



North Korea: What's next?

Introduction

The two intercontinental ballistic missile tests in July and the ensuing war of words between the leaders of the United States and North Korea have dramatically escalated tensions in the region. These events have not, however, altered the fundamental dynamics of the standoff between the U.S. and North Korea.

On the one hand, a massive U.S. military strike would provoke an immediate all-out retaliation by North Korea—resulting in mass casualties in South Korea and elsewhere—before the U.S. could destroy the regime’s weaponry. On the other hand, further negotiations seem futile given that they have repeatedly failed in the past to convince North Korea to dismantle or even just freeze its nuclear weapons program.

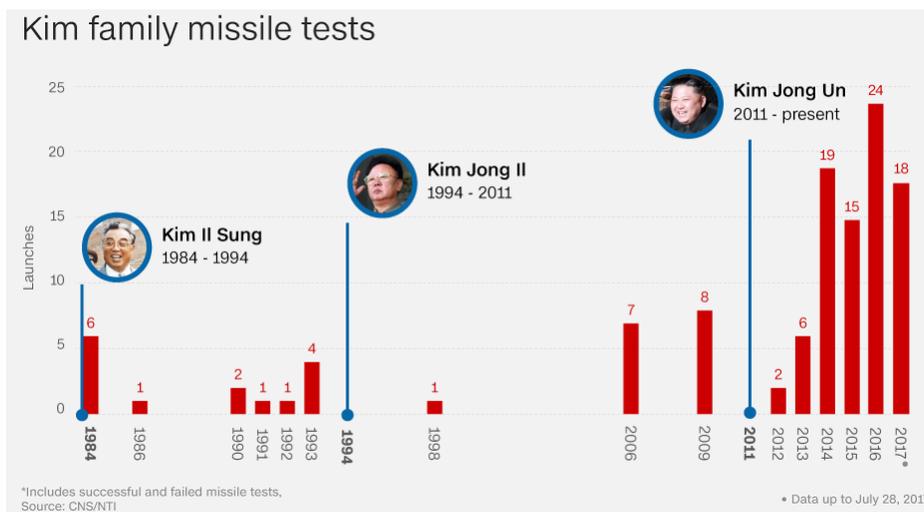
One small sign of hope amid all the pessimism is that China appears at last to be taking North Korea’s actions more seriously. This is being driven by concerns the region is being destabilized (i.e., the risk other countries will develop nuclear weapons) and by U.S. threats of more aggressive sanctions against Chinese firms that illegally trade with North Korea. This raises the prospects of China enforcing sanctions against North Korea much more vigorously than it has to date. If China does adopt a tougher stance against North Korea, this would change the dynamics of any future negotiations.

North Korea’s missile program

North Korea is presently able to place nuclear weapons on short- and medium-range missiles capable of hitting South Korea and Japan. It is also reportedly on the cusp of being able to do the same with long-range missiles capable of reaching the U.S. west coast.

Though he has been in power for only six years, Kim Jong-un has already tested more missiles than did his father and grandfather combined. North Korea’s last nuclear test took place in September 2016, its fifth since 2006. The blast was estimated to be twice as powerful as the bomb dropped on Hiroshima, Japan, in 1945.¹ Estimates of the country’s nuclear stockpile range from 15 to 60 bombs.²

Another risk is that, even if North Korea has no intention of launching an attack against the U.S., it could be tempted to sell its nuclear technology to other countries or even to terrorist groups.



Source: “North Korea’s missile tests,” CNN, August 7, 2017

¹ “North Korea now making missile-ready nuclear weapons, U.S. analysts say,” Washington Post, August 7, 2017

² “North Korea’s Military Capabilities,” Council on Foreign Relations, August 9, 2017

The United States is faced with a bad set of options

Option 1: A major military attack to destroy the regime

One option is a massive military strike to eliminate North Korea's weapons of mass destruction, take out its leadership, and destroy its military capacity before the country is able to retaliate. The U.S. has considered and rejected this option several times in the past over fears the plan would fail. One time the U.S. came close to bombing North Korea was in 1994, more than a decade before the country conducted its first nuclear test. The U.S. decided not to go through with plans to bomb the nuclear reactor due to fears that North Korea's retaliatory strikes would leave hundreds of thousands of South Koreans dead. North Korea's military capacity has expanded significantly since then.

Today, the regime has missiles and weapons hidden all over the country. The likelihood is very low that a first strike would neutralize its nuclear arsenal, let alone its large stock of conventional weapons, before it could retaliate. The task of eliminating North Korea's weapons arsenal would be exceedingly difficult even if the U.S. had good intelligence on their locations, which it does not.

Even if the U.S. was miraculously able to take out the entire nuclear arsenal in one military strike, North Korea still has a formidable arsenal of conventional and chemical/biological weapons. It has positioned as many as 8,000 artillery cannons and 5,500 rocket launchers on its side of the Demilitarized Zone. South Korea's capital, Seoul, is located just 35 miles from the border. About 25 million people – or about 50% of the South Korean population – live in the greater Seoul metropolitan area. There is also the risk that the metropolis of Tokyo in Japan (population 37 million) could be targeted. Further, a pre-emptive U.S. attack would also risk drawing China, a treaty ally of North Korea, into the conflict. The last time U.S. and Chinese troops clashed was in 1950 during the Korean War.

On top of all this, the element of surprise is crucial if the U.S. is to have any chance of taking out North Korea's nuclear and conventional weapons in one fell swoop. However, maintaining secrecy would be near impossible because any major attack would have to be preceded by a build-up of U.S. firepower, the mobilization of South Korean and Japanese militaries, and the evacuation of U.S. citizens from the region.

From an economic perspective, an outbreak of major hostilities on the Korean peninsula would shake the global economy. Though South Korea accounts for only 2% of world GDP, it produces 40% of the world's liquid crystal displays and 17% of its semiconductors.³ In fact, about 12% of Apple's suppliers are based there.⁴ South Korea is home also to the world's three biggest shipbuilders and major automobile manufacturers. China and Japan, the world's second and third largest economies, could also be drawn into the conflict.

For all these reasons, it is unlikely the U.S. would have the support of its Asian allies to launch a pre-emptive strike against North Korea. After all, they would almost certainly bear the brunt of any subsequent retaliation.

Option 2: a limited strike

The aim of this strategy would be to punish North Korea by taking out certain military facilities without provoking a full-blown war. The major problem with this option is that there is no guarantee the country's leaders would make the distinction between limited blows and all-out war. **Indeed, the United States' overwhelming military strength heightens the risk North Korean leaders would consider even a limited strike by the U.S. as the start of a war they could lose within hours. As a result, they would likely go into full war mode immediately.**

Option 3: yet another round of negotiations

Unfortunately, past negotiations have been unsuccessful. In 1994, President Clinton negotiated a deal whereby North Korea agreed to stop its nuclear weapons program in return for significant financial aid. North Korea took the money but soon after started cheating. In September 2005, five world powers, including the U.S., offered North Korea a civilian nuclear program, energy assistance, economic aid, diplomatic recognition, and US commitment of non-aggression. This deal, too, failed.

More recently, the U.S. stated that it would enter into talks with North Korea only if it suspended missile testing and accepted that the ultimate goal of negotiations would be the elimination of its nuclear weapons program. Not surprisingly, Kim Jong-un rejects this condition. **Like his father, he sees nuclear weapons as the only way to guarantee his regime's survival. He feels that both Iraq's Saddam Hussein and Libya's Muammar el-Qaddafi would still be alive and in power if they had possessed nuclear weapons.**

³ "North Korea, the ultimate black swan," Asia Times, August 8, 2017

⁴ "A Korean War Could Cut Pipeline of Vital Technologies to the World," April 26, 2017

The China factor

Any hope that the impasse with North Korea can at least be partially overcome rests with China, which alone accounts for up to 90% of North Korea's trade. Both the U.S. government and the United Nations have released reports documenting North Korea's extensive use of Chinese firms to export, borrow funds and import military equipment.⁵ This gives China significant leverage over North Korea. China has long resisted adopting a tougher line against its neighbour due to fears North Korea's collapse would lead to an influx of refugees and to a unified pro-American Korea on its borders. Also, there have been reports that up until recently China had long been secretly pleased with the ability of North Korea to provoke and distract the U.S.

However, there are indications that China's risk calculus could be changing. This is due to the combination of two things: fear the region is being destabilized and U.S. threats to sanction companies illegally doing business in North Korea. A threat reinforced by President Trump's recent twitter posting: "I am very disappointed in China. Our foolish past leaders have allowed them to make hundreds of billions of dollars a year in trade, yet they do NOTHING for us with North Korea, just talk." And again: "We will no longer allow this to continue. China could easily solve this problem!"

In early August, the U.N. Security Council unanimously passed sanctions targeting one-third of North Korea's \$3 billion annual export revenue. All countries are now banned from importing North Korean coal, iron, lead and seafood products. It is also prohibited for any country to let in more North Korean labourers, whose remittances help fund the regime. These sanctions do not extend to blocking fuel imports, which account for 90% of the country's oil. While both China and Russia voted to support the U.N. resolution, it is important to note that these two countries have a history of not rigorously enforcing sanctions against North Korea. The U.S. has vowed to monitor closely whether these sanctions are being rigorously enforced.

In supporting the U.N. measures, China appears to have won a reprieve from the sanctions that the U.S. was preparing to impose on some of its firms. The U.S. investigation into reports that U.S. companies are being forced to share their intellectual property in exchange for access to the Chinese market serves as a further warning that there will be a major economic price to pay if China does not toe the line on sanctions.

Another factor that could force China to adopt a tougher line against North Korea is the growing risk that this country's expanding nuclear weapons program could encourage other countries like South Korea, Japan and even Vietnam to develop their own nuclear weapons. This scenario would not only risk destabilizing the region, but also undermine China's influence. South Korea's main opposition party (Liberty Korea Party) recently called for the U.S. to redeploy nuclear weapons in its country. These were withdrawn in 1992. **A Gallup poll taken in January 2016 found 54% of South Koreans supported developing their own nuclear weapons, while 38% were opposed.**

It is important to note also that while China is a major world economic power, it faces many challenges: an ageing population, growing debt levels, rising wages, pollution, water shortages,⁶ trying to move up the economic value chain and the gargantuan task of implementing its One Belt One Road initiative. The last thing it needs is for the North Korean situation to spiral out of control.

There is pressure also to do what the United States did in the past. In the 1970s, a combination of diplomatic pressure and offers of security guarantees convinced both South Korea and Taiwan to abandon their nuclear weapons program. Many people feel China should offer North Korea similar security guarantees in exchange for abandoning or just freezing its nuclear weapons program. The problem is that North Korea does not fully trust China, a fact reinforced by the regime's execution of several high-level government officials with close ties to China.

In a warning, China recently indicated that it would not come to North Korea's aid if it launched a pre-emptive strike against the U.S., but that it would intervene if Washington attacked first.

Conclusion

While every option the U.S. has for dealing with North Korea is bad, the least bad remains continuing the policy of trying to contain North Korea via sanctions and the strengthening of defence ties with Asian allies.

While no president will openly admit to this policy, President Trump would be following the same course of action as George W. Bush and Barack Obama by reacting to missile tests with the push for further sanctions. The major difference is that Trump has proved more willing to apply economic pressure on China than his predecessors.

Further, the restraints that prevent hostilities from breaking out remain. If North Korea attacks the U.S. or one of its allies, the overwhelming military response would spell the end of Kim Jong-un's regime. If the U.S. strikes first, North Korea has the

⁵ "Trump Weighs More Pain for Chinese Firms Found Aiding North Korea," Wall Street Journal, March 14, 2017

⁶ For further information on China's water challenges please refer to our 2011 report: "What The Looming Global Water Crisis Means For Investors"

capacity to bombard nearby Seoul and possibly Tokyo at the cost of countless lives. Further, North Korea's ruling family has not survived for three generations by being suicidal. Kim Jong-un is a young man with a lifetime of wealth and power ahead of him. It would be surprising for him to throw all of that away by doing something rash.

Indications that China is finally willing to adopt a tougher line against North Korea could change the dynamics of the standoff, including making any future negotiations more consequential than past attempts.

In order to prepare for the possibility of a collapse of the North Korean regime, China could make its continued support for sanctions conditional upon reaching a grand deal with the U.S. over the geopolitical orientations of a future united Korea. China's demands could include:

- Assurances that the U.S would keep its troops south of the current boundary between North and South Korea
- Assurances that a united Korea would be neutral like Austria was after the withdrawal of Soviet and NATO soldiers in 1955. This would require the withdrawal of U.S. troops.

In conclusion, despite the recent spike in tensions, we do not foresee an outbreak of military hostilities between North Korea and the U.S.

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