

The New International Disorder and the North Korean crisis

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Abstract: The paper analyzes challenges to the international order since Brexit and the election of Trump. These challenges are seen against the evolution of the international order in the last 150 years. Current attacks on the multilateral international order must be seen in light of the “realistic” school of international relations. We discuss economic foundations of the international order and the threats posed by nationalist populism. A particularly important question is the role of China in the world and in Asia. The North Korean crisis is discussed within that background. The paper outlines a) conditions for long run Korean unification, b) responses to North Korea’s nuclear program that best help prevent a nuclear war in North East Asia.

1. Introduction

Donald Trump's election as President of the most powerful country on earth has raised many questions about the future of the international economic and political order. As a presidential candidate, Trump made various remarks that are likely to seriously shake up the international order, as we know it. He announced a protectionist program on trade, vowing to scrap the Trans Pacific Partnership (TPP), the North American Free Trade Agreement (NAFTA) and other free trade agreements. He promised protectionist measures to reduce imports to the US as well as the famous wall at the border with Mexico to prevent entry of illegal immigrants into the United States. After less than a year in office, it is not clear how much of this protectionist agenda will be implemented, but it is clear that this is the direction his policies are taking. Similarly, he said NATO was obsolete, argued that Japan and South Korea should pay more for US military protection, that the US should withdraw from the Paris accords on climate change plus various other declarations that announce a dramatic change in the United States' involvement in international affairs. Trump's rejection of multilateralism may have far-reaching consequences for world peace and the international architecture in the twenty first century.

At the same time as Trump was elected, North Korea has accelerated its nuclear essays, exploding a powerful hydrogen bomb underground and launching several missiles at increasing distances. The North Korean provocations have brought North East Asia (and the world) closer to a major (possible nuclear) conflict.

Given these recent evolutions, the following questions naturally emerge: What is the future of the international (dis)order? How to assure peace in the 21st century? How to go forward on the Korean peninsula?

It is important to distinguish between long run objectives and short run objectives on the Korean peninsula. One has to understand the long run conditions for Korean unification as well as how a unified Korea should coexist with its Chinese neighbor. Kim Jong Un's success in transforming North Korea in a nuclear power will possibly bring considerable delay to the long run objectives. In the short run, preventing a nuclear conflict has become the top priority. North East Asia must learn, more than ever before, to live in a cold war equilibrium in the region. The biggest current danger to peace is that of a US first strike on North Korea. China can play a much bigger role in putting pressure on North Korea. Because of China's relative passivity, nuclear proliferation in North East Asia has become very likely.

In section 2, we briefly review the evolution of the international order in the last 200 years to understand the forces that are at play. In section 3, we will discuss the different challenges facing the world international order. In

section 4, we outline the economic foundations of the global order and in section 5, the nationalist populist uprising against the international order and its origins. Section 6 discusses the role of China in the international order, section 7, and China's relation with North Korea. Section 8 discusses long run and short run issues related to the North Korean threat.

2. The New International (Dis)order in historical perspective.

The international order has undergone a large number of changes since the Industrial Revolution.

In the pre-democratic colonial era, international relations were characterized by power politics and conflicts over spheres of influence. Colonial expansion gave access to more land and natural resources for the colonial powers (Europe and Japan). Conflicts between the various colonial powers concentrated mostly on the division of the African continent.¹ The Berlin conference of 1885 led to the infamous drawing of borders of African colonies to divide the continent between European colonial powers.

World War I led to the dramatic realization that nineteenth century power politics between nations vying for expansion had become woefully inappropriate. The catastrophic unraveling of bilateral peace treaties leading to the first planetary conflict clearly showed the need for a multilateral framework to sustain world peace. The League of Nations was established with that purpose, but it never really got off the ground (the US never joined) and did not prove effective as the Axis powers (Germany, Japan and their fascist allies) left it.

World War II reinforced the consciousness of the catastrophic consequences of the lack of a multilateral and supranational framework for conflict resolution on the planet. Better foundations were established with the creation of the United Nations Organization and its Security Council. The creation of the European Union must be seen in that post WWII framework.

During the cold war era (1948-1991), despite the movement of non-aligned countries, all conflicts on the planet tended to be seen through the lens of the cold war. In that spirit, the US supported anti-communist regimes, on all continents including bloody dictatorships like in Latin America and extremely corrupt leaders like Mobutu in Africa. Insurgents in various continents used Marxist ideology as veneer for their political manifestoes in order to seek Soviet support. Many newly decolonized countries were led by

¹ Japan was the main and unchallenged colonial power in Asia. Spain had been the main colonial power in Latin America but most Latin American countries declared their independence in the nineteenth century when Africa was still being colonized.

leaders of movements characterized as “Marxist-Leninist”, but this was mostly nothing else than ideological window-dressing.

After the cold war, one saw attempts to promote an international order based on universal values: the rule of law, defense of human rights, democratic accountability of politicians to their voters, multilateralism in international relations, aspirations to establish the rule of law at the international level. There had been early attempts at this under the Presidency of Jimmy Carter², but the world was still dominated by the Cold War logic at the time. There was little international resistance against this evolution in the 90s. The sporadic veto in the Security Council would remind us that many powerful countries wanted to restrict the power and efficiency of UN actions in order to preserve their own sovereignty.

The US government was both a motor and an obstacle of a new international order based on multilateralism. As is often the case, the US government was always enthusiastically supportive of proposals to constrain other countries for the benefit of the international community, but was wildly opposed to any initiatives that would impact US sovereignty. One always prefers rules that apply to others but not to oneself. The US has also often been accused of double standards. On one hand, the US played a big role in establishing the World Trade Organization and played a leading role in other international initiatives. On the other hand, the US withdrew from the Kyoto protocol on climate change and is withdrawing from the Paris Accord; it also withdrew from the International Court of Justice in Den Haag. The US unilateral intervention in Iraq in 2002, against the advice of the UN, showed US contempt for the international architecture. It is true that there is in general a difference in attitude towards international organizations depending on whether the incumbent is a Democrat or a Republican. Republicans are more hostile towards international organizations. Some among their base consider world government to be one of the worst things that can happen to our planet. Democrats are often rather lukewarm in their support of international organizations. The US electorate, like the US political class has had a hard time understanding that in a globalized world, restrictions to absolute sovereignty can be good for the planet.

Independently of the US attitude towards international organizations, the Iraq war started by George W Bush after 2002 has proved to be a transformative moment in international relations. The Bush administration thought it would be able to show in Iraq its overwhelming military supremacy relative to other major world powers. However, given that the world’s most powerful military was not able to make Iraq’s invasion a success, and generated chaos in the middle East, leading to the creation of

² To be complete, the efforts of US president Woodrow Wilson to create a new international order after WWI were already going in this direction.

Isis and a strengthening of the Shia-Sunni conflict, people came to realize that the US was displaying weakness. This gave breathing room to all anti-American forces, for better or for worse. It led mostly to increasing international instability and to a challenge of all the changes to the international order that had been made after the two major world wars of the twentieth century.

3. Challenges to the International order

The rule-based project for the international order, as it had evolved at the end of the twentieth century has been directly challenged in recent years. This happened after it was more strongly supported by the Obama administration compared to previous administrations.

Rights to spheres of influence?

The invasion of Crimea by Russian troops, after the Euromaidan revolution chased pro-Russian Ukrainian president Yanukovich from power, was an important critical juncture in international relations. The Euromaidan was seen with particular bitterness by Putin and his regime. The protests inside Russia between 2011 and 2013 had been directed at the deterioration of democratic norms and the slide towards autocracy in Russia under Putin, but did not lead to overthrow Putin. The Maidan events, on the other hand, showed Putin what might happen in Russia. Making the democratic experience in Ukraine fail thus became a major goal for Putin. The invasion of Crimea was a major shock for the international community. It was done in complete denial of international law and was denounced across the world. Putin's response has been to double down and insist that Russia as a major power had a right to its sphere of influence, which includes Ukraine. This attitude is strongly in line with Putin's view of the world. For him, everything is about power and power relations, both in domestic as well as in international politics, something he has certainly learned from his experience as a KGB agent under communism. In Putin's worldview, democracy, multilateralism and international rules are all hypocrisy, hiding raw power play that should be accepted openly as such. Hence, the legitimation for a strong military power like Russia to have a "sphere of influence". While most international leaders reject the idea that some countries have a "right to a sphere of influence" in the twenty first century, the idea has been supported by people like Henry Kissinger or theorists of the "realist" school of international relations such as John Mearsheimer, which we discuss below.

China

Putin's challenge to the international order is, however, not the only one. China has been seen as very reasonable on the international scene. Xi Jinping

has made strong declarations accepting the importance of international institutions and international rules. As I will discuss below, in contrast to Putin, China does not currently have ambitions to bend the rules of the international order, but Chinese leaders never hid the fact that for them the “right to self determination” is a supreme principle in international relations. In other words, national sovereignty always trumps everything else. In the Security Council, China has in general opposed international interventions in foreign countries, even for humanitarian reasons, as well as condemnations of barbarian dictatorial regimes, because they value national sovereignty above everything else. As China becomes economically and militarily ever more powerful, it will voice more openly challenges to the international order.

The rise of sovereignism

The biggest challenges to the existing international order in the last few years have come from neo-isolationist tendencies among Western powers: the Brexit referendum in the UK, the election of Donald Trump as president of the US, the increasing influence of Marine Le Pen in France and more generally of what one can call the “sovereignist” camp. Sovereignists put national sovereignty above everything else. They reject for example the European Union because of the limits, albeit extremely small, it puts on national sovereignty of member-states. One can partly understand this “sovereignist backlash”. A large part of the political class in the US and the UK, but also in other countries, never really accepted that national sovereignty could be limited in favor of supranational rules (like is the case in the EU). Supranationalism went very far the last 25 years, probably the farthest in human history, but not far enough to resist the sovereignist backlash that we are now witnessing, and the damage, and possible destruction, it is inflicting on the post cold war international order.

Trump’s embrace of sovereignism and open contempt of supranationalism may thoroughly contribute to destroy the existing multilateral international architecture. His “transactional” view of international relations corresponds nearly completely to Putin’s views of international relations. He thinks that he would get along very well with Putin because of these shared views.

Trump’s transactional view of international politics represents a return to 19th century geopolitics and a rejection of all the lessons of the 20th century. The transactional view of international relations puts no principle above pure national interest, but leads to failure of international cooperation in many respects. First, it represents a complete denial of the importance of delivering public goods at the international level (be it peace, human rights, the environment, the protection of the planet, the protection of international trade, protection against pandemics, etc..). Second, it represents a complete denial of the multilateral character of many of these issues. Third, it is also a

complete denial of the collective action problem at the international level to provide those international public goods. Indeed, the collective action problem is a huge one at the international level. Individual countries facing a common problem that they would have a common interest in solving may not take any action to solve that problem, because they want to freeride on the efforts of others, leading thus to inaction at the international level. Fourth, it may lead to avoidable bargaining failures. Indeed, according to the transactional view of international relations, any agreement is a compromise between countries based on pure balance of power. Shocks in balance of power may lead more easily to conflicts in the absence of rule of law at the international level. Multilateral international bargaining may thus fail in the absence of commitment to particular rules. Overall, the triumph of the transactional view of international relations implies less stability and peace, less international cooperation to provide needed public goods for the planet.

Trump is only partly to blame for this international evolution. He is only accelerating the decline of US influence in the world. The Iraq war revealed that the strongest military power in the world has in reality limited power. Under the Obama presidency, US foreign policy was very cautious and reluctant to intervene militarily, be it in Libya where Europeans took the initiative, or Syria where intervention remained very limited.

Autocracies tend to be the biggest defenders of sovereignty as they do not want any foreign intervention in defense of human rights on their territory, but they are not the only ones. In most countries, one can find genuine defenders of sovereignty who cannot be suspect of wanting to overthrow the democratic order. There are genuine intellectual debates about the international order as can be seen from international relations scholars.

Different Theories of International Relations

As we already mentioned above, the “realist” school of international relations is the closest to Trump and Putin’s world view. The views of Henry Kissinger (2014), John Mearsheimer (2001) and others are representative of the realist school.

According to the realist school, countries necessarily place their national interest above everything else. Anarchy is the rule at the international level and countries as a rule mistrust each other’s intentions. Large states vie for hegemony, but they can in general never achieve it. This is why we often end up with regional hegemons. My understanding of the realist school is that it is based on the historical experience of humanity with conflict. In that sense, it is timeless. But is that theory still adapted in today’s globalized world?

The answer is “No” according to the “liberal internationalist” school of international relations represented by scholars such as John Nye (2016) and

Robert Keohane (1984). According to that school, it is not just nation-state and its interests that matter. The nature of the political regime matters, i.e. whether it is democratic or autocratic. Indeed, while autocracies may continue behaving according to the assumptions of the “realist school, democracies are able and willing to negotiate peacefully and achieve international cooperation on the basis of common goals and values. According to the idea of “democratic peace”, countries with a democratic regime do not go at war with each other, but negotiate peacefully. Moreover, in the presence of common goals across borders, democratic regimes should be able to achieve supranational cooperation. The European Union is a good example of such cooperation. As the number of democracies across the world has been increasing across the world after the end of the cold war, one therefore had reasons to be optimistic about the future of international relations. This trend seems, however, to have stopped in recent years as we see the resurgence of non-democratic regimes and the slide of democracies towards autocracies.

4. Economic Foundations of the World Order

I strongly agree with the tenets of the “liberal internationalist” school of international relations that democracy may bring more peace in international relations. Against the view that international relations are invariant and timeless, I would like to point to some factors that change the nature of the costs and benefits of international cooperation in today’s world. I would like to emphasize in particular the economic aspects, since those are the ones I know best.

Value chains and international trade

In recent decades, the nature of international trade has changed drastically. Firms have started to delocalize their production by setting various stages of the production process in different countries so as to better enjoy comparative advantage at each stage of production. With lower costs of transport and advances in information technology, multinational firms can move labor-intensive activities to countries having a comparative advantage for labor-intensive activities (see e.g. Baldwin, 2016). Value chains, as they are called, where the production process is delocalized across countries, create much larger interconnectedness across borders. The cost of protectionism has also become larger. Previously, protectionism tended to protect domestic industries against competition from imports. In the age of value chains, tariffs tend to increase the cost of the same production process at different stages. It is like building a wall in the middle of the production floor. Protectionism in the twenty first century can thus have even more devastating effects than in the twentieth century. Moreover, the proliferation of value chains has created a larger need to protect investments and property rights across borders. Indeed, given the complementarity between different

stages of production, firms suffer more from the “holdup” problem and from threats of expropriation in foreign countries. This is one reason why in recent years, international trade agreements put more emphasis than before on protection of investments against predatory behavior by foreign governments.

Human capital as a driver of growth.

Human capital is a much larger driver of growth than was the case before. In the past, capital accumulation and additions to the labor force were the main forces behind growth. With technological and economic progress, human capital plays a much larger role in the economy. Innovation relies heavily on the quality of human capital, but demand for skilled labor plays an important role in all sectors. This increasing role of human capital drastically reduces the benefit of territorial expansion. Previously, countries could benefit from territorial expansion, which brought them land and natural resources. They could also benefit from cheap unskilled labor. This was the case with slave labor but also with quasi-slave labor in European colonies. Today things are different. Human capital is much more important than land for growth in advanced industrialized societies. If a country decided to invade another country, like was the case in the two world wars of the twentieth century, it would be able to control the land and plunder a lot of the existing wealth, but it would not be able to generate much economic activity because human capital cannot be mobilized under the threat of violence, but only using motivation, economic incentives being one of them. Given the importance human capital has acquired in recent decades, a country invading another one would see production in that country plummet. In today’s age, invading an advanced economy would be completely counterproductive because of the economic loss that would ensue from lack of mobilization of human capital. International trade has become much more advantageous from an economic point of view than military invasion.

Ever larger externalities

Externalities in the world economy play a much larger than before. The realization hit home when the Chernobyl nuclear accident in the Soviet Union in 1986 released radioactive clouds that blew west over most of Western Europe. Climate change is the result of carbon dioxide emissions in the atmosphere due to industrial activity. No single country is spared from the consequences of climate change. Environmental catastrophes, worldwide pandemics, international terrorism, financial catastrophes, wars leading to millions of people becoming refugees, all these types of events have effects on the rest of the world when happening in a single country.

These ever larger externalities imply that there are much larger benefits to international cooperation than before. Given that this is the case, it is puzzling to see everywhere in the world the resurgence of nationalism and of nationalist movements that are opposed to international cooperation.

5. The threat of nationalist populism

Many factors have been mentioned to explain the rise of nationalist populism. We do not have a clear idea of the relative importance of each of these factors, but each of these factors has undoubtedly played a non-negligible role in this political trend.

The Great Recession

The Great Recession has hurt millions of people in the US and in Europe. Millions have lost their jobs, and millions have also lost their homes, at least in the US. Even if the impact of the Great Recession is not as large as that of the Great Depression, it is still the most important economic crisis since the 1930s. The impact of the Great Recession was likely to fuel all sorts of extremist movements and ideas, as people are looking for solutions to their trauma outside the traditional political parties.

Globalization

One of the culprits easily designed for the economic woes from the Great Recession is globalization. Since the early nineties, barriers to trade and to capital mobility have been reduced tremendously on our planet. Globalization has clearly benefited elites with high levels of human capital (college-educated, knowing many languages, including English, moving easily from job to job across international borders). It also benefited consumers as prices of many goods have gone down, thanks to international competition. Nevertheless, less skilled masses have felt hurt in many ways. First, the establishment of value chains has led to industrial job losses for many people in advanced economies. These were relatively well-paid jobs, thanks to unionization and other factors. Most often, the new jobs created are for highly skilled people or very low-wage jobs for low-skilled people. Moreover, these low wage jobs are often less stable. Many people with previously stable relatively well-paid jobs have now more precarious and less well-paid jobs.

To be clear, the Great Recession was not a consequence of globalization, but of the real estate bubble initiated in the US. Nevertheless, many people have come to blame globalization for the economic losses inflicted by the Great Recession. People also hate globalization for the unequal opportunities it creates and the effects on income inequality.

Income inequality

Income inequality, which has increased constantly in the last thirty years, has created huge resentment towards elites. This has facilitated populist messages both on the right and on the left that are anti-elite. Right-wing populism's anti-elite stance tends to take the opposite stance of many people from the elite, in particular their attitude towards globalization. Anti-immigration views among the populist right are justified by invoking competition for low-wage jobs from immigrants.

Increasing complexity of policies.

One factor that people ignore too much in the rise of populism is the increasing complexity of policy-making. Let me give one example. In the aftermath of the Great Recession, people put a lot of blame on financial deregulation and its effects on the financial bubble and the spread of so-called toxic assets. What would be the best regulation system? There is no easy answer to that question. Some have argued that one should return to Glass-Steagall, others have argued for strengthening of required reserve rules in banks. This is an issue on which even the experts, who do not necessarily have a personal stake in policy, do not necessarily agree. The reason is that the issues are very complex and few if any people have a full grasp of the issues. Politicians usually know less than experts on most domains, but they must take policy positions. Moreover, they must be able to defend the policies using simple language that can be understood by the general public, or at least by journalists. Politicians will thus rely either on experts or on lobbyists, or a combination of both, but with no clear assurance about the effects of particular policies.

It is no surprise that the world has become more complex. The total number of goods and services produced on the planet keeps increasing. With globalization, economic interconnectedness expands it reach ever more. If experts have a hard time keeping abreast of latest developments in their domain of expertise, what should we say about politicians? The increasing complexity of policy has further deepened the crisis of leadership within democracies, because there are no simple answers to many burning questions affecting peoples' lives. The rejection of elites by populist politicians opens the door for simplistic populist fallacies, which we know do not work, but seem simple and common sense to ordinary people who feel the brunt of the increasing economic precarity.

Jihadist terrorism

Jihadist terrorism has since September 11 2001 created a sense of insecurity in advanced democracies. Repeated terrorist attacks in the US, UK, Spain, France, Belgium, Germany, Russia, etc.. confirm this sense of hopelessness. People may exaggerate the probability that they will be the victims of a terrorist attack, but the sense of insecurity is very strong, especially since jihadist terrorists are fanatics who cheer the death of innocent citizens in advanced Western countries. This sense of insecurity tends to breed close-mindedness that is easily further fuelled by nationalist and populist propaganda. Angela Merkel's open policy towards refugees in the middle of the Syrian crisis might not have generated as much opposition as it did, had there not been the background of jihadist terrorism. Toxic forms of nationalism can in that context play a very inflammatory role as people may be induced to cheer mass murders perpetrated on foreign soil, with potentially disastrous consequences for the planet.

It is often the case that improvements in world governance happen after great catastrophes. Over 60 million people died in WWII, roughly 3 percent of world population. The aftermath of WWII led to great and historically novel progress in international cooperation. A new international conflict may not give us a second chance to improve the international order.

6. Understanding China's role in the world and in Asia.

Given the miraculous growth China has experienced over the last 40 years, it has become impossible to ignore China's role in the world and in Asia. China will in the foreseeable future become the country with the largest GDP, overtaking the US. China's population of nearly 1.4 billion people by far outstrips the population of any other country except India. In order to understand directions the international order is taking, one cannot ignore China. The difficulty in this endeavor is that China has a Communist regime and a thriving market economy, a combination that has never been observed so far.

One must keep in mind that the main objective of Chinese leaders is to keep the Chinese Communist Party (CCP) in power. This was already the reason for the economic reforms in 1978. Deng Xiaoping thought that without major market reforms bringing growth, the CCP was doomed. He was right because this was the fate of communist regimes in Eastern Europe. Maintaining the CCP in power is also the reason for China's rapid and successful integration in the world economy and for recent initiatives like One Belt One Road, etc.... China's leaders feel that if the Chinese economy grows less fast than the world economy, they will be blamed for it, possibly leading to an implosion of

the Communist regime, like in Eastern Europe. Integration in the world economy therefore has this objective in mind. Access to world markets is thus crucial for Chinese leaders.

What are China's hegemonic objectives in the current world? It is very important to have an accurate answer to that question.

First of all, In terms of ambitions of territorial expansion, Chinese leaders have expressed the open goal of bringing Hong Kong and Taiwan into the mold of communist rule. It is happening in Hong Kong already. It is not clear how it will happen with Taiwan, but the Chinese leaders are patient. Apart from Hong Kong and Taiwan, China does not have ambitions of territorial expansion. It is important to know that a Communist regime has a higher cost of territorial expansion compared to other political regimes. This is because for Chinese Communists, taking control of a territory implies the need to establish comprehensive CCP control over that territory, which takes time and is relatively costly. British colonialists never tried to have comprehensive control over their colonial territories.

It is also important to know that China is not interested in the expansion of communist regimes worldwide, which was a clear objective of various Communist Internationals. China is not doing any propaganda in favor of communism in foreign countries, in contrast to the Maoist years where it was very active. This is because communist ideology is dead, following the failure of socialist economies. Inside China, communist ideology is only used formally, but only in order to justify existing policies, not at all as a future-oriented eschatology, as was done in the past by true believers of communism. Chinese leaders do not really believe in communist ideology, but they firmly believe in the goal of maintaining the CCP in power in China.

The absence of large territorial ambitions does not mean that China's growth will not lead to some forms of international instability. As it becomes more powerful economically and militarily, China will undoubtedly prove more aggressive in Asia, whether it is about borders in the South China Sea, territorial disputes with Japan, India, Vietnam and other neighboring countries.

If we believe current trends, China will also in the future be more aggressive in other domains: censorship beyond its borders (the Cambridge University Press episode being a good example), retaliation against what the Chinese leaders perceive as "anti-Chinese" actions. Lacking the soft power of democracies and not even trying hard to do propaganda for their own system outside China, Chinese leaders will resort more and more to threats and blackmail in order to silence criticism abroad of China's denial of Human Rights to its citizens.

Because of their China-centered view of the world, Chinese leaders will not try to take leadership of the international order, but instead claim stronger influence in international organizations proportional to China's economic and demographic power. Chinese leaders accept the existing multilateral international order because it brings more stability, which is to China's advantage. Given its size and the importance of international integration for regime survival (China's openness ratio is above 40%, whereas that of the US is below 30%), China cares a lot about the stability of the international order.

It would be, however, wrong to see China as one of the main defenders of the world order. China will tend to only pay lip service to international rules and decisions that go against its interest, but it is not the only country in that case. In the case of China, since CCP leaders view the right to self-determination as the highest principle in international relations, one should not expect them to invest too much in the international order or even try to shape the world in the direction of more multilateralism.

The long run coexistence of the Chinese communist regime and advanced democracies will be an important challenge in the future because of few shared values between these different regimes. Nevertheless peaceful coexistence is in my view clearly possible, albeit with frictions, but it is also necessary. There is no realistic alternative. Therefore, peaceful coexistence with China should be an important goal for the international community.

7. China and North Korea.

Traditionally, the North Korean regime has been seen by Chinese leaders as a buffer state to prevent the presence of US troops at its borders. The status quo in North East Asia has been therefore seen as the priority in order to keep stability. Moreover, North Korea has always been of low priority in Chinese foreign policy. From that point of view, Kim Jong-Un's elimination of North Korean leaders closer to China and the unbridled pursuit of its nuclear program are seen as an annoyance, but not as a vital threat. To put things in perspective, Chinese leaders were much more afraid of the US military threat in the first decades of the regime, and they were also afraid of the Soviet military threat after Chinese-Soviet relations broke down in the early sixties.

Inside China, arguments have been made urging the country's leadership to drop support of the North Korean regime because of its danger to stability in the region and because of the danger that North Korean nuclear weapons could be used against China. It is true that the ideological closeness between the two regimes has little meaning. The North Korean leaders have never trusted China in recent decades, because they believe that China could sacrifice its support of North Korea against another policy objective, in a grand bargain with the US and with the international community. The

argument has been expressed that in the long run a unified Korea can be more to China's advantage. A unified Korea would be a source of prosperity, which would benefit China's North East. As we will discuss below, Korean unification could be accepted by China only if US troops leave the Korean peninsula. The argument is that a unified Korea under auspices of the South, but without US troops within its borders would be more beneficial to China than the status quo. We will come back to this, because the understanding of long-term goals helps clarify policy in the short term.

In this line of thought, the argument could even be made that it would be in China's interest to invade North Korea to overthrow the regime with the assent of the US and South Korea. I am not aware of any official discussion in that sense, but that scenario has been discussed in certain circles.

In the end, a Chinese intervention in North Korea is deemed too risky by the Chinese leaders. Since Xi Jinping's ascent to power, comments in China on North Korea have been more in line with the idea of defense of the status quo. China supports sanctions that would bring North Korea to the negotiation table to abandon its nuclear program (a return to the six party talk or an Iran-style deal), but sanctions should not be too hard so as to avoid a regime collapse and the associated risks for the region, and in particular with China which shares a long border with North Korea.

Domestic considerations also play a big role in China's attitude towards North Korea. An anti-communist mass movement in North Korea following regime implosion could be dangerous for the CCP and have unexpected repercussions for regime stability inside China. The North Korean anti-American rhetoric is also seen as weakening the US rival and thus welcome for the Chinese leaders.

8. How to Deal with the North Korean crisis?

Before discussing the recent escalation of tension due to North Korea, it is useful to take the long view. What could possibly be the conditions for a unification of Korea? Having that in mind, we can ask how to respond to the recent acceleration of North Korea's nuclear program.

What conditions for long term unification ?

In the long run, Korean unification under the auspices of a democratic government and a market economy could bring huge economic advantages on the Korean peninsula and in North Eastern China. South Korea's economic miracle of recent decades could be replicated in North Korea (for more on this, see Kim 2017 and Kim and Roland, 2014). There is no question that it would be favorable to Koreans, even if it would imply transition costs,

depending on how successfully unification proceeds. Korean unification would also bring many advantages to China whose Northeastern provinces have lagged behind in the transition to the market economy. Unification would lead to increase in train transport between South Korea and provinces of Liaoning, Jilin and Heilongjiang. Moreover, trade and transport along the Yellow Sea would increase substantially.

There are, however, conditions for unification. First, one cannot imagine unification with the existing two political regimes, in the North and in the South. Second, unification must be politically acceptable to China, the adjacent neighbor, which would share a border of 1420 km (880 miles) with a unified Korea.

This means that unification would imply a collapse of the North Korean dictatorial regime. Nobody knows how and when that could happen and the ramifications it might have. Collapse is inevitable as long as North Korea keeps a socialist economy in place. It may not be inevitable if they adopt Chinese-style economic reforms. Until now, they have been navigating in between but have not so far embraced radical market reforms like China did in the 1980s and 1990s.

For China to agree to Korean unification under the auspices of South Korea, it would almost certainly demand the departure of US troops from South Korea. In a first step, it would certainly demand that no US troops cross the DMZ, but in a second step, it would demand the departure of US troops from South Korea within a certain time span. This is logical from the point of view of China's interests. Once the North Korean threat removed, the continued presence of US troops on South Korean territory would be seen as a threat to China's territorial integrity. Korean unification would certainly imply the signature of an International Treaty between China and a unified Korea. This may imply some form of neutrality for unified Korea. This does not mean at all that Korea would become part of China's "sphere of influence", rather that China not feel threatened by a US-friendly regime at its borders, and ask for guarantees against such threats.

These conditions for unification may appear too costly for part of South Korean society, as US military protection may take priority over Korean unification. This is a choice that should be made democratically in the future by the Korean population. In any case, we must acknowledge that recent events have made the prospect of unification much more distant than ten or twenty years ago.

Kim Jong-Un's victory.

Recent events have unfortunately turned in favor of Kim Jong-Un and his regime because of two factors: an improvement in the North Korean economy and the acceleration of its nuclear program.

First, the North Korean economy has undergone substantial improvements relative to the nineties when the country experienced famine following the collapse of the Soviet Union and of its economic aid to North Korea. These improvements are multi-faceted:

- Since Kim Jong Un came to power, a kind of economic equilibrium has obtained where central planning has more or less collapsed, corruption is endemic at different levels of the state apparatus and the population survives by participating more and more in the informal economy; as shown by Kim (2017), this is a fragile equilibrium but gives breathing space to the regime as the informal sector is implicitly allowed to develop, without of course any protection of property rights;
- The development of economic links at the border with China has led to active trade, legal or illegal, and economic improvements in the border area that is very large, which arguably have spillover effects on the development of informal markets within North Korea.

Because of these economic improvements, the regime is less likely to collapse internally, in the short run at least.

Second, North Korea has become (or is close to be) a credible nuclear power. For North Korea, given their geopolitical isolation, having nuclear weapons has been seen as a matter of existential survival. As long as they did not have them, it could have been possible to negotiate in a way that would have slowed down their nuclear program and buy time. Now that they have nuclear weapons, they can feel safer since it is much less likely that they will suffer an external attack or an outright invasion.

It is useless at this stage to try to understand how we got there and what mistakes were made. Securing nuclear weapons has been for North Koreans of strategic importance at least as vital as the presence of US troops for South Korea. Nevertheless, we must acknowledge that Kim Jong Un has scored an important victory from the point of view of regime survival. Previously, the policy issue in dealing with North Korea was how to trigger a regime collapse or how to prevent nuclearization. Now, the main policy issue has become how to live peacefully with a nuclear North Korean communist regime.

What to do?

As scary as it may seem, one gains nothing from getting hysterical about a nuclearized North Korea. American declarations about how intolerable a

nuclearized North Korea is for US security sound quite unpleasant and exaggerated. After all, South Korea, Japan and China are much closer to North Korea and arguably face a greater threat.

First of all, one can argue that China was more threatening to the outside world when it acquired the nuclear weapon in 1964. Mao Zedong aggressively pursued the objective of establishing communist regimes in the world and of defeating world capitalism. The size of the country made it a more dangerous threat, on top of the extremist ideological zeal. North Korea's ambitions are limited to regime survival.

Second, the theory of mutual deterrence, that played such a huge role during the cold war (Schelling, 1960), is still valid in the context of North Korea and North East Asia. When two rival powers both have nuclear weapons, any of those powers can be deterred from launching a nuclear attack by the promise of retaliation possibly leading to mutually assured destruction. Rational players will be deterred from using nuclear weapons in a first strike because of the promise of retaliation. Therefore, a nuclear North Korea does not mean that there will be a nuclear war. It implies rather a cold war like situation in North East Asia.

The validity of the cold war type equilibrium in North East Asia has been confirmed by China's position as expressed in CCP controlled media that China would not side with North Korea if the latter attacked first another power (in particular the US), but would support North Korea in case it is attacked by the US. This position is meant to deter both North Korea and the US from attempting a first strike on the other.

Cold-war type deterrence equilibria are based on the assumption that both sides are rational. A failure of rationality could indeed lead to a catastrophe, and a world with more and more nuclear powers is in the long run a more dangerous world. Nevertheless, in the current context of increasing tension after North Korea's provocations, this is still the best assumption to make. One can fully understand Kim Jong Un's rationale for recent actions. As has already been noticed by many observers, Iraq did not have weapons of mass destruction, and if the US had known that they possessed such weapons, they would have likely abstained from invading the country. Saddam Hussein knew he had no weapons of mass destruction but hoped that the information that he had such weapons of mass destruction would act as a deterrent. Unfortunately, that was not the case. Kim Jong Un does not want to take any risks and keeps taunting the world with North Korea's progress in building nuclear weapons. The main effect will, in all likelihood, be to deter a US attack on North Korea. If there is a danger of irrational behavior, it is more on the side of the current US president, Donald Trump, who may decide to attack North Korea, to massage his ego because he has been taunted, possibly leading to catastrophic consequences, mostly in Northeast Asia. One may

only hope that his close advisors who are professionals will prevail and prevent an attack on North Korea. Nevertheless, it is still in the US interest to “look tough”, and to not exclude military options, provided it pursues diplomatic channels at the same time in order to give themselves the option of de-escalation, which, unfortunately, does not seem currently to be the case.

One argument that has been put forward in the context of North East Asia is that of asymmetry between the players. During the cold war, the US and the Soviet Union were both superpowers with symmetric military and nuclear power, even if the Soviet Union was economically much weaker due to its socialist economy. North Korea is instead small relative to the US. Could this lead to asymmetric escalation? One idea that has been expressed is that North Korea could decide on a first strike on the island of Guam and on US bases in Japan and South Korea. In case of US response, North Korea could then decide to retaliate by annihilating some major cities like Los Angeles or San Francisco and the Bay Area. The argument goes that North Korea might get away with a first strike because the US would be weary of retaliation after a destruction of some of its military bases. The conclusion is that the US may want to launch a preemptive first strike to prevent such a scenario. This argument is in my view essentially a bogus argument to justify a possible first US strike on North Korea. Indeed, any first strike by North Korea would lead to a massive retaliation and possible annihilation, so it would not be in North Korea’s interest.

China loses badly from nuclear North Korea.

As stated above, with the retreat of US influence in Asia (as exemplified by president Trump’s rejection of TPP) and doubts about its commitments to its allies (as expressed by Trump’s declarations insisting that the Asian allies of the US should pay more for the US military presence in their country), China can easily fill the void. A US retreat in Asia, in opposition to Obama’s “pivot to Asia”, would thus easily let China make rapid steps to become the hegemonic power in Asia. A nuclear North Korea actually presents an important obstacle to such a move towards Chinese hegemonic influence. The reason is not only related to North Korea possibly threatening China with its nuclear weapons, but is also related to the many indirect ramifications of North Korea’s nuclear armament.

It seems indeed more than likely that a nuclear North Korea will lead to Japanese rearmament and to major support within Japan to push for its own nuclear arms program. Pressures in that direction are already taking place within Japan. The same remark is valid for South Korea. South Korea is protected by the US military, but doubts about US protection against North Korea will also inevitably lead to calls within South Korea to have its own nuclear program. These indirect effects can potentially reshape the

geopolitical landscape in Asia. Right now, the US is the only military counterbalancing power to China in Asia. Any weakening of the US thus means a strengthening of China's role. However, with North Korea, Japan and South Korea becoming nuclear powers, the landscape will become quite different. This will undoubtedly strongly increase the tension in Asia, but will also generate strong countervailing forces to China's growing influence in Asia, as well as incentives for collaboration between Japan, South Korea and Taiwan.

This could have been prevented if China had been more pro-active in preventing North Korea's nuclear program. China's passivity on North Korea will thus carry a heavy price for China itself.

9. What does the future hold?

A nuclearized North Korea brings the planet closer to a major nuclear disaster, even if mutual deterrence can prevent more traditional forms of conflict in North East Asia.

A nuclearized North Korea will severely delay the prospect of Korean unification led by South Korea. The political agenda in the Korean peninsula has now changed in favor of Kim Jong Un's regime, compared to what was the case ten or fifteen years ago.

A regime collapse in North Korea remains likely. It is an invariable truth that socialist economies always eventually collapse. There is no reason this should not happen in North Korea. The only way for Kim Jong-Un to secure regime survival is to follow the Chinese way and transform North Korea into a market economy. Despite the economic improvements experienced in recent years, the North Korean economy is still miles away from a Chinese-style transition to the market economy that would consolidate the political and military power of the North Korean regime.

The prospect of a regime collapse in North Korea after it has acquired nuclear weapons is of course more scary than regime collapse without nuclear weapons. This does not inevitably mean a catastrophic outcome. The collapse of the Soviet Union with its huge nuclear program did not lead to any nuclear catastrophe. This can be managed, albeit with care and caution. Collaboration between all parties, especially including China and the US, will be key in securing orderly change in Northeast Asia.

In the immediate future, tensions will remain very strong as even North-South dialogue impossible. Further sanctions will weaken the regime, but regime collapse will remain uncertain.

In the current context, further sanctions approved in the UN Security Council are the only way forward. The fact that twice in a row, there was unanimity in the Security Council to implement sanctions against Kim Jong Un's regime must be seen as a very positive step. The key to strengthening sanctions against North Korea lies obviously with China. As stated above, China has so far been reluctant to take steps that could destabilize the North Korean regime. Now that North Korea has acquired nuclear weapons, it would be too late for China to stage a takeover of North Korea given the extremely costly retaliation it could entail. China nevertheless holds all the cards when it comes to sanctions. Most foreign trade of North Korea is now with China, and all North Korean oil imports come from China. As stated above, Chinese passivity would lead in the long run to rearmament of Japan and the possible development of an autonomous nuclear program in South Korea. Chinese leaders must trade off the cost of stronger sanctions, and the likely effects on regime collapse in North Korea, with the long run costs of nuclear proliferation in Asia. As much as this trade-off would lead one to advocate for China to adopt much stronger sanctions towards North Korea, there are reasons to be skeptical that this will happen, but one never knows. As to the effects on China's growing hegemony in Asia, that is another story.

Even though the current situation is far from deescalating, one may hope that sanctions could bring the North Korean regime back to the negotiation table. This simple fact would already represent a major de-escalation in Northeast Asia. If this happens, it is crucial to be able to keep negotiating. Therefore, one should not expect too big concessions from the North Korean side in the immediate future. That might just lead to a new halt in negotiations. Whatever North Korea concedes to, it will not want to abandon its nuclear program. However, if it agrees to freeze its program at its current level, that concession already might be worth reducing sanctions and even engaging in an international effort of economic relief for the North Korean population.

In the past, thawing of relations with North Korea led to sending cash money or food relief. This is not the right approach, because such aid directly helps finance the nuclear program and the North Korean military. Aid to North Korea should instead take more the form of infrastructure investment and the creation of special economic zones in the style of the now closed Kaesong industrial park near the border to South Korea, providing jobs to North Korean workers in South Korean owned factories. Even though workers' pay in Kaesong was mostly taxed away by the North Korean government, the employment opportunities have had a positive effect on the welfare of workers. Ideally, one can imagine an international effort, joint between South Korea, China, Japan and Russia to build a modern railway system going from Seoul through North Korea into China. Along that railway, one could build Kaesong-like industrial parks that would provide relatively well-paid jobs to North Korean workers and help develop local markets. A big advantage of such a strategy is that it would help build leverage on the North Korean

regime. The more efforts there are at integrating North Korea in the world economy, the more dependent it would become on the outside world. This means, in other words, that if North Korea would fail to respect any agreement on freezing its nuclear program, foreign capital could withdraw from these international initiatives, which would hurt the North Korean economy and may destabilize the regime. Such industrial parks along an international railway line would thus not only help the peace process, but would also be of precious help to the North Korean economy, once there would be a serious start of a transition to a market economy, possibly after a regime collapse. Indeed, it would provide a great starting point to get economic growth going via export promotion to China, thereby also helping to develop the Chinese Northeast.

These are of course considerations for the medium term. At this time, the major danger currently relates to possibly irrational decisions taken by President Trump. The most important current threat to world peace is the possibility of an American first strike on North Korea. Preventing such a first strike should be the biggest priority for North East Asia right now.

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