Panel Discussion

How to Achieve Cooperation and Peace in the Korean Peninsula and Northeast Asia:
Monetary and Economic Integration

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DISCLAIMER: The views expressed in this presentation represent those of the presenter and do not represent those of the IMF.
I. Introduction

- A growing interest in unification for long-term prosperity

- Its economic effects depend on the type and structure of unification.

- Overview the issues of immediate integration in the context of different (political and) economic integration approaches.
Ⅱ. Unification Scenarios
(Political and Economic Integration)

✓ **Unification scenarios** are based on the timing and pace of political and economic integration

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### Rapid and Radical Political Integration

- **one system, one economy**
  Radical, East and West Germany, Political initiative, Unitary state

- **one system, two economies**
  Eclectic, Separate economies, Two regions under one system, SAR
The effects of unification on the potential growth of North and South Koreas will greatly depend on whether **two economies** are allowed to coexist.

- **Rapid unification involves large costs**

- A ‘**one system and two economies**’ approach allows radical political integration and **gradual and staged economic integration.**
III. Issues on the ‘One System and Two Economies’

- ‘one system and two economies’ scenario
  - Immediate introduction of a market-economy system within the North Korean region
  - Shaping an autonomous economic policy
  - Designing and building institutions to ensure South-North economic cooperation
Sectoral Frameworks for Robust Economic Integration

- Goods and Services Market
- Labor Market
- Capital Market
- Government/Public Sector

Monetary and Financial Sectors
North Korea Sectoral Purview:

**Demographics and Labor**
(J. Choi, 2015)
- North Korea entered *Aging Society in 2004* and saw low population dividends (much lower than China and Vietnam)
- Unification: Slow entry into Aged Society by 4 years (2018→2022) with no effect on the peak year of working age population

**Industry Structure**
- Input-output table (UN) analysis—manufacture, agriculture, and services: Similar to the 1970-80s structure of S. Korea
- Informal sector is growing (J. Choi, 2016)

**Investment and Growth**
- The 2012 “Woori-style Economic Management Tools” allowed marketization, apart from the planned economic sectors
- Economic catchup strategies could consider labor pool and natural resources (J. Choi and K. Lee, 2014)

**Monetary and Financial**
- The 2009 monetary reform accompanied sharp price changes and *dollarization-yuanization* (J. Min and S. Jung, 2014)
- Dollarization-yuanization offered safe transaction methods, which helped temper uncertainty
- Mono-banking system (B. Kim, 2014)

*Aging (Aged) Society: 7-14% (14-21%) of the population is over 65 years*
Monetary Policy Framework and Exchange Rate System

**Two currencies in transition?**

- **Two-currency system**: Build economic institutions for **autonomous monetary and exchange rate policy**

- **New currency in the north region**: Implement monetary and FX policies to **buffer large shocks** in transition

- **Managing spillovers**: Separate central banking systems help **reduce spillovers** between the North and the South
IV. Impacts on, and Cooperation for, the Regional Economy

- Capital inflows (initial overshooting or undershooting)—need for stable funding for long-term development
  - FX operation account and currency swaps
  - Long-term equalization bonds (e.g., Germany)
  - Land fund in transition (e.g., HK SAR for 1986-1998)

- NK development conducive to robust growth and positive spillovers
  - Increase the market size and economic efficiency of the Korean peninsular
  - Boost the regional economy as a new epicenter of growth impetus
Cooperation and Peace in the Korean Peninsular

- Political, social, and cultural interactions as well as economic linkages are integral
- Challenges to balancing all linkages for robust prosperity
- International cooperation:
  - Investment funding from international capital markets or organizations
  - Time to build human capital: front-loading technical assistance and training
References


