

Changes in Northeast Asian Geopolitics and Prospects for Unification

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- I would like to start by stepping back from the many issues of the moment to recall that the Korean people have been living under a cloud of discord for over a hundred years. This was sparked by the decision of Japan in 1910 to invade and colonize the peninsula, and then followed by the decision of the U.S. and Russia to divide the peninsula into two states under their respective spheres of influence at the end of WW2. The Korean people had no say in these momentous decisions that upended their lives and it is not surprising the old Korean adage of being “shrimp among the whales” dominates perception of their historical predicament. The intervention of China in the Korean War, its own strategic interests, and its now extensive economic relationships with both Koreas, have only further reinforced this existential predicament.
- Within these geopolitical realities, both Koreas continue to struggle to exercise control over their future destinies. South Korea’s success in the global economy and recognition for its middle-power leadership in the international community, together with its deep commitment to the alliance relationship with the U.S., form the essential underpinnings for shaping its future. At the present moment, reaffirmation of these underpinnings is critical for Seoul in light of uncertainties created by potentially dramatic shifts in American policy towards Asia and its role in the World. At the same time, the domestic political crisis triggered by impeachment of President Park means that South Korea is facing challenges posed by not only North Korean military threats, but also long-standing structural issues in the relationship of the government to the Chaebol’s, deeply felt stresses in society, and constitutional questions about the adequacy of the presidential political system in its current form. It is hard to see how unification is going to get much attention in this environment.
- North Korea’s choice has been to remain isolated and inwardly focused, as Kim Jung Un attends to consolidating his leadership, bolstering a weak economy, and coping with impacts of sanctions. The centerpiece of his strategy to gain control over North Korea’s future destiny is the Byungjun policy of ramping up nuclear and missile programs to guarantee national

security while prioritizing economic development and pursuing this “in our own style.” North Korea is also experiencing significant changes in its economic system, political economy and social dynamics. These provide both opportunities and challenges for those seeking to influence the course of North Korea’s future, with longer-term implications for unification possibilities. As in the South, however, it is hard to see how unification is going to get much attention at present in this environment in the North.

- There is a lot of angst these days about how to relate to the realities of both Koreas and influence a course of changes that promote stability, protect the peace, advance social well-being, and improve prospects for more harmonious relations between the two Koreas. The high dependence on military methods to contain North Korean provocations and growing nuclear and missile capabilities, combined with the pressures of economic sanctions to force compliance with Security Council Resolutions, have been necessary but so far insufficient inducements for a change in the North Korean security calculus.
- The intensification of sanctions in 2016 has not yet led to any major changes in North Korea’s economic condition. Preliminary estimates from the Chinese Commerce Department are that the value of total imports from North Korea increased by 6% and exports increased by 8% last year. Coal imports were much greater than initially expected and even surged in December after the Security Council imposed strict limits. Price indicators of economic turmoil such as the exchange rate and rice prices have remained remarkably stable, also indicating no major impact of sanctions on market activity. Nevertheless, there is no question that sanctions are having an impact on economic behavior as North Korea tries to diversify exports of non-sanctioned products and services, adjusts to domestic impacts on specific industries and enterprises, and seeks creative and probably more costly ways to evade sanctions with support from willing foreign enterprises. Whether implementation of sanctions will tighten in 2017 is a major question that will be significantly influenced by Chinese responses to the Trump Administration’s Asian agenda, deployment of THAAD in South Korea, and how well China adheres to the recently announced decision to curtail coal imports from North Korea for the rest of 2017. Potentially, the trade shock from loss of income from coal exports could have significant impacts on the North Korean economy, especially if there is devaluation of the exchange rate and price rises for rice and imported commodities in the markets. The coming months will be a test for both China and North Korea.
- If negotiations are pursued in the present geopolitical environment, exploring a Peace Accord is one potential opening for dialogue. But any move down that road will necessarily engage the bed-rock strategies that both Koreas have adopted to protect their fundamental interests. Essential to this

would be willingness of all stake-holding countries, particularly China and the U.S. in addition to the two Koreas, to realign relationships and replace the decades old geopolitical framework that protects the interests of all four countries as well as those of Japan and Russia. It would also require providing North Korea with means to assure it's economic security and support for economic development in a robust way. The price for denuclearization, reduced militarization on the peninsula, and improvement in human rights would be high. However, the level of statesmanship required to pursue such a historic course is not apparent among any of the countries concerned so far, although some observers have expressed hope that President Trump might seize an opportunity to press for a high stakes deal. Without an unprecedented high level of leadership and commitment, such talks are bound to flounder.

- In the absence of willingness in South Korea or U.S. to reach beyond the present strategy of containment and pressure, even if accompanied by openness to explore negotiations to lower tensions bilaterally or along the lines of the Six Party Talks, it is highly unlikely to see meaningful progress on the nuclear or missile issues or on human rights concerns. Thus some have argued for more modest and potentially achievable goals for seeking ways to influence the internal dynamics of change that might eventually lead to political developments in North Korea that could change the context for strategic decision-making. There is a long history of waiting for regime change in North Korea, but the recent purge of state security leadership and assassination of Kim Jong Nam have fueled speculation of growing tensions between the regime and elite classes.
- I would thus like to devote the remainder of my time to discussing some of aspects of these internal dynamics that might have a bearing on future engagement strategies and unification prospects.
- First Kim Jong Un's commitment to economic development is a major not insignificant development, now institutionalized in the Byungjin policy. Delivering on economic development is tethered to the legitimacy of his leadership. One implication is that meaningful economic inducements are likely to have more leverage in future negotiations on the nuclear and missile programs than they did in previous ones. Also, in his speech at the 7th Party Congress last May and Supreme People's Assembly meeting last June, Kim Jong Un gave high priority to empowering the Cabinet to take the lead in formulating and implementing economic strategy, putting the economy in the hands of technocrats not military or Party apparatchiks. This was reinforced institutionally with the establishment of the State Affairs Commission to replace the National Defense Commission as the highest decision-making body of the Government. Two out of three Vice Chairmen of the new Commission are senior members of the Cabinet, including Premier

Pak Pong Ju. One implication is that any future negotiation with North Korea should reach for senior economic officials and not only those involved with political and security matters.

- A related development is that Kim Jong Un's speech at the 7th Party Congress in May 2016 gives considerable attention to unveiling his economic development goals and endorsement of a five-year economic development strategy. What is noteworthy about the lengthy 14,000 word speech is that it succeeds in melding traditional socialist economic rhetoric with concrete pragmatic ideas that have been derived from research into international experience and knowledge for applicability to the North Korean context. This includes reference to balanced energy development, ways to improve agriculture output, strategies to increase industrial productivity and deepen domestic value-added in non-sanctioned exports, promotion of Special Enterprise Zones operating under very different legal regimes than the Kaesong Industrial Complex, and importance of stimulating innovation through human resource development, knowledge economy, and applied science and technology. While sometimes contradictory with socialist ideology, the display of rational economic logic that is being integrated into the strategy provides openings for future engagement and is a positive development from an eventual unification perspective.
- At the center of this strategy is an oft-repeated theme of self-reliance. In the current economic condition of increasingly harsh economic sanctions and nearly complete dependence on an economic relationship with China, the imperatives to pursue import substitution to husband scarce foreign exchange and to seek innovative ways stimulate the domestic economy have become practical not just ideological drivers of policy. While designed to put pressure on the DPRK, sanctions are also providing an incentive to adopt practical measures that enable more efficient use of domestic resources, which is positive from a unification perspective.
- Another potentially very significant impact of sanctions on the economic management system is incentive to break down the economic silos that historically supported the military and Party separately from the People's economy. A more coherent management of the production enterprises, trading companies and banks that have operated independently in these silos could make for more efficient use of resources and improve capacity for macroeconomic management. Sanctions targeting enterprises trading or earning foreign exchange that directly benefits the military are reinforcing this transformation as a logical response is to place revenue earning enterprises under the Cabinet and transfer resources to the military through the national budget as is the case in most countries. While this thwarts the intent of the sanctions it does help advance the possibility of transformation

of the economic management system that is in the country's long-term economic interest.

- While the drive for economic development is focused on the state-managed economy and there is no public recognition of the role of markets in official speeches, Kim Jong Un has tolerated the growth and deepening of market economy activities. Recent South Korean estimates of the size of the North Korean market economy are that there are about 450 officially licensed markets and 750 unlicensed markets, and market activity now accounts for about 30% of the North Korean GDP. A large majority of the population derives most of their income from market activity and a growing class of successful entrepreneurs or *donju* are gaining considerable economic power and dramatically altering the landscape of the political economy of the country. Many State enterprises participate in the market economy through providing legal cover to private enterprises for a price, sourcing inputs to their own production from the market, and/or selling part of their production over the State quota to the market directly. The regime has also allowed local officials and State enterprises to enter into economic deals with *donju*, including such practices as contracting a State-owned business to be managed privately, use of State factory buildings for private production activities, and lease of locally owned agriculture land for housing development. Thus the boundaries of the State-managed economic system and market economy are becoming increasingly blurred.
- The emergence of an economic middle class not dependent on the public distribution system or patronage gifts from the political elite, poses a significant future uncertainty for governance. A major question is how the relationship will evolve between the newly affluent and those people still tied solely to the State system as Party apparatchiks, serving in the military, or belonging to the state security services. Sooner or later these worlds will collide unless State salaries are brought in line with incomes being made in the market or elite families find ways of having close relatives in political and security as well as economic circles. At present corruption provides the glue in the system, but this is not a sustainable long-term solution.
- As the general population attends to their personal interest in making money, their interest and support for the Party's ideological rhetoric is fading and people are participating increasingly grudgingly in Party-inspired demands such as the mass labor campaigns, participation in political ceremonies, and self-criticism. The days of deifying the leader are over and Kim Jong Un knows this, as evidenced in his self-effacing New Year's speech last January. The implicit social contract in North Korea has undergone a dramatic shift but one that old school elements in system have not accepted. Efforts by the state security apparatus to curtail access to information from the outside world, prevent unauthorized crossings to China, and commit

human rights abuses, reinforce the prevalence of corruption as an enabler of private activity. Conflict between the interests of the regime and interests of the general population is intensifying. The recent purge of the state security leadership and Kim Jong Un's admonishment to reduce its human rights abuses and corruption seems to confirm the intensification of this conflict.

- One implication of these developments now being given greater attention is that efforts to increase the information available to North Korean people about the realities of the outside world and potential benefits of greater freedoms could further reinforce the will of the people and especially the economically empowered elites to pursue their own personal aspirations and resist State controls. This has implications both for strategies to influence the internal dynamics of change in North Korea and broadening a popular base of support for relations with South Korea compatible with eventual unification. It might also influence the regime's security calculus, domestic policies, and negotiating strategy in either positive or negative ways. So such efforts should be approached carefully.
- Trade with China has been a major driver of the growth of the market economy inside North Korea. By supporting small-scale cross-border trade and smuggling and by encouraging enterprise-to-enterprise business dealings, China has fueled the growing markets since the late 1990's. This was deliberate and one reason why China is reluctant to press to heavily on sanctions that might undermine the market economy that is benefiting the North Korean people and changing the internal political economy. In sharp contrast, the economic relationship between the South Korea and North Korea centered on food aid and the Kaesong Industrial Complex, funneled resources directly to the regime, helping to prop up the Public Distribution System and foreign exchange needs of the regime, with no obvious direct impact on the development of the market economy. Any future rebuilding of an economic relationship between the two Koreas should reconsider the purposes underlying the mechanisms for expanding economic relations. This is especially important for a strategy of improving prospects for unification.
- In conclusion, both Koreas are facing domestic and external challenges that have escalated apprehension about their futures. This is certainly leading to heightened attention among all concerned countries to finding ways to maintain stability and influence change dynamics in positive directions from their own strategic standpoints. Unification seems a low priority objective in this environment, although the way these changes play out will impact the prospects for unification or at least a more harmonious relationship between the two Korea's down the road.