Contents

Preface and Acknowledgments vii
Note on Names x

1 Introduction and Overview 3
   Ahn Choong-yong, Nicholas Eberstadt, and Lee Young-sun

The Political Economy of North Korea

2 The Political Economy of North Korea: Historical Background and Present Situation 17
   Marcus Noland

3 The Structure of North Korea’s Political Economy: Changes and Effects 45
   Lee Young-sun and Yoon Deok-ryong

4 North Korea’s Survival Game: Understanding the Recent Past, Thinking about the Future 63
   Nicholas Eberstadt

Preconditions and Rationale for International Economic Support for North Korea

5 Managing Collateral Catastrophe: Rationale and Preconditions for International Economic Support for North Korea 117
   Moon Chung-in

6 Strategic Dimensions of Economic Assistance for North Korea 147
   Paul Bracken

7 Foreign Aid and International Norms: The Case of North Korea 159
   Carol Lancaster
Prospects and Preconditions for Market Economic Transformation in North Korea
Anders Åslund

Possible Forms of International Cooperation and Assistance to North Korea

Unlikely Partners: Humanitarian Aid Agencies and North Korea
Edward P. Reed

Designing Public Sector Capital Mobilization Strategies for the DPRK
Bradley O. Babson

Coping with North Korea’s Energy Future: KEDO and Beyond
Kent E. Calder

Mobilizing Private Capital for North Korea: Requirements for Attracting Private Investment
Malcolm Binks and Carl Adams

Possible Role of South Korea and Other Major Stakeholders

A Proactive Approach to Engaging North Korea: Boldness, Flexibility, and Inclusiveness
Choo Yong-shik and Wang Yun-jong

Payback Time: Japan—North Korea Economic Relations
Richard J. Samuels

China’s Role in the Course of North Korea’s Transition
Liu Ming

Russian-North Korean Relations and the Prospects for Multilateral Conflict Resolution on the Korean Peninsula
Alexandre Y. Mansourov

Expected Role of South Korea and Major Stakeholders: NGO Contributions to and Roles in North Korea’s Rehabilitation
Scott Snyder
A Proactive Approach
to Engaging North Korea:
Boldness, Flexibility, and Inclusiveness

Choo Yong-shik and Wang Yun-jong

In October 2002, Pyongyang officials implicitly agreed to Assistant Secretary of State James Kelly’s charge that the Democratic People’s Republic of Korea (DPRK, or North Korea) had been pursuing a new course of nuclear development through nourishing highly enriched uranium (HEU). The issue of North Korea’s nuclear development returned to the front page of the world’s major newspapers, and this renewed international attention augured a second nuclear debacle on the Korean peninsula. Before that point, North Korean nuclear developments had theoretically been frozen since the 1994 Agreed Framework, in which Pyongyang pledged to cease and gradually dismantle any nuclear development program in exchange for economic, political, and security benefits from the outside (particularly the United States).

The Agreed Framework has been praised as one of the Clinton administration’s greatest foreign policy achievements. The South Korean (ROK) administration of Kim Dae-jung followed a more accommodating version of engagement and accomplished the epochal South-North summit meeting while it broadened extensively the social, economic, and political exchanges between the two sides. Kim’s approach, which has come to be known as the Sunshine Policy, has effected significant ideological change in South Korean society. South Koreans began to perceive the South-North relationship more from a perspective of reconciliation and cooperation with the “northern national partner” than from an attitude of containment of and confrontation with “the Communists.” Thus, liberals and progressives who had long opposed conservatives’ hard-line policies have raised their voices, and their ideas have become the core of Seoul’s policies.

However, when the Kim Dae-jung government’s illegal under-the-table payment to Pyongyang was revealed, the crafty and duplicitous management style of the Sunshine Policy brought a political backlash against engagement
and raised public doubts of its effectiveness. Moreover, the recent discovery of a new North Korean nuclear program requires a fundamental review of engagement with Pyongyang. This paper explores the current status of North Korean issues and proposes a more effective approach to engagement from a proactive perspective.

**Background**

North Korea’s clandestine HEU program is clearly in violation of the 1968 Nuclear Non-Proliferation Treaty (NPT) and the South-North accord on de-nuclearization of the Korean peninsula (that Pyongyang signed in 1985 and 1991, respectively) and, more important, the 1994 Agreed Framework—it’s spirit if not its letter. Subsequent to the discovery of the HEU program, North Korea’s brinkmanship tactics of overtly stating its intent to reprocess spent nuclear fissile material provoked a diplomatic crisis that called for urgent action. Policymakers in the international community were compelled to present a panacea for North Korea’s delinquency. And, as was the case during the 1993 version of Pyongyang’s nuclear adventure, diverse diagnoses and prescriptions emerged; most of them supported engagement or containment, but some proposed coercive diplomacy—and even preemptive strikes.

International discourse on the nuclear endgame varied from “liv[ing] with the unthinkable,” to launching “a bold initiative,” and to “containment with the long-term goal of regime change” (Carpenter 2003–04; Wright 2003; Schmitt 2002). Neoisolationists in the United States and, one imagines, extreme progressives in South Korea preferred to tacitly tolerate Pyongyang’s nuclear weapons program. Supporters of engagement instead touted the resumption of diplomacy. Hard-liners, in contrast, decried the futility of the Agreed Framework and called for replacing it with an “inevitable” containment of the North or even with preemptive strikes on North Korea’s nuclear facilities. Alongside it, the myth (or, if one prefers, the necessity) of North Korea’s imminent collapse resurfaced. Such a pattern of responses closely matched the shape of public reactions during the 1993 nuclear episode. And history seems to repeat itself.

**The Need to Modify Current Practices of Engagement**

Is engagement the sole effective means of dealing with the North Korean nuclear issue? Certainly not. The Agreed Framework made considerable achievements. North Korea shut down a nuclear reactor in operation and suspended construction of two reactors of bigger production capacity that, had they been completed, could have brought a nuclear nightmare. But the agreement did not solve the nuclear issue, as it did not succeed in eliminating North Korea’s nuclear facility. The crisis was temporarily frozen and defused. As shown by the fact of Pyongyang’s secret HEU program, however,
nuclear threats from North Korea continue to haunt the international community, particularly South Korea and the United States.

Nevertheless, engagement is preferred, first of all, to avoid human casualties. It is highly plausible that aggressive containment and preemptive strikes would incite North Korea’s military retaliation. U.S. forces in Korea as well as South Koreans are perpetually threatened by the specter of a North Korean artillery barrage. About 500 of the North’s 12,000 artillery tubes are deployed within range of Seoul. With their capacity for firing several rounds per minute, a North Korean bombardment could incur many tens of thousands of South Korean deaths and many tens of billions of dollars in damage, even if the ROK military swiftly responded to destroy them, using counter-artillery radar (O’Hanlon and Mochizuki 2003, 73–74). Such scenarios are hardly acceptable to South Korea.

Engagement is also favored as a reasonable or second-best—though not optimal—solution because alternatives are less effective or much too risky. Technically, the United States cannot preemptively strike the nuclear facilities. The HEU programs have not been located; thus, they are not even a visible target for preemptive strikes. Other facilities are not easy targets, either. If North Korea had reprocessed spent fuel rods into plutonium and removed it outside Yongbyon, it would be almost undetectable (O’Hanlon and Mochizuki 2003, 93). The other option of allowing a nuclear North Korea to exist would provoke Japan, South Korea, and possibly Taiwan to proliferate, which would outrage China and could escalate nuclear competition in East Asia.

Even though engagement is preferred, at this time engagement must be reexamined from an overall perspective. In the main, engagement has been a defensively motivated strategy to preclude devastating effects (such as a war on the Korean peninsula) by providing economic and security incentives. Some criticize it on the grounds that such a reactive or defensive engagement only succeeds in feeding an enfeebled regime in Pyongyang while allowing it to snatch cash by bluffing. They say that such practices actually encourage North Korea’s old habit of extortion, in other words (O’Hanlon and Mochizuki 2003, 84), “developing destabilizing weapons and then bargaining to give them up for huge amounts of aid.” Furthermore, they argue that engagement simply bought time for Kim Jong-il to consolidate his totalitarian, dynastic-style reign (Armitage 1999).

There are persistent suspicions that foreign economic and humanitarian assistance funds have been diverted and used in North Korea for strengthening and encouraging the military, Kim’s powerful last resort. From 1995 to 2002, the United States provided humanitarian aid worth $1,021.7 million, which also includes U.S. contributions to the Korean Peninsula Energy Development Organization’s pledges of heavy oil supplies as outlined in the Agreed Framework (Manyin and Jun 2003, 1). South Korean government aid including agricultural fertilizers, grains, and medical services amounted
to $172.8 million during the four years of 1998–2001 (Lee et al. 2003, 523). Also providing food aid were the United Nations Food and Agricultural Organization, the World Food Program (WFP), and UNICEF. However, the Pyongyang regime, unlike other countries, has never allowed the standard practice of monitoring aid distribution. Moreover, one recent study on regime fragility in North Korea assesses that the hazard of regime change in Pyongyang has passed its peak and, despite resurgences in the likelihood of change between mid-1996 and mid-1998, has since declined (Noland 2004, 38–40).

In spite of such massive humanitarian assistance, North Korea still remains a leading violator, invariably ranked as one of the most repressive regimes because of its control of the populace in nearly all aspects of people’s social, political, and economic lives. Those sentenced to jail or work camps are reportedly often tortured or even killed. Varying estimates state that between 10,000 and 300,000 North Koreans have fled the country and are living—and hiding—in China.1 The justification for public criticism of engagement with North Korea is that engagement will actually delay resolution of North Korean problems, particularly issues of weapons of mass destruction (WMD) (Wolfowitz 1995). If an engagement framework does nothing but help to prolong Kim Jong-il’s totalitarian reign, even as an unintended consequence, without eliminating North Korea’s potential for WMD development and improving human rights conditions there, it cannot be regarded as a reasonable policy option.

Therefore, history shows engagement must be part of a larger approach toward North Korea, even as history teaches that engagement must be tempered with four other considerations:

First, with its formidable capability for developing WMD, North Korea would neither easily surrender to diplomatic pressure nor compromise in order to receive only a small reward. A bold diplomatic initiative would be needed.

Second, North Korea should not be allowed to use brinkmanship as a means of extracting cash from the international community. A disciplined means of engagement backed up with coercive measures is required in order to call Pyongyang’s bluff.

Third, engagement should be comprehensive and inclusive, addressing pending economic, political, and military issues. Because North Korea’s attempts at nuclear development were driven by a sense of regime crisis and essentially related to its survival, a specifics-based approach would only bog down diplomatic efforts.

Fourth, the conduct of engagement should be based on long-term perspectives on the Korean peninsula, particularly prospects for the northern

---

1 For human rights conditions in North Korea, see Freedom House (1972–2002, 2003) and Human Rights Watch (2002).
proactive approach to engaging North Korea: boldness, flexibility, and inclusiveness

regime’s sustainability and the question of Korean reunification. Seoul’s North Korea policy must be guided toward a regime change through engagement and, at the same time, prepare for the contingency of a regime collapse in the North.

Taken together, these considerations call for a proactive strategy to minimize risk as they address North Korean issues in incremental yet flexible and comprehensive ways.

**North Korea’s WMD Capabilities**

North Korea’s formidable capabilities for developing WMD are a major problem that calls for a bold diplomatic breakthrough. Without detailed and verifiable information on North Korea’s nuclear activities, it is not yet clear whether Pyongyang has produced nuclear bombs and/or weapons-grade fissile material. However, it seems reasonable to say that Pyongyang’s potential nuclear capabilities seem to have expanded.

In January 2003, North Korea announced its withdrawal from the NPT and restarted the 5 MWe nuclear reactor at Yongbyon, which can reprocess spent fuel rods into weapons-grade plutonium.² Three months later, North Korea announced that it possessed nuclear weapons, and it showed its intention to reprocess spent fuel rods it extracted from the reactor in 1994.³ In June, Pyongyang went further, overtly threatening to develop a nuclear deterrence force; later, at the first six-party meeting in August 2003, North Korean delegates privately warned U.S. officials that they could export nuclear weapons. Finally, in October 2003, North Korea declared the completion of its nuclear deterrence capability by turning its stock of 8,017 uranium fuel rods into enough weapons-grade plutonium to produce six bombs (Wehrfritz and Wolffe 2003). Through both direct and oblique public statements, North Korea has hinted that it possesses nuclear weapons, although it often terms them a “nuclear deterrence capability,” while it wholly denies evidence of its HEU programs.

Many intelligence sources believe that the DPRK may possess enough plutonium to produce one or two bombs. On Meet the Press on 29 December 2002, Secretary of State Colin Powell said that North Korea was believed to have “a couple of nuclear weapons.” The Central Intelligence Agency also estimates that North Korea may have two or three nuclear weapons.⁴ The

---

² See CIA (2003). Since 1994, North Korea has frozen the operation of its 5 MWe nuclear reactor at Yongbyon in accordance with the 1994 Agreed Framework. However, it hastily discharged the fuel from the reactor without permitting meaningful verification from the International Atomic Energy Agency (IAEA). In fact, North Korea is believed to have removed some of the fuel rods in 1989.
³ North Korean officials even announced that they were successfully reprocessing the spent fuels, although later they rephrased their statement as “successfully going forward with reprocessing.”
⁴ This was a comment by a senior U.S. official at a conference on U.S.-Japan Track II Cooperation for Arms Control, Nonproliferation, and Verification; the official also commented that North Korea may have two or possibly three nuclear bombs. See Furugawa (2003).
logic behind this belief is that in the early 1990s Pyongyang extracted enough material from the 5 MWe reactor’s spent fuel rods to make one to two bombs. On 17 October 2003, Kyodo News reported that South Korea’s minister of unification stated that North Korea might have approximately 12 kg of nuclear materials; and, in general, international intelligence has no doubt that North Korea has reprocessed spent fuel rods—estimated at 2,000 by the IAEA and at 2,500 by U.S. and ROK intelligence. Observations of a recent U.S. unofficial delegation to North Korea appear to confirm that Pyongyang “has processed all 8,000 spent fuel rods” although no conclusive evidence for the existence of weapons-grade plutonium was found (Kessler 2004). If this is true, as a recent report (Chipman 2004, 2–3) by the International Institute for Strategic Studies (IISS) estimates, then 25–30 kg of plutonium could have been produced, enough to build two to five nuclear bombs.

The IISS report warns that North Korea could be equipped with four to eight nuclear bombs over the next year and thereafter add thirteen more per year. Currently, North Korea’s nuclear capability is limited to its 5 MWe reactor, which it restarted in February 2003. However, the report cautions that, after the completion of the 50 MWe reactor now under construction and after the production of any material from HEU programs, the North’s nuclear capability could grow enormously, allowing it to reprocess 130 kg of plutonium, enough for another eight to thirteen bombs per year. Another study (Cirincione 2002) draws a similar conclusion (Table 1): if left unchecked, Pyongyang’s nuclear drive will reach potentially catastrophic levels—a production capability for 36 bombs from three reactors, exclusive of the nonconfirmed HEU facility.

Factoring in the level of documented weapon device developments would seem to discount North Korea’s nuclear weapons capability. The CIA reportedly states that no information exists to confirm a successful North Korean nuclear test, but it assesses that “North Korea has produced one or two simple

<table>
<thead>
<tr>
<th>Nuclear facility</th>
<th>Annual plutonium production</th>
<th>Annual weapons production</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 MWe reactor</td>
<td>6 kg</td>
<td>1</td>
</tr>
<tr>
<td>50 MWe reactor</td>
<td>56 kg</td>
<td>11</td>
</tr>
<tr>
<td>200 MWe reactor</td>
<td>220 kg</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Cirincione (2002).

5 North Korea has insisted that the 5MWe reactor was shut down in April 1994. However, most analysts think that some (or possibly all) spent fuels were extracted in 1989. See Squassoni (2003).
6 Frankel (2004) reports that the HEU program is estimated to produce 75 kg of plutonium per year.
fission-type nuclear weapons and has validated the designs without conducting yield-producing nuclear tests (FAS 2003)."7 However, as important as the nuclear programs and as essential to their weaponization are North Korea’s missile developments that enable delivery of nuclear bombs. North Korea has developed ballistic missiles of various ranges. It produces Scud-B and Scud-C short-range ballistic missiles with launching distances of 300 and 600 km, respectively, as well as its No-dong medium-range ballistic missiles (in the 1,300 km range). These missiles can reach anywhere in the ROK and nearly anywhere in Japan. North Korea also launched a three-stage Taepo-dong 1 missile (in the 2,000 km range) over the Japanese island of Honshu. It is also developing the Taepo-dong 2 that could reach the west coast of the United States.8

In addition to developing WMD, Pyongyang has exported such weapons. In 2001 alone, the regime is believed to have earned $560 million by selling missiles to some of the world’s most anti-U.S. regimes, including Iran, Libya, and Syria (Lintner and Stecklow 2003, 12–15). The formidability of WMD developments and possibilities for proliferation precisely into the hands of terrorist organizations and rogue states intensify the urgency of resolving this issue, one that greatly enhances North Korea’s negotiation leverage. The regime will only bargain for a major deal. Certainly, North Korea’s WMD developments have proved to be the primary shield against the fall of the regime there; at the same time, WMD developments are a chief impediment to Pyongyang’s engagement with the international community.

**Regime Dynamics**

Whether the Pyongyang regime will sustain itself or collapse has been one of the most argued and fundamental questions to approaching the riddle of North Korea. Even the fact of the enfeebled state’s considerable sustainability during the preceding decade has not dispelled the myth of its imminent collapse. Some realist advocates of engagement now suggest that engagement is more effective in inducing a regime change.

Scholars’ and analysts’ views on the future of North Korea can be divided broadly into three groups:

- **Engagement is necessary.** Engagement adherents argue that the Pyongyang regime will not easily fall without incurring immense security risks and exacting a tremendous humanitarian toll on the North Korean people.

---

7 The South Korean government doubts such assessments; it believes that North Korea’s nuclear potential has not been weaponized. In some aspects, the South Korean Kim Dae-jung and Roh Moo-hyun administrations have been reluctant to officially accept intelligence reports on the nuclear status of North Korea that would undermine the logical grounds of their engagement policies of buying security with economic assistance.

8 On North Korea’s missile developments, see Bermudez (1999) and Feikert (2003).
• **Regime will collapse suddenly without engagement.** Those who see the sudden collapse of the regime cite as signals economic deprivation, the absence of mass rallies, and defections of the elite (such as former member of the Central Committee of the Korea Workers’ Party and chairman of the Supreme People’s Assembly, Hwang Jang-yop). These observers also consider the rise of the military and the withering of normal political institutions (such as Kim Jong-il’s power base) indicative of the regime’s increasing fragility.

• **Regime’s resilience calls for a middle ground.** Others argue that the North Korean regime’s survival through a decade of hardship has demonstrated its resilience and that it will at least muddle through the foreseeable future. Surely, the regime’s prospects for survival depend heavily on external environments (Noland 2004, 40); the regime needs outside aid to muddle through and secure at least a minimum of economic life for North Korean citizens. Although adoption of this muddle-through hypothesis involves the risk of reinforcing North Korea’s cash snatching, its advocates hold that, from a long-term perspective, making the regime stagger toward a soft collapse and ultimate absorption into South Korea would be desirable because it would prevent the shock of its sudden demise and reduce the burden of unification for South Koreans.

Another factor that would have enormous impact on regime dynamics is a centrifugal pull from South Korea because of its shared national identity; one good example is the German reunification. Therefore, in judging the regime’s sustainability, the analysis of three factors is critical: North Korea’s economic reform, its political stability, and the dynamics of the inter-Korean relationship.

**Economic Reform**

North Korea has undergone a devastating economic experience. According to the Bank of Korea, North Korea’s per capita gross domestic product (GDP) declined by approximately 25 percent during the 12-year period of 1990–2002 (an average of 2 percent annually) (Noland 2004, 22). It experienced sharper declines in per capita GDP in 1992 and 1997 (approximately –5 percent in both years). The 1992 decline was mainly due to the collapse of Communist regimes in Eastern Europe that drastically reduced North Korea’s external trade. The 1997 depression occurred because natural disasters in the mid-1990s severely curtailed agricultural production and caused famine on a massive scale, resulting in the deaths of an estimated one to two million North Koreans.

The economic depression also affected grain production. The ROK Ministry of Unification estimates that, since the early 1990s, grain production has been between 3.5 and 4 million tons, and the annual food shortage during
the same period has been between 1.5 and 2 million tons. In 1990, rice production dropped by 32 percent and the total crop by 26 percent. During the 1992–2001 period, the annual average domestic food deficit was 1.66 million tons. Even with foreign imports (including North Korea’s imports and foreign aid), the North lacked approximately 770,000 tons of food from 1992 to 1999. During the same period, the North’s annual average food imports and foreign aid were estimated at 1 million tons.

The North Korean economic record is not unique. World Bank data (cited in Noland [2004, 22–24]) show that, since 1960, 42 countries have suffered declines of more than 25 percent in their per capita incomes over a 12-year period. Nations experiencing more than a 33 percent fall in per capita income over eight years numbered 67. In light of the DPRK’s economic underperformance, the regime’s political stability—its survival, in fact—is remarkable. One study ([Noland 2004, 22–24] see Table 2) of regime resilience shows that, among eight regimes with severe economic depressions that have existed more than 18 years, North Korea has experienced the most prolonged economic depression (eight years) and the greatest cumulative decline in per capita income (more than 33 percent); yet this regime is of the longest duration: “its combination of longevity and underperformance is unparalleled.”

Table 2: Resilience of Various Regimes

<table>
<thead>
<tr>
<th>Regime</th>
<th>Duration of regime (years)</th>
<th>Duration of downturn (years)</th>
<th>Cumulative decline in per capita income during downturn (percent)</th>
<th>Annualized rate of decline in per capita income during downturn (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPRK</td>
<td>55</td>
<td>8</td>
<td>–33</td>
<td>–5</td>
</tr>
<tr>
<td>Cuba</td>
<td>44</td>
<td>4</td>
<td>–28</td>
<td>–8</td>
</tr>
<tr>
<td>Kenya</td>
<td>39</td>
<td>4</td>
<td>–7</td>
<td>–2</td>
</tr>
<tr>
<td>Togo</td>
<td>36</td>
<td>4</td>
<td>–26</td>
<td>–7</td>
</tr>
<tr>
<td>Syria</td>
<td>33</td>
<td>3</td>
<td>–11</td>
<td>–4</td>
</tr>
<tr>
<td>Haiti</td>
<td>29</td>
<td>2</td>
<td>–8</td>
<td>–4</td>
</tr>
<tr>
<td>Romania</td>
<td>24</td>
<td>4</td>
<td>–3</td>
<td>–1</td>
</tr>
<tr>
<td>Zambia</td>
<td>19</td>
<td>6</td>
<td>–17</td>
<td>–3</td>
</tr>
</tbody>
</table>

Source: Noland (2004, 26).
Note: Noland used (ROK) Bank of Korea statistics on North Korea.
One critical question related to regime change is economic reform. A principal premise of engagement is that North Korea will become open to the world and will inevitably undergo system reforms, beginning in its economic sector. Many refer to the July 2002 economic reforms—taken broadly in four fields: microeconomic policy, macroeconomic policy, special economic zones, and quest for foreign aid—as an indication of Pyongyang’s willingness to engage the outside world. The reform package was comprehensive in terms of its effects on national economic and social systems. The core elements of the reform measures were increasing state prices and income, partially revising the distribution system, making the foreign exchange rate more realistic, decentralizing state planning and expanding corporate sector autonomy, and strengthening the merit system. Does this reform package indicate a shift to a market economy? Are North Korean leaders willing to implement genuine economic reform, probably following the Chinese lead? Analysts’ answers have diverged.

The introduction of capitalist elements even in limited scope—the state preserved its basic frame of a public distribution system and an administered price structure—notably departs from the North’s previous reform moves. Skeptics say that it was aimed at shifting from a material-based control mechanism to a money-based mechanism (Newcomb 2003; Oh 2003). One cautious view (Noland 2004, 51) emphasizes the drastic—and particularly inflationary—effects the reform may bring onto North Korean society that could cause social differentiation: “North Korea has moved from the realm of the elite to the realm of mass politics.” Such skeptics argue that, unlike in the Chinese reform case, North Korean leaders did not take those economic reform measures as imperatives but rather as a policy option to meet political needs.

**Political Stability**

In North Korea as in other totalitarian states, politics has permeated almost every aspect of the economic and social systems. In such a society, extensive reform tends to lead to revolutionary, not soft, regime change. Blitzkrieg economic reforms may spark political revolutionary movements that could break down the existing totalitarian regime. Thus, economic rationality in terms of enhancing performance is bounded by imperatives for preserving political stability.

Another consideration with regard to North Korean economic reforms is South Korea. The two states share an ethnic identity and are geographically proximate and economically complementary (the South has well-developed industries and the North has cheap labor). Market-oriented reform in the North could enforce its opening to the outside world, and the South would be the most plausible economic partner. In such a case, it is not hard to imagine the North’s initial integration into the South via the economic sphere,
a process that could spill into the political sphere under ROK domination. The Pyongyang leadership regards such a scenario as a nightmare to be avoided at all costs.

**Gravitational Pull from South Korea**

During the past 50 years of a divided Korean nation, the essence of conflict between the two Koreas has been about which side can claim exclusive legitimacy to represent the nation and, with it, the right to claim and control unification. Within such a framework, the two Korean states have struggled to achieve hegemonic unification in which one system prevails over the other. At bottom lies a contest over the identity of a unified Korea. Both Korean states have claimed exclusive legitimacy and so have projected their modern identities into the process of unification. This hegemonic vision of unification necessarily involves demolition of the other’s “illegitimate” and “treacherous” system, followed by imposition of sovereignty over the other half of the peninsula. Clearly, such ambitions pose a fatal threat to the legitimacy and even survival of the leadership on each side and serve to reinforce the hostility separating the two Koreas.⁹

The upshot here is that there remains at the heart of the inter-Korean relationship a dilemma between reconciliation and hegemonic unification. Within the larger framework of Cold War ideological and military confrontations around the globe, the additional factor of the pursuit of hegemonic unification by each Korean state has only raised greater barriers to their reconciliation. The Korean War epitomized the struggle for hegemonic unification through extreme violence. After the war, this life-or-death contest has continued in the form of consolidating one’s own legitimacy and working to erode the legitimacy of the other side (Choo 2003, 40–50).

One aspect of this contest for exclusive legitimacy has been to show off one’s system as superior to that of the other, thus undercutting the opponent’s performance legitimacy. Each Korean state has struggled to demonstrate that its system better serves the political, economic, and security needs of the people. The method of demonstration does not necessarily require exposing the other’s active pursuit of hegemonic unification. One side’s economic prosperity itself would serve to undermine the other’s legitimacy when the latter suffers severe economic hardship, as was the case in Germany. In terms of per capita income, the South surpassed the North by more than 12 times as of 2001 (see Table 3). If there were political turmoil in North Korea, an economically thriving South would act as a “gravitational pull” for the North Korean people.

Realist supporters of engagement argue that engagement would enhance Seoul’s leverage over Pyongyang by broadening North Korea’s exposure to

---

⁹ For the contest of the two Koreas over exclusive legitimacy, see Shin (1998).
South Korea, thus increasing the effects of the gravitational pull. However, engagement’s effectiveness will depend on the ways and means of its implementation. The Sunshine Policy’s accommodating engagement has tended to provide North Korea with room to maneuver; in other words, North Korea can continue to play its nuclear card as it holds the Korean peninsula hostage.

### The Need for a Proactive Version of Engagement

The foregoing analysis and the diplomatic history of North Korea lead to several implications.

First, the threshold for engaging North Korea will be high. Put another way, North Korea would move toward engagement only in return for a great many benefits. With more formidable nuclear weapons development potential now than in 1994, Pyongyang has good reason to ask a higher price to eliminate the basis for the brinkmanship diplomacy it has exploited as a principal source of cash. We need to strike what O’Hanlon and Mochizuki (2003, 43) call “a grand bargaining” to break ground for engagement. Such a grand bargaining encompassing a broad range of pertinent issues can provide vision and a road map to parties involved in engagement and help prevent negotiations from becoming bogged down in marginal issues.

Second, such a grand bargaining does not necessarily mean an all-at-once approach. There is no feasible—let alone effective—silver-bullet therapy.

### Table 3: Comparison of Per Capita Incomes between South Korea and North Korea, 1990–2001

<table>
<thead>
<tr>
<th>Year</th>
<th>North ($)</th>
<th>South ($)</th>
<th>South/North</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1,142</td>
<td>5,886</td>
<td>5.2</td>
</tr>
<tr>
<td>1991</td>
<td>1,115</td>
<td>6,810</td>
<td>6.1</td>
</tr>
<tr>
<td>1992</td>
<td>1,013</td>
<td>7,183</td>
<td>7.1</td>
</tr>
<tr>
<td>1993</td>
<td>969</td>
<td>7,811</td>
<td>8.1</td>
</tr>
<tr>
<td>1994</td>
<td>992</td>
<td>8,998</td>
<td>9.1</td>
</tr>
<tr>
<td>1995</td>
<td>1,034</td>
<td>10,823</td>
<td>10.5</td>
</tr>
<tr>
<td>1996</td>
<td>989</td>
<td>11,380</td>
<td>11.5</td>
</tr>
<tr>
<td>1997</td>
<td>811</td>
<td>10,370</td>
<td>12.7</td>
</tr>
<tr>
<td>1998</td>
<td>573</td>
<td>6,742</td>
<td>11.9</td>
</tr>
<tr>
<td>1999</td>
<td>714</td>
<td>8,581</td>
<td>12.0</td>
</tr>
<tr>
<td>2000</td>
<td>757</td>
<td>9,628</td>
<td>12.7</td>
</tr>
<tr>
<td>2001</td>
<td>706</td>
<td>8,900</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Source: Ahn (2003, 36).
Engagement will inevitably lead to the gradual opening of North Korea to the outside world and again compel reform of its system. The Pyongyang regime is acutely sensitive to the snowball effect of social and economic reforms on politics, and the regime will not make a hasty and extensive reform through engagement. Moreover, in world historical terms, the regime has shown unsurpassed sustainability under economic and social duress. This indicates that engagement should be implemented phase by phase over time.

Third, the grand bargaining cannot be successful without some coercive measures. Once North Korea enters the engagement sphere, each forward step toward deeper engagement must be conditioned on the North’s compliance with binding obligations. Any violation of or noncompliance with obligations should be met with withdrawal of positive rewards or with sanctions. Countries engaged with North Korea should be ready to use a mix of containment and engagement in a flexible manner.

Fourth, during engagement, there will be the risk of breakdown and North Korea’s degeneration into blackmail diplomacy. Such a contingency can lead to extreme instability and even military conflict. Deterrence capability should therefore be preserved. A grand bargaining should certainly include reduction of conventional weapons. However, such arms reduction should not hamper the deterrence capability of the United States and South Korea.

Fifth, if the external environment does not turn adversarial, it is probable that North Korea will muddle through for a foreseeable period by implementing reform measures to the minimum extent necessary to defuse the peoples’ dissatisfaction. But the regime’s inelastic and rigid nature may cause total system breakdown. All countries involved with North Korea need to be ready to meet the contingency of such a regime collapse.

Sixth and most important, and once again from O’Hanlon and Mochizuki (2003, 50), engagement should be aimed at “a soft, velvet form of regime change.” North Korea’s problems have fundamentally arisen from the underperformance of its regime, caused by the regime’s totalitarian rigidity and overall ineffectiveness.

Therefore, engagement should be proactive (to provide a long-term vision and road map), bold (to break through the current stalemate), comprehensive (to address the full range of pending issues), flexible (to use both punishments and rewards appropriately), and, finally, contingent (to be ready to manage uncertainties).

So complex! However, complexity is intrinsic in the problem. Although it may be daunting, complexity can be disentangled by prioritizing a plan for action. First, proactive engagement should be aimed at regime change in North Korea. Imminent threats must be addressed first: eliminate the nuclear and missile threats, then bring about the economic recovery of North Korea, and finally improve human rights conditions. Yet all the way through it, the world needs to be prepared to cope with contingencies. North Korea has proved its unpredictability more than once.
Role of South Korea

Where lies South Korea’s role? South Korea is a key player but is in a delicate position. At one extreme, it can be a catalyst of a regime collapse; on the other, it can act as a stabilizer. In a proactive engagement model, South Korea should promote extensive reforms in North Korea. Until Pyongyang moves forward to a great degree of engagement with the outside world, North Korea remains more of a target for the South to transform than a partner with which the South may cooperate. As a promoter of reform, South Korea could do the following:

First, persuade nations concerned with North Korea that the final goal is a regime change through reforms. The interests of powers in the area of the Korean peninsula have converged to the point that peninsular disturbances that disrupt geopolitics will not be welcome. Thus, neighboring nations may not support a plan for abrupt regime collapse in North Korea. All have agreed, however, on the need to eliminate North Korea’s WMD and its continual threatening actions and to help it to develop into a normal state.

Second, maintain a solid relationship with the United States and transform the role of the alliance into a peninsular and regional stabilizer. The establishment of a peace system between the United States and the two Koreas by concluding either peace treaties or nonaggression agreements is a primary goal of proactive engagement. In preparation for a peace settlement, the U.S.-ROK alliance should begin to take up tasks of monitoring the peace process and stabilizing disturbances and should also prepare for possible contingencies arising from a post-regime-change North Korea.

Third, take a leading role in engineering international cooperation. Such cooperation is a key to successful proactive engagement. South Korea has to skillfully mobilize the support of other nations.

Fourth, continue humanitarian aid to and exchanges with North Korea—but with discipline. Particularly, inter-Korean exchanges do not need to be based on strict reciprocity that would be unfavorable to North Korea in terms of the balance of power. However, use of humanitarian aid has to be closely monitored to prevent diversion for other purposes. Economic exchanges should be enacted so as to promote market principles in North Korea.

Fifth, muster domestic public consensus. Seoul’s North Korea policy is very sensitive to the South Korean public because it directly affects their lives and intimately relates to nationalism. Without solidified public support in the South, proactive engagement cannot bear fruit.

These prescriptions are not basically different from the current policy of South Korea’s government. They share the fundamental premise that regime change is the ultimate solution to North Korean problems. They diverge, however, on the details of disentangling the riddle and implementing the process.
Since the end of the global Cold War, the main focus of South Korea’s North Korea policy has gradually shifted from containment to engagement. Kim Dae-jung’s Sunshine Policy marked a watershed in this transition. Kim’s policy assumed that North Korea’s erratic and hostile behavior stemmed from its sense of insecurity and vulnerability and that North Korea, in order to survive, would ultimately choose to align itself more with the outside world through economic and political reforms. With such logic, Kim’s administration tried to promote inter-Korean reconciliation on the basis of two principles: one was to place priority on a model of reconciliation that foresees two Koreas coexisting for a considerable period into the future (Sunshine Policy architect Lim Dong-won often-mentioned de facto unification); the other was a spirit of accommodating North Korea that meant not imposing principles of strict reciprocity upon inter-Korean relations.

The current Roh Moo-hyun administration’s North Korea policy is designed to build on the Sunshine Policy, but it departs from it by broadening the scope of its vision of security. President Roh sees security as encompassing the areas of unification, national security, and foreign relations. This new security concept has been publicly presented in the policy for peace and prosperity, the idea of Korea as a Northeast Asian economic hub, and discussions of national self-defense.

Roh Moo-hyun bases his policy for peace and prosperity on the premise that peace on the Korean peninsula and peace in Northeast Asia reinforce each other. In other words, a peace settlement on the peninsula will both require and strengthen cooperation among powers—Japan, China, Russia, and the United States—that have security interests in North Korea. Furthermore, North Korea’s economic development will also require international assistance. Reciprocally, the establishment of an enduring peace on the peninsula would promote regional peace in Northeast Asia, and economic prosperity on the peninsula would contribute to economic cooperation and development in the region. The upshot of the Roh Moo-hyun policy for peace and prosperity is therefore that both minjok gongjo (inter-Korean cooperation) and international cooperation must proceed in parallel.

On the basis of such a strategic vision, the Roh administration has presented an action plan (MOU 2003):

- **Peaceful resolution of the North Korean nuclear issue.** The North Korea nuclear issue must be resolved peacefully through dialogue on the basis of national consensus and in close coordination and cooperation with the international community.

- **Comprehensive approach to North Korea.** The Roh administration believes that, to eliminate North Korea’s sense of insecurity, a comprehensive approach encompassing economic and humanitarian aid as well as security measures is needed. Thus, it would pursue a security policy that takes into account the positive impact of inter-Korean economic
cooperation on the promotion of peace. However, the Roh administration differs from the accommodations of the previous administration in that it seeks a balance between security and economy.

- **Establishment of a durable peace regime on the Korean peninsula.** The Roh administration seeks to establish a lasting peace between the two Koreas by replacing the current armistice with a peace treaty. Improvement of North Korea’s relations with the United States and Japan and the development of regional institutional arrangements safeguarding the security of the Korean peninsula should also be pursued.

- **Rise of Korea as a hub in the Northeast Asian economy.** The Roh administration foresees that the policy for peace and prosperity will lay the foundation for the rise of Korea as a Northeast Asian economic hub. Once the North Korean nuclear issue is resolved, South Korea would expand economic cooperation with North Korea toward the creation of an economic community on the Korean peninsula. It would also endeavor to construct a positive environment for cooperation in trade, industry, energy, and finance in Northeast Asia. By doing so, the Korean peninsula could emerge as a gateway connecting the Eurasian continent with the Pacific Ocean.

Roh’s policy, however, includes some elements that contradict the lessons from previous experiences with North Korea:

- Economic cooperation with or a comprehensive approach toward North Korea has been tried and did not lead to a peaceful resolution of WMD issues, as functionalists predict will happen. Bold and even coercive measures should accompany economic engagement to gain leverage over the Pyongyang regime. Otherwise the engagement could remain oriented on defense.

- Despite Seoul’s stated emphasis on the importance of *minjok gongjo* as well as the necessary cooperation of the international community, since the time of the Kim Dae-jung administration, South Korean positions have been leaning toward South-North cooperation, most probably so as not to lose its premier position in resolving North Korean issues and, perhaps more, to promote domestic political interests by appealing to popular South Korean nationalist sentiments. No longer national in scope, however, North Korean issues have become regional and international issues. North Korea intends to resolve WMD issues directly with the United States, not with South Korea; therefore the nationalist logic of *minjok gongjo* is confronting a practical contradiction.

- A multilateral security arrangement should not be considered a substitute for the U.S.-ROK alliance. Without the construction of a common identity among countries in Northeast Asia, a durable security regime in the region will be difficult to create. It is not clear, however, that South
Korea’s national interests could be enhanced under such a multilateral security arrangement. In some sense, the six-party talks have given China leverage to deal with North Korea and have decreased the significance of South Korea’s strategic positions. In the past, the United States, Japan, and South Korea together tackled the issue. But now, with China’s ever-rising prominence, the Sino-U.S. axis is altering the political landscape with regard to North Korea.

In consideration of the above, South Korea should adopt a more adamant attitude toward North Korea and maintain more intimate relations with the United States. By doing so, South Korea can play a role as a promoter of reform and a leading principal in this North Korean game. One model for South Korea—a possible grand strategy for managing the Korean peninsula—in a proactive engagement framework follows.

1. Master Plan
   • Develop a long-term plan in cooperation with other nations (in particular the United States and China) and submit it to North Korea at a six-party meeting. Such a plan must be bold and inclusive, addressing elimination of WMD and conventional weapons and the improvement of human rights conditions in North Korea. The plan must also include rewards, such as guarantees of security and economic aid, for North Korea’s commitment to resolving those issues as well as coercive measures in case of its noncompliance with the action plan.
   • To break the ground for engagement, South Korea should persuade the United States to propose a resumption of the oil supply and a pledge of nonaggression on the condition that Pyongyang act to freeze current nuclear development toward the ultimate dismantlement of nuclear facilities in complete, verifiable, and irreversible ways.

2. Keep Minjok Gongjo in Pace with International Cooperation
   • Except for humanitarian aid, temporarily suspend economic exchanges—including the Kaesong industrial complex project—with North Korea.
   • Renew economic assistance and resume political exchanges with North Korea upon North Korea’s actions toward resolving nuclear issues. North Korea should permit on-site inspection of key nuclear facilities, particularly HEU programs, and remove plutonium and spent fuel rods from the country.
3. Massive Economic Engagement toward Political Liberalization

- With all the WMD issues cleared, increase the scale of economic collaboration and cooperation with North Korea in mutually beneficial ways for both South and North.
- As human rights conditions improve, begin industrial development in North Korea. South Korea should take a mediating role in inducing international investment and other economic involvement.

4. Establish a ROK-U.S. Security Council for Stabilization of the Korean Peninsula

- The U.S.-ROK alliance should be transformed into a kind of security council in which both nations take a leading and cooperative role in preventing and stabilizing disturbances that occur during the process of achieving peace and unification and in the aftermath of a unified Korea.
- Move toward conventional arms reduction and establish a peace system under the umbrella of the ROK-U.S. Security Council.

5. South-North Economic Commonwealth and Move toward Unification

- Begin to build institutions for constructing a South-North economic commonwealth.
- As economic interdependence makes significant progress, move toward political integration.

Implementing the above plan depends on North Korea’s compliance with binding obligations proposed at each phase. The key to the plan is the premise that engagement should be directed to make North Korea into a “normal country.” South Korea should also be prepared for contingencies—such as a drastic change in its political system—that could erupt in the process of normalizing North Korea.

The twenty-first century is the era of globalization. South Koreans must prepare to solve current North Korean issues from a broad perspective of building a new nation that will arise as a leading member of the international community. Great nations have always had great visions for their future. It is beyond doubt that the great vision for the Korean nation begins with plans for normalizing North Korea.
References


Choo Yong-shik is with the Johns Hopkins School of Advanced International Studies. Wang Yun-jong was with the Korea Institute for International Economic Policy at the time this paper was written.
A NEW INTERNATIONAL ENGAGEMENT FRAMEWORK FOR NORTH KOREA?

Contending Perspectives

Editors: Ahn Choong-yong, Nicholas Eberstadt, Lee Young-sun

Korea Institute for International Economic Policy
American Enterprise Institute
Chosun-ilbo

www.keia.org
www.kiep.go.kr
www.aei.org
www.english.chosun.com