Sejong Policy Studies

THE SEJONG INSTITUTE

No. 2020-07 (February 15, 2021)

30 years of German unification: Economic development of former East Germany and its implications for Korea's unification

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Abstract

Former East Germany was on the verge of an economic collapse, but could rapidly grow after the unification with the support of the federal government. The economic growth rate of East Germany reached 12% in 1993, while that of West Germany recorded -2.4%. West Germany's massive budget was invested to revitalize the East German economy. Since the launch of the European Union in 2005, the overall German economy showed a trend of growth due to its export growth. Since then, labor market reforms such as the Hartz reform plan have been implemented, and the German economy grew by overcoming economic difficulties in the early stages of the unification. The income gap between East and West Germany has also decreased. However, labor productivity in East Germany is still lower than that in West Germany; economic disparities between East and West Germany still exist. Labor productivity in East Germany is much lower than in West Germany—except Berlin--because of many factors such as the aftermath of the communist system, insufficient human capital, population decline, and a lack of competitive businesses. Another reason for the economic gap between East and West Germany is that, despite the federal support, the government has devoted its budget to social security and infrastructure construction.

To revive the East German economy, the federal government executed a variety of

policies. It selected certain areas of East Germany as intensive development areas and implemented policies to maximize the ripple effects of investment and technology. This policy was centered on leading cities like Leipzig, also known as the "beacon region," and the results were successful. Many companies in East Germany have been establishing stronger connections and localized value chains through those leading cities. R&D expenditure increased significantly—compared to GDP—as industrial competitiveness strengthened.

Another reason why former East Germany has been able to economically grow since the mid-2000s can be attributed to the increase in exports by companies in the region. With the launch of the EU, competitive German goods were exported to the euro-zone, and despite the trade surplus, they could make a lot of profit without adjusting the exchange rate. East Germany's export growth rate was similar to that of West Germany in 2003, and it has increased by about 25% every year since the 2010s, and the export growth rate of goods production has maintained about 36% every year. In East Germany, the productivity of cities and states that are highly dependent on exports increased. If East Germany continues to implement its export-oriented policy, the economic gap is likely to close.

The impact of unification between South Korea and North Korea will be bigger than that of Germany, as the income gap between the two Koreas is larger than that of Germany. Since the population ratio of South Korea and North Korea is larger than that of Germany, the per capita cost of unification will be much higher than that of Germany. One study argues that young people in former East Germany had moved to West Germany for various reasons and that middle-aged's and the elderly's income increased due to the movement and employment within East Germany. Therefore, a policy that can create new jobs in North Korea and increase the North's income through movement within the North is needed after the unification. Research is absolutely necessary to establish an industrial structure that is suitable for North Korea. It is worth studying the successful, compressed, growth development strategies of the 1960s and 1970s when Korea switched from an import-substituting industry based on low wages to an export-driven one.✤

※ Translator's note: This is a third party's unofficial translation of the original paper that was written in Korean. All references should be made to the original paper.
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