Korean Options in a Changing International Order

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This monograph is the outcome of an international conference held December 11-13, 1991. The conference was the fifth in a series of in-depth studies of North Korea conducted by the Institute of East Asian Studies and the Center for Korean Studies at the University of California, Berkeley, and the Korean Association for the Study of Socialist Systems (formerly the Korean Association for Communist Studies). The East-West Center of Honolulu served as a third cosponsor for the fifth conference. Whereas participants in the first four conferences were limited to scholars from the United States and South Korea, the fifth conference was multilateral in character, with representatives from China, Japan, Mongolia, and Russia playing active roles.

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Introduction

The essays collected here are revised versions of papers originally presented at the fifth international conference on North Korea, which focused on various alternatives available to North Korea at a time when its international environment was undergoing rapid changes. The collapse of the socialist regimes in Eastern Europe and the former Soviet Union brought an end to the cold war bipolarity largely based on intense ideological confrontation, tightly knit alliances, and preoccupation with military security concerns. With the end of the Cold War, the focus of international politics shifted from military security issues to economic development and cooperation. Although the danger of large-scale military conflict has diminished, and although nation-states find it beneficial to cooperate for economic goals, economic competition among nations is intensifying over the question of who gets how much from the increasing economic interdependency.

The ever-deepening globalization that has resulted from revolutions in communication and transportation and from expanding international trade compels all nation-states and their citizens to be more concerned with the common fate of humankind. At the same time, there has been an increase in assertive nationalism and other primordial ties based on ethnic and religious identities, which rise in developing nations in proportion to people's confidence in economic development. Thus, a crucial question in international politics in coming years is how these two conspicuous forces — internationalization and localization by parochial assertive nationalism — will interact in shaping international politics.

The shifting of foreign policy focus from security issues to economic issues has blurred the conventional boundary between domestic and external behavior. Economic development requires a nation to participate in international trade, and various forces within a nation assert their interests in formulating a nation's foreign policy. Although socialism has proven inefficient in dealing with economic competition, East Asian Leninist regimes including the Democratic People's Republic of Korea (North Korea) continue to insist on a socialist line. Nevertheless, China and Vietnam are introducing capitalist market mechanisms for economic efficiency. An intellectually challenging question is, therefore, how seriously one has to take those nations' ideological pronouncements, which appear to be far removed from reality.

Unlike China, North Korea was ill-prepared for the historic changes and thus faces a great dilemma. Its planned economy, operating on autarkic principles and heavily burdened by large military expenditures, has increasingly
been left behind the rapidly growing South Korean economy; in addition, the overall balance of strength is tipping in favor of South Korea, and any unification on North Korea’s terms looks very remote. The international terrain with which North Korea was familiar has changed. Its ties with China, based largely on common security concerns, are being eroded as China’s priorities shift to economic development; consequently, the bilateral economic relationship is evolving from one of mutual benefit to one of burden to China as the latter’s international trade volume increases and trade network diversifies while North Korea’s economy deteriorates.

The collapse of the former Soviet Union not only left North Korea without any security patron, but also made the United States, its former adversary, the only hegemonic military power capable of destroying North Korea (notwithstanding the relative decline in the U.S. economic position). North Korea needs economic development to survive, but opening up to the outside world for foreign capital and technology will almost certainly undermine its political systems. How will the North Korean leaders manage this fundamental dilemma? What are the primary objectives of North Korean foreign policy, and how will the DPRK handle the multitude of bilateral relationships with South Korea, the United States, China, and Japan?

Robert Scalapino’s paper surveys general trends in East Asian international politics and underscores the uncertainty produced by the opposite trends of globalization and the equally powerful assertive nationalism, rooted as it is in the diverse historical and political experiences of East Asian nations. Despite such uncertainty, Scalapino regards regional cooperation in the cause of economic prosperity as inevitable. Byung-joon Ahn emphasizes that in contrast to the strong integration trend in Western Europe, the diverse actors in the Pacific-Asian region, with asymmetrical power and resources and two different ideologies and political systems, are addressing urgent issues primarily through bilateral approaches, although collective and multilateral approaches are frequently discussed.

In his paper examining American and Japanese policies toward Korean issues, Chae-jin Lee concludes that the U.S. relationship with Seoul has been changing “from guarantor to a more normal bilateral relationship” and that North Korea is eager to improve its ties with the United States. Hongchan Chun describes the new Russian relationship with the peninsula as an “equi-distance policy”; he also questions how relevant any Russian policy is to developments in East Asia. With regard to North Korea’s responses to the changing international environment, Young Whan Kihl notes that North Korea’s initiatives tend to come too late, always falling behind the times, although its foreign policy priority — assuring the regime’s survival — has not changed. B. C. Koh’s paper focuses on the foreign policy implications of domestic political developments in the two Koreas; Koh details how North Korea has tried to maintain its political system while adjusting to the external changes as well as its needs for foreign capital and technology by internally
tightening control over the population through the propagation of the cult of the leader and chuch'e ideology and externally by endeavoring to improve its ties with Japan and joining the United Nations. Thomas Robinson and Young-Sun Ha assess the factors pointing toward peace and those indicating conflict on the Korean peninsula. Robinson questions the viability of the North Korean regime, noting that a domestic political crisis, such as a serious problem in succession when Kim Il Sung dies, may lead the DPRK to external behavior disruptive to the outside world. In analyzing the prospects for peace on the peninsula, Young-Sun Ha examines the changes in the three major determinants: the international situation, the military balance on the peninsula, and the political and economic systems of the two Koreas.

Two papers discuss the economic complementarity between the two Koreas. Il-Dong Koh underscores the overall complementarity between the two economies except in heavy industry, which North Korea overdeveloped for military reasons; North Korea's relatively well endowed agricultural and natural resources can be effectively developed with South Korean technology and capital, and its consumer goods industry can be rapidly developed with the assistance of medium-level technology and capital from the Republic of Korea (South Korea). After examining the DPRK's trade policy, Jung Chang Young concurs with the optimistic view that the high complementarity between the North and South Korean economies, with their differential resource endowments and levels of industrialization, makes the prospect for trade between the two Koreas good, possibly reaching US$500 million in the near future.

The last three papers speculate on prospects for North Korean participation in the regional economy. On the basis of systematic comparison of various specific factors related to the performance of the two economies, Won Bae Kim and Jung-Gook Kim recommend a gradual approach to the integration of the two diametrically opposed economic systems. Mark J. Valencia assesses the feasibility of as well as the constraints on the proposed Tumen River scheme. He notes that each participating nation will benefit: South Korean and Japanese technical capabilities and managerial skills can be easily combined with raw materials and cheap labor from North Korea, China, and Russia. But the project will cost an estimated US$30 billion for infrastructure investment in the next twenty years. The success of the project will depend on how each nation reconciles conflicting priorities and shares the huge capital cost. Finally, although warning that "we should not harbor rosy expectations ... for regional cooperation," Kim Sung-Hoon notes that "multidimensional developments in Northeast Asia permit cautious optimism as far as the reduction of tension and economic cooperation" between the ROK and DPRK are concerned.
On December 12, 1991, when the conference was in session, North Korea and South Korea reached an Agreement on Reconciliation, Nonaggression, and Exchanges and Cooperation, a first historic document laying down the basic framework for inter-Korean relations. In the agreement, the two sides pledged to cooperate in the international arena, eventually impose arms control, and improve direct communications across the demilitarized zone. But it did not specifically touch upon nuclear issues, which are the most critical for North Korea's relations not only with the South, but also with the United States and Japan. Faced with sluggish economic performance and failing public approval ratings, the ROK's Roh Tae Woo administration was compelled to skirt the issue of North Korea's nuclear program in order to reach the agreement. North Korea must have realized that without some semblance of progress in North-South dialogue its effort to improve relations with the United States and Japan would not work.

President George Bush's policy announcement that the United States would remove tactical nuclear weapons from foreign bases further helped diffuse the concern with the North Korean nuclear program. By April 1992, North Korea had signed the Nuclear Safety Agreement, changing its previous precondition — that North Korea should be allowed to inspect withdrawal of U.S. nuclear weapons and the United States should end its nuclear umbrella over South Korea — to the simple condition that parties to the Non-Proliferation Treaty (NPT) would not deploy nuclear weapons on the Korean peninsula or threaten North Korea with nuclear weapons. The two Koreas also reached the North-South Denuclearization Agreement. On the whole, North Korea has been more flexible in dealing with the International Atomic Energy Agency (IAEA), whose inspectors would not be as thorough as those of South Korea.

Thereafter, inter-Korean relations progressed rapidly up to the summer of 1992. North and South Korea expanded contacts on multiple levels, conducting high-level meetings eight times in both Seoul and Pyongyang and addressing a wide range of issues including plans to create an industrial complex in North Korea's western port of Nampo, joint exploration of resources, the possible settlement of trade accounts, and the exemption of tariffs. North Korean deputy premier Kim Dal Hyon visited South Korea, touring many modern factories obviously in an effort to enthusiastically expound the idea of economic cooperation between the two Koreas. At that time even a summit meeting between President Roh and Kim Il Sung appeared to be possible.

However, toward the end of 1992, the inter-Korean dialogue appeared to have reached a stalemate. Many factors contributed to the strained relations. The discovery of a North Korean spy ring in South Korea led Seoul to demand the North's formal apology, without which no substantial inter-Korean economic cooperation would be possible. North Korea responded by denouncing the military exercises conducted by the South. Trade between the two
Koreas declined dramatically. By that time there was no hope for any summit meeting between Roh, whose presidential term was coming to an end, and Kim II Sung.

Another important factor that might have decisively influenced North Korea’s strategy was the establishment of formal diplomatic ties between the Republic of Korea and China on August 22, 1992, the historic occasion immediately followed by President Roh’s official visit to Beijing. Although the normalization laid down an important cornerstone for regional peace, it also implied China’s acceptance of a two Koreas policy. By maintaining cordial ties with both Koreas, China came to occupy the pivotal position in a new triangle. China may try to preserve the triangle for a long time, because it offers the most promising way of dealing with Korean problems, barring the ideal but unlikely resolution of a unified Korea friendly or even subordinate to China. Nonetheless, China has no means of controlling North Korea’s internal politics, the most critical factor in the stability of the new triangle.

North Korea undoubtedly hoped that Beijing would use its recognition of Seoul as a bargaining chip for obtaining Japanese and American recognition of Pyongyang. In that, the North was disappointed and possibly even felt betrayed by Beijing. Since the DPRK cannot afford to alienate Beijing, it has renewed its own survival strategy, either stepping up its nuclear program or using the nuclear issue to establish direct communication with the United States.

Despite the widespread suspicion that Pyongyang is committed to owning nuclear weapons, there is no way of knowing whether North Korea has the technical capability and political will to manufacture nuclear weapons. It is possible that, concerned about the increasingly unfavorable military balance between the two Koreas, Kim II Sung may attempt to produce nuclear weapons as a deterrent against the South. But the potential cost for this option is high, and it contains significant risks. It is also possible that Kim sees the nuclear issue as a bargaining chip and seeks to exploit it to strengthen Pyongyang’s bargaining positions vis-à-vis the United States. Whatever its true intention may be, North Korea’s nuclear program has been the linchpin in its external strategy in the past few years.

Despite the mutual agreement on denuclearization, the North-South Joint Nuclear Control Committee deadlocked over inspections. Suspicious of the North’s sincerity, the South demanded “special inspections” or “challenge inspections” — which give each side a free hand in selecting inspection sites. The North insisted on the mechanical interpretation of the declaration, which states that sites for inspections will “be selected by one side and agreed on by the other side.”

Paralleling the dispute with the South over the issue of bilateral inspection, North Korea developed a similar dispute with the IAEA. Immediately after signing the safeguard agreement, North Korea allowed the international organization to conduct six rounds of ad hoc inspections and provided it with
samples of nuclear waste as well as other relevant information. The IAEA's careful analysis of the nuclear waste sample indicates that North Korea has more plutonium than it reported to the IAEA; this "inconsistency" led the IAEA to demand special inspection of two suspicious sites at the DPRK's controversial nuclear complex at Yongbyon, north of Pyongyang. North Korea refused on the ground that the sites are "military objects." Eventually the IAEA's board of governors issued an ultimatum to the North: accede to inspections by March 25, 1992 (later extended to March 31) or face "future measures."

On March 12, 1992, North Korea announced its decision to withdraw from the NPT, stating as its reason that the IAEA, unduly influenced by the United States, had been not impartial: it insisted on close inspection in North Korea, but had not yet verified the removal of U.S. nuclear weapons from the South. The announcement, which was to become effective ninety days thereafter, pulled the rug from under the newly elected Kim Young Sam administration in the ROK, which was preparing a more conciliatory posture toward the North with key decision-making positions staffed by moderate former professors. North Korea's defiance posed a great challenge to the United States, not so much because of the DPRK's nuclear program, but because North Korea's action set a precedent for other nations aspiring to "go nuclear." Nuclear-allergic Japan indicated its willingness to freeze any economic cooperation with the North until the nuclear issues are resolved. Although a nuclear North Korea is obviously unacceptable to China, it has shown reluctance to bring public pressure on Pyongyang and again objected to any UN sanction against North Korea.

Caught off balance by North Korea's drastic decision, the South Korean government has adopted a "stick and carrot" approach to persuade North Korea to reverse the decision. On the one hand, worried that any UN sanction would lead to North Korean retaliation against the South, it eagerly coordinated common strategy with Washington, Tokyo, and Beijing. On the other hand, it promised economic aid to the North when Pyongyang changes its mind and also indicated its willingness to concede to North Korean complaints on such matters as the UN inspection of U.S. facilities in South Korea and of the annual joint U.S.-ROK military exercises.

Just before the decision became effective, the representatives of the United States and the DPRK met twice in New York. These critical meetings resulted in a North Korean unilateral decision "to suspend as long as it considers necessary...its withdrawal from the Treaty on the Non-Proliferation of Nuclear Weapons." Both sides also agreed to continue dialogues, set to begin in Geneva on July 14, 1993.

Although the specific contents of the meeting are unknown, and although the meeting did not resolve the nuclear issues, it has defused the tension at least temporarily. If North Korea is really committed to developing nuclear weapons while trying to convince the world that such development is not
occurring, Pyongyang’s diplomatic effort to improve relations with the United States and Japan seems futile. But if North Korea has been using the nuclear card to achieve its diplomatic goals, it has been playing so far brilliantly. Whatever might be its true intention, one point emerges clearly from Pyongyang’s negotiation posture. North Korea is more interested in improving its relations with Washington than with Seoul. This in turn indicates that in spite of its continuing verbal commitment to the reunification of Korea, North Korea’s top priority is its own survival. In fact, North Korea has publicly demanded that the United States and Japan change their one-sided support to South Korea, criticizing South Korea’s policy that progress in the North-South dialogue is prerequisite for improvement in U.S.-DPRK relations. In turn, South Korea, although originally having urged the United States to negotiate directly with North Korea, has realized that North Korea is using its dialogue with the South as a means of approaching the United States rather than a means of resolving the problems of the divided Korea. In brief, North Korea appears to have been playing a very complicated game of using the North-South dialogue to improve its relations with Washington and Tokyo, the Japan card in dealing with the South and Washington. North Korea’s strategy makes sense as a means to ensure the survival of the North Korean regime, but it can be viewed as a national betrayal as far as the Korean people’s aspiration for unification is concerned. But given the complex power configuration of all actors interested in the Korean issue, as well as the conflicting interests of the various social groups in both Koreas, the de jure two Koreas might be the first step toward the long process of reunification.
1. Basic Trends in the Pacific-Asian Region

ROBERT A. SCALAPINO

While Pacific-Asia has its distinctive features, even among its subregions, it is increasingly connected with the principal trends sweeping over the world. We are privileged to live in the midst of the first global revolution in human history. Earlier major transformations, whether violent or peaceful, affected a given society, a region, on occasion a continent, but none advanced over the world within a few years, or at most, several decades.

Our unprecedented age results from the extraordinary advances in communications and the accompanying mobility—of people, material goods, and ideas. It has been greatly strengthened, moreover, by the latest phases of scientific and technological development as they have affected both productivity and structure in industry and agriculture. To obtain the fruits of these advances, a society must enlarge its sphere of economic involvement. Autarky has become a synonym for backwardness.

One can see the impact of these events upon East Asia in a variety of ways. First, whatever their political qualms, the remaining Leninist states of Asia—even North Korea—have embarked on economic reforms that, among other aspects, involve efforts to interact more extensively with the dynamic market economies around them. Beyond this, the intensification of economic ties among and between all East Asian states, while not yet at the level of the European Community (EC), has led to the formation of such regional organizations as ASEAN (Association of Southeast Asian Nations) and the SPF (South Pacific Forum) with other proposals such as that of the East Asia Economic Caucus (EAEC) now on the table. In Northeast Asia, a soft regionalism exists, centered upon Japan, South Korea, and Taiwan—states now expanding their influence upon the neighboring socialist states. And at the all-region level, the Asia-Pacific Economic Cooperation (APEC) forum has come into being along with the unofficial Pacific Economic Cooperation Conference (PECC).

An increasingly important aspect of this scene is the emergence of what I call natural economic territories (NETs) that involve portions as well as the whole of states, cutting across political lines. While these NETs would find
survival difficult in the face of strong opposition from the governments concerned and frequently are promoted in their opening stages by government officials, national or local, they are also the product of private initiatives, spurred on by economic opportunities. In varying degree, moreover, they acquire a life of their own, raising profound issues relating to jurisdiction and control, thereby constituting one more challenge to traditional notions of nation-state sovereignty.

One of the NETs of greatest current significance is Guangdong–Hong Kong–Taiwan. Another is Fujian–Taiwan. In the offing are Shandong–Liaoning–South Korea; the regions encompassing parts of China, North Korea, and east Siberia around the Tumen River basin; the Sea of Japan rim regions; and Sakhalien–Kuriles–Hokkaido. Nor are such developments confined to Northeast Asia. In the spring of 1992, a conference was held in Chengdu, Sichuan province, entitled “Southwest China and Southeast Asia.” A Singapore–Johore (Malaysia)–Batam island (Indonesia) NET has also emerged.

It would be difficult to exaggerate the significance of these developments as they relate to the economic as well as political future. Among other things, they testify to the sweeping geopolitical transition that has taken place in the past half-century, now affecting Asia as much as Europe. At the close of World War II, the Eurasian heartland, centering upon the Soviet Union, was powerful in military terms despite the terrible wounds suffered in the course of that war; hence, it was able to project its power into Eastern Europe, creating a buffer-state system. The victory of the Communists in China, moreover, gave the Sino-Soviet duo a commanding presence throughout the continental center. In contrast, both the western and eastern peripheries were weak, devastated by war or just emerging from colonialism.

Today, the situation is precisely reversed. With economics increasingly the principal measure of power, the dynamic market economies have been summoned to assist the faltering socialist states, including those occupying the Eurasian heartland. There can be no question as to who are the revolutionary leaders of the present.

This development in turn has contributed to the decline of ideology both as a means of achieving domestic legitimacy, hence control, and as a major determinant in—or at least as a principal rationale for—foreign policy decisions. Increasingly, legitimacy at home, irrespective of the political system existent, is dependent upon performance. To isolate a people and then instill in them a political faith that rests upon values disembodied from reality and to provide added insurance in the form of building up the charisma of a leader has become less and less possible. Only in North Korea does it retain considerable potency—but for how long?

Certain scholars would assert that perceived national interest always dominated decisions in foreign policy, with ideological justifications only window dressing. This thesis has some merit, but it cannot be denied that in earlier decades, the Asian Leninist states sought to reach out by using anti-imperial-
ism, egalitarianism, and social justice as central appeals. Their foreign poli-
cies, moreover, combined comrade-to-comrade and people-to-people with
state-to-state diplomacy, varying the mix as conditions directed.

Nor were the Western democracies, and notably the United States,
immune to a strong ideological thrust outward. Many actions were taken in
the name of preserving or advancing democracy (without being wholly con-
sistent in such matters). Indeed, some would argue that the United States has
preserved a more substantial ideological quotient in its foreign policy than any
other nation. Witness the emphasis given human rights.

Yet the ideological intensity that cloaked the decades from the 1930s to
the 1980s has largely passed. One political force, however, is very much in
evidence—nationalism. Ironically, moreover, while the nationalist surge is
universally strong, it is being cultivated most arduously by elites in the
remaining Asian Leninist states as a means of mobilizing the populace against
the external "bourgeois-imperialist" threat. Their earlier internationalist foun-
dations are nowhere in evidence. One should not ignore the rise of nationalism
elsewhere, however, including in the advanced industrial nations, where it fre-
quently takes the form of a rallying cry against foreign economic penetration,
a counterattack against the tides of interdependence. Despite its many bene-
fits, virtually all nations enter our new economic age with considerable trepi-
dation, perhaps with reason. How does one adjust quickly to systemic and
value differences and create new loyalties?

The interrelation among localism, nationalism, regionalism, and interna-
tionalism is thus destined to be the central challenge of the decades immedi-
ately ahead. The concept of national sovereignty—at least in its nineteenth-
and early-twentieth-century form—is rapidly becoming passé despite the militant
efforts of certain states, notably those in the developing category, to defend it.
When a nation's economic or political policies significantly affect others,
these policies cannot be a matter merely of internal concern. Further, given the
deep penetration of external forces upon every state by the means noted ear-
er, there are increasingly few domestic elements that are wholly indigenous,
especially in the economic and cultural realms.

Yet one crucial requirement of these times—the building of regularized
decision-making mechanisms and institutions above the nation-state—
remains largely for the future. Even the European Community, the most
advanced such effort, has encountered difficulties. In Asia, efforts are still at a
very rudimentary stage. Perhaps the EC and such other regional bodies as the
emerging North American Free Trade Area (NAFTA) and an East Asian coun-
terpart, whether APEC or some other, will develop the scope of functions and
power to vie with or succeed the nation-state as the central source of institu-
tional authority over those within its respective jurisdiction, but that will not
happen without a very substantial transformation of the current international
order.
In the short term at least, it is far more likely that a multiplicity of methods and levels of interaction will be required in the effort to handle an ever wider range of problems and issues of a transnational nature. It is unrealistic to believe that we shall soon be able to rely exclusively or even largely upon one level of international discourse and decision making. Bilateralism, regionalism, and internationalism will coexist, with one critical task that of reducing to the greatest extent possible the contradictions implicit among them. In sum, there is no harm in thinking about utopia, but one must make the necessary preparations to live with the complexity that lies ahead.

Meanwhile, below the nation-state, new and old forces are rising to challenge the existing structure. In various areas, but especially in those states where hard authoritarianism has been uprooted, ethnic separatism has erupted, always stemming from ancient roots. The various manifestations of ethnic solidarity are in most cases prenationalist, since a concept of a national community is embryonic at most. However, this fact makes ethnic movements no less volatile politically, whether—in the case of Asia—the people be Kazhaks, Tibetans, or West Irians.

Racism is alive and well throughout Asia. Racial feelings—and prejudices—run deep within both homogenous and heterogeneous societies, complicating relations among, between, and within nations in a number of instances. There is no evidence, moreover, that the advent of greater interdependence has significantly reduced the potency of this fact, although a decline may happen.

But beyond ethnicity and race, the issues of lifestyle in rapidly urbanizing societies undergoing one-generation industrialization have raised profound problems that relate both to values and to the distribution of power. The latter issue is especially acute in large or continental-sized states. Just as the highly centralized, command economy has been rendered progressively unsuited to the more advanced stages of development, so the capital-centric political structure appears increasingly unsatisfactory as a means of handling the myriad local and regional problems spawned by rapid socioeconomic change. Consequently, a substantial redistribution of authority downward is taking place or is in the offing. And where it has been fiercely resisted, as in the old USSR or in the contemporary Democratic People's Republic of Korea (DPRK), the change when it comes is jolting. Once again, in these respects, Asia is connected with the world at large.

Meanwhile, three basic political systems, replete with variations, prevail in East Asia at present: Leninism, authoritarian pluralism, and parliamentary democracy. Only the second requires further elucidation. Under the authoritarian-pluralist system, politics remains controlled, with choice for the citizenry limited or nonexistent; freedoms are constrained; and law is subordinate to human decisions. However, a significant civil society is permitted to exist apart from the state, and varying degrees of autonomy prevail in such areas as
education, religion, and the family. The economy, moreover, is one of state-supported capitalism, with policies centering upon neomercantilism.

The authoritarian-pluralist system, it should be noted, has been part of the past or present evolution of a number of East Asian states. There are good reasons to believe, moreover, that it will play a key role in the future of those states currently clinging to Leninism.

At present, the political continuum in Pacific-Asia has temporarily widened. China has retreated from the political flexibility that appeared in the mid-1980s. It is seeking to shore up the old political order in the name of stability while it continues economic experimentation. North Korea and Vietnam have been encouraged to pursue a similar course. Meanwhile, certain other Asian societies have moved from authoritarian-pluralism to experimentation with parliamentary democracy. Yet in the longer run, Asia's political continuum is likely to narrow, with the traditional monarchist remnants and the Leninist holdouts both undergoing substantial modifications.

Yet, as has already been suggested, the narrowing of the continuum should not be interpreted as lending itself to political uniformity. There will be no single Asian political system, and even within those systems most likely to endure, differences will be important. Nonetheless, the prospects are for easier intercourse across less formidable political barriers. Pragmatism will be a widely shared trait among elites seeking answers to concrete economic, social, and political problems.

In this setting, a central concern is likely to be how to instill new values or reinforce old ones in a society where pragmatism is the operative principle and materialism holds sway. For Asia, where communalism has been the dominant force and individualism has frequently been equated with selfishness, the adjustments that lie ahead may be wrenching. Japan, however, managed to use traditionalism selectively to undergird modernization, and this is one reason why the Japanese model has been so widely emulated. Moreover, in some parts of Asia, religion may fill the void, at least in part, as it is seeking to do in the West. Yet this is more difficult to envisage in the old Confucian societies where religion, at least in its organized form, has generally played a lesser role. But everywhere, the changes in social structure and dominant economic mode represent a challenge, even in those societies where the transition is least costly.

The Asian societies seeking to operate under a system of political pluralism face special problems. How to combine stability and freedom, authority and permissiveness, diversity and a sense of community—these challenges are daunting in all of Asia's current democracies and in the West as well. The threat of weakness hangs over most democracies today—governments divided within themselves and leaders who quickly lose credibility in the eyes of a substantial portion of the electorate. Even Japan, that symbol of stability and rising power, has had a succession of weak governments recently despite the one-and-one-half-party system that prevails. This nation is in serious need of
political reform, as certain leaders acknowledge. Cynicism and indifference
even more than strident opposition are risks in such a setting, and one sees the
rise of these features in Japan as in a number of other open societies.

Further, across all political lines in Asia, political institutions are weak,
and the dependence upon leadership is extensive. Yet the traditional means of
strengthening authority, as noted, are rapidly losing their potency. Contempo-
rary leaders, irrespective of the system under which they operate, are required
to deal with highly intricate problems, and in the compass of an ever shorter
space of time, meanwhile explaining these to their people in less complicated
terms without undue distortion. The tasks of governance have never been
more difficult. The greater porousness of societies, their susceptibility to
external influences, together with the inner diffusion of forces, some of which
are fiercely competitive, challenge the authority of the state in ways not previ-
ously existent. It is thus not surprising that all political systems are concerned
about holding or achieving that degree of community spirit or broadly
accepted goals necessary to advancement.

As the Pacific-Asian nations struggle with these universal concerns, what
role are the major states likely to play in the region and how will their rela-
tions with each other evolve?

First, the possibility of a new hegemonic power in the region is extremely
remote. Russia can be expected to be a relatively minor actor in East Asia for
the foreseeable future, given the trauma of its domestic transition. China also
is heavily involved in domestic issues, from those centering upon economic
reform to those involving the generational succession in politics that lies
immediately ahead.

Even the United States, surfeited with domestic concerns, weighs its role
in Asia with uncertainty. Three factors are likely to determine the nature and
extent of the U.S. commitment: the willingness of Pacific-Asian nations hav-
ing the requisite capacities to take a greater share of responsibility for a new
order; the ability of states collectively to create effective decision-making
instrumentalities above the nation-state to resolve problems multilaterally;
and the capacity of the U.S. administration to handle domestic problems more
satisfactorily and so relieve the current tensions felt by the American public
regarding their daily lives. But under no circumstances will the United States
play a role akin to hegemonism in Asia.

Japan is faced with less serious domestic problems, at least for the
present. The Japanese people show no inclination, however, to undertake the
risks of a high-posture role in Asia involving independent military power.
They are cognizant of the feelings of other Asians, and their leaders also rec-
ognize that the Asia of the 1990s is not the Asia of the 1930s. Ascendant Jap-
anean military power would be more likely to jeopardize than to enhance
Japan's position in the region.

Thus, power in Asia will not rest primarily upon a single state. Under
these circumstances, bilateral relations between the major states of the region
Basic Trends in the Pacific-Asian Region

Warrant close inspection. Here, one fact stands out: without exception, these relations at present are composed of a combination of cooperation and competition, with some element of tension or reservation involved. In the case of Sino-Russian relations, the minimalism and hostility of the recent past has ended. Normalcy has been restored. Yet Russia looks primarily west while China looks east for sources of assistance and support. These two continental nations can provide only modest assistance to each other. Further, they remain distant culturally, and now lack an ideological link. They can hope for relief from the costs of the old hostility, but not for the intimacy that a common enemy once encouraged.

Sino-Japanese relations are built upon stronger historic foundations. Yet in modern times, the cultures of these two societies have diverged sharply; and beyond this divergence, the major differences in their respective internal unity and stage of development have led to bitter conflict in the not distant past. Now, Japan can and will be important to China’s industrialization, and China can provide a major market for the Japanese. But a wariness will remain. Japan wants a stable China; but on occasion, it worries about a China that too rapidly develops power, including military power, with its “Central Kingdom” complex intact. And China for its part is quick to point to the risk of an independent, militarily expansionist Japan—a nation that builds upon its current economic strength. Once again, cooperation and competition will be mixed.

The bilateral relation surrounded by the strongest adverse history is that of Japan and Russia. It seems likely that at some point in the future, the Northern Territory issue will be resolved, notwithstanding the current obstacles. In addition, NETs involving portions of Siberia and Japan will emerge. And toward European Russia as well, Japan in concert with other industrial nations will probably find it in its interests to provide assistance. Yet it is difficult to envisage a close relationship, given the major cultural and developmental differences and the legacy of mistrust.

Japan’s central relationship will remain that with the United States. Here, cooperation and competition are exemplified in their most pronounced forms. No single relation is so important not only to the two countries immediately concerned, but to the region and the world. Together, these two nations account for nearly forty percent of the global gross national product (GNP). They now stand as pioneers in various branches of high technology and scientific research. And they have become progressively intertwined economically and strategically, while remaining distinct in terms of systems as well as culture. These factors ensure that tensions will remain extensive, but also guarantee that there cannot be a fundamental breach between these two giants.

Relations between the United States and the People’s Republic of China are also difficult at present. Indeed, this is the first time in the twentieth century that the United States has had troubled relations with Japan and China at the same time. However, as in U.S.-Japan relations, here too both sides have strong reasons for containing tension. The PRC counts upon U.S. economic
interaction to bolster its "outward-looking" economic program; in addition, it has reasons to want an America strategically engaged in the region to prevent a vacuum it is currently unable to fill. Such a vacuum might tempt Japan, according to its private thinking, although it is not prepared to take this position publicly. For its part, the United States no longer considers China of global importance as the third part of a U.S.–USSR–PRC triangle, but it recognizes that China is a significant regional force, involved in every regional problem from the Korean peninsula to Indochina. Further, as Asia's largest nation and one in the process of transition, China needs to be involved in ongoing multilateral endeavors in the region if they are to be meaningful.

Finally, the course of U.S.-Russian relations will naturally hinge upon domestic developments in the Russian Republic, but assuming no retreat into xenophobic authoritarianism, Moscow remains a very important variable in the global scene. A chaotic Russia could easily be as disruptive of any new global order as a militarist Russia. Hence, while mindful of its limitations, the United States will almost certainly continue to assist in easing the pains of the current transition in Russia in company with other industrial nations.

A survey of the bilateral relations between major Pacific-Asian nations reveals three facts of considerable strategic significance. First, no one of these nations need fear a hostile coalition against it in the foreseeable future. In this sense, balance-of-power politics are less meaningful within the region than at any time in the recent past.

Second, the nature of alliances—both at this level and with states of lesser strength—is undergoing a critical change. To the extent that alliances still exist (and in the case of Russia, they are confined wholly to relations with the other republics of the old USSR), they are more flexible, less exclusive. The quotient of independence for all parties concerned is greater. Patron-client relations are giving way to partnerships, albeit between states of differing power. Most alliances are becoming alignments, offering a range of options for the parties involved.

Third, under the circumstances prevailing, the importance of the small and medium Pacific-Asian states is enhanced. In positive terms, they now have a capacity to operate in a more independent fashion and by participating in various bilateral or multilateral combinations to make a contribution to the region as a whole. In negative terms, lacking external reins, they can also be the source of instability and tension, whether caused by domestic problems or subregional controversies. And under those circumstances, the major states must decide whether to intervene and in what form.

The above conditions make clear that the risks of a major-power conflict are clearly at their lowest ebb in this century and that the chief sources of violence are and will continue to be at a lower level. In this connection, a method of approaching regional and subregional tension has been evolving, one that involves a series of concentric arcs. I use the terms "arcs," not "circles," to underline the importance of access among and between them. The first arc
involves the parties most immediately involved—in the case of Cambodia, the four Khmer factions; in the case of the Korean peninsula, the two Koreas. Beyond this arc is a second one composed of the key outside forces—in the case of Cambodia, China and Vietnam, whose concurrence in any approach was essential; in the case of Korea, the four major states so long and so intimately involved. And beyond this arc, broader international groups—in the case of Cambodia, initially ASEAN, then the permanent five members of the UN and the requisite international agencies; in the case of Korea, the potential involvement of similar international agencies, both economic and political.

These developments suggest that efforts to handle regional disputes or conflicts will involve a strong multilateral element in the future and that even where there is the direct intervention of an outside nation, it will be exceedingly costly and dangerous if that intervention has had no multilateral sanction. Moreover, such issues as nuclear proliferation, environmental concerns, disputes relating to jurisdiction on the high seas, and military reduction are ripe for multilateral treatment. And subregional associations like ASEAN are already contemplating the addition of security discussions to their agenda.

In sum, there will be no overarching security structure for the Pacific-Asia. Still, in addition to the situation-specific arcs outlined earlier, certain issues must be handled regionally or globally. Just as a variety of approaches is needed to manage economic and political relations, this is equally true in the security realm.

There are good reasons to be hopeful about the future of the Pacific-Asian region. With the threat of massive war at low ebb and science and technology scoring a continuous series of major breakthroughs, livelihood improvements can continue along with a growing network of ties between and among the societies of the area. These developments in themselves can go far in offsetting the negative forces of ethnic strife, economic protectionism, and other exclusivist manifestations. The key variable is certain to remain the human one. Can leaders and populations deal with the complexities implicit in our times and not demand simple, monocentric approaches that are almost certain to fail?
2. Strategic, Political, and Economic Trends in the Asia-Pacific Region

BYUNG-JOON AHN

The end of the Cold War in Europe, the aftermath of the Gulf War, and the collapse of communism in the former Soviet Union—all of which took place in 1989–91—are bound to have a profound impact on the Asia-Pacific region. And yet this region, which contains the world’s major powers and most dynamic economies, has been little touched thus far by the changes sweeping other parts of the world.

It is important to ascertain the major strategic, political, and economic trends that have been emerging in the region as a result of recent global and internal changes. Specially, what are the significant differences between the Asia-Pacific and the Europe-Atlantic region? What patterns of political and strategic development are emerging in this region, and what is the most imminent threat to security there? Why is socialism still alive, and what are the prospects for its survival and development? What are the major characteristics of economic development and regionalism? What has been the impact of global changes on the regional conflicts in Asia? What type of leadership and cooperation can we expect in this region? These are the questions this chapter will address.

Strategic Rectarchy and Economic Regionalism

As we enter the 1990s the Asia-Pacific region is characterized by a strategic rectarchy resulting from ongoing bilateral interaction among four powers—China, Japan, the former Soviet Union, and the United States—and by an economic regionalism being formed among many actors including the newly industrializing countries (NICs) and the countries of the Association of Southeast Asian Nations (ASEAN) plus Canada, New Zealand, Australia, Hong Kong, and Taiwan as shown in the Asia Pacific Economic Cooperation (APEC) process.

With the shift in the balance of power from bipolarity during the 1950s and 1960s to a triangle among China, the Soviet Union, and the United States
during the 1970s and then to a rectarchy during the 1980s, superpower confrontation diminished, and regional and economic conflicts began to replace Soviet and Chinese threats as security threats. In contrast, the growing degree of economic interdependence and regionalism are fostering a balance of interests, thus mitigating the rivalries and conflicts that have existed in this region.\(^1\)

In examining the strategic, political, and economic trends in this region, six broad observations are in order.

First, the strategic and political environment in the Asia-Pacific region differ from those in the Europe-Atlantic region in that there are asymmetry, diversity, socialism, and regional disputes; as a result there is neither a single threat commonly perceived nor a multilateral structure of security cooperation throughout the region.

Second, major power relations are primarily bilateral, and such relations have improved substantially—for example, Sino-Soviet and Sino-Vietnamese relations. The socialist countries and the former Soviet Union are facing political uncertainty and therefore are likely to be preoccupied with their domestic problems for some time to come; this situation prompts Japan to assert a more independent political role and the United States to play a balancing role. The most imminent threat to regional security as of December 1991 was North Korea’s nuclear weapons and ballistic missiles programs.

Third, socialism is surviving in the region mainly because it is linked to nationalism, guarded by the first-generation leadership, helped by the historical legacy of having experienced the state before civil society, and supported by the relative success of its economic reforms implemented before political reforms. But it is on the defensive. Faced with inevitable generational change, the information revolution, economic interdependence, and urban middle classes, China, Vietnam, and North Korea are yet to sustain a viable “socialist developmental state” in this post–Cold War era.

Fourth, by contrast Japan and the Asian NICs, as “capitalist developmental states” combining the roles of state and market mechanism, have shown economic growth and technological development;\(^2\) by and large, the ASEAN countries seem to be trying to emulate the experiences of these Northeast Asian countries. As the barriers of the Cold War are lowered and the forces of market mechanism penetrate several geographically proximate subregions, new “contiguous economic zones” (CEZs) are emerging: Greater Korea among North and South Korea, Japan, north China, and the “Soviet” Far East; Greater China among south China, Hong Kong, and Taiwan; Indochina; and

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Singapore. As a regionwide effort for multilateral cooperation, APEC is emerging as a loose organization of open and soft regionalism.

Fifth, the impact of these changes on regional conflicts has been to localize them so that the parties can settle them among themselves. As a result, the prime ministers of North and South Korea have engaged in high-level talks, the warring factions in Cambodia have signed a cease-fire agreement, Japan and the former Soviet Union have entered into negotiation over the Northern Territories, and China and Taiwan have engaged in some dialogue.

Sixth, various security and economic issues have been settled by direct bilateral negotiation; various forms of collective or multilateral forums have been proposed to discuss such subregional issues as nuclear proliferation and confidence-building measures including economic cooperation; and regional forums like APEC have been developed to discuss common economic problems. Before a common structure of security and cooperation like CSCE is established, however, the United States and Japan will have to settle on a division of roles in whatever form such a structure may entail, whether "bigemony" or Ameripponica.3

On balance, the world's strategic and economic gravity is shifting to Asia, and in this sense the Pacific Century has already begun. The biggest unknown is what will happen in the former Soviet Union; whatever happens will decisively affect the Asia-Pacific region as a whole.

Strategic Bilateralism and Political Uncertainty

Asia has no such multilateral structure of security and political cooperation as the North Atlantic Treaty Organization (NATO) or the Conference on Security and Cooperation in Europe (CSCE). Bilateral interactions on strategic matters have steadily improved relations among the regional powers in recent years; but political uncertainty has hampered further improvement: the former Soviet Union is disintegrating, China is still groping for a more viable political future, Japan is trying to become an assertive actor, and the United States is professing to be a balancer.

Disintegration of the Soviet Union

With the failure of the coup attempt by the Communist party, the former Soviet Union has entered a period of disintegration; from now on the Russian Republic will be the principal actor in Asia. Before the coup Soviet president Mikhail Gorbachev had normalized diplomatic relations with South Korea in September 1990; visited Japan in April 1991, met with Prime Minister Kaifu, and agreed to find a negotiated settlement of the Northern Territories issue; had a summit meeting with China's general secretary Ziang Zemin in May

1991 and reached agreement on border problems, economic cooperation, and even military exchange. Thus, Soviet Asia policy has been to reduce military threats and to integrate the Far East into the economic relationships of Asia and the Pacific. Russia has to continue this policy.

As Gorbachev warned in November 1991, the former Soviet Union stands at the edge of “an abyss” of disintegration and squandered opportunities. The USSR’s large nuclear and conventional arsenals, no longer under control of a strong central government, pose a grave threat to peace and stability in the region. Whatever system develops, the government(s) will seek economic aid and cooperation from Japan, South Korea, and other Asian countries to overcome economic crises at home. It (they) will not be able afford international confrontation. For this reason, Russian president Boris Yeltsin will try to negotiate a resolution of the Northern Territories issues with Japan.

The economic problems in the former USSR are so intractable that they will drive foreign policy as they force drastic cuts in military budgets and forces. In all probability, the new government(s) will be busy weathering domestic crises for the rest of the century.

China on the Defensive

The demise of empire and communism in the former Soviet Union has put China on the defensive in the international community. Since the Tiananmen massacre in June 1989, China has succeeded in restoring a measure of political stability, albeit by repression, and of economic development by controlling inflation without suspending either reform or the open-door policy. In foreign policy, too, Beijing has been playing constructive roles by cooperating with the United States on the Gulf War and the Cambodian settlement, by persuading Pyongyang to make a simultaneous application for UN membership along with Seoul, and by normalizing relations with Vietnam in 1991.

But in domestic politics, the octogenarian leadership in Beijing is committed to guarding socialism by all means. Government officials have vowed to “hold fast to the leadership of the party and never allow a multiparty system” and “never budge or compromise” ideologically. This pledge is understandable because, as President Yang Shang-kun confessed, “Some comrades have expressed worries, even doubts, about the future of Chinese socialism.”

As long as such senior Chinese leaders as Deng Xiaoping and Chen Yun adhere to the old thinking of “using barbarians to control barbarians,” fearing the danger of U.S. hegemony in world affairs, Sino-American relations will

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6Ibid., October 10, 1991, p. 3.
remain strained. U.S. Secretary of State James A. Baker’s visit to Beijing in November 1991 made a modest improvement in these relations when Chinese officials agreed to sign the nonproliferation treaty (NPT), to conditionally observe the guidelines of the Missile Technology Control Regime, and to curb prison-labor exports. But on the human rights issue they did little to allay the demands of the U.S. Congress, which had tried to link the issue to most-favored-nation treatment in trade.7

Thus, as long as the Communist party remains in power, China will be preoccupied with the task of maintaining political stability while generating economic development. While this situation continues, all we can expect from Beijing is that it does not play a destructive role for peace and stability in the Asia-Pacific region.

Japan as an Assertive Power

Having been accused of being too reactive and minimalist in its policy toward the Gulf War, Japan has set out to assert its independence by using its economic clout more effectively. In trying to normalize diplomatic relations with Pyongyang, for example, Tokyo has made it clear that unless the former signs a nuclear safeguard agreement with the IAEA and abandons nuclear reprocessing facilities, it will not agree to normalize relations or provide economic compensation. Too, when Prime Minister Kaifu visited Beijing in August 1991, he urged Prime Minister Li Peng to sign the NPT and to improve the human rights situation. And at the ASEAN postministerial conference in July 1991, Foreign Minister Nakayama proposed to use this forum as “a process of political discussions designed to improve the sense of security” among Asian countries.8

The newly elected prime minister, Kiichi Miyazawa, pledged to expand Japan’s global role with vigorous foreign policy initiatives and legislation allowing peacekeeping forces to be sent abroad.9 Japan’s combined defense and aid spending amounts to 1.3 percent of GNP (compared to 5.5 percent spent by the United States).10 Even if Japan increases this spending, Tokyo is planning to provide overseas development assistance (ODA) only to those countries that abide by IAEA rules on nuclear nonproliferation and other arms control norms. The new five-year Interim Defense Plan envisages annual increases in defense spending over fiscal years 1991–96 to only 3 percent, below the 5.4 percent average growth rate in 1986–90. But the annual defense budget of about $30 billion makes Japan the largest spender in Asia (exclud-

7Ibid., November 19, 1991, p. 7.
8Far Eastern Economic Review, August 1, 1991, p. 11.
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ing the United States and the former Soviet Union). Clearly, Japan is in a position to transform economic resources into political influence.

The United States as a Balancer

Now that the Soviet threat is practically gone, the primary rationale for U.S. defense engagement in the region is to prevent the rise of any single hegemonic power or coalition hostile to it and its allies, to "provide geopolitical balance, to be an honest broker, to reassure against uncertainty" in the apt expression of Secretary Baker.

Under the East Asian Strategic Initiative required by the Nunn-Warner Report, Washington has been carrying out adjustment in U.S. forward deployment. After reducing 7,000 troops in South Korea in the first phase of the adjustment, however, U.S. Defense Secretary Dick Cheney and South Korean Defense Minister Lee Jong-koo agreed at the 23rd Security Consultative Meeting in November 1991 to postpone the withdrawal of the U.S. forces planned for the second phase as long as North Korea refused to abandon its nuclear weapons program. By having close consultation with South Korea and Japan, the United States shows it is serious about preventing the Iraqi experience in North Korea.

Socialism on the Defensive

Although socialism has fallen in Eastern Europe and the Soviet Union, it is still alive in China, Vietnam, and North Korea—but it is clearly on the defensive against a hostile environment. Four factors may account for its troubles: the history of the nationalist movement, first-generation leaders in power, the importance of the state over civil society, and the undertaking of economic reform before political reform in an attempt to institute "a socialist developmental state." Whether socialism can continue to survive will depend on whether it can meet the challenges of the post–Cold War world order and measure up to the rising aspiration of the people.

The Legacy of Nationalism

Asian socialism derives its legitimacy from the nationalist movement against foreign rulers, whether Japanese, French, or American. In contrast to Eastern Europe, where socialism was imposed by the Soviet Red Army, socialism in China and Vietnam resulted from a prolonged nationalist movement against the Japanese, the French, and the Americans. In North Korea, Kim Il Sung deliberately cultivated anti-Japanese and anti-American sentiments in building the chuch' e (self-reliance) ideology. Consequently, it has

\(^{11}\text{Ibid., June 20, 1991, p. 52.}\)

been possible for the Communist parties in these Asian societies to develop certain emotional bonds with the people.

Even now, these parties are advocating a kind of national socialism in effect by contending that they have applied the universal truth of Marxism-Leninism to their specific realities. When the Chinese Communist party upholds "socialism with Chinese characteristics," the Vietnamese Workers' party seeks to develop its unique road to socialism, and the Korean Workers' party calls upon the North Korean people to "live in their own style," they are appealing to nationalism as a most effective means of mobilizing mass support and emotional response for their one-party rule.

**Personalization of Authority by First-Generation Leaders**

In all three Asian socialist countries first-generation revolutionaries still exercise authority. In China "eight old" men seem to be interfering at random in the policy-making process led by Ziang Zemin and Li Peng; in Vietnam General Secretary Do Muoi and Prime Minister Vo Van Kiet still consult their patrons before making decisions; and in North Korea Great Leader Kim Il Sung personifies the party, the state, and the military.

As long as these veterans are alive, they are willing to fight for the party they have built and for their own survival. In China it was these people who decided to crack down on the democracy movement at Tiananmen on June 4, 1989. In so doing, they resorted to the Four Cardinal Principles as an ideal of self-defense when the very survival of their personalized leadership was challenged by the revolt of the students and workers of the rising civil society.

**The Importance of the State over Civil Society**

The historical experience that the state preceded civil society in Asian countries has also helped Communist party rule survive challenges by mass revolts. Because Asia has had few experiences of civil society being formed by individuals and groups, many Asians have an acute fear of chaos and anarchy. Hence they tend to resolve crises of authority by relying on whoever comes to control the state to restore stability.

The Asian version of socialism has continued the most essential characteristic of the Confucian order in that political authority has involved the state's upholding a moral order as the basis of social stability. Since the ends of the state are given—for example, the cultivation of morally good principles like the Four Cardinal Principles—there is little room for the expression of individual views and interests in this order. Under this circumstance, it is difficult to expect that even after the first-generation leadership has passed from the scene pluralism can rise in the sense that the state can be controlled by civil society. Fear of unsettling conflicts and chaos creates an atmosphere conducive for the military to take over.

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The Socialist Developmental State

What distinguishes China from the former Soviet Union is that China undertook economic reforms and an open-door policy before proceeding to political reforms—and in the process showed an impressive economic growth rate of 9 percent annually after 1978. When this revolution from above met with a revolution from below in 1989, however, the party leadership suppressed it by mobilizing the People's Liberation Army.

Since the Tiananmen incident the Chinese leadership has been promoting what may be called "a socialist developmental state" or "a development dictatorship" by contending that party leadership is essential to achieving economic development and preserving political stability. As long as the Leninist principle of one-party supremacy is not denied, the leaders have encouraged market forces and international trade, especially in special economic zones and other open areas along the eastern coast.

In fact, China has subjected almost 70 percent of production and distribution to market forces. This transformation is necessary for maximizing economic development; but party leaders conceive it only under the direction of the Leninist party, thus sticking to the model of a socialist developmental state. The question, however, is how to legitimate Leninism without Marxism. This "hard" authoritarianism or state is yet to find an optimal level between planning and market and between dictatorship and democracy: it is being challenged by economic interdependence, the information revolution, generational change, and the urban middle class, which will grow as China industrializes and becomes integrated into the global market.

Developmental Capitalism and Open Regionalism

In sharp contrast to the socialist economies, the capitalist economies in Asia have exhibited enormous dynamism and regional cooperation. In the sense that Asian capitalism has been purposefully nurtured by the state for developmental purposes and that regionalism in the Pacific comprises interlocking membership, we can characterize them as "developmental capitalism" and "open regionalism." These two trends are discernable in the capitalist developmental states, in ASEAN's quest for common tariffs, in the CEZs, and in APEC.

The Capitalist Developmental State

Japan and the Asian NICs have revealed the capitalist developmental state in the sense that they have displayed a successful experience combining the

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role of the state and market in producing rapid economic growth. In this state the roles of the state, market, public policy, human resources, and government-business relations differ significantly from those in Western capitalist states. The political system resulting from these features tends to be "soft authoritarian" or "authoritarian-pluralist" in the sense that the government is authoritarian but society pluralistic. But there are many signs that the political system, too, is turning pluralist as a result of recent democratization.

In these states the first role of the state is to provide decisive leadership, political stability, administrative guidance, and material incentives to such private actors as households and firms and to public officials. To perform these roles, the state can rely on allocation of credits, subsidies, regulation, and even coercion. But more often than not, the state employs persuasion and incentives to induce compliance and support.

Second, it is important to note that the state does intervene in the economy to take advantage of market forces and to make industries competitive instead of protecting them. This is a major contrast to the role of state intervention in Latin American countries. In Korea, for example, the state tried to make relative price reflect scarcities and to make exchange rates reflect comparative advantage. In this manner the state attempted to use market forces selectively and "combined the strategic exploitation of market opportunities with skillful intervention."  

Third, macroeconomic policy was deliberately designed to facilitate an export-oriented strategy instead of an import-substitution strategy. By opening their economies to the vagaries of international markets, East Asian states subjected their industries to the rules of comparative advantage and product cycle. This was a difficult choice to make, but they had no other viable alternatives than trying to rely on the world market for their manufacturing products. In the short run, agriculture was sacrificed by this industrial policy; in the long run, it has worked to increase exports and accumulate technology.

Another distinctive component of East Asian development has been the enormous emphasis placed on harnessing human resources. Here we must note that education has played an important role in these countries' success and that Confucianism may have indirectly contributed to making education

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competitive in East Asian countries. The competitive school system has produced a plentiful supply of hard-working engineers, administrators, skilled workers, and motivated entrepreneurs.

Fifth, the government-business relationship has been relatively cooperative and labor weak in this symbiosis. In fact, the state allowed the formation of huge business conglomerates, which enjoyed the economies of scale that size provides—as well as other benefits of noninterference. Occasionally, this did involve corruption. But the state had the ability to discipline these businesses by demanding performance in return for support.19 It is true that business power grew significantly, to the extent that Mr. Chung Ju Yung, chairman of Hyundai Group, dared to refuse the penalties imposed on him for tax evasion; but when the government sought to punish Hyundai by banning it from government contracts, he decided to pay them.20

Finally, it is important to note that the developmental states of Japan, South Korea, Taiwan, and Singapore have become steadily more democratized. Political pluralism is being supported by the growing middle class in these societies. The more their economies are integrated with the U.S. economy and the global market, the more difficult for them to maintain authoritarianism in domestic politics.

**ASEAN: EAEG, EAEC, and a Free-Trade Zone**

The ASEAN countries—Thailand and Malaysia in particular—are emerging as candidate NICs with a 7.1 percent growth rate and some 320 million consumers. In response to the formation of a fully integrated European Community (EC) by 1992 and of the North American Free Trade Area (NAFTA) with $6 trillion worth of production and 360 million people that the United States is trying to foster with Canada and Mexico, Malaysian prime minister Mahathir Mohamad has proposed forming an East Asian Economic Group (EAEG) or a looser East Asian Economic Caucus (EAEC) that excludes the United States. The United States has urged Japan, South Korea, and other countries to reject this idea for fear that it will cut off the Asia-Pacific region from the rest of the globe and the United States from the U.S.-Japan economic relationship, which produces 40 percent of the world’s GNP.

At its economic ministers meeting in October 1991, ASEAN agreed to form a six-nation free trade zone within fifteen years. The main aim of this zone is gradually to cut tariffs among its members. Given that ASEAN’s members trade more with the United States, Northeast Asia, and Europe than with each other, it will be difficult for this idea to materialize as it is planned.

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Contiguous Economic Zones

With the end of the Cold War and the emergence of borderless economies, it has become possible for capital, labor, resources, and technology to move beyond territorial bounds to form contiguous economic zones. To a large extent, the private sector has taken a leading role in facilitating this kind of economic integration, although the governments involved have helped by moving production, communications, and finance operations.

Four such zones are slowly being formed. The largest is Greater China where Taiwan, Hong Kong, and special economic zones or open areas in southern Guangdong and Fujian are growing rapidly as a result of capital and technology investment from the capitalist states. Another one has been in existence in the areas adjacent to Singapore among Singapore, Malaysia's Johore, and Indonesia's Riau province. A third zone is being formed in Indochina among Thailand, Vietnam, Cambodia, and Laos.

A fourth zone is being explored in the area around the Korean peninsula among South Korea, north China, North Korea, the Soviet Far East, and Japan. Since 1988 trade and investments have increased between South Korea and Shantung. Recently, several proposals have been made to form economic cooperation zones around the Yellow Sea or the Japan Sea. North Korea has shown serious interests in developing the Tumen River project as a multilateral endeavor through the United Nations Development Program (UNDP). The lack of diplomatic relations between South Korea and China and of political trust between North and South Korea is hampering progress in this. But if the trend toward the erosion of ideology continues, economic complementarity will accelerate the pace of forming these contiguous economic zones.

APEC as Open Regionalism

As a regionwide attempt at cooperation, APEC has been evolving as an organization of "open" and "soft" regionalism. Launched as a ministerial meeting of twelve Asian and Pacific "economies" at Canberra in November 1989, its third meeting was held in November 1991 in Seoul, where South Korea mediated the admission of China, Taiwan as "Chinese Taipei," and Hong Kong. These fifteen members account for nearly 50 percent of the world's gross national product (GNP), about 40 percent of its trade, 40 percent of its population, and 30 percent of its land area. U.S. trade with these countries is more than $300 billion, one-third larger than that across the Atlantic. But Asian countries now trade more with one another than with the United States; their intraregional trade is reaching 60 percent.

Because of diversity in the scale of economies, in political systems, and in cultures, APEC remains "soft" without formal treaties and structures. Thus far it has been serving as a forum for generating information by commissioning

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ten working groups on matters of common interests and by consulting on broad principles like supporting the Uruguay Round (of tariff talks). It is far from building a regional bloc as Washington fears. Malaysia only sent a junior minister to the Seoul meeting in protest against Washington’s criticism of EAEC. But this is the only regional meeting of both foreign and trade ministers of the fifteen countries.

As the fourteen-point Seoul Declaration adopted at the third meeting indicates, all these countries support open economic development and trade consistent with the principles of the General Agreement on Tariffs and Trade (GATT) and “without detriment to other economies.” Although Indonesia opposed immediate moves to establish a permanent secretariat at the third meeting, APEC has much potential for becoming a multilateral forum of policy coordination like the Organization for Economic Cooperation and Development (OECD). Should the Uruguay Round fail to sustain an open global trading system, this body may well turn into a Japan-centered economic bloc.

Localization of Regional Conflicts

Lessening big-power rivalry and deepening economic interdependence have localized the regional conflicts in Korea and Cambodia and the disagreements over the Northern Territories and the Taiwan Strait. As of the end of 1991, however, these moves toward détente were still short of building real confidence and trust.

Dialogues on the Korean Peninsula

The overall direction of global and regional changes has worked to facilitate “crossrecognition” of the two Korean states and dialogues between them. The Soviet Union led the way in this direction by recognizing South Korea. China established trade offices with South Korea in October 1990. As its trade with the latter rapidly expanded, Beijing had to persuade Pyongyang to accept simultaneous UN membership for North and South Korea; as a result, the two Koreas were admitted to the UN in September 1991.

Since September 1990 North and South Korea have sporadically held high-level talks between the two prime ministers. At the fourth meeting in October 1991 they finally vowed to adopt an Agreement between North and South on Reconciliation, Nonaggression, and Exchange and Cooperation. What is stalling these talks is Pyongyang’s reluctance to give up its nuclear weapons and to negotiate a peace agreement with Seoul. These cautious steps, however, may well presage an era of serious negotiation and confidence-building measures on the Korean peninsula.

Cease-fire in Cambodia

The peace agreement signed on October 23, 1991, in Paris ended the thirteen-year-old civil war in Cambodia. The five permanent members of the UN Security Council and the ASEAN states succeeded in brokering a political solution among the four warring factions. Prince Norodom Sihanouk has returned to this war-torn country as an interim leader. Whether he will be able to organize elections and to disarm the military forces of the factions, especially the Khmer Rouge, remains to be seen. But at least this unfortunate country has been decoupled from big-power rivalry and left to determine its own fate.

Negotiation over the Northern Territories

Since the Gorbachev-Kaifu summit meetings in April 1991, Japan and the former Soviet Union have begun to seek a negotiated settlement on the Northern Territories. The joint communiqué issued at the summit called for a peace agreement that includes the territorial issue by specifying the four islands in disputes. Gorbachev promised to gradually reduce the Soviet military forces stationed on the islands.24

The rise of Russian nationalism in the wake of the aborted coup seems to have made it difficult for the Russians to return the islands. But after a decent period of public persuasion and education, Boris Yeltsin and other top leaders are likely to negotiate a gradual return, provided that Japan is prepared to supply a sufficient amount of investment, assistance, and technology. Settlement of this issue seems to be simply a matter of time.

Preparation for Negotiation over the Taiwan Strait

China and Taiwan are making cautious preparation for eventual negotiation between themselves. Certainly, the growing economic linkage across the Taiwan Strait has a number of mitigating effects on political confrontation. Two-way trade between Taiwan and China conducted through Hong Kong rose about 16 percent to a record $4.04 billion in 1990 from $3.48 billion in 1989. Taiwan made about $4 billion of investments on the mainland. Since 1988 more than two million Taiwanese have visited China. This economic interaction has grown so much that in November 199125 Taiwan’s economic minister Vincent Siew proposed a “Greater Chinese Common Market” with the mainland.

Against this background, Taiwan’s president Lee Teng-hui signed a decree terminating the “period of communist rebellion” on the mainland, symbolically ending four decades of civil war on May 1, 1991. But the Democratic Progressive party’s call for building an independent Taiwanese repub-

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lic prompted both the Communist party on the mainland and the Nationalist party in Taiwan to issue stern warnings against such possibility. Despite these warnings, China announced plans to establish a nongovernmental organization to handle exchange with Taiwan as a counterpart to the latter’s Strait Exchange Foundation. After first-generation leaders are gone, therefore, it should be possible for the two sides to undertake serious dialogues on their political relationship.

The more localized these last vestiges of World War II become, the better prospects for their solution will be in many respects. As the parties themselves make progress in building confidence, the four major powers can support their results.

U.S.-Japanese Leadership or a Regional Forum?

In conclusion, we raise the question of who is going to exercise leadership for security and cooperation in this region. There have been two main schools of thought on this issue: one view maintains that the United States and Japan should share the responsibility of providing security, liquidity, and market as international public goods; another view suggests that a regional forum is necessary to tackle these problems as does CSCE in Europe. Given the asymmetric strategic environment and the diversity of interests, it is unrealistic to expect that a Conference on Security and Cooperation in Asia can be organized in the near future.

Leadership and organization vary with different issues. In general, the most realistic way of promoting cooperation is to start with bilateral efforts on security issues to be followed by some subregional forums, possibly on confidence-building measures (CBMs) and nonproliferation issues, and to move toward regional coordination, especially on economic issues. In helping these efforts yield concrete results, however, it is imperative for the United States and Japan to exercise constructive leadership by dividing their roles.

Bilateral Negotiation for Confidence-Building Measures

Bilateral negotiation is crucial to building confidence between the parties in direct conflict. The primary responsibility for reaching reconciliation and building confidence in regional disputes lies with North and South Korea, Japan and the former Soviet Union, the warring factions in Cambodia, and China and Taiwan. Without seeing some progress in such negotiation, others can do other little beyond encouraging them.

Subregional Forums for Economic Cooperation in Contiguous Zones and Confidence-Building Measures

There is much merit in convening sugregional forums to stimulate economic cooperation in the contiguous zones. Such forums were indeed held in
Shenyang and Pyongyang to discuss the Tumen River project. A similar forum should be feasible for economic cooperation in Greater China, too.

In addition, subregional forums among the concerned countries are necessary to prevent North Korea from developing weapons of mass destruction and to promote arms control in the South China Sea and other areas. After North and South Korea are engaged in serious arms-control negotiation, a "two-plus-four" forum can be useful to discuss common regional security concerns and guarantee outcomes negotiated between North and South Korea as U.S. secretary of state James Baker suggested.26

**APEC as a Potential CSCA**

As an overarching body, APEC has substantial potential to evolve into a CSCA as it gradually develops more structured forms of discussion and coordination. Since foreign ministers attend this meeting, it is inevitable for the talk to turn to security issues. At the press conference after the Seoul meeting, reporters' questions focused much more on the U.S. position vis-à-vis North Korea's nuclear weapon programs than on regional economic cooperation.

**Division of Roles between the United States and Japan**

As the United States as a military superpower seeks a global partnership with Japan and as Japan as an economic superpower seeks to achieve an equal partnership with the United States, these two powers have little choice but to divide their roles in such a way that the United States can act as a "security guarantor of last resort" and Japan as a "lender of last resort" in the Asia-Pacific region. This state of partnership has been labeled "bigemony" or "Pax Ameripponica."27 In ensuring security and stability, the United States, as the power least feared among the regional states, is best suited to playing the lead role. U.S. withdrawal from Asia could create a power vacuum that Japan might fill—a situation Japan's Asian neighbors would not welcome.

Those neighbors would, however, welcome Japan's complementing the role of the United States by offering capital, market, and technology. Until 1991 when the exchange rate for the dollar changed, Japan had been the largest donor of overseas development assistance (ODA). Japan has become the biggest foreign investor in Asia with about $8.7 billion, well ahead of the $4.4 billion from the United States in 1991.28 Asia has become the largest market for Japanese exports. From 1986 to 1990 Japan's exports to North America fell from 44 percent to 36 percent of the total while those to Asia jumped to 34 percent from 29 percent.29 Thus, the yen bloc has been slowly being formed.

27Inoguchi, "Asia and the Pacific since 1945."
29Ibid., 33.
From now on, however, Japan should absorb more goods from other Asian countries just as the United States has been doing. It is also necessary for Japan to be more generous in making technologies available to those who badly need them. In this manner Japan can perform constructive roles for public good.

In short, the United States and Japan have no choice but to assume leadership for advancing security, prosperity, and stability during the Pacific Century as it dawns at the fiftieth anniversary of the bombing of Pearl Harbor. As the Spanish explorer Vasco Nuñez de Balboa so named the newly discovered body of water the "pacific" ocean in 1513, one hopes that the Pacific region will remain as peaceful as the Atlantic in the coming century.

CHAE-JIN LEE

Since the end of the Korean War, the tense and adversarial relationship between the Republic of Korea (South Korea) and the Democratic People's Republic of Korea (North Korea) has been intimately linked with the competing interests and policies of four countries—the United States, the Soviet Union, China, and Japan. This dynamic hexagonal linkage includes both continuing and changing characteristics in diplomatic, strategic, and economic areas. At the height of the Cold War, both South Korea and North Korea executed their respective policies in the context of a relatively simple and stable pattern of opposing military and diplomatic coalitions. While the Soviet Union and China concluded mutual defense treaties with North Korea and maintained a hostile attitude toward South Korea, the United States wholeheartedly embraced South Korea as one of its pivotal client-states in the Asian-Pacific region and adopted a rigid policy of military containment, diplomatic isolation, and economic sanctions against North Korea. Even though Japan practiced, to a limited extent, economic transactions and "people's diplomacy" with North Korea, it did not deviate from the U. S.-led containment strategy in the Korean peninsula.

As the Cold War system eroded, however, the United States and South Korea gradually changed their relationship from an essentially unequal and hierarchical dependency to a more mature and interdependent partnership. The United States supported South Korea's attempts to seek an assertive posture in the world community and to normalize its relations with the Soviet Union, China, and East European countries. With the relaxation of conflicts between the two coalitions of nations, however, disagreements within each coalition increased. In spite of the enduring importance of their military ties and diplomatic cooperation, the United States and South Korea entered into some disputes, especially in regard to economic matters. At the same time, the United States cautiously made conditional modifications to its traditional containment and isolation policy toward North Korea. In tandem with the incipient improvement of U. S.—North Korea relations, Japan began to explore the
possibility of establishing diplomatic relations with North Korea and assuming an active role in influencing the rivalry between North and South Korea.

The Korean peninsula and its external environment are in a state of flux and uncertainty. The United States and Japan seem to share a common interest in promoting peace and stability in Korea and in encouraging dialogue and reconciliation between the two Korean governments. Yet they exhibit tactical and procedural divergences in pursuing their objectives in Korea. Hence it is useful to discuss how the United States and Japan have conducted their respective policies toward Seoul and Pyongyang in recent years and how they have influenced the evolving inter-Korean relations.

The United States and South Korea

The United States declares that the most important objectives of its Korea policy are to avoid another Korean war and to support South Korea's security, diplomacy, and prosperity. For these reasons the United States has set up a system of effective military containment against North Korea and has deployed its forces in and around South Korea. Every U.S. president since Dwight Eisenhower has reiterated a public pledge to honor the U.S. treaty commitment for South Korea's security. This pledge is based on the U.S. assumption that North Korea is an irrational, irresponsible, and aggressive Stalinist state and that South Korea is not yet ready to take care of its own defense. In his testimony before the U.S. Senate Committee on Armed Forces in February 1990, Gen. Louis C. Menetrey, Commander of U.S. Forces in Korea, explained:

The long-standing threat to U.S. interests in Northeast Asia is North Korea's unremitting hostility. It remains one of a handful of countries that have been accurately described as heavily armed, poverty-stricken, garrison states. These characteristics, combined with its first generation revolutionary leadership, rigid ideology, and Orwellian control over its citizens, make North Korea unpredictable and highly dangerous. . . . The military balance on the Peninsula, based on known personnel strengths, equipment, and force deployments, continues to favor North Korea.¹

At the 22nd Annual Security Consultative Meeting in November 1990, U.S. secretary of defense Dick Cheney and South Korean minister of national defense Lee Jong Koo agreed "that North Korea poses a serious threat to South Korea by continuing to deploy its forces offensively and that the capability of the North to initiate a surprise attack against the ROK with little or no warning remains high."² Secretary Cheney praised the success of President Roh Tae Woo's northern policy and repeated U.S. support for South Korea's

²See the text in Korea Times, November 17, 1990.
diplomatic initiatives to improve the security environment in Northeast Asia. Cheney and Lee also discussed North Korea’s potential for chemical weapons and deployment of SCUD-type missiles near the demilitarized zone (DMZ). Moreover, the two allies expressed “grave concern” about the possibility of North Korea’s acquisition of nuclear weapons, which would pose a serious threat to the security of South Korea as well as that of the entire East Asian region. While Secretary Cheney assured his South Korean counterpart that the U.S. nuclear umbrella would continue to preserve South Korea’s security, he promised to seek a solution to the problem of North Korea’s nuclear potential.

Meanwhile, in response to the passing of the Cold War and mounting legislative and budgetary pressure, the United States clarified its long-range security policy toward Korea. In “A Strategic Framework for the Asian Pacific Rim: Looking Toward the 21st Century” submitted to the U.S. Congress on April 19, 1990, the United States defined its security objectives in South Korea as (1) deterring North Korean aggression or defeating it if deterrence fails; (2) reducing political and military tensions on the peninsula by encouraging North-South talks and instituting a confidence-building measures (CBM) regime; and (3) transforming U.S. forces on the peninsula from a leading to a supporting role, including some force reductions. In the initial phase (from one to three years) of this new strategic framework, the United States envisioned a force reduction of about 7,000 personnel—2,000 air force personnel and 5,000 ground force personnel. For the second phase (from three to five years), the United States may further reduce its combat forces in South Korea by assessing the North Korean threat, the state of North-South relations, and the improvement of South Korea’s military capabilities. And in the third phase (from five to ten years) fewer U.S. forces are projected to remain in South Korea, which should be ready to take a leading role in its own defense. However, the United States has expressed no intention of modifying or abrogating its mutual security treaty with South Korea. At their meeting in July 1991, U.S. President George Bush told President Roh that “the United States remains today fully committed to protecting the peace and security of [South] Korea—even as [South] Korea assumes a leading role in its own defense.”

Gone are the days when President Park Chung Hee bitterly and noisily opposed Presidents Richard Nixon’s and Jimmy Carter’s plans to withdraw U.S. ground forces from South Korea in the 1970s. The United States and South Korea now enjoy a high degree of policy coordination with respect to a number of security issues. The South Koreans are prepared to bolster their self-reliant security posture, to resume operational control over their armed

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4 See U.S. Department of State, Department of State Dispatch, July 8, 1991, p. 484.
forces, and to head the United Nations Command delegation to the Military Armistice Commission at Panmunjom. They are also willing to bear more of the costs for U.S. forces stationed in South Korea and to underwrite the cost of relocating U.S. military facilities from Seoul.

More importantly, the United States and South Korea agreed to make a concerted effort to prevent North Korea from developing nuclear weapons. In an attempt to dramatize U.S. worries about North Korea’s nuclear weapons program, Secretary Cheney told his South Korean hosts in November 1991 that the United States will suspend the second phase of its military disengagement plan in South Korea until North Korea concludes the full-scope nuclear safeguards agreement with the International Atomic Energy Agency (IAEA) and accepts the IAEA’s thorough inspections.\(^5\) The United States was particularly concerned that North Korea did not favorably reciprocate after President Bush decided to remove all U.S. tactical nuclear weapons from South Korea and President Roh declared that the Korean peninsula would be denuclearized.

Just as the United States continues to be indispensable to South Korean security, both countries have been significantly expanding bilateral economic ties. The United States promoted the recovery of South Korea’s war-torn economy by contributing a total of $14.4 billion in economic and military assistance. The United States is now South Korea’s primary trading partner, absorbing about 30 percent of its total exports. South Korea is the seventh largest trading country for the United States and provides the second largest market for U.S. agricultural products. In 1990 the bilateral trade amounted to about $36 billion.

As a by-product of these close economic relations, many types of trade disputes have developed. In the 1970s, most were focused on the extent to which the United States attempted to protect its domestic industries and to restrict inexpensive imports from South Korea. This protectionist policy coincided with the relative decline of the U.S. economic position in the world and decreasing U.S. competitiveness in specific industries—such as textiles, steel, and electric appliances. When the United States accumulated a substantial deficit in its trade with South Korea in the 1980s, Washington pursued the issue of market access in South Korea, pressuring South Korea to honor foreign intellectual property rights and to accept U.S. service industries, ranging from banking and insurance to advertising, communications, and stock brokerage. A spokesman for the U.S. government argued that “we are not asking for any special favors, but we insist on the opportunity to compete on fair terms.”\(^6\)

Equipped with a set of retaliatory legal weapons, especially Super Section 301 of the Omnibus Trade and Competitiveness Act (1988), the United States

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accelerated its demand that South Korea implement fair trade and import liberalization practices.

The South Koreans argued that their economy, because of their enormous defense budget and the high cost of oil imports, was still fragile. They pointed also to their large foreign debt and to their increasing trade deficit with Japan. They suggested that the United States had singled out South Korea as a scapegoat for its own economic failure and thus precipitated the rising anti-American sentiment in South Korea. In terms of their domestic political calculations, South Korean leaders did not want to give the appearance of submitting to what they considered to be high-handed U.S. pressure tactics or to alienate those who would be adversely affected by premature market-opening measures. In his address to a joint meeting of the U.S. Congress in October 1989, President Roh stated that South Korea was moving vigorously toward “a more open, liberalized and self-regulating economy” and was planning to achieve the same degree of market openness in the next four or five years as is found in the advanced industrialized countries. He emphasized that South Korea needed time to achieve openness in the agricultural market in order to avert political and social dilemmas for South Korean farmers.

When President Bush complained that whereas South Korean workers and companies benefited from America’s open markets, U.S. workers and companies did not have equal access to South Korean markets, President Roh said that “if an apple is picked before it’s ripe, it can be a bit tough and sour. When it’s ripe, however, it’s nice and sweet.” President Bush responded, “We don’t want the ripening to take so long that we’re too old to enjoy the food.” This humorous, but sharp, exchange demonstrated the seriousness of the trade disputes between the two allies. Confronted by America’s coercive as well as persuasive tactics, South Korea was compelled to liberalize its trade policy considerably and to offer import concessions for U.S. products. In her discussions with South Korean officials in November 1991, U.S. trade representative Carla Hills expressed general satisfaction with the implementation of South Korea’s market liberalization measures. However, she asked South Korea to open its markets to U.S. agricultural products and to cooperate with the United States at the Uruguay Round of the General Agreement on Tariffs and Trade. So long as its own critical economic problems—national debt, unbalanced budget, trade deficits—remain unsettled, trade friction between the United States and South Korea is likely to continue.

The United States and North Korea

As soon as the Seoul Olympic Games were successfully completed, the United States made a potentially promising decision to facilitate contacts and

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7 For his text, see Roh Tae Woo, Korea: A Nation Transformed (Elmsford, N.Y.: Pergamon Press, 1990), pp. 11-17.

8 As quoted in Los Angeles Times, October 18, 1989.
exchanges with North Korea. In response to President Roh's policy announce-
ment made on July 7, 1988, in which he called for South Korea's friends and
allies to help draw North Korea out of isolation, the U.S. government
announced on October 31, 1988, that it would adopt the following steps
toward North Korea:

1. Authorize U.S. diplomats to "hold substantive discussions with offici-
cials of the Democratic People's Republic of Korea in neutral set-
ing.s"  
2. Encourage "unofficial, non-governmental visits" from North Korea in
the academic field, as well as in sports, culture, and other areas, so
long as prospective North Korean visitors are eligible under U.S. visa
laws
3. Facilitate the travel of U.S. citizens to North Korea by permitting
travel services for exchanges and group travel on a case-by-case basis
4. Permit commercial exports to North Korea of certain goods that meet
basic human needs (food, clothing, medical supplies, etc.), on a case-
by-case basis

The United States expected that this four-point initiative would increase
"mutual understanding" with North Korea and induce a "positive, constructive
response" from North Korea. As Desaié Anderson, deputy assistant secretary
of state for East Asian and Pacific affairs, indicated at the House Subcommit-
tee on Asian and Pacific Affairs in July 1990, the U.S. decision was also
designed to give "encouragement to those in North Korea who may advocate
more open policies." In the economic area, however, the United States has
refused to lift strict sanctions against North Korea. The Foreign Assets Con-
trol Regulations and the Export Administration Act prohibit almost all com-
mercial and financial transactions with North Korea. U.S. citizens are not
allowed to use credit cards in North Korea or to bring home more than $100
worth of North Korean merchandise for personal use.

As a specific application of its four-point initiative, the United States
agreed with North Korea to hold talks between their political counselors in
Beijing. The Beijing talks began in December 1988 at the International Club,
a neutral Chinese facility. This was a significant opportunity for the two gov-
ernments formally and directly to discuss a wide range of issues. In February
1989 President Bush told his South Korean audience that "we must comple-
ment deterrence with an active diplomacy in search of dialogue with our
adversaries, including North Korea." And Secretary of State James Baker

9See the text in U.S. Department of State, Department of State Bulletin, January 1989, p. 17. For
President Roh's statement on July 7, 1988, see Roh, Korea, pp. 59–61.
10Statement of Desaié Anderson before the Subcommittee on Asian and Pacific Affairs, U.S.
(1989).
stated at the Senate Committee on Foreign Relations in February 1990 that "we are looking for a steady, reciprocal process toward better relations both between North and South Korea and between the United States and North Korea."\(^{12}\)

However, the United States is careful not to heighten North Korea's expectations or to undermine South Korea's unification policy and northern diplomacy. In the Beijing talks the United States has insisted that the DPRK take the following six measures.

1. Adopt positive and tangible steps for improving North-South relations
2. Sign the full-scope nuclear safeguards agreement with the IAEA
3. Account for about 8,200 U.S. soldiers missing in action during the Korean War, and return their remains, if found
4. Accept confidence-building measures, including restraint in the sale of arms abroad
5. Cease its anti-American propaganda
6. Ensure that North Korea does not pursue or support international terrorism.

The U.S. political counselor has made it clear in Beijing that if North Korea accommodates any aspects of these six points, the United States promises to take reciprocal steps favorable to North Korea's requests.

Among other things, the United States, along with South Korea, regarded the nuclear issue as a litmus test to determine whether North Korea is serious about entering into peaceful and constructive relations with Washington and Seoul. Assistant Secretary of State Richard H. Solomon stated: "Pyongyang's continuing refusal to conclude a safeguards agreement quite naturally fuels suspicion about the doubt among North Korea's neighbors about its intentions. These doubts and suspicions can only increase tensions in Northeast Asia and limit Pyongyang's welcome in the international community."\(^{13}\) In the aftermath of the Persian Gulf War, the United States equated the danger of Kim Il Sung's nuclear program with that of Saddam Hussein's nuclear ambitions.

The North Koreans insisted that they had no plans to develop nuclear weapons and that their nuclear facilities were designed exclusively for peaceful use. They demanded that the United States withdraw its nuclear weapons from South Korea, stop nuclear war exercises directed against North Korea, allow IAEA inspections of nuclear facilities in South Korea, and give "legally binding" assurances not to use nuclear weapons against North Korea. Yet the


United States refused to disavow its nuclear umbrella for South Korea, viewing it as an effective deterrent.

After the two Korean governments signed the Agreement for Reconciliation, Nonaggression and Exchanges and Cooperation on December 13, 1991, and the Joint Declaration for a Non-Nuclear Korean Peninsula on December 31, 1991, the United States agreed to suspend the annual Team Spirit joint military exercises with South Korea and to hold a high-level talk with North Korea at the United Nations in January 1992. A few days after this talk, North Korea signed the nuclear safeguards agreement with the IAEA in Vienna. If North Korea fully submits its nuclear programs and facilities to the IAEA's inspections and to an inter-Korean inspection regime, it is conceivable that the United States may initiate a few conciliatory steps—for example, lifting economic sanctions against North Korea, elevating the Beijing talks to the ambassadorial ranks, exchanging liaison offices between Washington and Pyongyang, or discontinuing the Team Spirit exercises altogether. Undoubtedly, the tangible improvement of U.S.–North Korean relations is bound to assist the process of accommodation and cooperation between North and South Korea.

**Japan and South Korea**

Ever since their diplomatic relations were normalized in 1965, Japan has greatly contributed to South Korea's economic development. The initial ten-year Japanese aid package (1966–1975) contained $300 million in grants, $200 million in governmental credits, and $300 million in private commercial loans; and the continuing influx of Japanese funds has brought about a rapid growth of bilateral trade, technical assistance, joint ventures, and licensing agreements. As a result, Japan has challenged the U.S. position as South Korea's foremost capital investor and trading partner. More important, South Korea has emulated the successful Japanese model of accelerated technological innovation and neo-mercantalist industrial policy. Alice H. Amsden suggests that the South Korean economy has grown rapidly because it received the preponderance of its technological assistance from Japan.

Strategically, the Japanese pay keen attention to the inherently unstable and potentially explosive situation on the Korean peninsula. In its annual white paper, the Japanese Defense Agency observed in 1990:

The Korean Peninsula is inseparably related with Japan geographically and historically, hence the maintenance of peace and stability of the Korean Peninsula is of vital importance to the peace and stability of East Asian areas as a

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14 On January 22, 1992, Undersecretary of State for Political Affairs Arnold Kanter had what he called a "cordial, frank, and useful" meeting with Kim Yong Sun (secretary for international affairs of the Korean Workers' Party) at the United Nations. See Korea Herald, January 24, 1992.

whole, including Japan. Today on the Korean Peninsula, military tension has continued to prevail with more than 1.4 million ground forces of the Republic of Korea and North Korea deployed against each other across the demilitarized zone (DMZ). . . . The situation on the Korean Peninsula is still unstable and fluid. 16

Constrained by Article 9 of their Peace Constitution and South Korea’s sensitivity, the Japanese have determined that they can best help stabilize the Korean peninsula by aiding South Korea’s economic development and supporting the U.S. military presence in Korea. As the first Japanese prime minister to make an official state visit to Seoul in the postwar era, Nakasone Yasuhiro shared the view with President Chun Doo Hwan in 1983 that peace and stability on the Korean peninsula are “essential” to Japanese interests. They pledged to strengthen their cooperative relations and to promote peace, stability, and prosperity in their region. Praising Seoul’s defense efforts and unification proposals, Nakasone agreed to provide a substantial amount of new loans ($1.85 billion in Official Development Assistance funds, $1.8 billion from the Export-Import Bank, and $350 million in bank credits) for South Korea’s economic projects. 17

The Nakasone visit was reciprocated by President Chun’s visit to Japan in September 1984. It was the first state visit to Japan ever made by a Korean head of state. At a banquet held in the Imperial Palace, the Japanese emperor stated that “it is indeed regrettable that there was an unfortunate past between us for a period of time in this century and I believe that it should not be repeated.” 18 Although the president was “fully satisfied” with the emperor’s “apology,” many South Koreans contended that the emperor’s ambiguous expression was insincere and thus unacceptable. This contention was indicative of the Korean people’s deep-seated resentment toward earlier Japanese colonialism.

Prime Minister Nakasone offered a more direct apology. He told President Chun that “Japan brought to bear great sufferings upon your country and its people” and that “the government and people of Japan feel a deep regret for this error and and are determined firmly to warn ourselves for the future.” In addition to his desire to open a new chapter in Tokyo-Seoul relations, President Chun sought to reduce the chronic trade imbalance and to facilitate transfer of Japan’s high technology to South Korea. However, he failed to persuade Japan to end the highly controversial policy that requires the 700,000 Korean residents in Japan to be fingerprinted. As far as South Korea’s external affairs

17For Nakasone’s Seoul visit and Japan-South Korean negotiations over loans, see Chong-Sik Lee, Japan and Korea: The Political Dimension (Stanford, Calif.: Hoover Institution Press, 1985), pp. 105–139.
18See the text in Yomiuri Shimbun, September 7, 1984.
were concerned, the Japanese prime minister promised to assist Seoul’s relations with the Soviet Union and China.

Even after this historic high-level exchange, Japan and South Korea continued to encounter difficult problems during the latter half of the 1980s. In an attempt to enhance Tokyo-Seoul cooperation in the post–Cold War era, President Roh Tae Woo paid a three-day state visit to Japan in May 1990. In a carefully worded statement, the Japanese emperor once again expressed his “deepest regrets” over the “sufferings” Koreans experienced during the colonial period. President Roh described the emperor’s apology as “extremely significant” and said that it “moved” him. And Prime Minister Kaifu Toshiki stated his “sincere remorse and honest apologies” for the “unbearable suffering and sorrow” inflicted on the Korean people by Japan.

In his address before the Japanese Diet, President Roh declared that as Korea and Japan approach the twenty-first century, both countries must forge ahead with a forward-looking relationship based on mutual respect and understanding. He called it a “mandate of our time” for Korea and Japan to be partners in developing an Asia-Pacific community. He asked Japan to improve the legal status of all Korean residents in Japan and to address the growing trade imbalance by extending to South Korea the same market-opening measures allowed to the United States and the European Community. In spite of Roh’s passionate plea, Japan was not yet ready to resolve both issues to South Korea’s satisfaction.

When Prime Minister Kaifu visited Seoul in January 1991, he agreed with President Roh on “three principles” for consolidating friendly relations between the two countries: (1) the promotion of exchanges, cooperation, and understanding to realize a genuine partnership; (2) the strengthening of contributions to peace, reconciliation, prosperity, and openness in the Asia-Pacific region; and (3) an increase in constructive roles in the settlement of global issues. The principles were intended to reconcile their respective policies, especially toward North Korea, and to coordinate their approaches toward global and regional issues.

In a memorandum signed by Japanese and South Korean foreign ministers during Kaifu’s Seoul visit, the Japanese government agreed to abolish fingerprinting of Korean residents in Japan by the end of 1992 and to open low-ranking teaching positions to Koreans. The memorandum, which concluded two years of intense negotiations between the two governments, also stipulated that all third- and later-generation Koreans in Japan be automatically

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20 See Roh, Korea, pp. 256–264.
21 See the agreement in Korea Herald, January 11, 1991.
given permanent resident status. Even though the memorandum did not fully incorporate South Korea's requests, it did establish for Korean residents in Japan a set of legal provisions that were deemed tolerable by the South Korean negotiators.

Yet Japan has been unable or unwilling to arrest the growing trade problems with South Korea. From 1980 to 1990 Japan accumulated a surplus of $38 billion in its trade with South Korea. The South Korean deficit jumped from $3.6 billion in 1989 to $5.8 billion in 1990; the figure reached a record $9.4 billion in 1991. The South Koreans claim that their trade deficit is a result of invisible trade barriers in Japanese markets and delays in the transferring of Japanese technology. They also point to Japan's lack of "sincerity" in resolving the trade dispute, which is easily aggravated by the legacy of traditional animosity.

Now that South Korea has emerged as one of Japan's serious economic competitors in some areas, Japan has become reluctant to transfer high technology to South Korea. The Japanese argue that the South Korean government and enterprises must cultivate a local business environment more attractive to Japanese investors and businessmen. They cite the fact that an increasing number of Japanese companies has left South Korea in recent years because of labor strikes, rising wages, and the appreciating value of the South Korean currency. Moreover, they point out that the trade problem is caused in part by the basic structure of South Korean industries, which requires that South Korea import parts, machines, and semiprocessed materials from Japan to assemble into products for export.\(^23\) The leaders of Japan and South Korea face a difficult task as they try to balance the collaborative and competitive aspects of their increasingly complicated economic relations.

**Japan and North Korea**

In connection with President Roh's declaration on July 7, 1988, the Japanese government proposed an intergovernmental dialogue with North Korea, but North Korea flatly rebuffed this diplomatic overture, mainly because it opposed what it called Japan's "two-Koreas plot." The North Koreans accused Japan of harboring "imperialist intentions" in the Korean peninsula, adopting a hostile policy toward North Korea, and forming a "tripartite alliance" with the United States and South Korea. They demanded that Japan apologize to North Korea for its past colonial crimes.\(^24\) On March 30, 1989, Prime Minister Takeshita Noboru expressed his "deep remorse and regret" to all the people in both South and North Korea and hoped to improve Japan's relations with the Democratic People's Republic of Korea.\(^25\) This was the first time that a Japanese head of government publicly identified North Korea by

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\(^24\) For North Korea's positions, for example, see *Nodong Sinmun*, December 16, 1988, and *Minju Choson*, January 13, 1991.
its formal name. Even though North Korea reacted favorably to the Takeshita statement, Tokyo and Pyongyang failed to begin negotiations not only because Takeshita was forced to resign from his position after he was implicated in the Recruit Company scandals, but also because North Korea was stunned by the Tiananmen Square incident in China and by the collapse of the socialist regimes in Eastern Europe during 1989.

A major breakthrough in Japan’s diplomatic stalemate with North Korea took place in September 1990, when Kanemaru Shin, formerly Japan’s deputy prime minister, accepted President Kim’s unexpected proposal to normalize diplomatic relations between the two countries. Kanemaru, a kingpin of the Liberal Democratic party, and Tanabe Makoto, vice-chairman of the Japan Socialist Party, led a delegation of eighty-nine Japanese political figures and government officials to North Korea.\(^{26}\) In their meeting at Myohyangsan, a mountain resort about a hundred miles northeast of Pyongyang, Kanemaru delivered a letter to Kim from Prime Minister Kaifu. Kaifu, writing not as prime minister but as president of the Liberal Democratic party, said that Japan was prepared to offer an official apology and compensation for damages inflicted by Japan during the 1910–1945 period. He also expressed the hope for improving relations between Japan and the Democratic People’s Republic of Korea. Kim in turn praised Japan as an “economic giant that is also becoming a political power” and promised to release two Japanese seamen seized in 1983 as “spies.”

On September 28, 1990, Kanemaru and Tanabe signed an eight-point joint declaration with Kim Yong Sun, secretary for international affairs of the Korean Workers’ Party. They agreed that “there is only one Korea,” but recommended that Japan and North Korea negotiate to establish diplomatic relations “as soon as possible.” They stated: “Japan must officially apologize and compensate the Democratic People’s Republic of Korea for the misfortune and damage inflicted upon the Korean people during 36 years [of colonial rule between 1910 and 1945] and the losses the Korean people suffered in the 45 years of the postwar era.”\(^{27}\) Kanemaru suggested that Japan should provide some compensation to North Korea even before diplomatic relations were established between the two countries. In addition, the three political leaders accepted the idea for “elimination of the threat of nuclear weapons from all regions.” Other recommendations included (1) permission for North Korea to use Japanese satellite communications to expand its links with the rest of the world, (2) opening of a regular and direct air route between Tokyo and

\(^{26}\) For Takeshita’s policy, see Okonogi Masao, *Nihon to Kitachosen* [Japan and North Korea] (Tokyo: PHP Kenkyujo, 1991), pp. 120–121.

\(^{27}\) Los Angeles Times, September 27, 1990.
Pyongyang, and (3) elimination of a ban on travel to North Korea that is stamped on passports issued to Japanese citizens.

The North Koreans reversed their long-standing opposition to Japan's "two-Koreas plot" for a variety of reasons. First, they launched a "southern policy" toward Japan and the United States to counter South Korea's successful northern policy. In particular, they were shocked by the summit meeting held by Soviet President Mikhail Gorbachev and President Roh in San Francisco on June 4, 1990, and by Soviet foreign minister Eduard A. Shevardnadze's notification on September 2, 1990, that the Soviet Union had decided to establish diplomatic relations with South Korea.

Second, in view of their declining economic conditions, the North Koreans desperately needed economic and technological assistance from Japan. China's ability to render economic assistance to North Korea was limited, and the Soviet Union had decided to transform its barter trade system with North Korea to a new method of payment in hard currencies. Third, they attempted to drive a wedge between Japan and South Korea and to weaken Japan's "tripartite alliance" with the United States and South Korea. Fourth, they intended to use their normalized relationship with Japan as an instrument to improve North Korea's relations with the United States. In January 1991, North Korean foreign minister Kim Yong Nam told Japanese negotiators that diplomatic normalization between Japan and North Korea should have a positive effect upon Pyongyang-Washington relations. And President Kim Il Sung hoped that Japan would act as a bridge in improving relations between North Korea and the United States.

The Japanese ostensibly justified their diplomatic approach toward North Korea on the basis of President Roh's expressed desire, but they had a number of other important reasons. First, to promote peace and stability on the Korean peninsula and to protect their own security interests, the Japanese wanted to open and expand their official relations with North Korea and to help reduce any sense of isolation that North Korean leaders might have had. In the process, the Japanese presumably expected to assume an active role in sustaining the balance of power over Korea and to lay the foundation for their participation in North Korea's economic programs.

Second, the Japanese publicly welcomed the diplomatic normalization between the Soviet Union and South Korea, but they were concerned about the manner in which this diplomatic development was consummated and the possible effects that it might have upon Japan's relations with the Soviet Union. They were particularly unhappy that during his visit to Tokyo, President Roh did not inform Prime Minister Kaifu of the summit meeting with

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Gorbachev held only ten days later. Moreover, the Japanese approached North Korea to counterbalance the Soviet Union's ascendancy in South Korea and to prevent the Soviet Union from using the "South Korean card" at a time when Japan was unable to settle its northern territorial dispute with the Soviet Union.

Third, the Japanese did not wish to lag behind the United States in dealing with North Korea, for they still remembered the painful consequences of the "Nixon shock" regarding China. Since the United States had already begun the Beijing talks with North Korea, the Japanese felt free to make progress in their relations with the DPRK.

As soon as the joint declaration was issued in Pyongyang, both the United States and South Korea cautiously welcomed Japan's efforts to de-isolate North Korea but pointedly requested that the Japanese government act "prudently" in its forthcoming negotiations with North Korea and insist on North Korea's acceptance of the nuclear safeguards agreement with the IAEA. The South Koreans were especially afraid that if Japan were to precipitously agree to normalize diplomatic relations and to extend substantial economic assistance to North Korea, Kim Il Sung might have no incentive for improving inter-Korean relations. Hence the South Korean government spelled out the "five principles" to guide Japan's diplomatic negotiations with North Korea:

1. Seoul and Tokyo should have close consultations in advance.
2. Japan should consider "meaningful" progress in inter-Korean dialogue.
3. Japan should not offer financial compensation to North Korea until their relations become fully normalized, and this money should not be used to build up the North's military power.
4. North Korea should be encouraged to come out of its isolation and pursue reforms.
5. Japan should urge Pyongyang to sign the agreement for international inspection of its nuclear facilities.\[30\]

The United States was fully supportive of South Korea's "five principles." At his meeting with President Roh in Seoul on January 9, 1991, Prime Minister Kaifu emphasized the importance of maintaining "close contacts" with South Korea and promised to honor the "five principles" in Japan's negotiations with North Korea.\[31\] He also explained that the Japanese government was not necessarily bound by the 1990 joint declaration signed by Kanemaru, Tanabe, and Kim.

Soon after Kaifu's Seoul visit, government representatives of Japan and North Korea held the first round of full-dress normalization talks in Pyongyang on January 30–31, 1991. The two sides articulated their divergent positions on several major issues. First, Chon In Chol, North Korea's vice-

\[31\]For the text of Kaifu's speech, see Korea Herald, January 10, 1991.
minister of foreign affairs, argued that the Japanese-Korean Annexation Treaty (1910) and all other subsequent bilateral treaties and agreements were illegal and that Korea was in a state of war with Japan during the Second World War. He demanded that Japan should provide "war reparations" and settle "property claims" related to the period of Japan’s colonial rule over Korea and offer proper compensation for the damages and losses North Korea suffered throughout the postwar period. He contended that Japan was partially responsible for the division of Korea. He also stated that Japan had allowed the United States to use bases in Japan to attack North Korea during the Korean War and had carried out a hostile policy toward North Korea.

In response, Japanese ambassador Nakahira Noboru stated that Japan was not at war with Korea during the Second World War and that Japan had no legal obligation to offer North Korea either war reparations for the Second World War or compensation for the losses and damages allegedly incurred in the postwar era. However, Nakahira indicated Japan’s willingness to settle property claims made by North Korea and to provide economic cooperation funds. He clarified Japan’s commitment to uphold friendly relations with South Korea in accordance with the Japan–South Korea Basic Treaty (1965) and hoped that the prime ministers’ meetings between North and South Korea would reduce tensions and result in the peaceful unification of Korea.

Second, Nakahira asked North Korea to conclude the nuclear safeguards agreement with the IAEA because nuclear proliferation in Korea would threaten Japan’s security interests. Chon said that the nuclear issue was irrelevant to diplomatic normalization between Pyongyang and Tokyo and suggested that Japan should urge the United States to withdraw its nuclear weapons from South Korea and to accept the North Korean proposal for establishing a nuclear-free zone in Korea. Third, Chon requested that Japan end a hostile policy toward the pro-Pyongyang General Federation of Korean Residents in Japan (Chosoren) and ameliorate the legal status of Korean residents in Japan, especially those with North Korean passports. Nakahira responded that Japan deals with the Chosoren according to Japanese laws and that Japan would consider the possibility of upgrading the legal status of pro-Pyongyang Korean residents to the same level as that of pro-Seoul Korean residents in Japan. Fourth, Nakahira asked North Korea to give humanitarian consideration to those Japanese women married to North Korean citizens who would like to visit Japan. (There are about 6,000 Japanese wives living in North Korea.) Chon maintained that Japanese wives enjoy all the rights and duties of North Korean citizens and that as normalization talks between Japan and North Korea progressed, they would be allowed to exchange communications and visits with their relatives in Japan.

As the delegates of Japan and North Korea continued their irregular rounds of normalization talks throughout 1991, they raised other issues for discussion, including the exact territorial boundaries and jurisdiction of North Korea, the simultaneous admissions of both Koreas to the United Nations, the
repayment of outstanding North Korean debts (about 80 billion yen) owed to Japan, the status of Japanese hijackers living in North Korea, and the condition of a Japanese woman (Li Un Hye) allegedly kidnapped by North Korea. Yet the most important stumbling block to Tokyo-Pyongyang negotiations remained North Korea's nuclear program. In view of Seoul's and Washington's pressure and because of a strong antinuclear sentiment in Japan, the Japanese government decided that the satisfactory resolution of North Korea's nuclear issue was a necessary precondition to diplomatic normalization between the two countries. The Japanese leaders assured their South Korean counterparts that Japan will refuse to establish diplomatic relations with North Korea until North Korea not only signs the nuclear safeguards agreement, but also fulfills the IAEA's full-scope inspections. They also insisted that North Korea should accept a bilateral nuclear inspection regime with South Korea. Another equally difficult issue is the nature and amount of Japan's economic assistance to North Korea. While the Japanese government is reportedly prepared to offer a package of property settlements and economic cooperation funds worth about $2 billion—the estimated current value of the $500 million aid Japan had committed to South Korea at the time of Tokyo-Seoul diplomatic normalization in 1965—North Korea is expected to request as much as $10 billion. The two sides may encounter tough negotiations to reach a compromise on economic issues. It remains to be seen whether Japan can normalize its diplomatic and economic relations with North Korea while continuing to preserve the established framework of Tokyo-Seoul cooperation.

Conclusion

For the past several years U.S. and Japanese policies toward Korea have undergone a potentially significant structural change. The United States has effectively supported South Korea's assertive worldwide diplomacy and military modernization and has charted a new framework for a mutually beneficial partnership between the two close allies. Even though the United States continues to have acrimonious trade disputes with South Korea, both countries have consciously managed to mitigate their differences and to seek a common strategy for protecting their long-range economic interests in the Asia-Pacific region. In cooperation with South Korea, the United States has initiated a few concrete steps to relax its traditional policy of containment and isolation toward North Korea. The Beijing talks have not produced any tangible results so far; but it is remarkable that despite their profound hostilities and mistrusts,
the governments of the United States and North Korea are willing to discuss a number of serious bilateral as well as multilateral issues.

Compared with the United States, Japan has been more forthcoming in its attempt to normalize diplomatic and economic relations with North Korea. Yet the Japanese have fully recognized the importance of maintaining good-neighbor relations with South Korea and of minimizing the political consequences of economic conflicts. They have also tried to eradicate the lingering suspicions that many Koreans, irrespective of their ideological and political orientations, still have about the motivations behind Japan's Korea policy and about the possible revival of Japan's military power in Northeast Asia. While Japan's economic role is expected to loom larger both in South Korea and in North Korea, the United States has emerged as the only strategic superpower capable of influencing the military situation on the Korean peninsula.

In order to conceptualize the short-term prospects of U.S. and Japanese policies toward Korea, one can envision a number of possible scenarios or options, including (1) the status quo, (2) the Vietnam model, (3) the German model, and (4) the two-Koreas model. In the status quo scenario the United States would continue to maintain a fundamentally one-sided pro-Seoul posture and would refuse to significantly change its traditional policy of military containment, diplomatic nonrecognition, and trade embargo against Pyongyang. Even if the United States sustains the low-level Beijing talks and permits a limited scope of cultural and economic exchanges with North Korea, there is no immediate likelihood of diplomatic rapprochement between the two countries. According to this scenario, Japan would continue its normalization talks with North Korea but would not move ahead against the expressed wishes of the United States and South Korea. This scenario would likely intensify the rivalry between Seoul and Pyongyang and would not eliminate the "last glacier" of the Cold War confrontations in the Korean peninsula.

The United States and Japan are equally opposed to the Vietnam-type scenario in Korea. In this model, guided by its global and regional security calculations, the United States would employ a variety of direct and indirect means to prevent North Korea's armed conquest of South Korea. Even if the United States would carry out a phased reduction of its military forces deployed in South Korea as prescribed in "A Strategic Framework for the Asian Pacific Rim," the United States would probably uphold its treaty obligations for South Korean defense and preserve its nuclear umbrella over South Korea. After the Persian Gulf War, the United States is determined more than ever before to repel aggression against its South Korean ally and to protect its vital interests by military means. In the event of a Vietnam-type scenario developing in Korea, Japan would likely encounter a serious policy dilemma and face an agonizing decision concerning its outright rearmament with a possible independent nuclear capability. However, the applicability of the Vietnam model to Korea remains questionable in part because South Korea enjoys eco-
nomic and technological superiority over North Korea and has approximate parity of military strength vis-à-vis North Korea. Moreover, North Korea’s two allies—China and, to a lesser extent, the Russian federation—are expected to exercise a moderating influence over North Korea’s possible military ambitions. And the success of South Korea’s northern policy has weakened the political basis of North Korea’s alliance system.

The German model stipulates that South Korea quickly absorb North Korea by peaceful means and that the major foreign powers endorse this unidirectional territorial integration. While South Korea officially disavows this model, partly because of disruptive economic consequences, North Korea profusely accuses the United States and South Korea of engaging in a conspiracy to impose the German model on Korea. The North Koreans argue that, unlike East Germany and other East European countries, North Korea has a unique socialist system and ideological unity under Kim Il Sung’s wise leadership. Yet their apprehension about the German-type solution in Korea appears to be genuine and pervasive.

The U.S. government seems to be somewhat ambivalent and divided about the desirability and feasibility of applying the German model to Korea. While the “moderate forces” in the United States tend to agree with the South Korean government’s position that Korea’s reunification should be achieved by a gradual and cumulative method, the “hard-line forces” contend that the prompt collapse of the North Korean regime would solve all major problems, particularly the sensitive question of North Korea’s nuclear weapons program. It is widely believed that despite their public pronouncements, the Japanese are less than enthusiastic about the prospect of Korea’s reunification because they presume that the government of a unified Korea could pose a long-term threat to Japan’s national security and economic interests, aggravate the dispute over the Tokto (Takeshima) Islands, or manipulate the 700,000 Korean residents in Japan. If, however, the two Korean governments agree to move toward peaceful unification, neither the United States nor Japan is expected to veto or sabotage that process.

Meanwhile, as President Roh, in effect, suggested on July 7, 1988, it is possible that the United States and Japan may carry out a de facto or de jure two-Koreas policy in the foreseeable future. According to this scenario, the United States would continue its friendly and cooperative policy toward South Korea, while normalizing its diplomatic and economic relations with North Korea. The United States would not necessarily be required to abrogate its mutual security treaty with South Korea or to terminate its military roles in Korea. Needless to say, the two-Koreas option is most attractive to Japan because that option can satisfy its diplomatic, economic, and security objectives in Northeast Asia. Since China and Russia have established diplomatic relations with South Korea, the four major powers will be able to achieve

35For example, see Nodong Sinmun, October 28, 1990.
“cross-recognitions” of Seoul and Pyongyang and to maintain a quadrilateral balance of power and interests over the Korean peninsula. In this scenario the United States and Japan would promote the proposal for holding a six-party conference on Korea, as well as endorse the concept for extending the successful European experience of confidence-building measures to Korea.\(^{36}\)

The United States and/or Japan might also serve as mediator or broker between Seoul and Pyongyang. Viewed from the perspective of the closely intertwined hexagonal linkage in the Korean peninsula, the two-Koreas model appears to be the most realistic scenario that the United States and Japan can adopt as a transitional step toward Korea’s gradual and peaceful unification. This scenario is likely to foster the international environment that can support and facilitate the Agreement for Reconciliation, Nonaggression and Exchanges and Cooperation and the Joint Declaration for a Non-Nuclear Korean Peninsula signed by the two Korean governments in December 1991.

This chapter analyzes Moscow's policy toward Pyongyang under the leadership of Mikhail Gorbachev. In addition to the analysis of the policy itself, it pays particular attention to the broader context surrounding the policy, that is, Moscow's approach toward the entire Korean peninsula. An assumption behind this reasoning is that Moscow's policy changes toward Pyongyang are closely related to its emerging policies toward Seoul.

The various speculations suggested by specialists regarding Moscow's future policy balance toward two Koreas can be categorized into three propositions:

1. The Soviet leadership have shifted policy priorities from North to South Korea. They are ready to accept losing the North in the course of cultivating a new cooperative relationship with the South.

2. The Soviet leadership are largely divided on the matter. Gorbachev and his reformist policy makers are generally in agreement on giving the first priority to normalizing relations with the South, even at the cost of the North. The conservatives, however, belonging largely to national security sectors such as the armed forces and the KGB, still defend the importance of maintaining normal ties with the North.

3. The Soviet government is aiming ultimately at an "equal distance policy" toward the North and the South. Two considerations are behind this speculation: (1) With diplomatic normalization with the South in September 1990, Moscow has become the only major power that has official ties with both Koreas; this situation may provide Moscow with unique political influence with regard to Korean affairs. The "equal distance policy" is a natural choice, were Moscow to maintain such a privileged position; and (2) the Soviet government still cannot afford to lose the North to China.

Through the analysis of the Gorbachev regime's North Korea policies, this chapter tries to determine which of the three speculations best approximates the reality of the Soviets' calculations.
“New Thinking” and the Korean Peninsula

In accordance with his much publicized new foreign policy concept, called “new thinking” (novoe myshlenie), Gorbachev in 1986 initiated a new policy line toward Northeast Asia. Identifying the USSR as an Asian-Pacific country with legitimate interest in the region’s affairs, the policy suggested building a new, more cooperative regional order on the basis of a system of collective security and economic interdependence. As an initial step, the Soviet Union probed expanded relationships with South Korea (Republic of Korea; ROK) along with substantial rapprochement with China. Its approach toward South Korea was also a part of Moscow’s changed Third World policy line since Gorbachev, which has shifted focus from socialist or socialist-oriented Third World states to capitalist, more developed countries. That meant, in short, that the Soviet Union would no longer be restrained by ideology in dealing with a capitalist newly industrializing country (NIC) like South Korea. Instead, it would pursue a pragmatic policy to maximize its national interests and expand ties with South Korea. The move developed as far as holding the first summit meeting with South Korean president Roh Tae Woo in June 1990 and establishing diplomatic relations with South Korea in September of the year. Along with the development in the official relationship, rapid progress was also registered in economic interactions between the two states. Among other things, trade volume increased from US$300 million in 1986 to $600 million in 1989 and reached $1.2 billion by the end of 1991.

As said earlier, Moscow’s active cultivation of South Korea is a reflection of its changed Third World policy in which it shows strong interest in improving relations with capitalist, moderately developed countries of the Third World that have the potential of becoming significant economic partners. Countries like Brazil, Argentina, India, the ASEAN (Association of Southeast Asian Nations) countries, Saudi Arabia and sheikdoms in the Persian Gulf, and even Israel are actively courted by the Soviets. In contrast Moscow’s traditional socialist allies of the Third World, such as Vietnam, Angola, Mozambique, Ethiopia, Afghanistan, and so forth were noticeably sidelined with much less political and material support from Moscow than before. This redirection was a result of the Gorbachev leadership’s negative review of the past performance of Soviet Third World policy maintained under the Brezhnev government since the mid-1970s. During that period the Soviets actively supported socialist governments or leftist revolutionary forces in the Third World and were quite successful in expanding the number of pro-Soviet allies in the Third World regions by the end of the 1970s or the early 1980s. The euphoria,

1The 1986 beginning is based on Gorbachev’s address in Vladivostok in June of that year in which he expressed Soviet readiness to improve relations with East Asian countries, implicitly including South Korea and China. A more detailed program was announced in his Krasnoyarsk address in August 1988 concerning measures for security and economic cooperation among regional countries.
however, did not last long. Several factors caused the Soviets to reconsider their Third World policy centered on the support of socialist forces. Among others, those socialist allies, which happened to be the poorest countries of the world, failed to make any noticeable progress in economic development and political stabilization in spite of enormous material assistance from Moscow. They were draining the Soviet economy without any realistic hope of developing into viable political-economic systems. When the Soviet economy began to suffer from falling economic growth rates in the mid-1980s, the cost of these overseas commitments became burdensome. In addition, the expansion of Soviet influence in the Third World caused a sharp deterioration in Soviet-American relations, which in turn triggered an escalation of the arms race and the demise of détente.2

Upon reevaluation of the past performance of their Soviet Third World policy, the Gorbachev leadership undertook to redirect it. Moscow not only ceased to support national liberation struggles conducted by leftist forces but also greatly reduced its assistance to socialist developing allies. Instead, the leadership began to depoliticize most issues relating to the Third World and pay new attention to “the young states which are travelling the capitalist road” and with which “real grounds of co-operation” exist.3 In this context, the Soviets began to approach the aforementioned nonsocialist group of countries, which included South Korea.

North Korea’s Status as a Soviet Ally

Official Soviet documents used to classify Third World allies into roughly four categories on the basis of their levels of socialist construction. First and second were the countries the Soviet Union treated as “socialist” states with relatively long histories of socialist development under the guidance of socialist parties. The first category comprised those with membership in the Council for Mutual Economic Assistance (CMEA), the second, those without. To the former class belonged Mongolia, Cuba, and Vietnam. North Korea, Kampuchea, and Laos were in the second class. Third were the countries the Soviet Union called “socialist-oriented” (meaning, not yet socialist) states. They are firmly committed to socialist principles with relatively young Marxist-Leninist vanguard parties, large state sectors, and nationalization of foreign capital. Afghanistan, Nicaragua, Mozambique, South Yemen, Ethiopia, and Angola belonged to this category. The fourth category comprised anti-Western countries with which Moscow maintained close and friendly relations whose ruling


elites, however, were not committed Marxists and which did not establish Marxist-Leninist vanguard parties, either. Therefore, they did not aspire to build communist states. Some of these countries were too underdeveloped to adopt Marxism. Still, however, because of their anti-Western orientation and/or geostrategic importance, Moscow maintained close ties with them. Countries like Madagascar, Benin, Syria, Algeria, Libya, Tanzania, and Guinea belonged to this category.

Being a second-category ally in this classification (i.e., a socialist ally without CMEA membership), North Korea (Democratic People’s Republic of Korea; DPRK) used to enjoy considerable status as one of Moscow’s highly important allies. North Korea was the only Third World country liberated by the Soviet Red Army after World War II, and its leaders were trained and placed in power by the Soviets themselves from the beginning. Its importance was further enhanced during the Cold War period by its geostrategic role as the spearhead of the communist bloc directly confronting the U.S. containment network in East Asia. Moreover, because of its proximity to China, North Korea assumed extra value for the Soviets in the course of the Sino-Soviet dispute. It is true, however, that despite all those affinities, Soviet–North Korean relations were not always cordial. Two things are relatively clear nonetheless: Moscow never belittled Pyongyang’s significance as an ally, and Pyongyang could hardly envisage a fundamental transformation of its relationship with Moscow.

The clearest proof of Pyongyang’s prominence as a Soviet ally was the amount of material assistance Moscow used to provide to North Korea since World War II. In brief, the Soviet Union shouldered almost by itself the task of the North Korean economic buildup since the latter’s liberation in 1945. Not too much statistical data are available as to Soviet economic assistance to North Korea, but that revealed indeed confirms the extraordinary degree of Soviet contribution to the North Korean economy. For instance, in the area of credit extension, North Korea received a total of 3 billion rubles for the period from 1949 to 1990. (Of that, North Korea has paid back less than 2.2 billion rubles.) Some seventy major industrial projects have been built in North Korea with the Soviet Union’s assistance, which involved an extra 1.3 billion rubles and more than 3,000 blueprints. Those industrial facilities constitute the backbone of the North Korean economy. In total, they produce more than 25 percent of the country’s industrial output: 63 percent of electricity, 50 percent of oil products and coal, more than 40 percent of steel and steel products, 100 percent of aluminum products, and 20 percent of cloth. As the result, the Soviet Union remains by far the DPRK’s biggest trade partner to this day, accounting for 40–50 percent of North Korea’s foreign trade turnover.

4Most of these data were revealed by the Soviets in March 1989 on the occasion of the fortieth anniversary of the Soviet–North Korean treaty of economic and cultural cooperation. Pravda, March 12, 1989; Pravda, March 17, 1989, p. 6 (2d ed.).
In addition to the generous material assistance, the Soviet Union also played the role of patron on behalf of North Korea in international arenas. The Soviets have invariably supported and defended North Korean positions and policies whenever and wherever necessary. Most conspicuously, on issues relating to the unification of the Korean peninsula and its security, Moscow’s backing of North Korean positions, in opposition to South Korean ones, bordered on being automatic and mechanical. The Soviet leadership praised almost any North Korean policies and offers as constructive and peace-oriented, while it chorused with Pyongyang in criticizing South Korea and the United States for “perpetuating” the division and raising military tension in the peninsula. In particular, North Korea’s calls for “the confederal unification plan,” withdrawal of U.S. forces from the South, establishment of the peninsula as a nuclear-free zone, and denunciation of the Team Spirit exercises received unqualified and steadfast support from Moscow.

The Soviets’ Changing Perceptions of North Korea

Changes in Moscow’s North Korean policy were gradual, accompanied by pressure from nongovernmental sectors. Soviet journalists and academicians played leading roles in forming a mood in the Soviet society for governmental policy changes under the new freedom of glasnost.

In 1987 a Soviet press report made an unprecedented negative appraisal of the North Korean economic system. The Pravda report of April 14, while commending the North Korean people’s tremendous efforts for economic development, pointed out problems in the North Korean economy.

A great deal has been done. Still more will have to be done. There are many unsolved economic problems. This is stated in party documents and press articles. They point in particular to the need to expand the raw material base by developing the mining industry on a preferential basis. Power engineering is also failing to adequately meet the national economy’s needs, even though it is developing at a rapid rate. The question of further improving the work of transportation is acute. The intensification of agricultural production requires considerable effort.

This was followed by similar reports in various Soviet news media. Another Pravda report disclosed a serious grain problem in North Korea. Izvestiya printed a cynical article about the North Korean political system. The article denounced the North Korean practice of monumentalism, which it closely related to Kim Il Sung’s personality cult, as a Stalinist practice. The article took a sarcastic tone regarding North Korea’s ineffective economic

system, chronic food shortages, and totalitarian control of citizens’ lives.\textsuperscript{7} In March 1988, \textit{Ekonomicheskaya Gazeta} carried an editorial by V. Moiseyev, an economist, in which he depicted the USSR-DPRK economic cooperation system as unproductive and disappointing and called for its fundamental revision.\textsuperscript{8} Signs of growing discomfort in their bilateral relations also began to surface on the North Korean side. Chong Song-nam, DPRK minister of External Economic Affairs, indicated dissatisfaction on the state of their economic relations and called for rapid restructuring of the whole range of trade, economic, scientific, and technical ties between the USSR and the DPRK.\textsuperscript{9} The Soviet Union’s replacement of its ambassador to Pyongyang in November 1987 with no explanation could also be interpreted as a symptom of such a trend. The general deterioration in their relations appeared more explicit at the time of the visit to Moscow of Kim Yong-nam, the DPRK foreign minister. In spite of the official expression of general satisfaction at the development of cooperation between the two countries, their talks were reported as having taken place in a “businesslike, comradely” atmosphere, which are widely regarded as diplomatic code words for a less than cordial or conflictual atmosphere. Moreover, throughout the visit, the Soviet side did not articulate its regular support for North Korea’s call for the withdrawal of U.S. troops and nuclear weapons from South Korea. The absence seemed conspicuous to outside watchers, given the fact that the Soviets had never failed to include such support in their statements supporting North Korea.\textsuperscript{10}

Signs of growing conflict became more apparent after the summer of 1988 as the Soviet-South Korean rapprochement began in the wake of Gorbachev’s Krasnoyarsk address and Soviet participation in the Seoul Olympic Games. A symbolic event in this context was E. A. Shevardnadze’s visit to Pyongyang in December 1988. Throughout his conversations with North Korean leaders, it seemed, there was no satisfactory agreement on economic cooperation. The following sentences in a Soviet report are noteworthy:

The issues of bilateral relations between the USSR and the DPRK were examined concretely. . . . Eduard Shevardnadze and Kim Il-Sung agreed that the \textit{frank, comradely and businesslike} discussion of all issues . . . will help to continue building fraternal Soviet-[North] Korean relations on a firm foundation. \textsuperscript{[emphasis added]}\textsuperscript{11}

In the report their pronouncements of “complete unity of views” were largely limited to security issues of Northeast Asia and the Korean peninsula. Shevardnadze did voice Moscow’s traditional support for North Korea’s unification policies; however, he also advised North Korean leaders to take a

\textsuperscript{8}\textit{Ekonomicheskaya Gazeta}, no. 11, March 10, 1988, p. 23, as cited in FBIS-SOV-88-057, p. 15.
\textsuperscript{11}\textit{Tass}, December 23, 1988, as cited in FBIS-SOV-88-248, p. 11.
realistic, nondogmatic approach to the unification matter. It appeared that he
tried hard to convince the North Korean leadership on that score.

We are convinced that a constructive approach to the settlement in the Korean
peninsula on the basis of soberly taking into account the existing realities . . .
creates new opportunities for insuring peace and stability. [emphasis added]¹²

After Shevardnadze's December 1988 visit to Pyongyang, an interesting
phenomenon emerged in the Soviet mass media. On one hand, there were con-
spicuously fewer reports on North Korea. On the other hand, those published
or broadcast were more straightforwardly critical of North Korea. Soviet cor-
respondents stationed in Pyongyang at the time attributed the reduction in the
number of Soviet press reports on North Korea to the growing conflict
between Moscow and Pyongyang and the latter's restriction on Soviet journal-
ists' activities in North Korea. According to Alexksandr Levin, a Tass
reporter, the North Korean authorities were annoyed at Soviet reports that crit-
icized North Korea and revealed so-far hidden facts that might well shake the
legitimacy of the North Korean leadership.¹³ Thus, it is understandable that
their reports had an even more acrimonious tone afterward.

Some articles called for fundamental revision in dealing with Korean
affairs, emphasizing more factual and truthful reports free from the political
considerations or ideological imperatives that had colored such reports in the
past. For example, an article in New Times criticized Soviet journalists for
accepting only North Korean versions of Korean affairs to avoid irritating
North Korean leadership. As an example, its author, Leonid Mlechin, referred
to the Soviet journalists' distorted reports on the Korean War. He argued that
time was now ripe to take a more balanced and unbiased attitude in reporting
Korean affairs. He even warned the Soviet government to stop the former
practice of unconditionally supporting the North Korean regime and not to
repeat the same mistake the Soviet government had made with Romania:

To lessen the possible shock, journalists and historians should forget about
considerations of political expediency. What took place, and is taking place, in
the Korean peninsula should be described honestly, and diplomats should not
feel hurt: unpleasant explanations which Moscow may have to give to
Pyongyang today will make it easier to establish friendly ties with a united
Korea tomorrow . . . . Moscow is doing its best not to irritate Pyongyang. For
this reason national papers and magazines give a rosy picture of the situation
in North Korea . . . . The current anti-Soviet sentiments in Romania can be
interpreted as a reaction to Moscow's long silence and to the decoration of
Ceausescu with the Order of Lenin on several occasions.¹⁴

¹²Ibid., p. 12.
¹³Moscow International Service (in Korean), april 1990, as cited in FBIS-SOV-90-084, pp. 24–
25. The dispute between North Korean authorities and Soviet journalists led finally to the closing
of Pyongyang offices of three major Soviet presses—Novosti news agency, Komsomolskaya
Pravda, and Izvestiya—in December 1990.
Many other articles voiced specific criticisms of the North Korean system itself, most commonly its ineffective economic systems and disappointing performance as a Soviet economic partner. The following is typical in that regard:

In the aspects of trade and economic relations between the two countries, some problems occurred because the Korean side chronically broke the agreement in supplying goods to the Soviet Union. This is increasing... in the bilateral payment relations, and this is becoming a negative factor in [economic relations] for the Soviet enterprises, which use such goods as raw materials.\(^{15}\)

Others were more sweeping in criticizing Pyongyang as an economic partner and even called for a fundamental change in economic relations with Pyongyang.

The Soviet-DPRK cultural exchange program was also criticized. On the forty-first anniversary of the signing of the agreement for economic and cultural cooperation between the Soviet Union and the DPRK, North Korea was denounced for not fulfilling its agreement duties.\(^{16}\)

North Korea’s unification policies and Moscow’s hitherto blind support of them also became subjects of the Soviet journalists’ criticism. For instance, regarding the DPRK’s consistent and uncompromising demand to begin with more complicated questions such as reducing the armed forces of the North and the South, withdrawing the U.S. troops and nuclear weapons from South Korea, and the like, a radio commentator said:

If one is a realist, he must admit that an immediate settlement of such issues is impossible after the bitter confrontation has continued for many decades. Accordingly, next comes the natural question of whether it wouldn’t be better to begin with small steps, to proceed from small matters to big matters, and to proceed from simple things to complicated things.\(^{17}\)

This argument was a virtual endorsement of the South Korean approach to the unification issue.

Human rights abuses in the DPRK were also noted. *Novoe Vremya* published an article signed by its editor, Leonid Muretin. It quoted an Amnesty International report that more than a hundred thousand people, including political prisoners, were being detained in concentration camps in North Korea. The article argued that there were no longer commonalities between the Soviet Union and the DPRK. Noting that the alliance relationship was

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\(^{15}\) Moscow International Service (in Korean), March 17, 1990, as cited in FBIS-SOV-90-076, pp. 11–12.  
\(^{16}\) Moscow International Service (in Korean), March 15, 1990, as cited in FBIS-SOV-90-053, p. 20.  
\(^{17}\) Moscow International Service (in Korean), April 28, 1990, as cited in FBIS-SOV-90-084, pp. 23–24.
limited to a military strategy that only contributed to maintaining the Cold War structure in the Far East, the article called for a fundamental change of their military alliance relationship as well.18

Together with the journalists’ call for a general revision of Moscow’s North Korean policy, academicians’ voices also contributed to forming a new perception of North Korea in Soviet society on one hand and building pressure on the Soviet leadership on the other. Of academicians, historians and economists were most vocal in this regard. Some historians divulged hitherto secret historical facts about North Korea. Georgiy Plotnikov, for example, revealed critical pieces of historical facts contradicting North Korean official positions. For instance, while North Korean authorities had long argued that Korea had been liberated from Japanese occupation largely thanks to Kim Il Sung’s heroic waging of anti-Japanese warfare, Plotnikov testified that it was the Soviet Red Army, not Kim’s guerrilla band, that conducted the main assaults against the Japanese army in the northeast of the Korean peninsula and decisively influenced its surrender. Furthermore, he explicitly criticized the purposeful distortion of the historical fact by the North Korean government, which exaggerated out of proportion Kim’s role and ignored the enormous contribution and sacrifice of the Soviets.19

Another major historical item reinterpreted by some Soviet scholars to the same effect was the question of the origin of the Korean War. For instance, Mikhail Smirnov, describing the historical background of the 1950–53 war, took a revisionist view that the North Korean side started the war and criticized the Soviet government’s erstwhile distortion of the event to appease Pyongyang:

The Pyongyang side prepared this war. Over this issue, the study of history in the Soviet Union has had the following view: that is, approximately 10 divisions of the South Korean armed forces launched a surprise attack across the 39th parallel against the North Korean territory early on the morning of 25 June 1950. I think that all of this is contrary to fact. I think the fact that we have persistently maintained this view for many years can only be explained by the fact that ideology has played an excessive role in the overall aspects of the study of history and, in particular, Soviet–[North] Korean relations.20

A number of economists joined with historians in providing new perspectives on North Korea. A most notable case was a call for a fundamental restructuring of Soviet economic relations with North Korea. N. Bahanova made the following case, for instance:

Let us be frank and say that Korean contracting parties have not always been meticulous in fulfilling their obligations. They sometimes fail to supply the USSR with commodities that can be sold in the West for freely convertible currency. Moreover, its debts are generally deferred or simply written off. The structure of technical aid was not noted for its rationality: Almost 60 percent of the funds were spent on power engineering and ferrous metallurgy, while only 10 percent was spent on machine building and 3 percent on light industry. Thus, USSR-DPRK cooperation had little to do with the implementation of the main goal of socialism—increasing the working people’s standard of living. People in Pyongyang have never, incidentally, been totally satisfied with Soviet aid. There have been complaints of Soviet attempts to foist “unacceptable experience” on its partner and subject it to political control, complaints of shipments of obsolete and hyperexpensive equipment from the Soviet Union, and complaints of procurements of Korean goods at reduced prices. It is time to move on from technical aid determined by willful decisions from above to creating joint enterprises, involving interested economic organizations from the USSR and the DPRK.

There also were revisionist voices concerning North Korea from international relations specialists. Regarding the unification problem, George F. Kunadze, a section chief of the IMEMO (Institute of World Economy and International Relations) of the Soviet Academy of Sciences, criticized North Korea’s claim that South Korea’s proposal that the North and the South together enter the UN would lead to the permanent division of the Korean peninsula. He further noted that in his view, South Korea is a sovereign nation under international law and that Moscow should refrain from vetoing Seoul’s unilateral admission to the United Nations.

Journalists’ and academicians’ arguments of this sort seemed to contribute to forming a policy environment that facilitated a new policy line by the Gorbachev government with regard to North Korea. Now we turn to governmental policy changes.

Moscow’s New Policy Lines toward North Korea: Changes and Continuities

Changes

At the early stage of the Gorbachev regime, at least until about mid-1987, official relations between the USSR and the DPRK gave no indication of a dispute between the two countries. The two sides exchanged official delegations at various levels as usual. The atmosphere of their meetings appeared friendly, too. For instance, in November 1985 the two countries concluded a new economic assistance pact which included, among other things, Soviet economic and technical help for building nuclear power facilities. At the end

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21Pravda, August 1990, p. 5 (2d ed.).
of 1985 when the North Korean vice-prime minister, Kang Sung-san, visited Moscow, they agreed to increase their 1986–90 trade volume by more than 100 percent over that of the 1981–86 period. The two sides even called the agreement “an epochal occasion of cooperative relations in the economic field.” After Gorbachev’s Vladivostok address in July of 1986, Kim Il Sung visited the Soviet Union in October, the second time in two years. At that time he expressed unequivocal support for Gorbachev’s Vladivostok peace initiatives as well as his perestroika efforts. Kim also stated his confidence in North Korea’s friendly relationship with the Soviet Union in the future:

The Korean people are sincerely pleased with the new revolutionary changes which have recently occurred in the Soviet Union, and express the wish that the fraternal Soviet people... will achieve impressive successes in the future. . . . The relations of friendship and cooperation between the peoples of the two countries, Korea and the Soviet Union, are currently rising to a new level of development... [and] experiencing all-around flourishing in all spheres of politics, the economy, culture, and military matters. . . . Last July Comrade Mikhail Gorbachev, speaking in Vladivostok, devoted serious attention to the development of the situation in the Korean peninsula and its adjoining regions, condemned the U.S. intrigues aimed at building up nuclear arms in South Korea and knocking together a United States–Japan–South Korea military triangle. . . . This is a great inspiration for our people who are struggling for the independent peaceful unification of the motherland.\(^{23}\)

Kim Il Sung’s 1986 Moscow visit seemed to reinforce the two countries’ ties. Following the visit, the two sides held a series of working-level meetings to implement summit agreements. In March 1987, Kim declared that “the relations of friendship and cooperation between the DPRK and the Soviet Union are deepening and developing in all spheres of politics, the economy, and culture.\(^{24}\)

The first noticeable policy reversal was detected in 1987 in one key area of their bilateral relations, Soviet aid to North Korea. A study discovered that Soviet aid to North Korea, which was estimated at US$96 million in 1985, recorded a sharp drop in 1987 to $62 million. In fact, the fall was steeper if the 1987 figure is adjusted on the basis of the 1985 prices and exchange rates—as low as $24 million, a drop of almost 75 percent (see table 1).\(^{25}\)

A brief look at the table indicates one striking thing about the North Korean case. Based on the 1985 rate, Moscow’s total aid given to Third World allies was reduced only slightly between 1985 and 1987. Also, of the major recipients listed in the table, some countries (Mongolia, Vietnam, Kampuchea) received increased amounts of aid; others (Cuba, Afghanistan, Laos) experi-


Table 1
Estimated Soviet Aid to North Korea and Other Third World Allies, 1985–87
($ millions)

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<tbody>
<tr>
<td>North Korea</td>
<td>96</td>
<td>123</td>
<td>62</td>
<td>101</td>
<td>24</td>
</tr>
<tr>
<td>Cuba</td>
<td>655</td>
<td>532</td>
<td>656</td>
<td>383</td>
<td>400</td>
</tr>
<tr>
<td>Mongolia</td>
<td>550</td>
<td>706</td>
<td>804</td>
<td>581</td>
<td>588</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1,056</td>
<td>1,457</td>
<td>1,811</td>
<td>1,217</td>
<td>1,397</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>219</td>
<td>283</td>
<td>200</td>
<td>233</td>
<td>114</td>
</tr>
<tr>
<td>Kampuchea</td>
<td>98</td>
<td>150</td>
<td>161</td>
<td>128</td>
<td>123</td>
</tr>
<tr>
<td>Laos</td>
<td>99</td>
<td>81</td>
<td>110</td>
<td>58</td>
<td>71</td>
</tr>
<tr>
<td><strong>Aid Total</strong></td>
<td>3,664</td>
<td>4,600</td>
<td>4,961</td>
<td>3,767</td>
<td>3,525</td>
</tr>
</tbody>
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*Adjusted volume; 1985 prices and exchange rates
**Total Soviet aid provided to all developing countries.


enced only small reductions. Thus, the North Korean case, which recorded as much as a 75 percent reduction, appears as a conspicuous exception. No public explanation is found about that reduction; Soviet and North Korean sources alike have kept silent about the reason. It could be interpreted in a purely economic sense, an inevitable result of Moscow's own economic difficulties. But this argument is not convincing enough, given such an exceptional drop. Therefore, a noneconomic consideration was probably involved, which could be construed as follows: As a staunch Stalinist system and a country in Northeast Asia, where the Soviet Union now wishes to create a new, cooperative regional order, North Korea was purposefully selected. In other words, by greatly reducing its economic aid, the Soviet Union hoped to prod North Korea to reform its economic operating system and open itself to regional economic interactions rather than rely too much on Moscow's subsidized trade or aid.
In retrospect, this aid reduction of 1987 was a prelude to a new policy. The watershed of this policy can be seen in the first Gorbachev–Roh Tae Woo summit in San Francisco in June 1990, a while after Soviet journalists and academicians had published revisionist reports on North Korea. As the Soviet Union's steady improvement of its relations with South Korea moved toward diplomatic normalization, the Soviet government began to spell out its position toward Pyongyang more distinctly. Thereafter Moscow increased its pressure upon the North Korean government to elicit the latter's reform. The pressure consisted largely of two elements: releasing some Soviet archival material on the past history of the Pyongyang regime, which could contribute to weakening its legitimacy; and changing Soviet trade policy vis-à-vis North Korea.

As mentioned earlier, historians began to publish articles refuting North Korea's official versions of some crucial historical events and thus shaking myths upholding the regime. Although the authors' interpretations did not represent Moscow's official views, the trend nonetheless could be significant in the context of Moscow's new direction in its North Korean policy. The release of the archival material on which these academicians’ articles were based would not have been possible without governmental permission. Moreover, the release appears quite selective so far; more critical facts (e.g., what Kim Il Sung did in the Soviet Union between 1941 and 1945) still have not been disclosed. In other words, the release itself seemed controlled by the Soviet authorities. There is here a clear implication that the Gorbachev government encouraged reform-minded historians to conduct such revisionist research on North Korea.

The same could be said of journalists' growing criticism of North Korea. It is true that such reports were possible with the general introduction of glasnost and the loosening of censorship in the Soviet mass media as a whole. In that sense, objective reports on North Korea were not a peculiar development. But the fact that official organs like the newspapers Pravda and Izvestiya and the Moscow International Service took the lead in publishing and broadcasting such new types of reports deserves some consideration; those media, neither totally independent nor generally radical ones, were still under substantial governmental control. These facts indicate that government authorities allowed, perhaps even encouraged, the dissemination of such reports. Furthermore, those critical reports broadcast through Moscow International Service were in Korean. In other words, they were specifically directed at Korea, including of course the North Korean people. In that way the reports could affect North Korea. Therefore, it is quite possible that such broadcasting was approved, if not initiated, by a governmental authority on purpose.

If the Soviet government stayed in the background in controlling the archive opening or press reports, it played an active role in making a crucial policy change vis-à-vis North Korea, particularly in trade. In addition to the drastic reduction in the volume of Moscow's economic aid to Pyongyang
since 1987, the Soviet Union enacted a fundamental restructuring of its eco-
nomic relations with North Korea at the twenty-fourth session of the intergov-
ernmental Soviet–North Korean consultative commission on economic,
scientific, and technical issues, which took place in Pyongyang April 24–27,
1990. The two sides concluded an important agreement to conduct mutual
trade at world market prices and make payments in freely convertible curren-
cies. The agreement was given substance at a meeting in November 1990 in
Moscow in which the two sides agreed to set up a new organization for the
transition from a hitherto barter trade system to a practice of paying and
accounting with transferrable currencies at world market prices.

The change was initiated by the Soviet side ostensibly for economic rea-
sons. There indeed were justifiable economic reasons. Among others, in the
course of barter trade relations North Korea has accumulated a substantial
debt (more than 2 million rubles) to the Soviet Union. That resulted largely
from the DPRK’s failure to deliver goods to the USSR in return for imports
from it. In addition to the debt itself, the delayed delivery frustrated the Sovi-
ets because the deliveries were indispensable parts for Soviet products. Given
these problems, hard-currency accounting would not only eliminate the debt
problem but also prevent the negative chain reactions affecting Soviet enter-
prises. Aleksandr Trofimov, Soviet trade representative to the negotiations
with North Korea on this matter, said:

The debt the DPRK owes to the Soviet Union is one of the most complicated
issues. . . . A transition to a practice of making payments with transferable
currency and of accounting with the world market prices will change the situ-
ation fundamentally.26

Although the transition was dictated largely by the aforementioned eco-
nomic considerations, it can hardly be regarded as neutral in political terms.
While it will certainly solve two major problems for the Soviets, it will cause
almost unsurmountable problems for the North Koreans. First and most
important, North Korea already suffers from a severe hard-currency shortage.
Second, North Korea has a trade deficit vis-à-vis the Soviet Union of about 66
percent even at subsidized prices.27 In addition, North Korea’s overall import-
dependency on the Soviet Union amounts to about 55 percent.28 Third, the
imports from the USSR consist largely of vital industrial raw materials such
as oil, oil products, machinery, transportation equipments, plant facilities, cot-
ton, and so forth. Imports from the Soviet Union are therefore critically

26 Moscow International Service (in Korean), November 14, 1990, as cited in FBIS-SOV-90-225,
p. 12.
27 As of 1989, North Korean export to the Soviet Union was about US$900 million while its
import recorded about $1.5 billion. Source: Bukhan mit Jubyon Jeongse Donghyang (North
Korea and the Changing Trends Surrounding It), Guk-Tong-Jo 90-12-14 (Korean Unification
Board, 1990), p. 305.
important for North Korean industry. With its general shortage in convertible hard currencies, North Korea will have serious difficulty in finding alternative suppliers of such goods. With all these factors considered, the change in the payments arrangements, which was supposed to be effective from 1991, will inflict a heavy blow on the North Korean economy. In effect, it was tantamount to driving North Korea to economic breakdown. From the North Korean standpoint, it was a cruel decision from an erstwhile ally.

So far, however, there has been no explicit sign of the Soviet Union’s using its new trade policy explicitly as leverage to pressure North Korea to take policies, domestic and foreign, more concordant with Soviet long-term designs for the Korean peninsula and Northeast Asia—that is, policies for domestic reform and a flexible approach to unification. In other words, the Soviets are not linking the trade policy with other policy goals for now but simply transforming their bilateral economic relationship from that of socialist brothers to equal business partners.

Shevardnadze’s visit to Pyongyang in September 1990 confirmed the cooled atmosphere in the Moscow-Pyongyang relationship. The visit was made primarily to inform the North Korean leadership of the Soviet plan to establish diplomatic relations with South Korea and to advise the North Korean leadership to shake off its Stalinist dogmatism and make the necessary adaptation to the post–Cold War international environment. There were plenty of signs that he failed to convince the North Korean leadership to accept the new reality. They refused to accept Soviet normalization of diplomatic relations with Seoul and viewed the Soviet move as perpetuating “two Koreas” on the peninsula. As a result, Shevardnadze did not meet with Kim Il Sung. He did meet with his counterpart, Kim Yong-nam, a meeting he described as “useful and necessary,” which was quite an unusual expression for an official conference between Moscow and Pyongyang authorities. After the meeting Moscow formulated its position on the question as follows: “The USSR is a sovereign state, and decides its own foreign policy independently. If Moscow chooses to open an embassy in Seoul we will not ask North Korea’s permission to do so.”

Continuities

These changes, however serious they might be, did not spill over into other areas of Soviet–North Korean relations in a consistent and sweeping way. In the first place, Soviet officials made it clear that the USSR was interested in normal relations with the DPRK and would seek to preserve existing links. Indeed, in spite of the noticeably cooled relationship as a whole, the two sides maintained close cooperation at least in one area—military cooperation. The Soviet Union continued to provide advanced conventional weapons

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28Izvestiya, September 12, 1990, p. 5 (morning ed.).
29Ibid.
in quantity to North Korea under the Gorbachev leadership. Particularly signif-
ificant was the delivery of sophisticated weapons such as MiG-29s and Su-
25s. In 1988 alone North Korea received 30 MiG-29s, 18 Su-25s, 240 Scud-B
missiles, 240 AA-7 Apex missiles to equip Mig-29s, and 720 AA-8 Aphid
missiles to arm MiG-29s and Su-25s. Their delivery in 1988 was especially
noteworthy because, as noted above, Moscow began to drastically reduce its
economic aid to Pyongyang after 1987. This apparent contradiction indicates
that military cooperation was handled in the Soviet government separately
from other relations in civilian areas. It is true that those deliveries were made
before Gorbachev's Krasnoyarsk address (September 16, 1988), which signi-
fied the Soviet government's new policy toward the Korean peninsula, and
that no major arms transfer has since been recorded. It is significant to note,
however, a statement made by Y. Maslyukov, Soviet deputy prime minister,
when he visited Seoul in January 1991 that the Soviet Union would continue
to provide North Korea with conventional weapons if requested.

In addition, the two countries continued to maintain close cooperation in
naval activities until late 1991. Soviet Pacific Fleet warships regularly visit
Wonsan and other North Korean naval bases; in return the North Korean navy
sent its counterparts to Vladivostok as frequently. Interestingly, the frequency
did not abate in spite of general deterioration in political-economic relations
between the two countries until late 1991. Furthermore, while North Korea
and the Soviet Union severely criticized the Team Spirit exercise between the
South Korean and U.S. armed forces, the USSR and DPRK conducted joint
naval exercises in the East Sea since 1986. Although their joint naval exercise
was not held in 1990, exchanges of naval units continued as late as June

The third major area of Soviet-DPRK military cooperation involves con-
tinued exchanges of major military officials. Particularly notable exchanges
were made between their general political bureaus of the armies, political
functionaries of their armies. On April 21, 1990, a military attaché at the
North Korean embassy in Moscow commented:

In particular, I believe that the relations of cooperation between the navies of
our two countries has favorably developed. Moreover, through mutual visits
between the services and branches we have gained good experiences and we
are mutually dependent. . . . The cooperation between the General Political
Bureaus of the armies of the two countries is also being carried out at a high
level. We are very satisfied with the fact that the cooperation between the

\[^{31}\text{Stockholm International Peace Research Institute, SIPRI Yearbook 1989: World Armaments and}
\[^{32}\text{Naewoe Press (weekly ed.), no. 751, July 5, 1991, D5.}\]
\[^{33}\text{Concerning the absence of joint naval exercise in 1990 the prevailing view is that the North}
\text{Korean side, not the Soviet side, probably refused to hold it as a protest to the rapid Soviet–South}
\text{Korean rapprochement.}\]
political functionaries in the armies of the two countries is very favorably developing.\textsuperscript{34}

The special tie between the two countries' general political bureaus of their armed forces was seen as late as May 1991, when the North Korean delegation paid a visit to Moscow and was received by Soviet defense minister General D. T. Yazov.

In addition, Soviet-DPRK military cooperation was also confirmed at the highest levels of their armed forces even after the general deterioration in their political relations. For instance, Soviet army general K. A. Kochetov, first deputy minister of defense, led a Soviet military delegation to North Korea during January 10–15, 1991. Given the state of Soviet-DPRK political relations at the time, his delegation’s visit was significant enough in itself. But it is particularly noteworthy that he supported North Korean positions on sensitive issues such as withdrawal of U.S. forces from the South, making a nuclear-free zone of the peninsula, and the like at a time when the Soviet government had ceased endorsing such positions. Furthermore, the Soviet general emphasized the importance of the development and strengthening of friendship between the armies of the two countries.\textsuperscript{35}

As a matter of fact, of all Soviet institutions, the military had been the most vocal and consistent supporter of North Korean positions on almost all issues through its organ \textit{Krasnaya Zvezda}. Of major Soviet mass media, \textit{Krasnaya Zvezda} has been by far the strongest and most consistent supporter of North Korea on a variety of issues. Not only does it frequently cover North Korean affairs, but it strongly endorses North Korean positions. It has maintained this position while many other Soviet mass media have begun to diverge from their past tradition and publish critical reports on North Korea on a number of issues. Particularly, the Soviet Union’s consistent support of Pyongyang’s call for the withdrawal of U.S. troops and nuclear weapons from South Korea has been put forward largely through the military organ.

Signs of the continued cooperative relationship in the military sectors were also revealed as late as July 1991, at the time of the thirtieth anniversary of the USSR-DPRK Treaty on Friendship, Cooperation, and Mutual Assistance. Because of the general estrangement between the two countries, anniversary festivities were much smaller than before. Notably, the North Korean Ministry of Defense, not the government, as had been the case in the past, was in charge of organizing the celebration, signifying that the countries’ military sectors have remained closely linked even in the midst of deteriorating bilateral relations.

\textsuperscript{34}Moscow International Service (in Korean), April 21, 1990, as cited in FBIS-SOV-90-086, pp. 10–11.

Interpretations

Judging from the above analysis, we can interpret the new Soviet policy toward North Korea as follows: Its general direction seems to be transforming their bilateral relationship from that of socialist allies to a businesslike one between equal states. From the North Korean standpoint, the change was not easily acceptable, however: first of all, it was accompanied by Soviet–South Korean rapprochement; second, it involved economically harsh measures such as radical reduction of economic aid and hard currency–based trade; and third, the change, being a part of Gorbachev’s reform package, brought with it ideological pressures upon North Korea. Therefore, it was bound to cause serious tension in their relations.

On the part of the Soviet Union, however, it seems that the policy change was not meant to be seen as abandoning Pyongyang in favor of Seoul. From the Soviets’ standpoint, a desired byproduct of the policy change might well be expediting reforms in North Korea and thus transforming its anachronistic, Stalinist system into a more open one; such a transformation would greatly contribute to building a new, cooperative international system in East Asia, which Gorbachev professed to be his long-term policy goal in the region. As groundwork for building such a new system, Moscow wanted to begin with measures for stabilizing its immediate neighboring area, Northeast Asia, where tension is especially high because of the heavy concentration of the armed forces of regional countries (two Koreas, China, Japan, and the Soviet Union) plus U.S. forces deployed in South Korea and Japan. Under the circumstance, Moscow’s primary agenda included developing a multilateral arms-control process on one hand and reducing tension, particularly on the Korean peninsula, on the other. In this context, Moscow’s ultimate policy goal toward North Korea might well be to bring it around to embracing the principle of peaceful coexistence with the South and adopting a more flexible stance on the unification problem. That is important not just for the stabilization of the Korean peninsula itself, but for the successful progress of the multilateral arms-control process in the area. The stabilization of the Korean peninsula is an important precondition for the withdrawal of American forces in South Korea and Japan, which, in turn, could easily lead to the multilateral arms-control process Moscow has offered for the region.

To this end the Soviets have implemented a three-pronged strategy. First, they have evoked a new perception in Soviet society of North Korea by facilitating the publication of revisionist journalists and historians. Alongside this, they have employed governmental actions, both “hard” and “soft” approaches, to induce the desired systemic change in North Korea. Among other hard measures, the Soviets radically reduced economic aid in 1987 and fundamentally changed their bilateral trade policy in 1990. For soft measures, the Soviets tried to convince the North Korean leaders that reform was inevitable for them to survive in a new international order, as was seen, for
instance, at the time of Shevardnadze’s visits to Pyongyang. Moscow’s soft approach was also seen on many other diplomatic occasions when Soviet officials declared the principle of noninterference with North Korean policy choices, even though they expressed hopes that a perestroika would also take place in North Korea.

Despite the general deideologization of relations, however, the Gorbachev government did not bum all bridges with North Korea. They continued to exchange governmental officials and even to conclude some agreements until the end of the Gorbachev era. For instance, during the first quarter of 1991, the Soviet Union was the country with which North Korea exchanged most delegations. In the second quarter, the Soviet Union again was the country with which North Korea concluded most agreements.

It seemed, however, the Soviet leadership as a whole were not united about this new line of Soviet policy toward the two Koreas. At least, it was not carried out in a consistent manner. Evidently the military leaders challenged it, continuing their security cooperation with North Korea in one way or another. In the first place, they did not quite welcome Gorbachev’s “new thinking” foreign policy. They blamed it for the loss of the security buffer in Eastern Europe and the dissolution of the Warsaw Pact. They perceived the same process in Moscow’s approaching Seoul and imposing disciplinary measures upon Pyongyang, their long-time regional ally. Their critical attitude toward reformist foreign policy in general was explicitly displayed in a Krasnaya Zvezda article that denounced Shevardnadze’s foreign policy for, among other things, abandoning socialist allies including North Korea. As was widely publicized at the end of 1990 and early in 1991, the military conservatives openly challenged Gorbachev’s “new thinking” foreign policy personified by Shevardnadze, a challenge that ultimately led to the latter’s resignation in December 1990. The Soviet military’s opposition to Gorbachev’s pro–South Korea policy was also hinted at on another occasion in January 1991. According to an IPECK (International Private Economic Council of Korea) report, the Soviet military put a brake on the transferring of Soviet high technologies to Korean industries. With all these signs considered, it is very likely that the Soviet military leaders had their own way in continuing cooperative relations with their North Korean counterparts more or less independent, or even in defiance, of the central government in Moscow. In this context, it is understandable that the North Korean press were exceptionally quick in reporting the coup of August 1991 by Soviet conservatives led by some military leaders.

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38North Korea introduced the article in great detail through broadcasts during General Kotochev’s visit to Pyongyang, January 10–15, 1991. Ibid., no. 727, January 18, 1991, B2H.
If we reexamine the three propositions suggested at the beginning of this chapter, the analysis of Soviet–North Korean relations presented here shows that none of the three propositions turned out to be quite correct. Rather, a more accurate conclusion would be a combination of the second and third propositions. It could be rephrased as follows: As far as its policy toward the Korean peninsula is concerned, the Soviet government decided to redirect its traditional pro–North Korea policy in favor of a balanced relationship with the two Koreas. A conservative group in the Soviet leadership, however, represented by certain military leaders, has challenged the revised policy line and defended the pro–North Korea position. This disagreement has caused some inconsistencies in Moscow's North Korea policy since Gorbachev, including maintenance of cooperative military relations in the middle of much deteriorated political relations.
5. Trends in ROK-DPRK Relations: DPRK Perspectives

YOUNG WHAN KIHL

The Democratic People's Republic of Korea (DPRK or North Korea) continues to seek a high moral ground on negotiation with the Republic of Korea (ROK or South Korea) in its inter-Korean dialogue on reunification and the future of Korea. Because of difficulties associated with diplomatic setbacks and economic stagnation, however, North Korea in 1991 began to take a more realistic stance on inter-Korean engagement by striking a deal with the ROK. The high-level talks between North and South Korea, although exhibiting the familiar pattern of hardening the mutually irreconcilable and varied stances on inter-Korean negotiation, successfully produced a modicum of compromise at the fourth round of meetings held in Pyongyang, October 23–25, 1991. Both sides issued a joint communiqué regarding the format of the document to be adopted at a future prime ministers' meeting that would incorporate three separate matters of negotiation—reconciliation, nonaggression, and cooperation and exchange between the North and the South. Although the agreement was on procedural grounds rather than on substantive matters, the fact that the two sides had reached an agreement was important in setting a precedent and establishing a benchmark for the difficult process of improving inter-Korean relations.

This chapter explores the recent trends in inter-Korean relations by evaluating some of the evidence of change in the DPRK foreign and reunification policy stances in the post–Cold War era. More particularly, it examines the factors leading to the DPRK participation in the inter-Korean dialogue, the change and constancy in the DPRK perspectives, and the DPRK strategic calculus and consideration, as manifest in such controversial issues as the UN membership and the nuclear development program.
Explaining Inter-Korean Relations through Dialogue and Negotiation

In the absence of mutual trust and agreement on reunification, the two sides of divided Korea are compelled to face each other as "enemy" partners or "rival" states. The ROK and the DPRK originated in the Cold War rivalry between the United States and the Soviet Union, who could not agree on the unification of the two parts of Korea, which had been placed under separate military occupation in 1945 at the end of World War II. The founding of two separate regimes in 1948—the capitalist South Korea and the communist North Korea—and the violent clash between the two in the ensuing Korean War (1950–53) made divided Korea a symbol of the Cold War rivalry between the two divergent political and socioeconomic systems. The dawning of a new post–Cold War era, with the collapse of communism in Eastern Europe and the Soviet Union in 1990–91, has given new impetus to the resumption of suspended dialogue and negotiation on reunification between the two rival states of North and South Korea.

Inter-Korean relations have gone through a series of ups and downs. During most of the time of their separate existence since 1948, ROK-DPRK relations took the form of violent clashes and acrimonious confrontation punctuated by the periodic holding of meetings involving inter-Korean dialogue and "on and off" negotiation. (The on-going high-level talks that began in September 1990 are an exception to the basically confrontational style of inter-Korean relations.) This warlike situation in inter-Korean relations, interspersed by periodic holding of dialogue, reminds one of the Clausewitzian dictum in reverse, that is, the inter-Korean diplomacy currently under way is like "a war carried out by other means."

Why have the two Korean regimes chosen to cooperate, rather than to fight? Internal, external, and systemic developments, singly and in concert, have influenced this recent cooperation.

Internally, the logic of political realism and strategic calculus provided the motivation and impetus to North Korea to resume inter-Korean dialogue and negotiation. National interest and national power consideration, the key variables in political realism, are the underlying reasons for the DPRK seeking accommodation rather than confrontation at this particular juncture in history. The logic of realism, one of the established theories of international relations, would expect that North Korea would seek to protect its interest and to maxi-

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mize its power under conditions of the anarchy that characterizes the situation in inter-Korean relations.

As for the external influence, the sea change in global politics and the end of the Cold War provided a new operational environment for the North Korean elites in pursuing their policy objectives. The new détente and the thaw in global and regional politics also hit the Korean peninsula and exposed it to the warmer climate currently prevailing worldwide. Confronted with this radical shift in world politics, with the loss of communist allies in Eastern Europe and the Soviet Union, the DPRK leadership naturally feels insecure and hopes to turn the crisis into an opportunity for positive and creative action. Otherwise, the DPRK as “paradise on earth” will become increasingly isolated and will be swept away by the avalanche of historical change occasioned by the collapse of communism.

At the systemic level the dynamics in the differential rate of economic growth that favors the ROK is rapidly changing the balance of power to favor the South. Although cooperation is difficult between the two “regimes in contest,” the DPRK is compelled by circumstances to seek accommodation via inter-Korean dialogue and negotiation rather than confrontation and armed conflict through propaganda and subversive acts.

North Korean participation in the high-level talks may be examined from the perspective of ascertaining the gap between “theory and practice” or “rhetoric and deeds.” This approach will prove particularly useful for the DPRK in view of the rigid and self-righteous stance of the regime. Officially, North Korea continues to subscribe to and uphold the line of the purity and righteousness of its motive with regard to the reunification issue. In private, however, North Koreans are afraid that their communist system, too, may collapse and that the reunification of Korea might follow the German pattern of “unification by absorption” of the weaker side by the stronger side.

Change and Stability in DPRK Perspective

The prevailing view of North Korea today is that political change will not take place so long as Kim Il Sung remains the supreme leader of the DPRK and the Korean Workers’ Party (KWP). Continuity, not change, is the most striking feature of the DPRK today, as B. C. Koh argues. Nevertheless, in the realm of policy making and policy behavior, the DPRK has exhibited certain “flexibility” and a modicum of change in recent years.

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4 See, for instance, the essays in Chong-Sik Lee and Se-Hee Yoo, eds., *North Korea in Transition*, Korea Research Monograph, no. 16 (Berkeley: Institute of East Asian Studies, University of California, 1991).

5 B. C. Koh, “Political Change in North Korea,” in Lee and Yoo, *North Korea in Transition*, pp. 1–16.
Any interpretation of DPRK policy changes and adjustment, however, calls for caution in evaluating the evidence. It is difficult, for example, to ascertain whether the change in North Korean policy is strategic or tactical. While North Korea’s strategic goals may remain the same, its tactical and operational means may vary. Moreover, so long as the North Korean decision-making elites remain the same, as have the structure and routines of policy making, it is safe to assume that no fundamental change has occurred in the North Korean policy goals.

Psychological Adjustment

There is evidence to show that the psychological makeup of the North Korean elite is undergoing stress and is therefore being forced to change, both attitudinally and perceptually. For instance, North Korean president Kim Il Sung is quoted as saying, during a forty-minute talk with twentythree visiting Japanese lawmakers at his resort in Hamhung on July 24, 1991, “We are one of the countries on this earth and therefore we will act to keep pace with what happens in the world nowadays.” This statement indicates that the DPRK is—at least theoretically—open to change, although Kim insisted at the same time that North Korea would continue to uphold “the banner of socialism.”

The dilemma for North Korea is that even if the operational environment has been altered significantly, in both external and international settings, the elites cannot openly acknowledge the impact on them of such changes and discuss the necessary reforms. This dilemma is clearly evident in Kim Il Sung’s 1991 New Year’s Address: “The year 1990 was a proud and triumphant year in which our people advanced vigorously under the unfurled banner of socialism in the vortex of history,” proclaimed President Kim. Yet he also admitted that “because of the anti-socialist manoeuvres of the imperialists and reactionaries, complex events that caused people’s apprehension took place in succession on the international scene” and that “this laid new obstacles and difficulties in the way of our people who were building socialism in the difficult situation in which the country is divided.”

The message is clearly mixed, both boasting and apprehensive. It was crafted primarily for domestic political consumption, to enhance Kim’s claim to legitimacy of rule. For reasons of domestic political indoctrination, the North Korean elite follows Kim’s lead, continuing to utter the them of upholding “the purity and superiority” of the North Korean brand of socialism.

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Promotive Adaptation

In the realm of policy action and behavior the DPRK has made strides to adjust itself to external changes. The shock waves generated by the collapse of communism in Eastern Europe and the Soviet Union reached the shore of North Korea and engendered misgivings among the North Korean leadership. Confronted with disturbances in the external milieux, the North Korean elites determined to overcome the new challenge lest an edifice of the "paradise on earth" crumble and be swept away by historical avalanches.

North Korean attention has been directed toward translating the crisis into an opportunity for positive reaction and promotive adaptation. The tangible result of this attempt has been manifest on three separate fronts: UN diplomacy, inter-Korean dialogue and negotiation, and "flexibility" on the confederation formula.

UN Membership. The first evidence of North Korean policy change is the reversal of its decision on the issue of UN membership.

In the past North Korea had rejected the idea of simultaneous UN membership as "a plot to perpetuate the division of the Korean peninsula." President Kim Il Sung, in his May 24, 1990, policy speech, claimed that "if the North and the South are to join the UN before Korea's reunification is achieved, they must not hold two separate seats but enter it jointly as one member in favor of the cause of reunification." The decision to apply for UN membership, announced barely a year later; in late May 1991, and the subsequent admission of the DPRK into the United Nations in September is clearly an example of North Korea's change in foreign policy. Although North Korea gave its own rationale for this change, the DPRK has proved by deeds, if not by rhetoric, that it is now prepared to be an active participant in UN diplomacy in New York and thereby assume a new role as a responsible member of the world community.

North Korea's 180-degree policy shift, which virtually accepted the proposal for simultaneous UN membership of North and South as advanced by Seoul, surprised the world. The DPRK Foreign Ministry said, in a May 27, 1991, statement, that "as the South Korean authorities insist on their unilateral U.N. membership, if we leave this alone, important issues related to the interests of the entire Korean nation would be dealt with in a biased manner on the U.N. rostrum and this would entail grave consequences." Therefore, the statement continued, "the government of the Democratic People's Republic of Korea has no alternative but to enter the United Nations at the present stage as a step to tide over such temporary difficulties created by the South Korean authorities." The statement also noted that the decision was made "under unavoidable circumstances created by the splitist moves of the South Korean authorities," adding that "we will remain invariable in our hope that the North

and South will occupy one seat at the U.N. with a single state nomenclature."  

The subsequent behavior of North Korean diplomats at the United Nations in New York indicates that hopes for using the UN forum as an additional avenue and channel for inter-Korean dialogue and negotiation in the days ahead are not unfounded. On September 30, 1991, North Korean foreign minister Kim Yong Nam met briefly with his South Korean counterpart, Le Sang Ock, at a luncheon given by UN secretary general Xavier de Cuellar at the Secretariat. And although North Korean premier Yon Hyong Muk failed to disclose any new policy initiative during his address before the UN General Assembly on October 2, 1991, he did aver that "these new circumstances [the simultaneous entry of North and South Korea] have also cleared up a good prospect for the solution of the peace problem on the Korean peninsula."  

The Resumption of the Prime Ministers' Meeting. The second evidence of North Korean policy change is manifest in its renewed interest in and change of approach toward inter-Korean relations. The holding of high-level talks at the prime ministerial level in September 1990 was "historical" in the sense of each side accepting the other as a "legitimate" partner in negotiation. The first two rounds of the talks in Seoul and Pyongyang, respectively, were primarily intended as a sounding board for articulating the respective Koreas' basic policy stance on inter-Korean dialogue and negotiation. By the time of the third high-level talks, held in Seoul in December 1990, North Korea realized that its stance on inter-Korean negotiation was not getting anywhere. In 1991 North Korea twice canceled the scheduled fourth round of the prime ministers' meeting (in February and in August). It used the pretext of the U.S.-ROK 1991 Team Spirit military exercise to cancel the February meeting, while it gave "the outbreak of cholera" in South Korea as an excuse for canceling the August meeting. The real reason for its postponing the scheduled August meeting probably was the uncertainty arising from the abortive coup in the Soviet Union in August 1991 to which North Korea was compelled to adjust.  

Underlying this intransigent behavior was the DPRK's serious consideration and reassessment of its policy stance on diplomacy including its negotiating position in the high-level talks. This reassessment is manifest in the DPRK decision to enter the United Nations in September 1991. This policy was announced by the DPRK Foreign Ministry on May 27, 1991. North Korea seemed to have realized that the lack of progress in inter-Korean talks posed a hindrance to the progress in normalization talks with Japan and also in negotiation with the United States. Therefore, it decided that a modicum of

11*Pyongyang Times*, June 1, 1991, p. 8.
12Ibid., October 26, 1991, p. 4.
compromise was necessary to break the logjam in the high-level talks. As a gesture of accommodation toward South Korea, it dropped quietly the demand for abolishing the anti-Communist National Security Law in South Korea as a precondition and price for renewing the high-level talks. The fourth prime ministers' meeting was finally held in Pyongyang in October 1991.

The signing of the text of the Agreement on Reconciliation, Nonaggression, and Cooperation and Exchange between the North and the South at the fifth high-level talks held December 12, 1991, in Seoul, together with the adoption of the nonnuclear Korean peninsula declaration on December 31, 1991, has provided a new modus operandi for conducting inter-Korean relations in the remainder of the 1990s. These historical documents were subsequently ratified on February 19, 1992, during the sixth high-level talks, held in Pyongyang. During the subsequent seventh high-level talks, held May 5–8, 1992, in Seoul, no progress was registered because of the stalemate over the on-site nuclear inspection issue. At the eight high-level talks, held September 15–18, 1992, in Pyongyang, the implementation protocol on the inter-Korean agreement was signed by the two prime ministers, thereby establishing the mechanism through which to carry out the terms of agreement.

In a desperate move to entice South Korea to agree on a joint statement at the pending prime ministers' meeting in Pyongyang, North Korean premier Yon stated, in his UN General Assembly address in New York, the possibility of top-level talks between North and South Korea "when the inter-Korean high-level talks bear a good fruit."

The Change in the Confederation Formula. The third evidence of North Korean policy change is greater realism and flexibility on the reunification issue with regard to its proposed confederation formula.

The proposal for a Democratic Confederal Republic of Korea (DCRK), put forward during the sixth KWP Congress on October 10, 1980, is the basic line upheld by North Korea on the reunification issue. The 1980 proposal urges the formation of a unified national government under which the North and South would exercise regional autonomy. This DCRK would have a unified confederal (central) government and two regional governments; the central government would have more power from the outset than the regional governments. The DCRK plan calls for the formation of "a supreme national confederal assembly" to "guide the regional governments in the north and the south and to administer all affairs of the confederal state."

In the course of 1991, however, North Korea slightly modified the DCRK plan by introducing new flexibility in the status of the regional governments and their relationship with the confederal (central) government as envisioned in the DCRK. President Kim said, for instance, that "we are ready to consult on the matter of gradually and completely effecting reunification through confederation by vesting the regional autonomous governments of the confederal state..."

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A republic with more rights on a tentative basis and then increasing the functions of the central government in the future.” This is the principle of a confederation formula “based on one nation, one state, two systems, and two [regional] governments,” as Kim put it (emphasis added).\textsuperscript{15}

As a follow-up to this new “flexible” move North Korea said that it would not stick to the 1980 confederation proposal if South Korea were to come up with a “more reasonable method of reunification through confederation.” On January 8, 1991, a letter addressed to twenty-seven prominent South Korean figures, including President Roh Tae Woo, was adopted by a joint meeting of representatives of the DPRK government, political parties, and organizations held in Pyongyang to call for the convocation of a “political consultative conference for national reunification” as proposed by President Kim in his 1991 New Year’s Address. In this letter North Korea claimed that a confederation based on “one nation, one state, two systems, and two governments” is “the great principle of defining a most realistic and reasonable way of national reunification.” It also said, however, that “we will have an open-hearted discussion over any proposal if it is really conducive to national reunification, no matter who may advance it, and when a more reasonable method of reunification through confederation is suggested, we will readily accept it, not sticking to ours.”\textsuperscript{16}

Pyongyang wanted to hand over this letter to South Korean officials at the conference room of the neutral Nations Supervisory Commission in Panmunjom on January 9, 1991, but the South Korean authorities refused to accept it. Therefore, the letter was broadcast over the radio and then sent to each of the twenty-seven addressees by international mail.

Despite the lukewarm reception given by Seoul so far, Pyongyang continues to harbor the illusion that somehow it can reach out and elicit positive responses from politicians and political groups in South Korea. Thus, Vice-President Pak Sung Chul said in a July 14, 1991, statement that the DPRK does not regard its proposal for a DCRK “as absolute,” adding that North Korea has no intention of imposing its reunification formula on the South.\textsuperscript{17}

Then, appealing to South Koreans to hold a reunification conference as proposed by President Kim Il Sung in his 1991 New Year’s message, Pak suggested holding such a conference in Pyongyang or Seoul on August 15, 1991, in commemoration of the forty-sixth anniversary of Korea’s liberation from Japanese colonial rule, to be attended by fifty delegates each from North and South Korea, including government officials and representatives from various political parties and public organizations. After noting that North Korea is prepared to discuss not only the DCRK formula but also a reunification formula proposed by the Seoul government and other proposals made by South

\textsuperscript{15}Ibid., January 1, 1991.
\textsuperscript{16}Korean Report, no. 252 (July 1991).
\textsuperscript{17}Ibid.
Korean political parties or by other public organizations and individuals, Pak stated that "the point is to agree on the most reasonable and realistic way of reunification that reflects the general will of the nation."\(^\text{18}\)

Earlier, Han Si Hae, deputy chairman of the Committee for the Peaceful Reunification of the Fatherland (CPRF) of the DPRK, had told the *New York Times* in an interview that a possible first step for reunification of North and South Korea would be a "loose confederation" such as the United States had at its initial stage. He noted that the different social systems of the two Koreas did not preclude forming such a confederation since their "blood, culture and language" are the same; he further noted that under the confederation scheme, each regional government could control its own foreign policy and military forces.\(^\text{19}\)

Thus we see that North Korea continues to pursue a two-track strategy in inter-Korean relations. The holding of high-level talks between the authorities at one level has been counterbalanced by the call for a united-front campaign in the unification talks involving participation by the so-called pan-national "democratic" forces. Despite its pledge not to interfere in the internal affairs of the opposite side, as stipulated in the inter-Korean agreement on reconciliation and nonaggression, the DPRK continues to demand the release of certain individuals imprisoned in South Korea and the revocation of the arrest warrants for Chondaehyop delegates, who defied the South Korean government ban on travel to the North, and guarantees that they can safely return from Pyongyang to South Korea.\(^\text{20}\)

**DPRK Strategic Calculus in the Post–Cold War Era**

The DPRK view of the post–Cold War world is based on a dismal and stereotypical picture of predatory behavior by the strong states over the weak. Therefore, North Korea is suspicious of the policies of the Western countries (which it characterizes as "the imperialists"). It is also skeptical that a new world order in the post–Cold War era is ever possible. According to Kim Il Sung, as stated in his 1991 New Year’s Address,

> The imperialists are clamoring about the end of a cold war and the arrival of the time of peace. But the international situation is still tense and complicated, and a sharp confrontation and struggle between socialism and imperialism and between progress and reaction are going on. They are trying more openly to realizing their wild dream of dominating the whole world. As a result, the people’s cause for independence is meeting with a grave challenge.\(^\text{21}\)

\(^\text{18}\)Ibid., no. 251 (June 1991), p. 1.


\(^\text{21}\)Ibid., January 1, 1991.
North Korea’s world image in the post–Cold War era, in short, is one of struggle between the forces of good and evil. The DPRK must therefore continue to wage an “anti-imperialist” campaign and a pro-independence struggle, the cause of justice for which North Korea stands. Kim’s hostile image of the world (and North Korean sympathy for Iraq in the Persian Gulf War) is also evident in this claim:

Taking advantage of the destruction of the balance of forces in the international relations, the imperialists are acting more outrageously, launching pirate armed aggression against the sovereign countries without hesitation and creating the danger of devastating war by paving the road to a new larger-scale aggression on the plea of opposing aggression. . . . The reality shows us that the aggressive and predatory nature of imperialism has not changed at all and that it is imperialism and none other that is the ringleader who is menacing peace and creating difficulties and confusion in the people’s struggle for independence, sovereignty and socialism.\(^\text{22}\)

In adopting this view Kim’s North Korea becomes the victim of its own negative perception of the world outside and of the rhetoric of its self-righteous stance vis-à-vis the outside world. There is clear evidence that the North Korean leadership fears that the external turmoil will undermine the legitimacy and stability of the system at home. Because of this psychological insecurity North Korea is unable to loosen its grip on the population at home and to initiate a genuine and meaningful reform of the system.

North Korea’s seizure mentality and self-righteous stance are clearly manifest in its broad strategic calculus in the post–Cold War era. DPRK strategic interests today, according to North Korea, lie in avoiding “unification by absorption”; achieving the strategic goals of U.S. troop withdrawal from South Korea and establishing diplomatic ties with Japan and the United States; and balancing the seeming mutually exclusive twin objectives of security and welfare, this last to be achieved by developing its capability to deploy nuclear weapons, proclaiming a nuclear-free zone for Korea, and inaugurating the special economic zones under auspices of the United Nations Development Program (UNDP).

**Avoiding “Unification by Absorption”**

The foremost concern of North Korea in the 1990s is to avoid what it calls “unification by absorption.” This is why Kim Il Sung harshly stated, in his 1991 New Year’s Address, that “the South Korean authorities are . . . bewitched by the method of amalgamation through absorption adopted by a foreign country” (i.e., Germany). He also charged that the “northern policy” is “an expression of their sycophant mentality and attitude to keep the country
divided forever” and “the replica of the bankrupt policy of ‘reunification by prevailing over communism.’”\textsuperscript{23}

Behind this charge that South Korea harbors the scheme of “prevailing over communism” is the genuine concern and fear that the German model of “unification by absorption” of the East by the West might also happen in the Korean case between the North and the South. Therefore, Kim Il Sung directs his attack to the real and imagined enemy in South Korea who are opposed to the North Korean policy of “reunification by confederation” and who instead advocate “prevailing over communism.” Kim claims that “in our country ‘reunification by prevailing over communism’ is a wild fancy which will never come true” and that “it has already been proved by history that our country cannot be reunified by one side eating away the other, either by war or a peaceful means.” The South Korean authorities must understand clearly, Kim insists, that “the independent stand of our Party and the Government of our Republic is unshakable and that socialism we have built by implementing the Juche idea is unconquerable.”\textsuperscript{24}

As the DPRK sees it there are three ways of achieving reunification: unification by war, unification by revolution, and unification by confederation. “Unification by absorption” of the German variety is tantamount to “unification by war” and therefore must be avoided at all costs. Although it is still not clear whether the DPRK has abandoned the scheme of “unification by revolution” in the South, North Korea has certainly promoted “unification by confederation” as the current policy, claiming it to be realistic and workable.

\textit{Achieving Strategic Goals}

The DPRK considers the U.S. troop presence in the South a formidable obstacle to Korean reunification. Therefore, it continues to demand withdrawal of U.S. troops from the South and the cessation of the Team Spirit joint military exercises annually held between the U.S. and the ROK. It also demands an immediate and unconditional withdrawal of U.S. nuclear weapons from South Korea and on-site inspection to verify this fact. On September 28, 1991, the DPRK Foreign Ministry issued a statement welcoming U.S. president George Bush’s announcement of the unilateral withdrawal of tactical nuclear weapons globally, including those on Korean soil. It also added a new condition, insisting that South Korea must renounce the U.S. nuclear umbrella protection after the withdrawal of the U.S. nuclear weapons.

The withdrawal of U.S. troops from South Korea is the foremost strategic goal of the DPRK, followed by the breakup of the U.S.-ROK alliance. As a first step to achieve these objectives, the DPRK desires direct talks with the United States, ostensibly to change the armistice agreement into a peace treaty. The peace treaty will give North Korea a legal justification for its

\textsuperscript{23}Ibid.

\textsuperscript{24}Ibid.
demand for the withdrawal of U.S. troops from South Korea and for terminating the U.S.-ROK security treaty.

As a final step in achieving its strategic goals, the DPRK is conducting negotiations with Japan on normalization of diplomatic relations. The strategic objective here is to acquire a large indemnity from Japan, as part of the settlement for Japan's colonial domination during 1910-45, which can be used as capital investment for the DPRK's sagging economy.

**Balancing Security and Welfare**

How to balance the twin objectives of security and welfare is the foremost concern in the minds of the DPRK leadership. This is why North Korea placed its troops under full alert during the time of the U.S.-ROK Team Spirit joint military exercise. This is also why North Korea is eager to speed up its normalization talks with Japan so that the compensation money will be received in time to boost the DPRK's failing economy.

The nuclear development program and the plan for special economic zones are additional evidence of North Korean desire to achieve its strategic goals of security and welfare in the post-Cold War era. The DPRK has embarked upon a risky nuclear program to maximize its security interest. It also wishes to introduce special economic zones, with the blessing of the UNDP, to promote its economic welfare. Whether and how well these risky enterprises will bear the intended fruits remains to be seen. At least these new initiatives undertaken by North Korea are signs of policy change and innovations that are worthy of scrutiny.

**Nuclear Development Policy.** By adopting an ambitious nuclear development program the DPRK has decided to play the international nuclear game. The stakes of the game are very high, however, and the game itself risky, because the DPRK's acquisition of nuclear arms will not only upset the balance of power but also unleash the nuclear arms race in the region by enticing the ROK and Japan to "go nuclear" in order to counter the North Korean move. The DPRK move has escalated the level and the stakes of the Korean conflict and led to a strong international reaction and pressures on North Korea to abandon its nuclear weapons program.

Although the DPRK signed the Nuclear Non-Proliferation Treaty (NPT) in 1985 and the International Atomic Energy Agency (IAEA) safeguards accord on January 30, 1992, it has yet to convince the world that it has no ambition to build nuclear arms of its own despite its repeated claims to the contrary. North Korea has failed to defuse the suspicion that it prefers to prolong the issue thereby buying extra time either for the completion of its nuclear weapons program or, short of the success of its nuclear program, the exploitation of the nuclear card so as to extract maximum concession from South Korea and the United States. On February 25, 1992, U.S. Central Intelligence Agency director Robert Gates testified before a congressional committee that North Korea has made considerable progress toward attaining
nuclear weapons—producing capability and that the first nuclear bombs might be available much sooner than expected, perhaps within a few months to as much as a couple of years. The construction of nuclear fuel reprocessing facilities in Yongbyon, 90 kilometers (55 miles) north of Pyongyang, will enable North Korea to become a nuclear weapons country. Other Western intelligence analysts believe, based on satellite pictures of the nuclear installations at Yongbyon including a uranium treatment center, that North Korea is already capable of producing seven kilograms of plutonium a year.\(^\text{25}\)

The visit by the IAEA director general Hans Blix to Pyongyang in May 1992 and the subsequent tour of North Korean nuclear sites by the IAEA teams of inspection in June and July have not completely dispelled the suspicion of the DPRK nuclear weapons program. As the New York Times reported on May 17, 1992, it was learned that North Korea had successfully extracted plutonium for research purposes in what they claimed as “the radio chemical laboratory” and that this building in Yongbyon, the size of two football fields (about 600 feet long and several stories high) could be called “a reprocessing plant . . . if it were in operation and complete.” At a news conference in Beijing on his way back from Pyongyang, Mr. Blix added that the construction of this site, which began in 1987, “was about 80 percent complete” and that “40 percent of the equipment [had been] installed” while the rest of the equipment, as he was told, “was on order but not yet delivered.”

North Korea is also known to be able to produce Scud missiles that could carry warheads and reach targets within five hundred to six hundred miles. Japan’s Kyodo News Agency reported, for instance, that North Korea has developed a new surface-to-surface missile named Rodong No. 1 with a range of 900 kilometers (560 miles), long enough to reach Japan’s west coast towns including Osaka and Kyoto. It also reported that North Korea had already begun developing missiles in 1979, producing a version of the Soviet Scud B with a range of 300 kilometers (185 miles) in 1987 and a Scud C with a range of 600 kilometers (370 miles) that is reportedly more accurate than the Scuds the DPRK supplied to Iraq during the Gulf War. This news was refuted by the North Korean Central News Agency on September 25, 1991, as “mere propaganda full of sheer lies which are of no value whatsoever.”\(^\text{26}\)

Although North Korea signed the Nuclear Non-Proliferation Treaty in 1985, until recently it resisted signing the nuclear safeguards measures that would allow the IAEA on-site inspection of its nuclear facilities. Pyongyang has emitted different signals on the matter of nuclear safeguards and on-site

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inspection. Initially, it stated in early summer 1991 that it would abide by the NTP safeguard measures and an IAEA inspection. In an interview with the Washington Post dated June 21, 1991, North Korean foreign minister Kim Yong Nam stated that the DPRK would sign a nuclear safeguards accord in the near future with the IAEA. Kim attached two conditions, however, for the North Korean acceptance: inspection or removal of U.S. nuclear weapons from South Korea and the provision of "legal assurances" that the United States does not pose a nuclear threat to North Korea. In the same interview Kim described as insufficient a statement made on June 11, 1991, by State Department spokesman Richard Boudher that the United States would not use nuclear arms against North Korea or any other state that signed the Non-Proliferation Treaty.

On July 16 a North Korean negotiator, Chang In Sun, told reporters in Vienna that the DPRK and the IAEA had reached a final agreement "without any difference in views" on the draft text of the Nuclear Safeguards Accord under the Nuclear Non-Proliferation Treaty. Subsequently, in August 1991, North Korea stated that it would refuse to go along with the IAEA requirement unless the U.S. nuclear facilities in South Korea were also subject to on-site inspection and unless U.S. nuclear weapons were withdrawn from South Korea.

Premier Yon Hyong-muk, in his address before the UN General Assembly on October 2, 1991, failed to use the occasion to defuse the issue and dispel the suspicion. He did no reciprocate or exploit the opening given to him by U.S. president George Bush, who had announced unilateral measures to eliminate his country's worldwide inventory of land-based short-range nuclear arms, including those in Korea. Instead, Yon reiterated the DPRK Foreign Ministry statement of September 28, 1991, one day after Bush's announcement, saying: "If the United States really withdraws its nuclear weapons from South Korea, the way will be open for us to sign the nuclear safeguards accord." In taking an intransigent position, by refusing to abide by the IAEA nuclear safeguards measures, North Korea has become a pariah state, increasingly isolated and branded by the international community as an "Iraq of Saddam Hussein" of the East. North Korea has exposed itself as vulnerable not only to condemnation as a pariah state but also to the danger of a possible pre-emptive attack by South Korea. South Korean defense minister Lee Jong-koo stated, for instance, that commando raids might be considered against North Korea's nuclear facilities. He later retracted this remark as a "slip of the tongue."

29Pyongyang Times, October 25, 1991, p. 3.
North Korean thinking on the nuclear development policy is difficult to fathom. The DPRK is attempting to use the nuclear card in its dealings with the United States to establish diplomatic relations. However, the unilateral U.S. withdrawal of nuclear weapons from South Korea has undermined the DPRK strategy. Moreover, the nuclear card has proven so far to be counterproductive in North Korea's negotiation with Japan. No progress is likely in normalization talks with Japan until and unless North Korea convinces Japan that it has abandoned its nuclear development program and agrees not only to the IAEA on-site inspection but also to the challenge inspections demanded by South Korea.

The DPRK must also know that playing the nuclear card is a risky game that may backfire and can be counterproductive, leading to the opposite effect of hardening, rather than softening, the U.S. resolve not to yield to North Korean pressure. At the U.S.-ROK security conference in Seoul, U.S. defense secretary Dick Cheney announced on November 21, 1991, that the second phase of the planned U.S. troop withdrawal from South Korea had been postponed indefinitely because of the uncertainty created by North Korea's nuclear development plans.\(^{31}\)

On November 3, 1991, Pyongyang issued a statement, in the name of the delegation of the northern side of the high-level talks and the CPRF, registering a strong protest and demanding that the U.S.-ROK joint military exercise Eagle 91—which includes overall guerrilla training and an offensive drill for a special commando attack upon major targets in North Korea that presumably include the Yongbyon nuclear reprocessing plant under construction—be stopped immediately.\(^{32}\)

A Nuclear-Free Zone for Korea. North Korea is using the nuclear card also in its dealings with South Korea on inter-Korean dialogue and negotiation. This is why, for instance, North Korea insisted that the establishment of a nuclear-free zone on the Korea peninsula be included as an "urgent" item in the agenda of the fourth prime ministers' talks in Pyongyang. Although the matter was temporarily set aside and not included in the five-point joint communiqué issued at the end of the Pyongyang meeting, North Korean premier Yon stated in his speech on October 23 that "peace on the Korean peninsula is the most urgent problem which the north and the south should solve with primary attention" and proposed to consider the adoption of a "Declaration on the Denuclearization of the Korean Peninsula" by both sides.\(^{33}\)

This was not the first time that North Korea had proposed the establishment of a nuclear-free zone on the Korean peninsula and urged Seoul to make a joint declaration thereon. A statement issued by the DPRK Foreign Ministry on July 30, 1991, for instance, said that "the North and South should negotiate


\(^{32}\) *Pyongyang Times*, November 9, 1991.

\(^{33}\) Ibid., October 26, 1991, p. 4.
all the legal and practical matters related to turning the Korean peninsula into a nuclear-free zone and adopt a joint declaration with legal effect not later than the end of 1992." The proposal contains a three-point agreement: (1) the North and South of Korea shall agree on the establishment of a nuclear-free zone on the Korean peninsula and make a joint declaration thereof; (2) the United States, the Soviet Union, and China—the nuclear weapons states who were embroiled in the Korean War—shall legally guarantee the nuclear-free status of the Korean peninsula, once an agreement is reached and a declaration is adopted to this effect; and (3) the nonnuclear weapons states in Asia shall support the conversion of the Korean peninsula into a nuclear-free zone and respect its nuclear-free status.  

The proposal for a nuclear-free Korean peninsula in itself is not new. The North Korean government called for a nuclear-free Korean peninsula in its official statements issued on June 23, 1986, on July 13, 1987, and on November 9, 1989. The recent proposals, however, differ in significant details from these earlier ones. The November 9, 1989, statement, for instance, insisted on tripartite talks involving the DPRK, the United States, and South Korea. The latest proposal did not urge the United States to join in North-South negotiations on a nuclear-free Korean peninsula. Instead, it demanded legal guarantees from Washington as well as from Moscow and Beijing concerning Korea's nuclear-free status.  

Pyongyang refrained from making immediate response to the ROK enunciation of a new "nonnuclear policy" by President Roh Tae Woo on November 8, 1991. As a countermove to the DPRK proposal for a "nuclear-free zone of Korea," Seoul's three-point "declaration of nonnuclear Korean peninsula peace initiatives" stated that the ROK (1) will not manufacture, possess, store, deploy, or use nuclear weapons; (2) will not possess nuclear fuel reprocessing and enrichment facilities; and (3) will actively participate in international efforts to eliminate chemical and biological weapons. However, on November 24, 1991, Pyongyang raised a series of queries in an open letter issued by the Secretariat of the CPRF in which it demanded a more specific implementation plan for Roh's declaration, withdrawal of U.S. nuclear weapons and of the U.S. nuclear umbrella from South Korea, and open inspection and drawdown of the existing facilities for nuclear reprocessing and waste disposal in South Korea. The letter insisted that measures for the denuclearization of Korea that permit air, sea, and land passage of nuclear weapons through the territory are meaningless; that nuclear safeguards and on-site inspection are bilateral issues to be settled between the Koreas and the IAEA; and that discussion of those issues should follow, not precede, the withdrawal of U.S. nuclear weapons from South Korea.

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34Ibid., August 7, 1991.
36Korean Newsreview (Seoul), November 16, 1991, p. 4.
With the addition of the nuclear umbrella issue to the list of DPRK demands, Pyongyang is challenging the U.S. policy of providing nuclear protection to the ROK. This new demand by North Korea is likely to remain a hotly debated and controversial issue in future sessions of inter-Korean dialogue. The DPRK strategy is obviously to use the nuclear-free zone proposal as a weapon to force the withdrawal of all U.S. troops from South Korea and the abrogation of the U.S.-ROK security treaty.

The challenge inspection clause remains the major hindrance to North-South Korean negotiation and dialogue on inter-Korean relations in 1992. Whereas South Korea insists that both sides agree to open all “suspected” nuclear installations for inspection on short notice (hence, called “challenge” inspection), North Korea refuses to do so on the ground that such inspection violates the DPRK’s sovereignty and independence.

Special Economic Zone. The DPRK has an expressed interest in the Tumen River special economic zone project as part of the larger idea of a Northeast Asia regional economic bloc. For this purpose it sent delegates to the UNDP workshops, held in Ulaan Baator, Mongolia (July 6-7, 1991), and Changchun, China (August 29-31), which were attended by scholars and officials from various countries including North and South Korea, Japan, China, Mongolia, the former Soviet Union, and the United States. The UNDP project is based on a two-part development plan: first, the construction of a small delta zone comprising about 1,000 square kilometers stretching in a triangular shape from North Korea’s Najin port to China’s Hunchun and to the Russian port of Posyet, and later the inclusion of a large delta zone comprising about 10,000 square kilometers stretching from North Korea’s Chongjin port to China’s Yanji city and to the Soviet port city of Vladivostok to support the inner delta area.

According to the plan as submitted to the UNDP, North Korea is interested in establishing a special economic zone comprising the area surrounding the axis of three ports in northeast Korea—Sonbong (formerly known as Unggi), Najin, and Chongjin—which will serve as a joint-venture industrial complex as well as a center of trade intermediation. The Japanese daily newspaper Asahi Shimbun reported on October 2, 1991, that the DPRK Central People’s Committee would soon designate its northeastern coastal frontier as its first special economic zone. It also quoted a statement by the North Korean deputy minister of external economic affairs that the plan for the 621-hectare (1,424-acre) zone included preferential taxes and other incentives to promote joint ventures along the lines of China’s five special economic zones.

North Korea insists that the three ports could, with a slight improvement in facilities, handle twenty to thirty million tons of cargo originating in north-
east China (agricultural products), the Soviet Far East and Central Asia (coal and fertilizers), and Japan and other Asia-Pacific countries (manufactured goods and raw materials). Further, according to Pyongyang, with an enlargement of the port facilities and transportation network, the three ports could handle up to a hundred million tons of cargo annually.

The establishment of such an SEZ under UNDP auspices is more easily said than done. The DPRK is not fully prepared to launch joint ventures without first reforming its economic system of management and introducing market mechanisms. The political climate is not yet ready for North Korea to adopt such bold economic reforms as a special economic zone entails. For instance, in denying the possibility of “peaceful transition” of the socialist economy into a market economy, Kim Il Sung said that “the imperialists’ strategy of ‘peaceful transition’ is, in essence, aimed at bringing the socialist countries into the sphere of their political and economic domination by undermining them from within and swaying them to the path of capitalism.” Instead of taking the risk of joint ventures with capitalist countries, Kim appealed to the “progressive people” of the world not to be deceived by the imperialists’ “honeyed words.”

The DPRK must also compete with the former Soviet Union and China for foreign capital investment. Russia wants to develop the area near Vladivostok, China its Hunchun area as the center of the UNDP project. The DPRK is probably after some of the UNDP funds necessary to finance such development in Northeast Asia. Costs for the construction of ten or eleven modern marine terminals, housing, and related infrastructures have been estimated at US$30 billion. The special economic zone idea is another example of the wishful thinking of the DPRK that may or may not materialize.

Conclusion

Despite the recent signs of limited openings and relaxation in North Korea, such as the proposed special economic zone and the increased number of Western travelers allowed to visit North Korea in recent months, it remains to be seen whether the North Korean leadership is capable of carrying out its limited open-door policy to its full extent.

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40 Ibid.
42 It is interesting to note, however, that the UNDP-sponsored workshop was held in 1992 in Seoul and in Pyongyang, respectively, and that North Korea invited a visiting international team that included South Korean economists, among others, to tour the Sonbong-Najin area in 1992.
The DPRK strategic calculus in the post–Cold War era has been shaped by the self- and world images held by its top elites. Unfortunately for North Korea, its world image is not only self-righteous but also dangerously out of touch with the reality of the changing world. The trouble with the DPRK policy initiatives, according to one observer, is that they generally come too late, always falling behind the time or failing to keep up with anticipated changes.44

In politics as in anything else, proper timing is crucial in determining success or failure. From this perspective the North Korean ambition to achieve nuclear weapons capability is not only anachronistic but also dangerous to the extent of being condemned and resisted worldwide. Although the New York Times cautioned editorially “not to demonize North Korea,” Kim II Sung’s nuclear ambition was equated in the public mind with Saddam Hussein’s nuclear program, which the United Nations Security Council acted against.45 The relative lateness of the DPRK initiatives and bids for normalization talks with Japan, for seeking increased economic assistance from China in 1991, and for establishing a special economic zone under UNDP auspices are regarded in the same light.46

Such clumsy and outdated policies notwithstanding, the DPRK has pursued a strategy of “promotive adaptation” in the post–Cold War era.47 The announcement of the signing of an Agreement on Reconciliation, Nonaggression, and Cooperation and Exchange between the North and the South during the fifth North-South high-level talks held in Seoul on December 13, 1991, is a breakthrough in the North-South talks that will open a new chapter in ROK-DPRK relations. The adoption of this agreement, consisting of twenty-five separate articles, was hailed by the North Korean media as “an epochal event which has opened a bright prospect for the solution of the question of the country’s peace and reunification.”48

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46On December 28, 1991, the DPRK issued a cabinet decree establishing a 621-square-kilometer special economic zone around the two northeastern border ports of Sonbong (formerly Unggi) and Najin. Chongjin, a major port city down the coast that already transships goods for China, is to be a free port.
48Pyongyang Times, December 21, 1991, p. 2. The Pyongyang Times editorial stated that the credit for adopting the 1991 nonaggression pact went not only to “the wise leadership” of President Kim Il Sung and Comrade Kim Jong Il and the “correct policy of national reunification” advanced by the country’s party and government, but also to “the consistent sincere efforts and broad magnanimity” displayed by its side during the talks. The success was due especially, the editorial continued, to the DPRK’s “repeated concessions in many issues” including the adoption of a single-text document, the question of converting the state of armistice into a state of peace, the question of confidence building and disarmament, and the question of setting up a liaison office.
The subsequent announcement of an agreement on making Korea nuclear free reached by negotiators in Panmunjom on December 31, 1991, followed by an exchange of the signed documents by the respective prime ministers through Panmunjom on January 13, 1992, was also a significant step toward lessening tensions on the Korean peninsula. This agreement prepares a basis for a DPRK concession on the nuclear-development issue. The DPRK foreign ministry stated earlier, on December 22, 1991, that North Korea "will sign the Nuclear Safeguards Accord under the Nuclear Non-Proliferation Treaty and go through relevant procedures to get an inspection, on the premise that the United States will make its stand clear" regarding the reported removal of nuclear weapons from South Korea. The sixth prime ministers' talks held in Pyongyang on February 18–21, 1992, and the meetings between President Kim Il Sung and the visiting South Korean delegation also accelerated the process of normalizing ROK-DPRK relations. As a result the Korean glacier may finally begin to thaw and melt away in the post–Cold War era. The ultimate test of the success of these policy measures, however, will depend on what happens to the DPRK after the passing of Kim Il Sung in the days ahead. Until this moment of truth arrives, however, the overall trends in the Korean peninsula promise to be toward relaxation of tension, institutionalization of the peace process, and a greater cooperation and confluence between North and South Korea.

6. Foreign Policy Implications of Domestic Political Developments in the Two Koreas

B. C. KOH

Of the myriad factors and forces that help shape foreign policy, none may be as potent as the structure and dynamics of domestic politics. These encompass a wide range of variables such as the structure of decision making, especially the degree of pluralism; elite images and predispositions; political resources; and constraints on the latter.¹

In an open system operating within democratic rules of the game, inputs into foreign policy emanate from diverse sources: relevant government officials; members and, particularly, leaders of national legislatures; interest groups; and various "opinion leaders." Even in democratic politics, however, foreign policy making tends, by and large, to be an elite process in which top-echelon leaders of the executive branch play the dominate role.²

The elitist complexion of the foreign policy-making process is far more pronounced in relatively closed systems than in open systems. In closed systems, then, domestic structure impinges on foreign policy primarily through elite images, predilections, and behavior. To the extent that the latter are susceptible to external influences, however, analysis of foreign policy in such systems necessitates a scrutiny of nonelite variables as well.

The paucity—in the case of North Korea, the virtual absence—of pertinent data precludes a rigorous, in-depth examination of the ways in which domestic political developments affect both the formulation and implementation of foreign policy in the two Korean states. The approach taken in this chapter, therefore, is to identify the salient aspects of domestic political developments and foreign policy in the two Korean states and then speculate about the probable linkages between them.

**Domestic Politics and Foreign Policy in North Korea**

The most striking feature of the domestic political structure of the Democratic People's Republic of Korea (DPRK) is the extent to which it is dominated by its "great leader" (suryŏng) Kim Il Sung. Kim, who concurrently holds the titles of president (chusŏk) of the DPRK and general secretary (ch'ongbiso) of the Workers' Party of Korea (WPK), has been in power continuously since the inception of the DPRK in September 1948. His forty-five-year tenure in office constitutes a world record.

Also unparalleled is the length to which North Korea has gone in deifying Kim Il Sung. The Kim Il Sung cult, to be sure, can find its antecedents and analogues in those of Stalin, Mao Zedong, Ceaucescu, Sadam Hussein, and others; in terms of scope, intensity, and duration, however, the Kim cult is second to none. Kim's portraits, busts, statues, and putative words of wisdom are a permanent and ubiquitous fixture of the North Korean landscape; the mandatory wearing of the buttons bearing his portraits by North Korean citizens, a practice that has endured for nearly three decades, symbolizes both the intensity of the cult and the degree of regimentation in North Korea.

The "inspired scriptures" of the Kim cult are so voluminous that one can even get degrees in them from Kim Il Sung University. Kim has authored more than a thousand books and pamphlets; in April 1991 the WPK Publishing House published volume 37 of *The Works of Kim II Sung*, which includes his "classic works"—thirty-four "historic speeches and talks"—produced between January 1982 and May 1983. That the number of volumes already published—and there are certain to be more in the months and years ahead—

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4 Mary Ellen Fischer lists three requirements of a personality cult as (1) an iconography, (2) inspired scriptures, and (3) an infallible leader. See her paper, "The Ceaucescu Cult: National or Personal?" presented at the annual meeting of the Midwest Political Science Association, April 12–14, 1984, Chicago, Ill., p. 1.

5 See the lead article, complete with a picture of the new volume, in *Nodong sinmun*, April 8, 1991. It should be noted that *The Works of Kim Il Sung (Kim Il Sung chojakjip)* is different from other series that bear similar names. They are *Kim Il Sung sonjip* (Selected Works of Kim Il Sung) and *Kim Il Sung chojak sonjip* (Selections from the Works of Kim Il Sung).
eclipses the combined outputs of Lenin, Stalin, and Mao Zedong is testimony not only to the longevity of Kim’s reign but also to his ideological pretensions. His vaunted chuch’ë sasang (ideology of chuch’ë or self-reliance) is portrayed not merely as a creative adaptation of Marxism-Leninism to the realities of Korea but also as an original universal ideology that is more suited to the present era than Marxism-Leninism; by implication, the former is superior to the latter.  

Before speculating on the implications of both the Kim II Sung cult and chuch’ë sasang for foreign policy, we need to remark another salient feature of North Korea’s domestic structure, namely, the dynastic succession that has been under way since the early 1970s. Ever since his election as party secretary in charge of organization, propaganda, and agitation in September 1973, Kim Jong Il, Kim II Sung’s eldest and only surviving son by his deceased first wife, has been groomed as successor; Kim Jong Il’s position as his father’s “only successor” was all but formalized at the Sixth Congress of the WPK in October 1980. Since then he seems to have taken over the responsibility and power of running North Korea.  

For Kim II Sung’s unprecedented succession plan to succeed, that is to say, to survive his inevitable death, much work remains to be completed. The legitimization and institutionalization of the plan needs to be bolstered and solidified. Legitimization entails not only ideological indoctrination of the North Korean populace but, more important, performance by the successor that produces tangible benefits to the rank-and-file citizens. It is this pressing necessity that may have implications for North Korea’s foreign policy.  

No less compelling, from the standpoint of Kim II Sung and Kim Jong Il alike, is the need to preserve the idiosyncratic brand of socialism they have constructed in their domain in the face of socialism’s worldwide decline. This need, too, has important implications for the DPRK’s domestic and foreign policy.  

Let us now turn to some of the more noteworthy aspects of North Korea’s foreign policy, which is broadly construed to encompass its policy toward all external entities. Notable among the latter are the four powers surrounding the Korean peninsula, the Republic of Korea (ROK), and the United Nations (UN). Four important developments in North Korea’s foreign policy in the

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7For details regarding the chronology and dynamics of the succession, see Koh, “Political Succession.”
9Koh, “Political Succession,” pp. 6–17.
past few years are (1) its overtures toward Japan, (2) the deterioration of Pyongyang-Moscow relations, (3) the change in Pyongyang's policy toward the UN, and (4) the apparent ascendancy of pragmatism in its policy toward Seoul.

Of the four, the most important is the second development, for it in turn has contributed to the other three. Ironically, however, the second development happens to be one over which North Korea had the least amount of control, for it was the product of the conjunction of change in Soviet policy and vigorous diplomatic efforts by South Korea. Pyongyang's reversal of its two-decades-long policy of not engaging in government-to-government contacts with Japan can be understood as a compensatory response; should Pyongyang succeed in establishing diplomatic relations with Tokyo, that would pave the way for the influx of what Pyongyang hopes will be sizable capital, in the form of "compensation" or "reparations," loans, and direct investments. Such an influx of capital would in all probability more than compensate for the loss of Soviet "economic cooperation"; it has the potential to rejuvenate North Korea's sagging economy, something Soviet aid did not and perhaps could not do.

In what ways do the characteristics of North Korea's domestic structure affect its Japan policy? The cult of Kim Il Sung implies the centralization of policy making in North Korea; it is possible that most important policies, particularly those involving a reversal of previous policy, are made at the top. From the godlike stature Kim has attained in North Korea and the awe in which he is held, moreover, one can infer that a sober appraisal of existing policies and a dispassionate weighing of policy options may well be inhibited even in the inner sanctums of power. Few will dare tell the emperor that he has no clothes.\textsuperscript{11}

\textsuperscript{10}North Korea mounted a major effort to convince its own citizens that it is both determined to resist and capable of resisting the tide. See Kim Jong Il, "Inmin daejung chungsim üi urisik sahoe chuüi nün p'ilšung pulp'ae ida" (Our Socialism That Is Centered on the Masses Is Ever-victorious and Invincible), Nodong sinmun, May 27, 1991. This is said to be the text of a speech Kim Jong Il made to WPK Central Committee cadres on May 5, 1991; it occupies the first three pages of the WPK daily organ. For an English-language version, see Kim Jong Il, "Our Socialism Centered on the Masses Shall Not Perish," Pyongyang Times, June 1, 1991. The paper devotes the first six of its eight pages to the speech. Indicative of the importance North Korea attaches to the Kim Jong Il speech is its subsequent publication as a separate pamphlet by Choson Nodongdang Ch'ulp'ansa (WPK publishing house).

\textsuperscript{11}Defector testimony, which one should treat with extreme caution, tends to buttress this line of reasoning. Ko Yong-hwan, a 36-year-old former first secretary in the DPRK embassy in the Congo, who defected to the ROK in March 1991, says that North Korean diplomats who are posted abroad seldom transmit to Pyongyang any report that, no matter how important, may displease higher officials. He adds that long reports are explicitly discouraged and that even short ones are frequently ignored. From a recording of a talk he gave at the Research Institute for National Unification in Seoul in October 1991.
The decision to seek diplomatic normalization with Japan, therefore, may well have been made by Kim Il Sung. It was unveiled during the visit to North Korea by Kanemaru Shin, former deputy prime minister of Japan and leader of the largest Liberal-Democratic party (LDP) faction in the Diet, and Tanabe Makoto, then vice-chairman of the Social Democratic party of Japan (SDPJ) in September 1990.\textsuperscript{12} The decision was formalized in the “three party declaration” by the WPK, the LDP, and the SDPJ, in which they recognized the obligation of Japan to apologize and compensate not only for Japanese colonial rule in Korea but also for the “losses the Korean people have suffered during the 45 years since the end of the [second world] war.” The leaders of the two Japanese political parties further committed themselves to “strongly urging [their] government to begin government-to-government negotiations [with the DPRK] with a view toward establishing diplomatic relations and solving other problems.”\textsuperscript{13} The agreement was a major victory for Kim Il Sung and for his country.

The subsequent conduct of the North Korea–Japan negotiations for diplomatic normalization, of which there had been eight rounds as of December 1992, can be understood in terms of the idiosyncrasies of North Korea’s domestic structure. In a word, \textit{chuch’$e$ sasang}, which stresses national dignity and pride, appears to have contributed to the rigidity of North Korean posture. Even the imperative of succession politics—the need to pave the way for the infusion of Japanese capital and technology into North Korea—seems to have been eclipsed by the dictates of \textit{chuch’$e$}. As Kim Il Sung told Yasue Ryosuke, president of Japan’s leading publishing company, Iwanami Shoten, in September 1991:

\begin{quote}
The attempts by some countries to impose inspections of nuclear facilities on us amount to a flagrant violation of our sovereignty. The nuclear inspection issue is one which we should solve independently with the International Atomic Energy Agency [IAEA]; it is not something that is amenable to solution by international pressure of any kind. . . . It is plain that a country [such as North Korea] that equates \textit{cha}jusong [sovereignty and independence] with life itself can never tolerate pressure, hence interference in its internal affairs, from other countries.\textsuperscript{14}
\end{quote}

An alternative interpretation of the rigidity North Korea displayed on the nuclear inspection issue until December 1991 is that it was a function not only of \textit{chuch’$e$} but, more important, of Pyongyang’s desire to continue what both

\begin{footnotesize}
\textsuperscript{12} For details regarding the Kanemaru-Tanabe visit to North Korea, see 	extit{Asahi shinbun}, International Satellite Edition, September 26–29, 1990.

\textsuperscript{13} Ibid., September 29, 1990.

\textsuperscript{14} 	extit{Nodong sinmun}, November 11, 1991. The text of Yasue’s interview with Kim, which was conducted on September 26, 1991, occupies the entire front page of the WPK daily organ. The Japanese version of the interview appears in the September 1991 issue of 	extit{Sekai}, the monthly magazine published by Iwanami Shoten, of which Yasue is the president.
\end{footnotesize}
Washington and Seoul say is a project to manufacture nuclear weapons in Yongbyon, about sixty miles from Pyongyang. On the other hand, it should be recalled that North Korea had indicated a willingness to sign a nuclear safeguards agreement with the IAEA in September 1991; its refusal to do so, according to a statement issued by the spokesman for the DPRK Foreign Ministry on September 14, 1991, was due to the adoption by the September 1991 meeting of the IAEA Board of Governors of "an unjustified resolution unilaterally urging [North Korea] to sign a nuclear safeguards agreement and ratify it as quickly as possible." The spokesman labeled the move, spearheaded by the United States and Japan, "a wanton encroachment upon the sovereignty of our country and interference in its internal affairs. . . . We value sovereignty more than anything else."\(^{15}\)

The deadlock on the nuclear inspection issue was finally broken on December 31, 1991, when Pyongyang and Seoul initialed an agreement on denuclearization, in which both sides pledged not to "test, manufacture, produce, accept, possess, store, deploy or use nuclear weapons." They also promised not to "possess nuclear reprocessing and uranium enrichment facilities." Finally, they agreed to allow mutual inspections of nuclear installations.\(^{16}\) On January 30, 1992, North Korea signed a nuclear safeguards agreement with the IAEA.\(^{17}\)

The second major development in North Korea's foreign policy, the deterioration of Pyongyang-Moscow relations, as noted, has more to do with actions taken by Moscow and Seoul than with Pyongyang's policy per se. Nonetheless, Pyongyang did have a range of options in responding to the stunning speed with which Moscow and Seoul normalized their diplomatic relations. That it responded in the way it did—which is harshly to denounce Moscow without taking the extreme step of severing ties altogether—reflected the needs and attributes of its domestic politics. While chuch'e demanded a shrill articulation of indignation, the imperative of system maintenance argued against any rash retaliatory measure.

Five days after the establishment of diplomatic relations between the Soviet Union and South Korea on September 30, 1990, North Korea vented its anger in a Nodong sinmun commentary entitled "Diplomatic Relations That Are Sold and Bought With Dollars." Noting that Seoul had reportedly pledged economic cooperation to Moscow "to the tune of 2.3 billion dollars," the commentary said that "the Soviet Union sold off the dignity and honor of a socialist power and the interests and faith of an ally for 2.3 billion dollars." Nodong sinmun hastened to point out that since South Korea did not have such a huge sum of money, it would most likely come from a "special fund of the U.S. imperialists for undermining socialism." In a word, according to

Nodong sinmun, Moscow and Washington were colluding with each other to perpetuate the division of the Korean peninsula:

There is no change in the basic strategy of imperialism to overthrow socialist countries by means of military threats and blackmail, economic bribery and subjugation, and ideological and cultural contamination. A dignified and independent socialist country must naturally heighten vigilance against this and never fall into the trap laid by the crafty imperialists, blinded by the lure of dollars.\(^{18}\)

North Korea showed a little more restraint in April 1991 when Soviet president Mikhail Gorbachev held a summit meeting with ROK president Roh Tae Woo on Cheju Island. While mincing no words to vilify Roh, a Nodong sinmun commentary conspicuously refrained from mentioning Gorbachev by name. Instead, it accused Roh of “wooing the guest who was returning empty-handed from his Japan tour” and said that “the recent meeting [between Roh and Gorbachev] exposed the tragic sight of a family on the decline.” Nodong sinmun, however, accused “the Roh group” of becoming “more arrogant after joining hands with the Soviet Union” and of dragging its feet in inter-Korean dialogue, “claiming to be superior in strength” and “deepening confrontation and division.” In a revealing passage, Nodong sinmun wrote:

If the south Korean authorities had not deliberately brought the inter-Korean high-level talks to a crisis point, a more reasonable and flexible way of joining the United Nations would have been discussed.\(^{19}\)

Exactly a month later, North Korea made the stunning announcement that it would apply for separate membership to the UN, thereby reversing a policy it had steadfastly pursued since 1973. With the benefit of hindsight, the statement quoted above can be construed as a veiled reference to the policy change that would soon materialize.

North Korea made it plain that it was changing its UN policy grudgingly. In a statement issued on May 27, 1991, the DPRK Foreign Ministry stated that North Korea had no choice but to apply for membership in the UN in order to deal with a “temporary difficulty” created by South Korea’s decision to join the world organization as a separate member. Imposing that South Korean membership was certain, North Korea asserted that South Korea’s presence as a full-fledged member might lead to “biased discussion of important issues affecting the interests of the entire Korean people on the UN stage, producing grave consequences.” North Korea characterized the circumstances that made

\(^{18}\)Nonp’yŏng’won, “Ttalla ro p’algo sanŭn ‘oegyo kwan’gye’,” Nodong sinmun, October 5, 1990, p. 2. The amount of “economic cooperation” South Korea pledged to the Soviet Union was not 2.3 billion dollars but 3 billion dollars.

\(^{19}\)“One-act Play’ in Cheju Island,” Pyongyang Times, May 4, 1991, p. 8. This is a translation of an article signed by “commentator” (nonp’yŏng’won) that appeared in the April 27, 1991, issue of Nodong sinmun.
separate UN membership by the two Korean states necessary as “abnormal,” pledging that it would not abandon efforts to attain single membership for all of Korea.\textsuperscript{20}

The pivotal factor in Pyongyang’s UN decision was China. With change in Soviet policy, China had remained North Korea’s only hope; by casting a veto in the UN Security Council, China could block South Korea’s application for UN membership. To Pyongyang’s chagrin, however, Beijing apparently decided that pragmatic considerations—notably, the need not to jeopardize its growing economic relations with Seoul and to avoid diplomatic isolation in the UN—outweighed the need to please its longtime friend and staunch ally. That Pyongyang had little leverage over Beijing probably facilitated Beijing’s decision. Although Beijing found it useful and comforting to have a hard-line Leninist regime as a neighbor in a world of socialism’s demise, Pyongyang needed Beijing even more. Not only was China’s survival as a socialist state reassuring, but North Korea counted China as one of the two most important sources of assistance, the other being Japan. Against this backdrop, Beijing apparently conveyed its position to Pyongyang; given its timing, the visit of PRC premier Li Peng to Pyongyang may have been decisive. Li was in North Korea from May 3 to 6, 1991, on an “official goodwill visit,” meeting Kim Il Sung on May 4.\textsuperscript{21} As noted, North Korea announced its decision to apply for UN membership three weeks later.

Apart from the China factor, chuch’\`e, a cornerstone of North Korea’s domestic structure as well as foreign policy, seems to have played a part in the UN decision. As the DPRK Foreign Ministry statement cited above suggests, once it concluded that South Korea’s UN membership could not be forestalled, North Korea felt that it should not allow the hard-won symmetry in the status of the two Korean states at the UN tilt in South Korea’s favor. If the latter’s status was to be upgraded from observer to full-fledged member, then North Korea’s needed to be upgraded also. Pyongyang’s public explanation that South Korean membership would lead to one-sided discussions of the Korean issue at the UN was unconvincing. Pyongyang is familiar with the UN practice of allowing all parties to a dispute to participate in discussions regardless of their status at the UN.

Finally, the apparent ascendency of pragmatism in Pyongyang’s policy toward Seoul, which helped to produce an inter-Korean agreement on “reconciliation, nonaggression, economic exchanges and cooperation” in December 1991 merits discussion. It was not, of course, change in Pyongyang’s policy

\textsuperscript{20}Nodong sinmun, May 29, 1991. It is noteworthy that the publication of this statement in the WPK daily organ was delayed for a day; what is more, it appeared on page three of the paper. The statement, however, was released by the Korean Central News Agency (KCNA) on May 27.

\textsuperscript{21}Pyongyang Times, May 11, 1991. Kim Jong Il, who does not usually meet foreign leaders, was at his father’s side when the meeting took place. Significantly, Kim Jong Il’s only foreign trip since being named Kim Il Sung’s successor has been to China, and he has met all Chinese leaders who have visited North Korea in recent years.
The two sides agreed to take a number of steps to improve their bilateral relations. They agreed to "respect each other's political and social system" and refrain from interfering in each other's internal affairs, from slandering and vilifying each other, and from attempting to "sabotage and subvert" each other. They explicitly renounced the use of force against each other, pledging to settle all disputes through dialogue and negotiation. They agreed to "carry out exchanges and cooperation in diverse fields, including science, technology, education, literature, arts, health care, sports, environment, publishing, and journalism." They agreed to "permit free correspondence, reunions and visits between family members and other relatives dispersed in south and north." They would also "reconnect railroads and roads that have been cut off and . . . open North-South land, sea, and air transport routes." To facilitate its implementation, the agreement provides for the establishment of several structures—a North-South liaison office to be set up in Panmunjom, two subcommittees, two joint committees, and possibly more. 

Should the agreement be implemented faithfully, a new era of genuine reconciliation and cooperation between the two Koreas will dawn on the peninsula. What does North Korea hope to get out of the agreement? To rejuvenate its sagging economy, North Korea urgently needs an infusion of capital, technology, modern equipment, and managerial know-how. The least expensive way of getting all this is to normalize diplomatic relations with Japan, for normalization is certain to entail substantial compensation for colonial rule from Japan. However, Japan has set a number of preconditions, of which the two most important are North Korea's acceptance of mutual inspections of nuclear facilities by North and South Korea and progress in inter-Korean relations. In other words, North Korea needs the inter-Korean agreement to pave the way for an influx of Japanese money and technology.

Additionally, Kim II Sung may have concluded that expanding exchanges and cooperation with South Korea makes economic sense. He must also be aware of the risks involved—the danger of "ideological contamination" and the possible erosion of the unique system of chuch'e socialism he has forged over four decades. He may nevertheless have concluded that the benefits will eclipse the costs and that the risks can be minimized through a combination of ideological indoctrination and a careful management of North-South exchanges and cooperation.

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Domestic Politics and Foreign Policy in South Korea

If one word can sum up the changes that have occurred in South Korea’s domestic political scene in the past four years, it is democratization. To be sure, democratization is a process as well as a destination; no one, not even the most ardent supporter of President Roh Tae Woo, will be rash enough to suggest that South Korea has finally reached its goal.

Nonetheless, the amount of change that has already occurred is impressive. Particularly notable is the liberalization of controls on freedom of the press and of expression since the inauguration of the Sixth Republic in February 1988. Elections have become freer than before, even though the role of money and hence the advantages of government party candidates remain undiminished. The stellar performance of opposition parties in the National Assembly election of April 1988 would not have been possible had there not been a measurable decrease in government manipulation of votes and electoral irregularities. In that election, opposition parties captured more seats in the Assembly than the government party, producing the phenomenon of yoso yadae (small government party, big opposition parties). For the first time since the days of President Syngman Rhee, the National Assembly was able to perform its constitutional function of checking and balancing the executive branch.

The electoral verdict of April 1988, however, was effectively nullified in January 1990, when the ruling Democratic Justice party (DJP) merged with two of the three opposition parties. The new government party, named the Democratic-Liberal party, now controlled more than two-thirds of the seats in the National Assembly, thus relegating the latter once again to a de facto rubber stamp.

Notwithstanding this and other developments—such as the lack of progress or even deterioration in the human rights situation involving dissidents and prisoners of conscience—South Korea under Roh Tae Woo is patently less authoritarian than it was under his two immediate predecessors. Interest artic-

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25The National Assembly has become not only a rubber stamp but a tool of majority tyranny. To cite but one example, in May 1991 the majority party used a “sneak attack” tactic to ram through the Assembly two bills amending the National Security Law and the Police Law. After forcibly blocking members of the opposition party from entering the main Assembly hall, the government party enacted the bills into law in just thirty-five seconds. The opposition party had demanded more extensive revisions of the laws than the majority party proposed. Chosön ilbo, May 11, 1991.
ulation has become more nearly autonomous than was the case during the Park Chung Hee and Chun Doo Hwan regimes.

If one accepts the premise that South Korea today is a little closer to the goal of democracy than before, then one needs to ask whether that makes any difference in foreign policy making. Theoretically, at least, public opinion and interest groups can no longer be brushed aside. The National Assembly, however, does not appear to be playing a larger role. While the Assembly does have the power to question cabinet members—and Assembly members, including those belonging to the majority party, do occasionally ask tough questions and articulate their own views on foreign policy—it's net impact on foreign policy seems negligible.

It should be noted that this situation is not unique to South Korea. Michael Brecher's study of foreign policy making in Israel has shown that the "Knesset plays a marginal role in foreign policy... Debates on foreign affairs contribute to public education;... The Knesset's primary role is to legitimize Government acts." Brecher adds, however, that the Foreign Affairs Committee of the Israeli parliament, thanks to the high quality of its members, "has always exerted intangible influence on Israel's foreign policy."26

The generalization, noted at the outset of this paper, that foreign policy-making tends to be an elite process dominated by the executive branch strikes this observer as germane to South Korea. Since the executive branch is by no means monolithic and different players—such as top aides in the Blue House, the Agency for National Security Planning (ANSP), the prime minister's office, the Foreign Ministry, the Defense Ministry, the Unification Board, the Economic Planning Agency, and the Ministry of Commerce and Industry—may have differing perceptions and priorities, however, there is room for some pluralism in policy making. If the widely held view that Roh Tae Woo is not a strong leader is valid,27 then those with the best access to him may have an upper hand in policy debates and formulation. This suggests that top aides in the Blue House and others with whom Roh is particularly close may wield an inordinate amount of influence in domestic and foreign policy alike.

It comes as no surprise, therefore, to learn that presidential assistants and emissaries have played a key role in the pursuit of the "northern policy" (puk-bang chōngch'ae or nordpolitik), the centerpiece of Roh Tae Woo's foreign policy.28 The vigor with which the Roh Tae Woo government has pursued the northern policy, however, cannot be divorced from Roh's apparent determina-

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27 See, for example, An Pyong-yŏng, "No t'ae-u tae'ongnyŏng chidoryŏk ŭi segaji t'ŭkjing" (Three Characteristics of President Roh Tae Woo's Leadership), Sin tong'gu, April 1991, pp. 152–63.
28 Kim Hakjoon, chief assistant to President Roh for policy research, writes that Pak Chul-un, a close aide as well as a relative of Roh Tae Woo, is one of the chief architects of Roh's northern policy. See Kim Hakjoon, "Republic of Korea's Northern Policy," a paper presented to the International Conference on Korea's Democratic Experiment, Seoul, Korea, June 27-28, 1991.
tion to achieve a breakthrough both in foreign and in reunification policies. In other words, a domestic political development—namely, Roh’s election as president—goes a long way toward explaining the priority that policy has received, which in turn has been a key factor in the success of that policy.

What needs stressing, however, is that there have been other factors in the equation of the northern policy. The spectacular results of that policy, of which the most notable is the breathtaking speed with which South Korea has developed its relations with what is now called the former Soviet Union, owe not only to the Roh government’s unstinting diplomatic efforts but, more important, to the fortuitous convergence of at least three factors: (1) Seoul’s northern policy, (2) change in Soviet foreign policy, and (3) Seoul’s record of economic development.

Had it not been for the ascendancy of Mikhail Gorbachev’s “new thinking” (glasnost) and perestroika, Seoul’s diplomacy would not have succeeded. Nor could these two factors have sufficed. The impressive record of economic development South Korea had compiled since the 1960s provided the crucial incentive for Gorbachev. The opportunity to host the 1988 summer Olympic games in Seoul also helped to accelerate the process. In short, credit for the success of South Korea’s northern policy must be shared, albeit not equally, by four political leaders: (1) the late Park Chung Hee, who presided over South Korea’s transformation from a poor Third World country into an economic powerhouse in Asia; (2) Chun Doo Hwan, who was instrumental in winning the right to host the Seoul Olympics and who oversaw the bulk of the preparatory work; (3) Roh Tae Woo, who elevated northern diplomacy to Seoul’s foremost foreign policy objective; and (4) Gorbachev, who reshaped Moscow’s Korea policy guided primarily by pragmatic considerations.

South Korea’s northern policy has helped to alter North Korean policy as well. All of the four key developments in Pyongyang’s foreign policy examined earlier—its Japan policy, its relations with Moscow, its policy toward Seoul, and its UN policy—are linked to Seoul’s northern policy.

Another example of linkage between South Korea’s domestic politics and foreign policy may be found in Seoul’s relations with Washington, notably Seoul’s refusal, despite intense pressure from Washington, to open its rice market. ROK foreign minister Lee Sang-ok reportedly told Carla Hills, the U.S. Trade Representative, on November 11, 1991, that South Korea would not open its rice market “under any circumstances” because it needed to protect the interests of [its] farmers.” ROK minister of commerce and industry Lee Bong Suh was also quoted as having told Hills that the issue of “opening the rice market has emerged as a sensitive political issue in our country,” explaining that it would therefore be “impossible” for his government to accede to the American request. Flexing its muscle, South Korea’s principal

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29 *Han’guk ilbo*, November 12, 1991. Carla Hills, along with Secretary of State James Baker and other U.S. officials, was in Seoul to attend an Asia Pacific Economic Cooperation (APEC) meeting.
agricultural interest group, Nonghyop Chung’ang-hoe (the Central Organization of Agricultural Cooperatives) collected 2.2 million signatures on a petition it sent to President George Bush and the secretary general of GATT (General Agreement on Tariffs and Trade) expressing South Korean farmers’ “absolute [opposition to] the opening of South Korea’s rice market.”

It is, of course, possible that pressure from farmers and their organizations alone cannot account for Seoul’s policy on rice imports. That the same policy was maintained during previous regimes suggests that its main source is perceived national interests. Nonetheless, it is plausible that the democratization under way in South Korea has indeed increased the weight of farmers’ interests in the policy calculus.

Finally, the impact of domestic politics can be postulated in South Korea’s policy toward North Korea as well. The Roh government’s policy toward the North has been remarkably conciliatory and effective. Nonetheless, the Roh government has been somewhat constrained by the need to appease domestic constituencies that by and large cling to a hard-line approach. Notable among these are the military and refugees from the North. Both of these are formidable groups; they wield considerable power in South Korean politics, albeit not overtly. One must hasten to add that the Roh government’s reluctance to give Pyongyang the benefit of the doubt stems, to a striking extent, from Pyongyang’s own track record and intransigent behavior. One example of the latter is the refusal, until December 1991, of the North Korean press to reciprocate goodwill gestures from South Korea. Although the South Korean press stopped referring to North Korea as “puppets” many years ago, the North Korea press continued to refer to the Roh government as the “fascist puppet clique” until December 1991. More serious is North Korea’s adherence to its “united front” tactic of encouraging and insisting on dealing directly with various opposition groups in South Korea while simultaneously carrying out dialogue with the Roh government. What effect the December 1991 agreement will have on this aspect of North Korean behavior remains to be seen.

Despite all this, one gets the strong impression that the Roh government’s policy toward the North has not always been as flexible as it claims. An inter-Korean agreement, for example, could have been signed in December 1990 instead of a year later had not Seoul insisted on what was tantamount to a capitulation by Pyongyang. The collapse of socialism in Eastern Europe and in the Soviet Union, the success of its northern policy, and North Korea’s economic difficulties—all of these things undoubtedly have bolstered Seoul’s confidence, sharply curtailing any incentives for compromise. North Korea’s complaint that Seoul has become “arrogant” is not groundless.

What made the inter-Korean agreement possible in December 1991 was not only Pyongyang’s display of pragmatism but also Seoul’s willingness to

be more flexible than before. One may hazard the guess that Roh Tae Woo’s political need may have been a factor. With only fourteen months left in his term of office, Roh needed a stellar achievement in his policy toward Pyongyang. Although his northern policy has been extraordinarily successful and he could relish the ROK’s admission to the UN, he had yet to usher in a new era of reconciliation and cooperation between North and South Korea—a goal he had enunciated in his inaugural speech in February 1988. Democratization, it is true, was making steady progress. Yet it would most probably not be consolidated during his term. In economic policy, his track record was mediocre or, perhaps, dismal. In 1991 South Korea had a record trade deficit of nearly $10 billion. In a word, Roh needed a breakthrough in inter-Korean relations. And he seems to be very close to having his wish fulfilled.

Conclusion

Although domestic politics exerts potent influence on foreign policy in the two Korean states, the specific contents of the linkage between the two phenomena remain elusive. This chapter, therefore, is a largely speculative exercise. From the salient characteristics of their respective political systems, including recent developments, one can postulate that the potency of domestic structure on foreign policy is greater in North Korea than in South Korea.

Three key features of North Korean politics, all interrelated, help account for many aspects of its foreign policy. They are (1) the cult of personality centered on Kim Il Sung, (2) the apotheosis of chuch’e sasang, and (3) the dynastic succession that has been under way for nearly two decades. These may affect Pyongyang’s foreign policy in diverse ways. The extreme length to which the cult is carried suggests an extraordinary degree to which policy making may be centralized; the enormity of the social distance between the Great Leader and other participants in decision-making councils; the difficulty of transmitting the necessary information to the top; and a sluggishness in decision making, particularly in responding to new stimuli in the external environment—these can only impede a rational assessment of policy options.

An unswerving commitment to chuch’e leads to a hypersensitivity to national dignity, pride, and sovereignty; rigidity; and self-righteousness. The successful implementation of the succession plan, in which substantial progress has already been made thanks largely to the sheer longevity of the preparatory or transition period, necessitates performance by the successor, Kim Jong Il, who seems to have already become North Korea’s de facto manager of domestic affairs. Performance means more than anything else revitalizing North Korea’s flagging economy and raising the living standard of its citizens; this revitalization requires an injection of a large dose of pragmatism into economic and foreign policies alike, for the two are related. The sudden reversal in North Korea’s policy toward Japan in late 1990 and Pyongyang’s energetic pursuit of diplomatic normalization with Tokyo can be understood against the preceding backdrop.
The rigidity Pyongyang has displayed in its negotiations with Tokyo may be linked, among other things, to its chuch’e sasang. Chuch’e also helps to explain change in North Korea’s UN policy, for its desire to preserve the hard-won symmetry of its status in the UN with its arch rival appears to have been a key factor in its calculations. The apparent breakthrough in inter-Korean relations, signaled by the signing of an agreement on nonaggression and economic cooperation in December 1991, indicates that pragmatism, fueled by pressing domestic needs, is now in the ascendancy.

As far as South Korea is concerned, the most conspicuous change in its domestic politics has been democratization, which began with the inauguration of the Sixth Republic in February 1988. The predominantly elitist nature of foreign policy making, however, remains unchanged. Nor has the National Assembly made any significant inroad into the foreign policy realm, leaving top officials of the executive branch, particularly those with the best access to the president, as the dominant players. President Roh Tae Woo’s personal predilections, notably his apparent desire to achieve a breakthrough in foreign and reunification policies, have played a major part in shaping foreign policy, of which the centerpiece has been his vaunted northern policy.

The success of that policy, however, must be seen in its proper perspective: it is the product of the fortuitous convergence of a number of developments, of which the Roh government’s diplomatic efforts is but one. The others include the groundwork laid by Roh’s two predecessors, the late Park Chung Hee and Chun Doo Hwan, and most important, the ascendancy of pragmatism in Soviet foreign policy under Mikhail Gorbachev.

The impact of democratization on foreign policy may be seen in the enhanced role of public opinion and interest groups. Thus one may hypothesize that two powerful interest groups, the military and the refugees from North Korea, help set limits to the extent to which the Roh government can adopt a conciliatory posture toward North Korea. In contrast, Roh’s political need—his desire to achieve a breakthrough in inter-Korean relations before he steps down—can neutralize countervailing influences. Seoul’s dogged resistance to Washington’s mounting pressure to open its rice market is another example of the growth in the power of interest groups, although the latter may not necessarily be a decisive factor.

Domestic political developments, then, will continue to play a pivotal role in the evolution of foreign policy in Seoul and Pyongyang alike. While further progress in democratization in South Korea may serve to tone down the elitist complexion of foreign policy making somewhat, it may also produce salutary effects on inter-Korean relations. For it may well convince North Korea of the futility of its “united front tactic,” which it is obligated to jettison under the terms of the inter-Korean agreement of December 1991.

Progress in the legitimization of the political succession in North Korea, fueled by diplomatic normalization between Pyongyang and Tokyo and the attendant infusion of much-needed capital and technology into the North
Korean economy, has the potential to generate positive consequences as well. Coupled with the benefits of expanded exchanges and cooperation with South Korea, the aid from Japan—much of it in the form of compensation or reparations—will help rejuvenate the North Korean economy and improve the North Korean people's standard of living. A major challenge for the North Korean leadership will be how to manage the influx of not only Japanese capital and technology but also South Korean goods and know-how without destabilizing their political system. The example of China, although marred by the Tiananmen incident of June 1989, could serve as a model: it has shown that pragmatism in economic and foreign policies need not undermine political orthodoxy. China's "success," though, may be illusory and short lived. An unforeseen development in China's political scene may well have a ripple effect on North Korea as well.
7. Confidence-Building Measures vs. Conflict-Laden Scenarios in Post–Cold War Korea

THOMAS W. ROBINSON

The abrupt and unexpected end of the Cold War in 1989–90 and the equally surprising and sudden fall of communism in the Soviet Union in 1991 have imparted a new dynamism to events on and surrounding the Korean peninsula. The old international system built upon the structure of superpower bipolarity and nuclear deterrence has been sundered. But no definitive set of arrangements worthy of the name "system" has yet taken its place. Global and regional security arrangements are therefore undermined if not fractured. It is true that the probability of global conflict has been all but eliminated for the foreseeable future. But because the potential for rapid change is high at all levels—global, regional, and subregional—it is unclear whether international actors will seize the opportunity thus presented to construct new, higher-order systems or drift along without vision and risk breakdown into a plethora of regional or subregional conflicts. The present juncture thus cries out for new thinking about the future of Korea as it relates to these developments and possibilities.¹

This is all the more so since trends on the peninsula, in train for many years, are now approaching their respective end points more or less simultaneously. These include the Kim II Sung succession in North Korea (Demo-

¹A new industry essaying on the "new world order" is emerging. Among these, see in particular those in Foreign Affairs by William Hyland (Spring 1990 and the 1991/92 annual), Theodore Sorensen (Summer 1990), Paul Nitze and Robert W. Tucker (Fall 1990), William Pfaff (1990/91 annual), John Lewis Gaddis (Spring 1991), Robert D. Hormats (Summer 1991), Zbigniew Brzezinski (Fall 1991), and David Gergen, Lawrence Freedman, and Strobe Talbott (1991/92 annual); and in Foreign Policy by William Maynes (Spring 1990), Marshal Bremen (Fall 1990 and Fall 1991), Joseph Nye, Jr. (Fall 1990, as well as his Bound to Lead: The Changing Notion of American Power [New York: Basic Books, 1990]), Gregory Flynn and David J. Scheffer (Fall 1990), Stanley Hoffmann (Winter 1990—91), Ted Carpenter (Fall 1991), and James Schlesinger (Winter 1991—92). See also Richard J. Barnet, "Reflections (The Disorders of Peace)," New Yorker, January 20, 1992, pp. 62—74.
ocratic People's Republic of Korea); the shifting of the conventional South-North military balance slowly but decisively in favor of South Korea (Republic of Korea); the impending socioeconomic crisis in the North born of the massive failure of communist rule over four decades; the further emergence of democracy and a fully interdependent, developed economy in the South; and continuous movement toward acquisition of a nuclear weapons capability by the North. To this list should be added such important Asian regional developments as the withdrawal pro tems of the Soviet Union as a major participant, the impending improvement of Japanese-Soviet relations, the construction of a highly capable Japanese military force and the consequent reentry of Japan into overall Asian security calculations, the continued growth and external participation of a still-reforming China in Asian regional and global affairs, the slow but inexorable withdrawal of American military forces from Asia, and the emergence of a dynamic and productive Asian and trans-Pacific economy based on continued high growth rates and increasingly high levels of national wealth. The stage is thus set for major changes on and around the Korean peninsula that, whether peaceful or conflictual, will surely be transforming. The most important change is, of course, the impending reunification of Korea.

Analysts and decision makers in all the relevant nations have spent a great deal of their attention and material wherewithal over many years trying to figure out how to keep the peace on the peninsula and how to make initial preparations for changes in the two Koreas that would eventually lead to reduction of tensions if not outright reunification. Many documents were drawn up, a military strategy was worked out between the South Koreans and the Americans, forces were fielded by way of implementation, probably too many conferences were held on the subject of Korea’s future, and a few

creative ideas were even forwarded. However, most of those pieces of paper, much of that military strategy, and the reports of most of those conferences have been overtaken by the events of the post-1989 period. That goes in particular for the term “confidence-building measures,” or at least much of its specific contents as applied to the Korean case. It is time, therefore, for a fresh look at the entire situation.

Indeed, the whole approach stressing step-by-step mini-solutions to the Korean “problem” (i.e., a split country with one side deliberately attempting to impose its will on the other by military force or subversion), symbolized by the term “confidence-building measures,” seems to require fundamental questioning and perhaps wholesale alteration. This approach was founded on the assumption of the static (or very slowly changing) nature of the global system, of ultimate superpower control over major changes on the peninsula exercised through the exclusive possession of nuclear weapons, of domestic control by the Korean Workers’ Party (i.e., Kim Il Sung and his family entourage) over the North Korean populace, of a rough balance between military forces south and north of the demilitarized zone (DMZ), of the lasting nature of communist power in all states ruled by such parties, and of the reunification of Korea only much later and then in some rational, peaceful, agreed-upon manner. None of these assumptions meets the test when matched with the reality of the early 1990s.

So it seems time to look at the Korean problem from the beginning. That means figuring out how the new configuration of security relations among the outside powers may impinge on the situation on the peninsula, what likely alternative succession scenarios might occur in the North and how


4There is, of course, a large literature on Korean reunification, best reviewed in the publications of the Research Center for Peace and Reunification of Korea. These include the journal Korea and World Affairs (especially articles by Lee Hong-Koo [Winter 1990] and Kim Hak-joon [Spring 1991]), the multivolume Korean Unification Study Series (ten books through 1989), and the three-volume Korea Unification, covering the years of 1976–86. In addition, see the Journal of East Asian Affairs, articles by Kim Cae-won and Kim Young-yeh (Summer/Fall 1991); and Kim Hak-joon, “Korean Reunification: A Seoul Perspective,” paper presented at the Conference on Unification of Multi-System Nations, Taipei, Taiwan, September 27–29, 1991.
they could affect relations between Pyongyang and Seoul, how and when reunification might come about, and what in particular may have to be done about the North Korean nuclear weapons program and how that program and the reactions to it could affect the previous two topics. The composite of these trends will form the new meaning of “confidence-building measures” for the 1990s.

Asian Security Post–Cold War and Korea

Despite the fluid nature of the post–Cold War world, it is not difficult to understand the trends and forces at work that will eventually coalesce to form a new Asian security system. Only remnants of the old system remain, together with intimations of what could come, but broad outlines of these trends and forces are discernible.

The Sino-Soviet-American strategic triangle has been replaced by a loose, informal multipolar relationship among five power centers: North America, Europe (West and East), Russia, China, and Japan. Among these five, formal alliance ties mean less than before, and ad hoc approaches to security problems seem to be the rule. A Directory of Developed States, symbolized by the Group of Seven (U.K., U.S., France, Germany, Japan, Canada, Italy), has emerged, informally linking the market democracies. Russia may well join that group if it succeeds in adopting a similar set of domestic institutions, in which case the power of the resultant combination would be overwhelming. China would then find itself isolated until it too successfully democratizes and marketizes.

The three massive secular global trends of recent decades—democratization, marketization, and interdependence—will continue. Communism will continue to be replaced by democracy, centrally planned economies will continue to marketize, and interdependence in many areas will increasingly dominate domestic and international life. No nation will be able to escape the effects of these trends, and all will have to embrace them wholeheartedly if they want to play an important role in world affairs.

All five power centers will need to devote more of their resources and policy attention to solving domestic problems and less to foreign affairs. This is true of China, where economic development dominates; of Europe, where unification takes precedence; of the United States, where economic and social problems are rapidly pushing to the fore; of Russia, where regime survival and political-economic transition are the only things that matter; and even of Japan, where domestic problems, long ignored, cry out for attention.

Technology will increasingly dominate life. Those states that are technologically advanced and dynamic will prosper; those that are not will fall behind and become irrelevant.
Global issues, led by environmental concerns, will emerge definitively onto the world agenda, becoming foreign policy issues of the first magnitude.5

For Asia, the implications of these five trends are already reasonably clear.

Existing alliances will continue to atrophy, be modified, or disappear, with no new set to take their place. The four regional great powers—the United States, China, Japan, and Russia—will work ad hoc to solve regional problems, including those concerning Korea.

No new Asian balance-of-power system will emerge soon. Indeed, all will wish to avoid constructing or slipping into such a system for fear of the end point of all such systems, war. Nor will an Asian collective security system emerge; none of the great powers is yet willing or able to take the lead, although the United States is the logical candidate and could do so later in the decade. With a neither-nor nonsystem, a rough equality is emerging among the four, as the United States and Russia continue to decline in relative power and China and Japan increase in strength.

Asian affairs will thus be addressed as they come up, combining great-power laissez faire-ism and middle-power activism. While temporarily withdrawn from active participation, Russia will soon be pulled/invited into Asia. And China will be given the choice of participating in regional matters in a peaceful, cooperative matter along with the United States and Japan or face not-so-splendid isolation. It will probably continue to choose the former.

The center of regional activity will continue to shift from security to economic concerns—trade, growth, tariffs, investments, technology transfer, and construction of regional economic institutions. The center of new economic growth will also disperse, from Northeast Asia northward into Siberia, southward into Southeast Asia, and eastward into the trans-Pacific economic community. Nations will order their relative importance more according to economic criteria than traditional military-oriented measures of power.

These trends, if correctly reported and assessed, carry direct implications for Korea.

U.S. and Russian nuclear arms reduction commitments announced in 1991 will have to be spelled out in detail in Asia. Aside from the U.S. removal of such weapons from South Korea, such reduction has two compo-

ments: reduction of ground and air-delivered weapons (both intercontinental and regional) deployed in the Siberia/Russian Far East region and cooperative U.S.-Soviet reduction of sea-based weapons, on both surface and submarine warboats. While this is an exceedingly complex topic, details of which are only beginning to be discussed in Washington and Moscow, quantitative reductions by either or both sides will increase pressure on North Korea not to acquire such weapons. Moreover, cooperative agreements (such as a nuclear-free zone in the Sea of Okhotsk/Northwest Pacific) could easily be extended by the United States and Russia to include commitment not to launch nuclear weapons onto Korean soil from such locations. A great powers–led nuclear-free zone in Northeast Asia, including the Korean peninsula, could thereby be achieved step by step.6

The shift from emphasis on military to economic factors of power, the emerging relative equality among the four great Asian powers, the decline of formal alliance/alignment arrangements, and the rise of Concert of Europe–like committees-of-the-whole/ad hoc approaches to regional issues together imply that the four are more likely than not to stick together regarding internationally reachable Korean issues—for example, the North Korean nuclear question, the wisdom of eventual all-around diplomatic recognition of South and North (indeed, of the necessity for early and rapid movement toward that goal), insistence on peaceful reunification and the means thereto, and the international role of a reunified Korea. Both international and local efforts will be necessary to settle such issues. The most important tool regarding the latter three issues (and to a lesser extent the first) is likely to be holding out the inducement of trade and investment by the United States and Japan in North Korea in exchange for improved behavior on Pyongyang’s part. Moreover, it is unlikely that the four will so decidedly split on Korean issues or over such a lengthy period as to begin forming a new Asian alliance system.

An important emerging inducement for Pyongyang not to acquire nuclear weapons is the likelihood that Japan would otherwise be constrained to possess them also. The post–Cold War tendency is for the Japanese military buildup, originally pressured by the United States as an anti-Soviet measure, to taper off now that the Russian threat is much less and could, with further arms control developments, virtually disappear. No one wants to give Japan a substitute reason to rearm, to say nothing of gaining a nuclear capacity. So Japan may not only join the United States, China, and


Russia in exerting extreme pressure on North Korea but the latter three will use this argument themselves in their own policies toward the North. It is likely that the U.S.-Japan Security Treaty will be redirected away from its original anti-Soviet content. And since the United States may, by the middle 1990s, finally discover its interest in leading the way to construction of a new Asian collective security system, the solution of the Korean reunification question may be closely linked to the emergence of such a higher-order system. Such a development could provide an inducement for both Koreas to reunite peacefully through negotiation and for a reunited Korea to become a responsible, nonthreatening member of that system.

If there is utility in these possibilities and suggestions, the way is open to redefining the term “confidence-building measures” to include many Korea-related specifics and to link the latter to trends and developments in the broader Asian arena. This is as it should be. The original meaning of the term was narrow, cramped, and overly constrained by the near zero-sum nature of the Cold War system. Its new, more dynamic, and less constrained content is closely connected, as it must be in the name of realism, with the general post–Cold War trends noted above.

Succession Possibilities in North Korea

The Kim II Sung succession will undoubtedly take place in the 1990s. Too much has already been written about this topic as well as about Kim Jong Il’s prospects. Recently, however, three additional factors have come to bear on the subject. The first is the unfortunate if understandable propensity of analysts in South Korea and, to a lesser extent, in the United States not merely to presume (admittedly, on the basis of some evidence) that the succession will go reasonably smoothly but also to conclude, mostly for domestic South Korean reasons, that it would be useful if succession were to

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be later rather than sooner.\textsuperscript{11} There has consequently arisen a degree of unrealism about the succession, especially as concerns nonpeaceful scenarios. The second is the very fact of the fall of communism almost everywhere outside of Asia. Not only was it unexpected, not only did such seemingly secure dictators as Nikolai Ceauşescu fall as well as the others, but these examples must lead to the conclusion that a similar fate may await the two Pyongyang Kims. The third is that the outside world is, too slowly to be sure, finally acquiring a reasonably solid basis of knowledge about the realities of North Korea.\textsuperscript{12} Those realities in many regards are not pleasant; they open the possibility of rapid change after Kim II Sung leaves—toward an opening to the rest of the world, toward a revulsion against communist rule, and even, perhaps, toward internal conflict attendant upon or following the succession.

\textbf{Nonpeaceful Succession Scenarios in North Korea}

This is not the place to sketch out all possible succession scenarios in Pyongyang. But it is useful to outline the range of alternatives and to focus on two nonpeaceful possibilities in order to resensitize ourselves to what could happen. The way will then be open to what outside parties might do to foster some outcomes and avoid others.

It is possible, of course, that Kim Jong II could maintain himself in power.\textsuperscript{13} But (to quote the phrase) Kim Jong Il is no Chiang Ching-kuo. His personality works against him: he appears to be more buffoon than politician. Communist history provides no examples of successful father-son suc-


\textsuperscript{13}One way would be to provide him with enough titles and give him enough experience as to make him selectively unassailable. That is, of course, the elder Kim’s strategy, as witness Jong II’s reported promotion in December 1991 to supreme commander of the army. The official biography of Kim Jong II is Park Jin, Qim Kong-il, and Pak Hong-jo, \textit{Great Leader, Kim Jong-il}, 2 vols. (Tokyo: Sorinsha, 1985–86).
cessions or successful prearranged successions in general. The younger Kim does have unrivaled experience (but so did Malenkov), he does appear to exert much institutional control and has probably long since established his own personal kwan-gyae network, and many in Pyongyang would probably rather see him remain in office than face the prospects of societal disorders or violent factional struggles. But the “demands of the times” are against him. He does not seem to possess innate leadership qualities. He is too much under his father’s shadow, and it is doubtful he will ever emerge. Required of post-Kim North Korea is a series of rapid and thoroughgoing reforms internally and a brand-new foreign policy. Kim Jong II is not the person to lead such a revolution from above.\(^{14}\)

More likely is that an army coup will supplant the younger Kim. The military is the only viable institution in the North aside from the Korean Workers’ Party. But the latter is really a vehicle for Kim Il Sung and may not be strong or viable enough to administer the country after him. The army could, it is true, prop up Kim Jong II for a time, but occasion would soon be found for his ouster. The problems with military rule, however, are many. Military rule would mean the end of Kim Il Sungism, of chuch’è, the only idea justifying the enormous sacrifices required of the North Korean people over so many years. Therefore, some new ideology would have to be found, and the only candidate—aside from modernization through a combination of marketization, democratization, and interdependence—is a Korean version of antiforeign, authoritarian, Confucian nationalism.\(^ {15}\) That might do for a while, but the history of communism indicates that much more by way of reform is needed. Militaries can become modernizers, but North Korea is too far along in terms of modernization for that. Moreover, the history of such rule elsewhere indicates a propensity to factionalism and division within the military, leading to violent power struggles, uncertain outcomes, and long delays before the modernist impetus begins again.\(^ {16}\) Finally, militaries, communist or not, generally do not make good rulers over the long run, as was found in Poland.

These two scenarios at least have the virtue of providing short-term stability in the North. The next two do not.\(^ {17}\) In the first, Kim Jong II meets

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\(^{15}\)See Thomas W. Robinson, “Modernization and Revolution in Post–Cold War Asia,” *Problems of Communism*, January/February 1992, pp. 170–79, for the three general trends. The theme of Confucian nationalism under an authoritarian regime is often sounded but as yet poorly studied.

\(^{16}\)See the classic study, John J. Johnson, ed., *The Role of the Military in Underdeveloped Countries* (Princeton: Princeton University Press, 1962), which theme has been borne out in many nations over the past three decades. In the end, military rule fails and democracy takes its place, if slowly. See, in this regard, the four-volume series *Democracy in Developing Countries*, ed. Larry Diamond et al., esp. vol. 3, *Asia* (Boulder, Colo.: Lynne Reiner, 1989).

with firm opposition from a combination of anti–Kim Il Sung party-army modernizers who wish, in addition, to reunify Korea through peaceful negotiations. When the young Kim attempts to purge this group his operation goes awry, precipitating an open split. This becomes publicly known, and the Pyongyang populace swarm onto the streets demanding retribution against those who have suppressed them for so long. The many tensions of the society now emerge, people begin to take their private resentments into their own hands, and the level of public disorder rises swiftly. To save himself, Kim Jong Il attempts to transform the situation by ordering an invasion of the South, and enough units of the army, being so well practiced for so long, carry out the invasion. The party-army opposition, finding the country at war, scatter, while the populace, trained for mobilization and realizing a new strong man is at the helm, obey the call for war.

In the second scenario, the initial setting is the same as previously described to the point where young Kim orders a southern invasion. Now, however, the party-military opposition countermands his order, making the split even more apparent. Army units thus confront each other, security forces split, and the party fractures along pro-Kim and anti-Kim lines. Many of the populace seek safety by siding with the anti-Kim units, while Kim orders his loyalists to destroy the opposition. The latter, finding themselves under pressure, open a channel to the South for support with the promise of unification mostly on Southern terms. The gravity of the situation in the North is soon made evident in the South, however, and it is discovered that sections of the DMZ are open because of the fighting in the North. Pressures rise very rapidly for a northward movement of the ROK army to take advantage of the situation, and although the army is properly fearful of the consequences, so much of the populace—led by the students—has rushed to the border that the military feels it has no choice but to move out ahead of them, if for nothing else than protection. A new Korean conflict thus begins, with the outcome as uncertain as in the previous instance.

There are many other scenarios, of course, including more explicit parallels with the 1989–91 events in China, Eastern Europe, and the Soviet Union. In all but the first, these led to the downfall of communism and, in the German case, to collapse of the East and reunification by absorption by the West. These have obvious implications for the Korean case. However, the point is not to spin out various possibilities but to sensitize the reader to the conclusion that the impending succession in North Korea could be decidedly nonpeaceful, unstable at least, and could lead to governmental and social collapse in the DPRK, rapid and messy reunification, or war.

Are there measures that the four outside powers as well as South Korea could adopt to cope with these possibilities? The most obvious is to admit openly that unpalatable possibilities exist. Public discussion and research not only enhance prospects for understanding, and hence raise the quality of policy choices available to the relevant state. They also encourage research-
ers, heretofore divided by the Cold War, to work together on North Korean matters. Russians, Chinese, and Japanese have much expertise on North Korea\textsuperscript{18} and, at least in the first two instances, the way is open to joint work with colleagues in South Korea and the United States. It also seems obvious that the sooner North Korea opens up economically the better. That of course implies all-around diplomatic recognition of the North as soon as possible—but not making recognition dependent on changes in Pyongyang’s stance on the nuclear weapons issue, on the need for the United States to assuage Seoul’s diplomatic sensitivities, and the like.

The diplomatic-economic open door can only help create understanding in Pyongyang eventually of the outer world and hence lessen the present feeling of isolation and threat. Kim Il Sung’s successors would thus feel they have more than the kind of all-or-nothing choices that, as above, could precipitate conflict. The open door of course will eventually help to transform North Korea by bringing in the winds of democratization, marketization, and interdependence; and that transformation could, in the short to medium run, disorganize the society such that social breakdown is more probable. But such breakdown may be highly likely anyway. And if the ultimate goal of the market democracies for North Korea is replacement of totalitarian communism and reunification with the South on Southern terms, it is better that that process begin sooner rather than later. Conflict within the North can thereby be lessened or even avoided, and the prospects of a new Korean War following from succession in Pyongyang could decline.

Three conclusions emerge from this discussion of succession. One is that the presence in Pyongyang of as many official representatives, private citizens, and corporate entities of the relevant states and international institutions as possible could only improve the situation. It would do so by exerting a direct stabilizing influence on the internal situation in the North and by enhancing the reality quotient of the North Korean world view. Another is that an increase in knowledge about North Korea, and by North Koreans of the outside world, could only be for the good. Perhaps it is useful to assert that a massive effort in the former regard be undertaken, even at this very late date. Last, involvement with North Korea in every arena can only pay

\textsuperscript{18}In the Russian case, the pages of Problemiy dal’nego Vostoka (Problems of the Far East) have for many years contained useful contributions on North Korea and have become more open and direct in criticism of Pyongyang during the 1984–91 glasnost period in Moscow. Chinese work is more difficult to access and is closely censored. Nonetheless, a close reading of several Chinese academic journals is helpful. See, for instance, Guozhi zhanlue yanjiu (International strategic studies), Xiandai guozhi guanxi (Contemporary international relations), and Guozhi wenti yanjiu (International studies), all from the Chinese Academy of Social Sciences (Beijing); Papers and Foreign Affairs Journal, from the China Institute of International Studies; and Papers from the Shanghai Institute for International Studies. Japanese expertise is, of course, of long standing, if unfortunately not readily available in English except through Foreign Broadcast Information Service (FBIS), Daily Report–East Asia, and, occasionally, in the Japan Journal of International Affairs.
dividends. If “confidence-building measures” are sought, perhaps they can be found through application of these ideas.

Alternative Korean Reunification Possibilities

One implication from this discussion is that it is impossible to talk about Korean reunification unless one inspects various succession scenarios in Pyongyang. It is not enough just to wait for succession and then plan for staged, rational reunification thereafter. Korea may be much closer to reunification than is, apparently, generally thought. Indeed, there seem to be three general alternatives, not just one: reunification through breakdown in the North upon, or subsequent to, succession and peaceful absorption thereafter by the South, à la Germany; reunification through war precipitated by the difficulties of the Pyongyang succession; or peaceful reunification through negotiation with a post-Kim regime. Each of these holds implications for the outside powers and for the structure of long-term Asian international relations. Moreover, the outside powers have the ability to enhance the probability of one or another of these possibilities. Obviously, negotiated reunification is preferable to the war alternative, which must be avoided if at all possible. But reunification through breakdown and absorption is just as likely as the others and is also a close cousin of the conflict possibility. Hence, major attention must be paid to all three possibilities.

Another implication of the previous analysis is that unification may come much sooner than most have thought. If so, preparations need to be made, both in terms of maximizing the probability of a peaceful path and in terms of minimizing the costs (but at the same time assuring the success) of postreunification reintegration. The German case demonstrates that the latter costs, at least as they concern short-term economic outlays by the South, may be very high. It also shows, however, that the period of postreunification disorder and adjustment could be relatively brief.19 Yet the German case fails to capture one important difference: in Korea, contacts between the two peoples, the two governments, and the two economies are far less advanced. Indeed, the South has just begun to implement the kinds of policies that West Germany initiated some two decades before the sundering of the Berlin Wall. And Seoul does not have the luxury of such a preparatory period. Further, the Pyongyang regime has kept its people in an obscene state of isolation, unrivaled the world over. Such was hardly the case in East Germany. So there is a great deal of work to do, and most of it will have to be done by Seoul, since it is doubtful that Pyongyang, in its present state of fearfulness, will willingly cooperate in lowering the barriers between the

two halves of the country. That means perseverance in forwarding proposals for upgrading of communications, exchange of visits, tourism, trade, and the like. It also means patience when the North rejects such advances or tries to use them for political or subversive purposes. It means, further, unilaterally going forward with policies—such as high-tech–based beaming of radio and television programs into the North—that will surely undermine Kim II Sung's hold over the North Korean people. Finally, it means perfecting South Korea domestically through further political democratization, extending social security programs, and constructing an economy of fairness as well as of great wealth.

One objection to such a program is that it deliberately attempts to undermine stability in the North and could thus lead to the very outbursts of public discontent that could precipitate regime breakdown and possibly war. But North Korea is nearing regime breakdown anyway, the product of four and a half decades of communist totalitarian suppression. The prospect of events similar to those in Romania are hardly small. It is probably better to encourage the North Korean people, if they are going to revolt, to opt not just against Kim's chuch'e but for something more positive. Only the outside world, especially the South, can provide that encouragement. One positive element in the South-North situation may help to overcome the very late start on preunification integration. Despite all the damage that communism has wreaked in the North, the two populations are startlingly similar in terms of macrosocietal and -economic variables. The degree of urbanization, health indices, population age composition, and other measures of societal modernization are much the same in South and North. The North is also reasonably highly developed economically, at least in macro terms. Where the two societies differ so vastly, of course, is the pulverized nature of the North and the enormous damage to the culture inflicted by the Korean Workers’ Party. Fortunately, even forty-five years cannot entirely wipe away the cultural legacy of four thousand years, nor can it avoid the transforming aspects of modernization, which are similar in all societies.

Dealing with the North Korean Nuclear Weapons Program

All plans and calculations concerning how to enhance prospects for peaceful transitions on the Korean peninsula could be upset by the North Korean nuclear weapons program. This effort has been under way for many years, and the rough outline of its components, as well as many of its details, has long been known outside Korea and outside various intelligence communities. By 1992, estimates of the start-up of the plutonium production facility were as short as several months and surely no longer than a year. North

\[20\text{Eberstadt and Banister, Population of North Korea, n.12.}\]
\[21\text{Cyril Black, ed., Comparative Modernization (New York: Free Press, 1976).}\]
Korean possession of a deliverable capability would come later, of course, but in no more than three years' time. And even before that, Pyongyang could begin export of weapons-grade nuclear material to Third World pariah states.22

So the danger was obvious. The military equation on the peninsula would be dangerously upset. The South, which said it would not acquire nuclear weapons, could nonetheless be forced to do so. That would put enormous pressure on Japan to follow suit, something no one would want. With these developments the door to nuclear spread would have been kicked off its hinges. U.S. maintenance of Asian security would have been fatally undermined, as would Asian nations' confidence that the United States would underwrite their security. Any prospects for building a higher-order Asian security system during the 1990s would be out of the question. The prospects for conflict between the two Koreas would rise greatly, both because of enhanced Northern confidence and because of the North's fear that if it did not strike while it had the nuclear advantage it would lose forever its one remaining chance to unify the peninsula under its rule. The U.S. task of defending the South would be immeasurably complicated and made exceedingly costly. All thought of finding new "confidence-building measures" would have to be put aside until this threat was eliminated.23

In the face of such considerations, attention concentrated on how to prevent the North from completing its task. Two paths to that end exist: concentrated, rapidly rising diplomatic pressure on Pyongyang from all relevant outside parties; and military action against the relevant research, development, and production facilities. They were not, unfortunately, entirely separate, for preparations for a strike would have to parallel, and be an integral part of, the diplomatic offensive. Therefore, both paths would have to be entered upon simultaneously. The problem was that, if the diplomatic offensive failed (and the probability was that it would), there could be no recourse to military action.

On the diplomatic side, China would have to cooperate. But it was much more difficult to cooperate with China on this issue than with Russia, Japan, or South Korea, for the state of U.S.-Chinese relations after 1989 was hardly good and, despite the efforts and desires of both sides in 1990 and 1991,

23Further reference to the North Korean nuclear weapons drive and international reaction to it may be found in the Washington Post, June 4 and 25; September 14 and 29; October 19; November 8, 15, 21, and 27; and December 12 and 14, 1991; and the New York Times, October 15, 20, 23, 24, 25, and 27; November 9, 12, 14, 15, 21, and 27; December 12 and 13, 1991; and January 6 and 31 and February 7, 19, and 21, 1992.
could deteriorate even further. And Washington could not afford to give way, or be seen to be giving away, on the many issues between it and Beijing in order to make sure China was on board, and remained on board, the auto-
Pyongyang diplomatic train.\textsuperscript{24} The same could be said of Beijing. It was thus imperative for Washington and Beijing to separate this issue from the general list of concerns in their bilateral relations and to cooperate fully to convince Pyongyang of the wisdom of stopping their program and opening their facilities to full, post–Gulf War–style inspection by the International Atomic Energy Agency. At the same time, Beijing would have to be made aware of the American intent to destroy the North Korean facilities within a short time if diplomacy failed, not to oppose that commitment, and to convey the seriousness of the situation to the North.

Regarding the specific steps and stages of the diplomatic campaign, four points needed to be made. The first was that it would have to be led by the United States and at all times have the firm backing of all the other parties. The second was that further efforts to open North Korea to outside influence and contact, as described above, could not be made hostage to the diplomatic offensive. It was true that that limitation would take away important tools for influencing Pyongyang. The success of either or both campaigns might thereby be opened to question. But the need to influence North Korean succession and overall Korean reunification in a peaceful direction was as imperative as was the need to shear away Pyongyang’s nuclear weapons possibility. The third was that the diplomatic offensive would at all times have to contain the threat of military action. The last was that the diplomatic temperature, and hence the progress toward full military preparations, would have to be raised precisely in accordance with the estimated timetable for the North’s nuclear weapons acquisition. Pyongyang could never be allowed to turgiveterate its way to the point of initial capacity, as seemed to be its every purpose. Only rapid retreat—with some allowance being made for face saving—would do.

Moreover, the diplomatic offensive to stop the North Korean nuclear weapons program would have to be seen as one prong of a more general two-pronged offensive. The other was the general movement to open North Korea to international influence and interdependence before succession. The standard objection, uttered most loudly by Japan but also by many American officials, was that the latter would have to take a back seat to, and therefore not proceed at full speed until, the nuclear weapons issue was successfully resolved, through either diplomatic or military action. But the counter argument was commanding. The nuclear weapons–related diplomatic offensive

would have to proceed quickly—the quicker the better, given time constraints. Moreover, Kim II Sung’s response, beginning with the agreements with Seoul on reunification and on the nuclear question in December 1991 and into 1992, was obviously to delay until nuclear capability was in hand. Perhaps of equal importance, the “best” way (at least in the intellectual sense) to avoid the dilemma of having to choose between one prong or the other was to remove the nuclear threat very rapidly. That way, the more general (but, by its nature, somewhat more slow moving) offensive could continue without fear of being sidetracked. That, of course, begged the question of whether, how, and when to use force.

The military option would have to be avoided if at all possible. In early 1992, however, there was every likelihood that it would be necessary to go ahead (or to admit failure and to concede that Kim II Sung’s diplomatic end run had succeeded) soon, since the diplomatic offensive appeared to be faltering. In the fall of 1991, the United States had made plain that destruction of the North Korean facilities would likely be undertaken if Pyongyang did not fully open its facilities to inspection. Washington thereby put itself in a position from which it would find backing down very difficult, if not impossible. Nor could it back down during the diplomatic offensive period, for that would be to give up the only instrument—the increasing threat of military action—the North really has reason to fear. Moreover, having enforced the principle during the Gulf War that middle powers—especially those governed by irresponsible outlaws, which Kim II Sung surely was, along with Saddam Hussein—cannot possess nuclear weapons, Washington could not easily shirk from continued application of the same principle in an even more threatening instance.

Nor could Washington be judged to be susceptible to Kim’s threat of renewing the Korean War if his nuclear facilities were destroyed. Such blackmail, once allowed, would merely be repeated. Moreover, it was not clear that Kim II Sung wanted to lose his kingdom and his life over this issue. Therefore, he was probably bluffing—although Washington and Seoul were being well advised to prepare for a larger war or for North Korean retaliation short of major conflict. That included continuing the process of beefing up South Korean/American conventional defenses. Unfortunately, it did not also include bringing the South Korean and American peoples to full knowledge of the gravity of the situation.

A part of this strategy would have to disallow any of Kim II Sung’s excuses for not allowing inspection of the North Korean nuclear facilities. In that regard, it was wise of the United States to pledge, in 1991, and to complete, in early 1992, the unilateral withdrawal of its nuclear weapons, of all kinds, from South Korea and to open its bases there to inspection by the IAEA. The decision to withdraw nuclear weapons from South Korea was rightly defended also on its merits, for not only would tactical nuclear weapons be of little use in the initial hours of a North Korean invasion, but the
nuclear threat to the North, as well as the use of battlefield tactical nuclear weapons later on in the conflict, could as well be maintained through nuclear weapons stationed outside Korea.

The North Korean military question was one of two major military threats in Asia left over from the Cold War (the other being the question of Taiwan, the second remaining instance of a nation divided between communist and noncommunist systems). It would have to be addressed sooner rather than later for many reasons, as laid out above. More important, the seemingly sudden emergence of the North Korean nuclear weapons question symbolized in stark terms the necessity no longer to ignore the question of North Korea, its domestic system, and its international behavior. It was the same question that the Allies faced in the Gulf War. The same remedies would, in all probability, have to be applied. And the same benefits seemed likely to accrue: keeping such weapons out of irresponsible hands (and there were no hands more irresponsible than those of Kim Il Sung) promised a safer region, a world without the threat of another nuclear power, one in which the major nuclear powers could resume their own movement toward the ultimate elimination of all nuclear weapons and the construction of a new Asian—and ultimately a global—security system that would meet the demands of the twenty-first century.

The main ideas of this chapter have been that Korea's future surely involves early reunification; that the North Korean succession will be the catalyst for rapid reunification; that many (not just one) Pyongyang succession scenarios exist, some of them not only inimical to the cause of peaceful reunification but also directly threatening renewed South-North conflict; and that the entire Korean future is closely linked to how the outside powers address and solve the threat of North Korean acquisition of nuclear weapons. These are the areas where "confidence-building measures" must be constructed, and not small adjustments in, or long-term melioration of, the military balance on the peninsula. It is too late for the latter, for in the early 1990s the end game of the process begun in 1945 was already under way.
8. Post–Cold War and Peace on the Korean Peninsula

YOUNG-SUN HA

With the end of the Cold War, the world is now entering the beginning of the new international world order. Under these new circumstances, we have experienced the contrasting faces of European peace and the Gulf War. The main purpose of this chapter is to examine which face is likely to prevail on the Korean peninsula. The optimists who see a peaceful peninsula argue that it is only a matter of time until a post–Cold War order in Asia will give us “spring” in Korea. In contrast, the pessimistic approach maintains that the spring of Korea will not come easily because of the instability in the Great power–centered post–Cold War system.

To assess these two different views regarding the future of the Korean peninsula, we will first identify the major determinants that would lead to war or peace and second will examine changes in these determinants.

Major Determinants

The history of the Korean peninsula has been influenced not only by global but also by inter-Korean action-reaction dynamics and by the nature of the domestic systems in South Korea (Republic of Korea; ROK) and North Korea (Democratic People’s Republic of Korea; DPRK). Thus the following three major variables should be considered as major determinants of war or peace on the Korean peninsula. First, the Cold War international system of two superpowers has had a negative impact on peace and stability in this region. Second, the imbalance of military power between the two Koreas has intensified military tension on the peninsula. Third, the domestic politico-economic systems of the two Koreas have played a key role in determining stability on the peninsula.

To forecast the prospects for peace on the peninsula, it is necessary to examine the changes in these three major determinants.
The International Situation

First, with the rapid decline of Soviet power and the collapse of the Soviet Union, the United States and the (former) USSR established a post–Cold War international system based on the Strategic Arms Reduction Treaty (START) and politico-economic cooperation. In Europe, the post–Cold War international system further developed into a potential postmodern international system. European countries achieved an agreement on conventional forces in Europe (CFE) on the basis of the doctrine of defensive defense, tried to institutionalize the Conference of Security and Cooperation in Europe (CSCE) on the basis of the principle of common security, and also made efforts toward economic integration in Europe. In contrast, as the Gulf War made clear, Third World countries are still in the midst of the Cold War international system.

Compared to the post–Cold War stage of the two superpowers and the postmodern stage of Europe, the Northeast Asian international system is now in a transitional period from the new Cold War to the new détente. Major reasons for this belated thaw in the Cold War in Northeast Asia are as follows: first, in spite of recognizing the rapid decline of the Soviet Union's economic and military power, the United States has made only a small change in its position on arms control in Northeast Asia. Washington does not yet show much interest in naval arms control in the Pacific. It is giving much more emphasis to its role as "balancer" in Northeast Asia. Second, being faced with serious political and economic difficulties, Russia has tried to pursue the reduction of military expenditures and economic cooperation in Northeast Asia. However, compared to Europe, Moscow clearly shows a certain limitation on the implementation of its declared policy of peace in Asia. Third, while the European states successfully utilized the new détente between the United States and Russia for the improvement of European peace and security, Asian countries made a much more conservative response to the rapidly changing world order.

Under these difficulties, although the United States and Russia do not agree with the reduction of their military capabilities in this region, they share similar views on the necessity of effecting confidence-building measures on the Korean peninsula for reducing the tension in Northeast Asia. Examined in detail, their positions on the issues show Moscow stresses mutual concessions by both Koreas while Washington puts priority on changes in North Korea.


In sum, although the United States and the USSR have not yet directly involved themselves in the realization of confidence-building measures on the Korean peninsula, the new détente between them will exert a positive impact on the reduction of tension on the Korean peninsula in the long term.

The Military Balance on the Peninsula

When forecasting whether war or peace will prevail on the Korean peninsula, we should cautiously examine the military balance in this region in parallel with the changing international system. There are three conflicting assessments of the Korean military balance: North Korean superiority, South Korean superiority, and mutual balance.

As the true sense of military balance implies the condition under which neither South nor North can use military means for their political and economic ends, comparative evaluation of the military capabilities of both Koreas is not sufficient to assess the Korean military balance. A comprehensive evaluation of that balance must use not only static and dynamic analysis but psychological analysis as well. Three points need serious consideration.

First, as the two Koreas increase their military capabilities in absolute terms, analysis of the Korean military balance must examine not only the relative strength of each side’s military capabilities in this region but also the absolute increases. The present military capabilities of the two Koreas has reached a level of destructive power eighty times stronger than that unleashed in the Korean War. If a second Korean War occurs, 2.4 million people will be wounded or killed in the first week, more than 5 million in the first month; 90 percent of public and private facilities will be destroyed. The specter of such destruction induces both South and North Korea to refrain from using military power to further their interests.

Second, to examine the true import of military capabilities on the Korean peninsula, we need to compare the military strategy of both Koreas.

North Korea has developed its military strategy on the basis of its wartime experiences and those of the Soviet Union and China. This has led to the concept of a multifront war—a blitzkrieg across the demilitarized zone (DMZ), guerrilla warfare throughout South Korea, and internal subversion in South Korea. During the Korean War, North Korea’s priority was given to all-out war across the battle line. In the mid-1960s, however, North Korea began to pursue a unification policy through the development of the Three Revolutionary Capabilities—its revolutionary base in North Korea, the fomenting of revolution in South Korea, and a linkage between the two. With these

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capabilities, North Korea presumably would resort to all-out war only as a final stage of a multifront war for a South Korean revolution.  

A major characteristic of North Korean military strategy in a shooting war is blitzkrieg. This strategy is aimed at gaining a decisive military advantage over the South within five to seven days of the commencement of war. This would be done by mounting a major drive across the DMZ in conjunction with commando forces infiltrated into rear areas of South Korea. To increase the capacity for blitzkrieg, North Korea has enlarged its armored units and self-propelled artillery and has concentrated more than 65 percent of its overall military strength in the frontline areas through forward redeployment. Airfields have been constructed in the vicinity of the DMZ to reduce flight time to Seoul to eight minutes for a surprise attack. And North Korean commandos have increased their capabilities to infiltrate the rear areas of South Korea.

Parallel with the development of North Korea's multifront war and offensive strategies, the ROK and the U.S. forces have since 1983 adapted the air-land battle doctrine, which was designed to support NATO's approved doctrine of follow-on-forces attack, to Korea's special situation and capabilities. The air-land battle doctrine seeks to exploit the full potential of U.S. forces by attacking the entire enemy force to its full depth and synchronizing all available combat assets, both army and other services, to attain that end.

The air-land battle concept of the ROK-U.S. combined forces command looks at the "close-in battle" and the "deep battle" as a single fabric. The purpose is to fight a succession of battles—at the line of contact, against the second echelon of attacking forces, and against the third and following echelons. The command intends to "see deep" with good intelligence collection and analysis and to attack deep with firepower and other means.

The foregoing analysis of the military strategy of the two Koreas indicates that, because the battle line would extend over the whole territory of the Korean peninsula in a short time following any act of war by either side, both South Korea and North Korea will be extremely cautious about using full-scale military forces to further their national interests.

Third, the perception of decision makers in the two Koreas on the issue of military balance is also an important factor in any assessment of Korean military balance. It is, however, extremely difficult to analyze such perception objectively. Would-be aggressors do not telegraph their intentions. Conversely, leaders on both sides of the DMZ have publicly expressed the view that a high-intensity conflict on the peninsula would be a disaster. These official statements suggest that South and North Korean officials alike have a similar healthy fear of the potential results of war on their peninsula. In other words, unless the situation changes decisively, their perceptions about the Korean military balance are likely to keep them from using military power.

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What changes could provoke the use of military force? North Korea has mentioned three possibilities that could provoke it to seek unification through nonpeaceful means. First, if the United States provokes a war against North Korea, it will pursue unification through war. Second, if the United States weakens its commitment to the security of the Korean peninsula as it fights wars elsewhere, North Korea will expel the United States from the peninsula and will achieve the unification. Third, if a strengthened South Korean revolutionary force demands North Korean assistance, North Korea will pursue unification by aiding and abetting that force with military support.6

**Politico-Economic Systems**

In addition to examining the international system and the military balance between South and North Korea, any analysis of the situation that attempts to predict whether war or peace will prevail in the region must analyze also the domestic systems of both Koreas.

The North Korean economy has maintained a low rate of economic growth since the mid-1970s and showed less than 3 percent annual growth during the present Third Seven-Year Plan (1987–93). Mining and manufacturing industries in 1989 registered a -3.3 percent annual growth rate, and the average rate of operation of manufacturing industries in 1989 rapidly declined from 65 percent to 45 percent.7

Despite these economic difficulties, North Korean military expenditures are roughly estimated to be US$5 billion, more than 20 percent of its gross national product (GNP). This expenditure causes the shortage of necessary investment in the nonmilitary sectors.8 To overcome these economic difficulties, North Korea needs reduced military tension on the peninsula and improved relations with South Korea.

The North Korean revolutionary unification policy, however, which constitutes the basic structure of the North Korean political system, has restricted efforts to develop a pragmatic unification policy. As previously noted, in the mid-1960s North Korea began to pursue a unification policy based on the Three Revolutionary Capabilities. Then, in the 1980s, North Korea proposed to establish a Democratic Confederal Republic of Koryo for the unification of the two Koreas on the basis of mutual recognition of the present ideas and institutions in each state. When North Korea mentions recognition of the existing ideas and institutions, however, it means recognition of those political and social forces that successfully meet the North Korean standard of anti-imperialism and people’s democracy. North Korea thus recognizes all the

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other political and social forces—including the South Korean government—only as tactical partners for the establishment of a united front.

North Korean revolutionary policy has had a direct impact on the military tension on the Korean peninsula and the subsequent arms race in the region. Transformation of North Korean revolutionary policy into pragmatic policy is essential if there is to be peace on the Korean peninsula.

Although we cannot expect perestroika (restructuring) in North Korea in the short term, it could be realized in the more distant future. Faced with the “Soviet shocks” and domestic economic difficulties, North Korea has tried to surmount its international and domestic difficulties through the consolidation of its domestic system and through peaceful coexistence with the advanced capitalist states such as Japan and the United States. As North Korean efforts fail to realize the anticipated results, North Korea will likely recognize the legitimacy of the South Korean system, which it has heretofore denied.

South Korea, despite its economic difficulties in the 1990s, spends US$10 billion for military expenditures. As the problem of distribution of the nation’s wealth among its citizens is raised along with the problem of slowed economic growth, military expenditures are now being cautiously discussed with a view toward determining appropriate levels in the changed environment. In addition, as democratization progresses in South Korea there emerge political and social forces that would like to pursue the logic of peace. Thus the process of democratization also contributes to solving the Korean question.

In sum, the post–Cold War system of (grudging) cooperation between the United States and the Soviet Union, the rough military balance on the Korean peninsula, and North Korea’s stagnant economy have all served to reduce tension on the Korean peninsula. In contrast, North Korean revolutionary policy and South Korean militaristic policy have had a negative impact on reduction of tension in this region. Thus for the peace of Korea, South and North Korea should give utmost priority to solving domestic problems through the reform of their domestic systems and also should utilize the détente between the United States and Russia to transform their relationship.

The Arms Control Policies of the ROK and DPRK

In parallel with the beginning of the post–Cold War period, both the ROK and the DPRK attempted to develop realistic and concrete arms-control measures to reduce tension on the peninsula. These measures are here examined

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9ibid., pp. 116–21, 182–84.
by analyzing the keynote speeches of the previous six rounds of the inter-
Korean prime ministers' conference.\textsuperscript{10}

North Korea clearly summarized its peace doctrine at the third round as follows: "To preserve peace on the peninsula the North and the South should adopt the nonaggression declaration, the DPRK and the United States should sign a peace agreement, the North and the South should reduce substantially their armed forces and nuclear weapons, and the U.S. troops should be withdrawn from South Korea." On the issues of arms reduction in the South and the North and withdrawal of foreign troops—which are the essence of North Korean proposals for peace—North Korea repeated at the first round its Disarmament Proposal for Peace on the Korean Peninsula of May 31, 1990.

Regarding arms reduction, this document declared that, first, the North and the South should reduce their armed forces by stages. Second, the North and the South should stop improving their military equipment. Third, the North and the South should inform each other of the process of disarmament and verify it. Specifically, the proposal recommended that the reduction of military strength be carried out in three phases over three or four years after a disarmament agreement is reached between the two sides. Each side would reduce its military strength to 300,000 troops in the first stage, then to 200,000, finally to fewer than 100,000. Military equipment would be reduced or dismantled in proportion to the phased military reduction. All civilian military organizations and civilian armed forces would be dissolved in the first stage of the reduction of the regular armed forces.

Regarding the withdrawal of foreign forces from the Korean peninsula, the proposal called for joint North-South efforts to convert the Korean peninsula into a nuclear-free zone and to get all foreign troops withdrawn from the peninsula. In particular, steps should be taken for phased but ultimately total withdrawal of U.S. troops and their equipment present in South Korea in keeping with the arms reduction of the North and the South. Second, steps should be taken to have the U.S. military bases in South Korea dismantled in phases in keeping with the pullout of the U.S. troops.

As a preliminary step toward such arms reduction and withdrawal of foreign forces, North Korea has proposed adopting a nonaggression declaration and military confidence-building measures. Specifically, at the fourth round of the inter-Korean high-level talks, North Korean Prime Minister Yon Hyong-muk put forth proposals for a Declaration of a Nuclear-Free Zone of

the Korean Peninsula and a Declaration of South-North Nonaggression, Reconciliation, and Cooperation.\textsuperscript{11}

South Korea has made its own recommendations. At the first round of talks the ROK proposed three stages of arms control. As a first stage, political confidence should be built based on mutual respect for each other’s political and social systems; mutual public access to newspapers, radio, and television; and the establishment of a permanent liaison mission in Seoul and Pyongyang.

As a second stage, military confidence should be developed on the basis of implementation of mutual visits and exchanges of military personnel, mutual disclosure and exchange of military information, mutual prior notification and observation of the movements of military units and military maneuvers of certain size, the installation and operation of a telephone “hot line” between the two Koreas’ military authorities, and the demilitarization of the demilitarized zone.

As a third stage, the ROK proposed that South-North arms reductions be implemented through the following measures. First, both the South and the North should transform their offensive military structure into a defensive one. Second, both the South and the North should agree to possess equal numbers of troops and weapons so that a balance of military power can be maintained. Third, both the South and the North should reduce the number of troops in accordance with reductions in their arms, while also reducing their reserve and paramilitary forces. Fourth, both the South and the North should allow, without fail, the other side to conduct on-the-spot verifications and monitoring to ensure that agreed matters regarding arms reductions are implemented. Fifth, the final reduced level of armed forces that both the South and the North may maintain should be determined through mutual consultation in consideration of the military capabilities needed by a unified state.

At the third round of the prime ministers’ talks, South Korea clarified its position on the issue of a nonaggression declaration, which North Korea has insisted must be a first step for reducing the military tension on the Korean peninsula. First, South Korea argued that the Basic Agreement for Improving South-North Relations—which provides for discussions on ending political and military confrontation and for multifaceted exchanges and cooperation—should be adopted before any nonaggression declaration. Second, to realize Article 6 of the basic agreement, which deals with the Nonaggression Declaration, South Korea proposed the Draft of the South-North Nonaggression Arrangement as follows: (1) the South and the North shall not use military force against each other and shall not perpetrate any form of aggression against each other; (2) the South and the North shall peacefully resolve differences and disputes through dialogue and negotiation between the authorities of both sides; (3) territories subject to nonaggression shall be those that have been respectively controlled by the South and the North under the Military

\textsuperscript{11}Korea Herald, October 24, 1991.
Armistice Agreement of July 27, 1953; (4) both sides shall abandon policies aimed at destroying or overthrowing the other side and shall desist from all activities designed to overthrow or disturb the other side’s political system; (5) the military confidence-building measures—exchange of information, military personnel’s visits, prior notification of all military maneuvers or movements, installation of a hot line between military authorities on the two sides, correction of military imbalances between the South and the North, turning the demilitarized zone into an effective zone, and verification—shall be taken to end military confrontation and the arms race and to firmly guarantee nonaggression; (6) a South-North joint military committee shall be established to work out the practical steps needed to enforce the terms of agreement of nonaggression; (7) international guarantees of nonaggression shall be sought; (8) these provisions shall not influence bilateral or multilateral treaties or agreements that both side have already concluded.

At the fourth round of the inter-Korean high-level talks, South Korea proposed an agreement on reconciliation, nonaggression, and exchanges and cooperation that included the previous basic agreements, the nonaggression arrangement, and the proposals for inter-Korean travel, inter-Korean communication, and inter-Korean economic exchanges and cooperation.\(^\text{12}\)

The proposals of North and South differ significantly in many ways. Those set forth by the South Korean government, for example, emphasized political confidence-building measures and did not include the issues of nuclear weapons or withdrawal of U.S. military troops. In contrast, North Korea put utmost priority on nuclear weapons and withdrawal of foreign forces and did not include political confidence-building measures. In the case of military confidence-building measures, the South and the North included common items such as demilitarization of the DMZ and installation of a hot line between military authorities of the two sides. However, while South Korea mainly proposed the transparency of mutual military capabilities and military intention, North Korea exerted efforts to limit military training and military exercises.

As for arms reduction on the Korean peninsula, while South Korea proposed reduction of weapons systems and the transformation of an offensive military structure into a defensive one, North Korea proposed balanced reduction of military manpower and prohibition of qualitative modernization of military equipment. However, both Koreas agreed to allowing on-the-spot verifications.

Regarding a nonaggression declaration, while North Korea proposed it as a first step toward the withdrawal of foreign forces, South Korea tried to adopt nonaggression as a guarantee against a surprise attack by North Korea.

On December 13, 1991, South and North Korea reached an agreement on the accord on reconciliation, nonaggression, exchanges, and cooperation. The

\(^{12}\text{Ibid.}\)
accord says both sides will respect each other’s political and social systems and not interfere in each other’s internal affairs. The two sides will “endeavor together to transform the present state of armistice into a solid state of peace between the South and the North and shall abide by the present Military Armistice Agreement (of July 27, 1953) until such a state of peace has been realized.”

As for nonaggression, each side pledged not to use armed force against the other. To implement and guarantee nonaggression the South-North joint military commission shall discuss and carry out steps to build military confidence and realize arms reduction, including the mutual notification and control of major movements of military units and major military exercises, the peaceful utilization of the demilitarized zone, exchanges of military personnel and information, phased reductions in armaments including the elimination of weapons of mass destruction and attack capabilities, and verifications thereof. The military authorities of the two sides will also install a telephone hot line to prevent accidental armed clashes and their escalation.

Meanwhile, both sides will conduct economic exchange and cooperation, including joint development of resources, trade in goods, and joint investment in industrial projects. Both sides will also engage in exchanges in such fields as science and technology, education, literature and the arts, sports, and media including newspapers, radio, television, and publications. The two sides shall promote free intra-Korean travel and contacts for the residents of their respective areas. The two sides shall permit free correspondence, reunions, and visits between dispersed family members. The two sides shall reconnect severed railroads and roads and shall link postal and telecommunications services.

At the sixth round of the inter-Korean high-level talks, the two sides effected the Agreement on Reconciliation, Nonaggression, and Exchanges and Cooperation; the Joint Declaration on the Denuclearization of the Korean Peninsula; and the Agreement on the Formation of Subcommittees of the South-North High-Level Talks.

However, we cannot be sanguine about the implementation of these agreements. Having different interpretations on key articles, such as the realization of the state of peace on the Korean peninsula and implementation of military confidence-building measures, the two sides will not easily cooperate to implement the basic agreement. The future of the basic agreement as a stepping stone for arms control on the Korean peninsula will very much depend on whether it can be successfully implemented and on the practical results of discussions in the subcommittees and joint commissions.

The Basic Principle of Korean Arms Control

In the long term, arms control on the Korean peninsula will be achieved only on the principles of defensive defense and common security instead of the present principle of deterrence. It is thus necessary to examine these three principles.
In the contemporary international system, where there is no transnational centralized power and authority, each state must provide its own security. Recent scientific and technological developments, including the introduction of nuclear weapons, have led each state to pursue unilateral security on the principle of deterrence instead of the principle of defense. The basic principle of deterrence is that one actor in the international system prevents another from taking some action by raising the latter’s fear of the consequences that will ensue. Its mechanisms are threats—the posing of adverse consequences for the deterree that will outweigh the gains of the contested action—and calculation—the ability of both deterrer and deterree to weigh costs and benefits in a similar fashion.\(^\text{13}\)

Proposals for arms control of South and North Korea have been pursued on the basis of the principle of deterrence. While South Korean proposals for arms control try to improve the deterrent capabilities of South Korea through the reduction of North Korean offensive military forces, North Korea makes efforts to weaken the deterrent capabilities of South Korea through withdrawal of U.S. tactical nuclear weapons and military forces in Korea. Such proposals have not contributed to the reduction of South and North Korean military forces. On the contrary, the efforts of both North and South to increase their deterrent capabilities without introducing confidence-building measures risk accelerating the arms race in the region. Under these circumstances, both Koreas face a security dilemma.

To overcome this security dilemma, the South and the North should pursue proposals for arms control based on the principle of defensive defense. European peace researchers began to discuss this principle in the early 1980s; with the Soviet Union’s adoption of the doctrine of reasonable sufficiency in the mid-1980s, this principle was politically realized, becoming the basis of the CFE agreement.\(^\text{14}\) Defensive defense holds that a state’s military power should be limited to its own territory and should not be a threat against other countries. Thus security is achieved without resort to an arms race.

Any proposals for Korean arms control on the basis of defensive defense must first deal with control of the offensive military capabilities of both countries and of the U.S. tactical nuclear weapons and military forces in South

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Korea. But even such proposals, limited as they would be to meeting the individual security needs of individual states, are not sufficient. We need a new principle of common security for the peace and unification of the Korean peninsula.

The report of the Palme Commission in 1982 first framed the concept of common security. Although not highlighted then as the Cold War was replaced by détente, the concept of common security—which implies security through cooperative undertakings by states to overcome the limits of unilateral security at each other’s expense—came to dominate the discourse on security and became the basis of the Conference on Security and Cooperation in Europe.\(^{15}\)

The report of the Palme Commission pointed out the following six principles for common security policies: (1) all nations have a legitimate right to security; (2) military force is not a legitimate instrument for resolving disputes between nations; (3) restraint is necessary in expressions of national policy; (4) security cannot be attained through military superiority; (5) reductions and qualitative limitations of armaments are necessary for common security; (6) linkages between arms negotiations and political events should be avoided.

In summary, proposals for arms control on the Korean peninsula should first be pursued on the basis of the principle of defensive defense instead of the principle of deterrence. In the process of developing confidence-building measures on the peninsula, new proposals for arms control on the basis of common security should be further implemented for the peace and unification of Korea.

**Major Stages of Korean Arms Control**

Achieving arms control on the basis of common security on the Korean peninsula will require cooperation on six major points.

**Denuclearization of the Korean Peninsula**

North Korea had refused to sign a nuclear safeguards accord with the International Atomic Energy Agency since 1986, calling first for the withdrawal of U.S. nuclear warheads in the South. Under these circumstances, U.S. president George Bush announced on September 27, 1991, that he had ordered the withdrawal of all U.S. land- and sea-based tactical nuclear weapons.\(^{16}\) In the case of Korea, the Bush administration decided to remove all

U.S. tactical nuclear weapons from South Korea, paving the way for a renewed demand that North Korea abandon its nuclear weapons program to ensure the strategic peninsula remains nuclear free.

Without waiting for North Korea’s response to Bush’s announcement, South Korea’s president Roh Tae Woo, calling for a “nonnuclear Korean peninsula,” declared on November 8, 1991, that the ROK would use nuclear energy solely for peaceful purposes and would not manufacture, possess, store, deploy, or use nuclear weapons. In late November, the United States postponed temporarily the scheduled reduction of the U.S. forces in Korea and Japan as long as North Korea refused to drop its nuclear weapons program. On December 18, President Roh announced that U.S. nuclear weapons had been withdrawn from the South. On December 31, South and North Korea initialed an agreement aimed at making the Korean peninsula free of nuclear weapons. The six-point joint declaration requires the two Koreas not to possess nuclear-reprocessing and uranium-enrichment facilities. The accord also calls for a ban on possession and development of nuclear weapons, joint inspection of nuclear facilities, and formation of a joint nuclear control commission.

On January 6, 1992, President Roh and President Bush urged North Korea to honor its promise to open its nuclear facilities to international inspection and offered to forgo the joint Korea-U.S. military exercise in 1992 in exchange. On January 22, during their high-level meeting in New York, the United States called on North Korea to permit mutual military inspection as soon as possible in addition to accepting inspections by the IAEA. American officials warned that the United States would not stand further delay in the resolution of North Korea’s nuclear question. They made it clear that there would be no progress in relations between the two countries without settlement of the nuclear issue. On January 30, 1992, North Korea signed a nuclear safeguards accord with the International Atomic Energy Agency, meeting an obligation under the Nuclear Nonproliferation Treaty after more than six years’ delay.

These developments led the ROK and DPRK in February to sign a joint declaration regarding the denuclearization of the Korean peninsula. Implementation, however, has not been smooth. In particular, North Korea rejected the South-proposed pilot inspection of nuclear weapon sites in both Koreas and hesitates to discuss the issue of mutual nuclear inspection.

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17Korea Herald, November 9, 1991.
19Ibid., December 19, 1991.
22Ibid., January 24, 1992.
While North Korea examines cautiously the best time to give up its nuclear policy, the United States tries to increase multilateral diplomatic and economic pressures on North Korea with the help of Russia, China, and Japan. Considering its serious international and domestic difficulties, North Korea cannot likely long endure their multilateral pressures.

Nonaggression Declaration and Military Confidence-Building Measures

The nonaggression declaration had been the key obstacle of the early four rounds of the inter-Korean high-level talks. While North Korea put utmost priority on a nonaggression declaration as an essential first step toward the withdrawal of U.S. military forces from South Korea, the South Korean government stressed agreeing on reliable guarantees for the successful implementation of a nonaggression declaration with the help of military confidence-building measures. At the fifth round of the inter-Korean high-level talks, South and North Korea agreed on a nonaggression declaration with military confidence-building measures. However, it is not yet clear whether the two Koreas will successfully reach full agreement on military confidence-building measures for guaranteeing the nonaggression declaration.

Reduction of U.S. Military Troops in Korea

Under the 1953 Mutual Defense Treaty, some 43,000 U.S. troops are stationed in Korea. Some 7,000 of these are scheduled to be pulled out by early 1993 in the first phase of a three-stage cutback plan. Washington plans to withdraw some 6,000 to 7,000 more troops between 1993 and 1995. By the end of the decade, the United States will have halved its forces stationed in South Korea. However, with the rapid decline of the "Soviet threat" and the rapid increase of the "Japanese threat" in Northeast Asia, the role and the size of U.S. military troops in this region will have to be continuously reexamined.

Redeployment/Reduction of Offensive Weapons Systems

If proposals for arms control on the basis of defensive defense are to be implemented, the offensive weapons systems of both Koreas must first be redeployed and/or reduced. Alexei G. Arbatov has proposed that no more than 20 percent of opposing ground forces left after the reductions may be deployed closer than 40 kilometers to the border and no more than 40 percent closer than 150 kilometers. In addition, he mentioned comprehensive verification and inspection systems, in particular at the choke points and geocorridors within 150 kilometers.

Reduction of Armed Forces and Military Equipment

In addition to the redeployment/reduction of weapons systems, the final goal of arms control in this region should be to reduce armaments and man-

power of both Koreas to the level of minimum defensive defense. Arbatov suggested, for example, that South and North alike reduce their forces to 400,000 ground and air forces regular personnel, 1,000 tanks, 2,000 artillery pieces, 400 armored personnel carriers (APCs), and 300 combat aircraft. Under these circumstances, proposals for arms control on the basis of common security will begin to be realized.

Arms Transfers, Defense Industries, and Verification

Before there can be full realization, however, discussions are needed on how to control arms transfers from the former Soviet Union to North Korea and from the United States to South Korea. In addition, the defense industry of both Koreas should be limited to production of defensive rather than offensive weapons. Verification of all these matters will take place through exchange of data and by mutual on-site inspection.

In the short term, the future of arms control on the Korean peninsula is not so bright. But a longer view offers more hope. If new political leadership in North and South can successfully reform their domestic systems, there is a good chance that—with the help of the surrounding major powers—they will be able to achieve arms control on the Korean peninsula. Finally, for stable peace in this region, the new Northeast Asian political system should be institutionalized in parallel with the implementation of arms control on the peninsula.
9. Complementarity of Industrial Structures between North and South Korea

IL-DONG KOH

Since the division of the Korean peninsula, North and South Korea have followed different paths of industrialization and economic development. Up to now, North Korea has consistently tried to adhere strictly to a centrally planned command economic system; in contrast, the South Korean economy was developed on the basis of free market principles.

Comparing the external economic relations of the two Koreas reveals a stark contrast. One of the fundamental principles guiding the North Korean economy is Pyongyang's desire to achieve economic independence through self-reliance. South Korea, conversely, has been pursuing an outward-looking economic policy. The drive for exports has been the impetus behind South Korea's economic accomplishment.

North and South Korea were endowed with considerably different natural resources and industrial production facilities when the peninsula was divided in 1945. The impact of these initial differences cannot be overlooked. However, since the difference in industrial structure of the two Koreas has widened after the division, it would be safe to state that the path of economic development, which has been guided by different underlying politico-economic principles, has greatly influenced the structural variations of the two economies.

This chapter compares the economic structures of North and South Korea, focusing on the complementary aspects of major industries between the two economies. The overall industrial structures of the two economies are first compared; then the structural characteristics of North Korea's major industries are compared to those of South Korea to reveal the complementary aspects between them, which will become the basis of mutually beneficial economic cooperation.

An Overview of Industrial Structure

The initial economic conditions of North Korea, except for agricultural production, were relatively more favorable than those of South Korea. North
Korea possessed abundant and diverse mineral resources and a number of industrial plants left over from Japanese colonialism; further, population pressure on the economy was not as great.

One of the most noticeable aspects in the economic development of North Korea was the great emphasis on industrialization from the beginning stage. By 1960, mining and manufacturing already accounted for more than 40 percent of North Korea’s gross national product (GNP). Industrialization continued prominently in the next decade, and mining and industrial production as a percentage of North Korea’s GNP rose to 57 percent by 1970 (table 1).

Such a high level of industrialization can easily lead to structural imbalances and serious bottlenecks in other sectors. Recently, mining and industrial production have declined in North Korea; they now account for about 43 percent of GNP. But the proportion is still high compared to that of South Korea or of other countries with a balanced industrial structure.

The rapid expansion of North Korea’s industrial sector, especially in the 1960s and early 1970s, can be ascribed to several factors. The North Korean government (or alternatively, the Workers’ Party) strongly emphasized the need to strengthen the manufacturing sector not only to develop the economy, but also to provide an independent base for national defense. Abundant and diverse mineral resources and plentiful energy resources, such as coal and hydroelectric power, allowed North Korea to pursue such a strategy from the initial stages of industrialization. In addition, technological and material aid from its allies, particularly from the Soviet Union, was also helpful in the industrialization of North Korea during the 1950s and 1960s.

As is clearly shown in table 2, heavy and chemical industries have been mainly responsible for the growth of North Korean industry. Lately, the predominance of heavy and chemical industries has become even more conspicuous. As early as 1965, the heavy and chemical industries as a proportion of total industrial production was 51.2 percent; it reached 64 percent in 1975 and 64.8 percent in 1980; in 1990 the figure was 74.1 percent.

South Korea has pursued a different path of economic development. South Korea did not enjoy the same favorable conditions for industrialization that North Korea did. Except for the agricultural sector, the general base for production was much weaker in South Korea than in North. As with most developing countries at the time who sought to begin economic development, South Korea in its industrial policy emphasized import substitution in selected consumer and intermediate goods industries, such as flour milling and fertilizer manufacturing. However, because of the small domestic market and the large capital requirements for industrial investment projects, the import-substitution policy quickly reached its limits, and industrial production remained at a very low level until the early 1960s. The South Korean manufacturing sector began to expand in the early 1960s when the strategy of export-led economic development was first adopted. Industrial production as a percentage of the GNP, which was only 15.7 percent in 1960, rose to 22.4 percent in 1970. But light
Table 1
Composition of GNP, 1960-1990 (in percentage)

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<th>1990</th>
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<td>26.8</td>
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<td>47.5</td>
<td>51.1</td>
<td>61.5</td>
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SOURCE: National Unification Board; Bank of Korea, Economic Statistics Yearbook, corresponding years.
<sup>a</sup> Includes forestry and fishing
<sup>b</sup> Includes public utilities such as gas, water, and electricity

Table 2
Composition of Manufacturing Industry, 1965–90 (in percentage)

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<tbody>
<tr>
<td>North Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy industry</td>
<td>51.2</td>
<td>63.7</td>
<td>64.8</td>
<td>74.1</td>
</tr>
<tr>
<td>Light industry</td>
<td>48.8</td>
<td>36.1</td>
<td>35.2</td>
<td>25.9</td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy industry</td>
<td>31.4</td>
<td>45.9</td>
<td>51.2</td>
<td>59.3</td>
</tr>
<tr>
<td>Light industry</td>
<td>68.6</td>
<td>54.1</td>
<td>48.8</td>
<td>40.7</td>
</tr>
</tbody>
</table>

SOURCE: Economic Planning Board (Seoul), Major Economic Indicators, each year; National Unification Board.

industry accounted for more than 60 percent of total industrial production until 1970. This was natural for an economy that fostered labor-intensive exports to overcome the limits of insufficient capital and technology.

The rapid expansion of the South Korean heavy and chemical industries began in the mid-1970s when the focus of the industrial policy shifted from fostering labor-intensive export industries to promoting heavy and chemical industries. As a result, the heavy and chemical industries have expanded their share of total industrial production and have overtaken light industry starting
in 1980. Now heavy and chemical industries constitute 60 percent of total industrial production in South Korea.

Because of the economies of scale prevailing in heavy or chemical industries, severe inefficiencies in resource allocation are a general phenomenon for a small country like North Korea when it promotes heavy industry for self-sustenance. Problems associated with the strategy to build up heavy industry were obvious in the South Korean case as well. Huge investments in this sector diverted valuable resources that could have been devoted to more productive sectors, and the high concentration of economic power to a small number of firms reduced the flexibility and adaptability needed in a constantly changing business environment. In a socialist state like North Korea, where government subsidy is guaranteed even for unprofitable state enterprises, the continuation of inefficient investment in those industries is inevitable. However, government subsidy has never been sufficient to allow major renovation of production facilities. Isolation from the world market makes the introduction of new technologies difficult if not impossible. Thus, the production facilities would quickly become obsolete and unproductive.

In North Korea, overindustrialization with a heavy bias toward the heavy and chemical industries seems to have created serious structural imbalances. Especially significant is the inability to provide daily necessities. Shortages in light industry are exacerbated by import limitations. In fact, North Korea stressed the improvement of living standards in its Third Seven-Year Economic Plan (1987–93); this emphasis resulted in the creation of a Three-Year Plan for Light Industry (June 1989) and the establishment of the Ministry of Local Industry (June 1989), which is in charge of promoting the production of daily necessities.

In comparing the industrial structures of North and South Korea, another interesting element is found in the change of such primary sectors as agriculture, forestry, and fisheries as a percentage of GNP. The proportion of primary industry in North Korea's GNP does not show any consistent trend, simply ranging from 21 percent to 29 percent. But in South Korea, the corresponding ratio has drastically declined from 26.5 percent to 9 percent in 1990 as a consequence of substantial expansion in other sectors and the rapid decline of the rural population in the wake of urbanization and industrialization.

Stability in the proportion of agricultural labor as a percentage of North Korea's total labor force seems related to its economic policy. As one way to remain economically independent, North Korea has strongly promoted self-sufficiency of food production. As a consequence, a relatively large percentage of the labor force was obliged to stay in the primary sector (table 3). Meanwhile, setbacks in the light industry and service sectors, which are generally labor intensive, have posed major obstacles to creating a sufficient number of jobs to divert labor from the agricultural sector.

The difference in economic development patterns between North and South Korea is conspicuous in the sectors of service, construction, and other social infrastructures. These sectors constitute a relatively small and unstable
Table 3
Composition of Nonmilitary Employment by Industry (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1970</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural sectors</td>
<td>57.3</td>
<td>51.3</td>
<td>34.1</td>
</tr>
<tr>
<td>Nonagricultural sectors</td>
<td>42.7</td>
<td>48.7</td>
<td>65.9</td>
</tr>
<tr>
<td>Mining and manufacturing</td>
<td>22.5</td>
<td>24.3</td>
<td>—</td>
</tr>
<tr>
<td>Construction, services, and others</td>
<td>20.2</td>
<td>24.4</td>
<td>—</td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural sectors</td>
<td>63.4</td>
<td>50.4</td>
<td>18.3</td>
</tr>
<tr>
<td>Nonagricultural sectors</td>
<td>36.6</td>
<td>49.6</td>
<td>81.7</td>
</tr>
<tr>
<td>Mining and manufacturing</td>
<td>8.4</td>
<td>14.3</td>
<td>27.3</td>
</tr>
<tr>
<td>Construction, services, and others</td>
<td>28.2</td>
<td>35.3</td>
<td>54.4</td>
</tr>
</tbody>
</table>

SOURCE: Economic Planning Board (Seoul), Major Economic Indicators, each year; National Unification Board.

The proportion of North Korea’s GNP, while in South Korea, the same figure has exhibited stable growth.

In North Korea, as in most other socialist states, economic activities in these sectors, except for transportation and construction, have been treated as “nonproductive” and given a low priority in the allocation of productive resources. However, as the economy matures quantitatively and qualitatively, vertical and horizontal connections among economic agents have to expand dramatically. Insufficiency in services and social infrastructure may easily become a serious bottleneck for the whole economy.

Comparison of North and South Korea’s Major Industries

Agriculture

The terrain and climate of North Korea are less favorable for agriculture than are the terrain and climate of the South. North Korea has slightly more arable land than South Korea has, but the proportion of rice paddies among the cultivated land is quite different. About 30 percent of arable land in North Korea is devoted to rice, the staple grain for Koreans; in the South, rice land comprises 64 percent of arable land (table 4).

To be self-sufficient in food production, North Korea has tried to expand its arable land with reclamation projects and has kept a large portion of the labor force in agriculture. However, these efforts were not enough. As is
Table 4

Cultivated Land Area (in square kilometers)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North Korea</td>
<td>18,942</td>
<td>19,686</td>
<td>20,866</td>
<td>21,223</td>
</tr>
<tr>
<td>(percentage of rice paddy)</td>
<td>27.1</td>
<td>28.4</td>
<td>29.7</td>
<td>29.5</td>
</tr>
<tr>
<td>South Korea</td>
<td>20,459</td>
<td>22,373</td>
<td>22,790</td>
<td>21,094</td>
</tr>
<tr>
<td>(percentage of rice paddy)</td>
<td>59.3</td>
<td>55.5</td>
<td>57.0</td>
<td>63.6</td>
</tr>
</tbody>
</table>


widely known, North Korea recently tried to import grain from China and Southeast Asian countries to fill the gap between people's needs and domestic production.

Even though North Korea achieved a high level of mechanization in model farms as early as the 1970s, such technological improvements do not seem to have been widely applied to ordinary collective farms. Therefore, it is very hard to evaluate the technological basis of North Korea's agriculture. But according to North Korea's report to the UN Food and Agricultural Organization (FAO), the mechanization rate and technological standard of North Korea's agricultural sector appears to be as high as that of South Korea—a claim that is incompatible with the information about the North's agricultural productivity. The only available figure that enables us to estimate the level of modernization in North Korea's agricultural sector is the amount of chemical fertilizer used, and North Korea is applying more fertilizer per unit of land than is South Korea (table 5).

In 1970, the land-labor productivity of North Korea was estimated to have been higher than that of South Korea by as much as 57 percent. However, in recent years, South Korea has surpassed North Korea in land-labor productivity. Such a shift is partly a result of improvements in South Korea's cultivation methods, but another reason for the change is the decline of North Korea's productivity, which seems to have orginated from poor management and insufficient economic incentives for farmers. Implicit in the situation is the expectation that once agriculture reforms are undertaken, a substantial expansion of agricultural production will follow, as was the case in China.

South Korea is also faced with many structural problems in agriculture. One of them is the imbalance among agricultural products. In spite of the South's heavy dependence on imports for a wide variety of agricultural products, rice has been stockpiled for many years.
Table 5

Production Capacity of the Chemical Industry, 1989 (in 1,000 tons)

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synthetic material</td>
<td>100</td>
<td>3,196</td>
</tr>
<tr>
<td>Chemical fertilizer</td>
<td>3,514</td>
<td>4,173</td>
</tr>
</tbody>
</table>


Table 6

Deposits of Major Mineral Resources (in 10,000 tons)

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron</td>
<td>300,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Tungsten</td>
<td>23.2</td>
<td>18.5</td>
</tr>
<tr>
<td>Molybdenum</td>
<td>0.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Nickel</td>
<td>120</td>
<td>21.7</td>
</tr>
<tr>
<td>Manganese</td>
<td>20</td>
<td>125</td>
</tr>
<tr>
<td>Gold</td>
<td>0.5</td>
<td>0.25</td>
</tr>
<tr>
<td>Silver</td>
<td>0.5</td>
<td>0.25</td>
</tr>
<tr>
<td>Copper</td>
<td>7.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Lead</td>
<td>2.9</td>
<td>0</td>
</tr>
<tr>
<td>Zinc</td>
<td>1,200</td>
<td>64</td>
</tr>
<tr>
<td>Magnesite</td>
<td>650,000</td>
<td>0</td>
</tr>
<tr>
<td>Anthracite</td>
<td>1,174,000</td>
<td>145,000</td>
</tr>
<tr>
<td>Bituminous</td>
<td>300,000</td>
<td>500</td>
</tr>
</tbody>
</table>


Even in agriculture, then, one sees many complementary aspects between North and South Korea. Once the trade barrier is removed, it will be possible to exchange agricultural products on a large scale.

Mining

North Korea possesses varied and rich mineral resources. North Korea is one of the richest countries in the endowment of several kinds of nonferrous metals such as magnesite, tungsten, and molybdenum (table 6). Domestic production of various mineral resources was the main vehicle for North Korea’s industrialization in the early years of its economic development. Exports of
mineral resources have been the major sources of foreign currency earnings as well.

In recent years, the mining industry has stagnated in North Korea as a result of lack of capital and modern technologies. Deposits of old mining sites have been exhausted; mining tunnels have had to be dug deeper; and the lack of new technologies for prospecting, excavating, and processing has seriously limited the mining and metal refinery industries. Another recent problem associated with the mining industry is the shortage of energy: refining and processing nonferrous metals generally requires high energy consumption, especially of electricity.

However, mining still seems to be one of the most promising industries for North Korea and can easily be revived in a short time with adequate investment. Since South Korea imports most of its mineral resources, economic cooperation in this area would be beneficial for both North and South Korea.

Energy

North Korea depends heavily on coal for its energy needs, and the demand for coal has expanded continuously. During 1980–88 deteriorating mining conditions kept the increase in coal production to only 3 percent; during that same period, consumption increased at an annual rate of 16 percent. In 1988 about 5 percent of the DPRK’s coal was imported. A shortage of coal could easily lead to a serious decline in industrial production.

In South Korea, growth in demand for coal was significant from the late 1960s to the early 1980s; but in recent years, demand for coal is quite low because coal has been replaced by other sources of energy such as oil, natural gas, and nuclear power.

Because it has remained so heavily dependent on coal, North Korea has not developed much in the way of oil refineries. Further, about 68 percent of North Korea’s total oil refinery output is light oil, such as gasoline or diesel. Because of different patterns of oil demand, the corresponding figure for South Korea is about 32 percent. In North Korea, oil is mainly consumed for transportation, but in South Korea, oil for industrial purpose accounts for 40 percent of total consumption; only 37 percent of it is demanded for transportation (table 7).

At the time of national division, North Korea possessed far greater electricity generation capacity since most hydroelectric power plants were in the North. At present, North Korea produces only 30 percent as much electricity as South Korea; in terms of per capita electricity use, North Korea uses only 65 percent of the electricity used in South Korea.

North Korea derives more than 50 percent of its total electricity from hydroelectric generation, whereas the comparable figure for South Korea is less than 10 percent. The reduction in the number of suitable sites for hydro-
Table 7

Oil Refinery

<table>
<thead>
<tr>
<th>Unit</th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity of oil refinery 1,000 BPSD</td>
<td>70</td>
<td>840</td>
</tr>
<tr>
<td>Production 1,000 ton</td>
<td>3,235</td>
<td>35,596</td>
</tr>
<tr>
<td>Composition of refinery output</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gasoline %</td>
<td>31.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Diesel %</td>
<td>37.0</td>
<td>28.0</td>
</tr>
<tr>
<td>Kerosene %</td>
<td>7.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Bunker %</td>
<td>19.1</td>
<td>33.8</td>
</tr>
<tr>
<td>Other %</td>
<td>4.5</td>
<td>30.1</td>
</tr>
<tr>
<td>Consumption 1,000 TOE(^a)</td>
<td>3,190</td>
<td>31,315</td>
</tr>
<tr>
<td>Proportion of consumption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry %</td>
<td>18.7</td>
<td>40.1</td>
</tr>
<tr>
<td>Transportation %</td>
<td>73.1</td>
<td>37.0</td>
</tr>
<tr>
<td>Other %</td>
<td>8.2</td>
<td>22.9</td>
</tr>
</tbody>
</table>


\(^a\) Tonnage of oil equivalent

electric generation will force North Korea to place greater reliance on non-hydroelectric sources of electric generation (table 8).

The significant difference in the seasonal variation of electricity demand and supply between North and South Korea makes economic cooperation through electricity exchange feasible. North Korea’s electricity shortage arises from a decline in hydroelectric power generation during the dry winter season. This shortage can be alleviated by the supply of electricity from the South in exchange for North Korea’s supply to South Korea when it needs extra electricity for cooling during the summer season. Since the voltage and mode of electric transmission are similar, this project can be easily accomplished without severe technical difficulties.

Heavy and Chemical Industry

As mentioned earlier, North Korea kept its relative advantage over South Korea for a long time in heavy industries such as steelmaking, metal processing, and machinery production, having built up major production facilities of those industries during the 1950s and 1960s. Since the mid-1970s, however, South Korea has expanded large-scale production plants in these areas. Con-
Table 8
Electricity Generation

<table>
<thead>
<tr>
<th>Capacity of generation (1,000 kw)</th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NUB estimation</td>
<td>IEA estimation</td>
</tr>
<tr>
<td>Hydro</td>
<td>6,902</td>
<td>8,900</td>
</tr>
<tr>
<td>Thermal</td>
<td>4,052 (58.7%)</td>
<td>4,600</td>
</tr>
<tr>
<td>Nuclear</td>
<td>2,850 (41.3%)</td>
<td>4,300</td>
</tr>
<tr>
<td>Amount of electricity generated (100 mil. kwh)</td>
<td>278.9</td>
<td>530</td>
</tr>
<tr>
<td>Hydro</td>
<td>140.7 (50.3%)</td>
<td>315</td>
</tr>
<tr>
<td>Thermal</td>
<td>138.2 (49.7%)</td>
<td>215</td>
</tr>
<tr>
<td>Nuclear</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Generation per capita (kwh)</td>
<td>1,351</td>
<td>2,566</td>
</tr>
<tr>
<td>Annual growth rate (average of 1985–88)</td>
<td>2.6%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>


sequently, in certain areas of heavy industry, both North and South Korea exhibit the same pattern of heavy concentration in production facilities. Steel mills and ironmaking are typical cases of such a common concentration of industrial facilities (table 9).

North Korea is known to be one of the major arms-exporting countries. According to data from the Arms Control and Disarmament Agency in the United States, the DPRK’s total revenue from arms trade during 1980–88 amounted to US$3.5 billion, equivalent to 12 percent of North Korea’s total exports for the same period. Thus export of military weapons turned out to be a major source of hard currency. These allow us to hypothesize that North Korea’s technology is highly advanced in certain heavy industries but do not quite clear up how this technology has influenced other industries.

These days, energy shortages and irregular delivery of inputs are causing serious setbacks to North Korea’s steel mills and metal-processing industries. It seems that South Korea is in a better position because its facilities were built in the more recent past. As far as iron making for ordinary steel is concerned,
Table 9

Production of Iron and Nonferrous Metals, 1988 (in 10,000 tons)

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pig iron</td>
<td>517.0</td>
<td>1,451.0</td>
</tr>
<tr>
<td>Steelmaking</td>
<td>594.0</td>
<td>2,200.0</td>
</tr>
<tr>
<td>Rolled steel</td>
<td>404.0</td>
<td>2,785.0</td>
</tr>
<tr>
<td>Lead</td>
<td>8.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Zinc</td>
<td>29.5</td>
<td>24.0</td>
</tr>
<tr>
<td>Copper</td>
<td>9.0</td>
<td>18.0</td>
</tr>
<tr>
<td>Aluminum</td>
<td>2.0</td>
<td>1.8</td>
</tr>
</tbody>
</table>


South Korea is internationally competitive, but it still needs advanced technology in special process iron making to move into higher value-added markets.

The petrochemical industry is one of the least developed areas in North Korea's industrial sector. North Korea's production of synthetic fibers and plastic goods is only 3 percent of South Korea's. Moreover, North Korea still relies on outmoded and inefficient coal-refinery technology for the production of chemical outputs (table 10). Since the products of the chemical industry provide the major inputs for the production of such modern daily necessities as synthetic fibers, plastics, fertilizer, and so forth, North Korea will undoubtedly be forced either to promote the petrochemical industry or to import these products in order to improve the people's standard of living.

**Consumer Goods**

As a result of North Korea's great emphasis on heavy and military-related industries, consumer goods industries have been long neglected (table 11). To alleviate the shortage of daily necessities, North Korea has since the mid-1980s tried to promote light industries.

For example, the North Korean government reorganized its command system on light industry, allowing local administrative units more autonomy in the collection of inputs and the mobilization of labor. In addition, North Korea has tried to expand joint ventures with foreign companies. In spite of such efforts, the promotion of light industry has produced few results. The attempt to enhance domestic production was hindered by lack of production facilities and insufficiency of input materials, and North Korea's effort to attract foreign capital turned out to be too inconsistent to have the desired effect.

Much as North Korea is eager to expand the supply of daily necessities by attracting foreign capital, many of South Korea's manufacturing firms in light
Table 10
Production of Textiles, 1989

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibers (10,000 tons)</td>
<td>17.7</td>
<td>138.0</td>
</tr>
<tr>
<td>Textiles (100 million meters)</td>
<td>6.8</td>
<td>70.0</td>
</tr>
</tbody>
</table>


Table 11
Composition of Gross National Products, 1990 (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and fisheries</td>
<td>26.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>20.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Forestry</td>
<td>3.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Fisheries</td>
<td>2.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Mining and manufacturing</td>
<td>42.8</td>
<td>29.5</td>
</tr>
<tr>
<td>Mining</td>
<td>7.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35.0</td>
<td>29.0</td>
</tr>
<tr>
<td>Heavy industry</td>
<td>27.8</td>
<td>17.8</td>
</tr>
<tr>
<td>Light industry</td>
<td>7.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Services, construction, and utilities</td>
<td>30.4</td>
<td>61.5</td>
</tr>
<tr>
<td>Electricity, gas, and water supply</td>
<td>5.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Construction</td>
<td>7.8</td>
<td>12.7</td>
</tr>
<tr>
<td>Services</td>
<td>17.2</td>
<td>46.4</td>
</tr>
<tr>
<td>Government</td>
<td>10.7</td>
<td>17.2</td>
</tr>
<tr>
<td>Others</td>
<td>6.5</td>
<td>29.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Industry want to have economic cooperation with North Korea. Light industry is the area where the greatest economic benefits can be derived when economic relations between North and South Korea have developed to a state of direct investments and joint ventures. Many South Korean manufacturing firms in light industry can meet North Korea’s needs of capital and expertise
for the production of daily necessities. Rapidly rising domestic wages in the South have forced these firms to find less expensive labor elsewhere. This tendency will become more pronounced as time passes.

Concluding Remarks

Korea's national identity and homogeneity have significantly eroded during the half century of separation and confrontation. Such a systemic and structural divergence may not be easily removed.

Nevertheless, we can find bright spots in an otherwise cloudy sky. No one can deny that differences in the socio-politico-economic structure are the main obstacle hindering the development of cordial relations between North and South Korea. But differences in industrial structure can also be a complementary factor, providing great incentives for two different economies to cooperate. Hence, there will be opportunities to collaborate and complement each other's strengths as long as political matters do not impede economic benefits.

Prospects are also bright—in the long run—for expanding foreign economic relations because such relations are indispensable for the rebounding of the North Korean economy, and South Korean firms are equipped with a number of relative advantages over foreign firms: a common language and culture.

To facilitate economic cooperation without unnecessarily perturbing the growing bud of cooperation and dialogue between North and South Korea, the development of inter-Korean economic relations should proceed incrementally. This means that North and South Korea need to begin with pragmatic programs acceptable to both. Each side must constantly strive to understand the particular conditions facing the other party and to maintain sufficient flexibility.

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10. North Korea's Trade Policy

JUNG CHANG YOUNG

The intent of this chapter is, first, to analyze and evaluate the nature and characteristics of North Korea's trade policy during the past four decades and, second, to investigate the trade potential between South Korea (Republic of Korea; ROK) and North Korea (Democratic People's Republic of Korea; DPRK).

Background

The main thrust of economic policy in North Korea is to construct a self-reliant (chuch'e) national economy under the principle of autarky. Priority has been given to heavy manufacturing, and thus agriculture and light manufacturing have lagged far behind. A huge military-industrial complex has been constructed. The consistent implementation of a development strategy based on the strict principle of chuch'e has created extreme unbalance in North Korea's industrial structure.

The chuch'e principle of economic management has also defined the peculiar nature of international trade in North Korea. Trade is conducted under the strict control and monopoly of the state, in accordance with the central economic plan. It is largely bilateral, and the trade volume of each commodity is reached by negotiations with trade partners. International trade is generally regarded as an auxiliary instrument in establishing an autarkic economy. Although Pyongyang recently has given some emphasis to increasing exports, an autarkic economy uses exports primarily to obtain the sorts of raw materials, equipment, and machineries needed to implement the economic plan that cannot be produced domestically. Exports provide the hard currency needed to pay for imports.

The chuch'e principle has made North Korea far less dependent on international trade and finance than South Korea. In 1990 the trade dependence ratio—that is, exports and imports divided by gross national product (GNP)—was 20.1 percent in North Korea, 56.7 percent in South Korea.\(^1\) Total foreign

\(^{1}\)In 1990 the Seoul Unification Board estimated North Korean GNP to be US$23.1 billion. Exports in 1990 were US$2.0 billion, and imports US$2.6 billion. South Korean GNP reached US$238 billion in 1990, exports US$65 billion, and imports US$69.8 billion.
debts outstanding at the end of 1990 was US$7.86 billion in North Korea, more
than four times that amount in South Korea (US$31.7 billion). But the abso-
lute dollar figures are not the important ones. The foreign debt–GNP ratio was
34.0 percent in North Korea and 13.3 percent in South Korea. Foreign debt is
a real burden to North Korea.

The trade dependence ratio has hovered at about 20 percent since 1960 in
North Korea; in South Korea it increased sharply from 18.5 percent in 1960 to
68.5 percent in 1985, then decreased somewhat. North Korea, like South
Korea, has few natural resources and a small market. It, like the South, could
realize great gains from participating actively in international trade and
finance. The chuch’ě principle, however, has impeded various sorts of gains
from trade. North Korea could have obtained high technology, sufficient capi-
tal, and enormous market for its products if it had participated actively in trade
and finance. The cost incurred by sacrificing trade was really substantial.
Besides losing gains from trade, North Korea has suffered substantial ineffi-
ciency in its economy because of the extreme imbalance in industrial structure
caused by devotion to chuch’ě.

We have observed a slowdown of economic growth rates in North Korea
ever since the late 1960s. However, in 1990, for the first time since the Korean
War, the country had a negative GNP growth rate (-3.7 percent). The serious
economic difficulty now confronting North Korea seems to be the cumulative
outcome of autarkic command-type economic management during the past
forty years.

During the 1990s we would expect a substantial improvement in North–
South Korean economic and political relationships. The optimistic expectation
comes largely from the sudden sweeping reforms in the former USSR and
Eastern European countries that began at the end of the 1980s. The unification
of Germany has also raised great hope among the Korean people about the
possibility of Korea’s unification. The end of the Cold War will also influence
the future relationship between North and South Korea. Both sides have
already obtained UN membership and signed the nonaggression and reconcili-
ation agreement; in addition, North Korea, hoping to normalize diplomatic
relations with the United States and Japan and economic cooperation from
them, agreed to allow inspection of its nuclear facilities.

The recent changes in the international political atmosphere together with
the serious economic difficulty North Korea faces would lead the DPRK to
increased trade with South Korea—if such trade would not harm the former’s
political stability. Pyongyong’s plan for opening a special economic zone indi-
cates the future direction of change in North Korea’s economic policy.

In the following sections we first analyze and evaluate North Korean trade
policy during the past four decades, then investigate the potential for trade
between South and North Korea.
Trade Policy in North Korea

The Evolution of North Korean Trade Policy

Trade policy in North Korea has fluctuated over the past four decades. During the 1950s international trade was simply regarded as a device for maintaining a basically autarkic economy. Trade partners were all socialist countries, and trade occurred mainly through aid. The Sino-Soviet conflict that arose in the 1960s, however, and the concomitant decrease in aid from the USSR and the PRC led North Korea to diversify its trade partners.

After adopting a six-year economic development plan (1971–76), North Korea changed the source of imports to Western countries (especially Japan and European countries) to meet the demand for the equipment and machinery necessary to fulfill the development plan. In 1971 Western countries accounted for only 15.2 percent of North Korea’s total volume of trade; this percentage increased sharply—to 53.6 percent—in 1974. That is, the regional distribution of North Korean trade showed remarkable change.

However, the North Korean economy was hit hard by the first oil shock, and the country has not been able to meet its foreign debt payment since the middle of 1974. Sharp increases in import prices for raw materials and substantial declines in the price of minerals, which are the DPRK's major exports, were two major causes for the foreign debt crisis. In 1975 North Korean foreign debt reached approximately US$2 billion ($1.3 billion to Western nations and $0.7 billion to socialist countries)—a very heavy burden of debt indeed, considering that the total amount of trade in the same year was about $2 billion. Because of the problem in debt payment, trade with Western countries declined sharply during the latter half of the 1970s. Meanwhile, exports to developing nations increased rapidly during the 1970s as a result of North Korea’s export-promotion policy toward this region.

In his 1979 New Year’s Address, President Kim Il Sung emphasized for the first time the importance of foreign trade and stressed increasing production for export. In October 1980 at the sixth convention of the Labor Party he officially announced the change in economic policy, stating that it was necessary “to improve the economic relationship with friendly capitalist countries and to increase imports of capital and technology from these countries.” Major emphasis was given to increasing trade volume, diversifying trade partners, improving creditworthiness, and producing a better quality of export products. Figures for export volume during the 1980s should show an increase of 4.2 times; the targeted economic growth was 3.1 times over the period. In January 1984 at a meeting of the Supreme People’s Committee, it was announced that the trade volume with socialist countries was targeted to increase by 10 times within five or six years; specialization of export production was especially emphasized. In September 1984 the Joint Venture Act was enacted in order to introduce capital and technology from advanced countries. (Joint ventures were preferred to loans because there was nothing to repay in a joint venture.)
The current third seven-year plan (1987–93) aims at increasing the trade volume by 3.2 times during the plan period (the target growth rate of total social production is 1.8 times). The plan emphasizes specialization and diversification of export products and the establishment of production sites for export commodities. In 1991 the North Korean authorities disclosed a plan for establishing a special economic zone in which foreign firms could invest freely. This marked a very important change in external policy.

We have reviewed North Korean trade policy over the past forty years. Although the DPRK has consistently followed the chuch’ e policy, increase in trade was also given a high priority throughout the period. Especially during the early 1970s, North Korea tried to diversify its exports to Western countries, but this attempt failed because of the first oil shock. Entering the 1980s, the North Korean authorities emphasized officially the importance of foreign trade and tried hard to increase exports. The Joint Venture Act in 1984 and the Special Economic Zone Plan in 1991 were two important changes in North Korean trade policy.

The results of such changes have been in general disappointing, however. Although North Korea tried to increase the volume of trade and to introduce foreign direct investment, the payoff was not satisfactory, primarily because of the country’s unsolved foreign debt problem, rigidity and inefficiency in its economic structure, its narrow domestic market, and the low quality of its exports.

Recently, external circumstances for North Korea have worsened greatly. First, extreme instability in the former USSR, on which the DPRK has depended for more than half of its total trade, has had a devastating effect on the North Korean economy. On November 30, 1991, Mainichi Shinbun in Tokyo quoted the Japan External Trade Organization’s (JETRO’s) estimate that imports to North Korea from the former USSR during the period January through July 1991 was US$11 million but the import amount for the same period in 1990 was US$887 million. This means the import in 1991 was just 1.2 percent of the 1990 figure. The immediate result is, for example, an extreme shortage of oil, such that only 40 percent of the DPRK’s manufacturing capacity continues its production. Furthermore, the former USSR and the PRC now require that North Korea pay in hard currency.

This discontinuity of its trade relationship with the former USSR and other Eastern European countries has led North Korea to diversify its trade partners, with a focus on Japan and Southeast Asian countries. The prospect is not so bright, however, since the improvement of economic cooperation with Japan is first of all dependent on the South–North Korean relationship.

Pattern of Trade in North Korea

Analyzing North Korea’s trading pattern is difficult. Because the DPRK has not published any data since the middle of 1985, we must base our analysis on the trade data from North Korea’s trading partners. During the 1950s and 1960s North Korean trade continued to grow gradually; trade partners
were largely socialist countries. In the 1970s trade volume increased substantially mainly because of the increase in trade with Western countries, but it fluctuated greatly. In the first half of the 1980s the volume of trade decreased because of the DPRK's inability to pay its foreign debts and the sharp decline in the price of minerals, which are North Korea's major export. In the late 1980s the trade volume began to increase again; this increase came from the rise in trade with the former USSR and some Asian nations—e.g., Japan, Singapore, and Taiwan. However, from 1989 North Korea's trade volume began to decline again because of the economic difficulty the country faced and seriously deteriorating external circumstances, such as the collapse of the USSR and the Soviet bloc countries. There was a particularly sharp fall in North Korean trade volume in 1991 as a result of the instability in the former USSR, seriously affecting the North Korean economy. Table 1 shows the volume of trade. Growth rates in exports and imports are much lower than the rates of the Asian newly industrializing countries (NICs), and the volume of trade fluctuates sharply, although the general trend is upward. The DPRK's trade dependence ratio is lower than that of the Asian NICs, and its trade balance shows a chronic deficit throughout the period.

The regional distribution of North Korea's trade is shown in table 2. The most important feature of this distribution is a very high dependence on three countries—the former USSR, the PRC, and Japan. The high dependence on the former USSR is striking. Generally the ratio of dependence on these three countries is larger than 80 percent; this high percentage suggests the North's failure in diversifying its trade partners. Trade with Western countries reached its peak of 42 percent of total trade volume in 1974, but since then the percentage has declined continuously.

In 1989 JETRO collected trade data on three of North Korea's major trade partners. In trade with the former USSR the major export items were clothing (54.4 percent of total exports to the USSR), rolled steel (13.4 percent) magnesite powder (9.8 percent), electrical condensers (3.9 percent), and lathes (2.6 percent). The major import items were materials for clothing manufacture (13.0 percent of total imports), crude oil (6.5 percent), coal (3.6 percent), woolen fabrics (3.1 percent), electric motors (2.6 percent), oil products (2.5 percent), and textile equipment (2.1 percent).

In trade with the PRC the major export items were stone coal (26.2 percent), pig iron (15.9 percent), nonmetallic mineral manufactures (10.4 percent), fish (9.0 percent), metalliferous ores (6.6 percent), cereals (6.3 percent), and nonferrous metals (5.4 percent). Major import items were pitch coal and coke (19.3 percent), oil and oil products (19.1 percent), cereals (11.9 percent), oil nuts (7.2 percent), and rubber products (4.1 percent).

In trade with Japan the major export items were zinc ingots (22.5 percent), iron and steel (11.0 percent), mushrooms (8.7 percent), anthracite (8.1 percent), and crabs (6.1 percent). Major import items were automobiles (4.2 percent), trucks (3.6 percent), gas compressors (3.5 percent), spinning machines (2.7 percent), television sets (2.6 percent), woolen fabrics (2.5 percent), syn-
### Table 1

Trade in North Korea (US$100 million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export (X)</th>
<th>Import (M)</th>
<th>X + M</th>
<th>X - M</th>
<th>GNP</th>
<th>(X+M)/GNP(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>1.5</td>
<td>1.7</td>
<td>3.2</td>
<td>-0.2</td>
<td>15</td>
<td>21.3</td>
</tr>
<tr>
<td>1970</td>
<td>3.7</td>
<td>4.4</td>
<td>8.1</td>
<td>-0.7</td>
<td>40</td>
<td>20.3</td>
</tr>
<tr>
<td>1980</td>
<td>14.4</td>
<td>17.4</td>
<td>31.8</td>
<td>-3.0</td>
<td>135</td>
<td>23.6</td>
</tr>
<tr>
<td>1985</td>
<td>13.5</td>
<td>17.2</td>
<td>30.7</td>
<td>-3.7</td>
<td>151</td>
<td>20.3</td>
</tr>
<tr>
<td>1988</td>
<td>20.3</td>
<td>32.1</td>
<td>52.4</td>
<td>-11.8</td>
<td>206</td>
<td>25.4</td>
</tr>
<tr>
<td>1989</td>
<td>19.5</td>
<td>28.5</td>
<td>48.0</td>
<td>-9.0</td>
<td>206</td>
<td>22.7</td>
</tr>
<tr>
<td>1990</td>
<td>20.2</td>
<td>26.2</td>
<td>46.4</td>
<td>-6.0</td>
<td>211</td>
<td>20.1</td>
</tr>
</tbody>
</table>


### Table 2

North Korea’s Regional Distribution of Trade (1989) (US$ million)

<table>
<thead>
<tr>
<th>Region</th>
<th>Export</th>
<th>Import</th>
<th>Total trade</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former USSR</td>
<td>890</td>
<td>1,491</td>
<td>2,381</td>
<td>-601</td>
</tr>
<tr>
<td>(57.3)</td>
<td>(59.8)</td>
<td>58.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRC</td>
<td>185</td>
<td>377</td>
<td>562</td>
<td>-192</td>
</tr>
<tr>
<td>(11.9)</td>
<td>(15.1)</td>
<td>(13.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other socialist countries</td>
<td>23</td>
<td>24</td>
<td>47</td>
<td>-1</td>
</tr>
<tr>
<td>(1.5)</td>
<td>(1.0)</td>
<td>(1.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>283</td>
<td>206</td>
<td>489</td>
<td>77</td>
</tr>
<tr>
<td>(18.2)</td>
<td>(8.3)</td>
<td>(12.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td>49</td>
<td>158</td>
<td>207</td>
<td>-109</td>
</tr>
<tr>
<td>(3.1)</td>
<td>(6.3)</td>
<td>(5.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>118</td>
<td>227</td>
<td>345</td>
<td>-109</td>
</tr>
<tr>
<td>(7.6)</td>
<td>(9.1)</td>
<td>(8.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East, Africa</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>(0.3)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>0.23</td>
<td>4</td>
<td>4.23</td>
<td>-3.7</td>
</tr>
<tr>
<td>(0.01)</td>
<td>(0.2)</td>
<td>(0.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,553.23</td>
<td>2,492.00</td>
<td>4,045.23</td>
<td></td>
</tr>
</tbody>
</table>


*Figures in parentheses are percentage of total trade.*
thetic textiles (2.4 percent), refrigerators (1.8 percent), and heating and cooling equipment (1.8 percent).

KIET (South Korea Unification Board) has estimated the commodity structure of North Korean trade in 1987 based on the trade data of the former USSR, the PRC, the Organization for Economic Cooperation and Development (OECD) countries, Hong Kong, and Singapore. Trade with these countries comprised 68.7 percent of total North Korean exports and 71.6 percent of imports. Table 3 shows the result. The largest export group is standard international trade classification (SITC) 6 (manufactured goods classified chiefly by materials). The major export items of North Korea such as nonmetallic minerals (anthracite), nonferrous metals (lead, zinc, gold, magnesite powder), iron, and steel belong to this group. The next important export commodity groups are SITC 2 (crude materials inedible), SITC 8 (miscellaneous manufactured articles), and SITC 7 (machinery and transport equipment). The percentage of manufactured goods among total exports is more than 60 percent.

The largest import commodity group is SITC 3 (mineral fuels, lubricants, and related materials). Oil and oil products, coke, and bituminous coal belong to this group. In order of magnitude the next important ones are SITC 7, 6, and 2.

In exports, North Korea has higher composition ratios than South Korea in SITC 0, 2, 3, and 6, indicating that the North has comparative advantage in resource-intensive goods. In contrast, South Korea has comparative advantage in SITC 7 and 8. Thus, we may say that although manufactured goods are the main exports of both South and North Korea, we could find complementarity in the pattern of trade because of the differences in their resource endowments and level of industrialization. Also, we could expect a large volume of intrustry trade.

North and South Korea show similar import patterns. Both of them are heavily dependent on foreign resources and on imported machinery and transport equipment. This dependence indicates their relatively poor resource endowment and low level of industrialization.

Trade Potential between South and North Korea

Actual North–South Economic Exchange

From the end of World War II until 1949 trade between North and South Korea consisted of the so-called 38 illegal trade and military government trade. Also, electricity was sent to the South from the North. From the outbreak of the Korean War, however, until quite recently, there were no economic transactions and cooperation between two sides.

There were a few exceptions. For example, in 1978 ten thousand tons of coal were sent from Nampo to Pusan via indirect trade by an English company. The South wanted to buy more coal from the North, but the deal was
Table 3
Commodity Structure of North Korean Trade (1987)

<table>
<thead>
<tr>
<th></th>
<th>Export (US$ million)</th>
<th>Composition ratio (percent)</th>
<th>Import (US$ million)</th>
<th>Composition ratio (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Food and live animals</td>
<td>154.0</td>
<td>13.4 (4.4)</td>
<td>91.8</td>
<td>5.4 (4.0)</td>
</tr>
<tr>
<td>1. Beverages and tobacco</td>
<td>6.4</td>
<td>0.6 (0.2)</td>
<td>5.0</td>
<td>0.3 (0.1)</td>
</tr>
<tr>
<td>2. Crude materials inedible (except fuel)</td>
<td>201.6</td>
<td>17.5 (1.0)</td>
<td>140.7</td>
<td>8.3 (14.4)</td>
</tr>
<tr>
<td>3. Mineral fuels, lubricants, and related materials</td>
<td>72.6</td>
<td>6.3 (1.6)</td>
<td>581.1</td>
<td>34.4 (14.7)</td>
</tr>
<tr>
<td>4. Animal oils and fats</td>
<td>0</td>
<td>0 (0.0)</td>
<td>8.7</td>
<td>0.5 (0.3)</td>
</tr>
<tr>
<td>5. Chemicals</td>
<td>20.8</td>
<td>1.8 (2.8)</td>
<td>76.7</td>
<td>4.5 (11.2)</td>
</tr>
<tr>
<td>6. Manufactured goods classified chiefly by materials</td>
<td>395.4</td>
<td>34.4 (21.6)</td>
<td>263.1</td>
<td>15.6 (15.2)</td>
</tr>
<tr>
<td>7. Machinery and transport equipment</td>
<td>119.7</td>
<td>10.4 (35.8)</td>
<td>460.0</td>
<td>27.2 (33.7)</td>
</tr>
<tr>
<td>8. Miscellaneous manufactured articles</td>
<td>175.8</td>
<td>15.3 (32.5)</td>
<td>47.3</td>
<td>2.8 (5.2)</td>
</tr>
<tr>
<td>9. Not elsewhere classified</td>
<td>4.0</td>
<td>0.3 (0.3)</td>
<td>14.4</td>
<td>0.9 (1.3)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,150.3</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,688.8</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


* Figures in parentheses are the corresponding composition ratios in South Korea.

discontinued when the North quoted a higher price for subsequent shipments. In 1984, the North Korean Red Cross proposed to send relief commodities to South Korea’s flood-stricken people for humanitarian purposes. The South agreed to receive those commodities; subsequently, various goods such as fifty thousand soks of rice, five hundred thousand meters of cotton fabric, one
In November 1984, for the first time since the division of the country, the North and the South held face-to-face talks about economic cooperation at Panmunjom. The economic talks continued altogether five rounds but reached no agreement. However, the very fact of the talks meant a great step forward since both sides sat and listened to the other’s different viewpoint. Major issues discussed were commodity transactions, economic cooperation, and the establishment of an economic council to implement agreements.

The South’s proposal included two issues: commodity transactions and economic cooperation. With respect to commodity transactions the South set forth proposals concerning a list of tradable commodities, an amount of tradable commodities, terms of trade, trade partner, methods of transaction, payment, currency for clearance, no tariff, and transportation. With respect to economic cooperation, the South proposed joint development of natural resources, establishment of a common fishing zone, and joint ventures in manufacturing and tourism. Finally, to implement trade and cooperation an Economic Cooperation Committee was to be set up.

The North foresaw various difficulties and complications in implementing cooperation and trade. To overcome these it emphasized three major principles of unification—self-reliance, peaceful unification, and national solidarity. Its proposal, too, included proposals for economic cooperation and commodity transactions.

With respect to economic cooperation, the North proposed joint development of natural resources, establishment of a common fishing zone, and creation of an economic committee to implement these. Regarding trade, the North’s proposal included a list of tradable commodities, methods of transportation, and methods of transactions. Regarding the latter, the North proposed that raw materials be traded with raw materials, finished products with finished products, and agricultural products with agricultural products. Regarding transportation, the North proposed reconnection of broken railways and opening of ports to the other side.

In the list of tradable commodities and the proposals for joint development of natural resources, establishment of a common fishing zone, connection of broken railways, and establishment of an economic committee, some degree of consensus was shown. These North–South economic talks continued for a year, but no concrete agreement was reached.

In 1988, South Korean President Roh Tae Woo announced a seven-point proposal toward North Korea. This nordpolitik declared an opening toward the North and regarding North–South trade as intracountry trade. In December an executive member of one South Korean private company met his North Korean counterpart in Tokyo to discuss trade and joint ventures. Also, Hyundai Group, for the first time since the division of the country, bought forty kilograms of fishery products from the North (through indirect trade). Then,
early in 1989, the chairman of Hyundai Group visited North Korea and discussed a joint venture producing railway cars, participation in Siberian development, and joint development of Kum Kang (Diamond) mountain. In February, the Hudosung Company received coal directly from Nampo at Inchon, and Hyundai did the first barter trade with the North.

In September 1990 North and South Korean premiers met for the first time to discuss resolving political-military confrontation and conducting various economic transactions and cooperation. On December 13, 1991, North and South premiers signed a nonaggression and reconciliation agreement in Seoul.

The actual economic exchange between the two sides from 1945 until quite recent times can be summarized as follows: First, economic exchange was mainly confined to commodity trade; people did not cross the borders. There was no economic cooperation either. The South made efforts to increase commodity trade, but the North was cool to such efforts. The South seems to be ready to make various concessions toward the North, but no progress on trade can be made without the North’s cooperation.

Second, commodity transactions were made in the form of indirect trade through third nationals or Korean residents abroad, not direct trade between North and South. Thus economic exchange is at its earliest stage and very unstable.

Third, North Korea adheres strictly to the chuch’è principle and does not show any intention of change, so economic exchange between the two could be discontinued at any time. This situation reflects the current vulnerability of economic exchange between South and North Korea. In January 1992, however, there were some hopeful signals from the North that it intended to open the closed economy to some extent, especially toward the South.

**Trade Potential between South and North**

Recently there have been encouraging signs about North–South trade (table 4). First, commodity trade increased sharply during the period January through August 1991, to US$65 million. The volume of trade in 1990 was US$20 million, but in 1991 it reached US$95 million. Since North Korea’s total exports were US$2 billion in 1990, that figure represents 10 percent of the DPRK’s total exports. If the figures hold, South Korea would be the DPRK’s fourth largest trade partner in 1991, following the former USSR, the PRC, and Japan. Numbers of transactions, numbers of companies involved, numbers of commodities trade, and monetary value of trade all increased rapidly in 1991.

During the period October 1988 through August 1991 metals such as zinc ingots, lead ingots, electrolytic copper ingots, coil, pig iron, and billet comprised 47.0 percent of total North Korean imports approved in South Korea (US$154 million); mineral products such as coal and cement were 12.7 percent, precious metals such as gold and silver 6.5 percent. (In value, the largest
import commodity was zinc ingots, which totaled about US$45 million.) The traditional major North Korean export items such as metals and mineral products, then, comprised 66.2 percent of South Korea’s imports from the North. In addition, animal products comprised 16.2 percent and vegetable products 11.1 percent. Thus import items are mainly resource-intensive goods.

Until September 1990, South Korea exported only three items—cigarette filters, sweaters, and sugar—to North Korea. Since then sock-weaving machines; cotton batting; petrochemical products such as high-density polyethylene, agricultural vinyl, and high-sulfur diesel oil; electronic products such as color television sets and refrigerators; and such necessities of life as fabrics and soap have been added. The largest export commodity now is high-density polyethylene.2

The second hopeful sign is the change in the form of trade, that is, from trade using third nationals to one using foreign subsidiaries of the South Korean firms. This change may be interpreted as a movement toward direct trade between the two sides from the present indirect trade. There was, in fact, direct trade of rice in July 1991.

Third, the number of contacts between South and North Korean businessmen to discuss trade and joint ventures increased sharply in 1991, and there

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### Table 4

South Korea’s Trade with North Korea (customs basis)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of trades</th>
<th>Number of companies</th>
<th>Number of commodities</th>
<th>Amount (US$10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Import</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>66</td>
<td>55</td>
<td>55</td>
<td>1,866</td>
</tr>
<tr>
<td>1990</td>
<td>78</td>
<td>60</td>
<td>60</td>
<td>1,228</td>
</tr>
<tr>
<td>1991 (Jan.—Aug.)</td>
<td>174</td>
<td>114</td>
<td>101</td>
<td>6,223</td>
</tr>
<tr>
<td>Total</td>
<td>318</td>
<td>229</td>
<td>216</td>
<td>9,317</td>
</tr>
<tr>
<td><strong>Export</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>69</td>
</tr>
<tr>
<td>1990</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td>119</td>
</tr>
<tr>
<td>1991 (Jan.—July)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>305</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>7</td>
<td>10</td>
<td>493</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>326</td>
<td>236</td>
<td>226</td>
<td>9,810</td>
</tr>
</tbody>
</table>

**SOURCE:** Study on North Korean Economy (Seoul: Unification Board, 1991).
were some reports suggesting the high probability of success in a joint ventures agreement. In particular, it was reported in January 1992 that Daewoo's chairman and Kim Il Sung had agreed on the advisability of having various kinds of joint ventures. Surely these are all hopeful signs suggesting the potential for increased trade between the two sides.

We turn now to the concrete aspects of trade potential. During the economic talks in 1984 there was some agreement on the list of tradable commodities. The South wants to import and the North wants to export coal, iron ore, corn, and the Alaska pollack. Conversely, the South wants to export and the North wants to import iron and steel products and cotton textiles.

Although it has been more than forty years since the division of the country, Korea was a unified economy for so long that a high degree of complementarity exists between South and North. In 1989, for example, South Korea imported US$1.7 billion worth of three mineral products—iron ore, magnesite, and bituminous coal—that are major export items of North Korea. In the same year, North Korean mineral exports amounted to US$210 million. Thus, in addition to the three mineral products it imported, the South could import other minerals such as lead ingots, pig iron, zinc ingots, silica, scrap iron, gold, silver, and copper. Primary products such as rice, red beans, corn, and the Alaska pollack could also be traded to counterbalance the annual fluctuations in primary production.

The import capacity of South from North could reach approximately US$2 billion. However, the quantity of immediately tradable commodities would not be large, both because the North does not have a large amount of exportable commodities and also because many items have been contracted on a long-term basis. The poor quality of North Korean products would also inhibit increasing the volume of exports. It is probably safe to assume that for the time being the North may not be able to export more than US$300 million worth of commodities annually to the South. However, the volume of trade would increase rapidly even in the short run if direct trade between the two sides were realized. It would not be difficult to reach US$500 million in trade volume. In the long run, differences in resource endowments and in levels of industrialization suggest great potential for trade between the two sides.

The basic factor determining the trade volume between the two sides is the policy stance of North Korea, that is, how far the North would be willing to expand trade with the South. The North's willingness/unwillingness rests on two factors. On the one hand, North Korea's rapidly deteriorating economic situation puts continuous pressure on North Korea to trade with the South. To improve the situation there seems to be no other alternative besides more trade with the prosperous South.

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3Georgi D. Toloraya, The Directions of Economic Exchange and Cooperation between South and North Korea (Seoul: Unification Board, 1989).
On the other hand, the North’s adherence to *chuch’e* argues against increased trade. As of now there seems to be no change in this policy. Between the two opposing factors the political factor impeding trade far outweighs the economic factor encouraging it. Thus, we should not expect rapid increase in trade between the two sides in the short run. In this rapidly changing world, however, it will be very difficult for North Korea to pursue its autarkic principle. This consideration leads us to have a rather optimistic expectation for increased trade in the long run.

**Conclusion**

In this chapter we have evaluated the characteristics of North Korea’s trade policy during the past four decades. We have found out that despite its adherence to *chuch’e*, increase in trade was given a high priority. The results of this emphasis, however, have been in general disappointing.

The rates of growth in exports and imports have been much lower in North Korea than in the Asian NICs, and the volume of trade has fluctuated sharply over the years. The DPRK’s trade dependence ratio is much lower than that of the NICs, and its trade balance shows chronic deficit. Its trade dependence on the former USSR, the PRC, and Japan is strikingly high.

The comparison of the pattern of trade in South and North Korea indicates that there exists a high degree of complementarity in resource-intensive products and in more sophisticated manufactured goods. This complementarity in trade pattern reflects the different industrial structures of South and North.

Second, we have examined the trade potential between the two sides. We have learned that actual economic exchange has just begun. However, in 1991 some hopeful signs arose. For example, commodity trade in January–August 1991 was 13 times higher than in the same period of the previous year.

Regarding the trade potential between North and South, we have suggested that differences in resource endowments and in the level of industrialization could in the long run result in increased trade between the two. In the short run, however, the North’s adherence to *chuch’e* argues against a rapid increase in the volume of trade.

Although divided for nearly half a century, Korea was a unified economy for a long time. The differences in resource endowments caused by geography have made North and South complementary to each other. There is also strong complementarity in the industrial structures of North and South Korea and in their pattern of trade. Differences in resource endowment and in level of industrialization strongly suggest the inevitable necessity of trade based on comparative advantage.

Both sides would benefit greatly from increased two-party trade. Especially for North Korea, such trade could be an engine of growth, since the present stagnation comes largely from the DPRK’s adherence to *chuch’e*. In addition to trade, we would also expect the possibility of various forms of
joint ventures between North and South. Actually, trade and cooperation between the two sides would go hand in hand.

Clearly, the economic gains from trade would be enormous to both parties. Furthermore, it would build confidence between the two, and this confidence would contribute in the long run to the unification of the country. It is not necessary to mention the great worldwide potential Korea would have if it formed a common market.
The DMZ (demilitarized zone), with its barbed wire and firing positions, has been the symbol of a divided Korea for the past four decades. Even though a window, Panmunjom, existed, it was more an arena for mutual accusation and denunciation than for dialogue until very recently. In 1991, significant changes occurred in the Korean peninsula. Both the Democratic People’s Republic of Korea (DPRK or North Korea hereafter) and the Republic of Korea (ROK or South Korea hereafter) joined the United Nations simultaneously. For the first time since division, there were prime ministerial talks and substantial direct trade between the two Koreas. In December 1991, North and South signed an Agreement on Reconciliation, Nonaggression, and Exchange and Cooperation, which became effective in February 1992.

Despite widely different interpretations of Pyongyang’s policy shift from isolation to limited opening and dialogue with the South and other Asia Pacific countries, there are rising expectations about the possibility of the reunification of the Korean peninsula. Discussions concerning the approach and timing of the reunification have started within and outside Korea among scholars, businessmen, and government officials. There appears to be consensus on the underlying reasons for the North’s shift in external relations policy, including the end of the Cold War, the dismantling of the Soviet Union, and the prevalence of economic pragmatism over political ideology. In addition to these changes in the global political economy, domestic circumstances in the South and the North have helped make both Seoul and Pyongyang more accommodating.

Although there are circumstantial reasons to be optimistic about the possibility of economic cooperation and even economic integration between North and South Korea in the 1990s, skepticism remains because of distrust between the North and the South and uncertainties surrounding the future course of North Korean policy. These uncertainties put at risk any prospects for and

The authors would like to thank Dr. Burnham O. Campbell and Mr. Jaejin Byun for their valuable comments.
approaches to inter-Korean economic cooperation. Another major potential pitfall in the discussion of such cooperation is that each side draws the prospect in its own image, ignoring the other's reality (or at best one side considers its counterpart by its own perceived image). With these caveats in mind, the following discussion will focus on the prospects for and approaches to inter-Korean economic cooperation and integration. The first section will provide a brief review of background factors related to the changing political and economic situation in Northeast Asia. The economies of both North and South Korea will then be examined in view of their differences, and the implications for cooperation will be discussed. In the third section, the options and constraints of North and South Korea on their external economic relations including inter-Korean relations will be elaborated. Following this, approaches to inter-Korean economic cooperation will be discussed with the eventual reunification of the Korean peninsula in mind. Finally, major tasks and long-term strategies for economic cooperation and integration will be analyzed and some concluding observations made.

Background

The abrupt end of the Cold War and the sudden fall of the Communist party in the Soviet Union and Eastern Europe have presented an opportunity for a new order on and surrounding the Korean peninsula. Growing economic interdependence and regionalism and a more pragmatic approach by socialist economies add stimulus for creating a new dynamism in Northeast Asia. More specifically, North Korea's policy appears to have shifted in a new, more pragmatic direction in 1991, opening the possibility of greater economic integration with the Northeast Asian region as well as with South Korea. This shift, however, seems more a forced response to changing international circumstances than an ideological reorientation. The reunification of East and West Germany and the growing economic and political strength of South Korea compelled Pyongyang to break its growing isolation. Acceptance of dual UN membership with South Korea, resumed prime ministerial talks with South Korea, continued talks on establishing diplomatic relations with Japan, and agreements on reconciliation, nonaggression, exchanges, and cooperation with South Korea have all occurred in 1991 and have rendered the best opportunity for inter-Korean economic cooperation since the division of Korea in 1948.

In addition, regional developments such as the withdrawal of the Soviet Union as a major military power in the region, the impending improvement of Japanese-Russian relations, the continued growth and external participation of China in regional affairs, the anticipated gradual reduction of the U.S. military presence in Asia, and the emergence of a dynamic and productive Asia Pacific economy set the stage for major changes on and around the peninsula. The future of the peninsula depends on how the two principal actors and major powers involved in the Korean problem seize this opportunity to construct a new system. Decisions to improve the situation cannot be unilateral.
A bilateral or multilateral approach is desired to raise the probability of securing long-term peace on the peninsula.

Inter-Korean economic cooperation is inseparable from political and other aspects of inter-Korean relations. More important, however, is that economic interests have been the key for the opening of socialist economies—of China, the former Soviet Union, and Eastern European countries, for example—to the outside world. Furthermore, economic cooperation can provide the basis for full-fledged relations between previously alienated countries—China and South Korea, for example. These considerations also apply to inter-Korean economic cooperation.

**Overview**

**Population and Labor**

Despite differences in political and economic systems, the populations in the North and the South show similar traits in terms of macrodemographic variables: the degree of urbanization, age composition of the population, and other measures of societal modernization. This is certainly one positive element that may help to integrate the two populations (table 1). The combined population of the North and the South is about 65 million, which provides a large market—bigger than that of France and slightly smaller than that of the unified Germany. The highly educated and diligent labor force of South Korea is known to be one of the forces behind rapid economic growth. Judging from scattered evidence, the North Korean labor force also appears to be highly disciplined and educated.\(^1\) Considering that South Korea has recently been experiencing labor shortages in certain sectors, the pooling of human resources in both Koreas would provide considerable advantage to both. Higher projected rates of labor force growth in the North would also help relieve labor shortage in the South (Eberstadt 1991).

North Korea’s high estimated rates of labor force participation seem likely to compound the difficulties that might be expected in a transition to a market-oriented economy. Many of the persons presently counted as “productive laborers” are in reality marginal employees. If North Korean employment patterns were to conform roughly to those reported in the present-day South, more than a fourth of those persons in the civilian labor force in the late 1980s would no longer be receiving wages or salaries. A shift to a market-oriented economy would probably mean that many people would have to shift from or quit their existing jobs. Social consequences of such a transition would be enormous (Eberstadt 1991). A gradual adjustment of the employment system—that is, from life-time employment to contractual employment as being experimented in China—would be necessary to minimize disruptions.

---

\(^1\)Visitors to North Korea including businessmen from South Korea and Japan pointed out such characteristics of North Korean workers.
Table 1

Population and Labor Force

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, 1990 (100’s)</td>
<td>21,412</td>
<td>42,869</td>
</tr>
<tr>
<td>Population growth, 1980–90 (%)</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Age composition, 1990 (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0–14</td>
<td>29</td>
<td>26</td>
</tr>
<tr>
<td>15–64</td>
<td>67</td>
<td>69</td>
</tr>
<tr>
<td>65+</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Percent urban</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>54</td>
<td>41</td>
</tr>
<tr>
<td>1990</td>
<td>60&lt;sup&gt;a&lt;/sup&gt;</td>
<td>74</td>
</tr>
<tr>
<td>Labor force growth rate (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980–90</td>
<td>3.2&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.8</td>
</tr>
<tr>
<td>1990–2000</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>2000–10</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Labor force participation (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987–89</td>
<td>73.7</td>
<td>59.5</td>
</tr>
</tbody>
</table>

*Source: Eberstadt (1991), Korea Development Institute (1991), and National Statistics Bureau (1990).*

<sup>a</sup> 1987 figure
<sup>b</sup> 1986–90 figure

The economic significance of divergent urbanization rates between North and South Korea lies in that North Korea’s slowdown in urbanization after 1970 may reflect economic difficulties. To the extent that geographic mobility may play a role in the reallocation of human and other resources within the production process, North Korea’s less flexible posture toward internal migration would seem to be related to the overall development of its economy (Eberstadt 1991).

**Economy**

The North Korean economy has shown low rate of economic growth since the mid-1970s and recorded less than 3 percent annual growth during the Third Seven-Year Plan (1987–93), a rate below those of most Asian economies (World Bank 1991). By all indications, the economy is now in serious decline, having contracted 3 percent in 1990, with severe shortages in energy, transportation, and food. The apparent ill-performance of the North Korean economy is largely due to outdated technology and ill-equipped production facilities. Despite these economic difficulties, North Korea has maintained a
large military expenditure, ranging between 10 percent and 20 percent of its gross national product (GNP), which has caused a shortage of necessary investment (Ha 1991; Yeon 1990).

North Korea has a highly autarkic economy. The emphasis on self-reliance in heavy industry, including the military industry, stems not only from the Stalinist model but also from the historical confrontation with South Korea and the perceived need for defense from foreign aggression. Maintenance of a million-man army on a war footing for nearly forty years has created an artificial demand for military goods, generating a military-industrial sector in North Korea similar to that of the former USSR (Randolph 1991). Moreover, this military sector in North Korea is reported to be technologically advanced and to produce high-quality products that contribute substantially to the North's total export (Trigubenko 1991; KDI 1991). Assuming conversion to civilian products this sector would provide a potential source of inter-Korean cooperation in the scientific and technical spheres.

Although industry dominates the North Korean economy, the DPRK still has a large agricultural sector in terms of both GNP and employment (table 2). The large proportion of agricultural labor in the total labor force is explained by two things: first, the country's self-reliance policy requiring self-sufficiency in food production and, second, the dearth of employment opportunities in the neglected light industrial and service sectors, a lack common to most socialist economies. These figures imply that there may be a large number of underemployed workers in the agricultural sector who could be tapped in any South-North economic cooperation.

As illustrated in table 3, the North Korean economy is dominated by state-owned enterprises and units, which are generally known to be suffering from low efficiency and chronic deficits. As is common to socialist economies, these state enterprises are not expected to be responsible for their own profits and losses; further, the Party often intervenes in their administration. The fact that the economic reforms instituted in China in 1978 have not much changed the ownership structure of the PRC's major enterprises indicates the difficulties involved in privatizing a state-dominated economic structure in the urban industrial sector. In particular, privatization of the urban industrial sector has faced serious obstacles in China because it involves redefining the role of the Party in the enterprises and broadly in the society. Considering the more influential position of the Party in enterprise management in North Korea than in China, enterprise and employment reform will be much more difficult and time consuming (Kang and Lee forthcoming). Allowing a nonstate sector and foreign joint ventures rather than attempting reform of the state sector may be more attractive to the leadership and more effective, as evidenced by the Chinese experience (Lee and Mark 1991).

The experience in China and other socialist economies, however, suggests that such a dualist approach will eventually result in competition between the state and nonstate sectors and between plans and markets; such competition may lead to a divergence of interest among various groups and, in turn, may produce social conflicts.
### Table 2

Comparison of North and South Korean Economy

<table>
<thead>
<tr>
<th></th>
<th>North Korea</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP, 1990 (US$ billion)</td>
<td>23.5</td>
<td>237.9</td>
</tr>
<tr>
<td>GNP growth rate (%), 1985–89</td>
<td>2.0</td>
<td>10.4</td>
</tr>
<tr>
<td>GNP per capita, 1990 ($)</td>
<td>1,095</td>
<td>5,569</td>
</tr>
<tr>
<td>GNP share, 1990 (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>26.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Industry</td>
<td>42.8</td>
<td>29.5</td>
</tr>
<tr>
<td>Services</td>
<td>30.4</td>
<td>61.5</td>
</tr>
<tr>
<td>Military expenditure, 1987</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (US$ million)</td>
<td>4,106</td>
<td>5,219</td>
</tr>
<tr>
<td>Percent of GNP</td>
<td>9.3</td>
<td>5.7</td>
</tr>
<tr>
<td>Foreign debt, 1990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (US$ billion)</td>
<td>7.86</td>
<td>31.7</td>
</tr>
<tr>
<td>Percent of GNP</td>
<td>34</td>
<td>13</td>
</tr>
<tr>
<td>Trade, 1989 (US$ billion)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td>1.95</td>
<td>62.4</td>
</tr>
<tr>
<td>Import</td>
<td>2.84</td>
<td>61.5</td>
</tr>
<tr>
<td>Total trade/GNP (%)</td>
<td>20.4</td>
<td>52.0</td>
</tr>
</tbody>
</table>

**Source:** KDI (1991), Yeon (1991), and Asian Business (1989).

The defense-oriented, centrally controlled industrialization of the North resulted in an antimarket structure of its economy: The state sector has a virtual monopoly in the industrial sector; the planning and management of enterprises are excessively centralized; labor organizations are mobilized like a military unit (Trigubenko 1991). North Korean industry is concentrated in power generation, mining and extractive industries, ferrous and nonferrous metallurgy, and chemical and building materials. These fuel- and raw-material-intensive industries are characterized by the massive use of metal and electricity, low levels of mechanization and automation, and outdated production facilities. Efforts to modernize these industries are hampered by lack of capital. Even with updated metallurgy, engineering, and chemical industries, parallel with an increase in the proportion of finished products in production, North Korea is not expected to develop those industries as internationally competitive export sectors. Adjustment of the industrial structure between the North and the South will certainly help reshape North Korean industries into a competitive export sector; but light industry, with its lower capital require-
Prospects for and Approaches to Inter-Korean Economic Cooperation

Table 3
Share of Labor Force by Sector (percentage)

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1986</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State worker</td>
<td>38.3</td>
<td>56.3</td>
<td>57.0</td>
</tr>
<tr>
<td>Government official</td>
<td>13.7</td>
<td>17.0</td>
<td>16.8</td>
</tr>
<tr>
<td>Farmer</td>
<td>44.4</td>
<td>25.9</td>
<td>25.3</td>
</tr>
<tr>
<td>Co-op worker</td>
<td>3.3</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>99.7</td>
<td>100.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1986</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State worker</td>
<td>19.5</td>
<td>18.2</td>
<td>18.2</td>
</tr>
<tr>
<td>Urban collective worker</td>
<td>3.6</td>
<td>6.8</td>
<td>6.6</td>
</tr>
<tr>
<td>Urban private worker</td>
<td>0.6</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Rural worker</td>
<td>76.3</td>
<td>74.1</td>
<td>74.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


ments and more flexible management system, is a more likely basis for export-oriented production (ibid.).

The South Korean economy recorded an annual average growth rate of 10 percent between 1985 and 1989. Since 1990, however, the ROK has had a trade imbalance and relatively high inflation; and recent wage hikes, currency appreciation, and labor shortages will require South Korean labor-intensive industries to restructure. Further, the rapid economic growth in the past three decades was not without cost. It resulted in sectoral and spatial imbalances and the concentration of economic power in a few hands. One consequence is that income inequality, although relatively smaller than that in other developing economies, became a social issue in the late 1980s.³ Worsening trade deficits, rising inflation, and weakening industrial competitiveness are major problems facing South Korea in recent years as the country confronts the great challenge of restructuring its industrial economy to remain internationally competitive while at the same time improving social equity and welfare.

³Income inequality was believed to have worsened in recent years because of wealth accumulation by a small proportion of the population through speculative investments in real estates. Skyrocketing land prices due to relatively limited land supply and the associated problems of land speculation have become one of the critical social issues confronting the government in the Sixth Republic (1988-92).
External Economic Relations

On the whole, North Korea's economy is less dependent on international trade and finance than is South Korea's. In 1990, North Korea's trade dependence ratio was 20 percent compared to the South's 52 percent (see table 2). The total foreign debt outstanding at the end of 1990 was US$7.86 billion in North Korea, US$31.7 billion in the South. The ratio of foreign debt to GNP, however, was 34 percent in the North, 13.3 percent in the South; thus, foreign debt is a real burden to North Korea (Jung 1991).

It appears that the DPRK is clearly aware of the need to expand its external ties and that it is adopting some realistic policies for that purpose (Rhee 1992; Izumi 1991). Expansion of exports is necessary to pay foreign debt and to buy required goods. North Korea's trade growth has been much slower than that of the Asian NIEs, and the volume of trade has fluctuated sharply, with a chronic deficit throughout the 1960–90 period (Jung 1991). North Korea's trade has been largely with socialist countries—60–70 percent of the country's total trade—especially with the former Soviet Union, and most of it has been barter trade. In 1991, however, the Soviet Union required that international transactions be settled in hard currency; in 1992 China followed suit. Thus, diversification of trade relations is called for, and Japan appears to be one of the major target countries for this diversification. The DPRK wants not only increased trade with Japan but assistance from Japan to reconstruct its economy (Izumi 1991). Currently, Japan-DPRK trade amounts to only about US$500 million, and it is not easy to expand that trade because there are no strong economic incentives in the DPRK. Furthermore, Pyongyang has a poor record of paying its bills on time. Consequently, Japanese trade and investment into North Korea have thus far been limited and have been accomplished primarily by pro-Pyongyang Koreans in Japan (this is why it is often called "Korea-Korea" trade) (ibid. 1991).

South Korea also shows a skewed trade relationship, with trade concentrated with the United States and Japan (table 4). Its trade imbalance with Japan has been deteriorating in recent years, and remedies to balance bilateral exports and imports have been called for. The heavy dependence on Japanese imports for capital equipment is considered an important economic issue, and Seoul has stressed to Tokyo the need to transfer technology from Japan to South Korea. In 1991, South Korea recorded a trade deficit with its traditional surplus market, the United States. South Korea is also under pressure from the United States to open up its domestic market. Frictions are acute in the agricultural sector, where farmers have become an active interest group resisting the opening.

4In terms of net foreign debt (total debt minus total credit), the ratio is much lower for South Korea, only 2 percent in 1990. However, the ratio for North Korea is not expected to be much different after adjustment because North Korea's total credit appears to be nil.
Table 4

Country Composition of Trade, 1989 (US$ million)

<table>
<thead>
<tr>
<th>North Korea</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>USSR</td>
<td>890</td>
<td>1,491</td>
</tr>
<tr>
<td></td>
<td>(56)²</td>
<td>(59)</td>
</tr>
<tr>
<td>China</td>
<td>185</td>
<td>377</td>
</tr>
<tr>
<td></td>
<td>(12)</td>
<td>(15)</td>
</tr>
<tr>
<td>Japan</td>
<td>283</td>
<td>206</td>
</tr>
<tr>
<td></td>
<td>(18)</td>
<td>(8)</td>
</tr>
<tr>
<td>Others</td>
<td>218</td>
<td>460</td>
</tr>
<tr>
<td></td>
<td>(14)</td>
<td>(18)</td>
</tr>
<tr>
<td>Total</td>
<td>1,576</td>
<td>2,534</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>South Korea</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>24,262</td>
<td>19,135</td>
</tr>
<tr>
<td></td>
<td>(39)</td>
<td>(31)</td>
</tr>
<tr>
<td>Japan</td>
<td>13,457</td>
<td>17,449</td>
</tr>
<tr>
<td></td>
<td>(22)</td>
<td>(28)</td>
</tr>
<tr>
<td>European Community</td>
<td>8,838</td>
<td>7,628</td>
</tr>
<tr>
<td></td>
<td>(14)</td>
<td>(12)</td>
</tr>
<tr>
<td>Others</td>
<td>16,028</td>
<td>15,553</td>
</tr>
<tr>
<td></td>
<td>(26)</td>
<td>(29)</td>
</tr>
<tr>
<td>Total</td>
<td>62,585</td>
<td>59,765</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(100)</td>
</tr>
</tbody>
</table>


² Figures within parentheses are percentage shares.

The northern policy initiated by President Roh Tae Woo is largely designed to secure peace and stability on and around the Korean peninsula. The economic significance of the policy lies in the possibility that expanded international relations with nearby socialist countries will diversify not only export markets for South Korean products but also the sources of raw materials. The remarkable growth of South Korea's trade with socialist economies in recent years suggest a possibility of diversifying export markets (table 5). Even though it is still small—only about 5 percent of South Korea's total trade volume in 1991—the trade with socialist economies has been gaining importance because South Korea's export to major markets such as the United States and Japan has been sluggish in recent years. Seoul-Pyongyang eco-
Table 5
South Korea’s Trade with Socialist Economies (US$ million)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,288</td>
<td>1,679</td>
<td>3,087</td>
<td>3,143</td>
<td>3,821</td>
<td>2,511</td>
</tr>
<tr>
<td>Export</td>
<td>668</td>
<td>813</td>
<td>1,700</td>
<td>1,438</td>
<td>1,553</td>
<td>1,027</td>
</tr>
<tr>
<td>Import</td>
<td>620</td>
<td>866</td>
<td>1,387</td>
<td>1,705</td>
<td>2,268</td>
<td>1,484</td>
</tr>
<tr>
<td>USSR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>118</td>
<td>200</td>
<td>290</td>
<td>600</td>
<td>889</td>
<td>524</td>
</tr>
<tr>
<td>Export</td>
<td>50</td>
<td>67</td>
<td>112</td>
<td>208</td>
<td>519</td>
<td>214</td>
</tr>
<tr>
<td>Import</td>
<td>68</td>
<td>133</td>
<td>178</td>
<td>392</td>
<td>370</td>
<td>310</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>148</td>
<td>215</td>
<td>389</td>
<td>754</td>
<td>492</td>
</tr>
<tr>
<td>Export</td>
<td>68</td>
<td>102</td>
<td>126</td>
<td>271</td>
<td>541</td>
<td>389</td>
</tr>
<tr>
<td>Import</td>
<td>20</td>
<td>46</td>
<td>89</td>
<td>118</td>
<td>213</td>
<td>103</td>
</tr>
<tr>
<td>Total socialist economies</td>
<td>1,560</td>
<td>2,090</td>
<td>3,672</td>
<td>4,223</td>
<td>5,620</td>
<td>3,621</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>5.7</td>
<td>34.0</td>
<td>75.7</td>
<td>15.0</td>
<td>33.1</td>
<td>53.8</td>
</tr>
<tr>
<td>Percent of total trade</td>
<td>2.4</td>
<td>2.4</td>
<td>3.3</td>
<td>3.4</td>
<td>4.2</td>
<td>4.9</td>
</tr>
</tbody>
</table>


Economic cooperation will certainly strengthen this new network of trade and economic cooperation in Northeast Asia.

In the past, economic exchanges between the North and the South were very limited and confined to commodity trade through a third party. Starting from 1991, inter-Korea trade increased sharply perhaps due to changed attitudes in both North and South Korea, resulting in the total of $125 million during the January-August 1991 period (Rhee 1992). The major import items from the North were metals, mineral products, and precious metals, whereas the major export items from the South included petrochemical products, household appliances, and daily necessities (Yeon 1991).

The shift in the inter-Korean trade from indirect to direct signals an opportunity to expand inter-Korean trade based on the complementarity between the South and the North. Minerals and primary products which the South imports in great quantity can be imported from the North if prices are comparable to world prices.

There were also reports suggesting the likelihood of joint ventures (Hankuk Ilbo 1992). Labor-intensive export-oriented products are the target of discussion right now between South and North Korean businesses. Joint
ventures in North Korea have been negligible because of the North's poor credit records, uncertain political future, and the lack of legal and institutional framework. The joint ventures in operation now are known to be mostly from pro-Pyongyang Koreans in Japan. The establishment of diplomatic relations between North Korea and Japan is likely to promote Japanese investment in North Korea as well as trade between the two countries. Investments from Japan to North Korea may be preferred to those coming from South Korea because of their lesser significance in political terms.

Options and Constraints

The prospect of and the approach to inter-Korean economic cooperation depend on the political economies of both North and South Korea as well as on the dynamics of the political and economic interests of the major powers surrounding the Korean peninsula. Considering the global trends of economic interdependence, reduced tensions, and deideolization, North Korea appears to have many fewer options and many more constraints than it did in the past. In other words, the North's set of policy options has been reduced.

The major powers in the region, which do not want any military conflicts breaking out, need to devote more of their resources and energies to domestic problems, principally economic, and less to foreign affairs. This is true of China, where economic development dominates the national agenda; of Russia, where regime survival and political-economic transition are the utmost concerns; and even of the United States and Japan, where domestic issues are taking center stage. Moreover, the Russian Republic of the former Soviet Union has been actively seeking participation in regional economic cooperation. Even China, the closest ally of North Korea, has not been hesitant in seeking economic cooperation with market economies including South Korea even before the two established diplomatic relations. Unexpected tensions in the region and military buildup in the countries surrounding the peninsula would set the clock backward. Except for such a possibility, the center of regional activity will continue to shift from security to economic concerns in the 1990s. And the aim of economic cooperation will continue to be mainly to assist this change of socialist economies to market economies.

Any inter-Korean economic cooperation will be determined by the confluence of such regional concerns and Korean factors. Major domestic factors that will affect inter-Korean relations include the economic performance of both economies and political transition in Pyongyang and Seoul. A key feature of the North Korean political economy is chuch'e sasang (self-reliance ideology) built on Kim Il Sung's personality cult. The personalized chuch'e ideology has been carried on so long that there seem to be insurmountable difficulties in decentralizing policy making. The unswerving commitment to chuch'e leads to the hypersensitivity on issues of national pride, the rigidity and self-righteousness that account for the irrational and unpredictable policy
behavior of North Korea.\(^5\) The single most important factor in North Korea’s political economy in the 1990s is the dynastic succession that has been under way for nearly two decades. The outcome of this succession will determine Pyongyang’s external relations policy including its policy regarding inter-Korean relations. Succession scenarios in Pyongyang range from a smooth succession to Kim Jung Il, Kim Il Sung’s son, to a sudden collapse of the North. The smooth succession scenario entails the successful implementation of the succession plan including revitalizing North Korea’s flagging economy and raising the living standard of its citizens. Such revitalization would require an injection of a large dose of pragmatism into economic and foreign policies alike. According to this scenario, North Korea will consider economic reforms while retaining autocratic one-party rule—that is, emulating the Chinese model.\(^6\)

The question of how to respond to and approach North Korea elicits varying answers, depending on one’s assessment of the likelihood of future possibilities. The majority tend to agree with Seoul’s position that Korea’s reunification should be achieved by a gradual and cumulative method. North Korea is to be encouraged and assisted to open up and to gradually transform its society. This gradual method also includes general diplomatic recognition of the North. While negotiated reunification is preferred, reunification through breakdown and absorption as seen in the case of Germany is held to be just as likely to occur. One who takes a conservative view contends that a wait-and-see approach is desired against such a development. Contingency planning is deemed to be necessary to minimize the social disruptions and economic difficulties that will accompany the collapse of the North Korean regime. South Korea’s conservative forces, including the military and the refugees from the North, tend to subscribe to this more cautious approach. However, democratization, which began in South Korea with the inauguration of the Sixth Republic in February 1988, and the increasing importance of public opinion in domestic politics will set limits on the scope and the direction of the government’s policy options toward reunification. Further progress in democratization in South Korea may also convince North Korea of the futility of its “united front tactic,” which if translated into a softening of its posture

\(^5\)The sudden reversal in North Korea’s policy toward Japan in late 1990 and Pyongyang’s rigidity in its negotiations with Tokyo may be linked to its chuch’ e ideology. Chuch’ e also helps to explain change in North Korea’s UN policy, for its desire to preserve the hard-won symmetry of its status in the UN with its arch rival appears to have been a key factor in its calculations (Koh 1991).

\(^6\)It is debatable whether such a strategy can succeed. Although Beijing has managed up to now to both preserve the authority of the Communist party and welcome significant foreign investment, the social and political tensions that this has generated have been evident since well before the Tiananmen Square incident. Given the much more rigid political structure of the DPRK and its extended isolation, the political risk to the DPRK from even a limited opening to the outside world is significant (Randolph 1991).
toward the South, may well open the way for a significant breakthrough (Koh 1991).  

Even though outside powers including the South cannot determine the outcome of the North’s succession one way or the other, they have the ability to enhance the probability of one or the other of those possibilities (Robinson 1991). Preparations need to be made for maximizing the probability of a peaceful path and minimizing the costs of postreunification integration.

It is apparent now that the North cannot achieve rapid economic growth without opening itself to the outside world and reducing its military burden. But Pyongyang’s dilemma is how to open without endangering the political system in which the ruling elites have a vested interest. Partly encouraged by Beijing, Pyongyang seems to be maneuvering to position the regime where it can pursue two closely related goals: a reduction of military spending through an accommodation with Seoul and Washington and rapid influx of capital and technology (Lee 1990). China also can serve North Korea as a potential bridge to the Pacific and the outside world. In the long run, however, an economic strategy limited to China will be insufficient to provide the DPRK with the capital and technology it needs for integration with the Pacific economy and for its own economic development (Randolph 1991).

Can Japan be an alternative? It seems that North Korea is moving toward normalization of its relations with Japan. Japan, if it desires, can certainly provide sufficient capital and technology to North Korea. Japan’s compensation for past colonial rule could be a significant input for boosting North Korea’s troubled economy. However, any Japan–North Korea economic cooperation that precedes North–South Korean economic cooperation may create unnecessary conflicts between South Korea and Japan. Concerns have been expressed that the temporary economic recovery made possible by Japanese aid and investment might dampen North–South Korea economic cooperation. Therefore, it is important to consider a strategy that minimizes potential conflicts between South Korea and Japan in their economic cooperation with North Korea and maximizes complementary potential between South Korea and Japan in a triangular relationships (Yeon 1991).

The DPRK’s most effective point of entry to the Pacific economy will be through South Korea. Economic and political rapprochement with Seoul will provide new stability to the Korean peninsula and to the DPRK’s investment climate. Major South Korea corporations are well positioned to introduce new technology, skills, and capital. In return, the North may provide South Korea with an additional point of commercial access to China and Russia.

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7The issue of reunification has been an inter-Korean problem inexplicably linked with the internal politics of the two Koreas. The ruling elites in both Koreas have used the perceived threats from the other side to justify their authoritarian rule (Lee 1990).  
8The Japanese business community does not conceal its apprehension about the possibility that a unified Korea would drive hard to rival Japan in economic spheres (Hiroshi 1990).
Approaches to Inter-Korean Economic Cooperation

Unless unexpected events in North Korea force a radical approach to the reunification of the Korean peninsula, a gradual approach is likely to be considered best for inter-Korean economic cooperation. The ultimate objective of this gradual approach would be the integration of the two different economic systems. As already expounded by many scholars in and outside Korea, the approach entails three stages: first, economic exchanges to foster mutual understanding; second, economic cooperation through direct and indirect investment, technology transfer, and industrial complementation; and third, economic integration through a complete opening of factor and product markets (Yeon 1991). The approach means that economic cooperation starts from limited-scale projects and then moves to full-scale cooperation as well as from marginal projects that will have minimum political and social impact on both sides to fundamental restructuring that will encompass reconciling system differences and building unified institutions and practices. The North will begin with partial opening (like China’s special economic zones) and economic reform and gradually move toward a transformation of its economy. This movement will be complemented by the South’s adjustment of certain of its economic and institutional policies.

Inter-Korean economic cooperation would, no doubt, bring about economic gains for both parties. An expanded market would provide increased specialization and scale economies, induce technological development and efficiency (in the North) by increased competition, create more investment by reduced military expenditures, and generate a synergy effect by the joint use of resources and labor (Yeon 1991; Macdonald 1989). Some of the complementarity that existed under Japanese rule could be reestablished. Although the differences in economic systems and philosophies pose severe problems for economic cooperation, there appear to be four major areas where both parties can discuss cooperation for mutual benefits: trade, investment, infrastructure, and financing. Preferences for the basic direction of and specific methods for achieving such cooperation can be gleaned from North and South Korea’s official plans. North Korea’s Third Seven-Year plan (1987–93) calls for an expansion of trade by 3.2 times during the plan period as well as joint investment in a number of key industries including cement, steel, nonferrous metals, marine products, and high-tech goods. Joint investment in industrial infrastructure such as transportation and energy is also encouraged. South Korea’s accumulated technology—in particular, production technology, management know-how, and marketing experiences in foreign markets—will undoubtedly help North Korea achieve planned goals. A joint effort to develop tourism and exploit natural resources in the North will be beneficial to both Koreas.
Joint ventures can start from areas that would have the least political impact on the North—for example, joint fishing and fishery processing and export industries such as textiles, garments, and household goods. Minerals development can be considered next and then electrical, electronics, automobile, and shipbuilding—all areas in which South Korea has a comparative advantage in the medium term (Yeon 1991). Joint development of tourism resources is another area. Ideas that often surface in the media, though based mainly on the exploitation of the North’s cheap labor, should be carefully considered (Hankuk Ilbo 1992). In the short run, there seems to be no viable alternative to using the North’s cheap labor in products that promise profitability. Capital attracted by the North’s low-cost labor (provided that North Korea improves its investment environment) would increase productivity and real income in the North. However, the use of North Korean labor for labor-intensive export production in those areas in which South Korea has been losing its competitiveness might dampen ongoing restructuring efforts in the South. Furthermore, a persistent considerable wage differential between the South and the North would pose a problem from an equity standpoint. Considering the social rift developing in Germany since unification, it seems necessary to consider some steps to gradually reduce wage gaps between the South and the North.

In addition, as recently indicated by North Korea, participation of both Koreas in multilateral cooperative development projects such as the Tumen River Basin project will not only be beneficial to both parties but helpful in promoting regional economic cooperation in Northeast Asia. Joint ventures by North and South Korea in a third country will also yield substantial fruits to both parties without causing repercussions within North Korea. In addition, South-North cooperation in a multilateral framework enhances the probability of success because of internally binding agreements.

In anticipation of closer economic cooperation in the 1990s, South Korea’s Seventh Five-Year Plan (1992–96) outlines four basic directions: (1) promote inter-Korean cooperation gradually by starting simple projects acceptable to the North, (2) reinforce multilateral economic cooperation in Northeast Asia, (3) establish the South-North cooperation fund, and (4) inform the public about the North’s situation and raise the public awareness of eventual reunification.

To achieve ultimately the homogenization of systems and build mutual confidence, sustained economic cooperation is necessary. Considerations of and detailed studies on such policy issues as privatization of wealth, privatization of enterprises, and a common exchange rate are essential to minimize the problems that will accompany system transition. Most of all, a national consensus should be built by informing both populations of the major issues and

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9Mikheev (1991) proposes multilateral cooperation in the development of the Russian Far East as one of the most efficient forms of Russia’s indirect influence on the situation in Korea.
the problems anticipated from the reunification (KDI 1991). To achieve an integrated economy, both sides must adjust their policies: for South Korea, social equity has to be improved within the constraint of not endangering the efficiency of its market economy. South Korea must improve its socio-economic institutions to guarantee a minimum standard of living for its low-income population and must assist the North in making reforms and opening up. For North Korea, market mechanisms must be gradually introduced to raise economic efficiency as well as adaptability to outside markets and an open-door policy adopted.

Conclusions: Major Tasks and Long-term Considerations

Many obstacles lie ahead in inter-Korean economic cooperation. Political and security issues such as North Korea’s risky nuclear development program pose a severe threat to steady and gradual progress in inter-Korean economic cooperation. The forty-five years of separation and antagonistic relations developed therefrom cannot be dissolved in a short time. Perseverance and flexibility are required from both sides to understand and trust each other and to reconcile differences. To facilitate economic cooperation, economic exchange can begin in those areas of North-South consensus. Once these exchanges are accumulated and both sides realize that cooperation brings more benefits than no cooperation, economic cooperation can be expanded to sectorwide levels such as industrial complementation, joint ventures in manufacturing, and cooperative development of new technology, and eventually to systemwide levels such as mutual market opening, free flows of factors of production, joint development of infrastructure, and complementary adjustment of economic institutions and infrastructure.

In addition to continuing bilateral cooperation, it is necessary to maintain a high level of multilateral consultations about Korea among all those interested, the goal being to internationalize the Korean problem and to involve North and South in the international forum. Actions designed to encourage the North to participate in multilateral cooperation such as the Tumen River Basin project should be actively sought.

The foundation for the DPRK’s successful integration with the South and the development of a regional economy in Northeast Asia will fundamentally depend on a restructuring of the North’s economic priorities and reform of its economic structure. This restructuring and reform must involve not only policy designed to attract foreign investment, but more important changes in the process of economic decision making, including freer scope for private enterprises and a general harmonization of North Korea’s economic structures with market forces (Randolph 1991). The legacy of forty-five years of industrial imbalance would constitute a major drag on efforts to produce viable consumer goods and export sectors. Centralized planning and a near-total lack of independent decision-making authority by enterprises also constitute impedi-
ments to economic growth and integration with the South. Through joint ventures, the South can render assistance in setting up a consumer goods industry and viable export sectors. Training of management staff can be included as a part of joint venture agreements. South Korea’s small and medium-sized enterprises would be more suitable than its large-scale companies to carry out such cooperative ventures with North Korea.

Manpower planning and employment policies that consider an enlarged labor pool are needed to best use human resources. Planning for an eventual demobilization of servicemen from both sides would be necessary to utilize those demobilized personnel efficiently. Preparations including training and retraining programs are needed for those servicemen and for workers displaced by enterprise reform. The employment of North Korean labor by South Korean firms in a third region provides a head start for the training of North Korean labor. An issue related closely to employment is the wage gap between the South and the North. Measures to gradually reduce that gap should be considered to help achieve an eventual integration of the two economies.

There will be numerous adjustment problems including land ownership. Land ownership could be a sticky issue to deal with because of competing claims from many sources. Because land ownership has been one of the major sources of inequality in South Korea and other rapidly growing market economies, a careful and rigorous policy preparation is needed.

Most of all, as China’s reform experience suggests, the most difficult task is to change people’s attitudes. Since the Pyongyang regime has kept its people almost totally isolated over four decades, a great deal of work needs to be done by the South. This does not mean, however, a one-sided assimilation of people in the North to the norms and attitudes prevailing in the South. As concerned Korean intellectuals point out, not everything in the South is worth learning—for example, blind pursuit of materialistic values. A middle-ground compromise should be sought. To achieve a true integration of the two economies, the South must think hard about the norms and values that a unified Korean people can cherish. Through this exercise, it may be possible to restore its own balance between moral and material incentives.

Assuming that the South will take the lead and the major responsibility for the formation of an integrated national economy, the South must maintain its economic growth and reduce its level of consumption to support the costs associated with the integration. As noted earlier, the South must also take steps to suit its market economy to the North by improving its income distribution, expanding social welfare, promoting harmony between different groups, developing a sense of community, and raising the motivation for work. Cultivation of a new business ethic may also help make market principles more acceptable to the people in the North.

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10 Currently, military personnel are estimated to be 1.2 million in the North, 700,000 in the South (Eberstadt and Banister 1991).
Finally, inter-Korean economic cooperation is a necessary step toward the
reunification of the divided Korea as well as toward closer regional coopera-
tion in Northeast Asia. Detailed strategies and specific measures, of course,
need to be devised to materialize the benefits of cooperation. These strategies,
however, should transcend the old thinking of the “division” era and aim for
the integration and reconciliation of the two economies of Korea, with a vision
of a greater Korean economic community serving as a catalyst for peace and
prosperity in the North Pacific.

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12. The Proposed Tumen River Scheme

MARK J. VALENCE

The amelioration of political tensions in Northeast Asia and the internationalization of the world economy are stimulants for economic cooperation in Northeast Asia. In this region, geoeconomic patterns are rapidly replacing existing geopolitical alignments. Indeed, a "soft" regionalism may be emerging. Positive developments include Sino-Russian rapprochement, economic cooperation between South Korea and both China and Russia, the improving political relationship between the United States and North Korea and between Japan and North Korea, and the dramatic progress in North–South Korean relations. The Russian interest in developing its Far East and Japan's and South Korea's thirst for resources and overseas markets are further prods.

Imagine the region without political barriers and the effect this would have on transportation and infrastructure as well as the matching of needs and assets. Russia could export to South Korea by railway through North Korea. North Korea could export to South Korea directly without transshipment via Hong Kong or Japan. Planes could fly between Japan and China directly over the Korean peninsula and between Japan and Vladivostok. And China and perhaps Mongolia could use the Tumen River for direct access to the Sea of Japan.

The region has potential complementarities. Russian resource-based industry, Japanese and South Korean heavy and technology-intensive industries, and Chinese and North Korean light industry and agriculture all complement one another. Japan and South Korea have considerable capital, technology, and managerial skills. North Korea and China have abundant

labor. And the Russian Far East, Mongolia, northeast China, and North Korea have copious natural resources—coal, oil and gas, timber, fresh water, minerals, and agricultural products.¹

Further, the Sea of Japan coasts of all Northeast Asian countries are underdeveloped. Indeed, there is a gap in economic development between the eastern and western coasts of the Korean peninsula, between the eastern and western coasts of Japan, between the European and Asian parts of Russia, and between the southeastern and northeastern coastal areas of China.² Northeast Asian economic cooperation could redress this imbalance within countries by stimulating development around the Sea of Japan. Thus political relaxation, potential complementarities, existing and potential transportation linkages, and historical development patterns make Northeast Asian economic cooperation a real possibility.³

**The Tumen River Project Proposal**

It is in this context of wider economic cooperation in Northeast Asia that China first proposed the cooperative development of the Tumen River basin, which is shared by China, North Korea, and Russia (figure 1). China's initial proposal contained several elements:

- that the section of the Tumen River from the conjunction of the three countries' borders to the river mouth be the common property of the three countries
- that China formally regain access to the Japan Sea via the Tumen River
- that a port be constructed at Fangch'uan and a railway/highway network be constructed in the Hunchun area to connect it to the hinterland (Hunchun is on the Tumen River fifteen kilometers from the sea and forty-six kilometers from Kraskino, a railway port in the Russian Far East.)
- that the three countries develop adjacent special economic zones and cities for the processing of raw materials and the manufacture of consumer goods (figure 2)
- that Japan and South Korea help finance and implement the scheme⁴

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²Ibid.


Figure 1. The Tumen River and Northeast Asia
Figure 2. Lower Tumen River Prospective Port Area
Several variations on this proposal have now emerged from other countries and the United Nations Development Programme (UNDP)—separate, contiguous, or merged free trade zones, the latter under a supranational administrative authority. One variation advocates adjacent special economic zones. In this version, sovereignty and management control would be retained in each national portion of the special zone, but policies, procedures, and administrative practices would be coordinated. Any differences would be settled by an arbitration commission. These zones might be physically contiguous small areas or general large areas, on the order of provinces. Conversely, the areas might be separate and even competing—for example, the Hunchun area in China versus the Khasan area in Russia versus the Sonbong area in North Korea. Or they might be coordinated and complementary—for example, a major port at Fangch’uan, an airport in the Khasan area, and a teleport elsewhere.

At the other end of the spectrum is true joint or multilateral development with joint management. In this version, the countries would give or lease a joint zone to a jointly owned and managed “enterprise” that would be responsible for ports, power, transport infrastructure, and zoning. UNDP is careful to point out that this “enterprise” would not diminish territorial sovereignty over land and population but would enhance coordinated management of the entire scheme. The arrangement would be guaranteed by international agreement or treaty covering tax, legal, and accounting issues; concession agreements; and institutional arrangements. This concept is similar to the joint development of offshore petroleum resources in areas of overlapping jurisdictional claims that China proposed to Japan for the East China Sea and that South Korea and Japan have undertaken on their jointly claimed continental shelf.

China, North Korea, and Russia have or had similar economic systems and can use the zone(s) to experiment with free-market capitalism. The attraction is that the arrangement would be economic, not governmental, and the zone could (presumably) be shielded from political or economic changes within each country, thus reducing investment risk. Indeed, the magnitude of the required financial and political investment might assure sufficient stake in the project for all participants to see it through.

The broadest target area for inclusion in the special economic zone includes a ten-thousand-square-kilometer triangular area of the Tumen delta extending between the outskirts of North Korea’s Chongjin port, China’s Yanji city, and Russia’s Vladivostok. A more narrow focus would include about a thousand square kilometers between North Korea’s Rajin port, China’s Hunchun, and Russia’s Posyet. The development of the zone might take place in stages: first, develop Fangch’uan, Khasan town, and Tumen into free

Miller, Holm, and Kelleher, “Tumen River Area Development.”

The Proposed Tumen River Scheme

trade cities; second, expand the zone to include districts—Hunchun, Kraskino and Posyet, and Sonbong.

The Tumen River development scheme is envisaged by some as simply a set of infrastructural investments and administrative arrangements ("special economic zones") designed to improve the volume of intercountry trade and attract foreign capital investment to the region. Others conceive of the scheme as a means of establishing the eastern anchor of a "land bridge" from the Sea of Japan to Europe. While these views may be compatible, they have significantly different implications with regard to the type and amount of investments required, the strategy of the region's development, and the administrative arrangements needed for the region once it has "opened up" on a large scale to international trade and related developments.  

In all versions, the zone or zones would have the following common parameters: free flow of commodities, currencies, and persons; preferential tariffs and income tax exemptions; incentives for foreign and domestic investment; shared infrastructure, international transport, financial enterprises, and information services; and most important, similar foreign economic policies. One suggestion is that the zone initially concentrate on fabric production and then add manufacturing of machinery. Another is that the zone initially focus on processing of raw materials and then upgrade to chemicals and electronics.

Advantages and Constraints

Infrastructure

A basic dilemma faces the project. The ambitious port expansion plans cannot be justified without including China's hinterland in the scheme, but northeast China's restructuring or stepping up extractive industries in the Russian Far East and eastern Mongolia may not be viable without access to international markets and inputs. At present, the region's infrastructure is totally inadequate for attracting large-scale foreign investment.  

Transportation facilities in North Korea are adequate for serving the present modest needs of the northern prefectures but are somewhat below international standards. Its three seaports—Sonbong, Rajin, and Chongjin—handle cargo from North Korea, China, and Russia. The rail network connecting the three seaports interconnects with the rail systems in Russia and China. The road network consists of winding, unpaved two-lane roads connecting sixty-year-old bridges over the Tumen River to the road system in China. There is no road connection to Russia. The cities of Rajin and Chongjin have adequate housing and basic services for the population at the present stage of activity. There is an airstrip about thirty kilometers from Chongjin.

7Miller, Holm, and Kelleher, "Tumen River Area Development."
8Ibid.
China’s Yanji is the principal city of the region, and its road and rail connections are acceptable. The city also has an airport. Hunchun, which is within the small delta zone, has been a closed city, and development there has been slow. The government has, however, been developing new infrastructure for the city including paving its streets, building a new power plant, and extending the railroad from Yanji. A new road has been constructed to the Russian border, but it has not yet been continued on the Russian side. The major Russian city within the region is Vladivostok. The well-developed seaport in this city is the home for the Russian navy’s Pacific fleet. The port has facilities for cargo and passengers, but it is not up to international standards. There is a small airport about sixty kilometers north of the city. Within the small delta zone are two smaller cities—Khasan, close to the borders of North Korea and China, and Posyet, which has a small port. This area is very sparsely populated and is served with a railroad connected to the trans-Siberian railroad.

The Tumen River delta is the geographic and population epicenter of Northeast Asia. Fresh water is plentiful and land is flat, cheap, and abundant. There are transportation links between the area and Europe, and more railways are being developed. The three main railways leading to the mouth of the Tumen River from Harbin, Ussuriysk, and Chongjin could be connected with the Russian ports of Nakhodka and Vostochny to the north; Najin, Chongjin, Hungnan, and Wonsan in North Korea; Kangnung and Pusan (with its world-class container facilities) in South Korea; and the Japanese west coast ports of Niigata and Akita.

There are presently three small harbors in the Tumen River delta—Russia’s Posyet and Slavanka and North Korea’s Sonbong. Posyet is nearest to the Tumen estuary but is situated in a shallow bay. This port could be used for container or general cargo. The other site is Trotchy Bay, which has deep water and could be used for a major bulk port. The two regional ports are Vladivostok and Nakhodka. Both have substantial facilities but are still inadequate in terms of world standards required for the twenty-first century.

There are a number of problems with using the Tumen River for international trade. The river is now silted up, and considerable dredging of at least the lower fifteen kilometers will be necessary before navigation is possible. Construction of a canal across Russian territory has been suggested, but this may not be technically or environmentally feasible. However, if North Korea’s involvement becomes an insurmountable obstacle, the proposed canal from the Fangchu’an area to the Sea of Japan would become more attractive. With dredging, vessels of two thousand to five thousand tons could use the river, and if the railway bridge is rebuilt, larger ships could navigate farther upstream. However, such dredging would be constant, environmentally destructive, and very expensive. It is even doubtful that it could be done

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9 Ibid.
10 It is even doubtful that it could be done
economically, especially since the river is frozen for several months a year. In addition, ships from the world fleet would not be capable of navigating the river even after a reasonable amount of dredging. However, a modest barge operation on the river might be undertaken with a reasonable amount of dredging and river training. If a river/marine operation were to be attempted, the scheme might consist of a slack-water river port at Fangch’uan and a transhipment port at the estuary. The estuary has a long sand spit that could effectively serve this purpose as barges could berth on the riverside and ships could berth on the seaside. On the seaside, a breakwater would be required to protect the ship operation. If it were inadvisable to use the sand spit for this purpose, an offshore harbor with port facilities could be constructed.

The construction period for a dock capable of handling two to four million tons a year and the requisite dredging is about five years. It would take about ten years to construct a deep-water inland port for ten thousand-ton vessels, if it could be done. Up to the year 2000, then, the inland port could handle only 30 percent to 50 percent of expected goods, and other ports in the Russian Far East and North Korea would have to be used.

A land port is an alternative. This facility would be a major intermodal transportation hub with spokes coming from all marine terminals and airports and going in all directions by rail and road to all corners of the Northeast Asia landmass and by land bridge to Europe. Hunchun might be a reasonable site for such an inland port. Existing airports at Yanji, Vladivostok, and Chongjin would need to be expanded and a major new international airport built on the delta, perhaps on the border between China and Russia just west of Posyet. Another possible location could be in North Korea just west of Ungsang.

UNDP estimates that the total investment required over twenty years is on the order of US$30 billion—for roads, highways, ports, airports ($11 billion); educational facilities ($1 billion); and power, water and waste disposal plants, and telecommunications ($13 billion). The cost of construction of a port at Fangchu’an would be about $1 billion.

China

The present sea transport between China and the rest of Northeast Asia is from Dalian around the Korean peninsula and through the Sea of Japan. For China, a port at Fangch’uan would shorten the distance and lower the transport cost. A port at Fangch’uan would also open another branch of the East

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10Ibid.
11Ibid.
Asia–Europe land bridge and could bring Mongolia into the scheme. Land connections presently include a rail connection between Russia and North Korea and three highways—one being built between China and Russia and two being improved between China and North Korea crossing the border at Shatuizi and Quahe. The Tumen River delta is also connected to the Siberian land bridge through Harbin, Manzhouli, and Karymskoye in Russia. The Baicheng-Arxan line could be connected to the eastern Mongolian line, shortening the route to Europe by more than one thousand kilometers. It would also lessen the pressure on the Dalian-Harbin railway. However, the railways from Tumen to Ch’angch’un and Mudanjiang would need to be improved and a new line built from eastern Heilongjiang province to eastern Liaoning province. And the railway would need to be extended from Tumen to Hunchun to Kraskino and from Hunchun to Fangch’uan to Khasan.

China once had right of access to the Sea of Japan through the Tumen River. Hunchun harbor was built in the seventeenth century, and merchants went to sea by way of Tumen to Haishenwai (Vladivostok). Hunchen was an open city from 1906 to the beginning of World War II; in 1929 it had a shipping capacity of twenty-five thousand tons. More than a thousand vessels used this access annually for fishing trade. But in 1938, following Japan’s defeat by the Soviets in the battle of Zhanggu peak, the Japanese army blocked the Tumen River mouth with piles. The Korean War, China’s closed-door policy, and its split with the Soviet Union in the late 1950s delayed the reopening of the river for the transit of China’s goods. But on 10 September 1989, China and the Soviet Union simultaneously opened Hunchun and Kraskino ports to the outside world. And in 1991 Chinese navigation rights on the Tumen were restored.

The Tumen River scheme could be the centerpiece of China’s economic development plans for its northeast. Northeast China’s industrial structure is relatively integrated, and its agriculture and light industries are relatively advanced compared to those of the Russian Far East and North Korea. Northeast China has confirmed its intentions to open to the outside world during the Eighth Five-Year Plan (1990–95). The plan is to create a Northeast China Economic Area that will become the base in North China for importing and absorbing foreign advanced technology and managerial expertise and for implementing import substitution and expanding export earnings. The total export volume of the three provinces in the Northeast China Economic Area

15Ding, “Golden Delta.”
is targeted to reach $6.05 billion by 1995. Of the total, 40 percent is supposed
to come from exports of industrial products and 10 percent from exports of
manufactured goods. By the year 2000, the total export volume of the area is
projected to reach $9.5 billion. Of this, 50 percent would come from exports
of industrial products and 20 percent from manufactured goods. Suifenhe has
now become an open border city. And the towns of Hunchun and Jingxin have
been suggested as China’s analogue free trade zones for the Tumen River
scheme. Dalian would be integrated with Liaoning, Jilin, Heilongjiang, and
Inner Mongolia, and the Tumen River project is expected to get a boost from
this development. However, a port at Fangch’uan may take cargo away from
Dalian, undercutting its planned expansion. This possibility may explain the
seemingly contradictory attitudes of Jilin province and some quarters in
Beijing regarding the Tumen River project. Also, Beijing may be in no rush to
help create a prosperous united Korea on its doorstep or to loosen its control
over Mongolia’s access to the sea.\(^{18}\)

**North Korea**

The North Korean economy is in desperate straits, but the country remains
effectively closed to foreign investment. However, North Korea supports the
concept of the Tumen River scheme and is developing its own free trade zone
on Hashan island in the Sonbong area. Indeed, North Korea explicitly wel-
comes South Korean investment in the zone\(^{19}\) and hosted an international
meeting on the project in October 1991 in Pyongyang.\(^{20}\) And the influential
Korea Development Institute has recommended that South Korea support the
Sonbong project through joint ventures.

North Korea intends to proceed unilaterally with the development of an
economic trade zone in the Rajin-Sonbong area.\(^{21}\) It believes that Sonbong is
very important in the development of Northeast Asia and that it can become
an important gateway to Europe. However, North Korea also wants to turn
Wonsan and Nampo into free port cities similar to Hong Kong, and a free
trade zone at Sonbong could compete with this plan. In considering the scale
and expansion plans for the Rajin-Sonbong zone, North Korea is taking
account of the growing demand in Russia and Northeast China for port facili-
ties. North Korea sees the role of Sonbong in the following context. Russia is
expanding its trade with South Korea, Japan, and the United States. Port facil-
ities in Russia will expand slowly and will not be able to meet the demand.

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\(^{18}\)Ibid.; “Dalian Will Become the ‘Hong Kong of the North’,” *Ta-Kung Pao* (Overseas edition), 30


\(^{20}\)Duliforce, “$30 Billion UN Scheme”; Miller, Holm, and Kelleher, “Tumen River Area Devel-
opment”; *Hankuk Ilbo* (Seoul), 9 November 1991.

\(^{21}\)Miller, Holm, and Kelleher, “Tumen River Area Development.”
Also, Russia’s ports are frozen for four months each year. There will be a growing demand for transport facilities in northeast China, and the route via Sonbong is the shortest and most economical. The distance from Hunchun to Niigata in Japan via Dalian is 2,000 kilometers by rail and sea, compared with 590 kilometers via Sonbong.

Thus the government plans to develop Rajin and Sonbong as commercial ports, reaching 750,000 people, and including a new city of 250,000 people with the development of Sonbong port. Port capacity at Rajin and Chongjin is three million tons and eight million tons, respectively. The capacity of each port will be increased to ten million tons with the introduction and modernization of cargo-handling equipment and the expansion of warehouse space. In the long run, total capacity of both ports will be increased to fifty million tons, and a new port of fifty million tons will be built at Sonbong, providing a total port capacity in the area of one hundred million tons. Tourism will also be stressed as there are many natural and scenic attractions in the area. Indeed, North Korea plans to host the 1995 Asian winter games at a site close by.

The existing rail network has a surplus capacity of 12.2 million tons: 6.4 million tons to China and 5.8 million tons to Russia. The rail expansion projects planned in the medium and long term will increase the carrying capacity of that network to 158.9 million tons. In the short term, existing roads will be widened to nine meters and paved, thereby increasing capacity to northeast China to twelve million tons. In the longer term, 306 kilometers of highways are planned, and cargo volume on these highways is projected at sixty million tons annually.

The North Korean government plan foresees industries involving oil, petrochemicals, chemicals, electronics, food processing, textiles, and garments. Laws, regulations, and facilities in the zone will be designed to encourage investment by foreign governments and by companies and individuals from foreign countries. Investments can be made in equipment, goods, and technology. Investors’ assets will be protected legally, as will income and proceeds from the operations. The legal status of the zone will be proclaimed by government decree. Apart from the transport trade and manufacturing sectors, communications, banking, tourism, and service sectors will also be developed.

South Korea

To continue its economic momentum, South Korea needs new markets and new sources of raw materials; Seoul is thus very interested in developing the resources of the Russian Far East and Mongolia. Further, labor-intensive industries are facing increasing labor shortages and labor strife. Also, many traditional Korean industries are beginning to lose their competitiveness. Such firms are interested in transferring funds, technology, and equipment to China and North Korea.
South Korea has a special reason to be interested in the Tumen River project. There are 1.1 million Koreans in Heilongjiang and Yanbian—China’s Korean Autonomous Prefecture—with a Korean language and culture. Here is the spiritual birthplace of the Korean people—Taiktusan (Changbaishan). From the crater lake at the misty summit of this active volcano, Koreans believe, their people originated and spread throughout the peninsula. The region is thus a serendipitously symbolic site for indirect economic cooperation between the two Koreas. And such cooperation if successful can build confidence and be a forerunner of what to expect with unification. Perhaps partially for this “spiritual reason,” Chung Ju Yung, Hyundai group chairman, has committed his company to participate in the scheme.

Japan

Japan’s commitment to and active participation in the project are critical. Advantages of the scheme to Japan include nearness, similarities of culture, and access to rich resources and labor. Japan may also be interested for non-material reasons. The Japanese army was particularly cruel to the people of Manchuria, and support of this project could be seen as indirect atonement and compensation for that behavior. Nevertheless, for this same reason, Japan is unlikely to move ahead of the three host countries.

This is not to say that Japan’s interest is purely altruistic. The pattern of Japan’s international trade is to produce high value-added commodities by importing raw materials for manufacturing. Thus, Japan exports high value-added goods but does not import many manufactured goods, particularly from developing countries. Japan has been criticized for its tangible trade barriers such as import restriction and high customs duties and for such intangible barriers as inhibiting new entries in public bidding and keeping public investment low to keep domestic demand abnormally low in order to spur exports. However, the U.S.-Japan Structural Initiatives Group agreed from June 1990 that the Japanese government would target public investment at $3,533 billion in the period 1990 to 2000. And the Japanese economy has been increasing its imports of manufactured goods. This increase will create opportunities for heavy and chemical industries in northeast China, heavy and capital equipment in North Korea, and railway and lumber industries in the Russian Far East. For example, there has already been a sharp increase in cement imports from North Korea.

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23 Ibid.
24 Comments by Hisao Kanamori at Ch’angch’un 2.
26 Ibid.
27 Ibid.
Russia

The Russian Far East figures prominently in this scheme as a provider of resources and as a site for joint ventures. The Primorsky region in particular has an asymmetrical industrial structure and an insignificant economic presence in Northeast Asia. But the Tumen River scheme could help redress these imbalances. Indeed, in a world of better relations, China’s merchant fleet and maritime ports might be used to move Russian exports and imports. Russia has recently recognized the significance of the Asia-Pacific region. And there is an ongoing structural economic shift from the conversion of military production to industrial production and an unshackling of labor and productive activity resulting in the emergence of cooperatives, leased enterprises, and joint ventures.\(^2^9\) In Primorsky, new regulations have been promulgated to attract foreign investment. Grodekovo, the border point opposite Suifenhe, is to become a free customs zone. Nakhodka has a free trade zone; Vladivostok has become an open city and has large expectations of investment from Japanese trading corporations; and the Khasan area is targeted as a free economic zone. But will these zones complement or compete? The south Primorsky region could be developed as a center for tourism, medicine, and the pharmaceutical industry.\(^3^0\) The merchant port at Posyet could be converted into a marina. Golf and hotel facilities could be constructed there. The old military airport could be upgraded and used for commercial traffic. A large amount of fertile land is unused or underutilized at present and could be developed for agricultural production.

The implementation of a real free market in the area is under way as is the legal and planning independence of the Primorsky region.\(^3^1\) The main industries of the Russian Far East are marine transport, fishing, marine construction, ship repairing, and shipbuilding. Problems include a poor basic infrastructure, lack of labor, a poorly developed service sector, and a low level of technology. These problems might be alleviated in part through the Tumen River scheme.

Presently, railway transport and seaports are the main base of Russian "service export" because of the flow of containers on the Japan-Europe route. Nakhodka and Vostochny are nodal ports in this flow and are being expanded. These ports are also intended to be the main elements of the Nakhodka and Vladivostok free economic zones. And Vanino (on the Okhotsk Sea) and Khabarovsk are to be developed as feeders for the Baikal-Amir Railway (BAM). It will thus be a second container route.

\(^2^8\)Ibid.
\(^3^0\) Miller, Holm, and Kelleher, “Tumen River Area Development.”
But the Tumen River project would mean a loss of potential cargo for these ports and of Russia’s monopoly over trade with its Far East. Thus the economic development potential of Nakhodka/Vladivostok, Vanino/Komsomolsk, and the BAM areas would decrease. And capital already invested in Far East seaports and railroads would decrease in value. Part of this capital was invested by Japanese firms, and thus the Tumen River project may discourage further such investments. A better plan for Russia might be to coordinate development of free trade zones in southern Primorsky—Nakhodka and Vladivostok—with those in nearby China and North Korea.

**Mongolia**

Mongolia wants very much to join in the economic integration in Northeast Asia in order to help its own economic and political opening. But to trade with Northeast Asia, it needs access to the sea, access that could be gained via the Tumen River. The trans-Mongolia railway already links Moscow, Ulaanbaator, and Beijing, and the eastern Mongolian line could be extended into northeast China via Yirshi. Mongolia is considering establishing a special economic zone in eastern Mongolia to attract foreign investment. In particular, Mongolian mineral resources could be processed there using some of its own coal to provide the enormous energy required. The Tumen River scheme could help Mongolia achieve this goal as well.

**Some Initial Steps: Background Studies**

Studies at many levels are needed before accepting that international development of a Tumen River port and the entire basin is economically viable and desirable. These studies must emphasize the prospective economic rate of return, not just from the standpoint of possible private investors but also from that of the countries (and regions of countries) involved. If funds are sought from the major institutional lenders—for example, the Asian Development Bank (ADB) or the World Bank—such studies will become not only desirable but necessary.

Some entrenched local interests in China, South Korea, and Japan argue against a shift of development orientation to the Japan Sea. Further, if plans are not coordinated, the scheme may result in competition—Vladivostok/Nakhodka versus Hunchun/Fangch’uan versus Najin/Chongin, for instance. There may even be particular disadvantages of a port at Fangch’uan for North Korea and Russia. Thus a fundamental question may be If the Tumen River project is to be justified by its contribution to the development of the Northeast Asia region, what exactly would the development of the Tumen River basin and port facilities contribute to the general gains to be expected from regional cooperation? In other words, what are the expected marginal gains or

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32Burnham Campbell, former chief economist, the Asian Development Bank, personal communication, 1990.
net benefits from development of the Tumen River basin as opposed, say, to the development of other areas or river basins in Northeast Asia or to shipping through established ports such as Dalian via the Yellow Sea rather than through the Japan Sea or from cooperation as compared to Russia's and/or North Korea's going it alone or from a port on the Tumen versus a superhighway to a major port in North Korea? How can incentive policies best be coordinated to avoid competitive bidding for projects? Is multilateralism necessary to foster confidence in the stability and continuity of the zone regime and to attract multilateral institutional funding from, for instance, UNDP, ADB, and the World Bank? Another set of questions deals with the bottom line—financing and profits. Where will the enormous capital required come from? How will profits be derived—from reduced transportation costs? opening of borders? tax breaks? Why will the Tumen River valley bloom economically? How will prices and exchange rates be set?

And when these questions are answered, the issue of the least-cost option for a Tumen port must be addressed. That means analyzing the infrastructure requirement of each possibility, including a variety of canal possibilities and their freeze-over periods, the dredging required, and the choice between container facilities at the port or transloading to containers elsewhere.

Northeast Asian economies may not complement each other for long. Studies will also be needed of trade prospects within China, within the region, and with the world under different scenarios—for example, with and without the Tumen River basin development; with and without new industrial capital; and with various combinations of present or new ports, infrastructure, and removal of cross-border obstacles. And unless the intent is to finance the whole development internally, the environmental effects of each project contemplated will have to be evaluated and included in estimating its net benefits. Indeed, environmentalists in Russia already want to turn the Khasan area into a national park and may oppose the Tumen River scheme and Khasan's role therein or at least pollution-intensive energy use and industries there. Finally, the cost of providing for structural adjustment, especially in Jilin and Jilin's heavy industry—but also in North Korea—must be considered as development of the Tumen River basin leads to substitution of production there for less efficient production elsewhere.

All this information would provide a basis for estimating economic and social rates of return on the infrastructure and port projects involved, to be factored in with the often more important political considerations. An international team of scholars and businesspeople should be established to coordinate research to investigate the feasibility of such regional cooperation, including institutional arrangements.

Momentum is increasing. The UNDP has announced that China, North Korea, South Korea, and Mongolia agreed in Pyongyang in October 1991 to collaborate on the project. A management committee, which first met in February 1992, will conduct a feasibility study at an estimated cost of US$12
The committee has established three working groups to study institutional systems and harmonization of laws; financing; and economic and technological feasibility. In particular the committee will try to define the size, shape, and grand design of the project; make a detailed technical assessment of existing facilities and projection of infrastructure needs; and determine what legal and institutional arrangements in customs and bonding, banking, insurance and currency, arbitration, and environmental protection would be necessary. A parallel research and discussion effort is being organized under the auspices of the nongovernmental Northeast Asia Economic Forum established in Honolulu just for such purposes. Eventually, a loose association of province-level officials and their staffs might be established—an Association of Northeast Asian Provinces (ANEAP). Even if the Tumen River scheme does not prove feasible at present, the organization could exchange economic data and explore other possibilities for cooperation and complementarity. First steps might include agreements on international shipping in the Tumen River, protection of the riverine environment, and perhaps fishing in the Sea of Japan and facilitation of international tourism. Just as China and Russia helped divide the Korean peninsula, they could now help unite it through the Tumen River project and benefit as well. On a priori grounds it would appear that the potential for gains from regional cooperation clearly does exist, and such cooperation could initially be centered on the Tumen River basin.

The new détente between East and West that has become conspicuous since the 1980s, and especially the reconciliation between the then USSR and China, can be cited as predicting the coming of the Pacific era as forecast by Arnold Toynbee. Japan's growth as a world economic superpower, the emergence of South Korea, Taiwan, Singapore, and Hong Kong as the four Asian newly industrializing economies (NIEs), and the rapid economic growth of other Asian countries such as Thailand, Malaysia, and Indonesia have provided the momentum for scholars and economic experts to reevaluate the economic potential of the Asia-Pacific region.

Because of the new trends in the former Soviet Union and China, which can be represented by their efforts to convert their long-sustained socialist economies into free market systems, the need for multinational economic cooperation has been increasing. In other words, the world has begun bailing itself out of ideological confrontation and is heading for an era of forms of cooperation.

A new trend perceived these days is that capitalist countries in the Western world are engaged in the work of forming regional economic blocs. These examples can be seen in the European Economic Community–European Free Trade Agreement (EEC-EFTA) and in the Association of Southeast Asian Nations (ASEAN), both of which are bent on promoting regional economic cooperation. The United States is also engaged in a similar activity in its efforts to establish "free trade zones" with such countries as Canada and Mexico. The Russian Republic as well as the Soviet Union has also shown a positive attitude, ever since Soviet president Mikhail Gorbachev's Vladivostok speech in September 1986, to participate in Asia-Pacific economic cooperation in the capacity of an Asian country. To meet this end, Russia appears to be more eager to carry out its perestroika (restructuring) and glasnost (openness) in Siberia and the Far East region than in other sections of the country.
The changes in the world economic order have been pressuring the Northeast Asian countries to work out new economic policies on their part as well. Ideological confrontation is now regarded as merely a remnant of the Cold War era, and these countries have been pursuing the improvement of economic relations even with old enemies.

For example, South Korea (ROK) no longer remains an ideological rival of the East. It has already established diplomatic relations with most of the East European countries such as Hungary, Czechoslovakia, Poland, and Yugoslavia, and with the Soviet Union. The ideological problem cannot be regarded as completely gone, but South Korea is realizing a substantial improvement of relations with China and even with North Korea (DPRK), its long-standing rival.

The idea for the formation of a Northeast Asia economic bloc was initiated by China in the early 1980s. Some of the economic research institutes based in Shanghai and other cities on the east coast of China first presented an idea designed to establish the Yellow Sea Economic Zone. This idea later developed into one favoring a wider economic zone involving Hong Kong, Taiwan, and Singapore, and then a further expanded one involving the northeast areas of China, the Soviet Union, Japan, and the Korean peninsula.

In 1988, Beijing made public its suggestion to establish a Northeast Asia Economic Zone and proposed founding a research center in the province of Jilin, Manchuria; all concerned nations would participate jointly in the center.

The Soviet Union appeared to favor this idea. In the spring of 1990 it invited representatives from South and North Korea, China, and Japan to participate in the Vladivostok conference to discuss economic cooperation among them. This proposal coincided with the idea of forming pan-Pacific economic cooperation bodies such as the Pacific Economic Consultative Conference (PECC) and the Asia Pacific Economic Conference (APEC), which have been loosely organized for a consultative meeting with the leadership of the United States, Japan, and Australia. It should be noted that South Korea has been a major partner in both schemes. In other words, South Korea has been the connection between the continental and the Asian powers. Attention should be paid to the fact that the idea for forming a Northeast Asia Economic Zone also involves North Korea; thus the formation of such a zone may provide the opportunity for realizing peace and stability on the Korean peninsula.

Despite China’s positive response and considerable progress in terms of the formation of such regional projects as the Tumen River Triangle Development Project under the United Nations Development Program (UNDP) leadership, the DPRK’s position remains uncertain. It appears that ideological problems still linger in North Korea. In this respect, the question of economic cooperation in Northeast Asia becomes an important one affecting the peace settlement on the Korean peninsula and the reunification of the two Koreas, especially under the UN umbrella, since the two countries joined the United Nations as of September 1991.
The Fundamental Concept of the Northeast Asia Economic Zone

The Northeast Asia Economic Zone suggested by China involves three provinces in Manchuria, Inner Mongolia, Shantung province in China, Russian Siberia, Mongolia, Japan, and South and North Korea. These areas can serve each other reciprocally by providing each other with necessary resources and through cooperation among different industrial structures. The proposed zone comprises 16 million square kilometers where some 300 million people live. Of these areas, the Manchurian areas and the eastern and western areas of Siberia have abundant natural resources. The Siberian areas in particular are endowed with an untrodden treasure house of various resources, as the United Nations Economic, Social, and Cultural Organization (UNESCO) so well depicts. Japan has enormous capital and technology potential while China is endowed with a huge population in addition to abundant resources. South Korea, though it has few natural resources, has grown to be one of the world’s largest trading countries. As is demonstrated in table 1, the Northeast Asian countries’ share in world gross production is 13.3 percent, while they account for 10.8 percent of world trade. Each country maintains a different economic structure with different strengths and weaknesses. But the weaknesses can be overcome if the necessary conditions are implemented through economic cooperation among them. In other words, the capital and technologies as well as the management techniques of Japan and South Korea can be interconnected with the cheap labor in North Korea and China in exploring the abundant resources in Siberian and Manchurian areas and developing multinational industries there. In this respect, the prospects for economic cooperation among both Koreas, Japan, Russia, and China can be cited as bright. In this case, the current pattern of economic cooperation among South Korea, Japan, and the United States may be applicable. If this pattern is applied, economic cooperation with China and the former Soviet Union may take place for the time being in the form of a vertical division of labor. But in the long run, the vertical division of labor may develop into a horizontal relationship. It may be unrealistic to assume that the economic links among the countries in this zone will be promoted to highly interconnected ones comparable to those of the European Community countries, but it is likely that the development of such a economic zone can lead at least to the establishment of free trade zones in the areas, such as the Tumen River basin area.

At this point it is useful to look at the trade structure and position of each country likely to comprise a Northeast Asia Economic Zone. As table 2 shows, trade flows between Northeast Asian countries displayed a dynamic increase during the 1980s. If one includes Hong Kong and Taiwan in this regional category, such a dynamism in trade is even more obvious. In this regard, several points are worth mentioning. As demonstrated in the data, the Asian NIEs of the region display a high degree of trade dependency on
Table 1

Major Economic Indicators of Northeast Asia (1989)

<table>
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<tr>
<th></th>
<th>Population (million)</th>
<th>Per capita GNP (million)</th>
<th>Per capita GNP ($)</th>
<th>Total Export (US$100 million)</th>
<th>Import (US$100 million)</th>
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<td>World (B)</td>
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<td>236,142</td>
<td>4,580</td>
<td>58,802</td>
<td>28,990</td>
</tr>
<tr>
<td>A/B (%)</td>
<td>5.7</td>
<td>13.3</td>
<td></td>
<td>10.8</td>
<td>12.1</td>
</tr>
</tbody>
</table>

SOURCES: Economic Planning Board, Korea Development Institute, Japan External Trade Organization (JETRO), and International Monetary Fund (IMF).

^ Heilongjian province, Jilin province, Liaoning province

^ Far Eastern region

United States. Therefore, an increase in interregional trade might eventually contribute to a reduction in trade dependency on the U.S. market.

The trade volume of North Korea and the former Soviet Union is notably small. The latter is in the process of economic reform and is encountering certain difficulties in integrating its economy in the regional division of labor. North Korea, which has pursued an autarkic policy and restricted its trade relations with even socialist countries, especially the former Soviet Union, is cautiously opening its door toward capitalist market economies—while keeping, of course, a close watch on what impact this opening has on the stability of its system. In contrast, China is managing its trade policy with remarkable success. In fact, the rapid expansion and industrialization of China are expected to accelerate regional economic integration.

If the plan for the Northeast Asia Economic Zone is realized, the Manchurian areas will provide advantageous conditions for South Korea to promote trade with China and Russia in that the areas are relatively nearby and that some two million ethnic Koreans live there. The economic development of the Manchurian areas has until now been hindered by the Sino-Soviet border dispute; but following the recent détente between the two, the opening of the areas is expected to be expedited. In fact, in 1988 the Beijing government said it would open the Shantung and Liaotung peninsulas and Heilungjiang province; in 1989 it added Jilin province to the list. In addition to this opening, Beijing recently has begun constructing a special economic (free trade) zone in Hunchun, Yanbian autonomous district for ethnic Koreans, in Jilin province.
Table 2

Trade Flows between Northeast Asian Countries, 1981–89 (US$ million)

<table>
<thead>
<tr>
<th>Export from</th>
<th>To</th>
<th>Japan</th>
<th>South Korea</th>
<th>China</th>
<th>USSR</th>
<th>North Korea</th>
<th>United States</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>5,640</td>
<td>5,076</td>
<td>3,253</td>
<td>290</td>
<td>38,833</td>
<td>53,092</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>16,491</td>
<td>8,477</td>
<td>3,069</td>
<td>196</td>
<td>93,954</td>
<td>122,187</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1981</td>
<td>3,503</td>
<td>NA</td>
<td>21</td>
<td>NA</td>
<td>5,688</td>
<td>9,212</td>
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<td></td>
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<tr>
<td>1989</td>
<td>13,489</td>
<td>1,438</td>
<td>208</td>
<td>0</td>
<td>20,987</td>
<td>36,122</td>
<td></td>
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<tr>
<td>China</td>
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<td></td>
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<tr>
<td>1981</td>
<td>4,597</td>
<td>NA</td>
<td>117</td>
<td>247</td>
<td>1,506</td>
<td>6,467</td>
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<td>8,180</td>
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<td>1,699</td>
<td>362</td>
<td>3,988</td>
<td>15,779</td>
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<tr>
<td>USSR</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
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<td>8</td>
<td>99</td>
<td>NA</td>
<td>343</td>
<td>2,286</td>
<td></td>
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<tr>
<td>1989</td>
<td>2,718</td>
<td>356</td>
<td>1,768</td>
<td>1,356</td>
<td>713</td>
<td>6,911</td>
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<td>North Korea</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>127</td>
<td>NA</td>
<td>212</td>
<td>NA</td>
<td>NA</td>
<td>*399</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>267</td>
<td>20</td>
<td>166</td>
<td>891</td>
<td>NA</td>
<td>*1,344</td>
<td></td>
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<td>United States</td>
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<tr>
<td>1981</td>
<td>21,823</td>
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<td>3,603</td>
<td>2,432</td>
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<td>32,974</td>
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<tr>
<td>1989</td>
<td>44,584</td>
<td>13,478</td>
<td>5,807</td>
<td>4,271</td>
<td>0</td>
<td>68,140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1981</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>69,238</td>
<td>31,895</td>
<td>17,656</td>
<td>10,138</td>
<td>1,914</td>
<td>119,642</td>
<td>*250,483</td>
<td></td>
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</tbody>
</table>

SOURCES: International Monetary Fund, Direction of Trade, annual. Figures of Korean trade with China and the USSR are based upon statistics provided by the Ministry of Commerce and Industry, Seoul.

NOTES: Figures of exports from China and the USSR to South Korea were inversely computed from the statistics of Korean imports from China and the Soviet Union. Symbols * indicate data deficiency, which restricts the comparability of totals between different years or different countries. Even though the United States does not belong to Northeast Asia, it is included in the trade matrix for purpose of reference.

downstream of the Tumen River. Beijing is also stressing development of the port of Dalian, in southern Manchuria, into a special economic zone.

In the meantime Russia recently designated its territory downstream of the Tumen River as a resources development zone and plans to connect the area with Nakhodka and Vladivostok. Similarly, at a UNDP meeting in Ulaanbaator in July 1991, North Korea announced that it was planning to develop the Woongki (Sonbong) and Najin areas downstream of the Tumen River into a free economic and trade zone. If all these plans are realized the
Siberian railways, which are connected with North Korean rails down to Won-san and Pyongyang, will be also connected with South Korean rails. In other words, the UNDP idea for the development of the Tumen River free economic zone also provides both Koreas with various advantages.

Now the grave concern of China and North and South Korea is directed to the forthcoming Japanese response to an idea not openly proposed yet—linking the proposed free economic zone with the area around the Sea of Japan.

**Politico-Economic Relationships among the Northeast Asia Countries**

If the Japanese vision of a Northeast Asia Economic Zone comes true, Japan will undoubtedly become the largest trading and economic leader. However, tension still lingers in the surrounding countries as a result of the prolonged distrust created in the past by the Japanese invasion of the region. Moreover, the trade imbalance between the partners—which recorded about US$6 billion deficit per annum on the part of China, for example—has created another discomfort. Because of the difficulties foreign finished goods have making inroads into Japan, this trade deficit is yet to be improved. Japan’s economic policies have been bent on protecting its own industries and preventing unemployment. Japan’s notorious marketing structure is also complicated for foreign enterprises to approach. In an effort to seek improved economic relations with the surrounding countries, Japan has expanded the scale of loans from the Export-Import Bank to these countries, but it is not certain whether or not the larger scale will continue.

In 1965 Professor Kojima of Japan proposed a plan for a Pacific Free Trade Area (PAFTA); in 1968, jointly with a research team in the U.S. Senate Subcommittee of East Asian–Pacific Affairs, he designed a plan for establishing the Organization for Pacific Trade, Aid, and Development (OPTAD). But the realization of these ideas has been hindered by the differences of the interests of each country in the region and also by criticisms raised by the ASEAN countries, with special reference to Kojima’s so-called flying geese model.

In January 1980, Japanese premier Ohira proposed establishing the Pacific Economic Consultative Conference. Under his initiative representatives from concerned countries have held several rounds of meetings.

The above-mentioned proposals by Japan have meant that Japan is less concerned about the concept of the Sino-Soviet–led economic zone but has concentrated more on realizing a wider economic zone covering the whole Pacific region. Some observers tend to interpret the Japanese attitude as expressing Tokyo’s intention to keep its leading influence in the area from being affected by the expected economic growth of China. At present it is not clear whether or not Japan regards China as a member of the pan-Pacific economic camp. Japan has not yet made clear whether it thinks the economic growth of China would affect its own favorably or unfavorably.
Japan is refraining from directly investing capital in the former Soviet Union because of its territorial dispute with that country over four northern islands. Meanwhile, Japan has recently begun negotiating with North Korea to discuss establishing diplomatic relations; Tokyo's intentions regarding the final objective have yet to surface, however.

For all these reasons—and because surrounding countries yet remember the haunting specter of the so-called Greater East Asia Co-Prosperity Sphere pursued by the imperialist Japanese until the end of World War II—the international situation surrounding the Northeast Asian region is still in a state of uncertainty.

The Chinese concept regarding the Northeast Asia Economic Zone places particular emphasis on the need to promote economic cooperation with South Korea, especially in the sector of the division of labor. The proof is that many Chinese scholars are insisting that the establishment of a Yellow Sea Economic Zone should be preceded by the realization of the Northeast Asia Economic Zone.

During a seminar held recently at Chung-Ang University in Seoul, a representative from the Korea Study Institute of the Jilin Provincial Social Academy stressed the need to promote economic cooperation between China and South Korea and explained the benefits China expected to obtain from the cooperation as follows:

First, China intends to induce capital investment from South Korea to develop its three provinces in the Manchurian areas. South Korea's capital potential, albeit not excessive, has grown enough to encourage its enterprises to expand their investments into overseas areas. China has been one target of this investment, but the results have been meager. Although the Manchurian areas are endowed with abundant resources, the extraction industries have not developed enough to meet even local economic demands. Moreover, transportation, communications, and infrastructure are undeveloped. In this respect, South Korea's skill, built up through its experience in carrying out various construction projects within the country and abroad in the 1970s, would greatly contribute to promoting the development projects in the areas. In addition, the introduction into the Manchurian areas of the export-oriented but labor-intensive industries that are on the decline in South Korea would also contribute to developing economic construction in those areas, where large forces of cheap labor are available.

Second, China intends to improve its backward industries as well as management techniques through the introduction of South Korean technology, facilities, and management skill. It will be easier and quicker for China to adapt itself to the middle-level South Korean-style industrial structure rather than to the high-tech structure of such advanced countries as Japan and the United States. According to Chinese scholars, the values harbored by the South Koreans regarding humanism, justice, and etiquette coincide with that of the Chinese people because Korea has been founded on a similar culture,
namely, Confucianism. Therefore, South Korea’s management techniques can be similarly applied to the Chinese. The Chinese interpretation is that South Korea has been successful in achieving economic construction in a short time because the major development activities have been steered by a government-led economic plan and a market-economy system. It cannot be denied that South Korea’s economic pattern has produced such countereffects as imbalanced economic conditions between regions and between large and small industries as well as the gap between the rich and the poor. Nevertheless, it can be cited as contributing to the rapid growth of the economy. Consequently, South Korea’s pattern is best suited for China because it still remains under a centralized economic system.

Third, China–South Korea cooperation would contribute to diversifying the export markets for both sides. Among China’s trade partners are some countries that demand extraordinarily expensive prices for capital investment and advanced technologies. These conditions will not help China develop its own economy; instead, they will only inflict great damage on it. Cooperation with South Korea, in contrast, will help China’s economic development because South Korea will be focusing on developing a Chinese market for South Korea products.

The characteristics of the Northeast Asia Economic Zone proposed by China are that first, it involves capitalist as well as socialist countries—South Korea, Japan, Russia, China, Mongolia, and North Korea—and second, the Manchurian areas form the center of the zone not only geographically but also functionally. For these reasons, materialization of the plans for such economic cooperation will not depend solely on the economic motives of the countries concerned. In other words, such noneconomic factors as diplomatic relations and political and security problems have to be considered. In this respect, the Chinese motives in approaching South Korea can be regarded as being based on an assumption that Seoul and Pyongyang will be eventually heading for reconciliation. The proof is that various statements recently released by Beijing imply that it recognizes the status quo of the Korean peninsula: one people, two states. Recently Beijing concluded with South Korea an agreement to reinforce a function of diplomatic representation in the respective Trade Offices established in each other’s capital in 1990. This development may lead to formal diplomatic relations in the foreseeable future.

Following the Tiananmen Square incident in Beijing, the Chinese government appeared to be retreating into its conservative past. But recently it has made clear that it will continue to pursue open-door policies and to strive to adapt itself to changes in the world situation. It appears that China intends to play a leading role in reorganizing the international economic order in the areas around it.
Republic of Korea’s Perspectives

There are some important considerations for South Korea to take into account in pressing forward economic cooperation with the northern countries. The settlement of peace over the Korean peninsula and the reunification of the two Koreas must be imperative prerequisites for any endeavors made in connection with South Korea’s nordpolitik. Currently, it appears that economic cooperation is being stressed, with the main emphasis being placed on the exchange of trade items; but those attempts by South Korean enterprises that aim at exploring bigger projects by Koreans alone should be restrained. Instead, South Korea should seek joint-venture projects, preferably in the form of a consortium with other advanced countries, in the areas of resources development and social overhead capital such as the Siberian projects and the construction of harbors and roads in the Tumen River basin.

Noteworthy is that various documents published by the Chinese authorities in recent years frequently emphasize the Five Principles for Peaceful Coexistence that were presented by Zhou Enlai in the past. Those documents in particular emphasize the Principle of Nonaggression. This attitude can be interpreted as expressing Beijing’s strong will to strengthen its independent position especially in dealing with North Korea and as expressing its intention to minimize its intervention in other countries’ internal or external policies. At the same time, this emphasis implies that it will be useless for South Korea to expect that China will completely revise its policies regarding the Korean peninsula in deviating from its long-standing tilt toward North Korea.

It is reasonable to assume that China’s attitude toward South Korea may gradually change depending on changes in the international situation and in South-North relations. The current situation is reflected in the admission to the UN of both Koreas following the improvement of relations between South Korea and the East European countries including the (then) Soviet Union. China thus will be able to find a proper pretext for improving relations with South Korea without harming its traditional ties with North Korea. Improving relations between China and South Korea it will, in turn, exert a strong influence over North Korea’s position in its external policies including the North–South Korean relations.

North Korea still maintains an orthodox socialist system with a centrally planned economy. However, mounting economic problems demonstrate that this autarkic policy can no longer be maintained. Reduction of its oil supply and economic aid from the former Soviet Union as well as a decrease in the trade volume with other socialist countries is exerting severe pressure on North Korea, compelling it to counter these external shocks by opening its doors to capitalist economies. North Korea’s bold approach toward “imperialist” Japan is clearly a step to counterbalance South Korea’s rapprochement with North Korea’s fellow socialist countries. At the same time, North Korea
also expects an expansion of bilateral trade with Japan and the introduction of Japanese capital and technological expertise.

This approach appears to coincide with Japan's interest in enhancing its role in regional affairs. In the wake of South Korea's active nordpolitik toward regional socialist countries such as the former Soviet Union and China, Japan developed an interest in normalization of relations with North Korea. Japan has been "cordially" requested by its traditional partners, South Korea and the United States, to coordinate its policy toward North Korea with them. If North Korea accepts supervision of its nuclear facilities, establishment of diplomatic relations between Japan and North Korea would be only a matter of time.

All in all, these multidimensional developments in Northeast Asia permit cautious optimism as far as the reduction of tension and economic cooperation between these countries are concerned.

In this context, South Korea should not be engaged in a too hasty attempt to promote any direct investment projects to work together with North Korea. Instead, it should first seek ways to promote friendship and historical-cultural identities. At the same time it should direct its concerted efforts to working out practical measures for improving inter-Korean relations.

Likewise, the two countries should not stick to a vague, overly ambitious concept unlikely of being realized in the near future. Instead, they should endeavor to expand the scope of cooperation and friendship toward, for example, improving trade circumstances, promoting direct trade partnerships, and jointly participating in multilateral projects. Multilateral projects outside the Korean peninsula may be the first step toward South Korean joint ventures within North Korea and eventually to joint venture projects by the two elsewhere. In this respect, the proposed UNDP Tumen River project can serve as a cornerstone for cooperation and confidence between the two governments. Once trust is established the two countries will find numerous opportunities for cooperation not only in economic areas but also in social, cultural, and even political arenas.

Situated as it is at the junction that connects the pan-Pacific area and the Northeast Asia region, South Korea should not hesitate to cooperate in plans for a Northeast Asia Economic Zone. Moreover, South Korea's efforts to promote economic relations with either China or the former Soviet Union will certainly help it seek ways to improve inter-Korean relations with North Korea as well.

In this endeavor, it is inevitable that memories of the Great East Asia Co-Prosperity Sphere cause concern about modern Japan's possible economic and military hegemony. One solution to such fears would be the establishment of an international bank or mutual fund to handle development and investment in the region. Such a Northeast Asian Development Bank or Fund should be capitalized and operated by all the concerned countries in the region as well as such Western countries as the United States, Canada, and the EC, which will be partners in the proposed economic zone.
# Table 3
Investment Flows between Northeast Asian Countries, 1985–89

(in US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>South Korea</th>
<th>China</th>
<th>USSR</th>
<th>North Korea</th>
<th>United States</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>0</td>
<td>134</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>5,395</td>
<td>5,629</td>
</tr>
<tr>
<td>1986</td>
<td>0</td>
<td>436</td>
<td>226</td>
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<td>0</td>
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</tr>
<tr>
<td>1987</td>
<td>0</td>
<td>647</td>
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<td>1</td>
<td>0</td>
<td>14,704</td>
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<tr>
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<td>0</td>
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<td>9</td>
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</tr>
<tr>
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<tr>
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<td>2,286</td>
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<td>0</td>
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<table>
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<tr>
<th>Year</th>
<th>South Korea</th>
<th>United States</th>
<th>Total</th>
</tr>
</thead>
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<td>(1.0)</td>
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<tr>
<td>Total</td>
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<td>*804.1</td>
<td>*857</td>
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<th>Year</th>
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<th>Total</th>
</tr>
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<tbody>
<tr>
<td>1985</td>
<td>491</td>
<td>899</td>
</tr>
<tr>
<td>1986</td>
<td>639</td>
<td>1,022</td>
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<td>1,493</td>
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</tr>
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<td>1,259</td>
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<td>1,724</td>
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<td>Total</td>
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<th>Year</th>
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<th>Total</th>
</tr>
</thead>
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<tr>
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<td>491</td>
<td>85339</td>
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<td>1986</td>
<td>642</td>
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<td>1,495</td>
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<td>1989</td>
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<tr>
<td>Total</td>
<td>*5,128</td>
<td>*97307</td>
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</table>

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**Notes:** Actual investment flows may differ from the above figures because of (1) different statistical definition used by respective countries, (2) different basis of accruing investment outflows (e.g., approval, arrival, or actual investment), and (3) different computation methods (e.g., investment position differential between two years in case of the United States, total investment outflows in other countries). The above table may, however, show at least the direction of investment flow between Northeast Asian countries.

* indicates data deficiency.
We should not harbor rosy expectations regarding the realization of the concept for such regional cooperation in the near future; but we should not be too pessimistic, either. Instead, we should set to work toward realizing this idea by building the foundation, step by step, beginning from minor possibilities.

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Contributors

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