

THE NATIONAL INTEREST

Shut Down Kaesong, South Korea

By: Doug Bandow – April 17, 2013

There are many ways to characterize the North Korean government. Chutzpah and ungrateful come to mind. Especially regarding the South Korean-financed Kaesong Industrial Complex. The North has suspended operations there; Seoul should close the zone.

Construction on Kaesong commenced a decade ago. It was part of the so-called Sunshine Policy, an attempt by the Republic of Korea to bribe Pyongyang into behaving better. The ROK government provided money, food, and fertilizer. South Korean companies provided investments, salaries, and goods. There was nothing wrong with the idea in principle. After decades of a fighting a cold war sometimes turned hot, Seoul hoped to encourage detente with its northern antagonist.

Unfortunately, the policy failed. Although bilateral trade hit a record last year of almost \$2 billion, political relations have cratered. With the so-called Democratic People's Republic of Korea apparently determined to make normal ties between the two Koreas impossible, the ROK should demonstrate that it, too, can play tough. In Kaesong, Seoul should bring its nationals home, shutter its factories, and cut off its funds. No more cash while the DPRK threatens to incinerate its benefactor.

Dancing To Kim's Tune

Hopes were high for KIC when it opened in December 2004. Southern firms spent some \$845 million on the facility, in which 123 companies now employ fifty-three thousand North Koreans. However, original plans envisioned adding hundreds of additional enterprises and ultimately employing seven hundred thousand people, around 3 percent of the North's population. Even today Pyongyang collects tens of millions of dollars in taxes, rents and salaries. The latter alone runs \$90 million annually.

The DPRK never has been a good host. Four years ago it unilaterally scrapped rent and wage agreements, demanding massive increases, and briefly prevented South Koreans from leaving. After a North Korean minisub sank an ROK naval vessel in 2010, the North closed KIC's Consultative Office. Earlier this month Pyongyang barred access to South Koreans, which forced some companies to stop operations. Then the Kim Jong-un government kept its workers home, closing the rest of the factories.

The North claimed that it "gets few economic benefits from the zone, while the South side largely benefits from it." Pyongyang announced plans to "examine the issue whether it will allow [KIC's] existence or close it." Indeed, the facility would "cease to exist should the Park Geun-hye regime continue pursuing confrontation." However, the betting is

that the North soon will restart operations as part of its larger diplomatic game. In fact, *The Nelson Report* was told that Pyongyang informed its workers “to expect the situation to return to normal in just a few days.”

By suspending activity, Kim & Co. managed to use an investment that overwhelmingly benefits the ruling elite to put pressure on the South. Yet the impoverished state, though angered by South Korean media speculation that it could not afford to close the zone, really can't afford to close the zone. The regime desperately needs as much hard currency as it can get.

Unfortunately, the ROK responded obsequiously to the North's outrageous behavior. President Park said the North's action was “very disappointing” and would discourage investment by others. Unification Minister Ryoo Kihl-jae opined: “Normalization of the complex needs to be done through conversation, and we hope the North Korean government would come out for dialogue.” Han Jae-kwon, head of the Kaesong Industrial Complex Companies Association, called on Seoul “to initiate solutions to this problem through dialogue.”

The problem is that Pyongyang does not want solutions, whether through dialogue or not. Begging the North to talk about the North's latest offense is just dancing “to Kim's tune,” as my friend Gordon Chang put it.

Pyongyang said that “How the situation will develop in the days ahead will entirely depend on the attitude of the South Korean authorities.” The latter should call the North's bluff. About 475 ROK citizens remain in the zone; they should be withdrawn immediately. Then Seoul should announce that it has tired of the North's unpredictable and unproductive games and is closing KIC. The Kim regime has demonstrated yet again that it prefers extortion to cooperation. So long as that is the case, the DPRK should look elsewhere for hard currency.

Pyongyang likely would confiscate the zone, as it did the Kumgang resort, after the South halted tours there in response to the North Korean killing of an ROK tourist who wandered into a forbidden area. But without South Korean companies the facility would bring in no hard currency, and other foreign companies would be unlikely replacements. Even Chinese firms have found business in the North to be difficult, as North Korean officials recognize no laws or rules other than themselves.

Just Say No

The DPRK long has made brinkmanship its preferred policy of dealing with the United States, South Korea, and Japan. The Kim regime's recent frenetic warmongering almost certainly is (a lot) more of the same. For too long the ROK's response has been a counterproductive mix of accommodation and appeasement, subsidizing the very nation threatening to unleash death and destruction upon the South.

The North's threat to close Kaesong offers Seoul an excellent opportunity to respond with toughness without risking military conflict. The Park government should simply say no more subsidies for those who threaten the South's existence. The ROK should leave the door open if its antagonist wants to talk. But for once the DPRK should be forced to take the initiative, hat-in-hand, to restart a dialogue. And to do so with the promise that

there will be no more aid, no more investment and no more trade without a change in North Korean behavior.

The Pyongyang Problem properly belongs to South Korea and the North's other neighbors. However, as long as the ROK relies on U.S. military protection, Washington can rightly suggest that the South stop subsidizing the country that America is supposed to be ready to bomb. There are many anomalies surrounding North Korea. None is greater than South Korean financial support for the very nation threatening to nuke the South, Japan and the United States.

The Park government should close the Kaesong Industrial Complex.