

# Policy Forum 08-066: Visiting the Kaesong Industrial Complex

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# Visiting the Kaesong Industrial Complex

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Visiting the Kaesong Industrial Complex

By Suk Hi Kim

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## I. Introduction

Suk Hi Kim, Editor of North Korean Review ( [www.northkoreanreview.com](http://www.northkoreanreview.com) ), writes, "the solution of information issues, such as communication, customs clearance, and passage for KIC investors, largely depends on North Korea. The solution of these two key issues will not only make KIC investors more competitive, but it will also alleviate tensions on the Korean peninsula as well as spurring the economic growth of the two countries."

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## **II. Article by Suk Hi Kim**

- "Visiting the Kaesong Industrial Complex"

By Suk Hi Kim

On June 5, 2008, I had the pleasure of visiting the Kaesong Industrial Complex (KIC), located in North Korea just across the demilitarized zone (DMZ), along with some 70 potential investors and tourists. This was a landmark journey for me: it was the first time I had ever visited North Korea. When I visit South Korea, all I have to do is to just take the flight to Seoul with my U.S. passport. However, in order to visit the KIC, I had to submit my photo, a copy of my passport, and various other documents. Thus, I was clearly able to see that South and North Korea are two very different countries, even if they are both descendents of the same founding father.

I felt very nervous when a North Korean escort jeep showed up just after our bus crossed the DMZ. During U.S. President Bill Clinton's visit to the DMZ in 1994, he called it the scariest place on earth. The basic structure of this national division has not changed much since that time. In fact, many experts still regard the DMZ as the world's most dangerous flashpoint. However, I soon regained my peace of mind when I realized that the KIC is a large-scale economic project undertaken by both Korean governments.

It was only an hour's bus ride from Seoul to Kaesong-the two cities are only 60 km apart. The KIC, just six miles from the world's last Cold War frontier, is an ambitious experiment that combines South Korean technology and management expertise with North Korea's cheap and highly educated labor. Once our bus arrived in the KIC, I saw factories with rows of women in white blazers and a range of facilities for workers. Besides the factories, the facilities for South Korean workers and visitors include a branch of Seoul's Woori Bank and a Family Mart convenience store that sells South Korean snacks, beer, and toiletries in exchange for U.S. dollars. Although I was only in the KIC for a few hours, it was noticeable that the South and the North Koreans mingled together, worked together, and, talked to each other. In addition, it was rewarding to have brief conversations with several staff members of the KIC Management Committee, some South Korean investors, and even some North Koreans. Based on my brief observations of the everyday workings of the KIC, it was difficult for me to believe that two Koreas have been each other's number one enemy for almost 60 years. On our return bus ride to Seoul, my conviction that Koreans on both sides of the DMZ could live together peacefully in a unified country some day grew ever stronger.

The loss of allies in the early 1990s and numerous natural disasters in the mid-1990s caused the North Korean economy to shrink. Furthermore, the United States, its allies, and the United Nations had increasingly imposed tougher economic sanctions against North Korea until summer 2008, as the country had developed more advanced weapons of mass destruction. To overcome economic problems caused by declining humanitarian assistance, natural disasters, and economic sanctions, North Korea has taken a series of steps. It has carried out economic reforms, established special economic zones, requested food aid from the U.N. and donor countries, and agreed to dismantle nuclear weapons in exchange for economic aid and a security assurance.

While North Korea had been gradually reforming its troubled economic system since the early 1990s, these measures were different from market-oriented reform. On July 1, 2002, however, North Korea introduced the most significant liberalization measures since the start of communist rule in 1950. In addition, North Korea has recently established four special economic zones, including the

KIC, as part of its economic reform. There are indications of numerous attempts such as these and others by North Korea to liberalize its ailing economy; however, to date, these measures have been peripheral and completely inadequate to pull the economy out of its nosedive. Thus, some impatient experts argue that unlike the reforms carried out by China and Vietnam, the North Korean reform has failed. However, we have to remember a number of reasons why, so far, the North Korean reform has not been as successful as those of China and Vietnam. First, the reforms carried by China in 1978 and Vietnam in 1986 experienced significant difficulties in their early stages and went through numerous trial-and-error stages. Because the reform started in earnest only a few years ago, it is too early for us to conclude that Pyongyang's reform has failed. Second, unlike China and Vietnam, Korea has been a divided country, which compelled North Korea to spend a substantial portion of its economy on its military. Third, economic sanctions against North Korea by the United States, its allies, and the United Nations might have neutralized the positive impact of its economic reform.

Oddly enough, the United States, North Korea, and many North Korean experts all have believed for years that the United States should hand out economic aid and a security assurance if North Korea dismantles its nuclear program to settle the nuclear deadlock. Therefore, the U.S. policy of engagement and reconciliation with North Korea based on the agreement of February 13, 2007 would make it possible to alleviate tensions on the Korean peninsula as well as accelerate North Korean internal reform. Of course, there is no guarantee that any negotiated strategy, such as this agreement, with the unpredictable regime would work, but only this kind of agreement would enable the United States to put the other parties (South Korea, Japan, China, and Russia) in a position to increase pressure on North Korea in case a reasonable deal like this agreement is rejected. The United States appears to be serious about the denuclearization agreements of February 13, 2008 and October 3, 2007. If so, the time has come for North Korea to honor the agreement, reform its economy boldly, and reduce its military budget radically. North Korean bold reform and radical reduction of military spending would definitely lead to the most efficient use of its scarce resources, thereby assuring its long-term survival.

In fact, all of these changes might happen sooner than some experts think, because while the implementation of the denuclearization agreements has been slow, good progress has been made. North Korea handed over 18,000 documents on its nuclear past to the United States in May 2008, so that the accuracy and completeness of its nuclear program could be verified. In return, the United States, the United Nations, Australia, Italy, Russia, and other countries resumed their food aid to North Korea. On June 26, 2008, North Korea took a step toward reintegration into the world community and rapprochement with the United States by submitting a long-delayed declaration of its nuclear program. The 60-page declaration from North Korea is expected to describe, in previously undisclosed detail, its capabilities in nuclear power and nuclear weapons. The Bush administration almost immediately announced that the United States would lift some restrictions on commercial dealings with North Korea and within 45 days end its designation as a state sponsor of terrorism. On June 27, North Korea dismantled a water-cooling tower, which had extracted plutonium for 22 years for the building of nuclear weapons.

Considering all those reforms and changes designed to turn the ailing North Korean economy around, the KIC appears to be the best kept secret for the long-term survival of North Korea. Even though communication and commercial transactions between North and South Korea have increased dramatically in recent years, the KIC stands out because it is the first major development project to be promoted based on capitalist principles for North Korea. At present, roughly 70 South Korean firms operate in the KIC, with a total of 30,000 North Korean workers. The project will be carried out in three stages for years to come; the first stage is currently well under way and is expected to be completed in 2010. Those in charge of the KIC project say that the complex will employ 100,000

North Korean workers and have 450 tenant companies by the end of 2010.

The continuous success of the KIC may depend on the determination of both Korean leaders, because the KIC is a cooperative project between two countries with different politics, economies, and societies. The North Korean government should solve three related issues demanded by tenant companies quickly—passage, communication, and customs clearance—to increase their competitiveness. Another barrier to the expansion of the project is the lack of facilities, such as dormitories, day-care centers, and so on, for North Korean workers. The number of workers who can use the bus or the bicycle to travel to work is only 40,000-50,000, which means that without such facilities, it would be impossible to expand the complex. Because the KIC investors are small and medium-sized firms, it is extremely difficult for them to build such facilities using their own money. I think that the South Korean government should increase its South-North Cooperation Fund to build such facilities.

There is a catch. Before a further expansion of the KIC comes to fruition, however, observers say that a series of confidence-building talks between the authorities of the two Koreas must come first, because there is a lack of mutual trust at the present time: "In creation of wealth we depend on two things: globalization and information; the 21st century is all about wealth creation. Nations worldwide should not focus on military competitiveness, but stress on economic democracy" (Colin Powell, former U.S. Secretary of State). Globalization issues, such as the export of products made in the KIC, can be taken care of by South Korea, but the solution of information issues, such as communication, customs clearance, and passage for KIC investors, largely depends on North Korea. The solution of these two key issues will not only make KIC investors more competitive, but it will also alleviate tensions on the Korean peninsula as well as spurring the economic growth of the two countries.

### **III. Nautilus invites your responses**

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