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A Coming Crisis on the Korean Peninsula? *The Food Crisis, Economic Decline, and Political Considerations*

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- Over the past two years there has been a remarkable transition in perceptions among Washington-based policy makers regarding the nature of the threat posed on the Korean Peninsula, from a focus on North Korea's nuclear program and military strength to a focus on the potential instability arising from North Korea's economic vulnerabilities and political uncertainties.
- The Geneva Agreed Framework has provided the basis for defusing potential confrontation associated with the North Korean nuclear program, but--as the North Korean spy submarine incident demonstrates--fundamental issues relating to security on the Korean Peninsula remain unresolved, and there is no well-established multilateral mechanism for dealing with issues of economic crisis and political instability. U.S.-North Korean talks and North-South contacts are sporadic and not well institutionalized. After some initial difficulties, North Korea has apparently lived up to its nuclear-related responsibilities under the Agreed Framework, including maintaining an International Atomic Energy Agency-monitored freeze on its nuclear facilities and cooperating to stabilize and containerize spent fuel from its 5-megawatt experimental reactor. However, without a confidence-building process that addresses the fundamental sources of tension on the Korean Peninsula--including the necessity of improved North-South relations--the core elements of the Geneva Agreed Framework will remain vulnerable to disruption.
- KEDO (Korean Economic Development Organization)--an international organization of American, South Korean, and Japanese staff founded to implement the Agreed Framework--has established itself as an effective interlocutor with North Korea on nuclear-related issues. KEDO has reached agreement with North Korea on the scope of its supply obligations and has provided North Korea with heavy oil as stipulated under the Geneva Agreed Framework. KEDO has also provided opportunities for indirect contact between North and South Korean government officials in the absence of other regular channels

for dialogue. The major challenge to KEDO at the moment is whether sufficient political support exists in the United States, Japan, and South Korea to raise the funding and number of members from governments to ensure KEDO's financial ability to provide the required heavy oil shipments and initiate light water reactor construction. South Korean attitudes toward KEDO have moved from skepticism to cautious support of KEDO as a useful and even desirable element in dealings with the North. But as South Korean reactions to the recent submarine incursion demonstrate, in the absence of fundamental confidence-building processes on the peninsula, prospects are not bright for productive direct dealings between Seoul and Pyongyang.

- The need for continuous policy coordination among the U.S., South Korean, Chinese and Japanese governments to determine fundamental policy objectives and tactics in stabilizing relations with the North remains a significant challenge in managing the Korea issue. Although all sides share the goal of achieving a transition to peace on the Korean Peninsula, there is no consensus either within or among these countries on how to achieve this goal. Sporadic North Korean attempts to induce a crisis atmosphere on the peninsula, either to spite the South or as a tactic to maximize its negotiating advantage, underscore the critical need for a unified policy response from Washington, Seoul, and Tokyo.
- The importance of the People's Republic of China (PRC) as one of South Korea's major trading partners, an emerging political dialogue between Beijing and Seoul, and China's recent decision to resume significant levels of bilateral aid to North Korea all indicate that the PRC's influence on developments on the Korean Peninsula is growing. China is working to balance its political and economic relations with both North and South Korea in ways that will increase its influence over the shape of any final settlement between the two Koreas.
- The North's economic decline, its food crisis, and its inability to formally confirm Kim Jong Il's succession to leadership following the death of Kim Il Sung have stimulated questions among outside observers about the future of the regime. Although sudden political change in North Korea cannot be ruled out, it is by no means inevitable. Nonetheless, prudence requires preparedness for the possibility of a sudden, crisis-induced change on the Korean Peninsula; indeed, this possibility underscores the importance of seeking ways to manage a transition from confrontation to peaceful stabilization through a process of tension reduction, confidence building and maintaining security on the Korean Peninsula.
- A continuing challenge for policy makers is the food crisis in North Korea, which stems not only from successive years of flooding, but also from long-term structural failures in North Korea's agricultural system. With predictions from UN World Food Programme (UNWFP) representatives on the ground that conditions of "malnutrition" could turn into a "famine" in localized areas in the coming months, the situation is sufficiently serious to warrant an immediate humanitarian

response--with full recognition that a destabilized North Korean society would hold serious security consequences for all concerned with the future of the peninsula. Emergency aid from the UNWFP and bilateral food assistance from the PRC, however, cannot resolve the structural problems in North Korea's agricultural sector, which remain unaddressed. Whether and how to give aid to North Korea to address its structural agricultural production deficit is a sensitive political issue that will require careful consideration and, if possible, coordination among South Korea, Japan, China, the United States, and international organizations, including the UNWFP.

One possible approach is to view North Korea's food situation as a symptom of core economic problems and its concurrent lack of credit in international markets. Instead of providing aid simply to satisfy North Korea's food deficit, efforts must be made to stimulate North Korea to undertake the fundamental economic and related reforms that will address the fundamental underlying structural weakness of its economy. Such reforms should enable North Korea, in time, to meet its food needs and create a political and economic environment that would attract foreign investment. For instance, South Korea, Japan, and the United States might form an international organization similar to KEDO to address structural economic needs beyond those caused by the recent flooding. Such an organization might provide credits that would allow purchases of designated items on the international market in proportion with North Korean steps toward economic transparency and agricultural reforms, rather than linking North Korea's economic problems with the separate question of political issues between the two Koreas.

- Although an anticipated food crisis prior to this year's fall harvest seems to have been averted for the moment as a result of Chinese and other emergency assistance, countries directly concerned with stability on the peninsula need to develop a long-term policy for managing the complex challenges posed by the fundamental political, military and economic uncertainties in North Korea. Otherwise, a crisis might develop too quickly for a coordinated response from South Korea, Japan, and the United States. South Korea and the United States should maintain a consistent, unified approach toward the North as part of a clearly articulated strategy designed to maintain deterrence, reduce military confrontation, and achieve peaceful reunification, or, alternatively, to manage a counterstrategy that responds to a possible lack of North Korean cooperation or other contingencies.
- The food and energy crises have raised critical questions about the need for contingency planning to prepare for any sudden changes that might occur in North Korea in the absence of reforms. Likewise, advance preparations are critical for refugee flows that might result from further economic decline and/or widespread famine in North Korea. The political-military implications of instability in the North could

pose unique challenges for the U.S.-South Korean security alliance and require advance coordination to avoid major differences between allies at a point of crisis.

- The major challenge for the United States is to pursue its strategic objectives in Northeast Asia by dealing with the prospects of sudden instability on the Korean Peninsula. As the only outside power with a military presence on the peninsula, the United States has a special responsibility to manage a policy coordination process with its allies at the highest levels, the objective of which should be to bring together South and North Korea to facilitate real progress in negotiating tension-reduction measures and the establishing of a stable peace on the Korean Peninsula. If attempts to initiate a North-South dialogue fail because of lack of cooperation or as a result of heightened political tensions, it may become necessary to respond to negative contingencies, in which case policy coordination will be essential. The challenge of coordinating policy toward North Korea--in the event of either a positive or a negative response from the North--will require sustained and constant attention to complex issues, many of which must be decided through consultations at the highest levels.

KEDO: Developing a Record of Positive Performance

KEDO, an international organization created to implement the provisions of the Geneva Agreed Framework (negotiated between the United States and North Korea in October 1994), has been the most intensive venue for U.S., South Korean, and Japanese joint policy coordination efforts toward North Korea. Under the leadership of American executive director Stephen Bosworth and his South Korean and Japanese deputy directors--Choi Young Jin and Itaru Umezu--KEDO has negotiated a nuclear supply agreement with North Korea consistent with the provisions of the Geneva Agreed Framework, has completed site surveys to determine where the light-water reactors will be built, and is supplying 500,000 tons of heavy oil per year to North Korea. Although much of the work of KEDO has been done out of the public spotlight, it serves as the most effective available model of day-to-day policy coordination among the United States, South Korea, and Japan in their dealings with North Korea. In addition, KEDO has been one of the few effective vehicles over the past year for regular, indirect contacts between North and South Korea.

The most significant aspect of KEDO's interactions with North Korea thus far is that it has been accepted by the North as a legitimate negotiating partner. KEDO's multinational membership--including South Korean and Japanese staff--has not proved to be an obstacle to its ability to implement the framework agreement. Equally significant has been South Korea's increased confidence in KEDO as a mechanism that can successfully manage the light-water reactor project without harming Seoul's interests.

It is significant that Ambassador Bosworth was able to travel to North Korea with his South Korean and Japanese deputies in March 1996 after declining

an invitation the previous September because of North Korean attempts to exclude the deputies. One of several site survey teams dispatched to Pyongyang by KEDO early in 1996 included one American, one Japanese, and nineteen South Koreans. The team accomplished its work in North Korea without incident.

KEDO has selected the Seoul-based Korea Electric Power Company (KEPCO) as the prime contractor to build two light water reactors in North Korea, and--in addition to negotiating with North Korea the terms of supply and repayment that form the foundation of KEDO's working relationship with North Korea--has negotiated supplementary protocols on transportation and communication and on privileges and immunities to deal with sensitive practical issues that will arise in the course of building the reactors. Groundbreaking and site preparation are projected to begin in late 1996.

The biggest challenge KEDO currently faces is raising financing to cover the cost of providing 500,000 tons of heavy oil per year to North Korea. Given its severe fuel shortage, North Korea has a vital interest in KEDO's implementation of this provision, by implication raising the possibility that a suspension of heavy oil by KEDO could lead North Korea to abandon its obligations under the Agreed Framework. A U.S. government contribution of \$22 million for fiscal year 1996, held up by the congressional budget debate, was originally designated to cover part of the cost of heavy oil, and an emergency one-time contribution from the government of Japan ensured that oil deliveries were not suspended in early 1996. For fiscal year 1997, Congress threatened to cut support for KEDO by almost half, from the \$25 million requested to \$13 million, before deciding in conference to approve the full \$25 million appropriation. If the United States had failed to support KEDO financially, the entire Agreed Framework--including South Korean and Japanese political willingness to contribute billions of dollars for the reactors--could have been jeopardized.

North Korea's capacity to receive and use the heavy oil is constrained by inadequate storage facilities. Since North Korea is incapable of absorbing the 500,000 tons of heavy oil in one or two large deliveries, KEDO has had to arrange for more costly monthly purchases of oil on the spot market. KEDO's urgent priority is to raise money to cover the remaining cost of oil deliveries. It is expected that in addition to the U.S. government contribution of \$25 million, the European Union may eventually join KEDO's board with a membership contribution of about \$20 million, and other Southeast Asian and Middle Eastern countries may be encouraged to join to provide the additional \$10 million to \$15 million needed.

The Policy Challenges Posed by North Korea's Vulnerabilities

During the past two years, a remarkable change has occurred in the assessments of many policy makers and analysts concerned with North Korea. In the summer of 1994, many feared that military measures might be required to halt the North Korean weapons program. The challenge at that time was coordinating policy with regional neighbors--Japan, South Korea,

and the People's Republic of China--which were reluctant or unwilling to apply economic sanctions to prod North Korea toward full observance of the Nuclear Non-Proliferation Treaty.

Now--with the North's nuclear program frozen and under international controls--the fundamental difficulty lies in North Korea's dependence on foreign assistance to meet even the minimal demands of its population for food and energy. North Korea's economic decline--which inevitably must have some effect on political considerations in Pyongyang--has led to contradictory assessments of the situation among South Korean, U.S., and other analysts.

Some analysts predict the imminent collapse of the North Korean state along the lines of the collapse of communism in Eastern Europe. Some fear the consequences of instability connected with such a collapse and urge measures to defer a "hard landing." Others insist that North Korea will likely survive for some time and that the United States and South Korea must develop a policy approach to manage tension reduction and the integration of North Korea into the international community.

Those who see imminent change argue that the food crisis is severe and is bound to create unrest among the North Korean population and elite levels of society, leading to dissatisfaction with Kim Jong Il's leadership and the possibility of a regime transition, if not a collapse of the state. Adherents to this view argue that the differential in economic levels between North and South Korea is continuing to grow, with the result that the costs of an early Korean reunification will be less than the ultimate costs of deferring reunification. Besides, a regime transition may result in a North Korean leadership more open to reform than that of Kim Jong Il, who is seen as a captive of the need to maintain a system built on the foundation of his father's legitimacy.

Other analysts concerned with the possibility of instability in North Korea note the rise in the number of refugees and defectors from the North, the severity of the food situation, and signs that political control in North Korea is breaking down. However, these analysts worry that the costs of instability are too high and too unpredictable, and they argue for actions--particularly the provision of food aid--that might lessen the potential for instability in the short run while giving policy makers more time to put in place a contingency policy. These analysts believe that food aid serves both security and humanitarian purposes.

A third school holds that a collapse, while conceivable, is by no means inevitable. North Korea's continuing survival--despite the collapse of communism in the Soviet Union and Eastern Europe and the weakening of North Korea's relationship with the PRC--suggests that North Korea must be dealt with on its own terms, without trying to make too many predictions based on experiences presumed comparable. The North Korean regime has already absorbed tremendous shocks without initiating major economic reforms. Despite economic difficulties the political system remains in place, with no clear sign of challenge to Kim Jong Il's leadership. These analysts prefer to give the North Korean leadership concrete opportunities to choose economic

opening and the development of new political relationships with the outside world in the belief that those contacts, if properly managed, might support momentum toward reform in North Korea and facilitate the reduction of tensions between North and South.

In the face of North Korea's vulnerabilities, the possibility of sudden and unpredictable changes on the Korean Peninsula, and the division among analysts, policy makers are finding it difficult to come to grips with the underlying questions that shape tactical approaches to policy coordination in the United States, South Korea, Japan, and China. Tactical coordination on such issues as food aid, parallel progress in the pace of North-South relations, how to apply or relieve political or economic pressure on North Korea, and how to respond to sudden economic or political instability in North Korea is exceedingly difficult, but critical. Ultimately, the extent to which external policies even influence decision making in Pyongyang is unclear. However, if a "soft landing"--a gradual, nonviolent change designed to bridge the political and economic differences between the two Koreas--does remain an achievable goal that can be affected by policies external to the political process in Pyongyang, it is important to develop and implement a policy coordination process based on shared strategy, objectives, and tactics.

The Challenge of Coordinating U.S., South Korean, Japanese, and Chinese Policy Approaches

The spring of 1996 saw a remarkable broadening of the official dialogue between the United States and North Korea, including a surprising amount of progress on certain issues, such as the initiation of talks on missile proliferation, an agreement on joint efforts to recover remains of soldiers missing in action from the Korean War, and unofficial contacts on economic and political matters in Washington. There have also been intermittent signs that North Korea's normalization talks with Japan might be resumed, including an exchange of unofficial visits between the Institute of Disarmament and Peace in Pyongyang and the Japanese Foreign Ministry-affiliated Japan Institute of International Affairs, as well as a July visit to Tokyo by External Economic Affairs Committee vice chairman Kim Jong U. Unfortunately, North-South political dialogue has not made similar progress, and the escalation of political tensions resulting from the North Korean spy submarine incursion into South Korean territory this past September has seriously diminished the likelihood of the renewal of such dialogue in the near-term. However, the U.S.-South Korean joint proposal for four-party talks that was presented by President Bill Clinton and President Kim Young Sam during their April 1996 summit meeting on Cheju Island has not been rejected by Pyongyang and remains a potentially viable channel for resuming North-South dialogue.

The U.S.-South Korean proposal for four-party talks is notable because it is one of the rare occasions when the United States and South Korea have taken the initiative to put forward a proposal, rather than reacting to North Korean provocations or ignoring North Korean initiatives. However, North Korean officials have requested the opportunity to clarify outstanding questions concerning the proposal. The proposed next step in exploring the

viability of four-party talks is a joint briefing to be presented by the United States and South Korea to North Korean officials.

The Kim-Clinton proposal underscores the importance of continued policy coordination between the United States and South Korea. The U.S. and South Korean governments have maintained the same strategic objective: to promote a process of stabilization and tension reduction that will maintain peace on the Korean Peninsula and ultimately lead to a peaceful reunification. However, tactical priorities still need to be managed, particularly in light of North Korea's objective of dealing solely with the United States as well as South Korean policy divisions regarding the relative costs and desirability of an early versus a lengthy reunification process.

For instance, the issue of whether food aid should be provided on both a humanitarian and a national security basis to North Korea or withheld as leverage to bring North Korea to the table in negotiations with the South has been a fundamental sticking point in U.S., South Korean, and Japanese policy coordination efforts. A violent or destabilizing process of change in North Korea is not in the interest of any of its neighbors. Thus, tactics that inordinately increase the potential for sudden instability in North Korea may be neither desirable nor likely to achieve the aim of managing a peaceful transition to a more stable Korean Peninsula. On the other hand, actions that might perpetuate the current regime without resolving basic security issues or that fail to demand systemic changes in North Korea are politically unacceptable to most Americans and South Koreans.

There are also fundamental disagreements on whether North Korea still has time to reform its political and economic system, or whether the regime will continue on a path toward becoming a "failed state." The dilemma for policy makers in considering aid for North Korea is that aid might be perceived as a reward for North Korea's bad behavior or might be used to perpetuate a leadership that is not interested in reform, on the one hand, and the increased likelihood of a "hard landing" in the absence of aid, on the other.

Under current conditions, none of the coordination issues involved in tactical approaches by the United States, Japan, and South Korea can be resolved without a shared assessment of the underlying objectives. The United States and South Korea must jointly determine whether to pursue a policy of isolation or integration with North Korea only after deciding on the policy objective to be fulfilled. Otherwise, tactical differences in their approaches would clash in the event of sudden changes in North Korea--particularly in the absence of coordinated preparation for such contingencies. Even if there are no sudden changes in North Korea, there is a real possibility that tactical differences could fray the U.S.-South Korean relationship in ways that could damage the ability of the two countries to work together in a crisis. For instance, continuing U.S.-North Korean contacts in the absence of North-South dialogue and differing tactical positions on food aid have been symptoms of continuing irritation in the U.S.-South Korean relationship in recent months.

Given U.S. strategic interests in and responsibilities for deterrence under the

U.S.-South Korean security alliance, the United States has a special responsibility to do what it can to facilitate tension reduction and to promote opportunities for North-South dialogue and cooperation, rather than allowing potentially destabilizing events and reactions to determine the parameters and pace of change. For instance, KEDO, a U.S.-led multinational effort, has served as a buffer between North and South Korea while giving South Korea a central role in providing light-water reactors to the North.

The four-party peace proposal might duplicate the positive model of KEDO. Or the KEDO model might be used to sustain indirect contacts between North and South Korea on other issues, such as economic contacts or humanitarian assistance. For instance, multilateral management of food assistance in return for technical training on how to revitalize the North Korean agricultural system might best be carried by an international or nongovernmental organization equipped specifically for that purpose. U.S. leadership in such efforts might be one way to facilitate North-South contacts while discouraging the negative cycle of recrimination that has been a central aspect of North-South interaction for decades.

If the four-party peace proposal proves unacceptable to North Korea, the United States and South Korea might consider an alternative tripartite negotiation mechanism whereby the United States invites North and South Korea to the table as equals to discuss interim peace mechanisms and other aspects of security on the Korean Peninsula. This scenario, of course, assumes that North Korea is prepared to negotiate with South Korea on security issues.

Given long-standing North Korean objections to a 2 + 2 formula as "three against one," a third-party convener of talks such as the United States might be more acceptable to the North, particularly given the leverage resulting from North Korea's desire to improve relations with the United States. The problem with a tripartite formula is objections from South Korea, which has consistently expressed concern that North Korea might sideline the South from a negotiation or direct all issues to the United States, ignoring South Korean representatives. Therefore, it must be understood clearly in advance that in a three-party negotiating formula, South Korea is North Korea's primary counterpart and full negotiating partner and that attempts to "go over the head" of South Korea to talk directly with the United States will be rejected out of hand.

Others have suggested convening parallel security talks between North and South Korea and the United States and North Korea, respectively, converging in dual comprehensive agreements on peace and security that would replace the armistice with an interim security mechanism and lay out a timetable for military demobilization and arms reductions (but, presumably, not an immediate withdrawal of U.S. forces). This proposal would entail major challenges for coordination between the United States and South Korea to ensure that the bilateral negotiations proceed in parallel. In addition, negotiating the agendas for such discussions might prove inordinately difficult.

If indeed both sides were to agree to such discussions, it would represent a major step forward and a potential willingness to return to the 1991 Basic Agreement as a foundation for proceeding with talks, since it has been suggested that the North-South Military Commission might be one mechanism for North-South contact as part of a parallel talks proposal. Some suggest that the U.S.-North Korean track would be almost entirely symbolic, since nearly all the issues regarding the future security of the Korean Peninsula would have to be discussed primarily between the two Koreas themselves, with the U.S.-North Korean track taking a secondary role. If the primary negotiations are likely to occur in the North-South track, this format would also give each of the two Koreas the opportunity to control the pace of change, virtually eliminating the possibility that one track might get ahead of the other. Or the agendas of the two tracks could be divided so that the United States might discuss historical questions such as the disposition of the armistice agreement and the UN Command while South Korea takes the lead in negotiating future security agreements and conventional arms reductions.

Regardless of the format of eventual negotiations, a six-party meeting among the two Koreas and the four regional powers will likely be useful to symbolically ratify the outcome of such talks, providing a concrete symbol of validation from Korea's immediate neighbors of the process of tension reduction between the two Koreas.

Preparing for Contingencies

The primary concerns related to possible instability on the Korean Peninsula have revolved around the possibility of refugee flows in connection with North Korea's food crisis, North Korea's economic decline, and implications of North Korean political or military instability for U.S. strategic interests. While no contingency is inevitable, a close examination of each of these issues may be useful to more carefully define desirable policy objectives, outcomes, and processes.

Food Crisis

In the fall of 1995, the North Korean government requested international assistance for the first time in its history. The United States, Japan, and South Korea have responded in an incremental fashion that falls short of a comprehensive solution. UNWFP estimates that North Korea will face a grain shortfall for this year of up to one million tons, and a premature harvest stunted by a lack of fertilizer will exacerbate current food shortages. UNWFP experts estimate that the average diet in North Korea is just 600 calories per day (equivalent to a little over one bowl of rice per day), and reports are that North Korea's energy shortage is severe, with almost no gas or electricity to heat buildings in the city of Pyongyang or to run factories. UNWFP representatives have stated that the current conditions of malnourishment could turn into famine without external assistance. In response, as of September 1996 the Chinese government had provided over 144,000 metric tons of grain in addition to the aid provided by UNWFP, which has targeted its

efforts specifically at agricultural workers in flood-affected areas.

Although the floods of August 1995 were the immediate stimulus for the international humanitarian response to North Korea's food situation, the insufficiency of the North Korean agricultural system to meet the needs of its people is not new. In fact, North Korea's agricultural insufficiency led to negotiated grain deals in the summer of 1995 with South Korea and Japan for 650,000 tons of rice. Given its mountainous topography and relatively short growing season, it is probably not reasonable to expect North Korea to be self-sufficient in food. The root causes of North Korea's food problem are its economic isolation following the loss of Cold War allies and supporters and mismanagement of its agricultural system.

An international response to the food shortage could focus on finding ways to address North Korea's core economic difficulties while meeting its food needs externally. Although South Korea is the most likely source of help, experience suggests that a bilateral North-South food program would be stalled by politics. Other countries such as Japan might in principle be able to provide assistance in the form of grant or aid programs that would give North Korea agricultural credits to purchase food on the international market. However, a bilateral program might also be subject to political pressures and would most likely not have sufficient leverage to encourage the core economic changes in the North Korean economy necessary to address the fundamental source of its food problem.

An alternative might be a multilateral effort to provide food credits (perhaps with continuing monitored deliveries by UNWFP) in proportion to North Korean progress toward economic transparency and fundamental agricultural reforms. By dealing multilaterally with the food problem as a core structural issue in North Korea's economy rather than as a political issue, South Korea, the United States, and Japan might be able to help North Korea while simultaneously inducing it to take initial steps toward reform and integration with the global economy.

Economic Decline

North Korea's economy has suffered severe shocks as a result of the loss of economic assistance from its two former patrons and trading partners, the former Soviet Union and the People's Republic of China; the economy has contracted by about 30 percent since 1990-91. Trade with the former Soviet Union has dropped from more than half of North Korea's total trade in the 1980's to about 11 percent in 1994. North Korea's share of trade with China has increased in recent years, with North Korea dependent on Chinese largesse in providing certain levels of oil and grain at "friendship prices," despite an increasing demand for oil in China itself. An analysis of North Korea's external trade by Marcus Noland of the International Institute of Economics concludes that China and South Korea are financing seven-eighths of North Korea's trade deficit, giving them tremendous potential leverage over the economic choices faced by North Korea's leadership.

Will the North Korean economy collapse? An economic collapse is difficult to forecast, but several key indicators should be watched closely: (1) The downward trend in North Korea's external trade volumes suggests continuing economic weakness that will lead to severe problems if it is not addressed. Falling trade volumes reflect decreased economic activity and an unhealthy internal economy. (2) The continuing severity of the food and energy shortages are critical in assessing the extent of North Korea's economic weakness. (3) A variety of internal indicators, such as greater involvement by the North Korean military in the civilian economy; reports of desperate behavior by North Korean diplomats such as arms selling, drug trafficking, and economic "free-lancing" by local officials in defiance of internal restrictions on trade; and the appearance of economic refugees, are a clear reflection of economic problems.

The semi-industrialized nature of the North Korean economy resembles that of Eastern Europe more than Vietnam or China, where agricultural reforms were able to jump-start a process of economic reform that then spread to urban, industrialized sectors. This observation suggests that any North Korean economic reform may require more "shock therapy" along the lines of the paths that the Czech Republic and Poland have taken in recent years. Regardless of the path to reform, the costs required to bring North Korea up to the level of South Korea will be substantial. Possible sources of capital for such an effort might draw on international financial institutions such as the World Bank (if North Korea were offered an amount equivalent to that offered Palestine, an aid package might total as much as \$4.4 billion per year), Japanese post-colonial settlement claims (estimated by Marcus Noland to be about \$12 billion over ten years), or subsidies from the budget of the South Korean government. Indeed, one of the major lessons of German reunification may be that the costs of attempting to bring North Korea up to South Korea's standard of living are prohibitive, and it will be necessary to spread the burden of increasing North Korean standards of living over a very long time.

Refugee Flows

Recently, there has been speculation on the possibility of refugee flows from North Korea in the event of severe economic difficulty. According to Lionel Rosenblatt of Refugees International, lessons learned from other refugee crises suggest a pressing need to do everything possible to prevent refugee flows by feeding people in their home countries. Advance consultation and coordination among governments are also desirable in order to respond in the event of refugee flows.

Satellite analysis of what and how much is being grown can help reveal the extent of the pressure for people to leave their homes. Efforts to stabilize the agricultural production in at-risk areas would be the most effective way to prevent or slow refugee flows. Information from satellite sources on the planting process and on nutritional data is invaluable in preparing plans for deterring refugee flows, and the staging of supplies is necessary to slow or stop such flows. In addition, military collaboration by U.S. and South Korean

forces in the region would probably be necessary to support nongovernmental humanitarian response to refugee flows.

UNWFP reports indicate that to date, the North Korean authorities have been largely successful in maintaining order and preventing large refugee flows. The appropriate model for the current situation in North Korea may be the Ukraine under Stalin's rule or China during the Great Leap Forward, when political factors prevented movement of refugees, resulting in what one UNWFP representative has called a "silent famine." But if the food crisis in the North progresses from malnutrition to starvation, as some experts fear, central government authority might disintegrate and large numbers of refugees might be generated quickly.

It is important to realize that refugee flows are a lagging indicator--not a leading indicator--of instability. Refugee flows tend to move very quickly, even to some of the most remote, inaccessible, inhospitable places on earth. Following Operation Desert Storm, 1.5 million Kurds moved in four days to very inhospitable mountainous regions bordering Iraq, Iran, and Turkey. Within three days, over one million Rwandan refugees moved at the rate of 25,000 people per hour to Goma, Zaire. If people start to move, staged pre-positioning of supplies along potential refugee routes can help to slow or stanch the flow.

In the case of North Korea, there are three potential refugee routes: across the border to northeastern China, by ship to Japan, and across the demilitarized zone to South Korea. The route across the North Korean-Chinese border presents a complex policy choice for Beijing. Past Chinese handling of Vietnamese refugees suggests that China might try to funnel refugees to South Korea, compounding the challenge for South Korean policy planners. On the other hand, Beijing might encourage the large Korean ethnic communities in Liaoning and Jilin Provinces to absorb refugee flows for their own strategic reasons.

As one examines the current food crisis and North Korean negotiating patterns, another serious challenge for policy coordination appears: the possibility that North Korea might follow the path of Cuba and use a controlled flow of refugees to pressure or blackmail South Korea and the United States to give in to its political demands, while at the same time helping to resolve the unmet demand for food in North Korea. In this case, South Korean authorities would have to choose whether to submit to North Korean blackmail by admitting and caring for large numbers of refugees or to ignore the needs of the refugees--who would be mere pawns in the political confrontation.

Political or Military Instability

In a May 1996 speech in Seoul to the Asia Society, U.S. Ambassador to South Korea James Laney observed that deterrence has provided stability on the Korean Peninsula for over four decades. But he also noted that North Korea's political, economic, and even military vulnerabilities following the Cold War are

destabilizing factors that might undermine deterrence in a situation where opposing sides are not roughly equal in strength. If North Korea feels too vulnerable, the risk of either an "implosion" or an "explosion" might increase the danger of instability in the North. Although North Korea might lash out militarily in desperation, the likelihood of such an action is generally deemed low--since it would effectively result in suicide by the North Korean government.

Other military contingencies might result from the economic and refugee contingencies discussed above. Any instabilities that might spill over from North Korea's acute energy, food, and other shortages might become issues that would confront military planners on the Korean Peninsula. For instance, possible North Korean refugee flows would present acute challenges for military planners seeking to balance the objectives of maintaining deterrence and simultaneously supporting a complex humanitarian effort.

Given North Korean military capabilities, one cannot rule out the possibility of a quick North Korean military strike followed by an effort to sue for peace--perhaps as a tactical attempt to improve North Korea's position in subsequent peace negotiations. This possibility remains a serious one given the damage that a North Korean artillery attack could inflict on Seoul and North Korea's need to take aggressive actions to defend a weak negotiating position. An even more complex challenge for U.S. military planners is the possibility that the South Korean military might be tempted to cross the border to reimpose order in the event of political instability or a factional struggle for power within North Korea, or perhaps to establish refugee zones in North Korea rather than allowing large numbers of North Korean refugees to flee to the South.

A significant new development with implications for Korea's strategic orientation is the rapid growth of economic ties and accompanying improved political relations between Beijing and Seoul. Chinese premier Li Peng made an historic visit to Seoul in 1994, and Jiang Zemin's week-long visit to Korea in November 1995 was significant for its length and as a symbol of the consolidation of a major change in Beijing's strategic orientation toward the Korean Peninsula. Both countries recognize the importance of the economic relationship--bilateral trade is projected to grow rapidly past \$10 billion per year, and China will soon be South Korea's number one trading partner. Although improved Chinese-South Korean relations do not necessarily have an adverse impact on the U.S.-South Korean alliance, they may mean that the United States may not always be able to count on South Korean political support when China and the United States disagree.

Conclusion

The challenges of managing a coordinated policy in the context of many different contingencies are immense, and the presence of U.S. forces on the Korean Peninsula underscores a continuing critical U.S. security interest in the stability of the peninsula and the region. Although South Korean policy makers have devoted a great deal of energy to studying potential reunification scenarios and the experiences of German reunification, too little of this work

has been discussed with the United States, Japan, or China--all of whose interests could be directly affected. Some U.S. analysts worry that this situation might lead to significant differences on issues that have direct implications for the future of U.S. security relations with Korea. For instance, there might be misunderstandings regarding the limits and scope of authority of the commander of UN forces if military action is required to maintain stability in North Korea or on the respective roles and duties of U.S. and South Korean troops at a time when the need for coordination is critical.

Beyond the immediate challenge of managing a stable process of tension reduction on the Korean Peninsula, Korea's relationship with its neighbors in Northeast Asia has implications for the long-term future of U.S.-Korean security relations. The process by which tension reduction on the Korean Peninsula is managed may have a major influence in shaping the transition to a stable post-Cold War security environment in Northeast Asia. A violent process might have negative long-term implications for Korea's power relative to its neighbors, since it would divert resources to rebuilding and recovering from economic losses while also increasing the possibility that Korea could again become the battleground for influence among other regional powers. A peaceful process is less likely to be perceived by neighbors as threatening and would most likely enhance the security of a reunified Korea--assuming that Korean relations with China, Japan, Russia, and the United States are managed with some measure of delicacy and skill.

The United States, as the external party with a continuing military presence on the peninsula, treaty obligations to South Korea and Japan, and national interests in stability in Northeast Asia (including preserving the predominant U.S. role in the region in the face of growing Chinese influence), is seen by some as having a special interest in supporting an environment in which the two Koreas can peacefully resolve tensions. Failure to actively promote measures that reduce inter-Korean tensions might diminish the effectiveness of the United States as a regional balancer if the United States is perceived in the region as passive or irrelevant to a stable resolution of tensions on the Korean Peninsula. On the other hand, given South Korean sensibilities, many believe that the United States should not be perceived as taking the lead on North-South issues that properly must be resolved between the two Koreas themselves.

For this reason, it would be desirable if the United States, in consultation with allies in Tokyo and Seoul and with cooperation from Beijing, could develop a strategic long-term plan to stabilize and reduce tension on the Korean Peninsula. Close consultations among Korea's neighbors in conjunction with progress in North-South relations will be required to determine the specifics of such a road map.

The United States has invested almost five decades in the maintaining peace on the Korean Peninsula. The U.S.-South Korean security alliance has been an important part of the U.S. investment, the importance of which must be recognized and protected.

Despite efforts to strengthen policy coordination within the past eighteen months, including the establishment of regular assistant secretary/vice foreign minister-level policy coordination meetings among the United States, South Korea, and Japan, this level of coordination may be inadequate to meet the challenge of fully harmonizing our respective interests and priorities on the Korean Peninsula.

The complexity and seriousness of the North Korean challenge might require agreement on fundamental issues among cabinet-level or even presidential-level officials before it is possible to truly coordinate respective national interests, objectives, and priorities. This possibility suggests that more substantive and sustained discussion of specific proposals and contingencies must be pushed higher within the U.S. government to develop a strategy that effectively protects U.S. interests in Northeast Asia, perhaps through more effective dialogue between senior-level U.S. and South Korean officials and through the strengthening of coordination within the U.S. government.

Consultations might also extend to high-level contacts with other neighboring countries--including China--to induce cooperation and to ensure that external obstacles are not placed in the way of progress between the two Koreas, either on talks related to arms reduction or other issues such as reunification. Finally, even once an effective policy coordination process has been fully exploited, one should expect any negotiation process with North Korea to be long, arduous, and fully capable of challenging any consensus arrived at through policy coordination among Washington, Seoul, and others.

Given the current stalemate in North-South dialogue, sustained U.S. attention and multilateral policy coordination is necessary--but perhaps not sufficient--to set the stage for progress in relations between the two Koreas. However, it is an important first step in preparing for the inevitable changes that will occur on the Korean Peninsula in the coming years. Unless the United States, South Korea, and Japan are able to maintain and enhance policy coordination during this transitional period, future changes on the Korean Peninsula are more likely to be rapid, unpredictable, destabilizing, and dangerous to the fundamental shared interests that have been assiduously protected by the alliance between the United States and South Korea for almost half a century.

About the Working Group

The United States Institute of Peace has held an ongoing series of study group meetings on U.S. policy toward the Korean Peninsula since the fall of 1993, when a group was convened to examine policy options for dealing with the North Korean nuclear challenge. Two Special Reports were issued in 1994. The first report, *North Korea's Nuclear Program: Challenge and Opportunity for American Policy*, addressed strategic and organizational aspects of a coherent effort to achieve a negotiated solution to problems posed by North Korea's nuclear program. The second, *The North Korean Nuclear Challenge: The Post-Kim Il Sung Phase Begins*, provided a preliminary analysis of the Geneva Agreed Framework and examined the

challenges posed by the political situation on the Korean Peninsula in the aftermath of the death of Kim Il Sung.

The working group has continued to meet on an ad hoc basis, in part to discuss aspects of the implementation of the Geneva Agreed Framework and the progress of the Korean Peninsula Energy Development Organization (KEDO) in carrying out the provisions of the Agreed Framework. More recently, meetings have been held to assess the North Korean food situation and the challenges of policy coordination among the United States, South Korea, Japan, and China. This report, by Institute program officer Scott Snyder, reflects the major issues in those discussions and explores prospective challenges to the coordination of U.S., South Korean, Japanese, and Chinese policies in the context of the difficult circumstances and circumscribed options currently faced by North Korea. For more information about the meeting series or this report, please contact [Scott Snyder](#) at (202) 429-3808.

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