



# Beyond Cultural Homogeneity?

Economic Cooperation between North and South Korea :  
Lessons from the German Unification

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# 1. Starting Point: Nation

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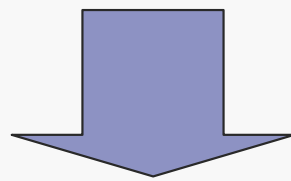
- ❖ Not full understanding of the socialist economy. Instead the cultural homogeneity ('nation') kept from profound analysis of socialism and communistic dictatorship. No expertise for economic integration!
- ❖ Capitalism: not only free competition and private property, but also *individual creativity and creative destruction* (Smith + Schumpeter) = instrumental rationality
- ❖ Socialism: not only forced work and collective property, but also *collective 'equality' and stagnation and (Marx + Engler) = system rationality*

## 2. Economic Integration in Germany

### 2.1 .Financial Transfer for Economic Transformation

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- ◆ Promise of Politicians (e.g. Helmut Kohl: his words : “bluehende Landschaft”) implying “we will achieve the western german economic standard in East Germany within 3–5 years)



- ◆ solidarity pact (“Unification costs”)

# Exploitation of West Germans by East Germany?

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◆ Net Financial Transfer from West to East (unit: billion Euro)

◆	1990	1991 – 1999	1991–2003	1991–2004	1990–2006
◆	<hr/>				
◆	29,7	630,4	900	1200	1400

◆ Fed.gov. inclus. EU: major grantor

◆ *Expenditures: Social Insurance*

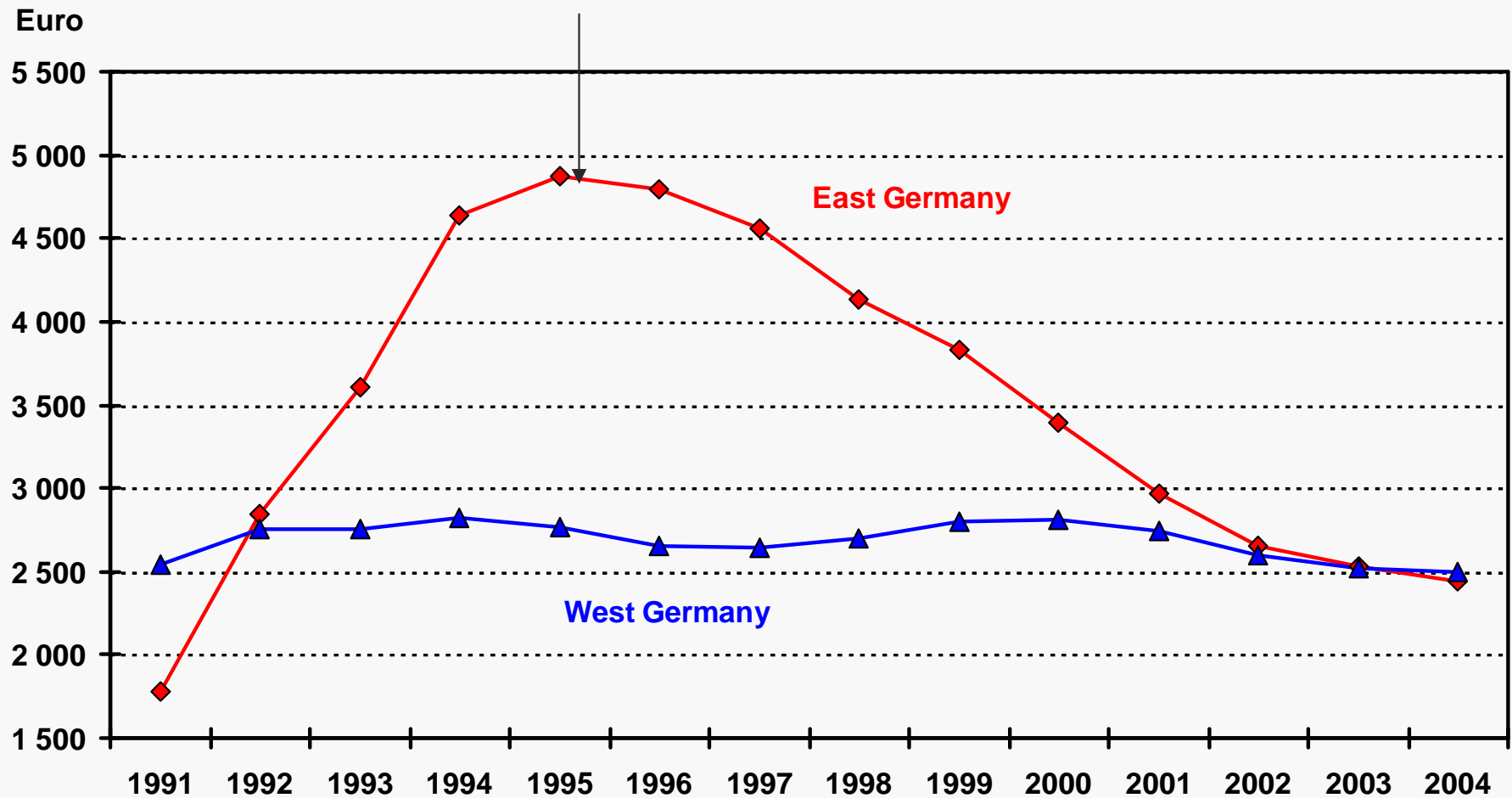
◆ *infrastructures*

◆ *diverse subsidies*

◆ *economic promotion for investment*

◆ *(Schroeder 2006)*

# Construction investment per capita (current prices) after unification: ‘construction boom’



# Consequences of financial transfer

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- ◆ Transfer till 2019
- ◆ Expenditures preferably for consumptive investment (e.g. social insurance....), not primarily for productive investment
- ◆ The net financial transfer: 4–5% of GDP
- ◆ West german local communities lack urgent investment in infrastructure entailing higher debt

## 2.2. Privatization of state-owned companies (1994) (Ludwig 2007)

Results of Activities	Stock of Enterprises		Ownership	Stock of Enterprises	
	Number	in %		Number	in %
<b>Liquidation</b>	<b>3 661</b>	<b>30.5</b>	-	-	-
<b>Municipalization</b>	<b>263</b>	<b>2.2</b>	<b>Local Authorities</b>	<b>263</b>	<b>3.2</b>
<b>Re-Privatization</b>	<b>1 571</b>	<b>13.1</b>	<b>Former Proprietors</b>	<b>1 571</b>	<b>18.8</b>
<b>Privatization</b>	<b>6 514</b>	<b>54.2</b>	<b>Management-Buy-Outs</b>	<b>2 697</b>	<b>32.3</b>
			<b>West German Investors</b>	<b>2 962</b>	<b>35.5</b>
			<b>Foreign Investors</b>	<b>855</b>	<b>10.2</b>
<b>Total Result</b>	<b>12 009</b>	<b>100.0</b>		<b>8 348</b>	<b>100.0</b>
<b>Trustee Agency</b>					
<b>Net Stock</b>	<b>354</b>		<b>State Owned Enterprises</b>	<b>354</b>	
<b>Gross Stock</b>	<b>12 363</b>				



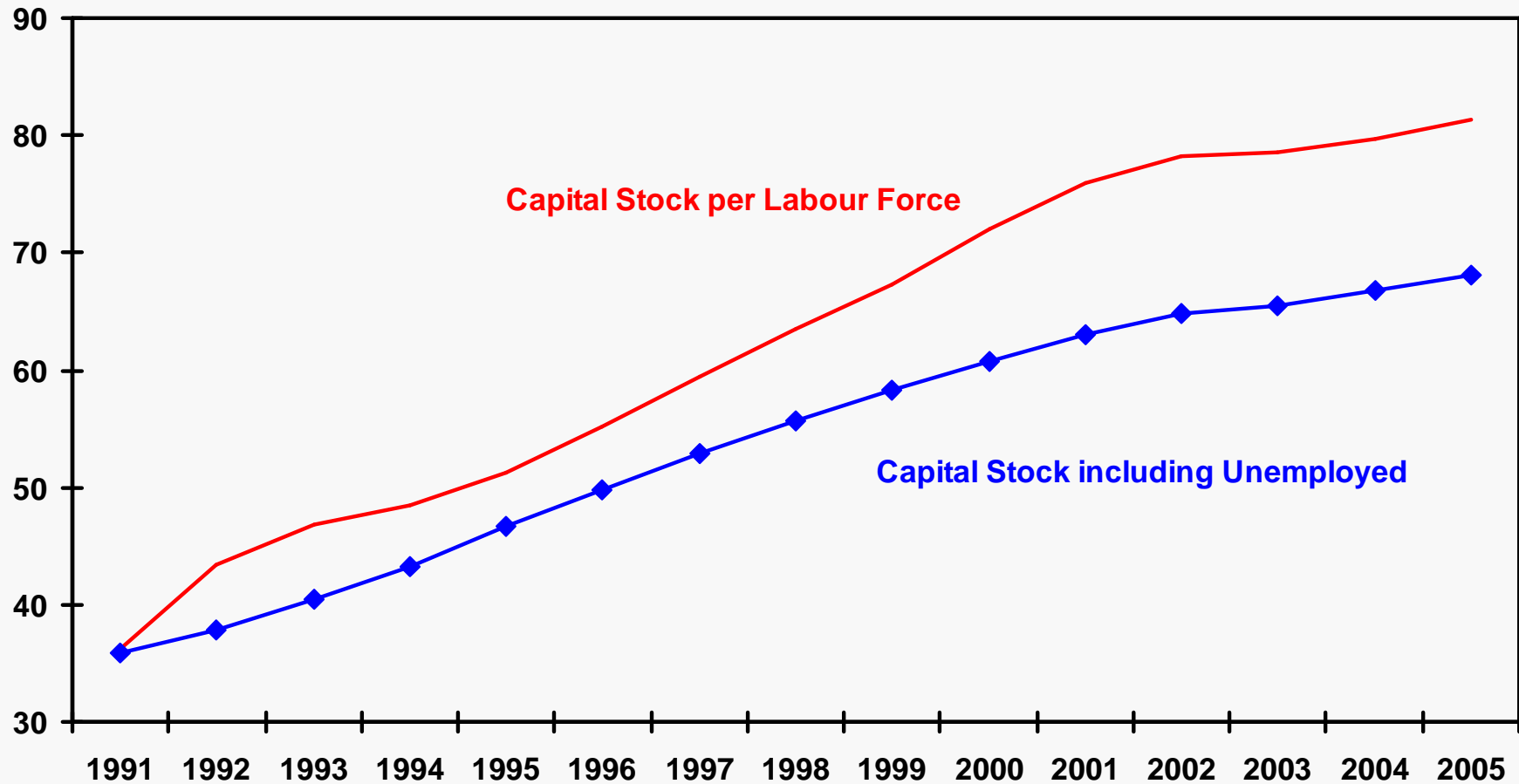
# Result of privatization

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1. Without concept of regional and industry policy 'privatization within a very short period' – crash or gradualism?
2. Without expertise and capability of the Treuhandanstalt
3. 'filets in german hand'!
  - ◆ East German Owners: 79%
  - ◆ West German Owners: 9,0%
  - ◆ Foreigners" 2,0%

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- ◆ 4. privatisation of 'Kombinat' *in toto*  
impossible → management-buy-out (MBO) – 2697 cases and west german investors' preference for MBO
  - ◆ 5. From the Kombinat economy to SM-sized economy: majority of the east german economy: sm-sized enterprises
  - ◆ East Germany: companies with 1000 persons – 13% of total labor force; in West Germany 41%

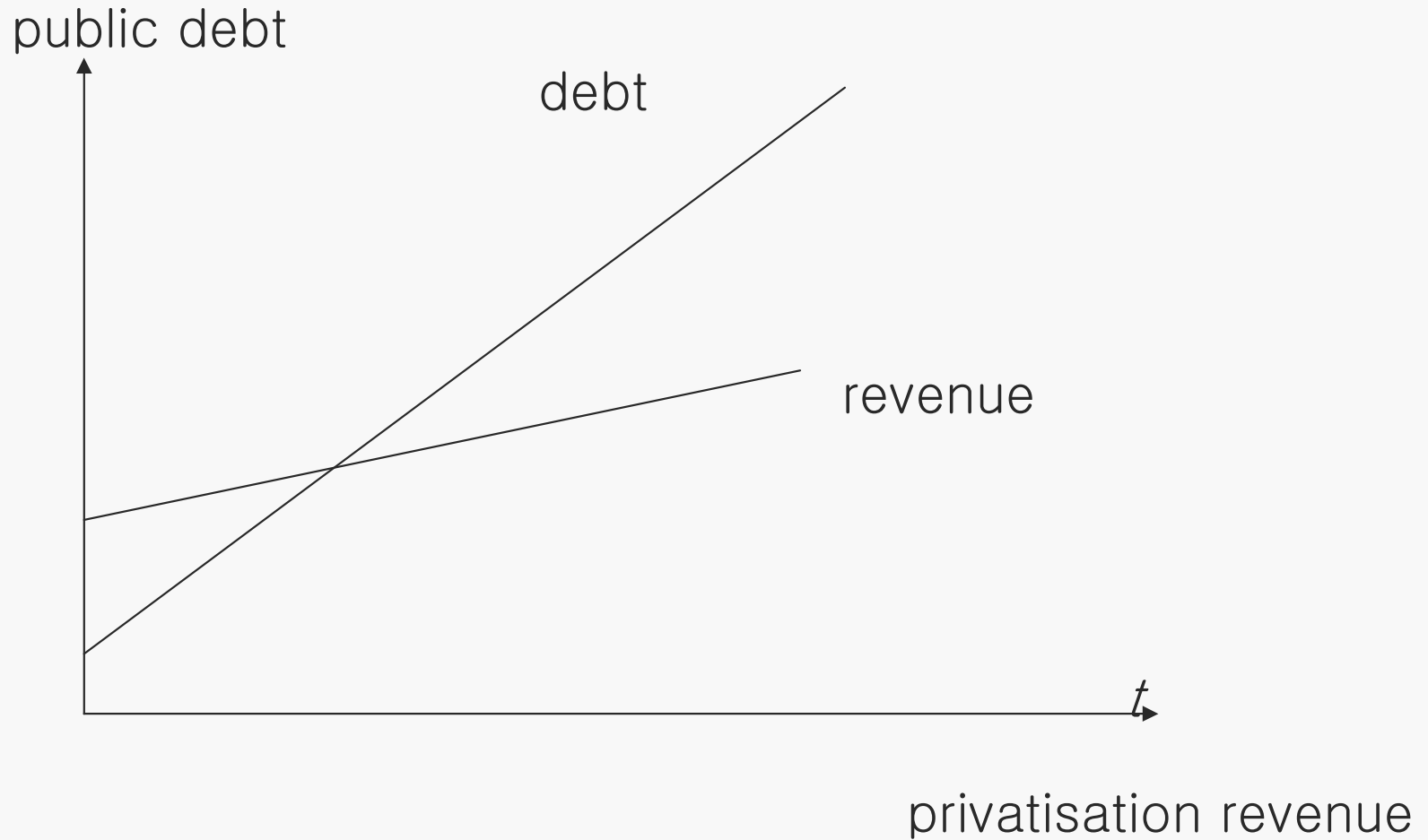
# Gap of real capital in private sector of East Germany compared with West Germany (=100) (Ludwig 2007)



# Increasing debt by privatization

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- ◇
- ◇
- ◇
- ◇
- ◇
- ◇
- ◇
- ◇
- ◇
- ◇



# Reasons

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- ◆ For privatization the Treuhandanstalt had to pursue huge expenditures for
- ◆ Corporate restructuring
- ◆ Employment guarantee
- ◆ Investment guarantee
- ◆ Environmental protection

## 2.3. Currency, Economic and Social Union (1990)

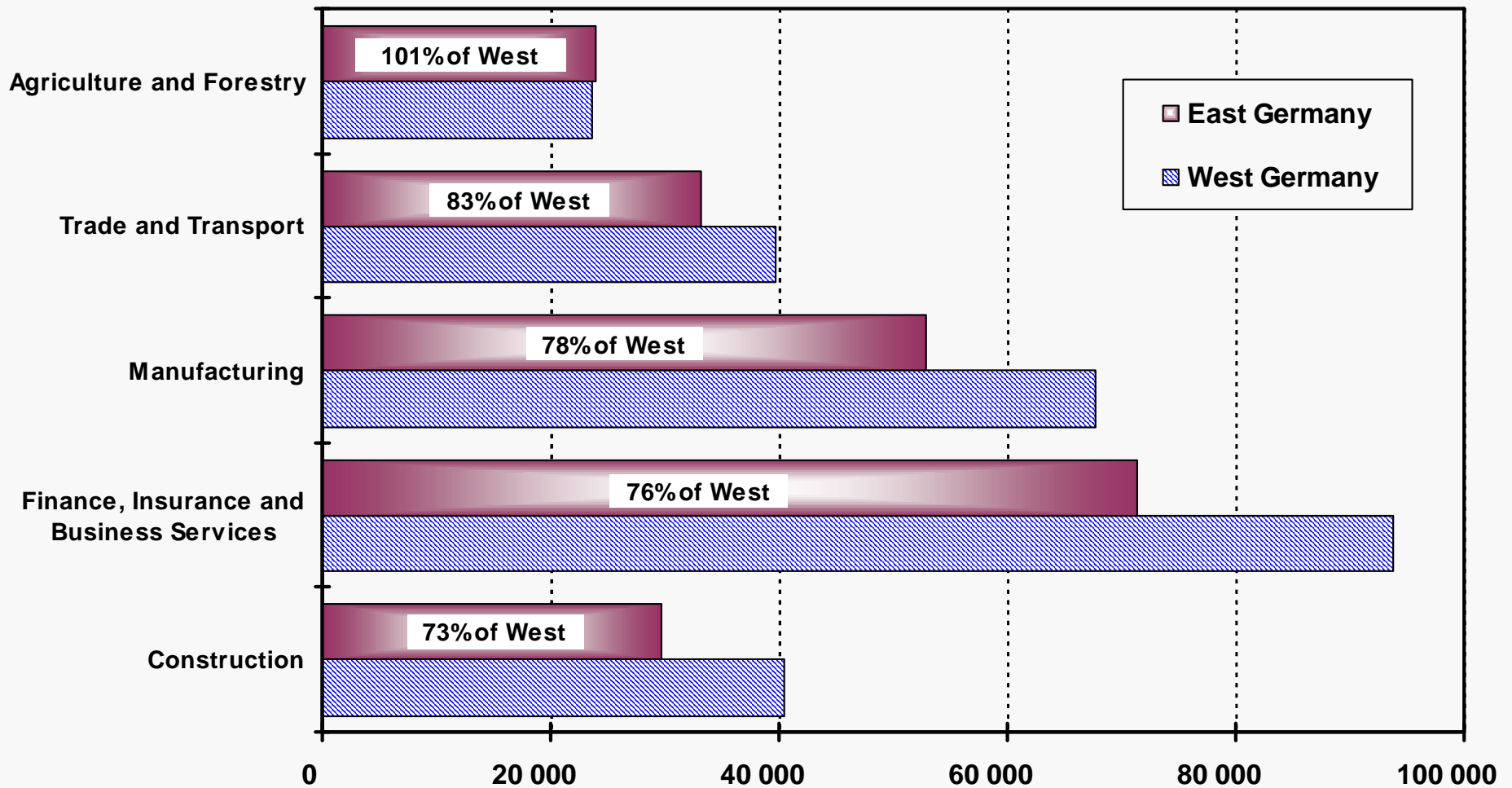
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- ◆ Market (black) exchange rate: 20:1; 'official exchange rate':4:1
- ◆ Debate on exchange rate between 1 West German DM against 2 East German DM
- ◆ Political decision: 1 : 1
- ◆ Argument by the government: in case 1:2 a kind of exodus from East Germany to West Germany would be possible : '*political argument against economic rationality*'

### 3. Convergence or Divergence between East and West Germany

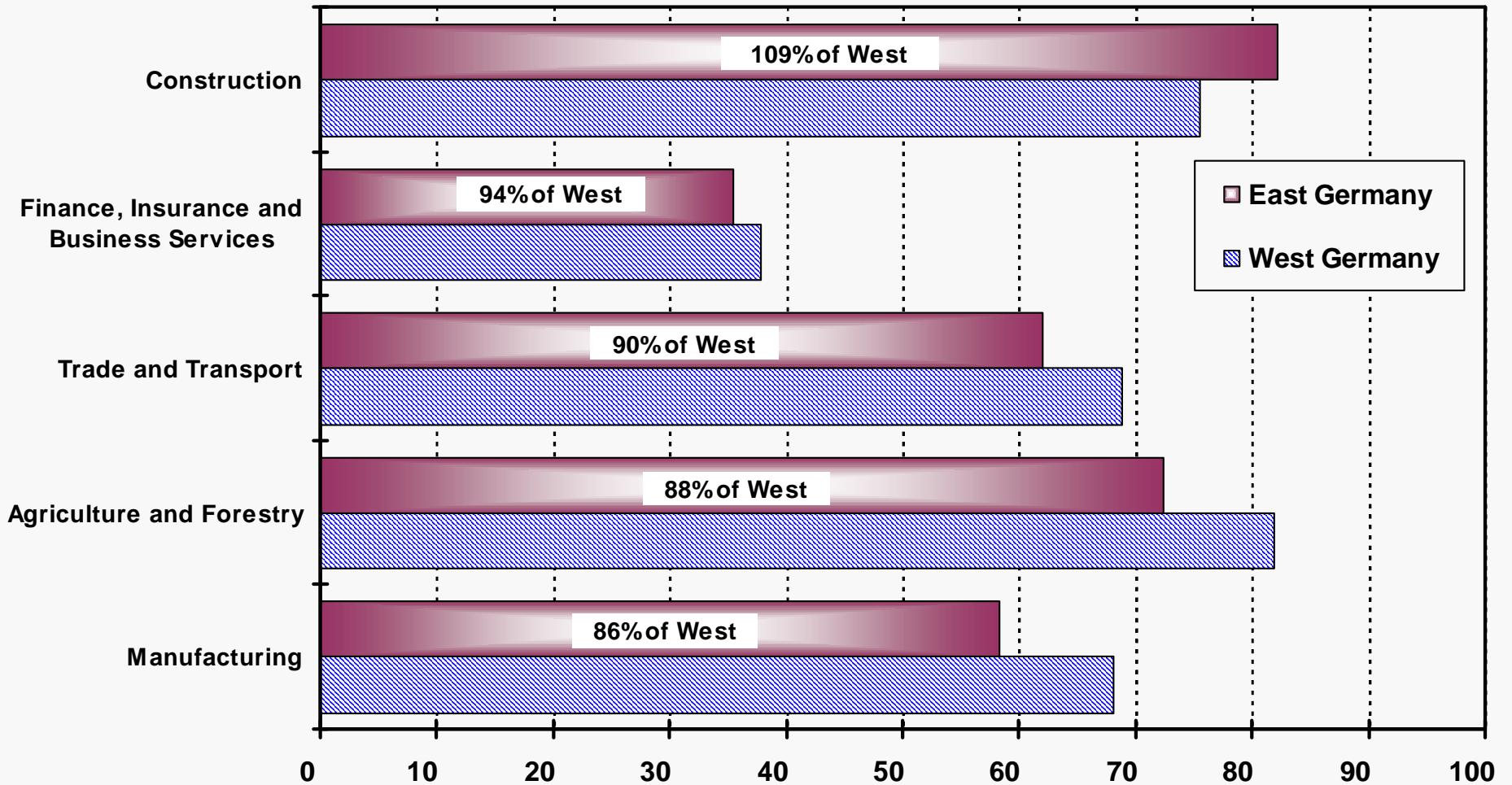
- .after the unification: productivity gap –  
West Germany 100 : East Germany 40–  
50 (???????)
- .then currency union 1:1 – loss of  
competitiveness of East German  
companies
- .loss of their major markets in East  
Europe

# Productivity between East and West Germany 2006 (Ludwig 2007)





# Unit Labor Costs Gap



Major Reason for this convergence:  
wage equalization between East and West

Germany

- ◆ Politicians: 1:1 till mid 90ties
- ◆ Wage convergence:  
West = 100  
East 90,0 (1997)  
91,9 (2000)  
94,6 (2005)
- ◆ Work Attitude (morale and creativity)  
convergence????????????????

West Germany = 100

	1992	1995	2000	2004	2006
<b>Labour Force Participation</b>					
East Germany	87	81	80	81	80
West Germany	75	75	78	79	80
<b>Reg. Unemployed</b>					
East Germany	15	14	17	18	17
West Germany	6	8	8	9	9
<b>Total Unemployed</b>					
East Germany	33	24	22	22	20
West Germany	8	10	9	10	11
<b>Active Labour Force</b>					
East Germany	64	65	64	65	66
West Germany	70	68	71	71	72

West Germany = 100

	<b>1991</b>	<b>1995</b>	<b>2000</b>	<b>2006</b>
<b>Disposable Income per Capita</b>	<b>52.1</b>	<b>74.4</b>	<b>79.9</b>	<b>78.3</b>
<b>Private Consumption Expenditure</b>	<b>55.2</b>	<b>74.1</b>	<b>80.2</b>	<b>78.9</b>
<b>Savings Rate per Capita</b>	<b>28.1</b>	<b>70.4</b>	<b>69.1</b>	<b>65.1</b>
<b>GDP per Capita</b>	<b>33.6</b>	<b>60.6</b>	<b>63.1</b>	<b>67.9</b>
<b>GDP per Labour Force</b>	<b>35.2</b>	<b>66.4</b>	<b>72.2</b>	<b>77.8</b>
<b>GDP per Working Hour</b>	<b>-</b>	<b>-</b>	<b>67.1</b>	<b>73.5</b>

# 4. Lessons for Korea

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- ◇ Economic Transformation impossible by means of “Nation”, “Nationalism”, and domestic political strategies :Cultural homogeneity as a fiction!
- ◇ Economic cooperation does not necessarily lead to the unification
- ◇ Economic Cooperation= South Korean transfer of labor-intensive industries (manufacturing) to North Korea
- ◇ *Economic cooperation should be left to calculation of private economy, not instrumentalized for political gains.*
- ◇ Peaceful coexistence of market economy and socialist economy

# More precisely!

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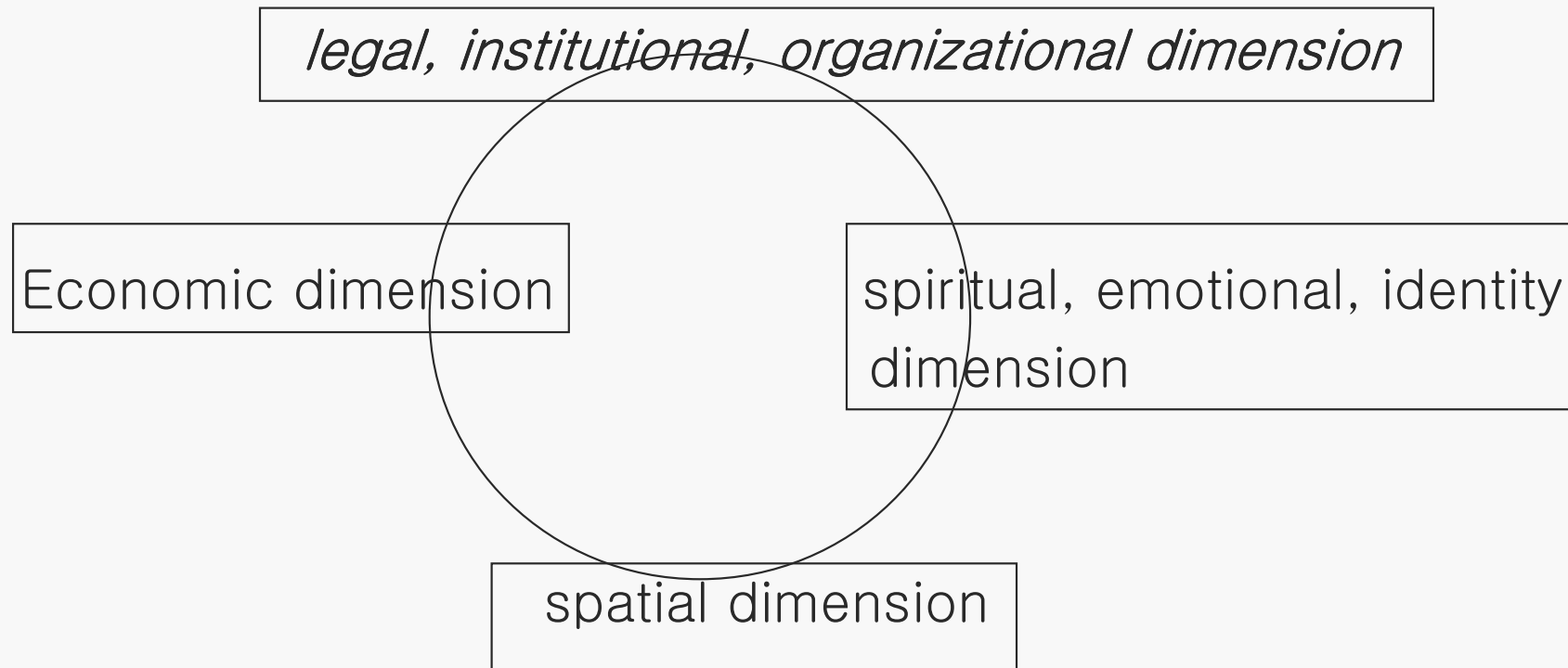
- ◆ Profound *expertise* about ‘socialist economy’ and ‘socialist human-being’
- ◆ aid for *reform and opening*, and self-reliant development, yes, but no ‘german-type net financial transfer to NK’
- ◆ *Integration* of NK economy into the regional cooperation scheme, yes; but no ‘unification by koreans themselves’

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- ❖ No german-type privatization, but gradual strategy in close connection with reform and opening, and sustainable industrial restructuring of NK
  - ❖ No german-type currency union, but, first of all, efforts to enhance productivity based on bringing the principle of competition and efficiency into mind of NK people

# German Experiences and Korean Perspective

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## ◆ New unification connotation





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–German reality:

Division after the Unification

Ossi versus Wessi

–Korean reality and Perspective

Division in South Korea before the  
Unification

–” As Long as we talk on the *unification of Koreans themselves* we get increasingly distance from the unification.”

# Lit.

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- ◆ Ludwig, Udo 2007: What have we learned about Economic Transformation in East Germany? (ppt version lecture in Berlin)
- ◆ Schroeder, Klaus 2006: Die Veraenderte Republik. Deutschland nach der Wiedervereinigung, Muenchen
- ◆ Park, S.J. et al 2006: System transformation in Comparative Perspective, Berlin