

# Prospective on the Korean Peninsula 2015





## Abstract

In 2015, North Korea is expected to activate measures to consolidate Kim Jong-un's absolute leadership while in general uphold current policies and frameworks rather than initiate drastic changes. North Korea will first focus on improving stability and substantiality of the young Kim's regime and continue to promote his policy of simultaneous economic and nuclear development. In the meantime, Kim Jong-un will move into his fourth year in power and North Korea will celebrate the 70th anniversary of the Workers' Party of Korea (WPK). On these occasions, North Korea is likely to introduce new measures in various fields to flaunt Kim's status to both domestic and international audiences. While further strengthening regime solidarity, Pyongyang could launch a public campaign to promote a new brand image for the Kim Jong-un regime.

On the economic front, in 2015 the North Korean regime could seek to revise measures to improve its economy and turn those measures into official policies. Although the regime has introduced a few sets of reform measures to date, those measures have remained rather unofficial until now. In 2015, it is possible that North Korea will amend these pilot measures and institutionalize them as a part of the official economic system by introducing a new set of laws and norms.

Transition toward a market economy has become the trend of the times. "Bottom-up" marketization is imposing increasing pressure for economic reform. In 2015, Kim Jong-un must prove his leadership to the North Korean public by improving the people's quality of living as the regime celebrates the 70th anniversary of the WPK. Since 'improving the people's living standard' has been Kim's mantra, in order to achieve that North Korea may introduce official measures to improve its economy.

—especially ways to feed its people—in order to consolidate its system, the Kim Jong-un regime may also attempt to improve its external relations as reflected in its recent efforts to expand cooperation with China, Russia, and Japan. At the same time, efforts may also be made to improve relations with the United States and South Korea.

While North Korea's nuclear ambition has long been a major concern, the prominence of the issue of North Korea's human rights transgressions has vaulted upward on the international stage. As momentum on this issue and international pressure on North Korea continues to grow, one can expect North Korea's belligerence in the future. To break through, Pyongyang may try to escalate tension on the Korean peninsula by conducting another nuclear test or a missile launch. Making such a display of military force, however, may not be easy. Nonetheless, a close eye must be kept on North Korea's attempts to further its nuclear capabilities.

Progress to resolve the nuclear issue has been slow. In the meantime, as the international community presses the Kim regime hard on human rights issues, North Korea may move a step closer to Russia and China—two permanent members of the UN Security Council (UNSC) that each has the right to veto any draft resolution put to the UNSC. In that case, solidarity among these three northern countries in the region may be rekindled and begin to resemble their Cold War solidarity of the past.

While North Korea continues playing a tug-of-war with the international community on the nuclear as well as human rights issue, one cannot rule out the possibility that Kim Jong-un may suddenly decide to visit China and Russia for summit meetings with those countries' respective heads of state. Through such summitry, Kim may try to attract Chinese and Russian investments needed for reviving the North Korean economy. Furthermore, Kim may also try to break North Korea out from its diplomatic isolation and display to both international and domestic audiences the stability of his leadership and regime while presenting himself as the supreme leader of his country in both name and deed.

As for domestic politics, next year North Korea will see the end of the traditional three-year mourning period for the former leader, Kim Jong-il. On this occasion, it is possible that North Korea may introduce a new governing structure and norms befitting the Kim Jong-un era as a way to display the young leader's political independence. During the Kim Il-sung era, North Korea put forward the Juche ideology, while under Kim Jong-il the post of National Defense Commission Chairman was created and Songun ('military-first politics') revolution was promoted.

In terms of inter-Korean relations, the possibility exists that North Korea could attempt aggressive measures toward South Korea as the two countries face the 70th anniversary of national division. The North may call for cessation of slander against its regime as well as suspension of ROK-US joint military exercises and strive to resolve other "fundamental questions" affecting its regime. It is also possible that in order to gain strategic advantage and the upper hand vis-a-vis South Korea, the North may continue to press Seoul to change its policy toward Pyongyang. If North Korea does cling to such a policy for re-establishing inter-Korean relations, then North Korea is likely to intensify its bellicose rhetoric such as "great war for unification" and parade its military superiority based on nuclear capabilities. Under the circumstances, one should not rule out the possibility of direct clashes with South Korea.

In 2015, as the Park Geun-hye administration in South Korea moves into its third year and North Korea's need for attracting foreign investments through liberalization increases, it is inevitable for both Koreas to try to improve inter-Korean relations. The Park administration is likely to take the opportunity to activate its "trust-building process" on the Korean peninsula in earnest through new approaches and efforts.

Considering that North Korea could apply offensive strategies against South Korea in the coming year, the Park administration should introduce change in inter-Korean relations with rather proactive counterstrategies. South Korea must establish long-term national strategies as well as detailed action plans and take the initiative in leading inter-Korean relations as well as changing the political environment of the surrounding region.

In particular, the South Korean government should actively promote ways to induce changes in North Korea and to improve inter-Korean relations through its active participation in joint development of the areas related to the Rajin-Khasan project, Sinuiju and Tumen River valley as well as other multilateral projects promoted by various neighboring countries and international organizations. In particular, the Rajin-Khasan project looks to be a part of President Park's Eurasia initiative.

Furthermore, the Park government should activate efforts to expand the Kaesong Industrial Complex, the only ongoing joint project between the two Koreas. One would hope that the two Koreas introduce new win-win changes in inter-Korean relations so that both can benefit in the year 2015.

On the international front, several points should be noted. The Barack Obama administration in the US seems not in a position to promote its 'rebalance to Asia' policy in earnest, having its hands tied by crises in the Middle East and other parts of the world. As for China, the Xi Jinping government likely would also prefer to seek dialogue and cooperation to resolve outstanding issues, being faced with a declining rate of growth in its national economy and multiple other domestic political issues, inter alia. In other words, next year the United States and China are likely to seek opportunities to cooperate rather than confront each other.

Cooperation among the countries of Northeast Asia is also likely to increase in 2015 as they try to manage tensions. Currently, the level of economic interdependence among these countries is high, meaning that in terms of security, historical and territorial conflicts are unlikely to readily tumble toward military confrontation.

# I

## **Summary of Developments in and around the Korean Peninsula**

1. Growing Complexity in Northeast Asia
2. Changes in North Korea under Kim Jong Un





## **1. Growing Complexity in Northeast Asia**

### ***A. Changing Order as G-2 System Becomes Tangible***

Sino-U.S. competition has accelerated as the influence of U.S., Japan and EU decreased and that of China increased. From a long-term perspective, competitive structure will grow due to the recent trend in which there are increasingly more factors of conflict than cooperation between U.S. and China. However, the two powers will foreseeably continue to cooperate and manage conflicts, since they share mutual interests in promoting stability in the region.

Major powers in Northeast Asia apparently had advocated a stable order in the region; but in reality each has sought to expand its influence for self-interest. A changing order is visible in Northeast Asia as interests appear to crisscross or run against each other—that is, between the U.S. strategy of ‘rebalance to Asia,’ China’s ‘new type of great power relations,’ Japan’s ‘proactive pacifism,’ and Russia’s new ‘Ostpolitik.’ One can predict that the U.S. and Japan will reinforce their alliance to cope with their difficult domestic politics, regional conflicts, and challenges to their world hegemony. Such alliance is likely to cause conflict with China.

### ***B. Continued Efforts to Maintain Regional Stability amid Conflict and Cooperation***

Relations among the regional powers surrounding the Korean peninsula have become more complicated due to uncertainties in Northeast Asia. The U.S., China, Japan and Russia have diverging national interests and perceptions despite their recognition of the need for stability in Northeast Asia.

Regional conflicts have grown as China responded to the strengthening of security cooperation between Washington and Tokyo amid Sino-Japanese

confrontation. In particular, Japan has played an increasing role in the U.S.-Japan alliance backed by President Barack Obama's support for Prime Minister Shinzo Abe's claim for collective self-defense in the midst of the China-Japan conflicts over disputed territory. China's sensitivity is palpable, as it regards Japanese claims to collective self-defense and American support of such as a means to contain China's rise.

The Republic of Korea (ROK or South Korea) insists that if Japan pursues collective self-defense, such pursuit will cause regional instability and therefore, should be done in a transparent manner to ease the suspicion and fear (based on historical memory) among neighboring countries. Seoul deems Japan's execution of collective self-defense to be impossible without Seoul's request or consent, since Korea's security and national interest would be affected.

Meanwhile, South Korea and Japan repudiated China's unilateral proclamation of an 'Air Defense Identification Zone' (ADIZ), while the U.S. stressed that China's move raised tensions in the region. China's unilateral declaration of the ADIZ was seen as a countermeasure to Japan's pursuit of collective self-defense and U.S. policy of rebalancing to Asia, and thus, is likely to change depending on the future relationship between Washington and Beijing, and between Beijing and Tokyo.

On the other hand, growing conflicts and competition in the region appear to have provided regional states with an opportunity to ease confrontation and seek mutual cooperation. Japan and China made diplomatic efforts to readjust bilateral relations through their summit talks in November 2014 for the purpose of avoiding direct confrontation and managing the conflict level. From a long-term perspective, it is likely that Russia would, in cooperation with China, try to contain the U.S. while at the same time seek cooperation with the U.S. and Japan so as to prepare for China's rise.

### ***C. Changes in U.S. and Chinese Strategies on the Korean Peninsula and Changes in Conflict and Cooperation between South Korea, China and Japan***

The U.S. has pursued a strategy that promotes stability on the Korean peninsula and seeks solutions to the North Korean nuclear issue in cooperation with China. Recently, however, Washington has focused more on containing China by building trilateral military cooperation with Tokyo and Seoul. For this purpose, Washington has sought to deepen bilateral military cooperation with Japan and South Korea respectively, as the historical and territorial disputes between Japan and South Korea have made Washington uncertain of the near-term future of U.S.-ROK-Japan trilateral military cooperation.

It is hard to predict whether the Obama administration would revise its policy of 'strategic patience' toward the Democratic People's Republic of Korea (DPRK or North Korea) and move forward in resolving nuclear issues through direct talks with Pyongyang following the defeat of the Democrats in the U.S. midterm elections in 2014. Although North Korea released the two Americans they had detained, it would be difficult for the Obama administration to improve relations with North Korea, considering the Republicans' control over the Congress and negative domestic sentiment against North Korea. But one cannot rule out the possibility that President Obama may engage the North Koreans to prevent the precarious regime from conducting its fourth nuclear test. North Korea may also try to improve relations with the U.S. for the sake of creating a favorable atmosphere for its economic recovery, though Pyongyang would not expect much from the Obama administration, whose Democrats lost the midterm elections.

China has tried to deter Seoul from joining the Washington-Tokyo military alliance, while pursuing stability and denuclearization on the Korean peninsula. But Beijing has refrained from directly blocking stronger military cooperation between Washington and Seoul, fearing possible negative reper-

cussions on its friendly cooperative relations with Seoul. Instead, it has deepened economic cooperation with South Korea including the Korea-China FTA.

Trilateral relations between South Korea, Japan and China have shifted from cooperation in economic sectors/confrontation on territorial and history issues to a mixture of issue-specific confrontation and cooperation. China and South Korea have once stood together over history issues against Japan, but are now in tensions over issues such as China's declaration of the ADIZ and the United States' possible deployment of the Terminal High Altitude Area Defense (THAAD) on the Korean peninsula. The level of cooperation or conflict in Seoul-Tokyo-Beijing relations will be affected by Washington-Beijing relations.

#### ***D. More Cooperation than Conflict in U.S.-China and South Korea-Japan-China Relations***

Conflict and cooperation will coexist in the Sino-US relations, but dialogue and cooperation will be more visible as the US policy of the 'rebalance to Asia' slows down due to the resumption of warfare in the Middle East. The war against terror in that region will persist for a while, and that, coupled with a financial pinch, will place the U.S. foreign policy in more difficult footing. Under such circumstances, Washington will likely rather resort to cooperation than conflict with Beijing.

It is unlikely that the relationship between South Korea and Japan, and between Japan and China, will worsen any further; but the resolving of current conflicts is also unlikely in the near term. Seoul-Tokyo ties are at the threshold of overcoming conflicts since Japanese parliamentarians from the Korea-Japan Parliamentary Association delivered Japan's willingness to maintain the Kono Statement (that the Japanese Imperial Army had forced women, also known as comfort women, to work in military-run brothels during

World War II). China also tried to mend fences on the occasion of the APEC summit in Beijing, November 2014, where Chinese President Xi Jinping met Japanese Prime Minister Shinzo Abe. It is meaningful that President Park Geun-hye shared the same viewpoint with President Xi at the APEC summit on the need to hold a foreign ministers meeting between South Korea, Japan and China within the year. In addition, she expressed hope that a trilateral summit meeting would be held during the ASEAN+3 meeting.

Japan has been in contact with North Korea in an attempt to circumvent its conflicts with South Korea and China. But improving its relations with Pyongyang is constrained by lack of progress in bilateral negotiations and delayed notification of the outcome of Pyongyang's special investigation on the allegedly abducted Japanese citizens.

The year 2015 marks the 50th anniversary of the normalization of relations between South Korea and Japan. Accordingly, the two countries would rather normalize their keeling relations.

## **2. Changes in North Korea under Kim Jong Un**

### ***A. Change of National Strategy***

The Kim Jong Un regime announced its dual-track strategy of economic and nuclear development in March 2013. It stated in its revised constitution of June 2013 that North Korea is a nuclear-weapon state, and that it would pursue advancing its nuclear capability. North Korea has recently strengthened its nuclear command and control system by creating 'strategic forces' and by test-launching tactical missile from TELs (Transporter Erector Launchers). It has also taken various steps, including miniaturization, to deploy nuclear weapons in the field.

North Korea's aim appears to be to obtain the status of a 'nuclear weapon state without sanctions.' To this end, it has intensified diplomatic offensives to be recognized as a de facto nuclear-weapon state and to have United Nations sanctions and other bilateral sanctions softened or lifted.

North Korea has also made diplomatic efforts to create favorable conditions for attracting foreign investment into its economic development zones, while rejecting to give up its nuclear weapons program. The regime in Pyongyang has tried to induce foreign capital and technology while expanding friendship and cooperation with former socialist states. Russia agreed to invest USD25 billion to modernize railroads in North Korea. North Korea has also taken measures for external cooperation and opening by enacting laws for economic development zones and creating the 'Ministry of External Economy.'

Kim Jong Un has taken steps, including the 'June 28 measures' and 'May 30 measures,' to improve its economy, while introducing elements of the market economy for regional economic development. These measures could be construed as a minimal level of reform and opening. The 'June 28 measures' (2012) and 'May 30 measures' (2014) are intended to raise production by expanding incentives and independence for production units in farms and factories or enterprises. North Korea announced six new economic development zones (EDZs) in 2014, in addition to the designation in 2013 of the 13 economic development zones and the Sinuiju special economic zone.

In the era of Kim Jong Un, the Party has played a leading role in managing state affairs and major decisions have been made at meetings of the Party. The young Kim Jong Un has consolidated his grip on power by handpicking technocrats and young cadres in their fifties and reasserting the Party's control over the military. He replaced more than half of the senior officials in the Party, government, and military during the first 22 months of his rule.

### ***B. Signs of Change***

There have been various signs of change in North Korea since Kim Jong Un set the construction of a 'strong and prosperous state' based on knowledge economy as a national objective in his public speech of May 15, 2012.

Kim Jong Un has shown a different leadership style from his father in his extended guidance for improving the living standard of the people. He attempted to consolidate his power over core supporting groups such as the military and the residents of Pyongyang through his on-the-spot guidance with regard to construction and renovation of Pyongyang. He also paid much attention to the young generation of teachers and scientists, emphasized building a strong military state and the country's knowledge economy, and called for special care of the underprivileged such as orphans. He also emphasized the need to strengthen ideological solidarity by emphasizing the unitary leadership, ideological education, Kim Jong Il's patriotism, and socialist morality, *inter alia*; teachings for the young generation regarding revolutionary faith and obligation; and holding of mass rallies of secretaries of party cells, ideological workers, education functionaries, and youth leagues.

The Kim Jong Un regime seems primarily concerned with national security while creating favorable external environment for economic development. In the military sector, North Korea aims at acquiring self-defense capability by strengthening its conventional war capabilities in selected areas of air power and defense on the basis of nuclear deterrence; strategic quantitative and qualitative development of nuclear weapons; development of new launchers for enhanced field war capability for strategic forces; advancement of the launching pad at Dongchang-ri and continued test of long-range rocket engines; and appointment of commander of air force and anti-air force in the National Defense Commission (NDC).

In terms of external affairs, the Kim regime has made diplomatic offensives to free itself from international isolation under the changing order in Northeast Asia while maintaining its principles of independence and friendship. North Korea has reacted with strategic patience to Washington's strategic patience and pressure, and sought a breakthrough in its tense relations with the U.S. and China by approaching Japan and Russia.

In its policy toward South Korea, at the high end the Kim regime has pushed for the lifting of the May 24 sanctions and resumption of major economic cooperation; at the low end, for South's termination of slander against Kim Jong Un. For this purpose, North Korea demanded that the South stop slandering the North and cancel joint military exercises with the United States. North Korea also called for the implementation of the inter-Korean joint declarations of June 15, 2000 and October 4, 2007. North Korea has also intensified its offensive to pressure the Seoul government to change its policy toward Pyongyang, taking advantage of criticism and sense of fatigue in the South stemming from long-lasting tensions with the North. On the other hand, North Korea has tried to readjust its relationship with the South, seeking for South Korea's acceptance of North Korea as a nuclear-weapon state.

The younger Kim regime has sought to improve its economic management system so as to keep pace with the era of knowledge economy. North Korea has also attempted to open up its economy gradually to gain cooperation and assistance for economic development. How the Kim regime will accommodate its conflicting policies for resuscitating the economy deserves closer scrutiny, since North Korea will have to make meaningful progress in its denuclearization in order to induce the easing of international sanctions against the country and to expand transactions with Western countries.

Meanwhile, human rights issues in North Korea have emerged as a new source of confrontation and conflict for the Kim Jong Un regime. Pressure from the international community including the United Nations will become a new factor for changes in North Korea. Developments in Northeast Asia as well as inter-Korean relations and U.S.-DPRK relations will also be affected.



# II

## **Assessment and Prospects for Development in Northeast Asia**

1. The U.S. 'Rebalance to Asia'
2. China's 'New Type of Great Power Relations'
3. Japan's Closer Alliance with the U.S.
4. Russia's New 'Ostpolitik'



## **1. The U.S. ‘Rebalance to Asia’**

Following the withdrawal of U.S. troops from Iraq and drawing down of combat operation in Afghanistan, the U.S. has pursued its ‘rebalance to Asia’ as one of its foreign policy priorities. One key element of the policy is building a maritime alliance between the U.S., Japan and Australia. For the execution of its rebalance to Asia, Washington plans to augment its military force capability including the repositioning of 60 percent of its Air Force and Navy to the Asia-Pacific region by 2020; strengthen its alliance with Japan, Australia, South Korea and the Philippines; and conclude the Trans-Pacific Partnership (TPP).

President Obama, however, announced a new ‘foreign policy doctrine’ in his remarks at the Military Academy commencement ceremony in May 2014, as of the U.S. rebalancing to Asia hit a snag after the inauguration of President Xi in China and return of Vladimir Putin as the president in Russia. Three precepts of President Obama’s new doctrine are as follows: 1) resolving international disputes via multilateralism and international collaboration with allies; 2) revising ways of fighting terrorism including support for moderate resistance forces; and 3) using military force, unilaterally if necessary, when core interests demand it. President Obama finds himself in trouble due to the rising Islamic State (IS) in Iraq and Syria that limits mobilization of military resources, military spending cuts by sequester, and criticism over his new doctrine. To continue his policy of ‘rebalance to Asia,’ President Obama will seek to contain China by consolidating U.S. alliances with Japan and South Korea, but will also have to seek multilateral cooperation regarding global issues such as the North Korean nuclear issue and climate change. For the denuclearization of North Korea, the United States will likely maintain its existing policy of waiting for Pyongyang to satisfy conditions set by Washington, while imposing further sanctions upon North Korea through international collaboration.

## **2. China's 'New Type of Great Power Relations'**

In 2014, China took the initiative to propose a new 'Asian security concept' and to launch institutions like the Asian Infrastructure Investment Bank (AIIB), moving beyond its existing policy of 'struggle without breaking.' China has increased its economic, political and military influence in the region. It has risen as an economic great power (i.e., as part of the G-2, just marginally second to the U.S.), and, particularly after President Xi took office, extended its influence not only in Asia but in Africa, Central America, and South America with its massive investment and economic aid. Its military spending has seen a double-digit rate of increase annually, placing China right below the U.S. since 2009. Furthermore, in response to what Beijing perceives as a U.S. containment strategy against China, China has expanded military cooperation in the region through its joint military exercises with Russia and Central Asian countries.

The Xi government stated as its foreign policy priority the establishment of a stable and constructive relationship with the United States. Accordingly, China proclaimed a 'new type of great power relations' to build cooperative relations with Washington based on trust instead of competition or conflict. The 'new type of great power relations' represents the potential for cooperation and collaboration with the U.S. on global issues including the North Korean nuclear issue, whereas it demands respect for core interests, predicating conflicts with other countries. The Sino-U.S. rivalry could likely change considering the possibility of an early 'lame duck' status for President Obama due to the Democrats' defeat in the U.S. midterm elections and due to the serious developments in the Middle East.

China is expected to diplomatically expand friendly cooperation with South Korea, but show different strategic assessment from South Korea with its concern over Seoul's participation in the U.S. missile defense, increased trilateral cooperation among Washington, Seoul and Tokyo, and South

Korea's position regarding China's core interests.

China's relations with North Korea are moving slowly from traditional 'blood allies' to normal state ties. In the coming year, China will likely continue to encourage North Korea to make systemic changes to its economy before China makes further investments in the DPRK. Beijing may be able to rearrange its diplomatic or economic relations with North Korea in terms of Beijing's joining the international community in sanctioning the DPRK or cutting investment to North Korea. Politically, however, Beijing will take a pragmatic approach so that as not to upend traditional friendly relations with Pyongyang. One cannot rule out the chance of President Xi working to improve ties with Pyongyang. Approaches toward North Korea by Japan and Russia could also affect China's recovery of relations with the isolated regime in Pyongyang.

### **3. Japan's Closer Alliance with the U.S.**

Japan's attempt for militarization and a stronger alliance with the United States gained momentum after meetings between the U.S. and Japanese foreign and defense ministers confirmed U.S. support for Japan's decision to execute its affirmed right to "collective self-defense." Japan was also reassured of U.S. support for maritime security covering the Senkaku islands (covered by the two allies' post-war security treaty) through the recent Washington-Tokyo agreement upon revised bilateral defense cooperation guidelines. Japan has justified its recent moves as part of its need to recover the status of a 'normal state,' commensurate with its increasing international role. However, there are concerns among neighboring states over possible resurgent Japanese militarism, with a particularly strong reaction from China over the public announcement concerning the disputed Diaoyu/Senkaku Islands.

Japan's Abe administration, under the positive arbitration of the U.S., has

renewed its efforts to conclude an agreement on military information sharing with South Korea—a step seen in part as a measure to counter China’s rising (military) influence in the region. Regarding such strategic choice by Japan, South Korea needs to maintain a different position because of its historic experience as a divided nation, domestic opposition, and geopolitical standing in the region. South Korea will have to define a future strategy aimed at coping with the emergence of a G-2 era, Japan’s national strategy, and strengthened U.S.-Japan alliance. Japan’s strategy to reassert its interests and resolve domestic crisis through maintaining the Cold War order with the U.S. will have a negative impact on South Korea.

#### **4. Russia’s New ‘Ostpolitik’**

Russian President Vladimir Putin has endeavored to enhance Russia’s international standing by showing more assertive and offensive postures over major global issues, while keeping an eye on the formation of the G-2 system. President Putin has cooperated with the U.S. on global issues such as nuclear disarmament and international terror; but Putin remains in conflict with Washington over issues such as NATO’s eastward expansion, the Middle East, human rights and democracy in Russia, and leadership in the international community.

Russia has deepened its strategic partnership with China by increasing economic cooperation in energy, trade and investment, and stood together with China at the Shanghai Cooperation Organization (SCO) and BRICs. Staying alert for heightened U.S.-Japan alliance and Japan’s military growth amidst the changing order in Northeast Asia, Russia has sought to induce Japanese investment in its Far Eastern region by using as leverage its negotiation over territorial disputes.

As well, the Russian government created the Ministry for the Development

of the Russian Far East (in May 2012) with the intention of implementing a new 'Ostpolitik.' As such, it has promoted economic cooperation with South Korea by encouraging South Korean firms' participation in developing the Far Eastern region and activating trilateral economic cooperation with Seoul and Pyongyang. President Putin has reviewed the security and strategic value of stability of the North Korean regime in the region, and will try to increase Russian influence in the region through Moscow's support of and cooperation with Pyongyang, including on finding a diplomatic solution to the nuclear issue, continued humanitarian food assistance, and increased people-to-people exchanges.







## **Situation in North Korea: Assessment and Prospects**

1. Assessment of Situation in North Korea 2014
2. Prospects for North Korea 2015



## **1. Assessment of Situation in North Korea 2014**

### ***A. Politics***

North Korea sees the Kim Jong Un regime as somewhat stabilized, and has focused on consolidating his unitary leadership system. North Korea made it official and justified the hereditary transfer of power by systematizing the power succession in terms of norm of governance and ideological arrangement. Kim Jong Un dismissed or purged many cadres who had guided or supported him during the strengthening of his unitary ruling system, replacing them with a younger generation of elites and his own protégés.

Kim Jong Un established his firm leadership and consolidated support for his rule by strengthening the leading role of the Workers' Party of Korea and rearranging organizational structures such as by strengthening the control of the military by the Party, appointment of senior party officials including Choe Ryong Hae and Hwang Pyong So, frequent reshuffles of key military figures including defense ministers. Younger Kim enhanced the Cabinet's ability to execute policies by promoting or selecting expert technocrats through organizational expansion and generational change.

Kim Jong Un established his own charismatic image and different leadership style by showing greater affinity, openness, and audacity for the people. Regarding his policy of parallel development of the economy and nuclear weapons (i.e., the "byungjin line"), there could be different interpretations: 1) giving priority to economic construction by minimizing defense spending, or 2) aiming consistently at strengthening self-defense by possessing nuclear weapons.

### ***B. Military***

Kim Jong Un's reasserting of the leading role of the WPK and Party control

over the military has brought change to the status and role of the DPRK military, which took the lead in state affairs during the Kim Jong Il era. There were generational changes and hierarchical adjustment of key military officials. The Kim regime contained discontent within the military in advance through the General Political Bureau and employed the military for its economic development. In order to make up for any problems with its conventional military forces caused by the implementation of the dual-track policy of economic and nuclear development, the North Korean regime emphasized the importance of improving the lives of soldiers in general and fighting capacity in particular through practical training. Under Kim Jong Un, efforts have been made to transform the socio-military relationship into grand solidarity between the people and the military, leading to a reduction of social deviation by the military and conflicts between soldiers and civilians.

Meanwhile, the Kim Jong Un regime continues to augment the country's nuclear and missile capabilities while publicizing and praising the achievement of being a 'militarily strong nation' as the great legacy of Kim Jong Il. The regime has employed a two-pronged strategy—i.e., of toughness and moderation—of raising inter-Korean tension through its military provocations (in opposition to ROK-US joint drills) while at the same time attempting to improve its external relations and inter-Korean relations.

### ***C. Economy and Society***

North Korea's economic policy during the Kim Jong Un era represents both continuity and change from the Kim Jong Il era, since it maintains fundamental principles of the previous regime while adding some pragmatic elements. The economic policy of the Kim Jong Un regime is characterized by limited economic reform with tolerance of market activities and North Korea's 'own-style economic management system,' as seen in the measures adopted on June 28, 2012 and May 30, 2014. His reform-oriented measures appear to depart from key principles of his father's era, accompanied by

positive (growth) and negative (instability) elements.

Aspects of the new economic management system known as the ‘June 28 measures’ and ‘May 30 measures’ are seen as pragmatic measures to bridge gaps between the reality on the ground and the official system. These measures have been implemented gradually. Accordingly, the North Korean regime has legalized significant parts of what had been considered illegal market activities in order to utilize markets in a positive manner. These steps are viewed as more advanced than the July 1 (2002) economic adjustment measures attempted during the Kim Jong Il era. The pro-North Korean *Chosun Shinbo* published by the General Association of Korean Residents in Japan reported on the new team management system for farmers and independent management activities by production units, which include the expansion of production units’ independent decision-making and incentives.

#### ***D. External Relations***

The Kim Jong Un regime has made diplomatic efforts to justify its development of weapons of mass destruction (WMD), with the aim of possession rather than as a means of bargaining. North Korea will likely continue to develop and possess WMD to up the ante on its bargaining with the United States while trying to improve bilateral relations. It has also endeavored to change the ‘5 + 1 framework’ (i.e., North Korea versus the other five members of the Six Party Talks) into a ‘3 + 3 framework’ by creating crisis and conducting peace offensives. The ‘3 + 3 framework’ typifies the cold-war confrontation between the South Korea-U.S.-Japan alliance and the North Korea-China-Russia alliance, which in the eyes of Pyongyang provides the DPRK with the most stable external environment.

North Korea has strived to diversify its external economic cooperation, since it has so far failed to induce significant foreign investment (except from China) due to international sanctions against the DPRK. Pyongyang has

tried to improve relations with Japan, Russia, and Mongolia while placing priority in its relationship with China. North Korea has also sought to acquire technical cooperation and investment from such anti-American allies as Cuba and Iran as well as ASEAN member state like Laos, Cambodia, and Thailand.

North Korea agreed in a deal with Japan to conduct a special investigation into the allegedly deceased Japanese kidnapped by North Korea during the Cold War and repatriate any surviving Japanese abductees in return for Japan's easing of sanctions (i.e., entry ban on DPRK citizens, requirement for reporting on movements of money to North Korea, and embargo on North Korean ships in Japanese ports). The two sides also agreed to hold further talks over humanitarian assistance to North Korea and normalization of Japan-DPRK relations if progress is made in the previous agreement.

In terms of Russia-DPRK relations, much progress has been made, enabling Russia to regain influence over Pyongyang and promote its international standing in the Asia-Pacific region.

#### Major Economic Cooperation between Russia and North Korea

Item	Projects
Debt	– Russia writes off 90% of USD 10.9 billion of DPRK debt
SOC	– Opening of 54 km railroad between Khasan station and Rajin port – Renovation of Pier 3 at Rajin port; Export of shipment of 9,000 tons of coal from Siberia via Rajin port (May 2014) – Agreement for renovation and repairs of 3,500 km of railroads across DPRK (at an estimated cost of USD 25 billion over 20 years, with Russia gaining rights to develop mineral resources in return)
Trade	– Export of USD 37 million worth of Russian oil to DPRK in 2013 – Agreement to expand bilateral trade from the over USD 100 million in 2013 to USD 1 billion by 2020
Settlement Currency	– Russian ruble
Co-Production	– Cooperation in construction, shipbuilding, fishing, IT in maritime provinces – Far East/ Operation of farms in Amur region

North Korea's recent plans for economic development zones (EDZs) remain in the blueprint stage; nonetheless they do represent change from the past. These plans encompass inland as well as border areas, a big departure from the past limited 'mosquito net style' opening that included Rajin-Sonbong, Hwanggeumpyong-Wihwado, Kaesong Industrial Complex, and Mt. Kumgang. EDZs are smaller in size than the existing special zones, and are also sector specific—i.e., agriculture, industry, tourism, and processing for export—according to local characteristics. Through the designation of EDZs North Korea intends to diversify sources of foreign investment. In sum, Kim Jong Un's external economic policy aims at earning hard currency through trade and foreign investment, the dispatch of North Korean laborers overseas, and tourism, and at opening a limited number of areas through its EDZ strategy.

### ***E. Inter-Korean Relations***

The Park Geun-hye government has proposed measures to build trust with North Korea trust through its 'Trust-building Process on the Korean Peninsula,' concept of 'unification bonanza,' 'Dresden Initiatives,' and 'Liberation Day commemorative speech of August 15.' These overtures were made in accordance with the fundamental notion that unification should 'start small, but aim big.' The 'Trust-building Process on the Korean Peninsula,' President Park's North Korea policy, aims at developing sustainable inter-Korean relations and establishing peace by building trust step-by-step between the two Koreas. Major tasks to pursue to this end include resolution of pending issues through official dialogues, development of the Kaesong Industrial Complex, and execution of humanitarian projects like reunion of separated families.

President Park presented the concept of the so-called 'unification bonanza' at her New Year press conference in January 2014. As the president stated, "I believe unification on the Korean peninsula is a good opportunity for our economy to take a big leap." She made three breakthrough proposals to lay

groundwork for peaceful unification in speech at Dresden, Germany in March 2014: 1) resolution of humanitarian issues for the people of North and South Korea, 2) building of infrastructure for co-prosperity of the Korean people, and 3) rehabilitation of homogeneity between North and South Korean people. In addition, she proposed to the North the establishment of inter-Korean exchange and cooperation office and the building of an international peace park inside the Demilitarized Zone (DMZ). She also proposed in her address to commemorate national liberation on August 15, 2014 that South and North Korea open small channels for the meeting and communication between people of the two Koreas: 1) a channel for environmental cooperation, 2) a channel for the livelihood of the people, and 3) a cultural channel.

Meanwhile, North Korea asked South Korea to resolve what it called ‘basic problems,’ while repeating a pattern of confrontational stance followed by proposals for dialogue. From the beginning of 2014, North Korea attempted to create an atmosphere for improving inter-Korean relations, but there has been no substantial progress in inter-Korean relations. From one point of view, by trying to gain recognition of its status as nuclear weapon state, North Korea seems to be trying to reestablish its relationship with the South based on military superiority.. North Korea requested that South Korea stop slander (being conducted by nongovernmental groups) against the North and cancel the scheduled annual ROK-US joint military drills. North Korea went so far as to fire shots at the balloons carrying anti-DPRK leaflets being released along the inter-Korean border areas by nongovernmental groups, which resulted in a heightening of tension. North Korea’s National Defense Commission (NDC) came forward to establish a direct channel of dialogue with South Korea’s National Security Council (NSC) of the Blue House.

Pyongyang has continued to pressure Seoul to change its North Korea policy, so that North Korea can gain economic benefits and build a favorable external environment. Pyongyang urged Seoul to carry out the June 15 and October 4



inter-Korean joint declarations, lift the May 25 sanctions, and resume the Mt. Kumgang tourism. North Korea has reacted vehemently to South Korea's call for denuclearization, improved human rights, and reforms. It expressed its deep concern about unification by absorption while calling for "independent reunification" via a low-level federalization process, acknowledging common points between North Korea's proposed 'low-level federation' system and South Korea's proposed 'confederation' system.

## **2. Prospects for North Korea 2015**

### ***A. Politics***

Moving forward, North Korea will likely continue to pursue its 'dual-track policy' of economic and nuclear development, while focusing on establishing unitary leadership system and consolidating the Kim Jong Un regime. In order to construct his image as a leader different from that of his father, Kim Jong Un will emphasize a type of 'globalism' and perhaps act unconventionally. He will step up ideological campaigns for unitary leadership system and stress making improvements in agriculture, construction, and science and technology as the three critical tasks for economic recovery.

North Korea will seek change to strengthen its system, but make necessary moves within the framework of existing policies, refraining from making any abrupt changes. Kim Jong Un will endeavor to demonstrate his charismatic leadership by means of sudden purges and appointments of senior-ranking officials, including members of the elder generation, in party, military, and government. He will also try to tighten his grip on elites. He is unlikely to fully inherit 'military-first policy' per se, but only maintain it nominally lest he should alienate the military from the people. Thus, he will continue to build up the leading role of the Party, leading to change in the status of the military.

It is likely that on the occasion of the 70th anniversary of the founding of the Workers Party of Korea on October 10, 2015, North Korea will present a new norm of governance and power structure for the Kim Jong Un era. Based on an established stable system, inter alia, by generational change, such measures will be taken to differentiate the Kim Jong Un regime from the Kim Il Sung and Kim Jong Il regimes. The Kim Jong Un regime has presented 'Kimilsungism and Kimjongilism' as the guiding ideology, just as the Kim Jong Il regime upheld 'rule by dying wishes' at the beginning of its reign. As his father later presented 'military-first politics,' however, Kim Jong Un will likely come up with a new norm of ruling. In addition, it is also possible that he will create a new power structure during his era, just like the presidential system of his grandfather and chairmanship of the NDC of this father.

Meanwhile, it is predictable that the younger Kim would not be able to acquire political legitimacy due to conflict between notions of 'military-first' and economic power, and between social openness and tradition. The Kim Jong Un regime's legitimacy depends on the regime's ability to build an economically strong nation (which means resolving food shortages, expanding external cooperation) on top of the institutionalization of 'Kimilsungism and Kimjongilism' and military-first politics (involving independence and respect, nuclear weapons, and the military). In this context, competition could erupt between military and economic sectors over distribution of resources, whereas increased social openness and diversity could conflict with existing principles. Such conflict and rupture could emerge as people held responsible are purged or executed, as seen with the ill-fated Jang Song Thaek and Ri Yong Ho.

On the other hand, Kim Jong Un might muddle through by tightening ideological controls while maintaining limited openness and his power bases of the privileged class and agencies.

## ***B. Military***

Without seeing remarkable changes in its relations with South Korea and the United States, North Korea will continue to build up its asymmetric military forces (i.e., nuclear weapons and long-range missiles). Over the past two years, North Korea prepared a lot to advance its nuclear weapons capability, as seen in the long-range rocket launch of December 2012 and third nuclear test of February 2013. North Korea's development of SLBM (submarine-launched ballistic missile), which experts have recently thought possible, could bring significant repercussion. North Korea will justify such development by rejecting U.S. sanctions and dialogues, and international pressures on human rights issues in the DPRK.

On the other hand, North Korea may come back to the dialogue table, including the Six-Party Talks, with softened posture in order to improve external relations. Pyongyang will hint at the possibility of placing a moratorium on its nuclear and missile activities after North Korea achieves and boasts technical advancement and strategic use of nuclear weapons. A recent agreement to strike a deal for Iranian nuclear issues by July 2015 may encourage North Korea to move more flexibly to resolve its nuclear issue. Since it is unlikely for South Korea and the U.S. to change their North Korea policy, however, the North will not accept the demand for unconditional denuclearization.

## ***C. Economy and Society***

Since Kim Jong Un cannot undertake radical reform measures without threatening the survivability of his regime, change in economic management system will take place step-by-step over the long run. The current trend of change toward marketization will continue. Present experiments in the North will not stay at the micro-level with independence and incentive for production units, but will be closely linked to key macro-level issues, including finance,

rationing system, state-set prices, wages, banking reform, etc. Nevertheless, self-sustaining markets will push reforms and introduction of market elements will take root in North Korea, although one can expect ups and downs in the future.

Accordingly, in 2015 North Korea will review the new 'June 28' and 'May 30' economic measures, which have been experimented and tested, and pronounce them as official economic guidelines with minor adjustments or legalize necessary measures for substantial implementation. Such actions for improving people's living standard can be taken on the occasion of the anniversary of the founding of the WPK. It is also possible that North Korea will announce a new mid-and-long term economic development plan and a science and technology development plan in order to demonstrate dual-track policy or present visions for a strong economic state.

#### ***D. External Relations***

It will be more difficult than expected for Kim Jong Un to create a favorable atmosphere for economic growth as planned, since he started his regime without the trust of the international community. But on the occasion of the 70th anniversary of the founding of the WPK, Kim will likely visit China and Russia to build up his diplomatic offensives while demonstrating his regime's stability. His dispatch last November of Choe Ryong Hae as special envoy to Russia could be viewed as preparatory work for a future visit to Russia by the young leader.

North Korea has resisted international condemnation regarding its human rights abuses, including possible indictment of its leader Kim Jong Un to the International Criminal Court (ICC). If a new UN office is set up in South Korea to investigate North Korea's human rights violations, inter-Korean confrontation will intensify.

North Korea can be expected to continue to expand international economic cooperation in tandem with its new economic management measures under the principle of self-reliance. However, it will not be easy to induce foreign investment into special economic zones and regional development zones despite persistent efforts because of uncertainty surrounding the Kim regime and long stalemate in the denuclearization talks. In addition, there still exist serious obstacles to this end such as North Korea's inability to provide infrastructure and the international community's lack of confidence in North Korean laws and other systems. Investment from China and Russia will serve as the key to North Korea's successful experiment of limited openness.

North Korea will redouble its efforts to improve its relations with Japan in anticipation of reparations from Japan, while taking advantage of Japan's isolation from South Korea and China. North Korea could strike a breakthrough in improving relations by making concessions regarding the issue of kidnapped Japanese citizens.

North Korea has shown signs of change in external openness for its economic recovery. The extent and depth of such change will not only be determined by internal factors like willingness of the leadership, but external factors such as the North Korea policy of neighboring countries, including South Korea, the United States, and China.

### ***E. Inter-Korean Relations***

In order to rearrange inter-Korean relations in favor of its strategic superiority and initiatives, North Korea will keep up its pressure on the South Korea to change its North Korea policy. North Korea will continue to demand that the South to stop its slandering of the North Korean supreme leader, halt joint military exercises with the U.S., and cease international collaboration for addressing human rights issues in North Korea. North Korea would not rule out direct conflict with the South, ratcheting up hostile rhetoric like 'war for

unification' or demonstrating military superiority based on its possession of nuclear weapons. When Pyongyang finds things going against it, it could raise tensions near the Northern Limit Line (NLL) and DMZ by conducting short-range missile launches. North Korea might refrain from taking high risks like a nuclear test or long-range rocket launch, since it will have to improve the country's external relations.

It is still very likely that the North will seek to improve its relations with the South with the goal of obtaining economic benefits and ending North Korea's international isolation. With 2015 also marking the 70th year of national division, Kim Jong Un could move ahead with overtures for improving inter-Korean relations to boast of his leadership for unification. Improved relations with Seoul would serve to reduce the 'Korea risk' for Pyongyang's endeavors to attract foreign investment into North Korea's economic development zones.

Meanwhile, South Korean President Park Geun-hye will also likely take the initiative to improve relations with North Korea, considering that the new year marks her third year in office, and considering her concern over the country's long-term economic slowdown and changing developments in Northeast Asia. If domestic pressure for lifting the May 25 sanctions against the DPRK continues to rise amidst economic difficulties in and out of Korea and public wishes for ending the national division in its 70th year, the Park government will have to move forward the process of normalizing relations with North Korea. South Korea may be able to circumvent such pressure by allowing new investment into the Kaesong Industrial Complex, falling short of lifting the sanctions.

If President Park finds it hard to improve inter-Korean relations, however, she will move more actively in promoting trilateral projects among South Korea, North Korea and Russia, and among South Korea, North Korea and China.

# IV

## **Prospects and Policy Recommendations**

1. Prospects for Developments in Northeast Asia
2. Policy Recommendations





## **1. Prospects for Developments in Northeast Asia**

The United States and China will be more cooperative than confrontational since President Obama will have difficulty in carrying out his administration's 'rebalance to Asia' policy, while President Xi will pursue his concept of a 'new type of great power relationship.'

Countries in Northeast Asia are interdependent economically, and would not like to see historical and territorial disputes develop into security and military conflicts. If the trilateral summit meeting of South Korea, China and Japan proposed by President Park Geun-hye were to materialize, it would serve to transform regional conflict into cooperation. Japan and Russia will continue to approach North Korea, but improving relations will not be easy between Japan and North Korea, and between Russia and North Korea. However, North Korea will try to expand its cooperation with Japan and Russia, and redouble its efforts to recover friendly relations with China.

## **2. Policy Recommendations**

The Park Geun-hye government needs to improve its relations with North Korea in 2015. Since there are no major domestic political events until the general election for the 20th National Assembly in April, 2016, the year 2015 will provide the South Korean government with a good opportunity to substantially implement its 'trust-building process' on the Korean peninsula. If it fails to make any progress in its third year of office, the Park administration will find it more difficult to carry out its North Korea policy in 2016. The Park government should consider the fact that its policy toward North Korea will have a significant effect on changes in North Korea.

Considering the Kim regime, it is possible that North Korea will render an offensive strategy toward the South in 2015. Therefore, the Park government

should take the initiative in improving inter-Korean relations by implementing a more active strategy rather than reacting passively to North Korean initiatives. South Korea will have to create a favorable atmosphere by designing new national strategy and specific practical measures, taking into account developments in North Korea and Northeast Asia. South Korea should take proactive measures in order to end the vicious cycle of reacting tough to North Korea's raising tension while pursuing flexible North Korea policy and seeking ways of achieving unification.

In view of changes taking place in North Korea such as the designation of economic development zones and the 'June 28' and 'May 30' economic measures, the Park government should pursue a more active strategy, including determination to lift the May 24 measures and resume the Mt. Kumgang tourism to induce further changes in North Korea.

The Park government will also be able to promote change in North Korea and inter-Korean relations by engaging in multilateral economic projects involving the two Koreas and neighboring countries, including joint development of the Rajin-Khasan project and development in Shinuiju and the Tumen River region. Achievements in these areas will contribute to creating momentum for unification.

Finally, to transform the 70th anniversary of the national division into something positive, the Park government should expand and further develop the Kaesong Industrial Complex, the single active joint cooperation project between the two Koreas, and thereby initiate changes in inter-Korean relations for mutual benefits in 2015.