

## **Gaeseong Industrial Complex : Frequently Asked Questions (FAQs)**

May 19.2006, Ministry of Unification, ROK

### **1. Where do the North Korean workers come from?**

#### **A. From Gaeseong or from the elite?**

Most of the workers are from Gaeseong and its vicinity, at a commuting distance from the Gaeseong Industrial Complex (GIC). North Korea has a good basic education system and boasts a high literacy rate, although the food crisis over the past decade has had adverse effects. All North Korean workers at the GIC are high school graduates, and 21 percent of them are college graduates, who tend to take white-collar jobs at the GIC (e.g., administration and public relations).

#### **B. What data is available on their hometowns?**

The workers' resumes provide information on their hometowns, most of which are in the city of Gaeseong and its vicinity. The GIC operates more than 20 commuting buses making stops at such places as the Gaeseong Train Station and Downtown Gaeseong. The GIC has also provided bicycles to workers who live very close to the complex.

#### **C. Are there dormitories built for workers from afar?**

There are no dormitories for North Korean workers just yet. (There are living quarters for South Korean workers and managers at the Gaeseong Industrial Complex.) As the number of North Korean workers employed at the GIC increases from 6,700 to the projected level of 350,000 by 2012, however, housing complexes would almost certainly have to be built.

#### **D. What is the NK labor agency that hires the workers. Who sponsors it? How was it chosen? Are there any plans to allow direct hiring?**

The labor agency that is currently responsible for the recruiting of workers is North Korea's Central Guidance Agency on Special Zone Development (cabinet-level administrative body). South Korea is consulting with North Korea to establish a company that would recruit workers for the Gaeseong Industrial Complex.

The current hiring procedure is as follows. Approximately three weeks before hiring decisions are made, South Korean companies place a request with North Korea's Central Guidance Agency on Special Zone Development through the Gaeseong Industrial District Management Committee. When the workers show up, South Korean companies conduct a face-to-face interview and a skills test (e.g., sewing). Workers who have yet to possess requisite skills can be employed as trainees (at or less than 70 percent of the minimum wage for regular employees). Workers who do not have the right aptitude are rejected.

In other words, although South Korean companies cannot directly recruit their workers, they can exercise a veto over workers recruited by the North Korean authorities. The GIC's Rules on Labor stipulate that resident companies recruit workers through a labor agency.

## **2. What evidence do you have to suggest that Gaeseong is not an isolated ghetto?**

The term “ghetto” has a rather negative connotation, with racial undertones. This term is quite inappropriate in Gaeseong's case, because working and living conditions at the Industrial Complex are better than most other places in North Korea. Now, one may argue that the GIC, as it currently stands, is an export enclave, but as in the case of Special Economic Zones in China, Gaeseong is likely to have spillover effects on the rest of North Korea over time. Clearly, if the GIC is to meet its expansion targets, it will have to draw resources from regions outside the vicinity of Gaeseong.

## **3. What specific data is available on wages?**

According to the Rules on Labor at the GIC, workers' compensation consists of minimum or basic wage, vacation pay, overtime pay, and bonuses. North Korean worker-managers such as team leaders are additionally compensated for their work. Actual payrolls provide data on wages.

- (1) **Minimum Wage:** The minimum wage for employees is US\$50 per month (or \$2 per working day) for the 48-hour regular workweek at the GIC. An annual increase in the minimum wage is to be capped at 5 percent.
- (2) **Vacation Pay:** Employees get an annual vacation of 14 days. The vacation pay rate is equal to the average daily wage rate for the previous three months before the vacation (i.e., total wages for the three months divided by the actual number of days worked). Female employees get a maternity leave of 60 days before and 90 days after giving birth (60 days paid).
- (3) **Overtime Pay:** For extended working hours, the overtime premium is 50 percent of the hourly wage rate; for public holidays and nighttime work (from 10 p.m. to 6 a.m.), it is 100 percent of the hourly wage rate.
- (4) **Bonuses:** A company can set up a bonus fund out of its pre-tax profit and pay a bonus to employees in cash or in kind.

### **A. NK law requires that potential JV workers are paid \$30. Why are Gaeseong workers paid nearly \$27 more. Why the disparity?**

North Korea's internal administrative guideline stipulates a minimum monthly wage of 30 Euros for workers at companies set up by foreign direct investment (FDI). Pyongyang established this guideline in 2005.

On the other hand, South Korea's Hyundai and North Korea's National Economic Cooperation Committee had signed a basic agreement on the GIC project in August 2000,

and reached an agreement on the minimum monthly wage in April 2003, taking into account North Korean workers' labor productivity, work ethic, and living standards.

The Rules on Labor for the Gaeseong Industrial Complex provide greater managerial autonomy than do comparable rules for FDI in general, and the quality of the North Korean workers at the GIC is deemed superior as well. Accordingly, companies are willing to go to the GIC even though the monthly minimum wage there is \$27 higher.

### **B. How much do the North Korean workers actually receive?**

Gross monthly wages for North Korean workers consist of minimum wages (\$50) plus overtime, vacation, and maternity-leave pay, if any. Employers pay the North Korean government an amount equivalent to 15 percent of gross monthly wages as a social insurance fee (related to unemployment and occupational hazards). Employees pay 30 percent of their total wages as a social-cultural contribution, which funds education, housing, medical service, social insurance, and social security programs.

Accordingly, it is estimated that at the minimum, the North Korean workers actually receive a North Korean currency equivalent of \$35 per month. At the official exchange rate of 150 North Korean won to the dollar, this comes out to 5,250 won.

By comparison, a kilogram of rice (approximately 3,600 kcal) sells for 44 won in North Korea's public distribution system (PDS). The South Korean companies at the Gaeseong Industrial Complex report that the quality of lunch (in a lunchbox) their North Korean employees bring to work has improved a great deal since they started. The workers used to eat millet, corn, or barley, but now they bring rice for lunch.

### **C. Law on the Gaeseong Industrial Complex says that wages should be paid directly to workers. Why isn't this being applied?**

The South and the North have already agreed on direct payment of wages to workers. However, the implementation of this agreement is being delayed due to the absence of foreign exchange centers in Gaeseong. North Korea has agreed to establish foreign exchange centers in due course. As an interim measure, North Korean workers sign their payrolls (invoices) on their payday, finding out exactly how much they have earned for the month.

### **D. There is a plan for direct payment to the DPRK workers once NK's internal economic situation is more favorable. Define "more favorable."**

This has to do with the establishment of banks and foreign exchange centers in Gaeseong. If foreign exchange centers are established, South Korean companies can directly pay North Korean workers in U.S. dollars, and North Korean workers can exchange their money and/or make deposits or withdrawals.

**F. How much is overtime on average? How is administered? What rate?**

As of January 2006, the average overtime for the North Korean workers is approximately 6 hours per week. South Korean employers consult with their North Korean workers regarding overtime. For extended working hours, the overtime premium is 50 percent of the hourly wage rate; for public holidays and nighttime work (from 10 p.m. to 6 a.m.), it is 100 percent of the hourly wage rate.

**G. How much rotation among the employees takes place?**

There has not been any rotation among the employees, in the sense of changing the employees en masse for an extended period of time (that is, month(s) at a time).

As of April 2006, eleven companies are producing goods at the GIC. One of these companies has three shifts per day. The other ten companies have only a single shift.

**4. Describe the incentive programs (risk insurance, tax incentives, etc.) that the South Korean government provides directly to ROK enterprises operating in the GIC?**

The GIC project is based on market principles, and the ROK government offers no special subsidies and tax breaks in conjunction with the project.

The only “incentives” provided by the government have to do with assistance with loans in the initial stages of the project and insurance against losses unrelated to business management.

For South Korean companies establishing their operations at the GIC in the pilot-project stage and in the first phase of the main-project stage, the Inter-Korean Cooperation Fund has made loans on a commercial basis for a total of approximately \$40 million (or KRW 38.3 billion) as of end-2005. The interest rate on these loans is equal to the rate applied to public works, at a level slightly lower than general interest rates.

As business risks are reduced with regard to the GIC project, the government is planning to have the resident companies take out loans on their own from commercial banks, based on their credit standing and collateral.

By signing an insurance contract with the Inter-Korean Cooperation Fund, companies can insure themselves against losses unrelated to business management (e.g., due to expropriation, military conflict, etc.). This contract defines the level of insurance premium and the maximum amount of losses for which the companies can be compensated. As of end-2005, two companies have signed up for this insurance.

**5. Hiring and Firing: Do South Korean firms have the freedom to promote, fire, transfer? To offer wage and other incentives?**

Unlike in the case of companies set up by foreign direct investment in general, the GIC's Rules on Labor allow an employer to fire workers without the North Korean authorities' prior agreement when causes for such action exist as defined in the Rules.

Few workers have been fired yet, but there have been cases where factory managers and team leaders were fired for their lack of managerial skills.

To motivate their workers, some companies have paid in-kind bonuses to high performers.

**6. Subleases. What steps would a company have to go through to sub-lease its land use rights to some or all of the property to another company? In theory, could the second company charge higher than \$46/meter.**

Although the rules and regulations make it possible for companies to sublease their land use rights, no company has expressed any desire to do so until now.

As the competition for land use rights was very high at 4 to 1 for the first phase of the GIC project, land use rights were leased and distributed under the condition that they be retained for three years.

**7. The Ministry of Unification statistics on the GIC (As of Jan.31, 2006) show that a small amount of goods are either sold in North Korea or exported directly from North Korea to third countries. [Total production (\$14,906 thousand) - Materials brought to South Korea (\$13,868 thousand) = sold in North Korea or exported (\$1,038 thousand)?].**

- A. Which countries? Which product**
- B. Where are they shipped from?**
- C. Where are they warehoused?**
- D. How are they transported?**
- E. What customs procedures are in place?**
- F. How are the products marketed in South Korea?**

All products produced at the GIC are transported to South Korea. The gap between total production (\$14,906 thousand) and materials brought to South Korea (\$13,868 thousand) corresponds to inventory holdings in North Korea. This inventory stock is neither sold in North Korea nor exported directly to other countries.

In fact, exports have to clear customs in South Korea first. They are mostly textiles and assembly parts. Currently, primary export destinations are China and Russia.

Some companies emphasize the novelty value of goods produced through inter-Korean economic cooperation.

**8. There are some reports that a group of 100 ruling and opposition party lawmakers submitted a bill aimed at setting up an inter-Korean special economic zone near the heavily fortified border bisecting the two Koreas. What is the connection between Gaeseong and this proposed new economic zone?**

Although the GIC may provide valuable lessons for other inter-Korean economic cooperation projects, there is no direct connection between Gaeseong and the new economic zone proposed by some lawmakers. At this moment, it would be advisable to focus efforts on the successful development of the Gaeseong Industrial Complex.

**9. Is it true that the ROK and the United States governments have the different views toward GIC?**

The United States and the ROK both recognize that inter-Korean economic cooperation, including the GIC project, contributes to peace and security on the Korean peninsula as well as the resolution of the North Korean nuclear issue. During the ROK-U.S. Summit on June 10, 2005 and Secretary Condoleezza Rice's confirmation hearing on January 18, 2005, the United States reaffirmed its support for inter-Korean reconciliation and cooperation and agreed that inter-Korean dialogue was essential to peace and prosperity on the Korean peninsula and contributed to the Six-Party Talks as a useful channel of communication. These views were reaffirmed during Former Unification Minister Chung Dong Young's visit to Washington in December 2005.

In November 2005, the U.S. Department of Commerce issued an export license for telecom equipment to be used at the Gaeseong Industrial Complex, helping to facilitate business communications for the resident companies.

The GIC project does not reward North Korea's bad behavior, but rather teaches North Korea to make an honest living through hard work. The North Korean workers' wages are paid within the limit of the profit earned by the South Korean companies.

Considering the economic and non-economic ramifications of the GIC project, the ROK government welcomes continued support for the project from the United States.

**10. Has the project developed a political and economic logic of its own?**

The GIC project has three major political and economic rationales. First, the GIC project would contribute to peace and security on the Korean peninsula as the South and the North learn to work together at an industrial complex located just north of the DMZ. Second, it would offer a new outlet for South Korea's small and medium-sized enterprises in labor-intensive sectors and enable North Korea to earn money in a

legitimate manner. The private sector would play a leading role in this process, with the government in a supporting role. Third, the GIC project would help establish global standards and market principles in North Korea.

**11. How many substantive linkages are there between the Gaeseong Industrial Complex and North Korean enterprises in the Gaeseong region?**

**A. Aside from labor, how much North Korean "content" is there in Gaeseong?**

The GIC project combines South Korea's capital and technology with North Korea's labor and land. Aside from labor and land, there is no North Korean "content" in Gaeseong at the moment.

**B. What evidence/plans are there that this will shift in the future to give a boost to North Korean enterprises in the Gaeseong region, via the "production" and "linkage" effects?**

As the first stage of the GIC project mainly involves labor-intensive manufacturing that uses raw materials and intermediate goods from South Korea for final assembly, "production" and "linkage" effects in North Korea would be limited.

Paralleling progress in the resolution of the nuclear problem, however, the second and third stages of the GIC project are expected to be implemented with much larger spillover effects. When the GIC project is completed, it is expected to provide economic livelihood for approximately 5 to 10 percent of North Korea's population, with positive ramifications for inter-Korean relations.

---

\* If you have any questions, please contact the Unification Attache of the Korean Embassy, Chanhoo Lee (Tel: 202-939-6468, e-mail: pefaco@yahoo.co.kr).