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KOREAN DENUCLEARIZATION IN THE CONTEXT OF EARLIER PROLIFERATION AND DISARMAMENT NEGOTIATIONS

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Abstract

At present the negotiations between North Korea and the U.S. are stagnating if not stalemated. The present article looks at the reasons why this stagnation is occurring and ties it to previous examples of disarmament negotiations – which is the main issue at stake here. It looks at those examples to suggest that to achieve beneficial progress in its interest and that of South Korea Washington needs to revise its focus and simultaneously negotiate both denuclearization and a formal end to the Korean War and subsequent acts of belligerency by all concerned.

Key words: North Korea, United States, Denuclearization, and Disarmament

INTRODUCTION

As of November 2018 U.S. and North Korean negotiators have apparently reached an impasse in the bilateral U.S.-DPRK negotiations over North Korean denuclearization. North Korea cancelled a scheduled meeting in New York between its Foreign Minister and Secretary of State Pompeo because the U.S. has not made any concessions to it over sanctions, declaring an end to the Korean War, and/or beginning negotiations on a peace treaty.¹ Furthermore, it has threatened to resume its nuclear program unless sanctions are removed and the U.S. makes tangible concessions such as declaring an end to the Korean War and moving towards a peace treaty ratifying that end of hostilities.² In addition, it tested what it called a new “tactical” weapon clearly signaling that it might resume testing of missiles and even

¹ Nicole Gaouette, Michelle Kosinski, and Barbara Starr, “North Korea ‘Really Angry’ At US As Tensions Rise,” www.cnn.com, November 8, 2018

² John Power, “Six Months After Trump and Kim Shook Hands, Denuclearization a Distant Hope,” *South China Morning Post*, December 11, 2018, www.scmp.com/week-Asia/geopolitics/article/2176985; Robert Carlin, “DPRK Notches Up the Warnings,” www.38north.org, November 5, 2018

nuclear weapons if matters are not resolved to its satisfaction.³ And it is also now clear that it has not stopped the development of new missile bases and capabilities.⁴ Meanwhile Washington insists that North Korea first makes credible moves to denuclearize.

Indeed, on November 15, 2018 Vice-President Pence stated that a second Trump-Kim summit will be the occasion for reaching a “verifiable plan” to disclose North Korea’s nuclear sites. Specifically this next summit should lead to a “plan for identifying all of the weapons in question, identifying the development sites, allowing for inspections of the sites and the plan for dismantling nuclear weapons.”⁵ Yet Pence made no mention concerning progress towards a peace treaty as demanded by North Korea. Thus the issue dividing the parties remains squarely framed between the U.S’ demand for credible steps towards disarmament, demands that North Korean negotiators have called rubbish, and North Korea’s opposing demand for equally credible actions to enhance its security in an irrevocable manner.⁶

Washington’s continued insistence on North Korea first denuclearizing, e.g. by producing an inventory of its complete nuclear establishment and accepting a negotiated plan for its irreversible and total dismantlement, as Pence suggested, has run up against the North Korean belief that by suspending construction at the Pyungge-ri and Sohae nuclear sites it has made a concrete gesture that deserves to be reciprocated.⁷ As a result reports from North Korea have indicated

³ Choe Sang-Hun, “North Korea Says It Has Tested ‘Ultramodern Tactical Weapon,’” <https://www.nytimes.com/2018/11/15/world/asia/north-korea-tests-tactical-weapon.html>

⁴ “US Intelligence Not Shocked That North Korea Upgrading Missile Bases,” *Voice of America*, www.voanews.com, December 6, 2018

⁵ “Pence On North Korea: ‘Now We Need To See Results,’” *VOA News*, www.voanews.com, November 15, 2018

⁶ John Hudson, “South Korea Reveals Plan To Break Stalemate In U.S.-North Korea Talks,” *Washington Post*, October 3, 2018, <https://www.washingtonpost.com/world/national-security/south-korea-reveals-plan-to-break-stalemate-in-us-north-korea-talks/2018/10/03/6302d2ff-859b>

⁷ Choe Sang-Hun, “North Korea Escalates Pressure On U.S. Ahead Of Pompeo Visit,” www.

that it is “very angry” with the U.S. and is even threatening to resume its nuclear program if progress is not made on its agenda.⁸

North Korea’s position of demanding an end to the Korean War as a precondition for denuclearization is also apparently shared by Russia and China who have been steady and public supporters of Pyongyang’s line since the Singapore summit in June 2018 if not earlier.⁹ Indeed, Russian diplomats have just announced after meetings with DPRK diplomats their support for North Korea’s insistence on “phased, synchronous concessions,” which means declaring an end to the war and making concessions on a peace treaty before any concessions on denuclearization.¹⁰ Similarly President Putin has announced his opposition to sanctions and Chinese President Xi Jinping has announced his intention to visit North Korea in 2019.¹¹ Thus, Beijing, Moscow, and Pyongyang appear to be aligned together if not allies behind the DPRK’s negotiating platform. Moreover, on October 9, 2018, following the latest visit of U.S. Secretary of State Mike Pompeo to North Korea, deputy foreign ministers of Russia, China, and North Korea — Igor Morgulov of Russia, Kong Xuanyou of China, and Choe Son Hui of North Korea — gathered for the first time in Moscow and agreed that sanctions on North Korea should be reduced. Summarizing the meetings, Morgulov, stated in a TASS interview that “measures” should reflect “reciprocity, and parallel, synchronous and gradual steps” and emphasized that the situation on the Korean Peninsula would be settled in “accordance with the Russian-Chinese roadmap.”¹²

nytimes.com, October 1, 2018

⁸ Gaouette, Kosinski, and Starr

⁹ Mercy A. Kuo, “China, Russia, and US Sanctions On North Korea,” www.thediplomat.com, November 13, 2018; Vladimir Snosyrev, “Glavy MID RF i KNR Dogovorilis’ o Prodvizhenii Koreiskoi Initsiativy,” *Nezavisimaia Gazeta*, April 5, 2018, www.ng.ru

¹⁰ *Ibidem*

¹¹ *Ibidem*; “Russia Opposes Sanctions Against North Korea, Putin Tells South Korean President,” <http://tass.com/politics/964144>, September 6, 2017; “China’s Xi Urges North Korea, United States To Meet Halfway,” www.reuters.com, December 7, 2018

¹² *Ibidem*

Or, in other words, we are seeing a pale revival of the erstwhile “northern alliance” of the Cold War and the ensuing bipolarity of that time in regard to Korea.¹³

Indeed, a Russian analyst told a U.S. audience recently that in North Korea’s perspective there are no concessions that the U.S. could make that would allay its suspicions that denuclearization would be a prelude to an attack or at least a political campaign against it. Therefore, North Korea should be allowed to retain at least some of its nuclear capability for some time to come while negotiations continue and both sides build trust through a prolonged series of confidence-building measures.¹⁴ This view is also not just his alone but is shared by other Russian analysts.¹⁵ It should be noted that this stance, whatever its merits may be, conforms to Russia’s general preference for freezing ongoing conflicts around its borders to ensure that it plays a role in dominating those peripheries or in the Korean case ensuring that it has a voice in any subsequent developments there. It also conforms to what Russian analysts years ago announced, namely that in fact Russia benefits from and would be happy to preserve the status quo provided it does not lead to an explosion.¹⁶

Yet at the same time the overwhelming majority of North Korea watchers in the U.S. believe that the aforementioned concessions that North Korea claims to have made regarding its nuclear program are really cosmetic and that U.S. concessions to North Korea

¹³ Seongji Woo, “Pyongyang and the World: North Korean Perspectives on International Relations Under Kim Jong-Il,” *Pacific Focus*, XXXVI, NO. 2, August, 2011, p. 196

¹⁴ Meeting with Russian expert who insisted on anonymity, Washington, D.C., November 6, 2018; Andrei Lankov, “Strategic Stability In the Twenty-first Century: The North Korean Nuclear Threat,” www.carnegie.ru/commentary, November 27, 2018

¹⁵ *Ibid*; Konstantin Asmolov, “Complete Denuclearization? Not Before the Korean War is officially Over,” www.valdaiclub.com, August 3, 2018

¹⁶ Andrei Lankov, “North Korea’s Nuclear Blackmail,” in Gregory J. Moore Ed., *North Korean Nuclear Operationality: Regional Security and Nonproliferation*, Graham T. Allison Foreword, Baltimore, Md.: Johns Hopkins University Press, 2014, pp. 178-179

in Singapore and after were unwarranted and not reciprocated.¹⁷ As Joshua Shiffrin argues, President Trump was “fleeced” at Singapore.¹⁸ And he is hardly alone in that assessment. Indeed, even before the Singapore Summit experts were warning that Kim was getting a great deal for nothing from Washington.¹⁹ And afterwards even more analysts piled on to this argument.²⁰ Meanwhile U.S. intelligence services have reported frequently that in fact the DPRK’s nuclear program is continuing despite those gestures albeit much more quietly like Pakistan’s program.²¹ So these factors only add to the mistrust of North Korea that so greatly influences U.S. perceptions and policies of the DPRK.

In this context the revelation that North Korea is continuing its secret missile and nuclear programs will add to the abiding belief that President Trump was “fleeced” by Kim Jong-un, that Kim’s oft-reported stated intention to get rid of his nuclear weapons is a charade, and that North Korea cannot and will not abide by any agreements it has signed. Instead, so the argument goes, it is determined to retain and even augment its nuclear weapons capabilities under all circumstances.²² Therefore negotiations with it are pointless even if Kim Jong-un continues to maintain, as he is

¹⁷ Zack Beauchamp and Jennifer Williams, “4 Winners and 4 Losers From the Trump-Kim Summit In Singapore,” www.vox.com, June 12, 2018

¹⁸ Joshua Shiffrin, “Learning to Love Kim’s Bomb: The Upside Of a Nuclear-Armed North Korea,” <https://www.foreignaffairs.com/articles/north-korea/2018-10-03/learning-love-kims-bomb>, October 3, 2018

¹⁹ Evans J.R. Revere, “A U.S.-North Korea Summit: What could Possibly Go Wrong,?” www.brookings.edu, March 9, 2018

²⁰ “Snap Poll XI: What Experts Make of Trump’s Foreign Policy,” <https://trip.wm.edu>, December 11, 2018

²¹ David E. Sanger, “North Korea’s Trump-Era Strategy,” Keep Making A-Bombs, But Quietly, www.nytimes.com. September 16, 2018; “US Intelligence Not Shocked That North Korea Upgrading Missile Bases,”

²² David E. Sanger and William J. Broad, “In North Korea Missile Bases Suggest a Great Deception,” *New York Times*, November 12, 2018, <https://www.nytimes.com/2018/11/12/us/politics/north-korea-missile-bases.html>

doing, that he remains committed to denuclearization. Whatever the merits of this argument may be, it does leave matters at an impasse even though South Korea has reported that it knew all about these recently revealed programs.²³ That consideration might explain why Vice-President Pence stated that despite the North Korean failure to make any tangible moves towards denuclearization the U.S. is prepared to move towards a second summit between President Trump and Kim Jong-un where it expects an inventory of nuclear sites and developments to be submitted.²⁴

Furthermore as many analysts have observed, there is a lack of clarity as to definitions of key concepts such as complete denuclearization and a peace regime. Both sides interpret these differently. North Korea, for example, appears to have a much more “expansive” conception of a peace regime than does the U.S. (and possibly South Korea not to mention Japan). And its definition of denuclearization likewise appears to be a “minimalist” one that does not include the irreversibility of denuclearization and that fails to meet the stringent American demands for verification.²⁵ And finally, adding to the difficulties of getting Washington and Pyongyang on the same page is the ever-present jockeying for influence over the process by China, Russia, as the Stockholm-based Institute for Security and Development Policy states.

Significantly, furthermore, the peace/denuclearization process cannot be resolved exclusively on a bilateral basis, but needs to also include other important stakeholders such as China, Japan, and Russia as part of a multilateral framework, along the lines of

²³ Stella Kim and Alexander Smith, “South Korea Says ‘Nothing New’ In Report Identifying North Korean Bases,” <https://www.nbcnews.com/news/world/south-korea-says-nothing-new-report-identifying-north-korean-bases-n935541>, November 13, 2018

²⁴ “Pence On North Korea”

²⁵ For example, Institute For Security and Development Policy, “Windows of Opportunity: Breaking Impasse On the Korean Peninsula,” <http://isd.eu/publication/breaking-impasse-on-the-korean-peninsula/>, November 2018, www.isdp.eu, p. 11

the long-moribund Six-Party Talks. Indeed, denuclearization of the Korean Peninsula, establishing a peace regime, and economic development are all regional concerns. Failure to do so, and especially if agreements are perceived to violate the core interests of regional states, could potentially see them as “spoilers” that threaten to undermine the process.²⁶

THE HISTORICAL PRECEDENTS

Given these obstacles it is exceedingly easy to argue that despite the launching of negotiations, both sides’ interests are irreconcilable.²⁷ But that is not necessarily the correct conclusion.²⁸ The current apparent impasse stems from the course of negotiations since the Singapore summit in June 2018. As part of those bilateral talks since the summit North Korea and the United States have been negotiating over the conditions for a second summit between President Trump and Chairman Kim Jong-un. Publicly revealed issues include Washington’s emphasis on nuclear disarmament as a precondition for signing a peace treaty that formally ends the Korean War, security guarantees, and economic assistance. On the other hand, North Korea, although professing its desire ultimately to dismantle most, if not all of its nuclear enterprise, insists that first peace be discussed and agreed to in the form of a treaty.²⁹ Presumably any such treaty would, as in other cases, prohibit the parties from engaging in any belligerent or warlike acts, including sanctions, and threats if not actual invasion. But as suggested above North Korea’s definition of a “peace regime”

²⁶ *Ibid.*, p. 12

²⁷ NSIteam.com “Strategic Outcomes In the Korean Peninsula: Part II: Key Questions Answered By Individual Analytic Efforts, SMA Publication, Forthcoming, p. 7

²⁸ *Ibid.*, *Passim*

²⁹ Choe Sang-Hun, “North Korea Escalates Pressure On U.S. Ahead Of Pompeo Visit,”

may go far beyond this definition even if this list of attributes of a “peace regime” contains an irreducible minimum of conditions that would comprise such a regime in any settlement.

Parallel to this discussion with the U.S., North Korea has held three summits with South Korea, signed several confidence-building measures with South Korea, and both sides have started to implement them. There are also confidence-building measures currently in place between Pyongyang and Washington. These include the suspension of nuclear tests, reports of North Korean dismantlement of some nuclear sites, and the corresponding suspension of U.S.-ROK exercises.

In many ways this situation reflects a recurring and observable pattern in the history of disarmament negotiations going at least as far back as the Geneva negotiations about European disarmament in 1930-33 even if both sides (as shown below) still have divergent understandings of much of that history. And this pattern of the struggle between those who demand disarmament first as a precondition of security versus those who demand credible security guarantees first as a prelude to disarmament is observable right up to the present, e.g. in the negotiations of the 5+1 with Iran that led to the signing of the Joint Comprehensive Plan of Action (JCPOA) in 2015. In this pattern the primary recurring point of contestation in these disarmament talks (which, of course, is what non-proliferation is all about) is the conflict between the repeated insistence of the currently stronger side on disarmament as a precondition for agreements regarding the security of the weaker side who has been trying to arm itself with nuclear or other controversial weapons, often covertly due to its fears of the stronger side's intentions. On the other side of the “table” the weaker side insists that before it agrees to any disarmament it needs ironclad guarantees of security against any belligerent activities of the other, stronger side. Generally the stronger side is loath to provide such guarantees until it sees tangible disarmament. And those so-called belligerent activities feared by the weaker party need not necessarily be military ones. They could be sanctions, for example, as in Iran and

North Korea's cases and as occurred in the early 1920s against Germany.

The 1930-33 Anglo-French-German disarmament talks are very revealing here. In those talks France, the stronger state, but nonetheless a traumatized one due to the cost of victory in World War I and deeply apprehensive about Germany's potential for recovery even before Hitler came to power, demanded that Germany first disarm further. Indeed, France knew about German covert violations of the Versailles Treaty disarmament provisions.³⁰ Germany, on the other hand, fearful of superior French military power and under enormous domestic pressure to assert a tough nationalist position, insisted against France that Paris give it irrevocable guarantees of security and non-aggression. For example, Germany demanded that France reduce its armed forces to Germany's level as part of a demand for "equal security" to preclude another invasion of Germany like the invasion of the Ruhr in 1923 before agreeing to security guarantees for France.

For its part, France demurred, as its military and political establishments understood that, "equality of armaments was a trap." As French Commander General Maxime Weygand warned Prime Minister Daladier in 1933, "In reality there will be no equality but a very pronounced superiority for Germany given the military culture of this nation and the intensive efforts already undertaken to prepare the German armaments industry for rearmament."³¹ Yet despite this opposition the British government, acting as a mediator, had supported Germany's claim to "equality of rights" with France that would have greatly augmented German's military capability on top of the covert efforts at rearmament that preceded Hitler's accession to power and then greatly accelerated once he was able to free Germany from

³⁰ Barton Whaley, *Covert German Rearmament, 1919-1939: Deception and Misperception*, Lanham, Md. University Publications of America, 1984

³¹ Zara Steiner, *The Triumph of the Dark: European International History 1933-1939*, m Oxford: Oxford University Press, 2011, p. 25

the incubus of having to pretend to disarm in these negotiations.³² In those negotiations the UK occupied or tried to occupy a mediatory position that in effect leaned towards accepting German demands, a stance that only heightened and made more visible the gaps between London and Paris and allowed Hitler to break free of the negotiations and continue what he had all along planned to do, i.e. rearm.³³ Thus those talks foundered on this very issue leading to an all too tragic outcome.

More recently when the USSR collapsed leaving many Soviet nuclear weapons in Ukraine, Kyiv, as a matter of principle, insisted on guarantees of its security before yielding those weapons back to the Russian Federation. Ultimately the Budapest Agreement of 1994-95 provided assurances - not guarantees - to Kyiv by the U.S., UK, and Russia but as we now see they proved to be unavailing. This case showed once again that nuclear weapons are instruments of political bargaining as much as they are of military threat.³⁴

In 1993-94, fearful of Russian revisionism concerning the newly independent Ukraine, and realizing that it held a valuable trump card, Kyiv demanded economic, military, and political guarantees from the U.S. and the UK. But Ukraine's demands did not stop here.

Lastly, Ukraine sought from the West, again mainly the United States, a guarantee of political integrity and sovereignty against any attack, conventional or nuclear, from Russia. Kiev wanted this guarantee to go beyond those offered in the NPT, where any attack by a nuclear state upon a nonnuclear one would be taken to the U.N. Kiev demanded that the United States, and presumably the Western Alliance, guarantee to take military action against any state attacking it, i.e.

³² *Ibid.* pp. 36-37

³³ *Ibid.* pp. 36-45

³⁴ Stephen Blank, *Proliferation and Nonproliferation in Ukraine: Implications for European and U.S. Security*, Strategic Studies Institute, U.S. Army War College, Carlisle Barracks, Pa., July, 1994, <http://ssi.armywarcollege.edu/pubs/display.cfm?pubID=173> p. 7,

Russia, and that Russia guarantee its borders too.³⁵

As we now know the eventual assurances (not guarantees) that induced Ukraine to renounce nuclear weapons did not suffice against Russian threats. Indeed, all the justifications for Russian aggression and threats that we have seen since 2013 in the Maidan crisis and eventual Russian invasion of Ukraine and ensuing war were already voiced by Russian commentators or officials in 1993-94.³⁶ This fact demonstrates just how valid Ukraine's threat assessment was then and why its arguments for nuclear weapons (along with those discussed below) might resonate with Pyongyang. Other cases also clearly resonate with North Korea.

In the Iranian case from 2013-15 the 5+1 negotiations also centered on this quandary or tension between disarmament and security. Washington, the leader of the 5 insisted on Iranian disarmament while predictably, Iran, the weaker participant, insisted on an end to belligerent action like sanctions and threats to invade or overthrow the government. In the end the negotiators reached an agreement incorporating both disarmament, in this case denuclearization and a strict IAEA inspection regime, as well as security guarantees like the end of sanctions and the return to Iran of monies held by the U.S. government since 1979 and the opportunity to resume trade with Europe.³⁷ And while Iran still foments terrorism and uprisings across the Middle East, there is no sign of a renewed nuclear program in violation of the JCPOA (which did not deal with Iran's other activities). Nevertheless, this agreement, like the Budapest Agreement, appears to be unraveling as the U.S. has walked out of it and Western trade

³⁵ *Ibid.*, p. 8; Elaine Sciolino, "U.S. Offering to Mediate Russian-Ukrainian Disputes on Security," *The New York Times*, www.nytimes.com, December 4, 1993, p. A6.

³⁶ Blank, pp. 13-17

³⁷ Joint Comprehensive Plan of Action (JCPOA), <https://www.state.gov/e/eb/tfs/spi/iran/jcpoa/>, 2015

with Iran never lived up to expectations.³⁸ The U.S. walkout from the JCPOA, whatever its merits and justifications, can hardly provide comfort to those in Pyongyang who might argue for accepting the U.S. insistence of complete verifiable, irreversible disarmament (CVID). It certainly does not inspire confidence in the durability of U.S. security guarantees.

Libya

The Libyan case arouses particular emotion in North Korea. Readers will remember that in 2003 the Libyan government was under Muammar Qaddafi. In return for dismantling Libya's fledgling nuclear and ballistic missile programs, Washington normalized relations with Libya and international teams of inspectors confirmed the destruction of those systems. This decision was hailed at the time as a model for future denuclearization of states suspected of producing weapons of mass destruction and as a result Washington "amply rewarded" Libya.³⁹ Unfortunately, the Arab Spring erupted in 2011 and when Qaddafi threatened to massacre his rivals the U.S., in support of France and the UK crafted a UN resolution creating a no fly zone over Libya and used that to intervene there and overthrow Qaddafi's government, leading to his gruesome murder several months later. While Libya's chemical and biological weapons stocks have not been used in the civil war that ensued upon the NATO intervention, clearly this outcome too does not inspire confidence in North Korea concerning Western and especially U.S. guarantees.⁴⁰

In fact Libya appears to have particular significance for the North

³⁸ Ladane Nasseri, "Iran's Door to the West Is Slamming Shut, and That Leaves China," <https://www.bloomberg.com/news/articles/2018-05-10/iran-s-door-to-the-west-is-slamming-shut-and-that-leaves-china>, May 10, 2018

³⁹ Arms Control Association, "Chronology of Libya's Disarmament and Relations with the United States," <https://www.armscontrol.org/factsheets/LibyaChronology>, January 2018

⁴⁰ *Ibid*

Korean government because its example can be construed to confirm the argument that to give up nuclear weapons in return for seemingly solid security guarantees puts the Kim Jong-un regime at immediate and violent risk as in Libya. It clearly has a different view of Libyan developments, one that overlooks U.S. cooperation with Libya after 2003. A KCNA broadcast after Qaddafi's demise bluntly states this North Korean view.

The present Libyan crisis teaches the international community a serious lesson. It was fully exposed before the world that "Libya's nuclear dismantlement" much touted by the United States in the past, turned out to be a mode of aggression whereby the latter coaxed the former with such sweet words as "guarantee of security" and "improvement of relations" to disarm itself, and then swallowed it up by force. It proved once again the truth of history that peace can be preserved only when one builds up one's own strength as long as high-handed and arbitrary practices go on in the world. The DPRK was quite just when it took the path of Songun and the military capacity for self-defense built up in this course serves as a very valuable deterrence for averting war and defending peace and stability on the Korean Peninsula.⁴¹

It also is notable that this commentary, which is really one among many, clearly ties together the security of the state to the security of the regime. Implicitly, therefore, if not explicitly, the preservation of a nuclear option in the ruling elite's mind is inextricable from continuation of the Kim family dynasty in its present form. Any decision for denuclearization then opens up the possibility of an internal crisis. Although the crisis in Libya in 2011 bore no relationship to the failed nuclear gamble eight years earlier and Pyongyang neglects U.S. cooperation with Libya after 2003 the narrative of American perfidy if not treachery still holds sway in its mind. North Korea's assessment of

⁴¹ Quoted in Victor Cha, *The Impossible State: North Korea Past and Future*, New York: Harper Collins, 2012, p. 240

Libya's example, in particular, suggests why many analysts, not just Russian ones, believe that in fact there are no guarantees that Washington could offer at present that would persuade Kim Jong-un to divest himself of his nuclear and/or missile capabilities before receiving what he considers to be truly credible guarantees of his regime's security.⁴² At the same time this view that no U.S. declarations or policies could persuade Kim to renounce his nuclear option parallels the view among many Americans, especially conservative experts on North Korea, that "Pyongyang has indicated that no level of economic benefits could address the security concerns that the regime cites as justification for its nuclear programs. As such, there is no utility in offering such assistance to achieve denuclearization."⁴³

According to Robert Joseph who was Under Secretary of State for Arms Control and International Security and, earlier, as Special Assistant to the President for Proliferation Strategy and Counter proliferation in the George W. Bush Administration, Libya apparently means something different to U.S. officials.

By March 2004, Libya's entire nuclear program – all sensitive materials and documentation, and many metric tons of conversion and centrifuge enrichment equipment – had been moved to Oak Ridge, Tennessee. Once the program was eliminated, and only after further actions were taken by Libya, including ending certain terrorist activities, Washington and Tripoli established formal diplomatic relations and the United States ended travel and other restrictions on Libyan diplomats posted with their UN mission. The United States then reduced economic sanctions and opened new commercial relationships, in fields such as oil exploration and extraction technologies.⁴⁴

⁴² Conversations with Russian specialist who requested anonymity, Washington, D.C. November 6, 2018; Asmolov

⁴³ Bruce Klingner, "The Trump Administration Must Recognize the Dangers Of Premature Negotiations With North Korea," The Heritage Foundation, www.heritage.org, May 11, 2017

⁴⁴ Robert Joseph, "How to Think About Denuclearizing North Korea," *Defense Dossier*, No. 22, December, 2018, pp. 3-4, www.afpc.org

While almost all observers agree that any ultimate settlement must contain both nuclear disarmament and an end to hostilities on the Korean Peninsula, it remains extremely difficult to visualize how the parties will get there even with the existing confidence-building measures. Indeed, the Korean situation makes the prior history recounted here instructive because it reveals that this conflict between the militarily stronger side demanding disarmament, the weaker side demanding credible security guarantees, and the possibility of a third player or set of players playing a mediating role akin to that of Great Britain in 1930-33 greatly influences the current negotiations. Indeed, arguably South Korea to some extent is replicating the British role except for the fact that as historians show, Great Britain was clearly the stronger and leading partner in the Franco-British alliance.⁴⁵ Similarly, the UN forced Iraq under Saddam Hussein to disarm and the U.S. invaded Iraq in 2003 in the belief that he was secretly rearming. The calamitous results of that campaign continue to haunt us to this day.

FROM THE PAST TO THE PRESENT

North Korea's government, as it has repeatedly said, is particularly mindful of the Libyan, Iraqi, and Ukrainian cases. And even a less isolated government would, bearing those previous cases in mind, be loath to renounce nuclear weapons without absolutely credible guarantees of its security and international recognition. Moreover, because nuclear weapons are the only way it can blackmail other states into subsidizing it and propping up the regime at home preserving a credible nuclear deterrent is vital not just for external security but for internal security as well. This is especially important since there is no sign of state-sponsored economic reform that would allow North

⁴⁵ Steiner, *passim*;

Korea to emulate Vietnam, and China's course to prosperity, greater stability and power.⁴⁶

Therefore, this history suggests just how difficult it is to craft enduring and credible agreements among the parties even if we do not take into account the differing interests of other actors like Russia, China, and Japan. Clearly as well the current standoff evokes resemblances to these precedents. The U.S. demand for disarmament first as a precondition for what were intended to be credible guarantees clearly resembles France's position in 1930-33. Meanwhile North Korea's stubborn insistence on pocketing credible and tangible security if not economic guarantees in advance of any consideration of disarmament evokes Germany's position from 1930-33, i.e. before and after Hitler's accession to power. We are not comparing the DPRK to Nazi Germany. Nevertheless, there is a distinct geopolitical resemblance between the two states as regards disarmament. Concurrently, South Korea's valiant efforts to mediate between the North and the U.S. and to propose and even institute confidence-building measures with North Korea visibly recall Great Britain's failed efforts to mediate between France and Germany in 1930-33.

Moreover, the U.S. demand for disarmament first is not a new one dreamt up by the Trump Administration. As Gregory Moore wrote in 2014 (and this remains the case today), U.S. policy in the past has always been to seek verifiable North Korean denuclearization *first*, *followed by a treaty* formally ending the Korean War, U.S. recognition of North Korea, and the establishment of full diplomatic relations between Pyongyang and the United States.⁴⁷ Similarly North Korea has always insisted, for its part on the sequence it has asserted here, first declare an end to the war and begin talks on a peace treaty before it starts to disarm or renounce its violent tactics and military buildup.⁴⁸

⁴⁶ Lankov, "North Korea's Nuclear Blackmail," pp. 164-181

⁴⁷ Gregory J. Moore, "Conclusion: Implications and Possible Ways Forward," *Ibid.*, p. 250

⁴⁸ Choe Sang-Hun, "'North Korea Escalates Pressure On U.S. Ahead Of Pompeo Visit,'"

Thus the impasse described here is a deeply entrenched one.

But while negotiators must be cognizant of this rather discouraging history they cannot let themselves be bewitched by it. While the past shows that disarmament and denuclearization agreements can be reached and stand the test of time, e.g. South Africa, it is very clear that Washington, Seoul, and Pyongyang, if not other capitals must come to terms with this history, understand what led past negotiations to fail, often with tragic results, and understand what conditions make for successful agreements that enhance peace and security for all the negotiating parties. In other words if genuine peace and security are to come about they probably must do so in tandem. No real peace treaty can ensue where both sides are still rearming out of fear of the other. This also means that allowing North Korea to retain nuclear weapons *ad infinitum*, employing arguments that mask Russia's efforts to preserve the status quo as Russian analysts have suggested is no answer either.⁴⁹ Otherwise Washington and Pyongyang will merely continue to dig the same trench they have occupied since the armistice at Panmunjom in 1953. The complexities of the denuclearization process on the Korean Peninsula are enormous and daunting. But here in particular Santayana's dictum that those who forget the past are condemned to repeat it stands as a warning to statesmen in all the capitals of the Six-Party Process that failure all too likely will result in a cataclysm for which they will be held accountable.

Indeed, we need to be clear about the true meaning of what both sides are repeatedly demanding. While Kim Jong-un may have expressed his willingness to denuclearize in exchange for a security guarantee in his proposal for a U.S.-North Korea summit or the end of the U.S.' "hostile policy," that term can be rather elastic and flexible in Pyongyang's diplomacy. But in all cases this has previously meant the termination of the U.S.-South Korea alliance and removal

⁴⁹ Lankov, "North Korea's Nuclear Blackmail," pp. 178-179; Conversations with Russian analyst, Washington, D.C, November 6, 2018

of South Korea from the U.S. nuclear umbrella.⁵⁰ Washington's idea of denuclearization, the complete and verifiable dismantlement of North Korea's nuclear program absent solid security guarantees, is an equally deluded and illusory idea since nobody negotiates away their survival, particularly if it is what they believe to be their basis for both domestic and external survival.⁵¹ Therefore we must face the likely conclusion that complete, verifiable, and irreversible denuclearization will not take place absent credible and solid security guarantees. Indeed, U.S. policymakers in both parties seem congenitally incapable of framing the North Korea problem in ways that would help get out of the current impasse.

Neither should we seek refuge in the equally deluded idea that we can somehow pressure China and/or Russia into inducing North Korea to denuclearize absent those guarantees, because neither government has any incentive to relieve the United States of the conundrums imposed by North Korean nuclearization that is not a direct threat to them or their allies whoever they may be.⁵² And as we and other scholars have noted Russia (and presumably China) does not advocate genuine denuclearization, i.e. complete verifiable and irreversible denuclearization. Instead, though it will not say so overtly, it favors the status quo as that allows it to attack U.S. policy and exploit the situation on the Korean border much as it does other unresolved conflicts in its European periphery.⁵³ In other words, North Korea can count on support from other quarters (unlike Libya and Iraq) especially as their policies are increasingly driven by overt Anti-Amer-

⁵⁰ Yu Bin Kim, "What North Korea Calls the U.S. 'Hostile Policy' Could Mean Anything," *The National Interest Blog*, February 15, 2017, <https://nationalinterest.org/blog/what-north-korea-calls-the-us-%E2%80%9Chostile-policy%E2%80%9D-could-mean-19453>

⁵¹ Hyonhee Shin, "U.S. Urges North Korea Denuclearization Before 'Shared Goal' Of Ending War," *www.reuters.com*, October 30, 2018

⁵² Lankov, "North Korea's Nuclear Blackmail," pp. 178-179

⁵³ *Ibid.*; Conversations with Russian specialist who requested anonymity, Washington, D.C. November 6, 2018

icanism. And, despite agreeing to UN resolutions on sanctions due to North Korea's continuing nuclearization process both Russia and China are increasingly openly violating those sanctions and, as noted above, publicly support their easing, reduction, or even elimination.⁵⁴

Consequently, if China is encouraging North Korea to resist U.S. pressure for denuclearization as President Trump has suggested, it is quite likely that Russia is also doing so and probably at China's behest.⁵⁵ Certainly both states' violations of UN resolutions that they supported regarding sanctions on North Korea is becoming ever more transparent.⁵⁶ Increasingly Russian analyses of the Korean issue also blame Washington for North Korea's continuing nuclearization due to its threats against North Korea.⁵⁷ Therefore Russia has argued, along with China, and to Pyongyang's delight, that Washington must make the first concessions, e.g. ending the state of war on the Korean Peninsula, giving security guarantees, and ceasing its threats while deferring the urgent necessity of denuclearization.⁵⁸ Thus it is arguable that in this case (and this would explain the resort to direct negotiations), Washington has reached the limit of its power, especially as the gaps between it and Seoul are becoming ever more visible.⁵⁹

⁵⁴ Kuo, Snosyrev

⁵⁵ Cristina Maza, "Donald Trump Blames China for North Korea's Failure to Denuclearize, Beijing Slams President's 'Irresponsible and Absurd Logic'" <https://www.newsweek.com/donald-trump-blames-china-north-koreas-failure-denuclearize-and-beijing-slams-1097294>, August 30, 2018

⁵⁶ "U.S. Warns Russia, China and Others On Enforcing North Korea Sanctions," [https://www.cbsnews.com/news/un-report-says-north-korea-is-continuing-nuclear-and-missile-programs-2018-08-04/August 4, 2018](https://www.cbsnews.com/news/un-report-says-north-korea-is-continuing-nuclear-and-missile-programs-2018-08-04/August%204,%202018)

⁵⁷ "Foreign Minister Sergey Lavrov's Remarks At the UN Security Council Ministerial Meeting On North Korea Settlement Efforts, New York, September 27, 2018," http://www.mid.ru/en/web/guest/general_assembly/-/asset_publisher/lrzZMhfoyrUj/content/id/3354592, September 27, 2018

⁵⁸ "Putin Says North Korea Needs More Encouragement," *Radio Free Europe Radio Liberty*, www.rferl.org, September 12, 2018; "Putin Says North Korea Doing a Lot To Disarm But Washington Not Responding," *Reuters*, September 12, 2018;

⁵⁹ Shiffrinson; Yigal Chazan, "Seoul Is Testing US Patience Over North Korea Sanctions," www.thediplomat.com, November 17, 2018

For example, the arguments made by Pyongyang, Beijing, and Moscow for easing or lifting sanctions as a token of real movement towards a formalized peace on the Korean Peninsula encounter Washington's opposition because Washington believes that, "they are seen a key tool of leverage to ensure Pyongyang's full compliance to denuclearization as well as uphold the global nuclear non-proliferation regime."⁶⁰ In fact the sanctions issue could come to function as a present day example of how this negotiation resembles the Anglo-French-German negotiations in 1930-33. Just as Great Britain as mediator increasingly strove to meet German demands to allay Berlin's fears or professed fears of French intervention by offering ever larger concessions to Germany, South Korea's government, driven by its domestic and foreign policy outlook regarding North Korea and economic development on the Peninsula is apparently diverging from the U.S. position on sanctions.

Yet, the issue of when to lift sanctions is exposing divisions between the U.S. and South Korea. Despite the recent announcement of a joint working group to coordinate U.S.-ROK policy towards North Korea, Seoul views a lifting of sanctions not only as necessary to advance inter-Korean economic cooperation which remains stymied by international sanctions, but also to incentivize Pyongyang to undertake further denuclearization measures. In contrast, the U.S. has not only recently strengthened sanctions, but Secretary Pompeo has also warned Seoul that inter-Korean cooperation cannot proceed faster than denuclearization. This stems from the concern that the provision of economic and technical assistance could undermine the efficacy of sanctions.⁶¹

This potential divergence between Seoul and Washington on

⁶⁰ Institute for Security and Development Policy, "Windows of Opportunity: Breaking Impasse On the Korean Peninsula," <http://isdpeu/publication/breaking-impasse-on-the-korean-peninsula/>, November 2018

⁶¹ *Ibid*

sanctions not only is a distant parallel to the Anglo-French divergences in 1930-33 (and even after⁶²) it is obviously not solely confined to sanctions but could spread to other issues and offer real possibilities for North Korea to come out ahead in the negotiations while eroding allied cohesion on the Peninsula. For it is clear that Washington is visibly irked by Seoul's position.⁶³ In fact, it appears that Washington is shifting its position to reflect its dissatisfaction with Pyongyang's tactics.

On Nov. 15, (2018-author) U.S. Vice President Mike Pence said that Washington will not require North Korea to hand over a list of nuclear and missile sites ahead of a second summit between U.S. President Donald Trump and North Korean leader Kim Jong-un. On Nov. 21, U.S. Defense Secretary James Mattis indicated that Seoul and Washington would reduce the scope of the Foal Eagle exercise, a major annual joint military drill next spring, "to keep it at a level that will not be harmful to diplomacy."⁶⁴

Similarly, Secretary of State Pompeo said that Washington was prepared to be patient with North Korea. Yet on November 20 Stephen Biegun, the top U.S nuclear envoy for Korea, told his South Korean counterpart, Lee-Do Hoon, that the current "ambiguous" situation whereby North Korea stonewalls requests and offers for denuclearization cannot continue and that "the window of opportunity for a deal is closing."⁶⁵ These discussions also revealed once again the gap between Washington and Seoul's tactics.

During the working group meeting, Biegun reiterated Washington's stance that the sanctions on the North will not be eased until its complete denuclearization. The South Korean side emphasized its

⁶² Steiner, *passim*.,

⁶³ Chazan,

⁶⁴ "Biegun Warns That Window For Deal Is Closing," <http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=3056184>, November 28, 2018

⁶⁵ *Ibid.*

plan for a visit by the North Korean leader to Seoul, a declaration to an end to the 1950-53 Korean War and a groundbreaking ceremony for an inter-Korean railway project, which Washington said it would work to support. Washington, however, reportedly conveyed concern over delays in finishing a multi-year cost-sharing deal for U.S. troops in South Korea. The current deal is set to expire at the end of this year.⁶⁶

Therefore, the current impasse between Washington and Pyongyang is not mirrored in the progressing bilateral confidence-building between the two Koreas who are even now beginning joint discussions of potential future projects like a railway.⁶⁷ Indeed, Washington is clearly trying to pressure the ROK to slow down its initiatives and act in greater coordination and harmony with it. Meanwhile, those divergences offer not only North Korea but also Russia and China potentially beguiling opportunities for attaining their objectives at the U.S.' expense.

Nevertheless, while it is almost certain that negotiations will be protracted this does not mean a priori that they will be inconclusive or a failure. This author and other writers have outlined the basic deal, which is denuclearization in return for security guarantees of the continuation of the North Korean state and its present government. And that also clearly includes a formal peace treaty and an end to all acts of belligerency by all the relevant parties: the U.S, China and both Korean states.⁶⁸ This also means that while both sides disagree about history, namely the Libyan case, we must learn from that case and the broader history but not be immobilized by it.

Recent comments in Washington and Pyongyang suggest that U.S.

⁶⁶ *Ibid.*,

⁶⁷ Ankit Panda, "Inter-Korean Rail Survey Begins, Ahead of Expected Fourth Kim-Moon Summit in Seoul," www.thediplomat.com, December 1, 2018

⁶⁸ Joseph, p. 5; Stephen Blank, "A Way Out of the North Korean Labyrinth," <http://www.keia.org/publication/way-out-north-korean-labyrinth>, March 22, 2018

and North Korean officials now have these two fundamentally different Libya models in mind. For this reason, there is likely little utility in seeking agreement on which model best applies or in attempting to reconcile the two models. This is not, and never has been, about imitating with North Korea what happened with Libya 15 years ago. North Korea is not Libya. The state of its nuclear and missile programs is much different, as is the regional conventional threat represented by the two countries. The better course, then, is to put both Libya models aside and adopt a negotiating approach that draws on the important lessons from our successes there, as well as the lessons from our past failures with North Korea and Iran.⁶⁹

Joseph offers four principles that should guide the U.S.⁷⁰ Others undoubtedly have their own models for the future negotiations. But there is no need to give up either on sanctions or denuclearization if we realign our thinking to view the problem of getting to North Korea's denuclearization in a different framework. Until now the U.S. has viewed the North Korean issue primarily through the non-proliferation framework thereby making the central issue the denuclearization of North Korea. But it is clear that this has failed to compel or induce Pyongyang to denuclearize absent parallel and credible security guarantees. Therefore, for Washington to achieve its ambitions it needs to start looking at the issue primarily through a regional security framework. As one U.S. study argued Washington needs to look at the issues involved in a more "Asian" way.⁷¹ In no way does doing so reduce the wisdom of insisting on denuclearization neither does it mean we downplay the implications of North Korean nuclearization for the global non-proliferation agenda. There is little doubt that if North Korea were to retain nuclear weapons this would shake and

⁶⁹ Joseph, p. 5

⁷⁰ *Ibid.*

⁷¹ Strategic Outcomes In the Korean Peninsula, *passim*

erode ROK and Japanese confidence in U.S. guarantees and reopen opportunities for Iran to go nuclear not least through covert North Korean assistance and exports.⁷²

However, looking at the issues on the agenda primarily through the prism of regional security for Northeast Asia rather than through a non-proliferation prism arguably facilitates the achievement of a solution that benefits all six of the members of the Six-Party Process even if it does not benefit them all equally. If we look at the issues through this context then it becomes clear that for Washington and Seoul that the ultimate goal is peace of which denuclearization is a critical component. Moreover, inter-Korean peace and a formal end to the Korean war among all the belligerents also creates the conditions for a dynamic but stable equilibrium in Northeast Asia for all the states involved. For example, if we can negotiate the elements of a peace process or regime in conjunction with denuclearization and all the details pursuant to it, North Korea will not be irretrievably bound to or economically dependent exclusively on China. Indeed, there are good reasons for thinking that one reason for North Korea's nuclearization is its abiding, if unspoken fear of Chinese hegemonic ambitions.⁷³ Since North Korea covets its independence from Chinese tutelage almost as much as it does recognition by the U.S., a peace settlement opens up possibilities that from Washington's standpoint might be appealing, namely a reduction in China's influence over North Korea. It cannot be in Washington, Seoul or Tokyo's interest that North Korea be a Chinese satellite or as it now is, an instrument for the destabilization of the region and threats to U.S. allies that distracts Washington from other issues in its relationship with Beijing

⁷² Maria Rost Rublee, "Global Consequences Of an Operationally Nuclear North Korea," Gregory T. Moore, Ed., *And North Korean Nuclear Operationality: Regional Security & Nonproliferation*, Graham T. Allison, Foreword, Baltimore: Md. Johns Hopkins University Press, 2014, pp. 216-217

⁷³ Muhammad Cohen, "What Trump Could Learn From Clinton On North Korea," *Asia Times Online* December 8, 2018, www.atimes.com

and obliges Washington to solicit Beijing's assistance which will never really be forthcoming.

Similarly, peace opens up the possibility for Moscow to finally obtain its long-sought Trans-Siberian and Trans-Korean railway and gas pipeline. If either or both can be built, and especially if a Western consortium underwrites these projects' financing not only will Moscow have a stake in stability rather than in the current crisis-prone status quo, it will also be somewhat more and visibly more independent of Chinese economic leverage in regard to investment in its Asiatic territories. This outcome benefits not only Russia, but also both Koreas, Japan and the U.S. because it helps transform the situation in Northeast Asia in the direction of more Russian independence from China, a long-standing Japanese goal but also one that clearly reduces American anxieties about a Russo-Chinese alliance.⁷⁴

Therefore it might be worthwhile tactically for the Trump Administration to steal a page from Beijing and Moscow and reformulate the American position to state that credible signs of denuclearization will lead to movement on the issue of security guarantees and of a peace treaty. For example, it might be feasible to state that if North Korea does make genuine and credible moves to denuclearize, e.g. compiling and handing over an inventory of sites then the U.S. will declare an end to hostilities on the peninsula and proceed to negotiate the conditions of a full and formal end to the Korean war in parallel to denuclearization. Progress in one sphere will then be contingent on progress in the other. Under those circumstances work can then go on towards negotiating a formal peace treaty that will also outlaw any acts of belligerency, including nuclear weapons, and thus, inter alia, convert the entire Korean Peninsula into a nuclear-free zone while

⁷⁴ Celine Pajon, "Japan-Russia: Toward a Strategic Partnership,?" *Russie.Nei.Visions* No. 72, Institut Français des Relations Internationales (IFRI), September, 2013, www.ifri.org, Richard J. Ellings and Robert Sutter, Eds., *Axis of Authoritarians: Implications of China-Russia Cooperation*, Seattle, WA: National Bureau of Research Asia, 2018, www.nbr.org

all the six powers issue reciprocal guarantees of the security of both Korean states. The ensuing peace treaty will not only then have sufficiently strong provisions for denuclearization and verification thereof but also will contain economic clauses that reinforce the new regional equilibrium.

The author has earlier advocated this kind of approach and nothing that has happened in the course of 2018 has invalidated it as a desirable outcome.⁷⁵ Specifically such economic clauses as suggested above regarding a railway, gas pipeline and the expected South Korean investment in North Korea gives Russia a buy-in to the agreement, reduces China's economic leverage on North Korea and Russia, and thus its political leverage as well. It also offers the U.S. an opportunity to play its strongest card of economic power in regard to North Korea in order to gain a lasting voice in Pyongyang and leverage or at least influence upon its policies.

At the same time, North Korea too gains thereby because it can then concentrate, as it professes to want to do, on economic development and on reducing the militarization of the regime. It will also have more room not only to play its traditional balancing game between Moscow and Beijing and between Washington and its erstwhile Communist allies, but also this series of accords can also help ameliorate conditions inside North Korea. Nobody should have illusions that miraculously upon conclusion of the agreement regime change will take place or that regime evolution or probably denuclearization (a very different concept) will be rapid. But no agreement is possible as long as North Korea or at least Kim Jong-un comes to see that denuclearization actually offers him and his country more stability than is presently the case. Nobody should think this is easy or will happen in some blinding flash of light that will occur soon. Indeed, many assessments of Kim suggest that it will be very difficult

⁷⁵ Blank, "A Way Out of the North Korean Labyrinth,"

for him to change his mind concerning the desirability and value of nuclear weapons.⁷⁶

But if we can negotiate along the lines suggested here then processes benefitting the people of North Korea will have been set in motion and the government will have to respond to them. This agreement will therefore not bring Nirvana but it can measurably improve the security and human climate on the Korean Peninsula.

An additional benefit of this approach is that it lends itself to more harmony with the Moon Administration in South Korea and reduces the ability of North Korea to incite and enhance divergences between Seoul and Washington. Coming to see the issues at hand in much the same way that South Korea views them strengthens its hand and makes its economic incentivization of North Korea all the more attracting to Pyongyang. But North Korea will then have to pay for those gains in denuclearization and serious bargaining over the terms of a peace treaty.⁷⁷

No doubt there will be critics of this approach or at least suggestions of other alternative pathways to resolving the current crisis. So be it. But the current stalemate after Singapore can hardly be a welcome outlook since Chinese and Russian violations of sanctions and growing South Korean desire to deal directly with North Korea bid fair to undermine the sources of U.S. pressure on North Korea and to convince Kim that he can stall and play for times with impunity or at least with a bearable cost. Thus in the present situation as of the end of 2018 U.S. power has proven to be quite resistible. In the meantime, the effort to brandish it has led to something like the re-creation of the Cold War structure in Northeast Asia, an outcome that benefits neither Japan, nor South Korea, nor the United States. Indeed, U.S. observers are already observing that U.S. power has hit its limit

⁷⁶ "Strategic Outcomes In the Korean Peninsula: Part II: pp. 69-70

⁷⁷ *Ibid.* pp. 63-64

here.⁷⁸

The geopolitical objective of the U.S and its allies should therefore not only be denuclearization. Since the Trump Administration has already renounced regime change as a goal this kind of reformulation of the problems that currently exist on the Korean Peninsula, while not renouncing denuclearization, would make it clear that the Administration means what it says about regime change.⁷⁹ In line with the insight that Washington and its allies should aim at regional security that includes denuclearization, credible security guarantees for both Koreas, it needs to preserve the alliance, even if its form changes to reassure Japan and South Korea and preserve a balance in Northeast Asia. Ultimately, we should be looking to craft a solution that ratifies the independence of North Korea from China – an often overlooked objective of the DPRK's nuclear program – within a framework of real security for all parties in Northeast Asia. If that outcome can be brought into being then North Korea becomes a field for competitive relationships among the larger powers for influence rather than a relic of the Cold War's "Northern alliance." That reduces the Chinese as well as the North Korean threat to the U.S. and its allies while offering China peace on its northeast border. And it creates a new and dynamic but stable equilibrium that once and for all ends the Cold War in Northeast Asia that did not end with the end of the Cold War in Europe after 1989-91.

Continuing the stalemate of the present moment means reverting to an earlier period and enhancing military and other tensions throughout the region in ways that do not redound to U.S., South Korean, or Japanese interests. On the other hand rethinking the Korean problem and seeing it in a new light can enable Washington more

⁷⁸ Shifrinson

⁷⁹ Matthew Pennington, "US Says It's Not Pushing For Regime Change In North Korea," <https://www.militarytimes.com/flashpoints/2017/09/25/north-korea-says-trump-has-declared-war-on-his-country/>, September 25, 2017

than any other power to take the lead in fashioning a durable peace and regional equilibrium here that preserves security and its pre-eminence while also reducing the danger of war on the Korean Peninsula or of further proliferation emanating from a nuclear North Korea. Let those who have better alternatives propose them now because falling back to the past after making the potential breakthrough of the Singapore summit cannot be an acceptable future for any of the governments involved or for their people.

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CHINA'S POLICY TOWARD THE KOREAN PENINSULA : THE RETURN TO A POLICY OF TWO KOREAS*

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Abstract

It does not seem likely that the South Korean-Chinese relationship would return to its heyday in 2015. Owing to the urgency of the North Korean nuclear issue, both parties tacitly agreed to bury the THAAD dispute and to no longer deal with it publicly, in order to prevent additional damage to the relationship. But it means nothing more than that. The smooth progress of China's economic retaliations for THAAD demonstrates that it will be a long time before China's grievances can be mitigated. Beijing seems determined that there cannot be a full restoration of relations without a complete withdrawal of THAAD. As can be inferred from the three Chinese-North Korean summits alone this year, China seems to regard a return to a two Koreas policy as the best way to secure its interests. Regardless of whether Seoul wants it or not, China will continue to play a part on the Peninsula, either directly or indirectly. Given this situation, China should be encouraged to make constructive and positive contributions.

Key words: China, North Korea, South Korea, Neighboring policy

INTRODUCTION

As a newly rising state, China is now seeking new foreign policy and international prestige to go with its status. There is also a need for modification of the existing strategy of “keeping a low profile and biding time (*Taoguang Yanghui*)”. China, which in its weak days had been subject to diplomatic limitations and restraints by great powers, has secured its national interests with strategic opportunities acquired through great power diplomacy and by engaging in exchanges with neighboring or developing states. Constant changes in international order and in the surrounding environment, and the trend toward international multipolarization, the significance of periphery diplomacy in China has increased to a level similar to that of great power diplomacy. Particularly since China needs the support of its neighboring countries, the importance of periphery diplomacy is constantly on

the rise.¹

China's periphery diplomacy reveals its future direction to a large extent. As China's rise is now a *fait accompli*, the entire world is keenly observing which course it will take. Since traditionally rise and fall of empires has inevitably involved wars and conflicts, there is great concern within the international community as to whether China's rise would trigger another such historical tragedy or threaten the international stability. Whether China rises to a great power through "warfare" or breaks out of the old spell and become a "New Type of Great Power (*xinxing daguo guanxi*)", depends largely on how China treats its neighboring states.²

Though China's periphery diplomacy has been filled with instabilities and conflicts, it seeks to regain stability and control the risks. To begin with, the growth of instability and sharpening tensions has led to a higher risk of conflict outbreak in China's surrounding environment and to continuing interstate conflicts. China finds itself in a difficult place in its surrounding regions; while faced with North Korea's nuclear problem, Japan's normalization, problems in the East China Sea, Taiwan, the South China Sea and Sino-Indian border dispute, U.S.'s new "Indo-Pacific Strategy" is intensifying the conflict between Beijing and Washington.³ Furthermore, there have been frictions with neighboring states, despite the massive investments made under the "Belt & Road" initiative.

Against the backdrop of complexities in the international situation, the periphery diplomacy of China is taking caution against the

¹ For China's dilemma how to balance the peaceful rise, see "Periphery Diplomacy: Balancing Act", *The Economist*, July 5th 2014.

² Cheng Li and Lucy Xu, "Chinese enthusiasm and American Cynicism over the "new type of great power relationship", The Brookings Institution Op-ed, December 4, 2014, <https://www.brookings.edu/opinions/chinese-enthusiasm-and-american-cynicism-over-the-new-type-of-great-power-relations/>

³ Abdul Basit, "Attacks on Chinese nationals and interests in Pakistan are likely to continue. Here's why", *South China Morning Post*, 27 Nov. 2018. <https://www.scmp.com/week-asia/opinion/article/2175238/attacks-chinese-nationals-and-interests-pakistan-are-likely>

four following risks. First, the Thucydides' Trap.⁴ The rise of China does not necessarily mean a challenge to the status quo super power. China will rise peacefully and take the steps to establish itself as a New Type of Great Power. This process requires a long-term cooperation and coordination with the status quo power. Second, security risks. The surrounding environment of China is currently in a highly volatile state, confronted by incessant political and economic upheavals. The situation is much graver compared to previous security threats. Third, risks of "color revolution".⁵ Many neighboring states have already experienced color revolutions, the effects of which will likely reach China. The Umbrella Revolution in Hong Kong has also sent a warning signal to Beijing. Lastly, the middle-income trap. As a middle-income state itself, there is potential for intensification of internal problems.⁶

Under the new interest paradigm and reciprocal paradigm, China's periphery diplomacy points to three directions: expansion of national interest, establishment of a national image and construction of order. Increased exchanges with the neighboring states have also led to more frequent discords in areas of economy, politics and security. "Expansion of interest" is the duty taken on by China, which involves securing the interests and rights of each state under such new circumstances. After that comes the establishment of image. For China, a newly rising state, its image portrayed worldwide is a matter of great significance and the most basic component of Chinese diplomacy. Unlike previous great powers that resorted to security threats, economic exploitation and political deceptions against their

⁴ Graham Allison, "The Thucydides Trap", *The Foreign Policy*, June 9, 2017, <https://foreignpolicy.com/2017/06/09/the-thucydides-trap/>

⁵ Titus C. Chen, "China's reaction to the color revolutions: Adaptive authoritarianism in full swing", *Asian Perspective*, Vol. 34, No. 2 (2010), pp. 5-51.

⁶ Linda Glawe and Helmut Wagner, *The People's Republic of China in the Middle-income Trap?*, Asian Development Bank Institute No. 749 June 2017, <https://www.adb.org/sites/default/files/publication/322961/adbi-wp749.pdf>

neighbors, China ascend as a friendly, trustworthy state. The last is the construction of order. The appearance of a new powerful state unavoidably involves failure to conform to the existing order. Only through a new order can national interests be effectively expanded, positive images be established and justice be secured.

The purpose of this article is to gain an overview over China's policy toward the Korean Peninsula. The Peninsula also counts as a typical high-risk region; changes in China's interest paradigms and reciprocal paradigms, expansion of interests, establishment of image and construction of order on the Peninsula all carry great uncertainties. Various problems appear on the Peninsula, which in turn affect China's overall strategy. Accordingly, China must adapt its policies to bring about favorable situations. It can be thus said, that China's policy toward the Korean Peninsula stands before historical and structural changes. Out of this understanding, next part of this article attempts to review China's policies toward North Korea and South Korea respectively, along with current state of affairs, dilemmas and directions of future relations. In the following section, challenging factors in South Korea's China policy will be determined, followed by policy recommendations, and lastly, the conclusion.

CHINA'S POLICY TOWARD THE KOREAN PENINSULA

China's perception of the Korean Peninsula has not only been limited to its function as a geopolitical "shield", but memories and perceptions from history also play a big role. As the Korean Peninsula has served many times for Japan as a gateway to China, Beijing has considered its influence over the Peninsula crucial and has thus

tried to maintain an advantageous position and control.⁷ China has attempted to make use of the Peninsula's stability as a firewall to ensure its own security, and furthermore to reign over it to monitor any potential risks directed to itself. It was upon this line of thinking that China sent out troops during Ming, Qing Dynasty and the Korean War in the 1950s. It also reflects China's historical memories on the Peninsula. Subjugation of the region or maintenance of the stability thereof has been considered as part of "political and military achievements (*wenzhi wugong*)". Likewise, past Chinese leaders have emphasized the stability on the Korean Peninsula as their historical and political legacy.

After over three millennia of domination of mainland, China is now developing into a sea power. Its strategic status is also surpassing that of the Korean Peninsula. Accordingly, these changes are causing frictions with the U.S. mainly in two ways. First, in the process of acquiring sea power, China could come to a clash with the U.S., as the latter has had control of sea power for the last three centuries. Second, alterations of strategies in China with regard to the Korean Peninsula also result in changes in other nations involved in the Peninsula.⁸ As concerns over shift of sea power grow in the U.S., many see it as a potential trigger for a serious power competition between China and the U.S. But the modifications in the Korean Peninsula strategy is bringing about an internal rebalance in Korea, which in turn prompts changes in inter-Korean relations.⁹

⁷ Guo Rui, "Historical Changes in Relations between China and the Korean Peninsula: Construction of Order and Perception," *Korean Studies*, 2007(1): 307-318.

⁸ Chou Faxiao, "Trend and Causes for Changes in Chinese Strategy toward the Korean Peninsula", *International Relations Studies*, 2014(6).

⁹ 'Did China lose control over North Korea? Fu Ying's shrewd answers!', *Huanqiu Shibao*, mil. huanqiu.com/observation/2016-02/8537527.html)

China's Policy toward North Korea

China's policies toward North Korea have encountered various difficulties due to many practical challenges. There have been strategic attempts by China aimed at keeping North Korea in check through South Korea, which also failed following Seoul's strategic choices. China could not escape criticism for its failed North Korean policies, which led to the recalibration of its strategy. Two contrasting approaches have arisen in the process, namely, "abandonment" and "sympathizing".¹⁰

The "abandonment of North Korea" is based on the argument that the "buffer" function of North Korea can no longer be anticipated due to changes in the international situation and the surrounding environment, which have become almost war-like volatile. Advocates for abandonment claim that the geopolitical role previously played by Pyongyang as well as the old North Korea policies are no longer realizable. The international and national environment, along with the situation on the Korean Peninsula, is comparable to the period leading up to a war, all of which are threats to China. The Peninsula no longer functions as a geopolitical shield for China. The bilateral diplomatic relations preserved over 26 years should prove that South Korea is no longer a threat to China. On the contrary, it is North Korea's incomprehensible behaviors that pose substantial threats. Such circumstances constrain China's diplomatic influence on the Peninsula, thereby reducing its scope of action. This perspective, therefore, emphasizes that China should concentrate on its relations with South Korea, with whom it can achieve greater financial gain.

North Korean sympathizers, on the other hand, still regard geopolitical and financial crises, color revolution as the main themes in today's international politics and international relations. They point out

¹⁰ For the similar discussions, see Gu Jaryong, Yoon Wanjun, "Traditionalists vs internationalists over North Korea", *Donga Ilbo*, Sep. 19, 2017.

that the geopolitical position of North Korea can have a cushioning effect against security as well as economic pressure in China and can also serve as a “buffer zone” in case of a direct U.S.-China military confrontation. The relatively calm border areas between North Korea and China, in contrast to the unabating instabilities in China’s surrounding environment, shows that North Korea’s geopolitical buffer role is still valid, as reduced as it may be. As long as the U.S. persists with its strategy of Asia-Pacific Rebalance, China cannot stop thinking in terms of geopolitics from the realist perspective. This is still so even if a change in the international situation were to occur, because the geopolitical value of the Peninsula would still remain high.

However, there are parts that cannot be theoretically justified in both of the arguments. To begin with, the argument for abandonment of North Korea refers to the disappeared need for a geopolitical buffer zone, which cannot explain the military presence of some twenty seven thousand US troops on the Peninsula, the THAAD deployment, interventions in Ukraine and in the Middle East, and the Pivot-to-Asia and Asia-Pacific strategies. It is also worth noting that South Korea’s security and politics are not as heavily dependent on China, as its economy may be.

Advocates of abandoning North Korea envision a reunification of the Peninsula in which the North becomes absorbed into the South on the latter’s term. However, considering the historical and territorial disputes between Seoul and Beijing, it still remains to be seen if friendly relations with China can continue after the reunification. If anything, China needs a Korean Peninsula that remains under its control and whom it needs to maintain amicable relations with, not one that would potentially turn hostile after the reunification. Moreover, it is not likely at the moment that North Korea would simply let itself be absorbed, especially when it has allegedly completed its development of nuclear weapons.

Arguments supporting North Korea also give rise to the following questions. If North Korea were to be left to its own devices, it will

likely resort to even more outrageous behaviors. Excessive sanctions, however, would lead to catastrophic results, as the entire system would collapse. Exerting no pressure on Pyongyang, however, would stain China's reputation as a responsible great power (*Zeren Daguo*). It is also somewhat difficult for the international community, including China, to overlook the humanitarian situation within North Korea.

The Korean Peninsula still possesses a lot of geopolitical value; it is of great strategic importance and it serves as an arena where big powers compete for interests. North Korea's buffer role between the U.S. and China, preventing military or other physical confrontations, is a matter of fact. The U.S. decision to deploy THAAD on the peninsula also demonstrates its high regard for South Korea's geopolitical position. Pyongyang and Beijing have traditionally had a special relationship that shares common interests, and China sees its interest in stability and peace. A proper positioning in North Korea-China relations should consider the following basic directions.

China's North Korean policy will not deviate from the three guidelines, consisting of peace, stability and denuclearization. Times may change and regimes may come and go, but China will not retract them. It will stick to the three basic principles for its North Korean policy, based on the aforementioned guidelines. First, the friendly North Korea-China relations will not change. The two are allies, whose amicable relationship, based on a treaty, has withstood the test of time. Second, in order to direct the situation in North Korea to its own advantage, China must take the diplomatic lead. It should not be passively embroiled in Korean matters. Third, China's North Korean policy needs a direction. It needs to determine its own path by weighing of interests and values. The two countries share common interests and values. As can be seen from the three Sino-North Korean summits this year, restoration of relations with North Korea increases China's strategic interests in Northeast Asia and also helps to strengthen Beijing's influence on South Korea.

China's Policy for South Korea

China's South Korea policy bases itself on its policy for Korean Peninsula as well as for North Korea policy. It is essentially influenced by its U.S. policy to a large extent, especially in areas of security. From the Chinese perspective, the American idea of security causes war and conflict, instead of stability and peace. With competition and conflict with the U.S. intensifying, the logic that China is pushing forth on the Korean Peninsula has run into a dilemma and confusion. This "double whammy" consisting of North Korea's unpredictability plus South Korea's uncontrollability adequately describes the situation that China is in. Thus, China has to adapt its Korean Peninsula Policy in the future, keeping in mind the right balance of security, economic and cultural aspects.

U.S.-China relations should also be stabilized. The situation on the Korean Peninsula can calm down, when the U.S. policy statements on North Korea are toned down. The stability on the Peninsula is inversely proportional to the degree of U.S. influence in Northeast Asia. Volatility in Northeast Asia is seen as beneficial to the U.S., whereas its stability could be seen as a loss. Beijing believes that U.S. regards a moderate amount of instability within its range of control as not too bad for its own interests. That way U.S. is thought to seek control over Japan and South Korea, while keeping China in check. The only realistic threat to U.S. security is the North Korean nuclear weapons. Consequently, a reconciliatory mood on the Korean Peninsula would mean less U.S. influence. One can thus say that the U.S. has no interest in reconciliation on the Korean Peninsula, if not downright object to it. Ways must be found, therefore, to link the security situation in the Koreas to U.S. interests in a positive way.

Politically, China needs to keep it amicable with South Korea. In connecting the security situations on the Korean Peninsula with U.S. interests, South Korea will play a very important bridging role. Beijing attempts to, therefore, make use of the relationship with Seoul as

a leverage. While the THAAD dispute exposed the vulnerabilities in their relations, it also provided an opportunity for objective self-reflection. Although economic and cultural exchanges between the two are active, cooperation in areas of military and mutual trust are deficient. This needs to be changed. Economic and human exchange should be linked with political and military exchange, through innovative thinking. Exchanges on the private level are needed to bring about change in the conservative elitist way of thinking. A stronger connection and increased exchange with South Korean policy makers are also necessary. The willingness must come from the policy making level, that is, from the top. Moreover, China aims to influence U.S. policy on the Peninsula through South Korea.

Seoul's relationship with Beijing is influenced by North Korea-China relations. China has attempted to influence South Korea-U.S. relations by establishing a mature, amicable relationship with South Korea, in order to hold back the pressure coming from the U.S.. At the same time, it sought to distance itself from North Korea by strengthening ties with South Korea in economic affairs, politics, security and reunification policies and attaching more political weight on Seoul. However, this strategy fell through in light of recent security issues like the THAAD deployment. Since the outbreak of the THAAD dispute, South Korea and China were brought to dispassionately face each other for the first time in 25 years since the official establishment of bilateral relations. The THAAD dispute is like a mirror, reflecting both the bright and dark sides of the two countries' relations.¹¹ Relationship between South Korea and China is different from that between U.S. and China. U.S. and China are rivals belonging to a similar 'weight class', between which a clash would mean nothing less than mutual destruction. Yet high-level exchanges between the two have practically reached a limit. Economic and hu-

¹¹ Hee-Ok Lee ed., *The 25 Years of Sino-South Korean Relations since 1992*, Sungkyun University Press, 2017.

man exchange will play the key role in determining the development of their relations. But South Korea-China relations and U.S.-China relations are completely different. As could be clearly seen from the recent THAAD dispute, it is the high-ranking officials that carry most weight in important issues, whereas at working-level or private level almost no political influence exists.¹² Even if the economic, cultural and social exchanges between the two are actively taking place, excessive influence of the high-ranks in the background of discrepancies in “weight class” of Seoul and Beijing only act as an obstacle.¹³

In order to develop a positive relationship in the future, both countries must give due consideration to each other’s positioning and roles within the framework of global politics, East Asia and in bilateral relationships. Only when each other’s position is accurately understood, can then a bright future for Korea and China unfold, and the two countries can then be at the right starting line. Second, the core issues must be solved and be settled. The sensitive issues must first be dealt with, so that no additional problems can derive from them and so that guidelines to solve other problems can be presented. Third, a proper evaluation of the importance of economic and security problems within South Korea-China relations is called for. It should neither be underestimated nor overestimated.

SOUTH KOREA’S POLICY TOWARD CHINA

Since Moon Jae-in took office, South Korea-China relations have been improving, albeit moderately. There still exists psychological and political distance between the two. In this section, problems that

¹² Kim, Kang-il, “THAAD Deployment: South Korea’s New Dilemma”, *Yanbiandaxuebao*, May, 2016

¹³ Sun Ru, “Chinese Reactions to THAAD”, *Modern International Relations*(4), 2017.

hinder further advancements in bilateral relations will be determined, including direct challenging factors like THAAD and North Korean nuclear problem and potential challenging factors like history and territorial disputes.

Challenging Factors

The first destabilizing factor in South Korea-China relations is the unpredictability of North Korea. Even during U.S.-China conflicts since the emergence of the Trump administration, what contributed to a cooperative atmosphere was the North Korean nuclear issue. Thus far, problems in the Middle East and in the national economy had taken precedence, so North Korean issues were partially left to China. But it was Trump that expressed the disapproval of the strategic patience from the Obama administration, as well as his discontent with China's role. In addition, North Korea exhibits exceptional adroitness at detecting weak links of a relationship. Should these factors interact, it could generate new difficulties from North Korea.

In fact, President Xi's perception of North Korea is not favorable. Aggressive and direct elements in China's foreign policies are reflective of Xi's personal proclivities. Nevertheless, national interests are quite another matter. China's changing perception of North Korea has not yet been translated into exerting actual pressures on Pyongyang. The Chinese government resorts to ambiguous wordings, referring not to the "denuclearization of North Korea" regarding the nuclear issue, but instead to the "denuclearization of the Korean Peninsula". This demonstrates the differences in perception and policies between the two countries. It was confirmed once again, that the North Korean issue including its nuclear development, is the biggest challenge and obstacle in North Korea-China relations.

The next factor is the THAAD dispute. THAAD is no longer a military matter. Not only is it difficult for South Korea to expound the military technological aspects to China, but any further state-

ments on it being directed toward North Korea will go unheeded, because Beijing's already looks beyond the whole discussion. In the meantime, THAAD has turned into a strategic issue. China currently aims to use Asia as its stepping-stone for realizing its grand strategy. It is on this basis, that it uses AIIB and One Belt One Road Initiative for its economy, CICA and other platforms for its security as leverage. Because of South Korea's strategic importance to China, the THAAD issue is being regarded as a litmus test to gauge Seoul's dependence on Beijing. The THAAD dispute will, therefore, continue to be a potential hot potato until the end of Moon Jae-in's term. Just as the U.S. sees a possible litmus test in South Korea, China will do the same.

A potential challenging factor that can strain South Korea-China relations is the history disputes. And especially the conflict factor like the *Goguryeo* controversies is largely a matter of perception, which makes it difficult to find a solution. The different positions in historical matters will continue to be difficult to reconcile. This is attributable to the wide discrepancies between the two sides' historical perceptions and interpretations.¹⁴ The historical contentions between the two have begun with The Northeast Project. China pushed ahead with this project, notwithstanding the big budget and a large research team, with an intent to stabilize and unify the nation, to prepare for a shift of power in Northeast Asia, to prevent problems caused by *Joseonjok* (ethnic Koreans in China) in light of the uncertain future of North Korea, to build a stable basis for economic development in East Asia, to preventively block potential controversies over Gando (*Jiandao*), and to assure hegemony in Northeast Asia by securing influence on the Korean Peninsula.¹⁵ Although the Northeast Project is usually regarded as a historical research, it should rather be understood as an

¹⁴ Yi, Ceon-seok, "Biānjiāng policy of North-eastern China and Culture Project", *The Journal of International Relations*, Vol.15, No.2, 2012.12, p.48 from 47-69

¹⁵ Kang Jun Young, "Leadership Change in China and Territorial·Historical Disputes in Northeast Asia", *Sino-Soviet Affairs*, Vol. 36, No.2, 2012 Summer, p. 30.

offensive strategy related to the expansion of infrastructure in North-east Asia and to the Northeast Development Strategy, a cooperative project with Pyongyang. Ultimately, it envisions the completion of the multiethnic state China and attempts to prepare for changes in the regional situation in Northeast Asia.¹⁶

Another potential risk weighing down South Korea-China relations is the conflict over South China Sea. The Permanent Court of Arbitration has given a ruling on the dispute on 12 July 2016.¹⁷ China violently opposed the decision, followed by an announcement to extend the boundaries of its Air Defense Identification Zone to include the South China Sea. This offensive action on China's part can be attributed to the fact that it was part of a strategy to protect its core interests on the Sea. Although the issue subsided for the most part with the election of Duterte in the Philippines, the crystallization of U.S.'s Indo-Pacific strategy leaves possibilities open for acute conflicts between U.S. and China. The two great powers are currently mobilizing the nations within the area for their battle of influence with the aim of exerting pressure on each other. Seoul finds itself in a dilemma, as both nations demand an affirmation of stance, although the issue bears little relevance to South Korean security.

Approaches to Addressing the Issue

China under Xi Jinping is embarking on the Great Power Diplomacy (*daguo waijiao*) in earnest. Compared to the rather passive

¹⁶ Won Dong Wook, "The Internalization of China's Northeast Project, Strategic Implications of Infrastructure Development in Northeast China", *Korean Journal of International Relations*, Vol.49, No.1 (2009), pp. 231-253

¹⁷ Philippines submitted the South China Sea case before Permanent Court of Arbitration in the hopes of gathering support from the international community, not to push ahead with its goals. China had claimed historical rights to South China sea and expressed the opinion, that the 1982 UN Convention on the Law of the Sea cannot nullify its rights. The PCA ruled in favor of Philippines, stating that China's territorial claim over the South China Sea including the Nine-Dash Line has no legal basis. Chinese arguments were not recognized.

reaction of “playing a part where it can (*yousuo zuowei*)”, it went a step further to “actively taking part (*dayou zuowei*)”. Although China may be following the latter dictum on a global dimension, it is still acting on the former on the Korean Peninsula. The Peninsula is where both China’s chances and challenges are put to a test. It also serves as a strategic asset to lessen U.S. offensives against China. Although China exerts influence on both Koreas, sustaining relations with both of them is not a light task. Every provocative action from North Korea calls into question China’s responsibility. U.S.’s outsourcing to China, combined with the North Korean independent actions, has consequently led China to prefer the preservation of the status quo. This explains China’s rather passive behavior of limiting its measures to only indispensable situations.

The most important issue of all is North Korea. China does not believe that sanctions can be a fundamental solution. It basically perceives that North Korea is developing nuclear weapons out of fear for its security, against the background of its failing economy, deteriorating conventional forces and the presence of U.S. troops in South Korea. Nevertheless, China is participating in the UN Security Council sanctions against North Korea. Beijing sees no other choice, considering its status and reputation in the international community. Failure to carry out its promises is also deleterious to relations with the U.S.. But Xi Jinping’s future policies against Pyongyang may assume a pre-emptive character. Instead of being dragged along by its neighbor, it may decide to drastically change its stance.

Given these factors, Sino-North Korean relations should be accepted as a special relationship, just as the South Korea-U.S. relations have lasted for a long time as an alliance. Since it is not likely that China’s North Korea policies would suddenly do an about-face, a compromise needs to be reached in areas of denuclearization and

peace agreement.¹⁸ Dual track approach and dual suspension would be the minimum starting point for such a compromise.

The THAAD dispute has become somewhat inflated. What used to be a military issue has now come to be a strategic one. It has now become a matter of choice. Although South Korea and China have “sealed” the issue, there is still a big perception gap between the two states. From Seoul’s perspective, the issue will no longer be brought up by China, whereas Beijing, having acceded to the provisional measure, believes that Seoul will not move forward from the current “provisional deployment” status and eventually remove the launchers in line with the progress of the North Korean nuclear problem, which is what Seoul cited as reason for deployment. That is why high-ranking Chinese officials, during their visit to South Korea, have steadily demanded a swift resolution of the “sensitive issues”, both publicly and privately. Should there be no progress in U.S. promises in exchange for Pyongyang’s denuclearization, or should there be some kind of dissatisfaction regarding Seoul’s intermediary role, any attempt for a full deployment or even an additional deployment would intensely strain relations with Beijing. Therefore, it is best for the moment, that the THAAD dispute not be brought up publicly.

North Korea and the THAAD issue block historical contentions from arising. Historical disputes between South Korea and China have not become politicized, because other issues have been treated more importantly. That is to say, the North Korea issue is overshadowing historical controversies. A self-criticism had taken place in China, that the Northeast Project had pushed Seoul away from Beijing toward the U.S.. Especially after the initiation of the U.S. Asia-Pacific strategy in 2010, China has tried to avoid history issues

¹⁸ How China assesses and makes use of North Korea’s strategic value is coupled with South Korea-China relations. China asks, how it can trust South Korea when Seoul distrusts Beijing when sanctions against Pyongyang have just begun.

as much as possible.¹⁹ Even so, historical contentions between Seoul and Beijing have not been completely resolved, and further deterioration of relations due to the THAAD dispute might bring other dormant problems into surface. However, since the North Korean issue is of greater urgency to China, it will not broach history issues unless South Korea does so first. If Seoul wants to prevent additional exacerbations in relations, it should see to it that historical disputes do not publicly arise.

An outbreak of South China Sea disputes would also have damaging effects on South Korea. When the U.S. and China both demand support for their side, our only possible stance is neutrality.²⁰ Regarding the South China Sea issue, the Ministry of Foreign Affairs emphasized on 12th July, 2016 that “All interested parties must actively pursue effective fulfillment of the Declaration of Conduct, adherence to the pledge of demilitarization and swift conclusion of the Code of Conduct”. Furthermore, the following statement can be seen to describe more accurately the position of Seoul: “As a heavily maritime-dependent country, we have high stakes in the maintenance of peace and stability, assurance of freedom of navigation and over-flight in the South China Sea, a major sea lane. On numerous occasions we have stated, that conflicts must be resolved peacefully according to internationally established rules of conduct”.²¹

¹⁹ Former Premier Wen Jiabao said when he visited South Korea in 2007, that historical disputes should not spoil South Korean-Sino relations.

²⁰ The South Korean Minister of Defense expressed his position on South China Sea for the first time in the presence of his American and Chinese counterparts, at the 3rd ASEAN Defense Ministers’ Meeting-Plus in November 2015. Minister of Defense Han Min-Goo expressed accord with the U.S. position that the freedom of navigation and over-flight in the South China Sea. Considerations were also given for the Chinese position by adding that any actions that disturb the region’s peace and stability should be refrained from.

²¹ Statement by the Spokesperson of the Ministry of Foreign Affairs of the Republic of Korea on the South China Sea Arbitration Award, ROK Ministry of Foreign Affairs, 2016-07-13. http://www.mofa.go.kr/eng/brd/m_5676/view.do?seq=316765&srchFr=&srchTo=&srchWord=Outcome&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=&page=143&titleNm=

Although *Ieodo*(Socotra Rock) is currently not an active matter of dispute between South Korea and China, there is discontent in Beijing with the construction of research facilities, along with suspicions to whether South Korea would territorialize the rock. Considering that China itself is constructing artificial islands on the South China Sea, we should prepare a counter-argument focusing on such hypocrisy on China's part.

CONCLUSION

China's Great Power Strategy is actually being utilized in the regional competition in Northeast Asia. The aim of Great Power Strategy can be seen as to expand China's influence, at a time when great powers are keeping each other in check as a result of their conflicts of interest. Specifically, against the backdrop of the formation of a bipolar system and mutual competition in the Asia-Pacific region, China aims to wield its economic power to gradually restructure interstate dynamics and weaken the military alliance system built around the U.S.. Customarily, a bipolar system brings into mind the East-West confrontation during the Cold War, since it refers to the conflict between two great powers and their respective follower states. Yet the contemporary bipolar system differs from the past, when distinction of good and evil was more obvious and confrontations actually went to extremes. Today it refers to the structural tendency or the process of "group" formations among involved parties when two superpowers are drawing up support while competing over a major international issue.

However, it is different in the case of a challenging state. The challenging state can use strategies to establish friendly relations with the partner states of the existing hegemon. China must therefore maintain dynamic relations with Japan and South Korea, on the basis

of “mutual win-win economic and trade partnership”. In the process, China needs to at least partially comply with their requests in political, security areas. In so doing, allies of the hegemon can engage in a practical relationship with the challenging state and share in on its development profits. The stance of the allies here is, in fact, very flexible. Whether to support the existing hegemon or to maintain balance with the challenger depends on each situation.

Chinese diplomacy currently is facing a new phase. It is achieving rapid growth rates in numerous fields. As the second largest economic power worldwide and as an important political actor in global governance, it is also experiencing explosive increase in exchanges in areas of humanities and social science. China now finds itself at the center of global affairs, while, thanks to its rapid advancement, exerting great influence on world development. It stands close to realizing the great revival of the Chinese nation. Beijing’s diplomatic strategies toward its neighboring countries reveal its grand design for a global paradigm and as well as its direction. The Chinese periphery diplomacy is not only geopolitical strategy, but also a big framework for its diplomatic strategies. This framework is calling for new ways of thinking, new strategies and actions on China’s part. In addition, the Korean Peninsula and China share close links in various areas such as history, politics, society and humanities. The Peninsula is, therefore, the most important geopolitical area within China’s vicinity, which exerts great influence on China’s overall diplomatic strategies.

Korea-China relationship is said to have reached its peak during the period following the year 2013, when Park Geun-Hye and Xi Jinping came to power. It was said that the bilateral ties had “warmed in both politics and security (*zhengri jingri*)”, after the two leaders paid state visits to each other in June 2013 and July 2014, and President Park again attended the Victory Day parade in September 2015. It had even given rise to the debate as to whether Korea was leaning too much toward China. However, after the announcement of the plans for THAAD deployment together with the U.S., in reaction to North

Korea's fourth nuclear test and missile launch, relationship with Beijing cooled off drastically. The strategic cooperative partnership based on the dictum "without faith, there is no standing (*wuxin buli*)", to which the two countries have agreed to, failed to live up to its name and demonstrated hardly any mutual communication competence. Instead of building trust, the partnership only exposed its vulnerability against external changes. Fortunately, the THAAD disputes came to a halt after the election of Moon Jae-in in May 2017, and relations have been on the path to normalization since Moon's state visit to China in December the same year.

Yet, it does not seem likely that the South Korean-Chinese relationship would return to its heyday in 2015. Owing to the urgency of the North Korean nuclear issue, both parties tacitly agreed to bury the THAAD dispute and to no longer deal with it publicly, in order to prevent additional damage to the relationship. But it means nothing more than that. The smooth progress of China's economic retaliations for THAAD demonstrates that it will be a long time before China's grievances can be mitigated. Beijing seems determined that there cannot be a full restoration of relations without a complete withdrawal of THAAD. As can be inferred from the three Chinese-North Korean summits alone this year, China seems to regard a return to a two Koreas policy as the best way to secure its interests. Regardless of whether Seoul wants it or not, China will continue to play a part on the Peninsula, either directly or indirectly. Given this situation, China should be encouraged to make constructive and positive contributions.

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DENUCLEARIZATION AND PEACE PROCESS ON THE KOREAN PENINSULA AND NEIGHBORING COUNTRIES

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Abstract

North Korean nuclear problem dates back to the end of the Cold War. Although major actors went through numerous negotiations and reached several agreements in particular after the Geneva Agreed Framework in October 1994, the final outcome turned out to be a failure. Based on the lessons learned from past attempts, there is an extensive awareness that providing recognition of North Korean regime and security guarantee which North Korea longs for is inevitable to achieve complete denuclearization. There are diverse analyses on what the critical factors are for the peaceful phase of negotiation formed in 2018. To examine specifically, effects of sanctions, internal political factors of North Korea, North Korea's strategic decisions to take advantage of the U.S.-China rivalry, and Moon Jae-in administration's consistent effort can be regarded as the main factors.

North Korean nuclear problem is basically an international security issue and the role each international actor plays has a significant meaning. These features stem from the fundamental characteristics of division of the Korean Peninsula which is directly related to international affairs. Thus, it is hard to overemphasize the role of not only two Koreas but also that of international society including the U.S. and China to establish a permanent peace regime on the Korean Peninsula based on North Korea's complete denuclearization. Although the DPRK-U.S. Summit is a compelling accomplishment, it is necessary to question the role of neighboring countries of East Asia with a vested interest, and the significance of those actions for the peace regime in Korea in order to forge ahead to complete denuclearization.

Key words: North Korea, Denuclearization and peace process, Northeast Asia, U.S.-North Korea summit, Moon Jae-in administration, Trump administration

INTRODUCTION

With the start of 2018, a peaceful phase of negotiation has developed to resolve North Korean nuclear issues. Considering rumors of a looming war on the Korean Peninsula that has haunted South Koreans over the last year, the current phase of peaceful negotiation is a dramatic reversal. A consensus seems to be emerging among the

Republic of Korea, the United States, the People's Republic of China, and the international community that denuclearization process and Korean Peninsula Peace Regime should be pushed ahead simultaneously to solve the North Korea's nuclear problem completely. North Korean nuclear problem dates back to the end of the Cold War. Although major actors went through numerous negotiations and reached several agreements in particular after the Geneva Agreed Framework in October 1994, the final outcome turned out to be a failure. Based on lessons learned from past attempts, there is an extensive awareness that providing recognition of the North Korean regime and security guarantee which North Korea longs for is inevitable to achieve complete denuclearization.

There are diverse analyses on what the critical factors are for the peaceful phase of negotiation formed in 2018. To examine specifically, effects of sanctions, internal political factors of North Korea, North Korea's strategic decisions to take advantage of the U.S.-China rivalry, and Moon Jae-in administration's consistent effort can be regarded as the main factors. The current phase of negotiation is a result of a combination of multiple factors rather than just one particular factor and such result led to historic moments such as inter-Korea Summit and DPRK-U.S. summit. Many scholars, experts, and policymakers at home and abroad are examining various options on what South Korea and the international community should do to maintain the current momentum.¹

North Korean nuclear problem is basically an international security issue and the role each international actor plays has a significant meaning. These features stem from the fundamental characteristics of division of the Korean Peninsula which is directly related to inter-

¹ Toby Dalton, Ariel Levite, and George Perkovich, "Key Issues for U.S.-North Korea Negotiations," Carnegie Endowment for International Peace, Nuclear Policy Program, June 4, 2018. (<https://carnegieendowment.org/2018/06/04/key-issues-for-u.s.-north-korea-negotiations-pub-76485>)

national affairs. Thus, it is hard to overemphasize the role of not only two Koreas but also that of international society including the U.S. and China to establish a permanent peace regime on the Korean Peninsula based on North Korea's complete denuclearization. Although the DPRK-U.S. Summit is a compelling accomplishment, it is necessary to question the role of neighboring countries of East Asia with a vested interest, and the significance of those actions for the peace regime in Korea in order to forge ahead to complete denuclearization. This paper examines these issues and challenges.

NEW APPROACH TO NORTH KOREAN NUCLEAR ISSUES AND A PEACEFUL PHASE OF 2018

1. New approach to North Korean nuclear issues

1) Causes of past North Korea policy failure

(1) Functionalism or trade-off approach

After North Korea's announcement of withdrawal from the Non-Proliferation Treaty (NPT) in March 1993, the South Korean government has implemented various policies. From a macro-perspective, conservative governments and liberal governments came to power alternatively and implemented their own policies. "Principle-based" and "pressure and sanctions" represent the conservative approach, whereas "engagement" and "Sunshine Policy" symbolize the liberal approach. However, all North Korea policies up to date were based on functionalism, thereby exhibiting characteristics of "trade-off."² In other words, South Korea and the international community of-

² Regarding the meaning of 'functionalism' in the area of international relations theory, please see, Ernst Hass, *Beyond the Nation State: Functionalism and International Organization* (ECPR Classics Series) (Colchester, UK: ECPR Press, 2008).

ferred assistance in return for the desired actions from North Korea while making North Korea's denuclearization a precondition for the process. Therefore, the parties placed a trade-off between discarding nuclear weapons and transformation of North Korea and economic assistance. Many scholars have pointed out the drawbacks in the traditional approach analyzing the policies as 'security-economy tradeoff.'

(2) Nuclear development as means for survival

In the past decades, the North Korean regime has consistently insisted that nuclear development is a means for survival. According to their official argument, North Korean nuclear program is only for its survival while respecting the current international non-proliferation system. North Korea's claim that nuclear capability is a matter of survival maintains persistent consistency. Since North Korea places nuclear capability on the equivalent status as survival, this argument overrides aforementioned North Korea policies based on functionalism. In other words, if nuclear capability is a quality of survival, there is no sufficient inducement that may be exchanged with survival. Therefore, it was clear that North Korea would never participate in the negotiations for complete denuclearization regardless of what South Korea and the international community offered. Ultimately, South Korea and the international community failed to suggest corresponding alternatives for denuclearization.

(3) Different interest structure among South Korea, the U.S., and China

Current Northeast Asian regional order was established before and after the Korean War. From this time on, Northeast Asian actors, that adopted the concept of sovereignty, formed the international order in the region. Especially, in the realm of security, there was the

United States at the center.³ The U.S. and China have different security matrices regarding North Korean nuclear issues and security situation on the Korean Peninsula.⁴ Compared to the situation in South Korea, the gravity of North Korean nuclear issue escalated recently in the United States. Meanwhile, although China is not fully satisfied with the leadership of North Korea, China consistently preserves strategic values on North Korea. So far, both the U.S. and China showed no will to solve the problem by utilizing their complete diplomatic resources as long as the nature of North Korean nuclear crisis remained within the security connotation of the Korean Peninsula. However, the situation changed after 2016 since Kim Jong-un dramatically escalated the nuclear crisis and declared its ICBM capability to reach the part of the U.S. territory.

2) ‘Security-security tradeoff’ and peace process

With the beginning of the Moon Jae-in administration a new approach has been adopted. Overcoming the contradictions in security-economy tradeoff by taking lessons from the past North Korea policies, the government proposes new policies based on ‘security-security tradeoff.’ This is a strategic decision of the Moon government which recognizes that North Korea would be willing to get rid of the nuclear weapons only when there is an incentive that North Korean regime ultimately needs. The Moon administration actively explains the idea to its citizens and the international community. What the North Korean regime needs is removing existential security threat. In other words, North Korea demands recognition of its regime. The

³ Regarding the meaning of ‘functionalism’ in the area of international relations theory, please see, Ernst Hass, *Beyond the Nation State: Functionalism and International Organization* (ECPR Classics Series) (Colchester, UK: ECPR Press, 2008).

⁴ Traditionally the U.S. has a strong tendency to approach the Korean issue in the context of ‘U.S.-China competition.’ Among many related explanations, please refer to Richard Haas, “A North Korean Opportunity for America and China,” ASPI, June 5, 2018.

Moon Jae-in administration suggests ‘peace-building of the Korean Peninsula’, emphasizing that Seoul should be in the driver’s seat in the process.

The South Korean government weathered the security crisis in 2017 with a consistent message of peace.⁵ At the same time, the government also emphasized the role of major international actors including the U.S., because it is important to address the international aspects of the issues of the Korean Peninsula to make the peace regime viable. After taking power, the Moon administration consistently emphasizes that it is well aware of both the peaceful approach to North Korean nuclear issue and the importance of the U.S.-ROK alliance. This seems to be due to the very conservative sentiments of South Koreans over the North Korea issues.

Looking back, the early stage of the Moon administration’s new North Korea policy as the role of driver’s seat was a very limited one. It is mainly because of the nature of structural limitation of the North Korea policy. Due to the characteristics of issues of the North Korean problem, there is limitation in South Korean government’s autonomy as the North Korean crisis intensifies. Therefore, doubts grew over Seoul being in the ‘driver’s seat’ on the Korean Peninsula issues. North Korea is also aware of this limitation. Therefore, North Korea has chosen its nuclear capacities as a survival strategy to maintain a certain level of U.S. and China’s intervention on the Korean Peninsula. In short, it is North Korea’s political calculation to limit the autonomy of South Korean government.

There were changes in North Korea’s behavior after 2018. Realizing that a direct negotiation with the U.S. would not be feasible, North Korea decided to utilize the role of South Korea as a driver to make progress toward direct negotiation with the U.S. The role of

⁵ MOON Chung-in, “A Real Path to Peace on the Korean Peninsula,” *Foreign Affairs* (On-line article), Apr 30, 2018. (<https://www.foreignaffairs.com/articles/north-korea/2018-04-30/real-path-peace-korean-peninsula?cid=Chung%20In%20Moon%20>)

South Korea was dismissed when the crisis intensified in the Korean Peninsula last year. However, with the peace offensive of North Korea in 2018, the role of South Korea is becoming more visible.

2. Background of the 2018 peaceful phase : five variables

It is not easy to identify what factors brought North Korea back to the negotiating table in the beginning of this year. It is said that there are five independent variables in the background of the 2018 peaceful phase. Firstly, effects of sanctions against North Korea played a key role. Economically, the effects of sanction clearly exist. In this context, experts have different opinions on the current durability of North Korean regime compared to that of the past and it is difficult to predict accurately how long the regime will endure. Nevertheless, North Korea did suffer due to the economic sanctions. North Korea also has expressed its anxiety over the possibility of U.S. military options against North Korea in the second half of 2017. The possibility of implementing the military option was not that high, but the U.S. government has considered military options quite seriously. As a result, it is true that North Korea was afraid of the U.S. using military force against it.⁶ However, the analyses do not benefit future inter-Korean talks.

Secondly, North Korea understood the rise of China and the related U.S.-China competition in East Asia as a very attractive security environment for its permanent survival. Intensifying U.S.-China rivalry and Northeast Asian regional security condition is one of the most critical factors behind the current negotiation process of 2018. North Korea under Kim Jong-un's regime believes that U.S.-China competition in Northeast Asia provides crucial opportunity for North Korea to strengthen its security position in the region. This is implied

⁶ *NikkeiShinbun*, report on April 17, 2018, "Because the U.S. and China are trying to press DPRK to death"

in both U.S.-North Korea relation and China-North Korea relation. Kim understands the current international security environmental transition period, which is characterized by fierce competition between the U.S. and China, as an opportunity to enlarge its strategic space for permanent survival. In addition, Kim considers the ‘Trump effect.’

Thirdly, Kim Jong-un wants to move on to the second phase of “Byungjin(parallel) policy.” This factor emphasizes the North Korean domestic condition. Although Kim Jong-un emphasized Byungjin policy as essential, he is well aware of contradictions in the Byungjin strategy of developing both nuclear weapons and the economy. Although North Korea advocated both nuclear weapons and the economy as national objectives to enhance its prestige and the happiness of its people, economic construction is impossible as long as the nuclear problem remains the core issue. Therefore, economic construction is possible only after the nuclear issues are resolved as soon as possible. The April 21, 2018 announcement of the third meeting of the 7th Congress in the North Korean Workers’ Party could be interpreted as a transition from the Byungjin policy toward economy-only policy.⁷

Fourthly, regardless of scientific controversy on the North Korea’s nuclear capability, completion of their nuclear program definitely gave some confidence to North Korea to engage in diplomatic negotiations with the U.S. On November 29, 2017 North Korea declared the completion of nuclear armament after the successful test launch of its Hwasong-15 intercontinental ballistic missile. It was a significant sign of the emerging peace offensive. Despite questions raised by western scientists over North Korea’s nuclear capabilities, North Korea’s claim on its nuclear capability conferred confidence in North Korea’s negotiating process against the U.S.

Lastly, North Korea highly valued Moon Jae-in administration’s

⁷ North Korea’s RodongShinmun “Full-scale accomplishment for our own economic strategy,” *Yonhapnews*, April 23, 2018

consistent message of peace regime. From the beginning of the Moon administration, the South Korean government has repeatedly delivered the message of simultaneous implementation of denuclearization and peace system on the Korean Peninsula. Lessons learned from both his conservative and liberal predecessors' trial and error also effectively worked. From North Korea's perspective, Moon administration, which redeems his liberal predecessors' mistakes and embraces both the U.S. and North Korea, is definitely an attractive dialogue partner.

PROSPECTS AND CHALLENGES OF NORTH KOREA'S DENUCLEARIZATION

1. Principles and characteristics of North Korea's denuclearization process

There are critical features of North Korea's denuclearization process which should be agreed by both the U.S. and North Korea. Most importantly, "complete" denuclearization is a very debatable subject. We may think of both side of the complete denuclearization, political significance and scientific significance. Regarding political significance, conditions for removing the sanctions is "when the nukes are no longer a problem" as mentioned during the press conference by President Trump immediately after the Singapore summit.⁸ In the meantime, the U.S. government understands that scientific (contextual) significance of complete denuclearization is hard to achieve. President Trump's statements in Singapore imply that he is skeptical. He admits that the process requires "a long time to pull off complete denuclearization." He also acknowledges there are difficulties in pre-

⁸ Washington Post, "Trump's optimistic news conference after meeting with Kim Jong Un," June 12, 2028.

venting North Korea from possible hidden stockpiles of weapons. Then, how should “complete” denuclearization be defined? Therefore, a kind of international consensus should be reached on the meaning of “complete” denuclearization. Both the South Korean and the U.S. governments need to create detailed engagement policies to cancel out the regional suspicions over concealed nuclear capabilities. The practical complete denuclearization is the combination of the two items of political sense of complete denuclearization and scientific sense of complete denuclearization.

Within the same circumstance, the two-track political and contextual outcomes are supposed to be expected. More emphasis is needed on political outcomes of the Singapore Summit, and contextual outcomes are tasks to be solved in the follow-up negotiations.⁹ A comprehensive consensus on the four items has been achieved in the Summit. For the first time, the leaders of the U.S. and North Korea signed an institutionally binding commitment. This was a ‘big deal’ summit exchanging “denuclearization” with “peace regime”. The leaders exchanged what the two countries need the most: ‘normal state vs. denuclearization.’ They confirmed a shared understanding on the necessity of follow-up negotiations and follow-up measures. Four specific agreements are as follows; Firstly, the new U.S.-DPRK relations would begin based on the desire of the people of the two countries for peace and prosperity, not by the desire of the leaders. Secondly, a “lasting and stable peace regime” would be the desirable outcome. The second point of agreement is a commitment bound to the U.S. Thirdly, a “complete denuclearization of the Korean Peninsula reaffirming the April 27, 2018 Panmunjom Declaration” would take place. And the third agreement is a commitment bound to North Korea. Lastly, an “immediate repatriation of POW/MIA remains” was

⁹ MOON Jung-in, “There Were No Losers at the Singapore Summit,” *Foreign Affairs*(Online article), June 18, 2018. (<https://www.foreignaffairs.com/articles/north-korea/2018-06-19/there-were-no-losers-singapore-summit>)

discussed.

Contextual level of the denuclearization agreement has obtained the minimum common ground that both the U.S. and North Korea demand. The Article 3 of the Joint Statement specifies North Korea (DPRK) as the main agent of denuclearization on the Korean Peninsula. The complete denuclearization has been emphasized again while calling on the implementation of the peace regime reaffirming the Panmunjom Declaration. Singapore joint statement is a reflection of the considerations of North Korea's intention to denuclearize as its diplomatic efforts and the political aspects of the negotiation. The statement also indicates the details will be addressed in the follow-up negotiations and commitments.

There were very symbolic mentions regarding the destruction of ICBM engine testing sites and suspension of joint military exercise between South Korea and the United States during President Trump's press conference after the summit. The U.S. and North Korea agree on a phased implementation for the denuclearization process. Unfortunately, the way how denuclearization and peace regime is connected was never specifically mentioned. Practically, denuclearization process is interconnected with reducing military threats among South Korea, U.S. and North Korea in different dimensions together. The question remains as to when the threshold should be to operate the peace regime. South Korea, North Korea, and the U.S. agreed on declaring the end of the Korean War within 2018.

2. Prospects and challenges of denuclearization

A phased denuclearization process is in progress and is expected to continue. At the same time, however, there are some realistic challenges and obstacles as well. On June 14, U.S. Secretary of State, and foreign ministers of South Korea and Japan expressed the possibility of suspending the U.S.-South Korea joint military exercises. This signals a clear message to North Korea and puts 'a possibility of

withdrawing long-range artilleries' on the agenda. On June 19, South Korea and the United States agreed to suspend the joint military exercise, the Ulchi Freedom Guardian, originally scheduled in August. Dismantling ICBM testing sites is anticipated as mentioned by President Trump. As of late June and early July, there were some optimistic expectations such as setting up liaison offices in each other's capital that does not require an approval of the U.S. Congress. Up to this stage, the process is expected to be smooth.

When Secretary Pompeo returned without any substantial outcomes after his third visit to Pyongyang in July 8, negative views and concerns gradually began to spread out.¹⁰ Interestingly enough, North Korea's lukewarm attitude occurred simultaneously with the trade war between the U.S. and China. Two difficult parts of the process are expected and these parts are the essential stages for the 'trust-building' process. Regarding other challenges in the first phase, intense negotiation over the dismantlement and extrication of nuclear weapons and materials is to be expected. The possibility of concealment and a gap between the U.S. and North Korean expectations are present. Regarding other challenges in the second phase, the possibility of dispute over 'anytime, anyplace' inspection system for establishing a complete and acceptable North Korean 'nuclear capability verification system is also foreseeable.

When those challenges arise, the process might require another 'big deal' negotiation similar to the DPRK-U.S. summit. Especially in the second phase, a question arises over how to trade a roadmap outlining the exchange between 'North Korea's complete return of verification system' and 'U.S.-North Korea normalization (a complete removal of sanctions)'. U.S. Secretary of State Mike Pompeo mentioned achieving "major disarmament" within the next "two and a half years" and the process requires a detailed timeline. How to overcome

¹⁰ The most serious crisis of the negotiation between the U.S. and North Korea was President Trump's cancelation of Secretary Pompeo's forth visit to Pyongyang on Aug 25th, 2018.

the second phase challenge is deemed to be very critical. North Korea may demand the following matters when the second phase challenges emerge.¹¹ For instance, North Korea may request the support of the U.S. Congress in restraining hostile policies towards North Korea and military options. They may also want to promise on abolishing and modifying U.S. domestic laws related to North Korea, or to have reduction of the U.S. troops stationed in South Korea and a phased permanent abolition of U.S.-South Korea joint military exercise. Another possible North Korean option is the removal of all UN sanctions and guaranteeing membership to major international organizations, such as World Bank and International Monetary Fund. North Korean request may move on the regional level such as multi-dimensional peace regime in Northeast Asia including not only U.S.-North Korea normalization but also North Korea-Japan normalization.

As we have seen above, nuclear development program is extremely complicated and most of the facilities are military-related. This impedes complete and objective inspections. Also, there are difficulties in approaching the matter of the provision of compensation and incentive to Kim Jong-un regime's security rather than national dimension approach. Lack of trust was the most critical cause of failure in previous agreements, such as in the case of 1994 Agreed Framework and February 13 Joint Statement. This suggests that the trust between the countries is the most crucial factor in resolving the North Korean nuclear issue completely. There is a dilemma in building trust with North Korea before any tangible progress is made in denuclearization.

Also, there could be a gap between the U.S. threat perception and South Korean threat perception. South Korean threats could remain while the U.S. threats are removed.¹² It is necessary to consider the

¹¹ Nicholas D. Anderson, "America's North Korea Nuclear Trilemma," *Washington Quarterly* 40-4(Dec 2017).

¹² Scott Snyder, "America First of U.S.-South Korea Alliance First in Dealing with North Korea," *CFR Asia Unbound*, Nov 2017

reason why the U.S. and China never spent a great deal of effort in getting rid of the North Korean nuclear problem promptly. Plans to maintain North Korea's denuclearization momentum even if Donald Trump fails to get re-elected in 2020 is necessary.

STANCE AND ROLE OF MAJOR NEIGHBORING COUNTRIES

I. Northeast Asian chessboard and the interests of neighboring countries

Denuclearization and peace process on the Korean Peninsula is possible only through close cooperation with major neighboring countries. It is mainly because the North Korean nuclear issue is the major security concern of the international community. As international characteristics of North Korean nuclear issues are emphasized, it bridles North Korea into the international institutional framework. However, a precise and meticulous strategy is necessary to prevent China and Russia from becoming spoilers in the denuclearization process.¹³

North Korean nuclear problem has been the main factor of security concerns in Northeast Asia after the 21st Century. The fact that North Korea chose to develop nuclear weapons as the survival strategy justified the intervention and the engagement of the U.S. and China in the Korean Peninsula and Northeast Asia. In Northeast Asia, competition between the U.S. and China is substituted by North Korean nuclear issues. There is duality between the U.S.-led alliance

¹³ Even though there are some concerns on the North Korea-China summit having taken place three times and the upcoming North Korea-Russia summit, the majority of scholars and policymakers expect those summits to eventually play a positive role of engaging North Korea deeper with the international society.

order and Northeast Asian regional order. Almost every Northeast Asian country has its own national interest on the Korean Peninsula. People would say that denuclearization and peace process on the Peninsula is becoming a ‘Northeast Asian chessboard’ and there is the necessity of international division of labor for peace on the Korean Peninsula

Table 1. Neighboring Countries’ Interests in the Korean Peninsula

	North Korea’s denuclearization and main interests of major actors for Korean Peninsula Peace Regime
South Korea	Conclusive denuclearization process, establishment of a long lasting Korean Peninsula Peace Regime, and creation of inter-Korean economic community
North Korea	A normal state through regime recognition, escape from diplomatic isolation, and economic construction
United States	Complete, verifiable, irreversible dismantlement of North Korean nuclear weapons, security of the Korean Peninsula revolving around the U.S.-Korea alliance, checking China’s rise, and maintaining influence over Northeast Asia
China	Preservation of strategic value of North Korea, hedging against U.S. strengthening its influence over the Korean Peninsula, and stabilizing relations with neighboring countries
Japan	Resolution of abduction issues and human security, security cooperation among South Korea, the U.S. and Japan, and complete resolution of North Korean nuclear problems
Russia	Recovering as a major actor in Northeast Asian affairs, and invigorating the Far East economic integration with Northeast Asia through the Korean Peninsula issues

The fact that the countries have different interests suggests that each country has its unique role in North Korean denuclearization process and in the Korean Peninsula Peace Regime. The peace regime, which is necessary for resolving the nuclear issues, is interrelated with the emergence of the Northeast Asian security multilateralism, since it depends not only on the Korean Peninsula Peace Regime, but

also on the Northeast Asian Peace Regime.¹⁴ However, considering the reality of the U.S.-China competition in East Asia, it is unclear that the Northeast Asian security multilateralism will emerge.

2. Creation of Active Roles for South Korea, the U.S., and China

Korea, the U.S. and China are the three key players in the process of North Korea's denuclearization. In particular, the U.S. and China may easily struggle to maximize its own interest partly due to the two superpowers global competition such as trade war. To avoid the situation, we need rules and principles of solving denuclearization-peace regime that reassures the neighboring countries. We can consider four principles.

Firstly, a principle of 'balance of power' is needed. An inter-Korean peace community, characterized by North Korea's denuclearization and Korean Peninsula peace regime, may inevitably shift the power balance among the Northeast Asian countries. Thus, it is essential to maintain the power balance among the U.S., China, and other Northeast Asian countries. Secondly, a principle of 'balance of interests' is also needed. Countries with a vested interest in the two Koreas may see the denuclearization and peace regime process as an affair that involves not only economic interests but also security interests. Therefore, there should be the balance among the countries' different interests. Thirdly, 'compliance with international norms' should also be considered as one of the key principles to solve the Korean problem. North Korea denuclearization and the Korean Peninsula peace regime can no longer be dealt only with the concepts related to 'nation-state', such as national interests, a divided nation, and ethnicity. Instead, the process should meet universal values, such as Northeast

¹⁴ See Ihn-hwi Park, "Alliance Theory and Northeast Asia," *Korean Journal of Defense Analysis*, Vol. 25, No 3(2013); Kiyoung Chang & Choongkoo Kee, "North Korea and the East Asian Security order: competing views on what South Korea ought to do," *Pacific Review*, Vol. 32, NO 1 (2018).

Asian coexistence, Northeast Asian peace, Northeast Asian community, and responsibility and cooperation of East Asian countries. Lastly, new international engagers to the Korean Peninsula should be identified. This is a discovery of contributors that minimizes political backlash. Although the U.S. and China are the major players, participation of other actors that hold less political sensitivity such as European Union or ASEAN countries should be encouraged.

For the three players’ specific roles, please refer to the following Table 2.

Table 2. Roles of South Korea, the U.S., and China

Actor	Major roles	Descriptions
South Korea	<ul style="list-style-type: none"> - A positive engaging main agent in the denuclearization process - A responsible main agent in peace community 	<ul style="list-style-type: none"> - A major actor in all of the denuclearization and peace regime process - Directs multi-dimensional processes in establishing the peace regime, maintaining good diplomatic relations with neighboring countries, and improving inter-Korean relations, thereby accumulating experience of peaceful moments - Develops a strategy that would result in North Korea’s denuclearization and its behavioral changes, based on the lessons learned from the previous engagement policies - Leads and adjusts diverse North Korea engagement policies of international community
United States	<ul style="list-style-type: none"> - A main agent removing threat posed by North Korea - A main agent negotiating with North Korea 	<ul style="list-style-type: none"> - Provides security assurance to North Korea based on North Korea’s firm commitment and action to denuclearization - Ensures ability to maintain security in case of North Korea’s provocation - Negotiates with North Korea to relieve its anxiety, if the U.S. and China share the same idea on the overall roadmaps for the peace regime and responsibilities

Actor	Major roles	Descriptions
China	<ul style="list-style-type: none"> - A main agent managing a fair game between U.S. and North Korea - A main agent preventing a war in the Korean Peninsula 	<ul style="list-style-type: none"> - Monitors both North Korea and international community to fulfill their promises in good faith - Deters North Korea's possible provocation to avoid and manage the possibility of an armed conflict

3. The Chinese and Japanese Variable

1) The Chinese Variable

In the year 2018 alone, China-North Korea summit was held three times in the recent three months. Both North Korea and China try to strengthen its position against the U.S. by taking diplomatic advantage of each other.¹⁵ Basically, after the Xi Jinping regime, North Korea-China relations are definitely different from the past. However, the values of North Korea regime being present remain unchanged for Chinese national interests. Estrangement between North Korea and China proceeds as follows: 1) North Korea gained strategic space during the Sino-Soviet dispute in last 1960s, 2) After Seoul and Beijing normalization in 1992, North Korea expressed the crisis of survival and diplomatic discontent, 3) After Kim Jong-un rose to power in 2012, North Korea completed its nuclear capabilities.

Ensuring Chinese national interests during the process of improving the U.S.-North Korea relations is a very complicated strategic game. The improvements in U.S.-North Korea relations ultimately results in the U.S.'s increased influence in the Korean Peninsula. From China's perspective, this harms Chinese strategic position in the Peninsula. It comes down to the question of how China perceives 'North Korea that is not hostile to the U.S.. U.S.-China rivalry

¹⁵ Jane Perlez, "Before Kim Meets Trump, China Gets Jittery About North Korea's Intentions," *The New York Times*, June 10, 2018

is taking place all over East Asia. Particularly, it is interrelated with U.S.-China competition over the three major strategic locations, which are Vietnam, Taiwan, and the Korean Peninsula.

2) The Japanese Variable

Concerns over the improving U.S.-North Korea relationship and finding Japan's role in the shift in Northeast Asian order are present. Japan holds the experience of two summits with North Korea during the Koizumi Cabinet. Discussions over a compensation package, which is estimated to be approximately ten billion dollars for damages incurred during the Japanese colonization, would prevail. North Korea is expected to demand more. Meanwhile, the money can be used as seed money for North Korea's economic construction. The key element of the Japanese variable is the Japan's strategies against North Korea and Northeast Asia. In other words, it depends on whether Japan follows the 'American model', which conformed to situational changes caused by the previous U.S.-China detente or whether Japan comes up with its own 'Japanese model' that corresponds to the logic behind Japan as a normal state.

Meanwhile, U.S.-Korea alliance is closely related with U.S.-Japan alliance. When the "Nye Report" (Deep Engagement) was written in 1994, the U.S. and Japan pondered threats posed by the rising China. It would be beneficial to take the case into consideration for the future of the U.S.-South Korea alliance.

CONCLUSION

The dramatic beginning of the peaceful diplomatic negotiation on the Korean Peninsula should continue. South Korea's strategic position is mostly needed since the denuclearization process is facing stagnation phase at this moment. Two tough decisions lie ahead for

North Korea: 1) whether to grab the opportunity for its regime to be recognized, or 2) whether to give up the unique social structure that supported the society for the last seventy years. Can the South Korean diplomatic effort prevent the possible breakaway of North Korea and of the U.S.? Does the South Korean government have the intention to take the diplomatic initiative and manage the changes in the international security environment, opting out of its tendency of accepting the given conditions? If North Korea clarifies its firm willingness to denuclearize, the international community should understand that it is impossible for North Korea to carry out the complete denuclearization by itself due to its social structure. There should be a shared understanding of the necessity of cooperation between South Korea and the U.S. to assist North Korea in its efforts to denuclearize.

In terms of South Korean government's strategic options four subjects are highly required. Firstly, a balanced approach between the denuclearization process and inter-Korean exchange and cooperation process is needed. Not related to the connection between the 'denuclearization process' and 'peace-regime process', a well-balanced approach toward denuclearization process and inter-Korean exchange and cooperation process is crucial. Inter-Korean exchange and cooperation process can be justified even with an initial implementation of denuclearization. This allows diverse attempts related to the exchange and cooperation and requires a cautious approach. The lessons learned from both the Sunshine policy and the conservative approach is that neither focusing on economic, cultural, and people-to-people exchanges to elicit spill-over effect for denuclearization nor emphasizing North Korea's sincere preceding gestures as a precondition for exchange and cooperation is a solution. Thus, future denuclearization process and the exchange and cooperation process must be carried out in the appropriate level in a balanced manner.

Secondly, Moon Jae-in administration should also pay attention to the voice of concerns over the dismantling of ROK-U.S. alliance. This is the problem of setting the relationship between the peace regime

and the ROK-U.S. alliance. How can we coordinate the improvements in the U.S.-DPRK relationship and the U.S.-South Korea alliance? Currently, the South Korean government states that issues over the U.S.-South Korea alliance is irrelevant to inter-Korean relations and denuclearization since the alliance is a matter between the U.S. and South Korea. Although maintaining this stance is an appropriate response, the discussion over the adjustment of the ROK-U.S. alliance will be raised somehow in the future.

Thirdly, both Korea and the U.S. governments should avoid the situation of a half success of denuclearization. In other words, this is a division of the threat perceived by the U.S. and the threat perceived by South Korea. There are a group of people who negatively evaluate North Korea-U.S. summit. Although the possibility of returning to a crisis stage like the one in 2017 is not viable, it is possible that the security threats perceived by South Korea may remain untouched while the security threats perceived by the U.S. are removed. President Trump pointed out the destruction of 'Dongchangri missile test site (an ICBM test site)' as a major achievement in the June Singapore press conference. This represents the possibility that the Summit only eliminated the threats perceived by the U.S..

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ECONOMIC DEVELOPMENT OF NORTH KOREA THROUGH EXPANDING MARKETIZATION*

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Abstract

The complete denuclearization of North Korea and the resulting reduction of security risks will provide opportunities for South and North Korea to pursue economic prosperity. Military tensions can be mitigated by directing investment in armaments to a higher level of welfare. North Korea's economic development through economic cooperation can also create higher productivity of South Korea and North Korea based on the reconnected human-material exchanges. However, the North-South economic cooperation is accompanied by a financial problem depending on the size of the financial resources to be invested in North Korea's economic development. In addition, there is a need to resolve the issue of the ongoing sanctions against North Korea that is heavily enforced by the international community.

This paper presents a way for developing the North Korean economy by paying attention to the market economy mechanism leading to the initial capitalist phenomenon, the Donju - enterprise privatization - market. To this end, the North Korea Development Fund(NKDF) should be operated in the form of a consortium consisting of Korea-U.S.-China. In order to increase the effectiveness of fund-raising and operations, it is essential for the United States and China to participate in the establishment of the Fund, as the former is at the center of sanctions against North Korea and the latter is North Korea's most reliable partner. Also, the size of the funds should be as small as possible to increase the possibility of an early establishment of the fund. The fund's investment in North Korean companies will induce an increase in corporate production, an increase in market supply, and decrease in prices in North Korea, leading to the expansion of North Korean economic marketization, which will contribute to improving the living conditions of the residents.

Key words: Inter-Korean economic cooperation, under sanctions, economic development, market, marketization, Donju (money lender), privatization, North Korea Development Fund (NKDF)

INTRODUCTION

1. Emerging Changes and Visions on the Korean Peninsula

There was a big wave of change on the Korean Peninsula in 2018. The inter-Korean summit was held at Panmunjom on April 27 for the first time in 11 years, and followed by another summit on May 22. At the 4.27 summit, critical issues were discussed on North Korea's complete denuclearization, its economic development, and economic support for North Korea to usher in a peace era on the Korean Peninsula. The 5.22 summit urged neighboring countries and the international community to support the era of peace on the Korean Peninsula by reaffirming the North's denuclearization. Also, on June 12, the leaders of the United States and North Korea, who fiercely fought against each other in the wake of the Korean War that broke out about 70 years ago, shook hands to discuss North Korea's denuclearization and economic prosperity.

The 4.27 Panmunjom Declaration, resulting from the inter-Korean summit, indicates that the economic projects announced in the 2007 summit will be carried out through the establishment of a joint liaison office, high-level talks, and strengthening exchanges and cooperation among all walks of life through the "complete denuclearization of the Korean Peninsula".¹ Meanwhile, the "joint agreement" of the 6.12

¹ Article 5 of the 10.4 Declaration of 2007 promulgated favorable terms and preferences in accordance with the expansion and development of inter-Korean economic cooperation; i) Encouraging economic cooperation investment; ii) Infrastructure expansion and resource; iii) Development, Establishment of Peace Cooperation Zone in the West Sea; iv) Establishment of Peace Zone; v) Establishment of Special Economic Zones and Use of Haeju Port; vi) Passage of Private Vessels through Han River Port and Common Use of Han River Estuary; vii) Launch of Phase 2 Project of Kaesong Industrial Zone; viii) Improvement of system such as traffic, communication, and customs; ix) Discussion on rebuilding for joint use of Kaesong-Sinuiju Railway and, Kaesong-Pyongyang Expressway; x) Construction of Anbyun and Nampo Shipbuilding Cooperative Complex; xi) Agricultural Development. In order to agree on the progress of the cooperation project and promote it, the current 'Inter-Korean Economic Cooperation Committee' will be promoted to the 'Joint Commission for Inter-Korean Economic Cooperation'.

NK-U.S. summit includes the improvement of mutual relations, the establishment of a peace regime on the Korean Peninsula, the denuclearization of North Korea, and the repatriation of the remains of U.S. soldiers killed in the North Korean territory during the Korean War.²

The complete denuclearization of North Korea will alleviate the security risks and resolve political conflicts that have been enduring since the Korean War, which may lead South and North Korea to the opportunities for economic prosperity. The relaxation of military tensions will enable higher welfare levels for the South and the North through the cut-down of military expenditure, and this can also generate higher economic production efficiency based on the mutual exchange between the two Koreas. Additionally, the cultural heterogeneity caused by the Cold War era could be restored to homogeneity in preparation for the unification of the Peninsula that will be welcomed someday.

2. Challenge to the Changes and Visions

It must be considered that realizing the rosy future mentioned above entails enormous economic resources. The major issues of economic cooperation agreed between the two Koreas at the summit are mostly related to North Korea's infrastructure development. Given the outdated economic situation in North Korea, it would take a considerable amount of renovation to normalize the functions of all public facilities such as railroads, roads, ports, and power transmission in North Korea, and in some cases, it would be more reasonable to build new facilities than refurbish existing ones.³ Many studies so far have

² On July 27, 2018, the 65th anniversary of the Armistice Agreement, North Korea repatriated 55 U.S. military remains, which has been carrying the remains in North Korea for the first time in 11 years and three months since the six were repatriated from the North through the Panmunjom in April 2007.

³ For example, the Eurasian Railway linking the European-Asia-Pacific region shows that the existing railways in North Korea are in conditions that are too deteriorated to handle the speed of the high-speed trains, so the project will have to be rebuilt from the start.

estimated that the cost of developing North Korea will amount from 66 to 70 trillion won annually.⁴ However, the actual cost is expected to be much higher, as the development of North Korea through inter-Korean exchanges and cooperation projects will involve social costs in addition to economic costs.

In addition to financial problems in dealing with the North Korean economic development project, another task that needs to be solved is economic sanctions against the North, which are currently heavily implemented by the international community. The sanctions, which are being developed as a means to resolve the North Korean nuclear issue centered on the U.S., could cause serious aftereffects from the first step of economic cooperation with the North. Economic cooperation should be fundamentally based on exchange of goods and manpower, which is quite difficult to pursue under the current sanctions against North Korea. Meanwhile, South Korea has maintained its stance to join in the international sanctions regime against North Korea even before the 4.27 Panmunjom declaration, and has implemented independent sanctions against the North.⁵

⁴ In case of railroads, the government estimated that seven routes in North Korea would be worth about 37.8 trillion won before reunification through the Master Plan of the Korean Peninsula Integrated Railway Network in early 2017 and the Financial Services Commission (2014) estimates that it would only cost about 150 trillion won to build major transportation infrastructure such as railroads.

⁵ The 5.24 measure, which was announced after the sinking of the Cheonan warship in 2010, is representative of a South Korean independent sanction against the North, and the main contents are; i) all operations of North Korean ships in South Korea waters prohibited; ii) suspension of inter-Korean trade excluding the Gaeseong Industrial Complex; iii) South Korean people's visit to North Korea prohibited; iv) suspension of the aid project to the North; v) resuming psychological warfare against North Korea; vi) South Korea-U.S. joint anti-submarine exercise; vii) active participation in large-scale PSI; viii) stricter application of UNSCR 1718 and 1874; viiii) promoting punishment for North Korea on UNSC I and the G20 Summit.

Table 1. Estimates of Development Expenditure of North Korea

Institutions	Estimates
Financial Services Commission (2014)	Development of infrastructure in North Korea is \$77.3 billion for railways, \$37.4 billion for roads, etc. ; approximately \$139.2 billion (about 150 trillion won)
Institute of National Territory (2013)	Total cost of 11 core projects for development cooperation ; 93.5 billion won
Korea Institute of Construction and Industry	Total investment of 270 trillion won per year for 10 years is required
National Assembly Budget Policy (2015)	Assuming unification in 2026, 2,316 trillion won required by 2060
Industrial Bank of Korea	Investment of at least 705 trillion won over the next 10 years is needed to boost the North Korean economy to a level for unification

The South Korean government is likely to make various efforts to ease the sanctions against the North in the future, but it cannot be certain about the extent of the mitigation and when it is possible. However, we cannot wait for the international community, including the U.S., to suddenly change their attitude and stance on North Korea. The first step in establishing peace on the Korean Peninsula should begin with making efforts to resolve the issue of sanctions and seeking strategic measures to push for North Korea's economic development under the sanctions.

3. A Strategic Approach through Expanding Marketization in North Korea

The issue of North Korean economic development will result in an improvement of the North's production capacity. A special consideration for North Korea's economic revival is that external capital cannot flow into the North for economic development due to the sanctions. Therefore, strategic measures should be taken to allow

support under economic sanctions in consideration of the amount of capital injected for economic development in North Korea and the political and economic outcomes that the capital can achieve in the North. In other words, it is highly likely that the international community will be able to provide exceptional relief of the sanction for such investments, provided that the economic and political effects generated are greater than the investment costs incurred. This means that the investment project for North Korea's economic development should be beneficial to the North in economic terms while playing a positive role in the denuclearization of the North, which the international community expects.

Marketization is a phenomenon in which two economic systems (planned system and market system) coexist within a nation or a regime in order to compensate for the portions of the economy that the planned economy cannot handle. Therefore, expanding marketization accelerates the role of market in the economic system. Currently, in North Korea, the market economy based on marketization exists as an axis of maintaining the North Korean regime. A new class of money-lenders (Donjus) that accumulate commercial capital by marketization is formed, and the privatization of firms is recognized in effect even though it is not legally guaranteed by North Korea's law and regulations. Therefore, there are already many signs in the North Korean economy that can be found in the early stages of capitalism. This means that the North has an economic background in its regime to increase its production capacity. That is, a series of market economy-systematic mechanisms have been formed in North Korea, in which Donjus emerged as new capitalists to make profits by privatizing businesses, engaging in production activities, and supplying products to the market. This is consistent with the most basic production-supply structure of the capitalist market economy, which consists of a combination of entrepreneurs, businesses and markets.

In this context, the discussion of North Korea's economic development can begin with an increase in the supply of North Korean firms

to the market, i.e. expanding market and marketization, and the results of the North Korean economic development are very closely related to the Donju's business management efficiency and corporate productivity.

The study focuses on the new link between Donjus, Enterprise and Market, and seeks to expand the market as a way of developing the North Korean economy. The North's economic development through the expansion of its market is to induce the North to increase its production capacity on its own. If improvement of North Korean production capacity stabilizes price levels by the Donju's business activities, the lives of North Koreans will be better off and the increase in demand (consumption) will lead to increasing production and profits of North Korean firms. North Korea's labor hired in the process will also raise income levels, which serves as part of a virtuous circle in its economic development through expanding marketization.

EXPANDING MARKETIZATION AND ECONOMIC DEVELOPMENT IN NORTH KOREA

1. The necessity and limitations to aiding North Korea's economic development

Economic aid to North Korea means investing through inter-Korean exchange or economic projects that aim to develop North Korea's economy. Investments include costs incurred by the investor in order to achieve his or her goal – earning returns. Investment costs for North Korean economic development are defined as the financial costs of developing the North's economy. There are two delivery methods to such a scheme. First, South Korea may deliver such investments on its own. Second, an international financial organization may assume the task. The former will involve the South Korean Unification Ministry's inter-Korean exchange funds, or the South Korean

Exim Bank's EDCF- economic development cooperation fund. The latter could involve the IMF, the World Bank's IBRD or IDA, the ADB, or the AIIB.

The first method will likely drive South Korea to its financial limits according to estimations that predict Seoul will have to shoulder the burden of billions of dollars in infrastructure construction alone. The Unification Ministry's inter-Korean exchange fund stands at 13.9 trillion Korean won as of September 2018. This fund is usually used to provide humanitarian aid to North Korea or support inter-Korean projects such as the Kaesong Industrial Complex. ODA funds reserved for aiding developing nations, stand at 4.2 trillion Korean won as of 2015. Combining these two funds will fall short of those required to proceed with North Korean economic development, making the use of additional funds inevitable. But additional use of tax money will likely run into public opposition in South Korea, complicating such moves. International sanctions brought on by North Korea's development and testing of nuclear weapons further undermines South Korean aid.

The second method remains unrealistic as well, because of the same sanctions and because North Korea is likely unable to join an international financial body. The political and security disagreements between North Korea and the U.S., which sway arguably the largest influence over most of the world's financial organizations, will dampen such prospects.

So does that mean, we must accept the notion that calculating and planning for aid to North Korean economic development is possible but that there are insurmountable impediments preventing that? Of course, it is too early to dismiss the possibility of North Korea becoming a normal member of the international community and being able to receive the economic aid of international financial organizations depending on the progress made in the current U.S.-North Korea denuclearization talks. But it seems unlikely that there will be changes to North Korea's standing within a short time period. There will be

countless walls to climb during the current U.S.-North Korea denuclearization talks, making it clear that it will be an uphill battle for North Korea to become a normal state.

We must accept the fact that the position of South Korea and other neighboring states can diverge during the denuclearization and peace process surrounding North Korea and the Korean Peninsula. Coldly put, this means that the denuclearization process occurs without hurting the interests of neighboring states, and that time is not a major factor for them. But from South Korea's perspective, considering that the division of Korea will soon meet its 80th anniversary, a peace settlement based on complete denuclearization is urgent. In addition to this, South Korea needs to normalize inter-Korean relations through rapid development of the North Korean economy. There is a greater sense that the development program is a step toward unification and prosperity.

The importance of North Korean development in that sense is a vital interest: ending the already-decades-old division of the Korean Peninsula; providing the South Korean economy with a new growth engine; and diminishing the cost of unification.

2. Widening the markets by aiding North Korean corporations

There are many ways to approach the issue of developing a certain country's economy. Many less-developed countries share the need to concentrate capital in one sector, thereby enhancing productivity. Such capital for less-developed countries can be accumulated by means of domestic savings. But there are limits to such savings for less-developed countries, making it commonplace for them to earn additional capital through foreign loans or aid.

North Korea's economic development quagmire can likewise be framed into such an issue. The only factor we need to consider atop is the fact that North Korea cannot receive foreign aid or loans due to the aforementioned problems of international sanctions. We thus

need a strategic mechanism that will allow aid and loans to flow into North Korea under sanctions, considering all the while what political-economic successes we can achieve within North Korea through such a mechanism. As previously discussed, market expansion, marketization, and the market economy help sustain the rule of the North Korean regime, while a new class of so-called money lenders who have attained capital have arisen, and that de facto corporate ownership exists in the country despite a lack of institutional support mechanism. Within North Korea, there are multiple features of an early capitalist society. There already exist spontaneous economic activities that enable North Korea to expand its means of production on its own. These features have many significant implications.

Donjus own corporations, or the means of production, through which it produces goods, and supplies the goods to the market, creating profits – all pointing to the existence of a market economy mechanism inside North Korea. The combination of entrepreneurs, corporations, and markets suggests the existence of the most basic supply-and-demand dynamic present in any capitalist market economy. Any debate on North Korean economic development can flow from such an understanding, including the possibility of expanding North Korean corporations' supplies of goods to the market and by measuring the success of North Korean development to the efficiency of North Korean corporations and any efficiency enhancements for these corporations.

This research intends to examine market expansion as a way to develop North Korea's economy by focusing on the links connecting North Korea's Donjus, corporations and markets. Market expansion would be best achieved by enticing North Korea to increase its own means of production. By inducing more activity among the Donjus, they will increase production, and stabilize prices in the markets, resulting in more consumption, and a rise in living standards among North Korean residents. The resulting rise in demand will lead to further supply increases and profit. Below, I seek to examine ways to

create and manage a potential fund for North Korean economic development, by inducing a creation of such a virtuous cycle.

3. Managing and creating a North Korea Development Fund (NKDF)

1) The objective and mechanism of the NKDF

References here to economic development support funds denote funds needed to manage the financial resources required to aid North Korea's economic development. I will refer to it as "NKDF", short for North Korea Development Fund. The NKDF will aim to improve North Korean corporations' poor means of productions, increase supplies in the markets, thereby improving living standards among North Koreans, and ultimately expediting the expansion of markets in North Korea.

The seed money for the NKDF will be created through South Korean funds. If we are to utilize these funds, South Korea's inter-Korean engagement fund will provide 13.9 trillion Korean won, alongside South Korean ODA funds worth 4.2 trillion Korean won, resulting in a combined 18.1 trillion won. If South Korea can run an NKDF with the available funds, it can avoid being forced to attract additional funds. But there are limits to such a mechanism. This is because such a fund can be misconstrued as a fund designed to outflank existing international sanctions, making it difficult to receive support from the international community and the South Korean public. Thus, creating an international consortium would give it more legitimacy which would allow the fund to be more widely accepted and managed. The participation of countries neighboring the Korean Peninsula will increase the feasibility of the fund and help maintain momentum, as the NKDF will be run under the continued existence of international sanctions. Naturally however, other countries will be reluctant to participate due to the same sanctions, as the sanctions severely limit any aid to North Korea. In particular, the notion of creating a fund to

resolve the North Korean economic development problem will likely spark resistance. Setting up detailed regulations governing the NKDF must be put in place, so that the fund will receive both international and domestic support.

The NKDF should be set up as an international consortium where the U.S. and China – the two states most sensitive to the current political winds blowing over the Korean Peninsula – would be persuaded to join, while South Korea would serve as an observer to its financial contributions in creating the NKDF. The U.S. must be considered first in any international consortium for such purposes. The U.S. wields the most influence over the current international North Korea sanctions. The U.S. leads the UN sanctions regime, while it also applies great pressure through its own set of sanctions. It is also the *de facto* majority overseer of international financial organizations. Without some sort of U.S. support, North Korea cannot receive external economic aid.

The support of the U.S., hence will be the decisive factor of whether an NKDF can be created in the first place. In order to induce American participation, we must stress that the creation of an NKDF will be conducive to North Korea's denuclearization. The NKDF can be used as a negotiating card in the ongoing U.S.-North Korean denuclearization talks by ensuring the fund's transparency.

Based on such premise, we must convince the U.S. of the two following factors. First, the use of NKDF funds will be limited to North Korea's light industries – those that are directly linked to the daily lives of North Koreans focused on North Korean entrepreneurs and North Korean small-to-medium enterprises – hence making its usage similar to funds for humanitarian purposes, and not those needed to develop large-scale North Korean infrastructure construction projects. Second, we must prove that NKDF supports material aid, and not cash aid which is barred by U.S.-led international sanctions, needed to expand the means of production for North Korean corporations, and that no strategic asset will be handed over to North Korea.

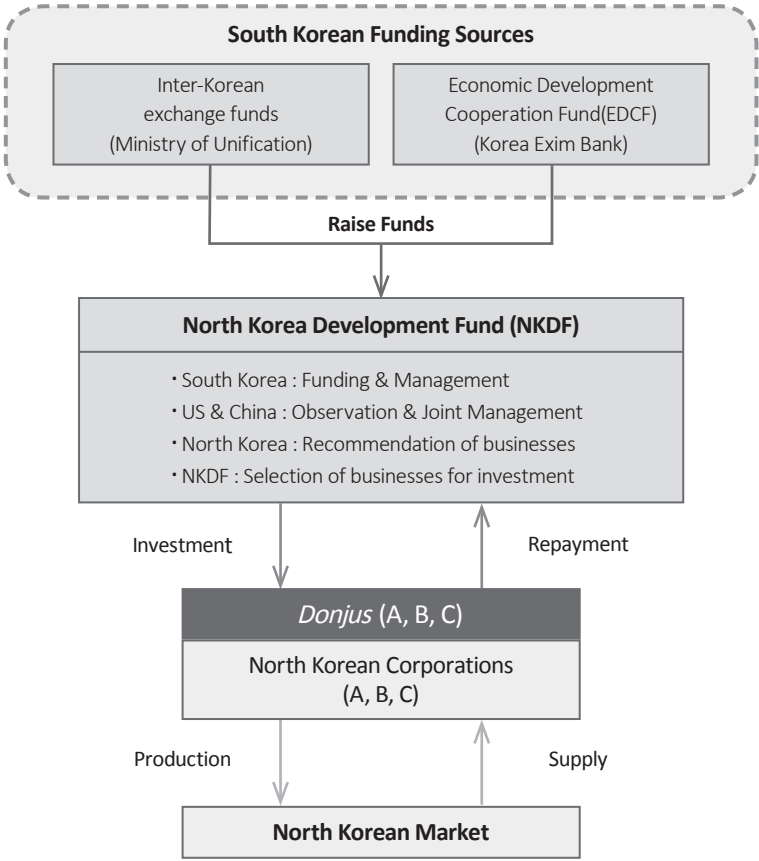
The existence of an NKDF can also prevent a lull in communications between the U.S. and North Korea in the nuclear negotiation process, while serving as a platform to resume talks should talks lapse. From the U.S.'s perspective, it can sign onto a low-cost insurance plan that will facilitate the continuation of denuclearization talks with North Korea. The participation of other countries in a consortium will lower the costs further. The creation and management of an NKDF will lead to the production of products needed by everyday North Koreans, and vitalize markets in North Korea. Much later, if North Korean markets are opened up, the U.S. can use the fund as a strategic asset to facilitate the sale of American products.

Chinese participation in the NKDF must also be taken into account. China has traditionally served as an economic supporter to North Korea alongside Russia since the Cold War, while it is also the most reliable participant towards regime stability and maintenance from North Korea's perspective. It is hoped that China's participation will facilitate North Korea's acceptance of NKDF-led projects. China has consistently recommended North Korea to open up its economy, and offered to share its experience to help North Korea develop its economy. Hence, China's participation will not only be helpful, but will also be favorable towards North Korea's denuclearization. If the creation and running of the NKDF is smooth, the participation of the Chinese-led AIIB will also be possible, all resulting in a much faster expansion and development of North Korea's economy.

The NKDF will be an international consortium-led multinational development fund, held together by the U.S., China, and South Korea. These three countries are the most sensitive to North Korea-related security issues surrounding the Korean Peninsula, and will be the largest beneficiaries to regional and political stability resulting from the development of the North Korean economy. The participation of Japan and Russia can also be considered, due to the experience of the Six-Party talks. But such participation has the risk of unnecessarily complicating the creation of an NKDF. Hence, it would be better to

begin the process with only South Korea, China and the U.S.. The participation of other countries could be considered once the fund is stabilized.

Figure 1. Concept of the North Korean Development Fund



2) Investment Methods

As noted in the previous section, North Korea’s market expansion accelerated since the famines of the 1990s, while North Korea’s economy rests on both the public and private sectors, although the economy relies much more on the latter. During this process, there were

further divisions in the North Korean political arena, and the creation of a new North Korean economic class. This also allowed the ownership of the means of production, while at the center of this change was the newly formed Donju. These capitalists indeed hold large influence over North Korea's real economy and financial economy.

One of the main functions of the NKDF is to lend funds to the Donju who are producing goods, and renting out state firms, state factories and managing them, to assist the Donju in continuing production activities or expanding them. That is, providing loans to the North Korean Donju leading North Korea's real economy but excluding North Korean financial lenders. The NKDF will focus funds on small-scale North Korean entrepreneurs or small-to-medium enterprises seeking to increase production of everyday goods needed by the North Korean people.

Most of the production activities that North Korea's Donjus engage in, in the real economy concern necessities or light-industry products and are usually small-scale enterprises. This is different from the large-scale subsidies provided to North Korean infrastructure projects or industrial development. Smaller funding towards North Korea's Donju will aim to infiltrate economic resources into the country, while maximizing the actual effects that everyday North Koreans feel through economic development. In other words, instead of investing in the construction of railroads, roads, or bridges, the fund will focus on helping production of everyday necessities that North Korean residents require, increasing the overall welfare of these people.

Donju, who serve as business owners, will employ North Koreans as they need labor. These employees will receive salaries, while the goods produced in the production process will be supplied to the North Korean markets. The more Donjus receive funds from the NKDF, the more products will be produced, and the more everyday North Koreans will increase their salaries and improve living standards.

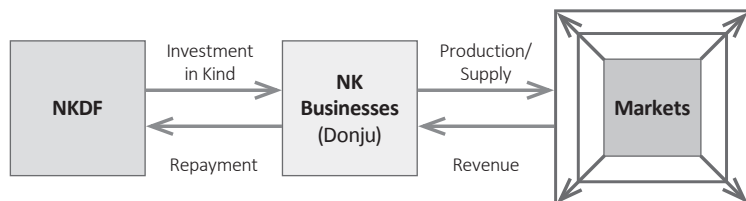
The loans that NKDF provides to the Donju must take the shape

of commodities or real goods, instead of cash. In other words, loans should take the form of materials that are equivalent to the monetary amount of the loan. This is because first, international sanctions severely limit cash aid and it will be difficult to predict when the sanctions will be lifted, and whether cash subsidies will be allowed even then. Even if cash aid is provided, there can be no guarantee that all of the cash is being used for the benefit of the Donju, and will hence likely create skepticism and criticism against the NKDF, among members of the international community. Second, the use of real goods as loans will enable the international community to better monitor if strategic assets are being sent into North Korea, enhancing transparency of the fund. All in all, the use of real goods as loans will increase the credibility of the NKDF both at home and abroad. For instance, let's assume that a Donju running a shoe factory requires a loan of 100 million Korean won for a year. Before the loan, the NKDF can request the Donju to submit a list of production factors and their costs. If the Donju says he needs 70 million Korean won for leather, 20 million won for shoe laces, and 10 million won for glues and other material, the NKDF can purchase such materials at the international market price in lieu of the Donju. Depending on how credible and how productive the NKDF is, the NKDF will be increasingly able to purchase such goods at lower costs, creating a win-win situation for the NKDF and the Donju.

If Donjus oversupply the North Korean domestic market, the NKDF can sell those goods in the international market for them. It must be noted however that selling North Korean goods on the international markets under the current sanctions is impossible. But the likelihood of these becoming plausible increases, so long as the NKDF is created and managed as noted above, and starts providing loans to North Korean Donju. Leftover inventories from the North Korean Donju can be sold in the South Korean, Chinese, and U.S. markets – the countries that are directly linked to the success of the NKDF.

A pool of possible North Korean Donju who can receive loans from the NKDF can be pre-selected by the North Korean government. From that list, the NKDF can choose whom to lend to. Therefore, a plan to aid North Korean economic development requires pre-coordination with the North Korean authorities and a building of mutual understanding. From North Korea's standpoint, it seems unlikely that North Korea will oppose a mechanism that increases their production capabilities. There will be a need however to sway North Korea away from its preference for a cash-based aid program to that based on smaller-sized corporations. Considering that North Korea itself realizes its isolation from capital inflows and feels the need to resolve the shortages of everyday goods for the North Korean people, it will react positively towards the proposed NKDF. And if North Korea has no hidden intention to use the capital aid for other purposes, there is no reason to refuse material aid.

Figure 2. Mechanism for the Expansion of North Korean Marketization



3) Investment size

As mentioned above, South Korea can muster 18.1 trillion Korean won by itself, utilizing the inter-Korean exchange fund worth 13.9 trillion Korean won and its ODA funds worth 4.2 trillion Korean won, making the maximum funds South Korea can provide to 18.1 trillion Korean won. The success of NKDF will depend on the size of the fund, but will rely more on attaining investment support from the international community and the U.S., which is skeptical of providing economic aid to North Korea, making it difficult to expect a positive

response from Washington. Even if the U.S. looks upon the NKDF with optimism, partial alterations to the current U.S.-led sanctions regime will be inevitable. Hence, to gain that support and a positive response from the U.S. and to persuade the U.S. to partially adjust the current sanctions regime, the smaller the size of NKDF, the likelier it will be able to gain approval.

North Korea was listed as one of the State Sponsors of Terrorism on January 20, 1988, after it blew up Korean Air flight 858 on November 29, 1987. And after the September 19 agreement in 2005, as part of the nuclear negotiations, it was de-listed on October 11, 2008. Before North Korea was re-listed on November 20, 2017, there was a nine-year time span in which North Korea could gain admission to an international financial organization. Upon de-listing in October 2008 from the State Sponsors of Terrorism list, there was a plethora of research on how international finance could support North Korea's economic development. These studies have concluded that North Korea would be able to receive about \$100 million in support from these international institutions.

This paper aims to focus on supporting small-scale North Korean corporations producing daily necessities. As mentioned above, the smaller the NKDF, the likelier it is to gain legitimacy. Hence, the initial size of the NKDF should be set at \$100 million or less, the amount that researches have set as that which North Korea would have received should it have applied for aid from international financial organizations after October 2008, when it was de-listed from the U.S. State Sponsors of Terrorism list. \$100 million is equal to about 110 billion Korean won, meaning if the fund invests about 1 billion won per North Korean corporation, it will be able to invest in 110 corporations.

The initial investment round should be allotted to about ten corporations, while decisions on future investments should be made after monitoring how the loans are used by the initial beneficiaries (If investing 1 billion Korean won, in ten corporations, this will mean

the initial investments will be worth about 10 billion Korean won). Of the 1 billion Korean won, half should be used to purchase variable production factors, while the other half should be reserved to finance investments in replacements for worn-out factors. Replacing worn-out factors of production means introducing machinery into North Korea, which in turn suggests there might be a need for a partial adjustment to current North Korea sanctions. The division of funds should be designed elastically to adjust for individual cases, depending on the investment environment.

4) Repaying loans, maintenance of businesses, and foreign sales

North Korean corporations that have received material loans from the NKDF must pay off interests or parts of the principle within a set time period, for instance, a year. These payments should be made by converting North Korean currency earned from sales in North Korea to U.S. dollars. The deadline for the payment of the entire principal should be negotiated with the North Korean authorities.

The most important consideration for continued NKDF support should be the relevant North Korean corporation's earnestness and integrity, as the *raison d'être* of the NKDF is to expand markets and enhance the living standards of the everyday North Korean. Hence, the North Korean corporations' production of goods, their sales, and treatment of their employees during the process should be the most important parameters for measuring success. The NKDF should provide lower interest rates and more favorable lending conditions for North Korean corporations who succeed along those measures, thereby incentivizing improvements in product quality and better sales.

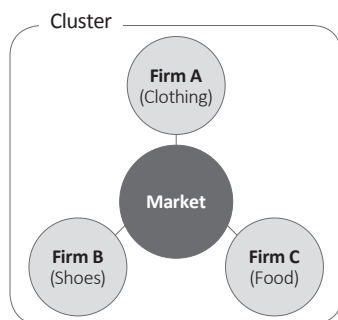
For North Korean firms producing higher quality goods, they should be able to sell them to overseas markets alongside sales within North Korea. The NKDF should lead the sales of the relevant North Korean corporation to foreign markets. For this purpose, efforts to

allow sanctions exemptions for the sale of NKDF-sponsored North Korean goods to overseas markets should be made. The first overseas markets to be considered should be the NKDF's member countries: South Korea, China, and the U.S.. These countries are expected to respond positively to such proposals for the sake of the NKDF's success. And if revenue earned from foreign sales can be used to repay NKDF loans, North Korean corporations will enjoy better lending conditions, resulting in further productivity enhancements for North Korean corporations.

5) Maximizing returns on investment

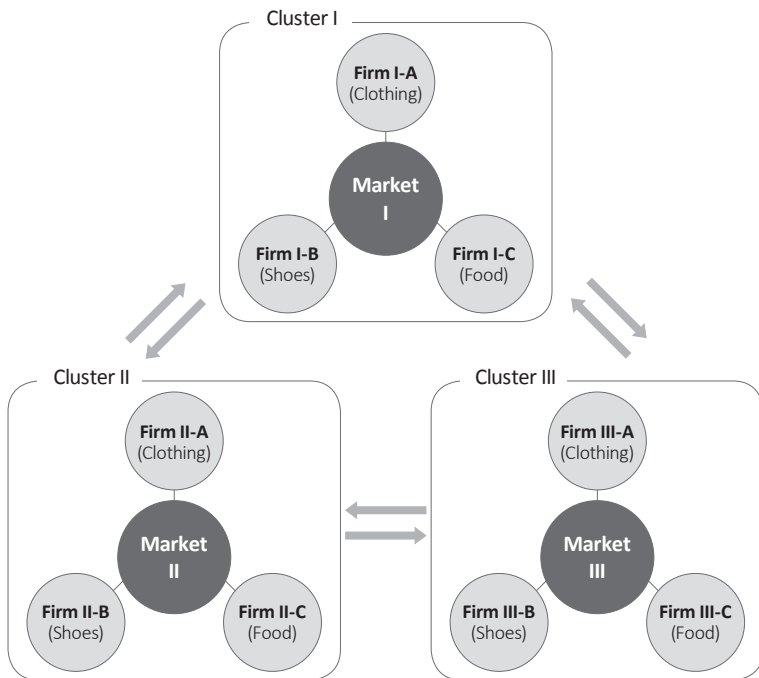
The goal of the NKDF is to expand North Korea's markets, and thereby develop North Korea's economy, and enhance the living standards of the North Korean people. NKDF loans should be dealt out with the intention of expanding overall supplies of goods, and the diversification of products being supplied to the market. Efforts to diversify the production of everyday goods should be maximized, while production of complementary and substitute goods should also be encouraged to energize the markets. This means focusing investment in clothing and food industries, and ensuring that the same products are not produced in the same regions, by creating production clusters.

The initial investments should target the areas in which markets are already diversified, and if NKDF loans succeed, additional loans should seek to expand production-supply-consumption clusters across the country.

Figure 3. Production-Supply-Consumption Cluster in a Single Market

For example, NKDF loans could seek to create a macro market that contains smaller markets for boots, toothpastes, towels, clothing, and food products like bakeries, thereby creating a region where return on investments can be maximized. Laborers working for clothing manufacturers will be able to purchase foods in a cluster market, while workers of food producers would be able to buy clothing in the same cluster. More clusters in North Korea will mean more diversification in the products being sold in North Korea, which would mean the increase in income for North Koreans. The existence of clusters will mean the existence of trade within North Korea, and the continuation of such a process could lead to further industrialization of North Korea. What is more important is that North Korea would be able to enhance production capabilities on its own, leading to economic development and growth, and economic stability.

Figure 4. Production-Supply-Consumption Clusters in Multiple Markets



But this will only be possible when there is a lack of political externalities, or other forms of market failure. In practical terms, there are a lot of uncertainties surrounding the success of NKDF loans. To begin, nobody knows what wildcard will arise from the ongoing denuclearization talks. Even if North Korean authorities are becoming increasingly accommodative towards the market, it is uncertain if that attitude will persist. And even if the NKDF can be launched with the blessing of the U.S., there is no telling if an unexpected disruption will occur.

Efforts must be made to ensure the continued support of the U.S. and China as observer states, while also securing the support and positive attitude of the international community. Furthermore, efforts should also be made to maximize the success of NKDF loans by creating clusters that include production-supply-consumption mecha-

nisms within North Korea and expanding those clusters.

CONCLUSION

As previously mentioned, marketization is a phenomenon in which two economic systems (planned system and market system) coexist within a nation or a regime in order to compensate for the parts of the economy that the planned economy cannot handle.

Ironically, marketization has been accelerated by the North Korean government's policy of suppressing the spread of the market. The market in North Korea has rapidly expanded in the form of a black market since the economic crisis glorified as the "March of Pain" in the mid-1990s due to the mounting inefficiencies of a socialist-planned economy. In the 2000s, when the government tried to put a brake on the expansion of the market to restore the planned economy, paradoxically, the marketization of the North Korean economy was accelerated.

The 7.1 economic management improvement measures in 2002 and the enforcement of the currency reform in November 2009 that aimed at recovering the planned socialist economy caused price hikes and severe confusion in the economic system, and the side effects were widely spread.

North Korean residents had to turn to the black market for survival, which gradually transformed into the means of sustenance for them. This resulted in early capitalistic phenomena. Donju, a wealthy new class, has emerged as capitalists, controlling a major part of the North Korean economy through privatization of the means of production. Changes in the North Korean economy, which are derived mainly from marketization, show the characteristics of the earliest stage of capitalism.

Kim Jong-un, who officially took power in 2012, put his adminis-

tration's goal on stabilizing and strengthening its regime, and emphasized the improvement of the economic situation. Most of the market controls strengthened during the Kim Jong-il era seems to have been put off. In fact, it is difficult to conclude that the Kim Jong-un regime is pursuing a completely liberalized market system. However, it is highly unlikely that "the market of Kim Jong-un" will return to "the market of Kim Jong-il".

The marketization and the possibility of privatization of the means of production are the biggest changes taking place in North Korea. We should prepare measures to induce desirable changes in North Korea or at least to let the North recognize the need for change on its own.

Discussions on economic development of North Korea can begin with increased supply to the market of North Korean firms, namely market expansion, and the results of the economic development are closely linked to the efficiency of business management and the consequent increase in corporate productivity. By focusing on the link among the Donju, Enterprise, and Market, this research has been looking for ways to expand marketization as a method to develop the North Korean economy. The expansion of marketization should induce the North to recognize the opportunities to increase its own production capacity. North Korea's economic development aid is an investment project in the form of economic cooperation and exchange projects for the purpose of North Korea's economic development. It is preferable for North Korea's economic development to begin as soon as possible, not only to end the protracted stalemate of inter-Korean talks but also to create a new growth engine for the lackluster South Korean economy. Furthermore, developing North Korea's economy also holds significance in that narrowing the gap between the two economies directly leads to the reduction of unification costs.

The North Korea Development Fund (NKDF) is set up to support North Korea's economic development projects, and the fund aims to increase the supply to the market and improve the living standards of

North Koreans by enhancing the production capabilities of the deteriorated North Korean firms.

The NKDF is a multinational development fund formed by the Korean-U.S.-Chinese consortium. Korea will lead the investment and the U.S. and China will play the role of an observer. In fact, South Korea, U.S. and China are the most sensitive countries to the security situation on the Korean Peninsula, and they can benefit most when the North's economic development leads to political stability in Northeast Asia.

The NKDF will lend its business resources to Donju for small businesses in North Korea. The items that increase in supply to the North Korean market are daily necessities for North Koreans, and are aimed at goods produced by relatively small producers. Taking the form of a small investment to Donju, it can easily penetrate into the North Korean economy, while also sensitizing North Koreans to economic development, thus further amplifying its effects.

The way NKDF invests business funds to Donju must remain in the form of real goods or commodities, not in cash. That is, the loan is to provide in kind the inputs that are required for the productive activity equivalent to the cash value. Spot loans can increase the credibility of the NKDF's North Korean economic support at home and abroad. It is likely that North Korea will respond to the NKDF's economic support given the urgent situation in which it is in need of improving the living conditions of North Koreans due to chronic shortages. In order for North Korea to be able to achieve economic support through the NKDF, partial revisions should be made to the international community's sanctions. To this end, U.S. will have to make some positive assessments of the NKDF and revise some of its sanctions against North Korea. In addition, there must be a business justification for the NKDF, thus, the smaller the investment funds, the better. Since October 2008, when North Korea has been excluded from the list of state sponsors of terrorism, studies have been actively conducted on the possibility of international financial aid for eco-

conomic development of North Korea. Studies on North Korea's entry into international financial institutions estimated that it could receive approximately \$100 million in aid at the initial stage. The NKDF will support small North Korean firms that produce daily necessities. Therefore, NKDF's initial investment is set at a level of less than \$100 million.

North Korean firms that have engaged in production activities with loans from NKDF will repay certain levels of interest and some of the principal to NKDF on an annual basis. The payment of interest and principal repayments shall be made in dollar terms by the amount obtained from sales in the North's domestic market. Meanwhile, NKDF will take into account firms' production efficiency, sales of goods, and their treatment of labor employed in the process as important measure of performance to determine a re-loan or an increase in the amount of loans.

The production of basic daily necessities should be diversified as much as possible, and the production of complementary products should also be pursued. This means investing mainly in the production of clothing and food that North Koreans need by forming a cluster to ensure that the same products are not being produced in the same region to maximize the performance of the investment business. It is also expected to increase the effects of input-output and maximize returns to investment through composition of clusters. If NKDF's investment project is successfully implemented, it will spread the production-supply-consumption clusters to regional representative markets throughout the territory of North Korea.

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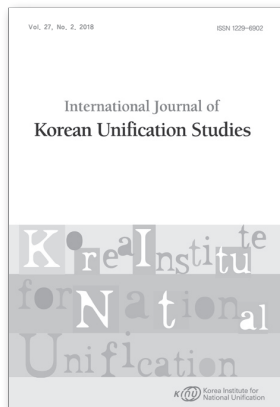
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