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The Economic Impacts of a North Korean Collapse

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I. Introduction

North Korea entered into a state of bankruptcy after 1990s, causing many to question the regime's long-term survival. This looming possibility necessitates countermeasures from South Korea to prepare for any sudden changes in North Korea. Recently, the significance of this notion has grown as health concerns of North Korea's Supreme Leader and currency reform failures suggest an increasing likelihood that the country's state organs are operating ineffectively.

A North Korean collapse would generate a variety of shocks and changes among neighboring countries, including South Korea. For average citizens, the economic implications should be of the highest interest because of the potential to directly affect their lifestyles. South Korea would feel the most direct influences, as well as China, and Russia, who all share a border with North Korea, and Japan. Of course, U.S. military forces and international organizations stationed in South Korea would not be immune from any potential economic repercussions.

The economic impacts of a North Korean collapse may change depending on a number of variables. Examples include whether the North and

South pursue integration after the collapse, the timing of such integration, and the environment and methods of integration. Integration will determine the economic impacts felt by neighboring countries and the international community. If integration becomes more or less an established fact, then South Korea will be the primary agents who are to incur any expenses North Korea may present. The timing and method of integration, along with the environment will determine the magnitude of the impact resulting from a North-South economic integration. This in turn determines the scale of financial burdens which will be felt primarily by South Korea, and secondarily by neighboring countries.

The following report makes the assumption that a North Korean collapse will be shortly followed by integration with South Korea. This report will also present a timeline of the economic costs that may arise in the process and seek methods of procuring funds for such costs. Lastly, this report will analyze how the financial burden may change according the speed and process of integration, and conclude by presenting an optimal approach to integration from an economic standpoint.

II. Economic Impacts on South Korea

A. Short-Term Impacts and Countermeasures

(1) Macroeconomic Impacts

If North Korea collapses, leaving its future uncertain, South Korea's financial markets will be the first to be affected. If North Korea becomes a continuously tangible risk, financial markets will begin to demand cash and foreign currency, rather than financial products and Korean currency. Foreign capital will also begin to leave South Korea with the intent of minimizing risk.

Below is a summary of the macroeconomic impacts that could occur in South Korea following a North Korean collapse, and where in the scenario integration is still unclear.

First, regarding foreign exchange, the exchange rates for the dollar and other major foreign currency would skyrocket, the supply of foreign exchange would decrease, and CDS premiums would increase.

Second, regarding domestic finances, a large scale bank run, insufficient liquidity, rising interest rates, and the weakening of financial institutions are all potential repercussions that could occur.

Third, regarding property markets, Korea may experience a loss in foreign capital, falling stock and bond prices, along with a drop in real estate and domestic property market values.

Fourth, regarding goods markets, Koreans could begin stockpiling daily necessities or experience a rapid increase in living costs.

If such repercussions are not addressed from the outset, they are likely to exacerbate the disorder and chaos that will likely accompany a collapse in the North. Accordingly, it is essential to make preparations that can manage the situation as quickly as possible. The fundamental reason the macro economy will be the first to feel these impacts is because of uncertainty about the future— whether confusion in the North will expand and whether the situation can be stabilized. To eliminate this uncertainty as quickly as possible, foreign and domestic measures must be put in place.

(2) Humanitarian Crisis

A humanitarian crisis is the most widely predicted economic repercussion to immediately follow a North Korean collapse. If North Korea reaches the point of collapse it is very likely that the economic situation will be worse than it currently is. Also, there is a high possibility that if government organs cease to operate, even the smallest of market apparatuses that have

come into existence in the North will freeze. First, as confidence in domestic currency plunges, transactions will only be possible through foreign currency and supply and demand for production goods will cease. As a result even the most basic of daily necessities will be difficult to procure, and citizens will encounter severe struggles for survival. If survival itself becomes problematic, North Korean citizens will begin migrating to South Korea or China. If one country begins accepting immigrants from the North to the point where it becomes public knowledge, its immigrant population is bound to increase significantly.

It will be difficult to prevent a population movement southward if South Koreans become aware of a burgeoning humanitarian crisis among North Korean citizens. The first reason, among several, is because of political pressure. It will appear as if South Korea is rejecting the survival efforts of North Korean citizens if they begin implementing measures to keep Northerners out. Second, it is difficult to physically prevent a population movement. Even though crossing over the demilitarized zone is no simple task, it is not impossible either since roads connecting the North and South already exist. In the instance that people begin migrating by sea, an uncontrollable population movement will likely ensue. Third, physically blocking the borders will undoubtedly result in some kind of conflict. An attempt by South Korea to stop the influx of North Koreans by means of force could result in deaths, more chaos, and an even larger financial burden.

However, the risks associated with accommodating the population movement are not small either. This is because of the economic and social disorder that will ensue in South Korea. There are, for example, concerns of a worsening housing situation, an outbreak of contagious diseases, and the inability to maintain social order.

Accordingly, if sufficient measures for a North Korean humanitarian crisis are not set in place beforehand, it will be difficult to attenuate the initial pressures a population movement could produce. In circumstances where the

population movement cannot be controlled, this can aggravate the aforementioned macroeconomic risks and have a detrimental effect South Korea's economy.

(3) Short-Term Measures for Economic Security

Short term measures need to be pursued in three directions. First, is the expansion of a foreign currency provision to stabilize the market. One of the macroeconomic indices the South Korean government has limited control over is exchange rates. This is because the South Korean government does not have the power to circulate foreign currency at will. In an emergency situation, the movement of capital can be temporarily controlled. From that point however, when considering the need to import foreign capital, South Korea will need to minimize control on the movement of capital to obtain international assistance through foreign currency provisions. To prevent skyrocketing exchange rates and a demand for foreign funds South Korea needs the international community's guarantee that it will be able to acquire liquidity. A currency swap with the U.S., China, and Japan can be used in the short term. Particularly, if the U.S. provides an unrestricted dollar currency swap, the foreign currency market can quickly be stabilized. Of course, there will also be a need to pursue the IMF and World Bank's liquidity assistance.

Second, the proclamation of a South-North integration plan needs to be made from the outset. This will allow any uncertainty about North Korea's future to be eliminated. It is important to present a detailed plan and timeline for an economic integration between the North and South, and obtain the trust of domestic and foreign markets. It is also necessary to quickly eliminate any systemic gaps in North Korea and normalize production. The first step in this process is for South Korea to provide financial and administrative assistance to the North so that its administrative structure can continue to operate. This can also be utilized as preparation for integration.

Third, is a rapid supply of humanitarian aid. In a North Korean collapse, where the administrative and distribution systems would cease to operate, food, medicine, and daily necessities must promptly be provided nationwide. Population movements and social unrest can be prevented only if North Korean citizens do not feel a threat to their survival.

The success of initial measures such as these will determine the stability of South Korea's economy. Citizens living within North Korea must first feel some sense of stability in order to decrease the economic risks in South Korea. The possibility of a successful economic integration between North and South Korea increases if, from the outset, North Korea is stabilized and the market regains its integrity.

B. Mid-term Economic Impacts and Countermeasures

(1) Key Impacts on Market Integration

Midterm impacts on the South Korean economy that could result from a North Korean collapse are those that would arise during economic integration. If integration is pursued without overcoming the production gap between the North and South, there is a high possibility that North Koreans will be expelled from the market and become jobless. A less evasive approach would be to slow the pace of integration and reduce the production gap before moving forward. However, this approach also presents the possibility of a decreased trust in integration as well as market distortions.

The first impact would be incited by a systemic integration. A systemic integration will ostensibly have an effect on North Korea's economy because it implies that its socialist economic structure will be replaced by the South's market oriented system. However, any subsequent impacts from a systemic integration are only temporary, as this process involves both implementing and adapting to a new system.

The second impact would arise from labor market integration. This is the epicenter of potential shocks that could result from an economic integration. The competitive edge North Korea possesses is relatively low-cost labor. However, labor market integration between the North and South would result in North Korea's wages rising, but with no increased productivity. This would be because of increased wages and opportunity costs. The current monthly wage for North Korean laborers at the Kaesong Industrial Complex is 57 dollars. South Korea's minimum hourly wage is 4,110 won. The legal monthly minimum wage for laborers working a 44 hour week is 928,860 won (at 1,200 won to the dollar calculates to 774 dollars). With other additional costs such as overtime, night shifts, bonuses, food expenses, and wages included, the actual monthly wage rises to 1,464,000 won (at 1,200 won to the dollar calculates to 1,220 dollars), or 1.6 times that of the legal minimum wage.¹ In the event of a North-South integration, uniformly applying South Korean minimum wage standards would raise the wages of North Korean at the complex 13.6 fold— calculating additional costs and personnel expenses, and that increases to 21.4 times higher than the current standard. If the North-South labor markets integrate without any disparities in minimum wages, North Korea's wages for laborers will rise to the same standard as South Korea. In this scenario wages may likely exceed productivity of North Korean laborers and eventually result in large-scale unemployment. If a disparity in minimum wages is maintained it is possible that laborers in the north may begin migrating south for higher wages. This will be followed by a weakening of labor resources in the North, and eventually North Korean wages will replicate the South's. Eventually integrating the labor markets will distort the relationship between productivity and wages, inciting massive unemployment.

Third are impacts that could result from integrating North-South capital markets. In comparison to integrating the labor markets, market distortions from integrating capital markets are relatively benign. This is because

¹ Small-business Rally (2010), 'Small-business survey for determining 2011 minimum wage'

restrictions on capital flow between the two regions would be removed.

However, in order to complete capital market integration, there must first be a convergence of currencies. To avoid distortions in productivity during currency integration, both countries must decide how the currency conversion ratio will be determined. During the currency integration between East and West Germany, the government applied the control system of monetary volume upon the basic standard of the monetary neutrality.² The result was successful currency integration. At the time, however, the two Germanys determined the currency conversion ratio politically, which resulted in a rapid increase in wages. In Korea it would be wise to determine wages that coincide with productivity by determining a wage conversion rate, or entrusting it to the market. Aside from this, if integrating capital markets presents complex financial goods, there may be some temporary disorder in the market for a period of time.

(2) Sectoral Integration Impacts

The impacts that would occur in North-South integration would actually take place in North Korea. Impacts on North Korea's economy can be described as first stage impacts. First stage impacts are associated with North Korean's labor productivity and would cause wages in the North to rise to a standard above the actual rate of productivity. Wages higher than actual productivity will result in unemployment among North Koreans. The larger the disparity between productivity and wages the more unemployment will grow, and the higher the risk of long term unemployment increases.

First stage impacts in North Korea's economy will lead to second stage impacts in South Korea and the newly unified Korean economy. The following

² A control system of monetary volume controls monetary volume to maintain a standard ratio of increased productive capacity. For example, if a North-South economic integration results in a 10% increase in productive capacity, monetary volume would also expand by 10%, and that much would be supplied to the North.

are second stage impacts that can be expected in several economic sectors.

First, in the business sector, interest rates will rise with the increased demand for capital, and an increased demand for finances will result in higher taxes. Consequently, business expenses will rise, profitability will decline, and business bankruptcies will increase provoking a recession in South Korea's economy.

Second, in household finances, taxes and social assurance costs will increase, and rising prices will cause disposable income to decrease. A decrease in disposable income will shrink spending, and in turn shrink the economy.

Third, in the foreign trade sector, imports will rise as exports decline, while foreign services imports will increase causing a tilt in the balance of current accounts. With a rising deficit in account balances, exchange rates will rise, translates to rising prices and an unstable macro economy.

Fourth, in the sector of foreign finance, as risks associated with Korea increase, its credit-rating will decrease thus raising CDS premiums. This will raise interest on the national debt, resulting in increased exchange and interest rates.

(3) Countermeasures for Mid-term Integration Impacts

The best way to minimize the impacts of an economic integration is temporarily delaying the labor markets integration. This would allow North and South Korea to maintain a comparative advantage between them. To delay a labor market integration, both countries need to develop a strategy that would give less reason to Northerners to migrate south. The largest factors causing North Koreans to migrate to the South would be those linked to survival, such as food shortages. Therefore, for such a delay to take place it is first necessary to construct an emergency goods procurement system that ensures the livelihoods of North Koreans.

Next, to prevent North Koreans from migrating to the South they first need legitimate motives to remain in the North. If the North and South politically integrate the primary reason North Koreans would want to migrate south is the expectation of a higher income. Raising the expected benefits associated with remaining in North Korea can significantly reduce motives to leave. For example, temporarily distributing public assets such as homes and property to citizens residing in North Korea could be one such measure.³ However, to fundamentally delay labor market integration or reduce migration pressures, both countries need to provide North Koreans with hope about the future by planning and executing a reconstruction of the economy. Also, providing North Korean laborers with sufficient employment opportunities will reduce migration pressures and allow a labor market integration to be delayed.

C. Countermeasures for Long-Term Integration Impacts

Long-term economic impacts would be a byproduct of unification expenses. Unification expenses can be divided primarily into social assurance and investment costs. Social assurance costs will initially take the shape of emergency relief to secure the livelihoods of North Koreans. But as economic integration progresses social assurance assistance for the unemployed will increase. Therefore, the scale and term of unemployment will determine how much of the unification expenses social assurance costs will occupy. Investment costs are the funds required to bring the economic and living conditions of North Korea on par or of similar standards to South Korea. The government's financial burden will lessen if these funds are invested by businesses. However, if businesses avoid investing in North Korea because of high wages, the government will have no choice but to step in.

If unification expenses that follow a North Korean collapse accumulate,

³ North Korea's state-owned assets would be distributed to its citizens through privatization. If this is used as an incentive to weaken Northerner's desire to migrate south two policy goals can be accomplished at the same time.

the economic conditions of an integrated Korea change. The costs to counter impacts that would arise immediately after a collapse would likely resemble crisis management costs. Therefore, it would be difficult to adjust the scale of the costs through policy decisions.

On the contrary, the economic impacts during the integration process and the scale of their costs may significantly change according to policy decisions. Delaying the labor market's integration as well as the convergence of wage disparities between the North and South go hand in hand. If wage disparities can be reduced by diminishing the disparity in productivity, North Korea will anticipate an inflow of South Korean capital because of comparatively low wages. In this case a North-South economic integration will produce economic benefits for both sides. Under such conditions the long-term benefits of unification could outweigh the expenses. Ultimately, the scale of long-term unification expenses will be determined by how the impacts of an economic integration are managed.

III. Anticipated Financial Demands

A. Initial Emergency Financial Demands: Cost of Food Distribution, other Daily Necessities

The initial cost South Korea would have to bear in a North Korean collapse would be those costs associated with supplying food and daily necessities to ensure social stability in the North. The primary and secondary goals of this effort would be to aid North Koreans facing a humanitarian crisis, and to prevent a sudden population movement.

To calculate the cost of supplying food, assuming North Korea's population is 23 million based on the daily minimum required caloric intake, (1,673kcal), approximately 3,000 tons of edible grains would be needed a day

(excluding livestock feed and industrial use). First, we will assume that 70 tons of grain, or two months worth of emergency food supplies, will be provided. Grain would have to be provided immediately, and since rice, corn, and flour would likely be delivered together it is difficult to estimate an exact cost. However, rice prices are at least twice as much as corn. In addition to the cost of grain, it also takes money to deliver, which generally costs 15~20% over the original price.

Based on this standard, assuming that 1 ton of corn comes out to 420 dollars, it would cost \$42 million to supply 100 thousand tons of food aid. When including the shipping and administrative expenses in this process, the cost for 100 thousand tons of corn reaches nearly \$50.4 million.

$$\text{※ } 420(\$/\text{ton}) \times 100 \text{ thousand (ton)} \times 1.2 \text{ (administrative expenses 20\%)} = \$50,400,000$$

Based on the information above if North Korea collapses causing a state of emergency it is expected that between \$350 million and \$550 million will be needed to supply 2 months worth, or 700 thousand tons of corn.

If 60% of the food aid is supplied as rice, causing international rice prices to become twice that of corn, the expected cost rises to anywhere between \$560 million and \$808 million. If Korean rice is used, domestic rice prices will rise to about five times that of international prices, bringing the total cost to over \$2 billion— four times that of the original amount.

$$\text{※ } [(1680 + 25200 = 26880) \times 1.2 = 32256] \times 7 = 225792$$

<Figure 1> Initial Emergency Relief costs for Food (2 months worth) and Daily Necessaries

	Standard	Anticipated Cost (\$)

Food Aid	corn 100%	\$350~550 million
	corn 40%+foreign rice 60%	\$560~880 million
	corn 40%+domestic rice 60%	\$2.2 billion (+)
Medical and Daily Necessaries*	50% of the standard minimum food expenses	\$180 million
Total		Minimum of \$530 million

* In international relief organizations medical and daily necessity costs generally take up about half of food aid expenses.

B. Expenses from Integration

Estimating unification expenses should consider the following categories: what costs to anticipate, a timeline to complete unification, and the scale of North and South Korea's economies. Unification cost estimates until now have generally been made according to two methods. The first is estimating the investment it would take to raise the North's income to a desired standard. The second method is estimating the total sum of costs in each category that would be anticipated after unification. Estimations are normally simplified by assessing how much investment would be needed to reach a standard goal. However, social assurance costs are considered as vital to maintain a unified peninsula following integration. Below is a chart summarizing recent research on unification expenses.

<Figure 2> Unification Expenses (estimations after 2000)

(Unit: \$)

Research Institute and Researcher/year	Time Period	Estimated Cost for Unification	Estimation Standard	Method and
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(U.K.) Economist, Information Analysis(1992)	'00~2010	1.09 trillion	Cost to raise North Korean labor productivity to 70% of South Korea's
Shin Chang-min (1992)	'00~2012	1.86 trillion	Cost to reduce income disparity between North-South
Bae Jin-young (1992)	'00~2010 '10~2020	448 billion 762 billion	Cost to reduce income disparity between North-South
Far Eastern Economic Review (1992)	'00~2010	300 billion	3~4% of South Korea's GNP invested over 10 years
Kwak Yoon-taek (1993)	(10 years)	525.9 billion~ 1.23 trillion	Cost to raise North Korea's individual GNP from \$1,000 to \$7,000
KDI (1993)	'00~2010	372.2 billion (unified government) 285.5 billion (South Korean Government)	Government's financial burden in a German style absorbtion
Institute of Unification (1996)	'00~2010	360 billion (foreign capital 180 billion)	Raising North Korea's average per capita income to 60% of South Korea's, total by category
Hwang Eui-Kak (1996)	'00~'2005	1.2 trillion	Cost to reach equal living standards
Manfred Wegner(1996)		610 billion	In a German style economic integration, the amount of financial aid South Korea would

			provide North Korea over 5 years
Koh Il-dong (1997)	'01~2010	460 billion (first 5 years 280 billion)	South Korea's budget deficit
Hanhwa Economic Research Institute (1997)	2010	*856 trillion	During unification if the North/South economic ratio is 23:1, South Korea's financial burden
Marcus Noland(1997)	'00~2025	415 billion (1990) 983 billion (1995) 2.24 trillion (2000)	Cost over 25 years to raise North Korea's per capita income to 60% of South Korea's
The Economist 誌(1997)	'00~2010	240 billion	Cost to raise North Korea's economy to 60% of South Korea's
(U.S.) Golman Sachs (2000)	'00~2010 '05~2015	830 billion~2.54 trillion 1.07 trillion~3.55 trillion	Required investment for North Korea's labor productivity to reach 50~100% of South Korea's

* Data: Yang Moon-soo (2004)

Because every researcher calculates unification expenses based of differing assumptions it is difficult to present a specific research outcome on this subject. Also, because unification expenses are determined by the interactive relationship between economic sectors during the integration process, there is little meaning in attempting to make estimations in advance. Therefore, the most realistic approach is to discuss the potential costs from a supply

perspective based on available resources, rather than from a demand perspective.

Research on unification expenses suggests that more than 5% of South Korea's GDP will need to be used every year to cover costs. A study by Park Tae-kyu (1998) estimates that in the initial 5 years, under the assumption that economic growth is reinvested back into North Korea, unification will require 5.57~8.19% of South Korea's GNP. Under that same assumption, unification will require 4.37% of the GNP after 5 years till about the tenth year. Shin Chang-min (2005) estimates that 3.5~5% of South Korea's GDP will be needed for unification expenses to control population movements. In Germany's case 5% of the country's GDP was used to cover unification expenses. The following chart illustrates the numbers if this ratio was applied to Korea's GDP for the year 2000.

<Figure 3> Estimated Unification Expenses (GDP 5%)

(Unit: 100 million won)

Category 1	GDP(Nominal, Korean Won)	Unification Cost(GDP*0.05)
2000	5,786,645	289,332
2001	6,221,226	311,061
2002	6,842,635	342,132
2003	7,246,750	362,338
2004	7,793,805	389,690
2005	8,105,159	405,258
2006	8,480,446	424,022
2007	9,011,886	450,594

By 2007 standards, the cost of unification is 45 trillion won. The 2007 federal budget was 156 trillion won for general accounts, and 44 trillion won for special accounts— unification would consume 22.5% of the total budget.

IV. Methods to Procure Revenue

If South Korea declares integration with a collapsed North Korea, the costs for development and humanitarian aid in the North will primarily revert back to the South's government. Initial aid for macroeconomic stability or humanitarian crisis prevention can be allocated between allies within the international community. However, if North Korea becomes an official part of South Korea's territory it is possible that this could be treated as a domestic problem. Therefore, South Korea needs to gain the international community's assistance regarding North Korea on the pretext of overcoming the country's poverty crisis and internal instability.

With North Korea incorporated into the South's administrative boundaries there will be ostensible financial demands, such as procuring revenues that will rely heavily on South Korea's federal budget. Eventually, the federal budget will be procured by tax increases and domestic and overseas debt which means there must be a prior estimation for all capital stock. In a tax hike, by broadening the source of tax revenue, higher rates can be applied to those areas where opposition is relatively low.⁴ If South Korea accrues overseas debt it will need to consider exchange rate stability and determine how much outside assistance it will need. When accruing domestic debt, maintain long-term fiscal health needs to become the standard by which this moves forward. In 2009, South Korea's national debt accounted for 34% of the

⁴ Korea's indirect taxation is at the 2006 rate of 43.5%. The source of taxation has broadened and opposition is relatively low, but this could also create concerns of egregious indirect taxation increases and unfairness in taxation.

GNI and was ranked low among OECD countries. The budget balance is expected to recover by 2014. Therefore, there is still significant room to question whether procuring integration funds through more debt is appropriate. Especially when taking into consideration South Korea's rapid aging trend and the North's high unemployment rate, it makes sense to minimize the amount of revenue raised by debt.⁵ Even when accruing funds through debt it is best to use domestic sources since foreign sources often result in more stress on the currency market.

Through social assurance funds, South Koreans can bear some of the North's financial burden but the government will have to manage the rest. Especially since social insurance has the tendency to remain static, the South will have to be mindful of the level of assurance. There is however, one more issue to consider in determining an appropriate level of social assurance: they must be able to function as a means of maintaining a unified nation through collective assurances of survival and livelihood.

If North Korea's collapse leads to integration with the South the majority of the financial burden will fall on South Korea, inevitably resulting in higher interest, exchange, and tax rates. The speed of North Korea's economic reconstruction will determine the scale of these burdens.

V. Economic Impacts on the International Community from a North Korean Collapse

The effects of a North Korean collapse on the international community are anticipated to be most severe from the time of collapse and lasting till the North regains some type of stability. This is primarily because it is difficult to predict exactly what impacts North Korea's circumstances will have on

⁵ In Germany, initially the majority of revenue was procured through debt which later led to a decreased flexibility in policy.

Northeast Asia. If a humanitarian crisis breaks out in North Korea, countries such as South Korea, China, Russia, Japan and the U.S. will have no choice but to intervene in what will likely be a temporary financial burden. It is also likely that negative impacts may arise as a result of uncertainties in the region.

Instability in North Korea is likely to spill over into China because of its proximity with the North, the high levels of exchange between the two countries, and accessibility to China through the Yalu River. This instability may be followed by declining prices in the stock and bond markets, although exchange rate fluctuations are expected to be relatively mild.

Russia also shares a border with North Korea, but living environments in its far-east regions are less than ideal, and exchange between people from both countries is relatively low. Accordingly, a North Korean collapse would have a comparatively small effect on Russia. However, Russia's macroeconomy could suffer if it intervenes due to political relationships with North Korea. Any economic side effects will be reflected in the market.

The U.S. military is stationed in South Korea with whom it maintains a mutual defense agreement, so any distress will be reflected in the market. The possibility of the U.S. intervening in another war will lead to concerns of larger financial burdens and increased macroeconomic risks. Initially it will likely be difficult to avoid unstable exchange rates and price declines in the securities market.

In the case of Japan, foreign and domestic anxiety will mainly impact the finance market of Japan's economy due to its close proximity with North Korea, the potential influx of "boat people", and its location within the North's missile range. The longer uncertainty remains in North Korea the higher the risk of unstable prices, and rising exchange and interest rates in Japan.

Organizing international negotiations and support for a North-South integration can quickly attenuate problems neighboring countries may face. International assistance in developing North Korea will cause some financial stress, but the size of North Korea's economy is expected to have little actual

effect on the economies of neighboring countries. If managed correctly, the positives can outweigh the negatives—a stable North Korea will reduce security risks in East Asia and present new investment opportunities

VI. Conclusion

Until the direction of North Korea can be decided in the event of its collapse and subsequent integration with South Korea, all associated countries will experience some negative economic impacts. This will likely be because of initial humanitarian aid efforts and an uncertainty about the North's economy. However, if a North-South integration becomes an inevitability, the majority of the burden will fall on South Korea.

In an integrated Korean peninsula, unless a humanitarian crisis breaks out, it is unlikely that the international community will assist in bearing the financial burden of developing the North. Eventually, South Korea will need to procure funds through means such as tax hikes, accruing debt, and increasing social assurance funds. As much as possible it would be wise for the current generation of South Koreans to bear the costs through tax increases. If it becomes necessary to accrue more debt, any associated risks can be minimized by borrowing primarily from domestic sources. However, no matter the shape of the financial burden, it will cause notable difficulties for whoever decides to take charge. Therefore, all efforts need to be made to minimize integration expenses. This includes delaying the labor market's integration to prevent market distortions.

After the initial economic instabilities pass, other associated countries will actually begin to anticipate prospective advantages and potential investment opportunities from decreased risks in East Asia. Therefore, from an economic perspective it would be beneficial for associated countries to support a North-South integration if North Korea does indeed collapse.