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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



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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.

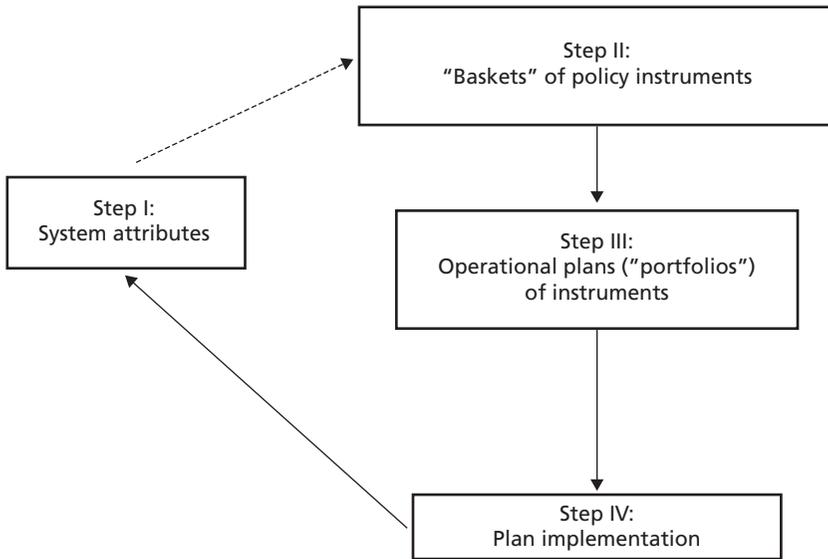
Among the major substantive conclusions with which the research partners agreed were the following:

- 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



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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.