Preparing for the Possible: Korea Integration Proposals in the Event of a Sudden Collapse of North Korea or Sudden Reunification

by

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I. Introduction

What would happen in case of a sudden collapse of the North Korean government and/or a rapid, unexpected reunification of North and South Korea? Would millions of North Korean refugees and migrants flow into South Korea? If so, where would they stay? Where would they find employment? How would they receive medical care? How would they be educated? Could the existing infrastructure support such numbers?

The purpose of this paper is not to advocate a regime change or the collapse of the North Korean state. Rather, its purpose is to share ideas and proposals as springboards for further discussion among policymakers in preparing and developing a contingency plan regarding the social and economic integration of North and South Korea in case a sudden reunification with North Korea or collapse of the North Korean government, by whatever circumstances, should actually occur. If South Korea were caught unprepared and without a contingency plan in place, the various social and economic issues that would arise from a potential inflow of millions of North Korean refugees and migrants would be too daunting and imminent to address carefully and effectively. It is prudent to consider such issues now.

This paper is divided into three parts. First, it examines South Korea’s current scheme for supporting and integrating North Korean refugees already in South Korea and the urgent need for a contingency plan. Second, it outlines the legal framework under South Korean law and the status of North Koreans as citizens of the Republic of Korea, or South Korea. Finally, it sets forth ideas and proposals for further discussion and consideration, including preparation for the provision of food, medicine and other necessities, job creation, staged privatization, the granting of land ownership to North Koreans, education, currency conversion, a transitional period with limited freedom of movement between the Koreas to provide time to build up the North’s economy and infrastructure, and funding.

II. Current Regime for Supporting and Integrating North Korean Refugees Already in South Korea

The current regime for the settlement of North Korean refugees in South Korea is a valuable source of information regarding the economic costs and social challenges of integrating North Koreans into South Korean society. It can be utilized as a reference to roughly estimate costs and predict some of the issues that will likely arise if the number of such refugees or migrants from the North were to increase dramatically in case of a sudden reunification.

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1 John Chi, Chris Kang, Charles Kim, Claudia Kim, Woojae Kim, Dongho Lee, Frank Lee and Derek Roth of Paul, Hastings, Janofsky & Walker LLP, Joseph Suh of Hogan Lovells, Seungyul Yum of Kim & Chang, and Yeohoon (Julie) Park of Georgetown University Law Center all contributed to this paper.
1. **Number of refugees and basic settlement and benefit scheme**

   According to South Korean government statistics, the total aggregate number of North Korean refugees who have entered South Korea as of July 1, 2010 is approximately 19,300, and is expected to exceed 20,000 by September 2010. The current assistance program for such North Korean refugees is embodied in the Act on Protection and Settlement Support for Residents who Fled North Korea (the “Act”). Under the Act, various government entities are involved in providing assistance to North Korean refugees and helping their integration into South Korean society, including The Ministry of Unification (e.g., administration of “Hanawon” discussed below), The Ministry of Knowledge Economy (e.g., a special school for students from North Korea) and The Ministry of Hygiene and Welfare (e.g., settlement grants to minors from North Korea). Some of the assistance and benefits provided under the Act are discussed below.

2. **Initial training at Hanawon and Hana Centers**

   North Korean refugees who are eligible for benefits and assistance under the Act (as determined by the diplomatic and national security authorities of South Korea) initially go through a basic, introductory transitional training program at “Hanawon” which consists of 420 training hours over a 12-week period. Through Hanawon, newly arrived North Korean refugees receive a physical examination, counseling and basic job training, and take introductory courses on South Korean society and settlement benefits. Currently, two Hanawon facilities have capacity for training roughly 1,000 refugees at any given time and 4,000 refugees per year. With the increase in the number of refugees entering South Korea in recent years, there have been discussions about opening an additional facility in order to increase capacity. The Ministry of Unification recently announced plans to open a third facility with a capacity for 500 refugees. If the project proceeds, construction will begin March 2011 and is scheduled to be completed by 2012.

   Recognizing the limitations of a one-time, 12-week training program, however, the government has provided, and has recently been increasing the number of, “Hana Centers,” which are small, local centers that provide employment assistance and help refugees adapt to local life. The Hana Center program consists of 3 weeks of intensive training on education, health management, cultural understanding, social life and employment, with continued monitoring and follow-up for a one-year period. Initiated in 2009, the test run of Hana Centers yielded positive responses from North Korean refugees, leading the government to expand the program to 22 locations nationwide. The government is currently planning to expand Hana Centers to a total of 30 locations by the end of 2010.

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2 The main facility in Anseong, GyeongGi, has a capacity of 750 refugees and the branch facility in Yangju, GyeongGi, has a capacity of 250 refugees.

3 So far, Hana Centers, which, unlike Hanawon, do not have shelters, have been primarily located within already existing local welfare centers, education centers and refugee assistance facilities.
3. Monetary and other benefits

(a) Financial support; housing assistance

Following the basic training provided at Hanawon, North Korean refugees are entitled to financial support to facilitate their settlement in South Korea. Such financial support is provided on a household basis and ranges from a total of KRW19 million for a one-member household to KRW51 million for a household with 7 or more members. This financial support is a one-time benefit, paid within the first year of relocation (in a few installment payments). Additional financial support is given to the elderly, the disabled, those with special medical conditions and single-parent households. The government also seeks to match refugees with suppliers of low-cost rental apartments.

(b) Employment assistance and incentives

The South Korean government provides subsidies both to companies that hire North Korean refugees and to the refugees themselves who are able to maintain their employment. In addition, refugees who complete certain job training courses are eligible for incentive rewards of up to KRW2.4 million, as well as additional rewards if they complete certain designated training courses or obtain certain skills certificates.

(c) Welfare and medical payments

As discussed in Part III below, North Korean citizens are citizens of South Korea under the Constitution of the Republic of Korea. Therefore, once a North Korean refugee is accepted and recognized by the South Korean government, he/she is eligible for the same social welfare benefits as any other South Korean citizen. Such national benefits include certain welfare payments for those who earn less than the statutory minimum cost of living, which ranges from a monthly income of KRW504,344 for a single person household to KRW1,867,435 for a six person household. In 2010, South Korea’s total budget for this type of cost of living allowance is approximately KRW2.4 trillion, which is approximately USD2 billion.

With respect to medical care, the vast majority of South Korean citizens whose income levels are above a specified threshold amount are entitled to enroll in the National Health Insurance program, which is largely funded by the government, with participants paying modest premiums. In addition, South Korean citizens whose incomes are below the specified threshold income level are eligible to participate in a separate Medical Assistance Program under which medical services are provided at even lower, minimal charges. Currently, there is an exception

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4 Under the prevailing exchange rate in effect as of August 11, 2010 (KRW1,168.7 = USD1), these amounts are equal to USD16,257 and USD43,638, respectively.
5 Such companies are eligible to receive monthly subsidies of up to KRW500,000 to KRW700,000 per employee for a maximum period of 3 years.
6 Refugees who maintain employment with the same company for at least 6 months are granted incentive awards, ranging from KRW2.5 million to KRW6.5 million depending on the length of the continued employment.
by which North Korean refugees are generally entitled to participate in the less expensive Medical Assistance Program even if their income level exceeds the specified threshold amount.\(^7\)

4. **Inadequacy of current assistance provided to North Korean refugees**

Evaluating the effectiveness of the current assistance programs and the adequacy of the current level of spending on North Korean refugees is beyond the scope of this paper. Indeed, some challenges faced by North Korean refugees cannot be fully addressed by any government assistance program or level of spending, such as the discrimination against North Korean refugees by South Koreans, who often treat the refugees as second class citizens and refuse to hire them for employment despite incentives provided by the government. Nonetheless, it would be useful to discuss some of the shortcomings of the current programs for the purpose of illustrating the social and economic challenges that would likely arise from a sudden dramatic increase of the number of refugees and migrants.

Regarding the transitional training program at Hanawon, critics have pointed out that a standalone 420-hour program for an introduction to a new society and job training is inadequate to prepare a person who has spent most of his/her life in a socialist, totalitarian society for the competitive labor and economic environment of South Korea.\(^8\)

Limited training and education, as well as discrimination and other factors, have curtailed the opportunities available to the refugees in terms of long-term, sustainable sources of income. As of July 2010, the unemployment rate for North Korean refugees was 13.7%, four times higher than that of the general South Korean population. Among North Korean refugees, minors face even greater difficulties settling into South Korean society as most forms of financial assistance are provided on a household basis and minors without guardians are often ineligible for such assistance.

These and other challenges confronting policymakers in integrating just 20,000 refugees, despite the various forms of financial and other support currently provided to the refugees, would be greatly magnified in case of a sudden large inflow of refugees and migrants (whether from a collapse of the North Korean government and/or sudden reunification). Some have estimated that the number of such refugees and migrants could be in the millions, and this should sound a loud warning bell to policymakers regarding the tremendous social and economic challenges South Korean society would face in such a scenario. Even ignoring for now the administrative impossibility of running the Hanawon program for over a million refugees and the social issues resulting from high unemployment levels, there would be countless numbers of other issues, such as strain on social and physical infrastructure including schools and public utilities\(^9\) and widespread exploitation of North Koreans who are less familiar with a capitalist society.\(^10\) In

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\(^7\) As of December 2009, the total number of South Koreans eligible for the Medical Assistance Program was approximately 1.7 million, of which approximately 10,000 (0.59%) were North Korean refugees.

\(^8\) While the establishment of Hana Centers is a partial response to this problem, it is in its early stages and numerous integration issues still remain.

\(^9\) For example, where and how could Seoul quickly build housing for millions of new inhabitants? So far, the majority of North Korean refugees have settled in the Seoul metropolitan area (i.e., Seoul, GyeongGi and Incheon).

\(^10\) Including violating minimum wage standards, exploitation of minors, human trafficking, prostitution, etc.
light of this reality, careful consideration and frank and robust discussion of social and economic integration issues should take place now rather than during such a crisis. If forced to make decisions ex-post, policymakers may be in the dangerous position of making hasty decisions under significant pressure without the ability to thoroughly think through all of the potential consequences of such decisions. Any policy proposal set forth, however, should take into account the legal framework and status of North Korean refugees under South Korean law.

III. Status of North Koreans Under South Korean Law

Under the laws of the Republic of Korea, residents in North Korea are citizens of the Republic of Korea. Article 3 of the South Korean Constitution declares that the territory of the Republic of Korea is the Korean peninsula and its surrounding islands; there is no North and South Korea, but only the Republic of Korea as a single nation state. The Nationality Act of Korea is based on a principle of lineage. In other words, if either of your parents is Korean, you are Korean. The Supreme Court of Korea has held that North Korean residents are citizens of the Republic of Korea, in part based upon an older version of the current Nationality Act which stipulated that the subjects of the Chosun dynasty automatically became citizens of the Republic of Korea. Given the foregoing legal background, there is no separate process for North Korean refugees to obtain citizenship; they can simply create a family registry in order to be integrated into South Korea and its residency system. As described above, certain social welfare benefits and medical support provided to North Korean refugees are a part of the national scheme generally applicable to all citizens of the Republic of Korea. Pursuant to this constitutional principle, even if there is a transitional period (as discussed below), policymakers must view North Koreans as full citizens with rights at least as equal to those currently enjoyed by South Koreans. According to the most recently available statistics, the cost of social welfare benefits paid to South Koreans is KRW1,624,000 per person. Therefore, assuming an inflow of 2 million North Koreans, the government would need an additional KRW3.248 trillion to fund such social welfare benefits.

IV. Proposal

The following are ideas and proposals for consideration by policymakers in case of a sudden collapse of the North Korean government and/or a rapid, unexpected reunification of North and South Korea.

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11 Policymakers should also bear in mind certain fundamental principles under international law, including the Universal Declaration of Human Rights, adopted in 1948, which articulates a broad range of basic civil, political, economic and social rights for all people. South Korea is a party to certain international covenants, such as the International Covenant on Economic, Social and Cultural Rights (ICESCR), which sets forth a person’s right to education without discrimination or exclusion. The right to education, as well as other economic and social rights, must be guaranteed to all Koreans, North and South, upon reunification.

12 Under the prevailing exchange rate in effect as of August 11, 2010 (KRW1,168.7 = USD1), this amount is equal to approximately USD2.78 billion.

1. **Transitional Period with Limited Freedom of Movement between the Koreas**

(a) Need for a transitional period with limited freedom of movement

In light of the challenges faced to date in integrating just 20,000 North Korean refugees into South Korean society and the much greater challenges policymakers will face in integrating millions of North Koreans, a transitional period with limited freedom of movement between the Koreas for a specified period of time prior to full integration will be necessary. Such a transitional period will promote the social and economic stability of both Koreas and also protect North Koreans from exploitation, discrimination and general unpreparedness for a market society after decades in isolation from the rest of the world.

From the perspective of North Koreans and their advocates, such a transitional period will allow North Koreans time to adapt to a capitalist market society and the interconnected global world without excessive influence from individuals and business enterprises from the South. In addition, industrial production and other economic activities in the North would be adversely affected if the North loses too much of its workforce to the South in a short period of time and a “brain drain” emigration of North Korea’s professionals and qualified personnel to the South would negatively affect the standards and competitiveness of the North.

From the perspective of South Koreans, a sudden reunification and opening of borders would likely lead to an enormous surge in migrants from the North, placing a tremendous (if not unbearable) strain on the infrastructure and economy in the South. Such a sudden change would likely create discontent among South Koreans and resentment toward such North Korean migrants whom South Koreans would blame for decreased standards of living and a myriad of social issues, including an almost certain increase in unemployment levels, lack of housing and greater congestion.

(b) China-Hong Kong precedent

Restricting freedom of travel between the North and South would undoubtedly be a controversial move. After all, what would have been the significance of the fall of the Berlin Wall if Germans were not permitted to move freely between East and West Germany? Any restriction on freedom of movement would abound with legal (as well as moral) issues as a democratic government would be restricting the travel of its own citizens within its borders. In this respect, one precedent to be considered is the immigration policy in effect between the Hong Kong Special Administrative Region (“Hong Kong”) and the People’s Republic of China (“China”). While this example is neither in the context of reunification nor involves a democratic government, it does shed some light on how other policymakers have addressed the issue of freedom of movement between two land areas with different political systems within one country.

In 1980, the Hong Kong government set a strict quota of 150 persons per day for legal immigration from China.\(^\text{14}\) To enforce this quota, Chinese authorities, not Hong Kong officials,
were given the power to determine who would receive such one-way permits. In general, preference was given to those with family members in Hong Kong. Other than such legally admitted immigrants, illegal immigrants found by Hong Kong authorities were repatriated to China.\textsuperscript{15} In addition to admission under the daily quota, the Hong Kong government has also implemented various merit-based admission schemes in recent years, including the Quality Migrant Admission Scheme (eligibility for admission based on a set of factors including academic or professional qualifications, work experience, language proficiency and family background) and the Capital Investment Entrant Scheme (eligibility for admission based on net worth and investment in Hong Kong).

(c) Proposal for Korea

The China-Hong Kong example is unique and not necessarily a model that the reunified Korea should follow in an unaltered form. For instance, any travel should be allowed in both directions. However, certain aspects of the China-Hong Kong precedent may be considered for application. First, similar to the China-Hong Kong quota system which gives priority to separated family members, an exception should exist in a reunified Korea for those who have immediate family members (spouses, siblings, parents and children) on the other side of the former border. This will not be a high number since it has been almost sixty years since the closing of the border between the North and South and the recent defectors from the North who may have left relatives behind only number in the tens of thousands. Second, similar to the various schemes established in recent years by Hong Kong, programs should be established to allow and incentivize certain qualified South Korean businesses, charities and individuals to be granted entry into the North for specific purposes, such as building and supervising the operation of factories with North Korean workers, teaching at schools, providing medical and other health care services and establishing public systems including roads, harbors and railways.\textsuperscript{16} Third, both North and South Koreans should be permitted tourist visas to travel to the other side for a short period of time.\textsuperscript{17} Finally, this period of limited freedom of movement must have a “drop-dead” date, be it 5 or 10 years after reunification, after which the borders become completely open for the reunified Korea.

2. Objectives of the transitional period

The main objective of this long-term transitional period is to allow sufficient time to build up North Korea’s economy and infrastructure (e.g., transportation systems, communication systems, schools, hospitals, etc.) and to provide North Koreans with economic, social and educational benefits that are at least comparable to the benefits that they could enjoy in the South.

spouses separated for 10 years or more (long separated spouses) and their accompanying children; and (c) 60 to applicants belonging to other categories, including (i) spouses separated for less than 10 years and their accompanying children, (ii) unsupported children who need to join their relatives in Hong Kong, (iii) persons coming to Hong Kong to take care of their unsupported aged parents (i.e., those with no other children in Hong Kong), and (iv) unsupported elderly people coming to join relatives in Hong Kong.

\textsuperscript{15} Prior to 1980, illegal migrants from China were permitted to stay in Hong Kong.

\textsuperscript{16} Concurrently, a regulatory agency should be established to ensure compliance with the terms of the programs, including conditions of employment.

\textsuperscript{17} This could result in illegal immigration from the North side, but there should be sufficient incentives such as social welfare benefits, rights to land, etc. in North Korea to prevent widespread abuse.
(such as the benefits described in Part II above) without excessively straining the resources of the South and its infrastructure. The goal would be that by the time of a full opening of the border, there would be fewer incentives for people from the North to move to the South by the millions.

A related major task during the transitional period would be the integration of the welfare systems of the two Koreas. Many companies and businesses in North Korea may not be able to survive the introduction of a market economy following reunification due to their low productivity. Consequently, many North Koreans may become unemployed, leading to a sharp increase in the government’s unemployment and other welfare benefit spending. Despite the various social safety nets and welfare benefit-related laws and regulations passed by North Korea, the vast majority of North Korean refugees have indicated that they did not receive many welfare benefits, other than free education and medical services, before they left North Korea. Consequently, South Korea would have to bear the burden of preparing legislation on harmonizing and implementing a social safety net and welfare benefit system for the unified Korea, in addition to providing various specific goods and services discussed below.

3. Post-collapse/reunification concerns; policy proposals

(a) Food, medicine and other bare necessities

North Korea has been suffering from poverty and famine without signs of any meaningful improvement. If the current poverty and food shortages in the North continue or worsen either before a collapse of the regime/unexpected reunification or after such event, this would be a primary cause for North Koreans wanting to leave for the South.

During the early phases of the transitional period, South Korea will have to supply sufficient food aid in a prompt manner to sustain the people of the North. In preparation, the South Korean government should create a plan to transport a substantial supply of rice and other grains to the North and distribute them upon a moment’s notice. In addition to food, certain hygiene and consumer products such as soap, shampoo, toothpaste/toothbrush, toilet paper, sugar, salt, medical supplies and especially over-the-counter drugs will be other bare necessities that need to be provided in massive quantities within a very short period of time. South Korea should also have a plan regarding how to best coordinate the provision of aid with international organizations and foreign countries in case of a sudden regime collapse/reunification.

Although the hardship suffered by North Koreans has been widely publicized, South Korea and the international community have not been active in addressing such concerns largely due to a lack of administrative transparency and mistrust of the current government in the North. In other words, donors and prospective donors have not been satisfied that aid was being properly distributed to those in need. As such, the government of a unified Korea must ensure transparency so that it can attract aid from other countries and various international organizations.\footnote{While South Korea will likely receive some assistance from international aid organizations, foreign governments and private sources, it should not expect significant assistance from such sources as the global financial crisis and economic recessions in many Western countries are straining resources that may otherwise be available for such assistance.}
The provision of medical services is another fundamental area where enormous support will be needed. Decades of starvation and malnutrition will have created significant health problems for the people of North Korea and there are reports that thousands of North Koreans (possibly more) are suffering from treatable diseases such as tuberculosis, but have been placed in camps and left to die because of a shortage of medicines. In addition, there are reports that because of obsolete x-ray machines, doctors are unable to make proper diagnoses, and doctors themselves are being exposed to unsafe levels of radiation from these machines. South Korea has well-developed medical and pharmaceutical industries that can provide effective support to North Koreans. One step the South Korean government can take is to provide tax credits and other financial incentives to South Korean pharmaceutical companies to produce and store, even now, extra supplies of medicines such as key vaccines, ulcer drugs and even common cold medicines in anticipation of such need. This type of incentive is equally applicable to those South Korean consumer products companies that manufacture hygiene and consumer products such as toothbrush/toothpaste, soap and shampoo.

In addition, the South Korean government can incentivize younger South Korean male doctors and other medical staff to serve in North Korean clinics and hospitals in lieu of their military service.\(^\text{19}\) Although this is not applicable to older, more experienced doctors who have already completed their military service, some of them may still be willing to serve for a limited period of time for a modest subsidy from the government and/or tax benefits in South Korea (especially when most other South Koreans would not be permitted entry during the transitional period). During the transitional period, South Korea (together with the U.S., Japan and other Western nations) can train North Korean doctors who will be repatriated after the training. The assistance of North Korean doctors will be helpful in assessing the current medical situation in North Korea and providing effective care to citizens post-reunification.\(^\text{20}\)

(b) Job creation

Job creation and the employment of North Koreans should be another top priority during the transitional period to promote stability and help people adjust to a market economy. Immediately after reunification, most employment opportunities in the North are likely to be available in the public sector as private sector investments may take some time to get started. All available public sector jobs in the North, including provincial and local government jobs, should go to North Korean residents to the extent possible. There should also be plans for large-scale public construction projects (similar to those in the U.S. following the Great Depression) including roads, dams, bridges, schools, hospitals, harbors, airports, train tracks/stations and apartment buildings. All of the construction-related jobs for such projects, other than key

\(^{19}\) Currently, mandatory military service for a minimum of 24 months (military) to 27 months (air force) is required for all male South Korean citizens. Most doctors serve as military doctors for a period of 36 months. Reducing this service period in return for volunteer service in the North may provide an incentive for South Korean doctors to serve in the North.

\(^{20}\) In 2010, three North Korean refugees who were previously medical doctors in North Korea passed the South Korean national medical licensing examination. Under a South Korean law passed in 2007, former doctors from North Korea (western and oriental) can become licensed as doctors under South Korean law if they pass the medical licensing examination and their education is officially recognized/verified by the South Korean government.
supervisors and engineers that require expertise not possessed by many North Koreans, should be
given to North Koreans.

Policymakers should consider how to best utilize North Korea’s natural resources and
attract private foreign direct investment from South Korea, Japan, the U.S. and other nations to
help jumpstart the North Korean economy. Concurrently, transitional education courses for all
North Koreans, similar to those at Hanawon and Hana Center, should be offered to all North
Korean residents. Radio and television may be good media to facilitate such education. As
China is using television to facilitate the use of Mandarin as the official language, radio and
television broadcasts in the “standard” Korean language could help North Koreans learn the
subtle differences in South Korean vocabulary, grammar and accent. Although most Koreans
will be able to communicate with each other regardless, the use of “standard” Korean could help
North Koreans find employment and integrate more effectively into the reunified Korea. A well-
trained and educated workforce, coupled with the availability of natural resources, will
contribute to bringing in foreign investment.

(c) Staged privatization

In Germany, the government implemented a quick and comprehensive privatization of
state-owned enterprises and public-owned enterprises upon reunification. However, such a
hurried privatization process through massive winding-down and disposition of public
enterprises resulted in the destruction of industries and foundations for development and
increased unemployment in the East (initially, approximately 2.5 million out of 4 million
employees of the public enterprises lost their jobs).

Considering the underdeveloped status of most industries in North Korea, it would be
difficult for many state-owned enterprises in North Korea to avoid winding-down or fundamental
restructuring. In order to mitigate the negative effects of such measures such as unemployment
and destruction of the foundations for industrial development, it will be important to consider
various public policy issues in their winding-down, restructuring and privatization. This will
be a difficult task as policymakers face a catch-22 situation of needing privatization to raise
funds but knowing that premature privatization can have the negative effects described above as
well as raising prices for consumers and causing dissatisfaction.

(d) Land and property ownership

One major incentive that the reunified Korean government can provide for North Koreans
to remain in the North would be the granting of real property rights to North Koreans
conditioned on their continued residence in the North, as home ownership is known to be
negatively correlated with willingness to move. North Korean farmers should be permitted to
own their own farmland and urban residents should be allowed to own their own houses and

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21 The legal framework to attract such foreign direct investment can be planned now as well.
22 Such public policy issues include minimization of unemployment, job training to produce skilled laborers and
increase productivity, technology transfer to build up production capacity and technological foundation, balanced
development among various industries and sustainable development, together with conservation of the environment
and natural resources.
apartments. Such grants of land and homes would include a sale/transfer restriction for 10 to 15 years. Considering the high cost of land and homes in South Korea, this will provide North Koreans substantial incentive to stay in the North even after an opening of the border following the transitional period.

(e) Education

Post-reunification education of both North and South Koreans will be crucial in successfully integrating the two societies and providing the citizens, especially North Koreans, with fair and adequate opportunities to participate in politics, economy and society in general. In the North, it may be necessary to establish new schools, refurbish existing schools and supply teachers, administrators and other educational professionals following the reunification. Further, integration and harmonization of school systems and curriculum will be necessary for the full integration of the two Koreas. Again, South Korean male college graduates with teaching degrees may be offered the opportunity to teach in North Korea in lieu of their military service. Such diversion of manpower should not materially affect national security as the need for the high concentration of military personnel around the current border between the two Koreas would be less following a regime collapse/reunification. Female South Korean teachers who volunteer to teach in North Korea could also be given certain benefits such as promotions upon completion of service or additional compensation.

(f) Currency conversion

Immediately after reunification, Germany adopted a radical currency conversion: with respect to wages in East Germany and savings up to a certain threshold by East Germans, 1 East German Mark was converted to 1 Deutsche Mark. Although such radical currency conversion led to a sharp increase in purchasing power and consumption by East Germans, the economic foundation in East Germany appears to have been negatively affected by such conversion. The 1:1 conversion made East German wages disproportionately high relative to productivity, which led West German firms to expand production in facilities in the West rather than investing in the East. In addition, with their strong purchasing power, East German consumers purchased higher-quality West German products rather than cheaper East German products, further driving down East German production.

Since the economic gap between the two Koreas is even wider than in Germany prior to its reunification, the decision on currency conversion by a unified Korea will have an even greater impact on the economy and society. Taking a lesson from the German precedent, policymakers should focus on determining the optimal conversion rate that would foster economic investment and growth in the North.

(g) Funding plans

Funding the various proposals above, including food and medicine, public projects, education and tax benefits, and other reunification costs, will be very expensive. Rand

23 The unified Korea may still need a substantial military force even after the reunification given the geopolitics facing the Korean peninsula.
Corporation, a nonprofit research and analysis institution for policy and decisionmaking, has provided estimates of USD50 billion at the low end to bring North Korean income to 10% of that of the South. Credit Suisse estimates USD1.5 trillion to bring the North Korean income to 60% of that of the South. Below are some potential sources of funding, including a sovereign debt offering, establishing a Korea reunification fund, additional taxes and international aid.\(^{24}\)

Like Germany, Korea could consider a sovereign debt offering to fund reunification-related costs, which will probably be the highest in the first several years following a sudden collapse/reunification.

Although the South Korean government has set aside certain funds such as the South-North Economic Cooperation Fund, the current amount appears quite low\(^{25}\) given the immense tasks to be undertaken. South Korea should substantially increase the amount of funds being accumulated to prepare for a possible integration.

Policymakers should also consider imposing additional taxes in connection with the reunification. The tax burden of South Koreans is relatively low compared to other OECD countries at 19.3% of the South Korean GDP in 2009, while the OECD average is 36.4%. Since a sudden increase in taxes may create a strong backlash from South Koreans used to relatively low taxes, the South Korean government could consider gradually increasing taxes and reserving those tax proceeds in order to fund the expenditures associated with reunification.

Once the unified Korea demonstrates to foreign countries and international aid organizations that it has achieved rule of law, democratic governance and administrative transparency in both the North and the South, it will be able to attract more funds and humanitarian efforts from such parties. Although there are already leading organizations such as the United Nations Development Programme that provide aid to developing countries, South Korea may want to play a leading role in setting up a special international fund for the unified Korea.

One ameliorating factor with respect to funding is that a certain portion of the budget currently earmarked for military spending by the two Koreas can be diverted to reunification-related uses.\(^{26}\)

\(^{24}\) To fund unification-related expenditures, Germany utilized a sovereign debt offering, a unification fund (\textit{Fonds Deutsche Einheit}, later replaced by various federal government funds) and taxes (including solidarity surcharges). Since the reunification, about EUR80 billion, or around 3% of the GDP of Germany, has been transferred annually in efforts to equalize living conditions in the East and West.

\(^{25}\) Based on data from the Ministry of Unification, as of the end of June 2010, approximately KRW423.7 billion was raised for the South-North Economic Cooperation Fund in 2010, approximately KRW155.4 billion in 2009, approximately KRW846.8 billion in 2008 and approximately KRW1.12 trillion in 2007.

\(^{26}\) According to a report by Stockholm International Peace Research Institute, South Korea’s military budget in 2009 was USD24.1 billion, the 12th highest in the world.
V. Conclusion

To reiterate, the purpose of this paper is not to advocate a regime change or collapse of the North Korean state. However, in light of the possibility of a sudden reunification and the tremendous number of critical challenges policymakers would face in such a scenario, concrete action plans should be prepared now in advance. This paper sets forth some proposals as springboards for discussion.

It is worth considering what life would look like for an average family in North Korea a few years into the transitional period upon implementation of some of the proposals in this paper. An average family living in a city would own a house or apartment. One parent may be working for the local government or a construction company building infrastructure for the city. The other parent might stay home with the children or have a job in the public sector. The children would attend school, perhaps in a temporary building while permanent schools are under construction, but they would be taught by qualified teachers educated in the South and have plenty of textbooks and other supplies. The family’s local grocery would have plenty of rice, grains, vegetables, other food and consumer goods which would be sold at subsidized prices. In the evening, the family may watch television and news broadcasts from both Seoul and their local regions. If they faced difficulty, the family would be entitled to medical, dental and other benefits comparable to South Koreans and visit the local clinic for treatment. On occasion, the family would take a vacation trip to the South in a train which connects the North and the South.