

The Shutdown of the Joint North/South Korean Kaesong Industrial Complex

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On February 10, 2016, the South Korean government [announced](#) that it had decided to "completely shut down" the Kaesong Industrial Complex (KIC). The KIC is an 11-year-old industrial park located in North Korea just across the demilitarized zone where more than 120 South Korean manufacturers employed over 50,000 North Korean workers. (See [Figure 1](#) for the KIC's location and [Table 1](#) for key statistics.) South Korean President Park Geun-hye's government linked the shutdown to North Korea's fourth nuclear test on January 6, 2016, and launch of a satellite in violation of U.N. Security Council resolutions on February 7, stating that Pyongyang had "wrongly harnessed" revenues from the KIC to upgrade its nuclear weapons and long-range missiles. A South Korean official reportedly has said that [a reopening will hinge on whether North Korea can dispel concerns about its nuclear and missile programs](#). In response to Seoul's move, Pyongyang [announced](#) that it was: expelling the over 100 South Korean workers who remained in the KIC; freezing all assets in the complex; severing two inter-Korean military hotlines; and restoring military control over the KIC zone. North Korea also threatened there would be future "consequences."

KIC's Economic Significance

The Kaesong complex appears to have become [a significant source of hard currency](#) for the North Korean government. According to the South Korean government, the KIC has provided the North Korean government with over \$500 million, including approximately \$120 million in 2015 alone. South Korean firms pay wages in U.S. dollars to the North Korean government, which is [believed to pass only a fraction to the workers](#). The firms also pay taxes and other fees to the North Korean government. In 2014 and 2015, the complex may have accounted for approximately 20%-30% of North Korea's estimated total exports. Factories in the complex produce textiles, electronic parts, and other labor-intensive goods.

Figure 1. Kaesong Industrial Complex Location



Source: Prepared by CRS based on ESRI Data and Maps 9.3.1; IHS World Data.

South Korea's decision to shut down the KIC came amidst moves to punish North Korea for its nuclear and missile tests, including actions in the House and Senate to expand U.S. unilateral sanctions and U.N. Security Council consideration of expanding multilateral sanctions. (For more on sanctions, see CRS Report R41438, [North Korea: Legislative Basis for U.S. Economic Sanctions](#).) Since 2009, the U.S. and South Korea have coordinated closely on North Korea policy in the face of a changing and expanding threat from Pyongyang. Whether—and if so, how forcefully—U.S. officials may have encouraged their South Korean counterparts to close the Kaesong complex remains unclear.

Table 1. Kaesong Industrial Complex Data

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 ^a | 2014 | Jan-Oct 2015 |
|--|-------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------------|
| Number of South Korean Manufacturing Firms | 11 | 15 | 65 | 93 | 117 | 121 | 123 | 123 | 123 | 125 | 124 |
| Approximate Number of North Korean Workers | 6,000 | 11,000 | 23,000 | 39,000 | 42,000 | 47,000 | 49,866 | 53,400 | 52,329 | 53,947 | 54,357 |
| Approximate Number of South Korean Workers | 500 | 800 | 800 | 1,100 | 900 | 800 | 800 | 800 | 750 | 815 | 809 |
| Annual Production Value (\$ mil) | \$15 | \$74 | \$185 | \$250 | \$256 | \$323 | \$402 | \$470 | \$224 | \$470 | \$470 |

Source: South Korean Ministry of Unification.

a. The KIC has the land and infrastructure to house two to three times as many firms and workers as it did in 2015. In 2006, in response to North Korea's first nuclear test that year, the South Korean government began halting plans to dramatically expand the complex. The KIC was closed for approximately five months in 2013, when North Korea withdrew its workers for five months, ostensibly to protest annual U.S.-South Korean military exercises.

South Korea and the KIC

Although President Park generally has responded harshly to North Korean provocative actions, her decision to close the KIC surprised many Korea-watchers. With the exception of a five-month period in 2013, the KIC's existing operations generally had remained insulated from the steady increase in inter-Korean tensions since early 2008. For instance, the KIC remained operational in 2010 despite [two North Korean attacks against South Korea](#). After the first incident, South Korea cut off all economic ties with North Korea except the Kaesong complex, leaving the KIC as the sole remnant of the inter-Korean cooperation that had sprouted since 2000.

Until early 2016 the KIC generally had received support from across South Korea's political spectrum for a number of reasons besides its symbolism of North-South cooperation. First, many South Koreans saw the complex as a potential beachhead for market reforms in North Korea, which they hoped would reduce the potential costs of an eventual Korean reunification. Perhaps with this goal in mind, President Park's government had promoted the idea of attracting international investors to the KIC. Second, the Kaesong complex provided South Korean companies with their only direct access to the North Korean economy, providing the hope that North Korea's pool of relatively low-wage, Korean-speaking workers could help boost the South Korean economy's competitiveness. Third, many South Koreans are concerned about North Korea's growing economic dependence on China, which accounts for around 70% of North Korea's total trade and is by far North Korea's most important source of foreign investment. Fourth, some South Koreans argue that the KIC generally has acted as a restraining force on Pyongyang's behavior toward Seoul. South Korea's main opposition party [criticized the shutdown decision](#), reportedly arguing that it could destabilize the Korean Peninsula. It is possible that Park's KIC move will become a significant issue in parliamentary elections in April 2016 and in South Korea's 2017 presidential campaign.

Questions

The Park government's decision to shut down the Kaesong complex raises several questions, including:

- Does the South Korean government intend the shutdown to be temporary or permanent?
- What does the shutdown mean for the complex's more than 50,000 North Korean workers?
- Will Pyongyang follow up on its pledge to inflict "disastrous and painful consequences" such as with another nuclear test, a missile test, or a more direct attack on South Korea?
- Beyond the immediate term, will the South Korean government's action lead to a change in the North's behavior?