial. At the moment, however, this represents yet another lost opportunity.
- ⑦ Koreans are unable to make the most of their beautiful coastlines, mountains, rivers and beaches for sightseeing. Instead, they must enclose many of them with ugly barbed wire fences, deliberately scarring the landscape. This is another example of something that contributes to increasing the military tension while truly representing a major lost opportunity to earn foreign currency from the tourist industry.
- ⑧ While it is possible to visit Keumgang-San

Mountain, if only because South Korea pays a premium for that privilege, tourists are denied access to an array of scenic landmarks that exist in North Korea. The inability to enjoy the natural surroundings of the Korean nation is again a high price paid for national division.

- ⑨ Because of the political instability caused by the confrontation between South and North Korea, the nation is discounted by foreign investors. For example, South Korea pays unnecessarily high interest rates on the international financial market. The financial difficulties South Korea suffered in the past were, to a large extent, due to its confrontation with North Korea. In a unified Korea, it can be expected that the Korean stock market will be positively reevaluated.

Losses in Non-Economic Areas

It is difficult to quantify all the non-economic, intangible negative effects that have been brought about by national division. However, it is possible to come up with a brief representative sample:

- ① The loss of a great many lives during the Korean War. The harm caused to life and limb between 1950 and 1953 represented a major tragedy to the entire nation;
- ② The untold pain and suffering of the families separated by the North/South divide;
- ③ Koreans live under constant tension, even if they have learned to ignore it for having been subjected to it for so long. As a result their quality of life has been significantly impacted. Their quality of life cannot be compared to the lives of those people living in the advanced countries where people take peace for granted;
- ④ The confrontation between North and South Korea has helped to undermine the free exercise of civil liberties. Over the years, a variety of restrictions on civil liberties have been imposed due to national security requirements. At other times too, they were simply the result of power overreach or even abuse by the country's president;
- ⑤ From a political and diplomatic standpoint, Korea is at a disadvantage internationally due to the limited power inherent in a divided nation;

⑥ The failure to achieve unification lessens Korea's international prestige and influence.

Estimating the Division Cost

Let us first assume the explicit extra cost relative to military expenses to be approximately 2% of GDP, keeping in mind the case of Japan's Self-Defense Forces.

The manpower loss from South Korea's compulsory military service duty can be calculated as follows:

Of South Korea's 690,000 soldiers, only 100,000 should be retained for the purpose of a core Korean defense structure, with the remaining redeployed into the industrial labor force, including the period of readjustment following unification. In the early days following reunification, the lower tiers of the Armed Forces can be supplied by North Korean youth whose level of productivity is relatively low. Maintaining the combat levels for the Korean armed forces need not be a major issue.

The 590,000 men exempt from military duty could then be employed on the higher rungs of the industrial ladder. Alternately, some could receive further training in order to become more productive in the future. Through this process, these young men could be gainfully employed and reap the benefits of contributing to a growing economy over the course of their lifetime. South Korea's labor statistics are provided below.

As of November 2011, the total number of employees nationwide was estimated to be 24,673,000. The male unemployment rate stood at 3.2 percent, which represents a 2.3 percent difference in GDP. In fact, if we consider the fact that male productivity is slightly higher than female productivity, and if we then count male productivity as 0.1% more, the additional 590,000 young men in the industrial sector from the military will lead to a rise in GDP of 2.4% in the medium term.

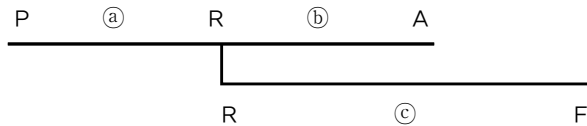
Since it is expected that during the first ten years after unification, South Korea will not have any unemployment, there will not be a need to adjust the unemployment rate or the very small difference that exists between the male and female productivity levels. The implication of this is that the actual increase in GDP will likely be even higher than 2.4%.

The explicit cost of curtailing the military represents 2%. When combined with the implicit cost of the expanded labor force, this represents an additional 2.4% ($2\% + 2.4\% = 4.4\%$) or 4.4 percent of GDP overall. But in fact, this cost will be much higher. In fact, it will be nearly impossible to determine numerically when it is combined with the additional expenses that might be expected in other sectors.

List of Gains, Benefits and Returns from Reunification

Graph 2 shows a chronological ordering of the gains, benefits, and returns that will be derived from reunification:

Graph 2: The Gains from Reunification, Chronicled



P: Present Time

R: Time of Unification

PR: Period of Division

RA: Income Adjustment Period after Unification

RF: Post-Unification Marching toward Prosperity

Section (a) - Disappearing Division Costs

Up until the time of reunification, there is an expenditure incurred by the state of division itself, that can be represented as occurring between P and R. Once reunification is an established fact, the need for this expenditure will be expunged. This means that Korea will gain that much

instantaneously at the of reunification, raising a large negative factor to zero. The division costs include all the opportunity costs, both explicit and implicit. These include the number of casualties, the pains of the separated families, the excessive military spending, the waste of man power due to young enlisted men, the loss of production, the lower evaluation of the stock market, the extra premiums on the international financial market, and the losses and disadvantages from a number of other sources.

In the Economic Sectors:

1. During the ten-year period after unification, about 2% GDP can be transferred from military spending to the production of goods and services for consumption and investment. As a result, the economy will experience a multiplier effect and a related boost in economies of scale.
2. Owing to the reduction of the South Korean armed forces, an annual increase in production corresponding to 2.4% GDP during the 10-year income adjustment period. After this time, a higher level of productive output will ensue.
3. As the young men return home, there will be a restoration of the opportunity to accumulate human capital.
4. South Koreans have to pay higher prices for sightseeing tours of Keumgang-San (Diamond Mountain),

because they are currently charged a premium above and beyond the standard rate. This additional expenditure results from national division. Reunification will make it possible to enjoy many landmarks for free.

5. If they pay the premium, South Korean tourists can tour Keumgang-San, but they are not yet able to tour Baekdu-San (Whitehead Mountain) and other famous attractions in North Korea, even if they are willing to pay more. Once reunification is achieved, each of these tourist sites will be open to them again.
6. South Korea incurs significant costs for the transportation of goods because the land routes to the continent are closed off due to the national division. In addition, they pay higher cost for fuel, because they are unable to fly over North Korean airspace and have to make detours. In addition to the unnecessary additional expenses, the current situation also involves greater psychic distance.
7. It will be possible to install natural gas pipelines from Russia, thus cheapening the price of energy.
8. South Korea will be able to enjoy the original beauty of her sightseeing attractions, spanning both North and South Korea. These will replace the unsightly barb-wired fences symbolizing national division.
9. As the national market is widened, Korea will be able to gain from economies of scale.

10. Korea will benefit from the exchange of scientific research by combining North Korea's strength in basic sciences with South Korea's marketing expertise.
11. There will no longer be any concern about an armed conflict, and foreign investors will be able to make safe investments. These things will contribute to employment opportunities and a higher GDP.
12. Korea will enjoy lower interest rates, compared with the unnecessarily high interest rates charged on the international money market due to the risk premium applied during the period of division.

In the Non-Economic Sectors:

13. Separated families will be reunited; the pain of division will disappear.
14. The danger of armed conflict, both small and large, that could take place at any time, will be eliminated, as will the potential losses caused by death and injury.
15. Koreans will be free from the psychological strain in their daily lives, due to the potential for military confrontation between North and South, and they will finally be able to enjoy a life worth living in peace.
16. Koreans will be free from unnecessary controls in their daily lives, resulting from issues relating to national defense and security. In particular, excessive checks and suppressive controls, which have hitherto

been implemented by the government in an attempt to maintain order, will be removed.

Section(b) -Unification Benefits and Gains

Section (b) lists the benefits, gains, and returns from unification:

17. The “Buy Korean” program, which will be executed during the 10-year period required for the physical capital formation for North Korea’s production structure, calls for South Korean production and supply up to about 5.6% of annual South Korea’s GDP. This will have a significant impact relative to production and related industries, spurring extraordinary economic growth as a result.
18. Owing to the demand for manpower required in the course of executing the projects deriving from the “Buy Korean” Policy, there will be a glut of jobs and a shortage of labor.
19. After reunification, the North Korean residents, who will represent 1/3 of the population in a united Korea, will benefit from belonging to an advanced nation, after a long period of deprivation.
20. Koreans will be free from the speculation scourge that has plagued land ownership in the past as a consequence of separating the possession of land from

its use. This policy, which will have been derived from North Korea, will be extended gradually to the rest of the country.

21. With the enlargement of the national surface area, sizable economies of scale will be realized as well as improved competitiveness in the international market.

Section(c)- After Income Adjustment between Two Regions

22. Even after the income adjustment period is completed, the demand for physical capital is expected to continue in the Northern region. This will play a key role in fueling economic activity in the South.
23. Historically, Korea's position between the ocean and the continent was the cause of many problems; but once the railroads, highways, ports, air routes and communication channels are openly connected without restrictions, a unified Korea will be able to take full advantage of its geographical location. This will help save on logistics costs as well as on transportation and will expand markets abroad. Thus, a united Korea will emerge as a focal point in East Asia in the logistics industry, the financial industry and many other related sectors.
24. A unified Korea will be able to increase production by coordinating the production resources of both

South and North Korea.

25. The higher aggregate demand with increased income based on the accumulated physical capital in North Korea will induce further economies of scale. In turn, this will give rise to more products at comparatively lower prices. In this way, Korean competitiveness on the world market will be enhanced.
26. The North Korean residents will have a precious opportunity to create a modern society, while avoiding the unnecessary scourge of industrial pollution. This is because the North Korean economy will be built up from scratch.
27. If we introduce organic farming, thereby taking advantage of the unpolluted soil in Hwanghae Province and Pyongan Province in North Korea, it will add value to agricultural production, while providing health benefits to many consumers in the metropolitan areas.
28. With the fabulous economic growth in South Korea and an incredible increase in Northern GDP, Korea will become a quite sizable global economic power. In this way, Korea will become a strong, advanced nation.
29. The separate management of North and South Korea after unification and the homogeneous system in all the fields in a country will give birth to a unified nation.

30. In the longer term, a united Korea will become a powerful country, on a par with the other advanced nations. In the field of international diplomacy, it will hold its own without the interference of other governments. In this way, Korea will finally break with its unhappy history of foreign domination.
31. A united Korea will become a truly independent country with the recognition and prestige that flows from this.
32. A unified Korea will garner all the attendant benefits, gains and returns associated with reunification; these will far outweigh the attendant costs.

Land Reform in North and South Korea

Land Reform in North Korea

The first major acts of land reform in North Korea were implemented on March 5, 1946 with the “Decree” of that name. The decree was politically motivated: it was designed to establish a socialist foundation that was both anti-feudalist and anti-imperialist. On September 9, 1948, the ruling was incorporated into the North Korean Constitution. It was in effect until August 1958 when a system of agricultural cooperatives was implemented.

Through this land reform, a million *jeongbo* (1 *jeongbo* is equivalent to approximately 2.5 acres) of land were confiscated without compensation. After this, 0.98 million *jeongbo* of land were distributed to 724,000 farming households for free. In addition, the tenant farming system was abolished. In addition to the confiscation of land, all production means and resources related to farmland and forests became state property. At the same time, the sale and mortgaging of land were banned, and any land not used for farming by the people to whom it was distributed was returned to the state.

Farmland Reformation in South Korea

Following North Korea's land reform, South Korea carried out a reform of its farmland. Its own legislation was adopted in a series of phases:

August 15, 1948: The government is inaugurated.

June 21, 1949: The Farmland Reformation Law is formulated.

March 25, 1950: The decree is promulgated.

April 28, 1950: Legislation comes into effect.

June 25, 1950: North Korea invades the South.

About 22% of 1,450,000 *Jungbo* tenant farmland plots was all that was distributed by the government; the remainder was disposed of by the landowners as they saw fit. It is generally recognized that the farmland reform plan, one of the largest projects after the nation's liberation from Japan, "ended in failure." However, the price for the farmland disposed of by the landowners was lower than that of the government-distributed parcels. Moreover, the government extended the payment period of its distributed land until 1968. As a consequence, the land purchase, considering inflation at the time, was not much of a burden. Whether it was government-distributed or privately disposed of, the

result was the same: the farmland was in the hands of the farmers.

For the rice paddies and dry fields, which constituted most of the farmland distributed during the government-led farmland reform, 1.5 times of the production was collected in kind over a 5-year period as compensation. A land certificate inscribed with the amount of compensation was then issued to the new landowners contingent upon a 20% payment to be made over 5 years; but the plan was suspended when the Korean War broke out two months after the reform law came into effect.

The confrontation between the Legislation Office and the Ministry of Agriculture over compensation for the distributed land was a heated debate since it helped to decide whether or not the landowners survived. The two positions were as follows:

- Legislation Office: Compensation to be made at the market price or in kind
- Ministry of Agriculture: Compensation to be made according to a fixed price set by the government

In other words, if the landowners were paid in current prices or in kind, they would have avoided the effects of a war-induced inflation. However, the Ministry of Agriculture's plan prevailed and compensation was made

on the basis of a fixed price set by the government rather than on the prevailing market price. As a consequence, the compensation certificate was not worth the paper it was written on. This would eventually force the landowners into retirement.

The Concept of the Public Domain and Land Ownership

The public domain concept of land in Korea was introduced in order to find a solution to the following problems:

- 1) the problem of limited space and land;
- 2) the increasing land price and the problem of speculation;
- 3) the problem of development profits and privatization;
- 4) the biased landownership system; and
- 5) the problem of providing a prosperous living foundation for people.

On August 3, 1977, the Minister of Public Works stated in an interview: “In a small country like ours, exclusive private ownership of land is nearly impossible, and we need to introduce a public domain concept for the land, except for housing and farming.” This is what led to the emergence of the public domain concept in Korea.

The public domain concept was criticized by many people for being in the public interest of land ownership. At

the same time, others advocated private ownership of land while promoting its public usage.

In short, the public domain concept discussed so far is not one that was researched from an academic or legal perspective but was rather a policy formulated largely based on Korea's reality and on a certain philosophical notion of the land.

Ever since the public domain concept was first broached, scholars of public law have used the term rather loosely, whereas scholars of private law have generally refrained from using it and have tended to be rather critical. These scholars have suggested that it is preferable to use the term "limited land ownership". They make the claim that in the public domain concept, ownership rights are divided into use, rent, and the right to sell, with the first two rights belonging to the private owners and the third right belonging to the state. Some have argued that this concept undermines Korea's system of private property because the implementation of the public domain would deny rights to private property and promote the nationalization of land or public ownership. This, they argue, is reminiscent of a feudalistic approach to land ownership. Second, some have contended that the public domain concept would violate the autonomy of individuals and strengthen the state's control, thus running afoul of the principle of self-determination, which is the foundation of a free democracy. This view

is based on the principle of freedom and the inviolability of the individual in a free democracy.

The public domain concept has been brandished about at the whim of policy makers who define it to suit their own agenda. It has thus become devoid of real substance and meaning.

In South Korea, the public domain refers to the use of land, a limited resource, in the best interest of the public welfare. The public domain was not promulgated to nationalize land through the expansion of public ownership or occupation. Land is not a mere commodity; it is an essential foundation for human life and production. For this reason, it should be possible for individuals to make effective use of it for public welfare in consideration of its location and yield. Enforcing the appropriate rules to ensure compliance with this purpose is the intent of the public domain concept. For this reason, the concept of public land ownership is new and designed to bring about a radical transformation of land policy.

The public concept of land ownership can be interpreted as reflecting the needs and requirements of the landowners, whereas the ownership of other forms of property is governed by strict social norms. Land ownership that equates to a right to survival should be protected, whereas any form of land ownership that is not tied to the right to survival

should be strictly regulated.

The debate over the concept of the public domain is not so much about land as a form of property as it is about land as a valuable resource for all the people. According to certain precepts, land constitutes a resource not only for the present generation but also for all future ones; it should be shared equally by everyone.

To support their call for the nationalization of land, some scholars have argued that “land is not replaceable,” “land is not an asset that we humans can produce,” “land is an essential source of food, clothing and shelter,” and “the characteristics of land contains public property concept.”

But these arguments are insufficient to define the concept itself. The author wishes to conduct a more in-depth economic analysis on why we should nationalize land and real estate, even though we have adopted a free market system based on private property (see Appendices 9 and 10).

Korean Land Nationalization: Comparison with Socialist Countries

It should be made quite clear that the rationale and purpose of a policy of land nationalization in a unified Korea will be quite different from countries in the socialist bloc. The rationale and purpose of land nationalization of communist and some socialist countries are as follows:

- (a) The communists believe that all means of production should be nationalized.
- (b) Land should be returned to public ownership, and the class of landowners should be overthrown.
- (c) This system is in fact used as a means of controlling the people. Thus, state and public ownership of land are seen as essential means to maintain socialist political power.

In contrast, the rationale and purpose of land nationalization in a unified Korea is as follows:

- (a) It is imperative for a unified Korea to adopt a land nationalization system that will perpetuate the nation's economic development without obstacles. Under this guiding principle, the purpose of adopting

a state-land system is to forestall the inherent cause of failure in a market economy, while ensuring that the market economy is sustained.

- (b) Based on economic rationality, South Korea will be able to be competitive, which is a pre-requisite to keep a market economy alive. What is more, the distribution of earnings will be based on economic justice in the pursuit of equality, fairness and social justice.
- (c) We want to ensure that land and real estate will serve their natural functions strictly as means of production, and prevent them from becoming a means of wealth accumulation, speculation and unearned income, which are the root causes of social conflicts.
- (d) The public domain concept of land is derived from economics, pure and simple. It has nothing to do with any political purpose to concentrate the power of a central government as seen in communist or socialist countries.

Under the Guise of Ideology, the State Ownership of Land in Communist Countries Is Aimed at Controlling the People

Even though they refer in a superficial way to the logic of economics in explaining their land nationalization policy, the communist and socialist countries have used the system for political purposes under the guise of ideology.

Conversely, in the case of a unified Korea, the concept is based purely on an economic theory, in pursuit of rationality and fairness and in the best interests of the people. Land nationalization in a unified Korea would not deviate from the market economy but would represent a more faithful approach to its underlying logic and purpose.

The State Ownership of Land for a United Korea is more in Line with the Logic of a Market Economy

On the surface, all systems for the state ownership of land look the same. However, the rationale and purpose of land ownership in a unified Korea is quite different from that in communist or socialist countries. The author wishes to stress that his arguments in favor of land nationalization should not be construed as an attempt to transform Korea's market economy. The market economy may not be an ideal, but in reality it is better than any alternative system.

An Economic Analysis of the Unique Character of Land

The Attribute of Land as a Factor of Production

Land itself is not a consumable. Instead, it is necessary for the production of goods and services. The marginal productivity (MP) of land increases as other factors of production increase, due to the complementarity between factors of production as is true in other cases too (see Reference 1 below).

With technological progress, the MP of land increases over time, as do the other factors of production. This causes land prices to rise. In this regard, land will generally move in the same direction as the other factors of production. However, land has a unique characteristic that is of critical importance to consider.

Particulars of Land

Due to the fact that land size is fixed, land speculation can become widespread and abusive, especially in a small country, once it is used as a means of wealth accumulation. In a situation where the land size is fixed, an increase in its demand will give rise to pure economic rent. Regardless

of other considerations, this will only benefit the land-owners (see Reference 2).

Some might argue that the size of pure economic rent can be taxed. However, in reality, we will find that such taxation does not work as might be expected.

Reference 1: The Cobb–Douglas Production Function

Below is an example of the Cobb-Douglas production function, which the author refers to in order to prove the complementarity between the factors of production.

$$Q = AK^\alpha N^\beta L^\gamma$$

where Q: Output

K: Capital

N: Labor

L: Land

Marginal product of land (MP_L) is:

$$MP_L = \frac{\partial Q}{\partial L} = \gamma AK^\alpha N^\beta L^{\gamma-1} = \gamma \frac{Q}{L}$$

When other factors of production (for example, capital) increase with the passage of time:

$$\frac{\partial}{\partial K}(MP_L) = \alpha \gamma AK^{\alpha-1} N^\beta L^{\gamma-1} > 0$$

Namely, if capital (K) increases, MP_L moves in the same direction. That is, it increases too. This is called the complementarity between the factors of production.

As seen here, an increase in other factors of production, technical progress and the increase in output, will raise the MP of land. This shifts the marginal revenue product of labor upwards, which is in fact the demand curve for land. The price of land rises accordingly.

Reference 2: The Supply and Demand for Land

Let us briefly analyze the supply of and demand for land. The demand for land curve slopes downward as the MP decreases. The demand curve is its Marginal Revenue Product (MRP) curve, which is marginal revenue multiplied by marginal product. Even if the marginal revenue in a competing market is fixed, the MRP, i.e., the demand curve of land slopes downward as the MP slopes downward. This is because of the law of diminishing returns.

The supply curve is vertical because the quantity of land is fixed.

The price of land, i.e., land rent, is determined by the downward sloping demand curve and the vertical supply curve. In these cases, there is no problem in obtaining the Pareto Optimum. However, if the demand curve moves up-

ward, in a movement caused by some other factor such as speculation, the price increase will result in benefits to the landowner only. This is unfair. A graph of this phenomenon will show a rectangular zone of new pure economic rent, which results in an unearned income and market failure.

How Did North Korea Come to This

In the courts of the Kim Dynasty in Pyongyang, people often point the finger at the United States. But do all countries opposed to Washington suffer from starvation? There is no doubt that the debacle in North Korea is attributable to the cult of personality, as well as the fatal flaws in its ideology and policies.

To the author's knowledge, the fatal flaw of communism is due to the fact that Karl Marx was unable to fully grasp the importance of technological progress over time. He predicted that capitalism would undoubtedly shift to communism once workers started suffering from poverty as exploitation by capitalist continues. But history has failed to work in the way that Marx predicted it would.

Contrary to his prediction, workers have not been reduced to the level of beggars. Instead, history has witnessed real wages increasing as a result of capital accumulation and technical progress. The history of the United States offers quite dramatic proof of this. In fact, the only countries that have actually collapsed have been those that have adopted communism. China is hardly an exception, since it developed principally because it introduced some key aspects of the market economy. In spite of this, as long as

its communist political dictatorship persists, it will reach its inherent limits sooner or later.

North Korea was established by the former Soviet Union with Kim Il-sung at the helm. It would appear to be incapable of coming out of its cocoon. In order to survive between the two great powers of the Soviet Union and China, Kim Il-sung took the fatal decision to create the independent ideology of *Juch'e*. But the call for economic self-reliance, as demanded by the ideology of *Juch'e*, has led the North Koreans to complete and utter economic failure.

A small-scale economy can hardly survive when it is closed and cannot meet its basic needs. Rejecting comparative advantage lines and advocating a closed system instead is the equivalent of a death wish. North Korea has experienced colossal failure due to its closed economy and borders and its exclusive reliance on limited barter with other communist countries.

The ideology of *Juch'e* and the cult of personality cannot help a country survive. The concept of self-reliance, which started as an extension of *Juch'e*, and the cult of personality for Kim Il-sung, has led to the complete isolation of the North Korean people from the outside world. Under these circumstances, they have had no other option than to call for more and more stringent form of economic self-reliance. In the end, this approach has failed to meet the basic needs of the people.

In South Korea, there are some people who work for the regime in the shadow of secrecy; but what is far less comprehensible are those intelligent, decent individuals who support North Korea. Many might claim to do so for strategic purposes, while some others are genuinely sympathetic towards Pyongyang.

For instance, mention should be made of the Federation of Collegiate Students Associations, which has been rather submissive towards North Korea. In the course of the struggle against the dictatorship of President Park Chung-hee, it is presumed that there were quite a number of university student bodies that showed sympathy toward North Korea.

Since they were opposed to President Park Chung-hee, they might have found empathy in North Korea, given its opposition there to him. However, now the era of military dictatorship is gone, and it would be unfortunate if the mindset of some of these students were to persist in this new age of democracy. It would be an extremely dangerous situation if some schoolteachers who fought against the military dictatorship as college students in the past adopted a pro-North Korean, anti-U.S. stance. Their influence on many innocent youngsters would be a very serious problem indeed.

Can South Korea Set Aside 1% of GDP?

Some people might question investing such a large sum of money amounting to 1% of South Korea's GDP in development projects in the North, all the while some South Koreans are struggling in the South. Nowadays, we can see a shrinking middle class and the bipolarization of South Korean society, not to mention a shortage of employment opportunities. Although these concerns are understandable, they do not constitute the whole picture.

It would be foolish to think that reunification will just happen naturally, with no significant action undertaken by South Korea. Some are concerned that earmarking 1% of South Korean GDP to achieve this goal will hurt the economy; they are convinced that they will not be able to bear the burden. But an in-depth analysis of macroeconomics proves that these concerns are unfounded.

Recall that all physical capital for this SOC program is to be produced and supplied by South Korea. It is estimated that approximately 80% of this physical capital will end up in the hands of South Koreans as income. This will increase the aggregate effective demand for the economy as a whole and will in consequence initiate a multiplier effect. As a result, production will be stimulated and the

economy revitalized. The effect of this phenomenon will reverse the economic downturn.

In addition, the social infrastructure investment in North Korea will constitute the first stop on the road to a successful reunification. The sooner South Korea begins, the better the chances of substantial benefits that will offset the costs, most of which will be incurred over the longer term. In the meantime, the North Koreans will be gradually “deprogrammed” and in time will come to look upon South Korea more favorably. In turn, this will accelerate the pace of the reunification process. This is the stage at which the economic gains and benefits will become more apparent to all; it will mark a veritable turning point.

In short, South Korea should no longer harbor any doubts about the return on its investment in North Korea. The moment is ripe to take action.

To Fellow Koreans the World Over!
Let's Band Together to Achieve Reunification and
Live a Prosperous Life!

Let us achieve reunification through our joint efforts!
Let us all live prosperously and with pride!

Let us shed our apathy and move toward a perspective that focuses on the task of reunification. Reunification will not come automatically if we protect ourselves only with an anti-communist frame of mind. We need to make reunification happen with our own hands. Look around the world, as you may, you will not find anyone to make reunification happen except for us. We must do it ourselves. If the people who need to do it remain idle, nothing will happen. The North Korean authorities are without qualification; the North's people are without capability. The task ultimately is in the hands of the people of the South. The South Korean people should be encouraged.

Ignoring the task of reunification and maintaining the status quo may sound comfortable, but we must continue to expend a colossal amount of division costs, if we continue to live this way. We must move away from this misery and turmoil. We must prevent our children from inheriting this unfortunate na-

tional situation. This current generation of South Koreans must resolve this for our descendants.

Let us take a good look at our reality. We can comfortably manage the cost of reunification; and the sooner the reunification, the cheaper it will be. Reunification is not a burden, but an opportunity. It is not just going to make ends meet, it will be an economic jackpot. A historical period of high economic growth and an abundance of jobs await us.

Do you still want to be part of the trend that remains indifferent, treating the cause of reunification as a taboo subject and just getting on with things? We must all take a hard look at reality. We must not ignore reunification itself by saying that only individuals who submit to the Kim regime in the North actively call for reunification. Let us take a look at the issue of reunification itself.

Once we understand that reunification is good for us and have decided to achieve it, what must we do? We must rule out reunification by force. Instead, we should move toward reunification based on the superiority of the South Korean economy. The best way to achieve reunification is to move the hearts and minds of the people of the North through the persuasive power of the South's economy.

Given the present conditions, where the people of the North continue to cling in desperation to the Kim dynasty, it may be feared that the Northern regime will not collapse even in 40 or 50 years' time. Let us not daydream that reunification will suddenly happen, some day.

Instead, let us begin to conceptually separate the North

Korean residents, the oppressed class of people, from the ruling hierarchy. Help needs to be given to the residents, even if this means potentially and unwillingly propping up the Pyongyang regime to a certain extent. Our airtight defense posture is such that we will be able to ward off any attempt at aggression. We should not lose sight of the main objective because of ultimately trivial concerns.

The most effective way of reaching out to the North Koreans is with the implementation of major social infrastructure projects. All these will take is just 1% of South Korea GDP. We are not going to turn the management of the project over to the North Korean authorities. Moreover, all the physical capital will be produced in the South. It is estimated that around one-fifth of the total physical capital invested will directly benefit the North Korean workers. Let us follow this path and work to the very end with perseverance and determination. Public sentiment ultimately moves Providence. The author is certain our ardent hope will be answered before long.

Sound preparation is a pre-condition for success. In this regard, several important steps must be taken to achieve our ultimate goal.

- We need to carry out a separate economic management plan for the North for a post-unification period of 10 years.
- During this period, military expenditures should be limited to 1% of GDP.
- All physical capital to be invested in the North should

be produced in the South under the “Buy Korean” Policy, with some inevitable exceptions.

- The original owners of land and real estate in the North will be compensated in cash rather than in kind. North Korea’s state ownership system will be preserved, while the system in South Korea’s will be gradually integrated with the North Korea system, over the very, very long term.

If the entire unification process is completed successfully in the course of the first 10 years, with the merging of the different systems between North and South Korea, the people of a united Korea will be able to live a dignified and prosperous life in a strong, stable country. We will be proud of achievements that will be handed down to our children. Today, this may sound like a fairy tale, but if we work together, we will be able to achieve this goal.

God bless Korea!

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