

# Kaesong, Caught between Two Koreas

*by Antoine Bondaz*

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**In February 2016, South Korea decided to close the inter-Korean Kaesong Industrial Complex in protest against North Korea's nuclear and ballistic missile tests. Previously, it had not framed denuclearisation as a prerequisite for collaboration between the two Koreas – a change of course that may prove ill advised.**

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The election of opposition candidate Moon Jae-in last May has triggered the recent decision of the South Korean ministry of unification to approve private person-to-person contact, a first since January 2016. It signals a clear evolution of Seoul's interkorean policy. Yet, Kaesong may not reopen anytime soon.

'The pessimist complains about the wind;  
the optimist expects it to change;  
the realist adjusts the sails'

William Arthur Ward

Since the proclamation of the Republic of South Korea and the Democratic People's Republic of Korea in 1948, North-South relations have been characterised by an alternation between strong tensions (which is an understatement when it comes to the 1950-1953 Korean war) and attempts at reconciliation, such as the Joint Communiqué of July 4, 1972. South Korea's inter-Korean policy has wavered between incentives and sanctions, in the hope of influencing North Korea's behaviour and ultimately shaping the future of the Korean peninsula, including in the direction of reunification.

On February 11, 2016, Seoul announced the closure of the inter-Korean Kaesong Industrial Complex, in an unprecedented unilateral sanction sparked by North Korea's nuclear and ballistic missile tests earlier in the year. Kaesong, set up over fifteen years ago under the liberal presidents' Sunshine Policy, was the last remaining symbol of cooperation between the two countries and a rare common ground between conservatives and liberals. This closure illustrates the fact that, over the past decade, two distinct goals have been progressively combined by South Korean political decision-makers at the risk of accomplishing neither: on the one hand, improving inter-Korean relations and, on the other, denuclearising North Korea.

## The Sunshine Policy

The end of the 1990s marked a turning point in South Korean political history. 1998 saw a presidential election in which former political dissident, Kim Dae-jung – who had survived an assassination attempt organised by the South Korean dictator President Park Chung-hee's intelligence agency in 1971 – came to power. This confirmed the democratisation process set in motion a decade earlier, when the first presidential election with direct universal suffrage was held in 1987. Liberal President Kim intended to thoroughly overhaul inter-Korean relations. His 'Sunshine Policy' was based on three principles: peaceful coexistence, peaceful exchange, and peaceful unification. The expression derives from one of Aesop's fables, 'The North Wind and the Sun', taken up in French by Jean de la Fontaine under the title 'Phoebus et Borée'. Phébus, the God of the Sun, and Borée, God of the North Winds, want to know which of the two is strongest. They compare their strength by trying to remove a passing traveller's clothes. The North Wind blows, but the traveller wraps his clothes round himself ever tighter and even dons an extra layer. The Sun, however, decides to use his rays to warm up the traveller, who then progressively removes his clothes. The moral of the story is that persuasion is more efficient than confrontation.

This strategy, which led South Korea to develop unconditional political and economic relations with its neighbour, aimed to reduce the perception of reciprocal threat and thereby to influence North Korea's behaviour in order to increase South Korea's safety.<sup>1</sup> This policy shift was even more important given that the 1980s had seen an increasing number of provocative moves from Pyongyang, such as the attack on the South Korean presidential delegation in Rangoon in 1983, which killed South Korea's deputy Prime Minister and Foreign Minister, and the attack on a South Korean passenger aircraft between Baghdad and Seoul, which killed 115 people in 1987.

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<sup>1</sup> The book by Professor Moon, a former diplomat and presidential advisor, is a key reference on the Sunshine Policy: Chung-in Moon, *The Sunshine Policy: in Defense of Engagement as a Path to Peace in Korea* (Seoul: Yonsei University Press, 2012). In May 2017, Professor Moon has been appointed to an advisory position to the newly elected President.

The first presidential inter-Korean summit was held in 2000, symbolising the Sunshine Policy, and the South Korean president won the Nobel Peace Prize that same year. Despite American revelations in 2002 about North Korea's uranium enrichment programme and the country's withdrawal from the non-proliferation treaty the following year, liberal candidate and human rights' lawyer Roh Moo-hyun, who came to power in February 2003 in South Korea, pursued this strategy, renaming it the 'policy for peace and prosperity'. The unconditional principle underpinning South Korea's inter-Korean policy was thus confirmed. After leaving the Blue House, the executive office in Seoul, and just a few months before his suicide, former president Roh even went as far as to say:

[A]t the Six Party Talks we supported the North Korean position as much as we could. At international conferences, when remarks critical of North Korea arose, we argued for North Korea with as much logic as we could. We avoided as much as we could statements provoking North Korea. Sometimes, we had to endure even if our pride was hurt. We did this all to secure trust [with North Korea]. Of course, North Korea did not pay us back quickly. But by doing so, North-South relations expanded greatly.<sup>2</sup>

Inter-Korean cooperation strengthened considerably. The inter-Korean Kaesong Industrial Complex (KIC) and Mount Kumgang Tourist Region, both close to the 38<sup>th</sup> parallel but located in North Korean territory, were strong symbols of this. Although President Kim had made the decision long before, work on the inter-Korean industrial complex only began in 2003 in the suburbs of the North Korean town of Kaesong, former capital of the Korean Kingdom of Goryeo. Construction of the KIC, located an hour's drive from Seoul, was assigned to Hyundai Asan, a subsidiary of the Hyundai conglomerate which also handled the inter-Korean Mount Kumgang Tourist Region. Two thirds of the funding came from the South Korean government. The first phase in the 300-hectare project was completed in 2004 and the complex became operational in the December of that year. It was inaugurated by fifteen small South Korean companies with diverse activities and not by any of the chaebols – the large conglomerates that dominate the South Korean economy. The goal was to benefit from cheap labour, paid at a fifth of the South Korean minimum wage, and numerous tax benefits, including low rates and certain exemptions, in order to directly compete with Chinese production of consumer goods. The aim was ambitious: for the KIC to extend to 2,500 hectares by 2012 and employ a minimum of 350,000 North Koreans.

In total, during these 10 years under a liberal president, South Korea is said to have transferred almost 7 billion dollars of aid to North Korea, with China providing less than 2 billion.<sup>3</sup> 2007 marked the high point of this reconciliation, despite the first North Korean nuclear test having taken place the year before. Following the second presidential inter-

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<sup>2</sup> Quoted in Bruce Klingner, 'The U.S. Should Support New South Korean President's Approach to North Korea', *The Heritage Foundation*, Background, N°2789 (April 11, 2013). The Six Party Talks, begun in 2003 at Beijing's initiative, brought together China, the United States, South Korea, North Korea, Japan, and Russia. This multilateral negotiation resulted in, among other things, a joint declaration on denuclearisation in September 2005. This declaration was, however, never respected by North Korea. The talks were suspended in 2009.

<sup>3</sup> Scott Snyder, See-won Byun, 'Pyongyang Tests Beijing's Patience?', *Comparative Connections*, CSIS (July 2009).

Korean summit in October 2007, the two Koreas signed a ‘Declaration on the Advancement of South-North Korean Relations, Peace and Prosperity’ and many planned and funded cooperative projects were scheduled.<sup>4</sup> That same year, more than 350,000 South Korean tourists visited Mount Kumgang and inter-Korean trade reached 1.8 billion dollars, rising four-fold from 2000. The momentum of inter-Korean cooperation seemed irreversible.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Mount Kumgang</b>	57,879	84,727	74,334	268,420	298,247	234,446	345,006	199,966		
<b>Kaesong</b>					1,484	-	7,427	103,122		
<b>Pyongyang</b>			1,019	-	1,280					

*Graph 1. Number of South Korean tourists visiting North Korea*

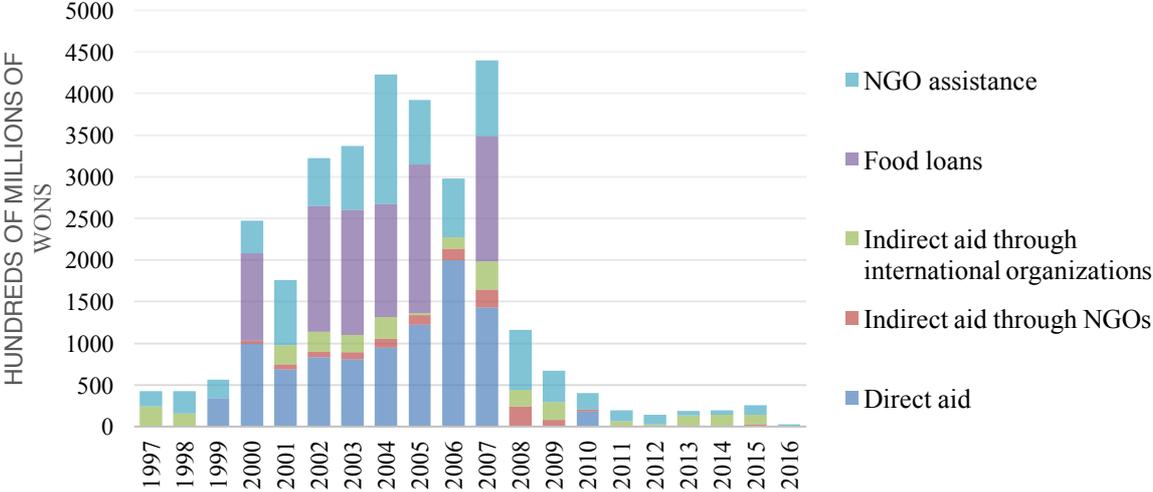
## The conservative turn: priority on denuclearisation

In December 2007, the conservative candidate in the presidential election won with the largest majority since the democratisation of the country in 1987. Lee Myung-bak, the former CEO of Hyundai Engineering and Construction who had become the Mayor of Seoul, was elected particularly thanks to a majority of the electorate’s opposition to his predecessors’ inter-Korean policies, which had not managed to prevent their neighbour’s nuclearisation. Moreover, allegations claiming that President Kim’s liberal government had transferred hundreds of millions of dollars to the North Korean government in order to organise the first Inter-Korean summit reinforced this opposition. In a complete U-turn, inter-Korean policy was no longer first and foremost about improving relations between the two countries, but about denuclearising North Korea instead. As the President clearly announced in his inauguration speech: ‘Once North Korea abandons its nuclear program and chooses the path to openness, we can expect to see a new horizon in inter-Korean cooperation’.

Breaking with the Sunshine Policy, President Lee presented his so-called ‘Denuclearisation and Openness 3000’ initiative or DNO 3000: if Pyongyang agreed to abandon its nuclear programme, Seoul would strive to triple GDP per capita in the country to reach 3000 dollars in the space of ten years. In September 2009, he presented a second strategy of ‘Great Compromise’, emphasising the need for South Korea to coordinate with regional powers in order to ensure the denuclearisation of the North. Seoul’s inter-Korean policy therefore went from a strategy of unlimited and unconditional cooperation to one of limited cooperation, above all conditional on the North Korean nuclear programme being abandoned. The cooperative projects that had followed the joint declaration signed in 2007

<sup>4</sup> Aidan Foster-Carter, ‘Scrapping the Second Summit: Lee Myung Bak’s Fateful Misstep’, 38 *North* (January 20, 2011).

were suspended and North Korean aid was drastically reduced – it fell by 75% as soon as President Lee came to power. President Lee also broke with his predecessors in openly mentioned the North’s human rights’ violations, particularly within the UN’s Human Rights Council.



Graph 2. South Korean government and NGO assistance to North Korea (1997-2016)

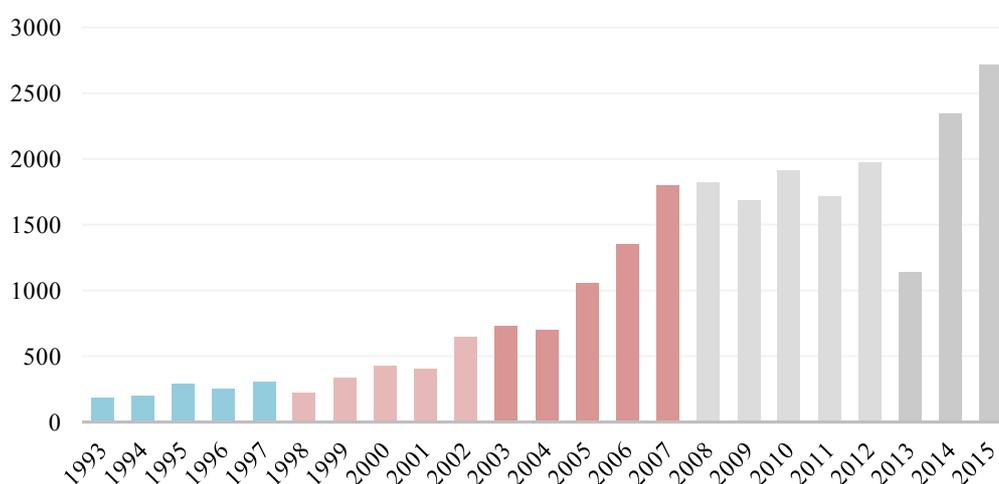
Source: South Korean Ministry of Unification<sup>5</sup>

Inter-Korean relations saw a marked decline. In March 2008, North Korea temporarily deported South Korean workers from the KIC and, in April, suspended all bilateral talks. Despite President Lee’s clear desire to moderate his strategy to some extent at the beginning of the summer, tensions were heightened again by the death of a South Korean tourist on July 11<sup>th</sup>, shot by a North Korean soldier in the inter-Korean Mount Kumgang Tourist Zone, and the North Korean government’s refusal to issue an apology. South Korea then unilaterally decided to temporarily close the tourist zone, which generated several tens of millions of dollars’ income for North Korea yearly. In November 2008, North Korea announced it was closing its borders, prohibiting any inter-Korean tourism, and temporarily suspending the Seoul-Pyongyang hotline maintained by the Red Cross since 1972. The inter-Korean Mount Kumgang Tourist Zone has remained closed ever since.

Inter-Korean relations took a further turn for the worse following the *Cheonan* sinking in March 2010, which killed over forty South Korean soldiers. As an expert report by an international investigation team concluded that the corvette had been sunk by a North Korean torpedo, President Lee, in a speech delivered on May 24, 2010, took unprecedented measures to sanction his neighbour. He limited inter-Korean trade to the KIC, prohibited North Korean trade ships from sailing along the South’s shipping lines, and announced his intention of presenting the results of the investigation to the UN’s Security Council.

<sup>5</sup> <http://eng.unikorea.go.kr/>

Nevertheless, despite its apparent resolve, President Lee's inter-Korean policy did leave some room for dialogue and did not call into question all the decisions that had been made before. Despite North Korean provocation, including a second nuclear test and a ballistic missile test in 2009, as well as the bombardment of Yeonpyeong in November 2010, which resulted, for the first time since 1953, in two civilian deaths in the Republic of Korea, the KIC escaped any sanctions. The number of North Korean employees even continued to increase, reaching 50,000, as did the overall production of the complex. More than ever, Kaesong became the symbol of inter-Korean cooperation, even during periods of very strong bilateral tensions and despite a substantial continuing dilemma. On the one hand, a large proportion of the salaries paid to North Korean employees was deducted by the North Korean government collecting them, ensuring an inflow of foreign currency for which estimates range from 20 to 100 million dollars per year. On the other hand, the KIC offered the hope that tens of thousands of North Koreans, confronted with the market economy, would be influenced by South Korean ideas and that North Korea would be encouraged to create other projects opening up the country economically.



Graph 3. Inter-Korean trade in millions of dollars

Source: South Korean Ministry of Unification<sup>6</sup>

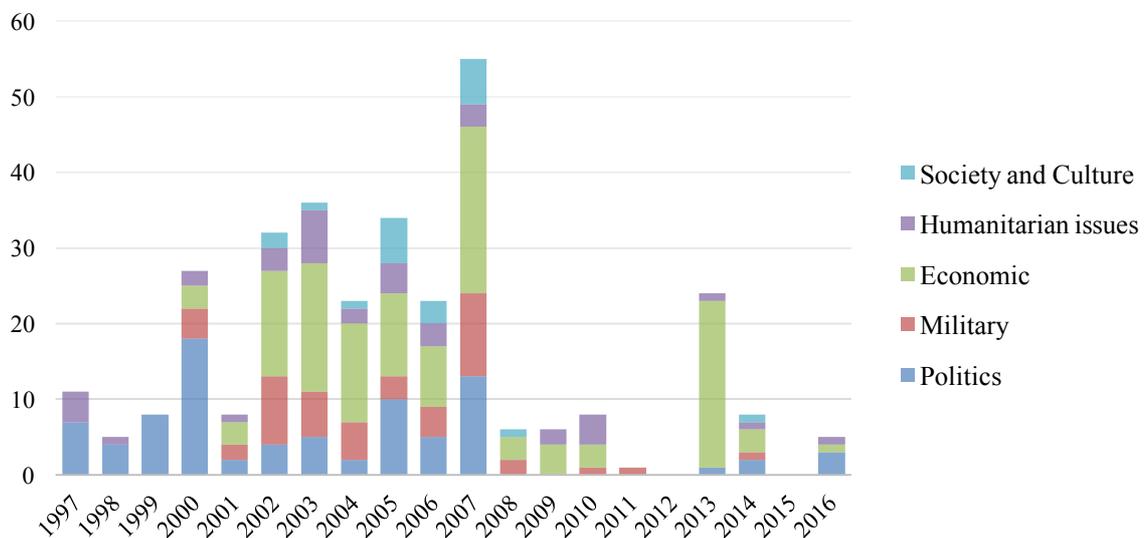
## Finding a middle ground between liberals and conservatives

During the 2012 presidential campaign, Park Geun-hye, daughter of former President Park Chung-hee, expressed her intention to stand apart from both her liberal and conservative predecessors by implementing a more balanced inter-Korean policy than in the past. In an article published in the magazine *Foreign Affairs*, the conservative candidate stated that:

<sup>6</sup> <http://eng.unikorea.go.kr/>

The ones that have emphasized accommodation and inter-Korean solidarity have placed inordinate hope in the idea that if the South provided sustained assistance to the North, the North would abandon its bellicose strategy toward the South. [...] Meanwhile, the governments in Seoul that have placed a greater emphasis on pressuring North Korea have not been able to influence its behavior in a meaningful way, either.<sup>7</sup>

Once elected, she developed her ‘policy of trust’ in the Korean peninsula, seeking both to improve inter-Korean relations and to enable the denuclearisation of the North. This desire for a policy shift was based on changes in South Korean public opinion, where there was an awareness that President Lee’s confrontational policies after the 2010 North Korean provocations had failed. Whereas in 2010, only 40% wanted to see increased cooperation with their neighbour, this figure had risen to 60% in 2012. Similarly, fewer South Korean supported economic sanctions, dropping from 36% of the population to 24%.<sup>8</sup>



Graph 4. Inter-Korean talks according to topic (1994-2014)

Source: South Korean Ministry of Unification<sup>9</sup>

The North Korean ballistic missile test on December 12, 2012, a week before her election, and the third nuclear test on February 12, 2013, were an initial test for President Park. Following the UN Security Council Resolution 2094 unanimously condemning the test and sanctioning the country, the peninsula saw increasingly heightened tensions and the North Korean regime’s rhetoric hardened. April 3, Pyongyang demanded the withdrawal of all South Korean personnel working in the Kaesong complex and a few days later announced it was suspending all activity there. The South Korean president nonetheless wanted to negotiate with her neighbour and, after long weeks of discussion, Seoul and Pyongyang

<sup>7</sup> Geun-hye Park, ‘A New Kind of Korea, Building Trust Between Seoul and Pyongyang’, *Foreign Affairs* (September/October 2011).

<sup>8</sup> ‘South Korea in a Changing World: Foreign Affairs, Results of the Asan Institute’s 2012 Annual Survey of South Korean Public Opinion’, Asan Institute for Political Studies (April 2013).

<sup>9</sup> <http://eng.unikorea.go.kr/>

announced on September 16 that the complex was reopening. After five months suspension, this was presented as a success for South Korea and the South Korean executive.

South Korean business interests had been preserved, an agreement about the running of the complex had been reached, and the two countries had even committed to no longer suspending Kaesong’s activities, including for ‘political reasons’. One of Seoul’s goals was to define a new business framework in keeping with international standards, in order to allow foreign investment. With a view to this, in December 2013, they organised a visit of the complex for representatives of the G20 States. This internationalisation aimed to involve the international community in the KIC and thereby make any future closure theoretically more costly for North Korea, both financially and in terms of image.

At this point, Kaesong was more than ever the symbol of inter-Korean cooperation. In 2014, not only had the industrial complex’s production returned to its 2012 level but inter-Korean trade has also reached a historical high at 2.3 billion dollars. Despite North Korea clearly pursuing its nuclear and ballistic missile programme, North-South negotiations began again including in military terms, and President Park’s inter-Korean policy – which translated into a very limited rise in the humanitarian aid provided to North Korean – seemed to be allowing reduced tensions between the two countries. The South Korean leader, who had met Kim Jong-il in 2002, declared she was in favour of a third inter-Korean summit. The reunion of families separated in the Korean War was organised in February and, to everyone’s surprise, three North Korean leaders, Hwang Pyong-so, Choe Ryong-hae and Kim Yang-gon, came to Incheon in October 2014 to attend the closing ceremony of the Asian Games. Unlike her predecessor, President Park therefore was no longer making the North’s denuclearisation a prerequisite for improving inter-Korean relations.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Production (US\$ millions)</b>	15	73	185	251	256	323	402	470	224	470	563
<b>North Korean workers</b>	6,013	11,160	22,538	38,931	42,561	46,284	49,866	53,448	52,329	53,947	54,988
<b>South Korean workers</b>	507	791	785	1,055	935	804	776	786	757	815	820

*Graph 5. Employees in Kaesong and total production*

Source: South Korean Ministry of Unification<sup>10</sup>

## An end to cooperation

And yet, in reaction to the North Korean nuclear and ballistic missile tests in early 2016, and against the opposition’s stance, the South Korean government decided to close the KIC on February 11. Water and electricity provision were suspended and Seoul committed to

<sup>10</sup> <http://eng.unikorea.go.kr/>

providing financial assistance to the South Korean companies that were victims of the measure, mainly in the textile industry. This unilateral decision by South Korea marked an unprecedented step in inter-Korean relations: until this point, activities in the complex had only ever been suspended at North Korea's initiative.

This represented a major political turning point for the South Korean government, now making denuclearising the peninsula a *sine qua non* condition for improving inter-Korean relations. Closing the KIC put an end to the last concrete cooperative North-South venture and to an apparent bipartisan consensus. More than twenty years of South Korean efforts to engage politically and economically with North Korea were called into question.

This South Korean decision was supported by the majority of the population, which seems to have become more radical. First, according to a poll by the prestigious think tank Asan, three quarters of South Koreans believe that North-South relations will continue to decline in the coming years. Second, 43% of the population now views its North-Korean neighbour as an enemy. In 2014, only 25% held that belief. Third, a small majority of the population approved the closure of the inter-Korean Kaesong Industrial Complex. Finally, and this is very important for the years to come, the youngest members of the population are fiercely opposed to North Korea. The proportion of young people who consider Pyongyang as an enemy and want to see Kaesong closed is far higher than the national average.<sup>11</sup>

South Korea seems to have thrown itself into a political impasse. The South Korean government no longer has any direct levers of influence over its neighbour, except through military action that would further heighten tensions and increase the risk of a war on the peninsula. More than twenty years after the Sunshine Policy, this is a harsh statement of failure for South Korea's inter-Korean policy, which has contrived neither to put an end to the North's nuclear and ballistic missile programme nor to bring about any lasting improvement in inter-Korean relations. Whereas the different presidents' political goal was always to reduce the South Korean population's sense of insecurity, the policies of the last two decades have only served to increase it, to the extent that an American THAAD anti-ballistic missile system has now been put in place, which, without solving the North Korean nuclear problem, has contributed to fuelling tensions with the Chinese.

In the face of this failure, South Korea's inter-Korean policy has, once again, come under critical fire. The conservatives' resounding defeat in the April 2016 legislative elections, after a sixteen-year majority in the Assembly, lent further weight to the criticism voiced by the liberals in the Minjoo party. Since Choo Mi-ae took over as party leader in September, they have openly and strongly critiqued the THAAD deployment with a range of political arguments: deployment will contribute to further damaging inter-Korean relations, which are strategic; deployment will stoke China's anger, who will retaliate against South Korea in

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<sup>11</sup> 'South Koreans and Their Neighbors', Asan Institute for Political Studies (May 2016).

economic terms<sup>12</sup>; deployment is even presented as having a neurological impact on local inhabitants' health or the ecosystem. On the other side of the political spectrum, the former Minister of Unification under President Lee Myung-bak, Hyun In-thaek, calls on the contrary for a strategy of 'diplomatic unification' aimed at provoking the collapse of the North Korean regime and the unification of the peninsula.<sup>13</sup> These political disagreements are both profound and persistent in Seoul's inter-Korean policy. But if no bipartisan political agreement seems possible regarding South Korea's strategy, might this not be because the original goals are in fact unachievable?

## Two conceptions of the North Korean nuclear problem

South Korea's announced intention of denuclearising North Korea does indeed seem too ambitious, if not impossible. For more than 20 years now, North Korea has consistently defied the efforts of the international community and the International Atomic Energy Agency (IAEA) to bring its military nuclear programme to a halt. Strategies aimed at the 'complete, verifiable and irreversible dismantlement' of the North Korean nuclear programme, whether based on incentives or sanctions, whether unilateral or multilateral, such as the Six Party Talks between 2003 and 2009, have all failed. North Korea's determined and radicalised nuclear stance is therefore in no way only South Korea's failure: it is shared by the international community as a whole, a symptom of the inability of the main regional powers – especially China and the United States – to cooperate in any efficient way. The latter do not share the same priorities or strategies when it comes to North Korea. China would prefer a relatively stable yet nuclear North Korea on its border than its denuclearised but unstable version. For that reason, Beijing limits any international sanctions that might lead to its neighbour's collapse. Conversely, the United States' priority is denuclearisation. It believes that political and economic isolation will push the regime to abandon its nuclear weapons, although this would risk a collapse.

The political strategy making improved inter-Korean relations contingent on the denuclearisation of the peninsula is destined to fail. Separating these two goals once again, as was the case in the mid-2000s, seems to be the only way of improving inter-Korean relations, even just temporarily. The main problem, however, has become political. How can the South Korean population, living every day under the threat of the North, be convinced that an improvement in relations is possible? How is it possible to open up the necessary inter-Korean dialogue again, without being discredited? Acknowledging partial political powerlessness on a topic as complex as denuclearising North Korea clearly comes at a certain political cost, but it

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<sup>12</sup> Antoine Bondaz, « La réaction chinoise au déploiement du THAAD, illustration du dilemme sud-coréen », Fondation pour la recherche stratégique, Avril 2017

<sup>13</sup> In-Taek Hyun, 'An Enduring Dilemma on the Korean Peninsula: The North Korean Nuclear Conundrum and South Korea's Strategic Choices', *The Korean Journal of Defense Analysis*, vol. 28, n° 2 (June 2016), p. 163-180.

does seem to be the only way for South Korea to implement an efficient strategy likely to lead to real results. Among these results, improving inter-Korean relations and reconciling the two Koreas are indispensable, let alone reunifying the peninsula – which remains a far off horizon for all Koreans.

### Further reading

- Antoine Bondaz, ‘Testimony before the Delegation for relations with the Korean Peninsula of the European Parliament’, Fondation pour la Recherche Stratégique (May 2017)
- Antoine Bondaz and Benjamin Decoin, *Corée du Nord, plongée au cœur d'un État totalitaire* (Les Éditions du Chêne: 2016).
- Antoine Bondaz, “[The Fear of Opening Pandora’s Box: China’s Heptagon of Policy Options in Dealing with the North Korean Issue](#)”, *Korean Review of International Studies*, Vol.17, No.1, 2015
- Antoine Bondaz, “[China-South Korean relations: The best they have ever been](#)”, *China Analysis*, European Council on Foreign Relations, March 2015
- Antoine Bondaz, “[Why North Korea Should Dismantle Its Chemical Weapons Arsenal](#)”, Carnegie Endowment for International Peace, November 2013

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