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## **The North Korean Summit: Part I**

On March 8, officials from South Korea, including Chung Eui-yong, the director of South Korea's National Security Office, came to Washington to brief U.S. officials on a recent dinner with Kim Jong-un, the leader of North Korea. The dinner was held in Pyongyang at North Korea's Workers' Party Headquarters, Kim's workplace, where Mr. Chung and Suh Hoon, the National Intelligence Service director, were joined by Kim and his sister. This event marked the first time that South Korean officials had been inside North Korea's Communist Party headquarters since the Korean War.

According to reports, the dinner meeting was a surprising success. Kim was said to be warm and open.<sup>1</sup> He proposed a hotline between the two Koreas and a summit meeting with himself and South Korean President Moon Jae-in. Kim also wanted the South Koreans to send a message to Washington that the North Korean leader would like a summit meeting with President Trump.

As the South Korean delegation was meeting with Trump administration officials on March 8, President Trump made an unscheduled appearance; he was scheduled to meet with the South Koreans the next day. At this meeting, the South Koreans informed the American president of Kim

<sup>1</sup> <https://www.wsj.com/articles/north-koreas-kim-jong-un-was-jocular-and-at-ease-at-boozy-banquet-1520606867>

Jong-un's desire to have a meeting and President Trump immediately agreed.

This decision was a shock and set off a plethora of uncertainties. This would be the first time since the creation of North and South Korea that a sitting American president has met directly with the leader of North Korea. It appears the State Department was not aware of the invitation or the acceptance. U.S. allies, such as Japan, were not warned and major powers in the region, such as China, were also informed after the fact.

So, in the matter of a few months, we have moved from fears of war to an unprecedented meeting. This meeting is a high stakes wager; if the summit fails to improve relations between the U.S. and North Korea, it isn't clear how the path forward doesn't include war. At the same time, if it works, Trump will have resolved one of the most intractable problems in American foreign policy.

In this week's report, we will discuss the geopolitical goals, constraints and meeting positions of the major regional parties. Next week, we will examine why the talks have been proposed now. We will then offer the reasons why the talks may fail or succeed. We will summarize the costs and benefits from the summit meeting and conclude with market ramifications.

### **The Players**

There are six nations involved in the North Korean issue—North Korea, South Korea, China, Japan, Russia and the U.S. We will cover the geopolitical goals, constraints and meeting concerns of each country.

**North Korea****Goals:**

- **Regime survival:** The overarching goal of the Kim government is dynastic survival. Kim Jong-un is the third generation of family leaders and his ultimate aim is for the bloodline to continue. Everything else is secondary. The drive for nuclear weapons was to create a credible deterrent that would prevent the U.S. from changing the regime. The ignoble deaths of Saddam Hussein and Muammar Gaddafi are reminders of what happens to leaders when they don't have a credible weapon of mass destruction to act as a deterrent.
- **Autonomy:** Koreans, in general, want to avoid outside influence. Control of the Korean peninsula is a geopolitical goal of all the regional powers as it would give the holder the ability to project power into the East China Sea, the Yellow Sea and the Sea of Japan. Control of the peninsula will accordingly allow a nation to influence China, Japan and the Russian Far East. Koreans are acutely aware of the attractiveness of their land as outside powers have wanted to control it for a millennia. At various times, Korea has been under the control of Japan and China, while U.S. troops in South Korea are part of a long history of outside influence. North Korea would not only like to see a reduction of U.S. influence, but it also wants to protect itself from China and Japan.
- **Better economy:** Kim Jong-un's father and grandfather were Stalinists who viewed any use of markets for the distribution of goods and services as a threat to power. When the Soviets were North Korea's patron, Kim Il-sung's government controlled the production and distribution of goods and services. His son, Kim Jong-il, ran the country after the Cold War and

would, on occasion, loosen state control of the economy in reaction to famine and weak economic activity. But, once the economy recovered, Kim Jong-il would restore state control over the economy.<sup>2</sup>

Kim Jong-un appears to have a different agenda. His policy of the “byungjin line,” which is the pursuit of economic growth and a nuclear deterrent, seems to put security and economic growth on the same footing. It is quite possible that the new North Korean leader has observed how the Chinese Communist Party (CPC) remains firmly in control of a market economy and has concluded that his elders were mistaken—markets don't necessarily lead to the loss of political control. Kim has likely concluded that better economic growth will require not just an easing of sanctions but an opening up to the world. The key to all these goals is a deal with the U.S. North Korea believes its primary threat to regime change is the U.S., therefore a peace deal with America would end that danger. No other regional power can offer investment and trade opportunities from such a great distance; in other words, economic and political normalization with the U.S. would not only protect the regime and improve the economy, but it would also avoid the undue influence from China or Japan.

- **Unification:** North Korea wants to unify the peninsula under the “House of Kim.” That outcome would not be accepted under current conditions; in fact, at present, it could only occur by war.

**Constraints:**

- **Internal politics:** Although Kim is the undisputed leader of North Korea, he has constituencies like any political leader.

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<sup>2</sup> This pattern was also followed by the Castros in Cuba.

Thus, a rapid reversal of the long-held animosity toward the U.S. would carry some risks. However, it does appear Kim's willingness to make this change likely means he has (or at least believes he has) eliminated internal opposition. The execution of numerous leaders, including his uncle, may have cowed any potential rivals.

- **Geography:** As noted above, the peninsula will always be attractive to larger powers. Consequently, any arrangements that change the status quo run the risk of eliciting reactions from other parties who view the change as disadvantageous. Thus, there will be limits to the changes North Korea can make.

**Summit concerns:** North Korea has two goals for this meeting. The first is the simple recognition that comes from meeting with the global superpower. The second would be to normalize relations with the U.S, which would include a formal peace treaty, an end to sanctions and North Korea's entry into the world.

### South Korea

#### **Goals:**

- **Reduce the threat from North Korea:**

Although the U.S. media tends to focus on the North Korean nuclear threat, the Hermit Kingdom has a massive array of artillery aimed at its southern counterpart, including the capital, Seoul. A conflict would likely lead to devastation even if unconventional weapons are not deployed. Conservative governments have tried to reduce this threat through deterrence, while liberal governments have worked through diplomacy to try to reduce tensions. To date, neither approach has successfully ended the threat.

- **Increase autonomy:** Similar to North Korea, South Korea wants to limit the influence of outsiders. Although the South has been more open than the North, and has a bigger economy as a benefit, it remains uncomfortable with the level of Chinese and U.S. influence. In recent months, U.S. officials have intimated that a war to prevent North Korea from developing nuclear weapons is permissible because the casualties would be mostly South Korean.<sup>3</sup> Needless to say, South Korea would prefer to have more control over its own destiny, much like the North.

- **Favorable unification:** South Korea would like to see the peninsula unified, but does not want this to occur under crisis conditions. It fears a costly unification and is well aware of how expensive it was for West Germany to absorb East Germany. And, the North Korean economy is in much worse shape compared to East Germany. Thus, it would like to see the division between North and South Korea resolved but only under controlled conditions, either with unification coming in stages or after significant economic development in the North.

#### **Constraints:**

- **Democracy:** South Korea has a vibrant democratic system. As such, it must "sell" policy changes to the electorate. Conservatives will tend to oppose "thaws" in North Korean relations, while liberals will try to thwart hardline policies against the North.
- **Geography:** See above in the North Korean section.

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<sup>3</sup><https://www.theatlantic.com/international/archive/2017/08/lindsey-graham-north-korea/535578/>

**Summit concerns:** South Korea would like to see two outcomes from this summit. First, it wants a de-escalation of current tensions. South Korea faces a significant threat from North Korea and, even if the South were to eventually prevail in a conventional war, the losses would be devastating. South Korea would also “own” the rebuilding of the North in the aftermath of a conflict. Second, the South would prefer to see increased autonomy for both North and South Korea if Kim intends to reform North Korea’s economy along the same development path as China. South Korea would like to have more freedom in foreign policy. Its worry is that the talks will fail and war becomes a more likely outcome.

### Japan

#### **Goals:**

- ***Protection from North Korea:*** North Korea has been a persistent threat to Japan. It has kidnapped its citizens and possesses lots of short-range missiles that can hit most of Japan. If these become nuclear-tipped missiles, the risks to Japan increase exponentially. We suspect Japan would prefer to see North Korea cease to exist, becoming unified under South Korean rule. In the absence of regime change, Japan wants North Korea contained, preferably by someone other than China (Japan does not want China to control this key peninsula).

#### **Constraints:**

- ***Japan remains closely tied to U.S. security alliance:*** Japan relies on the American nuclear umbrella for strategic protection and has a pacifist constitution that was written during the U.S. military occupation. Thus, its military responses to North Korea are dependent upon U.S. policy. One of Japan’s worries is similar to South Korea’s—would an American

president respond with a nuclear strike against North Korea and risk a North Korean attack on the U.S.? If the answer is “no” or “maybe,” then the proper response would be for Japan to develop its own deterrent. So far, Japan hasn’t taken that step and it remains a constraint on its behavior.

**Summit concerns:** Japan is deeply worried that the U.S. will agree to normalize relations with North Korea as normalization may still leave Japan militarily vulnerable to North Korea. As mentioned, over the years, North Korea has kidnapped Japanese citizens. These abductions were thought to be either for the acquisition of identification papers or for training North Korean spies on Japanese culture and language. Thirteen abductees are officially recognized by both nations but estimates suggest there may be hundreds of victims.<sup>4</sup> If the U.S. normalizes relations with North Korea, Japan rightly fears its interests may be ignored.

### China

#### **Goals:**

- ***Buffer zone:*** China wants a buffer and vassal state in North Korea, but it does not want a U.S. ally directly on its border. North Korea partially fills that role but while North Korea does act as a buffer, it is hardly a vassal. Although the North Korean economy is deeply dependent on China, Pyongyang tends to ignore China’s policy goals. Relations between Chairman Xi and Kim can be described as strained, at best. The Korean peninsula has been part of China at various points in history and North Korea chafes at Chinese influence.

#### **Constraints:**

- ***Breakdown worries:*** China’s primary worry is a situation that leads to a refugee

<sup>4</sup> <http://www.chosa-kai.jp/indexeng.htm>

crisis. The most likely causes are (a) the North Korean economy collapses, or (b) the U.S. attacks North Korea. China does not want to see North Koreans pouring across the border and creating economic problems for China. Thus, it is less open to aggressive sanctions and wants to prevent a military event. The refugee worry constrains China's response to North Korea.

- **Loss of Buffer:** China does not want to either (a) lose influence on the peninsula, or (b) see a hostile power gain control. This factor also limits China's ability to act against Pyongyang.

**Summit concerns:** China is likely pleased that these two sides are talking as it reduces the likelihood of war. On the other hand, China does not want the discussions to go exceedingly well because that would mean U.S. influence would increase near its border. China prefers the status quo prior to Trump—the position where the North Korean economy is dependent on China and Pyongyang isn't a significant threat to its neighbors. Thus, changes in North Korea will tend to make Beijing uncomfortable and these talks potentially add to concerns.

### **Russia**

#### **Goals:**

- **Transit state:** North Korea is a transit state for Russian goods. Although the Soviet Union was once North Korea's protector and economic supporter, the collapse of the former communist state dramatically reduced Russia's role in North Korea. However, Russia would like to sell pipeline natural gas to South Korea to prevent the U.S. or Australia from providing LNG and reducing Russia's global market share for this energy source. Russia would like to build a pipeline through North Korea and the Kim regime

would receive transit fees. However, current sanctions prevent this investment from occurring.

#### **Constraints:**

- **Other distractions:** Russia is a poor economy that is currently focused on Europe and the Middle East. Russia has annexed and controls parts of Ukraine, which has led to sanctions. Some of its military is involved in supporting Bashar Assad in Syria. The recent poisoning of a former double agent in Britain will almost certainly lead to additional turmoil. Although Russia would like to expand its natural gas exports into South Korea, it may simply not have the bandwidth to offer much influence.

**Summit concerns:** Very simple—Russia wants the ability to build a pipeline through North Korea.

### **United States**

#### **Goals:**

- **Maintain regional dominance at a reasonable cost:** Part of the reason the Korean War occurred was that the Truman administration didn't clearly include the peninsula as part of its security interests. Kim Il-sung underestimated American resolve, believing he could invade the South without provoking a U.S. reaction. Since then, America has maintained a significant defense presence in South Korea and would probably prefer to maintain that presence, although reducing it to some extent may pacify China if a major diplomatic breakthrough develops. At the same time, reducing tensions with North Korea would free up American military and diplomatic bandwidth for other pressing issues.
- **Eliminate North Korean nuclear threat:** The U.S. doesn't need another nuclear

power aiming its missiles at the lower 48. Coming up with a program that assures American security without war or the costs of North Korean reconstruction would be a major benefit.

**- Eliminate North Korean threat to allies:**

Although U.S. security is paramount, the superpower role does require a certain level of concern for its allies. If North Korea backs away from its nuclear program and becomes less of a regional threat, and maybe even a destination for investment, this goal could be met.

**Constraints:**

**- Domestic politics:** Any reversal of a long-standing policy will have political opposition, so anything other than the status quo will cost the president some political capital. He will face opposition from within his own party to a peace deal, but an agreement with North Korea will likely be welcomed by the majority of Americans. Still, any change will require political adjustment.

**- Balancing concerns of allies:** South Korea has hopes for the meeting that will differ from Japan. Accordingly, reassuring one party could raise concerns among the other. In an ideal situation, the diplomatic corps would be out in full force in all the relevant nations. It is unclear whether the U.S. State Department has sufficient staff to provide this service. Thus, this issue may act as a constraint.

**Summit concerns:** The primary goal of the U.S. is to eliminate the nuclear threat from North Korea. Secondary goals include normalization of relations with North Korea and peace on the peninsula.

Next week, we will conclude this report by examining why the talks are being proposed now. We will then offer the reasons why they may fail or succeed. We will summarize the costs and benefits from this summit meeting and conclude with market ramifications.

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