A Clear Case of Bounded Awareness: Kaesong Industrial Complex

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Abstract

Analyses of the Free Trade Agreement (FTA), the Six-Party Talks, presumptions on North Korea and the example of Russia point to several fundamental elements. Firstly, North Korea is and will remain an independent state. Therefore, any approaches to reform North Korea’s political and economic systems must acknowledge the concept of “independence,” instead of believing the unrealistic hope of immediate “unification” or “reunification.” Next, the theorem of “go slow” and the example of Russia indicates that the “gradualism” of North Korea is probably the best choice today. This approach may reduce the probabilities of any extreme or negative outcomes that could result from rapid changes in economic and political systems of North Korea. Finally, ignoring the Kaesong Industrial Complex (KIC) development issue by both the United States and the Republic of Korea (ROK) through their FTA is “a clear case of bounded awareness.”

Furthermore, resolving the KIC issue at the moment will provide strategic and competitive advantages to the United States and the ROK in terms of security, stabilization, and economic positives of the future Northeast Asia. Avoiding “a case of bounded awareness” and realizing advantages from the phenomenon are merely in the hands of the decision-makers of the United States and the ROK. A minimal effort to scrutinize this matter now will be recorded as a “great endeavor” in the future history books. If not, the future generations will discuss and learn of “a case of bounded awareness” from this particular case.
Introduction

While the Six-Party Talks continuously seek a peaceful resolution to the chief security concerns over the nuclear weapons program of the Democratic People’s Republic of Korea (DPRK), the almost year-long formal and informal FTA negotiations between the United States and the Republic of Korea (ROK) concluded on April 2, 2007. The text of the accord still needs to be finalized and ratification is needed from both governments. The Six-Party Talks strategies of the United States to the DPRK are not startling because the world has seen many rigorous yet similar attempts by the United States to denuclearize the DPRK. However, there was a unique and important element in the FTA that can easily change the future military, political, and economic strategies of all three nations—the United States, the ROK, and the DPRK.

The extraordinary aspect of this FTA is the overture for the Kaesong Industrial Complex (KIC) by the ROK whereas the KIC is part of the DPRK. In general, the purpose of an FTA is to create a trading bloc between or amongst a group of countries and eliminate tariffs and reduce nontariff barriers; consequently, fostering positive economic environments for member countries through trade creation, diversion, and economies of scale.1 The phrase “member countries” is limited to those countries who are directly associated with the accord, and only the United States and the ROK are member countries in this FTA.

Whatever the reasonable explanations might be for the ROK’s inclusion of the KIC issue in the FTA, ignoring this significant issue will lead to “a clear case of bounded awareness.” This paper will first illustrate the phenomenon of bounded awareness and its relevance to the FTA and Six-Party Talks, and evaluate the FTA between the United States and the ROK and Six-Party Talks. The false presumptions of reunification between the ROK and the DPRK will also be discussed, and finally, the appropriate recommendations to avoid the phenomenon of bounded awareness will be suggested.

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Bounded Awareness

The article, “Decisions Without Blinders,” by Bazerman and Chugh examines the phenomenon of bounded awareness, when cognitive blinders prevent a person from seeing, seeking, using, or sharing highly relevant, easily accessible, and readily perceivable information during the decision-making process. Bounded awareness can occur at various points in the decision making process when decision-makers may fail to see key information, fail to use the information that they do see, and fail to share information with others, thereby bounding the organization’s awareness. Most decision-makers are not aware of the specific ways in which their awareness is limited, and failure to recognize those limitations can have grave consequences.

This article also claims that many decision-making people simply disregard accessible and valuable information when they are making an important decision. For instance, the Challenger space shuttle disaster in which the death of seven astronauts occurred was a result of the combination of low temperature and O-ring failure. Executives at NASA argued about this problem the day before the disaster. The executives decided to launch the shuttle because no clear connection had occurred between low temperatures and the O-rings in the seven prior launches when O-ring damage. The decision-makers did not seek out the temperatures for the 17 shuttle launches in which there was no O-ring failure. Later analysis suggests that, given the low temperature, the probability of disaster exceeded 99%. Therefore, failure to seek information occurs when decision-makers are motivated to favor a particular outcome, and team members frequently discuss the information that they are all aware of but fail to share unique information with one another.2

What is the significance of this article to the current situation on the Korean peninsula? The plain answer to this question is that both decision-makers of the FTA and Six-Party Talks fail to see key information and are unquestionably not sharing information with each other. Furthermore, the frontline negotiators and government leaders of the FTA and Six-Party Talks are only motivated to favor two separate outcomes:

one is to develop an economic trading bloc between the United States and the ROK, and the other is to denuclearize the DPRK. Looking at the purposes of the two negotiations, one may conclude that these issues are indistinguishable and better to resolve together today than separately every now and then, tying them together in the future.

The purpose of the ROK to convey the issue of KIC through the FTA is that economic cooperation between the ROK and the DPRK will boost their peaceful relationship, strengthening security issues in Northeast Asia, and eventually lead them to the reunification process. The DPRK’s previous behaviors have not positively affected the public perception of the United States on North Korea; therefore, the preponderant view of the United States on the ROK’s KIC development strategy is not particularly optimistic:

From a U.S. perspective, it is hard to see how the FTA could grant advantages to North Korean production while that country obstructs the Six-Party Talks on security issues and engages in abusive labor practices and counterfeiting of U.S. currency; ignoring these problems risks jeopardizing the entire initiative. From a Korean perspective, a policy of constructive engagement with North Korea is understandable, even though at present the economic implications of the specific Kaesong initiative are minor.3

By the same token, the ultimate purpose of the Six-Party Talks is to denuclearize the DPRK, restore and normalize the relationship between the DPRK and the other participating countries, especially the DPRK and Japan and the DPRK and the United States and provide economic, energy, and humanitarian assistance to the DPRK. Therefore, the U.S. foreign policy objectives to countenance the DPRK are evidently conflicting: they are willing to provide “carrots” to the DPRK in response to denuclearization, but not through the economic development such as the current FTA. Evidently, the summaries of the FTA of both the ROK and the United States clearly depict that the KIC issue is only pertinent to the ROK, not for the United States.

Free Trade Agreement and the Six-Party Talks

Since February 2006, the U.S. and ROK trade representatives entered into contentious and painstaking negotiations to reach a trade agreement that ultimately benefits both countries economically and politically. The process certainly depicted plausible efforts from both sides, and the concept of a quid pro quo has been completely exhausted. Pro-FTA Koreans believe that this accord will provide them with enhancement of overall global competitiveness, which in turn yields a globally competitive advantage. On the other hand, anti-FTA Koreans perceive this agreement as a detrimental tool that will eventually expand the gap between "have" and "have nots" in Korea. These perceptions are ostensibly comparable in the United States.

On April 2, 2007, the FTA negotiations between both nations concluded in such a manner that both trade representatives claimed the agreement profoundly successful. Both nations published the summary of the FTA in April. The United States published, “Summary of the KORUS FTA,” and the ROK published, “Summary of S. Korea-U.S. Free Trade Agreement.” In both FTA summaries, the two nations emphasized their benefits from the agreement, and the majority of trade issues were congruently described to include key issues such as agricultural products, automobiles, and service and textile industries. The only discernible difference between the two summaries was that the United States omitted the issue of “Committee on Outward Processing Zones on the Korean Peninsula” where the ROK specifically asserts:

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.

The exclusion of this issue by the United States was apparently

because of their prior beliefs on North Korea: the United States believes that without constructive succession of the Six-Party Talks, any approaches on the DPRK’s economic enhancement are currently not to be considered. Furthermore, the United States deems that discussing the KIC issue with the ROK through the FTA is seemingly irrelevant at this juncture; therefore, they would rather place strong emphasis on the implementation of the agreement that was reached during the third session of the fifth round of the Six-Party Talks on February 8–13, 2007.6

Based on past experience, neither multilateral provisions such as this particular one for the DPRK, nor the carrots and sticks policies of the United States against the nations who pursued nuclear weapons development, have worked.

Choe suggests that the Nuclear Non-Proliferation Treaty (NPT) to prevent arms proliferation among states is ineffective due to a major weakness of the NPT’s enforcement policies, and the conflicts of interests of the UN Security Council members. The NPT was created in 1970 and has been acknowledged in translating, analyzing and disseminating the extensive documentation on North Korean foreign relations found in the archives of its former allies from the Soviet bloc. The activities of the Korea Initiative include translation and publication of new archival evidence on North Korea, conferences and seminars. India, Pakistan, and Israel have not signed and the DPRK has withdrawn. When the International Atomic Energy Agency (IAEA) demanded special inspections in 1992, the DPRK declared that it would withdraw from the NPT. This declaration led to direct negotiations between the United States and the DPRK to develop the Agreed Framework: the DPRK would cease the production of nuclear weapons-grade materials; in return, the United States would supply fuel oil shipments, construct two light-water atomic power reactors, and normalize relations.

In 2002, the U.S. State Department listed the DPRK as one of the “Axis of Evil” nations and suspended monthly oil shipments to the DPRK; the DPRK immediately reactivated its nuclear reactors and once again declared withdrawal from the NPT in 2003. The Six-Party Talks have been initiated since the DPRK’s reactivation, but no clear progress

has been made yet. Whether the DPRK will cooperate with the NPT or temper its stance remains to be seen, and the Six-Party Talks is the only viable approach to resolve the current situation in the DPRK. When a nation withdraws from the NPT and continues to pursue its nuclear weapons program or violates the treaty, the NPT’s only option to counteract these violations is referring treaty violations to the United Nations Security Council. Furthermore, as long as China and Russia play mediator roles instead of punishers, resolving or enforcing the NPT’s non-compliance cases such as the DPRK and Iran are very difficult and complex.7

A question of what the United States really wants to do with the DPRK could easily arise from the analyses of both FTA and Six-Party Talks. Frequent food and energy aid or sanctions against the DPRK to stop nuclear weapons development have all failed. Yet, the United States deliberately ignores economic development of the KIC of North Korea. Are there any presumptions that are deeply embedded in the past and current behaviors of the United States?

**Presumptions**

Ilitchev suggests that there are two presumed approaches to engaging North Korea: “The hard-line approach aimed at regime change, through achieving its collapse and unification, and the gradual rapprochement aimed at preventing both a military escalation and a sudden collapse of North Korea.”8 The first approach of “regime change” can be divided into two sub-approaches: forcefully change the DPRK’s current regime and cause the abrupt collapse of government leadership. Forceful regime change by the United States or any other countries is not pragmatic; especially when the world is skeptical about American military aggression’s capacity to change the regime in Iraq. Furthermore, China, Russia, and the ROK would not concur with the United States on this issue because the DPRK is geopolitically, economi-

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cally, and strategically important. They believe that any destruction on the Korean peninsula would disastrously affect their economies.

The abrupt collapse of government leadership in North Korea is a false hope, and it does not guaranty a democracy, market economy, or democratic leadership. Furthermore, there exists little or no evidence of serious internal threats to the current regime of Kim Jong Il. This was contrary to many predictions of outsiders that North Korea would eventually collapse when Kim Jong Il inherited North Korea from his father, Kim Il Sung, because North Korea was on the verge of economic and political adversity.9

One of the hard-line approach supporters opines, “North Korea’s collapse may be close, but Western policymakers continue to appease and protect the rogue state, making matter worse.”10 The failure of the previous foreign policies of Western and surrounding countries to help North Korea with food, energy, and partial infrastructure development aid is relevant to this argument. Furthermore, the unilateralist approaches by both the United States and the ROK have not rendered successful results.

For instance, both the unilateral nuclear negotiations that led to the Agreed Framework in 1994 by the United States, and the ROK’s “Sunshine Policy” that affirms cooperation and reconciliation between South and North to bring permanent peace to the Korean peninsula were unsuccessful. North Korea reactivated its atomic reactors in 2003 and conducted a nuclear test in 2006. The DPRK’s missile tests in 2006 almost wiped out the inter-Korean summit and joint projects to develop Kaesong and Mt. Kumgang.11 Nonetheless, many U.S.-led U.N. sanctions, a military strike planned to eradicate nuclear facilities, and a crackdown on illicit funds of the DPRK have not discouraged the nuclear ambitions of North Korea.

The gradual rapprochement aimed at preventing both military

escalation and a sudden collapse of North Korea is the most suitable and sensible approach in this global era. The DPRK could be characterized as one of the purest forms of closed economies, and the communist state with centrally planned economies under the dictatorship of one man, Kim Jong Il. In 2006, North Korea’s population reached over 23 million people, and its major export/import partners are China, the ROK, Japan, Russia, and Thailand. The desperate economic conditions due to the government’s large-scale military spending caused this country to be a prolonged recipient of massive international food aid. North Korea, however, has implemented a policy regarding “private farming and farmers’ markets” on an experimental basis in 2004. This policy allowed private farmers to sell agricultural goods and promote privately owned farming in an effort to enhance overall agricultural output.12 This specific attempt indicates that the DPRK has attempted and will try again the principles of market economy if the market economy provides them with positive economic factors.

Evidence shows that North Korea is a poor and isolated communist country mainly relying on its military, so gradual rapprochement to avoid military conflicts or an abrupt collapse of the government that could cause devastating affects on the whole region is not admirable at any point. Furthermore, “North Korea remains a stoic and isolated legacy of the Cold War, when most of the world, even the communist world, has moved on.”13 Since 1953, North Korea seems to remain unchanged in terms of leadership style and economic conditions with the exception of a few economic indicators, while countries such as China and Russia have transformed their systems toward a more open market economy.

Based on current and previous characteristics, expecting North Korea to change hastily through regime change or internal leadership collapse is an idiotic philosophy that was most likely spawned by the views of ethnocentric Western culture. For instance, Russia, a former communist state, is a democracy now, and its current government

changed the approach from “rapid” to “go slow” since 2000. The example of Russia clearly demonstrates how to transform the abrupt collapse of one system, communism, to another, democracy. It also indicates that the rapid systematic change does not lead to political, economic, and societal stabilities all at once: “The performance of Russia was supplanted by recognition that reforming an economy is exceedingly hard, and success requires a complex package of microeconomic reform, macroeconomic stability, and institution-building.” Therefore, for a communist country like North Korea to follow the “gradualism” approach is the most relevant, safe, and practical at this point in time.

**Russia and “Gradualism”**

The post-communist system of Russia in 1992 chose misguided economic policies under President Boris Yeltsin. Russia was restricted to choose any other alternatives because these economic policies are required by the International Monetary Fund and World Bank for financial support and consensually recommended by Western economic advisors. The policy package, referred to as “Washington Consensus SLP, stabilization, liberalization, and privatization” or “shock therapy,” was originally intended to stabilize the macro-economy, promote a market-pricing system instead of central planning, open the markets to international trade, and encourage privatizing state-owned institutions.

However, the “shock therapy” created economic chaos and resulted in total economic failure because Russia overlooked three other elements that are vital to a transitioning economy: institutions, competition, and government (ICG). Institutions are necessary to support a market economy which includes property rights, as well as legal, accounting, insurance, finance, and banking systems, a commercial code, regulatory institutions, and others. Competition is required to avoid private monopolies that could appear through privatizing state-owned enterprises, and the government plays a major role by establishing and regulating institutions and cultivating a competitive environ-

Russian corruption and formation of an oligarchy were the results of choosing the wrong policies and approaches, and these negative results have been major obstacles to its economic growth:

“The patterns of relative decline in the postcommunist countries challenge another common theory about Russia’s output contraction. Some argue that excessively speedy reform exacerbated the decline and compare the “gradualism” of China’s economic policies favorably with the “shock therapy” of Russia’s. In fact, there is no obvious relationship between speed of reform and change in official output among the East European and former Soviet countries.”

Since 2000, the economic and political policies of Vladimir Putin, the current president of Russia, have worked positively for Russia, and the reform policies may have affected their positive economic growth rate (an approximate annual average of 6%) during 2000 to 2006. Russia has put enormous efforts into joining the WTO, but it failed to persuade President Bush in 2006, who opposed Russia becoming a member of the WTO. The political differences between these two leaders will eventually disappear as Russia’s economic growth continues. Many Westerners believe that Putin is an authoritarian figure, but this notion is not congruent to Russia’s economic reforms and present conditions.

Democracy and capitalism works better than any other ideology; however, democracy and capitalism work better only if government can play the role of a strong mediator; for instance, protecting the “have-nots from the haves” and providing a sense of “justice for all.” A majority of Russians did not even understand the definitions of capitalism and democracy when the meltdown of the formal Soviet Union occurred. The only way to reform communism to capitalism at that
stage was by adopting “gradualism,” but they have failed and the world has seen the consequences of that during the 1990s. Therefore, Putin’s one-at-a-time strategy is best-suited for the conditions in contemporary Russia, and the economic results are proving just that.

Russia’s unexpected reform experiences are well supported by the following theorem of the “go-slow or contemporary gradualism” approach:

In macroeconomics there is a famous theorem, “William Braina: Uncertainty and the Effectiveness of Policy,” which states, “If you don’t know, go slow.” The logic of this theorem is that in a world characterized by uncertainty about the impact of economic policy, large policy moves can lead to extreme (good or bad) outcomes. In general, extremes (feast or famine) are undesirable; it is better to have a smooth flow of income and employment. Consequently, policy should avoid radical shifts. This insight has relevance to trade liberalization, where there is much uncertainty and dispute about impacts.18

The example of Russia and current economic development of China and India support the relevancy of this theorem.

The United States, the ROK, and the rest of the Six-Party Talks members previously relied heavily on general aid to reform North Korea or sanctions to deter the DPRK’s nuclear ambitions. For that reason, for the countries concerned to blame North Korea for not following the “go slow” economic development approach earlier is inexcusable, especially when an opportunity, the issue of KIC, surfaced during the FTA between the United States and the ROK. Therefore, U.S. unwillingness to consider this matter seriously and the ROK not being enthusiastic enough to explore this matter with the United States are “a clear case of bounded awareness.” Based on the “go slow” theorem and Russia’s current gradualism approach, there are no apparent reasons that indicate KIC development would fail or negatively affect North Korea. Moreover, acutely analyzing and implementing the KIC issue could bring permanent stabilization in the region and benefit all interested countries.

Conclusion and Recommendations

Thorough analyses of the FTA, Six-Party Talks, presumptions, and the example of Russia implicate several fundamental elements. First, North Korea is and will remain an independent state. Therefore, any approaches to reform the DPRK’s political and economic systems must acknowledge the concept of “independence” instead of believing an unrealistic hope of immediate “unification” or “reunification.” Next, the theorem of “go slow” and the example of Russia indicates that the “gradualism” of North Korea is probably the best choice today. This approach may reduce the probabilities of any extreme or negative outcomes that could result from rapid changes in the economic and political systems of North Korea. Finally, the KIC development issue is a great opportunity for the United States and the ROK, and both countries will benefit from this opportunity—economically, strategically, and geopolitically—if they start “thinking outside of the box.”

Furthermore, in order to achieve “Permanent Peace”\(^\text{19}\) on the Korean peninsula, the regional and multilateral cooperation among countries that are interested in North Korea—geographically, economically, and politically—is required. However, these countries must realize that North Korea desperately needs a motivational factor to stop isolating itself and come out of the box to join the era of globalization. The world has witnessed that neither carrots nor sticks previously provided to North Korea worked as motivational factors, and this paper explained the reasons for the failure.

Can the KIC be the motivational factor? The answer would be obvious from the KIC description below:

The Kaesong Industrial Park is one of four special economic zones in the DPRK, and it is a region that promotes private ownership with independent legislative, judicial, and executive branches, without interference from the central government. North Korea welcomes foreign companies to invest and trade in this region because it generates the transfer of technology and skills, increases national employment and domestic wages, contributes to tax revenue, develops

import substitute products, and helps to increase exports. The KIC is the first major economic project undertaken jointly by the two Korean governments, and the first development project to be promoted based on capitalist principles. Several dozen South Korean firms operate in the KIC, employing a total of 6,000 North Korean workers, and the project will be carried out in three stages over 10 years.20

Other than human rights issues regarding North Korean workers, the United States strongly believes that this project would not bring permanent peace or stable security in the region because of North Korean activities since the implementation of this development project—and specifically North Korea’s recent missile and nuclear tests.

This contradictory view of the United States regarding the KIC project is logical and comprehensible, but the United States needs to realize that any options to transform North Korea into a capitalistic country are not available—and relying on previously failed military threats, economic sanctions, and general aid are worse strategies than the KIC development. Therefore, the KIC issue could be a great opportunity that would provide attainable solutions to reform the DPRK and avoid “a clear case of bounded awareness” if thorough, critical, and careful analyses are being conducted by all three countries: the United States, the ROK, and the DPRK.

Choe and Huff indicated that the advantages of doing business with North Korea are: improved regional stability, abundant and affordable labor force, growing market potential, undeveloped natural resources, and strategic distribution location. They also identified and provided detailed explanations of different entry strategies: wholly owned subsidiaries, contract manufacturing, and cooperative equity joint ventures.21

The reasons and recommended entry strategies are academically and practically well-articulated, but North Korea has not opened its markets to international trade and has further isolated itself through its

weaponry development and tests since the publication of the article in 2002. These strategies are absolutely commendable if North Korea decides to open its markets and experience a capitalistic market system. Therefore, aiding North Korea to open its markets and experience a free market system with the gradualism approach is currently the most fundamental strategy; and this strategy will ultimately leads to eliminate “a case of bounded awareness” of the KIC development.

The recommendations to solve “a case of bounded awareness” require a step-by-step process and immense efforts from both the United States and the ROK. First, the United States and the ROK must readdress the KIC issue before finalizing the FTA. Inputs from the economic, political, and military experts must be provided by the United States, the ROK, and the DPRK before placing this topic on the FTA table again. The internal participation of experts/strategists from different fields in these countries will produce more alternatives to the solution, which in turn decreases the prospects of the phenomenon of bounded awareness occurring. Furthermore, these experts must evaluate this matter in terms of how economic development of KIC would increase the chances of attracting more international businesses and promoting further economic growth in other special economic zones of North Korea. Next, both the United States and the ROK must approach this issue as a team; therefore, immediately stopping unilateral approaches by both countries is essential at this point. The team approach concerning North Korea will quieten the critics of the U.S. military presence in South Korea and the supporters of “anti-Americanism.” Furthermore, this cooperation will bind North Korea to exploit, manipulate, and escape their inappropriate behaviors such as nuclear arms development and tests by siding with one country over another.

Finally, both countries need to focus strictly on North Korea’s economic development with a “gradualism” approach, and cease practices of military threats, economic sanctions, general aid, and talk of unification or regime-change. Placing economic development of North Korea at the center of attention will draw participation by Russia and China.

The previous opposing behaviors of China and Russia—punishing North Korea militarily or economically whenever the issues of nuclear weapons brought before the UN Council indicate that the strategy of economic development of North Korea is attractive to both countries for stabilizing the Korean peninsula. To augment regional cooperation in North Korea, three recommendations must be implemented before the United States or the ROK proceed to other FTAs with regional countries—specifically China, Japan, and Russia.

Resolving the KIC issue at the moment will provide strategic and competitive advantages to the United States and the ROK in terms of security, stabilization, and economic positives of the future Northeast Asia. Avoiding “a case of bounded awareness” and realizing advantages from the phenomenon are merely in the hands of the decision-makers of the United States and the ROK.