KEI Korea Economic Institute
Academic Paper Series

April 2011 • Volume 6 • Number 3

Preparing for Change in North Korea: Shifting Out of Neutral

Michael J. Mazarr & the Study Group on North Korean Futures

This study was undertaken to assess possible futures for the North Korean regime and the Korean peninsula that could affect U.S. and regional interests, and to consider which U.S. and regional strategies and policy actions could both prepare for possible outcomes and shape those outcomes to better serve U.S. interests.

The goals for the project included:

1. Understand regime change, instability, and unification scenarios that could emerge in North Korea;

2. Provide decision makers with insights into the situation described in no. 1, above; and

3. Outline policy recommendations for a strategic concept and discrete actions to help navigate these scenarios successfully.

As a way of shaping our analysis, we asked *which challenges have impaired existing efforts to plan for North Korean regime futures*. Although North Korean futures are clearly nonlinear and unpredictable, this reality also accounts for the *first challenge* we face in making policy toward North Korea: *the unknowability of the North Korean scenario too often paralyzes strategic thinking*. Current approaches to regime futures remain largely passive, as if awaiting a natural disaster. An alternative would be to understand the situation to the best degree possible and then to take an active, strategic approach to it—not only in the preparation for possible contingencies but also in the attempt to shape events between today and the time when they emerge.

Assumptions

We began our analysis with a number of basic assumptions about the North Korean regime and other regional actors:

1. Pyongyang's chief goal is regime survival and perpetuation.

2. The North Korean regime will remain stable with no prospect of major upheaval or serious reform through the end of Kim Jong-il's life.

3. Reunification under any circumstance will require significant external support and generate complex planning contingencies.

4. North Korea will not completely denuclearize of its own free will.

The implication of assumption (4) poses a second major challenge to planning for regime futures: *existing denuclearization policies dominate U.S. policy*. Long-term U.S. policy assumes that North Korea will surrender its nuclear ambitions in exchange for sufficient benefits. We believe that this assumption has become invalid for a number of reasons. North Korea has had the chance to take several denuclearization offers and has not done so. Pyongyang believes it needs, and is arguably successfully using, nuclear weapons for strategic deterrence. Nuclear weapons have now become enmeshed in domestic issues of succession politics and bureaucratic interests. The policy lesson is not to abandon denuclearization or to accept North Korea as a nuclear state—far from it: we recommend a continuation of the denucle-

Dr. Mazarr et al's paper is the forty second in KEI's Academic Paper Series. As part of this program, KEI commissions and distributes 10 papers per year on original subjects of current interest to over 3,000 Korea watchers, government officials, think tank experts, and scholars around the United States and the world. A public discussion at KEI with the author generally follows in conjunction with distribution. At the end of the year, these papers are compiled and published in *On Korea*. Volume 4 of *On Korea* has been published. For more information, please visit www.keia.org/paper_series.php.

arization process, admitting its limitations. The problem arises when a stalled denuclearization process represents the total U.S. approach to North Korea, squeezing out forward-looking approaches to issues such as regime futures in which the United States also has major interests at stake.

Enduring U.S. Interests

In addition to denuclearization, current U.S. policy has identified a number of specific goals, including nonproliferation, containment of illicit activities, and human rights. Existing approaches pursue these goals by refusing to grant North Korea additional benefits to fulfill commitments already made, imposing new economic and political pressures, and waiting for the North to return to the nuclear bargaining table at the six-party talks as a precondition for most other moves.

For this analysis we attempted to identify more underlying, long-term U.S. interests at stake in North Korean futures scenarios:

- Provide for the long-term denuclearization of the Korean peninsula; and, absent the medium-term achievement of that goal, ensure the accountability and security of North Korean nuclear (and chemical-biological) capabilities;
- Prevent proliferation of fissile material and other nuclear and weapons materials to other states or nonstate groups;
- Preserve regional stability, including avoiding war and crisis;
- Promote respect for international laws and conventions, including territorial issues, UN mandates, and those that counter illegal activities;
- Demonstrate continued commitment to the ROK alliance; and
- Promote U.S. economic goals in the region.

We can compare these interests with those of North Korea, which begin with its dominant interest—survival of the regime—and include solidifying its economic and political situation without having to undertake fundamental reform; being recognized as a nuclear power; expanding its foreign-currency earnings (including through many illicit ventures and arms sales); and securing a balanced position of attention, aid, and deference from outside powers—especially South Korea, the United States, and China—without becoming dependent on any one.

We conclude that major interests of the United States and North Korea are fundamentally opposed, and a stable relationship over time is not likely. A logical conclusion is that *U.S. and allied problems stem from the nature of the North Korean regime;* there will be no permanent, negotiated solutions to such issues as denuclearization, recurrent crises, or human rights violations unless or until the nature of the regime fundamentally changes (and not all regime change scenarios guarantee such a shift). Such change is unlikely in the short run, and strategies that either assume it or attempt to bring it about in that time frame do not appear viable.

Another challenge in approaching the regime futures issue is *the paradox of both desiring and fearing rapid regime change.* Current approaches tend to avoid this dilemma rather than manage it. Pushing for more rapid regime change would endanger stability, might create potential for loose nuclear weapons, and could generate tensions with South Korea. Accepting a gradual transition strategy in some respects, however, represents a de facto endorsement of North Korean nuclear status and would allow more time for nuclear leakage scenarios.

In particular, allowing North Korean intransigence and misbehavior to preclude any other initiatives may cause us to overlook emerging dangers. It may also set the stage for intelligence or policy failures. We believe that the risks of simply laying out demands and awaiting North Korean acquiescence have not been well defined because such a policy:

1. May encourage North Korea to believe that it can get away with major provocations without serious consequences;
2. May actually guarantee further crises and risk dangerous escalation by forcing North Korea into such provocations to get America's attention;
3. Allows more time for leakage of weapons of mass destruction (WMD) as North Korea becomes desperate for hard currency;
4. Grants time for China to acquire even greater influence in North Korea, complicating the eventual process of regime transformation; and
5. May blind us to opportunities to pursue U.S. interests by more active steps.

Insights

Our study of the issue of North Korean regime futures and its connections to current policy generated a number of specific insights about North Korea and led us to question the ability of the United States to compel North Korea to change through the current track of U.S. diplomacy.

Perhaps the overriding insight, from the standpoint of social trends, is that the North Korea of today is not the North Korea of 20 years ago or even a decade ago. Changes in awareness, economic realities, and governance have led to a transformation from the state playing the pivotal role in citizens' lives to a market-based mentality where individual will and self-promotion, including profit making, have become leading values. The regime is desperately trying to regain control of society,

but it recognizes that "it's the economy, stupid": economic factors will be decisive in determining internal dynamics of popular allegiance, elite satisfaction, and other key indicators of regime stability in coming years. All of this offers fertile ground for outside powers interested in leveraging North Korean trends for their advantage.

Our review of evidence from a range of sources convinced us of a simple fact with regard to North Korea's future: *Changes are coming—indeed they are already well under way. Either we work admittedly limited leverage points to shape changes proactively to the advantage of the United States or we risk outcomes more dangerous than might otherwise be possible.*

Sources of Resiliency

The North Korean regime has been continuously and unexpectedly resilient, supported by a number of factors, including:

1. Foreign-currency earnings, which underwrite the regime;

2. Humanitarian assistance and aid;

3. Persistent nationalism, pride, and suspicion of foreign threats as well as an adversarial posture vis-à-vis the United States and South Korea;

4. A pervasive elite patronage system that builds on historical models of hereditary class structures to promote social stability;

5. Economic markets in the new social reality creating new opportunities for enrichment and, thus, new incentives to preserve the system as it is for those profiting from the emerging marketization, legal and illicit;

6. Residual veneration for Kim Il-sung and the Kim family and associated cultural images and symbols; and

7. Fear, which is an outgrowth of the regime's many instruments of control.

In this complex kaleidoscope, voluntary loyalty as the basis of regime stability is a rapidly declining factor. With the decline of the public distribution system, the decay of the state manufacturing sector, and the spread of information and markets, a dramatic change in people's mind-sets has occurred: in fundamental ways, *the North Korean system has already begun to disintegrate* as a legitimate governing authority. The country's state-led economy is at a standstill, and reports from defectors and sources inside Korea as well as scattered indications of popular reactions against the regime suggest that the populace has become well aware of the wide gap between its claims about the performance of its system and the character of world politics. In these critical ways, the system is *already* in the process of eroding from the inside out. Fear, a waning residue of nationalist or personalist loyalty, and increasingly various categories of self-interest—people attached to the system because they draw benefits from it—constitute the system's major remaining support structures.

Economy and Foreign Currency

North Korea has developed powerful engines of foreign-currency generation, many of them large, illicit enterprises that it conceals in various ways, including hiding them among legitimate commercial trade enterprises. (Thus, any "lawful" North Korean economic relationship will almost inevitably involve illicit entanglements.) The earnings of these entities sustain the "royal court economy" that is the basis for elite prosperity and funding of key military programs. Foreign currency provides crucial rent payments for the patronage system that supports the structure of North Korea's hereditary social classes and factions. Our research suggested to us that these programs have an increasingly important bearing on the stability and longevity of the regime, and also that the classes in North Korea engaged in and benefiting from the programs may be developing new interests and knowledge that could be made the focus of a more active U.S. policy.

In addition to its foreign-currency-earning engines, North Korea has also come to depend on formal and informal domestic markets to provide its people with basic necessities. Despite claims that it intends to do away with these markets, North Korea simply cannot eliminate this informal economy—it has become essential to daily life. But, recognizing the threat to regime control of information and the popularity of private economic activity, the regime has sought since 2005 to strictly regulate the private economy and limit its effects. Thus, proposals to "economically engage" North Korea, to make "massive investments," or to "encourage the North to reform" ignore Pyongyang's established record of harshly limiting the scope and reach of any such economic exchanges. North Korea's priority now is a probably futile effort to revamp the state-led sector in preparation for the "Strong and Prosperous Nation" drive of 2012. This is not to suggest that North Korea has a coherent economic plan; the best evidence indicates instead that the country has been veering from one idea to another, sometimes within the same week, in persistent economic policy confusion.

Nonetheless, the growth of the black market and some state-sanctioned private markets has helped to energize in North Korea the rise of a self-interested, profit-oriented social group that could begin to display the characteristics of a middle class. Interests of this "middle elite" class may not always match those of the Kim family clan; in the long run, members of this middle elite may become a crucial group during any transition scenario. As of now we know little about them, but their mere existence suggests possibilities for U.S. and South Korean strategy.

Despite the regime's efforts to control the effects of marketization and other changes, substantial evidence shows that *the virus of regime transformation is already in North Korea's blood-*

stream. Reporting from defectors suggests that past reforms, market openings, and expanded trade may have created rising expectations among segments of the population for greater economic performance and opportunities. Processes are under way, in terms of information flows and mind-set changes among the population, that the regime cannot avoid and can only partially control: more than 300,000 cell phones have been issued by a foreign vendor to North Korean citizens in a government-sponsored program; information is penetrating the society as never before. Even the limited venue of formal negotiations offers an opportunity to develop relationships and exchange information with military and civilian leaders. The acceleration of this process serves U.S. interests and is a shared interest of nearly all outside powers. In practice, however, public efforts to promote these trends confront intense hurdles, from North Korea's own resistance to outside engagement with its people to political constraints on outside investment as long as the nuclear issue remains unresolved and human rights concerns remain severe.

Succession and Governance

The death of Kim Jong-il will be a pivotal moment. In its aftermath, the population may develop raised expectations—for both improved economic performance and some undefined change. Scattered reports tell of dissatisfaction with Kim Jong-un among the populace—but also that North Koreans see no clear alternative to accepting the succession. Within the regime itself, it is unclear how much a regime transformation scenario—from Kim Jong-il to a collective leadership with Kim Jong-un as titular head—would allow for an actual clash of interests or battle for power. Among the elites, the struggle could create any number of divisions and factions, including pro–Kim Jong-un versus anti–Kim Jong-un, pro-China versus anti-China, the military versus nonmilitary, and generational splits.

Those who are profiting from the regime's foreign activities and who want to maintain their standard of living may constitute a rising, and unpredictable, factor in coming years. This rising middle elite may remain most loyal to leaders who promise to preserve their status as a slowly emerging middle class. With the best access to outside information, arguably this group may be the least ideological and the most self-interested of any cohort, but it is surely not monolithic. One interesting theory holds that elites apart from the Kim family have benefited most from markets, and the Kim clan has felt threatened by the resulting shift in social power balances. When Kim Jong-il departs the scene, such newly rising groups would have an especially propitious moment to assert power if they desired to do so.

One insight of our analysis relates to the balance of influence between external and internal factors. Coercion-based strategies have tended to assume that external actors and forces would be the most likely to generate behavioral or social change in North Korea. Given the interests of regional powers and the changing dynamics in North Korea, however, it is at least as likely that change would come from fracturing among elites as from a grassroots rebellion or changes taken in the face of external demands.

At the same time, growing incentives for corruption are eating away at state authority. State governance in North Korea has been decaying for years, and recent trends in corruption are accelerating this trend. This could lead to regime instability, but in another sense it may render traditional collapse scenarios less likely: regional and local authorities have their own capacity for control. North Korea is becoming composed of actors with different interests and goals—a trend that will shape regime outcomes and that offers leverage for U.S. and allied policy. These trends could easily gather speed upon Kim Jong-il's death, when a personalist system that exists to implement his direct orders may no longer issue or follow commands reliably. Yet one *challenge* of current policy is that *the United States continues to treat North Korea as a monolith, from the outside looking in, to the detriment of achieving U.S. interests*.

China's Growing Influence

China prefers stability in Korea to enforcing international standards; its position impedes efforts to coerce North Korea into a particular outcome. For its part North Korea does not want dependence on China and would prefer equidistance between major outside donors. Yet an unintended consequence of other states' reducing economic ties is that North Korea's dependence on China is growing. China–North Korea trade has expanded substantially during the past several years, even in areas such as luxury goods, despite sanctions. Meanwhile China is attempting, with limited success, to influence North Korea through investments and by demonstrating reform models, which would benefit China by stabilizing North Korea while opening new trade opportunities.

As China's role, and its pursuit of its interests, expands, and as U.S. frustration with North Korea also rises, the potential for intensifying U.S.-China disputes over North Korea is very real—especially during any transition scenario, when China's urge to intervene may grow. One challenge facing current policy is that *the United States does not sufficiently appreciate North Korea as a subset of the Sino-U.S. balance of power*. In coming years, it is entirely possible that North Korea will be a focus of U.S.-China rivalry as much as a threat in its own right.

Interests of Regional States

The interests of other regional actors will be critical in determining regime futures in North Korea, establishing boundaries and constraints on possible scenarios.

China's priority interests are the stability of North Korea (as a subset of regional stability to promote economic growth), support for the principle of respect for sovereignty, and a strengthened position vis-à-vis the United States. Resulting subsidiary goals include sustaining North Korea as a state entity, maintaining North Korean–Chinese border integrity, avoiding

a U.S. ally on its border, promoting North Korean nuclear stewardship, denuclearization, greater self-sufficiency, and stability within North Korea.

South Korea's primary interests remain stability and peace in the short term and unification in the long term. There is obvious tension between these two, and Seoul's approaches (such as its Sunshine Policy) have attempted to balance this possible contradiction. South Korea's actual positive short-term desire for unification is questionable. Other interests include denuclearization of North Korea and nonproliferation.

Japan's leading interest in North Korea, dictated by domestic political dynamics, has been the abductee issue. Denuclearization and related security issues—missiles and nonproliferation—rank a close second, followed by stability and growing concerns about Chinese influence.

Russia has had economic and geopolitical interests in the Korean peninsula; it also has some interest in North Korean denuclearization.

This survey of regional interests suggests several things:

There are too many competing interests in the region to develop a comprehensive policy that all regional players will aggressively support.

All outside actors judge the risk of dramatic change or instability in the North to be greater than the risks involved in a policy of continued muddling through. North Korea will continue to use this to its advantage.

Given the limited ability to generate a coherent multilateral policy, the United States, working as closely as possible with South Korea, should develop an independent strategic posture that best promotes its interests while continuing to use multilateral mechanisms to the best possible effect.

Possible Scenarios

In addressing possible regime futures, we began with the current scene and developed a number of alternative scenarios. This list is designed to be illustrative, not exhaustive. *Indeed, one risk of a scenario approach is that it offers the illusion of having considered all potential outcomes when in fact the real result may look like nothing on the list*.

- **Muddling through / Collective leadership under Kim Jong-un.** The current regime continues with little change after Kim Jong-il's death: neither uprising, nor major internal crisis, nor reform, although some tweaking possible as the regime has done. Continued cycles of crises, external aid, appeals for better relations with United States and the ROK.

- **House of cards / Crash landing / Collapse.** The long-awaited end of the regime in a sudden rush, through a Romania-style collapse from below. The people are disaffected because of hollowness of regime ideology; no legitimacy to new, collective, or Kim Jong-un regime. Perhaps small-scale acts of rebellion go unpunished and begin to spread. Everything falls in a matter of weeks or months.

- **"New strongman" / Coup.** A variety of scenarios under rubric of "same regime, new leaders": North Korea without the Kim family, military dictatorship, or autocracy under the Korean Workers' Party. Stays in power through security services, continued Confucian respect, fearmongering. Could mellow as a threat—or could become more aggressive, using hypernationalism to retain power. Some doubt that any specific individual(s) command sufficient respect to seize power.

- **Gradual decay of governance.** Today officials rule in Kim Jong-il's name. After the transition, a profound interruption in governance efficacy occurs as orders issue from multiple offices and are implemented indifferently and as outlying areas take own initiatives. Self-interest overwhelms system, and state economy decays further as coordination collapses. Corruption explodes. System persists strictly on the willpower of those profiting from it.

- **Market reform / Soft landing.** The long-hoped-for slow transition into Chinese-style reform that was supposed to be unleashed by the Sunshine Policy. A North Korean regime decides it must change to survive. Economic reforms along with steps to ease confrontation with long-standing adversaries and gain foreign aid and investment begin to change the nature of the regime.

- **Regime rivalries / Instability in system.** Death of Kim Jong-il inaugurates bitter rivalries for power within North Korea. This, combined with exploding corruption and profit seeking by state entities and individuals, begins to fragment the centralized hold on power and transform North Korea into a number of increasingly business- and profit-oriented fiefdoms run by bosses who look more like oligarchs or even warlords than party functionaries. Kleptocracy model that becomes increasingly unstable, unpredictable.

- **China dependency model.** A degrading North Korea turns increasingly to China to keep itself afloat, and China looks to these requests as a source of growing influence on the Korean peninsula—and to ward off a unified Korea closely allied with the United States. More Chinese investments, aid, and advisers; Chinese security forces even come in, complicating transition scenarios.

As this list suggests, many possible futures could emerge, all with implications for U.S. and regional interests. We attempted to derive insights and policy implications from our analysis of the scenarios:

- **A key theme was profound nonlinearity and uncertainty.** The great number of possible scenarios and variables that

will determine outcomes makes it impossible to predict even the broad category of future to expect.

- **The specific drivers of scenarios are numerous, complex, and interlinked.** Given the poor state of U.S. awareness of conditions inside North Korea, we are not confident in the ability of the United States to construct a reliable forecasting model based on well-identified drivers and indicators. We are not sure we can be certain what they are, and in any event the same drivers can author more than one scenario.

- **There are many scenarios besides collapse of the current regime.** The default mind-set when thinking about North Korean futures has been that of preparing for instability. One clear lesson of a comprehensive scenario analysis is that *many outcomes are possible, some of which leave a separate North Korea in place even with a different regime.* In many places around the world, dramatic changes have taken place in authoritarian systems without fundamental transformation of the regime itself. U.S. thinking and planning must conceive of a wide range of possibilities.

- **Not all of the scenarios pose significant threats to the United States or its allies.** *In the absence of prediction, arguably the key criterion for determining policy actions is to identify, and take steps to mitigate, the most significant risks and threats that reside in possible North Korean regime futures.*

We therefore assessed the range of scenarios with an eye toward determining the leading threats to U.S. national interests they reflect. In our judgment they are:

1. Loose WMD;

2. Misunderstandings and clashes with China while dealing with the implications of the transition(s);

3. Continued North Korean provocations during the transitional phase, to gain U.S. concessions or for internal political purposes, which spark a retaliation and thus risk escalation;

4. Fractured relations with South Korea while responses to emerging scenarios are developed; and

5. Enhanced aggression, hostility, and outward-directed violence from changed regimes in Pyongyang.

6. Policies to anticipate regime futures in North Korea should at a minimum attempt to address these five risks.

Options for U.S. Strategy

We conclude that there is no simple, grand strategic solution to the North Korean regime futures problem. Attempting to engage North Korea in broad-based economic and political terms to, for example, obtain nuclear concessions and achieve other goals such as promoting reform suffers from major flaws:

- Such engagement will fail in its major goal—denuclearization—given our assumption that North Korea will not surrender its arsenal by its own choice any time soon.

- Engagement will not generate significant social change given Pyongyang's proven desire to draw strict boundaries around economic reform.

- History suggests that North Korea may use provocations to serve its interests regardless of what kind of political dialogue is under way.

- Broad-based engagement is politically infeasible as long as North Korea refuses to denuclearize and continues to engage in militarily hostile acts.

Pushing North Korea toward rapid regime transformation (an explicit strategy of regime change) also appears infeasible and undesirable:

- A strategy of regime change would escalate tensions and risk conflict.

- South Korea would be unlikely to agree, thus either vitiating the policy or creating severe intra-alliance tensions.

- China could—and would—be able to undermine the effects of a strategy of regime change with enhanced support, both ruining the policy and enhancing China's role in North Korea.

- Such a strategy would abandon opportunities to soften transitional instabilities through interim policies designed to affect the character of society in North Korea.

No singular strategy is capable of compelling North Korea to denuclearize, reform, or cease its bad behavior. Preparing for North Korean regime futures requires an interlocking set of plans and policies that prepare for the worst dangers while generating a coherent position toward North Korea. We propose a three-part approach: *address hard questions, achieve mutual understandings with other players, and adopt an active strategic posture designed to assist social, informational, and economic trends under way inside North Korea*. We propose this strategy in order to achieve a number of specific goals:

- Better prepare for the various possible scenarios of North Korean futures;

- Prevent the uncontrolled or intentional spread of nuclear capabilities (and other WMD), including promoting enhanced regional cooperation for this goal;

- Continue dialogue on denuclearization, keeping open potential for modest progress;

- Gather better information to improve understanding of the situation in North Korea;

- Build relationships in North Korea for purpose of dialogue, contacts, and possible coordination during chaotic future scenarios;

- Promote a more open information environment in North Korea;

- Promote supply and demand mechanisms and mind-sets in the North Korean economy; and

- Win modestly enhanced sanctions enforcement by China in its territory.

Part One: Address Hard Questions

The Korea problem will be solved when factors beyond U.S. control take over. Part of the task of the United States now is merely to better understand how we will respond to scenarios that we cannot accurately predict, but for which past experience offers roles for the international community. One step that would aid in crisis response would be to *develop criteria* to guide the use of various instruments of state power, thus having some *understanding in advance of the kinds of events* that would generate various sorts of responses.

This leaves us with hard questions on which we ought to have difficult discussions. We believe many of these discussions have now begun but remain in an embryonic phase and must be elaborated. Policymakers ought to address a number of key questions relating to action that will be required during the emergence of a number of possible North Korean futures scenarios. We propose *an initial set* of several such questions, *largely as a catalyst for additional dialogue. The crucial step is to create a formalized mechanism,* initially within the U.S. government and then multilaterally, to discuss a number of difficult questions:

1. What steps would be required from the international community in the case that international intervention in North Korea is needed?

2. What kind of North Korean actions would generate a military retaliation, and why? What degree of North Korean provocation would initiate U.S. or ROK war plans? What do we see as the purpose of retaliation in the case of North Korean provocations?

1. When collapse begins, is it the policy of the United States that the North Korean regime must come to an end?

2. If China were to intervene to prop up the regime, what would the U.S. response be?

3. What are the triggers for U.S. unilateral, or U.S.-ROK, moves into North Korea?

To date we have hesitated to discuss some of these issues out of concern for the diplomatic ramifications. We believe we cannot allow such concerns to stand in the way of serious strategic analysis.

Part Two: Develop Mutual Understandings

Our second broad recommendation is to enhance efforts to prepare the international diplomatic and legal ground for the complex contingencies of Korean regime futures. We are aware that planning and coordination on such issues is under way in an embryonic form. Yet, as of today, neither the United States nor any of the surrounding powers has any *clear criteria to guide actions in the event of various contingencies*. We risk stumbling into crises and taking actions without careful forethought. Beyond the discussions of hard questions mentioned above, this recommendation would move into the realm of active planning and diplomatic dialogue on several issues, including:

- A dialogue on advance notifications and agreements in such issues as humanitarian response, WMD control, mutual reassurance on military movements in crisis (pre-established "rules of the road");

- Discussions on post-scenario issues of borders and sovereignty;

- Creation of a track-two (or a "track 1.5") mechanism to develop concepts that could then be floated to governments; and

- Expansion of established government-to-government planning mechanisms; creation of a standing bilateral advisory group or a coordinating body for futures planning to exchange views and develop planning items for mutual consideration.

Part Three: An Active Posture to Invest in Trends within North Korea

Finally, we discussed the possible contours of a strategic posture toward North Korea to promote U.S. interests in the context of regime futures. Our approach was predicated on the view that at some point the regime will change, and that the *leading task of the United States is to manage the period from now until that point without war, chaos, violence, or WMD use or leakage.* An awareness of regime futures provides the starting point for strategy.

Many of our conclusions point to the limits of U.S. leverage. Our proposed strategic posture is based on several recognitions:

- Many U.S. and North Korean strategic goals are fundamentally opposed, making the fundamental resolution of major issues highly unlikely.

- The United States is, and has for many years been, in a strategic dilemma in its North Korea policy, unable to choose decisively between engagement and regime change; no single policy or silver-bullet approach will resolve this.

- Current policy is based on the assumption that pressure for change will come from outside North Korea. The more likely catalysts are internal.

- In the short term on the denuclearization issue, offering North Korea a so-called fundamental choice is not likely to generate the complete reversal we desire (although it may produce symbolic progress on specific issues).

- As much as it would aid U.S. diplomacy, China simply cannot be persuaded or coerced into a more proactive approach toward North Korea.

- North Korea is internally fragile, but current policy blocks any serious attempt to take advantage of this fragility short of the blunt tool of sanctions.

What follows is designed to prepare for North Korean regime futures and at the same time seize the strategic initiative and undermine North Korean strategy. *This strategic posture does not aim to transform North Korean behavior with offers or coercion;* it aims to pursue U.S. interests in the absence of expected silver bullets. We propose *active support for social, informational, and economic trends under way inside North Korea* to enhance U.S. knowledge and influence and to prepare for more fundamental change in the future. This would involve *a shift from an outside-in to an inside-out strategy—changing the emphasis from strategies designed to use outside pressure to effect behavioral regime change to steps that promote gradual social change from within,* and in the process gain more knowledge, more active involvement, and more leverage—and lay the groundwork for transition in North Korea.

The proposal reflects a posture designed to take the strategic initiative; to *pursue both enhanced investment and dialogue and intensified deterrence and sanctions enforcement* at the same time as well as to make an ally of emerging changes (of awareness, thinking, expectations, and especially interests) within North Korea. Part of the goal is to continue working to change the balance of social power within North Korea—to work, at the margins, to deprive the Kim family regime of funds, resources, and power—while promoting contacts and activities that will put more funds and power into the hands of the rising middle elite who are profiting from markets.

To be sure, the policy mix that follows is something of a paradox. A few steps aim to deter and restrict North Korea, some seem to embrace it; some might appear to leaders in Pyongyang as an unquestioned boon, others a direct threat. Some critics will see in this paradox a degree of risk, or evidence of confusion. In fact such complexity is inevitable in dealing with a challenge as complex as North Korea—and can be embraced and used to U.S. advantage if properly managed. The great danger is that the necessary elements of deterrence and control will cause North Korea to spurn all other elements of the strategy, but that is a proposition we believe we should test.

As part of this strategic posture, we recommend a continuation, and indeed intensification, of three broad measures currently under way to interdict and control dangerous and threatening activities of the North Korean regime:

- Prevent proliferation of weapons and WMD out of North Korea;

- Crack down on North Korean illicit activities that generate hard currency; and

- Reinforce the strength of the U.S.-ROK alliance and meet North Korean provocations with strong but measured deterrent actions.

The first recommendation points to continued efforts to strengthen the Proliferation Security Initiative, to issue renewed deterrent threats (public and private) for any proliferation of WMD, to work toward regional agreement on strong nonproliferation principles and practices, and more. Its goal is to safeguard U.S. and allied interests by reducing weapons and WMD threats and also to deny illicit funding for North Korea's royal-court economy, thus creating hard choices for the regime and its elites.

The second effort is well under way and has been for some time. We recommend adding funding and personnel to the effort at the margins and continuing to work for regional and global cooperation. The goal again is to close down as much of the illicit basis as possible for the "second economy" in order to create possible needs to expand legitimate trade and investment and to expand domestic markets.

Finally, we believe that during a possibly chaotic transitional period, no doubt can be left in the minds of North Korean leaders about the U.S.-ROK bond, U.S. willingness to meet North Korean provocations head-on, and U.S. unwillingness to tolerate unprovoked hostile acts. Measures such as the Korea-U.S. Free Trade Agreement and negotiations to achieve transfer of wartime operational control on a mutually comfortable schedule project an alliance in complete accord. Vigorous but calm and deliberate responses to North Korean provocations can help create limits to North Korean hostile behavior.

The remaining steps we recommend are designed to accelerate internal trends that hold the potential to change the character of the North Korean regime and also to enhance U.S. awareness, build relationships, and identify key leaders in the midlevel elite class. Our approach *assumes that the current regime will give way to some other form of rule at some undetermined time. These steps are designed to prepare and, in some ways, lay the groundwork for that day—not to spark rapid regime change.* The intent of the strategy is not confrontational or hostile. We recommend intensified actions to interdict threatening North Korean activities, but the balance of the proposed actions can be offered in the spirit of dialogue, improved relations, and mutual understanding. *Admittedly, however, the net effect, and indeed one explicit goal, of these efforts would be to accelerate the trend toward the rise of authorities in North Korean society that offer alternatives to the current regime,* and one risk that must be taken into account is that the approach would bring on a regime futures event even more rapidly than it would otherwise occur.

Part of the goal can be understood as an effort to distinguish between the North Korean regime and its people—with the recommendations summarized above (and some noted below) designed to hold the regime to key commitments and established standards of behavior; but with other initiatives aiming to build bridges to constituencies inside North Korea that will be increasingly important as the transition period approaches. This is an admittedly difficult balance to strike; the risk is always that efforts to engage the populace end up empowering the regime. But our *calculus is that, on balance, preparing for North Korean regime futures scenarios is now a sufficiently strong imperative that it warrants the risk of marginally extending the life of the regime through such means as promoting investment,* as recommended below. The risk calculus is clear: A more stable, peaceful, less turbulent transition is to be preferred over a very rapid one—taking as a point of analysis, as we do, that a crumbling regime likely has a limited life span in a post–Kim Jong-il era.

Because of the severe barriers to conducting any significant form of interaction with the North Korean regime given its nuclear and provocative behavior, we recognize that the current political environment will not sustain large-scale initiatives in some of the categories we identified. We have therefore divided our recommendations into two categories: those capable of being implemented immediately, regardless of the status of relations with North Korea; and those that will have to await an improvement in the situation—that is, some resolution of the issue of the sinking of the South Korean ship, *Cheonan,* and North Korean concessions as part of continued nuclear diplomacy.

Our recommendations fall into five areas. In each area we offer short-term, unconditional recommendations and longer-term, more ambitious recommendations.

1. Enhance communication and contact with North Korean officials and midlevel elites. We propose enhanced efforts to reach out to, gather information from, and develop relationships of influence with the evolving middle elite in North Korea. Partly this is a product of the glaring lack of intelligence at the ground level and need for better awareness. But the recommendation also reflects a belief that increasingly influential, informed, and powerful North Korean elites will shape whatever transition occurs, and the more we can make overt and covert efforts to know their perspectives, develop contacts useful during crises, and build points of leverage, the better positioned we will be when transition moments arrive. Specifically, we suggest:

Immediate actions:

- Work with defector groups and others to develop a strategy of relationship building with elite groups inside North Korea. Invest in defector organizations especially in South Korea to create an infrastructure of relationship building in North Korea.

- Work with South Korea to develop a new program to support defectors and publicize it within North Korea. Half or more members of the defector community in the South rely on public support, and most face severe transition challenges. New efforts are required to develop much stronger training and transition programs—in part to determine what minimum skill set will be required among North Koreans after a transition, but also to train cadres of people who could go back into the North as aid workers, officials, and trainers when human capital and economic development programs begin, and as transition specialists and in other positions when a regime futures scenario begins to unfold.

- Develop overt and covert programs to signal to the emerging elite groups in North Korea that they would have meaningful positions in a post-transition Korea. One roadblock to considerations of change is that those in positions of influence naturally assume there is no role for them if the regime were to change. New policies could be adopted and communicated, through defector groups and other means, to build a coherent model of integrating North Korean elites who participate in collaborative programs into a vision of a post-transition Korea.

- Develop much more extensive covert programs to build contacts with middle-level elites, especially ones assigned or traveling outside North Korea.

- Send U.S. officials to meet North Korean officials, trade delegations, students, and others wherever they are outside North Korea around the world.[1]

Actions when conditions improve:

- Declare a desire for better relations and mutual contacts at all levels.

- Invest more heavily in human capital development programs run by universities or nongovernmental organization that target North Korean officials.[2]

2. Offer targeted developmental assistance. South Korea, the United States, or other coordinating outside states could offer developmental aid—with infrastructure projects, training of workers, energy projects—with conditions that attempt to ensure that as little fungible hard currency as possible makes its way into North Korean state coffers. Such programs would have several advantages: exposing more North Korean people to outside influences; creating trained cadres of North Korean specialists for post-transition roles; enhancing North Korean infrastructure for the post-transition environment; and, last and least predictable, creating dependencies within North Korea on the aid relationship, in other words, benefits gained (for specific state agencies and in some cases powerful individuals) that would be lost if relations soured or the North engaged in new provocations.

This entire category would constitute an initiative to be withheld until conditions are ripe for more elaborate contacts with North Korea.

3. Propose a new, higher-level official bilateral dialogue with North Korea, including offering again exchanges of representation offices (interests sections) as a prelude to eventual establishment of full diplomatic relations. To be clear, in our strategy *we assume and recommend a continued good-faith effort, through the six-party talks, to achieve currently stated denuclearization objectives;* and similar goals could also be pursued in bilateral talks. We recommend parallel bilateral forums because (1) we believe the decision to restrict U.S. efforts to multilateral forums is arbitrary (and, indeed, this decision grants the Chinese unnecessary leverage over U.S. policy); (2) bilateral talks would serve *U.S.* interests to improve understanding through deliberate dialogue and even collaboration with various North Korean stakeholders; and (3) because the talks would take place in the new context of a strategic posture designed to promote U.S. interests on the road to North Korean regime futures, *not* because we expect to gain decisive results in a deal. North Korea will seek to gain something tangible from all contacts, and typical horse-trading should be avoided—although some unilateral actions on the part of the United States could be taken because they are now seen as part of the new strategy. Yet it remains possible that North Korea will grant symbolic concessions for specific gains (some of which we propose), and progress on denuclearization is important.

This entire category would constitute an initiative to be withheld until conditions are ripe for more elaborate contacts with North Korea.

4. Expand efforts to spread objective information inside North Korea. Take steps to accelerate the awareness and thought process of the North Korean people, beginning with the elite. Focus not on antiregime propaganda but on simple, objective information. One question is what precisely these efforts would be meant to achieve, when most North Koreans know the reality of their situation: spreading information is a worthy goal but will not change the basic knowledge base in the North fundamentally. Nonetheless, information-exposure programs continue to have merit, for a number of reasons: expanding awareness to even higher levels, demonstrating to the regime that efforts to tighten information controls will fail, going beyond theoretical awareness to exposure to physical goods, and more. Therefore we propose a number of initiatives.

Immediate actions:

- Boost funding for radio stations broadcasting into North Korea.

- Quietly help with the provision to North Korea of all forms of radio communications and other information-based items and also simple personal items and South Korean consumer products; use knowledge of smuggling routes out of North Korea to get materials into North Korea. Providing North Koreans with South Korean products can give them a tangible sense of daily life in a way that watching DVDs or hearing radio reports do not.

Actions when conditions improve:

- Propose exchange programs for North Korean scientists, including in new areas of emphasis by Pyongyang. An area of special emphasis could be information technology, on which North Korea has placed importance.

- Propose outside educational and cultural programs in North Korea—outside universities, cultural visits (music, drama, athletic).

5. Encourage and promote private enterprise foreign direct investment (FDI) and trade in North Korea. In the past much business investment has been state sponsored (by South Korea, for example), with the result that it has had a substantial political aspect. Simple private enterprise foreign investment can achieve many goals of this proposed strategy—accelerating trends in North Korean society—without, in some cases, providing large-scale, immediate foreign-currency benefits to the regime.

Immediate actions:

- Conduct a study of China's emerging economic relationship with North Korea and possible alternative investment vehicles that would avoid complications during a transition period. Without a greater non-China profile it becomes increasingly possible that the lion's share of investment and infrastructure in North Korea will come from China.

- Examine the role of European countries—such as Italy, the Netherlands, Sweden, and Austria—as alternative investors and partners.

Actions when conditions improve:

- Encourage U.S. companies with legal investment opportunities to travel to and consider FDI in North Korea.

- Support the creation of a new generation of more legally grounded foreign investment zones in North Korea. Attempting to reinvigorate long-stalled plans to move beyond the Kaesong zone, North Korea has on the table plans for eight additional zones, now officially under the aegis of the powerful National Defense Commission. Such zones do offer foreign-currency-earning opportunities for the regime but also wider social reform and stability opportunities.

This is only an initial list, meant to spark discussion. We anticipate that many more items could be discovered and placed into each category. The sum of these initiatives—which are not aimed at promoting fundamental reform in North Korea or changing its behavior—would aim to achieve a number of goals:

- Gathering better information on trends and dynamics inside North Korea;

- Building relationships that could be useful for crisis management in the near term and rebuilding during and after a transition period;

- Promoting human and infrastructure development key to a post-transition era;

- Enhancing South Korean and U.S. leverage to avoid Chinese domination;

- Improving access for average North Koreans to information, contacts, products, training, skills, and much else that will undermine regime control;

- Empowering social actors profiting from market- and trade-based mechanisms; and

- Enhancing dependencies and incentives attached to aid and trade relations that would be upset with new provocations or crises.

We believe these advantages deal with a number of the specific risks that could emerge from North Korean regime futures as outlined above. The best alternative option would likely be as complete an economic embargo as could be arranged, to starve the regime economically, destroy any incentives attached to the current system, and theoretically force it into dramatic domestic reform. However, we believe that, as argued above, this option carries a severe risk of crisis; would be countered by China, which has no interest in North Korean instability; and leaves the United States no policy tools with which to lay the groundwork for a somewhat more peaceful and stable regime futures transition. Therefore the option presented here offers the best possible balance of desirability and feasibility.

Conclusion

If adopted, this strategic posture would not lead to immediate or dramatic behavior change from North Korea. It would not generate rapid denuclearization or easy solutions to other U.S. policy goals. We believe that it would generate gradual progress toward achieving the goals outlined above for U.S. and allied policy toward North Korean regime futures and would manage the risks of the regime futures scenarios more ably than any other policy option we considered. This strategy represents an opportunity to begin taking the initiative.

We do not argue that the specific suggestions here represent a fully fleshed-out policy. Our goal with this analysis was to begin a conversation on a revised North Korea policy for emerging long-term risks and opportunities. The specific shape of that policy can vary, but the consensus on the need for new thinking seems to us very clear.

This report represents solely the views of the study group members. It does not reflect the views of the U.S. National War College, U.S. Department of Defense, or U.S. government. Study members, who coauthored parts of the report and offered insights that make up the analysis that follows, included Robert Brem, Claudius Bubner, Moon-hui Choi, Gregory Gagnon, Michael Mazarr, Brent Sadler, and Lourdes Talbot. All participated in their private capacities, and their involvement does not imply any recognition or sanction from any U.S. government agency or department.

Endnotes

1. This is hardly straightforward. South Korean organizations have tried it, and North Korean students have already been called back home for "ideological reeducation" when Pyongyang feared its leash was growing too weak. But the potential for relationship building remains.

2. These have admittedly had significant limitations to date—in some cases only one-third of participants are actually trainable officials (others being handlers and hangers-on); organizations in North Korea want travel and funding rather than real training—but their possible boundaries should be pushed. Some have succeeded, and there are hints that some North Korean state entities have renewed interest. If possible, this would be a key program to lay the groundwork for a post-transition North Korea.

KEI Editorial Board

Editors : Abraham Kim
Nicholas Hamisevicz
Florence Lowe-Lee

Contract editor: Mary Marik

The Korea Economic Institute is registered under the Foreign Agents Registration Act as an agent of the Korea Institute for International Economic Policy, a public corporation established by the Government of the Republic of Korea. This material is filed with the Department of Justice, where the required registration statement is available for public inspection. Registration does not indicate U.S. Government approval of the contents of this document.

KEI is not engaged in the practice of law, does not render legal services, and is not a lobbying organization.

The views expressed in this paper are those of the author. While this paper is part of the overall program of the Korea Economic Institute, as endorsed by its Board of Directors and Advisory Council, its contents do not necessarily reflect the views of individual members of the Board or the Advisory Council.

Copyright © 2011 by the Korea Economic Institute of America. All rights reserved.