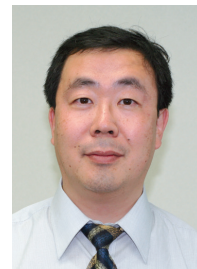


The Current State & Future Prospects of Geopolitical Risk from North Korea

By Chanwoo Lee



Author Chanwoo Lee

Introduction

More than 60 years have passed on the Korean Peninsula under the state of affairs created by its division under US and Soviet occupation, the establishment of two states (the Republic of Korea [South] and the Democratic People's Republic of Korea [North] in 1948), and the armistice that ended the Korean War (1950-53). The Korean Peninsula Question, the adversarial relationship between capitalist South Korea and socialist North Korea within the confrontational relations among its neighbors China, Russia, and Japan, as well as the United States, is the great geopolitical threat to the peace and stability of the international community and East Asia in particular.

More specifically, it is North Korea that is making the Korean Peninsula issue an actual geopolitical risk that impacts the international community. South Korea maintains a regime focused on economic development under a market economy and democratic values. By contrast, North Korea entrusts the leadership for protecting the socialist system to Kim Il-Sung, the founding father, and his direct descendants, and continues to strengthen its military power, which poses a threat to the outside world, in order to maintain its "one and only leadership" system.

There was some movement towards reducing the North Korea geopolitical risk in the post-Cold War era of the 1990s, such as the negotiations between Japan and North Korea to normalize diplomatic relations (1991-92) as well as efforts to develop a framework for international economic cooperation including North Korea. But these efforts did not succeed after all, and North Korea has adopted a "military first" policy under which it seeks to secure its regime through nuclear weapons and missiles.

This essay will consider the features of the nuclear armament option that North Korea has chosen, and explore its current status and future prospects as a geopolitical risk.

2 Perspectives on North Korea as a Political Risk

It goes without saying that the North Korean nuclear program and ballistic missile tests pose a major geopolitical risk as a security threat not only for Japan, South Korea, and Northeast Asia more broadly but also for the US. However, a more comprehensive analysis is required to determine whether the risk is caused solely by North Korean aggressiveness. It is necessary, for example, to include what risks North Korea feels from its neighbors in the analysis.

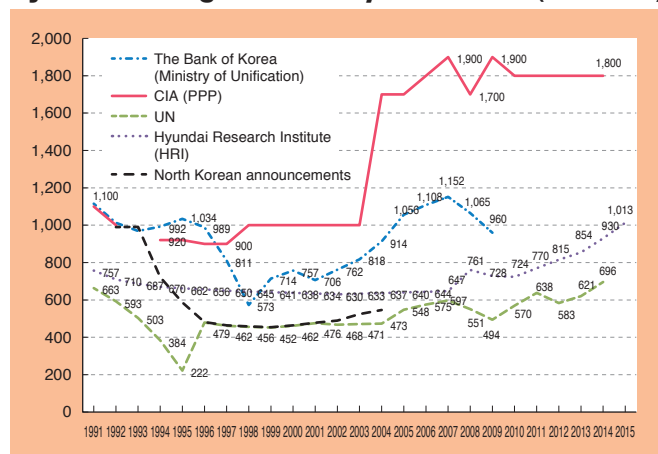
The North Korean understanding of the risks it faces can be analyzed from two perspectives: its "siege mentality" and "vulnerability." First, since the Korean War, North Korea has suffered from a siege mentality. It believed that it was encircled not only by the US but also by China and

the Soviet Union, and adopted *Juche* as an ideology of self-reliance in its international relations. This ideology leads to a confrontational posture when it faces external pressure. The international community sees this as external aggression, but from the North Korean perspective, it is a deterrent force in the service of its defense. That is what was meant when Kim Jong-Un, the chairman of the Workers' Party of Korea, stated in his 2017 New Year's address, "We shall respond resolutely to and punish any provocation or moves for war that violate the sovereignty and dignity of the state."

Second, vulnerability consists of such elements as low productivity and economic difficulties (food, energy, and foreign exchange shortages) on the economic aspect, the fear of purges launched by the dictatorship under the "one and only leadership" system and bureaucratic corruption on the political aspect, and the existence of North Korean refugees as the result of the economic and political difficulties. North Korea's vulnerability to the economic crisis it has suffered since the 1990s has been perceived as a risk by its neighbors with the possibility of sudden game-changing events such as regime change or state collapse. The likelihood of North Korea's collapse has been subsiding on the economic aspect with the progress of marketizing in private consumption and the increase in industrial production (see *Chart 1* for GDP growth), but its neighbors continue to see its political and social vulnerability as a source of risk. North Korea is maintaining its hold on the hearts of its people through slogans such as a "self-supporting national economy", "self-development" and "single-hearted

CHART 1

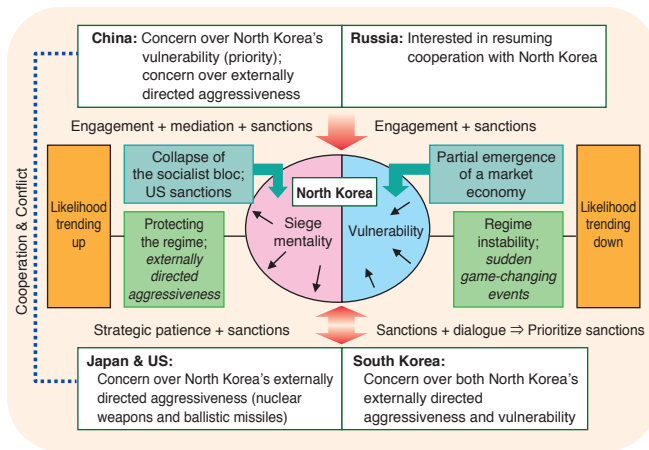
North Korea's GDP (comparison of estimates by various organizations) (Unit: USD)



Source: Documents published by the respective organizations; in the case of North Korea (1992-2004), documents submitted to the UN

CHART 2

Conceptual diagram for geopolitical risk from North Korea



Source: Compiled by the author

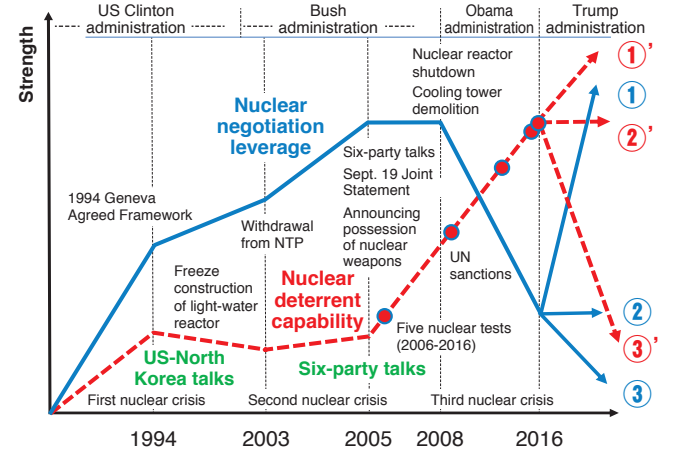
unity” blaming external obstruction for its vulnerability. That is what was meant when Kim Jong-Un said in his New Year’s address: “Even though the enemy grew more blatant in their obstructive schemes and severe difficulties cropped up one after another, all the soldiers and people drew themselves closer together around the Party and waged a vigorous struggle in the revolutionary spirit of self-reliance and fortitude. This was how they achieved the world-startling, miraculous successes under such trying circumstances.”

As we have seen, North Korea’s siege mentality becomes geopolitical risk as it is transformed into externally directed aggressiveness to protect the system. The economic, political, and social vulnerability, even if the danger of itself declines, becomes geopolitical risk as it is transformed into potential for sudden game-changing events due to the increasingly sclerotic state system and the instability of the regime. And while the likelihood of a sudden game-changing event is declining as the North Korean economy stabilizes, the likelihood of externally directed aggression to protect the regime is growing. In that sense, the geopolitical risk posed by North Korea is high in terms of its externally directed aggression to protect the regime and hidden in terms of sudden game-changing events due to its vulnerability.

Chart 2 illustrates the geopolitical risk viewed from those two perspectives, and responses of the neighboring countries. Japan and the US are concerned about North Korea’s externally directed aggression, while South Korea is concerned about both externally directed aggression and vulnerability. All three seek resolution through sanctions against North Korea. Although there is a possibility of dialogue with Pyongyang, there has been no change so far in their approach anchored to denuclearization. On the other hand, China prioritizes its concerns over North Korea’s vulnerability, while also being concerned about its externally directed aggression, taking an approach that mixes engagement and mediation with sanctions. Russia is interested in resuming cooperation with North Korea, as it looks to expand its engagement with the Asia-Pacific region in light of the deterioration of its relations with the US. This shows that it is mainly Japan, the US, and South Korea that are concerned with North Korea as a source of geopolitical risk, while China and Russia mainly take an engagement approach.

CHART 3

Negotiating leverage & deterrent capabilities of North Korean nuclear weapons program over time



Source: Compiled by the author

Current State of “Externally Directed Aggressiveness” Risk

Below are the three stages through which North Korean siege mentality results in geopolitical risk, namely its externally directed aggressiveness (nuclear program), from the viewpoint of North Korea.

- ① Initial stage of the nuclear weapons development program (before the nuclear tests): prioritized negotiations with the US with deterrence as long-term goal
 ⇒ Agree to freeze nuclear program (six-party talks, Sept. 19, 2005 Joint Statement)
- ② Full-tilt stage of the nuclear weapons development program (five nuclear tests during 2009-2015): prioritized strengthening deterrence with aim of securing bargaining power, but led to tighter sanctions
- ③ Nuclear armament completion stage (2017-, within three to four years): maximizing threat by securing ballistic missile (ICBM, SLBM) delivery system
 ⇒ Aim at securing deterrence and peace negotiations (nuclear disarmament, peace treaty) based on deterrence.

North Korea has leveraged negotiations and deterrence along this timeline. The goal of the negotiations is to end the state of war through such means as the conclusion of a peace treaty with the US. But North Korea places more importance on the process towards the goal (or on buying time) than the goal itself. Deterrence is the nuclear program as the prioritized means to protect the North Korean regime. Securing that outcome (nuclear armament) is important regarding this lever.

Chart 3 gives the author’s view of how the leverage of negotiations and deterrence has shifted over time. In the first stage, North Korea’s nuclear negotiation capability gained force up to 2006 as a process aimed at concluding a peace treaty with the US (or at buying time to develop nuclear weapons). Negotiations before the nuclear tests took the form of six-party talks, culminating in the Sept. 19 Joint Declaration in 2005. US-North Korea talks followed, continuing up to the first nuclear test in 2006, resulting in the shutdown of the North Korean reactor including the demolition of its cooling tower. However, in the second stage, during which UN sanctions against the nuclear tests were imposed, the US-North Korea talks came to a halt while North Korea

enhanced its nuclear deterrence capability until its fourth and fifth nuclear tests in 2016. Under President Barack Obama's administration in the US, as this took place, North Korea's nuclear deterrence capability has become a real geopolitical risk as a means of externally directed aggressiveness. As the administration of Donald Trump takes over in January 2017, it is likely that in three to four years North Korea will be fully nuclear-armed and have completed development of intercontinental ballistic missiles. It is likely that North Korea's deterrence (externally directed aggressiveness) will only grow while there are no talks between the US and North Korea. But the opposite trajectories in which the geopolitical risks are resolved (③' and ①) or trajectories that maintain the status quo (②' and ②) are also possible.

The international community is currently implementing sanctions against North Korea over its nuclear tests in accordance with United Nations Security Council resolutions. However, there is no way of knowing whether they will have the effect of forcing North Korea to give up the development of nuclear weapons and missiles. China, which is North Korea's greatest source of funds through trade, prioritizes the stability of the Korean Peninsula in its diplomacy *vis-à-vis* its "near abroad". The monitoring system for the sanctions is inadequate, and the economic relationship between China and North Korea flourishes as the transport system between their economic special zones is developed. Circumstances do not allow sanctions to be effective.

Risk of Sudden Game-Changing Events

The geopolitical risk of sudden game-changing events emerging from North Korea's vulnerability can be analyzed from the following economic, political, and social factors.

Economic factors Factors for determining if there will be economic recovery ⇒ trending towards stabilization and improvement

- ① Food supply: Improving
- ② Market economy: Spreading
- ③ External trade and inbound direct investment levels: Trade is soaring, but efforts to encourage investment stall.
- ④ Availability and production at domestic factories: Improving.

Political factors Factors for determining the nature of the North Korean regime and policy responses ⇒ trending towards stability and rigidity

- ① Core leadership of the regime: There is generational change, but core group remains unchanged.
- ② Organized opposition groups: None
- ③ Conflict among policymakers: There is fighting over concessions, but no conflict over policy.
- ④ Changes in the Workers' Party-cabinet-military relationship: There have been no fundamental changes in the chain of command with the Workers' Party at its core.
- ⑤ State of Kim Jong-Un's health: Unknown.

Social factors Factors for determining social responses ⇒ many unstable factors

- ① Number of North Korea defectors: It has been declining since Kim Jong-Un took over.
- ② Changes in the trust of the people in the ideological resources: There is no material to confirm this point.
- ③ The leak-in of outside information: The influx of external information

is increasing with the expansion of the market economy.

- ④ Intensity of the exclusion of external information and any friction: They are punished as public security cases.
- ⑤ The change in the mindset of residents and the elite class: Private money lenders called *donju*, or "masters of money", have emerged, and money worship is spreading.
- ⑥ Development of a civil society and any existence of reaction to the regime leadership: There is no creation of a civil society.

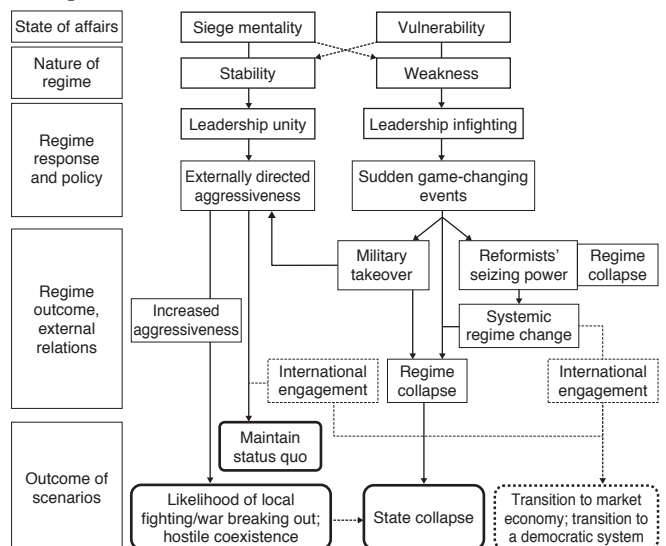
These three factors for determination indicate that economic and political vulnerability has declined under Kim Jong-Un compared to the Kim Jong-Il era (mid-1990s to 2011). However, much social instability still remains, retaining the potential for acting as an element that could generate sudden game-changing events, like the rigidity of the political system.

Scenarios for Future Direction of North Korea Risk

So far, we have analyzed the geopolitical risk posed by North Korea from two aspects, externally directed aggressiveness and sudden game-changing events. We will now use scenario analysis for future directions. These two aspects are correlated. When externally directed aggressiveness intensifies, the result will be a potential outbreak of local fighting/war, hostile coexistence, or maintenance of the status quo. However, depending on the state of external relations, a scenario is conceivable in which externally directed aggressiveness is converted into international cooperation and a transition to a market economy occurs. A sudden game-changing event has the potential to result in a systemic conversion to a democratic market economy (through international engagement) after regime collapse when the possibility of reform is taken into consideration. But it also could result in scenarios under which there is a switch to externally directed aggressiveness through military rule, or the regime or the very state could collapse. The status quo scenario is most likely as of now, but there is the possibility of state collapse depending on the future of external relations or the vulnerability of domestic politics, economy, and society (Chart 4).

CHART 4

Geopolitical risk scenarios for North Korea



Source: Compiled by the author

Factors in External Relations

North-South relations In the background of the North Korea risk is the issue of the north-south division of the Korean Peninsula, which means that South Korea's domestic circumstances and policy towards North Korea affect the North Korea risk.

The administration of President Park Geun-Hye that came to power in 2013 put forth a "Trust-Building Process on the Korean Peninsula" with regard to North Korea. On March 28, 2014, in Dresden, Germany, Park announced the "Initiative for Peaceful Unification on the Korean Peninsula" or Dresden Declaration. Some of the main points of the declaration were i) resolution of humanitarian issues, ii) the agenda for North-South co-prosperity (building North-South multi-farming complexes, investment in transportation and telecommunication infrastructure, and development of North Korea's natural resources), and iii) activities to recover North-South homogeneity (exchanges regarding history, culture and the arts, sports, etc.).

However, South Korea took a hard line against North Korea's nuclear test in January 2016, leading to the suspension of the "Trust-Building Process" and the complete breakdown of the North-South economic relationship, including the suspension of operations in the Kaesong Industrial Complex. Ultimately, the North Korea policy started in 2008 by the Lee Myung-Bak administration that prioritized deterrence failed to stop North Korea's nuclear program, and the engagement policy towards North Korea also lost momentum. Park subsequently strengthened the policy of putting pressure on North Korea by reinforcing coordination between Japan, the US, and South Korea by officially announcing the deployment of the US Terminal High Altitude Area Defense (THAAD) in South Korea in July and concluding the General Security of Military Information Agreement (GSOMIA) with Japan on Nov. 23.

But on Dec. 9, the National Assembly impeached Park over political scandals including the leak of state secrets to a confidante in the private sector, suspending her from exercising presidential powers (as of January 2017), and making it likely that South Korean politics will be plunged into turmoil going forward. If the top opposition party is the next to seize power, South Korea's North Korea policy may revert to the accommodative policy under the Kim Dae-Jung and Roh Moo-Hyun administrations. In that case, it is possible that North Korea will freeze its nuclear deterrence capability (=nuclear freeze), strengthen its nuclear negotiation capability, and pursue economic and diplomatic benefits. North Korea will demand the establishment of a non-conservative administration in South Korea and the resumption of North-South dialogue and North-South economic cooperation (Kaesong Industrial Complex, Mount Kungang tourism, etc.), and nullify the effects of the economic sanctions.

However, it is unlikely that the denuclearization of North Korea can be achieved by improving north-south relations. Regardless of the north-south relationship, North Korea will continue to repeat nuclear tests and ballistic missile launch tests until it attains the highest level of nuclear deterrence capability.

External relations The US is the country that has the greatest influence on North Korea's geopolitical risk. Up to and through the Obama administration, the US aimed at the "denuclearization" of North Korea, making it the precondition of US-North Korea dialogue. It is not yet known what kind of North Korea policy the Trump administration will adopt, since it is yet to be known exactly what Trump's "America First"

policy means in specific terms regarding relations with Russia and China, host nation support for US forces in Japan and South Korea and other allies, and so forth. That said, although it is likely to criticize the Obama administration's policy of "strategic patience" as having resulted in enhancing North Korea's nuclear deterrence capability, it is hard to see that it will adopt a strategy of improving relations through dialogue. The Trump administration is likely to study the durability of the North Korean regime while maintaining existing sanctions and pressure on North Korea during the first half of 2017 in order to develop its future policy.

China will be steadfast in maintaining the basic orientation of its external policy in implementing support for the stability of neighboring countries, maritime expansion, and the "One-Road, One-Belt" policy while harboring concern over the worsening of relations with the US under the Trump administration. Although the relationship between China and North Korea has chilled as a Xi Jinping-Kim Jong-Un summit has yet to be held and China has joined UN sanctions, there will be no circumstances under which China will accept the collapse of North Korea in order to deal with the risks emanating from there. What China could do to manage those risks is to reactivate the 2005 six-party talks framework. This could be a certain measure of progress in managing the risk from North Korea.

A scenario is conceivable in which geopolitical risk disappears as international cooperation through engagement by North Korea's neighbors brings about systemic change in North Korea, but the likelihood of this is extremely low.

Conclusion

It appears that the geopolitical risk from North Korea will continue to grow over the next three to four years in the aspect of its development of nuclear weapons and missiles. It is up to the neighboring countries to figure out how to resolve this risk, but the prospects for this are dim, given the premise of the denuclearization of North Korea (or, more accurately, the denuclearization of the Korean Peninsula) as the starting point of the solution. It will be necessary to consider a step-by-step approach in order to achieve the goal of the denuclearization of North Korea.

For this, an agreement on a nuclear freeze and non-proliferation and the reactivation of the international cooperation framework, economic development cooperation (South-North economic cooperation, dealing with the humanitarian issues between Japan and North Korea, cultural and economic exchanges) to eliminate North Korea's vulnerability, strengthening the response system for North Korean risk (sharing information, etc.) will all be necessary. It is desirable to pursue this by considering international cooperation and pressure to explore a denuclearized outcome.

For Japan, there is also another important North Korea risk, namely, the Japanese abductees issue. A parallel approach to resolve this problem will be required.

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Chanwoo Lee is a deputy associate professor at the department of contemporary business at Teikyo University, Junior College. He researches economic cooperation in the Northeast Asian region, including the Korean Peninsula issue.