

[Transcript]

## Special Lecture by Prof. Gerard Roland

# “The Peace Process in Korea and Economic Prospects for North Korea”

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### Lecture

#### Gerard Roland

So, good afternoon, can everybody hear me? Yes, from the back, okay

So, it's a great honor to come to here speaking front of you, and thank you very much president Park for your introductory words. Indeed, I have studied a lot in my career about the decline and the collapse of the socialist regime, which either followed the Eastern European model that is the road to the market economy and capitalism or the Chinese model and the communist regime and the capitalist model.

So, I'm going to talk a little bit about both the peace process as well as the economic prospects for North Korea because the economic prospects actually really depend a lot on how we think about the peace process. We should not be too impatient we have to first things first, understand what is going on right now.

So, the big question that I'll raise is where is the Korean peace process headed? What are the hopes for denuclearization? Is this another episode of the on and off tension that we've seen on the Korean peninsula for the last 20 years, or is it this time really different, then why? And of course, related to this is what are the economic prospects for North Korea and in a way this is crucial here because here one has to have evaluation of what are the probabilities of survival of the North Korean communist regime and that depends a lot on the economy. Can we expect for North Korea a kind of China growth Miracle scenario like we've seen in the last 40 years in China? What could be the role of foreign aid, and there are a lot of questions

asked.

So, let me first talk about the peace process. The current peace process, extremely impressive, started after months of buildup of nuclear capacity and missile tests, including ICBMs. After declaring that its nuclear program was achieved, the North Korean regime engaged in really unheard-of diplomacy with South Korea, with US and with China.

Now, the question that we have to ask, is this negotiation from a position of strength? That is, once that they have the nuclear weapons, then they say “Look! We have nuclear weapons, now we negotiate with you but we have a position of strength and advantage.” Or is it instead the realization that the economy in North Korea is very weak and that the weak economy is more dangerous for regime survival than the absence of nuclear weapons? That is the question, we have to, you know, we can only speculate, but we have to come up with an answer to the question.

And so, to evaluate the process for peace, I think it is necessary to understand the strategies of the key players. So, I’m going to come up with very obvious ideas I think, but when you come up with the whole thing I hope that it will give you a clear picture of where we are heading and what mistakes that can be avoided.

So, let me start with Kim Jung-Un. First, his strategic interests. So obviously, regime survival is the main objective, and I would say from the point of view of the Korean leaders, it has always been the case that it is in lexicographic order, that is that first priority is to secure nuclear weapons to deter from military attack from US, China, South Korea, Japan. They see all these as possible aggressors. So that has always been the first priority and that was the main objective of the nuclear program.

Second objective, after the nuclear objective is to develop the economy in order to prevent the regime collapse, because most socialist economies ended up so economically weak that the regimes collapsed. So, in the long run, the North Korean leaders dream of recovering South Korea in the same spirit, but not the same conditions as China with Taiwan. Of course, the conditions are very different and it looks a little bit ridiculous to say this, but this is their

objective. They want unification of Korea, but with the communist regime. That's what they want in the long run. Now, North Korea seems capable with very high probability of building nuclear weapons and even ICBMs, and so its objective therefore is to secure peace agreement. That's very important for them. Because they are afraid of attack, secure peace agreement, and then develop its economy.

From that point of view, lifting sanctions is of course, key for economic development, so in the coming months a lot of talk is going to be about lifting the sanctions. Of course, North Korea, the North Korean regime would like to have economic development without abandoning its nuclear insurance policy. So, to the extent that it will do so depends on the answer to the question I asked earlier. So now, one question you may ask is "Why is this lexicographic order, why does nuclear weapon, why having nuclear weapon is a bigger priority than anything else? Why is it a bigger priority than economic development?" Because, and of course this is my analysis, the possibility of war, being attacked is seen as more dangerous by the Korean leaders for the regime survival than the currently weak economy, economy that has been weak for quite a long time.

And so, the lack of need for more nuclear tests - once they have indeed nuclear weapons, there is much less need for nuclear tests - does not change this priority. Kim Jung-Un would like the rest of the world to believe that the priorities have changed, and that Byungjin (parallel development) is abandoned.

North Korea has no strategic allies. This is something that is really important to understand. They have no strategic allies. They mistrust all other parties and they distrust China, just as well as they distrust the US, but of course they understand that they are isolated, they would like to play the players against each other.

Now, let's come to China, because China's such a big issue here. So, traditionally, the Chinese communist leaders have seen the North Korean communist regime as a buffer state to prevent US troop presence at its borders, and the border indeed as you know between North Korea and China is very large. So, the status quo in North East Asia, has always been seen by Chinese leaders as the priority to keep stability. This is always what they trade to

have political stability. But also, something you have to understand, and of course people here see this very differently, North Korea is of low priority in Chinese foreign policy. The trade war with Trump, the issue of recovering Taiwan, you know a lot of other issues are probably more important, in terms of the general priorities of foreign policy.

It doesn't mean that North Korea will never become the priority, but it means in terms of their general strategic thinking, it doesn't come first, it usually comes after other issues. And so, there were a lot of frictions between China and the North Korean regime and China's always been completely opposed to the buildup of nuclear weapons, they really don't like it. They were also very upset by the elimination of top leaders who were closer to China, but they saw this really, more as an annoyance that's in their general strategic thing, that's you know, goes against their interest, but more of an annoyance, but not an existential threat to China.

So, in the long run, the Chinese communist leaders, they also have regime survival as their main goal. It's a dictatorship, it's not a democracy, and so they care a lot about the regime survival of the Chinese communist party. So, in general in the big strategic view of things, for the Chinese leaders, recovering control over Taiwan is the main objective in Chinese international policy. So, you want to think you know, for example, could there be a tradeoff of Taiwan against North Korea, Chinese would prefer Taiwan, because this is absolutely crucial. Of course, the US is the main rival of China in achieving its strategic objectives.

Now, the nuclear North Korea, is a threat to China in many ways. It's a direct threat to its security, as much as it is a threat to South Korea and to Japan. But it is also, and this is very important if you want to understand what is going on now, an indirect threat. Why? Because, the achievement of the North Korean nuclear program means that there could be now nuclear proliferation in Asia. And in particular, I'll talk about other interests a little bit later on, there really is the danger now that North Korea has the nuclear weapons, there is the danger of nuclear proliferation in Northeast Asia.

Japan could feel that the only way they can defend themselves against this threat is to have their own nuclear weapons. South Korea could come up and think in a similar way, especially if there's uncertainty about how much the US would be able to defend them, and there is

increasing uncertainty about that. So, nuclear proliferation, not just the direct threat from North Korea, but the indirect threat, through Japan, South Korea also deciding to have nuclear program, this would endanger Chinese hegemony in Asia, and in Asia Japan is seen by China as their main rival on the Asian continent.

This situation, by the way, the threat posed by North Korea, could also lead to more political cooperation between Japan, South Korea and Taiwan. Given the history of those countries, this seems a bit strange, but the world changes and Japan, Taiwan and South Korea, may see that they have common interests and that they should act together.

So, 10 or 15 years ago, China could have considered that toppling the North Korean regime was possible, and they tried and they failed to have some control over the North Korean regime. They may have even 10, 15 years ago possibly preferred a neutral, unified Korea for the status quo, because of the uncontrollability of the North Korean regime, because of the instability it poses.

This is no longer possible with nuclear North Korea. With nuclear North Korea, it would be much too dangerous for China to intervene militarily in North Korea. So, China's interest therefore, is to minimize the damage from the nuclear North Korea. So, this is why I think and this is very important to understand what is going on, China has an interest, probably more than other countries, in maintaining the peace process even if North Korea does not really denuclearize. Because, that's dumb, you can't do anything about it right now at least, but it is in China's interest to prevent further nuclear proliferation. And it is also in China's interest to try to integrate the North Korean economy through trade, in order to possibly stabilize the North Korean regime on China's terms and make it more economically dependent on China. Believe me, there is a lot of thinking right now in China of how belt and road initiative can be built precisely with that objective in mind.

So, South Korea, so here I'll sort of give my thinking, many of you may know better than me and may contradict me, in terms of South Korea, strategic interest, there is an interest in the elimination of the North Korean regime and reunification of Korea in a prosperous market economy because North Korea is a threat to South Korea. It is a threat whether the economy

is poor, because if the economy is poor nobody knows what can happen, that can create instability, but even a prosperous North Korea, imagine that North Korea would be a regime like China that would be economically very successful, and be economically very prosperous, that would mean it would also be militarily very strong, and its dream of recovering the whole Korean peninsula is not just rhetoric, the threat from North Korea might even be larger if North Korea becomes a prosperous economy under the communist regime compared to its current situation.

Now, South Korea as I said, has a strategic interest in the disappearance of the North Korean regime and the reunification, but South Korea also needs to coexist peacefully with China and enhance its economic role in Asia. The Americans are there, they may not be there, who knows when, but Korea will always be next to China and so coexistence is very important. Obviously, South Korea needs protection of the US Army, both against possible North Korean attacks and possible Chinese threats, but the nuclear North Korea is really a major threat to South Korea and it's a more existential threat than for China. It's also a threat for China, but it is really an existential threat for South Korea.

What about the US? Now, the US also has an interest in the elimination of the North Korean regime. Because the North Korean regime is hostile to US interest in Asia and obviously US would prefer a situation where North Korean regime has disappeared. But, like for China, nuclear North Korea makes it much more costly for US to directly act against the North Korean regime. It has an interest in continued isolation of North Korea to weaken the regime's economy. And the interest in the peace process for the US, I would say is less strong than for China and South Korea. Because the absence for a peace process would in some ways weaken China more than the US, because as I mentioned of its possible effects on nuclear proliferation.

So, I think this is something that one has to take into account, that for the US, the peace process in a way is less of strategic importance than for China or for South Korea. Of course, we know the Trump's presidency is an element of great uncertainty, I don't know, nobody knows, even he doesn't know what he is going to say in the next few weeks, but one has to understand the US strategic interests.

Very shortly about Japan and Russia, the Nuclear North Korea is a direct threat to Japan. This is abundantly clear if you talk with people in Japan and it seems quite clear that if there is no real denuclearization of North Korea, Japan will consider acquiring nuclear weapons too. So, there is a big difference there, as much as China will be accepting, would be willing to accept the reality of the nuclear weapons in North Korea, but trying to prevent further proliferation, for Japan, if there's no denuclearization the threat is very strong, they cannot act in front of that threat.

Russia, of course has less interest in the region, it's generally interested in weakening the US in Northeast Asia, and it's also interested in the economic development in Northeast Asia to develop its Northeast, but its role is more peripheral here.

Now, big question. Given these strategic interests of these key players, North Korean regime, China, South Korea, US, Japan and Russia, how to evaluate the current situation, how to deal with the current situation. So, on one hand it's very bad, any time a country, especially a country with a dictatorial regime has nuclear weapons, this is something that presents a threat to many people. At the same time, one needs to see the situation with cool eyes. I think there has been too much hysteria, especially in the US, "Oh, they could send nuclear weapons our way, that's absolutely impossible, this is so bad! We've never seen something as bad." This is not, in the nuclear age, things like that can unfortunately happen.

Let me just give you one example when China acquired the nuclear weapon in 1964. This was under Mao Zedong, Mao Zedong was as fanatical a communist as Kim Jung Un, and the Chinese communist party was probably even stronger then and it was probably even more threatening given its ideology, given the size of China, given its ambitions. So, when they acquired the nuclear weapon in 1964, of course it was also a big threat, but you know fortunately there has been peace ever since and we have not had a nuclear war. So, the general doctrine of mutual deterrence that has been developed after WWII, especially during the cold war, when it was the cold war between the communist regimes, the Soviet Union and the free west, the doctrine of mutual deterrence is still valid in the context of North Korea.

And so, Chinese leaders, not officially, but through some of their official newspapers came up

with the position which is actually understandable, that they said that they would never side with North Korea if North Korea would attack a country first. That's another way of saying, if they attack somebody else, we're not going to defend them. But, they will side with North Korea if North Korea is attacked and especially if they are attacked by the US, and there are many reasons why Kim Jung-Un goes to China, but this is one of the reasons to say you know we need your protection against the US.

Now, a few months ago, people have been thinking, well this is not exactly during the cold war, there is an asymmetry, North Korea is not that big, the US is much larger, China's much larger, could there be what one could call an asymmetric escalation. One scenario that people have been coming up with, is to say that well North Korea could maybe launch a first attack on the military base of Guam, and also on US bases in Japan and South Korea as a first strike, and then if the US would retaliate, they would launch nuclear missiles on the US.

This is the scenario that has been discussed in Washington. Obviously a first strike by North Korea would lead to annihilation, so this is quite unlikely. The problem is that this argument has been used inside the US administration, "Look! They could attack first! And if they could attack first, then we need to attack them first.", so that the US first strike could be justified on the basis that there could be an interest in attacking first.

Now, the danger of a first strike, points in general to the need for a peace treaty. If you think a little bit of what happened during the cold war, there were different treaties between the US and the Soviet Union and we are not quite there yet, so I don't want to say that this is exactly the parallel, but this is something that one has to keep in mind. I think when you look at the current situation, understanding the end of the cold war is probably the closest in terms of the historic parallels to what we have now.

Now, the Kim-Trump summit in Singapore, even though people saw that there was not much in the declaration, there was nothing really new compared to even the Panmunjom declaration, but at least this summit has great benefit of putting American military attack of North Korea off the table. Because six months ago, this was really a big danger, and nobody knows how that would have ended, once it starts, you know when WW1 started, nobody knew that it

would become that bad. With the current situation, these are just immense risks that I don't think anybody reasonable should take.

On the other hand, it seems to me that there have been unrealistic expectations. In South Korea, but also elsewhere in the world, about a possible complete denuclearization of North Korea just after having built up success in nuclear weapons. So, from that point of view, having a partial deal is always better than no deal if you have too high demands. One thing that would be a huge mistake, would be to trade the North Korean nuclear program against removal of US troops in South Korea, because this would make South Korea particularly vulnerable. But saying that, one understands that the US support in South Korea is existential, but North Korea's nuclear weapon is also seen as existential on their sides. These are two important aspects.

So any agreement on the removal of US troops from South Korea should, if at all, happen only under scenario where there would be a South Korean led unification of the Korean peninsula. Because China would only allow the unification of the Korean peninsula if the US troops leave. But, now with the two regimes, North Korea, South Korea any trade against nuclear weapons, against leaving US troops would be a clear danger and would create a big vulnerability for South Korea.

Now, what about a gradual denuclearization, that's one of the things that has been talked about, especially that is very much favored in China. So, one scenario would be a gradual denuclearization with gradual lifting of sanctions. Here, I think that this would mostly benefit North Korea and not really represent any major concession. So, the best policy I think is to engage in intense diplomacy with the North Korean regime, it's very important that diplomatic channels have been set up that this kind of detente that we are seeing – using the word detente because that's exactly what was happening during the end of the cold war – but at the same time as one should engage in very intense diplomacy it is very important to insist on complete, verifiable, irreversible, denuclearization (CVID) before lifting the US economic sanctions.

I think this is very important. This is actually the US position, but I think that this is also the

South Korean position and I think this is the only reasonable position because any gradual lifting of sanctions against the so called gradual denuclearization would just be too much concession; because as long as they have nuclear weapons, they still have nuclear weapons even if they eliminate some parts of it whereas the lifting of the sanctions is going to help the economy and actually strengthen the regime.

So, if you take this position – no lifting of sanctions before CVID – if this is the position and I think that’s the only right position that can be taken, this is likely not to lead to removal of sanctions, because North Korea would not abandon nuclear weapons. So far, since the Singapore summit, we really haven’t seen any concrete steps on the North Korean side. They are probably going to take some steps, but those steps will be gradual and as a way to put pressure to lift the sanctions.

Now, this is absolutely, very very important because the sanctions are really hurting the North Korean economy. They have not been working perfectly, but the US sanctions have been working and they are threat to the regime. They could lead to a regime collapse and this could lead to regime collapse especially in the atmosphere of diplomatic opening. I’ll come back to that. Because if the North Korean regime feels threatened, then there will be propaganda so that everybody will be behind their leaders, “We’re under attack! We can be attacked! We have to stay united as a North Korean regime.” Whereas if there’s an atmosphere of detente, if there are a lot of diplomacy, if there are a lot of diplomatic initiatives, people in North Korea will find that actually they will have opportunities to learn about what’s happening in the outside world, and atmosphere of diplomatic opening may actually be favorable to weakening the North Korean regime. So, therefore I think the only correct position is to say, is to insist on CVID before lifting the sanctions.

Alright, so the sanctions depend on many other countries and in particular it is not very likely, it’s actually pretty unlikely that China and Russia will continue to respect the sanctions. But, it doesn’t mean that they will not. The US can actually threaten, one weapon right now is to link the trade war, they could tell the Chinese leaders, “Look! If you agree not to lift the sanctions, we’ll essentially not have a trade war and back down from the trade war. It’s not clear this will happen, it’s not clear whether this is what the US wants to do. The US could

also threaten to help Japan and South Korea to acquire its own nuclear weapons, it is not clear that this is going to happen either.

So, as I say, a lot of things depend on China, especially China's attitude toward lifting the sanctions. If China decides to lift the sanctions, then the sanctions aren't going to work, then the question is what should be the response of the other players in this situation.

So, here's what I think. If China lifts the sanctions and invests massively in the North Korean economy, which by the way is planning to do, there are many plans inside China to do exactly that. I think it would be wrong on the South Korean side, not to respond with its own economic initiatives even if the US is against. Even if the US is against, I think it would be in the best interest of South Korea, if China lifts the sanction and starts investing in North Korea to also invest and this is for several reasons. First of all, we have seen that after the failure of the sunshine policy, last two presidents have essentially had very tough attitude saying essentially, "Since you're not agreeing to discontinue your nuclear program, then we'll just retreat from Kaesong," just basically all economic links were severed.

What happened as a consequence is that the North Korean regime became very much dependent on China, and actually North Korean regime's trade opening has become much larger via this trade with China and actually there's been quite an improvement in North Korea's economy thanks to this trade with China. So, the policies of the last 10 years of being tough on North Korea have done nothing to get closer to the unification of the Korean peninsula.

And so, China's ready to make massive investments and to help improve the North Korean economy. They see this as, for them, as important from the political point of view. But, if I see this from the perspective of South Korea, strong North Korean economy very dependent on China even with its own nuclear weapons, is not good news for South Korea, because that would mean then probably unification could be delayed for a very very long time.

In general, this is a little bit of a paradox that wishing North Korea to be economically strong under the current communist regime, is not something that you want to wish for because it

could make it even more threatening given the nature of the communist regime and its objectives. So, strengthening the North Korean economy is not necessarily good for the peace in the long run in Northeast Asia, unless certain conditions are met, and here let me talk a little bit about the economic prospects for North Korea because this is very important in general.

So many points have been made already, but it is quite clear that if North Korea integrates into the world economy, there would be very good economic prospects. Its location is really very very important. You know, Cuba does not have the same issue. Cuba is going to become again what it has been before the Castro's regime, it is going to become an island with tourists, completely dominated by US capital because of its location, not necessarily the location of North Korea. Between South Korea and China, it's closest to China and to South Korea vis-à-vis the yellow sea, the natural resources, that exists in North Korea the mineral resources, coal, the land, its cheap labor force, its two large coasts, all this indicates that in case of an optimistic scenario, where there would be strong economic development especially under unification scenario, then there could be a North Korean economic miracle.

But, of course, this is just looking at economic data. As economists, we think that even countries that have a lot of natural resources that are well located, may not develop economically if they don't have the right institutions. This has been a big topic in economics in the last 20 years, the role of institutions for economic development. So recognizing the large potential prospects for North Korea is not enough, one has to take into account the institutional reality and trends in North Korea.

Here, I would like to use a little bit of what I am kind of closer to. Comparing to post socialist economies, how to characterize what is going on in North Korea. So here we really have two big models. One is the China model where the Chinese communist party made a conscious choice for market reforms and a growth strategy using the institutions of the communist party. The growth miracle in China, you know, the establishment of the market economy has been under the leadership of the communist party and in particular a promotion for communist leaders was based on success in economic growth. So, they have really used the institutional apparatus of the communist party to introduce a capitalist economy. This is something

completely new because the communist ideology is against the market economy, is against capitalism, but Chinese leaders under Deng Xiaoping and this is probably his claim to fame, he realized that you could have a communist party leading a capitalist economy and be very successful, and that is what China has become. Same thing can be said for Vietnam.

We see that China now became very economically successful, but also very strong autocratic communist regime. The repression these days in China is much stronger than what it was 20~30 years ago. The censorship apparatus employs millions of people, there is what is called the great Chinese cyber wall, where inside the cyber wall there is great control over what is happening via the internet. Even now, this initiative of having social evaluation of citizens, just like credit cards, just like your credit ratings, there is social ratings the communist party is going to institute for its citizens based on the information that they have about what every citizen does. So that's the reality in China today. So, China essentially, the introduction of the capitalist economy was very successful, it could show that you can have a capitalist economy with a communist regime and it has actually strengthened the communist regime, it had made it politically much stronger so that China's role in the world today is so much important. That is the Chinese model on the one hand.

On the other hand, you have what happened in central and Eastern Europe where they had the socialist economy collapsed due to the erosion of the authority of the state. I'm not going to spend too long on that, but because they had the system of central planning with no market, it was increasingly complicated to coordinate economic activity inside the Soviet Union, so the center was less able to deal with the information problems and therefore they lost their authority, and managers actually realized that they could ask for more autonomy and even just taking the enterprises. The privatization was essentially the managers taking control of the enterprises. It doesn't belong to the state it belongs to me. So there has really been a collapse of the authority of the state that led to the collapse of the communist regimes and to the regimes we see today in Ukraine, in Russia and etc. which used to be democracies in the beginning, but which are becoming more and more what people call kleptocratic states where corruption plays a fundamental role and people use the state to steal money from the tax payers.

Now, if I look at this, the Chinese regime, the central European scenario, what is the institutional trajectory of North Korea? And yet, two major elements from the wonderful book by my wonderful colleague Kim Byung-yeon, that has absolutely international praise that this is really the best source now on the North Korean economy, there is two elements. One is the collapse of the traditional central planning that has happened already in North Korea. Two, there's a tolerance of spontaneous development of market activities in the shadow of the law. So, in the shadow of the law which means that people trade, but there's no property rights, people are not protected against the predatory behavior of bureaucrats and there is a lot of corruption. Corruption is actually very very large in North Korea. So therefore, we have to ask, "Is the North Korean trajectory, is it closer to the model of the Soviet collapse or closer to the condition of Chinese reforms?"

Now, it is not easy to answer that question. On the one hand, the repression, is still very strong. Under Gorbachev, there was the glasnost, there was liberalization. People, could start speaking freely, they were not afraid of speaking in late Gorbachev years, but it was not the case in East Germany. In East Germany, more or less until the end, there was a very strong repressive apparatus, and same thing for Czechoslovakia. So, both East Germany and Czechoslovakia had very repressive regimes. So, one reason why the East German leaders did not shoot the demonstrators in Leipzig and all the German cities in 1989 when the protest was going was because Gorbachev told them not to. Gorbachev said I'll not allow you to do that, these people have to be able to express themselves and of course this led to the collapse of the regime.

North Korea has had a very intense ideological brain washing of their population. They are not informed and are only told information from the North Korean regime, but it seems that this brain washing especially now with the beginning of the peace process is probably less intense than before. They even showed pictures of Singapore, how Singapore looks like so people now have an idea, and also with the opening up to China, information circulates about what is going on in China, so there is a lot of opening up. This is actually a strategic element. I think if you think of any policy in South Korea, that any opening up of information that would give more information to North Korean people, would really help to further erode the

legitimacy of the regime. Then people would be better informed and being better informed, this would erode the authority of the regime.

So, my impression is actually that the North Korean system is closer to the Soviet model. Even though it's next to China and you could think that they are going to adopt the Chinese model, but I think that the current situation in North Korea is closer to what we saw in Central and Eastern Europe. The informal economy is eroding the formal economy. The level of the informal economy is actually quite large. You know, the majority of the households have to engage in these informal market activities to survive and not just ordinary households but people who get their salaries paid by the state, you know functionaries, bureaucrats etc. they also have to engage in market activities, corruption, informal activities and otherwise the regime would not be able to pay them enough.

From this point of view, there has been a great erosion of the state apparatus and this could eventually lead to regime collapse. So, therefore, I think that the situation we have today is closer to Soviet Union, Eastern Europe 1989, than it is to China 1978. And it seems to me that the process of state erosion of North Korea, may have gone too far to expect a possible Chinese scenario.

The corruption, is ripe at all levels of the state apparatus and it has reached the level that was absolutely non-existent in China in 1978. So, if you look at countries like Hungary, or Yugoslavia, that had a very strong erosion of the system where there was a lot of corruption, actually in many ways North Korea is much further than that. There was, you know, the informal economy in Hungary was maybe 15, 20 percent of the economy and North Korea, it's certainly much larger.

So, also something I want to say is that there have been no steps taken in North Korea that would signal a Chinese style market reforms. So, let me just take one example, I think this example is certainly very important in our case. Agricultural reform, there has been agricultural reform in North Korea with Kim Jung-Un, but at least from what I know, this is much less radical than agricultural reform in China in 1978. So, the system as far as I understand what's going on in North Korea is that they decided to have much smaller teams

of production in agriculture and it is essentially a system of sharecropping, where farmers would get 30 percent of the crop or the output of the crop and the 70 percent would go to the state apparatus. It's like paying 70 percent income tax, you know it's essentially like paying 70 percent income tax, it's not very good for incentives.

In China, the system was much more radical. They told the farmers, "Look, you have a certain output quota that you have to sell to the government, let's say grain, you have so much grain to sell to the government, we give you a good price and you have to do that and apart from that you're completely free to do anything you want to sell them and you won't be taxed, all the income is going to be for you. So, in economics we call that 100 percent residual share of income. So, farmers had the full incentive to increase agricultural output in China, and within five years, they doubled agricultural output in China.

Now, obviously there are big differences between Chinese agriculture in 1978 and North Korean agriculture today. There are a lot of differences, I don't want to go over that, but still you get from this that what is being done in North Korea is by far not as market oriented and as radical as what happened in China. And I think this example is particularly strong because in a world where you have sanctions, if the North Korean regime doesn't know when the sanctions will be lifted, if it wants to develop its economy, first thing they should do is indeed to have some Chinese style radical reform to give full incentives to farmers. They could go even much further by giving property rights to land, property rights to housing and etc. etc. They would also want to go step for step, but the Chinese leaders, they started with this, okay? We're not even seeing what China did in 1978, we're not seeing anything like that in North Korea.

And why is that important? Because all communist regimes that did not vigorously introduce the market economy eventually collapsed. Because that's what happens to central planning, that's what happens to socialist economy, they will eventually have to collapse. So therefore, I think the intense diplomatic activity that is taking place right now can help accelerate this process as a result of more openness and détente. Even small initiatives like training people from North Korea all sorts of initiatives that give more access to information for the people in North Korea will help weaken the regime.

Now, I have to be careful, I just talked about the China scenario, the Eastern European scenario; President Park mentioned the Singapore scenario, I don't think there are that many commonalities, but one scenario that you could think of is the central Asian scenario. After the collapse of the Soviet Union, republics like Kazakhstan, that were very peripheral in the Soviet Union did not develop very much, they really thrived after 1991. Why? Because Kazakhstan became independent, Kazakhstan has very large natural resources and was able to integrate into the world economy by essentially exporting its own natural resources and using the income to modernize the economy. Kazakhstan has a very large territory, it is landlocked, but it has enormous natural resources and there you have, you don't really have a communist party, the Nazarbayev clan, the family of the top leader, they have been controlling the main levers of the country and benefiting economically. Kazakhstan was never established democracy, but they had a little bit pro-growth dictatorship, so that's a possible scenario.

The Central Asian scenario, for North Korea could be a possibility, it would indeed be an intermediate scenario, but it would require opening up, and in particular trading, exporting natural resources from North Korea to help its economy like Kazakhstan did is problematic with the sanctions. So, right now there's low likelihood especially with the sanctions. Okay, now as I said, economically strong North Korea would also be militarily strong and impose a stronger threat to South Korea. But nevertheless, and this is an important question, if China does decide to invest heavily in North Korea, it may not happen, but it may happen, so I think we have to think of what to do in that case, what would be the best response for South Korea. And Here, I think that in this case, not only would it be wrong not to invest in North Korea, but there's an opportunity here to use investment in North Korea to create leverage over the regime. To create leverage over the regime.

And so, one possibility, I think could be, at least something that the regime might accept, is to create multiple Kaesongs along the withdrawal line between South Korea and China and now we're already talking about the issues of the railroad line, but this is one of the issues to think of.

Now, why? And here it is useful to think about China's experience with special economic zones because that's the way of thinking about it. When the radical market reforms were

introduced in China, it started with the household responsibility system that is the reform in agriculture but also with special economic zones. So, the idea there as for the Chinese leaders, they wanted to experiment, they were not sure the market would work, so they wanted to experiment, and the idea was to develop exporting industry using foreign capital, a lot of it actually from Hong Kong and Taiwan at that time, and to use the local labor force, but only for exports, only for exports. They did not want special economic zone to have an influence on the internal Chinese economy, which was still centrally planned. The idea was to use for exports. But it was a huge success, Shenzhen, which nobody had heard of before 1980, now has a population of nearly 13million. China has become the world's largest exporter and certainly the special economic zones were very important first step in the economic success of China.

So, how could this be achieved in the case of North Korea? Obviously, in case there is investment, infrastructure investment is very very important. One possibility could be to have infrastructure investment under the six-party talk, so that it would be an international initiative, there could even be some UN backings so there are all sorts of possibilities. It is also good to share the risk, but it is also good to have some international buddy taking responsibility for infrastructure investment. It is much better than only China for sure. So, one could build multiple special economic zones in North Korea, this could lead to higher welfare for workers employed in the special economic zones and the low wages in export producing firms could make foreign investment attractive.

Obviously, there are a lot of risks associated with that, especially risks associated to the investment. If the investment is somehow backed by some international agreement you know, that's maybe better. And it can be seen as advantageous for the North Korean regime which we know is very hungry for foreign exchange.

So, now, why would this be a possibility of leverage? Because, if something like that happens, it would increase the external dependency of the North Korean regime and the more the North Korean regime is dependent on its trade activities and etc., the threat of foreign firms, South Korean firms or other foreign firms that would be in North Korea, the threat of withdrawing if something goes wrong in the political negotiation would create leverage over

the North Korean regime. So, Kaesong was not enough, but multiple Kaesong might actually lead there. So whereas the general strengthening of the North Korean economy would be a threat because of the military buildup that could support, actually higher integration of the North Korean economy via foreign investment could help create leverage over North Korean economy by making them more dependent on the rest of the world and therefore have a weaker bargaining position.

Now, obviously, this is something for the future. I think right now we're still living in a world where there is no denuclearization that is taking place, so it is quite likely that there is no lifting of the sanctions for quite a while, and as long as sanctions are maintained, such kind of intervention/investment would be limited. But one has to think of it because if the sanctions are lifted, South Korea has to be active, it cannot just let China intervene.

So, to finish, what does the future hold? The nuclearized North Korea brings the planet closer to a major nuclear disaster. Even if nuclear deterrence can prevent traditional conflict, this is you know, serious but manageable. Unification of Korea from the South is likely to be delayed because of that. Nevertheless, regime collapse in North Korea is still likely because there are no solid market reforms. Even though the economy is better now than 15~20 years ago, especially with the trade with China, but effective sanctions have really helped to weaken the regime.

One should remember that the collapse of the Soviet Union did not lead to nuclear catastrophe. So, a collapse of the North Korean regime could be managed without necessarily leading to nuclear catastrophe. So, one should not be afraid, one has to think of a collapse scenario and one has to think of ways to intervene, to prevent this from happening, but in the case of the collapse of the Soviet Union there, I think that western powers were very effective at least in preventing in unbuilding the nuclear stock pile of the Soviet Union.

So, continued economic sanctions are currently in my view the only correct policy to weaken the regime. Of course, the regime collapse will remain uncertain. Diplomatic dialogue became inevitable once it was understood that North Korea is a nuclear state and diplomatic dialogue is absolutely fundamental. All forms of détente and information diffusion in North

Korea will help and the Northeast Asian cold war will last as long as the North Korean regime is in place.

However, I think that there's a bright economic future possible in North Korea, but it's more likely after regime collapse and unification.

Thank you very much!

## **Discussion**

### **Kim Byung-yeon**

Professor Roland, thank you so much for your very interesting lecture. You have illustrated so many scenarios and responses of South government to this scenario. Given substantial differences in strategic interests among relevant countries, what would be the most likely outcome of denuclearization if you think about the future? You've mentioned CVID, and you emphasized the importance of keeping sanctions intact, but given these kinds of differences of China and the United States, South Korea, Japan, Russia, what would be the most likely outcome?

### **Gerard Roland**

Thank you very much. I think that people you know, don't understand, or at least not always, that keeping nuclear weapons is an existential issue for North Korea and as I said it is much more important. So therefore, I think what is going to happen is that there is going to be initiatives like Kim Jung-Un further destroying nuclear test sites or you know, all sort of different initiatives and then putting pressure to lift the sanctions. I think that's really what's going to happen. But therefore, I do not think that North Korea will denuclearize. So, my opinion, I do not think that the regime will denuclearize as long as the regime is in place. And that is why the thinking, the comparison with the cold war is probably the closest in terms of the historical parallels, so that's I think what is going to happen.

A lot of uncertainty, and this is quite clear to me that they will not abandon their nuclear weapons. The formula, complete denuclearization on the Korean peninsula, we know that means essentially Americans leaving and we'll consider what we do, but we still have a good army, so we can still send out army south. So, therefore, I think it's very very high probability that they will do everything to keep their nuclear weapons.

The thing that is not clear is what is going to happen with the sanctions. That's why I kind of

gave two scenarios. One, if China lifts the sanctions then I think South Korea will have to invest in North Korea, and then sanctions are not going to work so the US can protest, but it's not going to stop South Korea, I think the US would prefer by far South Korea being active in North Korea rather than the Chinese being the only ones to invest and to make North Korea much more dependent on China. So, I think this is the uncertainty, what is going to happen with the sanctions? It could be that there are maintains, in that case we have to see what the North Korean regime is going to decide. It could decide that they really need market reforms because they are completely choked. But, as I said you know, in the current situation, you should watch domestic reforms. If you don't have any radical domestic reforms to introduce the elements of the market economy that can make North Korean citizens more prosperous within a number of years, it is unlikely that it is going to happen, then I think the collapse scenario is going to be the more likely.

In any case, I don't think there would be a war. I think the war can be prevented, I think the Singapore summit was certainly very good from that point of view. I think that the opening of diplomatic channels on all sides can certainly be helpful from that point of view.

### **Kim Byung-yeon**

Right, in the scenario that China lifts sanctions or basically nullifying effective sanctions, but North Korea is not completely denuclearized, you advised South Korea to be active in engaging economically with North Korea. Then the question is, you mentioned that the US may protest, it is against US protest that South Korea has to invest in North Korea, then I wonder what kind of persuasion can be possible for United States. Perhaps we have to say, why we should do it. Otherwise United States may say that you are on the side of China, you are not our ally, so we can have a kind of spiral effect on security and other issues. So, we should have some kind of logic.

You mentioned about the leverage effect of economic engagement. Could you elaborate that more? Or perhaps one can think of the effect of marketization in the long run that economic

engagement can change the structure of the economy and political dimensions as well. Can that kind of logic be persuasive to the United States?

### **Gerard Roland**

You know, the US has reacted very aggressively to European partners, on Iran when they decided to abandon the Iran deal. Then they said they would punish any firms that would not follow the US in basically re-imposing sanctions on Iran. I think in this case, because of the way Donald Trump has positioned himself, the way he has talked about the potential positive prospects, I think it is not too difficult for the Americans to understand that actually it is much better if there is joint investment of Chinese, South Koreans, possibly Americans, but these are really the two big players that could invest, so China and South Korea, it would prefer by far joint activities of those two countries than China being the only one and then to come up with their own investment and then North Korea would become even more dependent on China and there I think the issue of unification of the Korean peninsula would be delayed much much longer. And as I said, it is not of US strategic interest to basically have this regime continue.

So, I think it is of low probability that the US would kind of backfire at South Korea. I think South Korea has been playing a very important role. We have to understand that the person who has taken all the initiatives so far is Kim Jung-Un. Kim Jung-Un has basically, once he said “I have nuclear weapons!”, “now I want to talk.” But the talking has been effective because that means that you create a diplomatic process, and the diplomatic process is good to prevent war essentially. It can create a kind of cold war and even more détente in that situation.

In terms of leverage, I think that any further, in a way, any economic development of North Korea, which would happen, which would have to happen via trade of its natural resources, via foreign investment, letting foreign investment use the cheap labor in North Korea possibly for exports as in the case of special economic zones, any further integration into the

world economy would make it more dependent. That's the leverage, that's the leverage that can be created, but that's as far as it goes. It doesn't go any further.

### **Kim Byung-yeon**

Perhaps, counter argument is possible for the case of economic engagement. In multiple cases for example, well suppose that Kim Jung-Un collects money from this economic engagement, and use this money to strengthen the socialist control the state-owned enterprises instead of market reforms, then we have trouble because the purpose of being engaged in North Korea is to gain leverage, but this leverage can also be utilized by the dictator Kim Jung-Un for his purpose. Then, do you think any kind of strings can be attached to economic engagements? For example, the money coming from these projects, should it be used to build schools or hospitals, this kind of strings or conditions could be put in place?

### **Gerard Roland**

I think you mentioned something really important, because that's where the thinking needs to take place. You know, with the sunshine policy the mistake was, and actually with the aid after the famines in North Korea was that you send money to North Korea and they decide how to use it, and they use actually the money they got for the aid against the famines to help building the nuclear program. So, the more there can be strings attached the better it is, and I think one issue for example, in Kaesong, you know, the wages were actually touched by the North Korean government and was paying very little to the workers, still, they could have trade of Chocopie and these things, so certainly that has had a positive impact. And I think, in a way the North Korean leaders would need, and I'm talking now in a world where sanctions would have been lifted, would need a lot of aid, so this has to be thought through very carefully.

What kind of, how you can have a lot of strings attached? Obviously, you want these

initiatives to create welfare for North Korean workers, so that's something important, but it will also give income to the North Korean leaders. I think that's a price, that's a cost. Again, one has to think, you know, how can profits be reinvested in infrastructure, investment. Again, under the control of six party talk or whatever. So one has to more carefully indeed of how to do that. But, you know it may happen sooner than later, so that's why one has to think of all these different scenarios and one has to be prepared and not make the same mistakes of the past.

But, think again, the first order issue here, if China starts investing massively in North Korea, it would be a huge mistake of South Korea not to do it because of the long-term political consequences.

### **Kim Byung-yeon**

Right, as a regard, according to the model, the Vietnamese, Chinese, I understand that the changes in leadership represented economic forms in China and in Vietnam. For example, Mao Zedong died and Le Duan, general secretary of the communist party of Vietnam died. Then, the subsequent leader decided to reform the economy. But, that didn't take place in North Korea. That reinforces your argument that the North Korean model will be closer to soviet one, but we understand also that North Korea has been marketized a lot, also has been opened up in terms of trade dependency. These two factors were not there in Vietnam and China when they decided to make reforms.

You mentioned about the collapse scenario, but is it possible for Kim Jung-Un to compromise on markets, compromise on say opening up? "I was absolute dictator to have all power, but from now on, I am ready to compromise on market power and the pressure from trade to become say flexible leader like Deng Xiaoping." Is it possible or unlikely?

### **Gerard Roland**

I think you raised a very good point. When Deng came to power and he announced market reform, it was completely credible because Deng had been twice punished by Mao and he really wanted to have a different policy. So, there was a change of leadership, there was a very important change in leadership. Same thing, there were changes in leadership in Vietnam. I hoped when Kim Jung-Il died, ah his son is going to come to power and if he's smart, he's going to do the Deng Xiaoping of North Korea and he's going to engage in very radical market reforms, but he has not done it. So, now indeed any change in the economic policy would possibly be more costly for him, so there I agree, and as I said, he may come up with big words, but what he would prefer would be to have ways to get more foreign currency for the North Korean elite, because that's what keeps the regime together. As long as the North Korean elite can have access to foreign currency that sustains their living standards and minimum investments and etc. that's really what they want. So precisely because of this, I think that the Soviet style collapse scenario is more credible, but you never know. You never know. You know, it's not impossible because the economic situation is so bad. For example, the Chinese leaders tell them, "Look, you know, we're going to help you. You have to the same way we did it and we're going to give you some political support, but you really need to prop up your economy, because it's in a very weak situation." Still, I think it is much less likely, and that's why I think that the collapse scenario is much more likely.

### **Kim Byung-yeon**

Yeah, I have many questions, but you also have many questions here. So, for the sake of time I would like to have just one question. My government claims that South Korea should be on the driver's seat. What kind of advice could you give? If South Korea wants to be on the driver's seat?

### **Gerard Roland**

Well, first of all, not to be mischievous, North Korea is in the driver's seat so far. No, that's

right. They came up, they achieved their nuclear program and they said we wanted to negotiate, and it's good thing that there's negotiation. The invitation to Trump was made by Kim Jung-Un. I think it was right for Trump to accept this invitation because it put off the table a military scenario, but you have to know that most of the establishment in Washington was against this meeting, you know, not only among the republicans but also among the democrats. Hillary Clinton, no you should never do that, etc. etc. So, Kim Jung-Un is in the driver's seat, one has to recognize it. But I think that president Moon has reacted very well, he has taken a lot of opportunities, and so it is quite possible for the South Korean regime.

I think the most important at this stage is to think of all sorts of initiatives that help reinforce this process of détente, between North and South Korea. You know, so any kind of initiative, be it educational initiatives, things that contribute for North Koreans being better informed about what happens to the outside world, and having the impression that there is a peace process, so that the propaganda the regime says, "Oh! We're going to be attacked next week or next year." Etc. etc. I think would continue. I would on the other hand urge probably the South Korean government to keep the line of no lifting of sanctions unless there's CVID. So here I think there are the strategic interests with China are different and I think so far, keeping this line would probably be the first best. But it's good that one is not repeating the mistakes of the last 10 years, because one could have said that this is just window dressing, it's a nuclear threat, we don't want anything to do with the regime, so I think that president Moon here has really taken good opportunity and that really helps the détente process. That's how I would call it.

### **Kim Byung-yeon**

Right, we have many questions here, some from the students, some from the general audience. One question is, as North Korea regime is more like a national religious cult, how will North Korean regime try to sustain its regime when economic prosperity along with the influx of information from our side takes place?

## **Gerard Roland**

This is just another way of saying that the regime is vulnerable. It is vulnerable because it has been able to survive the intense repression, by the Juche ideology, you know by intense brainwashing. At the same time the regime has not delivered, in terms of its welfare for its citizens, and is not able to deliver this. So the only scenario under which I can see that they can somehow keep some mobilization is if North Korea feels it as a military threat and that's why ending the current peace process is bad from that point of view, but if the current peace process continues, then this ideology is just going to fizzle away, and once people stop believing, you know it's like humpty dumpty, you cannot put humpty dumpty together again, once people stop believing, you can't make them believe again.

## **Kim Byung-yeon**

Right, the question is here, another question. Do you think that if a new person replaces Kim Jung-Un then does it increase the likelihood of development, following the Chinese model?

## **Gerard Roland**

We don't know, but it seems to me that if there would be a replacement of Kim Jung-Un, this could be either by a faction that is very keen on developing good relations with China, but it could also be like what happened in Eastern Europe and Soviet Union, that you have new leaders like Gorbachev. This is what happened with Gorbachev or some of the new leaders in Eastern Europe, they just say we cannot continue like this, this system is bankrupt, our system doesn't work, our system does not deliver welfare for the citizens and we want change. And I think if that happens then, there should really be intense international collaboration to help new regime with as obvious goal of the unification of the Korean peninsula and I think this is a reasonable objective, the country has been separated for like more than 60 years, and

it would seem to me that if something like that happened, it would be most likely that new leaders could think it would be in their interest to have helped to somehow foster unification on their side.

Just like many former communist leaders in Eastern Europe, they are very proud that they helped actually, the communist regime to collapse. So, I think that would be the most likely.

### **Kim Byung-yeon**

Okay. Professor Gerald, do you think North Korea will follow Chinese first steps when they reach a certain level of economic development to avoid democratization? If not, do you think North Korea's democratization is any close future?

### **Gerard Roland**

So, this is something very important. Many people, after seeing the radical economic transformation of China, the de facto introduction of market economy and capitalism in China, many people including myself though, okay, this is great, now you have economic liberalization there is going to be inevitably some form of political liberalization. So, for anybody well trained in political science you have what is called the modernization theory, the idea that as a country develops economically, then it will automatically, well nearly automatically, but inevitably become democratic. That's the theory of Lipset, you know 1958, and it is still one of the dominant theories. But, as we see with the example of China, but also probably Vietnam and for Singapore you could probably argue the same way, it is not the case that economic progress leads to democratization. If I look at what's happening in China today, I would say, the Chinese example refutes modernization theory because it shows that you can have a dictatorial, even a communist regime, the communist ideology that is complete obsolete, you can have a communist regime at the head of a capitalist economy. And there is no sign at all that in China there is going to be more democratization.

Xi Jinping insists that the communist party should have leadership in everything not just in

state-owned enterprise, but also private enterprises, you know, in schools, everywhere, in universities. So, if anything, there seems to be a strengthening of repression and tendency goes in the opposite direction. This is also why I think a prosperous North Korean economy under a communist regime could be dangerous because indeed, I don't think there would be forces leading from economic development to democratization.

And you know, right now democracy is under attack in the world. The big western powers who felt were very secure, very safe, are right now very vulnerable. In China there is an intense propaganda against democracy, people are told – this is not for export right now but is a lot for internal purposes – you see Chinese communist party gives you welfare, gives you growth, we don't have instability like in the west, we don't have the same like the 2008 crisis, so there is a lot of propaganda saying that they are the better regime. They are not proselytizing outside China, but I could very well conceive the North Korean regime that would be very much like China, be evolving in the same direction and it is not good for South Korea.

### **Kim Byung-yeon**

Okay, one question about the relative impact of two things. One is internal market reform and another one is opening up. Which is less dangerous to regime survival among these two?

### **Gerard Roland**

You know, it depends how you do it. I think what would be dangerous, would actually be more dangerous for regime survival to have general market economy inside North Korea. What do I mean by that? I mean to establish property rights. If people have property rights over land, over housing, people can exchange and you have a judicial system that essentially protects those property rights, I think that would be more dangerous for North Korea, for the North Korean communist regime.

Then a system where it would have a foreign investment, you would have competitive firms exporting in the world economy. Again, the Chinese example shows us, China is the number one exporter in the world. The volume of exports from China is larger than any other country in the world. Still, China has no private property right of land. Land belongs to the government. You have long term leases that were established, but a lot of the protests that have happened over the last 20 years is about local government taking away the land from peasants and using it for development and real estate. So, China is not good in terms of property right protection and that's actually a weakness of the Chinese economy, and I think the same thing would hold in North Korea. And by the way, when democracy was introduced in Eastern Europe, this is one of the very first things that they did, was to establish private property rights so that people could have their own housing, their own land, etc. bankruptcy reforms, whole system would be built on property rights.

**Kim Byung-yeon**

How is it possible for Chinese government to manage political structure in spite of market reforms?

**Gerard Roland**

Sorry, I didn't understand.

**Kim Byung-yeon**

Right, uh... how Chinese government dealt with economic pressure from market reforms and the political structure is intact.

## **Gerard Roland**

So, one thing that played a key role in China is China's a very very large country. So, in the first 15 years of the reform, local government played a very big role. So, local governments were actually competing with each other to attract capital from other places. And so, Chinese system is not one where property rights are well protected. You have a very large private sector in China, extremely large private sector, but property rights in these private entrepreneurs are really not well protected. They think they need to have good relations with the political leaders, 'Guanxi', this is very important and some private entrepreneurs and they are given advantages. So, it's a system where property rights are not well protected, but because you have a lot of competition between different governments, because you have the incentive to go for growth, this has all been going in the direction of letting investment happen. There have been no predatory attacks on private entrepreneurs etc., but there have been predatory attacks on farmers.

This is in the long run, the lack of good property rights in China in the long run is going to a problem. Because what is at risk in China is that the government, in case let's say that the government, in case there is a financial crisis in China, they would never do like in the US, let some banks collapse or have a financial collapse, they would automatically intervene. But, if they intervene more in the economy, then you would have what Janos Kornai calls the soft budget constraints and that is very bad for incentives. So, there is a lot of hubris in China today, people think they have the better economic regime, they have the better political regime, but in reality, there are also weaknesses, and these weaknesses are probably going to be seen more and more as the size of the state sector, which was declining for many years, is starting to increase again. So, it is not impossible that the size of the private sector is going to be choked more and more in China, and that's not a good thing for China.

## **Kim Byung-yeon**

This question cites a paper published in 1992 about gradualism, says North Koreans are very

egalitarian in terms of their system, what kind of policies can achieve gradual transition taking into account political constraints? That is a very academic question.

### **Gerard Roland**

Very good question. So, I indeed in my research, one of the reasons why I got reputation was because I explained how gradual reforms could help achieve successful transitions to a market economy, and that was essentially building partly on the Chinese experience which has been extremely successful, and in Eastern Europe it was less gradual, but at least this was, there were really two strategies, gradualism versus big bang. But one thing that I think is even more important for transition, and by the way not just transition but for any form of economic development, there is not just one recipe, one has to see what is the situation in the country, and so from that point of view, for North Korea there could be different scenarios.

If you have a regime collapse, in North Korea, it is very important to have very quick intervention. To prevent famine, to prevent diseases, electricity from not working, essentially if there's a regime collapse, there needs to be somebody who makes the machine work again, and that would need to happen very fast. So, the conditions of a transition to a market economy there would then be probably closer to what we saw in Germany rather than anything else. So that's one possible situation, but that is just one scenario.

There would be a Chinese style scenario where against all odds, Kim Jung-Un decides to introduce radical reforms like in China. As I said, it's not very likely. I also don't think it's very desirable from the point of view of South Korea's interest, but it could be in the interest of the North Korean regime to experiment, because one reason for gradualism is to experiment, is to start with some reform and you see if it works and then you can expand it.

I'm actually surprised personally to see how very little initiative has been taken for economic reforms in North Korea. There seems to be literally a fear of doing anything that would be a little bit radical, so I don't see that scenario, but it could still happen.

## **Kim Byung-yeon**

Right, this is the last question. I'm sorry about not taking all the questions because there are too many questions. It says, it asks, why not ratify North Korea as a nuclear state but have diplomatic relation with North Korea, I mean perhaps the United States, that means North Korea is not likely to use nuclear weapons against countries that they have diplomatic relations, is that a possible option to take?

## **Gerard Roland**

I think that's a very good question. Not only is it a very good question, but it is also quite likely. It's also quite likely. The reason why I didn't talk about it is that I think there is a better solution. The better solution is that essentially you have this détente process, but the sanctions are not lifted because there is no denuclearization in North Korea. So, I think, before there is recognition of North Korea as a nuclear state and any peace process which would be necessary, I think we have to let the current peace process work which is that essentially putting as much pressure as possible on the North Korean regime.

Again, as I said, it will never want to denuclearize, but it's quite possible that the sanction may lead to regime collapse and that would be what I think in the interest of all Koreans. Nevertheless, if at some point, this does not work, then it would very much be second best, but it would be much better for everybody if there is indeed a formal peace treaty between all participants in the Korean War and that there would be declaration of no first strikes on either sides and possibly some other arms treaties. So, these are clearly possibilities, and these are directions one should go, if the current process does not work, but the reason why I didn't mention it is because I think that we can do much better right now. That's the reason why I didn't mention it.

**Kim, Byung-yeon**

Okay, thank you so much. Thank you so much.