The Sun, The Wind, and the Kaesong Industrial Complex

THE CONTRASTING VIEWS OF THE REPUBLIC OF KOREA AND THE UNITED STATES OF AMERICA ON INTER-KOREAN COOPERATION

BY DANIEL RYBERG
Abstract

This paper examines the different attitudes of the Republic of Korea (South Korea) and the United States of America with regards to the Kaesong Industrial Complex, a joint inter-Korean economic project located in the Democratic People's Republic of Korea (North Korea). The paper uses the theoretical framework of Social Constructivism to analyze the different ideas available in the political discourse of both actors with regards to North Korean policy in general and policy towards Kaesong specifically. The paper relates these ideas to the positions both actors have taken with regards to the inclusion of Kaesong products in the S. Korean-U.S. FTA.

Keywords: Kaesong Industrial Complex, The Sunshine Policy, The war on terror, Social Constructivism, North Korean Policy, KORUS FTA
# The Kaesong Industrial Complex

## Table of content

1. **Introduction** 3  
   1.1 Background 5  
   1.2 Purpose 7  
   1.3 Problem Formulation 9  
   1.4 Previous Research 10  
   1.5 Delimitations 12  

2. **Theoretical Framework** 14  
   2.1 Social Constructivism 15  

3. **Method** 21  
   3.1 Material Used 23  

4. **Analysis** 26  
   4.1 Why is Kaesong important? 26  
      4.1.1 Enduring importance for Inter-Korean cooperation 27  
      4.1.2 Importance to North Korea’s Marketization process 31  
   4.2 The view of S. Korea 35  
      4.2.1 The Sunshine Policy & Reunification 35  
      4.2.2 Implications for Kaesong 40  
   4.3 The view of the USA 43  
      4.3.1 The Bush administration & The war on terror 44  
      4.3.2 Implications for Kaesong 52  
   4.4 Differences in N. Korean policy & The US-Korean relationship 55  
      4.4.1 The KORUS FTA and the role of Kaesong 58  

5. **Conclusions** 61  

6. **Bibliography** 65
1. Introduction

Just North of the Korean border, there is a curious ongoing project: an industrial complex where the two countries cooperate economically. Trains and trucks carrying cargo, equipment and finished products regularly cross the world’s most heavily fortified area - the area that divides two of the world’s most militarized countries that are still at war with each other. At the time of writing, this project represents a stark contrast to what has in recent years become a hostile inter-Korean relationship. The following is a summary of a few important events in Inter-Korean relations during the year 2010, as noted by the Korean Ministry of Unification:


July 18 - North Korea notifies South Korea that it might discharge water from a dam near the border (upper region of the Imjin River) after 8:00 in the evening.


August 3 - A commander of the North's West Front-line Army Unit calls the US-ROK joint military exercises an act of aggression and threatens to take military measures against the joint drills conducted near Baekryung Island, Daechong Island and Yeonpyeong Island.

August 5 - Gaeseong Industrial District Management Committee and North Korea agree to increase the minimum wage by 5.5%. (57,881 USD → 60,775 USD)

As the above news summary shows, in the middle of a deteriorating Inter-Korean relationship with threats of retaliatory sacred war and military actions, there is one field where the two Koreas yet maintain cooperation. The Kaesong Industrial Complex (also known as the Kaesong Special Industrial Process or Kaesong Special Economic Zone) is a cooperative region between the two Koreas, located North of the Demilitarized Zone (DMZ), about 44 miles from Seoul. The purpose of this project is to provide dual benefit to both Koreas: for the Southern Republic of Korea (Officially shortened ROK, but henceforth referred to as S. Korea), the main incentives lie in accessing the abundance of cheap labor and land that exists north of the 34th apparel. For the Northern Democratic People's Republic of Korea (Officially shortened DPRK, but henceforth referred to as N. Korea), the region represents a rare chance

---

1 Republic of Korea, Ministry of Unification, http://eng.unikorea.go.kr/
2 The translation from Korean Hangeul to English is quite arbitrary. 개성 is for example romanized as Kaesong by the DPRK and Gaeseong by the ROK, and there are further variations as well. This paper uses Kaesong.
for economic development and modernization. In essence, N. Korea trades with two countries: China and S. Korea. And at the present date, Kaesong represents virtually all inter-Korean trade. In the area, South Korean companies have established factories and the development of a separate legal regime within the area\(^3\) has introduced many previously unfamiliar concepts to North Korea. A few examples of these include the operation of the first joint-stock company, the first administrative body organized by a private company, the first private bank, as well as many and various advancements in the areas of labor and property regulations.

Kaesong could be described as a gigantic (and expensive) experiment introducing N. Korea to the mechanisms of Capitalism. The establishment of the area should also be seen in the wider context of the "Sunshine policy" pursued by S. Korea towards its northern neighbors - an approach aimed at increasing living standards and quality of life within N. Korea through economic generosity. The Kaesong area started practically developing in 2002, and was operational by 2004. This paper seeks to compare and contrast the policies of the USA to those of S. Korea when it comes to the Kaesong zone. A good summary of the different viewpoints, as reported by the Times\(^4\), was expressed by a S. Korean official in 2006 (Emphasis added):

"For the US, money being sent via the Mount Kumgang project and the Kaesong complex is important," the head of Mr Roh’s ruling party, Kim Geun Tae, said. "But for us, what is important is that the two Koreas meet and make exchanges."

---

\(^3\) In short, the region is governed neither by the laws of the South nor those of the North, but rather has a separate legal framework. See Yoo, Wook "The Gaeseong Industrial Complex and the Korea-U.S FTA: Part 1", Paper presented at the 2nd international symposium on North Korean Development and International Cooperation, 2006, p.5 for more details.

1.1 Background

On August 22, 2000, the chief S. Korean entrepreneur, Hyundai, and the N. Korean government signed a formal agreement for the development of numerous N. Korean locations\(^5\), Kaesong included. The area has had a large role traditionally as an industrial area in Korea, both before and after the Second World War, with its ensuing division between North and South. For over a thousand years, various industries have operated here due to the many favorable conditions. In the 1960-1970s, when the North actually had a better economic development than the South, Kaesong was an area of central importance. Today, there is a unified attempt to once again restore the area as a major economic contributor and in 2002 three areas in N. Korea were designated special economic zones: Kaesong, Mt. Kumgang tour zone, and Shinuiju administrative zone. Of these, Kaesong is by far the largest and most important. The Kaesong project is largely fuelled by the booming economy in S. Korea - companies seek to outsource production as producing in the Kaesong area is potentially far more cost-efficient than in China, where the majority of Korean companies produce today. The underlying political motivation of S. Korea draws on the notion that greater economic interdependence and cooperation between the two Koreas will have a positive impact on stability on the Korean peninsula, and that in time economic cooperation will create significant positive spill-over effects into the political and military areas.

However, while S. Korea has continuously emphasized that the USA also supports the project\(^6\), practice has told a different tale. One of the more difficult issues in the negotiation of the S. Korea-USA FTA\(^7\) (Henceforth, KORUS FTA) has been focused on the inclusion of products manufactured in the Kaesong area. In short, the government of S. Korea has consistently claimed that it is vital to include Kaesong products in the FTA - there would be a major loss in relative competitiveness for companies who want to both produce in Kaesong and access the US market if it isn't included. The USA, on the other hand, has claimed that products from the Kaesong area should not be included because they are not produced exclusively in S. Korea. Here it should initially be noted that it is common practice for FTAs to include a local content rule, and that the majority of FTAs that include S. Korea also

---

\(^5\) Republic of Korea, Ministry of Unification, "Gaeseong Industrial Complex: General Information"


\(^7\) Ratified and in effect since Mar 15, 2012
include products produced in the Kaesong zone\textsuperscript{8}. Analysts claim the USA has two major concerns: The first being that the labor conditions within the Kaesong zone are not up to international standards. The second objection is that the government of N. Korea might use the money it acquires through the project to obtain missiles and increase its nuclear capacity, in effect leading to a worsening of the security situation as well as representing a greater threat to the USA.

\textit{The Kaesong Industrial Complex. Source: Korea Land Corporation.}

\textsuperscript{8} This is the case for Korea-EFTA FTA, Korea-ASEAN FTA as well as Korea-Singapore FTA to name a few examples. The EU-Korea FTA, however, is similar to the KORUS FTA in that Kaesong products are not included. Usually the value added outside domestic production is not allowed to exceed 40%.
1.2 Purpose

Currently, Korea is entering a very exciting period which has a lot of potential for change. The conclusion of the KORUS FTA has been widely and intensively debated, as well as the role of the Kaesong area within its framework. The death of Kim Jong-Il has the possibility of opening a door that leads to change within N. Korea. In this context, the Kaesong area is the by-far most important reunification project undertaken between the two Koreas, and one of S. Korea's aims of the project is indeed to promote change within N. Korea through positive development. In contrast, the same optimism has not been seen in Washington - instead, N. Korea is one of the few countries that the USA does not have normal trade relations with, subjecting produces from the country to steep tariffs. This severely impacts the possibility for the success of an export-driven development policy within the country (a very common feature for Asian economies, including S. Korea) and risks seriously limiting the effects of the Kaesong experiment in the future.

The purpose of this paper is to examine and interpret why the Kaesong area has been such a difficult issue for S. Korea and the USA to reach an agreement upon, through focusing on the different understandings the both actors have of the effects of the area. This is motivated by the fact that the way the Kaesong area is handled also reflects wider attitudes regarding how N. Korea should be dealt with: the two different views of S. Korea and the USA represent both an inclusionary approach as well as a more hard-line one with a focus on sanctions and economic punishment. Historically speaking, this is a relatively new phenomenon: until Kim Dae-Jung's election in 1997, S. Korea did not (at least, not officially) seek an independent foreign policy towards N. Korea. These policies have also been connected to specific administrations within the two countries, although they have changed at times. For example, the conservative government of Lee Myung-bak that took power in Seoul's Blue house at the start of 2008 have take a more hard-line approach against N. Korea, while Washington has not pursued the aggressive "Axis of evil" stance towards N. Korea in recent years. This is highly interesting in connection to the fact that both countries will undergo presidential elections in 2012 - the results of which could have potentially large implications with regards to policies towards N. Korea. A wider purpose of the study is also to emphasize the implications that

---

9 Lee, Chang Won "Entrepreneurial Opportunities in Gaesung Industrial Park: An Inter-Korean Business Perspective", North Korean Review, 2005, p.95

different interpretations have on political actors' practical behavior - especially in the sense of whether a "carrot" or "stick" approach is considered the most appropriate response by an actor.

Further, this paper is a case study of an issue where long-term, and extremely close, allies S. Korea and USA have pursued different policy objectives - an occurrence that should be seen in the larger context of the East Asian region's post-cold war context. As an emerging economic powerhouse, S. Korea strives to gain importance as a regional actor - and economic ties are vital means in achieving that end. While the USA remains an important trade partner, the last decade has seen China claim a dominant position with roughly 24% of S. Korean export trade and 17% import trade\(^\text{11}\). At the same time, S. Korea has made significant moves towards a foreign policy that is less dependent on Washington and is instrumentally rather than ideologically based\(^\text{12}\). This scenario is by no means a unique one but rather represents an effect of the global-systemic changes that the end of the Cold War brought with it: countries are no longer divided, or united, through political ideology. This fact, coupled with the economic rise of China and its ever-growing role as a trade partner in the East Asian region, suggests that the role and importance of the USA's regional engagement is currently changing.

In relation, one of the major arguments for the KORUS FTA (From the viewpoint of the USA) has been to counter the growing Chinese influence within both S. Korea and the larger East Asian region\(^\text{13}\). As such, the issue of Kaesong can be seen as representing a larger geopolitical shift within the region where the regional hegemony of the USA is challenged by the ever-growing importance and influence of China.

\(^{11}\) World Trade Organization, Country Trade Profile, Republic of Korea, 2010

\(^{12}\) Ko, Sung-Bin, "South Korea's Search for an Independent Foreign Policy", Journal of Contemporary Asia, 2006, Vol. 36, No. 2

1.3 Problem Formulation

As the research problem is concerned with contrasting the perspectives of both the USA and S. Korea regarding the Kaesong area, the research questions asked also need to be concerned with these perspectives and the underlying ideas behind them. How can the Kaesong area have such different meanings to the two actors, and why is this so?. An indication of such differences can be seen in the way that both actors had different views on the role of Kaesong products with regards to the KORUS FTA. The main research question is thus concerned with why Kaesong products were difficult to include under the KORUS FTA; the sub questions seek to answer the main question through focusing on the different ideas both actors held with regards to both N. Korea in general as well as the Kaesong project specifically.

**Main research question:** Why has the inclusion of Kaesong products in the KORUS FTA been a difficult matter to negotiate?

**Sub question 1:** What central ideas about N. Korea and Kaesong can be observed in U.S./S. Korean policy discourse?

**Sub question 2:** What implications do these ideas have to interests with regards to the Kaesong project?
1.4 Previous Research

The Kaesong project is a relatively recent phenomena, with the first product being manufactured in 2004, but there are a vast number of academic articles written on the topic. Since the project takes place on N. Korean soil it is in nature quite controversial in both the USA and in S. Korea: inter-Korean cooperation is a polarizing subject, and this polarization is also visible in the research about Kaesong. Academics supporting the project tend to highlight positive future impacts, such as reforming N. Korea's economic system, and argue that the USA should support the project and include it in the KORUS FTA. Those more skeptical about the project's utility tend to focus on the fact that the positive effects of the project are highly hypothetical while the negative effects, such as income to Pyongyang and a lack of labor rights, provide reasons why the USA should not include Kaesong in the KORUS FTA.

The majority of the scientific articles used within this paper, as well as further articles not included, have tended to focused either on policy towards N. Korea at large by the U.S. and S. Korea or have been more narrowly focused on the both actors' attitude and policy towards Kaesong without elaborating on the underlying reasons for such attitude and policy. The latter have contained an abundance of statements in the spirit of "USA opposes including Kaesong products in the KORUS FTA, while S. Korea has a policy of including such products". An overwhelming majority of the academic sources within this article concerned with Kaesong hold the view that the projects represents a major policy problem for the U.S. because of the income that it brings to the Kim regime as well as the facts that the N. Korean workers employed within the complex do not enjoy internationally recognized labor rights. These claims are most often supported by references to the fact that the U.S. has refused to include Kaesong products in the KORUS FTA as well as statements by U.S. officials and, overwhelmingly, U.S. academics working for the U.S. government.

As such, the starting point of most articles concerned with Kaesong is that the S. Korean government has strongly supported the project while the U.S. has not. Articles, by Korean authors especially, tend to describe U.S. policy as opposed to the project on grounds that it brings Pyongyang a revenue stream which could go directly to military ambitions, and poses difficult challenges with regards to the human rights of the N. Korean workers. This paper seeks to explain the positions of both the USA and S. Korea through a theoretical framework of social constructivism, by focusing on official discourse surrounding both N. Korea and the Kaesong project specifically. The paper makes a theoretical contribution to the research field
by focusing on the ideas within U.S. and S. Korean political discourse that help explain the position of both actors. Thus this paper seeks to contribute by systematically analyzing the underlying ideational structures that help explain why S. Korea supported the project actively and the U.S. did not. This connects to previous research in the sense that the paper is concerned with analyzing the political context that can help explain why specific issues, such as the risk that Kaesong fuels N. Korea' military ambition, might have had different effects on the actor's positions regarding Kaesong in the KORUS FTA. This paper seeks to "connect the dots" between U.S./S. Korean policy regarding N. Korea and both actors' position on Kaesong. As such, the paper strives to provide an analytical basis that helps explain why the U.S. and S. Korea might have held different views about the effects of the Kaesong project.
1.5 Delimitations

In order to make this study manageable within the given time period, there are a number of issues that have not been included in the analysis:

- North Korean policy. This is the first, and perhaps most serious, limitation of this paper. A major reason why this paper if focused on S. Korea and the USA as actors with regards to the Kaesong project is that the difficulties of including N. Korea in the analysis are simply overwhelming within the timeframe. Since the project represents an Inter-Korean project of economic cooperation, N. Korea is of course a critical factor in its development and future. While this paper does not strive to analyze North Korean policies to any greater extent, the mere fact that the Kaesong project has survived the many dramatic shifts in Pyongyang's policy shows that it has a certain value to the elusive regime. The reasons for not attempting any in-depth analysis of North Korean policy are many, but the two most significant ones are concerned with a lack of reliable information as well as the irrationality of such policy. N. Korea seems to be constantly switching between a reconciliatory approach and an outright hostile one in its relations to both S. Korea and the USA, and it would be exceedingly difficult to pin-point any trends and motivate their importance.

- China’s policy. Seeing as China is widely regarded as the closest ally of N. Korea and is by far the largest trading partner of the two Koreas, it plays a significant part in the economic, and political, considerations of all actors mentioned in this paper. The issues that the USA has raised about the cash inflow the Kaesong project brings the N. Korean Kim regime are part of this paper’s focus. However, this income is dwarfed by N. Korean- Chinese trade earnings. In fact, N. Korea has grown increasingly dependent upon China in economic terms in the post-cold war context, which has many potential implications for the Kaesong project. For example, the importance of Inter-Korean trade for the N. Korean government should be seen in relation to Chinese-N. Korean trade, and the US goals of limiting cash flow to Pyongyang are of

---

14 For a more detailed analysis, see Han, Kibum, "North Korea’s South Korea Policy: An Evaluation of Determining Variables and Prospects for 2012", in Choi, Jinwook et al., International Journal of Korean Unification Studies, Korean Institute for National Unification, 2011, Vol. 20, No. 2
course also impacted. While these are interesting considerations, they are not the main focus of this paper.

• The main points of comparison are the "Sunshine policy" of S. Korean Roh and Kim Administrations (1998-2008) and the War on terror by the Bush Administrations (2001-2009) of the USA. This is also the main timeframe of the study.

• The focus of the paper is concerned with how the USA and S. Korea have held different views about the Kaesong project. As such, it is not the intent of this study to discuss at length the economic rationale and its interplay with these views: in other words, while economic factors are important in the rhetoric of both actors, they will not be the focus of analysis.

• This paper is focused on the interplay between ideas and interests and their relationship to societal discourse. As such, an identity perspective will not be factored in to any large extent - there is extensive research on Korean identity, indicating that such a perspective is feasible, but it is not the focus of this paper.

• This paper is focused on the actions and perceptions of two specific actors, and is thus not concerned with offering explanations based on the structure of the international system. Of course it is problematic (perhaps even impossible) to separate these actors from the international structure they are part of - this is not the intent of the paper either. Simply put, this limitation is due to time restraint.

---

16 For example, see Cho, Young Chul, "Collective identity formation on the Korean Peninsula: United States' different North Korea policies, Kim Dae-Jung's Sunshine Policy, and United States-South Korea-North Korea relations", International Relations of the Asia Pacific, Vol.10, No.1, 2010
2. Theoretical Framework

First, I would like to start this section by a motivation of why I consider Social Constructivism an appropriate theory. In the limitations of this study, North Korean policy was excluded because of the enormous difficulties associated with gathering reliable material but also, perhaps more significant, because of the herculean task of making sense of such policy. These difficulties are not unique to research concerned with N. Korea, but also face policymakers. The reality is that few, if any, countries can claim to have an empirically based insight into Pyongyang's decision making processes. Talks of peace and reconciliation are more often than not followed by threats of war - at times these shifts can occur seemingly overnight - and South Koreans are by now getting used to the North's rhetoric of setting Seoul on fire annually. In essence, the only thing predictable about N. Korea is that N. Korea is not predictable. Despite the efforts that have been made towards such ends, it is the belief of at least this author that N. Korean policy does not lend itself well to any systematic analysis and is, as a consequence, exceedingly difficult to predict. Simply put, because of the difficulty of reliably predicting what effects the Kaesong project will have in N. Korea, the beliefs of the actors involved regarding the effects will have a more central role in their policy making. The inverse logic of this is used by Alexander Wendt in arguing that states do not necessarily assume the worst of each other (in debating against a Realist prediction) because their previous interactions gives them a good idea about what the other part wants:

"...over the course of their interactions states have made policies on the basis of inferences about each other's intentions (pessimistic or optimistic), which were then tested and revised against the reality of what those intentions really were. Through this process of interacting with reality, states have learned a great deal about each other, and today can often assign reasonably confident probabilities to inferences about what others want."

In the case of N. Korea, this logic does not necessarily fit: it is, to say the least, problematic to gain an understanding of what N. Korea wants and in hindsight get a clear view of its intentions. It is thus hard to find any kind of reliable empirical basis for analyzing interaction with Pyongyang: statements along the line of "sending food aid will make Pyongyang less aggressive" do not hold up to historical scrutiny.

---

18 Wendt, Alexander, Social Theory of International Politics, 1999, p. 107-109
2.1 Social Constructivism

"We are cultural beings, endowed with the capacity and the will to take a deliberate attitude towards the world and to lend it significance."\(^{19}\)

The above quote is taken from Max Weber, a German philosopher operating around the end of the 19th Century, and is the essence of his Verstehen approach. This approach encompasses a stress on interpretation and subjectivity as well as a focus on ideational factors, maintaining that there is a clear separation between "'meaningful' human conduct...and 'Nature'"\(^{20}\). The Verstehen approach, as explained by John G. Ruggie\(^{21}\), entails a three-step process of the researcher first obtaining an empathic view of the actor's actions from his own standpoint. Second, the researcher strives to elucidate an explanatory framework by pointing to the social practices surrounding the actors and his actions. The third and final step is to form an explanation of the actor's actions based on these observations. While modern Social Constructivism (also referred to as simply Constructivism) does not necessarily adhere to this methodology, Weber's thoughts on social interplay and its relation to individual interpretation, and further, how this interpretation ascribes meaning to action, have laid the philosophical foundations for much Constructivist research. In essence, Weber maintains that how different actors interpret a situation determines what that situation actually is. As Weber himself put it,

"The 'essence' of what happens is constituted by the 'meaning' which the two parties ascribe to their observable behavior, a 'meaning' which 'regulates' the course of their future conduct. Without this 'meaning', we are inclined to say, an 'exchange' is neither empirically possible nor conceptually imaginable."\(^{22}\)

The purpose of this rumination about Max Weber's work is to provide a brief introduction to the philosophical foundation of Social Constructivism. In comparison to the more traditional theories within international relations - Realism, Liberalism, Marxism - Constructivism is more concerned with the ideational as opposed to the material. Thus the interpretation and understanding that different actors hold is typically given more analytical focus when a

---


Constructivist viewpoint is adopted - as well as how these interpretations and understandings came about.

The Meta-theoretical base of this paper thus lies in Social Constructivism, especially in how differences in norms, ideas, interest, values and ideals shape the interpretations of an actor and lead to the fact that material reality can end up having a very different meaning to different actors. This is the "Constructivist" part of the theory, referring to the process by which actors construct their reality - the "Social" part in turn refers to the fact that this process does not occur in a social vacuum, but rather in interaction within different social contexts.

Constructivists differ on the importance of this "Social" part in relation to the actor - or, put differently, the relation between structure and actor - and some have gone as far as claiming that the interests of actors are basically a function of the interests of their social contexts. However, a central pillar of Constructivist theory is that the material world is given meaning through the process of an actor interpreting, or constructing, that world. Thus this study very much stresses the importance of interpretation, seeing it as central to how actors form their interests, identities and norms. This connects to the prevalence of different ideas within the two contexts of this study: S. Korea and the USA. Understanding the role that such ideas have in the field of international politics has been a preoccupation of Social Constructivists. As prominent Constructivist scholar Alexander Wendt put it, "The central thesis is that the meaning of power and the content of interests are largely a function of ideas."

This is also the main theoretical assumption underlying this study: the interests of the USA and S. Korea with regards to Kaesong have been influenced by their ideas of the project, and their ideas of N. Korea in general.

In relation to this interplay between ideas and interests, Ruggie provides a thoughtful reflection on the place of causality in Constructivist research. His logic implies that the focus

---

23 See for example March, James G. & Olsen, Johan P. Rediscovering Institutions, 1989
26 Wendt, Alexander, Social Theory of International Politics, 1999, p. 96
and purpose of such research does not necessarily have to be similar to the more traditional theories within international relations. In his words,

"Some ideational factors simply do not function causally in the same way as brute facts...Suffice it to say that these factors fall into the category of *reasons for actions*, which are not the same as *causes for actions*...Absent those 'reasons,' however, and the same 'causes' would not have the same causal capacity."\(^{27}\)

In other words, an interest might be different from an idea in the sense that it has a causal impact, while the idea does not. In the context of this study an example might be the following (this is an example, not a statement): the USA has an interest of limiting cash flows into N. Korea, *causing* them to not include Kaesong products in the KORUS FTA. But the *reason* (or, at least, one reason) why the USA has that interest is the idea that N. Korea uses cash flows to expand nuclear capacity. In this example the concepts of idea-interest-action should be seen as interrelated: interests cause actions, but interests in turn consist largely of ideas. This is an area where Constructivism differs from for example Realism by focusing more intently on the reasons behind interests. As such, while some Constructivist work does focus on the causal impact of ideas - "A thought B and therefore did C" - it also focuses on *why* A thought B; perhaps through asking how A interpreted B (maybe a military threat), and what C means to A - often through interpreting which meaning C has in A's social context. Alexander Wendt draws a distinction between causal and constitutive mechanics in relations to these matters\(^{28}\). A simplified summary of his reasoning is that causal mechanisms explain why an action took place while constitutive mechanisms focus rather on what that choice meant, and how the actor came to make the choice: in essence, what the choice *was*. Wendt argues further that the connections between causal and constitutive mechanisms lie in the fact that actors tend to reinforce constitution through causation, meaning that views of the world tend to become self-fulfilling prophecies\(^{29}\). This is the theme of his famous paper *Anarchy is what states make of it*, arguing that the belief that the international system is anarchical tends to produce behavior that reinforces anarchy\(^{30}\).


\(^{29}\) Ibid, p. 108

One central issue that Constructivism concerns itself with is as such the interplay between ideas and "material reality". Constructivists differ in the importance they ascribe either, with some maintaining that "material reality" cannot exist without ideas, and as such ideas are "all there is" - while others see an interplay between the two. A general difference to other theories, however, is that all Constructivists would see these ideas as important and to varying extent independent on physical factors. In contrast, Realists or Marxists would for example see ideas as a reaction to "real" physical factors - meaning, for example, that class differences create ideas, but ideas do not create class differences. As such, these theories have tended to take interests as stable, exogenous factors to their theoretical models - "states are interested in power maximization", for example. One object of Constructivist studies is to gain a deeper understanding of the formation and change of these interests, providing a different view to the relationship between the material and the ideational.

To this effect, the views of Alexander Wendt are quite applicable in the context of this paper (at least, in the mind of its author): what he calls "rump materialism". In essence, this is a position between the two extremes, claiming that both material and ideational factors have effects that are independent of each other - but also stressing their interplay. In the words of Wendt, "In my view it cannot be ideas all the way down because scientific realism shows that ideas are based on and are regulated by an independently existing physical reality.". In this paper, these ideas relate to the Nuclear weapons N. Korea possesses in the sense that they become a constraining factor in how both S. Korea and the USA formulate policies with regards to N. Korea. The meaning ascribed to these weapons and the threat they constitute may differ and are surely important, if not critical, parts in how the Kaesong project is viewed - but neither actor would ignore their existence or formulate policies that do not factor in their existence. Likewise, the military capacity of N. Korea and the physical capability of actually being a threat is a factor regardless of attitudes from S. Korea and USA - if N. Korea had 100 soldiers in its army and no nuclear weapons, the USA would most likely have had different ideas about the threat Pyongyang poses, and the cash flow from Kaesong to the N. Korean government might not have been an issue at all.

33 For a more detailed description of the concept, see Wendt, Alexander, Social Theory of International Politics, 1999, p. 109-135
34 Ibid, p. 110
The way that S. Korea sees the Kaesong area as a major stepping stone for positive Inter-Korean relations is a sharp contrast to the USA, who have not been equally positive. As the focus of the study is concerned with why these attitudes have developed, as well as how they have impacted policy in practice, Constructivism provides a suitable framework. The study is focused on the role of actors actively constructing an image of a material object - Kaesong - and thus it is more focused on the importance of actors, rather than structures. However, this does not mean that the role of structures is seen as unimportant, rather the realm of possible actions for both actors has to be put in the context of the constraints placed on both by various social constructs. A further implication of this logic is also that structures can be impacted by actors, as well as vice versa - in the case studied, if the USA adopted a similar position as S. Korea, the structure of N. Korea as a threat that will use any available funds to become a greater military threat might be altered. Here it is further interesting to note the logic of the South Korean "sunshine policy": simply put, positive interactions with N. Korea will in time bring about positive change. As such, the structural analysis within this paper is primarily concerned with structures on the national level.

This connection between actor and structure will in this study be drawn through an analysis of the discourse with regards to N. Korea in both the USA and S. Korea, in order to clarify how both actors operate within different dominant understandings of the Kaesong project. Essentially, a discourse can be understood as a system through which an actor structures his reality. The theoretical grounds of such a discourse analysis lies in the belief that discourses are, in the words of Jennifer Milliken, "structures of signification which construct social realities", in the sense that they provide actors with the definitions or characteristics of an object which in turn impacts the process through which these actors ascribe meaning to the object in question. In this specific study, this connects to the discursive differences with regards to how N. Korea is depicted in both the sunshine policy as well as the war on terror. Further, discourses are connected to how political practice is implemented and made legitimate in the sense that they are (re)productive of knowledge about the world. Or, as Milliken put it,

37 ibid, p. 231
"...discourses make intelligible some ways of being in, and acting towards, the world, and of operationalizing a particular 'regime of truth' while excluding other possible modes of identity and action."

An example would be how a US discourse focused on the denuclearization of N. Korea, and the threat of its nuclear weapons, makes it harder to practically support than oppose the Kaesong project. In contrast, a S. Korean discourse which focuses more on reunification does not have similar implication. An underlying logic of discourse analysis is usually based on the notion that different structures would have made different policies or agreements possible and in the context of foreign policy analysis, how discourses limit the policy options of actors. As such, one theoretical ground for this paper's analysis is that both actors are limited by the dominant discourse of their social context in the policy they are able to pursue with regards to the Kaesong project. However, discourse should not be seen as a one-way process inscribing actors with fixed attitudes towards an object; rather, discourses are upheld and constructed by actors and are thus very much changeable. Also, important to initially stress, is the fact that a change in discourse does not have to mean a corresponding change in policy practice: actors still actively interpret a situation and make a choice based on gathered information. But discourse has a significant impact in this interpretation, and a change in discourse can have the effect of making new options viable and logical.

---


40 Ibid.

41 Ibid, p. 242
3. Method

As the questions posed in this study are concerned with the interpretation, and the formation of that interpretation, of two different actors regarding a specific issue, it is by nature qualitative. It would not be feasible to use a quantitative approach in exploring these issues, as they require a deeper analysis and are aimed at greater understanding in one specific case. The study is thus focused on one case, and the way that the two main actors in the analysis have interpreted that case. This begs the question, of course, of what this study is a case of. The starting point of this paper is that the Kaesong issue is an example of where S. Korea and the USA have pursued different politics. This has wider implications in the sense that the two countries have been extremely close allies since the end of the Korean war, and were connected through the Communist/Capitalist distinction inherent in the Cold War. As such, it is also a case study representing the changed global context in the post-Cold War era, where formerly "secure" alliances are complicated by a new set of issues. As the project is the most significant practical one connected to the Sunshine policy of S. Korea during 1998-2008, it is also a case study of the policy itself, as compared to U.S. policy at the time. Also, since two actors with radically different interpretations are used, a comparative approach is suitable. This aims at gaining a thorough understanding of the way in which they both differ, as well as analyzing the impact that interpretations have had on actions. In other words, while the study does not strive to make generalizing statements, a goal is to emphasize that interpretations do have an effect - underlying this is the logic that if either actors would have employed different interpretations, they would have acted differently.42

Thus the paper is not concerned with producing a conclusion that can be generalized to a wide sample of other cases - as argued by George & Bennet this is not, and should not be, the purpose of a case study.43 Rather, the same authors argue that the primary strengths of the case study lie in clarifying causal mechanisms within a specified context, while maintaining a high conceptual validity. The case study is a suitable method for this paper because of the high complexity and uniqueness of the case: one would be hard pressed to present a similar situation, so a quantitative approach would be hard to justify. However, a case study does represent a tradeoff between specificity and causality, and a common criticism of the method

43 Bennet, Andrew & George, Alexander L., Case studies and Theory Development in the Social Sciences, Harvard: Harvard University, 2004, pp. 30,31
44 Ibid, pp. 19-21
is that while an in-depth analysis of a specific case produces several variables, it does not establish the separate causality of these\textsuperscript{45}. It should also be noted that another criticism against a case-study approach is that it has limited general application as compared to quantitative studies.

But this is not the purpose of the study: rather it is aimed at understanding the multitude of ideas that constitute the way that Kaesong and N. Korea have been perceived by both the USA and S. Korea in the contexts of the Sunshine Policy (1998-2008) and the Bush Administrations (2001-2009). In other words, the study does not aim at making statement along the lines of "Idea A was x% important while idea B was y% important". Alexander Wendt argues that constitutive studies should not be judged by these standards and that a "dependent/independent variable approach" is not suitable\textsuperscript{46}. However, a major concern I have with this type of approach is the interplay between subjectivity and causality: I will myself have to make a theoretically based interpretation of the interpretations of the actors, taking into account the very different contexts of both actors. This necessitates an inductive approach to the research, as my conclusions will be drawn from the material itself. John G. Ruggie argues that an inductive approach that focuses on material is appropriate for constructivism, stating that

"Constructivism does not aspire to the hypothetico-deductive mode of theory construction. It is by necessity more "realistic", to use Weber's term, or inductive in orientation. Additionally, its concepts in the first instance are intended to tap into and help interpret the meaning and significance that actors ascribe to the collective situation in which they find themselves. It is unlikely that this function could be performed by concepts that represent a priori types derived from some universalizing theory-sketch or from purely nominal definitions"\textsuperscript{47}

The implication of Ruggie's logic is that an inductive, case-study approach is appropriate for Constructivist research. However, it could prove difficult to separate context from interpretation as a reason for action: the challenge, to me, lies in actually demonstrating that interpretation is not simply a function of context but also has an impact on that context empirically, without simply leaning back on theory. Furthermore, the comparison between the USA and S. Korea has to take into account the very different contexts of both countries. While the study is actor-focused in the sense that it is concerned with perceptions of two

\textsuperscript{45} Benet, Andrew & George, Alexander L., \textit{Case studies and Theory Development in the Social Sciences}, Harvard: Harvard University, 2004, p. 25

\textsuperscript{46} Wendt, Alexander, \textit{Social Theory of International Politics}, 1999, pp. 85, 86

actors, the practical way of achieving an interpretation of these views is an analysis of discourse by both countries in relation to Kaesong, and to N. Korea in general. The connection between general interpretation of N. Korean policy and Kaesong specifically draws theoretically on the notion implicit in discourse study: that practical policy is influenced by discourse. This is based on the logic that a certain discourse will make some choices seem more logical or proper to an actor, and the extension of this logic is that two different discourses will make different options more or less likely\(^{48}\). Further, the motivation for seeing Kaesong in the context of overall S. Korea/ U.S. policy with regards to N. Korea, is because the project does in fact take place on N. Korean soil and is by its nature highly political. The meaning of "actor" in this study is not an individual such as Kim Dae-Jung or George W. Bush but rather refers to a nation: thus it is important to take into account the national structures governing conduct towards N. Korea.

3.1 Material Used

An important methodological consideration when conducting a discourse study is to judge when enough material has been analyzed to draw reliable conclusions. Jennifer Milliken argues that a discourse analysis needs to be based on multiple text in order to capture a social background properly\(^ {49} \). There is no simple answer to the question: I could spend my entire life analyzing texts from S. Korea and the USA during the timeframe of this study. But this study is conducted during a 10-week period, and involves many aspects apart from gathering and analyzing texts. This is admittedly a methodological limitation; one that necessitates certain simplifications regarding the discourses of both actors studied. It should be said that U.S. policy towards N. Korea, for example, is more complex than is indicated in the analysis of this paper: the same should be said for S. Korean policy. Also, the fact that S. Korea pursued the Sunshine policy as an official political discourse does not necessarily mean that it was fully supported in Korean society. What I mean to convey by this discussion is that the reader of this paper should not come away with the impression that all S. Koreans supported the Sunshine policy, or that all Americans supported the N. Korean foreign policy of the USA. This study has used official discourse as representative, but it does not factor in domestic disputes: I have not looked closely at opposition to the Sunshine policy, for example, but have seen it as representative by virtue of it being the policy of the elected President. The debate

---


\(^{49}\) Ibid, p. 233
about when a discourse is representative is subject to debate, but this is the criteria I have used within this study.

On the more practical side, I will have to pay close attention to how interpretations are expressed by both countries in their rhetoric and discourse\textsuperscript{50} regarding the Kaesong area and N. Korea in general, which relates to the primary material used within the study. As this is a relatively new issue, my timeframe will be limited to the years 1998-2009: While the Kaesong project was initiated in 2000, the Sunshine policy became official and political with the inauguration of Kim Dae-Jung in 1998. A methodological concern that has become clear during the research is that the USA have only made limited direct statements about Kaesong, for many possible reasons (discussed later in the analysis). The practical implication is that this study needs to draw its conclusions about U.S. policy towards Kaesong through an interpretation of general policy regarding N. Korea as well as secondary academic sources. In the research process, it has also dawned on the author that Kaesong has the potential of being a huge diplomatic problem between the USA and S. Korea, providing a plausible explanation for the lack of clear statements against it.

Above concerns highlight the importance of using secondary sources to complement official government discourse. An interesting connection between the two is that many of the secondary sources incorporated in this study have made claims as to the positions of S. Korea and the USA on Kaesong: S. Korea supports Kaesong as a process in unification, while the USA is concerned about cash inflow to Pyongyang and the human rights of N. Korean workers. In the case of the U.S. position, these claims are often based on the opinion of other academics as well as the fact that the USA refused to include Kaesong in the KORUS FTA. With the limited previous knowledge I had going into this study my initial expectations, based on reading secondary sources, was that the U.S. had an official stance against the Kaesong project. In hindsight, this expectation was wrong: but it is a conclusion that is easily made through a reading of only secondary sources regarding the Kaesong project. There is, in a sense, an element of source criticism within this study, because it strives to take a closer look at the nature of discourse surrounding Kaesong. If looking only at official U.S. discourse specifically about Kaesong, it’s hard to argue that the project is being opposed. If this study had only incorporated secondary sources, however, it would be much easier to support such an argument.

The study will thus require accessing primary written sources such as government policy documents from both countries, both regarding Kaesong specifically and N. Korea generally, as well as the KORUS FTA itself. An initial problem here is of course the access to relevant, English, material. The focus of this discourse analysis will be based on the assumption that these texts reflect the broader political and ideological contexts in which they were written\(^{51}\), thus representing the interpretations of the actors. In other words, the language itself is seen as a reflection, which might be a problem because it does not take into account issues outside the texts. Thus in addition to primary sources, this paper will include secondary academic sources - especially when it comes to analyzing the legal side of the Kaesong issue. Secondary sources would prove an invaluable way of putting the primary sources into context, also becoming a way of addressing the problems raised previously.

In relation to this, I myself do not believe that the position of S. Korea, in stressing the Kaesong zone as a project for positive Inter-Korean relations and development of N. Korea, tells the entire story. Rather, there is a large economic rationale behind the desire of developing the Kaesong project. In essence, production in Kaesong is cheaper than anywhere else in the world, the quality of production is good, and there are no language barriers for Korean companies. This is a very beneficial situation, especially considering that S. Korea does not have to concern themselves directly with the other 20 million people living in N. Korea, and their living situation - a Korean reunification would bring a lot of short-term burden which is avoided in the present situation. In a similar fashion, the fact that the USA has not openly opposed the project should not automatically lead to the conclusion that there is no opposition of it: in the analysis, some factors explaining the diplomatic inappropriateness of such an official stance will be discussed. These concerns relate to what I wrote before about separating interpretation from context: there might be many important factors left out by employing too narrow a focus on primary sources. In this sense, there is a need for inclusiveness within the study: there are many possible explanatory factors that need to be explored.

4. Analysis

4.1 Why is Kaesong important?

The purpose of this section is to provide the reader with some critical background knowledge of the nature and magnitude of the Kaesong project in order to better understand why it might be a potentially contentious issue between S. Korea and the USA. This section will start by taking a closer look at the practical plans for developing by the main contractor, Hyundai-Asan (part of the Hyundai group). The company is responsible for Inter-Korean business contacts in N. Korea, and it has the following stated goal on its website:52:

"Our goal and promise is to bring reconciliation and cooperation to the Korean peninsula by connecting the severed two Koreas."

The development of Kaesong is divided into three distinct phrases, as well as an additional "expansion zone". Below follows a brief overview of these phases, based on information from the company's website.53

<table>
<thead>
<tr>
<th>Phase</th>
<th>Companies</th>
<th>Employees</th>
<th>Annual production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>300</td>
<td>100,000</td>
<td>$3 Billion</td>
</tr>
<tr>
<td>2</td>
<td>500</td>
<td>150,000</td>
<td>$4 Billion</td>
</tr>
<tr>
<td>3</td>
<td>700</td>
<td>200,000</td>
<td>$5 Billion</td>
</tr>
<tr>
<td>Expansion Zone</td>
<td>500</td>
<td>150,000</td>
<td>$4 Billion</td>
</tr>
</tbody>
</table>

The numbers above are additive, meaning that if the company's vision of all 3 phases plus the expansion zone come to be realized, Kaesong would host 600,000 North Korean workers, 2,000 South Korean companies, and produce at an annual worth of 18 Billion dollars. The area would also incorporate numerous golf courses, residential areas as well as a theme park. The choice of Kaesong is practical in a geographical sense, but it also carries a certain symbolism: Kaesong was the capital of unified Korea during the Koryo dynasty (918-1392). The main draw of the project, strictly economically speaking, is that it holds great potential.

53 http://www.hyundai-asan.com/
for mutual economic benefits for both Koreas. This is due to the, at least in theory, winning concept of merging large availability of N. Korean low-cost land and labor with the by-now abundant advanced technology and capital of S. Korea. While this paper is not mainly concerned with the pure business aspects of Kaesong, it is initially worth noting that there is some ground for viewing the project as economically promising for both Koreas. Making a similar statement about the other economic zones in N. Korea is much harder: for example, the Mt. Keumgang resort was shut down following the killing of a S. Korean tourist by a N. Korean soldier. About half-way through the completion of Phase 1, meaning 50,000 employees, the Kaesong project is the by-far most significant practical example of Inter-Korean cooperation to date: by April 2011 the complex had, according to the S. Korean Ministry of Unification, achieved an aggregate output of about $1.2 Billion. While the financial gains to Pyongyang from the project are not entirely clear, analysts have estimated that it provides a revenue stream of roughly $20 mil. annually.

4.1.1 Enduring importance for Inter-Korean cooperation

Perhaps the most remarkable thing about the Kaesong project is its endurance. It has remained operational through nuclear tests, N. Korea's withdrawal from non-nuclear proliferation treaties, the sinking of the S. Korean warship Cheonan, and the first direct military attack on S. Korean soil since the Korean war was halted in 1953 (The shelling of Yeongpyeong island). All of these accidents have taken place in the years 2005-2010. At the present date, inter-Korean relations are heavily strained: following the attack on the Cheonan, S. Korea suspended all inter-Korean trade as well as any new investment. However, Kaesong was exempted and trade from the complex amounted to 75.5% of all inter-Korean trade in 2010 - and virtually 100% since May 24 when trade was suspended. During the years 2000-2008 numerous inter-Korean projects were initiated: of these, Kaesong is the only one that has remained. Kaesong has been viewed by several analysts as the most significant practical embodiment of the Sunshine policy, often referring to the complex as the centerpiece or

---

56 Republic of Korea, Ministry of Unification, "Gaeseong Industrial Complex: General Information"
58 Republic of Korea, Ministry of Unification, "Announcement of Measures against North Korea", May 24, 2010
flagship of the policy\textsuperscript{61}. This article also supports such a view: it is highly difficult to imagine the Kaesong project being possible without the political context created by the Sunshine policy. The project is surrounded by a highly complex legal framework regulating the responsibilities and obligations of both Koreas\textsuperscript{62}. There are a multitude of safety nets for S. Korean companies operating in the Kaesong zone: perhaps most significantly, the S. Korean government provides insurance against political risk - if Kaesong was shut down for political reasons, it would be a very costly affair for the S. Korean government\textsuperscript{63}. In essence, the Kaesong project has been designed to survive in one of the world's most problematic political context - and so far, it has weathered the storms.

While the project started on August 22, 2000, the first product was made in December 2004. Since then, Kaesong has continued to expand. Below follows some key statistics with regards to the evolution of the complex.

**Table 2: Evolution of Kaesong\textsuperscript{64}**

<table>
<thead>
<tr>
<th>Year</th>
<th>S. Korean Companies</th>
<th>N. Korean Workers</th>
<th>S. Korean Workers</th>
<th>Production Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>11</td>
<td>6,000</td>
<td>n.a.</td>
<td>$15 mil.</td>
</tr>
<tr>
<td>2006</td>
<td>15</td>
<td>11,000</td>
<td>500</td>
<td>$74 mil.</td>
</tr>
<tr>
<td>2007</td>
<td>65</td>
<td>23,000</td>
<td>800</td>
<td>$185 mil.</td>
</tr>
<tr>
<td>2008</td>
<td>93</td>
<td>39,000</td>
<td>1,500</td>
<td>$250 mil.</td>
</tr>
<tr>
<td>2009</td>
<td>118</td>
<td>42,000</td>
<td>960</td>
<td>$256 mil.</td>
</tr>
<tr>
<td>2010</td>
<td>121</td>
<td>47,000</td>
<td>500</td>
<td>$323 mil.</td>
</tr>
</tbody>
</table>


\textsuperscript{61} For example, U.S. Analysts described Kaesong as the centerpiece for inter-Korean engagement. See Cooper, William H. & Manyin, Mark E. "The proposed South Korea - U.S. Free Trade Agreement (FTA)", Congressional Research Service: Report for Congress, 2006, p. 19

\textsuperscript{62} The S. Korean Ministry of Unification has issued a 350-page summary of the agreements - for anyone interested in the legal details, see Republic of Korea, Ministry of Unification, "Code of the Act and Regulations for the Kaesong Industrial Zone 2009", available at the Ministry's website.

\textsuperscript{63} Manyin, Mark E. & Nanto, Dick K. "The Kaesong North-South Korean Industrial Complex", Congressional Research Service: Report for Congress, 2011, p. 6

\textsuperscript{64} It should be said initially that detailed official statistics regarding the Kaesong area are quite hard to come by. Numbers used here are taken from academic articles using the S. Korean Ministry of Unification as a source: however, the Ministry does not go into details specifying the exact components of data on Kaesong. For example, it is not entirely clear what is included in "Production Value" or, for table 3, "Kaesong Trade".
Overall, inter-Korean trade expanded rapidly during these years, and Kaesong products represented a growing share of this trade. Table 3 shows the trends of inter-Korea trade. Note that this does not include unilateral humanitarian assistance such as food aid, which also expanded dramatically during the time Kim Dae-Jung and Roh Moo-hyun were in office. There is a marked drop in humanitarian assistance following the 2008 inauguration of conservative S. Korea president Lee Myung-Bak, who abandoned many of the key principles of the Sunshine policy, stating in his inaugural speech that:

"Inter-Korean relations must become more productive than they are now. Our attitude will be pragmatic, not ideological. The core task is to help all Koreans live happily and to prepare the foundation for unification."

"More productive" apparently meant a sharp decrease in humanitarian assistance, while Kaesong seems to have remained viable. Table 4 shows humanitarian aid during the years 2005-2010.

**Table 3: inter-Korean trade and Kaesong trade**

<table>
<thead>
<tr>
<th>Year</th>
<th>Kaesong Trade</th>
<th>Overall Trade</th>
<th>Kaesong share of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$177 mil.</td>
<td>$1,055 mil.</td>
<td>17%</td>
</tr>
<tr>
<td>2006</td>
<td>$299 mil.</td>
<td>$1,350 mil.</td>
<td>22%</td>
</tr>
<tr>
<td>2007</td>
<td>$441 mil.</td>
<td>$1,798 mil.</td>
<td>25%</td>
</tr>
<tr>
<td>2008</td>
<td>$808 mil.</td>
<td>$1,820 mil.</td>
<td>44%</td>
</tr>
<tr>
<td>2009</td>
<td>$941 mil</td>
<td>$1,679 mil.</td>
<td>56%</td>
</tr>
<tr>
<td>2010</td>
<td>$1,443 mil</td>
<td>$1,912 mil.</td>
<td>75%</td>
</tr>
</tbody>
</table>


Though statistics for the year 2011 are not yet officially available, government officials have indicated that Kaesong products have represented up to 99% of inter-Korean trade. Thus, while inter-Korean trade overall took a large hit following the end of the Sunshine policy in 2008, Kaesong has continued to grow. If it is true that Kaesong represents virtually all Korean

---

trade in the year 2011, then it is the only remaining inter-Korean economic cooperation. And, as table 4 shows, economic cooperation may be virtually the only inter-Korean cooperation at the current date, as S. Korean assistance to N. Korea has been cut off during the Lee Myung-bak administration.

**Table 4: Humanitarian Assistance to N. Korea by S. Korea (in millions of Won)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Governmental Aid</th>
<th>Private Aid</th>
<th>Total aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>265,000</td>
<td>57,600</td>
<td>322,600</td>
</tr>
<tr>
<td>2003</td>
<td>260,700</td>
<td>76,600</td>
<td>337,300</td>
</tr>
<tr>
<td>2004</td>
<td>267,200</td>
<td>155,800</td>
<td>423,000</td>
</tr>
<tr>
<td>2005</td>
<td>314,700</td>
<td>77,900</td>
<td>392,600</td>
</tr>
<tr>
<td>2006</td>
<td>227,300</td>
<td>70,900</td>
<td>298,200</td>
</tr>
<tr>
<td>2007</td>
<td>348,800</td>
<td>90,900</td>
<td>439,700</td>
</tr>
<tr>
<td>2008</td>
<td>43,800</td>
<td>72,500</td>
<td>116,300</td>
</tr>
<tr>
<td>2009</td>
<td>46,100</td>
<td>37,600</td>
<td>83,700</td>
</tr>
<tr>
<td>2010</td>
<td>2,200</td>
<td>11,200</td>
<td>13,500</td>
</tr>
</tbody>
</table>


Using the value of the won to equal 1/1000 $ for simplicity (roughly close to the exchange rate at the time), it is possible to compare the weight of the Kaesong trade as opposed to the value of the inflowing assistance. For example, in year 2007 Kaesong trade amounted to $441 mil. while total aid from S. Korea to N. Korea valued $439.7 mil. In year 2007, the final year of president Roh moo-hyun's administration, the worth of Kaesong trade was thus almost exactly equal to aid sent to N. Korea. By contrast, in 2010 Kaesong trade had grown to $1.44 bil. while aid had dwindled to $13.5 mil. Perhaps the most interesting conclusion to be drawn from these statistics is the fact that Kaesong has grown rapidly and is today more or less the only official exchange between the two Koreas.

---

67 The value of the South Korean Won as opposed to the Dollar fluctuated dramatically during this period: between 1000 won/1$ and 1400 won/1$, according to The Bank of Korea, "Foreign Exchange Market: Exchange Rate Trends". Statistics are not available in dollar values through the Ministry of Unification.
In 2007 during the Inter-Korean summit meeting in Pyongyang between Kim Jong-II and Roh Moo-hyun, the two leaders agreed to complete the first phase of the Kaesong plan and significantly expand infrastructure in N. Korea\textsuperscript{68}. While this promise has not yet been fulfilled, Kaesong has continued to grow steadily. If the project stays on this path, it is likely that any concerns the USA might have regarding the project, such as income to Pyongyang or N. Korean labor rights, will be magnified in proportion. At the target production of $18 billion annually, employing 600,000 N. Korean workers, it has the potential of becoming a true test to the U.S. - S. Korean alliance.

4.1.2 Importance to North Korea's Marketization process

The current year, 2012, is a special year for N. Korea: it marks the 100th birthday of the Great leader, Kim II-Sung, the 70th birthday of Dear leader Kim Jong-II, and the 30th birthday of Beloved leader Kim Jong-un. It is also the year that it will become a strong and prosperous country, a long-time promise by the late Kim Jong-II - though, in the face of the current situation, Pyongyang has settled on 2012 as the "foundation" of such prosperity\textsuperscript{69}. Hidden amongst nuclear ambitions, military provocations and threatening rhetoric, Pyongyang has made efforts to reform its decrepit economic system: Kim Jong-II allegedly described the purpose of the reforms as a means to "adapt socialist economic management to the demands of the time"\textsuperscript{70}. In 2002, Kim Jong-II drew out a new strategy for the economic development of his country, dubbing it the "New Economic Policy"\textsuperscript{71}. The reforms were essentially concerned with decentralization: for example, prices in N. Korean state owned stores were previously fixed by government, while in reality they were traded at private markets at different prices. The reforms meant that government stores adjusted their prices according to the private markets\textsuperscript{72}, which essentially means the prices were regulated by supply and demand instead of Pyongyang. Further, the industrial sector was allowed a greater deal of autonomy and state-owned companies were allowed to sell their products at a market price\textsuperscript{73}, and were being

\textsuperscript{68} Republic of Korea & the Democratic People's Republic of Korea, “Declaration on the Advancement of South-North Korean Relations, Peace and Prosperity”, Pyongyang: October 4, 2007


\textsuperscript{71} Ibid.

\textsuperscript{72} Ibid, p. 54

evaluated according to their productivity. This introduced the concept of economic efficiency and rationality to state-owned sectors, who were previously concerned with executing state-set targets for production.

It would be misleading to describe N. Korea's marketization (for this analysis, meaning movement towards a market economy from a planned, socialist economy) as a straight road leading towards capitalism, however. Analysts have pointed out that evidence of the process is highly mixed: Mitsuhiro emphasizes that while such a process can be observed in the consumer goods market, other sectors have not developed in similar fashion, and Noland & Haggard stress the fact that the N. Korean elite is highly ambivalent towards the notion of easing their grip on the economy. Further, a growing concern is that these processes lead to increasing corruption and social inequality. Nevertheless, N. Korea has taken significant steps towards greater economic openness - and while it is a far stretch to call the N. Korean market free, it is at least freer than it was during the Cold war. It should also be noted that the country has stuck firmly to a "military first" policy, meaning that the military sector will always be a top priority when allocating resources. That being said, there is at least some evidence of a growing private sector in N. Korea, a sector that didn't exist (at least not officially) 20 years ago. A common belief is that these reforms have taken place out of sheer necessity as Pyongyang lost its most vital economic ally with the collapsing of the Soviet Union in 1991. Recently the brother of the Beloved leader Kim Jong-un, Kim Jong-nam, indicated that N. Korea needs to strengthen its economy through reform, saying that "Without reforms, North Korea will collapse, and when such changes take place, the regime will collapse."

---

75 ibid, p. 73
76 ibid, p. 74, 75
80 See ibid for more details.
There is, of course, a certain neighboring country that has undergone a remarkably successful marketization process recently. The Chinese experience has not gone unnoted by Pyongyang, as the two countries remain relatively close, and the Chinese marketization was driven by the introduction of special economic zones such as Kaesong. In fact, Kaesong is not the first such zone on N. Korean soil: the Rajin-Sonbong (later renamed Rason) special economic zone was established as early as 1991 near the Chinese- N. Korean border following a visit to China by the late Kim Il-sung. Although the Rason zone was a marked failure, there are indications that it will be expanded once again using the experiences drawn from Kaesong. There is thus abundant evidence from the Chinese case that special economic zones can play an important role in economic development, and it is common for analyses to draw on this fact when discussing the effects Kaesong might have on the N. Korean economy. The logic goes that N. Korean marketization can follow the same path as Chinese marketization through taking initial measures of economic opening confined to special zones such as Kaesong. The next step in this process is a spill-over effect from the economic zones into the country at large, ultimately leading to an overall healthier economy. In other words, capitalism contained within zones will spread by virtue of its success - or so the reasoning goes, at least.

This relates to a key incentive to Seoul: increasing N. Korean standard of living in order to prepare for a future reunification scenario. The Chinese experience also arguably represents an empirical basis for Seoul's engagement policies - especially the case of the booming Taiwan - China trade.

---

83 ibid, p. 184
84 For example, Lee, Keun et al. make a very interesting comparison between the Chinese Fujian province, located directly across the Taiwan strait, and N. Korea. See Lee, Keun et al. "The Possibility of Economic Reform in North Korea", Journal of Contemporary Asia, Vol. 39, No. 2, 2009
85 ibid, p. 286
87 For more on this specific topic, see Kahler, Miles & Kastner, Scott L., "Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait", Journal of Peace Research, Vol. 43, No. 5, 2006
There are currently 4 special economic zones in N. Korea:

- Sinuiju, located near the North-Western China- N. Korea border
- Rason, Located near the North-Eastern China-Russia-N. Korea border
- Mt. Kumgang, located near the South-Eastern S. Korea - N. Korea border
- Kaesong, located near the South- Western S. Korea - N. Korea border

Source: Lonely Planet, http://www.lonelyplanet.com/maps/asia/north-korea/map_of_north-korea.jpg. The aesthetically doubtful additions of blue circles were made by the author of this paper.

The circles show the 4 approximate location of the 4 Economic Zones; Rason is not marked on the map, but is located within the North-Eastern circle. Kumgangsan is Mt. Kumgang - "san" is the Korean word for mountain.
4.2 The view of S. Korea

In order to put the Sunshine Policy in context, it should initially be noted that the two Koreas have had scarce direct contact with each other until the unexpected diplomatic breakthrough of the first Inter-Korean summit meeting in 2000. The Sunshine policy has thus been described as the first serious attempt at Inter-Korean reconciliation since the start of the Korean war in 1950. Until that point, Pyongyang had not negotiated (at least not officially) directly with Seoul but had rather preferred to talk with Washington, seeing Seoul as more or less an American colony following Washington's interests. The policy, and the developments following the year 2000 summit meeting, thus represent a radical change in the political climate on the Korean peninsula - where S. Korea has emerged as an independent actor.

4.2.1 The Sunshine Policy & Reunification

The concept of the "Sunshine policy" developed before Kim Dae-Jung became the president of S. Korea and as early as 1994 he mentioned during a speech in Washington that "America must patiently adhere to the 'sunshine policy' which had proved to be the only effective way to deal with isolated countries such as North Korea."89 The policy draws its philosophical foundation from one of the fables of Aesop, a slave believed to have lived in Greece around 600 BCE. In the fable "the North Wind and the Sun", the sun and the wind argue over which one is stronger, and they decide to have a competition to see who can make a traveler take his coat off. The stronger the wind blew, the harder the traveler clutched his coat - but when the sun shone, the traveler removed his coat voluntarily. Kim Dae-Jung uses this as an analogy for how N. Korea should be approached, stressing the need for positive interaction - "the sun" - rather than threats and sanctions - "the wind". The basic foundation of the policy is thus that N. Korea can be made to "take off its coat", interacting peacefully, through cooperation with other countries - but that Pyongyang is likely to isolate itself further if it feels threatened. Central to the Sunshine policy is thus a belief that persuasion is more powerful than force in engaging N. Korea. During the timeframe 1998-2008 Inter-Korean relations saw significant development, including a rapid increase in trade as well as the first two Inter-Korean summit meetings between N. Korean leader Kim Jong-II and S. Korean Presidents Kim Dae-Jung (first meeting, 2000) as well as Roh Moo-hyun (second meeting, 2007). When Kim Dae-Jung

---

88 Cumings, B., Korea’s Place in the Sun: a Modern History, 2005, p. 503
held his first speech as President of S. Korea, he outlined the principles of the Sunshine policy and well as its motivation;

"Inter-Korean relations must be developed on the basis of reconciliation and cooperation as well as the settlement of peace. The Cold-War style of South-North relations for over a half century, during which members of separated families could not confirm whether their own parents and brothers and sisters are alive or dead, let alone carry on dialogue and exchanges, must be liquidated as soon as possible. I cannot but feel boundless shame before our ancestors who maintained one unified country for more than 1,300 years.

...Here, I will define three principles on North Korea:

First, we will never tolerate armed provocation of any kind.
Second, we do not have any intention to harm or absorb North Korea.
Third, we will actively push reconciliation and cooperation between the South and the North."

The above excerpt from Kim Dae-Jung's inaugural speech in many ways marks a dramatic shift in S. Korea's policy towards N. Korea, which had traditionally seen Pyongyang as an enemy and envisioned national unification as a process of the South absorbing the North. It is also the first truly proactive N. Korean policy that Seoul has pursued - previous policies tended to be reactive, responding to N. Korean provocations but not seeking contact.

While the first principle might seem at odds with the other two - military deterrence while not intending to harm, seeking cooperation at the same time - this contradiction is solved by one of the key operating principles of the Sunshine policy: separation of politics and economy. The Sunshine policy maintains a strong military posture towards N. Korea but stresses the need of maintaining cooperation and interaction, contributing to unification through a step-by-step process. In the words of Kim Dae-Jung,

"There should not be the slightest wavering in our resolve to maintain national security and the sovereignty of the Republic of Korea. But we must ultimately go on the path towards unification by solving one thing at the time, solving the easiest things first while cooperating with each other and giving consideration to the other side."

---

93 ibid, p. 8
The above quote captures a central feature of the Sunshine policy well: the need for cooperation and engagement, regardless of political climate. This is a reoccurring reasoning in S. Korean politics during the timeframe 1998-2008: in 2003 Kim Dae-Jung was replaced by Roh Moo-hyun, elected in 2002 (Korean presidents are only allowed to retain their position for one 5-year mandate period). Following the election, in his inaugural speech, he expressed support for the Sunshine policy and declared his intention to carry on in its path through the "policy for peace and prosperity":

"It certainly is most unfortunate that the peninsula still remains the last legacy of the Cold War of the 20th century. In the 21st century, we have to change the peninsula into a land that sends out messages of peace to the rest of the world. So far, we have made great efforts to promote peace in the land and the results have been remarkable... While trying to build on the good results reaped so far and to bring further progress, I intend to improve on the way the policies are actually implemented.

Roh's "policy for peace and prosperity" thus confirmed the intents of the Sunshine policy in moving towards Korean unification. The last paragraph of the quote relates to Roh's overall goals of increasing political transparency in S. Korea, to which Inter-Korean politics was no exception.

The Sunshine policy was also heavily influenced by the previous experience of German unification in its emphasis on a gradual process. As Kim Dae-Jung expressed it in his speech at the Free University of Berlin,

"The German experiences shed light on Korea's Sunshine policy toward Pyongyang. For many decades, I have advocated the step-by-step reunification of Korea, moving gradually from peaceful coexistence to peaceful exchange and then to peaceful reunification."

Practically, a large part of the Sunshine policy focused on strengthening inter-Korean economic cooperation, and a main goal was to strengthen the physical infrastructure of N. Korea while at the same time separating economic cooperation from the surrounding political situation. In the same speech, the importance of economic cooperation was stressed;

"First, the Government of the Republic of Korea is ready to help North Korea tide over its economic difficulties. Presently, private-sector economic cooperation is underway under the principle of separating

---

96 Roh formed much of his political career around a firm anti-corruption stance. In a sad and ironical twist of fate, he committed suicide on May 23, 2009, after being accused of taking bribes during his time in office.
98 Ibid.
the economy and politics. However, to realize meaningful economic collaboration, the social infrastructure, including highways, harbors, railroads and electric and communications facilities, must be expanded."

This relates to the **Kaesong** project in the sense that the project itself is to a large extent connected to the Sunshine policy through being a part of the policy's practical application. Kim Dae-Jung received the Nobel peace prize for the sunshine policy in 2000, but revelations about cash payments to Pyongyang from Seoul via Hyundai-Asan later tarnished the achievement\(^99\). It was also rumored that Hyundai-Asan had paid $400 million to gain development rights to the economic zones in N. Korea and that the S. Korean government had reimbursed the company. It is difficult to gage the level of truth in the rumors but one tragic indication was that Chung Mong Hun, chairman of Hyundai-Asan, committed suicide in 2003. This occurred during a trial when he was indicted with charges of passing $100 million secretly to Pyongyang\(^100\). Kim Dae-Jung claimed that the transfers should not be seen as illegal, and that they were sent for the cause of "*inter-Korean economic projects and sustained development of inter-Korean friendship.*"\(^101\). While the exact details surrounding the inter-Korean summit and the plans to develop Kaesong will most likely never be known, it is clear that Kaesong is about as far away from a regular business enterprise as it gets.

The principle of separating economy and politics in the Sunshine policy thus refers to not letting political tensions between the two Koreas hinder economic progress, but it is worth pointing out that **Kaesong** is by no means a strict business project. Despite the promises of future mutual economic benefit, reports of profitability in the zone have been mixed so far, and it is unclear to what extent the companies operating there rely on the many various government subsidiaries to survive.\(^102\) A few of the incentives offered by the S. Korean government to companies operating in Kaesong include various tax exemptions and reductions, access to favorable low interest-rate loans, as well as political risk insurance\(^103\). **Kaesong** should consequently rather be seen as an integral part of the Sunshine policy in achieving its end goal of Korean unification. As such, the idea of **Kaesong** as a process in

---

\(^99\) "South Korean leader says move was meant to aid 'Sunshine policy': Payment to North puts Seoul on defense", *The New York Times*, January 31, 2003


\(^101\) "South Korean leader says move was meant to aid 'Sunshine policy': Payment to North puts Seoul on defense", *The New York Times*, January 31, 2003


\(^103\) ibid, p. 6
reunification in strongly integrated in the Sunshine policy. The first hint at such a role is visible already in 2000, in the aftermath of the first Inter-Korean summit meeting\textsuperscript{104},

"It is true that the North Korean economy is difficult. It is true that our cooperation will be helpful to the North. Both the North and the South will enjoy great benefits when we construct railroads, solve the power shortage, and build roads, port facilities and communication networks in the North, and when we advance into the North by building industrial complexes."

During the second inter-Korea summit meeting of 2007, Roh Moo-hyun and Kim Jong-II agreed to complete the first phase of Kaesong plan early and start on the second; meaning 100,000 employees and annual production of $3 billion;

"The South and the North have agreed to complete the first-phase construction of the Gaeseong Industrial Complex at an early date and embark on the second-stage development project"\textsuperscript{105}

As noted previously, Kaesong is commonly seen as the centerpiece of the Sunshine policy and a practical embodiment of Kim Dae-Jung's political legacy. The fact that the two Korean leaders cooperated and agreed on the development of the zone is, in the face of contemporary Korean history, quite remarkable - and it lends support to such a view.

Before conducting an analysis of the implication the Sunshine policy has had on how S. Korea interpreted the Kaesong project, this section concludes with a final Kim Dae-Jung quote that summarizes the essential philosophy of the policy\textsuperscript{106}.

"I have been steadfast in advocating what I call a 'sunshine policy' which seeks to lead North Korea down a path towards peace, reform and openness through reconciliation, interaction and cooperation with the South."

\textsuperscript{105} Republic of Korea & Democratic People’s Republic of Korea, "Declaration on the Advancement of South-North Korean Relations, Peace and Prosperity", Pyongyang: October 4, 2007
4.2.2 Implications for Kaesong

"The project to construct an industrial complex in Gaeseong is expected to merge South Korea's technology and capital with North Korea's labor to produce goods that can eventually contribute to the revival of the North Korean economy and contribute to the national economic development at large. If the project is successfully promoted, it will be a significant contribution to peace and cooperation on the peninsula and to the formation of inter-Korean economic community."  

This section seeks to answer research questions "sub question 1 & 2”;

Sub question 1: What central ideas about N. Korea and Kaesong can be observed in U.S./S. Korean policy discourse?

Sub question 2: What implications do these ideas have to interests with regards to the Kaesong project?

The theoretical foundation of this paper rests on the assumption that ideas are central to how an actor shapes its interests, and that ideas as such are underlying reasons for interests. This paper strives to show these ideas through an analysis of political discourse regarding both N. Korea in general, and Kaesong specifically. The theoretical foundation of this logic is that discourses represent a "regime of truth" that both creates and limits policy options, and as such a discourse analysis points to how the actors have viewed N. Korea and Kaesong. With this short reminder, let's look at some specific ideas within the Sunshine policy of S. Korea.

Starting off with the discourse about N. Korea in general, there are a few specific ideas that are interesting and can be seen as connected to the Kaesong project. First of all, the basic foundation of the sunshine policy is that positive interaction can bring N. Korea to interact positively with the world in return. Such interaction is further seen as having a positive impact on the development towards a peaceful Korean Peninsula: and Kaesong represents interaction. As such, this idea is conducive to the interest of developing the Kaesong project. This connects to a second idea of the policy, the need to end the Cold War structure of the Korean Peninsula: as the Sunshine policy is a strategy for achieving this goal, the implications of this second idea are similar. Since such interaction has to take place in one of the most hostile political context on the globe, a third idea is that politics need to be separated from economics.

108 Wendt, Alexander, Social Theory of International Politics, 1999, p. 96
The Kaesong Industrial Complex

This third idea has most likely been crucial to the survival of the Kaesong project - it is hard to imagine a regular profit-driven enterprise surviving the conditions the project has faced: in fact, it's a textbook example of what economists refer to as political risk. A practical application of this idea is that the S. Korean government, as noted above, offers political risk insurance to companies operating in the Kaesong zone.

A fourth idea within the policy is that there is a need of solving the easiest thing first while maintaining engagement and cooperation: essentially, "low politics". A keynote of the policy is stated by the Ministry of Unification to be "Realize first peaceful coexistence and peaceful exchanges between the two Koreas". Social and economic exchanges are thus a very central part of the policy, and Kaesong is the most significant inter-Korean economic exchange (meaning it's not unilateral). This fourth idea is thus also conducive to an interest of developing the Kaesong project. A fifth idea is that an overall goal of the sunshine policy, the peaceful reunification of the Korean Peninsula, needs to be realized through a gradual approach. This gradualism connects to the previous idea of solving the easiest thing first, and is divided into three major steps; peaceful coexistence, peaceful exchange, and finally, peaceful reunification. Kaesong is arguably relevant to all three steps if viewed through the sunshine policy: cooperation brings peaceful coexistence, and the economic exchange is part of step two, peaceful exchange. A peaceful reunification means that the two Koreas would have a shared economy: Kaesong represents this vision, albeit on a much smaller scale. This also relates to a sixth idea, the final one which will be brought up here; namely that economic cooperation needs to be a first priority. Both ideas are highly conducive to an interest of developing the Kaesong project.

With regards to discourse specifically about Kaesong, this paper has settled for using the two inter-Korean summit meetings as well as the quote at the beginning of this section as sufficient evidence of a positive stance. As the above analysis indicates, there is a strong implicit support for the project contained within the ideas of the Sunshine policy. This support has been expressed explicitly in both inter-Korean summit meetings by two Korean presidents (and the late Kim Jong-Il), as well as by the Ministry of Unification. Further, the comments by Kim Dae-Jung following the bribery charges against Hyundai-Asan, as well as the many favorable conditions offered to companies operating in the Kaesong zone, show support for Kaesong.

---

In summary, this section concludes that the ideas within the Sunshine policy are entirely consistent with, and conducive to, an interest in developing the Kaesong zone. Inclusion of Kaesong products in FTAs is part of such development, and has as previously mentioned been a policy of the S. Korean government. The overall goal of the Sunshine policy is ending the Cold War structure on the Korean Peninsula and bringing about the peaceful reunification of the two Koreas: Kaesong is also, seen through the ideas of the Sunshine policy, an important process in achieving these goals.

Table 5: Summary of S. Korean ideas

<table>
<thead>
<tr>
<th>Central Ideas/policies</th>
<th>Essential Nature</th>
<th>Implication for Kaesong</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Korean policy</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Official Kaesong stance</td>
<td>Actively Supportive</td>
<td>Positive</td>
</tr>
<tr>
<td>Peaceful Interaction</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Ending Korean Peninsula Cold War</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Separate Politics from Economy</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Easiest thing first/Gradualism</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Economic Cooperation first</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
</tbody>
</table>
4.3 The view of the USA

In order to better understand the implications of the Bush administration's policy towards N. Korea, this section will start by briefly reviewing the stance of the previous Clinton administration. Before the shift in power in the white house, the approaches of the USA and S. Korea towards N. Korea can be characterized as overall harmonious. In 1998, the policy of the USA towards Kim Dae-Jung's sunshine policy was described as follows:

"President Clinton expressed strong support for President's Kim's vision of engagement and efforts towards reconciliation with the North. The United States is working to create conditions of stability by maintaining solidarity with our South Korean ally."

In the same document, Madeleine Albright (US Secretary of State 1998) expressed an effort and desire to promote North Korean engagement with, and openness to, the world. Without spending too much space on elaboration on the Clinton administration here, it should initially be noted that US policy towards North Korea had become comparatively benign during the final years of the Clinton administration. Following the first Inter-Korean summit meeting in 2000 it appeared as if the Cold War structure of the Korean peninsula was undergoing dramatic changes and that security was to be hinged rather on cooperation than on military buildup. The views of Kim Dae-Jung found further support in the report produced by Dr. William J. Perry (at the time US North Korea Policy Coordinator), stating that:

"The views and insights of President Kim are central to accomplishing the US security objectives on the Korean peninsula."

There thus seems to have been an agreement between Washington and Seoul on the importance of engaging North Korea positively, and a belief that such an approach might lead to a more positive security environment. Here it should be noted that Congress pursued a more hard-line approach towards N. Korea, and seemed more or less constantly at odds with

---

113 ibid, p. 60
the Clinton administration\textsuperscript{115}. This was (simplified, of course) the overall political climate in 2001, when George W. Bush became the new President of the United States of America. The Korean ambassador at the time, Sung Chul Yang, describes the change in the following way\textsuperscript{116}:

"Simply put, during Clinton's last year, our relations came down to a mending operation as controversial issues confronted both nations. By and large, they were resolved amicably. By contrast, during the Bush administration, the embassy staff had to deal with unexpected surprises and unpleasant issues in a rather inhospitable environment."

It is initially important to also note that the USA has focused its N. Korean policy on the issue of denuclearization since 1991\textsuperscript{117}. In 1994, the two parties signed their only bilateral agreement to date, which is concerned with working towards a nuclear-free Korean peninsula\textsuperscript{118}. The agreement contains several other bilateral promises, including working towards "\textit{full normalization of political and economical relations}"\textsuperscript{119}, but these seem to have been (at least, so far) hinged on the overall progress towards denuclearization, meaning that they are further away from being realized today than they were in 1994. Following statements by former CIA director George J. Tenet that N. Korea had admitted to operating a program for highly enriched uranium, the Bush administration did not fulfill obligations placed on the USA in the agreement\textsuperscript{120}.

\textbf{4.3.1 The Bush administration & The war on Terror}

During the presidential campaign in 2000, the Bush administration widely criticized the foreign policy of the Clinton administration - commonly referred to as the ABC (Anything But Clinton) line. An example of the changing attitudes to come towards N. Korea can be seen in an article in 2000 by Condoleezza Rice (National Security Advisor 2001-2005), where

\begin{footnotesize}
\begin{enumerate}
\item[115] For a more detailed report, see Lee, Karin & Miles, Adam "North Korea on Capitol Hill", \textit{Asian perspective}, Vol. 28, No. 4, 2004
\item[118] "Agreed Framework between The United States of America and The Democratic People's Republic of Korea", Geneva, October 21, 1994
\item[119] Ibid
\item[120] Yang, Sung Chul, "Memoirs of a Korean Ambassador: From Engagement to Entanglement under Clinton and Bush", \textit{Asian Perspective}, Vol. 34, No. 3, 2010, p. 207-208. Yang, the Korean ambassador at the time, is highly skeptical of the reports that the Bush administration based their decisions on.
\end{enumerate}
\end{footnotesize}
she describes North Korea as "The evil twin of a successful regime just across its border."\textsuperscript{121}

This division between good and evil, where N. Korea along with other countries were branded as "evil", represents a very different view to that of both the Clinton administration and Kim Dae-Jung’s Sunshine policy - these tended to see N. Korea as a rational actor\textsuperscript{122}. The most dramatic change came in the form of the by-now-famous State of the Union speech by President George W. Bush in 2002. The speech, in the wake of the terrorist attacks on September 11 2001, was aggressive in nature and signaled a dramatic end to any previous policies of positive interaction with N. Korea\textsuperscript{123};

"Our second goal is to prevent regimes that sponsor terror from threatening America or our friends and allies with weapons of mass destruction. Some of these regimes have been pretty quiet since September the 11th. But we know their true nature. North Korea is a regime arming with missiles and weapons of mass destruction, while starving its citizens.

Iran aggressively pursues these weapons and exports terror, while an unelected few repress the Iranian people's hope for freedom.

Iraq continues to flaunt its hostility toward America and to support terror.

...States like these, and their terrorist allies, constitute an axis of evil, arming to threaten the peace of the world. By seeking weapons of mass destruction, these regimes pose a grave and growing danger. They could provide these arms to terrorists, giving them the means to match their hatred. They could attack our allies or attempt to blackmail the United States. In any of these cases, the price of indifference would be catastrophic."

While the plans of N. Korea to acquire Nuclear weapons have been a constant concern for all administrations in the USA as well as S. Korea, the threat perception of N. Korea contained within the State of the Union speech in 2002 is unmatched. Before the speech, in 2001, the Bush administration conducted a review of North Korean relations, stressing that continued dialogue would be highly dependent upon demilitarization on N. Korea's part\textsuperscript{124}. Some analysts have described this as a less flexible position where no dialogue is to be expected unless N. Korea makes military concessions\textsuperscript{125}. This new position has also been, in Korea, seen as a way of criticizing the Sunshine policy's method of separating political from

\textsuperscript{121} Rice, Condoleezza "Promoting the national interests", \textit{Foreign affairs}, 79, 2000, p. 60  
\textsuperscript{122} Moon, C.I & Bae, J.Y "The Bush doctrine and the North Korean nuclear crisis", \textit{Asian Perspective}, 27, 2003  
\textsuperscript{123} President George W. Bush, \textit{State of the Union Speech}, Washington: 2002  
\textsuperscript{124} White House, "Statement by the President", June 13, 2001  
\textsuperscript{125} See for example Harnisch, S. "U.S-North Korean relations under the Bush administration", \textit{Asian Survey}, Vol. 42, 2002, p. 868
economic cooperation\textsuperscript{126}, and it does indeed differ sharply in this aspect. Following the invasion of Iraq in 2003, another part of the "axis of evil", relations worsened further as Washington seemed to send a signal that the survival of all three regimes could not be taken for granted\textsuperscript{127}. The pre-emptive strike against Iraq might have been aimed at increasing U.S. security, but some analysts have claimed that in the case of N. Korea it actually led to Pyongyang pursuing nuclear capacity more actively to ensure its own survival\textsuperscript{128}, leading to worsened U.S.-N. Korean relations and lending substance to viewing any income source of Pyongyang as potentially strengthening its nuclear capacity.

N. Korea had been on the U.S. list of state sponsors of terrorism since 1987, following its involvement in the bombing of a S. Korean commercial airplane, and 2003 it was described as a rogue state sponsoring global terrorism\textsuperscript{129}. The main objective of the National Strategy for Combating Terrorism, the document containing above statement, is as follows\textsuperscript{130}:

"The United States' strategy for combating terrorism focuses on taking the fight to the terrorists themselves. We are using all elements of our national power and international influence to attack terror networks; reduce their ability to communicate and coordinate their plans; isolate them from potential allies and from each other; and identify and disrupt their plots before they attack."

While it is not the purpose of this paper to get into details about U.S. Anti-terror strategies, it is worth noting the aggressive and threatening rhetoric of the document in its commitment to "attack terror networks" and "take the fight to the terrorists themselves". Further, the document links N. Korea more strongly to international terrorism. This, given the context of the 9/11 attacks in the USA, must (at least, according to the author) be seen as kicking the threat perception of N. Korea up a notch. The above paragraph also deals with an integral aspect in understanding the threat perception of N. Korea to the Bush administration: it is not just about the capability of N. Korea to be a direct military threat to the USA. Rather, of at least equal importance is the danger that Pyongyang will sell military technology, including nuclear, to terrorist cells\textsuperscript{131}. The USA also has legal obligations to oppose any proposed loans or offers of membership to N. Korea by international financial institutions as long as the

\textsuperscript{128} Ibid.
\textsuperscript{129} White House, "National Strategy for Combating Terrorism", Washington: 2003
\textsuperscript{130} Ibid.
country is linked to terrorism. In October 2008, at the end of the Bush administration's second term in office, N. Korea was removed from the list after significant progress in the six-party talks towards denuclearization, which removed several restrictions to trade as N. Korea was also no longer under the jurisdiction of the U.S Trading With The Enemy Act (commonly referred to as "TWEA"). However, several restrictions were continued through a presidential order by George W. Bush - an order that simultaneously signaled that this was not an indication of a friendly U.S.-N. Korean relationship;

"I, GEORGE W. BUSH, President of the United States of America, find that the current existence and risk of the proliferation of weapons-usable fissile material on the Korean Peninsula constitute an unusual and extraordinary threat to the national security and foreign policy of the United States, and I hereby declare a national emergency to deal with that threat."

Prior to the removal of N. Korea from the list of state sponsors to terrorism, trade with N. Korea was regulated under the Trading With The Enemy Act of 1917, making any commercial exchange between the two countries virtually impossible, and further, illegal. While the act was lifted in 2008, many restrictions still apply: perhaps most significant to the Kaesong case is the fact that any import of goods originating in, or partially produced in, N. Korea may not be imported into the U.S. nor exported to N. Korea without specific permission from the Office of Foreign Assets Control. The same applies to exports to N. Korea. Such permissions have been given for certain Kaesong-related exports, for example telecommunication technology containing U.S. components (U.S. technology is incorporated in many of the electrical wires that now connect both Koreas through Kaesong) - a fact the U.S. embassy in Seoul has used to argue that the USA has supported Kaesong's growth.

The U.S. has further attempted to limit the inflow of dollar currency into N. Korea, based on

---

135 The act contains prohibitions on 41 types of commercial transactions, covering nearly any conceivable way of doing business. See "Trading With The Enemy Act of 1917" for more details.
concerns that N. Korea engages in currency counterfeiting\textsuperscript{138}. Mark E. Manyin notes, in his report for congress\textsuperscript{139}, that there have been widespread concerns about the Kaesong project undermining the policy of restricting cash inflow to Pyongyang. This is interesting to the Kaesong case because the N. Korean workers are paid in U.S. dollars. For the purposes of this paper, it is sufficient to note that the U.S. imposed numerous economic sanctions on N. Korea during the time of the Bush presidency\textsuperscript{140}, in an effort to economically isolate the country. U.S sanctions against N. Korea are motivated by 4 major points\textsuperscript{141}:

1. The country poses a security threat to the U.S.
2. N. Korea is a state sponsor of terrorism. (This point is not valid after 2008)
3. The country is a Communist state.
4. The country has engaged in proliferation of weapons of mass destruction.

This is thus the political context in which the Kaesong project, and the income it brings the N. Korean government, has developed. Initially it is important to keep in mind that the Kaesong project received strong backing from the Sunshine policy of S. Korean presidents Kim Dae-Jung and Roh Moo-hyun. It is also worth recalling that the USA and S. Korea, regardless of their differing opinions on N. Korean policy during the relevant timeframe, remain important allies to each other. It is further worth noting that N. Korea is subject to numerous UN resolutions placing obligations on any country trading with them to ensure that cash inflow does not go towards the development of nuclear weapons. In relation to Kaesong, the UN resolutions 1695 and 1718 are relevant, dealing with the transfer of financial assets to Pyongyang. In particular, resolution 1695 by the security council contains the following paragraph regarding the responsibilities of states trading with N. Korea\textsuperscript{142}:

"4. Requires all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent the procurement of missiles or missile related-items, materials, goods and technology from the DPRK, and the transfer of any financial resources in relation to DPRK's missile of WMD programmes"


\textsuperscript{140} A good summary of these sanctions is available in Rennack, Dianne E., "North Korea: Economic Sanctions", \textit{Congressional Research Service: Report for Congress}, 2006. The report contains an 10-page Appendix summarizing the sanctions.

\textsuperscript{141} Ibid, Background (p. 1)

\textsuperscript{142} UN Security Council Resolution 1695
UN resolution 1718 further places obligations on states\(^{143}\) to ensure that any money flowing into N. Korea does not reach the hands of virtually anyone related to "nuclear-related, other weapons of mass destruction-related and ballistic missile related programmes", through the following wording:

"...ensure that any funds, financial assets or economic resources are prevented from being made available by their nationals or by any persons or entities within their territories, to or for the benefit of such persons and entities".

It is thus, given the above conditions, quite hard to find a direct statement from the USA saying that Kaesong provides funding for Pyongyang's nuclear ambitions. The reality is that such a statement would imply that S. Korea is in direct violation of its obligations with regards to above UN Security Council resolutions (which are legally binding), and would most likely be highly damaging to U.S.-S. Korean relations. Further, saying that S. Korea violates resolution 1718 would by extension mean that China is guilty of the same offence, as they are also trading with N. Korea. Nevertheless, Condoleezza Rice remarked on her visit to Seoul in 2006 that\(^{144}\):

"What we want is effective implementation of Resolution 1718 and its measures or its elements that declare an obligation of all states to keep North Korea from trafficking in nuclear weapons, nuclear weapons technologies, financing their programs, receiving support for those programs. We want scrutiny of North Korean cargo that might be involved in such programs."

In essence, this statement served to remind S. Korea of its obligations to ensure that S. Korea does not financially support N. Korean nuclear ambition. With regards to Kaesong, the reality is that the project provides income to the N. Korean government: how is it possible for the S. Korean government to ensure that this income does not fuel nuclear ambition? The major conundrum is that, quite frankly, it isn't possible given the opaque nature of N. Korea.

Thus, while the author of this paper would surely have loved to incorporate direct U.S. statements of Kaesong as a security threat, the reality is that such statements do not exist. However, a majority of the analyses used in this paper regarding the matter hold claims that support such a view. For example, Mark E. Manyin and Dick K. Nanto, long-term authors of research reports to the U.S. Congress, state that\(^{145}\):

---

\(^{143}\) UN Security Council Resolution 1718

\(^{144}\) "South Korea Vows Continued Ties with North Korea", PBS Newshour, October 19, 2006

"...anything that increases revenue to the Pyongyang regime has the potential to contribute to the DPRK's military (including its missile and nuclear program). It is likely, however, that the DPRK's nuclear program has assured funding from the government. Also, given Kim Jong-il's "military first" policy, the North Korean military has top priority in the allocation of scarce economic resources."

In another such report by Dick K. Nanto, co-authored by Emma Chanlett-Avery, the view is that

"The economy of North Korea is of interest to Congress because it provides the financial and industrial resources for the Kim Jong-il regime to develop its military and to remain in power."

The above 2 examples are also further interesting in the sense that they are academic reports specifically written for U.S Congress: as such, they are part of the knowledge basis on which American congress members base their decisions, motivating an interpretation of them as part of U.S. discourse.

For the purpose of this analysis, then, there is an absence of the proverbial smoking gun in U.S. policy towards Kaesong; in fact, Washington have focused much of its critique through the lens of human rights concerns. Jay Lefkowitz, who served as the U.S. Special Envoy for Human Rights October 18, 2004 - January 17, 2009, raised numerous critical remarks about possible Human Rights violations in Kaesong and was repeatedly denied access to the complex, stating that:

"During my tenure as Special Envoy, I have expressed concerns about Kaesong and suggested steps that could ensure it lives up to one of its intended purposes - opening North Korea."

Lefkowitz also published several articles critical of the labor conditions in the Kaesong area, including an editorial in the Wall Street Journal that contained some strongly worded reservations about the projects worth, including the following quote:

"Some argue that labor arrangements like those in Russia and Kaesong are positive developments. They see these activities as a way to open North Korean eyes to the outside world. To date, however, those benefits seem more theoretical than real. Rather, it is more likely that the hard currency these countries are sending to North Korea will end up funding the regime’s nuclear aspirations instead of improving living conditions for the people of North Korea."

---

148 For example, Lefkowitz, Jay "The Dear Leader’s laborers", Wall street journal, January 10, 2007
However, it is unclear to which extent these views were representative of the U.S. government, even though they were made during a time when he was a *de facto* government representative. Interestingly enough, Lefkowitz' final report contains numerous links to governmental websites promising further detail about his objections with regards to Kaesong - but none of the links were functional at the time of this paper's writing. In 2008, Lefkowitz made a controversial speech claiming that N. Korea would never abandon their nuclear weapons, something Condoleezza Rice publicly condemned. A common conclusion however, drawn in the majority of the sources incorporated in this study, is that Lefkowitz' remarks were at least partially representative of an official U.S. stance. Marcus Noland, another long-term advisor to the U.S. government on N. Korean issues, highlighted the areas of concern in a testimony to congress in 2006. He divided these concerns into two groups: substantive and procedural. Substantive issues include the lack of international labor standards - Noland states that "the rights to associate, organize, and bargain collectively are entirely absent". The procedural issue is that S. Korea cannot enforce any laws without the consent of N. Korea, since Kaesong is on sovereign N. Korean soil.

It should be noted that officially Washington has supported the Kaesong project - a joint declaration between S. Korea and the USA in 2005 contains the following wording:

"President Roh reaffirmed that the ROK will continue to pursue the development of inter-Korean relations in accordance with its Peace and Prosperity Policy...President Bush expressed support for South-North reconciliation and pledged to continue close cooperation and coordination as it develops"

Practice, in the form of the refusal to include Kaesong products into the KORUS FTA, however, tells a different tale.

---

151 Ibid.
152 White House,"Joint Declaration on the ROK-U.S. Alliance and Peace on the Korean Peninsula", following Summit meeting in Gyeongju, S. Korea, November 17, 2005
4.3.2 Implications for Kaesong

This section seeks to answer research questions "sub question 1 & 2“;

**Sub question 1:** What central ideas about N. Korea and Kaesong can be observed in U.S./S. Korean policy discourse?

**Sub question 2:** What implications do these ideas have to interests with regards to the Kaesong project?

While relating the central ideas of the Sunshine policy to interests with regards to the Kaesong project is a relatively straightforward process, in the sense that the policy is largely ideationally based, the N. Korean policy of the USA does not share similar characteristics.

The official S. Korean policy with regards to Kaesong also matches well with the nature of the Sunshine policy: again, it is harder to make such claims about U.S. official Kaesong policy and N. Korean policy. The link between ideas and their implications for interests regarding the Kaesong project necessarily becomes more hypothetical in the U.S. case. This is in itself an interesting observation, as U.S. policy discourse is not as proactive as the Sunshine policy: it's based rather on material considerations such as denuclearization.

That being said, there are a few ideas contained within the U.S. discourse that sets it markedly apart from its S. Korean counterpart. First, there is no visible indication of a desire to separate politics and economics: rather, cooperation and indeed any negotiation is dependent upon the steps N. Korea takes towards demilitarization and denuclearization. The implication for Kaesong is conditional: if N. Korea makes process towards these goals, then cooperation and support for the project is more likely. The removal of N. Korea from the list of state sponsors of terrorism in 2008 was a consequence of such efforts by N. Korea, and it removed some barriers for economic cooperation between the two countries. A second idea is concerned with the U.S. threat perception of N. Korea, where N. Korea is seen as an evil rogue nation that poses a mounting security threat to the USA. The implications for Kaesong are less direct, but drawing upon the theoretical ground that discourse limits policy options, it is difficult to see how this idea would be conducive to an interest of supporting the Kaesong project, as it brings Pyongyang financial benefit. A third idea that is more clearly connected to Kaesong is the notion that N. Korea engages in counterfeiting of foreign currency, which is the motivation

---

The Kaesong Industrial Complex

for the U.S.' policy of restricting inflows of foreign currency into the country. The implications for Kaesong are negative: the project represents an inflow of U.S. Dollars into Pyongyang and as such is directly detrimental to a policy of restricting such inflows. Another difference between the U.S. and its ally is the policy that trade with N. Korea should be limited, based on the notions that the country is a security threat, a supporter of terrorists (until 2008), a communist state, and has engaged in proliferation of weapons of mass destruction. The fact that the policy has had considerable political support indicates the fourth idea: trade with N. Korea should be limited. This has negative implications for an interest of developing Kaesong and including it in the KORUS FTA, as any inclusion would remove the barriers of trade and open the U.S. market to N. Korean-made Kaesong products.

The above mentioned ideas and their connection to the Kaesong project are admittedly dependent on the interpretation of this paper's author to a higher degree than their Korean counterparts. It is hard to empirically back them up by U.S. official statements about Kaesong that hold similar views: the project officially has the U.S.' support, although that support has been passive - there is no direct U.S. involvement in the Kaesong project. Whether the official stance of the U.S. is a consequence of a genuine desire to support Kaesong's growth or a diplomatic consideration towards S. Korea is difficult to confidently say: the next section will elaborate on the diplomatic issue. However, if the quotes contained in above section, by U.S. academics and U.S. representative Jay Lefkowitz, are any indication, it would be hard to argue that the U.S. has an interest in supporting Kaesong. In relation to Lefkowitz, many analysts have viewed his remarks as a primary source; this paper however treats them as secondary due to controversies between him and Condoleezza Rice, indicating his opinions were not broadly politically supported. The ideas expressed by these secondary sources are that Kaesong income most likely funds N. Korea's nuclear ambition, and that N. Korean workers in Kaesong lack labor rights. This second concern is in conflict with obligations placed on the U.S. through domestic legislation in the form of the North Korean Human Rights Act of 2004, whose purpose is to "Promote respect for and protection of fundamental human right in North Korea"154, and would have to be addressed before Kaesong could be actively supported. Another way of viewing the issue is simply asking the question 'if the U.S. supported Kaesong, why not include Kaeson products in the KORUS FTA?'.

In summary, this section cannot make similar claims about the consistency between U.S. N. Korean policy and Kaesong policy as the section analyzing ideas within the sunshine policy did. The N. Korean policy of the USA does not share the ideational basis of the Sunshine policy that positive interaction is the best way to "deal with" N. Korea. Rather, in the words of Aesop's fable, the U.S. stance is much closer to the wind than the sun, preferring to put pressure on Pyongyang and reacting to N. Korean provocations aggressively. When looking at U.S. N. Korean policy discourse, it is hard to find ideas that are conducive to an interest of developing Kaesong.

**Table 6: Summary of U.S. ideas**

<table>
<thead>
<tr>
<th>Central Ideas/policies</th>
<th>Essential Nature</th>
<th>Implication for Kaesong</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Korean policy</td>
<td>Hostile</td>
<td>Negative</td>
</tr>
<tr>
<td>Official Kaesong stance</td>
<td>Passively supportive</td>
<td>Positive</td>
</tr>
<tr>
<td>Denuclearization &amp; Demilitarization first</td>
<td>Conditional</td>
<td>Conditional</td>
</tr>
<tr>
<td>N. Korea: evil state linked to int. terrorism, security threat</td>
<td>Hostile</td>
<td>Unsupportive</td>
</tr>
<tr>
<td>N. Korea engages in counterfeiting</td>
<td>Hostile</td>
<td>Negative</td>
</tr>
<tr>
<td>Limit trade with N. Korea, impose sanctions</td>
<td>Hostile</td>
<td>Negative</td>
</tr>
<tr>
<td><em>(Academic)</em> Kaesong income funds nuclear ambition/workers do not have Labor rights*</td>
<td>Negative</td>
<td>Negative</td>
</tr>
</tbody>
</table>
4.4 Differences in N. Korean policy & The US-Korean relationship

"It is not an age of imperialism where the big four powers rule us. One the contrary, the big four powers are our markets, and we can take advantage of them."

The reader will by now have noticed that there are many substantial differences between S. Korean and U.S. policy towards N. Korea within the timeframe of this study. In constructivist terms, these differences have been attributed by analysts as a discrepancy between the ideas of S. Korea and the USA on how to perceive and deal with N. Korea. The radical shift in U.S. N. Korean policy that followed during George W. Bush's first presidency meant that the two traditionally extremely close allies were suddenly pulling in two different directions: one towards engagement, the other towards isolation. It also seems these changes happened quite unexpectedly. When President Kim Dae-Jung visited Washington in 2001 to discuss (among other issues) the approach to N. Korea, the U.S. Secretary of State, Colin Powell, had indicated that the Bush administration would continue more or less on the same line as the Clinton administration. During the summit Powell withdrew his statement, saying that

"There are suggestions that there are imminent negotiations about to take place. That is not the case."

As such, the official stance of the Bush government towards N. Korea changed literally overnight. The first summit meeting between the two leaders can be characterized as a diplomatic failure when it comes to N. Korean policy: for example, the S. Korean ambassador at the time described the agenda of the meeting as a "no-win situation" due to the fact that the Bush administration did not have sufficient time to review U.S.-Korean issues in general, and N. Korean policy in particular. President Bush expressed his skepticism towards the N. Korean leader Kim Jong-Il, and questioned the viability of making agreements with Pyongyang. Bush further stirred discontent in S. Korea by referring to Kim Dae-Jung as "this man"; a description that is, given the extremely hierarchical Confucian character of Korean society, highly inappropriate for a nation's highest political leader. The new U.S. government stance
against N. Korea was directly detrimental to the goals of Kim Dae-Jung's Sunshine policy, who saw a friendly international atmosphere as a critical element in getting N. Korea to interact positively. In the language of Aesop's fable, N. Korea would not take of its coat unless the sun shone from many directions - and would cling tightly to it as long as the wind was blowing, whatever the origin of that wind may be. The two quotes below, from the Ministry of Unification, elucidate this position:

"Currently, the Korean peninsula issue is directly connected to international security issues such as non-proliferation of weapons of mass destruction and the international coalition against terrorism...To peacefully resolve these issues, cooperation with the international community as well as fostering an environment in which North Korea can improve relations with the outside world is needed."  

"South Korean government's efforts to closely cooperate with the U.S., Japan, EU and other allies and encouraging them to improve their respective relations with North Korea is an important part of the peacemaking aspect of the policy"

It seems quite redundant to point out that the U.S. classification of N. Korea as a member of the "Axis of Evil" does not fall under the category of fostering an environment in which North Korea can improve relations with the outside world. Nor can it be said to be a positive step in improving the USA's relations with N. Korea. Following the "Axis of Evil" speech, as well as an incident in Seoul where a U.S. military vehicle killed two Korean schoolgirls during a military exercise, there were massive anti-American protests held in Seoul. Another indication that the U.S.-S. Korean relationship was under strain came in 2003 when Roh Moo-hyun, the president to be, did not visit the USA during his electoral campaign - it has been customary for presidential candidates to do this. Roh also heavily criticized the Bush government for its harsh N. Korean policy and refusal to negotiate with Pyongyang. However, analysts have suggested that "anti-Americanism" should rather be seen as "anti-Bushism" and that these sentiments are specific reactions to the N. Korean policy of the Bush government, and are not indications of sentiments against the USA in general. Nevertheless, above events suggest that the U.S.-S. Korean alliance should not be taken for

---

163 ibid, p. 16
165 Ibid.
166 Ibid.
grant or be seen as unproblematic: different approaches to N. Korea bring many contentious issues between the two allies. An interesting example of such an issue is the discrepancy in estimations of the military threat of N. Korea that were made by the two countries in 2001 and 2002. General Thomas A. Schwartz, who was then Commander of the U.S. Korean forces, testified before senate that the N. Korean military threat was growing in both 2001 and 2002. This did not match the estimations of S. Korea, who had not made a similar assessment. The top military intelligence officer in S. Korea, Pak Sung-chun, commented that

"Basically, there is no difference in opinion in intelligence assessments between the ROK and the United States. It only turned out that we were looking at changes in North Korea, while the United States was looking at the very existence of a threat."

The above quote is interesting because it indicates differences in how the N. Korean military threat was perceived: the S. Korean estimations were more positive than the U.S.' because they took into account positive developments between the two Koreas, while the U.S. assessments only dealt with physical facts, such as number of troops posted near the Korean border. While it is highly difficult to substantiate a statement that the U.S.-S. Korean alliance was weakened because of differences in N. Korean policy, a conclusion of this paper is that the alliance was at the very least strained by such issues. A quite telling indication of such strain is found in the evaluation of the Bush administration's N. Korean approach by the former S. Korean ambassador to the USA;

"South Korea's engagement policy aims to pursue a dialogue with North Korea, which is firmly based on deterrence, i.e., with the ROK-U.S. alliance as its cornerstone. In dealing with North Korea, talk is better than no talk, and negotiation is no concession. What counts is the substance and the results of the negotiation. From this standpoint, Bush's first-term foreign-policy team's approach of 'no-buy-no-beg-no-bilateral negotiation' with North Korea was not only misconceived and misdirected but was a fiasco."

At the same time as the U.S. policy towards N. Korea might have undermined the S. Korean engagement policy, the opposite can be said for S. Koreas policy, in the sense that it did not

---

168 Oh, Kongdan & Hassig, Ralph C. "The North Korean Military as a Security Threat", East Asia, 2000, p. 8
169 ibid, p. 10
170 Quote from Major General Pak Sung-chun, contained in Oh, Kongdan & Hassig, Ralph C. "The North Korean Military as a Security Threat", East Asia, 2000, p. 10
support U.S. efforts to pressure N. Korea financially. The same statement can be applied to the rapidly growing China-N. Korea trade. The efficiency of economic sanctions against N. Korea within the timeframe of this study, such as the UN resolutions 1695 and 1718 discussed above, have to be judged in light of the growing N. Korean trade with both China and S. Korea.

4.4.1 The KORUS FTA and the role of Kaesong

The KORUS FTA was signed by both parties on June 30, 2007. It was approved by the legislative branch in the USA, the Congress, on October 12, 2011 and in S. Korea by the National Assembly on November 22, 2011, and entered into force on March 15, 2012. Kaesong products are not included in the final text of the FTA, but there is an agreement to establish a "Committee on Outward Processing Zones on the Korean Peninsula". The purposes and jurisdictions of the Committee are regulated in Annex 22-B of the FTA. The inclusion of Kaesong as an Outward Processing Zone would mean that products manufactured within the zone would be granted beneficiary treatment according to the terms of the FTA. Article 3 of the Annex summarizes the conditions under which this inclusion would be possible;

3. The Committee shall identify geographic areas that may be designated outward processing zones. The Committee shall establish criteria that must be met before goods from any outward processing zone may be considered originating goods for the purposes of this Agreement, including but not limited to: progress toward the denuclearization of the Korean Peninsula; the impact of the outward processing zones on intra-Korean relations; and the environmental standards, labor standards and practices, wage practices and business and management practices prevailing in the outward processing zone, with due reference to the situation prevailing elsewhere in the local economy and the relevant international norms.

While Kaesong products at present are not entitled to preferential treatment under the FTA, there is thus a possibility that they may be in the future. However, there are a number of preconditions which have to be fulfilled - perhaps most problematic of these are the provisions regarding process towards denuclearization as well as reaching internationally recognized labor standards and practices within the Kaesong zone. Essentially, the final text of the FTA might be seen as a compromise between the two parties' initial positions: the USA managed to exclude Kaesong products, but did not shut the door to a future inclusion.

However, there might be different expectations between the two actors regarding the possibility of including Kaesong products. In 2007, both countries published summaries of the FTA\textsuperscript{176} and one major difference is that the U.S. summary does not mention Kaesong, while the S. Korean version states that

"Both sides agree to establish the 'Committee on Outward Processing Zones on the Korean Peninsula' which designates outward processing zones on the Peninsula under some conditions. Products made in the inter-Korean industrial complex in the North Korean border city of Kaesong are expected to be treated as South Korean-made goods."

This indicates that S. Korea expects that Kaesong products will be included in the FTA in the future. But the preconditions for establishing outward processing zones under Annex 22-B in the KORUS FTA are far from being fulfilled, and will most likely be highly difficult to reach an agreement on. The official position of the USA is that in order to include Kaesong products in the FTA, Congress would have to pass a law to do so, and the U.S. President would have to sign that law\textsuperscript{177}. In relation, it is important to remember that Kaesong does not exist independently of the surrounding political context: both S. Korea and the USA have to weigh their position on the issue against the overall alliance between the two countries. In the context of the FTA negotiations, during a press roundtable at the U.S. embassy in Seoul 2006, an embassy official indicated that issues regarding Kaesong would not distract from the overall goal of achieving an FTA, saying that\textsuperscript{178};

"Kaesong, basically the view on Kaesong is the following, that the FTA negotiation is between the United States of America and Republic of Korea. We want to focus on that, get a good FTA, and not distract from that primary goal which is a really good FTA between the two countries."

In other words, concluding the KORUS FTA was the most important task, and the USA did not want to jeopardize the agreement by debating the potentially contentious Kaesong issue. This connects to the previous discussion regarding the improbability of finding directly negative official U.S. statements regarding Kaesong. As was mentioned earlier in this thesis, analysts often turn to other sources, such as statements made by U.S. academics, to support a view that the U.S. does not support the project. A frequently used such source is a statement by U.S. academic Victor Cha to the U.S. senate Foreign Relations Committee in March, 2004.


\textsuperscript{178} Embassy of the United States of America, Seoul "Questions and Answers from Economic Press Roundtable with Embassy Official", Seoul: February 8, 2006
Cha became the director for Asian Affairs at the U.S National Security Council on December 2004, and also served as Deputy head of the U.S delegation at the six party talks. In his testimony Cha states that¹⁷⁹:

"The danger of fixating on the economic reforms, however, is that we may be attributing much more to North Korean security preferences than exist in fact. There is no logical link between DPRK desires to reform on the economic front and change in their security intentions. To seek economic reform and pursue a ramping up of national power through nuclear weapons and ballistic missiles is not only plausible, but also fully consistent with the concept of `rich nation, strong army'."

When applying this statement to the specific Kaesong case, one interpretation that can be made is that Cha essentially says it is probable that the income from the project will fuel N. Korean military ambition, including the procurement of nuclear weapons. The diplomatic challenge of Kaesong is that Cha is most likely correct in his assessment: as noted previously, N. Korea pursues a military-first policy and any income to Pyongyang is potential income for the N. Korean army. In the same way that General Schwartz made a more negative security assessment than his Korean counterparts in 2001 and 2002, Cha has a more pessimistic outlook on the effects of N. Korea's economic reforms than that contained in the Sunshine policy - a policy that sees economic reform and interaction as a cornerstone for establishing peace on the Korean Peninsula.

5. Conclusions

Analyzing the ideas of the Sunshine policy and its views on N. Korea and the Kaesong project has proven to be a quite straightforward enterprise: the policy is proactive, clear, consistent, and open about its end goals. U.S. N. Korean policy does not share similar characteristics. A conclusion of this paper with regards to the Sunshine policy is that the ideational components of the policy made the Kaesong project viable. There has certainly been enough political turmoil to warrant a closure; but the firm belief in the positive effects of economic interaction has created a political context allowing the project to survive and develop. Perhaps the most interesting conclusion to draw from this fact is that U.S. discourse did not express similar ideas, and the two allies seem to have been operating with different understandings on how to perceive and interact with N. Korea. Regarding the Kaesong project, the political discourse within the Sunshine policy is highly supportive, both implicitly and explicitly. Looking at U.S. discourse leads to different conclusions: the official support for Kaesong is not widely supported by the ideas about N. Korea. Rather, there is more ideational ground for U.S. opposition than support for the project.

Then why does the USA not oppose Kaesong officially?. The conclusion of this paper with regards to this question is that such opposition risked being highly damaging to U.S.-S. Korean relations - relations that were already strained by S. Korean frustrations with U.S. N. Korean policy. The income that Kaesong brought Pyongyang during the timeframe of this study has been estimated as relatively minor (~$20 mil. annually). A direct opposition of Kaesong would also imply a direct opposition of the Sunshine policy, as Kaesong is the most significant practical embodiment of the policy. It is highly doubtful that U.S. concerns with Kaesong were major enough to risk upsetting the U.S.-S. Korean alliance further. However, while the U.S. supports Kaesong officially, such support has been passive: active support, by including Kaesong in the KORUS FTA, is a quite different matter.

With regards to the main research question, Why has the inclusion of Kaesong products in the KORUS FTA been a difficult matter to negotiate?, this paper concludes that the question can be partially answered by analyzing the radically different ideas on how to perceive and deal with N. Korea that are visible in the political discourse of both countries. This conclusion was reached through answering sub questions 1: What central ideas about N. Korea and Kaesong can be observed in U.S./S. Korean policy discourse and sub question 2: What implications do
these ideas have to interests with regards to the Kaesong project?. The answers to the sub questions are that S. Korean policy discourse indicates a strong desire to cooperate with N. Korea and support the Kaesong project, explaining the position that Kaesong products should be included in the KORUS FTA. Regarding U.S. discourse, is was hostile towards N. Korea and uncooperative. While the Kaesong project was officially supported, the ideas in U.S. discourse about how to perceive and deal with N. Korea can be used to explain why the U.S. did not want to include Kaesong products in the KORUS FTA. Table 5 & 6 provide a summary of these ideas.

Table 5: Summary of S. Korean ideas

<table>
<thead>
<tr>
<th>Central Ideas/policies</th>
<th>Essential Nature</th>
<th>Implication for Kaesong</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Korean policy</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Official Kaesong stance</td>
<td>Actively Supportive</td>
<td>Positive</td>
</tr>
<tr>
<td>Peaceful Interaction</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Ending Korean Peninsula Cold War</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Separate Politics from Economy</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Easiest thing first/Gradualism</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
<tr>
<td>Economic Cooperation first</td>
<td>Cooperative</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Table 6: Summary of U.S. ideas

<table>
<thead>
<tr>
<th>Central Ideas/policies</th>
<th>Essential Nature</th>
<th>Implication for Kaesong</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Korean policy</td>
<td>Hostile</td>
<td>Negative</td>
</tr>
<tr>
<td>Official Kaesong stance</td>
<td>Passively supportive</td>
<td>Positive</td>
</tr>
<tr>
<td>Denuclearization &amp; Demilitarization first</td>
<td>Conditional</td>
<td>Conditional</td>
</tr>
<tr>
<td>N. Korea: evil state linked to int. terrorism, security threat</td>
<td>Hostile</td>
<td>Unsupportive</td>
</tr>
<tr>
<td>N. Korea engages in counterfeiting</td>
<td>Hostile</td>
<td>Negative</td>
</tr>
<tr>
<td>Limit trade with N. Korea, impose sanctions</td>
<td>Hostile</td>
<td>Negative</td>
</tr>
<tr>
<td>(Academic) Kaesong income funds nuclear ambition/workers do not have Labor rights</td>
<td>Negative</td>
<td>Negative</td>
</tr>
</tbody>
</table>
The reason why the main research question is only partially answered is because there are many aspects that have been excluded in this study. The actions of N. Korea is an important factor: both actors have to react to what N. Korea does. The Sunshine policy differs from U.S. policy in the sense that is more proactive, but there is logically a limit to the amount of N. Korean provocations that can be tolerated: if not politically, then in the form of popular political support. Incorporating the actions of N. Korea would also explain the U.S. position further, which has not shared the belief of the Sunshine policy in the power of interaction. Another question that needs to be answered in order to give a conclusive answer to the main research question relates to the benefits that both actors gain from supporting the Kaesong project. This paper did not go into details about the economic aspect of Kaesong, but there are relevant questions to ask in connection to the KORUS FTA: What economic impact would an inclusion have to S. Korea? How would it impact the USA?

Nevertheless, the conclusion of this paper is that the two countries' positions with regards to Kaesong's inclusion in the KORUS FTA can be seen as partially a consequence of the different ideas visible in official discourse about how to perceive and interact with N. Korea. Briefly summarizing the both countries' positions, S. Korean discourse indicates that cooperation should be unconditional and can lead to positive developments. U.S. discourse rather indicates that cooperation is conditional upon prior positive developments relating to denuclearization and demilitarization. As such, the essential difference is that S. Korea viewed cooperation as a cause of positive development, while the U.S. rather saw cooperation as a consequence of such development.

The theoretical foundation of this paper is that interests are to a large part functions of ideas, and the conclusions are also based on this logic. It is, however, impossible to "get in the heads" of the U.S. and S. Korea - conclusions are based on the reasoning that ideas about how to perceive and interact with N. Korea have a carryover effect in relation to the both countries' interests with regards to Kaesong generally, and to supporting the project specifically by including it in the KORUS FTA. Since this research deals with highly immaterial concepts such as ideas and interests, it is difficult to make definite statements regarding causality to this effect. What can be said, however, is that ideas that constitute the interest of including Kaesong in the KORUS FTA have a positive or negative implication for such an interest. This is not the same as stating that the USA refused to include Kaesong in the FTA only because of these ideas, or that S. Korea wanted to include Kaesong only because of their ideas: what this paper has strived to show is that such ideas point in certain directions.
Finishing off with a few thoughts on the future of Kaesong, there are some predictions I would like to make. First of all, the current S. Korean Lee Myung-bak administration has stressed reciprocity and practicality in inter-Korean relations: an implication for Kaesong’s future is that the project is likely to be evaluated on its economic viability to a higher degree. There are a number of reasons why I expect Kaesong to survive this change in political context: to name two, the S. Korean government would lose huge amounts of money if the project should be canceled because they would have to pay political risk insurance to the S. Korean companies. Also, the companies operating in Kaesong are mainly small and medium-sized enterprises: this type of company has been largely overtaken by the S. Korean Chaebol conglomerates: Kaesong might well be their last lifeline. When it comes to the concerns, as reported by numerous academics, of the U.S. about the money inflow to Pyongyang as well as Labor rights in Kaesong, they risk becoming contentious issues in the future.

So far the income that Kaesong has brought Pyongyang, while not clear, has been estimated to be relatively minor: should the project develop to reach its full potential, it might well become a tough test for the U.S.-S. Korean alliance.

Regarding the inclusion of Kaesong in the KORUS FTA through the Committee on Outward Processing Zones on the Korean Peninsula: I see this prospect as far in the future. The conditions within Annex 22-B of the FTA are far from being fulfilled, and would have to be seen as satisfactory by both the U.S. Congress and President. There are few indications of such broad political support for Kaesong in the USA. In this sense, S. Korean hopes that products will be included may be misplaced: this paper views the final KORUS FTA as closer to the U.S. position of excluding Kaesong products than the S. Korean position of inclusion.

In conclusion, Kaesong represents a policy dilemma for both the USA and S. Korea as long as the two countries have differing N. Korean policies: The gains from supporting or opposing the project have to be weighed against the impact on the two countries' alliance because such support/opposition risks undermining the ally's N. Korean policy. In the case of S. Korea, there is also the question of popular political support for engaging N. Korea. There is bound to be a limit to how much money the country can pour across the Korean border, while getting threats and nuclear tests in return. It is quite possible that this threshold was reached in 2007, and a more conservative President was chosen as a result. If the Sunshine policy is evaluated without a belief in its ideas, it would be very possible to argue that it failed, using the actions of N. Korea to support such an argument.
6. Bibliography


Address by President Roh Moo-hyun at the 16th Inaugural Ceremony "A New Takeoff Toward an Age of Peace and Prosperity", Seoul: 2003
Accessed April 23 at http://eng.unikorea.go.kr


Fierke, K.M, "Constructivism" in Dunne et al. *International Relations Theories: Discipline and Diversity*, 2010


Kahler, Miles & Kastner, Scott L., "Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and Across the Taiwan Strait", Journal of Peace Research, Vol. 43, No. 5, 2006


Ko, Sung-Bin, "South Korea's Search for an Independent Foreign Policy", Journal of Contemporary Asia, 2006, Vol. 36, No. 2


Lee, Chang Won "Entrepreneurial Opportunities in Gaesung Industrial Park: An Inter-Korean Business Perspective", North Korean Review, 2005

Lee, Karin & Miles, Adam "North Korea on Capitol Hill", Asian perspective, Vol. 28, No. 4, 2004


March, James G. & Olsen, Johan P. Rediscovering Institutions, 1989


Oh, Kongdan & Hassig, Ralph C. "The North Korean Military as a Security Threat", East Asia, 2000


United Nations Security Council resolution 1695

United Nations Security Council resolution 1718


Weber, Max, Methodology of Social Sciences, Free Press, 1949


Wendt, Alexander, Social Theory of International Politics, Cambridge: Cambridge Studies in International Relations, 1999


The Kaesong Industrial Complex


Young, Chul, "Collective identity formation on the Korean Peninsula: United States' different North Korea policies, Kim Dae-Jung’s Sunshine Policy, and United States-South Korea-North Korea relations", International Relations of the Asia Pacific, Vol.10, No.1, 2010