

Preparing for the Unexpected:  
How Trade Can Support  
the Perry Report's Path  
Toward U.S. Peace with North Korea

Frederic W. Maerke  
Fellow, Weatherhead Center for International Affairs  
Harvard University  
Cambridge, Massachusetts  
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I spent the 1999-2000 academic year as the U.S. State Department representative in the Fellows Program at the Weatherhead Center for International Affairs at Harvard University. As the core requirement of the program, each Fellow is expected to select a particular issue in the field of international relations, research it, and submit a paper at the end of the academic year.

I am a U.S. Department of State Foreign Service Officer writing about the conduct of foreign relations. Accordingly, I need to make the following disclaimer:

Although I am at Harvard University under the auspices of the U.S. Department of State, the comments and conclusions that I present in this paper are solely my own, and do not represent the official position of the United States Government.

In the course of my research, I received valuable guidance and support from many people who are knowledgeable about both U.S. foreign policy and the Democratic People's Republic of Korea (DPRK or "North Korea").

In Cambridge, I consulted with professors from Harvard's Faculty of Arts and Sciences and the Kennedy School of Government, who gave freely of their time and counsel. I traveled to Washington, D.C., to conduct interviews with Federal Government officials from several departments and agencies, as well as with researchers from foreign policy research institutes and other organizations. I also traveled to New York City to conduct similar interviews there. In Appendix B I list the names and titles of all people

that I interviewed for this project. I want to thank them for their time, interest and insights into the complex topic of American foreign policy towards North Korea, but also reiterate that the mistakes made in my paper are entirely my own responsibility.

I also would like to single out for special thanks for assisting me throughout the academic year the staff of the Harvard Weatherhead Center for International Affairs (CFIA): Steven Bloomfield, Director, Tricia Hughes, Tanya Schreiber and Donald Halstead.

## **Executive Summary**

American foreign policy toward the Democratic People's Republic of Korea (DPRK or North Korea) faces the problem of how to engage peacefully with a country that wants economic "tribute" but prefers self-protective isolation to the ideological risks of wider involvement in the world community. While the DPRK has accepted U.N. World Food Program (WFP) famine aid and has agreed to the construction of the two nuclear power plants, it rejects reliance on foreign trade and investment as too intrusive. In the 1994 Agreed Framework with the U.S., the DPRK traded its graphite nuclear plant for construction of the two light water reactor (LWR) power plants in a remote and thinly populated coastal area. (The graphite nuclear plant as a by-product converts uranium into weapons grade plutonium, while the LWR nuclear plants convert uranium into a less-fissile form of plutonium.)

Since the DPRK's June 25, 1950, attack on the South, almost exactly fifty years ago, North Korea's army along the Demilitarized Zone (DMZ) has posed a potential threat to the Republic of Korea (ROK) and the United States. Though the levels of military tension have fluctuated throughout the past forty-seven years since the 1953 armistice, the situation at the DMZ has remained stable. The most acute threat to overall U.S. security now is posed by North Korea's development and potential export of weapons of mass destruction (WMD) such as long-range missiles and nuclear bombs to Middle East rogue states such as Iran, Iraq, Libya and Pakistan. These weapons could threaten important American interests in a strategic region with important allies such as Israel, and with Persian Gulf countries that are the world's major exporters of petroleum

to the U.S., Europe, Japan and increasingly China. Engaging with North Korea on WMD proliferation is important for world stability.

However, the U.S. Government has had limited success in its engagement efforts so far. In October 1994, the U.S. negotiated the Agreed Framework (AF) with North Korea to freeze their plutonium-based nuclear weapons program in exchange for two nuclear power plants. In 1999, former Defense Secretary William Perry proposed a “package agreement” in which North Korea would restrain its missile program and America would move to normalize relations. In response, at Berlin in September 1999, North Korea stated it would temporarily refrain from future missile tests while it negotiates with the U.S. Meanwhile, the DPRK’s economy stagnates, and, although food shortages are still rife, the worst of the 1995-1998 famine appears over.

Many concerned Americans have proposed we help the North engage in economic reform. This American aid would help solve the North’s domestic economic problem and serve as an important confidence building measure with this reclusive regime. However, Kim Jong-Il has denounced such reform proposals as “honey-coated poison,” an attempt to undermine Korean socialism and his regime.

In the short term, the U.S. has no choice but to accept Perry’s recommendation that the U.S. “deal with the North Korean government as it is, not as we wish it to be.” But forgoing economic reform as a tool of subversion does not mean that the U.S. must be passive and not use economic tools at all. A more proactive program of trying to present economic opportunities to the DPRK might pay dividends down the road, while costing little if it refuses.

Up to now, the U.S. has adopted an incrementalist approach, stressing a gradual series of confidence-building measures (CBM) with the idea that this will later help resolve key issues in future negotiations. The North Koreans have not responded. Instead, the North insists on unilateral U.S. action to solve key problems and implement all their demands before they will negotiate. Obviously, the USG cannot accept unreasonable demands such as the immediate and complete withdrawal of U.S. troops from the South. Since our current “salami slicing” CBM approach has not paid dividends, trying a different tack might yield benefits.

Looking at bilateral options, I believe the U.S. should lift immediately all of its economic sanctions on trade and financial relations with North Korea. At present, the DRPK views sanctions as a politically symbolic measure of fundamental U.S. hostility toward the continued existence of the Kim regime. Lifting sanctions would also allow American and foreign firms to explore the potential of closer economic ties with the North. While trade potential is small now, some American firms are interested in exploring trade and investment in mining projects, such as magnesite processing and export to steel mills, and in manufacturing ventures such as making brake pads using local materials.

From the multilateral point of view, the World Bank and Asian Development Bank (ADB) have already initiated some personnel training programs for the North Koreans. I believe that the U.S. should build on this start and “introduce” the DPRK to the World Bank and ADB as sources of potential funding. In the short term, the U.S. should persuade the 21 member “economies” of Asia-Pacific Economic Cooperation

(APEC) to invite the DPRK as an observer. The World Bank or ADB could pay for the DPRK delegates' travel expenses.

The U.S. Congress has given grudging support to the Perry Process. After the year 2000 general election, the U.S. Congress might be persuaded to forgo active opposition to more active economic measures as furthering that process. Other regional actors would positively support them. In particular, China is pursuing a dual strategy of minimal support to keep the DPRK from collapsing on its Manchurian border, and of maximum economic cooperation with South Korea. Any U.S. moves that would strengthen the North's economy would be welcomed. In Seoul, President Kim Dae-Jung, author of the "Sunshine Policy" of active engagement with the North, remains in office until January 2003 and cannot run for re-election. He has urged the U.S. to take similar measures soon. While Russia would also like a place at the negotiating table, it would not oppose a more active U.S. policy toward North Korea.

In the short term, Pyongyang's likely response to these changes would undoubtedly be cautious. The DPRK is fully aware of the success of China's reform policies but views them as having inflicted the twin ills of capitalist consumerism and corruption on China society. However, the recent influx of foreigners from non-governmental organizations (NGOs) into the North Korean countryside to distribute food to the famine-stricken areas seems to have reduced somewhat the fears of the DPRK internal security service about foreigners' possible impact. Perhaps the DPRK might agree to allow the establishment of a U.S. Liaison Office (USLO) in Pyongyang, as originally envisaged in the Agreed Framework. The famine has also had the effect of encouraging North Koreans to seek food in Manchuria, and then return home, but

carrying with them the “learning” that the China that once was poor under Chairman Mao’s radical communism is much more prosperous under Deng Xiaoping’s more market-oriented approach. Although popular opinion counts for little in North Korea’s tightly controlled regime, at the margin a population with more outside information about the reasons for its own poverty might become more difficult to govern.

The ultimate purpose of engagement policies is to influence a change in the behavior of the other state. In the DPRK’s case, this is not assured, given Kim Jong-Il’s antipathy toward economic reform as an anti-socialist plot. But in the mid-1970s I worked at the American Consulate General in Hong Kong to promote American trade and investment with China during what turned out to be the waning years of the Great Proletarian Cultural Revolution (GPCR). At that time, many people felt that the State Department was wasting its time because “China will never change its revolutionary economic policy.”

Yet, after Mao died, Deng Xiaoping began relaxing the collectivization of agriculture and opening China up to more trade and investment through Special Economic Zones (SEZ) near Hong Kong. These moves were totally unexpected. At the time, some veteran intelligence analysts told me they were convinced this was either an attempt to trick foreigners, or at best a temporary expedient soon to be abandoned. Yet, today, although the U.S. has continuing tensions and issues with China, our relations are incomparably broader and with many more areas of cooperation.

At present regarding the DPRK, many people are understandably skeptical that any moves to broaden trade and investment with the DPRK will succeed in changing its behavior. Granted, North Korea is not post-Cultural Revolution China, and Kim Il-

Sung's death did not bring about major policy changes. The U.S. must adopt policies now that will hold open the possibility of expanded contact and of helping the DPRK to emerge from its self-imposed isolation. It is difficult to influence (or have influence on) those countries when we do not have contact with them. We cannot project the ultimate impact of this engagement policy, but in one sense we will be "preparing for the unexpected."

## I. Introduction

The International Monetary Fund (IMF) and World Bank were created together at Bretton Woods [in 1944] under American leadership, with the understanding that there are economic causes of war... Sometimes when we think of economics, we think that we're only dealing with economics. The background to all the Bretton Woods agreements, however, was war and peace. When people don't think in those terms, I think they're making a major mistake. *Congressman Jim Leach, February 23, 1998*

For over fifty years, the U.S. Government and the DPRK Government have been locked in antagonism, especially since the June 25, 1950 start of the Korean War. During 1994, conflict with the U.S. over the DPRK's suspected nuclear program raised tensions almost to the brink of war. At seemingly the last moment, former President Carter traveled to Pyongyang in June 1994 and intervened with DPRK President Kim Il-Sung. Five months later, the Framework Agreement (FA) was signed between the U.S. and the DPRK. Despite this agreement, relations remain tense, as was shown in August 1998, when the DRPK launched its long-range missile, the Taepodong, over Japan.

As a result, the U.S. Congress demanded a thorough review of U.S. policy toward North Korea, and President Clinton appointed former Department of Defense (DOD) Secretary William Perry, assisted by Kennedy School of Government Professor (and former DOD assistant secretary) Ashton Carter. In his October 1999 report, Perry set out a broader, more comprehensive approach to relations with North Korea, holding out the vision of a path toward peace.

One problem in international relations theory is how one state can implement an engagement policy that results in a change of behavior, and a reduction of tensions between two states. In this paper, I will take up Congressman Jim Leach's linkage of economics and peace and explore the possible role of an active policy of promoting

economic ties with the DPRK, including expanding trade and investment ties. In the concept of Kennedy School Dean Joseph Nye, these economic ties are a type of “soft power” to supplement the “hard power” of the 37,000 American troops dug in along the Demilitarized Zone (DMZ) facing the Korean People’s Army (KPA).

My recent interest in the DPRK has been stimulated by my over two decades-long experience with the remarkable economic, social and political changes in the Peoples Republic of China (PRC). From 1974 to 1976, I was stationed at the American Consulate General in Hong Kong, working on the USG’s engagement policy of promoting U.S. trade with China. Mao was still implementing Great Proletarian Cultural Revolution policies during those years, and Maoist China rejected foreign trade and investment. I directly experienced China’s isolation and fear of outsiders. In February 1976, I was walking down a street in Shanghai, China’s most cosmopolitan city. At the sight of my face, young children would burst into tears, and run screaming to their parents, sobbing that “I am afraid of the foreigner.” Later that year Mao died, and Deng Xiaoping gradually but steadily changed Chinese economic and political policy away from tight governmental and ideological control towards greater reliance on free markets. Eleven years later, in 1987, I was visiting Inner Mongolia Province’s capital, Huhhot, when a young girl about five years old saw me and immediately came running over. Excitedly, she said in Mandarin “A foreign friend gave me a coin, but I don’t know what country it is from. Would you please tell me?” (It was a Mexican Peso.) Though she was from a rural province in China’s remote hinterland, this girl, who probably watched American television shows dubbed into Mandarin, had absolutely no fear of foreigners. In my extensive travels around China during 1987-89, I saw that in just over a decade the

attitudes of China's children, and their parents, had changed, and people were becoming visibly more prosperous than during the Cultural Revolution.

While many complex factors were involved in Deng's transformation of China, one element that made this radical change possible was that in the mid-1970s, China was increasingly exposed to the outside world through the semiannual "Canton Trade Fair." Although tourism was restricted, foreign business executives, including many Americans, increasingly traveled throughout China, meeting trade and other officials in the most influential cities. In the latter half of the 1970s, after the death of Mao, Deng Xiaoping started by focusing his reforms on the economy; fairly soon thereafter he established the Shenzhen Special Economic Zone (SEZ) near Hong Kong. Later, in the 1980s, the success of his economic reforms paved the way for social liberalization and the political reforms that still continue in fits and starts in Beijing, but which overall have brought much greater freedom to the Chinese people.

Korea is certainly not China, the DPRK's *juche* socialist policies are not those of China during the Cultural Revolution, Kim Il-Sung was not Chairman Mao, and Kim Jong-Il is no Deng Xiaoping. As I will detail later, the DPRK case will be more difficult. But I think that one similarity is that expansion of economic ties, including trade and investment, is an important channel that the U.S. might use to promote engagement, and reduce tensions with North Korea. In addition, over the longer term, these ties might contribute to more pragmatic North Korean economic and foreign policies. Sometimes, as Congressman Leach noted, business can have a broader purpose than just making money.

## Brief Outline of North Korean Geography

A map of North Korea is located in Appendix D on page 75.

The shape of the Korean Peninsula has been compared to that of a rabbit sitting upright on its haunches looking toward the West, with its long ears extending back along the northeast coast. Two rivers form the natural borders with China's three Manchurian provinces, and both rivers rise on the opposite slopes of Mt. Paektusan, an extinct volcano with a sacred lake in its caldera.

In the west, the Yalu River forms the border with Liaoning Province. In the east, the Tumen River forms the border with Jilin Province. The final 15 kilometers (10 miles) of the Tumen River forms the border between North Korea's North Hamgyong Province and Russia's Primorsky Krai, near the City of Vladivostok. North Hamgyong Province also contains the Rajin-Sombong Free Trade and Economic Zone, which is located near the triangle where the borders of North Korea, China and Russia meet. The North Korean capital, Pyongyang, is located on the west coast, on the other side of the central north-south mountain chain from the northeast coastal region of South and North Hamgyong provinces.

The 38<sup>th</sup> parallel was originally intended to be merely a temporary dividing line between the Soviet and American armed forces taking the surrender of Imperial Japanese Army troops in Korea. The heavily fortified Demilitarized Zone (DMZ) which runs roughly along the 38<sup>th</sup> parallel is only 40 kilometers (27 miles) away from the 19 million people of the greater Seoul metropolitan area. The (North) Korean People's Army (KPA) has stationed about 700,000 of its 1.1 million troops along the DMZ, and has 11,000 artillery tubes and rocket launchers aimed at Seoul.

## II. DPRK's Surprising Stability – “Socialism in our own way”

Around 1995, the conventional wisdom in Washington was summed up by U.S. General Gary Luck, the Commander of the U.S. and UN forces in Korea: “The question is not will this country disintegrate, but rather how will it disintegrate, by implosion or explosion, and when.”<sup>1</sup> Around the same time, an anonymous senior DOD official quoted in the *Washington Post* put a timeframe on North Korea's disintegration: “In five years, the DPRK will be history.”

This was certainly a plausible estimate at the time: 1995 was the start of the great famine, which was at its most acute through 1998, and either directly or indirectly through disease killed an estimated 10 percent of North Korea's 23 million people.<sup>2</sup> Yet, as Marcus Noland points out, there is no reliable theory linking economic distress or deprivation to political revolution.<sup>3</sup> Countries as diverse as Cuba, Iraq, Zaire and recently the Republic of Yugoslavia (Serbia) have shown that economic hardship does not necessarily mean political failure. In Romania, living standards began to fall in 1981, but public unrest did not appear until 1987, and Ceausescu was not toppled until 1989, at a time when other East European socialist regimes were collapsing. Even a persuasive analysis of the great fall in the North Korean economy since the early 1990s does not provide guidance for assessing the stability of the Kim Jong-Il government. And in Spring 2000 the DPRK has defied all odds and remains functioning.

In one sense, this result reflects Pyongyang's astute decision-making. Faced with food shortages, the regime decided to triage the nation to protect the vital heartland

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<sup>1</sup> Selig S. Harrison, “Promoting a Soft Landing in Korea,” *Foreign Policy*, Spring, 1997: p. 57.

<sup>2</sup> Andrew Natsios, “The Politics of Famine in North Korea,” Washington, D.C., U.S. Institute of Peace, August 2, 1999.

around Pyongyang.<sup>4</sup> It no longer shipped food from the more productive west over to the mountainous northeast region of South and North Hamgyong Provinces. (Most of the photographs of starving and desperate people were taken in remote North Hamgyong Province near the intersection of the DPRK, PRC and Russian borders.) Instead, it kept the food produced in the flat plains of the southwest region for Pyongyang elites, including the internal security service and the military, both key factors in maintaining stability.

The Koreans also have a long tradition of relative political stability that would likely inhibit any popular moves toward rebellion among those living in North Korea.<sup>5</sup> Over the past 1,000 years, Korea had only two major dynasties – the Koryo, which was founded in 935, and the Choson or Yi dynasty, founded in 1388 when General Yi scored a quick victory over the Koryo. The Yi lasted just over 500 years until 1910.

Confucianism, which heavily influenced Korea, acknowledges that the ruler could lose the “mandate of heaven.” In China, the mandate changed hands in the late thirteenth century when the Mongols fell; in 1644, when the Ming were replaced by the Manchurian Qing; in 1911 when Sun Yat-sen’s Revolution founded the Republic of China; and in 1949, when the People’s Republic of China was founded. In addition, during the later Qing Dynasty, the Taiping Rebellion from 1851 to 1864 came close to succeeding in overthrowing the Emperor, and the Boxer Rebellion at the turn of the century, though anti-foreign than anti-government, did threaten the claim to legitimacy.

In contrast, the Korean people have not had comparably intense recent experience with such a loss of mandate. Even the events in 1388 were a relatively quick palace coup

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<sup>3</sup> Marcus Noland, “Why North Korea Will Muddle Through,” *Foreign Affairs*, July/August, 1997: p. 105.

<sup>4</sup> Natsios, “The Politics of Famine.”

as a strong general turned on a weak old regime, not a popular uprising like the Ming dynasty. In 1905, the Japanese used their victory over the Russians to insinuate themselves as “advisors” to the Korean king. In 1910 the Japanese deposed the king and took over Korea. In 1945, the American attack on the Japan homeland forced the Japanese to surrender, and thereby cede control over Korea. Soviet and American troops then entered Korea to accept the Japanese Imperial Army’s surrender above and below the 38<sup>th</sup> parallel, an arrangement made without consulting any Koreans.

A more important factor in Confucianism is its traditional belief in political centralization and obedience to authority. It makes a parallel between the king’s relationship to his subjects and a father’s relationship to his children, as well as a husband’s relationship to his wife, bringing these concepts into the daily life of the household. The Confucian ethos has influenced in varying ways the political evolution of South as well as North Korea, making it much easier to sustain authoritarian and totalitarian systems.

In 1910, Korea formally became a colony of Japan, and the Japanese ruled with a heavy hand until 1945, suppressing any signs of Korean democracy as subversive to their rule. In 1945, Soviet troops entered North Korea to accept the Japanese surrender north of the 38<sup>th</sup> parallel. In Eastern Europe, the Soviet Red Army imposed Stalin’s puppets on a resentful local population. In North Korea, Stalin’s troops installed Kim Il-Sung as the North Korean leader. Kim was a guerilla fighter, somewhat like Yugoslavia’s Tito, who arguably had genuine revolutionary credentials fighting the Japanese. Kim Il-Sung’s regime quickly acquired legitimacy in the eyes of many North Koreans. The Korean Workers Party (i.e., Communist Party) had opposed Japanese colonization, thus earning

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<sup>5</sup> Carter J. Eckert, lectures in Modern Korean History, Harvard University, fall, 1999

the support of nationalists. As the Japanese were viewed as capitalists, naïve socialist theory found ready acceptance among the working class of both South and North Korea in the immediate post-war period. Unlike Stalin in Eastern Europe, in North Korea Kim Il-Sung successfully fused a tight link between communism and nationalism.<sup>6</sup>

In the South, socialists created a people's republic in the one month between the surrender of the Japanese and the arrival of the first American troops. But the American Army suppressed that provisional government in favor of support for Syngman Rhee, who had lived in the U.S. for many years.

### **“Socialism in Our Own Way”**

Kim Il-Sung created the *juche* philosophy, usually translated as “self-reliance,” in part as a tool to defeat a rival faction within the Korean Workers Party (KWP) and to consolidate his control. This is not a variation of Marxism-Leninism, which the Korean Workers Party has quietly put aside in favor of “kimilsungism,” but a homespun philosophy with deep traditional roots that gave the political system great stability. Further *juche* philosophy does not depend on economic performance as the basis for legitimacy.

University of Georgia Professor Han S. Park estimates that a large majority of the North Korean population supports *juche*. He told me that he has traveled frequently to North Korea, and interviewed many academics and intellectuals. He thinks that most of the Korean Worker Party members, accounting for 15 percent of the population, are true believers in *juche*. Additionally, most young people who have gone through ideological

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<sup>6</sup> Eckert, lectures.

education, including membership in the League of Young Socialist Workers, could well be true believers. Even a conservative estimate suggests that over one-quarter of the general population might have developed unwavering faith in *juche*.<sup>7</sup> Further, he estimates that, in addition to true believers, perhaps one-quarter of the population might be people such as managers and government bureaucrats with a vested interest in the continuation of the present system, and who would fear any change, especially post-Soviet Russian-style reforms. In addition, another loyal group might be intellectuals such as diplomats, teachers and journalists, who tend to be skeptical by virtue of their occupations, and have more access to outside information. They also benefit from the present system, and “mouth” the party line, even if they don’t believe it. As individual thinkers, and as a group that is respected by the Korean Workers Party, intellectuals are unlikely to organize a revolution. Many of the remaining people are docile followers.<sup>8</sup>

Particularly since the Mongol invasions of the twelfth century, Koreans have viewed their country as a shrimp between the whales of China and Japan and have a long tradition of preferring to avoid dependence on them. The Chinese have invaded them periodically, and Korean kings have sent tribute to the Chinese emperors. Japanese Shogun Toyotomi Hideyoshi invaded twice at the end of the sixteenth century and Meiji Japan seized control of the country in 1910.

In 1945, the division of Korea by two other whales, the United States and the Soviet Union, did not make for any greater happiness for the Korean people. For that matter, the South Korean dictator, Park Chung-Hee, also worked to increase South Korea’s economic self-reliance but did so in a much more economically efficient way

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<sup>7</sup> Han S. Park, “The Nature and Evolution of Juche Ideology,” in Han S. Park, ed., *North Korea: Ideology, Politics, Economy* (Englewood Cliffs, New Jersey: Prentice Hall, 1996), p. 17.

than Kim Il-Sung's *juche* policy. Both leaders advocated military-style economic development. Park, for instance, built the huge, integrated Pohang Iron and Steel Company (POSCO) with a determination that matched anything Kim Il-Sung could muster.<sup>9</sup>

Kim Il-Sung did his best to institute thought control with Orwellian thoroughness. At the age of three, children begin to spend six days a week away from their parents at child-care centers in both urban and many rural areas. Young children now learn that Kim Jong-Il personifies the patriotic virtue that was exemplified by his father. Unlike Eastern Europe, which had porous informational borders, North Korea is tightly insulated from outside influences. All television and radio sets must be registered, with tuners fixed only to receive North Korean channels. Only the top echelon of the Workers Party has more than an inkling of what the rest of the world is like. Since 1995 the famine opened some (but not all) areas of the country up to foreign aid workers, but contact has still been fairly limited.

Kim Il-Sung worried about the possible impact of economic reform on the regime's political stability, and his son, Kim Jong-Il, shares the concern. As Harvard Professor Carter J. Eckert has noted in his lectures, in the communist world three great reformers have suffered quite different fates. Deng Xiaoping had great success and died honored by most people in China. Mikhail Gorbachev had only moderate success, and is reviled in Russia for causing the breakup of the Soviet Union. Romania's Nicolae Ceausescu was Kim Il-Sung's best foreign friend, and it was quite a shock for him when Ceausescu's reforms failed and in 1989 he and his wife were brutally shot in a coup.

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<sup>8</sup> Han S. Park in interview, January 28, 2000.

<sup>9</sup> Eckert, lectures.

Kim Il-Sung and Kim Jong-Il have accordingly drawn the conclusion that economic reform can be a dangerous business.<sup>10</sup>

Moreover, Kim Jong-Il is well aware that the 1995-98 famine may have worked to undermine the Kim regime's strategy of isolating the North Korean people from an understanding of the outside world. Kim has pointed out that in the late 1980s the communist regimes in the Eastern European socialist countries did not fall from NATO attack but rather from lack of popular support. During the famine, many starving North Koreans slipped over the border into Manchuria and observed how much better the ethnic Korean minority lived under Deng Xiaoping's reform policies. Natsios quotes a refugee from South Hamgyong Province's Hamhung City who put it well: "Our first border crossing is a grammar school degree, the second time you visit China is a high school diploma, and the third and fourth trips are college and graduate degrees in reality. They have been lying to us all these years."

Natsios adds, "It [North Korean refugee re-entry from China] contributed to a further erosion of [North Korea's] base of popular support as these refugees with college degrees in economic reality returned to their home villages to tell their families and friends what they had seen. Other refugees confirmed this transfer of information."<sup>11</sup>

But the degree of popular support for Kim Jong-Il is something inherently difficult to determine with any accuracy. True believers continue to support the present regime, and the army remains behind Kim Jong-Il. North Korea's "socialism in our own way," though perhaps somewhat weakened, appears strong enough to last into the future.

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<sup>10</sup> Eckert, lectures.

<sup>11</sup> Natsios, "The Politics of Famine."

### III. The Theory and Practice of *Juche* in Foreign Economic Relations

Judging from the DPRK's *juche* rhetoric, with its emphasis on economic self-reliance, many people would be surprised to learn how much the DPRK has depended on foreign aid. In many ways, the DPRK has adopted an autarchic philosophy that rather explicitly rejects the idea of using comparative advantage through foreign trade. Perhaps the key link here is a relationship that would give the foreign partner control over the DPRK's economy. But as the American Enterprise Institute's Nicholas Eberstadt has noted, Kim IL-Sung and Kim Jong-Il have been willing to turn the ancient idea of the Korean dynasty's tribute to the Chinese emperor in Beijing on its head, and are willing to accept no-strings-attached offers of economic aid.<sup>12</sup>

In some ways, Kim Il-Sung's idea of *juche*, and its actual practice, are comparable to Chairman Mao's ideas of revolutionary socialism in China. Although China received Soviet aid in the 1950s and 60s, especially after the Sino-Soviet split, Mao Zedong committed the Chinese to a course of self-reliant development. They planned to modernize their economic outside the framework of the capitalist world economy, mobilizing capital from their own labors, and relying on the creativity of the "worker-peasant-soldier" teams to develop their own technology. In this way, they would reduce their dependence on the outside world.

But this approach stumbled badly during the Great Leap Forward of 1958-1961 and again during the decade of the Cultural Revolution from 1966 to 1976. Deng Xiaoping was well aware that all development is in varying degrees dependent development; no society can develop without at least acquiring the productive technology

of the advanced economies. In his words, “no country can now develop by closing its door...Isolation landed China in poverty, backwardness and ignorance.”<sup>13</sup>

Similarly in the North following the Korean War armistice, the Soviet Union and China provided the DPRK with large amounts of economic assistance to rebuild its shattered economy.<sup>14</sup> This aid was concentrated in the heavy industrial sector and included relatively large amounts of nonrepayable grants and some loans. Around 1963, the Soviet Union gradually ceased its aid program. Leonid Brezhnev, who had experienced Stalin’s cult of personality and reportedly had a personal distaste even then for Kim Il-Sung’s version, discouraged the transfer of more Soviet aid. But by that time the DPRK had recovered from the war and its per capita GDP exceeded that of South Korea, which was still an agricultural economy.

However, toward the end of the 1960s, the DPRK’s approach of transferring workers from agricultural farms to factories reached the point of diminishing returns. In response, in the early 1970’s the DPRK imported whole factories from Europe and Japan on credit, including what was at the time the world’s largest cement factory. The DPRK had intended to repay the loans through exports of products produced by these factories. But the 1973 First Oil Shock caused much of the world to go into an economic recession, greatly reducing North Korea export earnings from products such as cement used in overseas construction projects. As a result, in 1976 the DPRK became the first

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<sup>12</sup> Nicholas Eberstadt, *The End of North Korea*, (Washington, D.C.: the AEI Press for the American Enterprise Institute, 1999), p. 19.

<sup>13</sup> From the New York Times, January 2, 1985, quoted in Robert Gilpin, *The Political Economy of International Relations*, (Princeton: Princeton University Press, 1987), p. 294.

<sup>14</sup> Karoly Fendler, “Economic Assistance from Socialist Countries to North Korea in the Post-War Years: 1953-1963,” in Han S. Park, ed., *North Korea: Ideology, Politics, Economy* (Englewood Cliffs, New Jersey: Prentice Hall, 1995), pp. 162-170.

communist country to declare default on foreign loans. The original amount of \$2 billion has now grown to an estimated \$10 billion.<sup>15</sup>

By the early 1980s, Brezhnev had died, while China was turning toward America and Deng was dismantling Maoism, so the DPRK once again looked to the Soviet Union. The Soviet Union allowed the DPRK to run a substantial and continuing balance of payments deficit, especially for items such as petroleum used to manufacture chemical fertilizer and diesel fuel for the heavily mechanized North Korean state farms. In competition with the Soviet Union, China also sold the DPRK grain and oil at friendship prices.

When the Soviet Union collapsed in 1991, Russian exports suddenly converted to sales in U.S. dollars at world market prices, and China also followed suit. The result revealed the great extent to which the North Korean economy had been subsidized from the socialist camp. For decades, the DPRK had used Soviet petroleum to manufacture chemical fertilizer for the fields, and diesel fuel for tractors and other farm machines. As a result, the farm population had declined, and many workers had moved to the cities. With the end of cheap petroleum, fertilizer was not being made, few large farm animals remained to pull plows, and North Korean food output began plunging. Starting from 1995, floods and other natural disasters had a devastating impact on the DPRK's food output, though one analyst estimates that floods and drought, while real, only accounted for 20 percent of the total fall in output.<sup>16</sup> In 1995 the DPRK made an unprecedented appeal to the World Food Program (WFP) and to international charity non-governmental organizations (NGOs) for free food.

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<sup>15</sup> U.S. Department of State, *Background Notes: North Korea*, Washington, D.C., June 1996.

<sup>16</sup> Natsios, "The Politics of Famine."

One State Department official told me that many State Department negotiators believe that the DPRK tends to grab short-term advantages when they are able, even if the long-term advantages they destroy in the process would yield greater benefits. However, from the DPRK's point of view, they have constantly been buffeted by unexpected political events that have severely impacted their economy. The short-term emphasis has a certain rationality judging from their history.

The extent of the DPRK's reliance on imported goods and technology from foreign countries almost since its inception surprises many people, and they regard this phenomenon as a contradiction. In some ways, this is the fault of a linguistic misinterpretation. In English, *juche*'s direct translation is "subjective." Kim Il-Sung's idea stands in antithesis to Marxism. Karl Marx held that materialism is the objective factor that determines the fate of history, and the economy is the foundation that determines the superstructure of the political system and society. A capitalist economy determines a capitalist political system and society, and a socialist economy determines a socialist system. From this point of view, Marxists are justifiably suspicious of market-oriented economic reform, which they term "revisionism."

In contrast to Marx, Kim Il-Sung said that man's subjective will to achieve is the determining factor in deciding history, including economic development.<sup>17</sup> In China, Chairman Mao had a similar idea. Mao often cited the Long March and his struggle against the much stronger armed forces of Chiang Kai-Shek as an example of how his iron will had prevailed in what was objectively a movement with small odds of success. Having succeeded in war, in 1958 Mao tried to implement this idea in the Great Leap

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<sup>17</sup> Han S. Park, "The Nature and Evolution of Juche Ideology," pp. 12-14.

Forward, with disastrous results and an artificial famine similar in some respects to the North Korean famine of 1995-98.

Kim Il-Sung argued that the people of the DPRK, if their will was unified by the Korean Workers Party (KWP), could bring forth great achievements in the economy. But in making this argument that the DPRK did not need to rely on foreign countries, Kim Il-Sung did not mean to imply that outside economic relations were to be rejected. Rather, only those economic relations that implied an attempt to impose conditions or restrain the DPRK's freedom were to be rejected. Aid given in friendship with "no strings attached" was welcomed. (The DPRK is today very suspicious of the World Bank in part because the bank imposed economic reform conditionality when it bailed out South Korea in the East Asian Financial Crisis of December, 1997.)

#### **IV. Brief Outline of U.S.-DPRK Relations**

U.S. relations with the DPRK have a tortured history. In September 1945 the U.S. Army entered Korea south of the 38<sup>th</sup> parallel to accept the Japanese surrender, and the Soviet Army entered from the north. The U.S. intention was to form a united Korean government fairly quickly, but friction quickly developed between the two Koreas. The conservatives in the southern portion backed by the U.S. were seen by Kim Il-Sung as traitorous collaborators with the hated Japanese colonialists. The Korean socialists and nationalists in the northern portion backed by the USSR were on the other hand seen by the Americans as puppets of Stalin. The U.S. took the initiative, and on August 15, 1948 unilaterally established the Republic of Korea (ROK) in Seoul. In response to the U.S. action, the Soviets established the Democratic People's Republic of Korea (DPRK) under Kim Il-Sung. (Many Americans are ignorant of the sequence of events, simply assuming that the Soviets acted first.) Each government still claims to be the sole legitimate government of the Korean peninsula, and the DPRK still attempts to diminish the status of the ROK whenever it can. By contrast, President Kim Dae-Jung, who is pursuing an engagement policy toward the North, has softened the efforts of his predecessors to denigrate the DPRK's legitimacy.

On June 25, 1950, almost exactly fifty years ago, the Korean Peoples Army (KPA) attacked the south. Documents from Soviet archives, now available to foreign researchers, show that Kim Il-Sung had long sought, and in January 1950 finally received, Stalin's permission to launch an attack to reunify Korea by force. Soon after the attack, the U.S. executive branch imposed tight economic sanctions on the DPRK. (See Appendix C – List of Sanctions at page 69 for more details.) These included

sanctions on trade in goods and services by American firms, both at home and their branches overseas, and financial transactions using U.S. dollars. In addition, the U.S. Congress passed laws specifically applying additional sanctions on the DPRK, including forbidding the U.S. Agency for International Development (USAID) from extending foreign aid to North Korea. In late 1987 a North Korean spy confessed to planting a bomb on a Korean Airlines passenger plane over the Indian Ocean to deter people from attending the 1988 Seoul Olympics. In 1988, the U.S. executive branch added the DPRK to the list of countries supporting state terrorism, joining rogue states such as Libya, Iraq and Iran. This effectively prohibited North Korea from receiving loans from the U.S. Export-Import Bank (EXIM) or foreign direct investment guarantees in factories from the U.S. Overseas Private Investment Corporation (OPIC).

In 1989, at the same time that the U.S. Government was adding the DPRK to the terrorism list, the Bush Administration began exploring ways to contact the DPRK. The first relaxation of sanctions was an effort to promote exchange of information. Travel restrictions were eased to facilitate academic, sports and cultural exchanges. American travelers could spend unlimited amounts of U.S. dollars on travel expenses and bring home \$100 worth of non-commercial goods essentially as souvenirs. Furthermore, economic sanctions were relaxed to permit the export and import of information and printed matter, and to allow donations of goods to North Korea to meet basic human needs.

In a January 6, 1992, speech to the (South) Korean National Assembly in Seoul, President Bush stated that the American people “favor peaceful unification on terms

acceptable to the Korean people.”<sup>18</sup> Some saw this as signaling that the U.S. would not oppose reunification if the North collapsed and was taken over by South Korea. This was a parallel to the way that East Germany had collapsed and been taken over by West Germany in unification. Others more suspiciously saw the requirement for (all) Koreans to agree among themselves as raising the bar so high that reunification could never be achieved. The latter group felt that the U.S. preferred to have the Korean peninsula divided into two smaller countries, rather than united into a larger country able to play a more active, independent role in East Asia.

### **The Nuclear Crisis and the Agreed Framework**

Beginning in the early 1990's, the US Government became increasingly suspicious that the DPRK was attempting to build nuclear bombs. These suspicions followed the revelation of how, in the late 1980s, the Iraqi Government had been conducting a clandestine nuclear bomb project despite International Atomic Energy Agency (IAEA) monitoring of its nuclear power program. Since the late 1980s the North Koreans operated a small Soviet-designed reactor in the town of Yongbyon. This particular design had the side effect of converting some natural uranium in the reactor's fuel rods into weapons-grade plutonium. The DPRK claimed that this reactor was used solely to produce electricity.

The U.S. supplied intelligence information to the IAEA suggesting that, in violation of their IAEA obligations, the North Koreans might have already withdrawn the

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<sup>18</sup> Quoted in S. Harrison, "Promoting a Soft Landing in Korea," p. 74.

some fuel rods from this reactor to test their ability to extract the plutonium. The North Koreans denied the claim. Subsequently, the IAEA demanded a special inspection of the reactor complex to confirm this allegation. The DPRK adamantly refused, resulting in stalemate and the public threat of U.S. military action against the North.

Some observers have taken these public threats at face value rather than as a negotiating ploy. However, U.S. Forces Korea Commanding General Gary Luck said at the time that, “If you fight [North Korea], you win. But you spend a billion dollars, you lose a million lives, and you bring great trauma and hardship. So, I’m not so sure winning is a win.”<sup>19</sup> In less colorful language expressing the same thought, former Defense Secretary Perry’s Report states that, “The United States and its allies would swiftly and surely win a second war on the Korean Peninsula, but the destruction of life and property would far surpass anything in recent American experience.”<sup>20</sup>

In June 1994, former President Jimmy Carter, concerned by the possible outbreak of hostilities, visited Pyongyang and met with Kim Il-Sung, who agreed in principle to seal the Yongbyon reactor, store the fuel rods safely, and accept in return the construction of two Light Water Reactors (LWR) by a consortium of countries including the United States. These LWRs would produce the electricity that the North claimed it would have obtained from the Soviet-designed reactor, but their incidental by-product of plutonium is in a grade unsuitable for making weapons.

Over the following five months, negotiators from the U.S. and the DPRK met in Geneva, and on October 21, 1994, signed the Agreed Framework (AF) giving greater

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<sup>19</sup> Leon V. Sigel, *Disarming Strangers: Nuclear Diplomacy with North Korea* (Princeton: Princeton University Press, 1998), p. 155.

<sup>20</sup> William J. Perry, “Review of U.S. Policy Toward North Korea: Findings and Recommendations,” Washington, D.C., U.S. Department of State, October 12, 1999.

specificity to the Carter-Kim agreement. The U.S. agreed to provide the DPRK with 500,000 tons per year of heavy fuel oil to operate North Korean conventional electric power plants that had previously burned Soviet fuel oil. In addition, the AF set out the goal of moving expeditiously toward more normal relations.

In the Agreed Framework, one provision states:

II. The two sides will move toward full normalization of political and economic relations.

- 1) Within three months of the date of this Document, both sides will reduce barriers to trade and investment, including restrictions on telecommunications services and financial transactions.
- 2) Each side will open a liaison office in the other's capital following resolutions of consular and other technical issues through expert level discussions.
- 3) As progress is made on issues of concern to each side, the U.S. and the DPRK will upgrade bilateral relations to the Ambassadorial level.

(Agreed Framework between the United States of America and the Democratic People's Republic of Korea, Geneva, October 21, 1994)

In both 1995 and 1998, U.S. policy toward North Korea was stated as "The long-run U.S. objective remains a peaceful resolution of the Korean conflict with a non-

nuclear, democratic, reconciled and ultimately reunified Peninsula.”<sup>21</sup> Concerning the LWRs, the US Government set out expeditiously to create the Korean Peninsula Energy Development Organization (KEDO). In the Department of State, I worked on the issue of supplying the heavy fuel oil to North Korea. By January 1997, the USG had relaxed some economic sanctions. For instance, ATT was permitted to open telecommunications circuits with the DPRK, while the DPRK was permitted to use U.S. dollars in trade transactions not involving American firms. Trade controls also permitted the import of one North Korean commodity, magnesite for American steel mills, and American firms are permitted to participate in the construction of the KEDO Light Water Reactor project.

So the U.S. Government did fulfill its most narrow obligations on easing sanctions. But the actual conduct of U.S. policy toward North Korea was not successful in realizing the broader normalization goals set out in the Agreed Framework, including much greater relaxation of economic sanctions.

One reason given for this is the compartmentalization of U.S. policy. Former Department of Defense (DOD) Assistant Secretary Armitage believes U.S. compartmentalization gives a tactical advantage to the DPRK’s negotiators.<sup>22</sup> For many years, the Department of Defense dominated the bulk of our official dealings, which were at Panmunjom, concerning pragmatic, armistice related military issues. Simultaneously, the U.S. Department of State had political contacts at the United Nations Headquarters in New York, in Geneva, Switzerland, and starting from 1988, when I was there, in Beijing between embassy officials. State dominated talks on reducing tensions in the Korean

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<sup>21</sup> “U.S. Security Strategy for the East Asia-Pacific Region 1998,” Washington, D.C., U.S. Department of Defense, 1998, p. 22.

<sup>22</sup> Richard L. Armitage, “A Comprehensive Approach to North Korea,” in *Strategic Forum*, (Washington, D.C.: National Defense University, March, 1999), p. 3

Peninsula and replacing the armistice with a permanent peace. Further, since 1995, the U.S. Agency for International Development (USAID) has donated food through the UN World Food Program (WFP) to the North.

Our official policy is to give aid based on need, thereby avoiding political linkage. Non-governmental organizations and other humanitarian groups have pushed for this policy. However, many observers see that, despite official protestations of non-linkage, U.S. announcements of food donation often come soon after successful negotiations with the DPRK, implying an implicit quid pro quo. This apparent gap between U.S. stated and actual policy, and the multiplicity of American government voices, may contribute toward complicating the process of carrying out confidence building measures with the DPRK.

Other observers believe that the U.S. failed to implement the relaxation of economic sanctions envisaged in the Agreed Framework because Newt Gingrich and the conservative Republicans won control of the House of Representatives in the November 1994 mid-term election. The Clinton Administration was said to be concerned that efforts to “move toward full normalization of economic relations” would only arouse strong Republican opposition.<sup>23</sup> Former House Speaker Tom Foley and current U.S. Ambassador to Japan once privately observed to me that the North Koreans are perhaps the most hated and reviled country in the US Congress. Some say that the U.S. thus bears the blame for the failure of the AF to achieve its bright objectives.

However, still other analysts believe the North Koreans are struggling with a similar internal coordination problem, especially in obtaining Korean People’s Army and internal security service agreement on key issues negotiated by the Ministry of Foreign

Affairs. This suggests that both the U.S. and the DPRK share the blame for the failure. For example, as symptomatic of its own difficulty in internal bureaucratic coordination, the DPRK Ministry of Foreign Affairs has yet to give the State Department permission to open the U.S. liaison office in Pyongyang, even though State has had individuals designated and ready to travel there on short notice. In short, both sides share responsibility for failure to implement the Agreed Framework's broader economic sanctions and normalization provisions.

### **The Perry Report of September, 1999**

In August 1998, the DPRK used its experimental Taepodong missile in what it said was an attempt to launch its Kwong-myong-song satellite into orbit. Ignoring international regulations that require giving advance warning to mariners and aviators of missile tests through international and national airspace and maritime waters, the DPRK launched the missile, with the second stage landing off Japan's West Coast, and its third stage going over Japan to land near the east coast. This totally unexpected action greatly upset Japan, and the US Congress felt that the AF had failed to restrain the DPRK's provocations.

As a consequence, President Clinton appointed former Department of Defense Secretary Dr. William J. Perry as his Special Advisor. Perry was assisted by Harvard Kennedy School Professor and former Defense Department Assistant Secretary Ashton B. Carter. By late 1998, the Agreed Framework process, which had originally included

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<sup>23</sup> Harrison, "Promoting a Soft Landing in North Korea," p. 64.

the broad agenda quoted above, had narrowed to focus on just two aspects: namely, ensuring that the DPRK's nuclear reactors remained sealed, and KEDO's construction of the light water reactors. The Taepodong missile launching had threatened Congressional support for the KEDO process. However, if Congress killed KEDO, the North Koreans would have immediately reprocessed the plutonium in the fuel rods, and in several months could have made several nuclear bombs.

In early September 1999, the Perry Report was given to the President and it advocated a return to the broad normalization principles set forth in the Agreed Framework including sanctions relaxation.<sup>24</sup> The Perry Report is an attempt to reactivate the original broader intent of the Agreed Framework process, including normalization of economic relations. The Perry process also placed much greater emphasis on closer policy coordination among the U.S., Republic of Korea (ROK) and Japan prior to bilateral talks with the North. This has been realized in the establishment of the Trilateral Coordination and Oversight Committee (TCOP) among the U.S., ROK and Japan.

One key recommendation of the Perry Process was to “deal with the North Korean government as it is, not as we might wish it to be.” Dr. Carter explained to me that he and Perry consulted with intelligence analysts in both Russia and China, countries that have long had close contact with the DPRK. These specialists do not see any organized opposition to Kim Jong-Il or the Korean Workers Party. Perry believes that the USG does not have the power to overthrow or reform the DPRK government in any relevant time frame to influence the construction of nuclear bombs and development of long-range missiles. Perry acknowledged the famine and other economic difficulties that face the Pyongyang regime. Nevertheless, he concluded, “While logic would suggest

that the DPRK's evident problems would ultimately lead its regime to change, there is no evidence that change is imminent.”

Further, as Perry acknowledged in an interview with Sonia Russler of CNN International, “I believe that the North Korean missile program -- their motivation for that program -- was for their own security. We have a hard time understanding that. We don't see ourselves as being threats to North Korea, but they see themselves as being threatened – and I believe that's the purpose of their missile program.”<sup>25</sup> So, “accepting it as it is,” also means being aware of the DPRK's suspicion of the U.S.

Perry laid out a comprehensive and integrated approach with a two-path strategy. The first, which could be describing as going upwards toward peace, involves a new approach to negotiations, trading DPRK cessation of its weapon of mass destruction development programs for U.S. moves to reduce threatening pressure. The U.S. “would normalize relations with the DPRK, relax sanctions that have long constrained trade with the DPRK and take other positive steps that would provide opportunities.” If North Korea rejects the first path, then the U.S. and its allies would take steps to contain the threat from the North. The report is silent on possible measures to implement the second, downward path.

But even before its formal presentation in early September to the President and the Congress, the spirit of the Perry Report was guiding American negotiators. On September 17, 1999, in Berlin, American and North Korean negotiators came to a broad agreement on pursuing normalization. The North Koreans announced that they would suspend long-range missile tests while negotiations were being conducted with the U.S.

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<sup>24</sup> Perry, “Review of U.S. Policy Toward North Korea.”

<sup>25</sup> U.S. Department of State Press Release, Washington, D.C., September 17, 1999.

The State Department announced that sanctions to be eased would allow a wide range of imports and exports of U.S. and DPRK commercial and consumer goods. Direct personal and commercial financial transactions will be allowed between U.S. and DPRK people and firms. Restrictions on investment will be eased. Commercial U.S. ships and aircraft carrying U.S. goods will be allowed to call at DPRK ports. The agreement also announced that the U.S. and DPRK would arrange for the travel of a North Korea “high-level visitor” to Washington, D.C. to reciprocate the spring, 1999 travel of Perry and Carter to Pyongyang.

As of April 2000, however, nothing has been done to implement this pledge, and these sanctions are still being rigidly maintained. One American who has been negotiating a mining investment in North Korea asked the U.S. Treasury Department’s Office of Foreign Assets Control (OFAC) if he could sign a contract with the North Koreans, with execution to be contingent on the actual easing of sanctions. (This flexibility has been allowed in the past regarding expected sanctions liberalization regarding other countries, such as Vietnam.) The OFAC answer was, “No!”<sup>26</sup>

On January 14, 2000, I interviewed Commerce Department working-level officials in Washington about the sanctions liberalization process. One official confirmed that implementation has been held up by interagency wrangling over the precise scope of liberalization. He told me that he was waiting until the North Koreans announced a schedule for the visit of the high-level official to Washington, D.C. before raising the issue to political levels for a final compromise decision.<sup>27</sup> This DPRK visit, originally expected in early November 1999 has still not been firmly scheduled as of mid-April

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<sup>26</sup> Interview with potential American investor, March 6, 2000.

<sup>27</sup> Interview with U.S. Department of Commerce official, January 18, 2000.

2000, and the sanctions remain in place. The DPRK appears to be very slow and deliberate in negotiating, and under no time constraints, just as American working level officials feel no urgency to engage in bruising interagency battles unless there is an action-forcing event. Perhaps this explains the delay in arranging the liberalization of the sanctions.

Despite the slow movement in implementing the Berlin agreement's pledge to relax U.S. sanctions and send a high-level visitor, the DPRK has been fairly quiet, refrained from testing missiles and any other provocative actions. Some people have speculated that the DPRK has become aware of the U.S. presidential campaign, judging that little progress can be negotiated now, and is waiting to see the results of the election. Others have speculated that perhaps the DPRK remains divided on how to handle the U.S., and may welcome an opportunity to consider its next moves. Both these views may, of course, contain some truth.

## **Part II U.S. Economic Policy Options for a New Administration**

The question in January 2001 that the incoming Administration will face is how to implement the Perry Report. I believe that the new Administration should act vigorously in promoting the spirit of the report. I agree with the spirit of the thesis of two American academics at the Brookings Institution, Michael E. O’Hanlon and Mike M. Mochizuki, that we should act boldly to spur action and end the state of hostilities. The academics’ focus was on proposing ambitious conventional arms controls measures. But they point out that:

Critics will say that such a sweeping proposal is too much, too fast. But there are advantages to big ideas, as then-US President Ronald Reagan and Soviet President Mikhail Gorbachev proved in the 1980s. They have a way of focusing the mind that incrementalist ventures do not.<sup>28</sup>

Although as I noted above the DPRK resists proposals labeled “economic reform,” it may be amenable to proposals for “mutually beneficial economic cooperation.” The important point is to help the DPRK end its isolation and increase its interaction with the outside world, both economically, and hopefully politically.

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<sup>28</sup> Michael E. O’Hanlon and Mike Mochizuki, *Aim for Korea Breakthrough: Ambitious Military, Economic Plan may Spur Action*, (Washington, D.C.: Brookings Institution, March 30, 1998).

## V. Bilateral Options

My first recommendation is to liberalize all sanctions under the control of the executive branch. These include the Trading with the Enemy Act (TWEA), removing the DPRK from the state-sponsored terrorism list, and seeking congressional authorization to convert mandatory sanctions to those with executive branch discretion. The prime reason for doing so is that economic sanctions should be used as a foreign policy instrument, not retained as a matter of inertia. In any case, the sanctions no longer restrain North Korean behavior; instead, they have a chilling effect on bilateral relations.

On the other hand, their removal would be taken as a good sign. In negotiations to date, the DPRK has demanded that the U.S. remove the sanctions. Even before the January 21, 1995, deadline for taking some steps to remove sanctions, the DPRK had unilaterally moved out in advance of that date, abolishing its economic sanctions against the US.<sup>29</sup> The North Koreans see the sanctions as a hostile act directed against the integrity and continuity of their regime. Their demand is based on political, not economic concerns. Further, in 1994 we promised to relax the sanctions, but only took the most minimal steps. Again in 1999 we repeated the promise. At some point we must recognize that the North Koreans have “paid” for this bargaining chip, and we are unlikely to obtain further concessions from them by promising to relax sanctions once again.

Further, the DPRK has been able to blame its inability to attract foreign trade and investment on the effect of American sanctions on other possible economic partners, such as Japan and Europe. Abolishing the sanctions would, therefore, force the North Koreans

to confront their own shortcomings as the real reason for their dismal economic situation. They would no longer be able to hide behind excuses.

American firms should have the opportunity to negotiate with Pyongyang. If they succeed, their presence will have an impact on the North Koreans. If the American firms fail in their negotiations and go to a more hospitable environment in Southeast Asia, such as Vietnam, then that action will also send a message and have an impact on the North Koreans.

One question is whether there is potential for U.S.-DPRK trade, especially exports from the DPRK to earn foreign exchange. One American economist used a standard “gravity model” that does well in predicting trade volumes elsewhere in the Asia-Pacific region.<sup>30</sup> His conclusion is that 7 percent of the DPRK’s total trade would be with the US. This econometric analysis suggests that North Korea’s comparative advantage would lie in the export of products such as seafood, semiprocessed mineral products such as magnesite, textiles, and apparel.

Apart from easing the sanctions, however, the question is how the US Government could encourage American firms to actually explore the North Korean potential to see if U.S.-DPRK trade could attain the 7 percent figure. The US Government does not have many other levers at present to help American firms engage in there. The U.S. Export-Import Bank (EXIM) is prohibited by law from lending money to North Korea. Further the lingering impact of North Korea’s default on loans extended by governments and firms in Europe and Japan tend to discourage bank lending. (The loans originally totaled about \$2 billion, but compound interest has now increased the value to

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<sup>29</sup> Winston Lord, Assistant Secretary for East Asia and Pacific Affairs, U.S. Department of State, press conference transcript, (Washington, D.C.: January 9, 1995).

an estimated \$10 billion.<sup>31)</sup> The North Koreans also do not understand the impact of its default on foreigners. A North Korean cabinet minister responded to a question on this topic from the German Foreign Ministry official responsible for East Asia. The North Korean cheerfully said that, “If you lend us more money, we will invest it and make a profit, and then repay both the current and past loans.”<sup>32</sup> The minister did not seem to realize that the western proverb “Once bitten, twice shy” might apply to this situation.

Further, the U.S. Overseas Private Investment Corporation (OPIC) would also have difficulty extending insurance coverage to American factories overseas. OPIC insures American firms making investments against political risk such as nationalization without compensation or currency inconvertibility, and American firms going into a market with such an unstable policy environment as North Korea would seek such protection. However, although OPIC is a government agency, Congress mandated in its charter that it operate at no expense to the American taxpayer. OPIC would need to sign an agreement with the North Koreans allowing it to operate there, and most such agreements are signed after the U.S. and the counterpart country have established diplomatic relations.

The U.S. Department of Commerce should explain to business executives how to do business there. KEDO has negotiated conditions under which the KEDO staff will live and work in the town of Kumho while they construct the nuclear reactor. The North Koreans have suggested that foreign business executives study these KEDO protocols carefully as models that can be adapted into business investment contracts.

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<sup>30</sup> Marcus Noland, “The North Korean Economy,” in Joint U.S.-Korean Academic Studies, Vol. 6, 1996

<sup>31</sup> U.S. Department of State, “Background Notes: North Korea.”

## VI. Multilateral Options

In addition to this limited bilateral step, the new U.S. Administration should take the initiative to bring multilateral organizations to work with the North Koreans. Again, the aim should not be to “economically reform” the North Koreans, but to encourage them to take advantage of openings to the outside. The International Financial Institutions (IFIs) such as the International Bank for Reconstruction and Development (IBRD, usually referred to as the World Bank), the International Monetary Fund (IMF) and the Asian Development Bank (ADB) are the three most likely organizations to work with Pyongyang. Indeed, the World Bank has already selected one officer, Dr. Bradley Babson, who worked with Vietnam to bring it into the bank, to work with North Korea. Dr. Babson has represented the bank on the UNDP’s Tumen River Area Regional Development Project, and has talked with the North Koreans.<sup>33</sup> The World Bank has already sought to provide training to the North Koreans, though initial efforts failed because the North Koreans were skittish at premature publicity by the South Koreans.

Some commentators have looked at these small training projects and extrapolated forward, assuming that the US Government could “introduce” the DPRK to the World Bank, which would then extend billions of dollars in development assistance to North Korea. In fact, for the World Bank to provide substantial funding, North Korea would need to become a member, which requires having a certain minimum standard of transparency and openness about statistics concerning economic performance. At present, much like Maoist China during the Great Proletarian Cultural Revolution, the DPRK regards statistics as state secrets. (Perhaps at present as much from

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<sup>32</sup> Interview on March 8, 2000.

<sup>33</sup> Interview on March 30, 2000.

embarrassment at the sharp decline.) The IMF and the ADB have similar requirements. Bringing the North Koreans to the table will be worthwhile, but probably difficult.

One approach recently suggested by Korean President Kim Dae-Jung is inviting the DPRK to attend Asia-Pacific Economic Cooperation (APEC) meetings as an observer.<sup>34</sup> In addition to its famous annual “Economic Leaders Summit,” APEC has working groups in a variety of economic sectors, including energy, telecommunications, and tourism that bring together government officials and business/private sector representatives. (The term “business sector” was requested by the PRC because most of their largest “businesses” are government-owned, not privately owned, and “private sector” does not describe them; nor would it describe the DPRK’s entities.) I think that the World Bank, as part of its training program, should fund the foreign exchange expenses of DPRK delegations to these APEC working group meetings so that the North Koreans could learn in a practical, policy-oriented way how other East Asian economies such as the PRC and Vietnamese are approaching key economic policy issues.

In the fall 1994 U.S.-DPRK negotiations in Berlin, I observed that the officials of the North Korean economic ministries were very practical and did not stress ideology. At the very beginning, Chairman of the Committee for External Economic Cooperation Kim Jong-U made an initial, seemingly obligatory, short reference to the Great Leader Kim Il-Sung and the Dear Leader, Kim Jong-Il. Afterwards, the subsequent three days of negotiations and even a reception at the North Korean Embassy passed without any further mention of politics. American business executives have similarly remarked to me

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<sup>34</sup> “S. Korean President Calls for N. Korea to Join APEC, Urges Asian Safety Net,” AFP report Seoul of 3/31/00 quoted in NAPSNET of 3/31/00.

on the economic officials' pragmatic approach, though obviously always within the political parameters set by the Korean Workers Party.

The North Koreans seem to be more comfortable with a multilateral organization such as KEDO and some people have suggested that the international community could establish a Korean Peninsula Agricultural Development Organization (KADO) to improve North Korean agriculture. I disagree, because I think that funding would be difficult until the fundamental policy problem is solved. The North Koreans need to change their agricultural policy from trying to be self-sufficient and grow their own grain, which is a low productivity use of resources, and instead grow vegetables at home and import grain from the international market. The Chinese have long recognized the benefit of this practice. Even during the more autarchic period of the Cultural Revolution, the Chinese were importing Australian and Canadian grain for their major coastal cities and using land in the suburbs to grow high-value vegetables and raise chickens for the urban markets.

A better idea along the same lines is to establish the Korean Peninsula Mining Development Organization (KMDO).<sup>35</sup> If sponsored by a flexible IFI such as the ADB, KMDO might be an opportunity for international mining corporations, which have advanced technology, to work North Korea's rich deposits without the risk of expropriation. Perhaps KMDO could obtain "extraction rights" to certain deposits, and then offer them for bid to international tenders.

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<sup>35</sup> Interview with K.A. "Tony" Namkung, March 28, 2000.

## **Part III Other Perspectives**

### **VII. The US Congress**

In assessing the degree of feasibility of this proposal to ease sanctions on North Korea now, one concern must be the U.S. Congress, especially those more conservative members of the House of Representatives. Prior to 1998, Congressional Republicans, and those in the House of Representatives in particular, have opposed the Clinton Administration's Agreed Framework policy toward North Korea as weak and even appeasement.

In 1998 at the time of the Taepodong missile launch, these congressmen pushed for an independent review of our North Korea policy. They approved the appointment of former Defense Secretary Perry as someone they respected. Secretary Perry's report urged a renewed effort toward normalization with Pyongyang because neither confrontation nor isolation has worked. Some senior Republicans who had served in State and DOD positions supported its conclusions, protecting the Perry Report's political flank<sup>36</sup>. Further, although they are unhappy with the Perry Report's conclusions, House Republican critics have not come forth with a coherent alternative. The Perry Process has resulted in tighter coordination among the ROK, Japan and the U.S. Any U.S. policy, soft or tough, to be effective, must obtain the close cooperation of the two countries closest to North Korea. Especially while Kim Dae-Jung is president, a tough Republican policy will find great opposition from Seoul.

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<sup>36</sup> Dr. Ashton Carter in an interview, December 22, 1999.

Even after the new Congress reconvenes in January 2000, away from the high political tension of the general election, however, it is unlikely to vote much money for North Korea. I think that Congress will probably also be reluctant to amend relevant sanctions legislation to give the new president in 2001 the discretion to waive some provisions for North Korea.

There is a lack of plausible alternatives to a more accommodating policy toward North Korea. I believe that at least for the first year of a Gore Administration, even a Republican Congress would not actively seek to hinder a more active economic approach, particularly if Bill Perry remained as the point person on North Korea policy. And if Bush was elected, I believe that Bill Perry has enough bipartisan stature to serve to stabilize our policy through Bush's first year.

But the new administration would probably have to act discreetly to keep its explanations to Congress out of the glare of publicity as much as possible. Describing our policies as "designed to reform North Korea" would have the effect opposite to what we intend. In that regard, when he was first elected, South Korean President Kim Dae-Jung talked frequently about promoting economic reform in the North, and received a cool response. Lately, he has been speaking merely of "improving economic relations with the North," a formulation which has resulted in more progress with Pyongyang, including the summit now set for June 12-14.

## VIII. Likely Response from the Republic of Korea

### The Republic of Korea

ROK policy toward the DPRK has shifted sharply through the years, though perhaps the greatest swing has been between President Kim Young-Sam, in office between 1993 and 1998, and President Kim Dae-Jung, who took office in early 1998. The first DPRK-ROK contacts were announced on July 4, 1972 by Park Chung-Hee and Kim Il-Sung. Both were concerned by the implications of President's Nixon's trip to Beijing to meet with Chairman Mao, as their benefactor was meeting with their enemy. North-South contacts since then have proved to be a roller coaster. In 1993, Kim Young-Sam, a long-time dissident, was elected South Korea's first civilian President since 1960. But Kim Young Sam was pressured by Korean conservatives, and engaged in a general hard-line policy stressing containment of North Korea and strict reciprocity. At one point, Clinton Administration officials, upset by a Seoul's helpful tactics on an unprecedented apology by Pyongyang, complained to a *New York Times* correspondent that they found Seoul a "bigger headache" to the United States than Pyongyang.<sup>37</sup>

Kim Dae-Jung, also a long-time dissident, is a Roman Catholic who sees himself as a peacemaker. Kim Dae-Jung unveiled his new "Sunshine" policy toward North Korea on December 19, 1997, the day after he won the presidential election, suggesting he had been preparing to tackle this issue for a long time. The policy is rooted in Kim's belief that avoiding war is his overriding priority and that, figuratively, honey works better than vinegar in trying to entice the North to moderate and change. He also believes

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<sup>37</sup> Harrison, "Promoting a Soft Landing in North Korea," p. 60.

that South Korea must initiate steps for the settlement of inter-Korean issues and abandon any attempt to harm or absorb the North. However, Kim Dae-Jung has also warned that he will not tolerate any armed provocation by the North. In the summer of 1999, he ordered South Korean Navy boats to push North Korean Navy boats back across the Northern Limit Line (NLL) demarcating their west coast maritime boundary, and the next day again reiterated his sunshine policy.

Kim's policy is based on several assumptions.<sup>38</sup> One is that to avoid conflict the South needs to ease the North's desperate economic situation. Further, peace and stability along the DMZ are essential to Seoul's effort to attract foreign investment and continue the dramatic revival of its economy from the impact of the December, 1997 East Asian Financial Crisis. Peaceful coexistence will enable the North to adjust to the post-Cold War situation without fear of being undermined by the South, and will gradually minimize the chances of renewed hostilities.

Avoiding renewed hostilities is increasingly important, as the greater Seoul Metropolitan Region is home now to 19 million people, or 43 percent of the national total accordingly to the 1990 census, and accounts for 46 percent of South Korea's Gross Domestic Products (1994 figures), and the nation's major financial, educational, and cultural center. Finally, one of Kim Dae-Jung's key assumptions is that patience is needed in dealing with the North. As Donald Gregg, the President of the Korea Society of New York, told me, always proud and prickly Pyongyang will never say, "You are

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<sup>38</sup> Rin-Sup Shinn. *South Korea: Sunshine Policy and its Political Context*, (Washington, D.C.: Congressional Research Service, May 27, 1999), pp. 12-13.

right” to Kim Dae-Jung.<sup>39</sup> But in trying to evaluate an inherently ambiguous policy, how can one measure provocations not made, or harsh words not spoken?

To expedite reconciliation with the North, Kim Dae-Jung has encouraged the South’s private sector to explore economic opportunities in the North without government intervention. Hyundai’s Mount Kumgang-san project is one example of this new “separation of business and government” approach. Hyundai is also discussing other projects including offshore oil exploration, a 100,000 kW thermal power plant in Pyongyang, and an industrial complex on North Korea’s west coast. But many of the more interesting projects would certainly involve licensing U.S. technology, cooperating with U.S. firms to export to other markets, or even exporting from North Korea to the U.S. market. For that to happen, the USG will have to reduce its sanctions on American firms dealing with North Korea.

Kim Dae-Jung has frequently called for the U.S. to adopt measures supporting his “Sunshine Policy” of engagement. In June 1998, he called for the United States to change its North Korea policy by increasing economic and political engagement with the North. As part of a flexible and future-oriented approach, he suggested that the U.S. end its economic sanctions against the North, without setting any conditions.<sup>40</sup> The Perry Report responded positively to the Sunshine policy, stating, “If stability can be preserved through the cooperative ending of DPRK nuclear weapons and long-range missile related activities, the U.S. should be prepared to establish more normal diplomatic relations with the DPRK and join in the ROK’s policy of engagement and peaceful coexistence.”

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<sup>39</sup> Interview on February 4, 2000.

<sup>40</sup> Nicholas D. Kristoff. “Seoul Leaders Asks End to Sanctions on North Korea,” *New York Times*, June 2, 1998.

President Kim Dae-Jung will remain in office until February 2003, and is barred by the constitution for running for re-election. We do not know what policies his successor might adopt. His predecessor, Kim Young-Sam, vacillated in his policy toward the North depending on domestic political pressures. Kim Dae-Jung has been remarkably unwavering in his policy. The U.S. has a two-year window of opportunity from January 2001 to February 2003 to engage in an engagement policy toward the DPRK when we know that we will have the firm and consistent support of the ROK President.

## **IX. Likely Response from Key East Asian Countries**

### **People's Republic of China**

Relations between the leaders of the Chinese and North Korean communist parties have varied greatly over the past 50 plus years. During the early 1940s, Kim Il-Sung's Korean Communist guerillas fought side-by-side with Chinese Communist guerillas in Manchuria, first against the Japanese, and later against Chiang Kai-Shek's Nationalist army. In late 1950, as the U.S. Army pushed to the Yalu River, Chairman Mao sent Chinese Army "volunteers" to help Kim Il-Sung. But in the late 1950s, the Sino-Soviet split occurred, and the Chinese criticized Kim as a "revisionist" for trying to straddle the fence. In turn, the DPRK cooled relations with China further in the latter half of the 1970s as Chairman Mao received Richard Nixon, the President of the country that continued to block Kim Il-Sung's ambitions to reunify Korea.

The Chinese have been tough in their negotiations with the North Koreans, often insisting on a quid pro quo relationship<sup>41</sup>. At least since 1988 when I was in Beijing, China has been urging the DPRK to adopt Deng Xiaoping's economic reform policies, but both Kim Il-Sung, and Kim Jong-Il have refused. Not surprisingly, then, in the early 1990s, bilateral relationships worsened when China followed Soviet trade practice changes and also began to reduce its aid levels to Pyongyang and to charge world market prices for goods sold to the DPRK.

In the late 1990s, as the famine worsened, Beijing provided some food and fuel to Pyongyang as donations or sale at friendship prices. The PRC is especially afraid that the

DPRK's collapse would cause a wave of desperately hungry North Koreans flooding north of the border into Manchuria. To reduce this likelihood, for the past few years the PRC has been returning North Korean refugees to North Korea.<sup>42</sup> The PRC is also believed to be supporting the DPRK because it has a preference for maintaining North Korea as a buffer with South Korea. But recently the preference appears to be weakening. In 1998, bilateral trade between China and North Korea fell by 37.1 percent from 1997 to \$413 million.<sup>43</sup>

China would likely approve of a more active U.S. economic policy toward the North that would have the effect of strengthening the DPRK's economy and reducing bilateral North Korean-American military tensions. Professor Ashton Carter told me that PRC President Jiang confirmed to Perry that China is also concerned about the DPRK's long-range missile tests. That test had the obvious result of encouraging the U.S. to continue funding research and development under the Theater Missile Defense (TMD) program. In the past few months, China has expressed fears that the U.S. might transfer this technology to Taiwan to thwart Chinese missiles placed in Fujian Province on the other side of the Taiwan Straits. Beijing is concerned that if Taiwan doubted the effectiveness of China's missiles, Taiwan might be tempted to declare independence. Obviously Beijing feels that a relaxation of military tensions between the U.S. and the DRPK might well reduce the temptation for the U.S. to develop and deploy an expensive TMD system.

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<sup>41</sup> "The DPRK Report No. 16, for January-February, 1999," written by analysts at the Russian Diplomatic Academy, carried in NAPSNET of March 12, 1999.

<sup>42</sup> *The Far Eastern Economic Review*, "Escape from the Gulag," Hong Kong, November 25, 1999.

<sup>43</sup> "DPRK-PRC Trade" in NAPSNET of March 1, 1999.

## Russia

The collapse of the Soviet Union in 1991 turned attention in Moscow toward internal affairs for most of the decade. Recently Russian Foreign Minister Igor Ivanov has expressed an interest in a larger Russian role in Northeast Asia. Ivanov said, “We strive to make it so that Russia’s voice is also heard in a settlement of the most explosion-prone problem of the Asia Pacific, that is the Korean problem. First of all by means of pursuing a balanced policy toward both Korean states.”<sup>44</sup>

As part of their policy, on February 9, 2000, Ivanov signed a new Russia-DPRK Friendship, Good-Neighborhood and Cooperation Treaty during his visit to Pyongyang.<sup>45</sup> The new treaty replaces the old treaty, signed in 1961 that contained military cooperation clauses. (The PRC has maintained its similar 1961 treaty with the DPRK, retaining the military cooperation clauses, but has reportedly also told Pyongyang and Seoul that it strongly favors peace on the Korean Peninsula.) Despite the withdrawal of military cooperation, the DPRK seems to be favorably disposed toward Russia, given Russia’s opposition to NATO’s Kosovo action, which the DPRK sees as a dangerous precedent.

In its balanced way, Russia has also tried to deepen its relationship with South Korea. It recently proposed restructuring Russian debt owed to South Korea, and even offered to build submarines for the ROK Navy to partially pay the debt<sup>46</sup>.

Ivanov has hinted that at some point in the future he would like to expand the previous arranged “Four Party Talks” of the U.S., South Korea, North Korea and China to include itself and Japan, in a formulation usually described as “Four plus Two.” The

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<sup>44</sup> “RF Policy Toward Asia,” in NAPSNET of March 4, 1999.

<sup>45</sup> Agence France Presse, “North Korea and Russia End Cold War Alliance with New Pact,” Seoul, February 9, 2000 in NAPSNET February 9, 2000.

<sup>46</sup> “Russia Asks Korea to restructure the Debts,” in NAPSNET of March 30, 1999.

Four Party Talks concern replacing the 47-year long armistice with a permanent peace, and the signatories to that armistice are the appropriate negotiators. The Four Plus Two group would discuss broader security and stability issues in Northeast Asia. For that to happen, however, the present round of U.S.-led Four Party Talks with Pyongyang needs to be successful. In short, the Russian Federation would have every reason to support a more active U.S. economic policy towards the DPRK.

## **JAPAN**

In general, Japan has been strongly supportive of the Agreed Framework and the Perry Report's approach. Japanese politics toward North Korea has been strongly influenced by two groups with differing agendas. In the past, left wing groups in Japan supported the DPRK and Kim IL-Sung but their strength is waning. I served for three years in the Kansai region, where many pro-North Korean residents of Korean descent live. I noticed declining interest in the DPRK, especially among younger people. Pyongyang's widely publicized appeal for food aid, though justified on the grounds of natural disasters, took off whatever luster remained of the "workers' paradise."

Further, the financial strength of the pro-North Koreans in the Kansai suffered from a weak Japanese economy, which hit small and medium enterprises hard. Some credit unions composed mainly of pro-DPRK residents went bankrupt amid allegations that the management had siphoned off funds to Pyongyang as donations to Kim Jong-Il. Not surprisingly, I was told that the General Association of Korean Residents (*Chosen Soren* in Japanese and *Chochongnyon* in Korean), the main pro-North Korean organization in Japan, has been suffering from declines in both morale and membership.

The conservatives are a stronger political force. In August 1998, when the DPRK launched its Taepodong missile through Japanese airspace, the Japanese reaction was quite vigorous. On a trip there, I noticed that people along the Sea of Japan coast around Kanazawa City in Ishikawa Prefecture and the nearby Noto Peninsula were especially agitated. For a time after the Taepodong test, the conservatives in the Japanese Diet threatened to table indefinitely legislation to allocate over \$1 billion dollars as Japan's pledged contribution to KEDO. In the end, the legislation passed, but the Diet had sent a clear warning to Pyongyang.

The Japanese Ministry of Foreign Affairs plays a key role in guiding the Japanese Government's policy on North Korea. In this regard, the Tripartite Coordination and Oversight Committee (TCOP) has served a useful function in bringing MOFA into a close working group with the ROK and the US.

I believe that the Japanese would welcome a more proactive US economic policy toward the DPRK. Left-wing groups would see this as helping the North Korean people, which would support accommodating policies in the Diet. Conservatives would see it as an element supporting Japan's hope for continued Pyongyang implementation of the its September 1999 Berlin Declaration that it would temporarily suspend further missile tests.

## **X. The DPRK's Likely Response**

Earlier in the paper, I described how Kim Il-Sung and Kim Jong-Il have a very jaundiced view of economic reform, having observed what happened to Ceausescu. Kim Jong-Il said in 1993 that, “We must heighten vigilance against the imperialists’ moves to induce us to ‘reform’ and ‘open to the outside world.’ ‘Reform’ and ‘opening’ on their lips are a honey-coated poison.”<sup>47</sup>

However, the DPRK is not oblivious to the great success of China as it has engaged in its economic reform program, and the Chinese have tried to teach them. In 1988 when I was in the American Embassy Beijing’s Economic Section, I learned that the PRC had invited a DPRK study tour to learn about Deng Xiaoping’s economic policy reform. Even then, PRC officials told me that they believed that North Korean economic policies were inefficient and kept the North Koreans poor. The DPRK sent a fairly large team of experts to visit China’s Special Economic Zones (SEZs). These zones are located near Hong Kong, which is an important source of investment, management skills and export markets. They are also located far from Beijing, the nation’s capital with the many political secrets that the Chinese Communist Party wants to keep from prying eyes. The Chinese escorted the DPRK group through many foreign-invested factories. At the time, I was told that the North Koreans showed only limited interest in the SEZ concept.

However, the North Koreans have adopted a series of laws on foreign trade and investment. For example, DPRK law recognizes three forms of direct investment; namely contractual joint ventures, equity joint ventures, and wholly-owned foreign enterprises. A contractual joint venture with a DPRK factory involves the processing of

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<sup>47</sup> Nicholas Eberstadt, “The Most Dangerous Country,” *the National Interest*, Fall, 1999, p. 50.

imported raw materials or the assembly of components into finished goods, usually for re-export.<sup>48</sup>

Also in 1988, the concept that is now called the Tumen River Area Development Programme began to circulate, and I interviewed several individuals at the Soviet Embassy Trade Mission in Beijing, and the Chinese Ministry of Foreign Economic Relations and Trade (MOFERT). The Tumen River forms the boundary between China's Jilin Province in Manchuria, and the DPRK. For the final 15 kilometers (10 miles), the Tumen forms the border between Russia's Primorsky Krai near Vladivostok and the DPRK. If it were dredged and a low railroad bridge elevated to allow ships to pass, the Tumen River could be navigable up to the point where the Chinese, North Korean and Russian borders meet. The U.N. Development Program (UNDP) took up the idea of forming a cooperative free trade and economic zone at this intersection to promote peaceful and cooperative regional economic development. The ROK and Japan joined in support of their corporations, which were expected to invest in operations in the zone.

In 1991, the collapse of the Soviet Union ended subsidized exports to North Korea, and trade shifted from barter to a hard currency basis. Also in 1991, the DPRK incorporated the Najin-Sonbong (also called Rajin-Sombong depending on the romanization) Free Trade and Economic Zone along its section of the Tumen River.<sup>49</sup> Like China's SEZs, this zone is located at the country's furthest extremity from the nation's capital, Pyongyang.

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<sup>48</sup> Greyson Bryan, Scott Horton, Robin Radin. "Foreign Investment Laws and Regulations of the Democratic People's Republic of Korea," *Fordham International Law Journal*, Volume 21, Number 5, June 1998, pp. 1694-1699.

<sup>49</sup> "Tumen River Area Development Programme," Tumen Secretariat, UNDP, 1998 from its web site at [www.tradp.org](http://www.tradp.org).

However, the DPRK has always been reluctant to follow the Chinese example. In 1993, Kim Jong-Il spelled out his concerns about the sort of market forces that Deng had unleashed in China:

The basic driving force of development of a socialist society lies in ... [the people's] ideological consciousness... [In the past] there were tendencies to rouse people's enthusiasm for production by means of such material levers as economic incentives...In those societies which gave up education in socialist ideology and encouraged egoism, the building of the socialist economy became stagnant...They went so far as denying the leadership of the working-class party and state over the socialist economy.<sup>50</sup>

In 1995 the Najin-Sombong Zone opened for business. In 1996, Kim Jong-U, Chairman of the Committee for External Economic Cooperation and one of the main proponents of the zone, traveled extensively to promote the zone. Kim Jong-U traveled to Washington, D.C., to attend an investment conference sponsored by the George Washington University, and later that summer to Osaka where I was Consul General, and to other cities in Japan.

In a 1997 article, an American business group reported that “to date, over \$250 million of mostly Swedish, Hong Kong, and Japan resident Korean investment has been committed to the zone, and a foreign joint venture bank, managed by ING Bank, has set up a branch there.”<sup>51</sup> The UNDP web site's description, dated 1998, states that “the manufacturing sector in the zone comprises about fifty locally-run, state-owned factories” producing light industrial, labor intensive products, but does not mention foreign direct

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<sup>50</sup> Korea Central News Agency, March 4, 1993, quoted in Eberstadt's “The Most Dangerous Country,” p. 49.

investment.<sup>52</sup> Perhaps this omission is not accidental. Also in 1998, Kim Jong-U was dismissed from office. The foreign press reported rumors that Kim was said to be illegally keeping U.S. dollars that he had gained in his travels. In the 1998 DPRK government reorganization, the Committee was disbanded, and its functions given to a ministry.

Some U.S. Government analysts have speculated that the DPRK economic officials tend at first to enthusiastically explore possible projects to increase foreign exchange earnings through arrangements with foreign firms and individuals. Over time, as the implications of these projects are studied, especially for their ideological impact, other DPRK officials, perhaps in the security services, assert greater control over the project. The projects are never explicitly repudiated, but their prominence fades. Some have wondered if Kim Jong-U's real problem was that perhaps he continued to promote the Najin-Sombong Zone long after others fully grasped the implications of Kim Jong-II's statements and warnings.

One characteristic is that the North Koreans tend to keep efforts to learn about the outside world closely controlled. Several of the foreign non-governmental organizations which rushed to North Korea in 1996 to fight the famine are now withdrawing for this reason. CARE announced on April 4, 2000, that on June 30, 2000, it will end its food-for-work and other famine relief programs in North Korea. CARE had attempted to explain its need for transparency and access for four years, but the DPRK continued to restrict its ability to work directly with the people in need of sustainable rehabilitation

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<sup>51</sup> Greyson Bryan et.al., "Foreign Investment Laws of the DPRK," p. 1680.

<sup>52</sup> UNDP, "Tumen River Area Development Programme."

and development programs.<sup>53</sup> On September 30, 1998, the International NGO *Medecins sans Frontiers* (Doctors Without Borders) issued a press release in New York and Hong Kong announcing that it was similarly withdrawing from the DPRK, citing the same reason<sup>54</sup>.

International training is similarly controlled. New York University Professor Jerome Cohen, who has extensive experience lecturing on foreign trade and investment law in the PRC, has been giving training in Beijing to twelve DPRK officials. But the DPRK is not acting on his request to give to a similar course in Pyongyang where he could reach ten times the people from a number of different ministries.<sup>55</sup> Dr. Bradley Babson, Senior Advisor with the World Bank, told me he had also encountered difficulty providing training to the North Koreans.<sup>56</sup>

Despite these difficulties and the concerns of DPRK officials about ideological contamination from the outside, the interests of the international community are best served by persistent efforts to bring training and opportunities to Pyongyang officials.

While the ROK will support a more active U.S. policy toward the DPRK and will counsel steady patience, others worry about the DPRK's motivation in continuing to reject the ROK's efforts:

This so-called 'sunshine policy' replaced the carrot-and-stick approach of previous South Korean administrations with mostly carrots. The North sees the carrots as poison, however. An opening up to the South is the last thing North Korea's leaders can afford. Without a clear and present enemy, how can they

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<sup>53</sup> CARE Press Release quoted in NAPSNET of April 6, 2000.

<sup>54</sup> *Medecins sans Frontiers* web site press release.

<sup>55</sup> Interview on March 28, 2000.

<sup>56</sup> Interview on March 30, 2000.

justify keeping their malnourished hermit kingdom closed to the realities of the outside world?<sup>57</sup>

Some have wondered if the June 12-14 summit between Kim Jong-Il and Kim Dae-Jung might undermine Pyongyang's efforts to portray the South as an illegitimate regime. But as former President Kim Yong Sam remarked in an April 27, 2000, speech at the Harvard Kennedy School of Government, in June, 1994 Kim Il-Sung had agreed to a summit meeting with Kim Yong-Sam. The summit never materialized because of Kim Il-Sung's sudden death from heart attack. The DPRK is confident of its ability to manipulate the information that its citizens obtain.

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<sup>57</sup> Ramesh Thakur and Ralph Cossa, "Stuck between War and Peace," NAPSNET Special Report of March 22, 1999.

## **XI. Conclusions**

The purpose of engagement strategies is to change the behavior of another state in some way. The Reagan Administration pursued engagement with South Africa to persuade it to abandon its apartheid policy. The Clinton Administration has pursued engagement with China, in part, to persuade it to give more importance to human rights. It adopted this softer engagement strategy after the Administration's initial effort to link progress on China's human rights record and continuation of Normal Trade Relations (NTR – formerly called Most-Favored Nation (MFN) treatment) failed.

I am proposing an engagement policy with the DPRK to persuade it to first open up its economy and then to reduce military tensions with the region and with South Korea. However, the outlook is not bright. Kim Jong-Il seems stubbornly wedded to his father's policies, and convinced that too much systematic economic reform would spell the end of the Kim family regime. So a change in the DPRK's behavior is not assured.

But this policy must be weighed against the alternatives. As the quote cited earlier from General Gary Luck indicates, DOD respects the military might that the KPA has arrayed along the DMZ. Given the likely scale of deaths of military and civilians on all sides, DOD is not pressing for a military clash unless our vital interests are threatened. North Korea would not be another Desert Storm.

More importantly, to be successful, a "tough" negotiating policy would require the cooperation of South Korea, Japan and China, and possibly Russia. Unlike his predecessor, Kim Young-Sam, President Kim Dae-Jung has been urging the U.S. to carry out an engagement policy toward the DPRK. He would resist a tough policy. With the recent sudden change in its Prime Minister, Japan, which since its defeat in World War II

has developed a strong pacifistic block of voters, would be even less likely to support toughness that implied military pressure. China distrusts the DPRK, which has consistently rejected its advice to engage in economic reform, but it would like to keep the DPRK as a buffer. Russia has signed a new treaty of friendship deleting the old treaty's defense relationship, but Russia might see an aggressive U.S. push on North Korea as yet another harbinger of possible U.S. action against it. In short, a tough U.S. policy finds no supporters among the very nations whose cooperation would be required if some beefed-up sanctions policy or other tough policy were to be adopted.

A pro-active economic engagement policy has a better chance of success and is also easily reversible. In dealing with the DPRK, we need to be flexible and listen with more patience to the voices and suggestions of those who frequently deal with the Pyongyang regime. And for this to have any chance of success, the U.S. will need great patience, something that the U.S. Congress frequently has little of. As Congressman Jim Leach said, sometimes economics has implications for the great issues of war and peace. In the case of China during the mid-1970s, no one could anticipate that Deng Xiaoping would change Mao's economic policies so radically. While Kim Jong-Il is no Deng Xiaoping and the dramatic "China 1976" scenario is unlikely to play itself out in North Korea, something that we cannot foresee now just might happen in Pyongyang. No USG policy toward North Korea will be sure of achieving its goals. Only by engaging in greater economic activity with North Korea can we position ourselves so that we "prepare for the unexpected."

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## Appendix B – List of Interviews

### UNITED STATES GOVERNMENT

#### U.S. Department of State

Robert Carlin, Director for Northeast Asia,  
 Bureau of Intelligence and Research (INR)  
 Evans J. R. Revere, Director, Korea Desk  
 David B. Shear, Deputy Director, Korea Desk

#### U.S. Agency for International Development

Leonard Rogers, Deputy Assistant Administrator,  
 Bureau of Humanitarian Response

#### U.S. Department of Commerce

William R. Golike, Country Desk Officer for Korea  
 Lee Frazer, Bureau of Export Administration

### HARVARD UNIVERSITY

Professor Ashton. B. Carter – Kennedy School of Government  
 Dr. Nicholas Eberstadt – Visiting Fellow, Harvard Center for Population and  
 Development Studies  
 Professor Carter J. Eckert – Harvard Korean Institute  
 Robin Radin – Harvard Law School  
 Professor Ezra Vogel – Weatherhead Center for International Affairs  
 Professor John P. White – Kennedy School of Government

### FOREIGN POLICY RESEARCH CENTERS

Peter M. Beck, Director of Research & Academic Affairs,  
 Korea Economic Institute of America, Washington, D.C.

Jerome A. Cohen, Senior Fellow, Asian Studies, Council on Foreign Relations  
 New York City

L. Gordon Flake, Executive Director, Mansfield Center for Pacific Affairs,  
 Washington, D.C.

Donald P. Gregg, Chairman of the Board, The Korea Society, New York City

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