

Study Series 16-01



Identifying Driving Forces for Changes and Policy Challenges on the Korean Peninsula(2015-2030)

Park, Hyeong-Jung
Park, Young-Ja
Chung, Sung-Yoon
Sheen, Seong-Ho
Lee, Sang-Keun
Yoon, Cheol-Gee

Study Series 16-01



Identifying Driving Forces for Changes and Policy Challenges on the Korean Peninsula(2015-2030)

Park, Hyeong-Jung
Park, Young-Ja
Chung, Sung-Yoon
Sheen, Seong-Ho
Lee, Sang-Keun
Yoon, Cheol-Gee

Identifying Driving Forces for Changes and Policy Challenges on the Korean Peninsula (2015-2030)

Printed August 2016

Published August 2016

Published by Korea Institute for National Unification (KINU)

Publisher President, Korea Institute for National Unification

Editor Strategy and Public Relations Team, Planning and Coordination Division

Registration number No.2-2361 (April 23, 1997)

Address 217 Banpo-daero(Banpo-dong), Seocho-gu, Seoul 06578, Korea

Telephone (82-2) 2023-8038

Fax (82-2) 2023-8298

Homepage <http://www.kinu.or.kr>

Design/Print Handesigncorporation (82-2) 2269-9917

ISBN 978-89-8479-840-3 93340 : Not for sale

340.911-KDC6/ 320.9519-DDC23 CIP2016020680

Copyright Korea Institute for National Unification, 2016

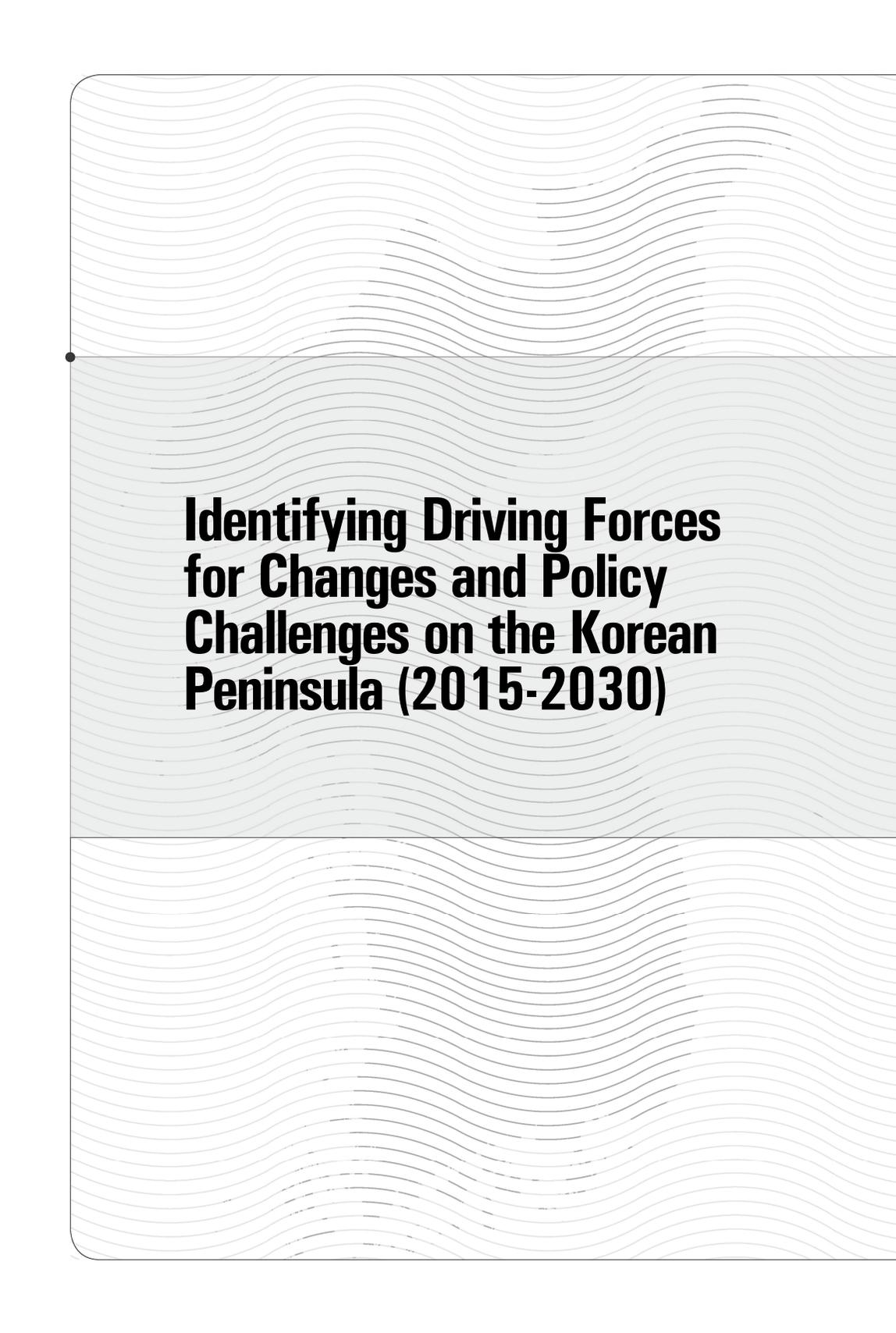
All KINU publications are available for purchase at all major bookstores in Korea.

Also available at the Government Printing Office Sales Center

Store (82-2) 734-6818; Office (82-2) 394-0337

Identifying Driving Forces for Changes and Policy Challenges on the Korean Peninsula (2015-2030)

This is a translated version of the Korean report published in January 2016. The analyses, comments and other opinions contained in this paper are those of the authors' and do not necessarily represent the views of the Korea Institute for National Unification.

The background of the page features a pattern of thin, wavy, horizontal lines. A horizontal band of a light grey color is positioned in the middle of the page, containing the main title text. The text is centered within this band and is rendered in a bold, black, sans-serif font. The overall design is clean and modern.

**Identifying Driving Forces
for Changes and Policy
Challenges on the Korean
Peninsula (2015-2030)**

CONTENTS

1. Situation in Northeast Asia	8
A. Structural Background	8
B. Major Trend until 2030	10
2. North Korea's Internal and External Relations	14
A. North Korea's External Policy/Policy on South Korea and Inter-Korean Relations	15
B. Internal Politics and Power Reshuffle	24
C. Economic Policy	33
3. Population Trend	42
4. Expansion of Electronic Communications	46
5. Climate Change and Vulnerability to Natural Disasters	50



Situation in Northeast Asia

1. Situation in Northeast Asia

A. Structural Background

The diplomatic and security environment of Northeast Asia is rapidly changing in the 21st century. Whereas the nature of hegemonic competition among great powers based on the strong military power and economic prowess remains unchanged, major powers prioritize the economic development over a direct conflict and seek cooperative mechanism in various aspects. In other words, no power desires abrupt transformation in the regional balance of power in the short term. However, there exist diplomatic and security challenges that may instigate great powers to re-write its strategy in the mid-to-long term. Obviously, those challenging factors are expected to exert direct and indirect influence on the security environment surrounding the Korean Peninsula.

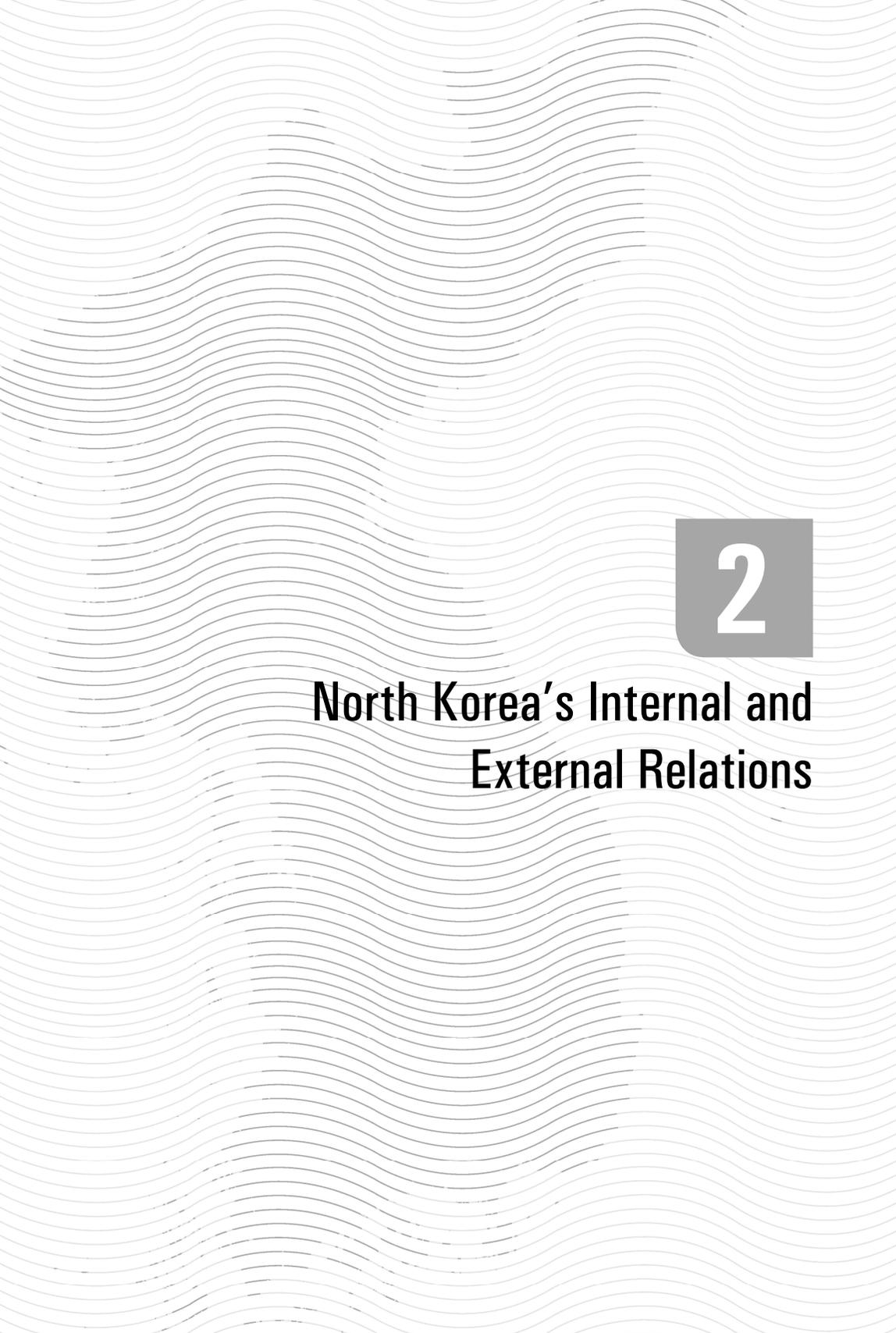
This study addresses five future scenarios for Northeast Asia: first, status quo; second, new Cold War in Asia; third, Asia peace regime; fourth, hot war (war between great powers) in Asia; and fifth, the

emergence of a common security threat. Each scenario may not unfold in an independent and unlinear manner. That is because the course of the regional order may be maintained or altered depending on how the states in the region strategically respond to the diverse domestic and international variables. In spite of this, Northeast Asia will probably maintain the status quo for the next 15 years. In other words, the current mixed landscape of both cooperation and competition in East Asia indicates that conflicts and tension will continue to coexist in the midst of China's rise and the U.S.'s response to rising China although there is no serious threat of a military clash at the moment. In the long term, the negative aspects of the security environment derived from maintaining the status quo will be accumulated in the next 20 to 30 years and be combined with the deepening domestic instability. Therefore, security competition will be much more likely to take place compared to the present to the extent that sparks crisis or completely shifts a paradigm in the genuine sense. The less economic, political, and social incentives there are - produced by the sustainable U.S.-China cooperation - the more likely the security competition will occur. The resulting transition may lead to cold war in Asia or - with less probability - hot war in Asia.

B. Major Trend until 2030

If such diplomatic and security environment were to be witnessed in Northeast Asia, the following eight main points can be summed up. First, the possibility of the outbreak of the war between great powers will be very slim. Second, the regional military balance will much more likely to be changed in the long term. Third, despite all this, there remains a possibility that trilateral cooperation - U.S.-China-Japan - might be partially strengthened. Fourth, there is a high possibility that the balance of power between U.S.-Japan alliance and China will be similar to that of the present. Fifth, the U.S. and China's influence on the Korean Peninsula are unlikely to diminish. Sixth, conversely, Japan and Russia will find themselves difficult to extend their clout beyond what they already have on the Korean Peninsula. Seventh, there is only a slim possibility of a complete denuclearization on the Korean Peninsula in the short term. Lastly, South Korea is highly likely to encounter multiple security challenges regardless of whether DPRK-U.S. relations will be improved in the future. If these eight possible scenarios were realized, the Korean Peninsula will inevitably confront the following various strategic challenges. First, South Korea's strategic dilemma will be steadily increased in terms of the relations with the U.S. (including the U.S.-Japan alliance) and China. Second, South Korea's security dilemma will also be on the rise because of China and Japan's aggressive defense strategies. Third, the

possibility of the ROK-U.S. alliance gradually weakening in the mid-to-long term cannot be ruled out. Fourth, the major powers will be strategically alert on South Korea's unification policy. Fifth, North Korea's deterrence against ROK-U.S. Combined Forces might become strengthened. Sixth, as a result, South Korea's unilateral deterrence against North Korea may be diminished.

The background of the page is a light gray color with a pattern of thin, wavy, horizontal lines that create a subtle, textured effect. The lines are evenly spaced and flow across the entire page.

2

North Korea's Internal and External Relations

2. North Korea's Internal and External Relations

Kim Jong-un's grip on power has seemingly ushered in a new era in North Korea's policy on internal and external conditions. This is evidenced by the fact that North Korea has undergone various changes in domestic and foreign relations since Kim Jong-un took power in 2012. In fact, some of the changes were already initiated during the Kim Jong-il era, especially from 2009 onwards when the hereditary succession began. Such changes include the refusal to denuclearize, the enhancement of nuclear capabilities, and the aggressive policy toward South Korea. Nevertheless, Pyongyang accepted negotiations for denuclearization in the Kim Jong-il era and as a result, the Leap Day Agreement was signed with Washington in 2012. However, ever since Kim Jong-un came to power, the negotiation for denuclearization was completely put on hold and the confrontations and tensions between North Korea and the neighboring countries have escalated. Domestically, various reform-oriented measures in the economic sector were decided immediately after Kim Jong-il's death and were initiated in earnest from 2012. In politics, not only has Kim Jong-un disassembled the elite patronage system of his father but also he

restructured the role and stature of high-level authorities.

This paper explicates the policy changes in North Korea that were initiated with the inauguration of the Kim Jong-un regime and the resultant changes in inter-Korean relations in three different areas - North Korea's external policy/policy toward South Korea, the internal politics and power relations, and the economy. Each area was analyzed into two different categories - the main contents of structural changes and the major trend in each area derived from the structural changes.

A. North Korea's External Policy/Policy on South Korea and Inter-Korean Relations

1) Structural Change

First, considering the changes and outlooks in Pyongyang's policy on nuclear program and South Korea, North Korea's policy is likely to remain as it is from 2015 to 2030. In other words, there is a high possibility of North Korea's ever growing confrontation and tension with its neighbors and South Korea due to the lingering nuclear issue.

North Korea conducted its second nuclear test in 2009 and overtly declared its refusal to denuclearize. The confrontational phase with its neighbors, including South Korea, started along with North Korea's policy shift. The characteristic of such phase is that as the two sides

take measures and countermeasures back and forth to force the other side to succumb, the bilateral relations gradually fall into a dangerous cliff. Pyongyang's refusal for denuclearization evoked the inter-Korean relations to structurally destabilize. As long as the nuclear issue persists, uncertainty in inter-Korean relations is likely to prevail. In times when North Korea enhances its nuclear capabilities, the probability of a sincere attempt to mend inter-Korean relations and the possibility of this being successful dramatically decline. On the contrary, the likeliness of efforts to inflict the pain on the opponent and the possibility of this having an effect increase by far. However, while coming up with an agreed international modus vivendi is not an impossible task, the path will be strewn with obstacles. Pyongyang demands its neighbors to acknowledge itself as a 'nuclear weapons state' and the neighboring countries urge North Korea to re-participate in the denuclearization process. Since friction between the two sides can only be resolved by capitulating to the other side, the solution may be aloof. Also, the inter-Korean conflicts and confrontation have expanded into every field in the bilateral relationship. The aspects of such confrontation are as follows: arms race related to nuclear weapons; diplomatic confrontation and discord; escalation of military tension; the risk of inadvertent expansion of war; conventional arms race; various political offensives against the other side's regime and its people; the advent of war of attrition in the mid-to-long term caused by 'strategic patience' that demands a preemptive concession from the

other side.

2) Major Trend Outlooks in Inter-Korean Relations until 2030

The following six major trends are expected in inter-Korean relations under the background of the abovementioned structural change.

- (A) The nature of North Korea's relationship with the outside world is characterized by confrontation and dispute and inter-Korean relations will never be an exception.

If North Korea's attempt to enhance nuclear capability structurally fixates the phase of confrontation and conflict with the neighboring countries, inter-Korean relations could not be immune to such confrontation and conflict. North Korea's measures to enhance its nuclear and missile capabilities have created a cycle of confrontation and conflict – provocation-retaliation-second provocation-second retaliation, etc. – with neighboring countries and the two Koreas ended up embroiled in this cycle with mutual hostility. Particularly, when North Korea counteracted against the sanctions and pressures imposed by the international community including the U.S. and South Korea for bolstering nuclear capabilities, South Korea had to be the primary target for military provocations and threat. Accordingly, North Korea's rebuff of international demand for denuclearization triggered

a phase in which structural instability in inter-Korean relations is inevitable. At this juncture, the likelihood of a serious attempt to mend inter-Korean relations and the chance of this being fruitful declines. On the contrary, the probability of a bid to damage the other side and the possibility of this being effective increase further. Under these circumstances, on one hand, North Korea finds it hard to expect the meaningful economic assistance from South Korea and on the other hand, South Korea cannot profoundly restrict the North Korea's hostile acts against South Korea or widen exchanges and cooperation with North Korea. The most important factor that accounts for the failure of most inter-Korean transaction attempts since 2009 is this structural nature of the new phase of the inter-Korean confrontation and conflict.

(B) North Korea's refusal for denuclearization is indicative of the nullification of inter-Korean strategic *modus vivendi* based on June 15 and October 4 Joint Declarations.

North Korea snubbed the outside world's request for denuclearization. This meant that North Korea broke off inter-Korean strategic *modus vivendi* that underpinned the 'reconciliation and cooperation' phase between the two Koreas between 2000 and 2007. In the past, the 'reconciliation and cooperation' phase was built on the strategic temporary *modus vivendi*: North Korea's gradual implementation of

denuclearization; South Korea's gradual expansion of assistance to North Korea based on the principal of peaceful coexistence between the North and the South; gradual expansion of inter-Korean exchanges and cooperation; and improvement of inter-Korean relations. This modus vivendi between the two Koreas was documented as a strategic contract signed by both leaders as June 15 and October 4 Joint Declaration. In other words, the two declarations are valid as long as North Korea does not derail from the path of denuclearization. However, even after its proclamation to refuse the denuclearization, Pyongyang demands Seoul to abide by the two declarations.

Due to North Korea's second nuclear test and its declaration to adhere to nuclear possession in 2009, the phase of compromise and cooperation with neighboring countries, including South Korea and the U.S. shifted to the one full of confrontation and conflict. The third nuclear test in 2013 further aggravated the confrontation and conflict with other countries. Then, what are the main attributes of this confrontational phase? The answer can be summarized into the four following points.

- (C) The intensity of the confrontation and conflict correspondingly increases in line with that of interests at stake.

What is at stake for South Korea, the U.S., Japan, and China is the issue of whether to acknowledge North Korea as a nuclear weapons

state. Acknowledging North Korea as a nuclear weapons state as a fait accompli will create enormous costs for those four countries in the form of the deepening uncertainty and skyrocketing security burden. On the other hand, this is an issue of the survival for the North Korean regime. North Korea will find it difficult to even accept the demands for gradual denuclearization after having enshrined itself as a nuclear weapons state in its constitution. As long as North Korea adamantly sticks to nuclear possession, North Korea should contend with the piling pressure from the outside that is willing to see the regime collapse.

(D) Confrontation and conflict expand in all directions. The major areas of conflict encompass the following:

nuclear arms race; diplomatic confrontation and conflict; escalation of military tension and the danger of unintentional expansion of war; conventional arms race; political offensive against the regime and its people; and the advent of mid-to-long term war of attrition owing to 'strategic patience,' which demands concession from the other side. As long as the talks to address the North Korean nuclear issues remain suspended, North Korea will continue its behavior of strengthening the nuclear and missile capabilities. It will also relentlessly commit to being recognized as a nuclear weapons state by the neighboring countries. Together with this, North Korea should respond to the

punitive measures - distorting internal politics and draining its source of hard currency income - of the international community and neighboring countries for its enhancement of nuclear capabilities. North Korea's responsive means contain the enhancement of nuclear and missile capabilities, diplomatic efforts, intensifying provocations against South Korea, and political offensive against South Korea. Conversely, South Korea has to pursue the apposite military deterrence to respond and adopt measures to put a political, military, and diplomatic pressure on North Korea. Seoul will diplomatically besiege, pressure, isolate Pyongyang, reciprocate with enhancing military capabilities and strengthening military exercises, and continue the political offensives that might break the stability of North Korea's internal politics. As such, bilateral confrontation and conflict will expand to all fields and persist for the mid-to-long term until one side surrenders out of exhaustion. <Table 1> organizes these points mentioned earlier.

<Table 1> Inter-Korean Full-Scale Confrontation and Conflict since 2009

North Korea's Policy	Inter-Korean Relations	South Korea's Policy
Enhancement of nuclear and missile capabilities	Arms race	Extended deterrence (Building up responsive capacity against nuclear weapons and missiles)
Seeking acknowledgment as a nuclear weapons state	Diplomatic confrontation	Diplomatic encirclement and pressure
Maintaining inter-Korean 'war situation' and conducting limited provocation by seizing an opportunity	Maintaining high-level military tension. The danger of unintended expansion of war	Expanding conventional responsive capabilities and planning limited provocations
Political offensive (barrage of threat, nuclear blackmailing and conciliatory approach toward the South)	Political conflict	Political offensive (preparation for unification, trustpolitik, three channels of exchange, etc.)
Seeking regime survival (political stability and procurement of foreign currency)	Political conflict	Policy of increasing the cost for the regime survival (military drills, human rights policy, economic sanctions, influx of information, etc.)
Strategic patience (demanding concession from the other side first)	Mid-to-long term war of attrition	Strategic patience (demanding concession from the other side first)

(E) The current phase of confrontation and conflict is terminated only when one side capitulates, which makes the situation of escalated tensions with the lack of compromise prolonged.

In short, whether North Korea reenters the course of denuclearization through policy alteration or internal collapse, or South Korea, the U.S., Japan, and China recognize North Korea as a nuclear weapons state, either the former or the latter should take place in order to draw the current phase to a close. Nevertheless, neither of the two is likely in the foreseeable future. Both sides will take turns to deploy measures that will inflict a increasing damage on the other side until the

confrontation comes to an end. Therefore, North Korea's relations with its neighbors including South Korea and the U.S. will shape around confrontation and conflict.

(F) Barely no room is left for inter-Korean relations to improve.

With North Korea persistently pursuing the enhancement of nuclear capabilities and refusing to denuclearize, inter-Korean relations will remain structurally volatile amid the inevitably escalating tensions. Also, as stated in the second part, inter-Korean confrontation and conflict are expanded in all directions. Furthermore, South Korea would play the essential role in making North Korea's *byungjin* line (of simultaneous nuclear and economic development) a failure. That is because South Korea has adopted the most significant measure related to barring North Korea's foreign currency earnings through trade. In this situation, both Koreas are less likely to agree on a deal that yields benefit for both sides through a *modus vivendi*, whether large or small. Even if they reach a compromise, they will have to pay the price that exceeds the benefits to sustain such pledge.

B. Internal Politics and Power Reshuffle

1) Main Characteristics until 2030

In domestic politics, Kim Jong-un is likely to hold the grip on power until 2030. Judging by the numerous signs in 2015, Kim Jong-un appears to be finalizing a project of re-establishing the autocratic and unitary dictatorship once again. From the perspectives of comparative politics, once *suryong*-type autocracy is established, the dictator tends to remain in power for life. In North Korea, 50 years have passed since the *suryong* dictatorship was first established in the mid-1960s, which indicates that *suryong* dictatorship became a self-evident system in North Korean politics. This institutional inertia appears to have largely contributed to reestablishing *suryong* dictatorship through the hereditary power succession. Taking into account such features of the regime and the power politics until 2030, Kim Jong-un is unlikely to be ousted by the internal elite struggle. Still the North Korean regime is likely to face internal and external policy failure. Also, provocation and policy of aggressive nature against the South may be pursued. This high probability is attributed to a certain characteristic that the absoluteness of *suryong* and of blandishments regarding *suryong*'s decision prevail in the decision-making process. And therefore, the policy decision-making is showing the increasing tendency that lacks in expertise and prudence.

2) Major Trend Outlooks in Internal Politics up to 2030

Considering the internal politics and the personality of the leader Kim Jong-un, the following six major trends are predicted to occur until 2030.

- (A) Kim Jong-un's means of managing the internal power has a less likelihood of causing the political insecurity.

Kim Jong-un has executed exceptional and puzzling personnel policy. This includes the heinous and raucous purge of his uncle Jang Sung-taek, the sudden reshuffling, promotion and demotion, and re-appointment and expulsion of military generals and close aides. That is why some scholars strongly alleged that Kim Jong-un's power is still tumultuous.

However, from the perspective of comparative dictatorship studies, weak leaders are incapable of exerting such means of power management. This type of power management takes place only when the dictator could control his/her subordinates without any restriction due to the vast power gap between the dictator and his subordinates. The research on one-man dictatorship in comparative politics suggests that this means of power management is just the general phenomena to an autocrat. In addition, judging by the brutality and bizarreness of the purges committed by the Kim Jong-un regime, his method is not particularly and shockingly extreme compared to the demeanors of

other similar despots.

If Kim Jong-un succeeded in establishing autocratic dictatorship even though it might not match that of his grandfather or his father, the possibility of political instability occurring in the narrow sense is very low. Political instability in the narrow sense means that some upper-class figures systematically hatch a plot against Kim Jong-un. This possibility is bleak. However, the number of elites defecting the North is likely to increase when they see themselves in danger of purge. These individual elite defectors will not make the North Korean regime capricious. This is well-illustrated by the previous case in which Hwang Jang-yop, the former Secretary of Workers' Party of Korea defecting to South Korea did not tremble the Kim Jong-il regime's stability. Nevertheless, there always exists a possibility of triggering a chain reaction of a massive defection once an inflection point is reached amid the increasing elite defectors. As the number of individual high-level elite defectors rises, the number of elites feeling the existential threats in the North will also increase due to their connections to the defected elites in the South. And therefore the increasing individual elite defectors might lead to a snowballing number of defectors.

(B) The odds of policy failure are on the rise.

Instability in the North Korean regime is likely to stem from the

policy failure and not from a treason of some internal elites. Due to the appallingly fearful atmosphere that Kim Jong-un creates, a myriad of elites barely make a move and are passive in coping with the impending issues. Under these circumstances most issues that requires the policy decision may only have a slim chance of being deeply considered. Moreover, what Kim Jong-un wants will have to be unconditionally followed through - at least it needs to appear to be done on the outside - regardless of the feasibility or the costs attached to it. And in many cases, even if the attempt to accomplish the dear leader's wish fails, it will be fabricated as an achievement. Even a policy of disastrous consequences might be implemented without due consideration. There is a high probability that they would not have any reasonable understanding and appropriate preparation for the major mid-to-long term challenges

All these elements raise the possibility and probability of policy failure. Based on the previous events, the predictable cases are as follows: the frequent revoke and reversal of Kim Jong-un's directives; safety accidents in state engineering construction projects; extreme policies such as currency revaluation measures; worsening foreign relations (failing to re-establish relations with China, failing to mend relations with Russia, derailing inter-Korean relations, etc.); problems occurred by excessive orders and demands in the midst of military exercises; and fiasco in tackling economic crisis due to the lack of policies (natural disaster, the depletion of foreign currency income, etc.).

Policy failure may push society into chaos or bring disaster to people's lives or cause a situation in which the titular officials accountable for policies feel threatened for their lives. Also, the North Korean authority has increasingly toughened a crackdown on subsistent merchants who do not pay fees for commercial activities in 'alley markets' and 'grasshopper markets.' As this crackdown puts small merchants' lives at risk, intense physical confrontations between merchants and regulators might occur and in rare cases, the crowd might fight back in the marketplace. While this kind of development by itself cannot pose a threat to the regime's stability, it entails the uncertainty that these incidents could unexpectedly evolve into mass rallies.

(C) Provocations against South Korea will become increasingly likely.

Generally, personalistic dictatorships are inclined to pursue reckless internal and foreign policy compared to non-personalist or democratic regime. In cases where seizing the political power essentially necessitates the violence as was in North Korea, only a figure with violent personal traits can step up as the leader. However, these leaders soon find themselves surrounded by sycophants. A leader encircled by these people are prone to have megalomaniac ambitions, an exorbitant conviction in his own ability and competence, a delusion

of infallibility, excessive confidence in triumph, and undervaluation of the cost of defeat. In this case, as he approaches every issue incautiously, policy failure is likely to follow. In the case of Kim Jong-un, one could point to the currency revaluation measure in November 2009 as a deplorable failure of domestic policy. Let's look at foreign policy. Autocrats are liable to instigate conflicts with neighboring states for above mentioned reasons. They are very likely to lack the cautiousness in formulating policies such as military operations. Hence, leaders like Kim Jong-un have a relatively high tendency of inciting conflicts but have a low possibility of ending victoriously in these conflicts. Still, even if personalist dictators make policy failures, they are not challenged in domestic politics. There are two factors that bolden Kim Jong-un's reckless policy inclination. First is his intense level of obsession to be honored with 'supreme dignity' as the young new leader. His such personal traits and obsession would have influenced his cruel and brutal purge of affiliates in his father's generation. Moreover, from 2011 to recent days, the main agenda in North Korea's policy toward South Korea is the demand and threat related to 'the respect for highest majesty' and 'the termination of mutual slander.' Next issue is that North Korea is a new nuclear weapons state. In retrospect, new nuclear weapons state had the tendency to engage in reckless provocations against the adversary while taking advantage of the nuclear possession as a magical shield.

Considering the policy situation, North Korea has the motivation

to provoke. Nevertheless, when the adventurish confidence awarded by the position of *suryong* is combined with Kim Jong-un's inherent violent-friendly personality, the likelihood of provocation against South Korea will remain higher than any other situation.

There are situational factors that motivate North Korea to provoke South Korea as follows: the two Koreas remain in confrontational phase; North Korea desires to be recognized as a nuclear weapons state and to enforce this recognition; North Korea's isolation in foreign relations including with South Korea has become severe; and South Korea, the U.S., and Japan have piled up the pressure on North Korea after the 4th nuclear test. Additionally, North Korea has conducted the intensive military exercises under Kim Jong-un's watch putting forth the slogan of 'strengthening the combat capabilities' since the year 2015, dubbed as the year of 'war of unification.' If Kim Jong-un's violence-prone personality preferring violence and the frivolous and adventurous tendency awarded by the *suryong* position are merged with the reckless confidence as a new nuclear weapons state, the probability of North Korea's provocation against South Korea takes a sharp increase.

North Korea's policy of raising and maintaining tension seems to have a point of emphasis. Pyongyang opted for unprecedented tension-raising behaviors in March and April 2013 and test-fired around 100 missiles in 2014. North Korea designated the year of 2015 as the 'year of strengthening military capabilities' and expanded the

frequency and scope of military exercises. After the 4th nuclear test in January 2016, North Korea's international isolation has further intensified.

(D) Reckless provocations may be more probable.

The aggregate of new nuclear weapons state's adventuristic tendency, Kim Jong-un's megalomania and overconfidence, deepening isolation, and stimulation from South Korea and the U.S. against North Korea raise the probability of North Korea's reckless provocations.

Fresh nuclear weapons state have been predisposed to behave aggressively toward the outside world. That is attributable to their belief that nuclear weapons will deter the adversary from critical retaliation even if they launch a bold attack against their opponent. North Korea also appears to show this tendency. The North already substantiated this tendency through the sinking of ROK's *Cheonan* and the shelling of Yeonpyeong Island in 2010.

It is likely that North Korea is seeking an appropriate opportunity. In relation to this, North Korea holds two options. One is to commit a bold intimidation but not an actual provocation. Since the incidents of *Cheonan* and Yeonpyeong Island, South Korea and the U.S. have acutely bolstered defense posture and determination to retaliate by jointly preparing 'counter-provocation plan.' Therefore, North Korea has a high risk of failure or reprisal in case of a provocation.

Considering this, North Korea may only intimidate its southern neighbor and refrain from an actual attack. Another option for the North is to evoke a large provocation and induce South Korea's overreaction. Pyongyang might attempt the kind of provocation that completely hides the source of the provocation.

(E) There exists a possibility of North Korea's conventional army's professionalism and combat ability being weakened.

In general, a totalitarian dictator is bent on debilitating the standing army which could potentially pose a threat to his/her power. For example, a dictator may cut the spending on the standing army while overly strengthening his/her guards who are responsible for protecting the leader. While this situation has existed in North Korea, it did not go too far as to overly harm the combat ability of the standing army because of the severe military confrontation with South Korea and the U.S. However, since Kim Jong-un came into power, asymmetrical military capabilities have markedly strengthened. In such a situation, the standing army plays a lesser role for the regime and national security. Additionally, there had been an excessive and noticeable advancement in the political status of regular army units and the military's collusion with the market in the 1990s and 2000s. Kim Jong-un, further depending on asymmetrical capabilities, will be able to take measures to debilitate the standing army more freely.

(F) Disproportion among North Korean domestic sectors may intensify.

Increased unbalance is one type of the aforementioned policy failures. Unconditional commitment to Kim Jong-un's impromptu decision of ostentatious construction projects may make the investment sources depleted in the people's economy or cause the drainage of state/regime finances. If Kim Jong-un places his focus on supporting soldiers' wellbeing in the Korean People's Army, other expenditure in the defense sector declines. When the combat ability is strengthened accompanied by Kim Jong-un's attention, other sectors may suffer from this.

C. Economic Policy

1) Major Attributes of North Korean Economy up until 2030

Market economy in North Korea will expand further owing to the internal dynamics. Already North Korea takes various economic reform measures after 2012 since Kim Jong-un took power. These measures not only assist the regime to improve its fiscal situation but also provide economic benefits to the general population. This trend will continue until 2030. The regime will be more tolerant on private property and private entrepreneurs and the state tax regime will

gradually transform to a market one. However, these economic changes will not assure continuous growth for North Korea in the future. The greatest impediment is the *suryong* dictatorship, which leads to corresponding economic concentration. All of these functions as an obstacle to rational economic policies. Also, it appears that North Korea will struggle with attracting foreign investment since the nuclear issue remains unresolved.

2) Major Trend Outlooks in the North Korean Economy until 2030

The level of institutional and realistic changes in the Kim Jong-un era corresponds with China in the late 1980s. However, such changes in the North Korean economy will not reap fruitful outcomes, unlike China's case. In this context, the outlook and policy implications can be summed up into nine points.

(A) The market economy in North Korea will be expanded thanks to the internal dynamics.

As seen from above, the regime already compromised with the market and various regime organizations reap the profits from the market expansion. Accordingly, as North Korea's markets expand even without South Korea's concern, South Korea needs not to ponder on 'measures to promote the expansion of market economy.'

- (B) As learned from experiences, ‘market expansion’ does not always lead to political instability in North Korea.

All countries under the dictatorial rule in the world are incorporated with the market economy. Historically, the market has been incorporated with various forms of political system. There have been more cases where the dictatorial rule has been stabilized and sustained by the market than the ones jeopardized by the market. Political change has been driven by other reasons and not necessarily by the market expansion.

- (C) ‘The expansion of market economy’ does not always convey the message that North Korea takes on the path of long-term continuous growth like China or Vietnam.

The expansion of the market economy clearly leads to an increase in productivity. However, as the market expansion progresses, the negative impediment to economic growth derived from the North Korean internal and diplomatic conditions will be evidently recognized.

- (D) The North Korean authority will privatize the national assets and recognize the private property rights within 5 to 10 years.

North Korea will be entering a new stage of the socialist economy, namely, <privatization of means of production + communist party

rule>. As is generally known, the principle of 'state ownership of means of production' in North Korea has gradually become a semblance. De facto private properties have appeared in sectors such as real estate, capital and facilities, and management funds. And these phenomena have increasingly become the norm. This trend will continue to build up and the regime will once again confirm this reality. In North Korea, men of power are the men of wealth. But there is no legal title to holding 'private' property. Therefore, the North Korean elites with power, more than anyone else, desire the situation, in which the private property is politically and legally approved.

(E) Two types of market exist: markets that stimulate the economic growth; and markets that fail to stimulate the economic growth.

Historically, the markets combined with the growth of export-oriented manufacturing sector have made continuous economic growth possible. Nevertheless, the markets combined with the resource-export dependent economy have generally caused the stronger dictatorship and the long-term economic recession. At least until now, North Korea's market is combined with the resource-exporting economy and dictatorship. Political change is required to shift the resource-export oriented economy to the export-oriented manufacturing economy.

- (F) The most important economic reform for North Korea is to alleviate the tensions with its neighbors.

North Korean economy's stable growth and improvement of people's livelihood are impossible unless the tensions with its neighbors alleviate. For the North Korean economy to resuscitate, North Korea has to cut the defense expenditure and secure the capital, technology, and the market from the international community. Only when the defense spending is cut back, will the political space be created that could alter the internal structure of monopoly and oligopoly. Moreover, North Korea will afford to choose the export-oriented manufacturing economy only when the tensions with neighbors are relieved. The fact that North Korea possesses nuclear weapons does not mean that North Korea is able to cut the defense costs and focus on the economy or enhance the investment in people's lives. In order to reduce the military expenditure, Pyongyang has to sincerely mitigate the tensions with its neighboring countries. And returning to the path of denuclearization would be a starting point.

- (G) North Korean economy's continuous growth is possible only when the internal power system is decentralized to some extent.

The more centralized the power, the stronger the temptation to accumulate wealth through extortion, especially when the property rights are not guaranteed. The more concentrated the power, the

stronger the temptation to gain wealth by oligopoly, monopoly, and allocation of prerogatives, not by the enhancement of productivity.

(H) Unless the economic pie becomes large enough along with the continuously growing economy, North Korea will find it difficult to see the economic reform gaining momentum.

Reform of any kind inevitably produces winners and losers. For a reform to be successful, it should expand the pie and some of this enlarged pie should be used to sufficiently reimburse for the losers. Implementing reform measures under the situation of low economic growth with the pie growing at an insufficiently low rate may bring strong resistance from the privileged that may suffer losses by reform measures. Since the implementation of the July 1 Measures in 2002, it took 10 years for North Korea to take new reforms in the Kim Jong-un era in 2012. In the case of China, five years (from 1979/80 to 1984/85) had passed to make the similar progress. It also appears that reform has been met with considerable resistance in the Kim Jong-un era. On one side the Kim Jong-un regime has taken reformative measures but on the other side the regime does not make the reformative measures politically significant with the slow-paced progress and expansion of the reform.

- (I) Since the market will be expanded by itself in North Korea, South Korea needs not to contemplate the ‘measures on promoting the market expansion in North Korea.’

Nonetheless, Seoul should have the interests in assisting the market expansion in a way that improves the people’s lives in North Korea. Historically, markets have combined with various expropriation mechanisms. Markets in North Korea have various traits that may eventually contribute to the efficiency of the regime’s expropriation mechanisms in the changing situation. What matters is that South Korea has to set the right perspectives on what should be done for the market to enable the economic growth and contribute to stabilizing people’s livelihood and that reflect them into the policy-making process even though Seoul welcomes the expansion of the market in North Korea. There seem to be two paths in which the market tangibly contributes to improving people’s livelihoods in the mid-to-long term. One is when the market is combined with the export-oriented manufacturing economy and builds the stable long-term economic growth. And the other is when the market is combined with the decentralized political authority, the rule of law, and the assurance of property rights like the developed countries in the West.



3

Population Trend

3. Population Trend

North Korea's population trend until 2030 will be as follows. For the short-term trend from 2015 to 2020, the working age population will rise from 17.431 million in 2015 to 18.218 million in 2020. The share of the economically active group in the total population also slightly increases from 69.3% to 70.7%. Viewing the 10-year mid-term trend from 2015 to 2025, the total working-age population increases from 17.431 million in 2015 to 18.218 million in 2020. This number will reach its peaks in 2020 and will gradually be reduced to 18.150 million in 2025. The percentage out of the total population also decreases to 69.0%. Considering the long-term trend until 2030, the total workforce is predicted to be around 18.196 million in 2030. The share of the working-age population reaches the apex in 2020 with 70.7%. However, afterward, the declining trend will continue with 68.1% in 2030. This trend will continue thereafter.

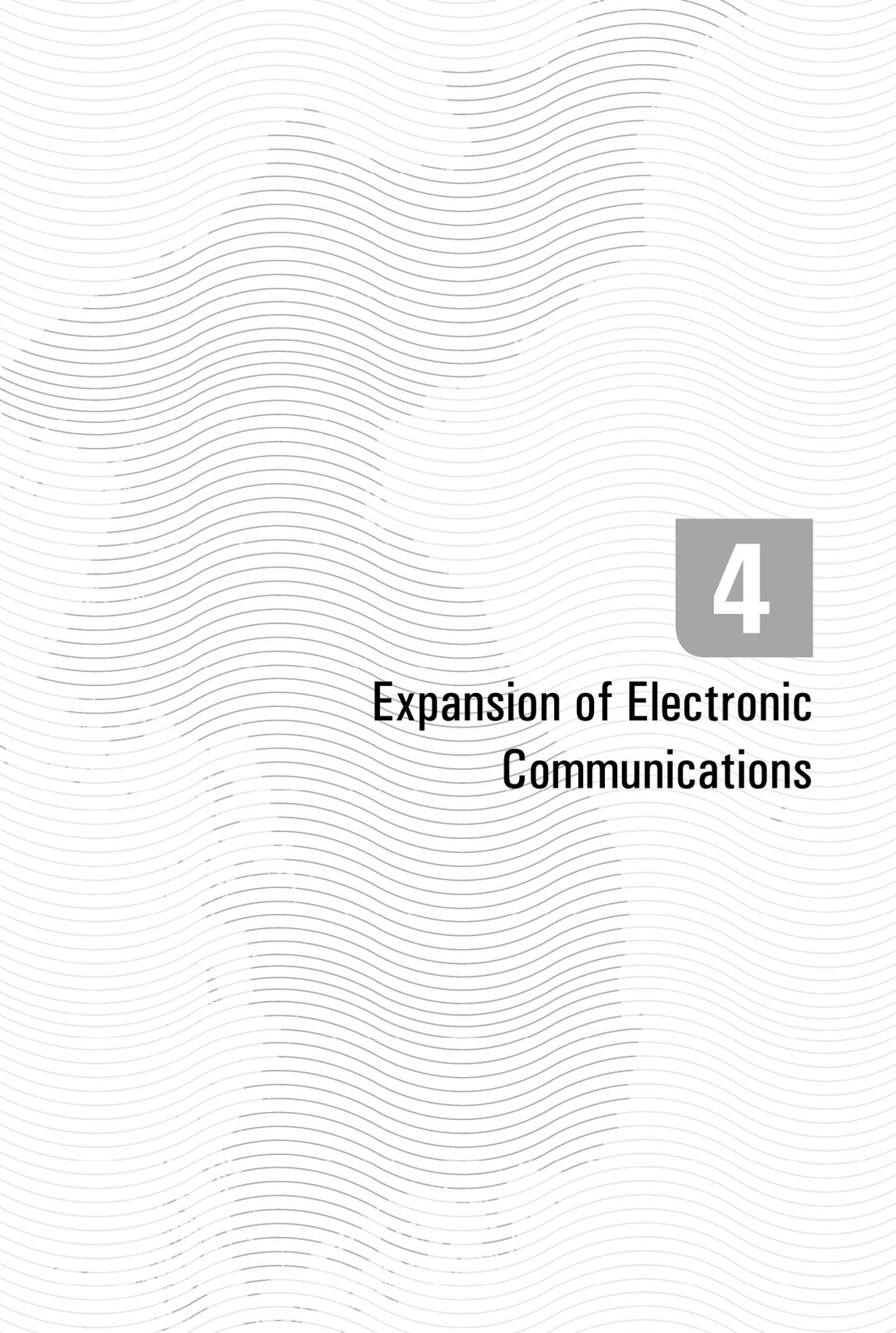
North Korea already entered the 'aging society' in 2004, in which people older than 65 exceed 7% of the total population. The percentage of people over 65 is 10.2% in 2015 and is estimated to be

increased to 10.0% in 2020, 11.2% in 2025, and 12.9% in 2030. Based on this trend, North Korea is predicted to become the ‘aged society’ in 2034 where people over 65 make up 14% of the entire population. Around 2020, North Korea will struggle with the pressure for policy change due to the demographic change.

Responding to this population trend, North Korea may have to adopt the following policies. First, in the short term (2015-2020), Pyongyang needs to pursue a policy of combining industrial restructuring and the labor force readjustment. From 2015 to 2020, the North Korean society will have the youngest population structure in the coming years considering the population pattern and the structure of labor force. However, from that point on, the DPRK has to pre-emptively prepare for a shock that may be caused by the decline in population after 2020. The North will also face the increasing demands for improvement in the labor force and the industry structure for the consolidation of the regime in the mid-to-long term. To this end, the demands for downsizing the army will be put forward. Also, the increased labor force in the service sector due to the marketization should be infused into rebuilding the manufacturing industry. Nevertheless, when taking note of the rate of people receiving rations and the factory utilization rate, establishing the underpinning infrastructure will be an obstacle. Also, policy measures should be adopted to promote the fertility rate encouraging women to have more children.

Second, considering that the DPRK enter into aged society in 2020, it must prepare itself for it in advance in the next ten years (2015-2025). From 2020, the number of the working-age population will be decreased. The number of people over 65 will be increased to 11.2% in 2025. During those periods, the problems caused by the aged society will be externalized in North Korea. Therefore, the resulting policy changes in industries and the military will be critical tasks. When considering the industrial structure, policy considerations might be followed in the second industry that holds the potential for improving the labor proficiency and the substantiality of productivity. The military will have no choice but to reduce the conventional forces given the population pressure. It may be viewed that the current Kim Jong-un regime prepares for this period by focusing on the development of the military technology and state-of-the-art weaponry.

Third, the people that have connections both in North and South Korea will disappear after 2030. This will have an effect on the perception of the Korean unification and the direction of forming inter-Korean relations.



4

**Expansion of Electronic
Communications**

4. Expansion of Electronic Communications

Numerous information and communications technology (ICT) devices such as personal computers, TV, radio, and mobile phones have been widely disseminated in North Korea more than ever. Though these social changes merely facilitate the sharing of criticisms about the North Korea's current status among the North Korean people, they, however, has yet to lead to people mobilizing the will for the political action to change the reality.

In the mid-to-long term, the North Korean authority will have to ease the control over the use of ICT equipment to a certain degree. That is because the North Korean authority would regard the development of ICT technology as a crucial means of economic growth and want to use it for the purpose of strengthening the legitimacy of the regime. Accordingly, the use of ICT technology is predicted to continually increase for the next 15 years. As for the mobile phones, the number of mobile phone users is reported to reach 3 million as of 2015. If the number of users increases by 10% annually, 8 million people will be using mobile phones in the next 10

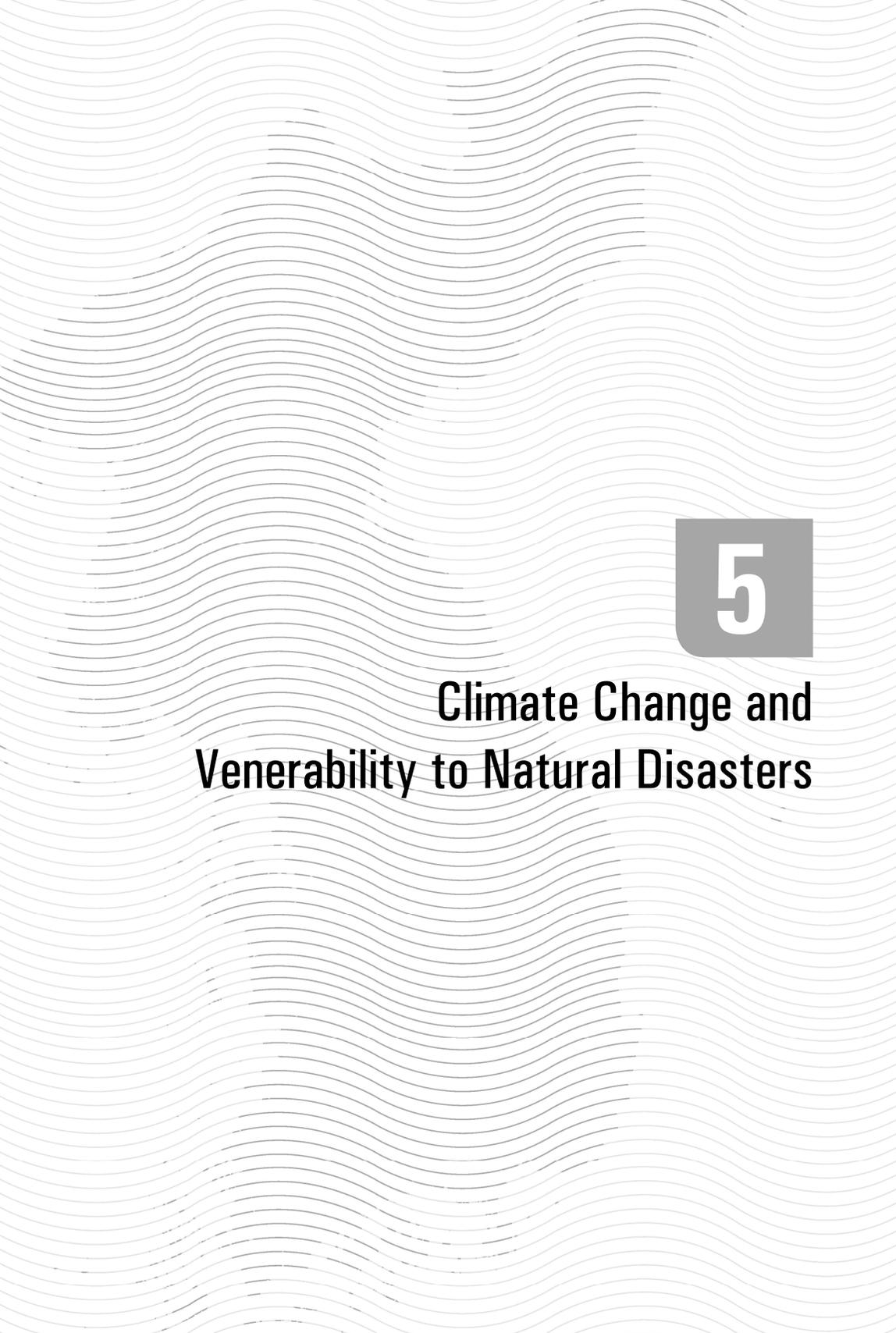
years and the number of the registered mobile phone users will reach 12.5 million in 15 years.

Two models can be referred to when it comes to the information control of non-democratic states, which also can be used for making a projection on the corresponding changes caused by the circulation of ICT devices in North Korea; Cuban and Chinese models that were built reflecting the needs for Internet control. While the Cuban model focuses on limiting the public access to the internet, the Chinese model controls the use of the Internet through filtering the contents and deploys the self-censorship by allowing public access to the Internet.

Given the North Korean leadership's perspective on the external conditions and the trend up until now, North Korea appears to replicate the Cuban model that slowly expands the internet use for economic benefits and acquisition of expertise while separating the Internet from the intranet. However, the regime is likely to gradually ease the restrictions on the Internet use, such as allowing the internet access in enterprises, research institutes for the following purposes: bridging the gap in science and technology between the DPRK and the advanced countries; transferring technology and facilitating the foreign investment; and strengthening the connections with the global market. Nevertheless, accessing the Internet from personal computers at home or mobile phones will be authorized in a very exceptional case. Once the data transfer becomes possible through mobile phones and intranet, the economic activities of the North Korea people will be more

efficient.

The phenomenon of increasing users of ICT devices in North Korea has garnered the attention due to its political ramifications. The followings projections on the effect of ICT circulation can be made regarding the political change in North Korea. First, the expansion of ICT devices will raise the potentials of North Korean people to act for political change through the formation and enhancement of alternative networks. Second, the circulation of ICT itself does not automatically create the conditions for North Korean people to act on the political change. Third, if the time comes for the people of North Korea to work for political change, the North Korea's ICT infrastructure could be sufficiently utilized to expand the political acts.



5

**Climate Change and
Vulnerability to Natural Disasters**

5. Climate Change and Vulnerability to Natural Disasters

North Korea's vulnerability to natural disasters is one of the vital factors that threaten the regime. What directly caused the economic crisis in the 1990s was the massive inundation. Even after this accident, North Korea has frequently suffered from the food shortage and economic hardships caused by climate change, and natural disasters, etc.

According to the UNEP's report, *DPRK Environment and Climate Change Outlook*, issued in 2012, the average annual rainfall will increase at least 2.12% to 6.1% at most in the worst case scenario. And regionally, rainfalls in Hwanghae, Gangwon, North Pyongan, and South Hamgyong provinces are expected to increase compared to other provinces. In these provinces, the rainfall will increase by 6.2% at least and 8.6% at most. In terms of the temperature differences in North Korea, the average temperature is predicted to rise by 0.46°C at least and 1.33°C at most in 2030 based on the temperature in the summertime (June-August).

Such temperature change is considerably high even by the minimum

standard. For 35 years from 1971 to 2006, the average temperature rose by 0.38°C and the temperature increase of the next 20 years will exceed more than the one during 35 years, which indicates that the nature and environment will undergo greater changes than the previous ones.

The agriculture sector will likely to be directly influenced by climate change the most. The possibility of the improvement of deforestation in the short term is very slim. Expanded investment in water control facilities may be likely in major cities like Pyongyang under the current financial status but not likely in rural areas where the collective farms are located. In this way, the grain production will be severely affected. The diminishing productivity in the agricultural sector brings about the rise in the price of cereals. With the inflation flying high, people will actively engage in formal and informal trades to make ends meet. Particularly, as long as there is no reformative and opening up measures implemented, trade through 'smuggling' will be expanded. In conclusion, the socioeconomic changes, the weakening influence of the government, and the international intervention caused by natural disasters will lead to increasing the autonomy in the social sector.

Identifying Driving Forces for Changes and Policy Challenges on the Korean Peninsula(2015-2030)

This is the first year result for a three year research project: In Search of Strategy for Korean unification in the 21 century. This year's research purpose is to identify driving forces and constituent factors for policy conditions and challenges from now to 2030, especially related with the prospect for Korean unification. For this purpose, five subjects are chosen for analysis: North East Asian international relations, North Korea's internal and diplomatic conditions, population trends, expansion of electronic communication, and climate change and natural disasters. In the second year, several scenarios will be construed and, in the third year, policy recommendations will be made.