

Kaesong Industrial Complex: Is a Second Reprieve Possible?

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After a long lull, the Kaesong Industrial Complex project is beginning to recover. North Korean authorities, having now asked for a 5 percent raise for North Korean workers within the complex, seem to have abandoned their earlier demand, made in June, that wages be increased 400 percent to 300 dollars per month. This, along with the North's decision to remove border-crossing restrictions implemented on December 1, indicate Pyongyang's decision to work toward resolving issues burdening the businesses in the KIC.

That said, there is still anxiety regarding the future of the complex. A recent article in the North Korean mouthpiece *Tongil Sinbo* raised the question as to whether the current state of inter-Korean relations was improving, or if the current status would be maintained, and what that might mean for the KIC. That is because the political atmosphere surrounding the complex, including the question of U.S.-DPRK talks, inter-Korean relations and the status of the North's nuclear issues and how these impact the KIC, is still unclear. The future of the complex, along with the North Korean nuclear issue, inter-Korean relations and U.S.-DPRK dialog, remains unknown. Inter-Korean cooperation is further challenged by events such as the recent opening by the North of the Hwang River dam, as such incidents easily add tensions to any dialog between Seoul and Pyongyang.

To date, the difficulties overcome by businesses in the KIC are indicative of the fact that the competitiveness and will to survive of the South Korean companies outweighs the issues that they face while trying to do business in the North. The spirit and competitiveness of enterprises within the KIC serves as decisive factors in their struggle to succeed. As of September 2, there are 114 companies operating within the complex. As of July, KIC occupancy had risen 51 percent over the previous year, expanding from 72 to 109 businesses. While production had been down due to the North's restrictions on access and other issues, it has begun to rise sharply again since June of this year, even though it had fallen sharply over four months earlier in the year. In July, KIC production was worth 20.59 million USD, 1.5 percent up from June and one percent greater than the same period last year. While the improvements have only been recent and slight, they do serve as indications of the competitive and whole-hearted nature of KIC enterprises. From the perspective of South Korean businesses, the KIC offers one last opportunity to demonstrate their grit and endurance, and the success these traits can bring.

The manner in which the December 1 transit restrictions threatened the very existence of the KIC served as a lesson to both North and South Korea. This issue is worth examining, as the close inter-relatedness of the two Koreas is important to both Seoul and Pyongyang. North and South Korean officials working within the KIC on complex operations put forth great effort to avoid allowing politics to influence management decisions. There is a shared belief between both North and South Korean management staff that the survival of the KIC is necessary. This provides impetus for further development and growth of the complex. The last year has shown that worsening relations between North and South Korean authorities could lead to the exodus of South Korean firms and even the closing of the KIC. In the future, authorities can be expected to pay more attention to the impact of inter-Korean relations and cross-border policies on KIC activities.

Furthermore, the KIC offers the opportunity to more directly expose North Koreans to the South's capitalistic business operations. Political instability gives buyers a sense of uncertainty, and this leads to reduced orders which can challenge the existence of businesses. These businesses struggle to increase production, even by the slightest of margins, sensing that hardships for the enterprise are hardships shared with employees, and that if a South Korean enterprise is under pressure, everyone loses. In the socialist North, it is difficult to find workers who link business failure with personal difficulties, or laborers striving to increase work orders or find domestic or overseas buyers.

The Kaesong Industrial Complex, which remains in the first stage of development, faces challenges and, at the same time, opportunities. In this manner, the KIC is like special economic zones in many other countries. The uncertain political atmosphere surrounding the North Korean nuclear issue clearly has the potential to create a crisis, but there is also significant potential for the KIC to grow economically in the future, as a reflection of inter-Korean relations. It is necessary to recognize that the success of the complex means more to North Korean authorities than a means of supporting the regime in Pyongyang; more importantly, the complex can provide gradually increasing economic utility.

Recently, North Korea has actively pushed for normalization of production activities within the KIC by reversing its hardline policies toward the South. On August 17, Hyundai Group Chairwoman Hyun Jung-eun reached a surprising agreement with the North's Asia Pacific Peace Committee to revive complex operations, among a series of inter-Korean economic cooperative ventures. This was followed by the North's removal of KIC and border transit restrictions put in place on December 1, and resolution of the demand for increased wages for North Korean workers. It appears now that the KIC is in a position to regain ground and move



forward with development, and it is expected that further measures promoting the growth of the complex will emerge through the resumption of inter-Korean government-level talks. In particular, many eyes are focused on ongoing talks to resolve construction of dormitories and the steady supply of North Korean laborers, as well as the '3C' issues (communications, customs, and conveyance).

While efforts are focused on resolution of current issues and problems in the short-term in order to reinvigorate KIC development, it is important to always keep an eye on mid- and long-term development, and to continue to prepare policy and plans for ongoing growth. Critical to this will be political stability and the steady supply of North Korean labor and production growth in order to support the KIC's economic competitiveness and increased profitability. In the future, it appears that amendment of the employee income raise schedules is unavoidable, along with regulations regarding basic wages and hiring practices.