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Published

2013

Journal Title

Griffith Asia Quarterly

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## Strategic Player, Economic Outlier: Regional Integration and North Korea's Place in Northeast Asia\*

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**Abstract:** North Korea is an outlier on the periphery of the East Asian economic miracle and simultaneously a key strategic actor amid the dance of regional great power competition. This article investigates the factors constraining North Korea's further integration into the Northeast Asian region and the implications of the maturation of its nuclear weapons program for regional security. These findings suggest that North Korea's doctrine of simultaneous nuclear weapons and economic development heralds the end of regional denuclearisation politics, which in turn is shaping the nature and extent of North Korea's integration into Northeast Asia. North Korea's nuclear gambit and the failure of regional states to adjust to North Korea as a nuclear weapons power may increase the danger of conflict escalation and expanded regional horizontal nuclear proliferation.

North Korea is an outlier on the periphery of the East Asian economic miracle and simultaneously a key strategic actor amid the dance of regional great power competition. The economic, political and strategic dynamics that have shaped North Korea's curious regional position stem from the political economy of the DPRK state itself and the weaknesses of that system, in addition to the ruling government's development of nuclear weapons and the economic sanctions regime imposed upon the DPRK in response to Pyongyang's nuclear gambit. Indeed it is the combination of domestic political economy and regional strategic intrigue that is integral to understanding North Korea's place in East Asia.

North Korea's immediate neighbourhood—comprising China, Japan, South Korea, North Korea, Russia, Taiwan and the United States as a vested external player—is a complex strategic environment

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characterised by strategic cleavages and historic animosity. Of these countries, the United States, China and Russia are fully-fledged nuclear powers who also occupy permanent seats on the UN Security Council. China, Russia, North Korea and South Korea possess four of the world's six largest armed forces. All of these states have fought wars with one or more of the others in recent memory, leaving a legacy of suspicion and mistrust that continues to influence their relations today. The Korean peninsula is the geographic junction linking each of the regional powers within the system and has traditionally been a venue for great power competition. Within this strategic environment, the North Korea has a reputation as a belligerent actor in multilateral non-proliferation negotiations. Its nascent nuclear weapons capability has thrust the country to the forefront of regional politics, engaging the interests of all regional powers and providing the North Korean leadership with a lengthening nuclear shadow, a level of strategic leverage than the country's isolated economy and small size otherwise would warrant. Indeed, North Korea's emerging nuclear weapons capability presents a potentially insuperable obstacle to the definition of common strategic interests among regional states.

North Korea's role as a regional economic actor does not match its strategic importance. A complex web of economic and financial linkages has evolved across the East Asia over the past three decades. The American military presence in South Korea and elsewhere across the East Asian littoral, which North Korea cites as threatening, has provided the security umbrella beneath which the East Asian economic miracle has blossomed. Japan, South Korea, Taiwan and now China have all become modern industrial powers within the regional peace made possible by the US military posture, which, from a liberal internationalist perspective, has blunted rivalries between regional states and reduced the tendency toward strategic competition as their economies have become more integrated. Integration implies high levels of inter-state interaction through formal mechanisms and conscious political decisions, along with informal economic, social and cultural contacts.<sup>1</sup> This informal web of economic interactions across Northeast Asia is being buttressed by an evolving institutional architecture of formal economic cooperation based around institutions such as Asia Pacific

Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN) and its associated fora.

North Korea exists largely on the periphery of these formal mechanisms of regional integration, although it does have numerous informal economic links with neighbouring countries. This raises a number of questions: Why has the DPRK not been able to capitalise on the interregnum afforded by the American strategic presence to develop its economy, as other regional states have done? How has North Korea attempted to develop its economy in the absence of strong connections with international markets? What are the strategic implications of North Korea's insular development strategy for other regional players? This article addresses these questions by first exploring the obstacles to North Korea's regional economic integration before describing the North's current development strategy based on simultaneous nuclear weapons proliferation and economic regeneration. It concludes by evaluating the implications of North Korea's development strategy for regional security. These findings suggest that North Korea's commitment economic development beneath the umbrella of its emerging nuclear weapons capability heralds the end of regional denuclearisation politics. Failure of regional states to adjust to North Korea as a nuclear weapons power may increase the danger of conflict escalation in a region already vulnerable to insecurity spirals. For Australian readers, these findings matter because Australia's strategic and economic interests converge in East Asia, where the ANZUS alliance and three of Australia's top five trading partners (China, Japan and South Korea) coalesce within the context of Sino-American hegemonic competition. Thus Australia's strategic and economic interests are inevitably linked to nuclear politics on the Korean peninsula and the economic stability of the Kim government in the DPRK.

### **On the Periphery of the Economic Miracle**

The divided Korea of today remains the world's most militarised frontier and last remaining Cold War conflict, a division that has shaped the contours of North Korea's relations with its neighbours and influenced the trajectory of its internal political and economic development. The ongoing division of the Korean peninsula provided a fertile environment

within which the Kim regime developed a highly insular political-economic system based on command economics, perpetual mass mobilisation of the population, one-party dictatorship, anti-imperialist ideology and a personality cult surrounding the regime founder Kim Il Sung. The perpetuation of this system has depended on its isolation from other regional powers, to screen out political ideas and economic forces that could undermine these pillars of Kim regime power. How this system broke apart in the mid-1990s and the unlikely resilience of the North Korean state in coping with economic failure at this time is pivotal to understanding North Korea's complicated present-day relations with its regional neighbours.

### *Systemic Degradation*

North Korea's present economic isolation is a post-Cold War phenomenon. Prior to the collapse of the Soviet Union, North Korea had been integrated within the global economic network of the Communist bloc. In total, two-way trade with the Soviet Union accounted for between 50 to 60 percent of North Korea's total trade volume, of which a large proportion took place on a concessional basis.<sup>2</sup> Subsidised trade involved an exchange in which the Soviet Union would provide manufactured goods, fuel and transportation equipment in exchange for rolled ferrous metals and sub-standard North Korean value-added products. The USSR also supplied North Korea with most of its refined oil and one-third of its steel. The DPRK enjoyed further concessions through subsidised commodity prices, well below international market norms, which saved North Korea approximately US\$400 million on oil and coal purchases between 1980 and 1990.<sup>3</sup>

North Korea's present phase of economic isolation began during the mid-1990s, resulting from the collapse of the Soviet Union and the Communist bloc economic network upon which the DPRK relied. The Soviet collapse was the trigger event that combined with long-term degenerative trends within the political economy of the state to spark a dramatic economic contraction in the North Korean economy. To understand the context of these events, we need to rewind to the late-1960s, where the North Korean economy had reached the limits of an economic paradigm based exclusively on heavy industry after

registering significant growth in the preceding decade. Global forces played a role here; rising energy prices, stagflation pressures, and technological advances driving a global shift toward light manufacturing as the new growth area all spelt doom for economies structured around heavy industry.<sup>4</sup> North Korea responded by importing production facilities from abroad to drive further growth in its stagnating industrial sector and reinvigorate its centralised economy. The failure of this initiative pushed the DPRK into a debt crisis that curtailed its ability to trade with and access technology from the West, railroading it into dependence on the Communist bloc for external economic exchange.<sup>5</sup> As most Communist bloc countries struggled with similar problems, they became trapped within an out-dated and inefficient economic paradigm model from which they could not escape without risking the implosion of the communist systems themselves. By the late-1980s, agricultural and industrial output began to decline as subsidised Soviet imports of key mineral and fuel inputs dropped away. In 1990, as its own internal crisis took hold, Moscow rejected the existing arrangement for barter trade with the DPRK and requested that North Korea pay for goods in hard currency at international market prices. By 1991, two-way trade had collapsed; Soviet exports to North Korea had fallen by over seventy percent from the previous year.<sup>6</sup>

The declining North Korean economy, reliant on imported energy supplies, agricultural inputs and manufactured goods from the communist bloc was always vulnerable to disruptions to its input flow. The collapse of the Soviet Union in 1991 was the trigger event that decimated the North Korean economy as aid and subsidised inputs that had long propped up the economy began to dry up. The North lacked the foreign exchange needed to purchase imports at market prices because of its minimal export income, resulting in the steep decline of total Soviet-DPRK trade volume from US\$3.2 billion in 1990 to US\$360 million in 1991.<sup>7</sup> Imports of Soviet crude oil declined precipitously from 440,000 tons in 1990 to only 40,000 tons in 1991, which crippled the North's industrial sector.<sup>8</sup> The cessation of machinery imports created a shortage in spare parts, while the fuel scarcity stalled production, incapacitating the decaying industrial infrastructure and thus limiting its ability to produce export goods, the income from which would help to pay for the required inputs on the international market. Consequently,

the effect of the import halt on North Korea's industrial sector was proportionally far higher than just the value of the missing inputs themselves.

As a result of long-term systemic decay of its command economy prior to 1991 and its collapse during the mid-1990s, North Korea produces very few goods of tangible value that could raise export revenue. Without a substantial export sector, the North could not trade for food on the international market, nor was the regime willing to undertake the economic reforms that would allow it to participate in international trade.<sup>9</sup> As late as 1990, heavy industry—mining, manufacturing and construction—accounted for 49 percent of the North Korean economy. By 1997 the industrial sector had dropped to 32 percent of the overall economy, clearly affected by the resource shock that accompanied the cessation of imports from the Soviet bloc. By 2004, the manufacturing sector accounted for only 18.5 percent of GNP,<sup>10</sup> part of an industrial sector that had recovered to constitute a 40 percent slice of the North Korean economy by 2007.<sup>11</sup> Manufacturing continues to be hampered by energy shortages, low labour productivity and a dilapidated industrial base whose infrastructure was stripped and sold during the famine. With its economy in such a dilapidated state, North Korea was not in a position to capitalise on the upward growth trajectory that was fuelling increasing economic integration across the region.

### *Links to the Global Economy*

The North-South joint development industrial precinct at Kaesong has been the most successful of North Korea's SEZ ventures. Established near the old Koryo dynasty capital of Kaesong, just north of the DMZ, the Kaesong industrial park is a 2,650 hectare compound housing factories producing goods for over 41 South Korean companies.<sup>12</sup> By 2011 the precinct was producing goods in excess of US\$400 million annually.<sup>13</sup> The Kaesong complex has regularly become the focus of tension between the North and South Korean governments. In May 2009, the DPRK government announced that it had voided all contracts with South Korean companies operating in the Kaesong complex in favour of amended rules relating to rent, salaries and taxes. It ordered the ROK government to evict South Korean companies from the

industrial estate unless they honoured the amended regulations, at a time when these same companies are under stress from the global financial crisis.<sup>14</sup> Today, further uncertainty surrounds the future of the Kaesong venture. The North Korean government unilaterally withdrew its 53,000-strong workforce from the precinct in April 2013 after declaring itself in a 'state of war' with South.<sup>15</sup> In August 2013, South and North Korean negotiators agreed to normalise operations at the Kaesong industrial zone after a series of inter-governmental talks over the summer.<sup>16</sup>

The Kaesong project represents a special case of bilateral economic cooperation that has not been representative of North Korea's other links to the global economy, which have been less formal. At the height of the famine in 1998, Kim Jong-il realigned his power base behind the Korean People's Army in order to consolidate his power in the midst of the country's economic failure. The vehicle for the growth of the military sector has been Kim Jong Il's doctrine of *Songun* (*military-first*) politics, first proclaimed in 1998. The ultimate goal of *Songun* politics is to create a self-sustaining defence sector in which military activities generate more resources and economic goods than they consume.<sup>17</sup> By giving the military priority access to the state's resource base, Kim ensured the continued loyalty of key institutions within the bureaucratic structure of the DPRK state. The military economy is now the most important sector of the national economy, encompassing all activities related to the production, distribution and consumption of materials within the military sphere.<sup>18</sup> North Korea's informal linkages with other regional actors have developed in the context of the *Songun* economy. Arms exports have become an important sector of the military economy, with military-run enterprises producing products including small arms, artillery, and light tanks for export. The regime has sold ballistic missile systems to Iran, Pakistan, Yemen and Syria, along with alleged sales to Iraq prior to 2003, Nigeria, Gaddafi-era Libya and Mubarak-era Egypt.<sup>19</sup> Kim Kwang Jin, a North Korean defector and former fund manager for the National East Asia Bank operated out of the Korean Workers' Party Organization Guidance Department, claimed in 2011 that his bank alone handled several hundreds of millions of dollars a year in income from weapons sales,<sup>20</sup> according with previous studies citing



North Korea's earnings from weapons exports in the ballpark of US\$1 billion annually.<sup>21</sup>

In addition to arms sales, profit margins on illicit activities are often as high as five hundred percent, far beyond those earned by conventional trade.<sup>22</sup> The Kim regime is widely accused of involvement in the production and distribution of drugs, including heroin and methamphetamine, although there have been no recorded instances of state-sponsored narco-trafficking linked back to the DPRK regime since 2003.<sup>23</sup> Other lucrative criminal activities including counterfeiting, money laundering and smuggling carry the Kim regime's fingerprints. North Korea has also been involved in smuggling items such as conflict diamonds, ivory, rhinoceros horn, and other exotic animal species, often under the cover of diplomatic protection. The full spectrum of illicit activities linked to the regime indicate that systematic regime-backed criminal enterprise is an important source of hard currency, with speculative estimates of illicit income ranging from US\$500 million to US\$1 billion annually.<sup>24</sup>

The resources sector has been the first legitimate sector of the economy to take off in the *Songun* era. Indeed, it is one of the few non-illicit sectors where North Korea has a comparative advantage. The DPRK has a rich endowment of mineral resources including rare earth metals and a substantial endowment of anthracite and bituminous coal, the two highest grades of coal.<sup>25</sup> Chinese state-owned companies began growing investment in North Korea's mining and resource sector from 2005, accelerating rapidly from 2008.<sup>26</sup> The timing of this acceleration coincides with a renewed focus from the North Korean government in developing the mining sector.<sup>27</sup> According to Bank of Korea data for 2011, the mining sector grew 0.9 percent, along with the construction (3.9 percent) and services (0.3 percent) sectors.<sup>28</sup> Ironically, while increased rents from resource extraction are providing the North Korean government with a valuable foreign currency revenue stream, this export revenue is itself exposed to fluctuations in international commodity prices and could even retard the revival of the country's manufacturing sector through the resource curse.<sup>29</sup>

### Simultaneous Nuclear and Economic Development

North Korea's interactions with regional neighbours are mediated by the over-riding priority underpinning North Korea foreign policy remains regime survival and the perpetuation of the Kim family dynasty. The actions of the leadership in Pyongyang follow logic consistent with their unique worldview and the prerogatives of their regime survival strategy based on symbiotic nuclear security and economic development. Pyongyang sees hard military power as the only reliable means of guaranteeing its security in what it perceives as a hostile strategic environment. North Korea's strategic calculus is anchored within the world-view of an extreme Hobbesian form of realism, in which the Kim regime sees itself surrounded by external and internal threats to its survival. Its foreign policy choices are thus based on this narrow and fearful assessment of its security environment.<sup>30</sup>

Under the *Songun* politics model, North Korean foreign policy tends to embrace the utility of military force as its only credible security guarantee in what it perceives to be a strategically hostile environment. Pyongyang's nuclear weapons and ballistic missile capabilities are the ultimate practical expressions of this world-view. The regime also maintains an explicitly stated policy—*kangsongtaeguk*—of transforming North Korea into a 'strong and prosperous country' through a program of economic development.<sup>31</sup> This development program includes gradual movement toward the implementation of incremental economic restructuring. Together, the simultaneous and symbiotic goals of nuclear weapons and economic development have become known as the *Pyongjin* line.<sup>32</sup> The successful Unha-3 rocket launch in December 2012 and nuclear test in February 2013 suggest that the North Korean leadership intends to accelerate the proliferation pace in order to bring the nuclear and missile programs to maturity, with a fully operation nuclear deterrent in place to operationalise the *Pyongjin* line and provide the security umbrella under which new economic measures can be rolled out.

The need to 'clear political space'<sup>33</sup> ahead of structural changes to the economy derives from the broader strategic environment described above and the domestic political upheaval generated by previous attempts at economic restructuring. Top-down economic tinkering during the Kim Jong Il era was geared toward regaining control of the

economy after the collapse of the command system in the mid-1990s. A series of reforms were launched in 2002, which, though falling well short of the systemic transformation hoped for by foreign observers, were unprecedented in the history of the Kim dynasty. The first measure adopted was a two-tiered price reform where state-owned enterprises began paying market prices for resource inputs, while the price of merchandise in state-owned stores was adjusted to reflect the price of goods in the farmers markets.<sup>34</sup> The regime also allowed farmers to increase the size of their private plots and set up a leased private cultivation system on state-owned land, from which farmers could sell any surplus, which is estimated doubled grain production from the previous year.<sup>35</sup> A new class of wholesalers, vendors and intermediaries emerged as the informal private markets became the primary mechanism through which North Koreans sourced their food. There is reason to believe that the regime induced inflation to undercut the black market and reincorporate the sale of consumables into the formal economy. The price gap between the black market and the state-run distribution network was leading to a spillage of goods from the state sector into the black market, draining away the wealth of the state. The market pricing reform led to a hyperinflation, which saw the cost of consumables and other goods rise dramatically.<sup>36</sup> The inflation thus had the effect of reducing the purchasing power of those who had accumulated wealth by selling government produce on the black market, forcing them to transfer their resources back to the state.<sup>37</sup>

Since that time, the government has issued several edicts rolling back those concessions in an attempt to restore economic centralisation and consolidate the position of the regime by forcing minor market operators out of business, including the botched currency revaluation launched in November 2009 which, like the 2002 reform measures, triggered rampant inflation and in the process, delivering the biggest threat to the legitimacy of the Kim regime since the famine of 1995-98.<sup>38</sup> The 2002 and 2009 measures were introduced to combat the hollowing out of the state sector but in the process created immediate grievances among the North Korean population that had the makings of nascent anti-regime popular discontent.

If not the inexorable path toward full marketisation championed by observers in the West, or the futile propping up of the command

system, what then might North Korea's economic transformation begin to look like? Tentative structural changes to specific sectors of the economy have been visible under Kim Jong Un's leadership. In the agricultural sector, the *6.28 policy* reportedly announced in June 2012 called for a trial of a new quota system in which farmers in Ryanggang Province were entitled to keep or sell thirty percent of the annual production quota.<sup>39</sup> Kim Jong Un's 2013 New Year's address emphasised developing the country's scientific and technological capabilities to 'fan the flames of the industrial revolution in the new century.'<sup>40</sup> Pak Pong Ju's re-appointment to the position of Cabinet Premier after a six year hiatus fuelled speculation that the Kim government has a long-term plan for economic restructuring. Pak earned a reputation as a reformer among the DPRK elite during his previous stint as Cabinet Premier, when he oversaw a number of changes to the North Korean economy.<sup>41</sup> In October 2013, the government announced the establishment of fourteen new special economic zones around the country, building on Kim Jong Un's announcement the previous March to establish an SEZ in each province.<sup>42</sup>

The most intriguing developments are taking place at Rason (Rajin-Sonbong Trade and Economic Zone), the first of North Korea's special economic zone projects. Rason was established December 1991 in the northeast corner of the country near the convergence of the North Korea, Chinese and Russian borders. This zone was earmarked to become a major container port, featuring export-oriented production facilities, an oil terminal at Sonbong and timber port at Unggi, with land linkages to China, Mongolia and the trans-Russian railway network with Europe.<sup>43</sup> It has been slow to take off because of its impracticality as an export hub, because of its isolation from large population centres in the DPRK, China, South Korea and Russia, as well as the investment disincentives of border crossing difficulties and excessive red tape from Pyongyang. Despite this slow start, development activity in Rason is beginning to gain momentum. The new leadership under Kim Jong Un has overseen a restructuring of the institutional arrangements governing the zone. Externally, the Chinese government has incorporated Rason into its development plan for Jilin Province, building upon earlier agreements between the governments of China, Russia, North Korea,

South Korea, and Mongolia to develop the Tumen River area. Rason is the sea port that could unlock the export potential of China's landlocked north-eastern provinces. In 2012, the DPRK government revised the laws governing investment in Rason to make the zone more attractive to foreign investors.<sup>44</sup> Recent Sino-DPRK ministerial-level contacts have taken place to coordinate development planning and improve the investment climate to attract further Chinese investment to Rason.<sup>45</sup> Russian interests have also invested in upgrading the railway line from Rason into Russia, and the construction of a new pier at Rajin port, which is still under construction.<sup>46</sup>

### **Implications for Regional Security**

North Korea's era of 'muddling through' appears to be over under the leadership of Kim Jong Un. Rightly or wrongly, his government has noticeably quickened the pace of decisive policy decision-making in pursuit of a simultaneous nuclear security and economic development program. With the maturation of the North Korean nuclear weapons program, Northeast Asia is now entering an era of nuclear politics where the dynamics of regional relations are likely to differ from those evident during North Korea's nuclear development phase. A hardening of the strategic dynamics decrease the likelihood of expanded economic contacts between the DPRK and the current set of commercial suitors, largely from China.

### ***End of Coercive Bargaining***

North Korea's new nuclear posture is likely to enable the DPRK to engage with the region on its own terms. Possession of nuclear weapons can radically alter the diplomatic weight and prestige of a country that comes to possess them. For the leaders of nuclear-armed states, possession gives them greater leverage in their relations with other countries and allows them to be bolder in pursuit of their national interests. Non-nuclear states must either accommodate with the preferences of the new nuclear state or form a balancing alliance with an existing nuclear power, an influence referred to as the 'nuclear shadow.'<sup>47</sup> North Korea's use of ambiguous nuclear blackmail and overt nuclear posturing through nuclear tests during the period of its nuclear development (1990-2012) was successful in extracting a more

accommodating political attitude from the US and regional states. Nuclear weapon states may also deploy or threaten to deploy their nuclear capability in order to extract concessions, a tactic the Kim regime has utilised consistently in denuclearisation negotiations since the negotiation of the Agreed Framework in 1994. This strategy is known as 'coercive bargaining,' in which deliberate, directed provocations put pressure on the US and regional states to provide material inducements to persuade the regime to pull back from the brink. These deliberate provocations fall short of war but are serious enough to raise concerns about possible escalation.<sup>48</sup> Once a crisis has been engineered, the North Korean government then issues new demands or restates previous claims as conditions for de-escalation and a return to negotiations. For example, through its October 2006 nuclear test, Pyongyang was able to extract a significant shipment of oil, as well as the release of funds from suspected illicit operations frozen in Macau bank Banco Delta Asia, in exchange for its re-entry into the Six Party Talks.<sup>49</sup>

North Korea's coercive bargaining tactics have been successful in part because the ambiguity of its nuclear capability allowed Pyongyang to engineer artificial crises. During the development phase, Pyongyang could threaten to take the next step in technological development then pull back in exchange for concessions. The North's leverage came from the belief in regional states that Pyongyang could still be coaxed into denuclearisation, a belief that has since evaporated now that the nuclear development phase is complete and the North has demonstrated its nuclear capability, in effect removing the key lever of Pyongyang's bargaining position. To continue with the tactic of coercive bargaining, the North must find new sources of advantage to extract concessions outside of its nuclear program.

This is a potential source of danger for regional stability, as the type of provocations that could function as coercive bargaining triggers outside of the nuclear program tend to be more aggressive, as North Korea's dramatic rhetorical escalation in the wake of its third nuclear test in February 2013 illustrate. Pyongyang's rhetorical flourish began in earnest on March 18, when it declared its 'right to make a pre-emptive nuclear strike at the strongholds of aggressors.'<sup>50</sup> It announced the placement of its 'strategic rocket units and long-range artillery units' on their highest alert status and further claimed that these units are capable

of striking American military targets in South Korea 'and its vicinity,' as well as US bases in Guam, Hawaii and the continental United States.<sup>51</sup> On April 4, the government issued a warning to foreign embassies in Pyongyang advising the evacuation of diplomatic staff from the city by April 10.<sup>52</sup> The North Korean government subsequently declared itself in a 'state of war' with South Korea on April 8 the North withdrew its 53,000 thousand-strong workforce from the Kaesong industrial zone.<sup>53</sup> These threats carried a higher risk of escalation than the type of provocations it engaged in while its nuclear program was still in development.

Initially, North Korea's fiery rhetoric in the opening months of 2013 appeared to be another coercive bargaining episode. The outburst may have been an attempt to force the United States into diplomatic negotiations to roll back the sanctions regime. Upon reflection, however, the coercive bargaining hypothesis may not be as convincing in this case as it first appears. Nuclear weapons development lends itself to coercive bargaining escalations. Pyongyang has leveraged developmental milestones and violated proliferation safeguards and reprocessing freezes as deliberate escalations for crisis bargaining. However, coercive bargaining loses its power once a nuclear program matures. There are two reasons behind this assertion: (1) with an essentially complete nuclear weapons deterrent, there are no more developmental thresholds over which to bargain, and (2) with the proliferation finish line in sight, the North Korean government sees greater strategic incentives in realising full nuclear deployment as opposed to extracting relatively minor concessions from an unfinished developmental program, which is the essence of the *Pyongjin* line.

### *Danger of Escalation*

The nuclear security umbrella, however, is not quite ready. North Korea's ability to strike targets in South Korea artillery and short-medium range missiles is well documented and has been a key plank of its strategic posture for decades. They are certainly capable of striking targets in South Korea and Japan.<sup>54</sup> Indeed the South Korean capital, Seoul, is essentially indefensible against rocket and artillery attack from North Korea, given its close proximity to the DMZ. The United States

and South Korea cannot therefore entertain military action against the DPRK without placing the economic, political and cultural nerve centre of the south and its ten million residents at great risk. This in turn opens a strategic space for limited North Korean provocations like the attacks on the *Cheonan* and Yeonpyeong Island in 2010 because the risk of US/ROK retaliation is low. By the same token, the overwhelming air power and nuclear weapon superiority of the US renders the North Korean capital and other targets in the DPRK equally vulnerable, which has thus far deterred a full-scale North Korean assault on the South since the Korean War armistice.

Less plausible is the North's ability to hit targets further afield with long-range nuclear-armed missiles, the successful December 2012 rocket launch and nuclear test on February 12 this year notwithstanding. One successful long-range missile test does not prove that Pyongyang is ready to deploy reliable, accurate long-range missiles in the field. Likewise, the February nuclear test has not proven definitively that North Korean scientists have engineered a weaponised nuclear intercontinental ballistic missile, despite clear advances in miniaturisation evidenced by the test.<sup>55</sup> Pyongyang's threat against American targets in Guam, Hawaii and the continental US are therefore more theatrical than menacing.

The danger inherent to the current crisis does not spring directly from North Korea's nuclear weapons capability, rhetorical threats aside. Capabilities do not equal intentions; North Korea's possession of nuclear weapons does not imply that they intend to attack enemy targets at first opportunity. The real threat lies in the risk of an unintended escalation to war through miscalculation. Pyongyang's progressively more extreme pinprick provocations increase the risk of triggering an accidental full-scale war that none of the protagonists wish to fight. The US and South Korean governments would find it difficult to avoid responding to another *Cheonan* or Yeonpyeong Island incident with a strong display of military force, potentially locking in an escalation spiral leading to all-out conflict on the Korean peninsula.

At risk also is the credibility of the international nuclear non-proliferation regime. Japan and to a lesser extent South Korea are both threshold nuclear powers. In particular, the Japanese have a well-developed civilian nuclear energy program that incorporates the entire



nuclear fuel cycle. Both countries have the technological capacity, expertise and materials to develop a nuclear weapons capability in a very short timeframe, perhaps even in a matter of months.<sup>56</sup> As Nuclear Nonproliferation Treaty (NPT) signatories, Japan and South Korea are permitted to withdraw from the treaty—under Article 10—in the face of a direct nuclear weapons threat.<sup>57</sup> This is now a more realistic possibility given the maturation of North Korea's nuclear weapons capability, qualifying Japan and South Korea to legitimately withdraw from the NPT. Yet despite the perennial danger posed by the regional security dilemma, it is not obvious that current events are likely to cascade into a nuclear arms race. The nuclear cascade has not yet occurred because of the influence of the American nuclear umbrella protecting South Korea and Japan, as Washington's public displays of its nuclear-capable B-52 and B-2 bombers in South Korean skies attest. The American nuclear guarantee means that Japan and South Korea do not have to develop nuclear weapons of their own as a deterrent against nuclear-armed adversaries. The danger of North Korea as a fully-fledged nuclear weapons power is the strategic pressure Pyongyang's nuclear capability would place on Japan and South Korea to reassess the effectiveness of the US nuclear guarantee, which could in turn damage the credibility of the NPT regime itself. In the realm of national security, conventional deterrence and multilateral dialogue should suffice to prevent regional security dynamics from overheating. While the probability of the nuclear cascade remains low under the current strategic equilibrium, North Korea's nuclear weapons capability raises the stakes for regional players and reemphasises the importance of the American presence as a stabilising force.

## **Conclusion**

The proposition that North Korea is an isolated peripheral actor in the Northeast Asian region is an erroneous one. While the North Korea has long maintained an information blockade that has isolated its people from contact with the outside world—with decreasing efficiency, it has to be said—the North Korean state as an international actor has been front and centre in the regional strategic milieu, as a direct result of its nuclear weapons program. While the North has occupied a more

peripheral place as an economic actor, it nonetheless has connected haphazardly with the regional economy, its interactions shaped and constrained by broad global forces, its competition with South Korea, and its own domestic politics. The present moment represents an inflection point marking the end of Kim Jong Il-era muddle through and the beginning of Kim Jong Un's determined and pro-active regime consolidation phase. Rightly or wrongly, Kim Jong Un's government has noticeably quickened the pace of decisive policy decision-making in pursuit of a simultaneous nuclear security and economic development program, with a fully operation nuclear deterrent in place to provide the umbrella under which new economic measures can be rolled out. This is a potentially dangerous moment for the region. With the maturation of the nuclear program, North Korea's engineered crisis escalations have become more dangerous as a potential lightning rod for conflict escalation and further horizontal nuclear proliferation in the region. How regional states adjust to North Korea's new nuclear status will define the tone of this historic moment. North Korea's neighbours could lay the foundation for a regional security environment in which regional states can accommodate the North's nuclear deterrent. The international community could choose to encourage North Korea to pursue a quasi-Chinese or Vietnamese economic reform model as a means of moderating its foreign policy by creating a new set of economic interests for the North Korean leadership. The real economic benefits of greater contact with the global economy could dampen the incentive for Pyongyang to sell nuclear technology, engage in criminal activities or leverage crisis escalations in exchange for international largesse.<sup>58</sup> Either way, the nature and extent of North Korea's integration into Northeast Asia is being reshaped by Pyongyang's simultaneous nuclear and economic development model.

## NOTES

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<sup>1</sup> Fiona Butler, 'Regionalism and Integration', in John Baylis and Steve Smith (eds.), *The Globalization of World Politics: An Introduction to International Relations*, (Oxford: Oxford University Press, 1997), p. 411.

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