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Nine Scenarios for North Korea's Internal Development

Hyeong Jung Park



Korea Institute for
National Unification

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By Hyeong Jung Park

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The Impact of Personality Cult in North Korea

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Contents

I . Introduction	1
II . Three possible Developments of the Nuclear Issue and their Impact on North Korea's Change	3
1. A stalemate —	3
2. A Case of Progress toward Resolving the Nuclear Issue —	13
3. A Case of Stepwise Sanctions against North Korea —	17
III . Directions of Political Change and their Impacts on North Korea's State Capability	21
IV . Medium to Long-Term Prospect : Nine different Scenarios	26
V . Conclusions	37

- **Tables**

<Table 1> Assistance to North Korea (million USD) — 7

<Table 2> Three-Step Model for Resolving the North Korean Nuclear Issue — 16

<Table 3> Major Features of the Four Phases of Sanctions against North Korea — 20

<Table 4> Change in State Capability and Reorganization Pattern in North Korea — 23

<Table 5> Political Change, State Capability and Political Forms in North Korea — 25

<Table 6> Reform and Opening in North Korea on the basis of state capability and external variables — 28

I . Introduction

DPRK's July 2002 economic reform measures attracted much attention. It was geared to increase efficiency and profitability by 'improving and perfecting the planned economy,' as was said in North Korea. However, moving beyond the frame of planned economy, it included such measures as to partially allow production and sales of enterprises outside the planned activities and permit management autonomy to medium or small business in consumer goods production or service sector.

In terms of its logic and measures, North Korea's July reform looks very similar to the partial reform systems in China 1979-1984 and in Vietnam 1980-1982. It is, nevertheless, questionable whether the North Korea's attempt will be as successful as in China and Vietnam. This paper supposes that a Chinese reform might not guarantee a Chinese success in North Korea. Its success or failure is likely to depend on the variables like progress in the current nuclear issue and stability in its internal politics.

Regarding the future prospect of change and/or its success or failure in North Korea, this paper attempts to illustrate nine different scenarios. It assumes three possible developments for the nuclear issue: peaceful resolution, stalemate, and sanction against North Korea. It simulates also three possible alterations of North Korea's state capability during the resolution of nuclear issue: strong, medium,

2 Nine Scenarios for North Korea's Internal Development

and weak. On the bases of these two sets of three variables, 9 cases are distinguished, with which varying prospects for results of change in North Korea can be speculated.

II . Three possible Developments of the Nuclear Issue and their Impact on North Korea's Change.

This section discusses the prospect of change in North Korea based on three possible developments in the nuclear issues: peaceful resolution; tension building and war; and a long-term stalemate through repetition of progress and complication.

1. A stalemate: focusing on the ROK's North Korea policy and the inter-Korean relations in 2003

Since the reemergence of the nuclear crisis in 2002, the situation in 2003 has been one of standstill. While the US and Japan pursued 'dialogue and pressure' approach towards North Korea (DPRK), Republic of Korea (ROK) has maintained its 'dialogue first' principle in its North Korea policy. At the US-ROK summit in May, the US induced an agreement on 'considering further steps' in case North Korea escalates the nuclear crisis and 'conducting future inter-Korean exchange and cooperation in light of developments on the North Korean nuclear issue.' In the same month, the US-Japan summit drew an agreement on possibility of taking 'tougher measures' towards North Korea. Meanwhile, the Proliferation Security Initiative (PSI) was launched under the US leadership and Japan strengthened its

4 Nine Scenarios for North Korea's Internal Development

measures on shipboard inspection of the North Korean ship.

The ROK's North Korea policy largely pursued two goals in 2003.¹ The first goal was stabilizing management of the situation on the Korean peninsula. The Ministry stressed that stabilizing management of the situation on the Korean peninsula through continuing dialogue and cooperation would directly affect the South Korean economy and that the government would carry on warning against DPRK's act of escalating threats on the peninsula and urging North Korea to resolve the nuclear issue through the inter-Korean dialogue channel while strengthening its cooperation with the international community. The second goal was a steady development of inter-Korean relations. Despite difficult situation of unfolding nuclear crisis, the Ministry of Unification put effort into improving inter-Korean relations, and maintained the momentum of inter-Korean exchanges and cooperation

1 It is summarized on the basis of the following materials: Ministry of Unification, "Recent development in the inter-Korean relations," report of the minister of unification to the special committee on inter-Korean relations at the ROK National Assembly, April 11, 2003; Ministry of Unification, "Progress in the policy for peace and prosperity," report of the Minister of Unification to the 2nd <Open Forum for Unification> on April 24, 2003; Ministry of Unification, "Progress in the North Korea Policy," June 2, 2003; Ministry of Unification, "Major Issues in the Policy for Peace and Prosperity and Inter-Korean relations," June 30, 2003; Ministry of Unification, "Major Issues in the Policy for Peace and Prosperity and Inter-Korean relations" <the 9th Open Forum for Unification> July 25, 2003; Ministry of Unification, "Major Issues in the Policy for Peace and Prosperity and Inter-Korean relations" <the 10th Open Forum for Unification>, August 11, 2003; Ministry of Unification, "Major Issues in the Policy for Peace and Prosperity and Inter-Korean Relations" <the 11th Open Forum for Unification>, September 8, 2003.

through inter-Korean ministerial talks and working-level meetings in various areas related to economic cooperation. The Ministry assured that, as long as the North Korean nuclear situation does not aggravate, it would continue inter-Korean exchanges and cooperation to set up a foundation for medium to long term economic and social community building, and even to facilitate improvement in the military area. While continuing the three ongoing major inter-Korean economic cooperation projects, namely Gaesong industrial complex construction, Mt. Geumgang tourism project, and connection of Seoul-Shinuiju railroad, the Ministry promoted a policy of actively supporting inter-Korean social and cultural exchanges (Daegu Universiade, 8.15 joint national event, Jeju peace festival, etc).

Food aid to North Korea was regarded as a significant means to realize the goals of the North Korea policy. The Ministry of Unification maintains the importance of food aid as follows: Firstly, food aid to North Korea leads to inter-Korean dialogue and cooperation, thus, contributes to preventing further internal and external crisis and promoting stability in the peninsula. Secondly, food aid encourages DPRK's participation to the inter-Korean dialogue and provides a strong means for the ROK to lead the dialogue. Thirdly, discontinuation of ROK's annual humanitarian assistance to DPRK might break the link to continue inter-Korean dialogue and cooperation.²

2 The Ministry of Unification, "Briefing on issues related to provision of rice to North Korea" May 28, 2003.

6 Nine Scenarios for North Korea's Internal Development

Following the ROK-US summit, ROK-Japan summit, and establishment of the PSI, the first level of international sanction against North Korea seemed to have been agreed upon and advanced. A crack down on DPRK's drug trafficking and counterfeiting, Japan's reinforcement of limiting the Choson Soren activities and activating inspections on North Korean ships, and limiting inflow of US dollars altogether must have reduced the amount of hard currency in North Korea.

However, ROK has preserved the existing policy of separating the North Korean nuclear issue and inter-Korean relations. ROK's humanitarian assistance to North Korea increased in 2003, comparing to 2002. The total amount of ROK's humanitarian assistance to North Korea in 2003 was \$263.62 million USD, including the 400,000 tons of rice loan (calculated at international price). The assistance is comprised of \$160 million USD of rice loan; \$87.01 million USD of government aid (4% increase from \$83.75 million USD in the previous year); \$70.61 million USD of private aid (38% increase from \$51.17 million USD in 2002). The aid from the international community, however, has been decreased 38% from \$257.27 million USD in 2002 to \$160.13 million USD in 2003(see table 1).

Hence, South Korea became the most important humanitarian assistance provider (62.2% of the total aid) to North Korea and a major source of hard currency. The total volume of inter-Korean trade in 2003 was \$724.217 million USD, increasing 12.9% from \$ 641.730 million USD of the previous year.

<Table 1> Assistance to North Korea (million USD)

Category		2000	2001	2002	2003
ROK	Government	179.63	70.45	189.75	193.01
	Private	35.13	64.94	51.17	70.61
	Sub Total(A)	214.76	135.39	240.92	263.62
Category		181.77	357.25	257.27	160.13
Int'l Community(B)		396.53	492.64	498.19	423.75
A/A+B(%)		54.2	27.5	48.4	62.2

*Statistics on the humanitarian aid taken from the official data of the Ministry of Unification are refined to include 500,000 tons of foreign grains in 2000, 400,000 tons of rice loans respectively in 2002 and 2003. The figures are calculated at international price and included as a part of the government aid.

Alongside with South Korea's increasing assistance to North Korea, trade between DPRK and China also further expanded in 2003.³ Import of food from China, in particular, has increased since the DPRK suffered from food shortage caused by a cut down of food aid from the international community and continuing poor harvest. Following the suspension of US heavy oil supply to DPRK in November 2002, the DPRK increased its import of petroleum from China; the amount of petroleum import from China in the first half of 2003 marked 86% of the total petroleum import in 2002. Moreover, Chinese envoy Dai Bingguo, who visited Pyongyang in July, proposed that China would further increase assistance to North Korea if North Korea accepts China's

3 Kim Kwang Il, "NK-China Trade in the 1st Half of 2003," KOTRA- North Korea team, October 7, 2003.

8 Nine Scenarios for North Korea's Internal Development

mediatory role between the US and the DPRK.⁴ Accounting to an increased import of food and mineral fuel from China during the first half of 2003, the trade volume between the DPRK and China amounted to \$377.72 million USD, a 16% increase comparing to \$325.41 USD of the same period in 2002. There has been a report that China promised in October to build and provide a 30 billion won glass factory to North Korea and to supply 500,000 tons of fuel oil and 200,000 tons of food.⁵

The ROK's North Korea policy may be warmly welcomed by the DPRK. Firstly, North Korea may have to be under stronger pressure if the ROK government complies with the 'hard-line' policies of the US and Japan towards the North Korean nuclear issue. Owing to the ROK's sympathetic North Korea policy, North Korea can restrain its extreme actions and gain some time. Secondly, despite a scale down of humanitarian assistance from the US and Japan, North Korea receives consistent aid of 200,000 - 300,000 tons of fertilizer, 100,000 tons of corn, 400,000 tons of rice from the ROK annually. It accounts 48% of the total international assistance of 2002 and 62% of 2003. The assistance from ROK is a contributing factor to the DPRK's internal and external economic stability, expansion of state finance, and economic development fund raising. North Korea sells the

4 "Hu Jintao writes to Kim Jong-il to open door to six-party talks," *Hong Kong Economic Journal*, 2003.8.28, quoted in *Northeast Asia Peace and Security Network*, 5 September, 2003

5 *Yonhap News*, November 29, 2003

400,000-ton rice aid from the South to its people for 46 won per kilo⁶; the total amount of income from selling all 400,000 tons will be 18.4 billion won. The DPRK anticipated selling about 40 to 50 billion won worth of people's life bonds in three-month time between May and July 2003.⁷ In other words, earnings from the sale of all 400,000 tons of rice will mark about 37 - 46% of the amount of money planned to raise in the sale of people's life bonds.⁸ Thirdly, the ROK provides an opportunity to make up for the decreasing hard currency income. North Korea lost some of its source of hard currency due to a cut down of remittance from Japan and a reinforced surveillance on DPRK's exports of drugs, counterfeited money, and weapons. North Korea began to invite a large-scale tourist groups from the South in spite of internal problems, particularly in the second half of the year. The number of South Korean tourists who visited the north in 2003 was 154 in February; 68 in April, 107 in June; 120 in July; 124 in August; 466 in

6 The Ministry of Unification "Assessment Report on the 1st On-site Inspection of Food Distribution (2003 food loan)" October 10, 2003.

7 *Rodong Sinmun* May 4, 2003; KCNA, May 6, 2003; ITAR-TASS reported that North Korea planned to issue people's life bond in the scale of 20 to 50 billion won. (May 23, 2003)

8 North Korea stated that the purpose of issuing people's life bonds is "to meet the demand of funds necessary for modernizing people's economy and enhancing production and to secure stabilization of currency through regulation of the amount of currency." *Rodong Sinmun*, March 30, 2003. It is reported that profits from the sale of people's life bonds have been invested in some major projects for the North Korean economy in 2003 - i.e. in the power generation sector, land development, modernization and factory building. The Ministry of Unification, *North Korea Weekly*, no. 655: 1 - 7 August, 2003

September and 818 in October.

Fourthly, due to significant differences between the ROK and the US in their approach to North Korea, the ROK gets explicit and implicit pressure from the US. Despite the US pressure, the ROK carries on the present North Korea policy behind the outward appearance of ROK-US cooperation. The ROK's North Korea policy has a certain effect on causing cracks in the ROK-US cooperation. Fifthly, continuing turmoil in the South Korean internal politics contributed to the absence of apparent restraints on the North Korea policy by opposition parties. Moreover, the ROK would not demand conditions that can put too much pressure on the North in negotiations since the ROK government is greatly aware of the possibility of rising tension between the two Koreas. Sixthly, there has been a tendency of conflicts between the extreme right and extreme left in South Korea in early and mid 2003, featuring the emergence of 'independent diplomacy' faction and 'pro-US alliance' faction within the ROK government, their confrontations, and chaos. North Korea must be enjoying such a division in the South Korean politics, and will try to take advantage of this situation (for example, DPRK notified of its nonattendance to the Daegu Universiade, then changed its position when the South Korean president apologized, and finally decided to participate). Seventhly, the ROK government puts a significant meaning to the inter-Korean economic cooperation projects and social and cultural exchanges and also plays a leading role. Because the projects are mostly carried out upon ROK's requests and expenses, North Korea can just go along

without facing any burden or investment risk. If the projects succeed, North Korea will certainly gain from them.

We may suppose a situation in the future in which ROK continues a similar North Korea policy as in 2003, separating the North Korean nuclear issue and economic cooperation, while the nuclear issue comes to a deadlock. In such a case, international assistance would not increase, meaning stability and status quo of the North Korean economy will very much depend on its economic relations with ROK. It will eventually facilitate DPRK's opening up of its Gaesong industrial complex and tourism industry towards South Korea. ROK provided 100,000 tons of corn, 400,000 tons of rice and 300,000 of fertilizer respectively in 2002 and 2003. If the ROK aid discontinues, food situation in North Korea will be in serious trouble. In order to maintain the 2002 and 2003 level of governmental economic assistance to North Korea, it will cost the ROK government, calculated in Korean won for domestic fiscal expenditure, not in international price, about \$ 700-800 million USD annually (equivalent to 20,000 won per person) with possible additional \$300 million USD for the annual cost of building Light Water Reactors.⁹

As long as the nuclear issue remains, it will be difficult for North Korea to open up to western countries including the US and Japan. It

9 Hyeong Jung Park, "ROK's North Korea policy and assistance to DPRK in the process of resolving the nuclear issue" *World Peace and Security of Northeast Asia*, collection of papers from the KINU and Choongnam University Peace and Security graduate school joint international conference, October 25, 2003, pp.74-83

12 Nine Scenarios for North Korea's Internal Development

will, therefore, strengthen North Korea's opening toward South Korea. With declining aid from the international community, South Korean government and NGOs are taking up 62% of the total assistance to North Korea. Additionally, ROK is thought to be providing most of North Korea's inflow of hard currency other than that from official trade activities. DPRK's open up towards South Korea will primarily aim at maximization of inflow of hard currency; secondly, improving manufacturing capability through inviting investments; and thirdly, cooperating in publicity and future-oriented projects (e.g. Gaesong industrial complex development project and inter-Korean railway connection project). For a short to medium term, ROK will carry out one sided support and investment to the North Korean economy, which will be a significant financial burden for the ROK. If the stalemate prolongs, only symbolic projects, which does not generate any substantial profit for the time being, are likely to continue. In such a case, expenses will rise without profit or breakthrough in inter-Korean relations: North Korea will be only one constantly benefiting from the projects. The ROK might, therefore, face a situation in which it gets pressure from both domestic politics and 'hard-line' countries like the US or Japan to drop the projects.

Since there is a political need for the DPRK to deepen its exclusive opening to South Korea for the time being, the ROK may need to take advantage of it and bring it on to a form of structural subordination (e.g. prior occupation of the market, improvement of the overall image of South Korea, cultural penetration, relaxation of the totalitarian ruling,

etc). If the situation worsens, however, the ROK may be the first to be exposed to pressure to stop the assistance to North Korea. If North Korea strengthens its dependency on the South and promotes its exclusive opening towards South Korea, it may correspond to a long-term national interest of the ROK. But for a short term, there will be a rise of ideological and economic expenses and a gradual increase of political expenses in dealing with the US and Japan. Minimizing the short to medium term political expenses requires persuasion and compromise in the domestic political scene as well as persuasion of the US and Japan.

2. A Case of Progress toward Resolving the Nuclear Issue

While rising tension around the North Korean nuclear issue and signs of negotiations repeat themselves, the ROK and the US respectively provided a vision regarding how to reestablish the relations with North Korea upon resolving the nuclear crisis: the ROK has suggested a large-scale economic assistance, and the US proposed a 'bold approach'.

Such a policy perspective from the ROK and the US suggests that resolution of the nuclear issue would bring international cooperation to rebuild and change the North Korean economy. The ROK and the US are said to be devising a three-step strategy for resolving the North Korean nuclear issue. According to the ROK's roadmap¹⁰, the first

step proposes the ROK, US, and Japan to confirm a nonaggression intent towards North Korea in return for North Korea's willingness to freeze on its nuclear reprocessing, to defer its missile launch tests, and to thoroughly dismantle its nuclear development. The second step offers a multilateral security assurance to DPRK when North Korea resumes dismantling its High Enriched Uranium (HEU) nuclear program and plutonium produced since October 2002 and returns to the NPT. In the third step, the US provides security guarantee ratified by US Congress, removes DPRK from the list of 'terrorism-sponsoring states', and gives a large-scale economic and energy assistance; in return for this, North Korea takes measures such as verification of nuclear facilities dismantlement, joining the international arms control system, improving human rights, and signing the antiterrorism pact. It is reported that the US is also considering three steps, comprised of clarifying the intent of nuclear dismantlement, concrete actions, and completion of dismantlement.¹¹ As mentioned in the first round six-party talk, the first step is so-called 'declaration of freezing the situation', in which the US and the DPRK refrain from taking any action that may aggravate the situation. It entails an exchange of intents that the DPRK would freeze its nuclear and missile activities and that the US would not invade DPRK or seek regime change. In the second step, the US calls for return of DPRK to NPT and IAEA nuclear safety pact, dismantlement of its HEU nuclear weapons program, and IAEA

10 *Yonhap News*, August 18, 2003.

11 *Yonhap News*, September 5, 2003

inspection on its nuclear activities. In return for the DPRK's compliance, the US will provide a written security assurance with a guarantee of the six-party talk participants, expand its food assistance, and remove the DPRK from the list of terrorism-sponsoring states. The third step is expected to include security assurance ratified by the US Congress, normalization of relations between the US and the DPRK, and energy and economic assistance to DPRK in return for North Korea's completion of nuclear dismantlement, joining the international arms control system, and improving human rights. It is also reported that the US is reviewing a plan of signing a peace treaty with the DPRK and establishing a peace regime on the Korean peninsula upon resolving the North Korean nuclear issue at the six-party talk.

If the nuclear issue can be resolved through these three steps, North Korea will be rewarded with an increase of economic assistance. With the external assistance, North Korea will be able to subsidize expenses for its internal stability during the process of reform and opening and to obtain external capital and technology needed for its economic development. In such a case, internal reform of the North Korean economy will be able to experience more smooth transition to the 'socialist commodity economy' level. This process is illustrated in table 2.

16 Nine Scenarios for North Korea's Internal Development

<Table2> Three-Step Model for Resolving the North Korean Nuclear Issue

Steps		US-DPRK Relations		Inter-Korean Relations	DPRK-Japan Relations	International Organization	Change in North Korea
		US	DPRK				
Confrontation between DPRK and US		Mutual 'Pressure' Strategy		Separation of the nuclear issue & Inter-Korean relations Standstill of the overall relations Ministerial-level talks Connection of roads Gaesong industrial complex construction/ Guryang mountain tourism/Family reunion Humanitarian aid	Discontinuation of normalization talks Suspension of humanitarian aid	Humanitarian assistance	The July economic reform measures
		Withholding economic sanctions Humanitarian Assistance	Restraining nuclear reprocessing, nuclear testing, declaration of nuclear possession, 'Daepodong-2' missile testing etc..				
I. Entering DPRK-US/ Multilateral negotiations	I-1 DPRK-US Contact	Halt further rise of tension commencement of contact to check each others' intents maintaining bilateral contacts within a multilateral framework		Continued humanitarian aid Maintaining the overall relations		Continued humanitarian aid	
	II-2 DPRK-US Negotiation	US Assurance of nonaggression and unwillingness to seek regime change in DPRK.	Freezing the nuclear missile activities	Expansion of humanitarian aid Development of special economic zone Expansion of the overall relations	Resumption of normalization talks Resumption of humanitarian aid	Continued humanitarian aid	Entering the Socialist Commodity Economy
		Resumption of heavy fuel-oil delivery	Return to NTP, AEA inspector	Redeployment of the US force in ROK			
II. Setting Agenda and Ultimatum		Multilateral security assurance Removal of DPRK from the list of 'terrorism-sponsoring state' Large-scale economic assistance	Verifiable dismantlement of the nuclear program Recommendation of the missile deal	Acceleration of the overall relations Activation of the special economic zone Bold economic assistance The second round Inter-Korean summit Economic improvement in North Korea Resumption of reform and opening	Resolving the abduction issues Expansion of humanitarian issue	Adherence to the international financial institutions Economic assistance from the UN Advancement of Task Force plan	Maturity of the socialist commodity economy

Steps	US-DPRK Relations		Inter-Korean Relations	DPRK-Japan Relations	International Organization	Change in North Korea
	US	DPRK				
III. Completion of nuclear program dismantlement and conclusion of Negotiation	'Bold approach' Completion of LWR construction Energy assistance to DPRK	Completion of nuclear dismantlement Give up missiles Human Rights guarantee	Negotiations for disarmament and confidence-building Conventional weapons reduction and redeployment Full-scale reform and opening	Normalization Compensation payment	Development of North Korea Northeast Asia Bank	Entering the first stage of Market Economy
	Discussion of establishment of a durable peace regime on the Korean Peninsula		Establishment of a peace regime on the Korean peninsula Fulfillment of the South-North Joint Declaration			

3. A Case of Stepwise Sanctions against North Korea

The US has been talking about a sanction plan against the DPRK's offensive action since the recurrence of the North Korean nuclear issue. In December 2002, a major American newspaper reported that the US government is planning a 'tailored containment'.¹² Included in the plan are economic sanctions against North Korea with backing of a UN Security Council resolution, a possible interception on the North Korean shipments exporting currency-earning missiles, and pressure on the DPRK's neighbours to scale back on their economic ties. It also considers an option of requesting the ROK to discontinue its cooperation with the DPRK if the situation fails to improve. Following the DPRK's resolute declarations on its possession of nuclear

¹² *The New York Times*, December 29, 2002

weapons and completion of nuclear reprocessing and the three-party talk in Beijing in March 2003, the US opened summits consecutively with the ROK and with Japan, and discussed the North Korean nuclear issue. In the joint statement between the US and the ROK (May 14), two countries confirmed the principles on peaceful resolution of the nuclear issue, in which they shared complete and verifiable dismantlement of the North's nuclear weapons capabilities through a peaceful means. They also agreed on consideration of further steps, should threats to peace and stability on the peninsula increase. The ROK president Roh stated that future inter-Korean exchanges and cooperation would be carried out in light of developments on the North Korean nuclear issue. The US-Japan summit (May 23) clarified the importance of Japan's participation in multilateral talks; the necessity of more resolute measures in case the situation further aggravates; and Japan's more strict inspection on North Korea's illegal activities. Furthermore, the US president Bush proclaimed the PSI (May 31), and actively carried it forward. Opening the first PSI meeting in Madrid (June 12) and the second meeting in Australia (July 9), the US materialized its sanction plans on North Korea on the basis of DPRK's illegal export of drugs and weapons.

Coercive measures that the countries involved can take, in case the situation intensifies, may be divided into four phases.¹³ The first phase is selective interdiction, which is comprised of control of import and

13 The four-phase argument is developed from consultation with Dr. Park, Jong-Chul at the Korea Institute of National Unification.

export of strategic materials and technology related to production of Weapons of Mass Destruction; intensive supervision activities on narcotics trafficking and counterfeiting; blockade of inflow of US dollars. The second phase features expansion of economic sanctions with control of import and export of general goods; blocking inflow of financial capital; suspension of remittances from Japan; and suspension of trade with the DPRK. The third is a phase of diplomatic and military pressure, promoting a UN Security Council resolution for military coercion; intensifying military readiness around the peninsula; carrying out a fleet demonstration; and increasing deployment of strategic weapons. The fourth phase is a limited surgical military strike against the DPRK. The major development of the four phases and reactions from the DPRK toward the measures can be summarized as in table 3.

20 Nine Scenarios for North Korea's Internal Development

<Table 3> Major Features of the Four Phases of Sanctions against North Korea

Phases		DPRK	Catalysts
Phase 1	Selective Interdiction	Strengthening economic ties with ROK and China	Annulment of Geneva agreed framework with DPRK's nuclear development, Six-party talk
	Control of import and export of strategic materials and technology related to production of WVD Intensifying surveillance activities on drugs smuggling and counterfeiting Blocking inflow of US dollars	Military-first Politics, Priority on defense industry The July economic reform measures, institutionalization of inter-Korean economic cooperation Expansion of tourism industry with the ROK	Policy of separation between the nuclear issue and the inter-Korean economic cooperation US policy of negligence and noninterference, US-Japan cooperation, advancement of PSI China's role as a mediator and its policy of DPRK stabilization
Phase 2	Expansion of Economic Sanctions	Declaration of the second 'arduous march'	Breakdown of the six-party talk, reference to the UN security council, reelection of Bush
	Control of import and export of general goods Suspension of remittances from Japan and ROK Cut down of assistance from ROK and China	Adherence to its Military-first politics and prioritization of defense industry Self-reliant Juche economy, the third Chollima campaign Top priority on solving food shortage, four leading industries in coal, electricity, transportation, and metal Partial enforcement or gradual dissolution of the command & dosed economy (continuation of the July measures)	North Korea's declaration of its nuclear possession, long-range missile launch tests ROK's further steps, linking the nuclear issue and economic cooperation, suspension of tourists to North Korea, discontinuation of cultural exchanges, cut down of governmental assistance Japan's more resolute measures Failure of China's mediation, China begins pressuring on DPRK
Phase 3	Diplomatic and Military Pressure	A quasi state of war	DPRK's underground nuclear testing or medium level military provocation
	Suspension of trade and assistance to DPRK Military readiness surrounding the peninsula, fleet demonstration, increasing deployment of strategic weapons Naval blockade	Major agricultural and industrial production by the army, seizure of facilities, public execution, reopening of politics of terror Introduction of rationing to a core class and central area, large-scale death by starvation similar to that of mid 1990s. Internal and external anarchy following dissolution of the command & dosed economy, large-scale defection, increasing export of drugs and counterfeited money	Gradual cut down of energy supply from China, China's suspension of food trade DPRK, followed by closing down of its border. Complete suspension of governmental and NGO assistance from ROK
Phase 4	Military Force	State of War mobilization system	Exposure of DPRK's attempt to export nuclear materials
	A limited surgical military strike		

III . Directions of Political Change and their Impacts on North Korea's State Capability

If the development of the North Korean nuclear issue sets an important external variable in determining change in North Korea, political change in North Korea may be defined as a key internal variable. Political change, in particular, is likely to have a significant impact on the state's capability of managing the internal and external situations. The capabilities of states implies "capabilities to achieve the kinds of changes in society that their leaders have sought through state planning, policies, and actions. Capabilities include the capacities to penetrate society, regulate social relationships, extract resources, and appropriate or use resources in determined ways.¹⁴

In the case of North Korea, the state capability weakened significantly due to deterioration of the overall system following the economic difficulties of the 1990s. One good example is an evident declining of the finance capability of the state after the 1990s. The officially proclaimed state budget constantly increased up to 41.6 billion won in 1994, then sharply declined to 24.3 billion won in 1995, and reached the lowest point in 1997 with 19.7 billion. Although it gradually rose to 22.1 billion in 2002, but the figure was only 53% of that in 1994.

14 Joel S. Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988), pp. 4-5.

Since 1995, North Korea has maintained a minimum level of state order through a martial rule under the heading of the 'military-first politics'. However, it fails to fulfill the basic duties of an ordinary state such as providing a minimum social security or preserving the education, health, and economic subsystems.

Accordingly, the extractive capability, the regulative capability, the distributive capability, the symbolic capability and the responsive capability, which constitute major indicators for the state capability, all weakened significantly.¹⁵ The collapse of management in the sublevels following the economic difficulties resulted in a marked decrease in their economic profit payment to the center. As the sublevel management experienced difficulties due to the economic crisis, function of the party organizations that had been heavily depended upon subordinate levels became paralyzed. To make up for the problem, the 'military-first politics' was introduced, replacing the party with the military to form an ideological model and strengthening the role of military in production and law enforcement. The distributive capability of the state also weakened due to a fall of income resulted by the economic difficulties. In terms of the symbolic capability, the political and ideological prestige of the core symbols (i.e. the leader, ideology, the party) faded. There has not been much change in the responsive capability, but the unilateral ruling reinforcement phenomenon appears to have occurred in order to complement the

15 Gabriel A. Almond and G. Bingham Powell, *Comparative Politics: A Developmental Approach* (Boston: Little, Brown, 1966), pp. 194-203

weaknesses in other areas.

A number of measures and phases in the July economic reform reflect some restructuring efforts of North Korea to improve the situation in these aspects, as demonstrated in table 4.

<Table 4> Change in State Capability and Reorganization Pattern in North Korea

	1980s	1990s	The July economic reform measures
The Extractive Capability	normal	sharp decline	Continue to decline, Seeking efficiency through reorganization
		financial capability falls by 40-50% ¹⁶	Recovery to 60% level, Issuing public bonds
The Regulative Capability	Macroscopic management	Maintenance of microscopic management nominally, but loss of substantial capability	Partial abandonment of microscopic management capability with decentralization. Establishment of macroscopic management areas
		Try to sustain overall regulative capability with military intervention in production & law enforcement	Continuation of the military-first politics
	Penetration of the Party, State economic planning	Paralysis of penetration capability of the Party Paralysis of the State economic planning	Reorganization and functional reinforcement attempt through decentralization
The Distributive Capability	Comprehensive and equal distribution attempt	Limited distribution of goods to the privileged class and specific areas	Marked reduction of state subsidiary Abolition of rationing system
	Little inequality of wealth	Emergence of inequality of wealth	Deepening inequality of wealth
The Symbolic Capability	Absence of skepticism towards ideology and the leader	Emergence of skepticism	Increasing skepticism
		Weakening of ideological and political prestige of the Party	Replacement of the Party with the military as an ideological model
	Juche Idea	Theory of "Strong and Prosperous Nation" Military-First Politics	Military-First Politics Material Incentives
The Responsive Capability	Absence Unilateral ruling	Absence Unilateral ruling	Effort to increase production of consumer goods
		Public execution, Politics of terror	Permitting material incentives
		Tolerance of market activities	Official approval of market activities

For successful adaptation and reorganization in strengthening the state capability in a new situation (e.g. the July economic reform), a capable and stable leadership that can lead such a change is essential. If North Korea secures a stable and capable leadership, it will be possible for North Korea to follow the Chinese path of change. Though China faced many difficulties and complications in the process of reform, it had relatively strong command of the central government and firm leadership. In the Soviet Union, on the other hand, the central government collapsed during the reform process and lost control. Consequently, there appeared phenomena apparent in failed states in the Soviet Union for a significant period of time. At this point, it is difficult to confirm whether North Korea will follow the footsteps of the Soviet Union or the trajectory of China. With the two possibilities in mind, development in North Korea needs to be closely observed.

Uncertainty remains in the internal political development in North Korea. Kim Jong Il may rule for a prolonged period, or he may not be able to in certain cases. For instance, there can be an emergence of power struggle in the succession process, an outburst of internal political discontent, or an internal agitation attempt caused by inconsistency in its foreign affairs. Whatever the case, change in North Korea can progress with direction and order only when the central

16 Officially announced North Korea's budget reached a peak in 1994 with 41.6 billion won, then drastically dropped to 24.3 billion won. It marked the lowest in 1997 with 19.71 billion won, then gradually increased. The budget for 2003 is estimated to be 25.23 billion won. In short, North Korea's state budget between 1995 and 2003 marks between 47.4% and 60.8% of the figure of 1994.

government is stable and capable of policy realization. If the central power weakens with the declining control capability, it will accelerate deterioration of the central government and disorderly autonomy of the sublevels, causing the overall economy to plunge into confusion. If the central government in North Korea, led by either Kim Jong Il or another leader, maintains stability in the future, it will be more efficient in dealing with various internal and external problems. Otherwise, North Korea will face greater difficulties in handling internal and external matters even with the improvement of external environment. Political change, state capability, and the associated political forms in North Korea can be illustrated as shown in table 5.

<Table 5> Political Change, State Capability and Political Forms in North Korea

State Capability	Case	Possible political forms
High	Policy driven change by Kim Jong Il	Modernizing Authoritarianism
	Emergence of collective leadership after the death of Kim Jong Il	Modernizing Authoritarianism
Medium	Change induced following the failure of social resistance	Modernizing Authoritarianism
Low	Change by foreign intervention and division within the leadership	Failed State
	Change by lack of countermeasure capability of Kim Jong Il	Failed State
	Instability in the leadership following the death of Kim Jong Il	Failed State
	Change by successful social resistance	Chaos
	Elimination of Kim Jong Il by plucking out preemptive strike	Reactionary Regime
	Inducing collapse by encouraging massive defection	Reactionary Regime/Chaos

IV. Medium to Long-Term Prospect: Nine different Scenarios

Summing up the discussion thus far, this section outlines nine different hypothetical situations depending on external environments and internal political circumstances. The external environment variable is subdivided into three independent variables: improvement (success of the six-party talk), status quo (continuation of the situation as in 2003), and aggravation (advancement of further measures). In case the six-party talk results in success, all the security concerns related to North Korea will be resolved and the neighboring countries will activate their assistance to North Korea. In the case of status quo, basic sanctions against DPRK may be carried out parallel to dialogues on the basis of the 'Dialogue and Pressure' principle of the US and Japan, however, the ROK and China would continue to provide significant assistance to DPRK, adhering to a principle of 'resolving the nuclear issue through dialogue'. In the case of aggravation, ROK and China would either scale down or give up the 'dialogue and assistance' approach and join the US and Japan in imposing sanctions against North Korea.

The internal politics variable is divided into strong state capability, medium state capability, and weak state capability. The medium state capability describes the situation roughly similar to that of 2003. DPRK maintains the functioning of the central government to a certain level

and attempts to reform its economic system (e.g. the July economic reform measures) to meet the changing situation. In the case of the strong state capability, the central government exercises the policy-leading authority, and restores the order of subordinate levels that loosened up during the economic difficulties. The weak state capability is the case when the central government loses its policy-leading capability, and further slackens its regulation on the sub-levels.

On the basis of two sets of three variables, 9 cases (3 X 3) are distinguished, with which varying prospects for economic policy and economic situation in North Korea can be speculated. Plausible changes that can occur in the nine cases are again categorized into three types: active change by regime's choice, passive change due to adaptation, and change by social demands. Compiling all the factors and features, table 6 presents a matrix of future change in North Korea

<Table 6> Reform and Opening in North Korea on the basis of state capability and external variables

		External Variables		
		Improvement (successful six-party talk)	Status quo (situation in 2003)	Aggravation (gradual enforcement of further measures)
State Capability	Strong	(I) High-speed change by choice +Balanced economic growth and improvement of living +liberalization and regime stability +rising autonomy of People's economy +Orderly transformation of the defense industry to consumer industry.	(II) Medium-speed change by choice +status quo of the economic situation +liberalization and regime stability +rising autonomy +Keep prioritizing the defense industry	(III) Low-speed change by choice +Deterioration of the economic situation +intensification of coercive or surveillance in situations +preservation of Juche Economy +Keep prioritizing the defense industry
	Medium (situation in 2006)	(IV) High-speed change by adaptation and choice +increased autonomous role of enterprises and regional governments +Financial constraints +Gradual peripheralization +Transformation of the defense industry to consumer industry	(V) repetition of suspension/progress by adaptation and choice +regime status quo (increasing pressure for adjustment of interests) +Financial constraints +Opening toward South Korea in progress but insignificant results +Simultaneous development of the defense and consumer industries	(VI) Discontinuation or low-speed change by adaptation and choice +increasing centrifugal force in the regime, growing autonomy of enterprises and regional governments +Financial constraints +status quo in the DPRK-China relations +shrinking consumer industry under the dominance of the defense industry
	Weak	(VII) High speed change by adaptation following the death of Kim Jong Il +Unbalanced growth, financial constraints +Mafia-style internal disintegration +Mafia-style opening +Increasing external influence by specific regions +Disintegration of autonomy of people's economy +spontaneous transformation of the defence industry to consumer industry	(VIII) Acceleration of change by adaptation following the death of Kim Jong Il +gradual weakening of central control +internal disintegration and Mafia-style economy +Financial constraints +Mafia-style opening +individual opening toward South Korea, but no significant progress +Collapse of the system prioritizing the defense industry	(IX) High-speed/medium-speed change by adaptation +Collapse of control of sublevels +financial bankruptcy +Mafia economy, Mafia-style opening +Decreasing trade with China +Collapse of the system prioritizing the defense industry

<Case I>

A successful six-party talk alleviates the threats of nuclear weapons and WMD and enables North Korea to actively promote its reform and opening policies backed by a security assurance from the five countries. The North Korean central government strengthens its policy execution capability by playing a policy-leading role and by improving supervision and control of the sub-levels. Economic policies are reformulated to increase production of consumer goods and improve people's livelihood. Economic policies also become export-oriented for acquisition of foreign currencies. As people's living condition visibly improves, the support for the reform-oriented leadership increases and internal politics become stabilized. It encourages liberalization in people's daily lives. Since the security issue has been resolved, preservation of the defense industry is no longer needed. Consequently, it leads to an orderly transformation of the defense industry into consumer industry.

<Case II>

In the absence of a breakthrough or aggravation of the nuclear situation, assistance from the ROK and China continues. North Korea internally carries out some reform measures to improve productivity, and advances its policy executing capability through intensifying the regulations on the subordinate level cadres. The policy implementation

progress, however, is not significant due to insufficient external assistance and problems of 'reform costs' like inflation and rising disparity in income distribution. A certain level of 'liberalization' accompanies the economic reform measures, but a major internal resistance is unlikely to occur politically because the perception of external threats persists. Opening the country to the outside is pursued, but South Korea would be the only partner responding to such a move. Accordingly, trade with South Korea will increase, and the rising investment from the south will alleviate North Korea's economic management to a certain degree. As the external threat perception persists, it will continue to prioritize the defense industry.

<Case III>

Internal difficulties in the North Korean economy surmount as the aggravation of the nuclear situation results in suspension or a cut down of assistance from ROK and China. As a reaction to the worsening internal situation, North Korea will enhance coercive and repressive measures politically. Whilst stressing the principles of 'self-reliant' and 'Juche' economy, internal economic policies will concentrate on keeping the basic industries in extraction, electricity, transportation, and agricultural sectors. The defense industry will be strengthened on the basis of the external threats perception.

<Case IV>

Success in the Six Party talk resolves the security issue, and expands foreign assistance. The top leadership exercises its policy-leading power, but a conservative orientation of the leadership or a rising reform-induced centrifugal force within the leadership hampers efficient execution of the reform measures or distorts the nature of the reform. External assistance increases autonomy of enterprises and regional governments, rather than enhancing the capability of the central government. As a result, the central government suffers from the fiscal crisis. Since the role of aid donors - the ROK, Japan, and international organizations - increases in the North Korea's economic decision-making process, the North Korean economy will come under their influence, inducing its peripheralization in the world economy. With reduced external threats, the defense industry will transform to consumer industry.

<Case V>

This case may describe the situation of the second half of 2003. With the support from the ROK and China, North Korea maintains the internal economic stability and carries out some internal reforms. Although opening towards South Korea is in progress, reform and opening towards other foreign countries do not bring any significant achievements due to instability of the security-related situation.

Pressure for resource distribution in the consumer industry rises with the reform in progress, but pressure of resource distribution in the defense industry simultaneously rises with the security instability. Nonetheless, no evident conflict evolves around this issue.

<Case VI>

Despite relative stability in Kim Jong Il regime, economic situation aggravates as worsening nuclear crisis results in 'further measures' towards North Korea, which damages its economic relations with the ROK and China. Slanting towards prioritizing the defense industry, the consumer industry shrinks, and financial resource of the central government runs out. Aggravation in the internal economic situation brings about a tendency of rising autonomy in regional governments and enterprises as their redemption attempt and a tendency of strengthening centrifugal force such as spread of black markets. Worsening security situation enhances a conservative orientation in the central government and a centripetal force in controlling the economy to prioritize the defense industry. This can lead to a clash between the centripetal force and the centrifugal force, which will initially strike the Gungang mountain tourism project, the major source for cash income. This will be followed by suspension of Gaesong industrial complex development project, a cut down of humanitarian assistance to North Korea, and either simultaneous or afterward cutback of food and oil import from China in a form of aid.

Should something happen to Kim Jong Il for whatever reason, centralization of power will be difficult in North Korea. Once Kim Jong Il is gone, power struggles among the top ruling elite will emerge; if power struggles persist for a long-term, North Korea will drift without a clear policy direction while control of the central government on regional governments or enterprises considerably diminishes. The common features in the case of weakening control and management capability of the central government may be pinpointed as absence of efficient economic policy and rapid expansion of market activities. Growing market activities is likely to induce collapse of the internal economic system, spread of black market, and formation of a Mafia-style economy, rather than facilitating economic growth.

<Case VII>

The six party talk ends successfully, resolving the security issue and expanding foreign assistance to North Korea. Nonetheless, the central government's policy capability and control of the sub-level considerably decline due to some internal political factors. Economic situation in general improves with the rising foreign support, but central government's lack of policy and control capability results in increasing corruption in the sub-levels and disturbance in the general public order. In spite of improved economic situation, the central government will face serious financial constraints. Subordinate organizations will attempt to form economic relations with foreign countries either

individually or illegally, thus they may come under the influence of certain foreign countries. Overall, Mafia-style capitalism and opening will emerge. Transformation of the defense industry to commodity industry will take place, not in an orderly manner within an overall policy arrangement but rather in a disorderly manner by enterprises attempting to pioneer their independent survival route.

<Case VIII>

While the security issue remains to be unsolved, the regulation capability of the central government weakens by internal divisions. Decentralization and liberalization speed up, intensifying a tendency in which the range of activities by enterprises, regional governments, and individuals escapes the overall control of the central government. This will result in a gradual internal disintegration of the system. Owing to the declining control of the central government, rule and order of the bureaucratic organization collapses and corruption increases, inducing a political power and corruption colluded Mafia-style market economy. There will be a growing tendency of autonomous foreign trade relations or smuggling business evading the control of the central government. Even with the opening directed toward South Korea, the progress will be quite insignificant. The declining control of the central government on its subordinate levels will also intensify financial constraints. Accordingly, the system of prioritizing the defense industry will collapse in practice.

<Case IX>

Internal control power drastically weakens with emerging divisions in the top leadership and aggravation of the security and economic situation. The central government's control system on sublevels crumbles due to a financial bankruptcy, falling authority, and a leadership division maneuver. The internal economy only preserves its minimum central components. A collapse of the central control system along with heavy pressure from serious inflation induces a formation of a market economy centered on bartering and speculation. With increasing corruption of the officials, the internal economy transforms into a Mafia-style market economy. The declining central control encourages illegal economic activities such as speculative foreign trade, stockjobbery deals, and smuggling. Fiscal constraints intensify as central control of sublevels deteriorates, resulting in an actual collapse of the system of prioritizing the defense industry.

As discussed above, the economic situation in North Korea in the next ten years may vary significantly depending on a combination of external, internal, economic cooperation variables or the direction of change in each variable. Among the possibilities, the best situation may be described as follows: solution to the nuclear issue gets clearly materialized in 2004; a strong and wise leadership in North Korea pushes forward reform and opening policies boldly and consistently; North Korea forms a six party consortium, in which the two Koreas, Japan, China, US, and Russia cooperate to rebuild the North Korean

economy; South Korea is willing, capable, and wise enough to play a leading role in reconstruction of the North Korean economy, displaying its full capacity while maintaining its political and economic stability. The worst situation, on the other hand, may feature the following conditions: a stalemate of the nuclear issues persists for a prolonged period of time; or isolation of North Korea in the international community lengthens, in spite of some progress in the nuclear issue, as the US-DPRK relations come to another deadlock on the issues of drug or human rights; political chaos prolongs in North Korea due to internal division in the leadership; drugs and weapons are exported by government-business colluded Mafia groups in North Korea; a situation, in which the North Korean central government is incapable of implementing or executing efficient policies, continues; foreign capital hesitates to invest in North Korea due to its lack of confidence in the North Korean internal situation; ROK experiences a long-term social instability and absence of political leadership; and a massive scale of defection from North Korea begins to occur.

V . Conclusion

Overall, the internal change in North Korea that was induced by the economic difficulties of the 1990s is irreversible. Nevertheless, one cannot be certain whether the change will result in success or failure in the medium to long term. The question of 'success' and 'failure' of the change in North Korea depends on how the situation unfolds in terms of the development of the nuclear issue and the direction of its political change.

A 'Chinese-style reform and opening' may be plausible if the following conditions are met: firstly, the nuclear issue enters the process of being resolved; secondly, a large-scale external assistance to North Korea resumes; and thirdly, the North Korean domestic politics become stabilized. If any one of the three conditions is not fulfilled, North Korea is likely to be in a form of 'failed state'. If the central government of North Korea collapses in the process of unfolding nuclear issues, resulting in severe internal chaos and development of the Mafia-style capitalism in North Korea, the political and social costs that South Korea has to take upon in the future may rise to an extreme.

From a short-term perspective, there exist policy differences between the ROK and the US regarding the North Korean nuclear issue that has reemerged since October 2002, but the two countries are consequently dividing the roles of 'good cop and bad cop'. Under

this situation, North Korea's economic dependence on South Korea has increased and its strong ideological stance against South Korea has diminished considerably. In the midst of North Korea's aggravating action or its rising tension with the US and Japan due to the nuclear and other related issues, a cut down of assistance from the ROK can have a strong impact on North Korea. ROK's assistance to North Korea in 2002 and 2003 has been playing a central role in helping North Korea to maintain its internal status quo and to gain time and options in resolving the nuclear issues. Taking this into account, the South Korean government's North Korea policy should simultaneously focus on stabilizing the situation on the Korean peninsula against the unfolding nuclear issue and taking advantage of its rising contribution to North Korea to draw concessions from the North on many issues related to inter-Korean relations; these may be listed as some humanitarian issues concerning reunion of separated families and prisoners of war, expansion of inter-Korean social and cultural exchanges, military confidence-building between the two Korea, etc.

