

THE ROLE OF PRIVATE SECTOR IN KAESONG INDUSTRIAL COMPLEX : PROSPECTS
FOR THE REUNIFICATION OF SOUTH AND NORTH KOREA

Miss Siwaporn Pongtham



จุฬาลงกรณ์มหาวิทยาลัย

CHULALONGKORN UNIVERSITY

A Thesis Submitted in Partial Fulfillment of the Requirements

for the Degree of Master of Arts Program in Korean Studies

(Interdisciplinary Program)

Graduate School

Chulalongkorn University

Academic Year 2013

Copyright of Chulalongkorn University

บทคัดย่อและแฟ้มข้อมูลฉบับเต็มของวิทยานิพนธ์ตั้งแต่ปีการศึกษา 2554 ที่ให้บริการในคลังปัญญาจุฬาฯ (CUIR)

เป็นแฟ้มข้อมูลของนิสิตเจ้าของวิทยานิพนธ์ ที่ส่งผ่านทางบัณฑิตวิทยาลัย

The abstract and full text of theses from the academic year 2011 in Chulalongkorn University Intellectual Repository (CUIR) are the thesis authors' files submitted through the University Graduate School.

บทบาทของบริษัทเอกชนในนิคมอุตสาหกรรมเคซอง : โอกาสในการรวมชาติของเกาหลีใต้และ
เกาหลีเหนือ



นางสาวศิวพร พงษ์ธรรม

จุฬาลงกรณ์มหาวิทยาลัย

CHULALONGKORN UNIVERSITY

วิทยานิพนธ์นี้เป็นส่วนหนึ่งของการศึกษาตามหลักสูตรปริญญาศิลปศาสตรมหาบัณฑิต

สาขาวิชาเกาหลีศึกษา (สหสาขาวิชา)

บัณฑิตวิทยาลัย จุฬาลงกรณ์มหาวิทยาลัย

ปีการศึกษา 2556

ลิขสิทธิ์ของจุฬาลงกรณ์มหาวิทยาลัย

Thesis Title	THE ROLE OF PRIVATE SECTOR IN KAESONG INDUSTRIAL COMPLEX : PROSPECTS FOR THE REUNIFICATION OF SOUTH AND NORTH KOREA
By	Miss Siwaporn Pongtham
Field of Study	Korean Studies
Thesis Advisor	Piti Srisangnam, Ph.D.

Accepted by the Graduate School, Chulalongkorn University in Partial
Fulfillment of the Requirements for the Master's Degree

.....Dean of the Graduate School
(Associate Professor Amorn Petsom, Ph.D.)

THESIS COMMITTEE

.....Chairman
(Professor Chaiwat Khamchoo, Ph.D.)

.....Thesis Advisor
(Piti Srisangnam, Ph.D.)

.....Examiner
(Associate Professor Park Tae-Gyun, Ph.D.)

.....External Examiner
(Wichian Intasi, Ph.D.)

ศิวพร พงษ์ธรรม : บทบาทของบริษัทเอกชนในนิคมอุตสาหกรรมเคซอง : โอกาสในการรวมชาติของเกาหลีใต้และเกาหลีเหนือ. (THE ROLE OF PRIVATE SECTOR IN KAESONG INDUSTRIAL COMPLEX : PROSPECTS FOR THE REUNIFICATION OF SOUTH AND NORTH KOREA) อ.ที่ปรึกษาวิทยานิพนธ์หลัก: ดร.ปิติ ศรีแสงนาม, 70 หน้า.

การศึกษาครั้งนี้มีวัตถุประสงค์เพื่อทราบปัจจัยที่บริษัทเอกชนเข้าไปลงทุนในนิคมอุตสาหกรรมเคซอง, บทบาทของบริษัทเอกชนเกาหลีใต้ที่เข้าไปลงทุนในนิคมอุตสาหกรรมดังกล่าวและศึกษาถึงความเป็นไปได้ที่ความร่วมมือนี้จะสามารถทำให้เกาหลีทั้งสองรวมกันได้ แหล่งข้อมูลสำหรับการศึกษานี้ได้จากเอกสารสถิติและบทความวิชาการต่างๆที่เกี่ยวกับความร่วมมือด้านเศรษฐกิจระหว่างเกาหลีใต้และเกาหลีเหนือ, นิคมอุตสาหกรรมเคซอง, การรวมคาบสมุทรเกาหลีและการสัมภาษณ์ตัวแทนเจ้าหน้าที่บริษัทเกาหลีและอาจารย์ชาวไทยผู้มีความรู้และมีความเชี่ยวชาญเกี่ยวกับประเทศเกาหลี

ผลการวิจัยพบว่า ความร่วมมือทางเศรษฐกิจในรูปแบบของการจัดตั้งนิคมอุตสาหกรรมเคซองได้เกิดขึ้นภายหลังการประชุมสุดยอดผู้นำระหว่างประธานาธิบดีคิม แด จุงของเกาหลีใต้และคิม จอง อิล ผู้นำเกาหลีเหนือโดยมีนิคมอุตสาหกรรมเคซองมุ่งเป็นสัญลักษณ์หรือรูปแบบของความร่วมมือในการลดช่องทางเศรษฐกิจระหว่างกัน โดยตลอดระยะเวลาที่นิคมอุตสาหกรรมได้เปิดดำเนินการมานั้นสามารถผลิตและส่งออกสินค้าไปยังเกาหลีใต้ แต่การดำเนินการยังไม่สามารถลดช่องว่างทางเศรษฐกิจระหว่างกันได้เพราะผู้นำทั้งสองมุ่งให้นิคมฯเป็นต้นแบบของความร่วมมือที่จะขยายขอบเขตของความร่วมมือในโอกาสต่อไป อย่างไรก็ตาม การดำเนินการของนิคมอุตสาหกรรมเคซองก็ไม่ได้เป็นไปอย่างราบรื่นเพราะต้องขึ้นอยู่กับบรรยากาศความสัมพันธ์ระหว่างเกาหลีทั้งสอง ดังในช่วงประธานาธิบดี อี มยอง บัค ที่ความสัมพันธ์ระหว่างสองเกาหลีเกิดความตึงเครียดขึ้น ดังนั้น รูปแบบความร่วมมือที่มีเอกชนเข้าไปมีบทบาทจะเอื้อต่อการรวมเกาหลีทั้งสองย่อมจะต้องขึ้นอยู่กับปัจจัยด้านการเมืองอีกส่วนหนึ่งด้วย

จุฬาลงกรณ์มหาวิทยาลัย
CHULALONGKORN UNIVERSITY

สาขาวิชา เกาหลีศึกษา

ปีการศึกษา 2556

ลายมือชื่อนิติ
.....

ลายมือชื่อ อ.ที่ปรึกษาวิทยานิพนธ์หลัก
.....

5587625520 : MAJOR KOREAN STUDIES

KEYWORDS: THE ROLE OF PRIVATE SECTOR / KAESONG INDUSTRIAL COMPLEX /
REUNIFICATION

SIWAPORN PONGTHAM: THE ROLE OF PRIVATE SECTOR IN KAESONG
INDUSTRIAL COMPLEX : PROSPECTS FOR THE REUNIFICATION OF SOUTH
AND NORTH KOREA. ADVISOR: PITI SRISANGNAM, Ph.D., 70 pp.

The objective of this research is to analyze the factors for the private sector to invest in Kaesong Industrial Complex (KIC), to study the role of the South Korean private companies investing in the industrial complex, and to study the possibility of the reunification of the Korean peninsula through the cooperation between South and North Korea. This research uses several data sources including historical documents, statistical data in the form of books, academic articles, newspapers, Thai and English electronic sources concerning the economic cooperation between South and North Korea, Kaesong Industrial Complex, and the reunification of Korean, an interview with representatives of Korean companies in Thailand and Thai professors who are experts on Korean studies.

According to the research, the economic cooperation in the establishment of Kaesong Industrial Complex came after a summit between President Kim Dae Jung of South Korea and the North Korean Supreme Leader Kim Jong il. Kaesong Industrial Complex is deemed as a model of the economic cooperation to reduce the economic gap between the two countries. During the operation of the industrial complex, even though there was production and exportation to South Korea, the economic gap was not reduced. This was against both leaders' views on the Kaesong Industrial Complex as a model for further cooperation on other projects. The operation of Kaesong Industrial Complex was not stable because of the political atmosphere in the relationship between the two Koreas, as seen from the tense situation during the period of the President Lee Myung Bak. Therefore, the role of the private sector in the reunification of Korea may also depend on the political factor.

Field of Study: Korean Studies

Student's Signature

Academic Year: 2013

Advisor's Signature

ACKNOWLEDGEMENTS

In this thesis, the author had spent a long time of period in researching knowledgeable information in order to profoundly understand the relationship between South Korea and North Korea, and the role of South Korean private companies in the unification of Korea. The author gains not only more valuable knowledge but also encouragement from many kindhearted persons. First of all, I would like to acknowledge my thesis advisors, and the president and every committee board in thesis defense. I am grateful to you for all of your dedication in thoroughly revising every piece of my work, and without your kindly help, this thesis would not be accomplished.

Furthermore, I would like to acknowledge all of my family members, my relatives, and my friends who always support and encourage me to successfully complete this thesis. I also would like to acknowledge representatives from the South Korean private company in Thailand for sacrificing your time to have an interview with the author as a part of thesis research. Finally, there are no other words better than “thank you from my deepest appreciation” for everybody who helps me effectively completing this thesis.

CONTENTS

	Page
THAI ABSTRACT	iv
ENGLISH ABSTRACT	v
ACKNOWLEDGEMENTS	vi
CONTENTS	vii
LIST OF FIGURES	ix
LIST OF TABLES	x
CHAPTER I INTRODUCTION	1
1.1 Background.....	1
1.2 Research Objective.....	4
1.3 Research Question.....	4
1.4 Scope of study	4
1.5 Method and data	5
1.6 Hypothesis.....	5
1.7 Conceptual Framework	5
CHAPTER II LITERATURE REVIEW	7
2.1 Literature Review	7
2.2 Theory Review	12
2.2.1 The System Approach.....	12
2.2.2 Economic Theories of Integration of Nations.....	14
CHAPTER III INTER-KOREAN RELATION	15
3.1 The Inter-Korean Relation	15
3.1.1 The policy on the relationship between South and North Korea in the period of liberalism	15
3.1.2 The policy on the relations between South Korea and North Korea during the period of conservatism	21
3.2 The Establishment and the development within Kaesong Industrial Complex.	24
CHAPTER IV FACTORS OF INVESTMENT IN THE PRIVATE SECTOR.....	31

	Page
4.1 Factors of Investment of the Private Sector in Kaesong Industrial Complex.....	33
4.1.1 Cost of Production.....	33
4.1.2 Supportive Measure from the Government.....	35
CHAPTER V THE EXPANSION OF ECONOMIC COOPERATION.....	40
5.1. The construction of interconnected railways and roads between South Korea and North Korea	40
5.2 The reunion of separated families.....	41
5.3 The Food Support	42
CHAPTER VI PROSPECTS FOR THE REUNIFICATION OF SOUTH AND NORTH KOREA....	45
6.1 Cost & Benefit Analysis.....	45
6.1.1 Economy.....	46
6.1.2 Politics.....	47
6.1.3 Society.....	47
6.2 Strengths and Weaknesses	48
6.2.1 Strengths.....	48
6.2.2 Weakness.....	51
6.2.3 Opportunity.....	55
6.2.4 Threat.....	57
CHAPTER VII CONCLUSION.....	61
REFERENCES	67
VITA.....	70

LIST OF FIGURES

	Page
Figure 1: Trade and Aid volumes, 1989-2013	37
Figure 2: The construction of interconnected railways and roads between South and North Korea.....	41



LIST OF TABLES

	Page
Table 1: Number of Tourists to Mt. Geumgang.....	19
Table 2: The number of South-North Korean laborers from 2005 – 2013 were as shown.....	29
Table 3: Amount of Production by Product	32
Table 4: Comparison of Industrial Complex: Kaesong, China, South Korea.....	34
Table 5: Aid to North Korea by year.....	36
Table 6: Deliveries of South Korea food aid to North Korea (in Metric Tons) 1995-2005	43
Table 7: Number of Companies Operating in the KIC and Production Volume.....	51

CHAPTER I INTRODUCTION

1.1 Background

The global recession in 1997 had an impact on Southeast Asian countries, and affected South Korea as well. This recession occurred before Kim Dae Jung became President of South Korea in 1998. As a consequence, Kim's government had to solve the economic problem by focusing on SMEs businesses in the labor intensive industry. South Korea attempted to make investments in SME businesses in Southeast Asian countries. However, Kim Dae Jung's government paid attention to North Korea because of interesting factors for investment in low cost of living and the discipline of the people. Meanwhile, North Korea also confronted economic recession because North Korea could not rely on the Soviet Union after its collapse, and, in July 1995, there was a great flood in North Korea which added to the economic problems.

South Korea later implemented the Sunshine policy, or comprehensive engagement policy (Neungjamnong, 2013), towards North Korea. This change of policy was taken from the experience of the reunification of Germany by the absorption of countries causing social and economic problems afterwards. To support the Sunshine policy, Kim Dae Jung went to North Korea in 2000 for a summit with Kim Jong Il. One of the agreements in the conference was the economic cooperation and mutual confidence between the two countries. As a result, there was an agreement to establish Kaesong Industrial Complex in North Korea which served as a model of the good relationship and in order to reduce the economic gap for the ultimate goal of reunification of the two nations. Both countries believe that the decrease of the

economic gap may lead to the reunification of Korea. However, the economic gap between South Korea and North Korea has increased from 28 times to the present gap of 40 times.

The establishment of Kaesong Industrial Complex operated by South Korea was accepted positively by North Korea because the industrial complex was the hope of North Korea in recovering the economy. South Korea supported Hyundai Company to invest in North Korea, as Kim Dae Jung knew the president of Hyundai Company. The South Korean government then chose the Hyundai Company to be the representative in the negotiations with the Supreme Leader of North Korea both officially and unofficially. Subsequently, there was a joint agreement with North Korea's Asia-Pacific Peace Committee in order to approve the industrial complex construction. Kaesong Industrial Complex was then established from the investment of Hyundai Asan and Korea Land Corporation by providing financial support to the North Korean government for the purpose of developing the industrial complex land as planned. Finally, in 2002, Kaesong Industrial Complex was complete. The Sunshine policy was applied until the period of the President Roh Moo Hyun, and from this policy, the operation of the industrial complex was successful because there were more investments from other South Korean companies, and a higher number of employed North Korean laborers. The North Korean government received financial benefits from the investment such as land rental and tax. During this period of time, there were some meetings affecting economic cooperation, not only at the Kaesong Industrial Complex but also in other port cities. However, after Lee Myung Bak, a member of the conservative party, became the President of South Korea, the South Korean government changed their attitude towards North Korea. Lee's government

believed that the Sunshine policy excessively favored North Korea, and the economic cooperation could not bring back the peace. Lee Myung Bak's government then changed its policy by focusing on solving the nuclear problem and promoting human rights; as a consequence, the role of the Kaesong Industrial Complex decreased. The problem between the two countries occurred after North Korea's Supreme Leader recognized that the President of South Korea did not follow the previous policy set by previous governments, and the relationship between two countries had worsened during the period of then President Park Geun Hye, who was also a member of the conservative party. The situation was more serious after North Korea launched a third nuclear test in February 2013. After that, the United Nations Security Council (UNSC) sanctioned North Korea after it violated UN Resolutions, and had the potential to release a nuclear missile on 10 April 2013. They announced on 8 April 2013 that South Korean workers should evacuate in order to shut down Kaesong Industrial Complex. Before the closure of the complex, there were approximately 120 South Korean companies located within the complex. However, according to the successful negotiation between South Korea and North Korea, Kaesong Industrial Complex was re-opened on 17 August of the same year on the condition that there must be maintenance of the machinery and equipment within the complex, removal of prefabricated products including any other raw materials, and regular opening of the Kaesong Industrial Complex. The reason for the re-opening of the industrial complex is that both South and North Korea had lost many benefits after the temporary closure.

1.2 Research Objective

- To realize the factors for private sector investment in Kaesong Industrial Complex
- To study the role of the private sector in the investment in the industrial complex
- To study the possibility of the reunification of Korea through economic cooperation

1.3 Research Question

- Which are factors supporting the private sector to invest in Kaesong Industrial Complex?
- Could the economic gap be reduced if there is investment from the private sector in the industrial complex?
- Which are vital factors for the reunification of Korea?

1.4 Scope of study

The scope of this study is to analyze the investment of South Korean private companies in Kaesong Industrial Complex relating to the inter-Korean economic cooperation which will lead to the reunification of Korea according to the summit between South Korea and North Korea from the period of President Kim Dae Jung, in 2000, until the period of the President Park Geun Hye, when the industrial complex was temporarily shut down and re-opened, in 2013.

1.5 Method and data

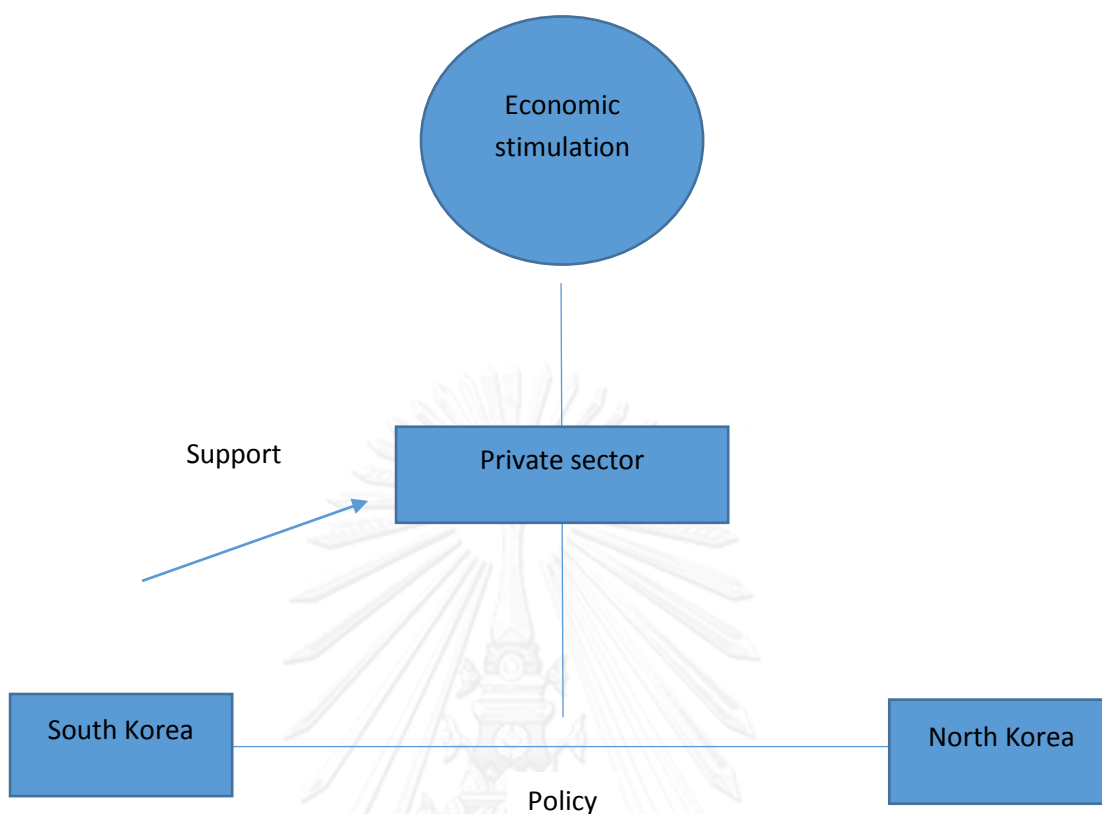
This research exploits the qualitative-analysis by studying historical documents, statistics information in the forms of books, academic articles, newspapers, Thai and English electronic sources related to the economic cooperation between South Korean and North Korean leaders and Kaesong Industrial Complex and the reunification of the Korea including an interview with representatives of Korean companies in Thailand.

1.6 Hypothesis

The role of the private sector in Kaesong Industrial Complex is not a main factor contributing to the reunification but is a small connecting point in the economic development to reduce the economic gap between South Korea and North Korea. Furthermore, the reunification of Korea may arise from other factors such as internal factors within South and North Korea and external factors from China, the United States and Japan.

1.7 Conceptual Framework

The establishment of Kaesong Industrial Complex is represented as a model for the reduction of the economic gap between South and North Korea. The author uses this conceptual framework to study how the economic cooperation can reduce the economic gap and bring about reunification of the nations successfully.



According to the figure, the scope of study will illustrate the relationship of the economic cooperation between South Korea and North Korea by using Kaesong Industrial Complex as a model of reducing the economic gap to the analysis on the reunification of the Korea. The reduction of the economic gap is a result of the change of South Korean leaders' policies towards North Korea by establishing the Kaesong Industrial Complex as a model of economic cooperation by supporting the private sector to invest in North Korea for the purpose of increasing economic activity in North Korea to that it may be equal to that of South Korea.

CHAPTER II

LITERATURE REVIEW

2.1 Literature Review

White Paper on Korean Unification, published from 1996 to 2010 by the Ministry of Unification, South Korea, reported the situation on the Korean peninsula from the Kŏchoson period until the present time, especially the relationship of South Korea and North Korea after the division of Korea. According to the report of the Ministry of Unification, there is an explanation of the development of Inter-Korean Relations leading to the establishment and development of the Kaesong Industrial Complex, which plays a part in the re-unification of the Korean peninsula. Furthermore, the report stated that Inter-Korean Relations was not only based on economic cooperation but also on cultural, educational, and sports cooperation. Inter-Korean Relations became reunification at the beginning of the 1990s and it was finally accomplished in 1994 due to the nuclear problem in North Korea. In terms of economic cooperation, South Korean companies made efforts to disseminate Intra-Korean Trade as seen from the visit of the Chairman of Hyundai Group and the founder of the unification to North Korea, in 1991 and 1998 respectively, but there was no further progress until 1992 when the chairman of Daewoo Group went to North Korea and made a trade agreement for products such as shirts, jackets, and bags. As a result of the opening of the trade market by Daewoo Group in 1996, there was an increase in the number of South Korean companies to 34 in North Korea, but in 1999, there were certain companies ceasing their businesses there. However, after Kim Dae Jung became the President of South Korea, there were 10 South Korean private partnership companies, and 11 companies, including the Hyundai Company,

were granted permission to invest in the Inter-Korean Relation project. Then, the Chairman of Hyundai Company, Chung Ju Young, went to North Korea to meet Kim Jong Il, who was interested in the development project of Hyundai West Coast Industrial Complex, and, subsequently there was an agreement between Hyundai and North Korea's Asia-Pacific Peace Committee in order to explore the Kaesong area.

In 2000, there was an agreement to establish the Kaesong Industrial Complex, with the ultimate purpose of developing and purchasing products manufactured from the industrial complex. To operate Kaesong Industrial Complex, South Korean companies are investors in technology, equipment, and facilitation. The development of Kaesong Industrial Complex was divided into 3 stages. The first stage was the development of the area of the industrial complex covering 3.3 million square meters. The goals of the second and third stages were to construct a global export base and a combined industrial complex of heavy chemical engineering and industrial facilities, respectively (Whitepaper, 2005). In addition, the Kaesong Industrial District Management Committee was established in order to support productive activity and the management of leasing in the industrial complex. However, the Intra-Korean Relation project still faced some problems because North Korea had restricted movement to the Military Demarcation Line between North Korea and South Korea in order to control the travel to North Korea. Another problem was a detaining of South Korean laborers due to the closure the industrial complex 3 different times in March 2009, although South Korea made an effort to operate the Inter-Korean Relation project as planned. An Inter-Korean Working level talk was held on 1 February 2010, which was the 4th conference held, with the South mainly

emphasizing the failure of the “3Cs”¹ and encouraging North Korea to provide cooperation. Kaesong Industrial Complex was impacted by the Cheonan Incident², causing a decrease in the population living in the industrial complex after South Korea temporarily ceased new investment projects and prohibited investment in businesses situated in the industrial complex. Then, in 2007, South Korea enacted Kaesong Industrial Zone Support Act, with the intention of supporting the development and operation of the industrial complex while protecting companies located in the complex.

The next piece of literature is a thesis written by Hannah C. Nam on the topic “*The Kaesong Industrial Complex: A Study of Its Role in the International Political Economy – Focusing on Its Future Prospects and Policy Implications.*” The Hannah C. Nam’s thesis explores the economic cooperation on the Kaesong Industrial Complex as an example of economic development between South Korea and North Korea. This thesis also explains the establishment and situation within the industrial complex including a study of the support from international investment originating from South Korea’s international trade policy. Hannah C. Nam further explains that the Kaesong Industrial Complex was founded by Hyundai Asan and The Korea Land Corporation and in 2002 there was a contract to construct Kaesong Industrial Complex in order to exchange laborers and products according to the agreement

¹ 3Cs is composed of three parts as follows: 1) Cooperation is defined as arrangement between companies and suppliers, or companies and customers to work together; 2) Coordination is defined as the facilitation of information exchange or business transactions relating to business information for effectiveness, expediency, and accuracy; 3) Collaboration is defined as the planning of working, the planning of production and investment or the development of technology and products between companies and suppliers or between companies and customers.

² *Cheonan Incident* was an event where North Korea fired a torpedo from a midget submarine at South Korea’s warships at *Cheonan* close to the Yellow Sea, and 46 crew members died as a result of this incident.

with South Korean companies investing in North Korea. Moreover, the establishment of Kaesong Industrial Complex was not only for cooperation but also for security as the vital factors show:

1. The establishment of Kaesong Industrial Complex in North Korea faces the nuclear problem in North Korea and the political policy in North Korea where the military regime is influential.
2. The interest on the effective economy – Kaesong Industrial Complex plays a role in the relationship on international trade and the investment with South Korea

3. The profitable plan – the establishment of Kaesong Industrial Complex relates to the economic market, democratic government, the environment, and human rights.

Subsequently, in the period of President Roh Moo Hyun's administration, there was great increase in investment and productivity in the Kaesong Industrial Complex after the President went to North Korea in 2007. However, after Lee Myung Bak became the President of South Korea, the relationship between South Korea and North Korea worsened because President Lee reviewed many nearly completed projects, and also reviewed the plan to expand Kaesong Industrial Complex. The author also estimates the future of Kaesong Industrial Complex in the long term and from the strategy for the economic and political cooperation between South and North Korea, that Kaesong Industrial Complex should be actively operated in order to maintain and strengthen the relationship between South Korea and North Korea for the prosperity of the Korean peninsula. In addition, South Korea should pay more attention to the investment in the industrial complex and in the future there shall be more investment from China, Japan, the United States and Europe in a concrete

way different from the more abstract nature in the past. If the investment from these countries is successful, there will be stability and prosperity on Korean peninsula.

The next piece of literature is *Korean reunification: New perspectives and approaches* written by Tae Hwan Kwak, Chonghan Kim and Hong Nack Kim. The writers explain the effort of South and North Korea in the reunification of Korea. After Korea was divided into two countries at a latitude of 38 as a result of the defeat of Japan in World War II, many attempts have been made by both countries to reunify Korea. On the one hand, South Korea wants to reunify Korea in a peaceful manner under a liberation policy; on the other hand, North Korea believes that the reunification of Korea will occur under a communist approach. According to differing opinions, South Korea made many attempts to negotiate for a peaceful reunification of Korea. The first part of this book explains the reunification of Korea under the environment of South and North Korea, such as South Korea's policy on reunification in 1980, and the two different ideologies in one culture: the prospect for the reunification of Korea. The next part is about the relationship with other countries such as the United States, China, Russia, and Japan and how these relationships have an impact on the reunification of Korea. The final part is the new means leading to the reunification of Korea such as the possibility for the reunification under two governing systems, and the perspective from the U.N. in the reunification of Korea.

The final piece of literature is an article about the reunification entitled "*Korean Unification: The Zero-sum Past and the Precarious Future*" written by Victor D. Cha. The article describes the attempts to reunify Korea in each period of time after the Korean War by describing the situations and the cause of problems occurring when North Korea violated the joint agreement made with South Korea.

Furthermore, the author examines the reunification of Germany with the possibility of the reunification of Korea by analyzing some factors such as the difference in education, economy, and currency. However, Cha is concerned about economic issues in China and Japan because both are powerful countries in Asia. China has a low cost in productivity and an advantage in currency exchange. Therefore, the reunification of Korea might have an impact on the productivity in Korea. On the other hand, Japan is concerned that the reunification of the Korea will revive the economy as it did in South Korea after World War II.

2.2 Theory Review

In this part, the author applies many theories in explaining the research study. These theories are applied in the study of economic cooperation which will lead to the reunification of the Korean peninsula. The author adopts Wichian Intasi's concept of the reunification of Korea and the economic theories in the reunification are also used in this research.

2.2.1 The System Approach

Andrew M. Scott is a scholar who introduces concepts and the system approach. "The system" is defined as a group of composition which has specific characteristics and interaction during a period of time. Therefore, each system has its own characteristics. The political system, individuals, organizations, and countries are determined as the composition of the system.

Schoderbeck et al. states that to solve the current problems, one should focus on the system rather than details of each problem. Moreover, Schoderbeck goes on to say that the system approach is different from the analytical approach in

that the system approach has procedures separating from the entire system into smaller pieces to understand the entire system's function.

The system approach is used by many theorists and scholars to develop knowledge about organizations and management since they believe that the system approach will support the organizations to acquire effective operation. The theorists and scholars applying the system approach are:

1) Herbert Simon who makes an effort to search for novel theories to apply to organizations which are complicated and have internal complexity in making a decision. According to Simon, the system approach should be applied as the basis to determine the organizations' theory.

2) Churchman et al. exploit the system approach to support their idea in the analysis on problem solving in the working operation. At the beginning, he brought mathematics principals to analyze the military institution during World War I. However, during World War II, he began applying the system approach to solve problems occurring from the working operation.

Therefore, the system approach is applicable to organizations which have an interactional working relationship, and exchange information to accomplish the working goal. The organizations which have their operation in accordance with the system approach will accomplish the organization's goal as planned. However, to reach the organizations' goal with to the system approach, one should be concerned with time, budget, and effective personnel. The system approach is one which plays a role in effectively solving problems within the organizations or institutions.

2.2.2 Economic Theories of Integration of Nations

The Economic Theories of Integration of Nations is referred to by many theorists and scholars such as Casella & Feinstein (1990), Bolton & Roland (1997), and Alesina & Spolaore (2003). The purpose of this approach is that the related costs and benefits are the factors in the integration or separation of a nation. The interest of the integration of nations is an increase in the effective economy by the size of the economy. In other words, the integration of countries will make the country larger and lead to an increase in the size of the economy as a result of a decrease in expenses in public goods per person and a decrease of productive costs in the market expansion, etc.

CHAPTER III INTER-KOREAN RELATION

3.1 The Inter-Korean Relation

3.1.1 The policy on the relationship between South and North Korea in the period of liberalism

After winning an election in 1997, President Kim Dae Jung changed the policy towards North Korea from an aggressive one to a friendly one by implementing the Sunshine policy. The previous policies included political and economic policies together, but Kim Dae Jung's policy separates the political policy from the economic policy. Moreover, the purpose of the Sunshine policy is to support a vision on developing the nation's economy through Inter-Korean cooperation. The Sunshine policy has 3 regulations as follows: (E. M. Lee, 2006)

1. It will not tolerate any military provocation
2. It will not pursue absorption unification
3. It will promote Inter-Korea peace and reconciliation

Profoundly, the purpose of the Sunshine policy is for peace, negotiation and cooperation on the Korean peninsula with 5 main principals as follows:

- 1.) The resolute rejection of war or major military conflicts on the Korean peninsula
- 2.) The related to the concept of quasi- or de facto unification

3.) The policy of engagement and accommodation can bring about change in North Korea and that it transform into a normal state which can offer decisive momentum for peaceful co-existence on the Korean peninsula

4.) The centrality of South Korea in managing the Korean problem and the external security environment

5.) Attempting to achieve domestic consensus and bipartisan political support in the process of implementing the sunshine policy (Moon, 2000)

The implementation of the Sunshine policy came from the lesson learned from the reunification of Germany. The reunification of Germany occurred after West Germany effectively absorbed East Germany into the same social, economic, and political system, and this caused disastrous effects in society and the economy because of “the psychological conflict.” The abrogation of the reunification by way of absorption is also consistent with the 3 regulations above and Kim Dae Jung’s policy on the reunification of Korea. During the period of the President Kim Dae Jung, there was an economic recession which caused the government to change the economic policy to focus on SME business by searching for markets for investment in other Asian countries. However, other countries in the region also faced economic recession, so the government then paid attention to North Korea because of the low cost of living and the discipline of the people. Because of these reasons, the President went to meet the North Korean Supreme Leader for a summit in 2000. This official visit of the President was a first in Korean history after the division of the peninsula after World War II. In this visit, Kim Dae Jung declared the June 15th Joint

Declaration, which paved the way to a peaceful coexistence and reunification of the Koreas. The main points in the June 15th Joint Declaration are as follows:

1. The South and the North have agreed to resolve the question of reunification independently and through the joint efforts of the Korean people, who are the masters of the country.

2. For the achievement of reunification, we have agreed that there is a common element in the South's concept of a confederation and the North's formula for a loose form of federation. The South and the North agree to promote reunification in that direction.

3. The South and the North have agreed to promptly resolve humanitarian issues such as exchange visits by separated family members and relatives on the occasion of the August 15 National Liberation Day and the question of unswerving Communists serving prison sentences in the South.

4. The South and the North have agreed to consolidate mutual trust by promoting balanced development of the national economy through economic cooperation and by stimulating cooperation and exchanges in civic, cultural, sports, health, environmental issues and all other fields.

5. The South and the North have agreed to hold a dialogue between relevant authorities in the near future to implement the above agreements expeditiously (USIP, 2000)

Even though the Sunshine Policy was successful in developing the relationship between South Korea and North Korea, some scholars have criticized the

failure of the policy in that *“it argues from the outset that the sunshine policy has been grossly distorted and wrongly politicized. It was not a policy of appeasement, but a calculated strategic offensive to foster voluntary changes in the North. The Sunshine policy did not compromise national security posture because its first principle is non-tolerance of military threat or armed provocation by North Korea.”*

However, the official visit of President Kim Dae Jung had a result in many talks in the ministerial meetings level between South Korea and North Korea about their situations including the reunion of separated families due to the war. For North Korea, during this period of time, North Korea encountered economic recession because it could no longer rely on The Soviet Union after its collapse and there was a great flood in North Korea as well. North Korea then had to seek a new solution for the economic problems, one of which was the economic cooperation with South Korea in order for South Korea to reform the country. Therefore, South and North Korea agreed in the summit to establish economic cooperation. The South Korean government granted the Hyundai Company the right to operate tourism business in Mt. Kumgang, to construct a railway between Seoul – Sinuiju, to construct the Munsan – Gaesong Road, and to construct the Kaesong Industrial Complex. These projects are the model of economic cooperation between South and North Korea with the hope that this economic cooperation will help solve economic problems in the two countries and lead the way to reunification. Accordingly, in 1998, the tourism business operated by Hyundai Company allowed Korean and foreign tourists to travel to North Korea for the first time. However, after a woman was shot by a North Korean soldier in Mt. Kumgang in 2008, the South Korean government annulled the

tour to Mt. Kumgang. The number of tourists who traveled to Mt. Kumgang from 1998–2008 is shown in the table below.

Table 1: Number of Tourists to Mt. Geumgang

Destination		1998-1999	2000	2001	2002	2003
Mt. Kumgang	Sea Route	158,628	213,009	57,879	84,727	38,306
	Land Route	-	-	-	-	36,028
		2004	2005	2006	2007	2008
	Sea Route	449	-	-	-	
	Land Route	267,9711	298,247	234,446	345,006	199,966

Source: Ministry of Unification, Statistical data for Kaesong industrial park (Seoul: MOU, Dec 2013)

During the period of President Roh Moo Hyun, the government applied the peace and prosperity policy, with the ultimate goal in establishing peace on the Korean peninsula and seeking prosperity in South and North Korea to be the base for peaceful reunification of Korea. This policy was believed to make South Korea the center of the economy in Asia (C. N. Kim, 2005). The policy of President Roh Moo Hyun still followed that of President Kim Dae Jung because this government viewed the Sunshine policy was not a failed one, as some scholars and the North Korean government labeled it to be, using the sarcastic term *Sunburn policy*. Consequently, the relations between South and North Korea have increasingly developed as seen

from the October 4 Summit Declaration in which they agreed to 8 joint declarations. According to the summit declaration, both countries agreed to look ahead to the reunification of Korea, to ease military tensions, to allow more visits by separated family members and relatives, and to cooperate in the exchange of society and culture. The summit declaration also referred to the “mutual understanding” between the two countries about “the need to end the current armistice regime and establish a permanent peace regime” in order to increasingly expand economic and cultural cooperation through several channels such as the continuous development of Kaesong Industrial complex by the South Korean government, the re-building of railways and railroads between South and North Korea, and the development of Mt. Kumgang tourism (H. N. Kim, Ph.D., 2006). Unfortunately those railways and railroads have not been in operation since North Korea decided to terminate the agreement only one day before the test.

In 2003, North Korea violated the Nuclear Non-Proliferation Treaty despite its member status. Consequently, South Korean government faced the nuclear problem caused by North Korea. In 2006, North Korea declared the success of launching a nuclear test, which was opposed by many countries, especially the United States. Solving the nuclear problem was not successful due to the focus on “peace” while ignoring the development of nuclear weapons in North Korea and ignoring the friendly relations between South Korea and the United States (K. S. Kim, 2004).

3.1.2 The policy on the relations between South Korea and North Korea during the period of conservatism

Even though President Roh Moo Hyun attended the summit with the Supreme Leader of North Korea, this was the last conference in his presidential period. When Lee Myung Bak, a member of the conservative party, became President, the government was still confronted with the nuclear problem from North Korea. Accordingly, Lee's government changed the policy towards North Korea because the government viewed the policy used by the two previous governments as limitless in helping North Korea as an "ATM policy" (Petrov, 2009). Lee's government then applied the Vision 3000 thru Denuclearization and Openness policy by focusing on solving the nuclear problem first, while helping to solve human rights issues in North Korea. President Lee set a goal to increase the income of the North Korean people to 3000 USD per person per year within 10 years.

However, the President was still interested in strengthening relations between South and North Korea as the friendly relations would lead to the construction of roads and a railway to Russia or Europe in order to import natural gas and other natural resources for an effective economy in South Korea and North Korea. Previously, the South Korean government had developed a relationship with North Korea by concentrating on peace and prosperity found in certain treaties such as the July 4 Joint Declaration during the period of President Park Chung Hee, the 1991 Basic Agreement during the period of President Roh Tae Woo, the June 15 Inter-Korean Declaration during the period of President Kim Dae Jung, and the October 4 Summit Declaration during the period of President Roh Moo Hyun (Suh, 2009; Theguardian).

However, in practice, the government of President Lee Myung Bak supported North Korea in opening and reforming the country because other communist countries such as China, Russia, and Vietnam had already been reformed and opened their countries, and South Korea was pressured from alliance countries such as the United States and Japan. The government of President Lee Myung Bak made an effort to promote the relationship between the United States and North Korea despite North Korea's attitude towards and view of the United States as the enemy. The government further introduced North Korea to the international community. On the contrary, North Korea remained poised and was interested merely in political issues. South Korea then paid attention to politics within North Korea rather than the economic interest by decreasing assistance to North Korea. Even though South Korea does focus on the nuclear problem, South Korea has also attempted to strengthen the relationship between the two countries.

The most important problem that needs to be solved between South and North Korea is North Korea's nuclear launch. The South Korean government supports actions in accordance with Six-party talks. The government of President Lee Myung Bak was eager to redress the nuclear problem on the Korean peninsula because it has repeatedly had a negative impact on the two countries' relationship. For example, products manufactured in the Kaesong Industrial Complex cannot be exported to the United States or other countries. In addition, North Korea is obstructed from participating in the international community. If there were no nuclear problem, North Korea would be able to participate in the international community and export their products and make international transactions in order to make their economy more effective.

According to the new policy declared by President Lee Myung Bak, the nuclear situation has not been improved because North Korea has not responded to the new policy, but rather concentrated on developing nuclear weapons. Moreover, North Korea's reaction was not friendly to the situation in 2008 when a South Korean woman was shot near Mt. Geumgang, which resulted in the closure of the tourism area at Mt. Geumgang since that time until the present. Mt. Geumgang is actually a tourism zone according to a treaty signed during the period of the President Kim Dae Jung between South and North Korea. On 26 March 2010, a situation called the ROKS Cheonan sinking occurred when South Korean warships were fired upon near Cheonan village, close to the Yellow Sea. South Korea asked for apology from North Korea, and prohibited North Korea's ships from coming across the border to South Korea, including a suspension from trading and exchanging outside the Kaesong Industrial Complex. Another situation was the Bombardment of Yeonpyeong that occurred when the North Korea army fired artillery at Yeonpyeong Island during military training and 4 Marine Corps and civilians were killed.

Subsequently, Park Geun Hye, a member of the conservative party, was elected as the 19th President of the Republic of Korea. President Park Geun Hye declared that the state administration and the government would promote the economy, improve security in society, and improve the relationship with North Korea. Park Geun Hye served as the President of South Korea shortly after Kim Jong Un took over the position as Supreme Leader of North Korea to replace Kim Jong Il, his father. Kim Jong Un's attitude towards South Korea has been aggressive as he has had to demonstrate his capacity to North Koreans and other countries despite being viewed as a young leader with little experiences on politics and the military. As a

consequence, Kim Jong Un threatened to launch the 3rd nuclear test in February 2013 and launched an intercontinental ballistic missile. As a result, South Korea declared that there would be military training with the United States. North Korea again threatened to launch a nuclear attack on the United States and South Korea. The UN and China, in alliance with each other on the issue of North Korea, decided to boycott North Korea from these actions, and North Korea was in rage because of that. Consequently, the situation on the Korean peninsula has been increasingly stressful, and has had a great impact on the Kaesong Industrial Complex. The Kaesong Industrial Complex was shut down after North Korea's announcement to evacuate North and South Korean laborers from the industrial complex. However, both countries decided to negotiate to re-open the industrial complex due to the loss of huge profits.

3.2 The Establishment and the development within Kaesong Industrial Complex

Kaesong Industrial Complex, located in Kaesong, North Korea, is about 6 miles from the demilitarized zone (DMZ). Kaesong Industrial Complex was established as the model of economic cooperation with the goal to reduce the economic gap between the two Koreas. Before Kaesong Industrial Complex was temporarily closed, there were 50,000 North Korean laborers working in 123 South Korean companies. South Korea decided to make an investment in North Korea as an indirect tool in the re-unification of the nations through Inter- Korean economic cooperation. Another reason is that the South Korean companies prefer cheap laborers who can speak South Korean because the investment in other countries such as Thailand, Vietnam, and China will cost the companies a greater amount of money on laborers and translators in the working coordination.

The establishment of Kaesong Industrial Complex originated from the South Korean government's permission for Hyundai Asan to invest in North Korea. Then, Hyundai Asan paid a visit to North Korea to meet Kim Jong Il, the Supreme Leader of North Korea at that time. According to the visit, Hyundai Asan and the North's Asia-Pacific Peace Committee subsequently signed a cooperative agreement for the construction of Kaesong Industrial Complex. After a survey of location in 2000, Kaesong Industrial Complex was established through the cooperation between Hyundai Asan and the Korean Land Corporation. Hyundai Asan donated 12 million dollars to North Korea for the construction of Kaesong Industrial Complex for a period of 50 years while Korean Land Corporation obtained an area of 1 million Pyeong (1 Pyeong = 3.3²) for the company's legitimate rights in the construction of the industrial complex. Kaesong was chosen to be an industrialized zone because it is located at the centre of the Korean peninsula, close to Seoul, and other industrial complexes. Kaesong is an idealistic city for an industrial complex with a great plain on the west and the south of Kaesong (S. w. Nam, 2001).

The purpose of the establishment of Kaesong Industrial Complex is to develop the area of 66 million m² by allocating 26 million m² for the industrial complex and 40 million m² for the living area. There are 3 stages of construction for the industrial complex. The first stage is the cooperation between Hyundai Asan and Korean Land Corporation (KOLAND) in the development of Kaesong Industrial Complex in the area of 3.3 million m². This was the model project before the complete operation of the industrial complex, and an area of 93,000 m² for 15 companies was developed first. The development in the first stage planned in 2002-2007 is to attract skilled-laborers for SME businesses. The second and third stages are

the development conducted by developers or North Korean officials in the rest area of 63 million m² aiming to exporting products worldwide and developing chemical and industrial engineering, respectively (Unification, 2005).

The construction of Kaesong Industrial Complex was carried out as planned by President Kim Dae Jung. During the period of President Roh Moo Hyun, the industrial complex signed a land rental agreement with 15 South Korean companies: Sonoko Cuisine Ware (kitchenware), SJ Tech (semiconductor component containers), Shinwon (apparel), Samduk Trading (footwear), Bucheon Industrial (wire harnesses), Taesung Industrial (cosmetic containers), Daewha Fuel Pump (automobile parts), Munchang Co. (apparel), Romanson (watches, jewelry), Hosan Ace (fan coils), Magic Micro (lamp assemblies for LCD monitors), JY Solutech (automobile components and molds), TS Precision Machinery (semiconductor mold components), Yongin Electronics (transformers, coils), and JCCOM (communication components) (Nanto & Manyin, 2008, p. 7). The industrial complex was operated in December of the same year, and the laborers worked about 48 hours per week, starting from 7 a.m. to 9 p.m. with average wages of 57 dollars per month. The South Korea companies transferred money to the North Korean government for the government to pay wages to the laborers. Subsequently, it was found that the laborers received merely one third of their total wages, and the products manufactured in the industrial complex were not sold in North Korea, but exported to South Korea and other countries such as Singapore. In 2007, private companies increased to 52 and workers increased to about 20,000; in addition, South Korea and North Korea operated a railway across the border in the demilitarized zone (DMZ) in order to support the

interconnection railway from Kaesong Industrial Complex to South Korea and from China to North Korea.

As a consequence of the establishment of Kaesong Industrial Complex, many people travelling to North Korea for economic purpose increased significantly when compared with previous years although there was a problem with the suspended negotiation with the North Korean government at the beginning of the industrial complex construction. The reasons for travelling to North Korea are the laying of the foundation stone, Remembrance Day in North Korea, the celebration of first products of Kaesong Industrial Complex, and the delivery of material and equipment for railway construction, among others. The number of people traveling to North Korea is shown in the chart below.

Since the period of the Roh Moo Hyun administration, the economic cooperation has slowly developed with the construction of the industrial complex which was incomplete following the plan set by the former president. However, Kaesong Industrial Complex was successful in recruiting the private sector to make an investment in the industrial complex and has made continuous profits. The agreement of the Export Controls on Dual-use Goods, and the protection of South Korean companies under the U.S. Export Administration Regulations (EAR) was signed in order to safely deliver raw material to North Korea (Unification, 2005). For the issue of exports and export market, the products manufactured in the industrial complex are not sold not in North Korea, but are exported to other countries as seen in the agreement with Singapore called “The Korea-Singapore Free Trade Agreement,” which stipulates that the products manufactured in North Korea must

have similar quality as those in South Korea, and the products will be delivered to South Korea and Singapore.

The change in the relationship during the period of President Lee Myung Bak had an impact on the development of the Kaesong Industrial Complex since this government viewed this economic cooperation as not being able to bring peace to the Korean peninsula. For instance, the closures of connected roads 3 times from 9–12 March 2009 caused the suspension of the import of production input and production quantity. Consequently, the Lee's government paid less attention to the industrial complex. However, the South Korean government was eager to develop and maintain the stability of the industrial complex. In 2009, the South Korean government went to China and Vietnam to study the development and system management of other industrial complexes. After the visit, in January of the following year, South Korea and North Korea held a meeting on economic cooperation in order to discuss tourism results and the future of the Kaesong Industrial Complex. In the same year, the Kaesong Industrial District Management Committee was established in order to promote the production and management of the industrial complex. Unlike the previous thought, the growth of production decreased while investment and the number of leaseholders increased, resulting in the value of production at 250 million dollars, equal to that of the previous year when there was no additional investment. Subsequently, the situation on the Korean peninsula was tense once again after the North Korean Army fired at South Korean warships and Yeonpyeong Island in 2010. The government of President Lee Myung Bak thought that Kaesong Industrial Complex should be closed if the situation on the Korean peninsula was still tense and North Korea refused to redress nuclear

problem. However, this was just a threat from South Korea since in practice President Lee still carried out business in the industrial complex and acquired interests from international trade. President Lee then reviewed new investments, ceased the increase of financial investment from private companies, and decreased the number of laborers working at the industrial complex. The decrease of laborers had an impact on the insufficient production; as a consequence, the South Korean government had to increase the number of laborers again to solve this problem.

Table 2: The number of South-North Korean laborers from 2005 – 2013 were as shown

Type	2005	2006	2007	2008	2009	2010	2011	2012
NK Workers	6,013	11,160	22,538	38,931	42,561	46,284	49,866	53,448
SK Workers	507	791	785	1,055	935	804	776	786
Total	6,520	11,951	23,323	39,986	43,496	47,088	50,642	54,234

Source: Ministry of Unification, Statistical data for Kaesong industrial park (Seoul: MOU, Dec 2013)

During the period of President Park Geun Hye, the operation of Kaesong Industrial Complex was negatively affected after North Korea launched an intercontinental ballistic missile in February 2013. The United Nations then sanction North Korea. North Korea therefore threatened to launch the intercontinental ballistic missile once again. Because of the threat from North Korea, there was an announcement to evacuate South and North Korean laborers from Kaesong Industrial Complex. Subsequently, the complex was shut down on 10 April while there were

50,000 North Korean laborers from about 123 private companies. However, the South Korean authority made an effort to re-open the complex through negotiation focusing on the maintenance of the machinery and equipment within the complex, the removal of prefabricated products including any other raw material back to the complex, and the regular opening of the Kaesong Industrial Complex. The negotiation was unsuccessful because both parties could not agree on the responsibility of the closure and the renovation of the complex.

However, in the 6th meeting, both South Korea and North Korea finally came to agreement and decided to re-open the industrial complex on 16 August of last year. During the 5 months of the temporary closure, the income of Kaesong Industrial Complex was zero percent and South Korean companies lost about 1,000 million USD, while North Korea lost income received from South Korea for labor payment in the amount of approximately 90 million USD. When Kaesong Industrial Complex was re-opened, some companies were temporarily exempted from tax payments due to such temporary closure. It is highly likely that the industrial complex will not be shut down again. South Korean authority views the Kaesong Industrial Complex as originating from economic cooperation, not a political one, even though the industrial complex seems to be a political tool to lessen the serious situation on the Korean peninsula. However, in the long term, the development of Kaesong Industrial Complex will depend upon the North Korean Supreme Leader to decide whether or not the industrial complex will be used as his political tool as occurred in April of last year.

CHAPTER IV

FACTORS OF INVESTMENT IN THE PRIVATE SECTOR

The private sector has an important role in developing the economy in order to reduce the economic gap between South Korea and North Korea. The overview of this can be explained below.

In terms of the employment of North Korean laborers, Hyundai Company paid wages of North Korean laborers to the North Korean government for ten years in advance payment. However, it was found that the wages of laborers at Kaesong Industrial Complex were higher than those of other areas in North Korea. Wages paid in Kaesong Industrial Complex were 57 USD per month or approximately 2 USD per day, or 7500 won, and wages will increase about 5% each year. Even though this amount of wages is not of high value, the wages are still higher than the normal pay of merely 3000 won. Recently, the North Korean government has requested an increase in wages for products manufactured at Kaesong Industrial Complex and exported by South Korea to South Korea and other countries such as Singapore.

According to income received from the manufacture of products from 2005 to 2012 shown in the table below, income from each product has continuously increased, although there was a low value of production in some periods of time such as in 2010 when there was a problem with the nuclear test and warship attack at Cheonan. However, in the following year, income from products still increased. From the numbers shown in the table, it can be analyzed that the income from production will increase, if private companies increase the types of products and expand the production along with an increase in laborers' income. Accordingly, the

economic problem in North Korea can be solved from this and it is highly likely to reunify Korea.

Table 3: Amount of Production by Product

(Unit: US\$ 1,000)

Year	2005	2006	2007	2008	2009	2010	2011	2012	Total
Textiles	6,780	27,793	85,543	132,179	152,050	87,775	215,676	269,383	1,068,639
Chemical Products	1,768	10,900	18,262	21,785	26,179	18,193	28,636	30,337	169,959
Machinery and Metal Works	5,250	20,853	41,947	49,250	37,312	23,662	52,617	65,861	321,727
Electrical and Electronic Goods	1,108	14,191	39,027	47,162	37,584	27,942	97,221	93,836	389,276
Food Products	-	-	-	976	2,003	1,380	4,187	4,943	14,777
Paper and Wooden Products	-	-	-	70	1,313	731	1,570	1,941	6,363
Others	-	-	-	-	34	38	1,941	3,199	5,249
Total	14,906	73,737	184,779	251,422	256,475	323,323	401,848	469,500	1,975,990

Source: Ministry of Unification. 2013 White paper on Korean Unification. Seoul 2014.

4.1 Factors of Investment of the Private Sector in Kaesong Industrial Complex

4.1.1 Cost of Production

The main factors in the investment in Kaesong Industrial Complex are cheap labor, low cost of logistics, and a low tax rate. In terms of the payment for labor, the Korea Trade-Investment Promotion Agency (KOTRA) explored the reasons why the private sector made investment in the Kaesong Industrial Complex. It was found that 33% of the total companies decided to make an investment in the industrial complex because of cheap labor. 22% of the total companies gave the reason of cheap land leasing, 21% of the investors prefer tax benefits, while 11% of the investors made investment in the industrial complex because of the location situated in the central Northeast ("The Biggest Attraction of Kaesong is Cheap Labor," 2014). In addition, according to the table below on the comparison of the labor payment in Kaesong, China, and South Korea, it was found that the lowest rate of labor payment in Kaesong is the main factor for South Korean investors to invest in North Korea.

Table 4: Comparison of Industrial Complex: Kaesong, China, South Korea, 2006

Terms	KIC (A)	China (B)	South Korea (C)	Compared with China (A/B)	Compared with South Korea (A/C)
Monthly minimum wage (dollars)	50	99.28	642	0.50	0.08
Legal workweek (hours per week)	48	40	44	1.2	1.1
Corporate income tax (percent)	10-14	15	23-28	-	-
Land price per pyong (won)	149,000	480,000	407,550	0.31	0.37

Soure: Seok Sam Park, An analysis of the economic impact of Kaesong Industrial complex (Seoul: Bank of Korea, 2004)

In terms of transportation, the location of Kaesong Industrial Complex is close to Seoul, South Korea, while it takes 5-7 days from South Korea to China or 9-10 days to Vietnam. The transportation of raw materials or manufactured products in shorter distances will decrease the cost of production. In the part of tax payments, advanced science and technological companies will pay a mere 10% of total profits as tax to North Korea, compared to the tax payment of companies in other fields for 14% of their total profits or the tax payment to China's SEZ area for 15% of total profits. Moreover, companies, which have product promotion or are in the product area (non-service area) for more than 15 years, will be exempted from corporate income tax payment for 5 years and tax reduction for 50% for the next three years in advance. On the other hand, companies located within the service area for more than 10 years will be exempted from corporate income tax payments for 2 years,

and will receive a tax reduction for 50% for the following year. As a result, the carrying out of business in North Korea is beneficial to South Korean companies when compared to investment in China, especially in the aspect of corporate income tax payment (S. Yoon, 2007).

4.1.2 Supportive Measure from the Government

The private sector is allowed to make an investment in Kaesong Industrial Complex by the South Korean government. According to the research, the South Korean government supported the private sector in the investment in many areas as follows:

1. Financial Support

The South Korean government expanded measures on financial support for leaseholders in Kaesong Industrial Complex through the Small & Medium Business Corporations (SBC) by paying 29 million won to 44 leaseholder companies. Since 2007, there has been a plan in some monetary institutions for a special guarantee. In October 2012, the government inspected environmental management in the industrial complex through the companies and found that there has been steady structural improvement of companies with increasing income, more profits, and decreasing debts. Therefore, KIC may steadily grow.

Table 5: Aid to North Korea by year

Year	Public	Private	Total
2001	975	782	1,757
2002	2,650	576	3,226
2003	2,607	766	3,373
2004	2,672	1,558	4,230
2005	3,147	779	3,026
2006	2,273	709	2,982
2007	3,488	909	4,397
2008	438	725	1,163
2009	294	377	671
2010	204	200	404
2011	65	131	196
2012	23	118	141
2013 (July)	0	21.5	21.5

Source: Wichian Intasi, Rat Ta Sart: Sang Kom Ti Lark Lai 2014 Pp. 77

Figure 1: Trade and Aid volumes, 1989-2013



Source: The National Committee on North Korea an Overview of Inter-Korean Relations 2014

According to the table, during the period of President Lee Myung Bak in 2008, the public and private sector started to decrease their support because the unfriendly relationship with North Korea due to the nuclear problem. The value of exportation of manufactured products from the industrial complex was still at a high rate against the decrease of support. However, in 2013, the value of exportation terribly decreased because of the temporary closure of the industrial complex.

2. Support for Market Expansion

The South Korean government has concentrated on creating the Kaesong Industrial Complex as an outward processing zone (OPZ) in Free Trade Areas (FTAs) in order to seek new markets for manufactured products. The government helps private companies in participating in the organization of exhibitions and manifestations for promoting products. In 2012, some private companies brought their products to present in South Korea for advertisement in exhibitions such as the 11th World Korean Business Convention (October 16-18, 2012), the Busan International Footwear & Techtexile Fashion Week (October 25-27, 2012), among others.

3. Public health and medical support

From 2007 to 2012, there has been an establishment of an emergency medical centre in the industrial complex for South Korean and North Korean laborers' convenience. As a result of the increasing number of private companies in the industrial complex, the need for medical service has also highly increased. Therefore, in December 2012, there was improvement and expansion of medical service to serve the increasing need.

4. Improvement of working conditions

The payment of wages to North Korean laborers mostly consists of regular wages, bonuses, allowances, and social security. It has been found that the wages did not increase to 5% of each year when compared to the previous years because the real wages started at 50 USD, increased to 52 USD in 2007 and to 67 USD in 2012.

Assessing the factors of investment of the private sectors in Kaesong Industrial Complex, there are both advantages and disadvantages. The advantages are that the investment in the Kaesong Industrial Complex is beneficial to South Korea in the low cost of production in terms of labor, transportation, and tax payment. Then, South Korea is not required to make any investment in other countries such as China because the longer distance of transportation will result in a higher cost of production, despite the cheap labor. However, South Korea loses a lot of money in financially supporting North Korea in return for the low cost of production. At present, the public and private sectors are decreasing their support of North Korea, but if the South Korean government turns back to apply the policy of President Kim Dae Jung, it is likely that South Korea will support North Korea once again.

In the aspect of North Korea, the financial support from South Korea can help North Korea to recover the economy, and this support may have an impact on North Korea to open the country to foreign investors. The financial support will enable North Korea to acquire new technology and knowledge management in order to develop the economy (S. Yoon, 2007). However, at present, due to the immense decrease of financial support from South Korea, North Korea is unable to develop the economy despite the higher rate of exportation of manufactured products.

CHAPTER V

THE EXPANSION OF ECONOMIC COOPERATION

Apart from the establishment of Kaesong Industrial Complex, the South Korean government had made an attempt to increasingly develop other economic arrangement, with the goal of reducing the economic gap. The expansion of cooperation in the areas are as follows:

5.1. The construction of interconnected railways and roads between South Korea and North Korea

South Korea needs to be the centre of East Asia in the connection between China, Russia, and Europe. Therefore, South Korea had to construct a railway via North Korea from Seoul to Sinuiju and a railroad from Munsan to Gaeseong on the Gyeongui Line. Subsequent to the complete construction of the railway and railroad, South Korea had a plan to interconnect between Trans-Korean (TKR) and Trans-Siberian railways (TSR), and the accomplishment of the project as shown in the picture below (Whitepaper, 2005).

Figure 2: The construction of interconnected railways and roads between South and North Korea



Even though the construction of the railway was accomplished as planned and conducted a test in 2005, the project has not yet operated due to the revocation of the operation one day before the test.

5.2 The reunion of separated families

Since August 2000, South Korea and North Korea have provided the opportunity for members and relatives of separated families to meet each other on 19 occasions. The summit between the Present Kim Dae Jung and the Supreme Leader Kim Jong il led to agreement not only on economic cooperation but also on the reunion of separated families during the war, with the purpose of building trust between the two countries (Unification, 2001). The reunion of separated families was the first time in fifteen years, since 1985. On 15–18 August, both South Koreans and North Koreans finally met their separated families. In 2010, during the period of

President Lee, another reunion of separated families was nearly cancelled because of a threat from North Korea after finding out about military training between South Korea and the United States.

Recently, on 20 February of last year, South Korea and North Korea agreed to arrange a reunion of separated families, but the result was unpredictable at the time because North Korea had cancelled the reunion in the previous September. In addition, in January, South Korea declared that there would be military training with the United States in late February, and because of this, North Korea called for South Korea not to act as its enemy and to cancel such military training. However, the reunion of separated families was successfully held on 20–25 February of last year.

5.3 The Food Support

The problem of food deficiency in North Korea has become more severe after North Korea faced a natural disaster. After a military dialogue, this is the first time that North Korea has demanded food support from South Korea. As of result of the demand for food, North Korea then realized the importance of economic cooperation. South Korea conducted a survey of the food support program and it was found that 55.3% of South Korean people agreed to provide food support. (Unification, 2001) Consequently, South Korea decided to deliver food to North Korea and there was an operational conference for quantity and procedure for food delivery. The table below illustrates the quantity of food delivery to North Korea from 1995–2005.

Table 6: Deliveries of South Korea food aid to North Korea (in Metric Tons)
1995-2005

Year	ROK-WEF		ROK Bilateral	
	Scale	Form	Scale	Form
1995			150,000	-rice
1996	3,409	-mixed cereals		
1997	68,541	-dried milk: 300 -corn-soya blend(CSB): 8,389 -mixed cereals: 9,852 -corn: 50,000		
1998	40,000	-wheat flour: 10,000 -corn: 30,000		
1999				
2000			500,000	-corn: 200,000 -rice: 300,000
2001	100, 000	-corn		
2002	100, 000	-corn	400,000	-rice
2003	100, 000	-corn	400,000	-rice
2004	100, 000	-corn	400,000	-rice
2005			400,000	-rice
Sum	511,950		2,350,000	

Source: Kyungyon Moon The Politics of Food Aid in North Korea

However, food support has decreased since the period of President due to the nuclear problem. After the death of Kim Jong Il, the former Supreme Leader of North Korea, there was a concern about food deficiency in children and pregnant mothers.

According to aforementioned information, the South Korean government made an effort to expand economic cooperation with North Korea in order to help and solve economic and social problems in North Korea. However, there was a problem on the expansion of economic cooperation due to the unreliable situations caused by the Supreme Leader of North Korea through the use of this cooperation to threaten South Korea to increase assistance. As a consequence, even though South Korea expanded cooperation and assistance, there was little result on economic development and the solving of social problems in Korea because of North Korea's vague reaction in the cooperation with South Korea.

CHAPTER VI

PROSPECTS FOR THE REUNIFICATION OF SOUTH AND NORTH KOREA

As aforementioned, the author will analyze the prospect for the economic cooperation by using Kaesong Industrial Complex as a model for the reduction of the economic gap through the tools such as the cost & benefit analysis and SWOT in the analysis of the reunification.

6.1 Cost & Benefit Analysis

In this part, the author will analyze the cost and benefit of both South Korea and North Korea if there should be reunification of Korea.

South Korea bears the cost on its economy due to its economic growth ranked 31st in the world. The successful economic development during the period of President Park Chung Hee helped South Korea to become an industrial country with advanced technology. Moreover, the number of educated South Koreans increased to be ranked 17th in the world (United Nation, 2007-2008). 93.5% of South Korean people have the ability to read and write, and in 2006, the Organization for Economic Co-operation and Development (OECD) survey showed that youth at the age of 15 have reading ability as high as 1st place in the world.

On the other hand, North Korea has a low cost on its natural resources and laborers. North Korea has a larger area than that of South Korea and consists of natural resources with a lot of minerals and the Great Plains. In terms of labor, North Korea has cheap and hard-working laborers. In addition, North Korean people have a high education like South Koreans, but unlike South Koreans, they lack opportunities to study abroad. However, the Supreme Leader of North Korea in each period has

paid attention to the management of education through the Juche ideology in that “people are the master or the owner of all property of the country. As a result, the management of education cannot ask for money from the master or the owner of property” (Sasinan Kratae Sriya, 2013)

6.1.1 Economy

South Korea has economic costs from being the top ranking industrial country. If there is a reunification of Korea, it will be the end of war. Accordingly, South Korea will not have to spend as much on its military budget and will be able to use that budget for the expansion of the economy instead. Apart from that, South Korea benefits from the cost of North Korea in terms of cheap labor. The benefit from the reunification of Korea is that the cost of production in Korea will be lower in order to be able to compete in foreign markets. In addition, North Korea’s area is larger than that of South Korea. North Korea has an area of 99,313 square kilometres, while South Korea has an area of 122,762 square kilometres with plenty of natural resources and minerals (Theguardian). Therefore, the success of reunification of Korea will allow South Korea to freely exploit such natural resources.

Meanwhile, North Korea will be able to access advanced technology from South Korea in order to develop the quantity and quality of production. North Korea moreover will receive financial support from the “regional development fund” and support in other areas including “the policy on purchasing Korean products,” which is the policy that has arisen from a free trade agreement between South Korea and other countries (Shin, 2010). In regard to wages, workers would be able to request higher wages and receive direct payment from their employers without being taken advantage of from the North Korean authority. Moreover, most parts of North Korea

are plain areas and larger than those of South Korea and these areas will have a higher value of up to 6,000 million wons, and if there is a reunification of Korea, it will lead to the accomplishment of interconnected ways to Europe or Asia (D. R. Yoon, 2011).

6.1.2 Politics

In terms of politics, North Korean people will benefit from the reunification of Korea because of the communist governing system of North Korea after the division of Korean peninsula. In the communist system, the power is the legacy from generation to generation. If the countries are able to reunify, the politics will be more stable regardless what kind of the governing system takes root and people will have more freedom of expression.

6.1.3 Society

Even though North Korea demands medical and economic support, North Korea is able to assist South Korea with its young population. At present, the elderly population of South Korea is steadily increasing, so South Korea will face a problem with the production sector due to the lack of citizen of working age. On the other hand, North Korea has a number of young people with high education. As a result, the reunification of Korea will solve the problem of an aging population (Benedictus, 2013).

Likewise, South Korea will be able to help North Korea solve its human rights problem, especially the nuclear one. To solve the human rights problem, the South Korean government has made an effort to provide assistance to North Korea by steadily donating food, money, etc. The reunification of Korea will facilitate

assistance because the reunification will allow North Korean people to access rights and infrastructure.

Moreover, the mutual interest of both countries is the permanent reunion of separated families. Since the Korean War, the South Korean government has attempted to negotiate with North Korea to arrange reunions of separated families, but there have been obstacles from the North Korean side. Therefore, the reunification of Korea will bring together separated families.

According to the aforementioned costs and benefits, this analysis shows merely the benefits. However, in order to study the possibility of the reunification of Korea, the strengths and weaknesses are a vital part of the study. Therefore, the author uses a SWOT analysis to analyze the strengths and weakness as described below.

6.2 Strengths and Weaknesses

6.2.1 Strengths

1. The Relationship between South Korea and North Korea

During the period of President Kim Dae-Jung, the political policy towards North Korea was changed into an economic policy. The relationship between the two countries then was smooth without political interference as explained in chapter 3. Subsequently, during the period of President Roh Moo-Hyun, the relationship between South Korea and North Korea was still friendly. The improvement of the relationship between the two countries has changed because the global view changed the attitude on international relationship from realism, viewing that every nation has to compete to dominant other countries, into liberalism, viewing that

every nation has to rely on each other. On one hand, if the South Korean government did not change its foreign policy towards North Korea, the government would not be able to employ cheap North Korean laborers. On the other hand, North Korea has to depend on South Korea in its economic development. During the period of President Lee Myung Bak, the government policy changed to an aggressive one because of the nuclear test, having an impact on South Korea's desire to close Kaesong Industrial Complex, but the government decided not to close it because of profits acquired from private companies' investment. Recently, President Park Geun Hye has changed the government policy by promoting the investment of SME business, and affiliated companies in Chaebol Company, a big group of businesses in South Korea (Intasi, 2013a; C. W. Nam, 2012). This policy has had an impact on the operation within Kaesong Industrial Complex since most of the private companies operating in the industrial complex are small and medium sized businesses (Seo, 2013). As a result, this is a good opportunity to attract the South Korean government to change the policy towards North Korea in a better, more improved manner. If the South Korean government changes the policy to be friendlier, there will be an expansion of the industrial complex, with the ultimate goal of peace on the Korean peninsula.

2. The Expansion of Exportation

After granted by the South Korean government to establish the industrial complex in 2004, Hyundai Company subleased other private companies to manufacture in the Kaesong Industrial Complex, and this encourages investment in North Korea in the manufacturing and exporting of products to South Korea and other countries such as Singapore. Consequently, if the operation of the industrial

complex is successful, as planned by the Hyundai Company, the South Korean authority will increasingly promote the cooperation between South Korea and North Korea by establishing a new industrial complex near Incheon, South Korea including an increase of railway transportation between South Korea and North Korea to link to China (Cronin, 2012). Therefore, the plan to open a new industrial complex and to improve railway transportation as mentioned above will help North Korea to open the country and solve the current economic recession. The cooperation between South Korea and North Korea will finally lead to peace on the Korean peninsula for successful unification of nations.

3. Cheap Labor

In Asia, North Korea a country which has cheap labor. For example, the Hyundai Company paid wages for labors approximately 50 USD per month per worker for 10 years in advance to the North Korean government. Even compared to cheap labor in China, North Korean labor is still cheaper.

The cheap North Korean laborers are also hard working; therefore, a great number of products are manufactured at a low cost. This system is consistent with the market mechanism, which requires more productivity at a low cost in order to export a great number of products. According to Table 4, the amount of investment in private companies and income from products exported to South Korea and other countries are steadily high.

Table 7: Number of Companies Operating in the KIC and Production Volume

Type	2005	2006	2007	2008	2009	2010	2011	2012	Total
Number of companies	18	30	65	93	117	121	123	123	-
Production volume	1,491	7,373	18,478	25,142	25,648	32,332	40,185	46,950	197,599

Source: Ministry of Unification. 2013 White paper on Korean Unification. Seoul 2014.

As a consequence, the factor on labor is another advantage in the event of the reunification of Korea. If there is reunification of South and North Korea, it is likely that South Korean companies investing in North Korea will employ North Korean laborers since they are cheaper than those of China and Vietnam.

6.2.2 Weakness

1. The devotion of the budget on the reunification of Korea

Using the successful reunification of Germany as a model, there is little economic difference between West Germany and East Germany about 1:3. Unlike Germany, the economic difference between South Korea and North Korea is as high as 1:15, or some people believe the number is as high as 1:40 (Branigan, 2013). To reunify Korea, the burden will be placed on South Korea alone to allocate budget for the reunification of Korea. President Lee Myung Bak gave a speech on the 65th Anniversary of Korean Independence in which he said South Korea had to prepare for a reunification tax in order to reunify the country with North Korea. Scholars estimated that the burden of responsibility for 23 million North Korean people

would be placed on South Koreans at approximately \$1 trillion ("The Economic Costs of Korean Reunification," 2011)

According to an updated poll from the Office of Research Affairs at Seoul National University, disseminated by the Yonhap News Agency, reported that 44.3% of South Koreans did not want to shoulder more economic burden in the case of the reunification of Korea, while only 31.9% indicated they were ready for additional tax to help decrease the South Korean government's burden for such an event, with the exception that the amount of additional tax should not be higher than 50,000 won per year. In addition, 11.7% of the group agreed to pay an additional tax between 50,000 – 100,000 won for the reunification of Korea, and the poll showed that only 1.2 % of the group agreed to pay additional tax to the Seoul government of more than 1 million won (approximately 31,715 Baht) for the return of the two Koreas becoming "one land" once again.

2. The Violation of Human Rights

North Korea has a problem on the violation of human rights at the global level such as the violation of living rights. The North Korean government interferes with the living rights of North Koreans in every single step of life; for example, the North Korean Authority arranges marriage for their citizens without their consent (Harden, 2013). Another human rights problem is the restriction of media. Media such as television and radio in North Korea is produced to control the North Korean people's beliefs and ideas by illustrating that the North Korean Supreme Leader is an intelligent man who can bring prosperity to North Korea without opposing ideas. If someone disagrees with this idea or has western influenced beliefs, they will be

executed. Even though there are better facilities and infrastructure at the Kaesong Industrial Complex compared to other areas in North Korea, the human rights problem still occurs in the labor payment amount. As aforementioned, the advantage of cheap and hard-working labor is a vital part in encouraging private companies to increase their investment in the industrial complex. However, the disadvantage of this kind of labor is that the North Korean workers in the industrial complex do not receive direct payment from their employers, but from the North Korean government.

According to several reports, the North Korean government claims that the payment in US dollars is of a different value of currency between North Korea and South Korea and that makes it incomparable in the payment amount, despite having the same currency. The report stated that North Korean laborers received wages from the North Korean government at merely one third of the total payment paid by the employers, and even received “choco pie” instead of wages. Furthermore, most of the laborers working in the industrial complex are women; however, there is a request to employ men as well (S. K. Lee, 2007).

3. The North Korean Supreme Leader policy

The governing system of North Korea is the legacy of communism from generation to generation (“North Korea’s Kim Dynasty,” 2007). Throughout many years, the policy of the North Korean Supreme Leader is always unfriendly and aggressive towards South Korea. For example, during the period of President Sungman Rhee, after the Korean peninsula was divided into two countries, North Korea, under the governing of Kim Il-sung, attacked and invaded South Korea. Then, during

the period of President Lee Myung Bak and the period of the Supreme Leader Kim Jong Il, North Korea launched long-range and short-range ballistic missiles to attack Choenan village in South Korea. Recently, Kim Jong-un, the current North Korean Supreme Leader, launched intercontinental ballistic missile, causing temporary closure of Kaesong Industrial Complex.

According to the policy adopted by the North Korean Supreme Leader, North Korea became a closed country and this caused a hindrance for the operation of Kaesong Industrial Complex. If North Korea is still a closed country, South Korea cannot assist or increase investment including an inability to pay wages for the workers to the North Korean government. In addition, despite using won currency, South Korea and North Korea have a very different currency exchange and this is the reason why South Korea pays wages in US dollars. Therefore, if North Korea freely opens the country, commercial transactions with countries in its alliance such as China, Russia, and South Korea will enable North Korea to increase its currency to be equal to that of South Korea.

4. The Launching of the Intercontinental Ballistic Missile Test by North Korea

This serious situation has occurred since the period of President Roh until the present, and the launch of the ballistic missile had an impact on the operation of Kaesong Industrial Complex. For example, in 2010, during the period of President Lee, the attack on Cheonan Island, South Korea, made South Korea angry and they threatened to close Kaesong Industrial Complex. However, South Korea decided not to close the industrial complex but decreased the productivity and support of the industrial complex instead. Moreover, last February, after launching an

intercontinental ballistic missile once again, North Korea ordered both North and South Korean laborers to evacuate Kaesong Industrial Complex, and closed the industrial complex. It is likely that the North Korean government might want to use the launch of the missile as a tool to negotiate with South Korea and other countries such as the United States, Japan, and China. The purpose of the negotiation is to seek help from other countries. In addition, Kim Jong-un, the present North Korean Supreme Leader, wanted to present his leadership through military force to the North Korean people and other countries (Intasi, 2013b).

5. Infrastructure - The infrastructure such as electricity and other fundamental structures within the industrial complex depends on South Korean companies (Nanto & Manyin, 2008). Hyundai Asan Company is the investor and the contributor of the infrastructure, so the North Korean government did not invest in the infrastructure construction. If there is a dispute between South Korea and North Korea, the manufacture of products in the complex will be suspended. For instance, last April the private companies were unable to manufacture their products after the North Korean authority ordered North Korean laborers and entrepreneurs of private companies to evacuate the industrial complex. Due to this order, the complex was temporarily shut down for 5 months and lost income of 4.6 million dollars (Mundy, 2013).

6.2.3 Opportunity

According to the benefits gained from commercial investment, many countries around the world desire to make an international agreement for exporting products at a cheap price. One of the popular international agreements for this concept is the Free Trade Area (FTA) agreement. In 2003, South Korea started to

establish a Free Trade Area agreement with Chile, Singapore, EFTA, ASEAN, India and Peru, The EU and The USA. Moreover, at present, South Korea has a free trade agreement with GCC, Australia, New Zealand, Colombia, Canada, Turkey, Mexico and China (Affairs). The purpose of a free trade area agreement is to reduce tax among parties as much as possible in order to export more products. In this part, the author will illustrate the example of free trade agreements between South Korea and certain recognized countries such as the United States.

As aforementioned in chapter 3, products manufactured in Kaesong Industrial Complex are not sold in North Korea but are exported to South Korea and other countries because of free trade agreements. For instance, Singapore accepted the import of products manufactured in Kaesong Industrial Complex, about 88.6% of the total products (Nanto & Manyin, 2011). In addition, in terms of the free trade agreement between South Korea and the United States (KORUS), both countries signed the Free Trade Area agreement (FTA) on 30 June 2007 for the purpose of developing the capacity of the export of products and services (KResearch, 2007). South Korea gains benefits from the free trade agreement from tax reductions in industrial products, textiles and garments, and auto parts. While the United States receives agricultural benefits after South Korea revoked import prohibition on U.S. beef. Moreover, not only does South Korea receive benefits from this agreement but it also receives benefits from tax reduction from the United States for products manufactured at the Kaesong Industrial Complex. A special committee was set up to inspect products manufactured at the Kaesong Industrial Complex by using the same standard as those in the FTA under the control of Outward Processing Zones (OPZs), although there is no agreement for products manufactured in the industrial complex

(Cooper, Manyin, Jurenas, & Platzer, 2013). In the future, if North Korea is able to solve the nuclear problem, the United States will tend to accept products manufactured in Kaesong Industrial Complex listed as FTA products. Therefore, North Korea should recognize this advantage in exporting more products manufactured at Kaesong Industrial Complex, while South Korea has to concentrate on economic cooperation between the two countries in order to help North Korea solve the nuclear problem.

6.2.4 Threat

South Korea and North Korea are parties in the Six Party Talks, established in 2003, with the United States, China, Japan, and Russia, aiming to oppose the production and development of nuclear weapons (Chanlett-Avery & Rinehart, 2014). For many years, North Korea has been the only party which does not follow the group's agreement resolution due to the problem on international relations that can be concluded as follows:

1. The Problem on the Relationship between North Korea and the United States

After World War II end, Korea was divided into South and North Korea, in which the United States support the South while the Soviet Union support the North. Since then, there has been the long-term problem between the United States and North Korea. Since the 1990s, after North Korea started launching nuclear tests, the relationship between North Korea and the United States has worsened. Even in 2003, North Korea in the Six Party Talks did not follow the resolution. Moreover, North Korea launched an intercontinental ballistic missile as a threat in order to seek help

from the United States and other party countries (Feffer, 1999; Radia, 2011) The latest situation occurred in January 2013 when the North Korean authority blamed the United States for the boycott on North Korea, and further stated that there would be no negotiation in the Six Party Talks anymore. Indeed, the boycott arose from the UN Security Council's resolution as a counter-measure against North Korea's intercontinental ballistic missile launching. Therefore, the relationship between North Korea and The United States shall be increasingly developed. The improved relationship will change North Korea's attitude towards the United States in a positive way; on the other hand, the United States should be sincere in helping and solving problems in North Korea.

2. The Problem with the relationship between North Korea and China

Due to the same governing system, China has always supported North Korea after the division of the Korean peninsula in World War II (Thandee, 2012). The relationship between North Korea and China had developed since the Korean War when China sent military troops to help North Korea. At present, China still provides assistance to North Korea even though China decided to boycott North Korea, according to the UN Security Council's resolution. Due to China's support for North Korea, South Korea has confronted repeated problems on North Korea's short range and long range ballistic missile launching. Even though, since the mid-1920s, South Korea and China have built a relationship, the relationship has had different perspectives. On one side, South Korea has a foreign policy consistent with the global trend. On the other side, China still always supports North Korea. In order to reunify South Korea and North Korea, China should be persuaded to support the

reunification and to decrease assistance of nuclear weapon development in North Korea.

3. The Problem with the relationship of powerful countries in the region

Superficially, the powerful countries in the region such as China and Japan seem to agree on the reunification of Korea. However, both China and Japan do not want reunification of Korea to happen. China views North Korea as a buffer State, or a counterbalance between the United States and Japan, while China still maintains relations with South Korea for its economic interest. Japan, on the other hand, believes that the reunification of Korean peninsula, in the long term, will make Korea become Japan's competitor. In addition, if the United States withdraws the military troops from Korea, it is possible that Korea will develop a relationship with China and Russia in order to balance Japan's economy (Intasi, 2000). Consequently, both South and North Korea shall strengthen the relationship with China and Japan since, if China and Japan are not satisfied with the reunification of Korea, they may express their reactions to oppose reunification.

As aforementioned, one of the factors for the reunification of Korea is the economic one, which should be developed all over the country, not merely the economic cooperation in Kaesong Industrial Complex. Therefore, the role of the private sector in the reunification of Korea is still vague because the investment of the private sector in Kaesong Industrial Complex is a small part of economic development and the reduction of the economic gap between South Korea and North Korea. Furthermore, the South's private companies in Kaesong Industrial Complex are SME businesses, not mega projects, since the instability of international

politics raised concerns for the owner of the mega projects not to invest in the industrial complex. Besides, South Korean people do not recognize the advantage of the reunification of Korea because they are worried about having a problem with an economic recession after the reunification due to the cultural and economic differences.

In addition, the internal factor in the explicit reaction of the North Korean Supreme Leader is a vital part for the reunification of Korea, and this will cause immense change on the Korean peninsula. If the North Korean Supreme Leader focuses seriously on the reunification of the nations rather than the threat of the nuclear test to South Korea or other countries, it is highly likely that the reunification of Korea will finally happen. Apart from the problem in North Korea, China and Japan, as the two most powerful countries in Asia, are the hindrance on the reunification of Korea because they are concerned that the Korean peninsula will become a serious competitor in international trade.

CHAPTER VII

CONCLUSION

During the period of President Kim Dae Jung, South Korea confronted economic recession in Asia. The government's policy then focused on solving the economic problem by turning to SME businesses. In addition, South Korea changed its political policy and develop the relationship with North Korea in order to make an investment in North Korea. Meanwhile, North Korea confronted the problem with its foreign currency deficiency due to the lack of support from Russia and the natural disasters in North Korea. As a consequence, North Korea had to allow South Korea to make an investment in North Korea in order to receive foreign currency and other assistance. Accordingly, there was a summit in 2000 on the economic cooperation on Kaesong Industrial Complex for the purpose of reducing the economic gap between the two countries.

The establishment of Kaesong Industrial Complex arose from the investment cooperation between Hyundai Asan Company and Korean Land Corporation, which provided investment money of 12 million USD to North Korea for construction and operation. During the period of President Roh Moo Hyun, the nuclear problem with North Korea did not affect the relationship between South and North Korea because the South Korean government still used the same policy as that of the previous government. In 2004, the construction of Kaesong Industrial Complex was complete and scheduled to operate with laborers to work for 48 working hours per week, from 7 a.m. to 9 p.m., and to receive wages of 57 USD per month. The payment for labor at Kaesong Industrial Complex is paid by South Korean private companies to the North Korean government, and then North Korean government pays wages to the

laborers. Products manufactured at Kaesong Industrial Complex are not sold in North Korea, but are exported to South Korea and other countries according to the FTA agreement. Later, during the period of President Lee Myung Bak, the relationship between the two countries worsened after South Korea faced a chronic nuclear problem with North Korea since the time of the previous government. President Lee then changed the policy towards North Korea to that of Vision 3000 through Denuclearization and Openness, focusing on the nuclear problem on the Korean peninsula. During Lee's government, the Korean peninsula confronted the problem on the short range and long range ballistic missile launching including military attacks from North Korea. These situations caused South Korea to threaten not to invest and support the Kaesong Industrial Complex any longer.

Entering into the period of President Park Geun Hye, North Korea had a new Supreme Leader, Kim Jong-un, who was young and had little knowledge about military matters. He threaten to use military force to conducted a third nuclear test in February 2013 and the launch of an intercontinental ballistic missile later on. Therefore, the UN sanctioned North Korea by cutting back support for North Korea as well as China, a long time ally of North Korea. The sanction at the international level caused North Korea to be dissatisfied and threatened to launch another intercontinental ballistic missile by announcing the evacuation of laborers from Kaesong Industrial Complex and the temporary closure of the industrial complex in April 2013. At that time, there were 50,000 North Korean laborers and 123 South Korean private companies. However, Kaesong Industrial Complex was re-opened after negotiation between South Korea and North Korea for the purpose of the maintenance of machinery and equipment of the industrial complex, the removal of

manufactured and raw products to the industrial complex, and the regular opening of the industrial complex. As a result of the successful negotiation, Kaesong Industrial Complex was re-opened on 16 August 2013. As the evidence shows, the temporary closure of the industrial complex in April 2013 caused North Korea to lose huge benefits from South Korea such as land lease fees, taxes, and wages from laborers. As a result, North Korea also wanted Kaesong Industrial Complex to be re-opened and South Korea wanted to re-open the industrial complex for productivity in the private sector.

There two vital factors for the private sector's investment in Kaesong Industrial Complex are as follows: 1) the cost of production from cheap labor, cheap transportation cost, and low tax rate; 2) government support, such as financial support, support for market expansion, public health and medical support, and improvement of working conditions. These factors are advantageous and disadvantageous to South Korea and North Korea. The advantage to South Korea is that South Korea is able to export products which have a low cost of production in order to compete with China, which also manufactures products with a low cost of production. However, the disadvantage to South Korea is that both the public and the private sectors of South Korea lose a huge amount of money for the support for North Korea. On the contrary, the advantage to North Korea is the financial support from South Korea from receiving foreign currency to recover the economy. However, at present, the financial support is immensely decreasing; as a consequence, North Korea cannot solve the economic problem despite the increasing number of exports of products from, Kaesong Industrial Complex. Even though the South Korean authority is expanding cooperation with North Korea in various ways, many projects

are not successful due to the instability of the North Korean Supreme Leader's policy by using economic cooperation as a tool to negotiate with South Korea.

The role of the private sector in the investment of Kaesong Industrial Complex focuses mainly on the economy aiming at the reduction of the economic gap between South and North Korea through financial support from the South Korean government. However, at present, such aim is still vague due to the decrease of financial support for North Korea as a consequence of the nuclear problem. The nuclear problem in North Korea has affected the quantity of production in the industrial complex. Explicitly, in 2010, during the period of President Lee Myung Bak, the production of all sectors decreased. Moreover, wages are not directly paid to North Korean laborers but to the North Korean government; therefore, it is suspicious whether or not financial support from South Korea will reach the North Korean laborers or will develop North Korea's economy.

The possibility of the reunification by means of economic cooperation is still ambiguous because of the economic differences. The economic cooperation in such a model as the Kaesong Industrial Complex is not stable according to political factors of both countries' leaders. For example, during the period of President Lee Myung Bak, the tense relationship between South Korea and North Korea affected the operation of Kaesong Industrial Complex. The political factor also has an impact on the expansion of cooperation in other areas such as the construction of the interconnected railway and the railroad between South Korea and North Korea, the reunion of separated families, and food delivery to North Korea. The instability of the North Korean Supreme Leader's attitude causes problems on the expansion of cooperation. Accordingly, the projects arisen from the expansion of cooperation were

not established or rarely established. The impact on the expansion of cooperation will become a hindrance for the development of relationship between South Korea and North Korea.

However, according to the analysis on the reunification of Korea by focusing on the cost of each country and the benefit received after the reunification, it is clear that the cost of South Korean is high-educated people and the development of economy to become an industrialized country. On the other hand, the cost of North Korea is natural resources and plenty of minerals including highly educated people. If there is reunification of Korea, both countries will acquire economic, political, and social benefits. Especially in terms of economic benefits, South Korea will be able to use North Korea's resources for profitable purposes, while North Korea will be able to access advanced technology from South Korea for manufacturing products. On the contrary, the reunification of Korea may have a negative impact on South Korea due to the problem of the economic gap. Even though North Korea has the capacity to develop the economy to be equal to that of South Korea, South Korea has to support a large sum of money to North Korea during the time of economic development. Furthermore, the reunification of Korea may force South Korea to solve the nuclear problem and human rights problems in North Korea because, at present, North Korea has neglected to solve either problem despite international criticism. To solve both problems above, the economy within South Korea may be affected.

The role of the private sector has quite plays little role in contribution to the reunification of Korea because the private sector is a small part of the economic development in North Korea. In addition, economic development is only one aspect

in the development of North Korea. The investment of the private sector merely strengthens the economic relationship between South and North Korea, and investment makes North Korea to become recognized in the world stage according to the export of manufactured products from Kaesong Industrial Complex to other countries through the Free Trade Area Agreement. On the contrary, the private sector is incapable of coping with the closing or re-opening of the industrial complex because of the policy declared by both countries' leaders, especially the North Korean Supreme Leader's policy. Therefore, in order to successfully reunify Korea, the main factor is that the leaders attempt to behave accordingly to the agreement made by both countries such as peace treaty and the expansion of cooperation in many different areas. The confidence between the two countries is also important. The current President of South Korea expresses the sincerity through the investment support in North Korea; on the other hand, North Korea has to honestly solve the nuclear problem, abandon instigating behavior, solve human rights problems, and so forth.

REFERENCES

- Benedictus, B. (2013). What would a Unified Korea look like?: The Costs, Benefits, and Global Ramifications following a reunited Korean State. Retrieved May, 2014, from <http://warm-oolong-tea.blogspot.com/2013/04/what-would-unified-korea-look-like.html>
- The Biggest Attraction of Kaesong is Cheap Labor. (2014). Retrieved January, 2014, from http://english.khan.co.kr/khan_art_view.html?artid=201402111451147&code=710100
- Branigan, T. (2013). Korean unification: dreams of unity fade into past for young South Koreans. Retrieved May, 2014, from <http://www.theguardian.com/world/2013/may/27/south-north-korea-unification>
- Chanlett-Avery, E., & Rinehart, I. E. (2014). North Korea: U.S. Relations, Nuclear Diplomacy, and Internal Situation (pp. 1): Congressional Research Service
- Cooper, W. H., Manyin, M. E., Jurenas, R., & Platzer, M. D. (2013). The U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications (pp. 5-6): Congressional Research Service
- Cronin, P. M. (2012). *Vital Venture Economic Engagement of North Korea and the Kaesong Industrial Complex*. Washington, DC: Center for a New American Security.
- The Economic Costs of Korean Reunification. (2011). Retrieved May, 2014, from <http://spice.stanford.edu/>
- Feffer, J. (1999). U.S.-North Korea Relations. Retrieved March, 2014, from http://fpif.org/us-north_korea_relations/
- Intasi, W. (2000). Na Yo Bye Karn Ruam Kao Ri: Pat Ta Na Karn Lae Neaw Noom Nai Tang Pa Ti But (pp. 126). Pathum Thani: Institute of East Asian Studies Thammasat University.
- Intasi, W. (2013a). *Inter-Korean Relation: One Year under the North Korea's New Leader Kim Jong-un*. Paper presented at the Thailand-Korea Joint Symposium, Thailand.
- Intasi, W. (2013b). Ku Pid 'Ni Kom Kaesong' Ngeun Kai Tor Long Ma Ha Am Nart. *Nationweekend*, 1089, 22.
- Kim, C. N. (2005). Politics, Governance, and Security Series (Vol. 11, pp. 13). Hawaii: East-West Center
- Kim, H. N., Ph.D. (2006). South-North Korean Relations Under The Roh Moo-Hyun Government. *Korean Studies*, 5(1), 39.
- Kim, K. S. (2004). The North Korean Nuclear Crisis and Inter-Korean Relations. *East Asian Review*, 16(1), 25.

- KResearch. (2007). FTA U.S.- South Korea: Rang Kra Sae FTA Chuang Ching Kit Kwam Sa Mart Tang Karn Kang Kan. *Siamturakij*, 789.
- Lee, E. M. (2006). *THE IMPACTS OF THE SUNSHINE POLICY ON INTER-KOREAN RELATIONS*. (Master), Yousei University, South Korea.
- Lee, S. K. (2007). Tasks for Effective Promotion of Gaeseong Industrial Complex Project. *Korea Focus*, 9(6).
- Moon, C.-i. (2000). The Sunshine Policy and the Korean Summit: Assessments and Prospects. *East Asian Review*, 12(4), 12-18.
- Mundy, S. (2013). Kaesong reopening offers no quick fix. Retrieved January, 2014, from <http://www.ft.com/cms/s/0/5178609a-3094-11e3-9eec-00144feab7de.html#axzz2wBiFH39n>
- Nam, C. W. (2012). Kaesong Industrial Complex The Second Free Economic and Trade Area in North Korea. *Internationales Asienforum*, 43(3-4), 352.
- Nam, S. w. (2001). Theory and Practice: Kaesong and Inter-Korean economic Cooperation. *East Asian Review*, 13(1), 82-83.
- Nanto, D. K., & Manyin, M. E. (2008). The Kasong North-South Korea Industrial Complex (pp. 7).
- Nanto, D. K., & Manyin, M. E. (2011). The Kaesong North-South Korean Industrial Complex (pp. 4-5): Congressional Research Service.
- Neungjamnong, N. (2013). 'Don't take the cognitive approach away':Krong Sang Kwam Chuer Kong Pra Ta Na Tip Ba Di Kim Dea Jung Lae Na Yo Bye Ar Tit Tor Saeng. *Rat Ta Sart: Sang Kom Ti Lark Lai 2014*, 18.
- Petrov, L. A. (2009). The Politics of Inter-Korean Economic Cooperation: 1998-2009 *The Asia-Pacific Journal*, 29(3), 442.
- Radia, K. (2011). Timeline: US and North Korea's Seesaw Relationship. Retrieved March, 2013, from <http://abcnews.go.com/blogs/politics/2011/12/timeline-us-and-north-koreas-seesaw-relationship/>
- Sasinan Kratae Sriya, P. D. (2013). Kao Ri Neur(13)Kan Chan Kan Suk Sa Nai Kao Ri Neur. Retrieved from <http://www.gotoknow.org/posts/413349>
- Seo, J. Y. (2013). SMEs in Kaesong fall victim to tensions between Korea. Retrieved January, 2014, from <http://www.chinapost.com.tw/business/asia/korea/2013/04/11/375767/SMEs-in.htm>
- Suh, J. J. (2009). *The Lee Myung-bak Government's North Korea Policy- A Study on its Historical and Theoretical Foundation*. South Korea: Korea Institute for National Unification.

- Thandee, D. (2012). Kwam San Pan Kab Tang Pra Tade Kong Kao Ri Tai Kab Kwam Man Kong Bon Kab Sa Mut Kao Ri. *Prince of Songkla University*, 18(4), 5-9.
- Theguardian. (2014). South v North Korea: how do the two countries compare? Visualised. Retrieved May, 2014, from <http://www.theguardian.com/world/datablog/2013/apr/08/south-korea-v-north-korea-compared#data>
- Unification, M. o. (2001). *PEACE AND COOPERATION White Paper on Korean Unification*. South Korea: Ministry of Unification.
- Unification, M. o. (2005). *White Paper on Korean Unification 2005*. South Korea: Ministry of Unification.
- USIP. (2000). *South-North Joint Declaration June 15, 2000*. South Korea.
- Whitepaper. (2005). *White Paper on Korean Unification 2005*. South Korea: Ministry of Unification.
- Yoon, D. R. (2011). Benefits of Unification in Estimation, *Seoul Shinmun*.
- Yoon, S. (2007). An Economic Perspective of Kaesong Industrial Complex in North Korea. *American Journal of Applied Sciences*, 4(11), 940.

VITA

Name : Miss Siwaporn Pongtham

Date of Birth : April 8, 1987

Birth Place : Nakorn Ratsima, Thailand

Education : Bachelor of Arts (Asian Studies), Slipakorn University,
Nakorn Pratom, Thailand (2007 – 2010)

Master of Arts (Korean Studies), Chulalongkorn University, Bangkok, Thailand
(2012 -2014)

