
The ARI-ANU-Brookings-KIEP Joint Conference
Korean Unification: Prospect and Global Implications

February 27–28, 2017

The Brookings Institution

Panel Discussion

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

February 28, 2017

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

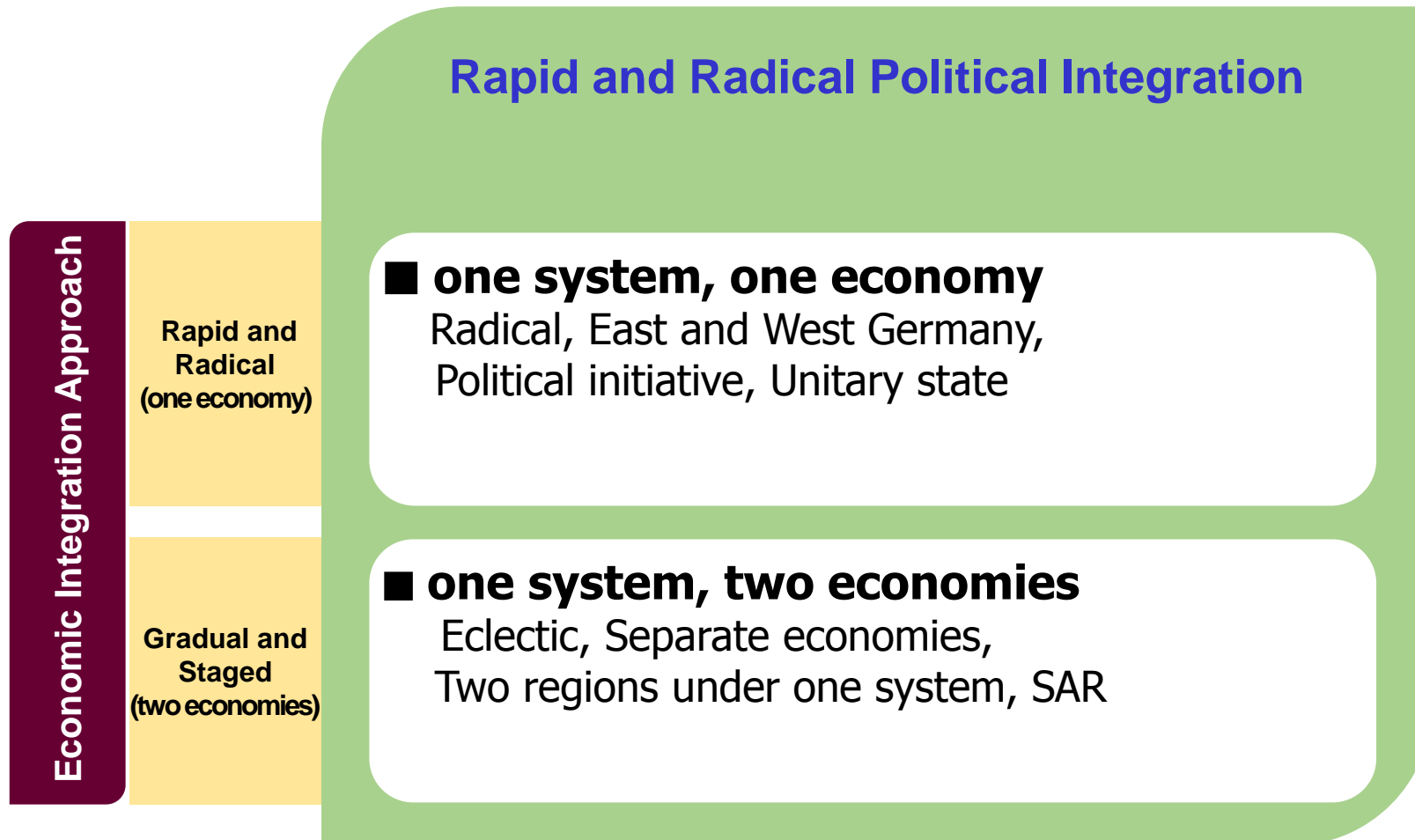
I . Introduction

- 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*



Economic Integration Approaches

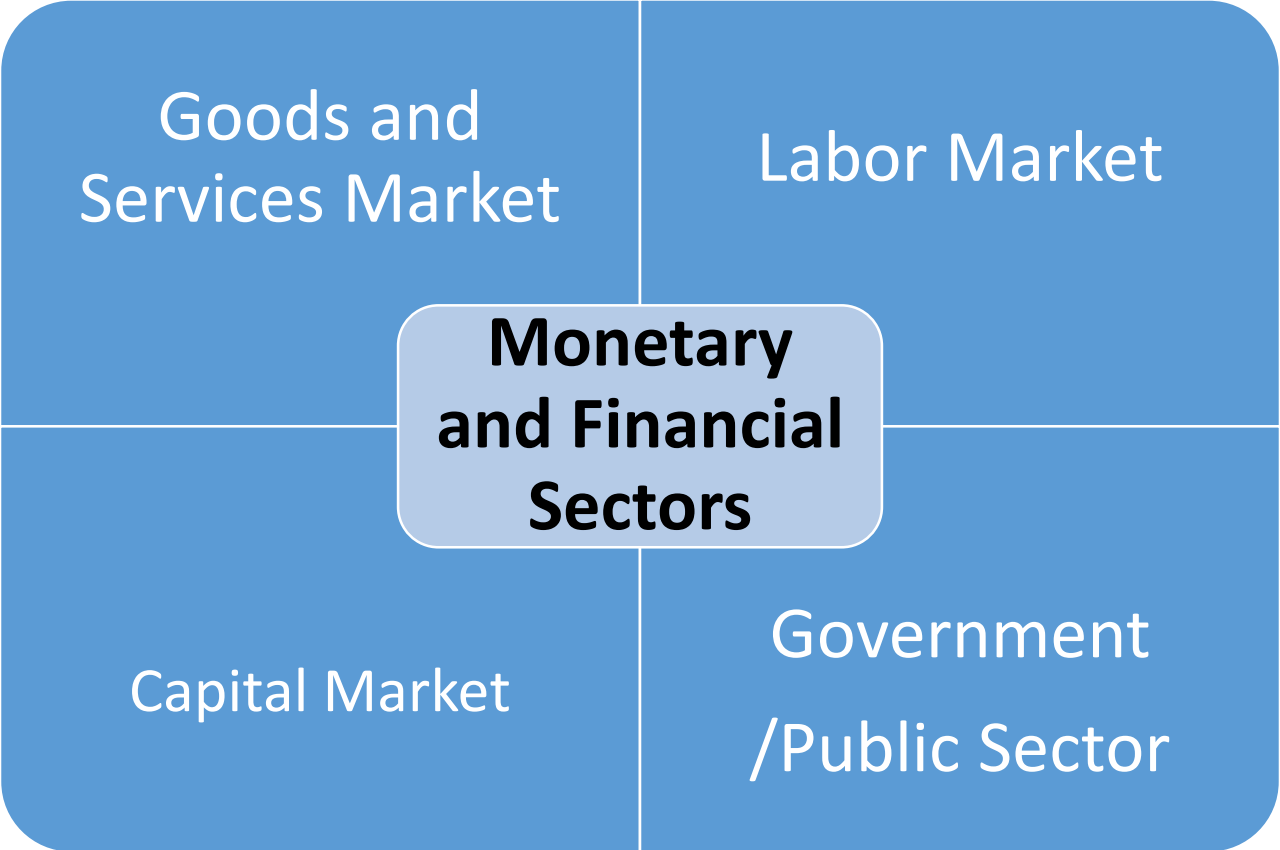
- The effects of unification on the potential growth of North and South Korea will greatly depend on whether **two economies** are allowed to coexist.
- **Rapid unification involves large costs**
- A **'one system and two economies'** approach allows radical political integration and **gradual and staged 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



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

Aging (Aged) Society: 7-14% (14-21%) of the population is over 65 years

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)

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

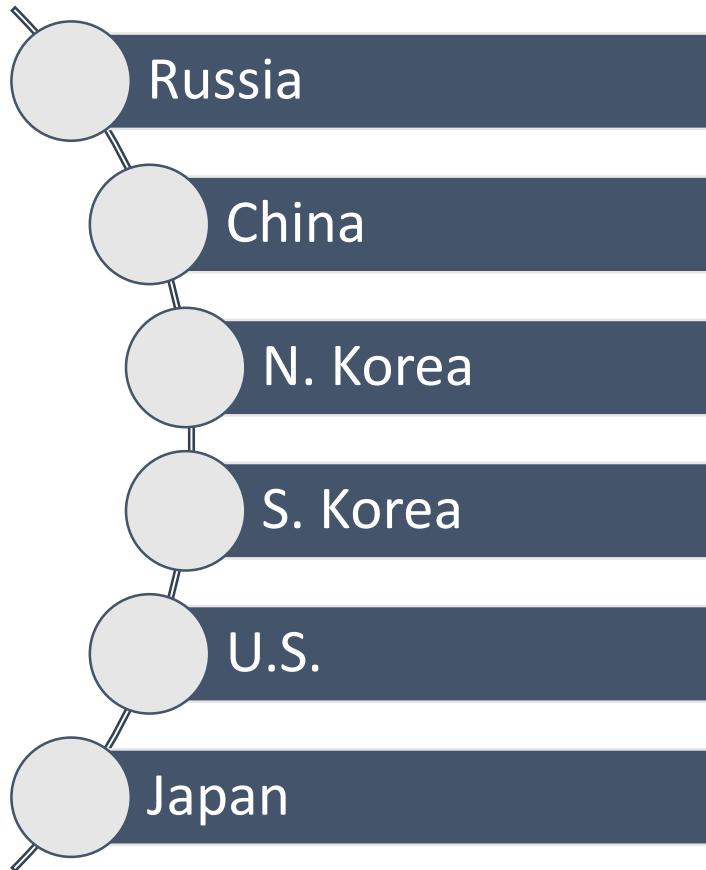
Separate central banking systems help **reduce spillovers** between the North and the South

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

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