

THE GAESEONG INDUSTRIAL COMPLEX AND THE KOREA-U.S. FTA: Part 1*

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Introduction

The first round of negotiation between Republic of Korea (“ROK”) and the U.S. for the ROK-US free trade agreement (KORUS FTA) was held between June 5 and June 9, 2006. ROK requested the U.S. to allow products from the Gaeseong Industrial Complex (GIC) to be considered as originating from ROK. However, U.S. government rejected such request and each party failed to make a joint preliminary statement on the inclusion of GIC-made products. The GIC-made products issue is emerging as one of the toughest issues on the negotiation table. Under this situation, it would be worthwhile examining each country’s position and the implication of the inclusion of the GIC in the KORUS FTA.

Each Country’s Position

As set forth below, it is ROK government’s position to request its FTA partners to allow the GIC-made products to be considered as originating from ROK, and such request was reflected in the Korea-Singapore FTA, Korea-EFTA FTA, and Korea-ASEAN FTA.¹ For the ROK government, the GIC is a way to lead changes in North Korea, thereby ensuring the stability on the Korean peninsula. Thus, it is the most important project under ROK’s peace and prosperity policy, which it would never give up in any event. Indeed, despite the North Korean nuclear issue that arose in October 2002, the ROK government has maintained its support for the GIC. This is because the GIC is the only viable project for the ROK government to rely on in its attempt to lead changes in North Korea. In the context of KORUS FTA, it is the ROK government’s firm position that the inclusion of the GIC in the KORUS FTA would definitely be important

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¹ Although the Korea-ASEAN FTA has not been finally concluded yet, both countries reached an agreement on the Agreement on Trade in Goods of the Korea-ASEAN FTA in April, 2006 and subsequently provisions as to the GIC was agreed in May, 2006.

for the success of the GIC. For this purpose, the ROK government is seeking treatment comparable to that provided in the ROK's FTA with EFTA, the details of which are discussed below.

On the other hand, the U.S. government's position appears to be that the GIC-made products do not qualify for duty free treatment under the FTA. In February 2, 2006, USTR Rob Portman said that FTA would cover only products made in South Korea, and this position does not seem to have changed in the first round of negotiation.²

According to the CRS Report, there are two important issues for the U.S. in respect of ROK's requests: (i) working conditions for North Korean workers; and (ii) the income the GIC provides for the North Korean government. Some U.S. labor and human rights advocates, including Jay Lefkowitz, President Bush's special envoy for human rights in North Korea, have argued that North Korean workers in the GIC are being exploited.³ The U.S. government is also worried about the possibility that the GIC is to be a source for supplying hard currency to the North Korean government. Although so far a total of less than 20 million U.S. Dollars in hard currency has been paid to the North Korean government, it is expected that considerable amount of hard currency will be paid to the North Korean government in a few years if the GIC becomes successful. From the U.S. perspective, it is hard to see how the FTA could grant advantages to North Korean production while that country obstructs the six-party talks on security issues and engages in abusive labor practices and counterfeiting of U.S. currency.⁴

Although the ROK government repeatedly stated that there is no difference between both countries' position as to the GIC and the U.S. government also officially supported the GIC, it is not the case in the current KORUS FTA negotiation. Rather, to the contrary, the current situation shows that the U.S. government does not agree with the ROK government's sunshine policy and further has a different view on the status and

² However, at an economic press round table in Seoul on February 8, 2006, an unnamed official with the U.S. embassy said, "...the provisions of the FTA in our view will apply to goods originating within the territories of the two parties... what qualifies as an originating good is something that will be settled in the chapter [of the FTA] called Rules of Origin." Based upon this remarks, there is a view that there may be room for negotiation on this point. CRS Report updated in February 9, 2006, "South Korea-U.S. Economic Relations: Cooperation, Friction, and Prospects for a Free Trade Agreement (FTA) by Mark E. Manyin.

³For Mr. Lefkowitz's argument, refer to his article in the *Wall Street Journal*, April 28, 2006, available at <http://www.state.gov/p/eap/rls/rm/66928.htm>.

⁴ IIE Report, p. 15.

role of the GIC in North Korea. The real problem is that there is a fundamental difference in each country's view on the current North Korean regime and the strategy to lead changes in North Korea, and such difference does not appear to have narrowed of the course of the current KORUS FTA negotiation.⁵

In this regard, several questions are raised. The first question is whether the U.S. government has sufficient understanding of the GIC. In the CRS and IIE reports, although there is a brief introduction of the GIC, it is difficult to find detailed information regarding the GIC, including the current status, development plan, legal infrastructure, prospects and its implications in North Korea if it is successful. Rather, they simply and overly stress the labor issue and thereby reveal their lack of balanced understanding of the GIC.

The second question is whether there have been close communications and discussions between both governments as to the status and role of the GIC. As Mr. Lefkowitz said, the world knows little about what actually goes on at the GIC and the U.S. government does not appear to have sufficient understanding of the GIC and it implies that there have not been close communications and discussion going on between both governments. It is even doubtful whether the ROK government has taken appropriate measures to have such communication and persuade the U.S. government. The ROK government needs to closely examine the current situation and try to make favorable environment to persuade the U.S. government.

Although it is undeniable that the final decision as to the inclusion of the GIC in the current KORUS FTA negotiation is to be made based upon political considerations,⁶ correct understanding of the GIC must be prerequisite for such final decision. In that respect, set forth below is a brief overview of the GIC.

The Gaeseong Industrial Complex Overview: Pilot Project for Korean Unification

Current Status

The GIC is located approximately 40 miles from Seoul, just north of the DMZ. Its

⁵ Kim, Keun-shik, "The GIC, Difference of ROK-US North Korean Policy," *Kyunghyang shinmun*, June 21, 2006.

⁶ According to the CRS Report-26, "Much is more likely to hinge on the status of the Six-Party Talks on North Korea's nuclear program, which appear to have stagnated."

whole area covers 16,341 acres, and currently 13 companies are under operation in 22.8 acres, with 26 companies in the process of preparing their operation in 40.8 acres. About 7,300 North Korean employees are working in the GIC. Bidding for selection of tenant companies in 468 acres is scheduled to be held in the 2nd half of 2006. If such bidding is successfully concluded, the number of tenant companies in the GIC will increase up to 300, while the number of the North Korean employees will be around 70,000. It is noteworthy that the investment into the GIC has been made mostly through newly established local companies in the GIC and such local companies are all joint-stock companies, the general legal form of corporate establishment in South Korea.

Set forth in table 1 is the GIC Development Plan according to the ROK government.⁷

Table 1: GIC Development Plan

		Stage 1	Stage 2	Stage 3	Extended Area	Urban Gaeseong Area	Total
Area (acre)	Industrial Zone	817	1,225	2,859	1,634	-	6,536
	Supporting Zone	-	817	1,634	4,085	3,268	9,805
Tenant Companies		300	700	1,000	-	-	2,000
Employees (thousand)		70	130	150			350
Development Schedule		2002-2007	2006-2009	2008-2012			

*Legal Infrastructure of the GIC*⁸

The GIC has a distinctive legal infrastructure compared to other special economic zones

⁷ ROK Ministry of Unification, "Introduction to & Implication of Gaeseong Industrial Complex Project" dated April 18, 2006, material presented at a policy forum "Strategic Implications of Economic Engagement with the DPRK: Kaesong and Beyond" organized by Korea Economic Institute. Full text is available at <http://www.keia.org/3-4-1-recentevents.htm>.

⁸ For a detailed description of the GIC legal infrastructure, see Gi-Hyoung OH, attorney-at-law at Bae, Kim & Lee, "The Legal Framework of the Gaesung Industrial Complex," unpublished LL.M. thesis at the University of California at Berkeley School of Law.

(“SEZ”) of North Korea and that of Shenzhen, China.

First of all, the GIC has its own legal infrastructure separate from the general North Korean legal system.⁹ This feature appears to be similar to the case of the Shenzhen SEZ in China. From a legal perspective, the success of the Shenzhen SEZ is attributable to the fact that the central government of China allowed considerable autonomy to the local government to manage the SEZ. The Chinese government especially delegated certain legislative powers to the local government so that the local government may set up distinctive legal infrastructures suitable for inducing foreign investment.¹⁰ With this delegated power, the local government could set up more investor-friendly legal infrastructure, including advanced corporate law, labor law, and real property law.¹¹ Moreover, central government of China intensively studied and verified this experiment of legal devices in the Shenzhen SEZ for more than ten years and then expanded these verified legal devices to the whole nation. In this context, North Korea’s decision to allow the GIC to have its own legal infrastructure separate from general North Korean legal system may be viewed as taking an important step for the establishment of favorable investment environment in the GIC.¹²

Second, the administrative body of the GIC, the Gaeseong Industrial District Management Committee (GIDMC), has been organized by South Koreans, and GIDMC is responsible for almost the entire administration of the GIC.¹³ This unique feature of

⁹ Article 9 of the GIC Law provides, “Economic activities in the [GIC] shall be in compliance with this law and regulations for the enforcement of this law. Regulations of any activities which are not explicitly provided by this law and regulations shall be decided by consultation between Central Supervisory Body of Industrial Complex and Gaeseong Industrial District Management Committee.” Central Supervisory Body of Industrial Complex is a government organization of North Korea in charge of industrial complex.

¹⁰ Legislative powers were delegated to the Gwangdong Province government in 1980 and to the Shenzhen City government in 1992.

¹¹ Chul-soo Lee, Dae-kyu Yoon, Wook Yoo, et al., “A Recommendation for the Establishment of Legal Infrastructure in preparation of South and North Integration,” 2005, Korea Institute for National Unification, pp. 100-121 (Korean). Chinese government promulgated Corporate Law in 1994 and Labor Law in 1995 based upon the experience of SEZs.

¹² For the comparison of Chinese SEZs and North Korean SEZs, see Eliot Syunghyun Jung, et al., “North Korea’s Special Economic Zones: Obstacles and Opportunities, Confrontation and Innovation on the Korean Peninsula,” ad hoc publication by the Korea Economic Institute, 2003, available at <http://www.keia.org/2-Publications/2-4-Adhoc/AdHoc2003/AdHoc-Contents03.html>.

¹³ Bae, Kim & Lee, Laws and Regulations of the Gaeseong Industrial Complex, LAWNB, 2005, pp.15-18 (Korean). GIDMC covers the following administrative function: (1) establishment of favorable investment environment and inducement of investment; (2) approval of the establishment of a company; (3) construction permit and certifying completion of construction; (4) registration of land use right, building related rights and transportation vehicles; (5) assistance to the company; (6) management of physical infrastructure; (7) environment protection and fire service; (8) issuance of entrance permit; and

the GIC may be viewed as more advanced than the Shenzhen SEZ case. In the early 1990s, the North Korean government failed in its attempt to induce foreign direct investment into Rajin-Sonbong area, one of the SEZs established in its northeastern part. Such factors as underdeveloped infrastructure, unfavorable international relationship, especially with the U.S. and Japan, and inexperience and incapability of the North Korean government were known to be major causes of such failure.¹⁴ From this failure, the North Korean government seems to have learned certain lesson, and later delegated its administrative power and authority to GIDMC.¹⁵ Especially, GIDMC is playing the role of legislative body in reality by enacting sub-regulations of the GIC. The GIC is a very unique space where general North Korean law does not govern, although the GIC is under North Korean sovereign. Nor does South Korean law effectively govern the area. Thus, a separate legal infrastructure needed to be established, and for this purpose, the Gaeseong Industrial Complex Law (“GIC Law”) and fourteen regulations have been enacted.¹⁶ However, the GIC Law and fourteen regulations are not enough to cover the whole legal infrastructure of the GIC, and thus a lot of legislation is still necessary.¹⁷ Pursuant to the GIC Law, legislation of sub-regulation is delegated to the GIDMC, and so far approximately 60 sub-regulations have been enacted (or drafted) by the GIDMC.¹⁸

Third, the GIC Law and fourteen regulations have been prepared by the joint work of the North and South Koreans. Since the North Korean government was cooperative in making the legal infrastructure investor-friendly, a considerable portion of provisions and regulations were initially drafted by South Koreans. Currently, since GIDMC is in charge of establishing sub-regulations of the GIC, almost all sub-regulations are enacted by South Koreans. In addition, certain inter-Korean agreements have been agreed

(9) legislation of sub-regulation.

¹⁴ Eliot Syunghyun Jung, et al., op. cit., pp.48-49.

¹⁵ In order for the SEZ to be successful, a favorable overall investment environment has to be in place. This requires a comprehensive strategy, dealing with various issues from infrastructure upgrading and legal framework development, to changing government behavior. Simply relying on a few factors, such as low-cost labor and tax incentives, is not sufficient. Wei Ge, “Special Economic Zones and the Opening of the Chinese Economy: Some Lessons for Economic Liberalization,” *World Development*, Vol. 27, No. 7, p. 1,283.

¹⁶ The fourteen regulations are as follows: (1) Development Regulation; (2) Enterprise Regulation; (3) Tax Regulation; (4) Labor Regulation; (5) Administrative Agency Regulation; (6) Entrance, Exit, Sojourn Regulation; (7) Customs Regulation; (8) Foreign Exchange Regulation; (9) Advertisement Regulation; (10) Real Property Regulation; (11) Insurance Regulation; (12) Accounting Regulation; (13) Enterprise Finance Regulation; and (14) Accounting Audit Regulation.

¹⁷ In the case of Shenzhen SEZ, 152 laws and 165 regulations were enacted by Shenzhen City government from 1992 to 2004. Chul-soo Lee, Dae-kyu Yoon, Wook Yoo, et al., op. cit., p. 102.

¹⁸ See Article 25.9 of the GIC Law.

upon between the ROK and DPRK. These inter-Korean Agreements form important constituents of the whole GIC legal infrastructure.¹⁹

Fourth, it is notable that the following advanced legal devices have been adopted for the first time in North Korea: (1) the permission of the establishment of joint-stock company;²⁰ (2) the organization of administrative body, GIDMC, by a private developer company;²¹ (3) adoption of more advanced labor regulations such as labor contract with employees, direct payment of salary to employees, and dismissal without need to obtain the approval of North Korean government;²² and (4) adoption of more advanced real property regulation.²³

In short, from a legal perspective, certain unprecedented advanced measures have been taken in the GIC by the North Korean government, which implies that North Korea is making quite serious efforts to provide favorable investment environment of the GIC.

What Happened in the Last Two Years

It has been almost two years since the first company in the GIC started its operation. Although only thirteen companies are operating, certain meaningful changes are found.

First, basic investment environment has been prepared. Electricity and telecommunication services are provided by ROK companies and as discussed above, basic legal infrastructure has been prepared including land registration system as well as company registration system.²⁴ Similar to what happened in Shenzhen SEZ in the 1980s, new legal infrastructure has been adopted with the assistance of ROK.²⁵

Second, some tenant companies show good performance, and the productivity of labor

¹⁹ Important inter-Korean agreements are (1) Agreement on the Protection of Inter-Korean Investment, (2) Agreement on Prevention of Double Taxation, (3) Agreement on Clearing Settlement, (4) Agreement on the Resolution Procedures for Commercial Disputes, and (5) Agreement on Entrance and Exit, Sojourn in the GIC and the Keumgangs Tourism Region. These inter-Korean agreements became effective by obtaining approval of National Congress of the ROK and the Supreme People's Council of North Korea, respectively.

²⁰ Enterprise Regulation, Article 17.

²¹ The GIC Law, article 24, Administrative Agency Regulation, Article 2.

²² See Labor Regulation, Articles 10, 14 and 32.

²³ See Real Property Regulation.

²⁴ Adoption of land registration system and company registration system are for the first time in North Korea.

²⁵ Shenzhen SEZ adopted a lot of legal infrastructures from Hong Kong.

in these companies has reached from 60 percent up to 90 percent of that in ROK. Because of the good performance, some tenant companies are in the process of expanding their factories and some others are planning to move their factories from China to the GIC.²⁶

Third, substantial changes in the attitude and the behavior of North Koreans are being observed. At the beginning, the North Korean government was quite passive in inducing foreign investment. However, now they are quite active in inducing foreign investment. The North Korean government is also eager to learn necessary information to manage the GIC. Last year, the North Korean government requested the ROK government for tax and accounting education programs, which were later given to North Korean officials in Shenzhen, China. North Korean government's concept of legal infrastructure has been also changed. At the beginning, North Korean government official did not pay much attention to the GIC Law and regulations. However, now they are seriously studying the GIC Law and regulations, and in-depth discussions have frequently been observed between the North Korean government officials and the GIDMC.²⁷ North Korean workers working in the GIC are eager to learn production skills, gradually starting to understand the principles of a market economy. They volunteer for night duty to meet deadlines for delivery, and some of them even plead for night shifts or working on weekends to get overtime pay.²⁸

Fourth, the GIC is a special zone separated from politics where parties have an easy access to the other party and communicate more easily with each other. Through the GIC, it is possible for the South and the North to frequently communicate and access to each other, thereby accelerating mutual understanding and economic cooperation between them.²⁹

It would be too early to conclude that these changes during the last two years are a decisive sign that the GIC will play a key role in leading North Korea's overall change.

²⁶ Five tenant companies (Shinwon, Samduck, Romanson, Daewha and SJtech) are expanding their factories in the GIC. *Hankyoreh Shinmun*, June 24, 2006.

²⁷ Interview with an officer in charge of the GIDMC legal department

²⁸ Kim, Dong-keun, "The Gaeseong Industrial Complex, Past, Present and Future," luncheon speech at a policy forum "Strategic Implications of Economic Engagement with the DPRK: Kaesong and Beyond," organized by the Korea Economic Institute, April 18, 2006. Materials available at http://www.keia.org/3-Programs/final-KEIkeynotespeech_Mr.pdf.

²⁹ Seventy-six foreign diplomats, including U.S. Ambassador to the ROK, Mr. Vershbow, visited the GIC on June 12, 2006.

However, at least these changes should not be simply neglected because such changes, although they are minimal, slow and silent, imply that a meaningful experiment has started in the North Korean society and that it may have the same spillover effect as Shenzhen SEZ did in China about 20 years ago.

Effect of KORUS FTA on the GIC

Currently, 39 tenant companies in the GIC are mostly labor-intensive companies like textile, apparel, leather, and footwear companies. This phenomenon is mostly due to the strict restrictions on the export of certain goods to North Korea provided by export control regulations on strategic materials, such as the U.S. Export Administration Regulation. Because of this strict restriction, only those companies that are in compliance with such export control regulations are eligible for the GIC, and as a result, it is impossible for big companies or high-tech companies to enter the GIC.³⁰ If this strict export control issue is not resolved, tenant companies will be limited to small and medium-size companies in labor-intensive industries.

Moreover, North Korea is one of the few countries to which the United States does not grant normal trade relations status. North Korea exports are subject to the so-called column 2 tariff rate, which tend to be the highest on the sorts of labor-intensive products. Details of the column 2 tariff relating to products currently manufactured (or expected to be manufactured) at the GIC are as set forth in the below table.

Table 2. Comparison of Applicable U.S. Tariff Rates for Key Items

Classification	HS Code	Description	MFN	Tariff applicable to North Korea
Apparel and Fibers	420310	Apparel, of leather or of composition leather	4.7, 6	35
	610620	Women's blouses and shirts of man-made fibers	14.9, 32	54.5, 72
	610910	T-shirts of cotton	16.5	90
	611030	Jerseys, pullovers and cardigans, knitted or crocheted, of man-made fibers	6~32	35 ~90
	620193	Men's or boy's anoraks and ski jackets, of man-made fibers	4.4 ~ 27.7	58.5 ~ 90

³⁰ Because of export control regulation on strategic material, two tenant companies could not carry out certain machinery to the GIC and they had to change respective production line.

	620530	Men's or boy's shirts of man-made fibers	12.2 ~ 25.9	45 ~ 76
	650590	Hats and other headgear	1.1 ~ 7.1	35 ~ 65
Footwear	640299	Other footwear	3 ~ 48	35 ~ 84
	640699	Parts of footwear	0, 5.3, 14.9	15 ~ 80
Bag	420212	Trunks and suitcases	5.7 ~ 20	40, 65
	420222	Handbags	5.7 ~ 17.6	40 ~ 90
Jewelry	711319	Jewelry of precious metal	5 ~ 7	80
	711719	Imitation jewelry of base metal	0 ~ 11	45, 80, 110

* Source: USITC, Harmonized Tariff Schedule of the United States (2005)

Because of this high tariff structure, it is practically impossible for manufacturers of products subject to the column 2 tariff to export their products to the U.S. market. As a result, the companies with the U.S. customers cannot enter the GIC and given the U.S. market is the largest market in the world, this must be one of the toughest problems obstructing the development of the GIC. Under these circumstances, if the KORUS FTA is concluded to exclude the GIC, the situation will not change and it will definitely have considerable negative effect on the development of the GIC.³¹

Labor Issues

As described above, the labor conditions of the GIC suddenly became a critical issue on the table. For most Koreans, it is an unexpected issue. Because the GIC has been conceived as a project that would improve the quality of life in North Korea, South Koreans did not imagine that the labor issue would be a problem. Certainly, it is clear that there is a big difference in the understanding of the labor issue in the GIC between the ROK and U.S. governments.

Labor issues raised in connection with the GIC can be summarized as following: (1) low salary level, minimal amount of money, average monthly wage of \$50 per person or less than \$2 per day; (2) no guarantee that even this amount of money goes to individual North Korean workers as their labor service agency deduct "social fees" from this meager amount;³² (3) since North Korea pays the workers in North Korean Won

³¹ Especially currently 15 companies among tenant companies are textile and apparel manufacturers, and it is expected that the number of such manufacturers will increase up to 200 in 2012. Kim, Ki-moon, chairman of the GIC tenant companies association said that inclusion of the GIC in the KORUS FTA is crucial for the success of the GIC since majority of tenant companies are textile and apparel manufacturers. *Hankyoreh Shinmun*, June 24, 2006.

³² Jay Lefkowitz, op.cit.

converted at the widely overvalued official exchange rate, the actual amount paid to North Korean workers is less than \$3 per month at the more realistic black-market rate.³³

However, wages at the GIC should be compared with those paid in other countries in a similar situation, like China and Vietnam. The GIC wages could also be compared to the general level of wages paid to workers elsewhere in North Korea. In Vietnam, the minimum monthly wage paid by foreign-invested enterprises just reached \$50, after it was raised by more than 30 percent this year. In China, the minimum wage stands at \$70. The GIC's monthly pay of \$50 amounts to 7,500 won when calculated by the official exchange rate of 150 North Korean won to the dollar. This can be compared to the average monthly salary of 3,000 North Korean Won paid to an ordinary worker in North Korea. Considering that North Korea is a latecomer in the competition with China and Vietnam for attracting foreign investment, the \$50 dollar level of wage should not be deemed as inadequate.

It is true that so far salaries are not paid directly to each employee. However, there are certain unique situations in the GIC as North Korea is still a socialist country. Since the North Korean government provides housing, education, and health care services to its people for free, there is an understandable ground for the North Korean government to deduct approximately 30 percent of wages for provision of such social services. More important factor preventing direct salary payment is the huge discrepancy between official exchange rate and real black-market exchange rate. The latter is approximately 15 times or 20 times higher than the official exchange rate. If North Korean workers in the GIC could convert their salary in the black-market, their actual monthly income would soar up to 150,000 North Korean Won which is 20 times more than the average monthly salary of 3,000 North Korean Won. This situation will bring about a huge inequality problem and disorder to foreign exchange market in the North Korean society. Meanwhile, direct salary payment issue implies that although North Korea agreed to have direct payment system in the Labor Regulation,³⁴ there has been

³³ IIE Report, pp. 12-13.

³⁴ Foreign-invested companies in general are not permitted either to conclude working contracts with individual North Korean workers or pay salaries directly to them. Those companies are required to entrust a gross amount of wages in dollars to the North Korean authorities, which in turn pay North Korean workers in accordance with criteria set by the authorities themselves. As a result, few North Korean workers turn out to receive substantive remunerations in real terms for their labor or service rendered, creating a situation in which the companies have to provide separate incentives to improve labor productivity or place workers under control. In order to preclude such practices, real or potential, South

no preparation to actually implement such direct payment system. Recently, upon strong request from the ROK government as well as the tenant companies in the GIC, North Korean government is reportedly in the process of preparing direct payment system. In this regard, it would be reasonable understanding that it will take a certain period of time for the North Korean government to accept direct payment, since the direct payment issue is closely connected with the social service system and foreign exchange regulation of North Korea.

In short, most arguments on the labor issue in the GIC appear to be inadequate, because they are based on an insufficient understanding of the GIC and the North Korean society. It is true that the conditions of GIC fall short of international labor standards. However, it is also true that the labor conditions of the GIC far exceed that of any other region of North Korea. Within the past two years, labor regulations that are more advanced than any other regulations in other North Korea regions have been enacted in the GIC, and the regulations have positive effects to improve North Koreans' lives.

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Korea made a strong demand and succeeded in negotiations with the North to include a provision for direct payment of wages to workers in the Labor Regulation.