

Creating a Visible Bridge: The Economic Impact of Kaesong Industrial Complex Construction

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INTRODUCTION

Economic cooperation between South and North Korea will bring economic benefits by creating added value through the combination of the South's capital with the North's cheap labor and land, thus saving unification costs in the future. Until recently, the scale of inter-Korean economic cooperation, such as commissioned processing and direct investment, was too small to reap any economic benefits. With the construction of the Kaesong Industrial Complex, however, elements of production from South and North Korea will merge on a massive scale, stimulating inter-Korean economic cooperation and bringing substantial economic benefits to both sides.

This paper will analyze the economic impact of the Kaesong

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Industrial Complex focusing on following: First, it will briefly review the Kaesong Industrial Complex project. Second, it will analyze inter-industry relations to calculate the impact on production, added valued job creation on the South Korean economy, and hard currency earnings and increased employment on the North Korean economy.

OVERVIEW OF THE CONSTRUCTION OF THE KAESONG INDUSTRIAL COMPLEX

A Brief History

Chung Ju-yung, the late honorary chairman of Hyundai Group, visited North Korea in December 1998 and February 1999, where he presented the West Coast Industrial Development Plan, one of his key projects involving North Korea. North Korea reacted positively to this proposal, and both sides began to discuss constructing an industrial complex. At a meeting in October 1999, the construction project was finalized. Hyundai proposed Haeju, a North Korean city close to the North-South border, as a possible site for the complex, while National Defense Commission Chairman Kim Jong-il proposed Shinuiju, the western border city between North Korea and China. Subsequently, Hyundai Chairman Chung Mong-hun and Hyundai Asan President Kim Yun-gyu met with Kim on August 9, 2000 on the construction of an industrial park in Kaesong of 20-40 million pyong (1 pyong is about 3.954 square yard), and an agreement on the project was signed between Hyundai and North Korea's Asian-Pacific Peace Committee and the National Economic Cooperation Association.

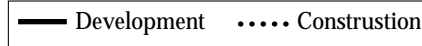
The Kaesong Industrial Complex will be located 60 km from Seoul, the capital of South Korea, and 170 km from Pyongyang, the capital of North Korea, covering an area of 20 million pyong in Kaesong. According to Hyundai Asan plan, the industrial park will

Table 1. Kaesong Industrial Complex Building Project Timetable

		Area*	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year
Industrial Area	Exhibition Area	2.8	—	.....					
	1st Stage	100	—	.....	.....			
	2nd Stage	130			—	.....	.....	
	3rd Stage	620				—	.....	.....	.....	.....
Residential/ Tour Area	Kaesong Town/ Living Area	460	—	.....					
	2nd Living/ Commercial Area	200		—	.....	.....	.....
	Planned Expansion Area	390				—	.....	.....	.....	.....
	Tour Area	100					—	.....	.....	.....

* Ten thousand Pyong (= 8.17 acre)

Source: Hyundai Asan



take up an area of 8.5 million pyong and the remaining 11.5 million pyong will consist of living quarters and tourism attractions, which will be built in the existing Kaesong city areas (5 million pyong) and in two “new cities” (6.5 million pyong). The 8.5 million pyong industrial park will be constructed in three stages: 1 million pyong in the first stage, 1.3 million pyong in the second stage and 6.2 million pyong in the third stage.

The groundbreaking ceremony took place on June 30, 2003, and in April 2004, construction began in earnest. The project began as a part of private economic cooperation initially, but later, the government authorities of both South and North Korea became involved in the process. Hyundai Asan was designated the developer of the complex by the North Korean authorities on December 4, 2002 and gained land-use rights for over 20 million

pyong on December 23, 2002, thus, gaining comprehensive rights to the project. However, due to subsequent financial difficulties, Hyundai Asan handed over some of its rights to Korea Land Corporation (KLC).

Accordingly, Hyundai Asan and KLC signed the “Agreement on Constructing Kaesong Industrial Complex” on December 26, 2002, giving KLC the right to fund, design, supervise, and sell over 1 million pyong to be developed in the first stage. Meanwhile, the Ministry of Unification approved Hyundai Asan and KLC as the developers of the first stage (project scale—US\$185 million or 220 billion won) of Kaesong Industrial Complex on December 17, 2002. Hyundai Asan now has the development rights to 19 million pyong including the second and third stages (7.5 million pyong) excluding the first stage project (1 million pyong).¹⁾

Authorities in South and North Korea agreed to physical and institutional conditions for the smooth exchange of human resources and goods in preparation for operations at the complex by agreeing to link railways and roads and sign an agreement on passage, clearance, and quarantine. In September 2000, ground was broken for the connection of the Seoul-Shinuiju railway to North Korea and adjacent roads. The roads opened during the first half of 2004 while the railway will be opened by the end of 2004. As far as setting up the institutional foundation, the authorities of South and North Korea signed agreements on communications, clearance and quarantine on December 8, 2002 and on entry and residence in the complex on January 29, 2004. North Korea also announced the Kaesong Industrial Complex Law and nine subordinate regulations on November 20, 2002 after mutual discussions with South Korea.²⁾ In addition, authorities are discussing the construction of

1) The Unification Ministry approved it on May 18, 2003.

2) Those are development, enterprise establishment and operation, taxes, labor, establishment and operation of managing organization, customs, entry, stay, residence, foreign currency management, and advertising.

development offices for the Kaesong Industrial Complex, setup and operation of managing organization, electricity provision and communication support.

Business Environment

Kaesong Industrial Complex is located close to South Korea, making it easy to transport goods between the two countries and to provide electricity from the South. Moreover, South Korean companies will be also be provided easy access to cheap labor and land, in order to build in North Korea.

Management of the Complex: Developers (Hyundai Asan and KLC) can appoint the president and members of the “Industrial Complex Management Organization” to supervise the Kaesong Industrial Complex,³⁾ so that the complex can be led by South Korea.

Wage: The minimum monthly wage for North Korean workers will be set at 57.5 dollars (minimum wage—50 dollars, plus social welfare/social security—15 percent), with an annual maximum wage increase of 5 percent, far less than wages in China (100-200 dollars) or even Vietnam (60 dollars). Wages are to be paid directly to employees⁴⁾ and bonuses, aimed at boosting productivity, can be added. The work week will be 48 hours, longer than the 44 hours in China.

Access to the North Korean Domestic Market: Companies that will operate in the complex can sign a contract with North Korean agencies, enterprises and organizations outside the complex to buy raw materials, sell products and process commissions.

Corporate Income Taxes: Companies in Social Overhead Capital (SOC), light industry and high-tech areas operating in the complex

3) North Korea’s Central Industrial Complex Guide Organization can also recommend management members.

4) So far, companies operating in North Korea have paid wages to the North Korean authorities instead of directly paying workers.

Table 2. Comparison of Business Environment in Industrial Complexes in Kaesong, China, and South Korea

		Kaesong (A)	China (A)	South Korea (B)	(A/B)	(A/C)
Wage/month	Dollars	57.5	100-200	423	0.29-0.58	0.12
	Won ¹⁾	69,000	120,000 -240,000	567,260 ²⁾		
Legal Work Hour/week	Hour	48	44	44	1.1	1.1
Income Tax	Percent	10-14	15	23-28	-	-
Sales Price/ Pyong	Won	150,000	50,000 ³⁾	407,550 ⁴⁾	3	0.37

1) 1 dollar is estimated as 1,200 won

2) Minimum legal wage

3) Based on Dandong area

4) Based on the price of the National Industrial Complex as of September 2002

Source: Data combined from KOTRA, South Korea's Ministry of Labor, and Hyundai Asan.

will pay a 10 percent income tax at the end of each fiscal year, while other firms will pay 14 percent (lower than the 15 percent levied in China's special economic zones). Companies in "promoted" businesses and those involved in production areas (non-service areas) for more than 15 years will be fully exempt from corporate income taxes for five years after beginning to make a profit and 50 percent exempt for the subsequent three years.⁵⁾ Those companies operating in the service sector for more than 10 years will be fully exempt for two years after beginning to make a profit and then, 50 percent exempt for one more year.

Cost of Real Estate at the Complex: The cost will be 150,000 won per pyong, higher than the 50,000 won per pyong in Dandong, China.⁶⁾

5) In China, companies are fully exempt for two years after they start making profits and 50 % exempt for the next three years, putting Kaesong in a more advantageous position over China.

METHODOLOGY

Subject of Analysis and Model

Kaesong Industrial Complex will be completed in three stages: (1) development,⁷⁾ (2) moving in, and (3) operation. The paper will focus only on the economic effects of the operation stage of the complex, as economic effects in other stages are temporary.

To measure the effects on the South Korean economy, this study will calculate direct and indirect effects such as production, added value and employment to be created in the Kaesong Industrial Complex and in South Korea, utilizing the South Korea's inter-industry relations (input-output) table in 2000.⁸⁾ To see the effects on the North Korean economy, direct effects will be calculated, such as annual gross income (wages and corporate income taxes) to be created in the Kaesong Industrial Complex.

This paper assumes that South Korean companies that will be operating in the Kaesong Industrial Complex will bring raw materials needed for production from South Korea. Thus, there will

6) The complex selling price includes land leasing fees to be paid by the South Korean developers to North Korea. KLC will pay land leasing fees of US\$ 3.3 million (1 dollar per 1 square meter) for the 1 million pyong in the first stage and US\$ 16 million, including incidental costs such as demolition of unnecessary structures on the land. Most of the US\$ 16 million will be paid in kind.

7) During the process of engineering, procurement of raw material and equipment and human resources, temporary economic benefits such as production, added value, and employment can be created. For this, refer to Park Suhk-sam, "Analysis of Industrial Linkage Effects of SOC Investment in North Korea" (in Korean), *BOK Working Paper 2000-11*, The Bank of Korea (September 2000).

8) On detailed methodology and data, see Korean version's Appendix 1, [http://www.bok.or.kr/contents_admin/info_admin/main/home/bokdb/north_korea/research/info/1831.pdf].

be no indirect economic effects in the manufacturing sector of North Korea. However, North Korean workers employed in the complex will be living in this area, which will indirectly impact service areas. Since North Korea has not made available an Industrial Linkage Table, it difficult to calculate these effects.

Premise for Calculation of Economic Effects

A. Basic Premise

Kaesong Industrial Complex will be occupied by South Korean companies (Premise I). They will bring production facilities and raw materials from South Korea and hire North Korean workers, excluding employees (Premise II).

This means that all conditions will be the same as in South Korea, except that labor productivity of North Korean workers might be lower than that of South Koreans.

B. Business Composition, Occupancy Size and Annual Production Volume

It is expected that companies depending on low labor costs and general-level technology will be moving into the complex, and thus, the composition of business types presumed is based on that of Korean companies who have already advanced into China.⁹⁾

In the mid- to long-term, as North Korean workers get more used to their jobs, companies using high technology and creating high added value are also likely to move into the complex with the aim of cutting labor costs. Furthermore, in the third-stage, a one million-pyong "IT light industry complex" is planned. The composition of business in this stage was adopted from the example of the Seoul

9) Companies that have advanced into China include those involved in textiles and leather (33.4 %), furniture and other manufacturing (22.7 %) electricity and electronics (16.0 %) general machinery (10.7 %). Ministry of Commerce, Industry and Energy, "Investments on Foreign Manufacturing Sector" (November 2003).

Table 3. Business Composition

(Unit: Percent)

	Data Applied	Business Composition by Type
7.5 Million Pyong Area (1-3 Stages)	Research on	Textiles & leather (33.4)
	Korean	Furniture & other manufacturing (22.7)
	Businesses in	Electrics and electronics (16.0)
	China	General Machinery (10.7)
1 Million Pyong IT/Light Industrial Area (3rd Stage)		Electric and electronics (35.1)
	Seoul Digital Industrial Area	Software development & supply (26.2)
		General machinery (20.2)
		Print & publishing (6.4)
		Textiles & leather (5.4)

Digital Industrial Complex.¹⁰⁾

Given the two above-mentioned factors, 7.5 million pyong (to be built in the three stages) out of the total 8.5 million pyong will house textiles and leather, furniture and other manufacturing companies, while 1 million pyong (IT light industry complex) to be constructed in the third stage will be home to industries of electronics and electricity, software development and distribution, and general machinery.

As for the statistical basis for the projected number of companies moving into the Kaesong Industrial Complex, we used statistics on the occupancy size by business and annual production volume in South Korea's Shiwaha-Banwol Industrial Complex and the Seoul Digital Industrial Complex.

10) Based on business proportion of Seoul Digital Industrial Complex, Kaesong's proportion will be electricity and electronics (35.1 %), software development and distribution (26.2 %), general machinery (20.2 %), printing, publication and copying (6.4 %), textiles and leather (5.4 %), etc.

C. Corporate Income Tax Rates and Payment Schedule

Part of the added value to be created by South Korean companies in the Kaesong Industrial Complex will be transferred to North Korea in the form of wages to North Korean workers and corporate income taxes to be paid to the North Korean authorities. Since the taxes will exceed wages in the mid-and long-term, the tax rates and payment schedule are significant. The following are assumptions based on the tax regulations in North Korea mentioned above.

Taxable Income: Taxable income is business profit that forms part of the added value (value added = wages + business profit + depreciation + indirect taxes). Profits from cheap labor are added to the business profit. Thus, the portion of the business profit out of the added value is from twice to as much as seven times larger than what is expected to be created by business in South Korea.

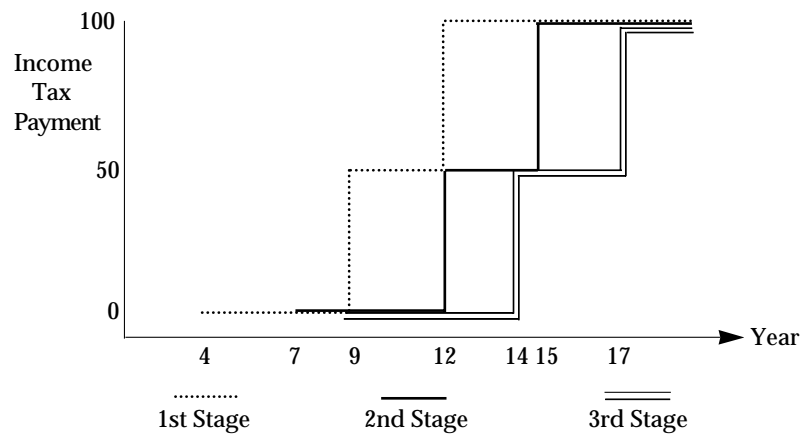
Corporate Income Tax Rates: We have taken 12 percent as the base rate for all types of corporation as it is difficult to come up with differentiated rates,¹¹⁾ given the fact that only vague information on tax regulations of North Korea is available.

Corporate Tax Payment Schedule: The Kaesong Industrial Complex is to be built in three stages over a period of eight years. Given the difference in timing for tax exemptions, we can make the following assumptions:

- Companies that start operating in the first stage of the project (1 million pyong) are fully exempt in the 4th-8th year after the project is completed (for five years), and 50 percent exempt in the 9th-11th year (for three years). They will be required to pay all taxes from the 12th year and beyond;

11) For example, 10 % is the most likely rate for food and beverages, textiles and leather, printing publications and copying (light industry sector) and software development and distribution (high-tech sector) companies. But companies in the chemical industry are straddled between light and heavy industry and other industries (machinery, electricity, and electronics) that are neither light industry nor high tech industries, making it difficult to decide on the correct rate of application.

Figure 1. Corporate Tax Payment Schedule in Kaesong Industrial Complex
(Unit: Percent)



- Companies that start operating in the second stage of the project (1.3 million pyong) are fully exempt in the 7th-11th year after the project is completed (for five years), and 50 percent exempt in the 12th-14th year (for three years). They will be required to pay all taxes from the 15th year and beyond;

- Companies that start operating in the third stage of the project (6.2 million pyong) are fully exempt in the 9th-13th year after the project is complete (for five years), and 50 percent exempt in the 14th-16th year (for three years). They will be required to pay all taxes from the 17th year and beyond.

Labor Productivity of North Korean Workers: It is assumed that the labor productivity of North Koreans is 80 percent of that of their South Korean counterparts. Chinese workers' labor productivity is 60-70 percent¹²⁾ and that of foreign workers in South Korea is 76 percent.¹³⁾ In contrast, companies operating in the Kaesong Industrial Complex will use South Korean production facilities, raw materials,

and will employ North Korean workers who share the same language and cultural background with the South. Therefore, labor productivity of North Korean workers is likely to be far higher than that of Chinese workers and even higher than that of foreign workers in South Korea.

ANALYSIS OF ECONOMIC EFFECTS OF KAESONG INDUSTRIAL COMPLEX

In terms of the South Korean economy, the paper addresses both direct and indirect effects of annual production (intermediate input + added value), added value and employment. As for the North Korean economy, it addresses only direct effects such as annual income (wages and corporate income tax) and jobs. Economic effects are recorded under different time periods, as the complex will be built in phases and the corporate income tax payment schedule is different at each stage.

For the eight years of construction, it is expected that South Korea will pay 1.9 trillion won for construction fees¹⁴⁾ and North Korea will receive US\$136 million of lease income.¹⁵⁾ However, since these amounts will be meaningless in economic terms by the time the complex is built and operation begins, they will not be dealt with

12) Refer to China Trade Center, a website run by Korea Trade-Investment Promotion Agency (KOTRA), [http://www.kotra.or.kr/unicenter/invest/c_i_main.jsp?world_cd=9199].

13) Data applied from a Korea Labor Institute's article, Yu Kil-sang and Lee Kyu-yong, "Actual Condition and Policy Assignment of Employing Foreign Workers" (in Korean), Korea Labor Institute (2001).

14) This figure was reached by extrapolating the 220 billion won from KLC for the first stage construction to the second and third stages.

15) This figure was reached by extrapolating the US\$16 million lease payment to North Korea (lump sum) for the first stage construction, agreed to between KLC and the North Korean authorities to the second and third stage.

here.

Impact on the South Korean Economy

Estimated direct effects on the South Korea economy in the 4th year, when the first stage (1 million pyong) project is in operation, are measured at 9.4 trillion won in annual production, 2.7 trillion won in annual added value, and 13,000 new jobs. If indirect effects are added, it amounts to 10.6 trillion won in annual production, 3.2 trillion won in annual added value, and 33,000 new jobs. During this period, some 2,000 companies are expected to move into the Kaesong Industrial Complex, and will be fully exempt from corporate income taxes until the 8th year of operation.

In the 7th year when the first and second stages (1.3 million pyong) will be in operation simultaneously, direct effects on the South Korean economy are predicted to be 21.7 trillion won in annual production, 6.1 trillion won in annual added value, and 30,000 new jobs. If indirect effects are added, it amounts to 24.3 trillion won in annual production, 7.4 trillion won in added value, and 76,000 new jobs. During this period, 2,600 new companies will also be operating in addition to the 2,000 existing companies of the first stage, all of which will be fully exempt from corporate income taxes.¹⁶⁾

In the 9th year when the first, second, and third (6.2 million pyong) stages are all in operation, direct effects on the South Korean economy are predicted to be 83.9 trillion won in annual production, 24.4 trillion won in annual added value, and 100,000 new jobs. If indirect effects are added, it amounts to 93.9 trillion won in annual production, 29.1 trillion in annual added value, and 283,000 new

16) Companies that move in during the first stage will pay 50 % of their taxes in the 9th-11th year. In the 12th year and beyond, they will pay 100 % of the taxes. Companies that move in during the second stage will pay 50 % of their taxes in the 12th-14th year and 100 % in the 15th year and beyond.

Table 4. Economic Effects of Kaesong Industrial Complex

Division	Unit		1st-3rd	4-6th	7th	8th	9th	10th	11th	12-13th	14th	15-16th	17th
	Yr	Yr	Yr	Yr	Yr	Yr	Yr	Yr	Yr	Yr	Yr	Yr	Yr
South Korea	Total Construction Costs ¹⁾		1.87										
	Yearly Production	Trillion won	-	10.6	24.3	24.3	21.7	21.7	83.9	83.8	82.8	82.7	81.9
		Trillion won	-	10.6	24.3	24.3	21.7	21.7	83.9	83.8	82.8	82.7	81.9
	Value Added	Trillion won	-	3.2	7.4	7.4	6.1	6.1	29.1	28.8	28.0	27.8	27.0
		[Compared to 2003 GNI] ²⁾	[%]	[-]	[0.4]	[1.0]	[1.0]	[4.0]	[4.0]	[3.9]	[3.9]	[3.9]	[3.7]
Job Creation	Trillion won	-	2.7	6.1	6.1	6.1	6.1	24.4	24.1	23.3	23.2	22.4	
	[Compared to 2003 GNI] ²⁾	[%]	[-]	[0.4]	[0.8]	[0.8]	[3.4]	[3.4]	[3.3]	[3.2]	[3.2]	[3.1]	
Job Creation	Thousand	-	33	76	76	76	76	283	283	283	283	283	
	[Compared to 2002 economically active population] ³⁾	[%]	[-]	[0.15]	[0.33]	[0.33]	[1.24]	[1.24]	[1.24]	[1.24]	[1.24]	[1.24]	
Job Creation	Thousand	-	13	30	30	30	30	104	104	104	104	104	
	[Compared to 2002 economically active population] ³⁾	[%]	[-]	[0.06]	[0.13]	[0.13]	[0.46]	[0.46]	[0.46]	[0.46]	[0.46]	[0.46]	
Total Rental Income ⁴⁾		136											
Yearly Total Income	Smillion	-	60	130	130	130	130	600	820	1,490	1,610	2,280	
	[Compared to 2003 GNI] ⁵⁾	[%]	[-]	[0.3]	[0.7]	[0.7]	[3.3]	[4.5]	[8.1]	[8.8]	[12.4]		
Job Creation	Smillion	-	60	130	130	130	130	500	500	500	500	500	
	[Compared to 2002 economically active population] ⁷⁾	[%]	[-]	[0.71]	[1.64]	[1.64]	[6.14]	[6.14]	[6.14]	[6.14]	[6.14]	[6.14]	
Job Creation	Thousand	-	84	194	194	194	725	725	725	725	725	725	
	[Compared to 2002 economically active population] ⁷⁾	[%]	[-]	[0.71]	[1.64]	[1.64]	[6.14]	[6.14]	[6.14]	[6.14]	[6.14]	[6.14]	

1) First-stage construction costs estimation (220 billion won) by the KLC were applied to the 2nd- and 3rd stage costs.

2) 2003 nominal GNI / Yearly added value X 100

3) 2003 economically active population (822,877 million) / Created jobs

4) First-stage's rent (816 million) in a lump sum agreed by the KLC and North Korean authority was applied to 2nd- and 3rd-stage.

5) Yearly total income / 2003 nominal GNI (S18.4 billion) X 100

6) Total exemption for 5 years after move-in, and 50 percent exemption for 3 years after the 6th year.

7) Created jobs (Direct effects) / 2002 economically active population (11,797 million) X 100

jobs. The total number of companies is some 19,000 (1st stage: 2,000, 2nd stage: 2,600, 3rd stage: 14,300). In the 9th year, the first stage companies will pay 50 percent of their corporate income taxes while second and third-stage companies are fully exempt.¹⁷⁾

The annual production and added value will peak during the 9th through the 11th years, right after the third-stage project is complete (direct effects of 83.9 billion won and 24.4 billion won) because companies are mostly exempt from corporate income taxes. In the 12th year and beyond, corporate income tax payments are expected to increase, reducing annual production and added value. In the 17th year, when corporate income taxes will be paid at 100 percent, annual production and added value will stabilize at 81.9 trillion won and 22.4 trillion won (3.1% to 2003 GNI) respectively in direct effects.

Effects on the North Korean Economy

In the 4th year, when the first stage project is to begin operation, direct effects on the North Korean economy are predicted to be US\$60 million in annual wage income and 84,000 new jobs.

In the 7th year, when the first- and second-stage projects are to begin operation, direct effects on the North Korean economy are predicted to be US\$130 million in annual income and 194,000 new jobs.

In the 9th year when the first, second and third-stage projects are to begin operation, direct effects on the North Korean economy are predicted to be US\$600 million in total annual wage income (wage + corporate income taxes) and 725,000 new jobs.

Until the 9th year when the third stage project is completed, most of the income will be from wages, but after that, the income from corporate income taxes payments is expected to skyrocket, with total annual income peaking in the 17th year at \$2.28 billion (12.4 percent

17) The third- stage companies will pay 50 % of taxes until the 14th-16th years and fully in the 17th year and beyond.

to 2003 GNI) and then stabilizing. It is estimated that wage income will peak at \$500 million in the 9th year while corporate income taxes will be paid starting in the 9th year, peaking at \$1.78 billion in the 17th year.

ASSESSMENT AND TASKS

The Kaesong Industrial Complex will help South Korean small- and medium-sized companies cut costs drastically, boosting ordinary profits by 200 to 700 percent, depending on the type of industry. The benefits will ultimately raise price competitiveness of South Korean industries, and help the South Korean economy make a soft landing in industrial restructuring. If the companies operating in the Kaesong industrial complex make use of these benefits to reduce costs of the products, it will increase their price competitiveness and increase their market share in the domestic and international markets. The Kaesong Industrial Complex will also help labor-intensive industries to regain their price competitiveness. Moreover, marginal firms on the brink of bankruptcy due to falling profitability are expected to move into the complex rather than into China, in order to capitalize on low labor costs.

The Kaesong Industrial Complex will also promote both Koreas' economic growth. The sizes of the South and North Korean economies will not be affected much by the Kaesong Industrial Complex until the 8th year when the first and the second stages are in operation, but in the 9th year when the third stage begins, substantial impacts are expected, which will stabilize in the 17th year. Meanwhile, to ensure that the expected economic benefits materialize, the assumption is that 190,000 South Korean companies¹⁸⁾ will move into the Kaesong Industrial Complex for 8 years when the first, second and third-stage projects are finished.

18) As of the end of 2002, it is 0.6 % of the total number of South Korean companies

Therefore, the impact of the Kaesong Industrial Complex on the South Korean economy depends on South Korea's potential to bring enough business into the complex. If existing companies in South Korea shut down their factories and move into Kaesong, it will decrease added value and employment in the South Korean economy, reducing the overall economic effects of the Kaesong Industrial Complex on the South Korean economy explained above. However, in the event that South Korean marginal companies and those which originally planned to advance into China move into the Kaesong Industrial Complex, it will have a positive effect, rather than a negative impact on the South Korean economy. Moreover, considering that a sizable number of new businesses targeting the high-profit potential of Kaesong will be included in the total movement statistics, the exodus of South Korean companies into the Kaesong Industrial Complex over the next eight years will not create much negative impact on the South Korean economy.

In the long-term, the Kaesong Industrial Complex will definitely contribute to the unification of South and North Korea, and its proximity to the demarcation line will reinforce the idea that it is a symbol of peace. The complex will also entail massive movement of goods and human exchange, as well as contacts between South and North Koreans related to the operation of factories in Kaesong, substantially easing tensions on the Korean Peninsula. In the Kaesong Industrial Complex, South Korea will be able to access cheap land and labor of North Korea while North Korea will earn

(3,131,963), or 5.7% of manufacturing companies (333,921). Meanwhile, the number of companies expected to move into the complex differs by about 2,000 for 8.5 million pyong presumed by Hyundai Asan, since that figure is based on a different assumption: Hyundai Asan assumes that 75 % of the land to be parceled out, or 6.37 million pyong, will be sold in lots of 3,000 pyong per company. This paper assumes, however, that companies who have obtained land in lots will build apartment-like structures with a building-to-land ratio of 70 % and a capacity rate of 250 % for subleasing or allowing related companies to move in.

hard currency from South Korea. When inter-Korean relations are established on the basis of mutual economic benefits, the relations will be less affected by factors other than economic ones. In addition, the Kaesong Industrial Complex will house South Korean companies and South Korean developers will manage them according to the market economy, giving North Korea the opportunity to learn about the system

Still, there are many tasks to be addressed. Among other things, as the Kaesong Industrial Complex is inside North Korea, there will be restrictions in bringing production facilities in and exporting goods. The Ministry of Unification and the Ministry of Commerce, Industry and Energy of South Korea restrict exports to North Korea of major electric, electronic and IT products such as computers, semiconductors, mobile communication devices, since they are classified as strategic materials under the Wassenaar Arrangement and other international strategic materials export-control systems. This will hamper production activities of companies that operating in the Kaesong Industrial Complex. Moreover, "Made in North Korea" products will likely be subject to higher customs rates in major export markets such as the United States, Japan and Europe.

These issues could markedly reduce the economic benefits to be derived from the Kaesong Industrial Complex discussed above. Consequently, South Korea will need to improve relevant laws and regulations and launch diplomatic efforts to secure the cooperation and understanding of the international community.