

# The Kaesong North-South Korea Industrial Complex and the Future of Northeast Asia

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Congressional Research Service

### Japan Focus Introduction

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The Kaesong Industrial Complex is a veritable Rorschach test for those who follow developments on the Korean peninsula. Everyone who looks at the special economic zone located in North Korea just north of the DMZ sees something very different. And these interpretations often reveal more about the viewer than the viewed.



Unification advocates in the South see Kaesong as a concrete example of north-south cooperation. Their hopes for a rapid improvement in inter-Korean relations have transformed a rather modest initiative into the pivot of radical transformation. South Korean businesses, particularly small and medium-sized firms, look to Kaesong as a way to compete against Chinese or Southeast Asian production. Their desire to escape South Korean unions and take advantage of cheap North Korean labor has short-circuited the risk analysis and demand for large profits that would ordinarily militate against such investments. American neoconservatives (and their newly emerging South Korean counterparts) have lambasted Kaesong as a method of transferring funds to the North Korean elite and strengthening a despised system. Their desire for regime change in the North is so overpowering that they are blind to the changes that Kaesong has already wrought in the DPRK. Finally, American liberals and South Korean conservatives maintain a skeptically positive attitude, alert to the potential for the zone to conceal various financial shenanigans but

also supportive of the “poisoned apple” approach to injecting market logic into a command economy.



The latest report from the Congressional Research Service, reproduced below, falls into this latter category. At one level, it is a sober accounting of the origins of the Kaesong Industrial Complex (KIC), the plans of its supporters, the criticisms of its detractors, and its current and potential impact on U.S.-Korean relations.

While rather small at the moment, in five years the zone is projected to house 1,500 South Korean firms employing 350,000 North Koreans. For a country of 22 million people, a zone of this size linking Korea to international markets cannot help but have a profound effect on the overall economy, both its output and ultimately its structure.

But where can the goods from these KIC factories be sold? At the moment, after being shipped to South Korea, the goods mostly go to China and Russia. For the larger ambitions of the project to be realized, however, South Korea has to

convince other countries to accept the goods at low or no tariff level. Seoul had hoped that Washington would accept such a deal as part of the recently negotiated free trade agreement (FTA). But Washington didn’t buy the argument. Part of the reason lay with concerns over labor issues at Kaesong. Here, the AFL-CIO joined hands with Jay Lefkowitz, the special envoy on human rights, in noting the disparity between internationally accepted workers’ rights and conditions at the zone. The more apt comparison, as the CRS report suggests, would be between Kaesong and working conditions elsewhere in North Korea, which are abysmal.

### 3. The Kaesong Industrial Park

In its final section, the CRS report most clearly reveals its own Rorschach reading. Economic liberalization is good, the report asserts, but in the short term it means more money for a dictatorial regime. This paradox lies at the heart of the liberal enterprise, since making money never had much to do with democratic practice. Kaesong is thus a dilemma for liberals: a market outpost that does little to democratize.

The report’s adherence to the dogma of American liberalism sometimes leads it to strange conclusions. Economic liberalization could reduce North Korea’s reliance on illicit trade, it suggests. But in fact, such liberalization might just do the opposite in the course of

creating additional markets and opportunities (how do market liberals explain the explosion of the post-Taliban drug trade?). The report suggests that the incentives given by the South Korean government to businesses to invest in the North send the wrong message to Pyongyang about the nature of economic reform. But it was precisely through such targeted government support – albeit with key assistance from the United States – that South Korea went from a Third World country to a major world economic

power.

Still, as long as its particular Rorschach interpretation is taken into account, the CRS report is valuable for the glimpse it provides into what may well be the foundation stone of the future unified Korean economy.

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*Report*

*(<http://japanfocus.org/data/crs.kaesong.pdf>)*