

What Is KEDO?

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Korean Peninsula Energy Development Organization

The Korean peninsula, especially the demilitarized zone (DMZ) that splits it in two, is one of the world's most dangerous flashpoints. President Clinton called it "one of the scariest places on earth." In addition to the troops massed on the DMZ, the fragility of Northeast Asian security is underscored by North Korea's military and technological capability. The Democratic People's Republic of Korea (DPRK), North Korea, has one of world's largest armies, a million men, with artillery capable of bombarding Seoul. In August 1998, the DPRK launched a Taepodong I missile, which has the range to hit anywhere in South Korea or Japan. With further development, such missiles could reach Alaska, Hawaii, or even the continental United States.

These capabilities make North Korea a threat in the eyes of Japan, South Korea, and the United States. China also views the DPRK as a key facet of the Northeast Asian security situation.

All this attention given to North Korea, however, has not succeeded in resolving for outside observers questions about the country's predictability. At times, the North has seemed open to increased contact with the outside world; at others, it has appeared to be following a strategy of dangerous brinkmanship and belligerence, at extremely high stakes.

Recent Developments

Early in 1998 there were a few encouraging events in Korea: Kim Dae Jung became president of South Korea and called for pragmatic engagement, a three-stage process of reconciliation and eventual

reunification of the two Koreas, separating economics from politics. The Four Party Talks reconvened, involving both Koreas, China, and the United States, to work toward permanent peace arrangements. And later in the year, Chung Ju-Yung, honorary chairman and founder of South Korea's biggest conglomerate, Hyundai, visited North Korea and met with its reclusive leader, Kim Jong Il, to work out arrangements which might total \$1 billion in value over ten years, including tourist visits to Mount Kumgang and extensive investment in North Korea.

At the same time, however, North Korea continued to send spy submarines south. And in the summer of 1998, U.S. intelligence detected possible efforts by the North to construct nuclear facilities at Kumchangri, north of the nuclear facilities at Yongbyon, which had been frozen as a result of the 1994 U.S.-DPRK Agreed Framework.

On August 31, 1998, the very day that the United States, South Korea (ROK), Japan, and the European Union (EU) were to sign a \$4.6 billion "cost-sharing resolution" determining how funding for the KEDO (Korean Peninsula Energy Development Organization) project called for in the Agreed Framework would be financed, North Korea fired a three-stage missile across northern Japan. Though Pyongyang called it a satellite launch, the missile flight caused outrage in Japan and in the U.S. Congress.

What's Kedo?

Under the Agreed Framework signed between the United States and the DPRK in October 1994, KEDO must supply to North Korea two 1,000-megawatt light water reactors (LWR), which do not pose a nuclear proliferation threat, and 500,000 tons of heavy fuel oil (HFO) per year until the pending completion of the first reactor.

KEDO is an international organization consisting of four Executive Board member countries — the United States, the ROK, Japan, and the EU — as well as other contributing members. Besides providing the DPRK with the two LWRs and the annual HFO, the broader mission of KEDO is to contribute to the strengthening of the international nonproliferation regime while improving the prospects for lasting peace and stability on the Korean peninsula and in Northeast Asia.

KEDO is often referred to as a model of how a cooperative and targeted international diplomatic effort can lead to the resolution of regional security or political crises. It is fair to say that in its first four years of operation KEDO has achieved greater success than most observers initially thought possible, and more than many of its current critics will acknowledge.

Broader Accomplishments

On the nuclear nonproliferation level, KEDO's success has ensured the continued freeze of the suspect facilities at Yongbyon, including the 5-megawatt reactor, 50- and 200-megawatt graphite-moderated reactors under construction, the reprocessing facility, and related facilities. The spent fuel rods from the 5-megawatt reactor have been removed and almost all canned. The DPRK has remained a party to the nonproliferation treaty (NPT) and has allowed the International Atomic Energy Agency (IAEA) to resume its monitoring activities at Yongbyon. These are hard-won and highly significant accomplishments.

KEDO has also served an important diplomatic function. Through its daily work in New York, in negotiations with the DPRK, and at our Kumho site on North Korea's east coast, KEDO has provided a continuous, crucial link between Pyongyang and the outside world. Particularly during the occasional flare-ups that have occurred, KEDO has provided a formal and an informal forum for near constant contact and interaction with the North.

In addition to being a window to the world for North Korea, KEDO has provided an opportunity for direct contact between North and South Koreans at various levels. South Koreans in KEDO have directly negotiated agreements with North Koreans. We have learned to work with each other and to listen to each other's concerns. There has also been considerable interaction between the more than two hundred South and North Korean workers at the site. It has been a remarkable aspect and benefit of the project that workers from the two Koreas, which remain technically at war, may be seen laughing together, sharing cigarettes, and in general learning each from the other for the first time. As the LWR project progresses, thousands of South

and North Koreans will work side by side, jointly building the two light water reactors.

Finally, KEDO has also provided important political benefits to its founding members. KEDO has become an important feature of the geopolitical landscape on the Korean peninsula and in Northeast Asia by becoming an important mechanism for coordinating and harmonizing Japanese, South Korean, American, and now European interests and policies. This is especially important given the historical tensions between Japan and Korea.

Other Components of Engaging the North

KEDO's mandate is actually quite narrow, but its impact is broad. Our work serves as a first step, the start of a foundation for a new structural relationship that the outside world is attempting to build with North Korea. If all goes well, KEDO can be a vehicle to begin the process whereby Pyongyang might be enticed from its isolation and brought into the broader regional and international community.

Upon this base, the other components of this relationship with Pyongyang can be built. These include the Four Party Talks, involving the United States, China, and the two Koreas, to build confidence on the peninsula, end the state of war which exists, achieve force reductions and military transparency, and secure a permanent structure for peace and stability in Northeast Asia. North-South talks are also crucial to any longer-term solution on the peninsula - and for which KEDO has already proven to be a useful prototype. Normalization talks by the North with the United States and Japan - including incumbent difficulties, such as resolution of issues like DPRK missiles, technology transfer, and humanitarian matters - are also critical in this regard.

It is very clear that North Korea attaches great importance to the LWR project. Even when various components of the structural relationship seem stymied, there has been no diminution of Pyongyang's enthusiasm for dealing with KEDO on the LWR project. In effect, KEDO is a classic confidence-building measure, part of a foundation upon which North-South dialogue, Four Party Talks, and bilateral normalization talks can build.

However, it is not enough to construct only a foundation. All parties concerned — including the ROK, Japan, the United States, and the DPRK — must have an architectural design for the new structural relationship they seek, including how to build it and some vision of what ultimately may emerge upon the foundation.

Perceptions of the Players

Let's look at what I perceive to be the current perspectives of the ROK, Japan, and the United States in the wake of the missile and suspect underground facilities crisis.

The Kim Dae Jung administration in South Korea made a major investment in a serious attempt to separate economics from politics, and to eschew early reunification or seek the collapse of the DPRK. Seoul's reaction to a string of provocations has been patient and visionary. However, the political cost of its positive approach has been serious, and the "sunshine policy" has been put at risk by Pyongyang's failure to reciprocate Seoul's constructive policies. With Pyongyang's new proposal for talks, this situation may be changing.

In Tokyo, Pyongyang's obduracy in negotiating humanitarian issues of importance to Japan — further visits by wives, the kidnapping cases — had already hardened attitudes and cost Pyongyang considerable goodwill. The missile test broke the camel's back, provoking Tokyo's "outrage and anger" and the clear perception that now the DPRK represents a security threat to Japan — a radical change in perspective which resulted in calls for stepped-up research on a theater missile defense system (TMD) and Japan's own "intelligence satellite."

Evidence of suspect facilities and the new threat from missiles drastically undercut congressional support for Washington's policy toward North Korea, and forced short deadlines on the administration to resolve the ambiguities of the underground facilities or sacrifice the Agreed Framework, with all the dire consequences this would entail. The "underground facilities" issue was overblown from the start, since it would take several years to build facilities and actually produce plutonium. This matter seems on its way to resolution. Thus, the missile threat may soon take front stage.

China's longstanding ties and support for North Korea reflect the importance it places on the DPRK's stability and its realization that instability in North Korea could affect the security and prosperity of the entire region. Beijing is very much afraid that the intense focus on missiles, "underground facilities," and other suspicions will hype the North Korean threat and create such momentum that confrontation will inexorably explode - and that Beijing will be expected to defuse issues related to North Korea which are not under Beijing's control. China will then be blamed for failure to end the crisis.

The View from Pyongyang

Pyongyang's overriding goal is survival. North Korea has abandoned its goal of communizing the South with early reunification under DPRK auspices. Pyongyang is convinced that its survival is threatened by two challenges:

1. It is surrounded by hostile forces, led by the United States, which are intent on destroying the DPRK, or on stalling while waiting for the DPRK's collapse.
2. The DPRK economy is in danger of total collapse.

The Threat of "Hostile" Forces

In my view, based on regular conversations with North Koreans, Pyongyang believed that the Agreed Framework, and KEDO as its instrumentality, had committed the United States to end its hostility toward the DPRK and to move rapidly to normal relations. North Korean concern with erratic HFO deliveries and the slow pace of the construction of the light water reactors fed suspicion that the United States would not proceed as hoped. Even more, the failure after four years to lift economic sanctions was both blamed (erroneously) for the declining state of the DPRK economy and, even more importantly, seen as a signal that Washington was not genuinely committed to ending hostility toward the DPRK.

These suspicions have been exacerbated by U.S. reaction, however justified, over the purported "suspicious underground facilities" and the missile launch in the summer of 1998, as well as by

rhetoric in the U.S. Congress and reports in the press of an Opslan 5027 calling for U.S. and ROK occupation and takeover of the DPRK according to some contingencies.

It is likely that there are conflicting views among North Korean leaders - some of whom believe opening to the outside world is necessary, and others who are addicted to *juche* and would have serious fears of contamination from South Korea's "sunshine policy" or from engagement with the United States.

The Threat of Total Economic Collapse

The 1989 collapse of the Soviet Union, including the loss of its financial assistance, and China's 1992 policy decision to normalize ties with South Korea and end preferential commercial treatment of the DPRK, cut North Korea adrift from its financial moorings. Together, Moscow and Beijing had provided the subsidies which had sustained North Korea since its founding.

After losing that support, the DPRK economy declined some 80 percent, by my estimate, between 1989 and today. The DPRK's industrial economy has deteriorated dramatically and functions only marginally, at perhaps 20 percent of its capacity in the late 1980s. North Korea's agricultural economy - still primitive because of floods, droughts, and Stalinist and *juche* agricultural policies - produces about half the country's annual requirements. I agree with the IMF and World Bank assessments that the DPRK economy cannot recover without massive external inputs.

Despite certain ideological legacies, out of historical concern for preserving its sovereignty and territory Pyongyang is fearful of overdependence on China as its principal source of economic or military support. After flirting in the late 1980s with Japan as a potential partner to rescue its economy, and then with South Korea under the comprehensive agreements achieved in 1991-92, Pyongyang evidently concluded that the United States was key to managing the security and economic threats it perceived. North Koreans contend that Washington is also the path to relations with Tokyo and Seoul.

Invigorating the Approach

At this point, Pyongyang seems to have almost concluded that its approach, to manage its security and economic concerns through the Agreed Framework, may be failing. Consequently, the Agreed Framework and KEDO are at serious risk - both because of U.S. and allied concern about the "suspicious underground facilities" or another North Korean missile launch, and also because of failure to accelerate the pace of commitments under the Agreed Framework. Needless to say, Pyongyang has not been an easy partner for our common efforts, but no matter how difficult Pyongyang may be, it is our basic goals in Northeast Asia that are at risk. The alternative to sustaining the core of the Agreed Framework and KEDO is confrontation and increased risk of war.

To rescue our objectives vis-a-vis the DPRK — nonproliferation, ending a missile threat, and building a peaceful and prosperous Northeast Asia — I believe that the Agreed Framework and KEDO must be folded into a comprehensive package of policy moves, taken in concert with Seoul, Tokyo, Brussels, and Beijing, and articulated directly at top political levels in Pyongyang by an American political figure. The outlines of the broader approach would include acknowledgment to Pyongyang that the potential of the Agreed Framework has not met the broader goals and expectations of either party. Consequent frustrations and suspicions have mounted to the point of undermining our original understandings and intentions.

For the sake of peace and prosperity in Northeast Asia, the United States and its allies are prepared to broaden engagement with the DPRK to make credible our intention to end the hostile relations between ourselves and the DPRK - in line with President Kim Dae Jung's approach.

It would be absolutely clear that Pyongyang must choose either meaningful and peaceful engagement and support for the rehabilitation of North Korea's economy, in conjunction with elimination of the nuclear, missile, and military threats, on the one hand, or isolation and confrontation, with all the economic and military dangers this poses to North Korea, on the other.

Immediate Measures

Some measures should be undertaken immediately to serve our own interests and signal a new beginning. The Agreed Framework and KEDO would remain at the core of our efforts, but we must be prepared to accelerate and broaden all aspects of their implementation. To this end, the United States should lift expeditiously all sanctions under the purview of the president, demonstrating the good faith of the United States in moving to a normal, constructive relationship with the DPRK.

The United States would propose immediate establishment of liaison offices in Washington and Pyongyang, anticipating rapid movement to normal diplomatic relations. If Pyongyang is not ready to open an office in Washington, the United States would open its liaison office first, assuming DPRK concurrence.

Longer-Term Measures

Other initiatives would take slightly longer, but would be pursued with dispatch.

The United States, the ROK, and Japan would work closely to promote DPRK entry into the International Monetary Fund, the World Bank, and the Asian Development Bank as quickly as the DPRK could satisfy the technical and transparency requirements of membership. In the meantime, the allies would support training activities by all three institutions to help with North Korea's economic recovery.

The United States, Japan, the ROK, and the European Union, with participation by other interested countries, would agree to establish a Korean Peninsula Investment Facility, which would work with the DPRK to identify North Korean industries appropriate for external investment and would facilitate such investment. Emphasis would be placed on investment with the potential to speed the restoration of North Korea's basic industry, energy production, infrastructural development, and export potential. (This effort could incorporate such ideas as Kim Dae Jung's "Pusan to Beijing" rail link, Russia's Siberia to South Korea oil pipeline, as well as Pyongyang's interest in mining, energy, and the electrical grid.)

The United States and its allies would encourage efforts by the United Nations Development Program, the World Food Program, the

Food and Agriculture Organization, nongovernmental organizations, and others to assist in the rehabilitation of the agricultural sector of the DPRK economy. Generous humanitarian assistance with food and basic medicine needs would continue during the period, working toward recovery in North Korea. All these efforts would aim to help build the long-term viability of the DPRK industrial and agricultural economy.

While the United States would be prepared to move ahead in all these areas, in conjunction with progress on other issues in the Four Party and U.S.-DPRK bilateral talks, bilateral dialogue with Japan and South Korea would also be essential to success. The EU would also be part of these efforts. Similar, appropriate messages would need to be delivered by Tokyo, Seoul, and Brussels to Pyongyang. Beijing's support would also be very important.

Security Issues

Pyongyang would have to understand that these benefits would flow only in conjunction with Pyongyang's ending its threatening activities. This requirement would have to be articulated very carefully since Pyongyang dislikes intensely "tit for tat," quid pro quo, or conditioned approaches. The diplomatic challenge would be to achieve these ends in ways which did not offend North Korea. Pyongyang would also have to make clear its intention to end its hostility toward us.

In light of Washington's and its allies' willingness to move ahead to resuscitate the DPRK economy, it would be essential that Pyongyang clarify promptly the issue of the suspicious underground facilities and any other comparable matters. Again, the underground facilities problem seems to be on its way to a satisfactory resolution.

The DPRK's willingness to end development, deployment, and export of medium- and long-range missiles would also be an essential component of this broadened approach. Reduction of force deployments on the DMZ should also be high on the agenda of the Four Party Talks.

Implications of this Approach

A rejuvenated and broadened initiative represents the best hope for rescuing a constructive relationship with the DPRK, to bring North Korea from its isolation into the international community, to avoid dangerous confrontation, and to bring peace and stability to Northeast Asia. I judge the gamble for peace to be worth the risk.

However, none of the proposed measures is irreversible. All could be pursued pragmatically, taking into account developments in Pyongyang. Should this new start fail, the United States would be in a far stronger position to rally its allies, including Beijing, in an inevitably even more dangerous period ahead.

This paper was prepared for presentation at the Institute for Korean-American Studies' Winter Symposium, University of Pennsylvania, February 26, 1999. Desaix Anderson is executive director of KEDO.