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The Second Korean War: Part II

(N.B. Due to the Independence Day holiday, our next report will be published on July 10th. That edition will be our Mid-Year Geopolitical Update.)

Last week, we offered background on the situation with North Korea. We presented a short history of the Korean War with a concentration on the lessons learned by the primary combatants. We also examined North Korea's political development from the postwar period through the fall of communism and how these conditions framed North Korea's geopolitical situation. We also analyzed U.S. policy with North Korea and why these policies have failed to change the regime's behavior.

The primary concern is that North Korea appears on track to developing a nuclear warhead and a method of delivery that would directly threaten the U.S. This outcome is intolerable and will trigger an American response.

In Part II, we will discuss what a war on the peninsula would look like, including the military goals of the U.S. and North Korea. This analysis will include the signals being sent by the U.S. that military action is under consideration and a look at the military assets that are in place. War isn't the only outcome; stronger sanctions or a blockade are possible, as are negotiations. An analysis of the chances of success and likelihood of implementation will be considered. As always, we will conclude with market ramifications.

What Would War with North Korea Look Like?

The U.S. has two objectives in a war with North Korea. First, it wants to protect South Korea against the artillery North Korea has amassed around the demilitarized zone (DMZ). Second, it wants to destroy North Korea's ability to deliver a nuclear weapon against the U.S. As we noted last week, North Korea has an estimated 21k artillery pieces on the DMZ, everything from sophisticated rocket launchers to infantry-manned mortars. Although many of the pieces are quite old, it is estimated that millions of South Koreans would still be at risk and casualties would be high.

A U.S. war plan would presumably use a massive air campaign with saturation bombing of an area along the DMZ and 25 miles deep within North Korea. Of course, this is a rather obvious target so the North Koreans have also built up a significant air defense system. It doesn't appear to be anything the U.S. Air Force couldn't suppress within a week or two. But, the U.S. couldn't safely use its largest heavy bomber, the B-52, until air defenses were eliminated. Until then, we would expect that stealth bombers, the B-2, B-1 and maybe the F-35, would be drafted into a bombing role and deployed. Simply put, South Koreans would face an artillery barrage until North Korea's air defenses were contained, which would mean thousands of dead or wounded South Koreans. North Korea also reportedly has massive stores of chemical weapons; it would not be a surprise to see such weapons deployed, especially if the North Koreans felt they were losing.

The other goal would be to destroy North Korea's ability to deliver a nuclear weapon against the U.S. The wording of this goal is specific. We have seen a subtle shift in American comments regarding North Korea's nuclear program. Instead of the possession of nuclear weapons being deemed intolerable, the ability to deliver such weapons directly against the U.S. is now the red line. This stance is consistent with the Jacksonian¹ foreign policy of the Trump administration. As long as North Korea isn't a direct threat to the U.S., this administration may be willing to leave Pyongyang alone. Of course, that would put the nations surrounding North Korea in a difficult spot. If the U.S. allowed North Korea to go nuclear, the temptation for Japan and South Korea to acquire their own nuclear deterrents would rise.

To meet this second goal in a war with North Korea would require massive bombing raids on its missile factories. If our analysis of the shift in policy is correct, the U.S. may decide to spare North Korea's nuclear weapons facilities. However, if the U.S. did decide to attack these as well, it would likely require "bunker buster" weapons. To ensure these attacks were successful, manned reconnaissance missions might be required.

North Korea's war goals would be similar to that of Hezbollah's when it fought against Israel; mere survival against a superior power would be a victory. The regime realistically can't win but it can raise the costs of victory to the U.S., and North Korea knows it can extract support from China and South Korea if it threatens to collapse. What the Kim dynasty couldn't overcome, however, would be the total destruction of its DMZ defenses and nuclear facilities. The

loss of these primary defense measures would probably undermine the regime and lead to a fall in government. This is one argument for why the shift in U.S. policy away from the nuclear weapon itself and toward the delivery system could lay the groundwork for a path of either reconciliation or limited conflict.

In war, the issues of tactics and strategy always come into play. Tactics are mostly how battles are executed; strategy is about the path of achieving the political, geopolitical and economic goals of a conflict. Military leaders usually focus on tactics. In a nation with civilian control of the military, political leaders should be focused on strategy. The disagreement between President Truman and Gen. MacArthur is a classic example. Truman was focused on what he wanted from the Korean War—to prove to the communist states that the U.S. would be willing to fight in inconsequential places (at least to U.S. survival) to prevent the unchallenged spread of communism. MacArthur was focused on winning the Korean War. Thus, when China entered the conflict as allied troops approached the Yalu River, the general wanted to escalate, perhaps to the point of using nuclear weapons. That was a reasonable tactic but a potentially disastrous strategy as it might have triggered WWII.

There are similar concerns with regard to a potential second Korean War. If the U.S. destroys the artillery around the DMZ and eliminates both the nuclear threat and the delivery system, it's hard to believe that the Kim regime would survive. Only if the U.S. is prepared to deal with not only the horror of the damage done by North Korea to the heavily populated areas around Seoul but also the refugee crisis that would be triggered by the collapse of the Kim regime

¹ See WGR, 4/4/16, [The Archetypes of American Foreign Policy: A Reprise](#).

should it pursue eliminating both the nuclear program and the delivery system.

At the same time, if the U.S. leaves the nuclear program intact and makes it clear that the U.S. red line is missile delivery, it will almost certainly trigger a nuclear arms race in the region. Japan and South Korea will receive clear signals that the U.S. may not respond to a North Korean nuclear threat to those nations which would lead them to seek nuclear arms.

The “Tea Leaves”

North Korea has been a problem for every U.S. president since George H.W. Bush. The Hermit Kingdom has survived since the end of the Cold War using three tactics. First, the regime appears dangerous by showing constant belligerence. Second, it acts crazy through the use of gratuitous violence; assassinations by anti-aircraft guns and public use of sarin are examples. Third, it tries to suggest it isn't worth the trouble by not crossing red lines. Although the first two policies continue, the Kim Jong-un government appears to be moving headlong into becoming a direct threat to the U.S., which will prompt some action. Essentially, North Korean tactics appear to have changed; now it seems to be making direct threats against the U.S.

The U.S. has replied with a number of signals of its own. It has three carrier groups in the region, although, officially, one is returning to port. America already has significant air assets in Japan and Guam and could conduct an air campaign at any time. Two carrier groups simply increase the firepower and the potential rapid addition of a third group suggests the U.S. means business.

Other signals are important. Although President Trump's comments are not always

reliable, he has made it clear that North Korea will not be allowed to directly threaten the U.S. This promise is consistent with his Jacksonian² worldview and thus should be taken seriously. Secretary of Defense Mattis has described a war with North Korea as “catastrophic.” On the one hand, politicians usually prepare the public for war by suggesting it will be a cakewalk. Thus, Mattis's comments could be taken as cautionary. At the same time, this president has given much more strategic latitude to the generals in his cabinet;³ Mattis may be making it clear that if war is the outcome, he wants to be on the record as giving warning that it will be difficult.

Is War the Only Possibility?

There are other measures the U.S. could try but, so far, have had limited success. Sanctions have been in place for a long time but their effectiveness has been blunted by China and Russia. China usually agrees to U.N. sanctions but quietly violates them. The U.S. could sanction foreign banks doing business with North Korea (including Chinese firms), but this runs the risk of retaliation against U.S. interests. Sanctions only work when there is a broad consensus among the major economies who agree to enforce the rules.

A blockade is sometimes considered. Using the navy to stop shipping is usually considered an act of war, although it doesn't always lead to open conflict. The Soviets blockaded West Berlin in 1948 but allowed overflights; eventually, the blockade was lifted. The U.S. enforced a loose blockade of Cuba in 1962. That incident was also resolved without war. The problem with blockading North Korea is that it would be

² Ibid.

³ http://www.latimes.com/opinion/op-ed/la-oe-bacevich-trump-generals-afghanistan-20170618-story.html?wpmm=1&wpisrc=nl_todayworld

impossible to stop the flow of goods across the northern border. Another problem with economic sanctions is that North Korean policy is geared toward autarky. Thus, cutting off trade would have only modest effects.

The other possibility is a negotiated settlement. The *Wall Street Journal* recently reported that secret negotiations between Washington and Pyongyang have been conducted for over a year.⁴ North Korea has been represented by Madame Choi Sun Hee, who is said to be close to North Korean leader Kim Jong-un. Choi has been involved in nuclear negotiations for North Korea since the Clinton administration and is considered a strong representative. There have been rumors that former U.S. officials have been meeting with North Korean officials in European capitals; the aforementioned *WSJ* report would tend to confirm these reports. It appears the outline of a deal would require the U.S. to allow North Korea to keep its nuclear program but either freeze it at its current level or limit it. Given North Korea's history of breaking such agreements, it seems highly unlikely that it could be held to maintaining any pact. On the other hand, a treaty might prevent a war that neither side should want.

We could see the administration agreeing to allow North Korea to maintain its nuclear program on the provision that the U.S. can inspect its missile program to ensure that the Hermit Kingdom hasn't achieved an intercontinental ballistic missile (ICBM) that could directly strike the U.S. If other "goodies" were attached, North Korea may agree.

⁴ <https://www.wsj.com/articles/top-north-korean-nuclear-negotiator-secretly-met-with-u-s-diplomats-1497783603>

On the other hand, the recent incident that led to the tragic death of Otto Warmbier will make any sort of negotiations difficult. Warmbier was a U.S. college student who had been imprisoned by the regime. He was recently returned to the U.S. in a coma but died shortly thereafter. This horrible incident will color any attempts by the regime and the U.S. to negotiate a deal and probably increases the likelihood of a conflict.

The Critical Point

If North Korea continues on its current path of developing a deliverable nuclear weapon that can directly threaten the U.S., we would expect the administration to take steps to stop that from happening. Those steps may include diplomacy or war. War is always risky—as we have outlined above, North Korea has the capacity to inflict severe damage on South Korea. In addition, even "winning" is problematic. If the North Korean government fails, we would expect South Korea and China to struggle to deal with the remains of North Korea. A refugee crisis would be likely, and China would still strongly oppose a Western power on its border.

Diplomacy carries its own risks. Since the fall of the Berlin Wall, North Korea has made and broken numerous arrangements. The dynasty has made it abundantly clear that it intends to have weapons that will prevent the U.S. from executing regime change. Although previous administrations insisted on preventing North Korea from becoming a nuclear power, none were willing to go to war to enforce that goal. If the Trump administration changes the U.S. goal to one that only prevents North Korea from directly attacking the U.S., allies in the region will quickly realize that the U.S. may not retaliate in kind if North Korea uses

nuclear weapons against them. Thus, a nuclear arms race might develop.

It's hard to foresee a good outcome from rising tensions with North Korea.

Ramifications

Thus far, the financial markets view a conflict with North Korea as unthinkable and so there has been little discounting of a conflict. War would be bearish for risk assets, such as global equities, and bullish for safety assets, such as gold, the U.S. dollar and Treasuries. For the past few years, the Japanese yen has been seen as a safety currency but the yen would likely weaken in this instance given Japan's proximity to the Korean Peninsula.

If the U.S. accepts a deal with North Korea to monitor its ICBMs that could reach the U.S. but leave the nuclear program intact, then we would expect defense firms to benefit from the arms race that would likely follow. Overall, it has been our position for some time that the U.S. is in the process of reducing its global involvement and an ICBM deal would simply be another facet of our growing isolationism.

Currently, we expect a higher probability of an ICBM deal over war, but the likelihood of the latter is not trivial and is probably rising. As secret negotiations have become public, the pressure for an agreement will rise. If we don't see a deal soon, the risk for war will increase.

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