

**NORTH KOREA:
WHERE NEXT FOR THE NUCLEAR TALKS?**

15 November 2004



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NORTH KOREA: WHERE NEXT FOR THE NUCLEAR TALKS?

EXECUTIVE SUMMARY AND RECOMMENDATIONS

North Korea could now have as many as ten nuclear weapons. While six-party talks have continued without results in Beijing, North Korea has probably reprocessed its fuel rods and may have turned the plutonium into weapons. It almost certainly has enough bombs to deter an attack and still have some to sell to other states or even terrorist groups. This risk means that it is now an increasingly urgent priority to dismantle North Korea's nuclear program. Demands by the United States that North Korea do this before any deal can be reached have been rebuffed, and the talks have stalled.

It is time to change tack and put a comprehensive offer on the table that lays out exactly what benefits North Korea stands to get in exchange for giving up its nuclear program and weapons. Only a serious offer from the United States will put the other parties in a position to increase pressure on North Korea should a reasonable deal be rejected.

Before the talks began in August 2003, ICG outlined a phased negotiating strategy, designed to tackle the most immediate threat -- North Korea's reprocessing of 8,000 spent fuel rods and the restarting of the reactors that would allow it to produce more -- before addressing the details of verification, dismantlement and economic incentives.¹ Acknowledging that diplomacy is the best option but that success was not assured, the strategy involved an initial freeze, followed by detailed time-limited negotiations backed by sanctions if those negotiations failed. It also accepted the possibility of military force should North Korea cross a red line by preparing to use or transfer nuclear weapons.

It is now too late to freeze North Korea's activities at its nuclear plant at Yongbyon: it must be assumed that by now the fuel rods there previously subject to safeguards have been reprocessed and their fissile material already turned into weapons. Future talks must deal with three areas of concern -- first, eliminating such weapons as were produced before 1994; secondly, eliminating such weapons as have been produced from plutonium reprocessed after 2002 and fully accounting for that plutonium and the spent fuel now continuing to be generated in the Yongbyon reactor; and thirdly, verifiably dismantling the program, such as it is, to produce highly enriched uranium (HEU).

The focus should remain on the nuclear issue, putting on hold other current policy concerns such as missile controls, human rights, reductions of conventional forces and economic reforms, important as they all are in their own right, until this critical problem is resolved.

North Korea is only likely to respond to a mix of economic and security inducements backed by the threat of coercive measures such as sanctions. China, Russia and South Korea, however, are very reluctant to impose sanctions on the North, while Japanese steps in this direction have been driven more by the issue of North Korea's kidnapping of its citizens than concerns over the nuclear program. There will be no agreement on coercive measures unless the United States (after consultation with its other negotiating partners) first lays out a detailed plan of what North Korea can expect by way of economic assistance and security guarantees. A road map going no further than indicating the general direction of the process, indicating what might be discussed when, is not likely to be enough to persuade the North Koreans and the other participants that the U.S. is

¹ ICG Asia Report N°60, *North Korea: A Phased Negotiating Strategy*, 1 August 2003.

negotiating in good faith: what is also needed is a detailed picture of the destination.

This report outlines an eight-stage process under which North Korea would reveal and dismantle various components of its nuclear program while receiving a series of economic, energy and security benefits. The steps would be laid out in advance so that it would be clear if any participant was not living up to its obligations. By the end of this process, North Korea would have given up all its nuclear programs; in return it would have diplomatic relations with Japan and exchanged liaison offices with the United States. It would receive a significant input of energy assistance and aid from South Korea, Japan and the European Union. It would also have a conditional multilateral security guarantee. Having given up its weapons, it would be in a position to move forward with full diplomatic relations with the U.S., sign a peace treaty for the Korean Peninsula, and develop full relations with international financial institutions. North Korea's perceived threats to its economic and military security would be significantly reduced.

Any agreement will have to take into account a number of realities. A deal will only be possible if it includes intrusive verification. There is little willingness in the U.S. Congress to fund more aid to North Korea; therefore, Japan and South Korea will have to bear significant costs. And it is doubtful that the United States will accept any form of peaceful nuclear energy program in North Korea, meaning that plans to build light water reactors under KEDO may have to remain suspended indefinitely.

Talks with North Korea are never easy. There is some scepticism that Pyongyang will never accept a deal, however objectively reasonable. The only way to find out once and for all is to offer it one that at least all five other parties see as such. And that will require more being put on the table than has been the case so far.

RECOMMENDATIONS

To the United States:

1. Present (after consultation with South Korea, Japan, China and Russia) a detailed proposal fully outlining the steps North Korea will need to take to dismantle its weapons programs together with a clear picture of what economic benefits and security guarantees will be offered if they do, with elements along the following lines:

- (a) security guarantees for verified freeze of Yongbyon operation;
 - (b) energy planning for disclosures and declarations of intent;
 - (c) energy provision for signatures and access;
 - (d) rehabilitation and relief for agreed dismantlement;
 - (e) aid for dismantlement;
 - (f) reparations for weapons declarations;
 - (g) liaison office and international financial institution preparations for HEU commitments; and
 - (h) liaison offices for conclusive verification.
2. Be prepared itself to provide, at the appropriate times, the following components of any such deal:
 - (a) a conditional security guarantee (along with Russia, China, South Korea and Japan);
 - (b) support for delivery to North Korea of 500,000 tons of heavy fuel oil per year by South Korea and Japan;
 - (c) participation in a multilateral energy survey of North Korea, including preparations for the rehabilitation of power plants;
 - (d) agreement to technical assistance from the World Bank and others;
 - (e) relaxation of travel restrictions on North Korean diplomats and the exchange of liaison offices; and
 - (f) review of North Korea's inclusion on the list of terrorism sponsors.
 3. Agree to the continued suspension of the KEDO program rather than pressing for its abandonment, and postpone a decision on its future until after implementation of a deal is well underway.
 4. Draw up a plan of graduated sanctions, to be backed by a possible UN resolution, should North Korea not accept a reasonable package or violate an eventual agreement.
 5. Recognise that issues such as terminating North Korea's missile program and exports, human rights, economic reform, biological and chemical weapons, and conventional force

reductions should not form part of the nuclear negotiations.

To North Korea:

6. Accept all the reciprocal commitments required of it in the nuclear deal outlined above.
7. Accept that the International Atomic Energy Agency (IAEA) will have to play the key role in comprehensive verification.
8. Immediately satisfy Japanese demands for a resolution to the issue of kidnapping victims by providing Tokyo with information on their fate.

To South Korea:

9. Prepare to provide the bulk of energy assistance for the North in conjunction with other economic development plans.
10. Accept that the KEDO program to build nuclear plants in the North may have to remain suspended indefinitely.
11. Be prepared to apply sanctions if North Korea refuses a reasonable deal.

To China:

12. Apply diplomatic pressure on North Korea to accept a reasonable deal, and be prepared to apply sanctions if it refuses.

To Japan:

13. Prepare a detailed package of reparations to be paid to North Korea following normalisation.
14. Accept the indefinite suspension of KEDO.
15. Be prepared to apply sanctions if North Korea refuses a reasonable deal.

To Russia:

16. Apply diplomatic pressure on North Korea to accept a reasonable deal, and be prepared to apply sanctions if it refuses.

To the European Union:

17. Prepare to revive the humanitarian aid plan suspended in 2002.
18. Be prepared to apply sanctions if North Korea refuses a reasonable deal.

Seoul/Brussels, 15 November 2004



NORTH KOREA: WHERE NEXT FOR THE NUCLEAR TALKS?

I. INTRODUCTION

There is little doubt that North Korea has the capability to build nuclear weapons and may have eight to ten bombs. It may also have missiles with the potential to deliver them.² The risks of them being used against neighbouring states are slight but there are real concerns that weapons or fissile material could be sold to other countries or even terrorist groups. The possibility of freelance proliferation by groups within the North Korean military cannot be discounted.³ North Korea is believed by U.S. intelligence to have made two weapons before 1994. Since 2002 it is likely to have reprocessed plutonium that could have produced up to eight more. It is also believed to be developing a program to enrich uranium. Allowing an unpredictable regime such as North Korea to continue with a nuclear arsenal clearly represents a grave security risk and a serious threat to global efforts against proliferation.⁴

Three rounds of talks in Beijing bringing together North and South Korea, the U.S., Russia, China and Japan have not resolved the issue. Only in the third round, in June 2004, did the United States and North Korea even appear to be negotiating in earnest when the United States presented an outline of what would

be on offer if North Korea gave up its weapons program. North Korea did not respond positively, and a round of talks planned for September 2004 did not occur.

To move the process forward, the U.S. needs to make a new offer, laying out in detail what steps North Korea must take to dismantle its programs and what it will get in return. A road map going no further than indicating the general direction of the process, indicating what might be discussed when, is not likely to be enough to persuade the North Koreans and the other participants that the U.S. is negotiating in good faith; what is also needed is a detailed picture of the destination, something that was lacking from the 1994 Agreed Framework and the June 2004 offer.

This report lays out the positions of the six parties on critical issues that must be considered when drawing up such an agreement, taking into account their various interests, objectives and approaches to different incentives and disincentives. Details of the talks have not been made public, but a reasonably clear picture has emerged from ICG's discussions with officials and analysts from five of the six countries involved. On North Korea's position we do not claim any special insight: it is almost impossible to divine the inner workings of the North Korean government, and ICG has been able to base its views only on very limited discussions with North Korean officials and the government's public statements.

There are those in the U.S. and other governments who believe that North Korea's record of breaking earlier agreements makes it an untrustworthy partner. But all arms agreements are between nations that lack trust for each other and all require intensive verification. Any agreement with North Korea needs to assume that it might cheat and be structured so that if it gets caught, it loses some of the benefits it would otherwise gain.

² U.S. intelligence agencies are divided over whether North Korea has the capability to mount a warhead on its missiles.

³ Such proliferation has to be considered a risk, even in the most tightly controlled state. For years Pakistan's military leader, General Pervez Musharraf, insisted that there was no possibility of any leakage of technology or plans from its "water tight" nuclear program. In 2003, he was forced to admit that the scientist who headed the program, A.Q. Khan, had sold equipment and plans to a number of countries.

⁴ For an evaluation of the potential impact a relatively small amount of fissile material and unsophisticated explosive device could have, see Graham Allison, *Nuclear Terrorism: The Ultimate Preventable Catastrophe* (Times Books, 2004).

II. NORTH KOREA'S NUCLEAR PROGRAM: THREATS AND RESPONSES

In the 24 years since North Korea's nuclear program was first detected, the precise extent of its evolution has never been known.⁵ The country is the most closed and tightly controlled in the world. Even taking into account the intelligence capacity available to the U.S., it is impossible to know certain details, and as events in Iraq have shown, intelligence agencies are capable of making significant errors in interpreting information.

A. THE EARLY 1990S

What we do know is that from 1989 to 1991, North Korea removed spent fuel from its 5 megawatt nuclear reactor at Yongbyon and that in 1989 it had begun work on a reprocessing facility. In the early 1990s, a divided U.S. intelligence community concluded that the North had successfully separated enough weapons-grade plutonium for at least one or possibly two nuclear weapons.⁶ In response to this development, the U.S. embarked on a series of negotiations with North Korea aimed at eliminating its nuclear programs under international inspections, ending its ballistic missile production and exports, and implementing a ban on chemical and biological weapons.

In late 1992, North Korea signed a safeguards agreement with the International Atomic Energy Agency (IAEA) and provided an initial declaration of its nuclear materials and facilities in which it acknowledged for the first time that it had reprocessed some plutonium. However, before the end of 1992, IAEA inspectors discovered that North Korea had tried to hide two nuclear waste sites and had separated weapons-grade plutonium on more occasions than it

had stated. The inspection regime faltered, and in February 1993, the matter was referred to the IAEA Board of Governors. A resolution requiring North Korea to permit the "full and prompt implementation" of its safeguards agreement "without delay" was passed. The North immediately rejected this and two weeks later threatened to withdraw from the Nuclear Non-Proliferation Treaty (NPT), something no country had ever done before.⁷

B. THE AGREED FRAMEWORK

The administration of President Bill Clinton responded by starting high-level talks with the North Koreans. By June 1993 North Korea was persuaded to remain in the NPT, and thus began sixteen months of volatile and at times extremely tense bilateral U.S.-North Korea negotiations over North Korea's clandestine nuclear operations.⁸ Perhaps the lowest point came in May 1994, just months before the final agreement, when North Korea removed enough fuel rods from its reactor at Yongbyon to produce an estimated five or six nuclear weapons.

On 21 October 1994, North Korea and the U.S. agreed to a set of political commitments that satisfied both sides' concerns and requirements with a series of reciprocal steps. Washington agreed to organise an international consortium to build two light water reactor (LWR) nuclear power plants by a target date of 2003 and supply annually 500,000 tons of heavy fuel oil until completion of the first power plant. This consortium later assumed shape as the Korean Peninsula Energy Development Organisation (KEDO). In return, Pyongyang agreed to continue to freeze activity at its graphite-moderated reactors and related facilities, including Yongbyon. North Korea further agreed to allow the IAEA to monitor this freeze and to inspect its nuclear waste site to determine if it had fissile material.

When the detailed and complicated provisions on nuclear disarmament were fully completed, North Korea's nuclear weaponry would be completely dismantled and relations between the U.S. and North Korea normalised. The text -- neither a treaty nor a legally binding agreement -- became formally known

⁵ For a more detailed history of North Korea's actions, and the international reaction to them, see ICG Report, *North Korea*, op. cit., pp. 4-6.

⁶ This remained the official assessment until December 2001, when the U.S. intelligence community stated that North Korea had actually produced one or possibly two nuclear weapons. However, a January 2003 CIA assessment reverted back to the earlier language, claiming that Pyongyang probably had produced enough plutonium for one or possibly two nuclear weapons. See Jonathan Pollack, "The United States, North Korea, and the End of the Agreed Framework", *Naval War College Review*, Vol. LVI, No. 3, Summer 2003, pp. 35-38.

⁷ ICG Report, *North Korea*, op. cit., pp. 4-6.

⁸ Joel S. Wit, Daniel B. Poneman, and Robert L. Gallucci, *Going Critical: The First North Korean Nuclear Crisis* (Washington D.C., 2004).

as the Agreed Framework. For eight years the Agreed Framework achieved its primary purpose of freezing the North's plutonium production program.

In the final evaluation, neither North Korea nor the United States complied fully with the exact terms of the Agreed Framework.⁹ Severe financial, political and logistical problems inhibited the construction of the light water reactors. Also, shipments of heavy fuel oil fell slightly behind schedule, and moves toward the normalisation of economic and diplomatic relations were stymied by Congress and others in Washington who believed that North Korea might collapse at any moment and therefore long-term efforts at a rapprochement were not needed. North Korea, for its part, refused to allow the IAEA to perform ad hoc or routine inspections at all facilities not subject to the freeze that were listed on its initial declaration, directly violating the Agreed Framework. It never implemented the 1992 Denuclearisation Declaration,¹⁰ only haltingly engaged in dialogue with South Korea, and took no steps towards opening a liaison office in Washington D.C. Nevertheless, the Agreed Framework weathered an array of North Korean provocations, economic crises and political changes in the South. It formed the cornerstone of North Korea's engagement with the world.

C. THE OCTOBER 2002 SURPRISE

Despite some inadequacies and failings, the Agreed Framework succeeded in its primary purpose of freezing the North's plutonium activities. As one of the U.S. negotiators who put together the Agreed Framework said: "I didn't know if I had bought the North Korean nuclear program or just rented it, but I didn't really care so long as I could stop their plutonium production".¹¹ After conducting a review of North Korean policy upon assuming office in 2001, some in the Bush Administration reluctantly reached the same conclusion, coming down in favour of "improved implementation of the Agreed Framework relating to North Korea's missile

programs and a ban on its missile exports; and a less threatening conventional military posture".¹²

The U.S. and North Korea had "intermittent diplomatic contacts" between June 2001 and October 2002, but no substantive meetings.¹³ The death knell of the Agreed Framework sounded in October 2002 when U.S. Assistant Secretary of State for Asian Affairs James Kelly visited Pyongyang to deliver the message that U.S. intelligence had discovered a secret North Korean program to produce highly enriched uranium (HEU), a development which would significantly advance the North's threat potential and violate the terms of the Agreed Framework. Kelly stated that the U.S. had information that, starting in the late 1990s, North Korea covertly acquired uranium enrichment technology for nuclear weapons.

North Korea, in a Ministry of Foreign Affairs statement issued after the meeting, did not deny having this secret program, but justified its actions as a response to hostile Bush Administration policies, even though it had begun its clandestine program before Bush took office. "North Korea was entitled not only to nuclear weapons, but any type of weapon more powerful than that so as to defend its sovereignty and right to existence from the ever-growing nuclear threat by the U.S.", it stated.¹⁴

Events began spiralling downwards immediately after the October meeting. In November 2002 the United States, Japan and South Korea voted to suspend shipments of fuel oil to North Korea. The following month, Pyongyang declared the Agreed Framework dead and announced it would restart operation of its frozen nuclear facilities and construction of new reactors. That same month, it asked the IAEA to remove all monitoring equipment from the inspected facilities and on 27 December 2002 declared its intention to expel the inspectors. On 10 January 2003, North Korea renounced its adherence to the NPT and the IAEA safeguards agreement. Unlike in 1993 when it was persuaded to reconsider, this time it made good on the threat.

⁹ See "Agreed Framework Implementation: A Report Card", in ICG Report, *North Korea*, op. cit., pp. 9-11.

¹⁰ "Joint Declaration of the Denuclearisation of the Korean Peninsula", signed 20 January 1992, entered into force 19 February 1992. Full text available at <http://www.state.gov/t/ac/rls/or/2004/31011.htm>

¹¹ ICG interview, Washington D.C., 16 July 2004.

¹² Statement by the President, 6 June 2001, at <http://www.whitehouse.gov/news/releases/2001/06/20010611-4.html>.

¹³ For a chronology of the Bush administration's North Korea policy between January 2001 and August 2003, see ICG Report, *North Korea*, op. cit., pp. 12-14.

¹⁴ Jonathan Pollack, "The United States, North Korea, and the End of the Agreed Framework," op. cit., pp. 35-38.

D. POST-2002 DEVELOPMENT OF NORTH KOREA'S NUCLEAR PROGRAM

At the time of North Korea's withdrawal from the NPT in January 2003, the best assessment of its nuclear program was that it had perhaps separated enough plutonium to already create two weapons.¹⁵ The consensus is that North Korea has subsequently reprocessed both its pre-existing plutonium and that from 8,000 spent fuel rods previously under IAEA supervision, over a twelve-month period.¹⁶ With this it would have been able to produce between four to eight additional new weapons.¹⁷ Taking into account the levels of uranium currently available in the North, the time taken for processing, loss rates during separation, and the assumed lack of sophistication of North Korea's implosion device, the North is estimated to be able, using the plutonium route, to produce one new weapon per year after the initial four to eight have been constructed.¹⁸ This assessment is shared by, among others, U.S. Assistant Secretary of State for East Asian Affairs James Kelly.¹⁹

No publicly available confirmation is available as to whether any of this reprocessing has taken place. However, in January 2004 details of the extent to which North Korea had made good on its threats to restart plutonium processing were provided by a Senate Foreign Relations Committee party that travelled to Pyongyang and Yongbyon. The delegation found the 5 megawatt Yongbyon reactor had been restarted, and the 8,000 spent fuel rods previously under the supervision of the IAEA had been removed from their canisters at the known storage facility and moved to an undisclosed location. While the delegations were at no point shown incontrovertible evidence of North Korea's ability to manufacture

nuclear weapons, one report noted specifically that: "The Radiochemical Laboratory staff demonstrated that they had the requisite facility, equipment and technical expertise, and they appear to have the capacity, to extract plutonium from the spent fuel rods and fabricate plutonium metal".²⁰

In late 2003, the IAEA disclosed that A.Q. Khan, a Pakistani scientist trained in Europe who led efforts to build Pakistan's first nuclear bomb, had sold parts and plans for the construction of machines that would allow North Korea to separate uranium using centrifuge technology. This revelation is highly significant as the assessments of North Korea's ability to increase its nuclear stockpile have been based on an assumption that it is only using known facilities and spent fuel rods and does not yet have a functioning HEU program to open up an alternative route to nuclear weapons production. Such an HEU program could, combined with the plutonium program, yield as many as 250 nuclear weapons in the next decade.²¹

Despite the information from Pakistan, it is apparent that the North's HEU effort -- while a long term threat -- does not have the short-run potential to allow North Korea to increase its nuclear capacity. The technology for an HEU program -- several thousand precisely machined centrifuges positioned in a cascade -- would be extremely hard to acquire and construct, even with Pakistani help. Also, there is hard evidence that North Korea is still working to procure key components. Egypt intercepted a ship carrying aluminium tubing bound for North Korea in April 2003. That tubing would likely only have been used in a nascent HEU program, suggesting that Pyongyang may not be ready to operate a large-scale HEU production plant.²² Furthermore, "aluminium casing tubes are only the tip of the iceberg in relation to the necessary components, materials, and equipment needed to complete a production-scale centrifuge plant".²³ And

¹⁵ "The Worldwide Threat 2004: Challenges in a Changing Global Context", testimony of Director of Central Intelligence George J. Tenet before the Senate Select Committee on Intelligence, 24 February 2004. Full text at http://www.cia.gov/cia/public_affairs/speeches/2004/dci_speech_02142004.html.

¹⁶ ICG interview, Corey Gay Hinderstein, Senior Analyst, Institute for Science and International Security, Washington D.C., 7 September 2004.

¹⁷ The International Institute for Strategic Studies (IISS), *North Korea's Weapons Programmes: A Net Assessment* (London, 2004); Glenn Kessler, "N Korea Nuclear Estimate to Rise", *The Washington Post*, 28 April 2004.

¹⁸ ICG interview, Adam Ward, Senior Fellow for East Asian Security, IISS, London, 9 September 2004.

¹⁹ Glenn Kessler, "More N. Korean Bombs Likely, U.S. Official Says", *The Washington Post*, 16 July 2004.

²⁰ "North Korea: Status Report on Nuclear Program, Humanitarian Issues, and Economic Reforms, A Staff Trip Report to the Committee on Foreign Relations", United States Senate, February 2004. <http://foreign.senate.gov/testimony/2004/DPRKTRipReport.pdf>.

²¹ Jon B. Wolfsthal, "Estimates of North Korea's Unchecked Nuclear Weapons Production Potential", *Proliferation News*, 29 July 2003, <http://www.proliferationnews.org>.

²² Daniel A. Pinkston, "Foreign Assistance and Procurement for the North Korean Nuclear Program", *Asian Export Control Observer*, April 2004.

²³ IISS, *North Korea's Weapons Programmes*, op. cit., p. 42.

even assuming North Korea has managed to obtain the requisite components for an HEU facility completely undetected, a lengthy period of testing is normally necessary before full scale sustained production is possible. "Centrifuge machines are notoriously temperamental... any fluctuation in or interruption to the electrical current can prove fatal for centrifuge machines, and North Korea's electrical system is known to be highly unreliable".²⁴

Suggesting the extent of North Korea's untoward intentions for its burgeoning nuclear stockpile, IAEA investigators subsequently learned from interviews with Pakistani scientists that in early 2001, North Korea supplied Libya with a large consignment of uranium hexafluoride (UF₆), the gaseous form of uranium required for centrifuges. The material was originally thought to have originated in Pakistan. Reports suggesting the UF₆ was supplied to Libya in an already enriched form were later denied by the IAEA.²⁵ Nonetheless, it was an alarming sign of proliferation potential. In terms of its domestic weapons ability, it is widely presumed that the North Korean Nodong missile, with a maximum payload of 700 kilograms and a range of 1,300 kilometres, is fully operational and may be nuclear capable.²⁶

IAEA Director-General Dr. Mohamed ElBaradei has said: "Perhaps the most disturbing lesson to emerge from [the IAEA's] work in Iran and Libya is the existence of an extensive illicit market for the supply of nuclear items, which clearly thrived on demand".²⁷ North Korea has, since the late 1980s, been among the leading exporters of missile and related production technology and components to such countries as Iraq, Egypt, Iran, Syria, Libya, UAE, Yemen and Pakistan, although recent political changes in Iraq, Yemen and Libya mean its main customers in the Middle East are no longer in the market.²⁸

III. THE SIX-PARTY TALKS

Until January 2003, U.S. officials appeared ambivalent toward achieving either a solution to the nuclear crisis on the Korean Peninsula or working meaningfully with their counterparts in China, South Korea and Japan to secure North Korea's agreement for a solution.²⁹ The issue had caused a wide division in sections of the U.S. government, with some senior officials opposed to any agreement with North Korea and determined to scrap the Agreed Framework.

In January 2003, President Bush said that if North Korea agreed not to continue developing nuclear weapons, he would consider restarting a "bold initiative" involving U.S. energy and food assistance. This phrase was repeated in March 2003 when U.S. Secretary of State Colin Powell spoke of a "bold initiative" to help North Korea with its "starvation and economic problems".³⁰ At China's urging, the two sides met in Beijing in mid-April, although U.S. officials described the meeting as talks and not negotiations, as Washington was adamant that it would not enter into bilateral negotiations with North Korea, saying this would simply reward its bad behaviour.³¹ At this meeting, North Korea reportedly claimed that it already possessed two bombs and was reprocessing additional spent fuel, that it would provide a "physical demonstration" of its nuclear capabilities (a reference to a possible nuclear weapons test) and implied that it might export nuclear weapons.³² The North also proposed a peaceful resolution of the nuclear issue that included reviving elements of the Agreed Framework and other U.S.

²⁴ Ibid.

²⁵ Stephen Fidler, "North Korea 'closer than suspected to nuclear arms'", *Financial Times*, 26 May 2004.

²⁶ ICG interview, Corey Gay Hinderstein, Senior Analyst, Institute for Science and International Security, Washington D.C., 7 September 2004.

²⁷ Dr. Mohamed ElBaradei, speech to the Carnegie Endowment's International Non-Proliferation Conference, 21 June 2004, text at <http://www.iaea.org/NewsCenter/Statements/2004/ebsp2004n004.html>.

²⁸ ICG interview, Adam Ward, Senior Fellow for East Asian Security, IISS, London, 9 September 2004.

²⁹ ICG Report, *North Korea*, op. cit., p. 13.

³⁰ See transcript of Colin Powell's remarks on 28 March 2003 as released by the State Department at <http://www.useu.be/Categories/GlobalAffairs/Mar2803PowellKoreas.html>.

³¹ "Each of these North Korean provocations is designed to blackmail the United States and to intimidate our friends and allies into pushing the United States into a bilateral dialogue with the North -- giving the North what it wants, and on its terms. What the North wants is acceptance by us that North Korea's nuclear weapons are somehow only a matter for the D.P.R.K. and the U.S. This may be tempting to some nations. But it is not true." James A. Kelly, testimony before the Senate Foreign Relations Committee, Washington, D.C. 12 March 2003.

³² David E. Sanger, "North Korea Says It Now Possesses Nuclear Arsenal", *The New York Times*, 25 April 2003.

concessions, before the dismantlement of the North's nuclear program.³³

In May 2003, President Bush demanded the "complete, verifiable, irreversible dismantlement" (CVID) of the North's nuclear weapons program. Through the summer of 2003, U.S., Chinese, South Korean and Japanese officials worked to secure North Korea's agreement for a new round of multilateral talks, ultimately arriving at a proposed format of a second trilateral U.S.-China-North Korea meeting. The meeting was subsequently expanded to include Japan, South Korea, and at North Korea's request, Russia.

A. AUGUST 2003: OPENING POSITIONS

The first round of six-party talks, held from 27-29 August 2003, made little progress in solving the crisis. Neither the United States nor North Korea made any concessions from their initial negotiating positions. The U.S. delegation insisted that North Korea end its nuclear program and submit to rigorous inspections before any inducements could be offered. North Korea proposed a four-phase solution that was substantially similar to the proposal it made in April of "simultaneous steps" by Washington and Pyongyang. The four steps were: 1) the U.S. would resume heavy fuel oil and food aid while North Korea would agree in principle to scrap its nuclear program; 2) the U.S. would agree in principle to conclude a bilateral nonaggression pact and compensate North Korea for the loss of electric power, while North Korea would institute a freeze of its "nuclear facility and nuclear substance" and accept inspectors to monitor that freeze; 3) the U.S. and Japan would normalise relations with North Korea, in exchange for which North Korea would conclude a treaty to halt its missile production and sales; 4) North Korea would dismantle its nuclear facilities upon the completion of the light-water reactors promised under the 1994 Agreed Framework. When the U.S. refused to engage in direct substantive discussions, North Korea threatened to test a nuclear weapon.³⁴

Although host China issued a six-point memorandum of "common understanding" among the parties to the talks, the statement amounted to little more than an agreement to continue the process.³⁵ The six parties did reach agreement on five points: to resolve the nuclear issue through peaceful means; that the security concerns of North Korea should be taken into consideration as well as the goal of a nuclear free peninsula; that there was a need to explore an overall plan in a just and reasonable manner and in a simultaneous and incremental way; in the process of negotiations actions or words that may aggravate the situation should be avoided and that dialogue should continue.³⁶ So low were expectations that the relative lack of acrimony at the talks and the agreement to meet again were taken as signs of success.

Subsequently, the North Korean Deputy Representative to the six-party talks, Ambassador Li Gun, set out North Korea's negotiating position in a written statement. In a "proposal for simultaneous action and package settlement", the U.S. would guarantee non-aggression; establish diplomatic relations; guarantee North Korea-Japan and North Korea-South Korea economic cooperation; and compensate for the loss of electricity due to the delay in construction of the LWR plants. In return the North would not build nuclear weapons and allow for inspections; agree to ultimately dismantle its nuclear program; place a moratorium on missile tests and stop missile exports.

The order of simultaneous actions set out by North Korea was for an immediate U.S. resumption of heavy fuel oil and food aid donations, in return for a declaration renouncing nuclear intent by North Korea. After the provision of a written non-aggression statement and compensation for electricity loss, North Korea would allow for a freeze and verification inspections. With the establishment of diplomatic relations, North Korea would settle the missiles issue. Finally, on completion of the light water reactors, North Korea would dismantle its nuclear program.³⁷ North Korea demanded a restart of heavy fuel oil deliveries, in exchange for a promise to scrap its nuclear program. This was to be followed by a freeze

³³ At this meeting the North demanded four baskets of benefits: security assurances; a pledge not to seek regime change; economic assistance; and energy assistance. ICG interview with State Department officials, Washington D.C., 18 June 2003.

³⁴ Peter Beck, "Six-Party Talks: Agreeing to Disagree", *Korea Insight*, Vol. 5, No. 9, September 2003.

³⁵ "Vice FM Wang Yi, Head of Chinese Delegation to the Six-Party Talks, Gives a Press Conference", <http://www.fmprc.gov.cn/eng/wjdt/wshd/t25552.htm>.

³⁶ Shen Shishun, "Key Points to Solve the Korean Nuclear Crisis", China Institute of International Studies, <http://www.ciis.org.cn/item/2004-06-30/50473.html>.

³⁷ Ambassador Li Gun, "Factors [Requirements] for Resolving the Nuclear Issue", <http://www.cnponline.org>.

of its nuclear program simultaneous with the provision of a security assurance by the U.S. and energy compensation for that lost by the suspension of the KEDO nuclear reactor project.³⁸

B. FEBRUARY 2004: DEADLOCK

After the deadlocked end of the first round, North Korea and the U.S. both demonstrated evolving positions. The biggest change was that the U.S. publicly appeared to drop its insistence that North Korea completely dismantle its nuclear weapons program before it would address some of North Korea's concerns. Instead, State Department officials said they were looking at a step-by-step approach to reduce tensions.³⁹ After being publicly ambivalent about the deadlocked first round⁴⁰ North Korea reaffirmed its "will to peacefully settle the nuclear issues through dialogue".⁴¹

By the second round of talks, held 25-28 February 2004, the six parties were visibly more engaged, negotiating in earnest on procedural matters.⁴² The major accomplishment was an agreement to set up a working group to prepare for the next round of talks. However, neither Washington nor Pyongyang showed real flexibility in their substantive negotiating positions. The U.S. stood by its mantra of "complete, verifiable, irreversible dismantlement" (CVID) of the North's nuclear programs before it would offer any tangible assistance, while the North insisted that it must receive security assurances and economic benefits before any denuclearization could take place.

Coupled with the North's failure to even acknowledge its highly enriched uranium program, such differences scuttled attempts to issue a joint declaration at the end of the talks. Instead, the round ended with a statement by the Chinese Chairman Wang Yi, stating that the meeting had been "in-depth, pragmatic and conducive", characterised by "three features and five

advancements".⁴³ The "features" were that the meeting launched discussions on substantive issues, signalling the process of talks was going forward; the parties retained a sober and constructive attitude, symbolising a more mature meeting; and the forms of the meetings were more open and flexible than previously. The "advancements" were that the talks included more discussion of substantive issues; reaffirmed the need for coordinated steps to solve issues; issued the first statement since the launch of the talks; defined the time and place for a third round; and agreed to set up working groups to prepare for the next talks.⁴⁴

C. JUNE 2004: A START, BUT NOT ENOUGH

The third round of talks, on 23-26 June 2004, saw further flexibility on the part of the United States. Assistant Secretary Kelly held two and a half hours of direct talks with his North Korean counterpart, Vice Foreign Minister Kim Gye-gwan -- the longest bilateral discussion between the two sides since the process began. Kelly presented Kim with a seven-page document that laid out more substantially than ever before what benefits the North might receive in exchange for dismantling its nuclear program. The document had been vetted by the other four parties before being presented to North Korea.⁴⁵

The U.S. proposal was for the complete dismantlement and elimination of North Korea's nuclear program in two stages. First, during a three-month "preparatory period" a general freeze should be implemented, meaning seals, disabling mechanisms, and non-intrusive monitoring capability (i.e., cameras, locks and keys, but not necessarily inspectors on the ground). North Korea would prepare in this period a Declaration of Nuclear Program Dismantlement/Elimination, which in a second stage then would be completely implemented, with the elimination and removal outside North Korea of weapons, equipment and associated technology.⁴⁶ These actions would be subject to verification by an international body (the composition of which has not yet been proposed or seriously discussed at the talks). The process would

³⁸ "Keynote Speeches Made at Six-way Talks", KCNA, 29 August 2004.

³⁹ "U.S. Shows More Flexibility in North Korea Talks", *Arms Control Today*, October 2003.

⁴⁰ KCNA reported that Pyongyang was uninterested in further six-party talks, 30 August 2003.

⁴¹ KCNA, 2 September 2003.

⁴² Clay Moltz and Kenneth Quinones, "Getting Serious about a Multilateral Approach to North Korea", *The Non-proliferation Review*, Spring 2004, p. 136.

⁴³ "Three features and five advancements", Chinese Vice Foreign Minister Wang Yi, 28 February 2004, <http://www.fmprc.gov.cn/eng/topics/2ndsixpartytalks/t70664.htm>.

⁴⁴ Ibid.

⁴⁵ ICG interview, State Department official, Washington D.C., 24 September 2004.

⁴⁶ ICG interview, U.S. official, Seoul, 27 August 2004.

have to include existing weapons, the plutonium program, the uranium enrichment program and all civil nuclear facilities. Upon agreement on the process, non-U.S. parties would provide heavy fuel oil to North Korea.

When the Declaration's stipulations were completed, and accepted as being so by all six parties, there would be multilateral security assurances, including a statement by the U.S. and others not to invade or attack, and to respect the territorial integrity of all parties; and also a multilateral energy survey of North Korea's needs, and the formulation of a plan to address them, including the infrastructure needed for energy investment and grid overhaul. North Korea would be shown a route through which it could be removed from the U.S. list of State Sponsors of Terrorism, and achieve the gradual removal of sanctions. As the North carried out its commitments, the parties "would take some corresponding steps" of a provisional and temporary nature, with lasting benefits held over until after the dismantlement of the nuclear programs was completed.⁴⁷

South Korea offered a proposal of its own, which was more flexible on timing and reciprocity. North Korea's reaction to the U.S. offer was mixed. While saying it was willing to dismantle its nuclear facilities and "show flexibility" if the right offer were made, it characterised the U.S. proposal as unacceptable because it required North Korea to take the first step. "Its real intention was to discuss what [the U.S.] would do only when the DPRK has completed the unilateral dismantlement of its nuclear program ... if the U.S. drops its unreasonable assertion about an enriched uranium program and commits itself to renounce its hostile policy toward the DPRK according to the principle of 'words for words' and 'action for action' and directly takes measures for the reward for freeze in the future as its delegation had promised at the talks, this will help solve the nuclear issue and meet its requests".⁴⁸ North Korea reiterated its demand for compensation in the form of "heavy oil, electricity, etc." and stipulated an amount of 2 million kilowatts, equal to the total capacity of the KEDO nuclear reactors.⁴⁹

D. ASSESSMENT

The offer of economic incentives made at the June 2004 talks was described as "impressionist rather than pointillist",⁵⁰ not containing the detail needed to possibly win over the North, and it still demanded dismantlement up front. It is clear that the current position of the U.S. is not enough to now move the process seriously forward. Things may have been different if the June 2004 position had been where Washington started. It is difficult to avoid the conclusion that the talks so far have wasted two years, with the parties using them much more for restating positions than negotiating, and that they enabled in the meanwhile a substantial strengthening of North Korea's position, with all the risks associated with this.

North Korea announced on 16 August 2004 that it would not attend working meetings to prepare for the next round of talks scheduled for September 2004, arguing that Washington's "hostile attitude" made such meetings pointless.⁵¹ This, combined with North Korea's failure to provide any formal feedback, questions, or suggestions for progress following the U.S. presentation of its detailed proposals at the June talks, prompted a round of renewed diplomacy by China, Australia, the UK and others to persuade Pyongyang to return to the negotiating table. Nonetheless, by the end of September 2004, it was clear that North Korea was not going to acquiesce to further talks until after the November U.S. elections, and that it was more concerned with adding new items to the agenda -- notably the issue of South Korea's uranium enrichment program and the IAEA inspections taking place there -- than debating previous proposals.

The best chance for achieving a negotiated outcome to the nuclear crisis has, for the meantime, been lost, and North Korea remains free to produce and potentially proliferate nuclear weapons and material. When the six parties do return to the negotiating table, it is essential that attention be focused on reaching agreement on the technicalities of denuclearisation, as well as the compromises that will be necessary to reach that goal. The most effective way to understand the compromises that must be made is through examining the interests and attitudes of each player.

⁴⁷ James A. Kelly, Assistant Secretary for East Asian and Pacific Affairs, "Dealing With North Korea's Nuclear Programs", statement to the Senate Foreign Relations Committee, Washington D.C., 15 July 2004.

⁴⁸ "DPRK Foreign Ministry Spokesman on Six-Party Talks", KCNA, 28 June 2004.

⁴⁹ Ibid.

⁵⁰ ICG interview, U.S. official, October 2004.

⁵¹ "MOFAT Spokesman: U.S. has 'Destroyed Foundation' for Nuclear Talks", KCNA, 16 August 2004.

IV. THE ISSUES: ATTITUDES OF THE KEY PLAYERS

A. ISSUES TO BE RESOLVED

In order to gain a better grasp as to why the six-party talks have stalled and find a way to move the process forward, it is vital to examine the basic interests and objectives of each of the six parties as well as the various incentives and disincentives that each party may be willing to provide or accept. In so doing, it is possible to map out a realistic strategy for moving negotiations forward and ultimately achieving a breakthrough.

As the U.S. negotiators who settled the North Korean nuclear crisis in 1994 found, Pyongyang responds most favourably when confronted with a combination of positive incentives to comply (food, energy and economic benefits, security assurances and political legitimisation) on the one hand, and disincentives for allowing talks to fail (sanctions and the threat of military force) on the other.⁵² Previous attempts at negotiating with North Korea have foundered when coordination between the U.S. and South Korea, and the U.S. and Japan, is not maximised. The inherent advantage of a multilateral negotiating environment is that it should prevent Pyongyang from dividing the five partners, playing one off against the other to win benefits without making concessions, and telling each capital a different version of the truth.⁵³

The eight key issues to be resolved in the talks, on which for the most part there are still significant differences between the parties (as is made clear in the country-by-country discussions below), are as follows.

1. Complete, verifiable, irreversible dismantlement

The critical questions are what is meant by "complete" and whether North Korea will allow its fissile material and technology to be shipped out of the country so the

dismantlement is irreversible.⁵⁴ North Korea's nuclear infrastructure includes not only fissile material but also the facilities with which to conduct research and develop that material, and a civil nuclear infrastructure with dual-use potential, including for medical, industrial and manufacturing purposes.⁵⁵

2. Prevention of proliferation

The issue here is how to ensure that North Korea does not transfer nuclear material or know-how to anyone else. It has sold missiles to clients in the Middle East and Africa over the last two decades to produce critical foreign exchange for its struggling economy.⁵⁶ And while it has never been caught directly engaging in the sale or transfer of nuclear weapons or fissile material, it has been identified by the IAEA as a key player on the international black market for nuclear technology.

3. Regime change

No issue is more crucial for North Korea than ensuring regime survival. It is one thing to work for the reform and rehabilitation of North Korea's current political, economic and social systems in an evolutionary manner, as has occurred in China in the past 25 years; quite another to approach the negotiations believing that North Korea is unchangeable and the only hope for its future is to overthrow the current regime.

4. Security assurances

A guarantee from the United States against military attack has been a key demand in all North Korean public statements and can be expected to remain a bottom line.

⁵⁴ David Albright, "Verifiable, Irreversible, Cooperative Dismantlement of the DPRK's Nuclear Weapons Program: Basic tasks and concepts", Institute for Science and International Security, 13 January 2004, <http://www.isis-online.org>

⁵⁵ To ensure that the dismantlement is irreversible the only sure option is for the fissile material to be removed from North Korea altogether. Alternative irreversible methods do exist, but these all presuppose the possibility of a decision to reverse dismantlement. David Albright, "Verifiably, Irreversibly Halting Operations at Yongbyon", Institute for Science and International Security, 14 January 2004.

⁵⁶ As former U.S. President Clinton put it: "Missiles and bombs are their cash crops". Speech at New York University, 14 January 2003, http://www.clintonpresidentialcenter.com/global_nyu_2003.html.

⁵² Wit, Poneman, and Gallucci, *Going Critical*, op. cit., p. 385.

⁵³ This was also the conclusion of former U.S. Secretary of Defence William Perry, recruited by President Clinton to conduct a high-level review of U.S. North Korea policies in 1999, and founder of the three-way Trilateral Coordination and Oversight Group of the U.S., South Korea and Japan to consider North Korean issues.

5. Economic package

North Korea's economy has recovered slightly from its state of near collapse in the mid-1990s when a famine hit the country but it is still in a state of overall decline with insufficient energy. Any deal to get rid of the nuclear program will need to include significant assistance in the form of energy and development funding. But in choosing to develop its nuclear program this far, North Korea has already incurred immense economic and political costs, and rejected numerous overtures for economic cooperation in exchange for dropping the program.⁵⁷

6. Future nuclear status

A major incentive for North Korea, and one still supported by Japan and South Korea, is the KEDO light water reactor project -- partially constructed under the Agreed Framework at a cost so far of some \$1.6 billion⁵⁸ and currently held under suspension. However a light water reactor could still be used to produce fissile material, and given North Korea's previous withdrawal from the Nuclear Non-Proliferation Treaty (NPT), there is a widespread belief in U.S. policy circles that it can not be trusted with any nuclear program at all. However, signatories to the NPT are entitled to the peaceful use of nuclear energy under IAEA controls.

7. Sanctions

North Korea is highly reliant on imports of fuel, food and other goods necessary to maintain the loyalty of the core supporters of the regime. Major sources of these goods include aid from China and South Korea, remittances from ethnic Koreans living in Japan, sales of weapons and missiles, and illicit trading in drugs and counterfeit money.⁵⁹ To a considerable degree, the economy has been kept afloat in the past decade by food aid.⁶⁰ Options for multilateral sanctions include:

- ❑ the suspension of air links to China and Russia and the suspension of ferry crossings to Japan;

- ❑ restrictions or downgrading of diplomatic representation around the world;
- ❑ visa restrictions on the very limited number of North Korean officials who travel overseas;
- ❑ a ban on remittances into the country, particularly from Japan;
- ❑ intensification of measures to restrict illegal activities by the North Koreans or to interdict missile and weapons sales; and
- ❑ a ban on investment and trade and the seizing of assets overseas.

It will not be easy for the US to win support for any sanctions regime from South Korea, China or Russia. Moreover, any successful multilateral sanctions regime would likely have to win approval of the UN Security Council, a process often fraught with problems given the hostility to sanctions among some of the permanent members.

8. Use of force

All parties have said they want to find a diplomatic solution to the problem but the use of force has not been taken off the table entirely. In this context, the red line would be the actual or attempted transfer of a nuclear weapon or fissile material by North Korea to another country or non-state actor.

B. NORTH KOREA

Discerning North Korea's interests and attitudes is extremely difficult given the opaque nature of the regime and often contradictory statements that are made. North Korea's ruling elite clearly seeks to maintain its grip on power and has subjugated all other interests to that end. The nuclear program may be a key element in regime survival. At the same time, the economic reforms and the overture to Japan launched in 2002 suggest that at some level, the regime believes reform and opening are also critical to regime survival. The only way that process can succeed is through resolving the nuclear crisis. Thus, any deal with North Korea must address the issue of regime survival and reinforce the view that a comprehensive economic assistance package is the best way to ensure that.

CVID: While North Korea understands the need to discuss CVID, it objects to the idea of having to disarm first and get the benefits later. At the third round of talks, North Korea proposed to freeze all

⁵⁷ The North Korean economy, and international engagement to promote reform, will be the subject of a future ICG report.

⁵⁸ All figures denoted in dollars (\$) in this report refer to U.S. dollars.

⁵⁹ ICG Report, *North Korea*, op. cit., p. 32.

⁶⁰ See Nicholas Eberstadt, "The Persistence of North Korea" in *Policy Review*, October 2004, http://www.policyreview.org/oct04/eberstadt_print.html, for a fuller explanation of how the North Korean economy has remained afloat.

facilities related to nuclear weapons and products that resulted from their operation, and to refrain from producing more nuclear weapons, transferring them, and testing them. The North's proposal provided no details of which facilities it would cover and ignored the pre-1994 plutonium and nuclear weapons.⁶¹ As in all North Korean statements, it did not mention the HEU program of which officials continue to deny the existence. It is impossible to know North Korea's intentions here for certain -- it may want to win economic and political concessions while trying to retain some elements of a nuclear program. The only way to know is to offer a deal involving extensive verification. North Korea has said it does not want the IAEA involved in verification, suggesting a new regime consisting of participants at the six-party talks.⁶²

Prevention of proliferation: North Korea claims it makes a clear distinction between missiles and nuclear material, that it would never allow transfers of nuclear weapons or fissile material to any state or non-state actor, especially al-Qaeda,⁶³ and that it views efforts to prevent and contain its proliferation of nuclear weapons and materials as unnecessary and illegal coercive measures.⁶⁴ Nonetheless, analysts and government officials in the U.S. believe that should North Korea be backed into a sufficiently tight economic or political corner, it would do whatever it deemed necessary -- including sell nuclear material to terrorists -- to ensure its survival. There is also the risk of freelance proliferation activity by state or military actors outside the control of the core leadership.

Regime survival: The elite population of North Korea is defined as the several thousand top Korean Worker's Party, government, and military officials living in Pyongyang, who have access to some foreign news, hard currency, and positions of influence. The regime's greatest fear, which has only been exacerbated by statements made by various members of the Bush administration, is that if freedom and capitalism sweep away their system, they will lose their privileged

positions.⁶⁵ This is especially true of Kim Jong-il, who is the only one with the authority to revise the country's ideological course, yet has the most to lose from doing so. Regime survival is at the heart of all decisions in Pyongyang.

Security assurance: North Korea wants a formal guarantee that the U.S. will not attack it or attempt to overthrow the government. This has been a prerequisite to an agreement even before the six-party talks.⁶⁶ It has been restated at all three rounds of talks and in subsequent informal discussions.⁶⁷ It also seeks a fundamental improvement in political and economic relations with the U.S. as a way to improve its chances of survival, which is what Pyongyang means when it says it wants Washington to end its "hostile policy". North Korea has long expressed anxiety over the 37,000 U.S. troops positioned in South Korea and the armistice (a temporary truce), that ended the Korean War in 1953.⁶⁸ President Bush's identification of North Korea as a member of the "Axis of Evil" and his assertion of the right to take pre-emptive military action against it, a threat not taken lightly in the post-Iraq invasion era, heightened tensions.⁶⁹ Furthermore, in 2002, a leaked portion of a Pentagon nuclear posture report revealed contemplation of the use of nuclear weapons in a major Korean contingency.⁷⁰ North Korea has subsequently expressed unease over U.S. plans for the reduction and relocation of its troops in South Korea, fearing that the move is designed to take American forces out of the range of North Korean artillery, and over the posture review in the Pacific, which has most recently seen the deployment of another U.S. Aegis destroyer in the Sea of Japan.⁷¹

⁶¹ ICG interview, Washington D.C., 23 September 2004.

⁶² James A. Kelly, Assistant Secretary for East Asian and Pacific Affairs, "Dealing With North Korea's Nuclear Programs", statement to the Senate Foreign Relations Committee, Washington D.C., 15 July 2004.

⁶³ Comments made by North Korean Vice President Kim Yong-nam and Foreign Minister Paik Nam-soon. Selig Harrison, "Inside North Korea: Leaders Open to Ending Nuclear Crisis", *Financial Times*, 4 May 2004.

⁶⁴ "KCNA Blasts U.S. 'Proliferation Security Initiative'", KCNA, 20 July 2004.

⁶⁵ Kongdan Oh and Ralph Hassig, "North Korea Through the Looking Glass", Brookings Institution, Washington D.C., 2000, p. 39.

⁶⁶ ICG interview, North Korean Ambassador to the United Nations Han Song-ryol, New York, 14 May 2003.

⁶⁷ Conference on Northeast Asian Security, hosted by National Committee on American Foreign Policy and the DPRK Institute for Disarmament and Peace, New York, 9-11 August 2004.

⁶⁸ See Bruce Cumings, *North Korea, Another Country* (New York, 2004), pp. 1-43.

⁶⁹ George W. Bush, State of the Union Address, Washington, 29 January 2002, <http://www.state.gov/g/wi/rls/14573.htm>, and "Remarks by the President at the 2002 Graduation Exercise at West Point", 1 June 2002.

⁷⁰ Philipp C. Bleek, "Nuclear Posture Review Leaks; Outline Targets, Contingencies", *Arms Control Today*, Vol. 32, April 2002.

⁷¹ In his 27 September 2004 statement at the General Debate of the 59th session of the United Nations General Assembly,

Economic package: Since the early 1990s, North Korea has stipulated energy as among its core demands. It lacks the natural resources to meet its energy needs autonomously and the foreign exchange reserves to purchase energy on the international market. What little domestic power production it does have is severely dilapidated through years of neglect and misuse.⁷² Most recently, it has requested 2 million kilowatts of energy, the lifting of restrictions on its membership to international financial institutions, and other payoffs. It has made clear that the size of incentives is directly linked to the amount of plutonium and production facilities that would be frozen.⁷³

Future nuclear status: While outwardly committed to achieving the goal of a nuclear-free Korean Peninsula, North Korea insists that it has the right to develop a peaceful nuclear program.⁷⁴ At the June round of talks, it acknowledged that while it wanted to maintain a civil nuclear program, most of its nuclear programs are weapons-related.⁷⁵

Sanctions: North Korea has said it views the imposition of sanctions to be tantamount to war.⁷⁶ It has, however, appeared to respond to economic pressure applied by China in the past, showing that it is vulnerable to this sort of coercive action.

North Korean Ambassador Choe Su-hon said: "All kinds of sophisticated war equipment are being deployed in and around the Korean Peninsula, targeting the DPRK. The acute political and military situation prevailing in and around the Korean Peninsula proves clearly once again how just it is for the DPRK to have built up its strong self-defensive military power to prevent war and ensure peace, upholding the [military first] policy of the respected General Kim Jong-il...The nuclear deterrent of the DPRK constitutes a legitimate self-defensive means to counter ever-growing U.S. nuclear threat and aggression against the DPRK and reliably defend sovereignty, peace and security of the country", <http://www.un.org/webcast/ga/59/statements/dprkeng040927.pdf>.

⁷² David von Hippel, Timothy Savage, and Peter Hayes, "The DPRK Energy Sector: Estimated Year 2000 Balance and Suggested Approaches to Sectoral Redevelopment", http://www.nautilus.org/DPRKBriefingBook/energy/DPRK_Energy_2000.pdf.

⁷³ Selig Harrison, "Inside North Korea: Leaders Open to Ending Nuclear Crisis", *Financial Times*, 4 May 2004.

⁷⁴ "Conference on Northeast Asian Security", co-sponsored by the National Committee on American Foreign Policy and the DPRK Institute for Disarmament and Peace, New York, 9-11 August 2004.

⁷⁵ "DPRK Foreign Ministry Spokesman on Six-Party Talks", KCNA, 28 June 2004.

⁷⁶ "U.S. Mean Economic Sanctions and Blockade against Other Countries under Fire", KCNA, 13 July 2004.

Use of force: It is difficult to predict how North Korea would respond to the use of force, even if it were only a limited surgical strike.⁷⁷ The prospect certainly cannot be excluded of a catastrophic full scale war on the Korean Peninsula that would cause hundreds of thousands, if not millions, of civilian casualties and destroy major urban centres in the North and South.

In 2003, North Korea was the biggest military spender in the world by percentage of GDP, allocating roughly 25 per cent of its output to the military.⁷⁸ It has equalled or exceeded that percentage every year since the 1950s, and has created one of the largest standing armies in the world -- over 1 million troops -- the majority of whom are stationed along the northern side of the Demilitarised Zone (DMZ), less than 100 km from Seoul. Rather than creating an overtly offensive force, North Korea has focused on building a "balance of terror". The whole country has been militarised to some degree, and North Koreans have been fed for decades on a constant diet of the imminent threat of U.S. invasion.

Most U.S. military analysts believe that while the U.S. and South Korea could ultimately overthrow North Korea, it would be impossible to do so without sustaining catastrophic numbers of military and civilian casualties. This is for several reasons: the batteries of North Korean artillery within range of Seoul; the difficulty of locating and infiltrating North Korean military and political headquarters, many of which are hidden deep underground; the unsuitable geography for a ground assault; and the indoctrination of the North Korean military.⁷⁹ North Korea views all changes in military postures in the South with suspicion.⁸⁰ One of its main concerns in the last five decades has been for a curtailment of annual U.S.-South Korean joint military exercises, which it routinely describes as preparations for war.

In a war, as in much else, North Korea's behaviour is difficult to predict but it cannot be assumed that Pyongyang would not use its entire arsenal of WMD, including nuclear bombs, regardless of any self-defeating side effects.

⁷⁷ ICG Report, *North Korea*, op.cit., p. 32.

⁷⁸ IISS, "The Military Balance", in "Comparisons of U.S. and Foreign Military Spending: Data from Selected Public Sources," Congressional Research Service, 28 January 2004.

⁷⁹ Michael O'Hanlon and Mike Mochizuki, "Crisis on the Korean Peninsula", Brookings Institution, Washington D.C., 2003, pp. 61-62.

⁸⁰ "KCNA Assails U.S. Massive Arms Build-up", KCNA, 1 October 2004.

C. UNITED STATES

Washington has struggled to develop a consistent policy towards North Korea. Most policy-makers agree that preventing the proliferation of nuclear weapons by North Korea is among the most urgent goals. However, a wide rift has been evident between those who believe it possible to make a deal with North Korea and verify compliance, and those who feel North Korea is beyond the pale. The latter group has held sway over U.S. policy during the Bush administration, leading to a wholesale abandonment of many of the advances under the Clinton administration. Since the invasion of Iraq in April 2003, the issue has been consigned to the backburner, receiving little of the high-level attention it deserves even as North Korea produces more plutonium.

CVID: This has become the sine qua non for Washington. The only question is the timing of CVID -- how quickly can it be implemented and what will be offered in return? A two-stage plan was offered during the June 2004 talks.⁸¹ Policy-makers at the State Department would prefer that verification be done by the IAEA.⁸² This is because they would like to avoid undercutting the IAEA's role in global proliferation controls and because some policy-makers feel other parties are more likely to accept accusations that the North Koreans are cheating if they come from a UN body and not a unilateral U.S. monitoring effort.⁸³ However, as with all areas of North Korea policy, there are high-level divisions on this issue in Washington, with some preferring unilateral, highly intrusive U.S. inspections.

Prevention of proliferation: The transfer of nuclear weapons and fissile material to state and non-state actors was described by the Bush administration as "the single most serious threat facing America today".⁸⁴ In May 2003, the Bush Administration announced the Proliferation Security Initiative (PSI), a set of principles and partnerships aimed at "preventing the flow of WMD, their delivery systems, and related materials to and from state and non-state actors of proliferation

concern".⁸⁵ PSI is a multilateral strategy to interdict shipments of WMD materiel and contraband that originate from, or are destined for, nations of "proliferation concern". Still in its infancy, the PSI has been controversial from its inception. Some see its lack of universality -- in North East Asia, China and South Korea are notable non-members -- as making it a leaky sieve, unlikely to trap any sensitive items. Others fear that it will become a pervasive dragnet, tantamount to a naval blockade, which in the case of North Korea risks inciting a war. The second Bush administration intends to expand the membership in PSI, with greater emphasis on multilateral training exercises, new programs such as the Container Security Initiative, and a greater commitment of funds for anti-proliferation initiatives, including an expanded Cooperative Threat Reduction (Nunn-Lugar) program.⁸⁶

Regime change: Divisions within the Bush administration, as presently constituted, are particularly acute on the issue of regime change. An influential coalition consisting of Vice President Cheney's office, Pentagon officials and advisers around Secretary of Defence Rumsfeld, and proliferation experts in the State Department and White House led by Under Secretary of State John Bolton, oppose negotiations with North Korea. Instead, they favour demands for unilateral North Korean concessions on nuclear and other military issues and advocate an overall U.S. strategy of isolating North Korea diplomatically and imposing economic sanctions, with the ultimate goal of bringing about a collapse of the regime.

A second faction, mainly in the State Department, is led by Secretary of State Colin Powell and is

⁸¹ See Section III, C above.

⁸² ICG interviews with U.S. government officials. October 2004.

⁸³ ICG interviews with U.S. government officials, 2004.

⁸⁴ See transcript of the first debate between John Kerry and George W. Bush, "Bush, Kerry Debate Foreign Policy Goals", National Public Radio, 30 September 2004. <http://www.npr.org/templates/story/story.php?storyId=4055740>.

⁸⁵ The other core members of the initiative are Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Singapore, Spain, the United Kingdom and, since June 2004, Russia. A number of other countries have signed up to parts of the initiative or agreed with its principles. "Proliferation Security Initiative Frequently Asked Questions", State Department Bureau of Non-proliferation, 24 May 2004. <http://www.state.gov/np/c10390.htm>.

⁸⁶ During its first term, the Bush administration increased funding for threat reduction efforts, non-proliferation research and development, and reduction of U.S. nuclear weapons stockpiles. Anthony Wier, William Hoehn, and Matthew Bunn, "Threat Reduction Funding in the Bush Administration: Claims and Counterclaims in the First Presidential Debate", Harvard University/Russian-American Nuclear Security Advisory Council, 6 October 2004, http://bcsia.ksg.harvard.edu/BCSIA_content/documents/funding_debate_100604.pdf.

composed of officials with experience on East Asian and Korean issues. This group believes that the administration should attempt negotiations before adopting more coercive measures, and it reportedly doubts the effectiveness of a strategy to bring about a North Korean collapse.⁸⁷ The U.S.'s deadlocked position at the first two rounds is attributed to the dominance of the White House and Pentagon, with the more moderate position in June 2004 attributed to greater input from the State Department.

The possible policy course for a second Bush term is difficult to predict.⁸⁸ The hard-line faction could remain dominant but also come under considerable pressure to offer a deal.⁸⁹ Alternatively, those of more dovish instinct could lose their positions, significantly reducing North Korea's chances of reaching the settlement it wants.

Security Assurance: The Bush administration believes that providing North Korea with a formal, written security guarantee, without first securing some solid, incontrovertible indication that it is serious about the irreversible dismantlement of its nuclear program, is impossible but it may be willing to provide conditional assurances while negotiations progress. While in December 2003 a statement by North Korea pledging its commitment to freeze would have sufficed,⁹⁰ as North Korea has exponentially increased its potential weapons stockpile, the stakes have been raised. Many in Washington believe that North Korea will not give up any nuclear weapons it has manufactured under any circumstances and that, therefore, Pyongyang must now explicitly prove otherwise before Washington will consider its demands.

However, President Bush has repeatedly stated that the United States has no intention of attacking North Korea.⁹¹ The current over-stretch of the U.S. military

in Iraq and elsewhere gives North Korea a de facto security guarantee at the moment.

Economic package: The Bush administration made clear from the outset that it was extremely sceptical about the value of engaging with North Korea.⁹² The incentives the U.S. has put on the table to date, however, also reflect the limits imposed on the administration by the U.S. legislative branch, which has a more hostile attitude towards North Korea than ever before, likely to be further reinforced by its even more conservative composition following the November 2004 election results. Recent foreign appropriations legislation included prohibitions against AIDS program funding for North Korea and the blocking of attempts to earmark funds for a "Nunn-Lugar"-style program to tackle North Korea's nuclear material. The human rights issue has become the key North Korean priority for Congress.⁹³ The Senate passed the "North Korea Human Rights Act" in October 2004.⁹⁴ While the \$24 million this authorises for the promotion of human rights in North Korea is largely symbolic in terms of the impact it will have, the legislation constrains the ability of the president to provide economic assistance to North Korea. Economic incentives still available to the president, bypassing Congressional restrictions, include \$50 million made available in 1999 for the funding of heavy fuel oil to North Korea. Ostensibly the president needs Congressional approval for this but he can waive that stipulation on national security grounds.

There are also non-proliferation, anti-terrorism, and disarmament funds that can be diverted for use in North Korea.⁹⁵ Although Congress has remained hostile to the provision of aid to North Korea, in fact it has been one of the largest recipients of U.S. assistance in recent years with more than \$1 billion in food aid, concessional oil supplies, medical supplies and funds for KEDO spent from 1996 to 2002. About a third of this aid was transferred in

⁸⁷ ICG interview, U.S. State Department official, Washington D.C., 20 August 2004.

⁸⁸ For an extremely detailed analysis, see Jinwook Choi, "A Critical Juncture: The 2004 U.S. Presidential Election and the North Korean Nuclear Crisis", Korea Institute for National Unification, Seoul, October 2004.

⁸⁹ ICG interview with U.S. administration official, Washington D.C., 19 August 2004.

⁹⁰ Charles Hutzler, Christopher Cooper, and Gordon Fairclough, "North Korean Talks Face Delay as U.S. Resists Chinese Plan", *Asian Wall Street Journal*, 4 December 2003.

⁹¹ Remarks by President George Bush at the Blue House, Seoul, 20 February 2002, and White House Press Statement, 15 November 2002.

⁹² ICG Report, *North Korea*, op. cit., p. 16.

⁹³ Freedom House places North Korea in its "most unfree" bracket alongside Burma, Cuba, Libya, Sudan, Saudi Arabia, Syria and Turkmenistan. See <http://www.freedomhouse.org/research/freeworld/2004/combined2004.pdf>.

⁹⁴ "The North Korea Human Rights Act of 2004", passed the House of Representatives in July 2004 and the Senate in October 2004, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&docid=f:h4011eh.txt.pdf.

⁹⁵ ICG interview, Karin Lee, Friends' Committee on National Legislation, Washington D.C., 21 September 2004.

2001 and 2002 when President George Bush was in office.⁹⁶ The administration has not discussed any mechanisms for the delivery of assistance to North Korea, offering only that it will not stand in the way of the provision of aid by others if a deal can be reached.

Future nuclear status: The U.S. is strongly opposed to the continuation not only of any military, but any form of civilian, nuclear activity in North Korea.⁹⁷ It is also lobbying the executive board members of KEDO to terminate that project and appears opposed to the continuation of KEDO as a mechanism to assist in the delivery of energy aid to North Korea.⁹⁸

Sanctions: The U.S. imposed economic sanctions on North Korea after its invasion of South Korea in 1950.⁹⁹ In 1999 the Clinton administration eased sanctions, essentially picking off those easiest to remove first. As a result of these changes, North Korea is under less restrictive U.S. sanctioning than Cuba. Although overarching restrictions are placed on most business and personal transactions with North Korean entities (especially dual-use technologies), trade with and travel to North Korea by U.S. citizens is permitted. At the six-party talks, the U.S. has agreed to discuss the lifting of remaining sanctions. However, it should be noted that actually lifting many of the sanctions would be a complex process, often requiring Congressional approval and the satisfaction of requirements laid down in legislation, and that achieving those approvals might require North Korea to make additional concessions.¹⁰⁰

Use of force: With U.S. forces tied down in Iraq and stretched thin worldwide, the immediate military threat against North Korea from the U.S. is remote.¹⁰¹ There are influential elements of the U.S. military and political establishment that believe the dangers associated with an invasion of North Korea are exaggerated and that a military strike is a feasible option. Former CIA Director James Woolsey and former Assistant Vice Chief of Staff Thomas McInerney insist: "U.S. and South Korean forces have spent nearly half a century preparing to fight and win such a war. We should not be intimidated by North Korea's much-discussed artillery", before setting out a plan which would make invading North Korea an easier task than invading Iraq.¹⁰² However, this position is shared only by the most hawkish elements of the Bush administration, particularly in light of the new assumptions about North Korea's expanded nuclear weapons capability. The most prevalent view is that the use of force can only be contemplated in response to a highly provocative act by North Korea, essentially if it were found to be preparing to use nuclear weapons or to sell them to other parties.

A decade ago, the former commander of U.S. forces in Korea estimated that a second Korean war would cost \$1 trillion in economic damage and result in 1 million casualties, including 52,000 U.S. military casualties.¹⁰³ The decision to redeploy the 2nd Infantry Division from the DMZ to a position south of the Han River will remove this force as a tripwire, vulnerable to North Korean attack in the opening hours of a conflict. Although it is possible this might reduce the number of U.S. military and civilian casualties, a second Korean war would still be a disaster for the U.S.

U.S. officials have also warned of direct dangers to their territory from North Korea. In August 1998, North Korea test-fired a Taepo-dong I intercontinental ballistic missile, which has a potential maximum range of 10,000 kilometres, in an arc over Japanese air space. The missile launch failed to achieve its stated goal of delivering a broadcast satellite into orbit

⁹⁶ Figures from USAID, U.S. Department of Agriculture, and KEDO compiled by Mark Manyin of the Congressional Research Service and quoted in Eberstadt, *The Persistence of North Korea*, op. cit.

⁹⁷ ICG interview, U.S. government official, 7 October 2004.

⁹⁸ ICG interview, European Commission official, 7 September 2004.

⁹⁹ Economic sanctions were imposed under the Trading with the Enemy Act. Exports or re-exports to North Korea must receive government permission. Imports are also banned unless specifically authorised. Assets that were frozen before June 2000 remain frozen. There is no ban on U.S. citizens visiting North Korea. Source: Office of Foreign Assets Control, Department of the Treasury, Washington D.C. North Korea is also on the U.S. government list of state sponsors of terrorism, which means it is subject to a ban on all arms sales, prohibitions on economic assistance, a veto on all international financial institution (IFI) loans and a denial of duty-free access for goods exported to the U.S.

¹⁰⁰ ICG interview, State Department official, Washington D.C., 24 September 2004.

¹⁰¹ Robert Einhorn, Center for Strategic and International Studies, "North Korea, Iran and Pakistan: the Hardest Challenges", paper presented to the Aspen Strategy Group, 31 July-5 August 2004.

¹⁰² R. James Woolsey and Thomas McInerney, "The Next Korean War", *Asian Wall Street Journal*, 4 August 2003.

¹⁰³ Victor Cha and David Kang, "Think Again: The Korea Crisis", *Foreign Policy*, May/June 2003, p. 24.

and fell short of several other technical benchmarks. Nonetheless, it raised the possibility of North Korea manufacturing a larger intercontinental ballistic missile, the Taepo-dong II, which could have a maximum range of 10,000-15,000 kilometres, sufficient to reach the western U.S. states of Alaska and Hawaii. The risk to the U.S. of this capability is, of course, now compounded by North Korea's possession of up to ten nuclear weapons.

Firm judgement on the status of North Korea's missile development is impossible due to lack of precise intelligence.¹⁰⁴ Nonetheless, the U.S. has embarked on the deployment of an anti-missile system, justified in part by the growing North Korean threat. Another source of concern for the U.S. is a relatively new North Korean land-based intermediate-range missile. While not able to reach the U.S., it is estimated by South Korean and U.S. analysts as having a range of more than 3,500 kilometres -- sufficient to strike Guam, a U.S. territory in the Pacific Ocean with a substantial U.S. military presence.

D. SOUTH KOREA

South Korean policy toward North Korea has undergone a dramatic transformation since 1998. Beginning with the "Sunshine Policy" of former President Kim Dae-jung and continuing with the "Peace and Prosperity" policy of President Roh Moo-hyun, Seoul has emphasised engagement with Pyongyang and downplayed confrontation. Reasons for this shift include the passing of the generation that fought in the Korean War, democratisation, the weakening of North Korea, and a tempered enthusiasm for reunification, following Germany's costly experience and the 1997 Asian financial crisis.¹⁰⁵ Recent manifestations of the government's conciliatory policy are bills currently being considered by the National Assembly to remove North Korea's "main enemy" status, and to scrap a national security law that bans praise of North Korea's communist system, travel to North Korea by South Koreans, and access to North Korean web sites. Seoul is also moving forward with the Kaesong industrial park for South Korean businesses that will operate in North Korea with local workers.

CVID: South Korea has worked since before the six-party talks to encourage the U.S. to tone down its demands on North Korea. While committed to the end-goal of CVID, South Korea would prefer to see greater international cooperation based on Korean initiatives, built around dialogue and public participation, with the U.S. particularly making a greater opening to North Korea. In line with these wishes, South Korea has been less concerned about the form of the talks than the fact that they continue to take place.

Prevention of proliferation: Despite its close alliance with the U.S., South Korea is not a member of the Proliferation Security Initiative. While officials find difficulty in disagreeing with its substance, the PSI is viewed by the government in Seoul as coercive, and therefore anathema to its policies of constructive engagement and confidence building. This reflects a general ambivalence among the South Korean public over the North's proliferation potential. For residents of Seoul particularly, living within range of North Korean artillery, "whether or not North Korea has nuclear weapons is a much more distant thought than what the consequences of another Korean War would be".¹⁰⁶

Regime change: Appetite for economic or political collapse or encouraging sudden change in North Korea is tempered by the sobering reality of what that would mean for South Korea financially and socially. Furthermore, cooperation with North Korea is at an all-time high, leading many to assume a high level of confidence that a gradual process of economic and political engagement will reap more satisfactory results than short-term change.

Security assurance: The South Korean government has no reservations about signing a security assurance for North Korea.¹⁰⁷

Economic package: South Korea has made little attempt to link economic engagement with the North to progress on the nuclear issue, preferring instead to press ahead with initiatives including the opening of the industrial park at Kaesong, reconnection of the inter-Korean railway, and initiation of a daily bus service from downtown Seoul to Kaesong. South Korea has, however, interjected several innovative

¹⁰⁴ Bradley Graham, "N. Korea is Used to Justify System But U.S. Experts Question Extent of Nation's Missile Capability", *The Washington Post*, 29 September 2004.

¹⁰⁵ Changing South Korean attitudes toward North Korea will be the subject of a future ICG report.

¹⁰⁶ ICG interview, Professor Choi Jang-jip, Director, Asiatic Research Center, Korea University, Seoul, 3 September 2004.

¹⁰⁷ ICG interviews with South Korean officials, 26 August 2004.

ideas for financial aid, energy assistance and confidence-building measures into the talks. At the first two rounds, these measures were subsumed by the wider U.S.-North Korea disagreement. However, since the June round, negotiators have begun speaking again of South Korean proposals for energy incentives to the North including the rehabilitation of existing power plants.¹⁰⁸ According to South Korean government sources, a complete package has been worked out and is awaiting a suitable time for presentation to the North Koreans within the context of the six-party talks.¹⁰⁹

Future nuclear status: The South Korean government is extremely reluctant to write off the \$1 billion it has already invested in the KEDO project at the behest of the United States,¹¹⁰ and the extra \$60 million spent in the first year of suspension.¹¹¹ Support for continuing the project has been expressed by members of both major political parties.¹¹² Some South Korean experts have suggested finishing the project and connecting it to the South Korean electricity grid, with some of the power sent to North Korea in payment.¹¹³ This makes economic sense for South Korea, which is keen to expand its nuclear generating capacity but is having difficulty finding sites for locating new plants.¹¹⁴ An agreement could be worked out under which South Korea maintained control of the plants and paid North Korea rent for them. South Korea will push for the continued suspension of the KEDO project rather than termination.¹¹⁵

Sanctions: The only conceivable time at which this gradual process of engagement and private contacts

would be curtailed and sanctions implemented is if irrefutable evidence came to light that the North was planning to use or proliferate nuclear weapons.¹¹⁶ Otherwise there is no appetite for sanctions in South Korea.

Use of force: It is difficult, if not impossible, to envisage a circumstance in which South Korea would agree to any form of pre-emptive strike against North Korea. The only cases in which South Korean forces could be mobilised against the North are conclusive proof that the North was preparing to use or transfer a nuclear weapon, the North attacked first, or North Korean society disintegrated into internal violence that threatened the South.¹¹⁷

Since the 1960s North Korea has been developing and deploying tactical short range artillery rockets -- Hwasong 5/6 missiles, based on Soviet Scud missile technology -- which can reach targets throughout South Korea.¹¹⁸ There are estimated to be thousands of batteries dug in along the Northern side of the DMZ, capable of launching several thousand shells and missiles into Seoul and other urban centres. It is this threat, as well as the prospect of the use of chemical or biological weapons,¹¹⁹ more than the idea of a land invasion or nuclear attack, that informs South Korean thinking about North Korea. South Korea does not believe the North would use this capability unless it were attacked, driven into a corner from which it could not escape, or subjected to a sudden and unpredictable regime change. It is these factors that drive South Korea's willingness for engagement, confidence building, and the provision of security assurances.

¹⁰⁸ ICG interview, South Korean energy researcher, Seoul, 3 September 2004. All of North Korea's existing power plants could be refurbished at a total cost of approximately \$1 billion.

¹⁰⁹ ICG interview, Korean National Assembly member, Seoul, 12 August 2004.

¹¹⁰ ICG interview, European Commission, Brussels, 9 July 2004. Costs are divided between South Korea (70 per cent), Japan (22 per cent); European Union and nineteen other contributing states (8 per cent). Under the terms of the December 2003 suspension, the project can only be restarted, terminated, or the suspension extended, by a consensus vote of the main financial sponsors and the U.S.

¹¹¹ ICG interviews, senior government officials, Seoul, 25 August 2004.

¹¹² ICG interviews, National Assembly, Seoul, 27 August 2004.

¹¹³ Kang Jung-min & Hwang Il-do, "Korea Should Play a 'Win-Win Game' to Finish Construction by Bringing in Russia" (Korean), *Shin Dong-a*, September 2004, pp. 210-218.

¹¹⁴ ICG interviews, Seoul, 3 September 2004.

¹¹⁵ ICG interview, South Korean official, 12 August 2004.

¹¹⁶ ICG interviews, Seoul, September 2004.

¹¹⁷ ICG interviews, Seoul, September 2004.

¹¹⁸ IISS, *North Korea's Nuclear Weapons Programmes*, op. cit., p. 63.

¹¹⁹ The South Korean Ministry of Defence estimates that North Korea possesses 2,500 to 5,000 tons of seventeen types of chemical weapons, including nerve, blistering, blood, asphyxiating and gas agents, and that it would use 740 tons of chemical weapons within the first three days of fighting, killing or injuring 290,000 South Korean soldiers and 1.9 million civilians within a month, for a total of 2.19 million dead and injured. It estimates that North Korea would use 70 tons of chemical weapons in the Seoul area alone, killing or injuring 1.2 million people. "N. Korean Chemical Warfare Would Kill, Injure 2.19 Million in the South", *Chosun Ilbo*, 29 September 2004.

E. CHINA

China has emerged as the catalyst for the six-party talks and has been the glue that has held them together. It would prefer to have a non-nuclear North Korea, but above all else seeks stability on the Korean Peninsula. China remains North Korea's most vital economic lifeline, although it has expressed frustration with Pyongyang's and Washington's intransigence in equal measure.

CVID: North Korea's disavowal of the NPT in January 2003 signalled a turning point in its relationship with China. China initially said this was an issue to be resolved between the U.S. and North Korea bilaterally. However, a realisation among the Chinese leadership that North Korea was moving quickly from a nuclear program to actually building nuclear weapons, and the inability of the U.S. and North Korea to achieve a compromise on their own, necessitated Chinese involvement.¹²⁰ The shift in attitude was augmented by the transition of power in spring 2003 from President Jiang Zemin to President Hu Jintao, the latter immediately adopting a more proactive posture toward the Korean nuclear issue than his predecessor.¹²¹ Although China has been proactive in trying to keep North Korea at the table, its concerns about North Korea have not translated into unequivocal support for *CVID*.¹²² Vice Foreign Minister Wang Yi, during the first round of talks, was quoted as saying, "America's policy toward North Korea -- that is the main problem we are facing".¹²³ China agrees with the goal of preventing North Korean development of nuclear weapons, but views *CVID* as "a final goal, not something that needs to be completed right now".¹²⁴ Chinese officials have also repeatedly expressed doubt over

the existence of a North Korean HEU program.¹²⁵ In assessing China's efforts at the talks, it is important to note that North Korea is not China's number one policy concern. The top spots are reserved for the Taiwan Straits issue and Xinjiang province.¹²⁶

Prevention of Proliferation: China shares U.S. concerns about possible North Korean nuclear proliferation to countries or terrorist groups outside the region. However, given its sensitivities over the implications of a North Korean collapse, China must balance this awareness against an acute uneasiness over any measures which explicitly or implicitly threaten coercion against North Korea. Furthermore, it has itself transferred conventional weapons to countries deemed "rogue states" by the U.S.,¹²⁷ not to mention transferring nuclear technology to Pakistan. China is not a member of the PSI but it has not actively opposed the initiative, and behind the scenes is being quietly cooperative.¹²⁸

Regime change: Beijing wants to see the regime in Pyongyang survive, albeit as a reformed state, gradually integrating itself with the South. There is little fondness in Beijing for the Kim Jong-il regime -- it reminds many of what China was like during the Great Leap Forward, one of the worst periods in its history. However China understands that a permanent and unpredictable Korean crisis would complicate its own domestic reform and political consolidation at a most sensitive time -- in the past two years China has carried out the most sweeping peaceful renewal of its leadership in its modern history. Additional spurs to maintaining stability are the 2008 Beijing Olympic Games and the World Exposition in Shanghai in 2010. Symbols of consolidation and reform, both projects would be threatened by any protracted crisis.¹²⁹ For these reasons, China has been encouraging

¹²⁰ Denny Roy, "China and the Korean Peninsula: Beijing's Pyongyang Problem and Seoul Hope", *Asia-Pacific Center for Security Studies*, Vol. 3, No. 1, January 2004.

¹²¹ Wang Jisi, "China's Changing Role in Asia", Institute of American Studies -- Chinese Academy of Social Sciences, January 2004.

¹²² Shen Shishun, "Key Points to Solve the Korean Nuclear Crisis", China Institute of International Studies, <http://www.ciis.org.cn/item/2004-06-30/50473.html>.

¹²³ Joseph Kahn, "Chinese Aide Says U.S. Is Obstacle in Korean Talks", Associated Press, 2 September 2003.

¹²⁴ Robert Marquard and Donald Kirk, "Ranks Breaking over North Korea", *Christian Science Monitor*, 22 June 2004.

¹²⁵ Joseph Kahn and Susan Chira, "Chinese Official Challenges U.S. Stance on North Korea", *The New York Times*, 9 June 2004.

¹²⁶ ICG interview, Li Bin, Director, Tsinghua University Arms Control Program, Beijing, 1 September 2004.

¹²⁷ The U.S. has imposed sanctions against Chinese firms and individuals for selling missile or weapons of mass destruction technology and equipment to Iran, most recently in September 2004.

¹²⁸ ICG interview, State Department official, Washington D.C., 7 October 2004.

¹²⁹ Henry A. Kissinger, "The Six-party Route to Resolution", *The Washington Post*, 18 August 2003.

North Korea to follow its lead and move ahead with economic reforms.¹³⁰

Security assurances: Frustrated by the maximalist demands of North Korea and the U.S., China has tried to break the deadlock over the security agreement, but to no avail. Under the terms of the 1961 China-Korean Treaty of Friendship and Mutual Cooperation, China is North Korea's sole formal military ally, although North Korea would be unwise to rely on another Chinese intervention in a war on the Korean Peninsula.¹³¹

Economic package: With significant developmental and energy problems of its own, not least in the north eastern provinces of Jilin and Liaoning that border North Korea, China sees its role more as facilitator than provider of economic incentives. Beijing wants to see more North-South cooperation through expanded economic, transport and social links, and a package deal of incentives provided to North Korea, including economic assistance and normalisation of relations between Washington and Pyongyang.¹³²

Future nuclear status: It is in China's long-term interest, possibly more than any other country in the region, to maintain a nuclear-weapons free North Korea.¹³³ A nuclear power next to China would be a security threat and could also provoke an arms race with Taiwan and Japan.¹³⁴ This has motivated China to get North Korea to the talks. China differs from the U.S. dramatically in the extent of denuclearisation it wants to see. It finds the suspension of KEDO to be a mistake and unhelpful to the six-party process, but not being a contributor or member of the executive board, has no direct influence on the decision.¹³⁵ China also has doubts about the stage of development, although not the existence, of North Korea's HEU program.

Sanctions: In March 2003, China cut off its supply of oil to North Korea for three days, and in September 2003 sent 150,000 extra troops to guard its border with North Korea. Observers speculated that Beijing

intended these acts to be diplomatic signals to pressure Pyongyang to move toward reaching an agreement to halt its nuclear weapons program.¹³⁶ Despite these actions, Chinese policy is strongly opposed to sanctions or any form of coercion, both against North Korea and elsewhere.¹³⁷ China provides most of North Korea's energy and substantial amounts of its food, but it is unlikely to cut off these supplies, seeing such an embargo as a very blunt weapon and "akin to withholding food from a child".¹³⁸ It is extremely fearful of a collapse of North Korea that might result in a massive exodus of refugees over its border. Such an event would also divert the large amount of South Korean capital now being invested in China and could provoke conflict on the peninsula. In Washington, it is expected that Chinese pressure will only be applied if and when the U.S. drops its current negotiating position and puts a package on the table that the Chinese consider is sufficient to squeeze Pyongyang to accept.¹³⁹

Use of force: If Beijing's attitude towards Pyongyang has soured, this reflects its open opposition to North Korea's rejection of the NPT and development of its nuclear weapons program. It does not imply that China has moved so far away from its long-time ideological and strategic allegiance to North Korea that it would support the U.S. in military action against North Korea.¹⁴⁰

F. JAPAN

Japan is likely to become North Korea's largest aid donor should the two countries ever normalise relations. However, North Korea has yet to resolve a key obstacle to this: the issue of abducted Japanese held in North Korea. At a summit meeting in September 2002, North Korea admitted to having

¹³⁰ ICG Report, *North Korea*, op. cit., p. 17.

¹³¹ Ken E. Gause, "Sino-North Korean Military Relations: Comrades-in-Arms Forever?", Chinese Military Update, Royal United Services Institute, May 2004.

¹³² ICG Report, *North Korea*, op. cit., p. 18.

¹³³ Wang Jisi, *China's Changing Role in Asia*, Chinese Academy of Social Sciences, January 2004.

¹³⁴ Ibid.

¹³⁵ ICG interview, European Commission official, 7 September 2004.

¹³⁶ Denny Roy, "China and the Korean Peninsula: Beijing's Pyongyang Problem and Seoul Hope", *Asia-Pacific Center for Security Studies*, Vol. 3, No. 1, January 2004.

¹³⁷ "It is our consistent view that instead of helping solve complicated problems, sanctions may make them even more complicated", Chinese Permanent Representative to the United Nations Ambassador Wang Guangya at the Security Council, while vigorously opposing sanctions on Sudan regarding Darfur, 18 September 2004, <http://www.china-un.org/eng/xw/t158034.htm>.

¹³⁸ ICG interview, Li Bin, Director, Tsinghua University Arms Control Program, Beijing, 1 September 2004.

¹³⁹ ICG interview, State Department official, Washington D.C., 20 August 2004.

¹⁴⁰ ICG interviews, Beijing, October 2004.

kidnapped Japanese citizens through the 1970s and 1980s. North Korean leader Kim Jong-il and Prime Minister Junichiro Koizumi subsequently signed the Pyongyang Declaration, which allowed for the normalisation of relations between Japan and North Korea in exchange for information on and repatriation of the missing Japanese citizens.¹⁴¹ At a second summit meeting on 22 May 2004, President Koizumi was able to secure North Korea's commitment to reopen the investigation of the abductees whose whereabouts remained unknown and the return of five further Japanese abduction victims' family members to Japan.¹⁴² However, several Japanese remain unaccounted for, and negotiations to determine their fate stalled at a meeting in Beijing in September 2004. Japan claims that information provided thus far on the remaining victims is insufficient and ambiguous.¹⁴³

CVID: At the beginning of the six-party process, Japan stood the closest to the U.S. position, expressing support for CVID unconditionally. Subsequently Japan has made the incentives it can offer -- energy assistance and normalisation of relations -- contingent on North Korea freezing, then irreversibly dismantling, all its nuclear programs, including uranium enrichment; and allowing for the establishment of "adequate" verification mechanisms.¹⁴⁴

Prevention of proliferation: Japan balances its membership in PSI against concerns that anti-proliferation exercises could interfere with efforts to resolve the abduction issue or violate Japan's constitutional commitments to refrain from the threat or use of force.¹⁴⁵ Since 2001, Tokyo has shown increasing concern about incursions into its waters by North Korean ships. In December 2001 it chased and sank an armed North Korean vessel believed to be

involved in drug running or espionage.¹⁴⁶ In October 2004 Japan hosted and participated in "Team Sumurai 2004", a three-day PSI training exercise involving the U.S., France and Australia. The drill simulated the interdiction of a vessel carrying materials for making sarin nerve gas.¹⁴⁷

Regime change: Dependant as it is on fostering the good will of North Korea's leaders if it is to resolve the kidnapping issue, Japan has no interest in being seen to be supportive of regime change in North Korea.

Security assurance: Japan supports the U.S. reticence in withholding its security guarantee until North Korea is more forthcoming with specific details of its nuclear program. It would also like to see progress on the abduction issue linked to any provision of incentives.

Economic package: The possibility of normalising relations with Japan is still one of the most important inducements that can be offered to North Korea in the nuclear negotiations. In their 1965 bilateral treaty, Japan gave South Korea the necessary foreign capital to accelerate its economic development -- \$800 million in grants and loans as reparations for the Japanese colonial rule of Korea. Estimates on the value of equivalent compensation that might be offered today vary widely, from \$3.4 billion to \$20 billion. U.S. and Japanese officials put the likely total amount in the neighbourhood of \$10 billion, roughly equivalent in today's terms to the amount received by South Korea.¹⁴⁸ North Korea can anticipate a similar package should it reach an agreement with Japan.

Future nuclear status: As the second largest contributor to KEDO, Japan has a strong interest in the continued suspension of that project rather than its abandonment. However, Japan is pragmatic about the potential threat posed by nuclear material in North Korea and may support the U.S. in its demands for maximum denuclearisation.

¹⁴¹ Japan-DPRK Pyongyang Declaration, signed in Pyongyang, 17 September 2002. Full text at http://www.mofa.go.jp/region/asia-paci/n_korea/pmv0209/pyongyang.html.

¹⁴² The Ministry of Foreign Affairs of Japan, "Press Conference by Prime Minister Junichiro Koizumi after the Japan-North Korea Meeting", 22 May 2004, http://www.mofa.go.jp/region/asia-paci/n_korea/pmv0405/press.html.

¹⁴³ The Ministry of Foreign Affairs of Japan, "Abductions of Japanese Citizens by North Korea", http://www.mofa.go.jp/region/asia-paci/n_korea/abduction.pdf.

¹⁴⁴ The Ministry of Foreign Affairs of Japan, "Japan-North Korea Relations: Six-Party Talks on North Korean Issues (Third Round of Six-Party Talks Concerning North Korean Nuclear Issues)", 27 June 2004, http://www.mofa.go.jp/region/asia-paci/n_korea/6party/talk0406.html.

¹⁴⁵ ICG interviews, Japanese government officials, Seoul, 20 and 22 September 2004.

¹⁴⁶ At the Pyongyang Summit, North Korea confirmed to Japan that ships had been sent into Japanese waters and pledged that would not happen again. Mark Manyin, "Japan-North Korea Relations: Selected Issues", Congressional Research Service, 26 November 2003, pp. 10-11.

¹⁴⁷ "Japan Hosts Multinational WMD Drill", *Asahi Shimbun*, 27 October 2004.

¹⁴⁸ ICG interview, Japanese government official, Tokyo, 23 August 2004.

Sanctions: Some ruling party politicians in Japan have raised the threat of sanctions if Pyongyang fails to meet Japanese demands on the kidnapping victims.¹⁴⁹ The Diet has passed the necessary legislation that could see a ban on North Korean ships entering Japanese ports as well as a halt of cash remittances to Pyongyang from the Chosen Soren (the organisation of pro-Pyongyang ethnic Koreans living in Japan). Family members of abducted victims have staged rallies in Tokyo urging the government to take harder measures towards North Korea, including imposing economic sanctions.¹⁵⁰

In 2001, Japan began applying limited pressure on the Chosen Soren. It instigated an investigation into its financial arrangements and has urged banks to suspend remittances to North Korea.¹⁵¹ Since the onset of the nuclear crisis in 2002, it has implemented stricter surveillance on cargo transported to North Korea and reduced the influence over Japanese authorities of the groups representing North Koreans in Japan.¹⁵² Nevertheless, Japan would be reluctant to impose full sanctions for fear of deepening the nuclear crisis and raising the risk of war. Furthermore the ability of the Japanese government to fully curtail all financial and technical transfers to North Korea is questionable.

Use of force: The mainstay of Japanese security policy is its defence treaty with the U.S. Under article nine of Japan's constitution, use of force is only permitted for individual defence -- to fight foreign forces engaged in armed attack on Japan -- and not for collective self-defence. In recent years however, partially in direct response to the threat posed by North Korea, and especially its 1998 missile launch over Japan, the laws governing the Japanese Self-Defence Force (JSDF) have been changed to allow it

an expanded role.¹⁵³ Non-combat, logistical support operations, such as providing medical support and provisions to U.S. forces, are permitted, and most recently the JSDF has participated in peace-building operations in Iraq. While Japan would still be prevented from participating directly in military action against North Korea, it would be a key U.S. ally of the U.S., should the U.S. determine military force to be necessary.

In the 1980s and 1990s, North Korea developed medium-range No-dong ballistic missiles with a maximum range of 1,300 kilometres, capable of hitting targets in Japan, including Tokyo. Although it conducted only one test, in 1993, it is believed to have developed the missile in conjunction with Pakistan, which may have provided North Korea with information from tests of its Ghauri missile, constructed with North Korean technology.¹⁵⁴ North Korea may have adapted the No-dong to carry a nuclear payload, although this is by no means certain.¹⁵⁵ Japan's vulnerability was highlighted in August 1998 when North Korea test fired a Taepo-dong I ballistic missile (based on No-dong technology) in an arc over its airspace. However since signing a moratorium on long-range missile testing in 1999, North Korea has not tested again.

In March 2003, increased activity around a No-dong launch site in North Korea triggered readiness for a possible No-dong test by North Korea. In September 2004 similar preparations were detected at sites in Shino-ri, north of Pyongyang, again prompting Japan to dispatch surveillance aircraft and an Aegis destroyer in the Sea of Japan. Japan has responded to the threat from North Korea by embarking on preparations for a \$6.5 billion missile defence system, to be deployed between 2007 and 2011. The government is reviewing its defence policies but some officials remain insouciant about the North Korean threat, saying that China also has nuclear-tipped missiles aimed at Japan and that the normal rules of

¹⁴⁹ Nobutaka Machimura, appointed Japanese Foreign Minister in September 2004, has been among the most strident in calling for sanctions against North Korea for failing to settle the hostage issue.

¹⁵⁰ "Kin of Abductees Renew their Call", *Asahi Shimbun*, 18 September 2004.

¹⁵¹ Recent analysis places the total of these remittances at between \$30 million and \$100 million per year. Nicholas Eberstadt, "Financial Transfers from Japan to North Korea", *Asian Survey*, Vol. XXXVI, No. 5, May 1996; Marcus Noland, "Avoiding the Apocalypse", Washington, D.C., Institute for International Economics, p. 132.

¹⁵² Bertil Lintner, "It's Hard to Help Kim Jong Il", *Far Eastern Economic Review*, 27 March 2003.

¹⁵³ Yutaka Kawashima, "Japanese Foreign Policy at the Crossroads", Brookings Institution, Washington D.C., 2003, pp. 38-41.

¹⁵⁴ David Wright, Co-Director and Senior Scientist, Union of Concerned Scientists, "Assessment of the North Korean Missile Threat", Center for International Policy's Asia Project, 22 May 2003, http://www.ciponline.org/asia/reports/task_force/Wright.htm.

¹⁵⁵ ICG interview, Corey Gay Hinderstein, Senior Analyst, Institute for Science and International Security, Washington D.C., 7 September 2004.

deterrence under the U.S. nuclear umbrella have restrained their use. It is looking at adapting Japan's current self-defence laws to the changing security environment. This could include a review of the ban on arms exports, which may be altered to allow Japan to cooperate on technical development with the United States on its proposed missile defence shield.

G. RUSSIA

Russia has the least to bring to the negotiating table. Although the Soviet Union was once Pyongyang's closest ally and main benefactor, the close relations ended abruptly with the end of communism. However, Russia would likely play a role in any future energy pact with North Korea. Russia is one of the few allies North Korea has left, and it could be a spoiler if not included in the talks. Moscow has also seized the six-party talks as an opportunity to re-assert itself as a player in East Asia. Russia has been reaching out to North Korea diplomatically. In a rare European trip in 2001, Kim Jong-Il visited Moscow, while President Vladimir Putin held summit talks in Pyongyang in August 2002, at which the two discussed economic cooperation.¹⁵⁶

CVID: Generally Moscow favours negotiations and a gradual reduction in tensions, leading eventually to a normalisation of relations between North Korea and the U.S. and the reintroduction of the IAEA.¹⁵⁷ CVID is regarded as a longer-term goal but not something to be achieved instantly. Russia is extremely sceptical about the willingness of either North Korea or the U.S. to respect multilateral agreements. It sees its own role primarily as a mediator.¹⁵⁸

Prevention of proliferation: Although Russia joined the PSI in 2004, this had more to do with the enormous nuclear proliferation risks within the former Soviet republics, than a desire by Russia to engage actively in the containment of North Korea.

Regime change: Moscow would like to see the gradual reform and rehabilitation of North Korea

through economic diplomacy. It has held high-level meetings in Moscow and Pyongyang with Kim Jong-il and other senior North Korean government figures and has made clear that it can and will work with, not against, the regime.¹⁵⁹

Security assurances: Russia would like to see a rapid end to the deadlock between North Korea and the U.S. over the sequencing of a security guarantee and a nuclear freeze.

Economic package: President Putin recognises that key Russian political and economic objectives in the Far East -- reducing tensions, re-establishing Russia's presence in Asia, and fostering development of the Russian Far East -- cannot be achieved without reengagement with the North.¹⁶⁰ This latter point is especially important given the drastic economic and population decline suffered by the Russian Far East during the 1990s, which has left the region exposed to creeping Chinese and Japanese influence.¹⁶¹ With the greatest reserve of energy resources in the region, Russia sees the possibility of a negotiated solution to the North Korea nuclear crisis as an opportunity to promote the economic development of the region, through such means as energy cooperation and railway connection.¹⁶² Russia is also committed to developing dialogue between North and South Korea, detailing this as one of its key Korean Peninsula policy priorities.¹⁶³

Future nuclear status: While committed to the denuclearisation of the Korean Peninsula, Russia would be prepared to accept the continuation of the KEDO project.

Sanctions: Russia fears a sudden political collapse that could send North Korean refugees into its territory.¹⁶⁴

¹⁵⁶ "Kim Jong Il Holds Third Summit Talks with Putin during Tour of Far Eastern Region of Russia", *People's Korea*, 23 August 2002.

¹⁵⁷ ICG interview, Moscow, 2 September 2004.

¹⁵⁸ Konstantin V. Asmolov, "Finding a peaceful way to settle the DPRK nuclear problem and Russia's role in resolving this issue" (Russian), Institute for Far Eastern Studies, Moscow, 15 June 2004.

¹⁵⁹ Russian President Putin visited Pyongyang in 2000 and subsequently hosted Kim Jong-il in Moscow twice. In July 2004 Russian Foreign Minister Sergei Lavrov visited Pyongyang.

¹⁶⁰ Clay Moltz, "Russian Policy on the North Korean Nuclear Crisis", Center for Non-proliferation Studies, April 2003.

¹⁶¹ Tsuneo Akaha, "Cross Border Human Flows in North East Asia", Monterey Institute of Disarmament Studies, 1 October 2004, <http://www.migrationinformation.org/Feature/display.cfm?id=257>.

¹⁶² For a detailed report see "Russian Far East Energy Could Provide a Solution to the North's Energy Difficulties" (Korean), *Hankyoreh Sinmun*, 30 September 2004.

¹⁶³ ICG interview, Moscow, 29 August 2004.

¹⁶⁴ "Deputy FM: Russia Planning for Korean Peninsula 'Worst Case Scenarios'" (Russian), *Agentstvo Voyennykh Novostey*, 11 April 2003.

For this reason Russia has consistently opposed bringing North Korea before the United Nations Security Council, at which it fears the U.S. might seek sanctions.¹⁶⁵ However, there have also been signs of willingness to support tougher measures. In April 2003, Deputy Foreign Minister Alexander Losyukov noted that Russia would only oppose sanctions as long as North Korea "maintains common sense" and that it was "against our national interest" to have another nuclear-armed neighbour.¹⁶⁶ In the meantime, the Russian government remains firmly convinced that the crisis can still be resolved with patient negotiations, without recourse to coercion.¹⁶⁷

Use of force: Russian officials estimate that if a nuclear weapon were used on the Korean Peninsula, there would be a 70 per cent chance of radioactive fallout reaching Vladivostok. For this reason, Russian military officers told the newspaper *Izvestia* that Moscow would likely aid in air strikes against North Korean nuclear facilities, should a nuclear attack appear imminent.¹⁶⁸ Beyond this contingency, or another equally calamitous scenario, Russia would not support the use of force against North Korea.

V. MOVING FORWARD

A. REALITY CHECKS

North Korea's recent nuclear activities and the changing regional dynamics mean options for resolving the nuclear crisis are diminishing. Despite the evolution of the nuclear program, all six parties in principle remain committed to resolving the dispute through peaceful diplomatic means, all six believe such an agreement is still possible, and all six regard the six-party talks as the main mechanism through which to achieve that agreement. That said, it has become clear that there are certain bottom lines that will need to be recognised and accommodated if the negotiation process is ultimately to bear fruit.

1. *Incentives up front:* North Korea is not going to follow Libya or South Africa and give up its weapons programs unilaterally. U.S. demands for it to do this are unrealistic and have been a major obstacle to progress. The U.S. and others need to lay out exactly what will be available in terms of political, economic and security benefits for the North Koreans if they are to trade away their weapons, and in what sequence they will be provided in response to the steps taken by Pyongyang.

2. *Sanctions and bilateral contacts:* There is a deep reluctance on the part of China, Russia, Japan and South Korea to apply sanctions: as the six-party negotiations have bogged down, bilateral contacts of each with North Korea have increased, making them more committed to achieving the long-term social, political and economic rehabilitation of North Korea through developing bilateral ties. The only way the U.S. can counter this is by presenting the countries in the region with a more comprehensive good-faith negotiations plan, of the kind we propose in this report, under which these countries would accept a graduated sanctions plan if North Korea refused to agree to the verifiable elimination of its nuclear weapons program or defaulted on its obligations once a deal was underway.

3. *Scope of a deal:* Any deal reached must account for, freeze, and ultimately dismantle all three aspects of North Korea's nuclear efforts: the plutonium program pre-1994; post-2002 plutonium production and reprocessing; and the HEU activities. It must also satisfactorily address North Korea's nuclear weapons facilities and stockpiles. Although implementation of the agreement could be phased, it must ultimately

¹⁶⁵ ICG interview, Moscow, 29 August 2004.

¹⁶⁶ "Deputy FM: Russia Planning for Korean Peninsula Worst Case Scenarios", op. cit.

¹⁶⁷ In July 2004, Russian Foreign Minister Sergei Lavrov travelled to Pyongyang, and came away optimistic that a breakthrough is still possible. "Russian FM Meets North Korea Leader, Says Nuclear Talks Could Yield Accord", Agence France-Presse, 5 July 2004.

¹⁶⁸ Konstantin V. Asmolov, "Finding a Peaceful Way to Settle the DPRK Nuclear Problem and Russia's Role in Resolving the Issue" (Russian), Korean Studies Centre, Institute for Far Eastern Studies, Moscow, 15 June 2004.

seek to render all three dismantled to a standard far exceeding that of the 1994 Agreed Framework. Verification should be conducted in the long-term by the IAEA, the most technically experienced and efficient body for the job, although as an interim step, short-term a politically more acceptable team composed of the IAEA and members from the six parties would suffice.

4. Verification: Nothing less than the most intrusive inspection regime will enable agreement to be reached. [see box]

5. Limits on U.S. funding: The U.S. must be presumed limited in the extent to which it can contribute to an incentives program, due to an increasingly hard-line Congress that will be sceptical of any deal with North Korea. Therefore, only U.S. incentives that can be authorised by executive order alone can be included in this schedule, although this does not preclude including more, if or when the attitude of Congress changes.

6. Future of KEDO: The KEDO light water reactor project will not form a part of the deal that ends this crisis: North Korea can be considered to have forfeited its rights for the moment to the peaceful use of nuclear energy by conducting a covert weapons program and dropping out of the NPT.¹⁶⁹ But taking KEDO off the table completely now, as the U.S. would wish, would cause problems for South Korea and Japan, the main providers of funds. One way through this dilemma would be to hold out the prospect for the project to be resumed if North Korea fulfils its denuclearisation obligations and demonstrates its enduring commitment to the NPT. KEDO would not be part of this deal, but the decision on its future could be postponed while North Korea was offered the chance to prove that it could be regarded as a reasonable member of the international community. A further relevant consideration is that a multilateral institution such as KEDO will be necessary to implement aspects of any deal, particularly the delivery of heavy fuel oil, and there is little point in re-inventing the wheel. If the LWR program is completed, it could be managed by KEDO as a way to ensure there is no misuse of its nuclear capacity.

7. Use of force: Military force will need to remain on the table as a last resort. Russia, Japan, South Korea and the U.S. agree that in this context, the red line would be the actual or attempted transfer of a nuclear weapon or fissile material by North Korea to another country or non-state actor. As horrific as the consequences would be, there is a preparedness to back the U.S. in the use of military force to enforce this.

The Challenge of Verification

The crux of any deal to get rid of North Korea's nuclear weapons will be verification. Due to North Korea's past history of lying about its nuclear programs, nothing less than the most intrusive inspection regime will satisfy the United States and the rest of the international community. At the same time, North Korea is a closed, highly militarised society that is reluctant to open its territory to foreigners. It is riddled with tunnels and caves that could hide much of a nuclear weapons program. In the past, verification of nuclear activities has proven most effective when the country dismantling its nuclear program has fully cooperated with inspectors.¹⁷⁰

Inspectors will need full access to North Korea's reprocessing facility at Yongbyon, which was denied them during the 1992 inspections, as well as the right to make challenge inspections to any suspected reprocessing sites. Monitoring equipment could also be placed throughout the country to detect the chemical signatures of any future reprocessing activities from undeclared sites. Verifying the uranium enrichment program will be more difficult. Uranium enrichment does not release any radiation, so it cannot be detected in the air. Nor does it require a large amount of space, making it relatively easy to hide. Uranium enrichment does create an electrical signature that would be carried on the power grid, but whether this would be detectable through national technical means is questionable.

The only certain way to detect that uranium enrichment was going on would be to go to the suspected area and do some environmental sampling, looking for depleted uranium and enriched uranium particles, the by-products of the enrichment process. This kind of environmental sampling would be less intrusive than

¹⁶⁹ For a fuller discussion see Michael Levi, "There is no absolute right to nuclear energy", *Financial Times*, 22 September 2004.

¹⁷⁰ Examples include South Africa, which dismantled its arsenal of six nuclear weapons beginning in 1989, and Libya, which agreed to halt its nuclear program before it was completed.

actually going into all the numerous tunnels and caves in North Korea, which may very well just contain conventional weaponry that North Korea has a legitimate reason not to show to the Americans.

On the other hand, having inspectors combing every inch of the country with tissues looking for dust particles would still be a daunting task. Success in verifying the HEU program would require access, anytime and to any place within reason; access to documents, including program documents and procurement information; interviews with program staff and officials; and environmental sampling at a wide variety of both declared and other sites. Therefore, the key to verification is to obtain an initial declaration from North Korea, listing all equipment and facilities it has for enriching uranium. That is why U.S. officials say they believe they could come up with a verification plan that "doesn't have to be like a national proctology exam" but would satisfy U.S. concerns.¹⁷¹

B. AN EIGHT-POINT INTERLOCKING SCHEDULE

The following is an outline of what a roadmap might look like. This outline describes a general process, although the actual steps might differ. Many details would need to be clarified and worked out by the six parties, and details could change depending on the extent to which North Korea has developed its nuclear program.¹⁷² No time limits for each stage have been identified, given the complexity of the issues involved and the likelihood of future events affecting the process. The premise throughout is that getting North Korea to the table to agree to such a deal will require a mix of pressure, and the prospect of graduated coercion.¹⁷³

¹⁷¹ ICG interview, U.S. government official, 7 October 2004.

¹⁷² David Albright, "Verifiable, Irreversible, Cooperative Dismantlement of the DPRK's Nuclear Weapons Program: Basic Tasks and Concepts", Institute for Science and International Security, 13 January 2004. <http://www.isis-online.org>; also ICG interview, Corey Gay Hinderstein, 7 September 2004.

¹⁷³ In June 1993, North Korea agreed to remain in the NPT and join negotiations after being confronted with a draft UN Resolution proposing two-phased sanctions, and hints from China that it might not use its Security Council veto. North Korea acquiesced before the Resolution was voted on, but only after mobilising 6.5 million army reservists and making

As an immediate first step, it must agree to attend a working group meeting to review the previous proposals; request more information; indicate areas of disagreement, areas of interest, areas of agreement; and define the preparatory process for the next six-party plenary session.

1. Security guarantees for verified freeze of Yongbyon operation

North Korea: unilaterally shuts down its nuclear facility at Yongbyon, with verification provided by foreign experts, and places the post 2002 plutonium, in whatever form it now is, back under inspection.

The U.S., Russia, China, South Korea and Japan: provide a written conditional security guarantee based on the principles of non-interference in internal affairs and respect for sovereign states, as outlined in the UN Charter. The guarantee is delivered in person to Pyongyang by a senior American statesman or administration official, accompanied by civilian nuclear experts to verify the shutting down of Yongbyon. The security guarantee would be void if North Korea tested a nuclear weapon or sought to transfer any weapon or fissile material (or, of course, itself committed some act of military aggression).

2. Energy planning for disclosures and declarations of intent

North Korea: declares its actions at Yongbyon post-2002, turns over any remaining spent fuel for analysis, and answers the questions: how much irradiated fuel was discharged pre-1994 and where is it now?; how much of this irradiated fuel has been reprocessed?; and how much plutonium has been separated from this irradiated fuel? It also makes public its intention to re-enter the Nuclear Non-Proliferation Treaty (NPT), to ratify the Additional Protocol,¹⁷⁴ and to sign a new Comprehensive Safeguards Agreement.¹⁷⁵

preparations for war, highlighting the dangers of escalating tensions. See Michael J. Mazarr, *North Korea and the Bomb: A Case Study in Nonproliferation*, (Macmillan, 1995), pp. 159-163 and Joel S. Wit, Daniel B. Poneman, and Robert L. Gallucci, *Going Critical: The First North Korean Nuclear Crisis*, (Brookings: Washington D.C., 2004), pp. 211-212.

¹⁷⁴ The Additional Protocol is a voluntary amendment to the Nuclear Non-Proliferation Treaty, designed to close some of the loopholes in the treaty regarding peaceful nuclear use.

The U.S., South Korea and Japan: begin a multilateral energy survey of North Korea. They also unveil the energy packages they would be prepared to provide to North Korea and begin preparations for the delivery of 500,000 tons of heavy fuel oil per year until a full rehabilitation of the energy system is completed.¹⁷⁶

3. Energy provision for signatures and access

North Korea: re-signs the NPT and ratifies the Additional Protocol; provides the verification organisation with the information, access and sampling needed to successfully confirm the veracity of its declaration, including access to the radiochemical laboratories, unhindered interviews with program staff and officials, access to records, including program documents, procurement data, and personnel records, and information on fissile material assigned to the weapons program;¹⁷⁷ signs the new safeguards agreement, in so doing entering into full and frank disclosure of its plutonium activities prior to 1994 and allowing environmental sampling at declared sites and elsewhere.

The U.S., Japan, China and Russia: make arrangements for funding the dismantlement program and for fissile and dual-use material to be removed from North Korea. The U.S. and Japan approve negotiations between North Korea and the international financial institutions (IFIs) on North Korea's membership.¹⁷⁸

South Korea and Japan: begin provision of energy aid to North Korea, simultaneous to and contingent on the signing of the NPT, ratification of the Additional Protocol and commencement of inspections.

States signing the protocol are required to provide additional information about their peaceful nuclear activities to the IAEA and allow expanded monitoring. See <http://www.iaea.org/Publications/Documents/Infcircs/1998/infcirc540corrected.pdf>.

¹⁷⁵ It has been suggested that it is preferable for North Korea to sign a new safeguards agreement instead of reactivating the previous one as this would allow it to submit a new (correct and complete) initial declaration and avoid the need to refer to the previous incomplete one.

¹⁷⁶ ICG interview, South Korean government official, Seoul, 26 August 2004. Further detail is not possible as the exact details of the packages are considered state secrets in South Korea.

¹⁷⁷ The more rods North Korea has processed, the more rigorous this process would be.

¹⁷⁸ ICG interview, IFI official, Seoul, 23 September 2004.

4. Rehabilitation and relief for agreed dismantlement

North Korea: agrees to dismantle, in the presence of the verification team, any facilities disclosed thus far, and to provide access to detailed nuclear weapon design information, documentation, and procurement information.

North Korea, China, Japan, Russia, South Korea and the U.S.: convene at six-party talks to agree on the structure, composition and operating procedures of the next phase of verification, choosing between an IAEA team, or IAEA-led team also including members of the six parties.

Japan and North Korea: enter into bilateral discussions to begin normalisation of relations.

The U.S.: extends the terms of the conditional security guarantee provided in step one and commences preparations for the rehabilitation of North Korea's existing power plants.

The European Union (EU): begins implementing the staged, four-year plan of humanitarian relief and local development measures drawn up, but never used, in its country strategy paper 2001-2004.¹⁷⁹

5. Aid for dismantlement

North Korea: begins the plutonium program dismantlement process, and plutonium production material starts to leave North Korea; hosts initial meetings on the process, schedule and general procedures for the dismantlement of the weapons program; agrees to a tour of weaponisation facilities; enters into summit-level negotiations with Japan to resolve the issue of the remaining kidnap victims; provides access to key North Korean ministries for international financial institutions (IFIs) to determine the accuracy of North Korean statistics/data reporting and establish local counterparts to work with.¹⁸⁰

Japan: reaches agreements with North Korea on the normalisation of relations, signs a Treaty on Basic

¹⁷⁹ ICG interview, European Commission Humanitarian Aid Office (ECHO) official, Brussels, 9 July 2004. The contents of the paper remain largely relevant but implementation was stalled by the onset of the nuclear crisis. See full text at http://europa.eu.int/comm/external_relations/north_korea/csp/01_04_en.pdf.

¹⁸⁰ ICG interview, IFI official, Seoul, 23 September 2004.

Relations, and agrees details of a reparations package, contingent on continued adherence to the terms of the eight-point schedule.

Japan, South Korea, and Russia: begin work on the rehabilitation of power plants and other energy infrastructure investment in North Korea.

6. Reparations for weapons declarations

North Korea: allows further shipments of plutonium out of the country and verification inspections to continue; produces a comprehensive declaration of its nuclear weaponisation program reflecting initial discussions with the verification organisation and forms a senior experts committee to investigate methods to dismantle the program; enters initial high-level technical discussions with the IAEA-led technical inspection body to agree on a schedule and set of general procedures for inspections of the HEU program, including full discussions of U.S. intelligence on North Korea HEU efforts; facilitates initial inspections of HEU-related facilities, laboratories, testing facilities, and equipment.

Japan: delivers the first tranche of reparations.

7. Liaison office and IFI preparations for HEU commitments

North Korea: makes arrangements to open a liaison office in Washington D.C.; produces a comprehensive declaration of its gas centrifuge program, reflecting the initial discussions in the previous step, and including details of centrifuge design, development, procurement, production and operation, as well as a history of the program and chronology of major political and technical milestones; with assistance as required, forms a senior experts committee to investigate methods of dismantlement and, in conjunction with the verification organisation, to draw up a schedule for dismantlement and inspection; allows dismantlement of the HEU-related effort to begin unimpeded; allows the first IFI offices to open in Pyongyang to start providing technical assistance, coordinate foreign aid flows, and determine appropriate projects.¹⁸¹

The U.S.: makes arrangements to open a liaison office in Pyongyang and lifts travel restrictions currently in

place on North Korean diplomats in the U.S.; and facilitates the opening of IFI offices in Pyongyang.

8. Liaison offices for conclusive verification

North Korea: opens a liaison office in Washington D.C.; allows dismantlement of the HEU effort to continue; allows verification teams ongoing unhindered access to facilities and information as required; ongoing monitoring is facilitated as required.

The U.S.: opens a liaison office in Pyongyang; begins preparations with South Korea and Japan for a major energy project in North Korea; removes North Korea from the U.S. State Sponsors of Terrorism list if North Korea meets requirements,¹⁸² and begins work in Congress on lifting sanctions.

The end point -- denuclearisation -- is reached when the verification group states that the plutonium, HEU, and weapons programs have been dismantled, and ongoing monitoring has been successfully implemented. Default by either side along the way would result in a freezing of the process and return to the six-party talks, with North Korea potentially subject to sanctions if its obduracy is the cause of the breakdown.

At the end of this process, if all goes according to plan, North Korea would no longer have nuclear weapons or the means to produce them. However, there would still be a lengthy array of issues that would have to be tackled for North Korea to become a fully responsible member of the international community. Normalisation talks with the United States would doubtless also consider, inter alia, such issues as missile control; North Korea's human rights record, freedom of emigration, biological and

¹⁸¹ ICG interview, IFI official, 23 September 2004.

¹⁸² The inclusion of a country on the U.S. list of State Sponsors of terrorism is a somewhat subjective process, as is being removed from the list. There are no specific sets of criteria to get on or off the list. The State Department acknowledges that North Korea is not known to have sponsored any terrorist acts since the bombing of a Korean Airlines flight in 1987. To be removed from the list, North Korea might take a number of steps, including resolving the issue of Japanese Red Army members and their families living in Pyongyang and apologising for past acts such as the bombing in 1993 of a South Korean state visit to Rangoon that killed seven senior South Korean officials and narrowly missed President Chun Doo Hwan, and the downing of the KAL plane. A renunciation of any future support for terrorism and a pledge to abide by the six international conventions and protocols to which it is a signatory might also help.

chemical weapons and reductions in North Korea's vast army. For North Korea to gain access to funds from the IFIs, it would have to satisfy their conditions on an array of debt, financial and budgetary criteria that it currently is not even close to meeting. All of these issues are important but consideration of them should be postponed until the nuclear crisis is settled.

VI. CONCLUSION

There are legitimate reasons to doubt that North Korea will agree to a deal to get rid of its nuclear weapons. It has never given up a weapons system in the past; its "Army First" policy may mean the leadership cannot afford to take away something from the military; and it may simply be too insecure and fearful of regime change to give up the ultimate deterrent. But unless a serious effort is made to negotiate, we will never know. So far divisions in the Bush administration have given North Korea more time to develop weapons and have done little to keep the positions of the other four parties in line.

What is needed is a serious, detailed proposal that lays out not just the steps North Korea must take but also the benefits it will receive. This means reassuring a deeply troubling regime of its survival and pinning our hopes on its eventual transition away from totalitarianism, as we have seen in China and Vietnam. It will mean focusing international energies on resolving this issue before tackling such deep-rooted problems as entrenched economic failure and human rights abuses. A long, slow and doubtless painful transition, if it comes about, may not be desirable but it is the least bad option on the Korean Peninsula. That transition can only start if North Korea's nuclear program is removed. That will only happen if the U.S. puts a serious deal on the table in sufficient detail to make it possible for the North Koreans to accept it.

Seoul/Brussels, 15 November 2004

APPENDIX A

MAP OF NORTH KOREA



APPENDIX B

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 100 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.icg.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York, London and Moscow. The organisation currently operates nineteen field offices (in Amman, Belgrade, Bogotá, Cairo, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Osh, Port-au-Prince, Pretoria, Pristina, Quito, Sarajevo, Seoul, Skopje and Tbilisi) with analysts working in over 50 crisis-affected countries and territories across four continents. In Africa, those countries include Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe;

in Asia, Afghanistan, Kashmir, Kazakhstan, Kyrgyzstan, Indonesia, Myanmar/Burma, Nepal, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; in Europe, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia and the Andean region.

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