

ARGO ASSOCIATES

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Managing – not solving – the North Korean problem

Just over a month after the summit in Singapore between President Trump and Chairman Kim Jong-un it's appropriate to ask what has changed and what the repercussions will be for both the Korean Peninsula and the wider region. One quick answer would be: nothing much has changed as the Singapore summit did not contain any new commitments or declarations. Alternatively, one could argue that everything has changed as the whole narrative of the relationship between the two leaders has been transformed. Clearly, we are in a better position than at the end of last year when the Trump administration was considering military action, despite the advice of almost all the experts on North Korea.

Immediately after the summit, we saw media commentary focused on identifying who had emerged victorious, epitomized by the headline on the cover of *The Economist*: "Kim Jong Won". It's undeniable that if we examine the probable objectives of each side on going into the summit, the North Korean leadership must have felt happy with the result, at least in the short term. They have moved the debate away from military action, given recognition and some degree of legitimacy to the regime and its leader, made it difficult to maintain maximum pressure through sanctions, improved the relationship with China, and may gain further economic aid and infrastructure commitments.

As an added bonus – and apparently without informing South Korea or even the Pentagon – Trump vowed to suspend military exercises between South Korean and American forces; this resembles the Chinese proposal of a "freeze for a freeze", i.e. a suspension of North Korea's nuclear programme in return for suspending these exercises, a proposal always rejected by the U.S. in the past as it was seen as equating an illegitimate nuclear programme with legitimate military exercises. In return, North Korea has suspended intercontinental ballistic missile testing, destroyed an already useless nuclear site, and made vague commitments to long-term denuclearisation (a term that the North still seems to equate with denuclearisation by all sides including the U.S.). In the month since the summit, the North seems to have made no other moves to begin dismantling its nuclear programme according to intelligence assessments and satellite photographs and Secretary of State Mike Pompeo's post-summit meetings in Pyongyang seem to have had limited success.

It's difficult, therefore, to agree with President Trump's assertion immediately after that the summit that there is no longer a nuclear threat from North Korea and that Americans could "sleep well tonight!" (and many commentators have noted the comparison with Chamberlain's words after the Munich Agreement with Hitler: "I believe it is peace for our time. We thank you from the bottom of our hearts. Go home and get a nice quiet sleep.") So, the problem is not solved. But perhaps that is no longer the aim of U.S. policy – is the U.S. now trying to manage the North Korean issue as it focuses on other more immediate problems, such as Iran?

Amidst all the pre-summit talk about the Libya model for North Korea (which Kim Jong-un unsurprisingly considered as a proposal to give up his nuclear weapons and then be murdered by his own people) perhaps the more realistic model was Pakistan: a country that developed a clandestine nuclear programme that was ultimately de facto accepted by the international community for the lack of any realistic alternative (and where the military still receives significant levels of aid and co-operation from the United States). The approach to Pakistan has been to try to manage and mitigate the risks of its nuclear weapons programme. Of course, neither the United States nor South Korea are going to openly state that they can accept management of the North Korean nuclear issue, as

opposed to full denuclearization. The declared objective of both countries remains complete, verifiable, irreversible, denuclearization (CVID in the jargon of the policy debate).

There is a potential roadmap for CVID after the Singapore summit. It would begin with North Korea making a full declaration of all their nuclear sites and facilities, would then see such a declaration verified by independent inspectors, and would conclude with these sites and facilities being destroyed in a verifiable process. In the best possible scenario such a process would take a number of years to complete and, even then, one could never eradicate the actual knowledge of how to create nuclear weapons, so such CVID could never be wholly irreversible ("CVD" at best). If we look at a "carrot and stick" approach to CVID, the "stick" has been maximum pressure in terms of economic sanctions and threats of military action, while the future "carrot" would be the lifting of sanctions, economic aid and security guarantees to the North Korean elite that there would be no regime change. Managing the North Korean problem involves the recognition that CVID is not a realistic ambition, or at least should be seen as a long-term goal rather than a short-term realizable objective. In such a scenario the revised relationship that both lead to and was the result of the Singapore summit provides a framework for limited confidence-building measures – freezes of nuclear and missile tests, a peace agreement, returns of the remains of soldiers, a gradual loosening of some sanctions, increased diplomatic contact and liaison offices and so on.

The greatest "carrot" that can be offered to North Korea, however, is certainly economic development. Since Kim Jong-un's accession to power the regime has followed a twin-track model with economic reforms being given priority alongside nuclear development. Having, according to its own announcements, become a fully-fledged nuclear power – and effectively been recognized as such by the U.S. – logic would suggest that the regime will now concentrate on the economy. Kim Jong-un is a young leader who hopes to remain in power for decades to come and providing economic growth will enhance the possibility of such political longevity. It is notable that when covering the Singapore summit the North Korean media also reported extensively on Singapore itself, its wealth and technological sophistication. This is just one sign that the regime is looking at potential models of economic and state management. China under an increasingly repressive Xi Jinping will also seem a more attractive model than the more open China of a decade ago.

It is also true that the summit imposes "audience costs" on Kim; now that he has allowed state media to report on the improved relationship with the United States and on the potential economic benefits, there would be a domestic downside to the relationship going back to the levels of antagonism seen last year. And what of the other key players: China, South Korea, Russia and Japan? Japan has been forced to watch events in a largely passive role, but the other countries are pushing for economic gains. South Korea sees the potential to open up its infrastructure so that it is no longer effectively an island and the *chaebols* – the huge conglomerates that dominate the economy – are looking for opportunities in North Korea (they already have investments into some of the logistics infrastructure on the Sino-Korean border – for example, Lotte, Posco and Hyundai have invested USD 100 million into Hunchun Posco Hyundai Logistics International) and there have been discussions with the North about developing rail routes along the latter's east and west coasts. Shares in some Korean companies that could benefit have risen dramatically – for example, Hyundai Cement went from KRW 14,000 in mid-March to KRW 80,900 on 11 June on hopes of infrastructure and real estate opportunities (although the shares have declined by 35% since the Singapore summit).

Trump was much mocked for talking about condominiums on North Korean beaches but with no viable military option available (and no chance of the centre-left government in Seoul supporting any form of military action anyway) diplomatic and economic inducements are the only options to sanctions and threats. Perhaps the U.S. could have extracted more concessions from the North Korean regime prior to allowing the policy of “maximum pressure” to lapse. Nonetheless, the South Korean administration remains cautiously positive about the U.S. approach and believes that the relationship with the North can be managed even if the nuclear situation cannot be easily resolved.

As for China, it is a big winner from the events of the last few months – the chances of war on its doorstep have greatly diminished; the U.S. has suspended military exercises that were seen by it as highly provocative; and, the lack of co-ordination between the U.S., South Korea and China has been apparent, weakening the U.S. alliance in Asia.

So, what happens next, if and when it becomes apparent that North Korea will not denuclearize? By then, perhaps Trump’s attention will have moved on (and the November mid-term elections will have passed); in any case, persuading China to impose sanctions as firmly as it did at the end of last year while engaged in an ongoing trade war is going to be extremely difficult. In addition, there is another country that the administration is much more concerned about – for domestic audiences, North Korea is a distraction and there is no alliance for action; Iran, however, is of concern to the pro-Israel lobby in the United States as well as to allies such as Saudi Arabia and the United Arab Emirates. Even the U.S. will not want a war, or at least a crisis, on two fronts. Trump may continue to pretend that the North Korean problem is solved and President Moon Jae-in will continue to try to manage the issue in the lack of a long-term solution. And, in a situation where there are no good options, that may just be the least bad one.

About Argo Associates

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Headquartered in Hong Kong, Argo Associates assists clients across Asia and – through international partners – globally.

Intelligence Gathering

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Political Risk

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Our Founder – Jason Wright

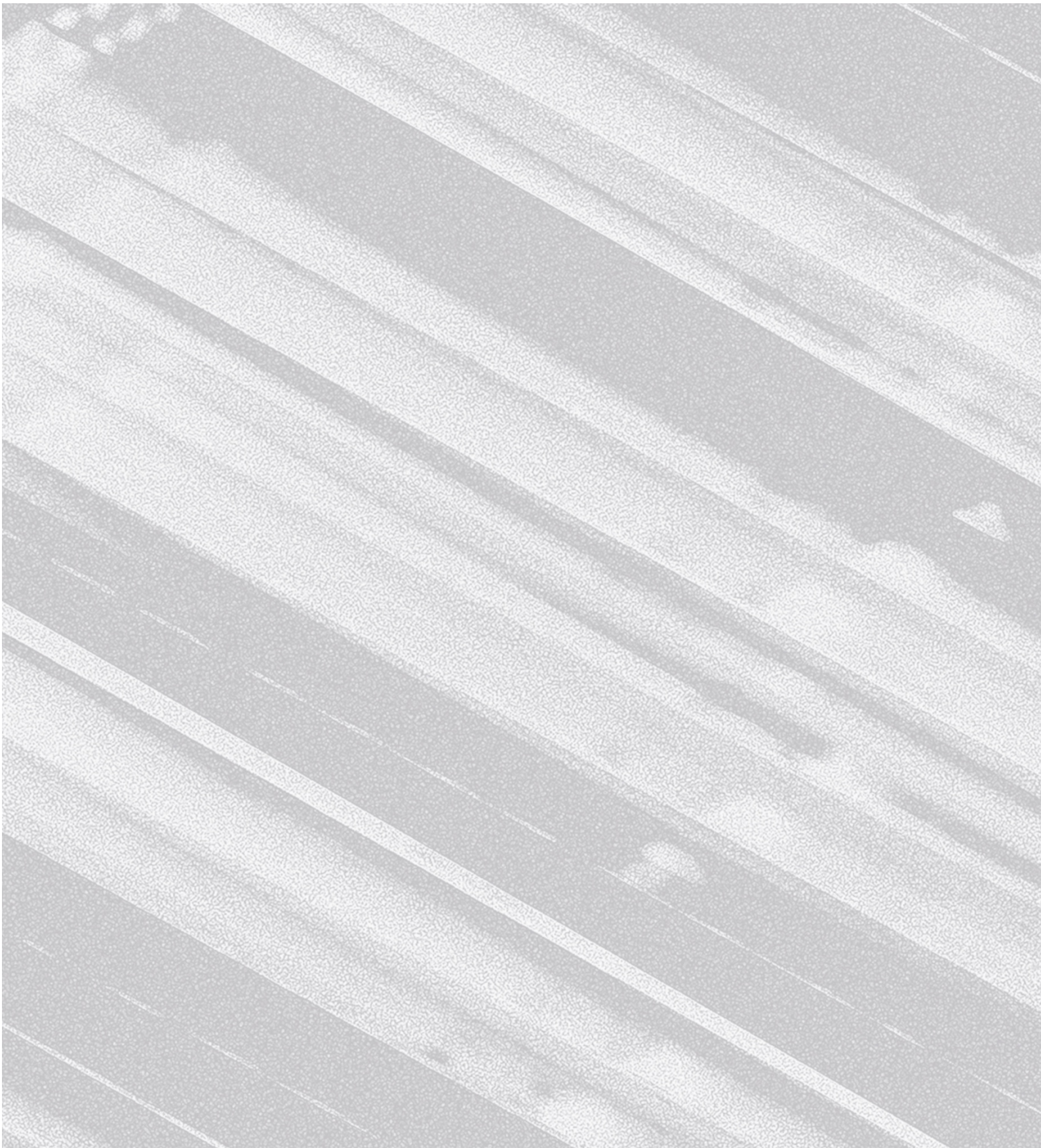
Jason Wright is the founder and Managing Director of Argo Associates.



Prior to founding Argo, he was a Managing Director in Hong Kong for Kroll, the company that created the modern investigations and intelligence sector. Before moving to Asia seven years ago he worked for Kroll in Italy for five years and then briefly in London. While assisting clients on numerous transactions, investigations and disputes in Asia and Europe, particularly for private equity funds, banks, hedge funds and special situations investors, Jason has also specialized in the analysis of political risk, whether that has involved examining the role of local politicians, regulators and other stakeholders, or broader geopolitical concerns.

Although he has managed projects across the whole Asia- Pacific region he has been particularly focused on Korea, China, and Southeast Asia, especially Indonesia, Vietnam, Malaysia and Thailand.

Jason is a scholar of St. Catherine's College, Oxford, having been awarded a Master of Arts (Oxon) in English Language and Literature, as well as a Master in State Management and Humanitarian Studies from La Sapienza University in Rome, Italy.



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