

# The Analysis of Risk Factors from the Korean Peninsula



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## Risk Factor Analysis Method & Characteristics

The risks from the Korean Peninsula in 2017 are manifested in various ways. Changes in policy following the launch of a progressive government in South Korea, North Korea's nuclear and missile provocation, and changes in international dynamics are shaking up the region of Northeast Asia. Bloomberg reported that the global stock market capitalization fell by 1.93%, about \$1.4775 trillion (about 1,700 trillion won), in the three days from Aug. 9 to 11 due to North Korea's provocative remarks over Guam and US President Donald Trump's "fire and fury" remarks. Risk factors from the Korean Peninsula,

especially from North Korea, have now started to affect the entire world beyond Northeast Asia.

Risks can be assessed in terms of both predictability and controllability. If predictability and controllability are high, the impact is relatively small because it is a risk that can be coped with; on the other hand, if predictability and controllability are low, the impact is significant. North Korean nuclear and missile issues are risk factors because they are difficult to control and predict. The risk factors from the Korean Peninsula will be examined from the following two aspects (Chart 1).

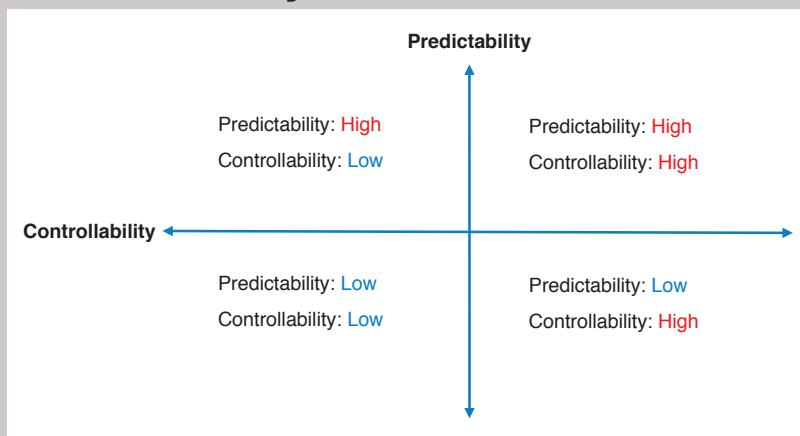
The risk factors from the Korean Peninsula can be divided into four categories according to factors from North Korea and South Korea, and internal and external factors. The six factors can be summarized thus: the possibility of a North Korean military provocation, a North Korean regime collapse, the collapse of the China-North Korea relationship, conflict between the United States and North Korea, a change in the South Korean government's policy line, and a new compromise between the US and China (Table 1).

## Most Dangerous Factor: North Korean Military Provocation

The possibility of a North Korean military provocation is the most dangerous factor because it is difficult to predict and control. North Korea adopted the Byungjin policy of economic and nuclear armed forces development at the plenary session of the party's Central Committee on March 31, 2013. It was 50 years earlier in 1962 that North Korea shifted to a parallel policy of developing defense and the economy. This means a policy that prioritizes light industry and agriculture economically, while at the same time transforming military capabilities into nuclear and missile capabilities. It is a manifestation of a willingness to pursue a unique route to the outside world, and at this point defense is more meaningful than attack for North Korea. However, as

CHART 1

## Risk factor analysis framework



Source: Compiled by the author

TABLE 1

## Risk factors from Korean Peninsula

	Internal factors	External factors
Factors from North Korea	The possibility of military provocation The possibility of regime collapse	The collapse of the North Korea-China relationship The conflict between the US and North Korea
Factors from South Korea	The change of policy line	New compromise between the US and China

Source: Compiled by the author

pressure from the international community strengthens on North Korea, it will take a hardline stance based on its internal economy. Kim Jong-un is practicing missile politics, countering the South Korea-US joint military exercises and the South Korea-US alliance with missile launches. Kim Jong-un has expanded the operation range of the North Korean army from the area around the Korean Peninsula to the Pacific region including Northeast Asia. Therefore, the risk is further heightened by the fact that China, Russia, and the western US, as well as Japan are included in the operational range of North Korean troops.

### Low Possibility of Collapse of the North Korean Regime

The possibility of the collapse of Kim Jong-un's regime is inversely proportional to its stability. It is really hard to understand North Korea from the outside world. A young political leader is apotheosized like a god, taking improvisational and emotional responses, regardless of international order. Even with such a leader and political power, it is expected that North Korea will collapse sooner or later. However, to examine the possibility of the collapse of Kim Jong-un's regime we need to carry out a calmer analysis. Indeed, in October 1994 when the US and North Korea reached a nuclear agreement in Geneva, the US did not expect the North Korean regime to still exist 10 years later. It was considered more important to prevent the spread of nuclear technology as a result of the collapse of the North Korean regime. However, even after more than 20 years, the North Korean regime continues to exist, armed with nuclear weapons and missiles, and threatening the international order. It gives a lesson that North Korea can be misunderstood if it is evaluated on the basis of the general national system. Even five years after the death of Kim Jong-il and the beginning of Kim Jong-un's regime, the international community is still making errors in analyzing the North Korean regime. This means that a more detailed analysis is needed to evaluate North Korea. Moreover, the durability of the North Korean regime is directly related to its collapse, so it is important to assess the durability of Kim Jong-un's regime. In particular, North Korea should not be judged only by its appearance from the outside world.

Therefore, I have reviewed 10 aspects in order to judge the durability of Kim Jong-un's regime. I looked at Kim Jong-un's personal qualities in terms of (1) crisis management ability, (2) social integration ability, and (3) driving power (determination power). To examine the degree of support he has from North Koreans, I reviewed (4) the formation of the Kim Dynasty, (5) the performance by social hierarchy, and (6) the economic policy performance. Regarding the international situation, I looked at (7) North Korea's relations with the US, (8) North Korea's relations with China, (9) South Korea-North Korea relations, and (10) the economic sanctions against North Korea. For this purpose, I interviewed defectors from North Korea, as well as reviewing content in the North Korean media. Relatively speaking, the qualities of Kim Jong-un as a North Korean leader were highly evaluated. He has moved North Korea rapidly out of the crisis faced since the death of Kim Jong-il, and it has been shown that he has promptly promoted policies to gain sympathy from North Koreans, such as the shift to a party-centered system, the bold elimination of

opposition forces, and the implementation of new economic policies.

As a result, North Korean residents expressed strong support for Kim Jong-un's regime. In particular, it is not an exaggeration to say that, unlike other countries, the North Korean regime is like a feudal dynasty, i.e. it is closed, and the national system is being operated by the centralized dynasty. Therefore, the people's support for the regime should be seen as blind loyalty to the king. North Korea continues to engage in international relations to try to lead a North Korean-centered Northeast Asia situation while focusing on nuclear and missile development. Due to this, the dynamics of Northeast Asia are being newly formed, and the instability of Northeast Asia caused by the military threat from North Korea has paradoxically raised the stability of Kim Jong-un's regime (*Table 2*).

### Signs of Breakdown in North Korea-China Relations

Recently, the relationship between North Korea and China has been unusual. China is imposing its own sanctions against North Korea along with international sanctions and does not hesitate to criticize North Korea officially. It is quite different from the past. North Korea is also increasingly making explicit complaints regarding China's attitude, and launched a missile on the day of a "One Belt, One Road" international conference, to which priority had been attached by Chinese President Xi Jinping. It seems that there is a crack in the North Korea-China relationship of so-called blood allies.

However, two kinds of errors are often made in relation to North Korea and China in general. First, China has a strong influence over North Korea but has not exercised its influence. China and North Korea have maintained a balanced relationship since its inception, but this has been changing as China's political interference with North Korea has increased since the start of Xi's government. However, more fundamentally, North Korea feels betrayed by China for having been neglected in the process of the establishment of diplomatic relations between South Korea and China in the early 1990s. North Korea's feeling of betrayal by China is because Kim Il-sung dispatched troops to support the Maoist regime in 1949 when the Chinese Communist Party government was established during the Chinese civil war. It was a great exploit in establishing the Chinese Communist regime.

At the time of the Korean War in 1950, Kim Il-sung was promised by Soviet leader Josef Stalin in the approval process for military reconciliation with South Korea that the Soviet Union would support North Korea if China participated in the war. China promised to participate in the war based on the judgment that reunification under North Korea would help stabilize China and that if the North was at risk because of the participation of US troops, the Chinese Communist Party would be in danger too. North Korea judges that China has supported it out of necessity for itself. Also, North Korea is proud of its support for China, but perceives that China has become arrogant with its sudden rise.

In this way, bilateral relations have maintained a kind of horizontal relationship for a long time. There has been no change in the lips and teeth relationship, and the principle of noninterference in domestic affairs has been maintained. But since the start of the Xi government,

TABLE 2

**Evaluation of stability of Kim Jong-un's regime**

		Stable side	Vulnerable side	2017	2014
Personal quality	(1) Crisis management ability	Adoption of standard tactics, normalization of the organization	Arbitrary, impromptu, intransigent, uncompromising propensities, the existence of complaints due to radical reform	7	6
	(2) Social integration power	Establishing a party-centered system, contacts with people like Kim Il-sung, high-level responsible management		8	6
	(3) Driving force and initiative	Execution of Jang Song-thaek, holding of Congress, nuclear and missile tests		8	7
North Korean residents' support level	(4) Formation of the Kim Dynasty	Establishment of the Kim Dynasty base, inducing blind support of residents, reinforcement of kingship	The possibility of weakening the divine right and turning it into complaints	8	6
	(5) Popularity by class	Pride in nuclear possession, absolute support by women	Formation and diffusion of informal networks	7	6
	(6) Economic policy achievements	Vegetable garden responsibility, responsibility for corporate management, market acceptance	Forming a private capitalist and market network	7	5
International situation	(7) Relations with the US	Proposal for a peace agreement, utilization of the US-China conflict	Strengthening the US sanctions	6	8
	(8) Relations with China	Relationship restoration opportunity, China's containment against the US	The degree of China's participation in sanctions	7	8
	(9) North-South relations	Peace line offensive to South Korea (ethnic priority, internal bond)	South Korea's soft line policy towards North Korea	8	6
	(10) Economic sanctions on North Korea	Restoration of an "independent national economy" (increase of coal and food production)	Strengthening the US sanctions	6	7
<b>Synthesis</b>				<b>72</b>	<b>65</b>

Source: Compiled by the author

North Korea has claimed that China is increasingly interfering in its domestic affairs and that it cannot accept it. This is the fundamental reason why Chinese pressure on North Korea has little effect.

From an economic point of view, North Korea's trade dependence on China, including oil imports, is close to 90%. It is common sense that if China stops trading with North Korea, it will not survive. However, the North Korean economy is based on self-regeneration. Even when socialist countries existed, North Korea's dependency on foreign countries was less than 5-6%. Since the 1990s, North Korea, faced with economic difficulties, has relied more on foreign aid such as that from South Korea, the US, and Japan, increasing its reliance on foreign countries by more than 10%. In the 2000s, based on external support, North Korea carried out internal maintenance, such as mine normalization, agricultural land consolidation, waterway construction, telecommunication development, and power grid expansions. But as the US, Japan, and South Korea stopped supporting North Korea and economic exchanges decreased around 2010, it began to expand economic exchanges with China. For the past seven years since 2010,

North Korea has been reestablishing its self-regeneration base, focusing on improving food productivity and restarting domestic light industry. Since North Korea's dependence on foreign countries is about 20% and 90% of that depends on China, North Korea's economy depends on China by 18% and this is gradually decreasing because China is strengthening its economic sanctions against North Korea. On the other hand, it can be said that there is an opportunity to strengthen self-regeneration forcefully.

The second error is that China has the ability to overthrow Kim Jong-un's regime and establish a friendly government in North Korea. Regarding the notion that China would abandon Kim Jong-un's regime, we should pay attention to the "buffer zone" theory. It means that the presence of North Korea is acting as a "buffer zone" to mitigate US checks and pressures against China. At the time of the Korean War, the US saw the Korean Peninsula only for its geopolitical value for the defense of Japan. It is also based on this recognition that in January 1950, US Secretary of State Dean Acheson stated that the Japanese archipelago could be used as a US line of defense. With the

outbreak of the Korean War in 1950 and occupation by the Chinese army, the United Nations (UN) set up a UN line connecting Chongju in Pyeonganbuk-do and Heungnam in Hamgyeongnam-do, and proposed a ceasefire by setting up a buffer zone between the Amnok and Tumen rivers. China also showed a positive stance towards the UN truce because it seemed that North Korea determined that the unification of the Korean Peninsula under the US was a way of restraining the Chinese counteraction of the Chinese Chiang Kai-shek government and US pressure.

Thus, North Korea plays the role of a buffer zone for China and contributes to its stability. China needs the existence of North Korea in order to respond to the US, which has a strategy of “pivot toward Asia”. Moreover, the Chinese people emphasize the lessons learned from the past. China was exposed to political instability in the past, especially when enjoying periods of internal political stability and peace as in the Tong Dynasty in the 7th century, because strong foreign powers had emerged and dominated the border areas during those times. Since the three provinces in Northeast China were the places frequently threatened by other nations, the insecurity of Kim Jong-un’s regime has caused instability in these provinces, and it could well lead to instability in China itself. It is possible to analyze that China once favored a stable Kim Jong-un regime because if it unsettled the regime and the buffer zone disappeared it could lead to destabilization in these three provinces where many ethnic Koreans live.

Given these two errors, the cracks in North Korea-China relations can be regarded as an adjustment process given the changes in their international status due to the rise of China and North Korea’s development of nuclear weapons and missiles. In the outside world, these phenomena can be seen as cracks, but it seems that fundamental changes have not yet occurred in relations between the two countries.

### Possible Conflict Between US & North Korea

There is growing concern that the possibility of a collision between the US and North Korea is increasing. With the second launch of a Hwasung-14 missile in North Korea, the whole of the US mainland has entered the firing range of North Korean ICBMs, and within the US the Trump administration has been criticized for doing nothing. It is time for the US to address Pyongyang’s ongoing provocation, and the possibility of military options cannot be excluded.

However, it is not an exaggeration to say that since the Korean War, it has not been worthwhile for the US to engage in bilateral dialogue and conflict with North Korea. Acheson’s remark that the American line of defense could be moved back to the Japanese archipelago was based on the perception that the only geopolitical value of the Korean Peninsula was that it serves as a base for defending Japan. At the time of the Korean War, Acheson favored a “limited war” to prevent its spread and asserted that there was no worth in risking a Third World War in which the Soviet Union would be engaged. The UN, China and North Korea all participated in a truce. In May 1994, the US prepared to launch a military attack on the Yongbyon area of North Korea, but was dissuaded by opposition from China and South Korea. When the instability of the North Korean regime was heightened by the death of

Kim Il-sung in July of the same year, the Geneva Agreement was hastily concluded between the US and North Korea in October. However, it seems to be the position of the US that the agreement was a measure to prevent the spread of nuclear technology following any collapse of the North Korean regime, and not a direct negotiation with North Korea.

After the 9.19 Joint Statement and 2.13 Agreement at the Six-Party Talks were reached under a multilateral consultative framework, the administration of President Barack Obama insisted on “strategic patience” because North Korea repeatedly broke its promises. Continuing provocations by North Korea have resulted in demands for China to tighten pressure on Pyongyang, while the UN has imposed further sanctions. However, the predicament merely resulted in North Korea continuing to develop nuclear power and missiles. It is now believed that an ICBM equipped with a nuclear warhead could reach most of the US mainland. The North Korean nuclear issue has moved beyond the fear of proliferation to a direct threat to the US. Because this is a problem that could affect the core interests of the US, it now has no choice but to go out on its own.

The Trump administration has mentioned that it had all options on the table for dealing with North Korea. Although there was concern that Trump’s “fire and fury” remark could lead to the use of military options, the US chose to tighten pressure. Trump has passed the “Korean Interdiction and Modernization of Sanctions Act” and started to apply a secondary boycott to China as well as Russia. However, the pattern of military behavior in the US shows that it is unlikely to use military options against North Korea. The US has never used nuclear bombs in an attack since Hiroshima and Nagasaki in 1945. It has reviewed the use of them in the Korean War and several other wars, but has never done so. Moreover, countries with nuclear weapons are showing maximum restraint in their conflicts. However, the US has used military options as a precaution against countries with high nuclear potential, such as Iraq and Syria. The US and the Soviet Union, following the Cuban missile crisis in 1962, began the Non-Proliferation Treaty system and transformed nuclear weapons from potentially offensive to defensive, in the hope of minimizing military conflict among countries with nuclear weapons. The extent to which the US determines the level of North Korea’s nuclear weapons will be a measure of the likelihood of direct conflict between the two. If the level of the North’s nuclear weapons is not yet threatening the US, it will increase the likelihood of the US using the military option, but it is not an easy matter to get the consent of South Korea and Japan together with the participation of China and Russia. If, on the other hand, North Korea’s nuclear level is considered to threaten the US immediately, it is more likely that the US will choose dialogue rather than military options or continue its current strategic endurance.

In the current situation, the US seems to be judging that North Korea’s nuclear capability is directly threatening it sooner than expected. So it may well be that direct conflict between the US and North Korea is more likely to unfold on the dialogue table rather than as a military conflict.

## Possibility of Change in South Korea's Policy Line

The inauguration of the Moon Jae-in government in South Korea has been accepted as a risk factor in South Korea as well as in neighboring countries. The reason is that it is difficult to predict and control changes in the government's policy route. The new government is planning to change the existing order by eliminating the deep-rooted corruption of conservative establishments. Internationally, it advocates self-defense and independent diplomacy with the motto of "leading by taking the driver's seat" in resolving issues on the Korean Peninsula. All of these were accepted as risk factors because they could conflict with the existing order. Changes in traditional US-South Korea relations and South Korea-Japan relations, and new North Korea policies, can also be said to be factors that break the balance of the existing order. However, the policy changes in Moon's government can be regarded as a factor that can be predicted and controlled in the sense that it shows urgency internally, but externally conforms to the existing order. Moreover, environmental factors, which give priority to strengthening the alliance rather than to making radical policy changes over North Korea's successive provocations, are also at work.

## New Compromises Between US & China

South Korea actually used to be a part of China, as was mentioned in a *Wall Street Journal* article on April 18. It was an interview article with Trump about the outcome of the US-China summit on April 6. It passed without much comment at the time because South Korea was having a presidential election. Moon's government, which was newly established a month later, dispatched former Prime Minister Lee Hae-chan as a special envoy to China. The seating for the meeting between Xi and special envoy Lee was a shock. The seat that the Chinese gave to the special envoy of the president of South Korea was the seat of the Chinese provincial governor. In normal circumstances, the envoy should not have to sit there and should have asked for another seat. This also passed without particular comment.

Throughout its history from the ancient Korean kingdom of Gojoseon to modern times, South Korea has endured numerous invasions via the continent and the ocean. The special envoy of the president of South Korea is effectively the president. It is unthinkable for the president of a nation to receive such treatment. Chinese pressure on South Korea over its deployment of the THAAD anti-missile system has angered many South Koreans, but they seem to remain philosophical.

South Korea and Japan depend heavily on the US for security. Incidentally, according to the president of the US in one of his Tweets right after his meeting with Xi Jinping at the US-China summit, the Chinese president stated that the Korean Peninsula was originally part of China. Trump allegedly responded with a friendly statement that South Korea means the Korean Peninsula. In promoting "America First", Trump has strongly urged Germany, Saudi Arabia, Japan and South Korea, which are allies, to bear additional burdens. He has even gone so far as to say there should be no more free riders among these countries, and they should pay as much as the US military does. German Chancellor Angela Merkel rejected Trump's demand, while

Saudi Arabia decided to purchase US arms worth \$108.12 billion. You can easily deduce where the next turn will be.

What does it mean to say that the Korean Peninsula was originally part of China without South Korea directly involved in the talks between the leaders of the US and China? Why did Trump reveal this comment? There is no real context or evidence to make inferences about this. However, it seems likely to be a view based on China's long-time political influence on the Korean Peninsula since 2,000 years ago. It is often pointed out that the situation on the Korean Peninsula now is similar to that behind the Katsura-Taft Treaty of July 1905, in which the US and Japan arrived at a mutual understanding that the US would go to the Philippines and Japan would go to the Korean Peninsula. On Jan. 12, 1950, Acheson announced the Acheson Line, which connected the Aleutian Islands, Japan, Okinawa, and the Philippines, as the US Far East defensive perimeter.

Now let us imagine. China demands the US to return the Korean Peninsula to China because it was originally part of China. The US says it can be given back at a reasonable price. North Korea launches a ballistic missile every day to make South Korea and Japan desperately seek US military assistance, and the US demonstrates its power by constantly deploying two aircraft carriers off the Japanese coast. A member of the US Congress tells the South Korean president that if South Korea does not want it, the THAAD deployment budget may be used elsewhere. What kind of deal is taking place around the peninsula? Things can go beyond our imagination, whether they involve the US or China.

## Current Situation & Response Plan for Korean Peninsula Risk

As we have seen, North Korea's military provocations are considered to be the most dangerous factors in Korean Peninsula risk, and this risk is rising due to the uncontrollable actions of the US and China. The situation in Northeast Asia surrounding the Korean Peninsula is changing day by day. Instability has deepened with the realization of North Korea's nuclear status, Chinese expansionism, the strengthened self-defense of Japan based on proactive pacifism, the reconciliatory attitude of the new progressive government of South Korea, the eastward orientation of Russia and the potential for the US president himself to make provocative statements.

These sudden changes of circumstance can have a great influence on the business environment. To cope with this, companies and enterprises should improve their forecasting ability through continuous monitoring and strengthen their control capabilities through ongoing simulations. On the other hand, there are opportunities behind the crisis. In Northeast Asia, where dynamism is strong, continuous monitoring and ongoing simulations are essential to capture new opportunities emerging due to environmental changes.

**JS**

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