

South Koreans hope to return to Kaesong factories

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SEOUL, South Korea (AP) — The South Korean entrepreneurs who invested up to 10 years and millions of dollars in the Kaesong industrial complex, a symbol of economic collaboration between the Koreas that is now shuttered by the North, have little more than hope to cling to as assembly lines sit idle day after day.

They say they want to go back to work. The sooner the better. They say they cannot abandon their investments in factories, or the cheap North Korean labor that helped them put aside misgivings about doing business with the South's unpredictable neighbor. Some were just getting over their beginners' mistakes and were starting to see the fruits of their work.

But North Korea has been unrelenting in its decision to bar South Koreans from entering the factory city just inside its border, and withdraw the 53,000 North Korean workers who manned assembly lines. As the lockout enters a third week, customers of the South Korean companies are growing impatient and losses are mounting. Some businesses are quietly mulling giving up on Kaesong altogether.

"We have built the Kaesong industrial complex by the sweat of our brows, believing in guarantees that we would be able to work freely," said Han Jae-kwon, chief of the

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association of South Korean factories in Kaesong. "We find the reality tragic and sad that we are unable to travel to our own factories."

The Kaesong complex has been nearly deserted since early April, when Pyongyang pulled the plug on its last significant economic link with the South. Most of the nearly 900 South Korean managers and entrepreneurs left soon after. Some 200 remain and are getting by on whatever food they had stored.

The shutdown was punishment for Seoul's decision to forge ahead with ongoing joint military drills with the United States that have incensed Pyongyang because it sees the exercises as a rehearsal for an invasion. Restricting travel through the heavily armed border is also a way to remind South Koreans that a state of war hangs over the Korean Peninsula, 60 years after the Korean War ended with a truce. Pyongyang also is angry with Seoul for backing tightened U.N. sanctions on North Korea for conducting a banned nuclear test in February.

The industrial zone was supposed to be above politics, and the complex was seen as a test case for reunification, combining South Korean initiative, capital and technology with the North's cheap labor. After breaking ground in 2003, earlier South Korean governments paved roads and erected buildings in the zone, which lies in a guarded, gated complex on the outskirts of North Korea's third-largest city.

Small and medium-sized, labor-intensive industries began arriving, often apparel and electronics companies. If the pay would be dismissed as paltry in the South, Kaesong residents flocked to work there, and the number of South Korean companies swelled to more than 120. Last year, the factories produced goods worth \$470 million.

For years, things went along fairly smoothly. Most South Korean managers commuted to Kaesong on Mondays, bringing their own food, managing factories through the week and returning home for the weekend. Raw materials came from South Korea, with finished goods later sent back south through the heavily armed border.

As Korean relations soured in recent years, amid changing governments in Seoul and a North Korean attack on a South Korean island, many inter-Korean projects were abandoned. Kaesong, though, seemed set to survive. A temporary 2009 shutdown passed quickly.

On April 9, though, no North Koreans showed up to work. North Korea refused to allow entry from the South starting April 3.

On Wednesday, North Korea again denied the entry of South Korean businessmen who asked to send a delegation to relay their worries to the North and send food and other necessities to the South Korean managers who still remain in Kaesong. North Korea cited the current tension, according to South Korea's Unification Ministry. A separate delegation consisting of former chairmen of the group representing Kaesong companies and a few experts on Korea issues is still awaiting a reply from the North to its request to visit on Monday.

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Kaesong businesses hope the possibility of dialogue between Seoul and Pyongyang after the U.S.-South Korea military drills end April 30 will result in the industrial complex reopening.

Many of them would get some compensation if the shutdown lasted more than a month. About three quarters of the 123 companies at Kaesong are insured through a state-owned bank, which would cover losses up to 7 billion won (\$6.3 million).

For labor-intensive industries, even one day without workers can be ruinous. Delivery delays infuriate customers, and regaining that lost trust is difficult.

Many of the South Korean businesses say they have no alternative.

"I cannot just throw away what I invested in Kaesong. For now, equipment and machines are still in Kaesong and we cannot carry them back to the South or leave them behind," said Yoo Byung-ki, CEO of BK Electronics Co. Yoo said his company has spent 4 billion won (\$3.6 million) since 2009.

Since the shutdown, he has shifted about 10 percent of his production to his South Korean factories, where workers are putting in extra hours to ramp up output. But given the costs of South Korean labor, that won't last for long.

"There is no other option. Entry needs to be resumed as soon as possible," he said. "I cannot abandon Kaesong."

Few countries can beat the low labor costs of Kaesong, where salaries average \$127 a month according to South Korea's government. That is less than one sixteenth of South Korea and less than half of what Foxconn Technology Group pays to Chinese workers who assemble iPhones, iPads and other brand-name consumer electronics.

And it's not just the possibility of lost investment.

"I cannot give up Kaesong because my whole life is there," said Choi Dong-jin, CEO of Daemyung Blue Jeans Inc. He faced many hiccups in the early years, and was just beginning to feel experienced.

At first, he said, he went to Kaesong for the cheap labor. But he soon realized there were plenty of hidden costs to being one of the first businessmen in such previously uncharted territory.

Once every possible worker had been hired from the city of Kaesong, there was no housing for workers from distant cities, and no transportation for commuters. Without enough staff, his factory could only operate at 60-70 percent of its capacity. There is no Internet connection in Kaesong, so communication is limited to fax and telephone lines.

Though managers said being able to communicate in Korean was an advantage, it also took time and money to train the North Koreans.

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"I don't think Kaesong labor is absolutely cheaper than China," Choi said. "If we pay Chinese workers \$300 (a month), we pay about \$140-150 in Kaesong. But if you think about productivity, a sense of goal and responsibility, then Chinese workers are better than North Koreans," he said.

Only in the past year, he said, had his workers become reasonably skilled, four years after opening his clothing factory. He was ready to savor these accomplishments.

It's now unclear whether his customers will return when and if the Kaesong complex reopens.

"If they don't, my company will die," Choi said. Even if the factories do reopen, his customers' confidence has been badly shaken. "Buyers will be worried that this thing can happen any time."

In the meantime, the best option is to beg for understanding from customers and find temporary production lines.

Already, though, some South Korean entrepreneurs are considering a pullout from Kaesong.

An official at one factory said his company was considering shutting down, citing the political instability surrounding the complex.

"It's a dire situation," he said, declining to give his name, citing pressure from the Kaesong factory-owners association, which fears how North Korea could respond to such pessimism. "We have to produce to meet the deadlines set by our buyers."

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