



**BLACK SEA UNIVERSITY
FOUNDATION
UNDER THE AEGIS OF THE
ROMANIAN ACADEMY**



The cost of Romania's reunification with Moldova

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Issues

- 1. How can these costs be estimated?
(infrastructure costs + social security costs + costs related to monetary uniformity) / Who makes this estimate: IMF/ WB/ CIA/ national governments?
- 2. Implicit costs v. explicit costs? What is the price of a delayed reunification?
- 3. Are these costs sustainable?

Reunification of Germany

- The case of Germany – the only actual reunification achieved:
- - GDP per capita in 1990 was: US\$ 11,800 v. US\$ 22,000 in the West
- Presently: approx. US\$ 31,700 v. approx. US\$ 46,000
- The East German population represented only a quarter of the West German population;
- Expenses amounting to US\$ 2,000 billion over 20 years:
 - - infrastructure
 - - social security
 - - currency exchange support
- The evolution of Germany's GDP since 1990: it has doubled!



1989	17023.09	6.77 %
1990	18340.28	7.74 %
1991	19686.4	7.34 %
1992	20329.69	3.27 %
1993	20447.61	0.58 %
2003	27964.08	1.61 %
2004	29120.95	4.14 %
2005	30265.93	3.93 %
2008	35728.28	3.25 %
2009	34375.02	-3.79 %
2010	36081.29	4.96 %



The cost of the German reunification

- Germany spent almost the "entire GDP" for the '90s for this reunification
- 20% of this amount represented private investments
- 20% was estimated to represent errors or overinvestments
- Basically, Germany spent 2/3 of its GDP in order to narrow the gap between the GDP per capita from 50% to 67%

State	Part of FRG since	Population	Capital	GDP per Capita in Euro
Baden-Württemberg	1949 ¹⁶¹	10,755,000	Stuttgart	34,885
Bavaria (Freistaat Bayern)	1949	12,542,000	Munich (München)	35,443
Berlin	1990 ¹⁷¹	3,469,000	–	28,806
Brandenburg	1990	2,500,000	Potsdam	22,074
Bremen (Freie Hansestadt Bremen)	1949	661,000	–	42,405
Hamburg (Freie und Hansestadt Hamburg)	1949	1,788,000	–	52,401
Hesse (Hessen)	1949	6,066,000	Wiesbaden	37,509
Lower Saxony (Niedersachsen)	1949	7,914,000	Hanover (Hannover)	28,350
Mecklenburg-Vorpommern	1990	1,639,000	Schwerin	21,404
North Rhine- Westphalia (Nordrhein-Westfalen)	1949	17,837,000	Düsseldorf	32,882
Rhineland-Palatinate (Rheinland-Pfalz)	1949	3,999,000	Mainz	28,311
Saarland	1957	1,018,000	Saarbrücken	30,098
Saxony (Freistaat Sachsen)	1990	4,143,000	Dresden	22,980
Saxony-Anhalt (Sachsen-Anhalt)	1990	2,331,000	Magdeburg	22,427
Schleswig-Holstein	1949	2,833,000	Kiel	25,947
Thuringia (Freistaat Thüringen)	1990	2,231,000	Erfurt	21,663

Consequences of the German reunification

- After 1990, the GDP of the united Germany doubled (from US\$ 1,750 billion to US\$ 3,5 billion) and the GDP per capita doubled as well reaching an approx. US\$ 43,000), ranking the united Germany ahead of the other 3 great European economies (Great Britain, France and Italy)
- During this time, it was only for 4 years that Germany recorded a GDP per capita below that of Great Britain; comparatively, between 1949 and 1990, Germany was surpassed in a 27-year period by at least one other great European economy and it was outdid 19 times by at least two others (including Italy, for 7 times)
- While Germany spent US\$ 1,600 billion for the reunification project (according to the 2000 parity), the German companies' turnover increased to US\$ 4,900 billion (according to the same parity)
- The GDP increase correlated with the growing importance and visibility of the new federal republic has reached at least US\$ 150 billion per year (according to the 2000 parity), as estimated by the CIA analysts, from 1990 to 2010

Frankfurt Exchange DAX index evolution

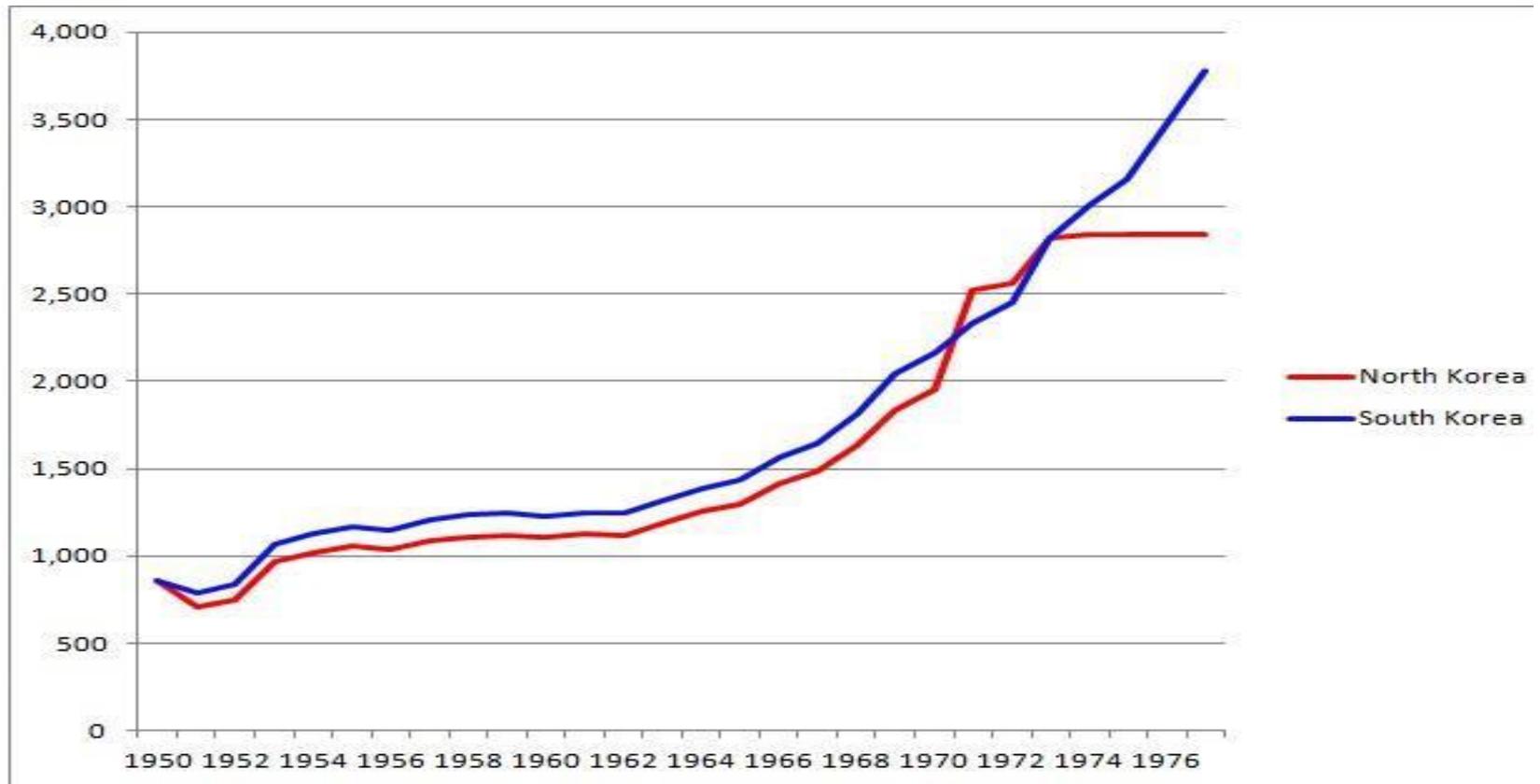




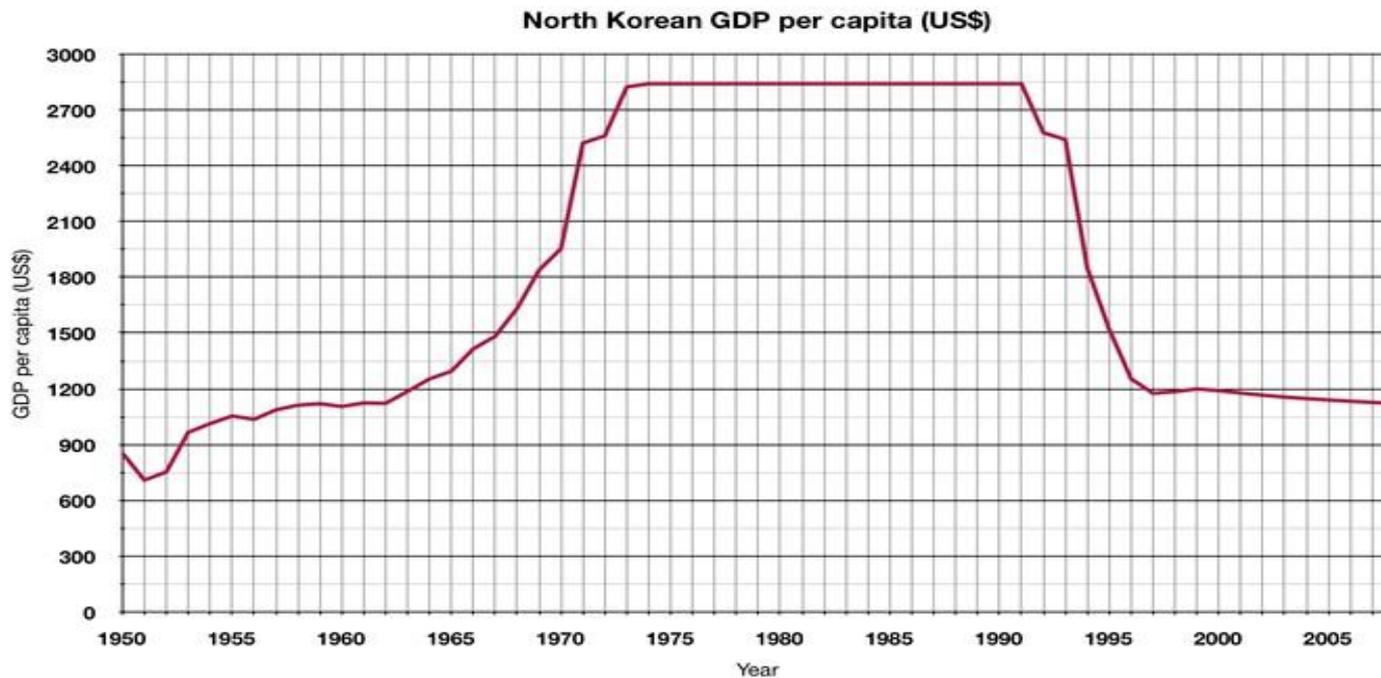
Reunification of the Korean State

- The Republic of Korea has a reunification ministry developing a very strict methodology for calculating the country's reunification cost
- The Republic of Korea has a population of 50 million people, a GDP of US\$ 1,150 billion and a GDP per capita of US\$ 22,600
- North Korea has a population of 25 million people, a GDP of US\$ 40 billion and a GDP per capital of US\$ 1,600

Reunification of the Korean State – the cost of the reunification failure



Reunification of the Korean State – the cost of the reunification failure



Reunification of the Korean State

- The most rigorous estimate forecasts a cost of US\$ 2,000 billion over the following 30 years resulting in a 80% GDP per capita in the North as compared to the South at the end of the reference period and an average GDP per capita of US\$ 40,000 for the united country (the same US\$ parity)
- US\$ 50 billion would be sufficient to achieve something truly outstanding: namely to narrow the gap between North and South by 2 times (from 5% to 10%) within 5-6 years
- However, the reunification cost would also amount to the level of the current GDP or to 7% of the annual GDP
- Out of such amount, the state would pay around 2/3, namely 1,300 billion or 5% of the GDP on an annual basis
- The Korean state allocates annually 11% of its GDP for investments meaning that it should allocate 40% of the annual investments to the north of the peninsula
- However, an average GDP growth of US\$ 500 billion is estimated annually over the next 20 years, which might rank Korea amongst the world's top ten economies
- Within 20 years, the Seoul Stock Exchange might quadruplicate its index value and the increased geopolitical influence of the country might add an annual 10 % growth to the companies turnover

The cost of Romania's reunification – the implicit cost of the reunification failure

- In 1990, the GDP per capita in Romania and in the Republic of Moldova was comparable at a ratio of US\$ 1,500/1,000
- Currently, Romania has a population of 21 million people, a GDP of US\$ 180 billion and a GDP per capita of approximately US\$ 8,400
- The Republic of Moldova has around 3,5 million people, a GDP of almost US\$ 8 billion and a GDP per capita of approximately US\$ 2,200
- Basically, over 20 years the GDP per capita ratio has increased from 1/1.5 to 1/4 which means that it has almost tripled
- At this pace, provided that there are no extreme events, over the next 20 years such ratio will reach 1/10

The cost of Romania's reunification

- If the reunification was to take place tomorrow, applying the Korean methodology or the events occurred in Germany we would have a cost of almost half the current GDP (namely US\$ 90 billion over the next 20 years, a cost which might narrow the gap of GDP per capita from 4/1 to 1/1.5 (as in 1990)
- 20 % of such amount, (US\$ 18 billion) would represent private investments; therefore, the Romanian state should spend around US\$ 70 billion, namely US\$ 3.5 billion per year on average, more specifically a third of its current investment expenditures
- By comparison, the investment expenditures decreased by 16 % in 2013 as compared to 2012. Is this unsustainable?



The cost of Romania's reunification

- However, the unseen effect of the reunification would consist of:
- A 10% annual growth of the GDP as a result of the increased turnover of the Romanian companies, which means that our current GDP might double its value over the next 8 years
- The enhanced geopolitical profile of the country might result in another 5% up to 10% growth of the current GDP

Considering the data above, the reunification would practically finance itself!



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