

ASIA PROGRAM

**WHAT CONSEQUENCES MAY THE SINO-AMERICAN
TRADE WAR HAVE ON THE DENUCLEARIZATION
PROCESS IN NORTH KOREA?**

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SUMMARY

This paper aims at evaluating the consequences the Sino-American trade war may have on the denuclearization process in North Korea. It states that the situation is well described by a complex interdependence in which the three main stakeholders (North Korea, the United States of America, and China) will try to relatively maximize their interest under the constraint of other agents' strategic choices. It thus can be assumed that unilateral actions are not likely to solve the issue. But it remains difficult to forecast the outcome of this crisis because stakeholders have not yet expressed their preferences. It appears nonetheless that North Korea will do whatever it can to preserve what it considers as its most valuable strategic asset: its nuclear arsenal or at least its capability of nuclear deterrence. The denuclearization of North Korea would thus be the conjunction of Chinese, North Korean, and U.S. interests.

INTRODUCTION

Panmunjeon and Sentosa summits were for sure turning points in the North Korean crisis. The April 27th 2018 hold Panmunjeon summit reestablished high-level contact between leaders of the two Koreas. This meeting occurred after the escalation due to North Korea's acquisition of nuclear warheads. But this summit was also a watershed because it ended almost a decade of Seoul's firmness vis-à-vis its northern neighbour. The newly elected president Moon Jae-in tried to reshuffle a détente policy after hawkish terms of Lee Myun-bak and Park Geun-hye. It was also an important summit for Kim Jong-un because it was the first major international meeting for the young leader (who took office in December 2011). Shortly after, the U.S. Department of State announced that a meeting between the North Korean supremo and in office President Donald J. Trump would be scheduled. Albeit doubts, the meeting was eventually held on June 6th 2018 in the touristic resort of Sentosa in Singapore.

This summit caused mixed feelings. On the one hand, it was the very first meeting between a North Korean leader and an incumbent U.S. president. The summit even led to a joint declaration which set "complete denuclearization of the Korean peninsula" as a

goal. However, on the other hand, many observers remained sceptical about Pyongyang's sincerity to dismantle its nuclear arsenal. Eventually this arsenal remains the best guarantee for the regime to secure its survival.

In the meantime, trade tensions in East Asia were rising. Trump as a Republican candidate targeted East Asian economies. Once president, the Republican billionaire laid down the law. He eventually enforced protectionist measures. China was the target of these attacks. But it worth noting that Trump also targeted traditional allies of the U.S. such as Japan or South Korea. On July 6th 2018, the White House revealed a 25% rise on tariffs for about \$34 billion worth Chinese imports.

Last element to take into account, North Korea's economy contracted at sharpest rate in the two decades in 2017. "Gross domestic product (GDP) in North Korea last year contracted 3.5 percent from the previous year, marking the biggest contraction since a 6.5 percent drop in 1997 when the isolated nation was going through a devastating famine, the Bank of Korea said."

In such a context, the issue is to know to what extend trade tensions between China and the U.S. will impact denuclearization in North Korea. This paper proposes to evaluate this issue. Rationalities at stake will first be evaluated. Then, according potential scenarios, I try to highlight realistic strategic choices.

RATIONALITY OF ACTORS

Considering the complexity of the issue at stake, some hypothesis will be set in order to have the problem easier to understand.

Assumption1: the present situation can be labelled as a form of complex interdependence. In international political economy (IPE), it describes a situation which involves several logics at the same time (here the trade logic, the security logic, and also to a certain extend the hegemony logic) with several actors (governments, corporations, public opinions). This concept was popularized by Keohane and Nye¹. It puts that "states and their fortunes are inextricably tied together". The authors see three features to complex interdependence. First one is the use of multiple channels of action. Second is the absence of a hierarchy of issues with changing agendas and linkages between issues. Third feature, in a world of complex interdependence, power is diffuse and the use of

¹ Robert Keohane & Joseph Nye, Power and interdependence: world politics in transition, Longman, Boston, 1977.

strength less efficient (for instance, can military pressure do anything to change the currency rate of the renminbi?). Thus, depending on the type of issue, a state can be strong while others are more vulnerable. In such a context, power is led to change and it reflects the ability a state has to control over outcomes. So each dimension of the problem will have a consequence on the other dimensions.

As a consequence, we are in a situation where linkages are numerous and highly expectable. The concept of linkage was first developed by James Rosenau². Originally it revealed the connection domestic politics may have on the making of foreign policy. Katzenstein³ used it in IPE and Krasner⁴ considered thus that some states enjoy more autonomy vis-à-vis their public opinion than others. Krasner maintains that authoritarian and strong states are relatively isolated from public opinion pressure. It leads to consider the present triangular relation. Hence, the U.S. would be relatively weak because of pressure of lobbies on the Congress, the White House. No matter what, within this framework of complex interdependence, I assume that security factor will be prioritized. The rationale will be “nationalized” in the sense that it can be assumed that the national interest may take precedence over other actors interests (such as economic interest of firms or of consumers). This is Krasner’s idea of “state-power”⁵. Economic interdependence is subordinated to the political and economic balance of power. This idea derives from realism. States will not always prioritize wealth over other issues. Power and domestic political stability are also key elements. That means that even if international trade maximizes collective gains, state will care of relative individual gains.

If this hypothesis is correlated, then it would mean that a decision can be chosen even if its economic cost exceeds the benefits. Because what is eventually at stake is the national interest or even the very survival of the regime (self-help hypothesis).

Assumption2: Considering that the debate has to be clarified, and that the problem may have numerous implications, I exclude with due consideration some stakeholders. My purpose is to bring the problem to its Gordian knot. So I choose to only keep three statist actors: China, North Korea, and the U.S. It can be surprising that the South Korean or the

² James Rosenau (ed.), *Linkage Politics: Essays on the Convergence of National and International Systems*, The Free Press, New York, 1969

James Rosenau, *Domestic sources of foreign policy*, The Free Press, New York, 1967

James Rosenau, *Public opinion and foreign policy: an operational formulation*, Random House, Boston, 1961.

³ Katzenstein, “International relations and domestic structures: Foreign economic policies of advanced industrial states” in *International Organization*, 1976, vol. 30-1, pp. 1-45

⁴ Stephen Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy*, Princeton University Press, Princeton N.J., 1978.

⁵ Stephen Krasner, “State Power and the Structure of International Trade” in *World Politics*, Vol. 28, No. 3. (Apr., 1976), pp. 317-347.

Japanese governments, or the IAEA would be excluded from the analysis. My justification is that these actors are mainly in a reactive position (or at least, they are less able to be proactive).

Assumption 3: finally, I put that the cold war logic has been overcome. In other words, North Korea will first and foremost try to defend its interest even if it harms Chinese interests and it reinforces U.S. position. It is therefore a very Machiavellian realist rationality. It is worth noting that this realism involves both political and economic issues. It is more usual to witness this form of economic realism or neo-mercantilism⁶. As a consequence, the three agents (PRC, DPRK, U.S.A.) will take their decisions according to a relative and under constraints maximization of their interests.

The current situation cannot, however, be solved by the use of game theory. I see two reasons. First, there are not enough elements to establish the value of gains and losses each actor will set to the result of an interaction. For instance, how is it possible to evaluate how far the U.S. government can go to conduct the denuclearization of North Korea? The current issue could be studied as a sequential game, i.e. what will North Korea do if China keeps supporting the denuclearization process albeit the trade war? If it is not possible to establish the value of such a choice _ or if the evaluation is too subjective _, then it becomes impossible to continue to the next step of the game (in this example: the analysis North Korea will do of the Chinese decision). Second, because the current crisis seems more to be a cooperative situation⁷. That means a cooperation among rivals (competitors). But game theory reaches its limits from the abstract analysis and it has difficulty to take into account real interactions. By nature, cooperation is an unstable and evolutionary process.

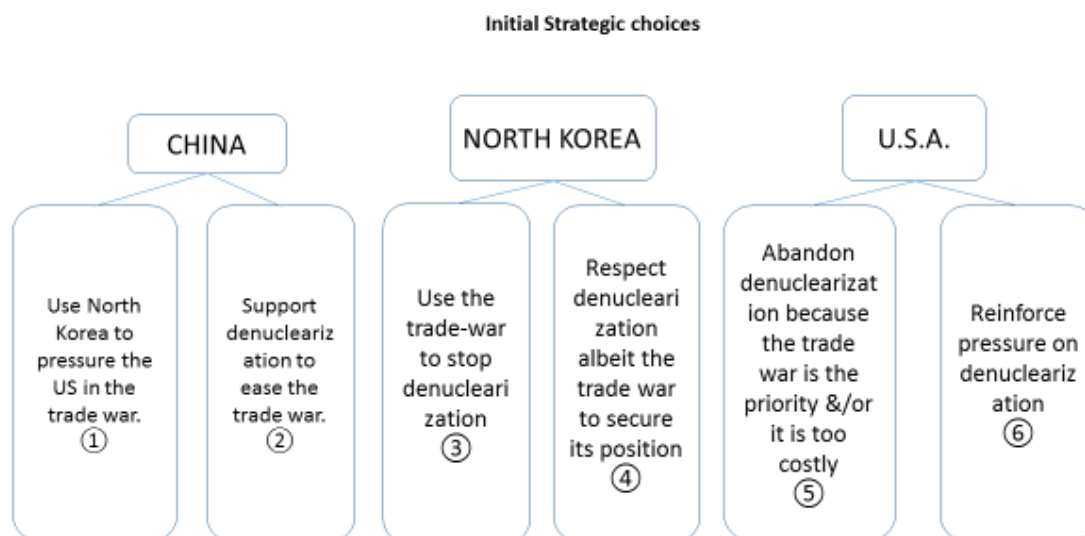
⁶ Robert Gilpin, "Three models for the future" in *International Organization*, vol. 29 (1975), No. 1, pp. 37-60.

⁷ Sur la question voir Paul Andre, "An international political economy perspective on regional integration process in North-East Asia: Cooperation in a context of hegemonic ambitions", *Asia Pacific Social Science Review*, 18-1, forthcoming.

SCENARIOS AND DISCUSSION

From the above-mentioned elements, the current issue can be summed up as the following chart.

Chart 1: initial strategic choices



Let's now try to clarify and understand the perception and the interests of each stakeholder.

North Korea: from the DPRK's perspective, the nuclear arsenal is at the same time the main guarantee for its security, and the main cause of international pressure. It seems to me that the analysis made by Pyongyang elites cannot be understood if the history of the nuclear issue in the peninsula is not taken into consideration. The nuclear arsenal option precedes the end of the cold war. In October 1986, Kim Il-sung met U.S.S.R. leader Mikhail Gorbachev. From the beginning, Kim was sceptical about the glasnost as well as he was sceptical about Chinese market reforms. The 1990s meant, at the same time, the end of the Russian economic assistance to North Korea and the treaty of unconditional military assistance (1991), and diplomatic isolation due to China's recognition of South Korea (1992). In 1993, "Team Spirit" _ a joint military exercise _ gathered 200,000 U.S. and South Korean soldiers near the DMZ. As a reaction, North Korea withdrew from the treaty of non-proliferation of nuclear weapons. The development of the nuclear program became a serious threat to the regional stability. At this period, the economic situation

was so bad that it was estimated that at least 1.5 million died of starvation during the decade. The DPRK already used the nuclear issue in a linkage because at that time, the regime agreed to stop its nuclear programme. In exchange, America, South Korea, and Japan agreed to provide energetic assistance. Would this assistance be possible without the nuclear programme?

Fundamentally, the options the newly established leader Kim Jong un has are not very different from the ones his father had. These options can be summed up as below:

Chart 2: North Korea's Dilemma of post 1989

North Korea's dilemma of post 1989



• The North Korean equation:

“The paradox of North Korea thus lies in its continuing adherence to Stalinist socialism which is both the source of its longevity and the cause of most its problems.” [Jin Jingyi]

If the DPRK accepts a reunification with South Korea, it would mean the end of the communist Kim dynasty. Since the balance of power is not in favour of Pyongyang, Kim Jong un _ as his father and his grandfather _ will do everything in his power to avoid such a scenario. So North Korea is looking to strengthen its position. This can be done through the economy or the military. In case North Korea implements Chinese style reforms, it is expectable the economic situation would improve. But it would undermine the position of Kim Jon un because conducting economic reforms implies that the current system is not good. Then the only remaining option becomes to keep the status quo. In such a perspective, the nuclear arsenal remains the best asset. As in past crisis, North Korea is likely to use blackmail in order to increase its bargaining power in the coming talks.

Considering all these elements, North Korea has no fundamental interest in abandoning what consists its more valuable asset (nuclear weapons and the threat it brings to the neighbouring countries). However, the Sentosa summit can also be considered as a success because it sets back North Korea in the international community. In this respect, the North Korea government can interpret the Sino-American trade war in two diverging ways. On the one hand, it can be considered that the trade war is a strategic opportunity which allows North Korea to stop the denuclearization process. Or Pyongyang may seize this opportunity to show it is a reliable stakeholder. Realistically speaking, no-one is expecting Kim Jong un to be a peacebuilder. So the North Korean leader may opt for this decision because he expects greater benefits from this choice and/or also because he does not expect China to be successful in the coming trade conflict with America.

China: the foreign policy of the PRC long followed late supremo Deng Xiaoping's aphorism to "keep a low profile and hide your talent". In other words, China's strategy was to set the priority on the economic development. Power rivalry should not interrupt the progress of economic development. Since the 1990s China has increasingly developed a "great power" foreign policy⁸. Some observers consider that incumbent leader Xi Jinping's leadership is a turning point in China's diplomatic history⁹. Xi's big vision seems to consolidate a bipolar order with the perspective of a Chinese dominance in East Asia and Eurasia. The novelty is that Xi seems not to be ready to sacrifice what he sees as the national interest to the economic development. That is the idea of "core interests" (核心利益). These are the defence of the absolute authority of the CCP; the defence of sovereignty and territorial integrity of the Chinese state; the uninterrupted development of China's economy. Also, it should be noted "the principled bottom line" (原则底线) means that China will not sacrifice its core principles to maintain peace. In order words, while for a long time the linkage was rather politics to economy (i.e. accepting a consensus on political issues to maximize economic interest), it seems that Xi is eager to accept (at least in theory) two-way linkages.

China is certainly the only country to have such a leverage on North Korea. In such a context, Xi Jinping's understanding of the situation can be to use North Korea to

⁸ Willy Wo-lap Lam, *Chinese Politics in the Hu Jintao Era: New Leaders, New Challenges*, M.E. Sharpe, New York, 2006; Willy Wo-lap Lam, *Chinese Politics in the Era of Xi Jinping: Renaissance, Reform, or Retrogression?*, Routledge, New York, 2015.

⁹ David Arase, "The Geopolitics of the Chinese Dream: Problems and Prospects", *Trends in Southeast Asia 2016*, No. 15. Singapore, Yusof Ishak Institute of Southeast Asian Studies, November.

pressure the US in the trade war. Or, to use the leverage China has on North Korea in order to improve its interest in the trade conflict. In this case there would have a linkage.

United States of America: the United States of America is somehow at the origin of the two crisis. Of course, the U.S. is not to be blamed for the roots of the problem. But President Trump's willingness to abruptly handle these two long-lasting issues initiated the logic of the conflictual process. By choosing to dialogue directly and bilaterally with Kim, president Trump *de facto* puts an end to multipartite talks (six party talks). He thus isolates America's two main allies in the region, Japan and South Korea. With the coming trade war, this unusual situation does not help U.S. interest because _ as said _ America is alone with its negotiation with the DPRK; but the trade war also has the likely consequence to avoid any Chinese support on the North Korean issue. In such a context, Trump will be alone with the North Korean problem and it can be a burden for U.S. diplomacy. Such a burden may give leverage to Pyongyang to more blackmail.

There is another potential consequence of the trade war. During the presidential campaign, Donald J. Trump not only targeted China for its unfair trade behaviour but also South Korea and Japan. So this raises the question of the evolution of the trade conflict _ eventually the same Trump also labelled the EU an "enemy". If U.S. commercial sanctions are restricted to China, then America can expect support from Seoul and Tokyo on the nuclear issue. In this case, this sort of "détente" with America traditional allies may have three outcomes. One could be that Trump keeps handling the North Korean issue unilaterally (and South Korea and Japan will have little leverage on the outcome). Another is that Trump realizes he needs his allies. In the case Washington values the relation with Seoul, then a softer approach could be on the agenda. Last possibility, under the same conditions, Trump can also rely on LDP Prime Minister Abe Shinzo whose stronger position regarding Pyongyang may match closely with Trump's interests. In this case, the outcome would be more hawkish and a stronger stance on the DPRK would be implemented.

If pressures on North Korea and China work, then U.S. position will be considerably reinforced. But Trump has no guarantee about how reliable will the two other stakeholders be. As a consequence, if U.S. threats on China are not efficient, then the trade conflict may last and it becomes more costly for the U.S. Therefore, America may abandon the denuclearization process because it is not the agenda anymore. Another possibility is that the U.S. administration stays firm on denuclearization whatever it costs.

Sequential logic: from these elements, each stakeholder will try to adjust its position in order to maximize its interest. I now propose to interpret the current dilemma each stakeholder face.

As mentioned above, I work under the double assumption of a complex interdependence and a realist rationality. Therefore it has to be considered that all players will adapt their strategy according to the decisions taken by other players. Thus, will North Korea adapt its strategy vis-à-vis U.S. talks about denuclearization according to the attitude China will have vis-à-vis the trade war with the U.S.? Symmetrically, the same logic will prevail for the three agents (China and the U.S.) who will adapt their strategies on two levels (denuclearization and trade war).

Considering that the purpose of this paper is to study the impact of the trade war on the denuclearization process, I let apart the impact the North Korean crisis may have on the trade war. Nevertheless, it has to be reminded that working this way, this paper limits its analysis to short-run consequences (t+1). By definition, t+1 decisions will have an impact on t+2. For instance, China is liable to adjust its firmness vis-à-vis the U.S. in the trade war according to the evolutions of the North Korean issue. Thus, if Washington is not able to force North Korea to denuclearize (t+1), then Beijing will analyse this as an American weakness. And the PRC may use it to get a consensus on the trade war (t+2) or to strengthen its firmness in the trade war (t+2).

As a result, strategic opportunities (i.e. adjusted choices made according to t+1 other players’ actions) can be summarized as follow (each situation refers to the strategic outcome described in chart 1):

Chart 3a: strategic opportunities for China

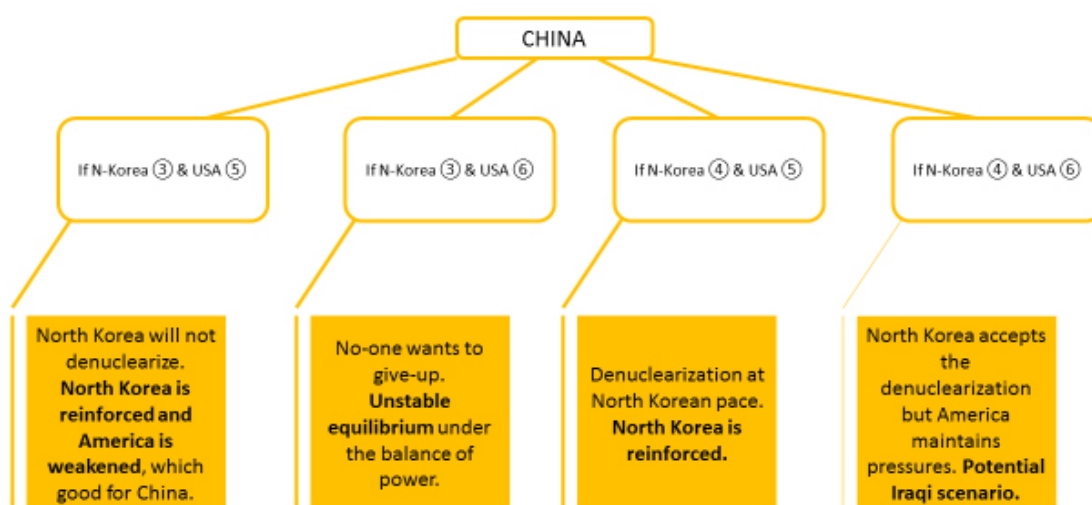


Chart 3b: strategic opportunities for North Korea

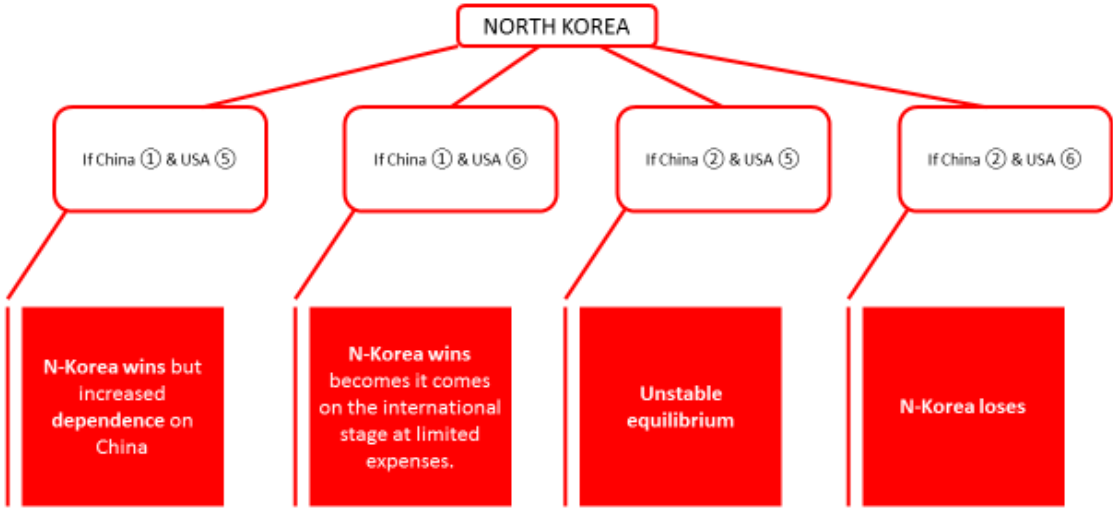
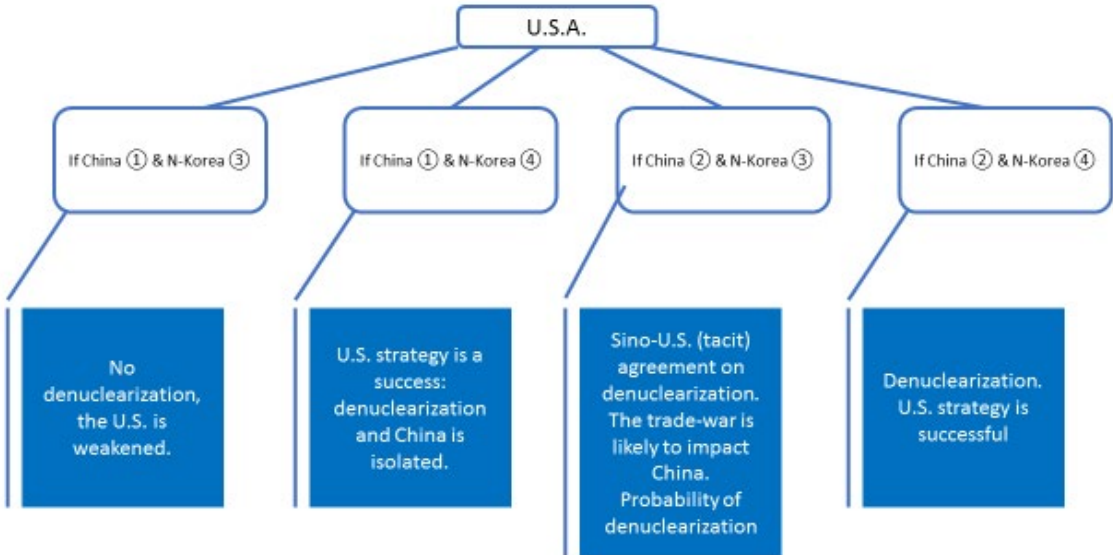


Chart 3c: strategic opportunities for the U.S.A.



CONCLUSION

It seems relatively realistic that the trade war is about to impact the denuclearization process. The configuration of the issue makes unilateral actions inefficient and impossible. Indeed the problem gathers three countries who are all able to be proactive in the evolution of the crisis and they can play on two levels (the denuclearization process and the trade war). Thus, unilateral actions by any actor (especially the U.S.) cannot resolve the delicate situation regarding North Korea given its nuclear arsenal and the proximity to major demographic centres of East Asia.

The result of this joint interaction (the impact of the trade war on the nuclear issue) will be a trade-off between short-run benefits and long-run strategic vision.

Since economic reforms (1978), China's foreign policy guideline was to keep a low profile. In many regards, this crisis is revealing if the PRC has shifted to a great power policy.

It appears nonetheless that North Korea will do whatever it can to preserve what it considers as its most valuable strategic asset: its nuclear arsenal or at least its capability of nuclear deterrence. Denuclearization of North Korea would thus be the conjunction of Chinese, North Korean, and U.S. interests. ■

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