



CENTER FOR ASIA PACIFIC POLICY

International Programs at RAND

THE ARTS
CHILD POLICY
CIVIL JUSTICE
EDUCATION
ENERGY AND ENVIRONMENT
HEALTH AND HEALTH CARE
INTERNATIONAL AFFAIRS
NATIONAL SECURITY
POPULATION AND AGING
PUBLIC SAFETY
SCIENCE AND TECHNOLOGY
SUBSTANCE ABUSE
TERRORISM AND
HOMELAND SECURITY
TRANSPORTATION AND
INFRASTRUCTURE
WORKFORCE AND WORKPLACE

This PDF document was made available from www.rand.org as a public service of the RAND Corporation.

[Jump down to document](#) ▼

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world.

Support RAND

[Purchase this document](#)

[Browse Books & Publications](#)

[Make a charitable contribution](#)

For More Information

Visit RAND at www.rand.org

Explore [RAND Center for Asia Pacific Policy](#)

View [document details](#)

Limited Electronic Distribution Rights

This document and trademark(s) contained herein are protected by law as indicated in a notice appearing later in this work. This electronic representation of RAND intellectual property is provided for non-commercial use only. Unauthorized posting of RAND PDFs to a non-RAND Web site is prohibited. RAND PDFs are protected under copyright law. Permission is required from RAND to reproduce, or reuse in another form, any of our research documents for commercial use. For information on reprint and linking permissions, please see [RAND Permissions](#).

This product is part of the RAND Corporation monograph series. RAND monographs present major research findings that address the challenges facing the public and private sectors. All RAND monographs undergo rigorous peer review to ensure high standards for research quality and objectivity.

Modernizing the North Korean System

Objectives, Method, and Application

A collaborative study among the RAND Corporation, POSCO Research Institute and Research Institute for National Security Affairs (Seoul), China Reform (Beijing), Institute for International Policy Studies (Tokyo), and Center for Contemporary Korean Studies (Moscow).

Charles Wolf, Jr., Norman D. Levin

Sponsored by the Smith Richardson Foundation and the John D. and Catherine T. MacArthur Foundation



CENTER FOR ASIA PACIFIC POLICY

International Programs at RAND

The research described in this report was sponsored by the Smith Richardson Foundation and the John D. and Catherine T. MacArthur Foundation and was conducted within the RAND Center for Asia Pacific Policy under the auspices of the International Programs of the RAND National Security Research Division (NSRD).

Library of Congress Cataloging-in-Publication Data

Wolf, Charles, 1924–

Modernizing the North Korean system : objectives, methods, applications /

Charles Wolf, Jr., Norman D. Levin.

p. cm.

Includes bibliographical references.

ISBN 978-0-8330-4406-8 (pbk. : alk. paper)

1. Korea (North)—Politics and government—1994– 2. Korea (North)—Economic policy. 3. Korea (North)—Military policy. I. Levin, Norman D. II. Title.

JQ1729.5.A58W65 2008

320.6095193—dc22

2008003486

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

RAND® is a registered trademark.

© Copyright 2008 RAND Corporation

All rights reserved. No part of this book may be reproduced in any form by any electronic or mechanical means (including photocopying, recording, or information storage and retrieval) without permission in writing from RAND.

Published 2008 by the RAND Corporation

1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138

1200 South Hayes Street, Arlington, VA 22202-5050

4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665

RAND URL: <http://www.rand.org>

To order RAND documents or to obtain additional information, contact

Distribution Services: Telephone: (310) 451-7002;

Fax: (310) 451-6915; Email: order@rand.org

Preface

This project formally began in spring 2005 as a collaborative research endeavor among six institutions in five countries: the RAND Corporation in the United States; the POSCO Research Institute (POSRI) and the Research Institute for National Security Affairs (RINSA) in Seoul; the Center for Contemporary Korean Studies (CCKS) at the Institute of World Economy and International Relations (IMEMO) in Moscow; the China Reform Forum (CRF) in Beijing; and the Institute for International Policy Studies (IIPS) in Tokyo. Participation of these institutions was funded from their own resources.

The collaboration's first meeting was held in the United States at RAND in June 2005; after that, workshops were held successively at five- or six-month intervals in Moscow, Beijing, Tokyo, and Seoul, each one hosted by the participating institution(s) in the particular city using its own institutional support. North Korea was invited to send one or more participants to most of the five workshops, and two or three North Korean representatives expressed interest in attending. North Korea did not, however, participate in any of the meetings.

The project consisted of several tasks and phases:

- Identify and describe the economic, political, and security characteristics of the North Korean system that impede its modernization, progress, productivity, and fruitful integration into the global system.
- Formulate and elaborate multiple themes, or instruments, whose peaceful implementation by and within North Korea can contribute to modernizing the North Korean system, thereby improv-

ing living conditions for the North Korean people, reducing the threat that North Korea poses to its neighbors, and enhancing North Korea's ability to participate more productively and effectively in the global system.

- Divide these multiple instruments among political, economic, security, and socio-cultural "baskets."
- Select from the baskets varying combinations of the instruments to illustrate alternative operational plans ("portfolios") for initiating the modernization process, along with specified conditions associated with each plan's potential implementation.

Each institution within the collaborative endeavor brought its own perspective to the assessment of the illustrative plans, but all six institutions were able to reach a consensus plan built around a subset of diverse policy instruments and associated conditions, phased sequencing, costs, and anticipated consequences.

This report is not and is not intended to be a conference report on the meetings that were held. Instead, it tells the story of what took place at the workshops, which constituted a research endeavor that might be termed "participatory systems analysis" in that the participants, in analyzing the North Korean system and how to motivate its modernization, fused their sometimes divergent but often overlapping and reconcilable perspectives on that system. Hence, this report reflects the extensive give-and-take that ensued at the five workshops. It describes and documents the method, content, and results of the collaborative endeavor, and most likely will interest government officials and analysts within the participants' countries, and in North Korea itself, as well as outside specialists and observers concerned with Korea, East Asia, and international security.

An earlier draft of this report was circulated for comments to the five institutions other than RAND that were involved in the project, any of which may produce their own reports.

This research was sponsored by the Smith Richardson Foundation and the John D. and Catherine T. MacArthur Foundation and conducted within the RAND Center for Asia Pacific Policy. The RAND Center for Asia Pacific Policy, part of International Programs at the

RAND Corporation, aims to improve public policy by providing decisionmakers and the public with rigorous, objective research on critical policy issues affecting Asia and U.S.-Asia relations.

Contents

Preface	iii
Figures	ix
Summary	xi
Acknowledgments	xxi
Abbreviations	xxiii
CHAPTER ONE	
Background and Foreground	1
Project Motivation and Objectives	1
Research Method, Content, and Process	4
General Attributes of the North Korean System	7
Interests of Other Powers	11
Recent Developments	12
CHAPTER TWO	
Methodology	17
CHAPTER THREE	
Attributes of the System and Instruments for Its Modernization	21
Salient Attributes of the DPRK System	21
Policy Instruments for Modernization	22
CHAPTER FOUR	
Combining the Instruments into Operational Plans	29
Operational Plan A: Political Emphasis	30
Operational Plan B: Economic Emphasis	32

Operational Plan C: Security Emphasis..... 34

CHAPTER FIVE

A Consensus Plan.....37

CHAPTER SIX

Project Results and Conclusions.....47

APPENDIX

**Contributions from the Five Collaborating Institutions
Other Than RAND**..... 51

References..... 97

Figures

S.1.	Analysis of the North Korean System as a Basis for Its Modernization.....	xiii
S.2.	Consensus Plan, Derived from Shared Views on Salient Policy Instruments.....	xviii
1.1.	North Korean Import and Export Data	8
2.1.	Analysis of the North Korean System as a Basis for Its Modernization.....	18
3.1.	Objectives and Policy Instruments in Political Basket	23
3.2.	Objectives and Policy Instruments in Economic Basket.....	25
3.3.	Objectives and Policy Instruments in Security Basket.....	26
3.4.	Objectives and Policy Instruments in Socio-Cultural Basket	27
4.1.	Operational Plan A: Political Emphasis.....	31
4.2.	Operational Plan B: Economic Emphasis.....	33
4.3.	Operational Plan C: Security Emphasis	35
5.1.	Consensus Plan, Derived from Shared Views on Salient Policy Instruments.....	41

Summary

The research project we describe was a collaborative effort among six institutions in five countries: the RAND Corporation in the United States; the POSCO Research Institute (POSRI) and the Research Institute for National Security Affairs (RINSA), in South Korea; the Center for Contemporary Korean Studies (CCKS) at the Institute of World Economy and International Relations (IMEMO) in Russia; the China Reform Forum (CRF) in China; and the Institute for International Policy Studies (IIPS) in Japan. There were three main outcomes. First, the project produced a set of policy instruments that can contribute to modernizing the North Korean system and provide a basis for focused, collaborative efforts to stimulate peaceful change in North Korea. Second, these instruments were integrated into alternative operational plans (“portfolios”) and then evaluated in terms of likely Six-Party responses to the plans’ components, spawning a single “consensus plan” that the research partners deemed likely to garner buy-in from their five countries. Third, several potential intermediaries—i.e., those that could help convey the project findings to one or more levels of the North Korean structure—were identified.

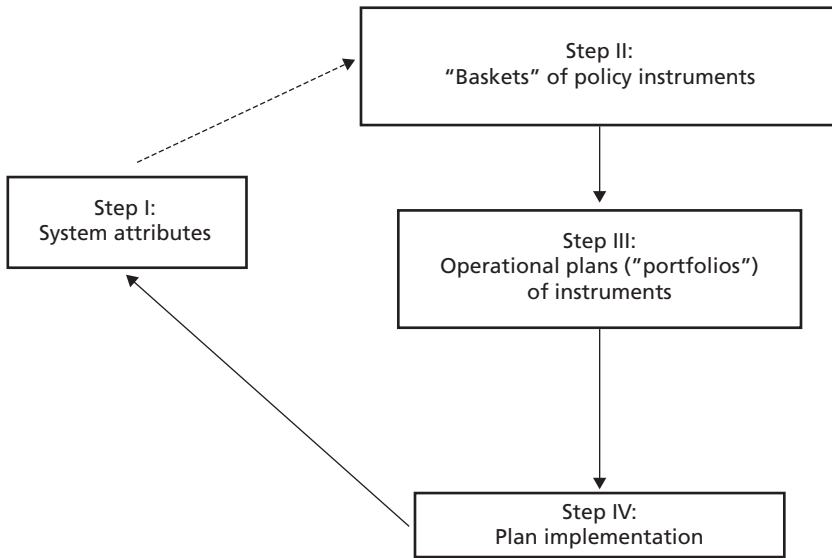
Among the major substantive conclusions with which the research partners agreed were the following:

- The critical challenges posed by North Korea are embedded in the nature of the North Korean system, which diverges significantly from the common benchmarks for modernized, progressing countries.

- Fostering a more normal, or “modernized,” country is in the interests of all five of the research partners’ countries.
- Modernization entails inherent risks for North Korea that make it, at a minimum, a long-term task. But failure to modernize also entails inherent dangers, and the benefits of modernization will accrue first and foremost to North Korea itself.
- The key requirement for modernization to take place is fostering the *aspiration for change* within the North Korean leadership.
- The prerequisite for providing major assistance to North Korea must be successful resolution of the nuclear issue, which means North Korea’s complete, verifiable denuclearization.
- In seeking a modernized North Korea, the focus should not be on replacing the North Korean regime but on stimulating the system’s gradual modernization.
- The concerned countries should proceed in a comprehensive, step-by-step manner (“action for action”), as is being done in the Six-Party Talks, with time-phased objectives and instruments based on North Korean responses.
- Incentives and/or disincentives should be strategically targeted at modernizing the system and fostering the aspiration for change within North Korea’s leadership.
- Whatever the outcome of the current round of Six-Party Talks, it is imperative that thinking about how to modernize North Korea be done now and that channels be sought for injecting new ways of thinking into the research partner countries’ approaches to North Korea and into North Korea itself.

The research method used in this project comprises the four steps summarized in Figure S.1. The purpose of Step I was to produce an inventory of characteristics, or attributes, of the Democratic People’s Republic of Korea (DPRK) system that can be broadly identified as archaic, or “non-modern.” A non-modern attribute is one that (1) adversely affects the well-being of the North Korean population, the growth of the North Korean economy, and, indeed, the survival, renewal, and prosperity of the North Korean state; and (2) has been changed for the benefit and more rapid growth of countries that are

Figure S.1
Analysis of the North Korean System as a Basis for Its Modernization



RAND MG710-S.1

successfully developing and modernizing, such as South Korea, China, Indonesia, Malaysia, Singapore, and Vietnam.

Non-modern attributes pervade the North Korean system's economy, politics, and military establishment. North Korea's non-modern *economic* attributes include its insular, autarchic trade and investment circumstances; its lack of access to potentially beneficial business transactions; and its lack of access to productive new technologies in agriculture, industry, and services. North Korea's non-modern *political* attributes include its emphasis on separation from the rest of the world, its institutionalization of one-man rule, and its virtual exclusion from regularized and expanded interactions with other states. Some of the consequences of these political characteristics are severe restrictions on North Korea's access to information technology, to the experience of other countries and governments, and to the advances others have realized in health care and other public services. North Korea's non-modern *military* attributes all stem from the military establishment's absolute preeminence in the system, which distorts both the

economic structure and the rational allocation of resources within it. The by-products of this singular military role include remoteness from military-to-military contacts with other military establishments and a marked inability to benefit from information about the experiences of other countries' military establishments with respect to organization, training, communications, and other ingredients of modern military institutions.

North Korea's existing autarky and insulation have immured it from the rest of the world, whereas the more modern, emerging-market systems have benefited from their integration and interdependence. By its very nature, the North Korean system suppresses sentiment for internal reform and limits diplomatic options for dealing with North Korea's disastrous economic situation.

Step II of our research method entailed identifying a set of potentially modernizing policy instruments and grouping them into separate "baskets" whose components could be variously packaged into alternative operational plans, or "portfolios," for modernizing the North Korean system. Each policy instrument went into a particular basket based on two criteria: (1) it addressed (linked back to) one or more key attributes of the North Korean system that are impeding modernization; (2) it helped achieve (linked forward to) the overall goal of system modernization by advancing the broad operational objectives for that basket. The four baskets were

- *Political basket*: Introduce new political ideas and promote the system's progressive evolution.
- *Economic basket*: Foster economic opening, transparency, and productive skills.
- *Security basket*: Reduce military threats, enhance military confidence and trust, modulate the role of the military in North Korea, and contribute to regional stability.
- *Socio-cultural basket*: Stimulate the advancement of North Korean society and culture by supporting the development of a civil society and encouraging increased priority for social and human needs.

The political basket includes such items as encouraging North Korean participation in international conferences; and direct multilateral and bilateral talks between the United States and the DPRK and between Japan and the DPRK, leading to normalization of relations between them. The economic basket includes such measures as liberalizing trade and investment, encouraging economic “experiments” with pilot projects, and establishing property rights and a code for investment and joint business ventures. The security basket includes firm and verifiable denuclearization, prohibition of sales or transfers of nuclear, biological, or chemical (NBC) weapons and technologies, and reciprocal adjustments in the size and deployment of military forces in both North and South Korea. Finally, the socio-cultural basket includes such items as mutual exchanges by non-governmental organizations (NGOs) and professional organizations, and cultural exchanges and other interactions between religious groups in North Korea and the rest of the world.

Step III of our research method consisted of combining instruments from each basket to form different operational plans, or portfolios, that share the broad objective of contributing to the North Korean system’s modernization but seek to accomplish this objective in different ways. Three illustrative plans, each drawing instruments from all of the baskets, resulted: One emphasizes instruments from the political basket, one emphasizes instruments from the economic basket, and one emphasizes instruments from the security basket. We think of these illustrative plans as portfolios because, in a sense, they are analogous to mutual funds in the financial world. The alternative plans accord different emphases to the four categories of policy instruments in the same way that some mutual funds are designed to accord different emphases to growth versus value stocks, domestic versus international stocks, high-technology versus lower-technology stocks, and so on. The inclusion of important economic instruments in all of the plans/portfolios reflects the fact that any effective plan for modernizing the North Korean system as a whole must address the manifest problems inherent in North Korea’s economic system.

Step IV of our method dealt with implementation of the several plans. The concern in this case was the period over which each plan

would be implemented; the successive phases, or stages, in which the plan's instruments would be introduced; and the conditionalities, or *quid pro quos*, that would affect North Korea with relation to measures taken by the other five countries.

All six institutions that collaborated in this research project are relatively independent, scholarly organizations. Given the very diverse national identities of these participants, we found it striking that they shared many assumptions and perspectives related to the broad issues of modernization in North Korea, and not surprising that they differed, sometimes sharply, on others. For example, the collaborating institutions shared a conviction that peaceful evolution of the DPRK along "modern" and "normal" lines would be collectively valuable, that a North Korean state possessing nuclear weapons and delivery capabilities would be a serious threat to regional stability, and that possible leakages of NBC weapons from North Korea to terrorist groups would be a serious threat with major consequences for regional and global instability. Yet at the same time, the six institutions displayed several important diverging views—for example, on assessments of whether and in what numbers North Korea already possesses plutonium or highly enriched uranium bombs and delivery systems, on whether multilateral talks and negotiations are likely to be more effective than one-on-one talks or negotiations between North Korea and the United States, and on whether dialogue with North Korea is preferable to dialogue plus pressure (dialogue accompanied by actual or prospective sanctions). Differences of perspective were also evident, both between and within the research teams, on such issues as the extent and significance of North Korea's economic "reforms" and the intentions behind particular North Korean actions.

These differing assumptions and perspectives led to different views on the desirability and feasibility of several of the policy instruments and the operational plans embodying those instruments. This did not, however, prevent the participants from reaching a "consensus plan" based on shared views and the most widely accepted and agreed-upon policy instruments. This plan reflects a shared inclination toward a combined political-security approach focused on gradual system change through reduced threats and increased confidence and mutual

trust. It also reflects a shared preference, on the economic side, away from large-scale undertakings and extensive assistance, and toward the use of instruments that build self-perpetuating change and implant a different way of thinking among North Koreans. The consensus plan embodies only those instruments that most of the research participants agreed would be both effective in encouraging movement toward modernization in North Korea and likely to gain the support of the participants' governments. No attempt was made to rank instruments according to North Korea's likely receptivity to them, partly because the potential value of particular policy instruments in stimulating modernization does not necessarily hinge on North Korean receptivity, and partly because an explicit goal of the research project was to allow North Koreans to undertake such a ranking for themselves.

Figure S.2 summarizes the components of the consensus plan—that is, it shows the embodied instruments from each of the four baskets. The starting point for this plan is the first component of the security basket: verifiable denuclearization of the Korean Peninsula. The participants agreed that in the absence of this component, consideration would have to be given to further tightening or expanding of sanctions and perhaps to adopting additional disincentives (such as new restrictions on North Korean exports or suspension of economic assistance). The consensus plan also includes agreement on steps toward its implementation: Two sequential phases are proposed, each encompassing a mixture of incentives and disincentives, rewards and penalties, and actions taken by North Korea in parallel with actions taken by the five other countries.

In addition to the illustrative operational plans and a consensus plan, the research project provides a method and a “tool kit” that can be used by entities, groups, or individuals within the North Korean structure to formulate modernization plans of their own that encompass the various instruments and combine them as chosen.

None of the collaborating partners has any illusions about either the ease or the speed with which the chain of events envisaged in this research project might ensue. Nevertheless, this provision of a method and an illustration of how such a line of development might occur, as well as a means by which those in North Korea can formulate and

Figure S.2
Consensus Plan, Derived from Shared Views on Salient Policy Instruments

Political Basket

- Six-nation declaration of non-aggression/peaceful coexistence
- Direct multilateral and bilateral (U.S.-DPRK and Japan-DPRK) talks, leading to normalization of relations
- DPRK participation in international conferences and institutions

Economic Basket

- Encouragement of economic “experiments” and pilot projects
- Support for emergence of commercially competitive businesses and commodity markets
- Establishment and implementation of code for foreign investment/ joint ventures and property rights
- Creation of modern financial and budgetary systems, including micro-finance
- Revenues derived by government to exceed revenues previously derived from illegal/destabilizing activities
- Academic/business/NGO exchange programs

Security Basket

- Verifiable denuclearization of Korean Peninsula backed by tightened sanctions, restrictions on North Korean exports, and suspension of economic assistance
- U.S./international security guarantees
- Bilateral/multilateral military-to-military security seminars/exercises
- Mechanism for ending Korean War and negotiating peace regime
- Reciprocal adjustments in size/deployment of military forces and other Cooperative Threat Reduction initiatives
- Prohibitions of NBC weapons and technology sales/transfers

Socio-Cultural Basket

- Joint programs on medical monitoring, telecommunications, environment
- Academic and cultural/arts exchanges

pursue such lines on their own, can serve to stimulate a modernizing process in North Korea. With this in mind, we plan to produce a Korean-language translation of this report and have it injected through various intermediaries into the North Korean system.

Acknowledgments

This collaborative effort benefited greatly from the written and oral contributions of the following scholars and their sponsoring institutions: Yong-Sup Han and Yeun-su Kim (RINSA); Kwan-Chi Oh and Hyun-Gon Shin (POSRI); Meihua Yu, Shaohua Yu, and Jianfei Liu (CRF); Yoshio Okawara, Shinzo Kobori, and Naoto Yagi (IIPS); and Georgy Toloraya, Gennadyi Chufirin, and Alexander Fedorovskiy (CCKS). We are also indebted to two formal reviewers, our RAND colleague Greg Treverton and James Delaney of the Institute for Defense Analysis. It is a pleasure for us to acknowledge these contributions while fully absolving our collaborators and reviewers of responsibility for any errors of fact or lapses of judgment in this report.

Abbreviations

BDA	Banco Delta Asia
CBM	confidence-building measure
CCKS	Center for Contemporary Korean Studies
CRF	China Reform Forum
CTR	Cooperative Threat Reduction
DPRK	Democratic People's Republic of Korea
GDP	gross domestic product
IAEA	International Atomic Energy Agency
IIPS	Institute for International Policy Studies
IMEMO	Institute of World Economy and International Relations
NBC	nuclear, biological, or chemical
NGO	non-governmental organization
NPT	Nuclear Non-Proliferation Treaty
POSRI	POSCO Research Institute
PRC	People's Republic of China
PSI	Proliferation Security Initiative
RINSA	Research Institute for National Security Affairs
ROK	Republic of Korea
UNESCO	United Nations Educational Scientific and Cultural Organization
WMD	weapons of mass destruction

Background and Foreground

Project Motivation and Objectives

North Korea is conspicuous if not unique among the 193 other members of the United Nations (UN) in the paucity of reliable information about its internal conditions and processes. The Democratic People's Republic of Korea (DPRK) has never published a statistical yearbook and has not published even fragmentary economic statistics since the early 1960s. Limited and unreliable information and data about North Korea result in obscurity and conjecture rather than knowledge about the country's precise political, economic, and military circumstances. Partly for this reason, and because of the serious risks and threats posed by the DPRK through its nuclear and other weapons development programs, regional and international attention devoted to North Korea has tended to focus on short-term, immediate problems. Yet no matter how or what measures are devised for addressing these immediate problems, the risks and threats remain long term in character and require a long-term approach for resolution. The research with which this report is concerned was conceived with this long-term perspective in mind.

The objectives of the research we describe were to identify, elaborate, and evaluate "baskets" of policy instruments that can contribute to fundamental, peaceful system change in North Korea; alter the specifically defined archaic, or "non-modern," attributes of the DPRK system; and serve as a basis for multilateral, cooperative actions by five key countries—the United States, South Korea, China, Japan, and Russia—in their bilateral and multilateral interactions with North Korea. The objectives also included formulating illustrative operational

plans, or “portfolios,” for normalizing, or “modernizing,” the North Korean system and injecting fresh ideas about modernization into the DPRK’s structure for its consideration and potential implementation. The research and this report describing it are thus intended as a long-term complement to the continuing Six-Party Talks among these five countries and North Korea. With this larger context in view, this collaboration among top-quality research institutions—the RAND Corporation (United States); the POSCO Research Institute (POSRI) and the Research Institute for National Security Affairs (RINSA) (South Korea); the Center for Contemporary Korean Studies (CCKS) at the Institute of World Economy and International Relations (IMEMO) (Russia); the China Reform Forum (CRF) (China); and the Institute for International Policy Studies (IIPS) (Japan)—was conceived as a vital part of the project from its inception.

Over the past two decades, several approaches have been advocated within the United States and abroad for addressing the acute risk of North Korean proliferation of weapons of mass destruction (WMD), especially nuclear weapons and nuclear weapons technology. Some have argued that the essential element—indeed, the precondition—in addressing this risk should be a *unilateral* undertaking by the United States to engage and negotiate directly with North Korea. Ironically, many advocates of this approach have in other situations (for example, in the Middle East) importuned the United States to adopt *multilateral* means in its foreign and defense policies, and have vociferously condemned a putative American proclivity for unilateral, go-it-alone actions.

Others have urged that regardless of whether the United States engages in direct talks with North Korea, it should join with other concerned powers in the region—including Japan, South Korea, China, and Russia—to revive some version of the 1994 Agreed Framework, the essence of which was to provide economic aid in the form of oil, food, light-water nuclear reactors, and financial assistance to North Korea on condition that it freeze its nuclear weapons development. Advocates of this approach have suggested that even though the previous multilateral attempt failed, another might have a better outcome

if it entails more-thorough monitoring and some form of threatened economic sanctions.

Still others have advocated that North Korea be given some type of security guarantee to allay its ostensible fear of being attacked by its big brother in the South and/or the South's threatening ally in the West, the United States. North Korea's fear has allegedly been exacerbated by the 2003 U.S. invasion of Iraq and removal of Saddam Hussein's regime.

Various elements from these several approaches were combined in the negotiations that led to the Six-Party agreement, including its principles of denuclearization, in September 2005. After protracted delays and gaps in communication during 2006, the parties concluded a Six-Party agreement in February 2007 on initial actions to implement the earlier agreement. While signs of progress in negotiations with the North were encouraging in 2007, as they had been in earlier periods, optimism would be premature. In the past, apparently encouraging signs in negotiations with the DPRK have been followed by its reversion to hostility and deception.

The reason for this prognosis lies in the anachronistic and sometimes paranoid character of the North Korean regime, a character that has spawned talk in both the United States and abroad about the need for a regime or leadership change in North Korea. Such talk is not surprising: The current regime makes almost any alternative appear preferable. However, the focus in our project was not on changing the regime or the leadership, but on identifying ways to broadly and fundamentally modernize the North Korean system.

There are several reasons why we focused on modernization, which necessarily entails fundamental changes in the nature of the North Korean system, rather than on either regime change or leadership change. Some of these reasons relate to sensitivities associated with the terms regime change and leadership change, which could distract attention from where we believe it should be directed. For example, to the extent that such terms call to mind the U.S. invasion of Iraq in 2003, they may stoke political sensitivities both in North Korea and within the non-U.S. research institutions involved in the project's several years of collaboration. Other reasons relate to misleading impres-

sions that the terms might convey because of their unavoidable association with the use of military force. In other words, these terms would not only needlessly undermine our goal of fostering a cooperative, multilateral effort to bring about change in North Korea, but would also obscure our emphasis on change that is peaceful as well as systemic.

However, the main reason for our focus on modernization is substantive. Quite apart from North Korea's need for a new and different kind of leadership, the North Korean system itself must undergo broad and deep modernization if North Korea is ever to have what we view as normal relations with the outside world.

Research Method, Content, and Process

The method and content of the research we describe in this report, as well as the collaborative, multilateral process through which the research was conducted, are distinctive. Traditionally, literature on relations with North Korea has fallen into one or more of four broad groups. One group is characterized by its focus on the respective unification strategies of the two Koreas, or on “alternative models” and differing conceptual approaches to unification.¹ The second group, a variant of the first, is characterized by its concern with describing alternative “scenarios” by which unification might occur as a way to assess potential security implications.²

Characteristic of the third segment of the literature is its preoccupation with the external environment—its focus on regional security issues, policies of the major powers, and international environments

¹ Examples are Hakjoon Kim, *Unification Policies of South and North Korea*, 1978; Young Hoon Kang and Yong Soon Yim, *Politics of Korean Reunification*, 1978; Sang-Woo Rhee, *Security and Unification of Korea*, 1982; Young Whan Kihl, *Politics and Policies in Divided Korea: Regimes in Contest*, 1984; Michael Haas, *Korean Reunification: Alternative Pathways*, 1989; Jinwook Choi and Sun-Song Park, *The Making of a Unified Korea—Policies, Positions and Proposals*, 1997.

² Jonathan D. Pollack and Chung Min Lee, *Preparing for Korean Unification—Scenarios and Implications*, 1999.

that might affect the success or failure of unification objectives.³ The fourth type is heavily historical in orientation, providing background accounts on the evolution of North-South interactions and trying to place relations with North Korea in a historical context.⁴

What has been seen more recently is a large and growing body of literature characterized by its focus on narrow and broad issues relating to North Korea. This literature reflects both trends within North Korea itself and the increasing importance of North Korea in issues of regional and global security. Much of this literature continues the traditional focus on the external environment, examining forces affecting international relations in Northeast Asia and assessing the impact of such forces on the major powers' interests and policies toward Korea.⁵ But some of this newer literature emphasizes the situation on the Korean Peninsula itself, paying particular attention to the evolving situation inside the two Koreas and to issues affecting inter-Korean relations.⁶

³ Sung-woo Nam, Bon-hak Koo, and Curt Cornish, *The Korean Peninsula—Prospects for Peace and Reunification*, 1997; Woo Sang Kim, *New Korean Strategy* [*Shin Hankook Chaekryak*], 1998; Bae Ho Hahn and Chae-Jin Lee, *The Korean Peninsula and the Major Powers*, 1998; Keun Young Park, *International Politics of the Korean Peninsula: New Approach to Peace and Unification*, 1999; and Manhak Kwon, *Dialectic of Division and Unification*, 2000.

⁴ Chang-Hyun Jung and Brent Choi, *The South-North Korea Summit: Six Hundred Days*, 2000.

⁵ For example, Nicholas Eberstadt and Richard Ellings, *Korea's Future and the Great Powers*, 2001; Tsuneo Akaha, *The Future of North Korea*, 2002; and Samuel Kim, Tai Hwan Lee, and Tai Hee Lee, *North Korea and Northeast Asia*, 2002.

⁶ Recent books addressing North Korea's internal situation, prospects, and potential implications include Nicholas Eberstadt, *The End of North Korea*, 1999; Kongdan Oh and Ralph Hassig, *North Korea Through the Looking Glass*, 2000; Chol-Hwan Kang and Pierre Rigoulot, *The Aquariums of Pyongyang: Ten Years in the North Korean Gulag*, 2001; Andrew Natsios, *The Great North Korean Famine*, 2002; James Clay Moltz and Alexandre Mansourov, *The North Korean Nuclear Program*, 1999; Marcus Noland, *Avoiding the Apocalypse*, 2000, and *Korea After Kim Jong Il*, 2003; Bradley K. Martin, *Under the Loving Care of the Fatherly Leader*, 2004; Michael Harrold, *Comrades and Strangers*, 2004; and Jasper Becker, *Rogue Regime*, 2006. Recent works dealing with different aspects of North-South relations include Bae Ho Hahn and Chae-Jin Lee, *Patterns of Inter-Korean Relations*, 1999; Chung-In Moon and David I. Steinberg, *Kim Dae-jung's Government and Sunshine Policy*, 1999; and Norman D.

Among recent books on Korea, two in particular are of relevance to the research we describe: *Crisis on the Korean Peninsula: How to Deal with a Nuclear North Korea*, by Michael O’Hanlon and Mike Mochizuki (2003), and *Nuclear North Korea: A Debate on Engagement Strategies*, by Victor D. Cha and David C. Kang (2003). Both of these identify critical problems beyond those associated with North Korea’s nuclear activities and seek to place U.S. policy in a larger context. But both approach the problem posed by North Korea in bilateral U.S.-DPRK terms, rather than multilateral terms, and neither links its proposed solutions explicitly to specific changes in the modernization of the North Korean *system*. Hence, there is little basis on which to evaluate whether and to what extent the recommended approaches might be implemented. There is also no basis for confidence that the approaches would fundamentally change North Korea’s long-term behavior, since neither addresses the issue of system modernization. A third recent book, *Building Six-Party Capacity for a WMD-Free Korea*, by James L. Schoff, Charles M. Perry, and Jacquelyn K. Davis (2005), explicitly addresses the need for a multilateral approach to dealing with North Korea; but the authors focus exclusively on managing the proliferation challenge and what can and should be done to achieve a Korean Peninsula free of WMD.

The research we describe in this report is designed to fill some gaps and shortcomings in the prior literature. Additionally, it is intended to complement and extend U.S. efforts under the format of the Six-Party Talks in Beijing. The specific objectives are threefold: (1) to identify policy instruments that can both encourage and support the modernization of the North Korean system and serve as a basis for multilateral, cooperative actions by the five other key countries concerned;

Levin and Yong-Sup Han, *Sunshine in Korea: The South Korean Debate over Policies Toward North Korea*, 2002. Analyses of North Korea’s negotiating behavior toward South Korea and the United States are covered in Scott Snyder, *Negotiating on the Edge*, 1999; Chuck Downs, *Over the Line: North Korea’s Negotiating Strategy*, 1999; and Leon Sigal, *Disarming Strangers: Nuclear Diplomacy with North Korea*, 1998. Don Oberdorfer’s *The Two Koreas: A Contemporary History* (revised and updated edition, 2002) provides a broad account of developments in both North and South Korea over the past half-century that spans the range of these issues. There is a plethora of additional journal articles on these and related issues.

(2) to integrate these policy instruments into illustrative operational plans (or “portfolios”) that can be directed toward accelerating such a modernization process; and (3) to inject ideas for advancing modernization into the North Korean policy apparatus for consideration, debate, and potential implementation. To further this third objective, we plan to produce a summary of this report, translate it into Korean, and convey it through various intermediaries into the North Korean system, thence to be considered, debated, and applied by entities, groups, scholars, and other individuals interested in the country’s modernization and progress.

General Attributes of the North Korean System

Economic realm. North Korea’s extreme autarky and hostility to private economic activity beyond state control severely impede its integration into the world economy. A similar impedance arises from the DPRK’s perennial reliance on unrequited capital transfers from abroad and/or earnings from illegal and destabilizing exports of drugs, counterfeiting, and certain weapons and weapons technology.

North Korea’s economic system has characteristically been “rent seeking,”⁷ which means that it relies on extracting some form of quasi-monopoly profits (i.e., “rents”) from its dealings with the rest of the world. This rent-seeking behavior involves not only the allocation of otherwise productive resources to extracting rents, but also the external effects associated with the declaratory policies, threats, and negotiatory stances employed in efforts to acquire rents. These external effects (“negative externalities”) include loss of access to licit foreign markets, foreign investment, efficient technology, and improved management. The negative externalities exceed by severalfold the economic rents, as

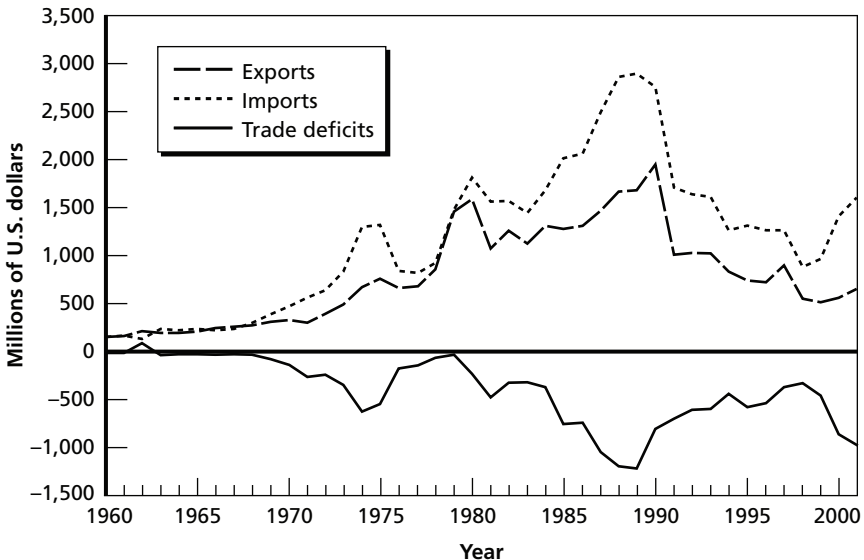
⁷ Gordon Tullock and Anne Krueger developed the theoretical underpinnings of rent-seeking behavior. See Anne O. Krueger, “The Political Economy of the Rent-Seeking Society,” 1974; James M. Buchanan, Robert D. Tollison, and Gordon Tullock, *Toward a Theory of the Rent-Seeking Society*, 1980. Also see Charles Wolf, Jr., and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs, and Consequences of Korean Unification*, 2005, especially pp. 14–19.

demonstrated by the low and deteriorated performance of the North Korean economy.

Figure 1.1, which shows the excess of North Korean imports over exports throughout the nearly six decades of the DPRK's existence, suggests the large and perennial size of these rents and unrequited capital transfers. And note that the trade deficit shown is probably substantially underestimated, among other reasons because some of North Korea's imports were accompanied by substantial but unrecorded imports of services associated with the tangible imports (of equipment and weapons) included in the import data.

Thus, North Korea's economic rents and unrequited capital transfers, ranging from \$0.5 billion to \$1.5 billion annually, have provided the means for covering the economy's recorded current account

Figure 1.1
North Korean Import and Export Data



SOURCES: Korea National Statistics Office, 2002; Korea Institute for International Economic Policy, 2003; Hwang, 1993; Flake, 1998; Eberstadt, 1996; Noland, 1996.

RAND MG710-1.1

deficits. Much of this rent money accrues directly or indirectly to Kim Jong Il in the form of segregated personal accounts. In turn, these resources provide the means by which the leadership assures the fealty and support of the limited numbers of civilian and military elite in the bureaucracy, the technocracy, and the military establishment at the top of the system's pyramid.⁸ These elites, constituting perhaps 4 percent to 5 percent of the population, exercise pervasive control over the remaining population of 19 million to 20 million through a combination of rewards, penalties, repression, and fear.

Modernization of the North Korean system can be promoted by replacing the unrequited capital transfers and economic rents on which the system depends with more-normal transactions between North Korea and its neighbors and the rest of the world and with the revenues and profits that these more-normal transactions will generate.

Military realm. North Korea's huge and nearly unprecedented allocation of resources for its armed forces—which absorbs in the neighborhood of 30 percent of North Korea's gross domestic product (GDP)⁹—and its mobilization of the entire country in support of this effort make the DPRK a sort of “fortress” society in which the armed forces are preeminent. This preeminence, which is fundamentally rooted in the leadership's concern for its own fate, and is exacerbated by North Korea's historical experience, geostrategic location, and diminished competitive position vis-à-vis South Korea, has many adverse consequences. It severely constrains any reallocation of resources toward more-productive and normal purposes, and it powers a military buildup that is inherently destabilizing within the region, thereby reinforcing North Korea's sense of isolation from the international community and engendering in the international community a sense that North Korea is hostile to potentially beneficial interactions, including military-to-military exchanges and non-military transactions.

Political realm. North Korea's quasi-religious commitment to “Kim Il Sung-ism” prevents the country's core ideology (*juché*) from being reinterpreted, thus suppressing nascent domestic reforms and

⁸ See Oh and Hassig, 2000, pp. 42ff.; and Wolf and Akramov, 2005, p. 18.

⁹ See Wolf and Akramov, 2005, pp. 5, 57.

reformers and limiting diplomatic options for dealing with the North's dire economic situation. Indeed, North Korea's emphasis on preserving "Kim Il Sung thought" and the entire *juché* system constitutes a formidable obstacle to globalization, economic interdependence, and the other conditions of a modern, contemporary international society. North Korea's isolation from and ignorance of the rudimentary aspects of the modern world—how markets function, how legal and financial institutions operate, how countries and regions and their constituent parts engage in transactions with one another to their mutual benefit—are consequences of North Korea's extreme isolation and totalitarian control.

Accompanying the system's insularity in the economic, military, and political spheres has been the DPRK's view of socio-cultural influences from outside the country as threats. To protect its insularity, the system considers such outside influences potential agents of ideological and cultural "contamination," which brings to mind, in perhaps exaggerated form, similar stances of totalitarian systems in other times and places. Shielding North Korean citizens from information about and interactions with the outside world and ensuring absolute ideological conformity together constitute one of the leadership's top priorities. This priority, and the pervasive fear underlying it, impedes adoption of major economic reforms. It also hinders broader social policy innovation and makes interaction with foreigners a potentially seditious offense.

Our collaborative research project sought to address these non-modern, counter-productive attributes of the North Korean system and thereby enable North Korea to become a more normal, productive, and mutually benefiting member of the international community. The research approach adopted differed from the earlier research described in the literature in that it was synthetic and more complex. It presupposed that even if the most recent crisis over North Korea's nuclear programs, nuclear tests, and missile tests were resolved, and the resumed Six-Party Talks and the five issue-oriented working groups they have spawned continued to show signs of progress, North Korea would likely remain a serious source of insecurity in the region over the longer term. Consequently, it aimed to design longer-term policies to

effect the evolution and modernization of the North Korean system—toward which the research was directed—as a useful complement to the continuing, official Six-Party Talks.

Interests of Other Powers

This study was a multilateral undertaking from its inception, based on the simple premise that the research's policy relevance and intellectual coherence would benefit from active participation of knowledgeable experts from the four non-U.S. countries whose core national interests are involved. The interests of these countries are as vital to them as those of the United States are to it and thus need to be addressed in any effort to bring about peaceful modernization of the North Korean system.

The national interests of these other countries are most obvious in South Korea. Having risen from the ashes of the Korean War to become the world's 11th largest economy and having decisively excelled in the inter-Korean economic, diplomatic, and social competition, South Korea has the most both to gain and to lose from the course of events in North Korea. South Korea's twin overarching goals of security and unification accurately reflect its central stake in North Korea's evolution. Moreover, domestic political pressures, rooted in South Korea's historical experience of subordination to outside powers but intensified by the process of its own democratization, heighten its need for active involvement in all major matters concerning North Korea.

China, Japan, and Russia also have critical interests at play in North Korea. China wants to maintain a Korean Peninsula free of nuclear weapons while it seeks to avoid a fully re-armed Japan and possibly further nuclear proliferation in the Asian region. China also wants to prevent a precipitate North Korean collapse, a massive flow of refugees across its borders, or a military conflict that might provoke and extend U.S. power and influence throughout the peninsula. Any of these circumstances could threaten China's fundamental goals of continued rapid economic growth, reunion with Taiwan, and expanded influence throughout the region. Consequently, moderniz-

ing the North Korean system in ways that bring it closer to China's own economic model—more open, competitive, and reforming—constitutes change in a direction China's leadership supports.

Japan, given its traditional position as a target of North Korean vitriol and a base for U.S. naval and air forces, has intense concerns about North Korea's continuing development of WMD and missile delivery systems. Japan also has deep concerns about the fate of Japanese abductees held captive in North Korea, as well as large economic stakes in South Korea and aspirations to play a significant economic role on the peninsula if and when Korean unification occurs.

Russia's situation is quite different. Although its capabilities as a global power have diminished, its aspirations to be treated as a global power have not. By virtue of history, geography, and its own non-proliferation objectives, Russia continues to see its interests as directly connected to North Korea and wants a place at the table concerning Korea's future. Russia is also eager to link the trans-Siberian railroad with a trans-Korea railroad and thereby gain substantial benefits for the Russian economy. Additionally, Russia seeks to participate in rebuilding the DPRK's infrastructure (much of which was originally built by the Soviet Union) if and when Pyongyang opens its economy. And Russia has a broader interest in future multilateral cooperation in Northeast Asia, which is unlikely to develop unless security problems on the Korean Peninsula are solved.

Thus, the interests and worries involved in any consideration of North Korea's future are intrinsically multilateral in character. No less multilateral are the potential options for meeting these interests and worries through the processes of modernizing the North Korean system.

Recent Developments

The continuing and protracted Six-Party Talks and their progress, however modest, increase the relevance of the long-term approach emphasized in this study. Furthermore, recent developments may help to expand opportunities for modernization of the North Korean system

in accord with one or more of the alternative operational plans for modernization developed in our research effort.

In Beijing in September 2005, the Six Parties—the United States, China, Japan, South Korea, Russia, and North Korea—concluded an agreement on principles of denuclearization for North Korea.¹⁰ The principles included a North Korean commitment to abandon “all nuclear weapons and existing nuclear programs” and return “at an early date” to the Treaty on the Non-Proliferation of Nuclear Weapons (commonly called the Non-Proliferation Treaty, or NPT) and to International Atomic Energy Agency (IAEA) safeguards, as well as a mutual pledge by the United States and the DPRK to respect each other’s sovereignty and take steps to normalize their bilateral relations. The United States, China, Japan, Republic of Korea (ROK), and Russia all stated their willingness to provide energy assistance to the DPRK and to pursue other forms of economic cooperation while committing to the exploration of ways to promote security cooperation in Northeast Asia and to have “the directly related parties” negotiate a permanent peace regime on the Korean Peninsula in a separate forum. All this, the September 2005 joint statement said, should be done in a phased manner in line with the principle of “commitment for commitment, action for action.”

The joint statement’s implementation was suspended shortly after the statement was announced, however. The reason for the suspension was the contemporaneous blocking of North Korean accounts in the Banco Delta Asia (BDA) in Macau because of actions the U.S. Treasury took based on evidence that these accounts had been accumulated through North Korea’s counterfeiting of currency and other illicit transactions. In response to the U.S. action, Pyongyang suspended the Six-Party agreement for over a year. With the expectation that the BDA dispute would be resolved, the Six-Party Talks resumed at the end of 2006, leading in February 2007 to an agreement on initial actions to implement the September 2005 joint statement.¹¹

¹⁰ *Joint Statement of the Fourth Round of the Six-Party Talks*, 2005.

¹¹ *Initial Actions for the Implementation of the Joint Statement*, 2007.

The February 2007 agreement included a “commitment to a plan of action” involving steps each of the parties agreed to take “within 60 days.” During this period, North Korea was to shut down and seal its main nuclear facility at Yongbyon, invite IAEA personnel to monitor and verify compliance, and discuss a list of “all its nuclear programs” in advance of disabling “all existing nuclear facilities” at a later point. The United States pledged to begin bilateral talks aimed at eventual establishment of full diplomatic relations and to start the process of removing North Korea from its list of state sponsors of terrorism. South Korea committed to providing North Korea an initial shipment of emergency energy assistance equivalent to 50,000 tons of heavy fuel oil.

In addition to these 60-day commitments, the February 2007 agreement established five working groups among the Six Parties, each of which was to explore one topic: denuclearization of the Korean Peninsula, normalization of relations between North Korea and the United States, normalization of relations between North Korea and Japan, economic and energy cooperation, and Northeast Asia peace and security. The efforts of these working groups were intended to proceed in parallel, with explicit quid pro quos among the Six Parties and specified periods for enactment of these parallel exchanges. In line with the principle of “action for action,” all parties agreed to provide North Korea with additional shipments of humanitarian, economic, and energy assistance (equivalent to 950,000 tons of heavy fuel oil) “as North Korea complies with its commitment to declare all its nuclear programs and to disable all existing nuclear facilities (including reactors and processing plants).”

The actual transfer of North Korean funds out of the Macao BDA, however, turned out to be a much more difficult proposition than anyone had anticipated. With North Korea refusing to consider the issue resolved or proceed further until the funds actually arrived at a North Korean bank, the 60-day plan of action went out the window. After months of negotiations, the funds were finally transferred (via the New York Federal Reserve Bank and Russia’s central bank) in June 2007. At that point, North Korea invited the IAEA to send a delegation to Pyongyang to establish procedures for monitoring and verifying the planned shutdown of the nuclear facility at Yongbyon, which

finally took place in July 2007. This led to a resumption of the Six-Party Talks and agreement at the end of September 2007 on a set of actions to implement the September 2005 statement.¹² According to this agreement, North Korea was to disable all existing nuclear facilities, provide a complete and correct declaration of all its nuclear programs, and reaffirm its commitment not to transfer nuclear materials, technology, or know-how. For its part, the United States committed to increasing its bilateral exchanges with the DPRK and pledged both to fulfill its commitments to begin the process of removing North Korea from the U.S. list of state sponsors of terrorism and to terminate the Trading with the Enemy Act as applied to North Korea.

These developments restored a sense of forward movement, if not (at least in some circles) cautious optimism. But many problems—starting with the need to define the term *disabling* and stretching all the way to receipt from North Korea of a full and complete declaration of its existing nuclear programs—remain to be addressed. The sobering history of many initially hopeful and subsequently aborted negotiations with North Korea warrants skepticism about whether these signs of progress will materialize. Nevertheless, the recent environment provides some encouragement for continuing the pursuit of these policy objectives and this research.

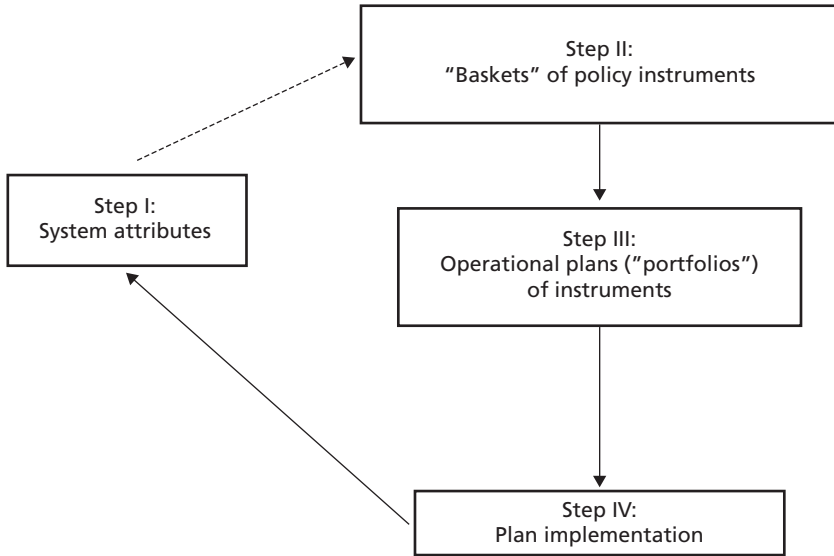
¹² *Six-Party Talks—Second-Phase Actions for the Implementation of the September 2005 Joint Statement*, 2007.

Methodology

As suggested in Chapter One, an unreconstructed North Korea poses long-term challenges for the United States and the broader, international community. The Six-Party Talks represent an attempt to multilaterally address the most-pressing component of these challenges—North Korea’s ongoing nuclear programs—and to lay a base for potentially addressing other components over the longer term. Our project was designed to support this effort indirectly by extending the multilateral process beyond the nuclear issue in an attempt to encourage a peaceful but fundamental modernization of the DPRK system. In the process, the project sought to inject fresh ideas about modernization into the DPRK’s structure (and the interstices within that structure) for consideration, discussion, debate, and potential implementation.

Figure 2.1 is a schematic of the research method we used. As can be seen, Step I entails cataloguing the DPRK system’s characteristics, or attributes. In Step II, the goal is to identify a set of policy instruments capable of serving as a basis for multilateral, coordinated actions by the five countries to induce peaceful but fundamental system change in North Korea. These instruments—a mixture of inducements, initiatives, penalties, restrictions, consensuses, and bargains that the five countries may use in their respective and multilateral dealings with North Korea—are then grouped in separate political, economic, security, and socio-cultural “baskets.” In Step III, the components of the baskets are chosen to construct operational plans, or portfolios, that

Figure 2.1
Analysis of the North Korean System as a Basis for Its Modernization



RAND MG710-2.1

will stimulate modernization in the DPRK.¹ Step IV, the implementation of a plan, requires a mixture of inducements and conditions, incentives and disincentives, and *quid pro quos*.

The method and tools we describe in this report provide a way for officials within each of our five countries to think about gearing coordinated efforts to the shared goal of fostering a modernized, more productive North Korea. They also provide latitude for individuals or groups within the elite structure in North Korea to devise operational

¹ We think of these plans as portfolios because of their similarity to some of the financial world's mutual funds in that they consist of a variety of individual "holdings" that are of differing attractiveness to individual investors. In our case, the "investors" were the five countries taking part in the collaborative research project. In the workshops conducted as part of the project, the collaborating institutions had quite different and frequently conflicting preferences among the alternative portfolios. Despite these differences, however, they were able to arrive at a "consensus plan"—that is, a plan seen by all five countries represented as having the potential to help them gradually encourage and nurture modernization in their multilateral and bilateral interactions with North Korea.

plans other than the illustrative ones we describe for modernizing the North Korean system.

Implicit in our objectives and research method is the fundamental premise that what we have termed *modernization* can result in large and predictable benefits first and foremost for North Korea itself. These include

- higher economic growth rates and a larger domestic economy, and improved living standards, public health, and general well-being for its populace
- enhanced political legitimacy and improved prospects for stability and survival for the regime and its leadership
- expanded interactions with South Korea through mutual and peaceful coexistence
- wider participation and increased influence in the international community.

North Korea's modernization also offers gains for the rest of the world, especially but not confined to Northeast Asia. These include reciprocal gains from trade and investment, reduced tensions on the Korean Peninsula, and generally more stable and predictable regional security.

Attributes of the System and Instruments for Its Modernization

Salient Attributes of the DPRK System

The research method we used (see Figure 2.1) is launched (Step I) by briefly identifying and characterizing specific characteristics, or attributes, of the North Korean system as archaic, or non-modern, and hence warranting and potentially benefiting from modernization. Two criteria are used to define an attribute as non-modern:

- It adversely affects the well-being of the North Korean population, the growth of the North Korean economy, and, indeed, the survival and renewal of the North Korean state.
- It has typically changed for the benefit and more rapid growth of successfully developing and modernizing countries (such as South Korea, China, Indonesia, Malaysia, Singapore, and Vietnam).

Non-modern attributes pervade the North Korean system—the economy, politics, and the military establishment.¹ For example, North Korea's non-modern *economic* attributes notably include its insular, autarkic trade and investment actions, its lack of access to potentially beneficial business transactions, and its lack of access to productive new technologies in agriculture, industry and services. Non-modern *political* attributes include North Korea's extreme emphasis on separation

¹ These attributes were mentioned earlier, in our description of the background of this research (see Chapter One), so the reprise here is abbreviated.

rather than integration and its institutionalization of one-man rule. By-products of this attribute are severe restrictions on access to information technology, and a broader lack of access to information about the experience of other countries and governments and to advances in health care and other public services.

Finally, the non-modern attributes extend to North Korea's *military*, whose absolute preeminence distorts both the economic structures and the rational allocation of resources. By-products in this case include remoteness from military-to-military contacts with other military establishments and general inability to benefit from information about the experiences of other countries' military establishments with respect to organization, training, communications, and other ingredients of effective military establishments.

In sum, North Korea is immured by autarky and insulation from the rest of the world while the more modern, emerging-market systems emphasize integration and interdependence. Underlying the DPRK's insularity is a profound and measured distrust of the outside world, extolment of its own "independence" and self-reliance (*juchê*), and protection of its "uniqueness" from outside influence. This system has institutionalized one-man rule, insisting on rigid central control and unquestioning loyalty while according absolute preeminence to the military. By its very nature, the system suppresses sentiment for internal reform and limits diplomatic options for dealing with the DPRK's disastrous economic situation.

Policy Instruments for Modernization

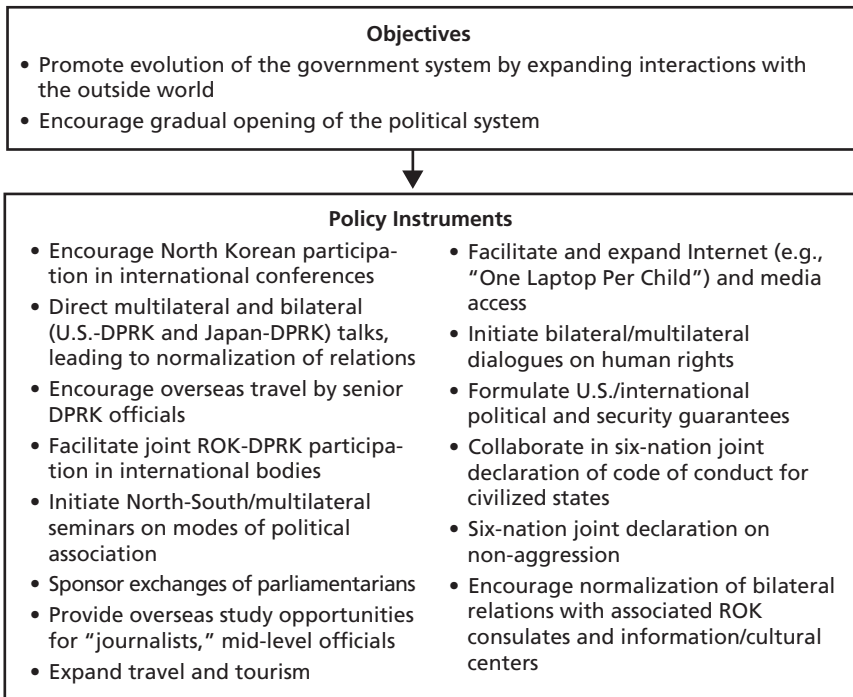
The second step in our methodology (see Step II in Figure 2.1) is to identify a set of potentially modernizing instruments and group them in separate political, economic, security, and socio-cultural "baskets." These baskets are formed from a large set of potential policy instruments and focus on specific goals that would help achieve important operational objectives. They are the building blocks whose components can be variously packaged into alternative operational plans for modernizing the North Korean system. The particular policy instruments

within each basket had to meet two criteria: They had to address (“link back to”) one or more of the key attributes of the North Korean system that are impeding modernization; and they had to help achieve (“link forward to”) the overall goal of system modernization by advancing the broad operational objectives for the particular basket.

In the following paragraphs, we discuss the objectives and policy instruments associated with each of the four baskets. Although there is some overlap among the instruments within the baskets, the baskets themselves differ in their salient objectives and operational content.

Figure 3.1 summarizes the objectives and policy instruments of the political basket. As can be seen, the focus here is on broadening North Korea’s horizons by expanding its interactions with the outside

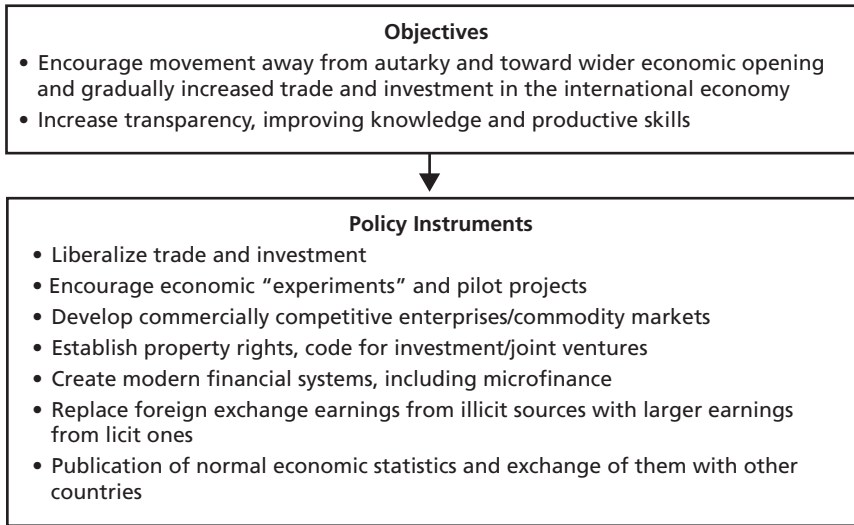
Figure 3.1
Objectives and Policy Instruments in Political Basket



world and encouraging greater opening of its political system. Most of the instruments listed are self-explanatory. For example, the instrument concerning joint ROK-DPRK participation in international bodies indicates that both North and South Korea might occasionally move toward staffing joint delegations or joint secretariats for their respective delegations' participation in meetings of the World Health Organization (WHO), the United Nations Educational Scientific and Cultural Organization (UNESCO), or other multilateral bodies in or outside the UN. The instrument concerning seminars on modes of political association could consider the similarities, differences, and implications of such modes as confederation, federation, customs unions, and partial political unions, the aim being to encourage greater North Korean openness to forms of peaceful coexistence. A code of conduct could help educate and focus North Korean leaders on the issues of governance and rule of law, democracy, and human rights, and could establish core principles—including the link between peace, security, and fundamental freedoms; the conduct of economic and environmental cooperation within a framework of peaceful relations; and the role of armed forces in democratic societies—that can serve as benchmarks of common values and norms and guidelines for North Korea's international behavior. The normalization of bilateral relations between North and South Korea could encompass some form of loose association between their respective consulates and information centers in various parts of the world.

Figure 3.2 illustrates the economic basket, whose instruments focus on ameliorating North Korea's extreme emphasis on autarky, fostering greater economic opening, increasing transparency, and improving technical knowledge and productive skills. As with the political basket instruments, the instruments in the economic basket are generally self-explanatory. For example, the instrument concerning replacement of foreign exchange earnings from illicit sources with larger earnings from legal transactions might cover transactions in mining and mineral resources, manufactured products, and perhaps exports of certain labor and engineering services. In light of the modernizing experiences of South Korea, Vietnam, and China, it is reasonable to expect that the liberalization of trade and investment, as envisaged in

Figure 3.2
Objectives and Policy Instruments in Economic Basket



RAND MG710-3.2

Figure 3.2, would relatively rapidly boost legal exports of these goods and services to levels three- or fourfold above those shown in Figure 1.1 (see Chapter One), and would raise imports perhaps twofold. Even if we assume only modest tariff rates on imports (initially, perhaps 20 percent to 25 percent) and relatively low tax rates (say, 20 percent) on income generated by exports, annual revenues garnered by a modernizing North Korea would easily exceed the \$1 billion to \$1.5 billion mentioned in Chapter One as an approximation of the costs of running the current, centralized, non-modern North Korean system.

Figure 3.3 shows the security basket, whose policy instruments could complement or supplement potential measures pursued in any mechanism that may emerge from the Six-Party Talks tasked with negotiating a permanent peace regime on the Korean Peninsula. Many of the instruments listed—for example, prohibiting the sale or transfer of nuclear, biological, or chemical (NBC) weapons and technologies, limiting missile tests, and making adjustments in the size and deployment of military forces along the demilitarized zone (DMZ)—

Figure 3.3
Objectives and Policy Instruments in Security Basket

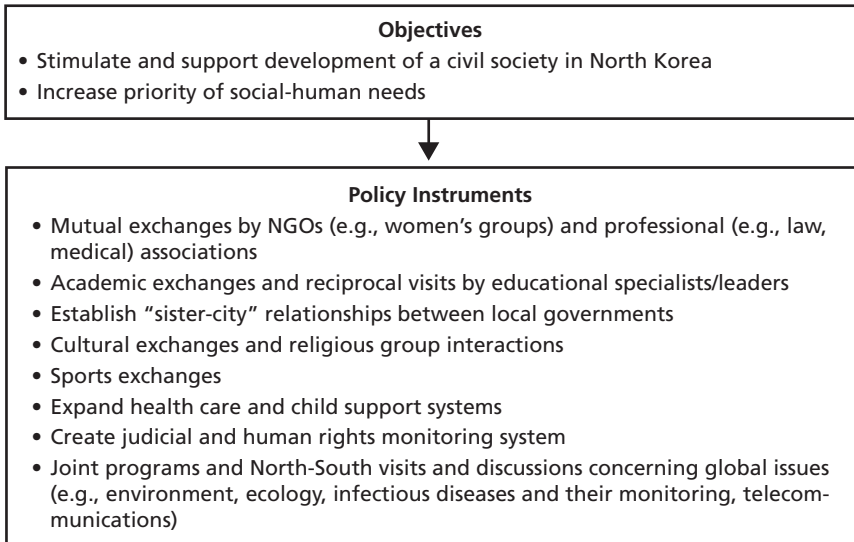


RAND MG710-3.3

are straightforward. In the context of complete and verifiable North Korean denuclearization, Cooperative Threat Reduction (CTR) initiatives (which fall far short of the program established to address dangers resulting from the collapse of the former Soviet Union) might include measures to foster bilateral military exchanges with the DPRK, promote demilitarization and defense reform, and support the destruction of North Korea's facilities for producing chemical and biological weapons. Along with a range of long-sought arms control and confidence-building measures (CBMs), such instruments would focus on decreasing the dangers from and salience of the military in North Korea, reducing North Korea's own threat perception, and enhancing mutual trust.

Figure 3.4 shows the socio-cultural basket. The focus here is on stimulating the development of a civil society in North Korea and greater emphasis on addressing human needs. Potential policy instruments include mutual exchanges by non-governmental organizations (NGOs) and professional associations, reciprocal visits by academic

Figure 3.4
Objectives and Policy Instruments in Socio-Cultural Basket



RAND MG710-3.4

and educational specialists, and the establishment of “sister city” relationships between local entities in North and South Korea. Given the historical vibrancy of religious institutions in Korea’s history (which encompass Buddhism, Confucianism, and Christianity) and the strength of churches in South Korea today, interactions between religious groups could be particularly beneficial. Instruments might also include joint programs on environmental, ecological, and other “new era” issues (such as monitoring and managing infectious diseases) that are high on the global agenda but still low on North Korea’s list of priorities.

Combining the Instruments into Operational Plans

The policy instruments in the baskets described in Chapter Three can be combined to form different operational plans, or portfolios, for modernization (Step III in Figure 2.1). Operational plans formed this way share the broad objective of modernizing the North Korean system, but seek to bring modernization about in different ways. For example, the first of our three illustrative portfolios, Plan A, makes more use of the political basket of instruments and less use of the economic, security, and socio-cultural baskets. Our second illustrative portfolio, Plan B, places heavier emphasis on the economic basket of instruments and less on the other baskets. And Plan C draws most heavily on the security basket.

In summarizing the details of these alternative plans for modernization, we begin by recalling our earlier analogy between the baskets of policy instruments and mutual funds. Although alternative portfolios may share some instruments, their combinations of instruments will vary depending on which basket is being emphasized. Similarly, some mutual funds are designed to represent different niches—for example, to emphasize growth or value stocks, domestic or international stocks, high-technology or lower-technology stocks. The inclusion of some of the important economic instruments in all portfolios reflects the fact that any plan seeking to modernize the North Korean system as a whole must address the manifest problems inherent in the North Korean economic system.

The portfolios that follow are only intended to illustrate the process and some options. The baskets of instruments (discussed in Chapter Three) and these illustrative portfolios together make up a “tool kit” that interested groups or individuals within the DPRK and others could use to design their own modernization plans. Each illustrative portfolio described is intended to address and change some of the non-modern attributes of the North Korean system.

As mentioned earlier, the portfolios reflect the differing opinions and preferences of the six institutions that collaborated on this research project, although none of the portfolios represents the opinions or preferences of any one institution. Finally, all of the portfolios include different degrees of incentives, disincentives, and “conditional ties” (for example, conditions relating to prior or contemporaneous nuclear dismantlement, verification, and monitoring) in accord with the progress of implementation.

Operational Plan A: Political Emphasis

Figure 4.1 summarizes the content of Plan A, whose principal focus and objectives are to advance North Korea’s political modernization and expand its participation in the international community. The plan emphasizes easing North Korea’s concern about its political survival, reducing mutual perceptions of external threat, normalizing relations with the United States on a reciprocal, non-subsidized basis, and expanding economic modernization as essential to the achievement of these objectives. While according primary emphasis to policy instruments drawn from the political basket, Plan A balances its approach by drawing important instruments from the other three (economic, security, and socio-cultural) baskets.

Implementation (Step IV in Figure 2.1) of Plan A poses difficult but not insuperable problems. For example, a realistic operational Plan A would require a step-by-step approach. This might mean selecting perhaps three or four of the more promising political instruments (such as direct, multilateral, and bilateral talks among the parties; North Korean participation in international conferences; North-South

Figure 4.1
Operational Plan A: Political Emphasis

Political Basket

- Direct multilateral and bilateral (U.S.-DPRK and Japan-DPRK) talks, leading to normalization of relations
- North Korean participation in international conferences and institutions
- Expansion of travel and tourism
- North-South/multilateral seminars on modes of political association
- Six-nation joint declaration of code of conduct for civilized states
- Six-nation declaration on non-aggression
- Opening and expansion of Internet and media access
- Bilateral/multilateral dialogues on human rights

Economic Basket

- Assistance to economic “experiments” and pilot projects
- International consortia and other investments in industries and infrastructure
- Assistance to development of commercially competitive enterprises including small businesses
- Creation of modern financial and budgetary systems, including micro-finance

Security Basket

- U.S./international security guarantees
- Mechanism for ending Korean War and negotiating peace regime
- Reciprocal adjustments in size/deployment of military forces and other CTR initiatives
- Verifiable denuclearization of Korean Peninsula backed and enforced by inspection, sanctions, restrictions on North Korean exports, and suspension of economic assistance

Socio-Cultural Basket

- Joint programs on “new era” issues
- Assistance for re-creating health care and child support systems
- Creation of judicial and human rights monitoring system

multilateral seminars) and perhaps one or two promising instruments from each of the other three baskets, and spreading their implementation over a period of perhaps three to five years. Undergirding Plan A is the presumption of continuing multilateral discussions, especially between North and South Korea. Also, integral to Plan A is a limited degree of conditionality, with scrupulous international monitoring of nuclear dismantlement and DPRK rejoining the NPT.

Operational Plan B: Economic Emphasis

Figure 4.2 summarizes the content of Plan B, the second illustrative plan for modernization of North Korea. In this case, the principal emphasis is on economic instruments.

Even though Plan B emphasizes the economic dimensions of modernization and the gains to be realized by North Korea from opening to trade and investment transactions with the rest of the world, it still includes instruments from the political, security, and socio-cultural baskets, in this case to complement its economic focus. Realistic prospects for Plan B's implementation demand a gradual process, one in which perhaps three or four of the seven enumerated economic instruments are chosen (e.g., liberalization of trade and investment within the Korean Peninsula, gradual market opening and expansion of international trade, and assurance that revenues derived by the government from tariffs and other fees collected from international transactions would exceed the revenues previously derived from illegal activities), along with perhaps one or two of each of the plan's political, security, and socio-cultural instruments. Realistic implementation of this plan would also require step-by-step phasing over perhaps three or four years, rather than an attempt to put many instruments in place in a short time.

Figure 4.2
Operational Plan B: Economic Emphasis

Political Basket

- Direct multilateral and bilateral (U.S.-DPRK, Japan-DPRK) talks, leading to normalization of relations
- Expansion of travel and tourism
- Opening/expansion of Internet
- North Korean participation in international conferences and institutions

Economic Basket

- Liberalization of trade/ investment within Korean Peninsula North-South free trade agreement, foreign exchange convertibility, etc.)
- Market opening, expansion of international trade and investment
- Implementing code for foreign investment/joint ventures, property rights
- Revenues derived by government (from taxes, tariffs) to exceed revenues previously derived from illegal/destabilizing activities (>\$1.5 billion)
- Publication of normal economic statistics
- Encouragement of economic “experiments” (e.g. specific economic zones, joint ventures) and creation of modern financial systems, including microfinance
- Encouragement of emergence of commercially competitive businesses and commodity markets

Security Basket

- Publication of normal military-related statistics (budgets, tables of organization and equipment)
- Military CBMs, notification of military exercises and maritime cooperation, invitation of military observers
- Bilateral and multilateral military-to-military seminars, exercises
- Verifiable denuclearization of Korean Peninsula backed by potential sanctions, Proliferation Security Initiative (PSI), restrictions on North Korean exports, and suspension of economic assistance

Socio-Cultural Basket

- Exchanges by NGOs and professional associations
- Sports exchanges
- Academic and cultural/arts exchanges
- Establishment of “sister-city” relationships

Operational Plan C: Security Emphasis

Plan C, the third of our illustrative plans for modernization, is summarized in Figure 4.3. As can be seen, the principal emphasis here is security. While acknowledging and endeavoring to relieve North Korea's putative concerns for its own security, this plan is especially concerned with reducing the DPRK's isolation and modulating the DPRK system's excessive emphasis on its military.

Implementation of Plan C could be spread over a period of three to five years and use perhaps four or five of the security instruments shown in Figure 4.3 (e.g., publication of normal military-related statistics; bilateral, multilateral, military-to-military seminars and exercises; and reciprocal adjustments in the size and deployment of military forces on both sides of the DMZ), along with one or two of the political, economic, and socio-cultural policy instruments that are part of this plan.

Figure 4.3
Operational Plan C: Security Emphasis

Political Basket

- Six-country joint declaration on non-aggression and code of conduct
- DPRK participation in international conferences and international bodies
- North-South continuing dialogue on modes of political association/human rights

Economic Basket

- Trade/investment liberalization
- Loosening of foreign exchange restrictions
- Academic/business/NGO exchange programs
- Publication of economic and budget statistics

Security Basket

- Publication of normal military-related statistics
- Bilateral/multilateral military-to-military security seminars/exercises
- Reciprocal adjustments in size/deployment of military forces, freeing resources for other uses
- Reciprocal weapons inspections
- Ending Korean War and negotiating peace regime
- Verified denuclearization of Korean Peninsula backed by potential tightened sanctions, restrictions on North Korean exports, and suspension of economic assistance
- Prohibitions of NBC weapons/technology sales/transfers, and enforcement, including PSI

Socio-Cultural Basket

- Exchanges by NGOs and professional associations
- Sports exchanges
- Establishment of “sister-city” relationships
- Academic/cultural arts exchanges

A Consensus Plan

As discussed earlier, the research project described in this monograph entailed the active participation of and contributions from six research institutions in five countries. All of these institutions view themselves as relatively independent scholarly bodies, but they are nonetheless quite diverse in terms of domiciles, national identity, and perspectives. Consequently, our discussions in this collaborative project revealed both mutually shared assumptions and perspectives on the broad issues of modernization in North Korea, as well as divergent, sometimes sharply so, assumptions and perspectives.

Among the assumptions and perspectives that the research participants shared were

- Peaceful evolution of the DPRK along more “modern” and “more normal” lines would be highly desirable for North Korea and for the international community, especially in Northeast Asia.
- A North Korean state possessing nuclear weapons and delivery capabilities would be a serious threat to regional stability, with possibly serious repercussions for nuclear proliferation elsewhere in the region.
- Possible “leakages” of NBC weapons from North Korea to terrorist groups globally would be a serious threat, with major consequences for regional and global instability.
- Research and analysis by independent, high-quality research institutions might contribute to improved policy formulation and implementation in the five countries involved in this collaborative research project, as well as in North Korea.

At the same time, there were important differences in views on the current state of affairs in North Korea, including the extent and significance of economic “reform” in the DPRK and the “intentions” behind particular North Korean actions. Other assumptions and perspectives on which there was divergence were as follows:

- North Korea already has perhaps eight to ten plutonium or highly enriched uranium bombs, and their weaponizing remains to be accomplished in the next few years.
- North Korea’s concern with its own security in the face of possible outside external threats is acute (especially in light of the U.S. invasion of Iraq in March 2003).
- Multilateral (six-country) talks and negotiations are preferable to and likely to be more effective than one-on-one talks or negotiations between North Korea and the United States.
- Dialogue is preferable to dialogue plus pressure (i.e., dialogue accompanied by actual or prospective sanctions) in dealing with North Korea.
- Any negotiation package with North Korea should include a significant portion of “economic cooperation,” meaning grant assistance as in the 1994 framework agreement with North Korea.

It is not surprising that these differing views led to differing preferences on both the desirability and the feasibility of several policy instruments and the operational plans embodying those instruments. For example, some of the collaborating institutions viewed conditionality in these plans—that is, the exercise of one or another policy benefaction only in conjunction with strict DPRK compliance with a condition attached to that benefaction—as essential, and thus pictured a rigorously *quid pro quo* arrangement. Other institutions, however, thought that such conditionality was inadvisable and/or likely to be ineffective. Also, while some of the collaborating institutions thought that the exercise of external “pressure” or the threat of such pressure would be a positive incentive for change in the DPRK, others demurred from this view. More generally, the collaborating institutions differed in their views on the desirability and/or effectiveness of par-

particular policy instruments and the priority that should be accorded to particular policy instruments.

At the same time, and in line with the numerous assumptions and perspectives on which the participants agreed, there were examples of convergent perspectives about some of the policy instruments and operational plans. For example, all of the collaborators agreed about the importance of North Korean modernization in light of North Korea's dire circumstances and its wide divergence from the common benchmarks of modernized and progressing countries. Furthermore, they agreed that a key requirement for DPRK modernization is to foster the aspiration for change within the leadership and/or within different parts of the elite structures in the DPRK. They also agreed that successful resolution of the nuclear issue, including complete and verifiable denuclearization, must be a prerequisite for any major economic assistance; and that the operational plans should focus not on replacing the present regime, but on gradual modernization of the North Korean system. Additionally, they agreed that the best way to proceed with any plan is through comprehensive, step-by-step, action-for-action implementation, with the extension of "rewards" to North Korea linked to its responsive actions in modernizing its system.

There was further agreement among the collaborators that it would be of considerable benefit to recommend to North Korea a simple and single operational plan rather than multiple and excessively complex alternative plans. A single plan, many of the team members strongly agreed, would be easier for North Koreans to digest. There was also agreement that in the final analysis, North Korea would make its own choices, and that it would be useful for North Korea to have a "tool kit" of alternative plans that entities, institutions, and/or individuals could use to formulate their own plans and portfolios. Substantively, the research team clearly saw a combined political-security approach focused on reducing threats and increasing mutual trust and confidence as the best means for encouraging peaceful change in North Korea. But there was general agreement that no matter what combination of political, economic, security, and socio-cultural instruments might be chosen, economic instruments would be crucial to successful modernization.

In light of these considerations and of the shared, rather than divergent, assumptions and perspectives, the six research participants sought a consensus portfolio based on their shared views and the most widely accepted and agreed-upon policy instruments. This consensus plan, which all six partners agreed to, reflects a shared inclination toward a combined political-security approach focused on gradual system change through reduced threats and increased confidence and mutual trust. It also reflects a shared preference, on the economic side, for instruments that build self-perpetuating change and implant a different way of thinking among North Koreans, rather than for large-scale undertakings and extensive assistance. The consensus plan embodies only those instruments that most of the research participants agreed would be both effective in encouraging movement toward modernization in North Korea and likely to gain the support of the respective governments. No attempt was made to rank the instruments in terms of North Korea's likely receptivity to them, partly because the potential value of particular policy instruments in stimulating movement toward modernization does not necessarily hinge on North Korean receptivity, and partly because an explicit goal of the research project was to allow North Koreans to undertake such a ranking for themselves.

Figure 5.1 summarizes the consensus plan of the research participants. The starting point for this plan is verifiable denuclearization of the Korean Peninsula, which came from the first position in the security basket (see Figure 3.3). All participants strongly agreed that this instrument was a prerequisite for pursuit of any of the other identified instruments. Absent North Korean denuclearization, the group agreed, consideration would have to be given to further tightening or expanding of UN sanctions and to perhaps adopting additional "disincentives," such as new restrictions on North Korean exports or suspension of economic assistance.

The research participants also agreed that, assuming the denuclearization prerequisite was met, some combination of the instruments identified in Figure 5.1 would be both effective in stimulating and supporting modernization of the North Korean system and likely to garner support from the participants' countries. Politically, a cooperative, multilateral approach might seek a six-nation declaration of non-aggression

Figure 5.1

Consensus Plan, Derived from Shared Views on Salient Policy Instruments

Political Basket

- Six-nation declaration of non-aggression/peaceful coexistence
- Direct multilateral and bilateral (U.S.-DPRK and Japan-DPRK) talks, leading to normalization of relations
- DPRK participation in international conferences and institutions

Economic Basket

- Encouragement of economic “experiments” and pilot projects
- Support for emergence of commercially competitive businesses and commodity markets
- Establishment and implementation of code for foreign investment/ joint ventures and property rights
- Creation of modern financial and budgetary systems, including micro-finance
- Revenues derived by government to exceed revenues previously derived from illegal/destabilizing activities
- Academic/business/NGO exchange programs

Security Basket

- Verifiable denuclearization of Korean Peninsula backed by tightened sanctions, restrictions on North Korean exports, and suspension of economic assistance
- U.S./international security guarantees
- Bilateral/multilateral military-to-military security seminars/exercises
- Mechanism for ending Korean War and negotiating peace regime
- Reciprocal adjustments in size/deployment of military forces and other Cooperative Threat Reduction initiatives
- Prohibitions of NBC weapons and technology sales/transfers

Socio-Cultural Basket

- Joint programs on medical monitoring, telecommunications, environment
- Academic and cultural/arts exchanges

or peaceful coexistence to underpin agreements implemented in the nuclear negotiations and begin a broader modernization effort. Direct bilateral and multilateral talks leading toward normalized relations with North Korea would reinforce this commitment to peaceful coexistence, following on the principles agreed to in the September 2005 and February 2007 Six-Party Talks.¹ Along with potential U.S. security assurances, an instrument included in the security basket, such political instruments might over time help reduce the regime's fear for its own future, its fear of outside influences, and the military's voice and role inside North Korea.

A political-security approach might also draw on one or more of the other instruments in the security basket. For example, along with U.S. and/or international security guarantees, a formal declaration prohibiting North Korean sales or transfers of NBC weapons or technologies might be sought, in line with the principles of the Proliferation Security Initiative (PSI) and common multilateral obligations. Creating a mechanism for formally ending the Korean War and negotiating a peace regime on the Korean Peninsula—already identified as an objective in the Six-Party Talks—might also be pursued as part of an integrated approach to reducing the role of the North Korean military and encouraging the evolution of a more normal North Korea. For the same purposes, North Korean military officers might be invited to participate in bilateral and multilateral military-to-military exercises and security seminars while, over time, concerned parties consider reciprocal adjustments in the size and/or deployments of military forces and select CTR initiatives.

Because of the severity of North Korea's economic situation and the economy's centrality to any modernization effort, even a political-security approach of the sort outlined in this consensus portfolio must include economic instruments. But our approach tends to emphasize small-scale efforts and first-order measures designed to create a basis for the development of a more modern economy, rather than large-

¹ *Joint Statement of the Fourth Round of the Six-Party Talks*, 2005; and *Initial Actions for the Implementation of the Joint Statement*, 2007.

scale projects or extensive—particularly fungible and unmonitored—foreign assistance.

For example, our approach in the consensual portfolio would include the encouragement of fledgling market-oriented “experiments” and pilot projects already under way in North Korea, such as free economic zones and joint ventures in mining, agriculture, and export-oriented industries. It would also include assistance for the emergence of small businesses (e.g., in agriculture, trade, and household construction) and of principal commodity markets, along with support for the emergence of *chaebol*-like semi-national/semi-private enterprises and other commercially competitive businesses. This approach would also seek to establish a code for foreign investment and other basic laws protecting property rights while supporting the creation of modern financial and budgetary systems. Cutting across the economic instruments would be efforts to create sources of legal revenue and a system to prevent illegal activities. Exchange programs involving academics, businessmen, leaders of NGO groups, and leading figures in the arts would reinforce the effort to open North Korea up to more normal international interactions. Moreover, by creating new sources of legitimate income and developing the foundation for sustained opening and economic growth, this approach would help meet the key requirement for modernization identified above: fostering an *aspiration for change* within the North Korean leadership.

Along with agreement among the six collaborating institutions on the consensus plan, consensus was reached on steps toward the plan’s implementation. The group agreed that to enhance the prospects for the plan’s successful implementation, the process should be divided into two sequential phases, each encompassing a mixture of incentives and disincentives, rewards and penalties, *quid pro quos*, and actions taken by North Korea in parallel with actions taken by the five other countries.

For example, in the first phase of implementing the consensus plan, North Korea’s mandatory action would entail declaration and disablement of all existing nuclear programs and facilities. For their part, the five countries would provide incentives in the form of limited humanitarian assistance and would implement other commit-

ments made in the Six-Party Talks. This would include provision of the energy assistance stipulated in the February 2007 agreement, direct and bilateral talks leading toward ultimate normalization of relations, and establishment of a mechanism for ending the Korean War and negotiating a peace regime on the Korean Peninsula. In addition, this first phase might include

- U.S. security assurances and/or a six-nation declaration on non-aggression or peaceful coexistence
- a declaration agreed to by North Korea prohibiting NBC weapons and technology transfers
- support for special economic zones and other economic “experiments” in North Korea, as well as assistance to pilot projects involving activities such as joint ventures between foreign and domestic enterprises
- North Korean participation in international conferences and institutions
- academic, business, NGO, and cultural exchanges both bilaterally and multilaterally.

Following progress in the first phase, North Korea’s mandatory action in the second phase would entail complete and verifiable elimination of all military-related nuclear materials, facilities, and weapons. The other five countries would then aid North Korea in establishing a code for foreign investment and protection of property rights, provide assistance to develop commercially competitive enterprises and commodity markets, and help create modern financial and budgetary systems. Efforts would be made throughout this process to assure that government revenues derived from taxes and fees levied on both external and internal commerce would exceed revenues previously derived from illicit activities. This second phase might also involve North Korean participation in bilateral and multilateral military-to-military exchanges, seminars, and exercises, along with reciprocal adjustments in the size and deployment of military forces on the peninsula and other CTR initiatives. A formal international agreement guaranteed by the major powers to assure North Korea of its security—following up

on the security “declaration” in the first phase and presumed progress in formally ending the Korean War and negotiating a peace regime on the Korean Peninsula—might also be included.

Project Results and Conclusions

As we indicated at the outset, the objectives of this research were to identify, develop, and evaluate baskets of policy instruments that can induce fundamental but peaceful system change in North Korea, alter the specifically defined non-modern attributes of the DPRK system, and serve as a basis for multilateral, cooperative actions by the five other key countries concerned. The project also sought to integrate the policy instruments into illustrative operational plans, or portfolios, for modernizing the North Korean system and, more broadly, injecting fresh ideas about modernization into the DPRK's structure for North Korea's consideration and potential implementation.

The project had three main results. First, it formulated policy instruments that can contribute to modernizing the North Korean system and provide a basis for focused, collaborative efforts to stimulate peaceful change in North Korea. Second, it integrated these instruments into alternative operational plans/portfolios and evaluated the likely Six-Party responses to the components of the plans—an evaluation that led to the development of a single, “consensus” plan deemed likely to garner buy-in from the five countries involved. Third, it identified several potential intermediaries to help convey the project findings to one or more levels of the North Korean structure.

Among the major substantive conclusions of the project were the points on which the research partners agreed:

- The critical challenges posed by North Korea are embedded in the nature of the North Korean system, which diverges signifi-

cantly from the common benchmarks for modernized, progressing countries.

- Fostering a more normal (modernizing) North Korea is in all five of the participating countries' interests.
- For North Korea, modernization entails inherent risks that make it, at a minimum, a long-term task. But failing to modernize also entails inherent dangers, and the benefits of modernization would accrue first and foremost to North Korea itself.
- The key requirement for modernization to take place is that the *aspiration for change* be fostered within the North Korean leadership.
- The prerequisite for providing major assistance to North Korea must be successful resolution of the nuclear issue, which means North Korea's complete, verifiable denuclearization.
- In seeking a more normal North Korea, the focus should be not on replacing the North Korean regime, but on stimulating the system's gradual modernization.
- The concerned countries should proceed in a comprehensive, step-by-step manner ("action for action"), as is being done in the Six-Party Talks, with time-phased objectives and instruments based on North Korean responses.
- Incentives and/or disincentives should be strategically targeted at modernizing the system and fostering the aspiration for change within North Korea's leadership.
- Whatever the outcome of the current round of Six-Party Talks, thinking now about how to modernize North Korea is imperative, and so is seeking ways to inject new kinds of thinking into the five participating countries' approaches to North Korea and into North Korea itself.

As previously noted, these conclusions resulted from extended collaboration among six institutions: the RAND Corporation, two research institutions from South Korea, and one institution each from China, Japan, and Russia. This collaborative endeavor evolved through five workshops that were held sequentially in the five hosting countries over a two-year period, from 2005 to 2007, and through extensive

exchanges of information, ideas, and preliminary drafts among participants in the intervals between workshops.

In accord with the project objectives, this report describes the set of policy instruments designed to further peaceful system modernization in North Korea, the division of those instruments into several functional categories (political, economic, security, socio-cultural), and the integration of those instruments into illustrative operational plans/portfolios for modernizing the North Korean system.

This report acknowledges that there were important divergences as well as major convergences in the perspectives and priorities of the six collaborating institutions and their five domiciliary countries, and describes how it was possible to work through these divergences to arrive at a “consensus plan” that all six collaborating institutions endorsed. This collective endorsement can, in turn, facilitate coordinated and complementary action by the five countries in their bilateral and multilateral interactions with North Korea.

Besides the illustrative operational plans and the consensus plan, the research project also provided a method and a “tool kit” that entities, groups, or individuals within the North Korean structure can use to formulate modernization plans encompassing their choice of the various instruments and their chosen combinations of instruments. We have no illusions about the ease or the speed with which this chain of events might ensue. Nonetheless, we have provided a method and an illustration of how such a line of development might occur, both of which can serve to stimulate a modernizing process in North Korea.

To further disseminate these results—the method, tool kit, illustrative operational plans, and the consensus plan—we expect to produce a summary of this report, translate it into the Korean language, and have it conveyed through various intermediaries into the North Korean system.

Contributions from the Five Collaborating Institutions Other Than RAND

Participants from the five collaborating institutions other than RAND produced several dozen papers, briefings, and miscellaneous memoranda during the project. These were extensively discussed at the five workshops and in numerous email exchanges among participants.

To provide a flavor of what we have referred to as “participatory systems analysis,” we include here eight contributions of the non-RAND participants. These are informal works, often containing advocacy as well as analysis. To retain the informal nature and convey an accurate picture of what the collaborative research entailed, these pieces are essentially unedited. They are as follows:

1. “May 2006 Beijing Conference on Modernizing and Normalizing the North Korean System,” Meihua Yu and Jianfei Liu, CRF, May 2006.
2. “Memorandum for the Drafting Committee,” Georgy Toloraya and Alexander Fedorovskiy, CCKS, November 2006.
3. “NGO Initiatives for the Normalization of North Korea,” Kwan-Chi Oh and Hyun-Gon Shin, POSRI, November 2006.
4. “RINSA’S Perspective on the Final Report,” Yong-Sup Han and Youn-su Kim, RINSA, April 2007.
5. “South Korea’s Policy Options to Normalize North Korea,” Yong-Sup Han and Yeun-Su Kim, RINSA.
6. “Comments on the Draft of Final Report on Modernizing the North Korean System,” Georgy Toloraya, CCKS, April 2007.

7. "Korean Peninsula Situation and Its Prospect After Nuclear Test," Tokyo seminar.
8. "Normalizing the North Korean System," briefing, Shinzo Kobori, IIPS, May 2006.

May 2006 Beijing Conference on Modernizing and Normalizing the North Korean System

China Reform Forum

Professor Yu Meihua

Ms. Liu Jianfei

1. There are three problems which North Korean system modernization faces: security, economic, and political issues.

2. Security issue is mainly about nuclear issue. A nuclear weapons-free Korean Peninsula serves the whole interest of North-east Asia. DPRK seeking nuclear weapons is mainly due to its security need. First, peninsula armistice regime has not ended yet and, in some views, North Korea is still in the state of war with U.S. Second, among Northeast Asian countries, only China and Russia have normal diplomatic relationship with North Korea. U.S. and Japan, U.S. in particular, view North Korea as a threat. Bush administration regards DPRK as one of the three “evil axis” countries. Iraq, as one of the other two “evil axis” countries, disappeared because of American military action. This puts much pressure on North Korea, and the latter thinks U.S. will assault it at any time. Last, American policy on North Korea is to change Kim Jong Il regime, and this makes North Korea get worried about its own security even more. So North Korean security is an issue of interaction. North Korea feels outside threat, and it urges DPRK to seek nuclear weapon. North Korea developing nuclear weapon prompts U.S. and Japan to view it as a threat, so that they may take stronger gesture toward North Korea, and intend to change North Korean regime, or take military action. In all, this is some kind of evil circle.

3. Economic issue includes two facets: development and reform. North Korea has serious economic problems now and wants badly to develop its economy. But one precondition to develop economy is to reform its system. From many signs of Kim Jong Il’s recent actions, people can see that he wants to learn from Chinese policy of reform and opening. For example, during his visit to China in January 2006, Kim Jong Il went to Hubei, Guangdong, and Beijing and visited more than 10 firms and enterprises concerning industry, agriculture, science,

and education, and so on. After visit, he paid much praise to achievements of Chinese reform policy and said that North Korea attached importance to economic growth and is willing to strengthen further exchanges and cooperation with China, in order to better explore development road that fits its own situation. Two months later, Kim Jong Il's younger sister's husband led another big delegation and visited China for 11 days along the same route of Kim Jong Il's visit.

In April 2006, North Korean fourth session of eleventh supreme People's Congress rendered the core task of promoting modern economy. Premier made a government working report and identified focus of 2006 economic policy, including "waging foreign economic cooperation greatly" and "continuing to improve economic management on the basis of adhering to socialism and real interest."

North Korea must resolve security issue before it starts development and reform. It is DPRK's view that it lacks condition and environment for full reform, because North Korea is a small country without strategic cushion. Once reform results in crisis, there will be nationwide chaos, which will be a fatal trauma to its national security. In that case, any fruit of reform and development will disappear, especially considering the fact that peninsula is still in separation and armistice regime, and North Korea is still in hostile state with America.

4. There are two reasons for DPRK to develop nuclear energy: one is security concern, and the other is economic consideration. On the one hand, North Korean resolution to develop high technology is firm. In the fourth session of eleventh supreme People's Congress in April 2006, DPRK leaders made one special report on science and technology, and this deserves deep thinking. North Korea recognizes that 21st century is information age, and science and technology development cannot only promote process of economic recovering, but also increase capability of safeguarding national security, since modern war is actually reflection of science and technology, as well as IT strength. In this view, DPRK will continue to develop nuclear energy and IT.

On the other hand, energy issue is one important issue North Korea will face in developing its economy. North Korea has no oil, so developing nuclear energy is one way of solving its energy problem.

5. DPRK thinks that developing national defense industry has highest priority as the result of its pessimistic view of security situation. North Korea Today (Chinese version, issue of May) still emphasized “military first and industry second” principle and “guideline on economic construction of preferring to develop national defense industry in military first age” that Kim Jong Il claimed. There was an article in North Korean quarterly Economy Research (Spring 2006) that stated “robust national defense industry is the pillar of whole economic system” and “without strong military force, there will be no autonomy, survival and socialism.”

6. The main facet of DPRK’s political issue is stability of Kim Jong Il’s regime. From the perspective of Northeast Asian security and development, maintaining North Korean political stability serves the whole interest of region. If chaos happens in DPRK, it will do harm to security and development of Northeast Asia.

In fact, North Korean Kim Jong Il’s regime has no serious crisis. It is very difficult for outside pressure to urge DPRK to change it, unless something like Iraq happens, which means outside force overthrows regime through military way. In the view of historical experiences, outside pressure is good for one country to consolidate its regime.

It is very difficult for U.S. and Japan to change North Korean regime. U.S. and Japan’s trying to do this will just increase crisis sense of Kim Jong Il’s regime and urge it not to give up power, which will result in its tight attitude toward developing economy and reforming, and its becoming more hostile in diplomatic relationship.

7. Among its security, economic, and political issues, security problem is at the first rank and has much implication on the other two issues. The most urgent thing till now is nuclear issue, and it has much to do with North Korean security and its relationship with U.S.

8. Policy suggestions to resolution of the nuclear issue:

- U.S. and Japan, U.S. in particular, should respect North Korean security concerns. U.S. should initiate negotiation with DPRK and promise not to assault North Korea after it abandons nuclear.

- U.S. and Japan should not raise financial issue and human rights issue in the six-party talks; otherwise it will not be resolved and only disturb normal talks.
- U.S. always hopes China can play greater role in six-party talks. If U.S. does hope so, it should work closely with China instead of trying to put everything on the burden of China.

9. Policy suggestions to promote North Korean economic growth and reform:

- Northeast Asian countries should respect North Korean right to choose its own development road. All nations should respect North Korean right to explore development model which fits its own situation, and not press it to copy some other country's development models.
- All states should create a loose environment for North Korea to choose its own development road and model. All should understand its concerns on security, and academic circles should start to study how to transfer Korean Peninsula armistice regime to peace regime.
- All states should support North Korea and South Korea to strengthen economic cooperation and explore reunification road.
- All states should provide capital and opportunities to help North Korea train its human resources about international economic laws.
- China can use the advantage of geographic proximity to deepen its cooperation and exchange with North Korea under the principle of "government dominates, enterprise participates and market functions." In doing this, Northeastern three provinces of China can play some kind of locomotive role.

10. Policy suggestions on North Korean political stability:

- Northeast Asian countries should express their attitude to support North Korean political stability and develop relationship with North Korea on the basis of equity in international affairs.

- U.S. and Japan should not take changing Kim Jong Il's regime as their policy objective, and consequently should reduce propaganda.
- As to North Korean internal affairs, countries should not condemn freely and should respect principle of non-interference.

Memorandum for the Drafting Committee

Georgy Toloraya
Alexander Fedorovskiy
Center for Contemporary Korean Studies
IMEMO, Moscow
Tokyo, November 2006

Key differences among operational plans

Generally the operational plans presented by the institutions from five countries have many common features and views and practically all provide for the preservation of DPRK political system and its gradual evolution and socio-economic modernization. That is a prerequisite for any resultative dialogue with Pyongyang and arriving at a negotiated solution.

Although there are a lot of minor differences between operational plans, *some diverging basic approaches* concerning the key problems of relations between North Korea and other five countries should be first addressed. It is necessary to focus on these differences in order to work out a common strategy. For example, and used just for clarifying our stance, some of the issues which may be characterized as disputable may be found in the proposals by Dr. Oh Kwan-Chi and Dr. Shin Hyun-gon from POSCO Research Institute.

Among the most important fundamentals is the necessity and will to carry on the negotiations with the existing North Korean administration as well as the intention of five countries to resolve all the problems as soon as possible. The urgency of such an unbiased and extremely pragmatic approach grows day by day as the military and political situation in the Korean Peninsula deteriorates. The ideology of the final memorandum therefore should be focused on peaceful means, prospects of improvement of DPRK's situation, international cooperation—i.e., *positive outcomes* as the attainable goal of negotiation process, bearing in mind that the “operational plan” should not be considered “threatening” by North Koreans or cause their suspicions.

Contrarily, an approach based on ideology of pressure, “*worst case scenarios*,” attempts of “demanding” something from North Korea

without offering anything but promises in return has not worked before and will not work in the future. It is just useless to present “disincentives” and remind that “all options on the table” to achieve any of the goals vis-à-vis North Korea. The reality is *that it is North Korea* who could threaten its adversaries with “disincentives” and “negative consequences,” not vice versa. The latest example is their virtual boycott of 6-party talks, missile test, and ominous (even if was meant only as a threat) preparations for a nuclear test as an answer to the financial sanctions (even if the latter might have been sincerely meant at the beginning as stimulus for “improvement of North Korean behavior”). The logic of “punishing for bad behavior” was never effective with North Koreans and, due to inherent characteristics of their “siege” mentality and military-oriented policy, only pushes them into more isolation and hostility. Any kind of an additional pressure and “disincentives” would only lead to further tensions and new challenges on the part of North Koreans, as they see it as a proof of hostile intentions and “a declaration of war.” For example, the active promotion of PSI may lead to volatile North Korean actions—like seizing “intruding” foreign ships at seas near Korea—regardless of the consequences for North Korea itself. There are many ingenuitive “asymmetrical” answers that would be seen by North Koreans as reciprocal (because their approach stems from the conviction of equality of DPRK to everybody, including the USA) but as a net result would only lead to aggravation of the situation.

On the contrary, well-meaning approach and serious attention to North Korean concerns—at least preparedness to discuss them—could work wonders. The progress could be achieved step by step in the areas where real possibility for compromise exists, not simultaneously “at all fronts.” We are for *gradualistic and comprehensive approach*, which would be aimed at singling out any possible area of cooperation and trying to achieve results in it. Therefore the South Korean colleagues’ proposal that five countries *must avoid a situation where one difficult issue always remains to be settled* might be good-intentioned but unrealistic. Does it mean that all of the negotiators have to find out final decision on all problems immediately? It is theoretically possible, but only after North Korea’s capitulation or collapse. Under modern conditions, it is more than difficult to resolve all kind of security, political,

economic, and humanitarian problems immediately after the end of the next stage of negotiations. If the negotiators insist on the proposed formula, it will have a negative result: a new stage of confrontation without clear prospects for positive trends. So five countries have no choice but to continue to negotiate with North Korean administration in order to resolve the problems step by step.

Agreement on these modalities of approach to interaction with North Korea is essential for elaboration of a coherent common strategy of the five countries (or maybe “5+” actors including international organizations).

Suggestions for the memorandum

The same authors use another disputable formula in their operational plan: always make conditional proposal (to North Korea): *If. . . then.*

If this formula used rigidly and looks like ultimatum, it is a non-starter. On the other hand, it is possible to make this formula more flexible and rather acceptable both for North Korea and five countries, provided North Koreans would accept it as serious bargaining, not just “cornering” them. Therefore no direct linkages between separate items should be suggested. It should be a *package formula* (first suggested by Russia and favored by Pyongyang)—first maybe covering a limited number of issues and then broadening by including new areas of agreements.

To start the movement, the five countries might try, as the Institute of Foreign Policy recently suggested (<http://www.nautilus.org/napsnet/sr/2006/0668IFPA.pdf> and <http://www.nautilus.org/napsnet/sr/2006/0669IFPA.pdf>), to agree on a plan, which could then be presented as part of a package “words for words, actions for actions.” This “*plan for plan*” would be more comprehensive and could put clear orienters for Pyongyang to work out its own plan. (Kim Gye Gwang has already suggested the “in principle” 5-stage nuclear disarmament plan in November 2005, but it should be more elaborate and comprehensive.) Some ideas which could be useful for the “5-party” plan were suggested, for example, by KINU (see Cho Sung-Ryol, *Road Map for Peace Regime and Nuclear-Free Korean Peninsula* [in Korean], KINU Policy Series 2005-05 (Seoul: Korea Institute for National Unification,

September 2005); available from <http://www.kinu.or.kr/kinu/sc/sc.csp?sccode=data01&scCategorySr=1>).

First of all it is worth to note that the spirit of the proposed plan should be balanced very carefully. Pragmatic and strategic, not emotional and current political purposed, should be prevailing. In this case *If . . . then* formula may be very close to the *package deal*.

Most importantly the plan should include a very thorough program of social and economic development based on internationally supported judgments on how and passing what stages DPRK can develop in the coming decades. (We made some proposals on the contents of “economic package” to be agreed on by 5 countries and presented to DPRK to work out their side’s reciprocal proposals in our presentation in Beijing.)

That does not mean, of course, that any of North Korea’s attempts of blackmailing policy could be tolerated. It is also absolutely non-discussable that realization of North Korea’s nuclear program must be under international control and the country should be back to NPT. If North Korea agrees (it in fact already did in the Statement of 19th of September 2005), it would be the international community’s turn to make suggestions. At the same time, *if . . . then* formula may be attractive for North Korean side, because the country can reach its main political purpose. Instead of permanent political battles with outside world, *if . . . then* (or, better to say, simultaneously) gives this country a chance to get security guarantee from outside world, including the U.S., as well as gives an opportunity to modernize national economy and improve foreign economic relations.

Now the moment to make such a proposal is very appropriate. The question of the heir to Kim Jong Il is now on the agenda as crucial for the survival of DPRK. Recent marriage of the North Korean leader to his talented former secretary Kim Ok puts quite a new dimension to the issue. Even if not a direct heir of the leader (although her abilities make her quite apt for the job), she could still be very influential in the years to come. Being very knowledgeable in Western and South Korean realities she could well try to derive her legitimacy from the possible improvement of relations with the West. This is a moment not to be missed.

Important problem is possible *level of correlation* between multinational cooperation of five countries with DPRK and bilateral cooperation of each of these countries with North Korea. The contradictions among the “big five” play into North Korean conservatives’ hands and do not help promote the necessary changes.

In this case the mechanism of realization of *parallel sequence* plan of action (according to RAND proposal) may be an adequate base for a compromise policy toward North Korea. It should be low profile and gradual at least at the initial stages.

Multinational efforts can be concentrated on some limited, but very important, *areas of cooperation* with North Korea. We feel it necessary to specify them in the final report. It is necessary for NEA countries to focus on elaborating common efforts in such areas of cooperation as restructuring of transport and energy infrastructure, transportation (including railway and container), IT industry (which is favoured by Kim Jong Il and is very effective for the “opening” of the country), modernization of agriculture, ecological problems, social overhead capital. Humanitarian, educational, and cultural exchanges could be added—but only to the extent acceptable to DPRK authorities.

If experts agree with a few numbers of basic principles of negotiations, it will easily adopt all other details. It should be noted that what we want to draft is an “ideal” scenario—a sort of guidance for practical negotiators and decision-makers, not a practical manual. Therefore it should be idealistic and over-expectant rather than pessimistic. There are lots of “worst-case scenarios” on the market now—which does not add any security feeling to North Koreans and is therefore counter-productive.

NGO Initiatives for the Normalization of North Korea

Oh, Kwan-Chi
Shin, Hyun-Gon
POSRI

In addition to the conditional proposals made by POSRI in the fourth workshop, we believe there is a strong need to proceed with such voluntary initiatives as listed below. Even though the normalization of North Korea will be entirely settled through Leader Kim Jong Il's resolution, the counsel, aspiration, and atmosphere of his principal members and followers will influence his resolution. Therefore, as a part of strategies to promote the normalization of North Korea, the five nations should provide all potential opportunities and means for North Korean leaders of all levels to feel and keenly recognize the necessity of the open-door policy and social reform in their country. In such an effort, we believe that the five nations should continuously undertake NGO activities including the following voluntary programs.

I. Economic Exchange

Industrial tour programs

Objective: To give prominent North Korean leaders the chance to recognize the level and condition of North Korean industries compared with those of the world by providing them with opportunities to conduct on-site observations of the industries of the five nations (China, Japan, Russia, USA and Korea). To encourage North Korean leaders to pursue an open-door policy and social reform by allowing them to witness the likely results of the opening and reform of the North Korean economy when successfully achieved, as was the case in China.

Subject of invitation: Government officials, executives of state enterprises, military leaders, party leaders, journalists, university professors, etc.

Organizing bodies: The Chamber of Commerce and Industry, private companies, etc.

Special measures: China to arrange visits to foreign-invested enterprises as well as special economic zones like Shenzhen.

Introduction of the open economic system and social reform cases of China and Russia

Objective: To enable the North to confidently proceed with the opening of its economy and the implementation of reforms through the introduction of the pre-conditions of an open economic system and reform as well as relevant policies, experiences, and lessons to a group of North Korean economic experts.

Subject of invitation: North Korean party leaders and public officials responsible for economic-policy making, executives of state enterprises, economic professors, etc.

Organizing bodies: Research institutes in China and Russia, universities, private companies, etc.

Main themes:

China's experience in agricultural reform

China's inducement policies for foreign direct investment

China's state enterprise reform policies

Private enterprise promotion policies

Capital market development policies

Policies, experiences, and lessons of economic transition in Russia.

Workshop on the opening of the North Korean economy and reform strategies

Objective: To equip North Korean economic experts with the abilities to pursue policies for an open economy and reform by providing them with appropriate strategies for economic opening and reform as well as action plans and enforcement procedures.

Subject of invitation: North Korea party leaders and public officials responsible for economic-policy making, executives of state enterprises, economic professors, etc.

Organizing bodies: International development organizations such as the ADB, IBRD, and IMF.

Hands-on training of business management

Objective: To provide North Korean business managers with the opportunity to experience business management in a market economy.

Subject of invitation: Executives of state enterprises in North Korea.

Organizing bodies: Selected enterprises from the five nations.

II. Social Exchange

Woman NGOs' mutual exchange

Objective: To introduce global realities to women leaders in North Korea by promoting mutual exchanges among women's NGOs in the five countries and North Korea.

Subject of invitation: Members of North Korean women's NGOs.

Organizing bodies: Women's NGOs in the five countries.

Professional occupation associations' mutual exchange

Objective: To introduce global realities to North Korean professional workers by promoting mutual exchanges among professional occupation associations such as bar associations and medical associations in the five countries and North Korea.

Subject of invitation: Members of North Korean professional occupation associations.

Organizing bodies: Professional occupation associations in the five countries.

Environmental and other social NGOs' mutual exchange

Objective: To provide North Korean social leaders with opportunities to experience the outside world by promoting mutual exchanges among the social NGOs in the five countries and North Korea.

Subject of invitation: Leaders of North Korean social NGOs.

Organizing bodies: Social NGOs in the five countries.

Sports exchange

Objective: To help the North Korea people access information about the outside world through sports exchanges among the five countries and North Korea.

Subject of invitation: North Korean sports associations.

Organizing bodies: Sports associations in the five countries.

Sisterhood relationship establishment and reciprocal visits between provinces

Objective: To provide the North Korean people with opportunities to experience the outside world by establishing sisterhood relationships among local governments in the five countries and North Korea and by promoting reciprocal visits.

Subject of invitation: Residents of the sister provinces.

Organizing bodies: Local groups of citizens.

Housewives' reciprocal visits

Objective: To introduce global realities and alternative approaches to home economics to North Korean housewives through reciprocal home-stay visits among the five countries and North Korea.

Subject of invitation: Housewives in North Korea.

Organizing bodies: Women's NGOs in the five countries.

III. Education and Scholastic Studies Exchange

Scholastic studies exchange

Objective: To provide North Korea scholars with opportunities to experience global realities by encouraging participation in scholastic events such as annual scholastic studies presentations.

Subject of invitation: North Korean scholars in academic societies.

Organizing bodies: Scholastic societies in the five countries.

Professor exchange system

Objective: To provide North Korea professors with opportunities to experience the outside world.

Subject of invitation: Professors in North Korea.

Organizing bodies: Universities in the five countries.

Reciprocal student group visits

Objective: To provide North Korea students with opportunities to experience the outside world through short-term reciprocal visits among students groups.

Subject of invitation: Students in North Korea universities and colleges.

Organizing bodies: Universities in the five countries.

Reciprocal education leaders' visits

Objective: To provide North Korean education leaders with opportunities to experience global realities.

Subject of invitation: Heads and principals in schools, university presidents and college deans.

Organizing bodies: Education NGOs.

IV. Culture Exchange

Joint staging of concerts, plays, and art exhibitions

Objective: To provide North Korean artists with opportunities to experience the outside world through artistic exchange.

Subject of invitation: North Korean artist associations.

Organizing bodies: Artist associations in the five countries.

Movie exchange

Objective: To provide the North Korean people with opportunities to view the outside world through the screening of international motion pictures in North Korea.

Subject of invitation: North Korean people.

Organizing bodies: Motion pictures associations, etc.

V. Mutual Military Exchange

Veteran officers' mutual exchange

Objective: To provide veteran North Korean officers with opportunities to experience the outside world (including industrial facilities, military exercises, and so on) so that they can fully understand modern military operation capacities.

Subject of invitation: Veteran North Korean officers.

Organizing bodies: Veterans' associations in the five countries.

Invitational arms control seminar

Objective: To help veteran North Korean officers fully understand that North Korea can reinforce its national security through arms control by inviting them to an arms control seminar and introducing international methods for the prevention of accidental military conflicts.

Subject of invitation: North Korean military scholars and veteran officers.

Organizing bodies: Host NGOs.

Visit to veteran-operated industries in China and Russia

Objective: To help veteran North Korea officers fully understand how to achieve occupational transition following the adoption of an open-economy system by introducing methods by which veteran Chinese and Russian officers as well as NCOs were able to transform into business people.

Subject of invitation: Veteran North Korean officers and NCOs.

Organizing bodies: Chinese and Russian veteran's associations.

RINSA's Perspectives on the Final Report

Dr. Yong-Sup Han

Dr. Youn-su Kim

1. General assessment of the final report

By narrowing down the gap mainly between the U.S. team and the Chinese team, the final report seems to mitigate North Korea's security concerns and fears including a change in the title from normalizing to modernizing.

Overall, the final report seems to be palatable to the North Korean side, except for minor points describing North Korea's static nature of not admitting need for a change from the inside, because North Korea is slowly and gradually moving toward a domestic economic change despite the North Korean military's unchanging posture and attitude due to the military-first politics.

2. Issues to be resolved in the joint study

For Plan B, which country will bear costs for North Korea's economic development and energy support?

Utility of foreign ministers' meeting and summit meeting in making progress in both the nuclear matter and the modernization of North Korea.

Will we pursue a parallel process of resolving North Korea's nuclear issue and ending the Korean War (or building the peace regime)?

How to turn the Powerpoint presentation into a report with explanations.

In Plan A, B, and C, do we need to prioritize policy instruments depending on the importance, feasibility, impact, or North Korea's acceptance of each instrument?

Are there any anticipated problems in applying and implementing the instruments? As we vividly saw [with] the schedule slippage of the Feb 13th agreement in particular relation to the Banco Delta Asia's case, we had better identify any impediments in the implemen-

tation process of any plan to be agreed between five parties and North Korea.

3. Phases to implement the plan

Phases presented in the final report are so slow that those phases can be overtaken by events that will take place when the Feb 13th agreement is being implemented at the Six Party Talks.

* Foreign Ministers' meeting among Six Countries is supposed to take place before the second phase of the Feb 13th agreement.

Therefore, it will be more useful if those phases are reduced to two phases; for example, merge Phase 1 and Phase 2 into Phase 1.

In this case, Phase 3 should become Phase 2.

For example, Phase 1:

Verifiable denuclearization, incentives limited to small humanitarian assistance and commitments made in Six Party Talks

U.S./international security guarantees and/or six nation declaration on non-aggression

Direct and bilateral talks leading toward normalization of relations and peaceful coexistence

Prohibition of NBC weapons and technology transfers

Creating mechanism for ending Korean War and negotiating peace regime

Support for economic experiments and pilot projects including Gaeseong Industrial Complex

Academic and Business/NGO/cultural exchanges.

Energy Cooperation for North Korea

Revenues derived by government to exceed revenues derived by illegal activities

Phase 2:

Bilateral/multilateral military-to-military security seminars/exercises given that North Korean military is the last group to be engaged in the external world

Establishing code for foreign investment/joint ventures and property rights

Assisting development of commercially competitive enterprises and commodity markets

Creating modern financial and budgetary systems

DPRK participation in international conferences and institutions

Reciprocal adjustment in size and deployment of military forces and other Cooperative Threat Reduction Initiatives.

South Korea's Policy Options to Normalize North Korea

Dr. Yong-Sup Han

Dr. Yeun-Su Kim

RINSA

I. Introduction

South Korea's policy toward North Korea has long been based on the three step approach to achieve unification: (1) at the first stage, achieving exchanges and cooperation between the two divided Korea; (2) at the second stage, establishing a peacefully coexisting condition for one country and two governments and two systems of the two Korea without a war, and; (3) finally, reaching unification, a unified Korea—one country and one government system.

After the former President Kim Dae-jung's pursuit of the so-called "Sunshine Policy," the importance of the final step of the unified Korea has been downplayed, if not dropped entirely in South Korea's policy toward North Korea, not only because the goal of the unified Korea is nearly impossible to achieve within a foreseeable future, but also such an ambitious goal had, in fact, to end up denying one of the two Korea ultimately. Therefore, the South Korean government adopted the two earlier stages to guide South Korea's policy toward North Korea, while North Korea recently hardly mentions the unified Korea since the June 2000 Joint Statement.

Accordingly, the Roh Moo-hyun government's policy of peace and prosperity on the Korean Peninsula places an emphasis on the need for the institutionalization of peace and cooperation, not on the need for one unified Korea. The policy of building a durable peace regime has been adopted by the Roh Moo-hyun government. However practical South Korea's policy of peace and prosperity of the Korean Peninsula has been, no substantial progress in North Korea's nuclear issue has restrained the peace and prosperity policy from developing further. Though North Korea showed a keen interest in making a success in the Gaesung Special Zone and in inter-Korean economic cooperation, the nuclear issue drags the feet of South Korea toward North Korea.

Nevertheless, there is no practical option but to continue engagement and cooperation policy if countries in Northeast Asia are to succeed to make North Korea a normal state and a mature and responsible member of the international community. South Korea has three broad options to facilitate the normalization of North Korea. There are political, economic, and military dimensions to deal with North Korea. South Korea places more emphasis on economic aspects of the inter-Korea relations even if South Korea pursues the peaceful resolution of the nuclear issue and the promotion of the inter-Korean economic cooperation simultaneously.

This paper will show the lists of South Korea's policy items toward North Korea on three levels as noted in the above: Namely, political, economic, and security policies, and policy incentives that South Korea can provide North Korea. As North Korea's engagement with the outside world is limited, South Korea's engagement with North Korea is more limited. Therefore, South Korea alone will not make a big difference in North Korea's move toward the normalization. Nevertheless, it will be meaningful to list South Korea's policies and policy instruments so that all the countries surrounding North Korea can devise an effective strategy in order to collectively engage North Korea more effectively.

II. South Korea's Policy Items and Instruments Toward North Korea on a Political Level

In December 2005, the ROK government passed the Law on Development of South-North Relations through the National Assembly with bipartisan support. The basic tenets of the Law are to authorize the government to report to the National Assembly about its five year plan to develop the inter-Korean relations. Therefore, the government should submit the five year plan to develop the inter-Korean relations within the year 2006.

The Law stipulates that the development of the inter-Korean relations should be guided by the principles of independence, peace, and democracy. The Law also directs the South Korean government to pursue its development policy of the inter-Korean relations for co-prosperity of the two Koreas and to pursue a peaceful unification. The

development of the inter-Korean relations should be based on a national consensus inside South Korea and the principles of transparency and guiding principles. The Inter-Korean relations are not those between states but a special and internal relationship toward unification.

Though South Korea's influence on North Korea on a political level is limited, South Korea will be able to affect the North Korean leadership to accommodate South Korea's policy of peace and prosperity to some extent.

- The inter-Korean summit meeting: As shown in the powerfulness of the first inter-Korean summit meeting, the summit ushered in a new era of reconciliation and cooperation.
- The South Korean government pursues the second summit meeting and then attempts to regularize the summit meetings to discuss matters of mutual interest.
- The South Korean government wants to regularize the meetings between the cabinets of the two Koreas in addition to the ministerial meeting between the South Korean unification minister and North Korea's corresponding minister that already took place seventeen times.
- The South Korean government facilitates exchanges of people between the two Koreas.
- The South Korean government facilitates meetings between high-level military officers, eventually to regularize meetings between defense ministers of the two Koreas.
- The South Korean government uses the ministerial meetings and the future summit meetings to persuade North Korea to resolve its nuclear issue in a cooperative manner through Six Party Talks.
- Confidence building between the two heads of the two Koreas on a political level not only reduces tensions between the two Koreas but also builds trust and confidence, thereby fostering normalization of the relationship between the two.

III. South Korea's Economic Policy Items and Instruments Toward North Korea

South Korea has been actively pursuing economic cooperation policy toward North Korea. Recently the idea of forming the South-North economic community has been floated. The South Korean government put a name of “economy for peace” and “peace for economy” in an attempt to boost the Gaeseong Industrial Complex inside South Korea. The Mountain Kumgang tourism project is also claimed to be a success in the economic cooperation area with North Korea. The inter-Korean trade now surpassed \$1 billion in December 2005, together with more than one million South Koreans who visited North Korea. The economic interaction between the two Koreas will bring about a new era of reconciliation and cooperation on the Korean Peninsula unless North Korea's nuclear issue hinders such progress. However, the inter-Korean economic interactions are limited exactly because of the stalemate on the nuclear issue.

Compared with political and military instruments available for South Korea, South Korea has more powerful instruments in affecting North Korea to incorporate South Korea's quest for cooperation with its Southern brother. South Korea's policy of peace and prosperity is based on the premise that the more economic exchanges and interactions South Korea has with North Korea, the closer the inter-Korean relationship will become, therefore leading to a more peaceful inter-Korean relationship. Along this line, Seoul will try to achieve a success in the Gaeseong Industrial Complex and other economic engagement with Pyongyang.

The Gaeseong Industrial Complex

The Gaeseong Industrial Complex close to the north of the Demilitarized Zone in North Korea is a symbol of inter-Korean economic cooperation and is a test case for North Korea's opening toward South Korea. North Korea repeatedly claimed that it ceded the Gaeseong Special Zone to South Korea and it is South Korea's responsibility to develop it. The South Korean government propagates the initial success in promoting economic exchanges and cooperation in the Gaeseong Industrial Complex. The Seoul government intends to turn a tension-ridden Korean Peninsula, in particular, the DMZ area, into a peaceful

and prosperous zone. In spite of uncertainties and slow progress on the Gaeseong Industrial Complex, the importance of the Gaeseong Industrial Complex cannot be overestimated. As of now, almost 6,000 North Korean workers are working in eleven South Korean firms within the Industrial Complex, together with almost 1,000 South Korean workers.

The Mountain Kumgang tourism and human exchanges

The South Korean government holds the view that increasing exchanges between the two Koreas improved the inter-Korean relationship. 168,498 South Koreans visited the North, whereas 5,243 North Koreans visited the South. More than one million South Korean tourists (in fact, 1,115,244 as of December 2005) visited the Mountain Kumgang. Such human exchanges would increase over the next decade, unless a crisis such as the nuclear crisis recurs on the Korean Peninsula, through human exchanges and tourism.

The inter-Korean trade and human exchanges

The inter-Korean trade increased significantly over time since the year 2001. As of December 2005, North Korea's trade volume with South Korea composes 25 percent of its total trade volume with other countries, whereas China's trade volume composes about 40 percent of North Korea's total trade volume. South Korea will pursue more trade with North Korea in addition to its food and fertilizer assistance to North Korea.

Together with the above-mentioned three areas for the inter-Korean economic interactions, South Korea has policy of forming the economic community as a long-term policy toward North Korea. As mentioned in the previous chapter of the South Korea's political policy and instruments toward North Korea, South Korea's policy of forming the inter-Korean economic community is divided into three steps within the two earlier steps of the reconciliation and cooperation stage and the confederations stage:¹ (1) strengthening South Korea's

¹ We want to note here that the stages for the inter-Korean economic community are not official yet. Economists and experts differ on their classification of the inter-Korean economic community. Herein, we cite Young-Yoon Kim, "Strategy of Forming the Inter-Korean Economic Community," 2006.

economic ongoing cooperation with the North; (2) expanding South Korea's economic cooperation with the North and North Korea's adopting a market system; (3) forming the inter-Korean economic community. It is estimated to take fifteen years for the two Koreas to form the inter-Korean economic community. To promote and accelerate the inter-Korean economic cooperation, the South Korean government and Korean experts suggest the following course:

- During the first stage of strengthening South Korea's economic cooperation with the North, South Korea will try to achieve success in the Gaeseong Industrial Complex and accelerate to build social infrastructures of the North.
 - In Gaeseong: inducing investments of small and medium businesses in Gaeseong to be followed by expansion of the range and composition of businesses, finally inducing foreign investments.
 - Providing electric power in Gaeseong.
 - Encouraging North Korea's Special Economic Zone in other areas than Gaeseong.
 - Reconnection of railways and roads between the two Koreas.
 - Joint extraction of mines and ores.
- During the second stage of expanding South Korea's economic cooperation with the North, as North Korea adopts a market system toward South Korea as well as the external world, South Korea will accelerate the flow of South Korea's capitals and technology into the North.
 - South Korea will move labor, capital, and technology into the North.
 - South Korea and North Korea will produce items jointly in the North and sell those products overseas jointly.
 - As North Korea adopts the policy of economic openness and reform, it will dismantle the state monopoly partly.
- At the third stage of the inter-Korean economic community, it is assumed that a common currency will be available, provided that the two Koreas create a confederation formula that

will authorize the two governments to form an economic community.

- The free flow of capital, labor, and technology will move to the North.
- It will be possible to form one currency community.
- The North's economic dependence on the South will increase to the extent that almost 40 percent of the North's GDP comes from its trade with the South.

IV. South Korea's Security Policy Items and Instruments Toward North Korea

South Korea's security and military policy instruments are most limited in their scope and effectiveness in comparison with other policy items and instruments that South Korea can exert vis-à-vis North Korea. North Korea's nuclear issue has been out for almost two decades and yet has [not] been resolved. Since North Korea sees the United States having keys to the nuclear issue, South Korea cannot play a significant role in resolving the nuclear issue. In the nuclear negotiations with North Korea, the United States and China are major players.

South Korea's relative position in Six Party Talks does not imply that South Korea has no instruments in resolving the nuclear issue and in enhancing confidence on the Korean Peninsula. North Korea is partly engaging the South in military issues even if the range and effectiveness of such military talks are limited. Sometimes, Pyongyang showed interest in having direct military talks with Seoul either to evade the U.S. pressure or to help the inter-Korean exchanges and cooperation through supplemental agreements to support the inter-Korean economic cooperation. Therefore, South Korea wants to play a role in Six Party Talks and to make progress in military talks to reduce tension and to create a durable peace regime on the Korean Peninsula. Herein, South Korea devises a three step approach to build a peace regime on the Korean Peninsula.

- At the first stage, South Korea will endeavor actively to resolve North Korea's nuclear issue through Six Party Talks while trying to build military confidence with North Korea.

- South Korea will demand that North Korea abandon all nuclear programs, promise to dismantle its nuclear weapons and facilities.
- South Korea will try to impose verifications on North Korea, and North Korea should accept such verifications as agreed upon by Six Parties.
- South Korea will demand that five parties should agree what economic incentives they will provide to North Korea on condition that North Korea abandon and dismantle its nuclear weapons and programs, and North Korea should accept the agreements.
- North Korea's return to the NPT and verification of North Korea's compliance of non-nuclear North Korea should precede North Korea's use of nuclear energy for peaceful purposes, and South Korea will provide 200 Megawatt electric power if agreed between the two Koreas.
- Six party talks should continue until and after they achieve a non-nuclear Korean Peninsula and be turned into a regional security cooperation mechanism.
- Regarding the military confidence building between the two Koreas, South Korea will pursue Defense Ministerial Talks between Seoul and Pyongyang and continue to hold Meetings between Generals.
- At the Generals' meeting, South Korea will try to agree to the military measures to secure and promote inter-Korean economic exchanges and cooperation including confidence building measures.
- At the second stage, South Korea will endeavor actively to build a peace regime on the Korean Peninsula.
 - South Korea will be able to demand that the North should pull back the forward deployed forces in and around the Gaeseong area as the two Koreas expand the Gaeseong Industrial Complex.
 - The two Koreas may agree to setting up some military constraint measures such as limiting the size, scale, and frequency of military exercises and maneuvers.

- The two Koreas and the concerned countries will start a forum for establishing a permanent peace on the Korean Peninsula after resolving the nuclear issue of North Korea.
- At the third stage, the two Koreas and the participating countries in the peace forum will be able to agree to the peace regime, including replacing the armistice agreement with the peace agreement.

Comments on the Draft of Final Report on Modernizing the North Korean System

Georgy Toloraya, CCKS
IMEMO, Moscow

The agreements reached in Berlin in January 2007 between U.S. and NK, approved by the 6 parties in February in Beijing, are no more than first step, aimed at short-term policy goals (U.S.: movement towards denuclearization, NK: getting economic assistance and increased security). Still the success of these new policies—or, in fact, any progress whatsoever—depends largely on overcoming the lack of trust Pyongyang has over Washington’s real intention. By and large North Koreans are pretty sure U.S. has changed the tactics, not the strategy. Strategic goal is still eliminating North Korean regime, if not by direct pressure (which proved futile), then by engagement and erosion of the regime by “stifling in embrace.” To move to the next stage of solving the Korean problems (from “talking” to at least limited actions) it is necessary to take into account these North Korean concerns and suggest some positive outlook and prospects associated with the proposed changes for the North Korean elite. That means that North Koreans should be assured that the U.S. and the Western view of their country and its future is changing to a constructive one. To succeed further it should be made absolutely clear to the North Koreans that denuclearization is not the end in itself, and that the process should go on; the outcome should be well defined from the start: a non-nuclear, peaceful, modernizing, sovereign (*chajuajok*) North Korea, increasingly involved in regional economic cooperation and not threatened by anyone.

We feel that our project should try to fill the gap and introduce more long-term vision. It should be stressed that lasting reduction of hostilities and eventual so-called “Korean settlement” could only come as a result of changing of the status of DPRK from backward “pariah state” with totalitarian regime fearing for its security and relying on military-type organization of society to ensure its control to a more normal, “modernized” state (I would suggest the term “conventionaliza-

tion” of the country). It is important that North Koreans themselves could eventually embrace such a vision.

It should be noted therefore that North Koreans would treat with suspicion any recommendations which mention “system change in NK” (3), “risks and threats posed by North Korea [that are] long-term in character” (5), as they would see them as a proof of evil intentions. It is better to avoid the suspicion to the project by North Koreans by some editing job (changing, where appropriate, NK for “DPRK,” adding some language, understandable to North Koreans). The goal is to let North Korean political experts become aware of the conclusions and the suggestions of this report. It is necessary to point out from the start that the right of DPRK to exist and its sovereignty are recognized and that the recommendations of the report are aimed at “modernizing,” “improving” DPRK power structure and economic system, its “evolution,” not “changing the system.” (“Deng Xiao-ping model.”) We have to pay lip service to DPRK’s position and “sacred cows.” Even if it is understood that the proposed modernization in fact equals system change.

It is also necessary to understand North Koreans will rely on military containment (including WMD component) till the very advanced phase of its mending fences with the U.S. and the West and integrating into the world community. Therefore, expecting “decreasing dangers from and salience of the military” by “verifiable denuclearization,” “limitations on missile testing” (16), (32) would be an outcome, not the prerequisite of “modernization of North Korea.” Sequencing is extremely important here and probably should be addressed in more details in the final plan.

(31)—Additions to candidate portfolio.

Stronger emphasis on the economic reforms would be appropriate, based on the understanding that overall modernization of North Korean economy would require a “master plan,” in accordance with which the economic assistance should be allocated. For example, the following could be added:

Liberalization of trade/investment within Korean Peninsula (N-S FTA, FX convertibility, etc.).

Large-scale infrastructure projects under international supervision.

Encouraging emergence of commercially competitive businesses, and commodity markets.

(32) The most difficult issue is “phasing.”

Demanding the “verifiable denuclearization” in exchange for “incentives limited to small humanitarian assistance and commitments made in Six-Party Talks” at Phase 1 is unrealistic. North Koreans would not give up their trump card for promises, as the negotiations have amply shown.

It is also a safe guess that nobody in Pyongyang is currently thinking about discarding their hard-earned nuclear weapon any time soon. However, there is a clear prospect now of the demolition of the existing nuclear facilities and getting guarantees of no reappearance of a military nuclear program.

We would like to share some thinking on the sequencing to help make our Consensus Portfolio more adequate:

There is lots of uneasiness about even the nearest future (next phase of Feb 13 agreements)—which includes “provision by the DPRK of a complete declaration of all nuclear programs and disablement of all existing nuclear facilities, including graphite-moderated reactors and reprocessing plant.” Energy assistance alone might not be enough to make North Koreans deliver, unless substantial—and more or less irreversible—progress is made at the security provision and diplomatic normalization tracks.

Should the trust be restored and North Koreans become sure that U.S. won’t backtrack after they have declared and “disabled” their facilities, DPRK would want to get not only the lifting of sanctions and energy aid, but the blueprint of an international system of security guarantees. In addition to the above-mentioned steps, she should also be expected in that case to fully return to IAEA controls mechanism (maybe even sign the Supplementary Protocol of 1997), declare a ban on nuclear tests, formally declare its refusal (later verified by IAEA) to acquire uranium enrichment technologies, and put all existing materials under IAEA control.

In about 2 to 5 years, the new security system should be put in place, including bilateral and multilateral arrangements, and approved—or at least acknowledged—by the UN. At the same time an alternative power base in the DPRK will have to be created. I cannot see North Koreans being satisfied just with continuation of receiving fuel/power aid, as it won't solve the basic issue of DPRK energy security. The issue of LWR (which is after all mentioned in September 19th, 2005, Statement) will probably come on agenda again.

Only as a result of the following stage (up to 10 years from now) will it be possible to expect full liquidation of DPRK nuclear arsenal. However, that won't happen unless the situation around the DPRK becomes normal, its trust in the intentions of its partners becomes firm, and economically it is integrated into the region. Only then could a “South African option” (voluntarily giving up nukes) take place. And only then would DPRK be able to return to NPT (in what capacity could she do it before?) and the international non-proliferation regime could be fully restored.

Korean Peninsula Situation and Its Prospect After Nuclear Test

(Tokyo seminar)

Part One: New Change of Situation

On October 9, North Korea took nuclear test in spite of international community admonishment. This action crossed the red line of non-proliferation, and UN waged sanction on NK, because DPRK's nuclear test challenged not only NPT, but also UN, and it makes Korean Peninsula situation changed with more concern other than goodness.

First, NK becomes nuclear state, and it disturbs former Korean Peninsula security order.

Second, NK diplomacy is now in the most difficult time after it became one nation-state. The reasons are: It is the first time that 15 states in UN Security Council agreed to exercise sanction; also it is the first time that there is problem between NK and four powers at the same time.

Third, arms race within and beyond Korean Peninsula begins again.

Fourth, South Korean NK policy faces serious test.

Fifth, after related parties' consultation, NK finally agreed to come back to six-party talk. This brings one line of opportunity to break impasse resulted from nuclear test.

Part Two: Prospect of North Korea Nuclear Test

First, it is highly possible that six-party talk will resume this year, but it will face all kinds of difficulties.

- Spokesman of NK ministry of foreign affairs said on November 1, the precondition of NK back to six-party talk is that DPRK will discuss with United States financial sanction issue during the talk. It is not known whether U.S. will relax financial sanction. Maybe two countries need more time to bargain.
- Positions of all related parties are different; it needs more time to consult each other.

Second, it is highly impossible that situation will go out of control. The reasons are as follows:

- The main purpose of NK nuclear capability is to protect itself and improve its relationship with America. As long as NK's national security isn't in danger, it will not cross the red line of transferring nuclear technology without discretion. North Korea knows exactly that this kind of action will trouble itself.
- If DPRK doesn't transfer its nuclear technology, Bush administration with internal and external difficulties will not attack North Korea.
- Six-party talk could be used as one measure of crisis management. Furthermore, all parties agreed to solve NK nuclear issue peaceful in "9*19 statement."
- UN claims to resolve the crisis by dialogue, and NK neighboring countries don't want to be involved in war.

Third, in short and middle term, it is not easy for DPRK to be denuclearized in "complete, verifiable, and irreversible" way. But if United States is willing to give high incentive, it is also possible that NK will agree to give up nuclear. So-called "high incentive" means all NK requirements should be met: security insurance provided by U.S., peace treaty, normalization of relationship between U.S. and DPRK, lifting of all sanctions, end in using expressions like "terrorism supporting country, evil axis, and objective of U.S. nuclear attack," provision of huge economic assistance, not encumbering other countries' developing economic relationship with DPRK, resolution of NK-Japan historical issues (including provision economic compensation, establishing of diplomatic relationship, abolishing of economic sanction, safeguarding interest of North Korean people in Japan, not encumbering other countries' provision of capital to NK, etc.).

Fourth, if U.S. Democratic Party wins the congress election, there may be new opportunity to resolve NK nuclear issue.

Fifth, Chinese basic position on NK nuclear issue will remain unchanged.

China will continue to be committed to Korean Peninsula's denuclearization, to safeguarding peninsula peace and prosperity, to

resolving nuclear issue by peaceful means, in order to promote peaceful development and construct harmonious society. China still holds that six-party talk is one practicable way to solve related issues, with strong opposition to any idea of resorting to military means. China will strengthen consultation with related parties, closely cooperate, deal with calmly, and promote six-party talk process in order to realize peninsula denuclearization. China would like to continue to play constructive role in safeguarding peace and stability of Korean Peninsula and Northeast Asia.

Normalizing the North Korean System

Shinzo Kobori
 Institute for International Policy Studies, Tokyo

BEIJING, May 16-17, 2006

1

The Basic Assumptions (Countries by Alphabetical Order)

		DPRK	Japan	PRC	Russia	USA
The Survival of the Kim Jong Il Regime as Vital National Interest	◎	○	◎	◎	○	○
Reunification as a Goal	◎	○	○	◎	○	○
Denuclearization		◎	○	○	○	◎
Medium and Long Range Missile Removal		◎	○	○	○	◎
Non-Proliferation-WMD		PSI		PSI		PSI
Abductees Issues/Human Rights	No	◎	No	No?		◎
US-ROK Re-Alignment Strategy – Military	No	Security for NE Asia		○		◎
Illicit Trading	No	○	No	No		◎
Sanctions Against DPRK	No	Option	No	No	No	○

◎ The Highest Priority ○ A Priority No: Denial

2

Different Priorities

- The Survival of the Kim Regime
 - Its own security concern with the United States
 - The political stability ahead of the economic growth
 - China and South Korea are concerned with the collapse more than the nuclear weapons
 - The survival of the hereditary succession

3

- Reunification
 - North Korea is no longer a serious security threat to South Korea or still the geo-political risk?
 - An inter-Korean economic reconciliation and assistances could be the highest priority policy
 - Policy consistency between the inter-Korean economic assistance and the overall policy to normalizing the Kim's regime

4

- For Japan

- North Korea is the imminent security threat
- The Abductees issue needs the urgent resolution
- Normalization with North Korea has to precede any economic assistance to North Korea
- The successful Six-Party Talks are prerequisite for normalization
- Japan's normal trade with North Korea is meager and declining

5

- For the United States

- Urges North Korea to return to the Six-Party Talks
- Financial sanctions on illicit trading as per Sect. 311 of the Patriot Act
- North Korean refugees issue, as per the North Korea Human Rights Act of 2004
- The U.S. – South Korea Military Realignment Strategy

6

Strategic Themes

- Strategic Vision of North Korea
 - The lost three decades in economic growth (1975~). How and Why
 - Further expansion of inter-Korean economic activities towards reunification
 - North Korea in the global economy
 - North Korea and multilateral development institutions

7

- Operational Plans
 - The denuclearization with security guarantee by the United States
 - A commitment to provide the North Korea with energy assistance
 - Adoption of the export-led economic growth policy to generate enough and sustainable trade surplus
 - Investments needed for the expansion of the North Korea's international trade

8

- **Operational Plans continued**

- **An infusion of external capital to North Korea**
- **Japan as official and private fund supplier**
- **A policy dialogue and coordination mechanism on the North Korea in transition to be installed**
- **Overhaul of antiquated banking system**

9

- **Priority Areas**

- **Energy**
An integral part of the dismantlement of the North Korea's nuclear weapons program, the energy should have immediate attention
- **Infrastructures**
The North Korea should have infrastructures in logistics, which can compete with other Asian countries to qualify as an efficient supplier on the global supply chain network
- **Export Promotion**

10

The Scenario Planning

• The Best Scenario

- The successful conclusion of the Six-Party Talks
- Japan and the United States agree on the normalization with the North Korea
- Deep economic reform to aim at high and export-led economic growth in the North Korea
- “Military First” policy is repudiated
- China and South Korea continue to extend to North Korea their economic assistance at a larger scale
- Infusion of money from Japan and multilateral development organization

11

• The More Likely Scenario

- The Six-Party Talks still to be finalized
- Reforms more reactive and less pro-active to open the North Korean economy in global market
- China and South Korea may do what they can to prevent the North Korea from falling into collapse
- Free trade zone (FTZ) programs will be expanded near the border areas
- A low economic growth
- Japan will maintain normal trade with the North
- North Korea still suffers from chronic shortage of hard currencies and may depend on illicit trading

12

• The Worst Scenario

- No breakthrough
- The North Korea becomes a de facto nuclear power
- China and South Korea remain important economic partners
- Japan may maintain normal trade with the North
- Anti-reform moves are getting stronger
- A growing threat of imminent collapse from inside
- A military coup may place Kim Jong Il out of power
- A reunification on the Korean Peninsula will be extremely expensive and volatile proposition

13

North Korean Issue for Japan

• Security Threat

- 200 medium range No Dong missiles targeting Japan
- The North Korea going nuclear
- Illicit trading

• Abductees of Japanese Citizens

- The issue more on international stretch than being local
- Confrontation, not dialogue is prevailing

14

continued

- Economic relations
 - Very small normal trade which is declining further
In 2005, North Korea exported to Japan at \$132 million and imported from Japan at \$63 million. Unlike that with China or South Korea, North Korea's trade balance remained in surplus with Japan.
 - North Korea's default on debt with Japan not cleared
 - The Japanese financial regulators keep a watch on money transfer from Japan to the North Korea
 - Remittance from ethnic Koreans in Japan

15

Conclusion

- Economic relations
 - North Korea could be another Vietnam with vibrant economy.
 - How to get there depends on how soon the North Korea could shift its policy priority to the economic structural reforms for the nation re-building.
 - Then, a smooth reunification on the Korean Peninsula could be a reality, though not in a decade or earlier.

16

References

- Akaha, Tsuneo, ed., *The Future of North Korea*, New York: Routledge, 2002.
- Bank of Korea, *Annual Reports*, Seoul: Bank of Korea, 2000–2005.
- Becker, Jasper, *Rogue Regime*, New York: Oxford University Press, 2006.
- Buchanan, James M., Robert D. Tollison, and Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society*, College Station, Tex.: Texas A&M University Press, November 1980.
- Cha, Victor D., and David C. Kang, *Nuclear North Korea: A Debate on Engagement Strategies*, New York: Columbia University Press, 2003.
- Choi, Jinwook, and Sun-Song Park, *The Making of a Unified Korea—Policies, Positions and Proposals*, Seoul: Korea Institute for National Unification, 1997.
- Downs, Chuck, *Over the Line: North Korea's Negotiating Strategy*, Washington, D.C.: AEI Press, 1999.
- Eberstadt, Nicholas, "Financial Transfers from Japan to North Korea," *Asian Survey*, 36(5), 1996.
- , *The End of North Korea*, Washington, D.C.: AEI Press, 1999.
- Eberstadt, Nicholas, and Richard Ellings, eds., *Korea's Future and the Great Powers*, Seattle, Wash.: University of Washington Press, 2001.
- Flake, L. Gordon, *North Korea and Northeast Asian Regional Integration*, Washington, D.C.: Center for Strategic and International Studies, 1998.
- Haas, Michael, ed., *Korean Reunification: Alternative Pathways*, New York: Praeger Publishers, 1989.
- Hahn, Bae Ho, and Chae-Jin Lee, *Patterns of Inter-Korean Relations*, Seoul: Sejong Institute, 1999.
- Hahn, Bae Ho, and Chae-Jin Lee, eds., *The Korean Peninsula and the Major Powers*, Seoul: Sejong Institute, 1998.

Harrold, Michael, *Comrades and Strangers*, Chichester, West Sussex, United Kingdom: John Wiley and Sons Ltd., 2004.

Hwang, Eui-Gak, *The Korean Economics: A Comparison of North and South*, Oxford, United Kingdom: Clarendon, 1993

Initial Actions for the Implementation of the Joint Statement, text of agreement reached by Six-Party Talks members in Beijing and released on February 13, 2007. As of January 16, 2008:
<http://www.state.gov/r/pa/prs/ps/2007/february/80479.htm>

Joint Statement of the Fourth Round of the Six-Party Talks, text of agreement reached by Six-Party Talks members in Beijing on September 19, 2005, and released by Foreign Ministry of the People's Republic of China on October 3, 2007. As of January 16, 2008:
<http://www.state.gov/r/pa/prs/ps/2005/53490.htm>

Jung, Chang-Hyun, and Brent Choi, *The South-North Korea Summit: Six Hundred Days*, Seoul: Gimmyoungsa, 2000.

Kang, Chol-Hwan, and Pierre Rigoulot, *The Aquariums of Pyongyang: Ten Years in the North Korean Gulag*, New York: Basic Books, 2001.

Kang, Young Hoon, and Yong Soon Yim, eds., *Politics of Korean Reunification*, Seoul: Research Center for Peace and Unification, 1978.

Kihl, Young Whan, *Politics and Policies in Divided Korea: Regimes in Contest*, Boulder, Colo.: Westview Press, 1984.

Kim, Hakjoo, *Unification Policies of South and North Korea*, Seoul: Seoul National University Press, 1978.

Kim, Samuel, Tai Hwan Lee, Tai Hee Lee, eds., *North Korea and Northeast Asia*, New York: Rowman and Littlefield, 2002.

Kim, Woo Sang, *New Korean Strategy [Shin Hankook Chaekryak]*, Seoul: Nanam Publishing Co., 1998.

Kim, Young-Yoon, "Strategy of Forming the Inter-Korean Economic Community," paper presented at the Conference to Commemorate the Fifteenth Anniversary of the Korean Institute for National Unification, April 2006.

Korea Institute for International Economic Policy, *North Korea Development Report*, Seoul, 2003.

Korea National Statistics Office, "South and North Korean Societies Through Major Statistics," news releases, 2002.

Krueger, Anne O., "The Political Economy of the Rent-Seeking Society," *American Economic Review*, 64, 1974.

Kwon, Manhak, *Dialectic of Division and Unification*, Seoul: Yangji, 2000.

- Levin, Norman D., and Yong-Sup Han, *Sunshine in Korea: The South Korean Debate over Policies Toward North Korea*, Santa Monica, Calif.: RAND Corporation, 2002. As of January 21, 2008: http://www.rand.org/pubs/monograph_reports/MR1555/
- Martin, Bradley K., *Under the Loving Care of the Fatherly Leader*, New York: St. Martin's Griffin, 2004.
- Moltz, James Clay, and Alexandre Mansourov, eds., *The North Korean Nuclear Program*, New York: Routledge, 1999.
- Moon, Chung-In, and David I. Steinberg, eds., *Kim Dae-jung's Government and Sunshine Policy*, Georgetown University and Yonsei University Press, 1999.
- Nam, Sung-woo, Bon-hak Koo, and Curt Cornish, ed., *The Korean Peninsula—Prospects for Peace and Reunification*, Seoul: The Korea Institute for Defense Analyses, 1997.
- Natsios, Andrew, *The Great North Korean Famine*, Washington, D.C.: United States Institute of Peace, 2002
- Noland, Marcus, "The North Korean Economy," *Joint U.S.-Korea Academic Studies*, 6, 1996
- , *Avoiding the Apocalypse*, Washington, D.C.: Institute for International Economics, 2000.
- , *Korea After Kim Jong Il*, Washington, D.C.: Institute for International Economics, 2003.
- Oberdorfer, Don, *The Two Koreas: A Contemporary History*, revised and updated ed., New York: Basic Books, 2002.
- Oh, Kongdan, and Ralph C. Hassig, *North Korea Through the Looking Glass*, Washington, D.C.: The Brookings Institution, 2000.
- O'Hanlon, Michael, and Mike Mochizuki, *Crisis on the Korean Peninsula: How to Deal with a Nuclear North Korea*, New York: McGraw-Hill, August 2003.
- Park, Keun Young, *International Politics of the Korean Peninsula: New Approach to Peace and Unification*, Seoul: Orum Publishing Co., 1999.
- Pollack, Jonathan D., and Chung Min Lee, *Preparing for Korean Unification—Scenarios and Implications*, Santa Monica, Calif.: RAND Corporation, 1999. http://www.rand.org/pubs/monograph_reports/MR1040/
- Rhee, Sang-Woo, *Security and Unification of Korea*, Seoul: Sogang University Press, 1982.
- Schoff, James L., Charles M. Perry, and Jacquelyn K. Davis, *Building Six-Party Capacity for a WMD-Free Korea*, Dulles, Va.: Potomac Books, Inc., 2005.

Sigal, Leon V., *Disarming Strangers: Nuclear Diplomacy with North Korea*, Princeton Studies in International History and Politics (Jack L. Snyder and Richard H. Ullman, series eds.), Princeton, N.J.: Princeton University Press, 1998.

Six-Party Talks—Second-Phase Actions for the Implementation of the September 2005 Joint Statement, text of agreement reached by Six-Party Talks members in Beijing on September 27–30, 2007, and released by Foreign Ministry of the People's Republic of China on October 3, 2007. As of January 16, 2008:
<http://www.state.gov/r/pa/prs/ps/2007/oct/93217.htm>

Snyder, Scott, *Negotiating on the Edge*, Washington, D.C.: United States Institute of Peace, 1999.

Wolf, Charles, Jr., and Kamil Akramov, *North Korean Paradoxes: Circumstances, Costs, and Consequences of Korean Unification*, Santa Monica, Calif.: RAND Corporation, 2005. As of January 21, 2008:
<http://www.rand.org/pubs/monographs/MG333/>