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Trust Building through Institutions: European Lessons for Korean Unification

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The U.S. National Intelligence Council report, *Global Trends 2025: A Transformed World*, published in 2008, predicts that Korean unification is likely by 2025 “if not as a unitary state, then in some form of North-South confederation.”¹ Although the report does not specify the form of unification, unitary or confederal, it is interesting to note that U.S. intelligence analysts are optimistic about the prospect for Korean unification. *Global Trends 2025* is only a rough prediction of what the world will look like in 2025. It does confirm, however, that intelligence analysts consider Korean unification attainable within the next two decades.

The most common assumption about Korean unification is that North Korea will integrate into South Korea and not vice versa. Korean unification means the ending of the North Korean regime and its territorial and political incorporation into South Korea. Not surprisingly, German unification has been widely discussed and has a great appeal for many South Koreans. The peaceful absorption of communist East Germany (the German Democratic Republic, GDR) by its more prosperous western counterpart (the Federal Republic of Germany, FRG) was mainly considered a happy ending. Although Koreans can and should learn important lessons from Germany’s unification process, it should be noted that most lessons are negative, that is to say, they teach Koreans what not to do.

We argue that the German unification model, in no small part because of Germany’s unique position within Europe, is not as helpful for Korean unification as it may appear at first sight. Instead, we argue that important lessons can be learned from European integration in the European Union. The European Union model, which successfully integrated 10 former communist states, most with a much lower GDP than East Germany, into the free market capitalist system of the EU is a much better system for South Korea to emulate in the preunification stage. More specifically, we argue that the best way to prepare for possible Korean unification is through the institutions and trust building that has brought centuries-old rivals into a partnership for peace, security, and prosperity.

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The process of unification comprises two stages: (1) preunification stage and (2) unification stage. The preunification stage refers to the period up until unification, during which the two sides have the ability to influence the likelihood of unification as well as the difficulty of the transition. This stage requires no agreement on unification and can last for many decades. The importance for considering this stage lies in the fact that decisions made during the preunification stage greatly impact the potential success of a future unification. We are of the opinion that the sooner the South Korean government starts preparing for unification the better. This is not the case because the start of 2009 provides some unique opportunity in North-South Korean relations, but simply because any measure that can potentially reduce the transition costs is well worth the investment.

Compared with the preunification stage, the unification stage is the period in which an actual agreement on unification exists and the two countries are in the process of implementing this agreement. Much has been written about the unification stage, and interesting parallels have been drawn between German and Korean unification.² The focus of this article is, however, the preunification stage. Instead of predicting the moment of unification—that is to say, asking when the two Koreas will unify—we ask how South Korea can best prepare for a possible future unification.

In the unification literature a significant distinction is made between gradualism and instant unification. Because of the immense disparities in economic welfare between the two Koreas, many scholars have suggested that a gradual transition toward unification would be more desirable than instant unification.³ Gradualism could, for example, take the form of limited unification in terms of economic integration, with a continued physical segregation of the two Koreas until full unification will no longer threaten to throw the South Korean economy into turmoil. We believe that such gradualism in Korean unification, as in the German case, is neither feasible nor desirable. From a humanitarian standpoint, furthering economic integration cannot justify keeping the Korean people separated. And for economic reasons the benefits of a gradual approach to unification would be marginal at best.⁴ We believe that if Korea unifies in the next two decades it will most likely be as swift and sudden as was the case with German unification in the early 1990s. Whether or not South Korea is ready, when the North Korean state collapses unification will be instant. Our contribution in this article is to provide insight into how the South Korean government can be as ready as can be expected when the question of unification becomes a reality.

The following section discusses German reunification and analyzes the price of a successful political transition to reunification that was paid by “scarifying” the economic sphere.⁵ Despite the frequent appearance of the

German case in academic writings and policy discussion relating to Korean unification, relatively little research has been done so far on distinguishing the different lessons the German experience entails: political success and economic failure, which is the main point of the second subsection. The next section briefly touches on the seemingly obvious similarities between the two Koreas and the two Germanys and describes the significant differences that give pause to those who look to Germany as the exemplar of unification. The final two sections, which analyze the integration process of the EU, argue that the real model for Korean unification is not the two Germanys but the European Union. Emphasizing the importance of institutions and trust building, these sections suggest that the political and economic process of EU integration can be a benchmarking example for Korean unification.

Lessons from Germany: Political Success and Economic Costs

Political Success

East and West Germany reunited on 3 October 1990. Germans refer to their reunification as *die Wende* (the turning), which is a more neutral term. German reunification made some of its neighboring countries, in particular Poland, somewhat anxious because significant parts of the historical united German state now lie outside the boundaries of the contemporary united Germany. With the fall of the Berlin Wall on 9 November 1989 German unification almost immediately became inevitable. Given growing economic problems and the lack of political legitimacy of East Germany's state socialism, it also became clear that the East would dissolve into the West rather than two sides joining into one state together. West German politicians had to contend with two major issues—the political consequences and the economic consequences—while incorporating the East into the West.

West German politicians, and especially Chancellor Helmut Kohl, knew that a successful political unification was crucial. West Germany had been able to overcome very successfully the dark shadow the Nazi past and developed into one of the European Union's most important members. A united Germany that incorporated the East into the West would benefit from the good name and reputation of West Germany in Europe. Consequently the new united Germany did not write a new constitution, but instead adapted the West German Basic Law to include the East. Within a month the new united German government signed a treaty with Poland to permanently set the borders at the Oder-Neisse line and renounce any claims to former German territory. On the political front, West Germany did everything right to assure a successful unification. The price for a successful political transition to reunification was, however, paid by "scarifying" the economic sphere.

Economic Costs

Beginning in the 1980s, a growing number of East Germans left the GDR, and people who decided to stay participated in the powerful protest movement. The biggest demonstration took place in Berlin in November 1989. Approximately a million people gathered on the Alexanderplatz, calling for *revolutionärer Erneuerung* [revolutionary renewal]. Chancellor Kohl, calling for the right of self-determination by all Germans, pursued the fastest form of unification possible—unification through absorption. Kohl then launched a 10-point unity plan, under which West Germany would provide the East with economic aid, but only after the East committed itself to free elections and a market economy. He proposed that the East introduce the West German deutsche mark and that the East give up control over its economy. It was thus widely expected that the East's position would be significantly undermined in political negotiations over the course of unification.

With the victory of a Christian Democratic Union–led alliance of conservative parties in March 1990—an alliance that promised East Germans “instant prosperity”—a series of political talks on a “unification treaty” proceeded between the two Germanys. Within four months, East Germany's new leader, Lothar de Maziere, who was essentially a junior member of Kohl's own party, opened unification talks with Kohl's government. Responding to de Maziere, who sought to create a jointly written constitution for the united Germany, the West German negotiator merely stated: “This is the accession of the GDR to the FRG and not the reverse. We have a good Basic Law that is proven. We want to do everything for you. We do not want to trample coldly on your wishes and interest. But this is not the unification of two equal states.”⁶ The GDR agreed to introduce monetary union, private enterprise, and the West German legal and political system.

As it has turned out, however, Kohl's promise of a quick and painless reunification entailed great economic costs. The East German economy, and in particular the infrastructure, was far weaker than had been expected. The Trust Agency set up by the German government to attract investment into the former East German states was able to attract very little foreign investment. Even though more than 14,000 enterprises were privatized within four years of German reunification, unemployment in the eastern part was very high and many skilled workers migrated to the western part of Germany.⁷ Parity between the deutsche mark and the East German ostmark resulted in painful inflation.⁸ Neither the annual government investment into the eastern states—approximately €10 billion—nor the solidarity tax could prevent the process of deindustrialization. The macroeconomic policies adopted by the FRG in 1990 directly contributed to raising substantially the ensuing burden imposed on the West German economy. To this date, the German

economy is still recovering from reunification, with a high unemployment rate, especially in the eastern states, as if little effort had been made during the past 18 years. On Germany's turning, one can say that the political gain has come at a price of significant economic pain.

How Is the Korean Case Different?

The divided and unpredictable Koreas have been considered a source of abnormal security hazards for the entire Asian region. Not only do the two Koreas constantly stir tensions in the region as they have technically still been at war since the 1950–53 conflict, but each party with its own special “national character” contributes to regional uncertainties: North Korea, with a paucity of reliable information about it being ruled by a totalitarian regime and South Korea being the sole place in Asia where the United States has retained a continental military presence. Surrounded by the major powers pursuing their respective interests, Korea distinctively has a sensitive and geostrategic role in the region. In such a condition, the status quo had proved resilient for more than 45 years until President Kim Dae-jung launched his Sunshine Policy upon taking office in 1998. Supported by President Bill Clinton and his foreign policy team, including Secretary of State Madeleine Albright and Ambassador Robert Gallucci, North-South relations continued to improve throughout the Roh Moo-hyun government.

The failing diplomatic relations between Pyongyang and Washington that developed from the very beginning of the George W. Bush administration slightly improved during Bush's second term, while the conservative Lee Myung-bak administration, which came to power in Korea in 2008, cast a shadow on South Korea's engagement policy toward the North. Now, in early 2009, the new Barack Obama government and the selection of the Obama foreign policy team give hope for promoting peace and stability on the Korean peninsula. Despite fluctuations, the relations between Pyongyang and Seoul and Pyongyang and Washington continue to improve, and hope for peaceful unification seems to be growing.

The seemingly obvious similarities between the two Koreas and two Germanys—both were divided into capitalist and communist spheres by the victorious allies following World War II, and they remained antagonists for several decades—have encouraged many Koreans to see the German experience as the best model for Korean unification.⁹ Various important differences, however, give pause to those who look to Germany as the exemplar of unification.

First, the differences between the economies of North and South Korea are much greater than were those between East and West Germany. East

Germany's population was about one-quarter that of West Germany's in 1990, but North Korea's population is about one-half that of South Korea. East Germany's GDP was approximately 10 percent of West Germany's, but North Korea's economy is only 3–4 percent of the South's. A much wider per capita income gap exists between the Koreans than between the two Germanys; some estimate the gap between the Koreans to be as large as 1 to 20.¹⁰ This could lead to massive migration after the demarcation line between the Koreans ceases to function as an international border. To be sure, the relative costs of unification in Korea would be even higher than the enormous costs in Germany.

Second, unlike the Germans, the Koreans fought a bloody civil war. There are well-documented lists of atrocities committed by both sides.¹¹ This has created greater feelings of fear and ill will than ever existed between the Germans. As soon as the two Koreas were divided, antagonism was perpetuated through a policy of open hostility. In 1948, South Korea introduced the National Security Law (NSL) that states the North is a clear and present danger and makes any acts "praising or benefiting the enemy" subject to harsh punishment, including the death penalty. North Korea continued to criticize the South as being a "puppet" of the United States.

Reunification has obviously been seen as a difficult goal, and the agreement on how to achieve unification has been even more difficult to attain. In 1960, North Korean leader Kim Il-sung offered a proposal for the first time calling for reunification through the formation of a confederation of the two Koreas. After this was rejected by the South Korean government, Kim offered the confederation plan again in 1980 in a new and more detailed form; it was to be called the Democratic Confederated Republic of Koryo. This proposal especially emphasized that the abolition of the NSL and the withdrawal of U.S. forces in South Korea were necessary prerequisites for peace and federation. Kim argued that maintaining the NSL and the U.S. presence in South Korea violated the principle of the "7.4 Joint Statement of 1972," which had been agreed to by both Koreas and that stated that the two parties should transcend differences in ideology and political systems and achieve unification peacefully, independent of foreign interference. The two Koreas continued to differ substantially during subsequent years about the practical methods of attaining reunification. Under which system of government an eventual federation would be placed was wide open to speculation.

Unification reemerged in South Korea as a feasible political option during the 1990s. Playing a role were not only domestic conditions such as the South Korean student movement and the North Korean economic and political difficulties but also the significant international political events

including the end of the Cold War and German reunification. These events encouraged social and political discussions over the possibility of Korean unification. In September 1991, both Koreas simultaneously entered the United Nations. In December 1991, the two Koreas signed the Agreement on Reconciliation, Non-Aggression, and Exchanges, and Cooperation. In light of the collective memory between the two Koreas and ongoing emotional antagonism, Korea needs institutional help to lessen its psychological unpreparedness for unification.

Third, South Korea does not have the German shadow of the past hanging over its possible unification process. Korean unification will be seen as legitimate by the international community without creating anxiety in its neighboring states. South Korea has the luxury and the necessity of focusing almost exclusively on economic consequences of unification. Of course, domestic political matters, such as a reconciliation process for crimes committed under the authoritarian regimes in both Koreas, need to be tackled early in the unification process to provide legitimacy for the reunified Korean state. The real test for South Korea, however, will be its ability to incorporate the North successfully into its economy.

The European Union: Beyond Economic Integration

The European Union was created not to unify divided political systems into a single body politic in Europe, but to integrate the region through resolving the active or latent conflicts stemming from two world wars. The postwar project in Europe was concentrated on economic integration, which is distinguished from Korea's ultimate goal of political unification. Two major features set the European Union apart from other international or regional institutions. The first differentiating factor is the high level of integration. The initial competence of the European Union relied on the creating, developing, and policing of a common market with free movement for goods, capital, and common policies in agriculture, transportation, and foreign commerce. The EU's power has progressively grown to include the transition to a single market and the Economic and Monetary Union with a common currency (the first pillar), common control of EU frontiers and a foundation for common foreign and security policy (the second pillar), and police and judicial cooperation (the third pillar).

The second aspect that distinguishes the European Union is its prerequisite demand for membership. Unlike, for example, the United Nations, the European Union with coordination of the Council of Europe (COE) requires its member states to obey the rule of law and to protect human rights. The European Convention for the Protection of Human Rights and Fundamental Freedom (ECHR) is a good example of how the COE and the EU

have sought to incorporate the behavior of the governments into the issue of regional integration.¹² In addition, the EU treaty enshrines the principles of democracy, human rights, and rule of law as specific obligations for both its internal and its external activities.

These two features of the EU present an important message to Korea in that many other divided countries failed to achieve a stable political unification when they yielded only a low level of national integration that left them subject to severe internal conflicts. For instance, South and North Yemen were formally united in 1990, but that hasty political union followed violent secessionist movements and culminated in the 1994 civil war.¹³ Yemen established a pluralistic multiparty system as a part of the 1990 unification process, but the civil war destroyed many of those democratic institutions that are only now being slowly rebuilt. Similar conflicts were also found in Lebanon and Nigeria, which have achieved state unity although both are immensely lacking social integration. Germany's *Wende* suggests that a political merger without a great deal of social and economic integration is prone to unexpected negative consequences.

Integration before Unification: The Importance of Institutions and Trust Building

North and South Korean security relations are currently limited to the format of the six-party talks. Meetings of the six parties—China, Russia, Japan, the United States, North Korea, and South Korea—are rather ad hoc and are based for the most part on overcoming a series of crises in the North Korea–South Korea relationship.¹⁴ The six-party talks have been successful in getting the interested regional parties to sit around the table and discuss their security concerns, but they have done little to overcome the deep mistrust between the two Koreas, and the United States and North Korea in particular. An institutionalization of the six-party talks, through norms, rules, and regulations, has been discussed. For the six-party talks to be successful, the agreements among the participating states need to be enforceable.¹⁵ Only an institution that is independent of the six parties can supervise the implementation of agreements. The institutionalization of the six-party talks can enhance their effectiveness and build trust among the member states.

Trust or trusting relationships can be built gradually through repeated interactions, such as in the current noninstitutionalized six-party format, or through institutions that provide leaders with an “effective voice” and “breathing space.”¹⁶ Effective voice guarantees all parties some influence on the final product of the deliberation, and breathing space allows leaders to compro-

mise without suffering electoral consequences. The EU experience shows that for building trusting relations institutional strategies are more successful than gradual, experiential-learning approaches. Institutions provide leaders with a set of rules that set the terms of the negotiations and a framework for solving problems. This framework enables leaders to assert their “effective voice” and increases their stake in the outcome of the process.

Institutions further allow leaders to make concessions at the supranational level even if such compromises are unpopular at the domestic level. The EU might be considered as an easy case because conditions in Europe favored cooperation and compromise.¹⁷ Trust building on the Korean peninsula would represent a hard case in that the parties involved are still at war and political conditions for compromise are far less favorable. Given the nature of security relations in East Asia, institution building would have to deepen beyond the ad hoc framework of the six-party talks.¹⁸

Building on the research of Choo and Hoffman,¹⁹ we suggest an institutional approach in preparation for possible future Korean unification be recommended over gradualism. Gradualism has proven to be less effective in terms of building trusting relations during both the six-party-talks format as well as in the European context. We argue that the institutional approach is more suitable for the transition period. The European experience teaches us that institution building starts with the formation of a common assembly of members of the North Korean and South Korean parliaments. The common assembly will inspire inter-parliamentary cooperation on integration issues and help ease the transition toward future unification. The powers of the assembly will be consultative in that the assembly primarily advises the national governments. Besides the common assembly, we suggest the formation of a council of ministers in which representatives of the two Korean governments meet twice a year for direct talks. These talks should be prepared in advance by a permanent diplomatic staff consisting of permanent representatives of both governments who can work out compromises in secret in advance of the biannual meetings of the ministers. The meetings at the diplomatic level can be supported by diplomats from the regional interested parties, in particular, the United States, China, Japan, and Russia.

In addition to the current EU and North Korean aid relationship, the EU can provide support for setting up an inter-Korean trade and security organization. The EU has had more than five decades of experience with regional development, most recently in the new member states in central and eastern Europe. A successful adoption of EU-style institutions on the Korean peninsula would stabilize security relations and improve economic ties.

Conclusion: Unification through Integration

How can South Korea best prepare for unification? We distinguished between a gradual and an institutional approach and showed a preference for the latter. Nowhere in this article do we claim that Korean unification is imminent or even likely in the near future. South Korea can, however, take some bold steps to ensure that when unification becomes a reality it will be less painful economically than if these steps were not taken. We have presented two models that provide important lessons from Korean unification: the German model and the European model. In the German case, unification was instant, which meant that vital decisions had to be taken in a very short time frame. West Germany's federal structure allowed it to be flexible enough to absorb East Germany into its legal-political framework. Germany's shadow of the past forced it to focus primarily on the political consequences of its unification. South Korea differs from West Germany in two important respects: it is not a federal state, and it does not have historically sensitive borders. South Korea can further learn from German economic policy mistakes that have been well documented.

Not Germany but the European Union is the preferred model for Korean unification. Our focus in this paper is on the preunification stage, which in the German case lasted only a few months. European integration never aimed to create a single European nation-state. This made it easier for the existing member states to develop a set of accession criteria for future membership. The European Union developed a set of institutions that governs relations between its member states. We argued that these institutions can be exported to the Korean peninsula to create an environment in which trusting relations can be built. Trust building is dependent on continuity in the relationship. The six-party-talks format has lacked this continuity and thus has led to a chain of short-lived successes that are quickly followed by accusations of betrayal from both sides. Institutions will provide both Korean governments with an effective voice in the deliberative process. Regular meetings between high-level governmental officials can be well prepared by diplomatic staff who can negotiate away from the watchful eye of the South Korean news media. Insulation from public opinion creates the necessary breathing space for, especially, South Korean decision makers.

Trust building through institutional development is not the end goal but only an instrument for building a sustainable peace on the Korean peninsula. Trusting relations are a prerequisite for further economic and political cooperation between the two Koreas. Benefits that can be reaped from trusting relations include the economic development of North Korea in expanding industrial zones, further development of the North Korean tourist zones, and the standardization of technology and transportation. Especially the

standardization process will pay high dividends in a unified Korea, as the lack of standardization in the GDR was one of the greatest unexpected cost factors in its unification with West Germany. Institutions provide security through trust building and will help South Korea absorb the economic shock of future unification.

Endnotes

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4. Wolf, "Korean Unification: Lessons from Germany," 166–67.

5. The German government's exchange rate policy, its restitution policy of seized property, and its privatization policy were designed to provide a smooth political transition despite the great costs to the economy. The word sacrifice designates the offering of sound economic policy for the greater good of a successful political unification.

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8. Parity was established despite the difference in the purchasing power of the two currencies; the deutsche mark's purchasing power was three to four times higher than the ostmark.

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