

What counts as 'Korean made'?

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GAESEONG, North Korea North Korean workers stitching Made in Korea labels on \$150 sneakers may hold the key to a \$29 billion free-trade agreement between the United States and South Korea, the biggest U.S. accord in a decade.

The 6,000 North Koreans, working 48-hour weeks for about 5 percent of what their southern counterparts earn, are churning out pots, sneakers and clothes in a South Korean-funded business park just north of the demilitarized zone that separates the two Koreas.

The South Korean government is counting on free-trade status to draw companies to the park near Gaeseong, an ancient capital of the united Korea. The United States says goods made north of the demilitarized zone will not qualify for special treatment.

"The free-trade agreement must be expanded to include Gaeseong products," said Kim Dong Keun, chairman of the park's management committee, in Gaeseong. "The matter is still up for negotiation."

At stake is an accord that is expected to increase U.S. exports by \$19 billion and to lift imports from South Korea, the United States' seventh-largest trading partner, by \$10 billion. Talks may start as soon as this month.

The United States last year exported \$29 billion of goods to South Korea and bought \$43 billion of South Korean imports, according to the South Korean Ministry of Foreign Affairs and Trade. The United States is the country's third-largest trading partner.

"The starting point is that" a free-trade agreement "applies to goods originating in the U.S. and the Republic of Korea," Alexander Vershbow, the U.S. ambassador to South Korea, said at a seminar with economists in Seoul on Feb. 14. "How Gaeseong is treated under the free-trade agreement is going to be a complex issue."

Trade Minister Kim Hyun Chong of South Korea said at a Feb. 2 press conference with the U.S. trade representative, Rob Portman, in Washington that his government expected goods made in Gaeseong to be part of the trade deal. Portman said the agreement would cover only goods produced in South Korea.

"This is a negotiation between the United States and the Republic of Korea," Christin Baker, Portman's spokeswoman, said Thursday. "Its provisions will apply to goods originating within the territories of the two parties."

Singapore on Thursday implemented a free-trade agreement with South Korea that

eliminated tariffs on all goods, including those from the North Korean industrial zone.

The European Free-Trade Association waives duties on Gaeseong goods if more than 60 percent of the product originates in South Korea.

At Gaeseong, Moon Chang Seop, president of the South Korean shoemaker Samduk Stafild, is delaying expansion plans until the U.S. talks end.

Moon's company is among 15 South Korean businesses that have opened factories in the zone since June 2003. He hopes to shift all of his \$50 million in annual output from the southern city of Busan.

"It all depends on whether the U.S. can accept products made in Gaeseong as South Korean-made," said Moon. "If the U.S. won't budge, I won't be able to move our main plant."

Hyundai Group began developing Gaeseong after a landmark meeting in 2000 between the South Korean president at the time, Kim Dae Jung, and his northern counterpart, Kim Jong Il.

The 10-hectare, or 25-acre, park borders the city of Gaeseong, which was the capital of the Goryeo kingdom from 918 to 1392. It is ringed by a fence 2 meters, or 6.5 feet, high, and guarded by North Korean soldiers.

More than 300 trucks cross the demilitarized zone every day, carrying in raw materials from the South and carting off finished products. Gaeseong is an hour's drive from both Seoul and Inchon, the nearest South Korean port, and two hours from Pyongyang.

The South Korean government is spending \$220 million to expand the site to 330 hectares by 2007, with 24 new tenant companies already building plants.

By 2012, factories will cover 26 square kilometers, or about 10 square miles, according to the Gaeseong committee. It plans to build a supporting urban area of 40 square kilometers, including a 36-hole golf course.

About 730,000 North Koreans, or almost 3 percent of the nation's population, will be housed there by then, said Kim, the committee chairman.

South Korean companies are paying the North Korean government \$57.50 a month for each worker, according to Kim. Of that, North Korea collects at least \$7.50 in what it calls a social tax. By comparison, factory workers in the South earn more than \$1,000 on average, according to Hyundai.